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# Asian Studies – 2013

Edited by Tamás Matura

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# Foreword ASIAN STUDIES Volume 2

Dear Reader,

You are holding in your hands the  $2^{nd}$  volume of *Asian Studies*, an academic publication of growing recognition and international acclaim.

The essays in the present booklet cover a large portfolio including countries in the focus of the Global Opening policy of the Hungarian Government: India, China, Central and South-East Asia have been at the core of this policy, which gave new directions to the Government from 2010 onwards. In practice, this policy means that we have made strong efforts to further open up our country to the world, towards our traditional partners in Asia, but also in Africa and South America. A special element of Global Opening is the so called "Look East" policy. I personally have been dedicated to suiting the word to the action, that is, turning the "Look East" policy of the Hungarian Government into an "Act East" policy.

In retrospection, I can safely claim that the "Look East" policy has been a success – a success for Hungary, the Hungarian economy, Hungarian companies and a success for our international partners, too. The strategic implementation of the new economic and foreign policy shows that the Government had correctly perceived the essence of the economic crisis. It predicted well the fact that the post-crisis world would not resemble the precrisis one. It realised that to be in a better position after the crisis one needs new means, new concepts and a new economic policy.

In the framework of the "Look East" policy we have focused mainly on strengthening our relations with Asia. As a result, we managed to outperform many of our competitors in terms of export growth to outside the European Union. In order to deepen cooperation among small and medium sized companies we are also in the process of establishing a network of Trade Houses in different parts of the world. The first establishments of this network

have already been opened in Baku, Moscow, and Astana and in a short time similar facilities will be opened in Riyadh and Beijing. The network of overseas missions – the diplomatic footprint of Hungary – is also scheduled to grow. Just to name of those in Asia: our Consulate General in Hong Kong and in Mumbai is about to reopen in September and open in October, respectively, and plans for other missions are also in the pipeline.

This volume contains 9 essays written by acknowledged independent scholars of international relations from both Hungary and abroad and I warmly encourage all readers to read them as they contain up-to-date and professional analyses of the global trends and their future implications. The wide scope of research covering India's economic transformation, or the growing importance of China's engagement in Central Europe are also at the core of some of the most prestigious think tanks around the world, therefore a different perspective, and perhaps some unorthodox conclusions, might be of some interest even to the uninitiated. Some of the topics, such as the minority question in the Middle East, offer a rare glimpse into the Arab world, while others, like the lessons drawn from the political transition in Myanmar aim to shed light on the peaceful process of democratisation in this emerging South-East Asian country.

I hope you will find this booklet useful and even enjoyable!

Péter Wintermantel Deputy State Secretary for Global Affairs Ministry of Foreign Affairs of Hungary

### **Editor's Note**

Two years ago, in 2011, we dedicated the first issue of *Asian Studies* to the special occasion of the ASEM Foreign Minister's Meeting in Budapest. The relations between Europe and Asia have been rapidly intensifying ever since, and we have witnessed the growing importance of China–Central and Eastern Europe cooperation as well, which is the focal point of the current, international issue. At the same time, dramatic changes are taking place in Myanmar and in the Middle East, while Central Asia is gaining more and more importance as well. The Hungarian Institute of International Affairs recognises the significance of these changes since we believe that nothing is far away anymore from our region in the World of globalisation of our time.

Governments in the CEE region have reacted on the lingering crisis of the EU, and are keen to boost economic and trade relations with the still growing regions of the East. The government of Hungary has already implemented its Eastern Opening Strategy, and other countries, especially Poland, are also fostering better relations with China and other giants as well. As a result, several Asian leaders have visited the CEE region in the recent years, for instance the premier and vice-premier of the People's Republic of China, the secretary-general of ASEAN or the foreign minister of India.

From a scientific point of view we have to raise the questions: what are the potential benefits and risks of strengthening cooperation with Asia? Is that an alternative to the European economic cooperation? Is that possible to supplement our trade ties with other EU members with China or East Asia in general as some governments hope? The research has just begun, and our Institute would like to contribute to the joint efforts of scholars and experts of the Central and Easter European region.

I would like to grab this opportunity to express my gratitude to all of the authors, technical editors, and first of all to our financial supporter, the National University of Public Service.

Tamás Matura

# India: the Changing Structure of the Economy

# László Árva

#### What is India? Do "BRICS" Countries Exist?

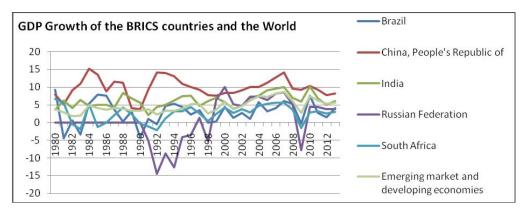
In the last decade, lots of stupid abbreviations were used – mainly by journalists and investment bankers – in order to designate certain country groups. These abbreviations were aimed to stress certain characteristics of these countries – like the PIGS for Portugal, Italy, Greece and Spain when these South European countries have started to suffer from the recession after 2008, or at the other end, BRICS (or BRICs) to denote Brazil, Russia, India, China, and sometime South Africa, for the rapidly developing countries in the developing world.

Ruchir Sharma¹ pointed out that these abbreviations are often artificial and bring together countries which in reality have not much common. It is true that for Portugal, Italy, Greek and Spain are all European countries, all are using euro and all are in the southern flank of the EU – and all have smaller or greater economic troubles after 2008, largely due to poorly designed eurozone, and sometimes economic mismanagement and even corruption. But concerning the BRICS (or BRIC) countries, the picture is much more complex.

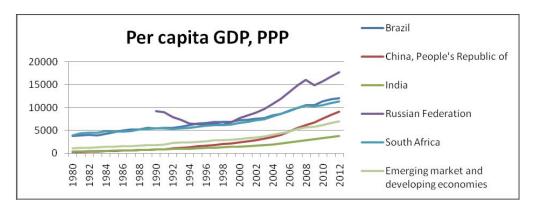
First of all, it is not clear, if South Africa can be regarded as member of the BRICS countries or not. South Africa is a socially unstable country, with short modern history and with raw material exports and manufacturing goods imports.

Looking at the GDP data, we can see that there are important differences among the so-called "BRICS" countries, and these differences are much greater, if we thoroughly analyse the economic structures of these countries.

Ruchir Sharma<sup>2</sup> was probably right, when he maintained that the BRICS (or BRICs) country group does not exist and we have had only put together four (or five) completely different countries just to be able to use this abbreviation.



Source: "IMF Data Mapper". International Monetary Fund, http://www.imf.org/external/datamapper/, April, 2013.



Source: "IMF Data Mapper".

Let us see the major differences!

First of all, Russia is an oil-rich country, making money mainly by energy, i.e. gas and oil exports, having not much manufacturing export. Russia has huge wealth and large income differences. Secondly, Brazil is a typically Latin American raw material exporting country, and thirdly, China is a rapidly industrialising country, which is not interested in any ideology, but simply wants to develop as rapidly as it is possible.<sup>3</sup>

On the other hand, South Africa is a widely divided, crime infected raw material exporting African country, where the future is rather obscure.

And at last but not least, India's economic structure is again different, as this country has an inflated, too important service sector, and it is lagging behind in the development of manufacturing industries. Shortly, India is an Asian country with service industry bias.

The BRIC countries' economic development is markedly different from one country to the other, if we look at their share in the World Total. As economic weight of South Africa and Brazil are modestly shrinking, Russia had an important drop after the collapse of the Soviet Union, and had a mild increase afterwards. Share of India is growing definitely, but that of the growth of the share of China's economy is much more impressive.

So do we have BRIC (or rather BRICS) countries, as a homogenous country block? I doubt it, and that is why it will be more practical to speak about India as a

- rather big,
- Asian,
- developing country,

having lots of similarities with other developing Asian nations, as China, Malaysia, Indonesia, Pakistan or the Philippines. But as all these countries are completely different in their

- cultural traditions (religions),
- size,
- and natural resources,

that is why all comparisons can be only superficial.

# Stages of Development in India from the Independence till the Beginning of the 21<sup>st</sup> Century

There are lots of books and papers on stages of the Indian development, and generally these papers underline the importance of the economic reform of 1991, when the traditional "licence raj" (licence regime) was replaced by a more liberal one. According to this approach, before 1991, India was characterised by a "command" economy, but in 1991–93, the country has opened to the world, and from that time economic development became more rapid. This was called "new liberal raj – new liberal regime".

As Shankar Acharya<sup>4</sup> summarised, the most important reform steps were the following:

#### External Sector

- devaluation and transition to a market-determined exchange rate;
- phased reduction of import licensing (quantitative restrictions);
- phased reduction of peak custom duties;
- policies to encourage direct and portfolio foreign investment;
- monitoring and controls over external borrowing, especially short term;
- build-up of foreign exchange reserves;
- amendment of FERA (Foreign Exchange Regulation Act) to reduce restrictions on firms.

#### Industry

- virtual abolition of industrial licensing;
- abolition of separate permission needed by "MRTP-houses";
- sharp reduction of industries "reserved" for the public sector;
- freer access to foreign technology.

#### Financial Sector

- phasing in of Basle prudential norms;
- reduction of reserve requirements for banks;
- gradual freeing up of interest rates;
- establishment of the National Stock Exchange;
- abolition of government control over capital issues.

#### Public Sector

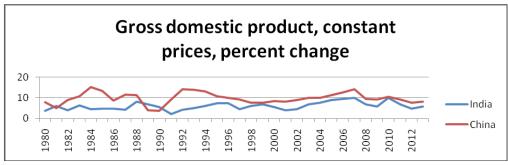
- disinvestment programme begun;
- greater autonomy/accountability for public enterprises.

By the second decade of the 21<sup>st</sup> century, the stage of the Indian economic development has been re-evaluated. T. S. Papola<sup>5</sup> underlined the importance of the proper classification of Indian economic development, but at the same time he maintained that it is too simplistic to speak only about 1991 as a single turning point of the Indian economy, and he suggests at least four turning points, and four different stages of development.

As Papola wrote, "analysing the growth rate and the structural changes, economic growth in post-independence India can be divided into the following four phases.

- *Phase 1.* Independence to Mid 60s: This period saw a significant acceleration in the growth rate over the past decades marked by a high growth of industry.
- *Phase* 2. Mid 60s to 1980s: This period was marked by slower growth of GDP, accompanied by a deceleration in the growth of industry, a slower pace of structural shift from agriculture to non-agriculture.
- *Phase 3.* 1980 to early 1990: This period saw a sharp acceleration in growth rate, mainly contributed to services. Structural changes were also swift, with a large decline of agriculture, but very little increase in the share of industry services (were) picking up the major share of the shift.

*Phase 4*. Early 1990s onwards: Growth continued at similar rate as 1980s, but declined during 2000–2004. Structural changes continued at an accelerated pace with share of agriculture sharply declining and services emerging, as the major sector, and with very small increase in the share of industry."<sup>6</sup>



Source: "Data and Statistics". International Monetary Fund, http://www.imf.org/external/data.htm, 2013.

At the same time, even among Indian economists and social science researchers, there is no complete understanding about the post-reform developments. There are some, who maintain that after 1991–93 economic development became more harmonic and more rapid, as others question it. As on one hand, Acharya<sup>7</sup> has maintained, after the great reform of 1991–93, India has started to develop more rapidly, on the other hand Ruchir Sharma<sup>8</sup> has questioned it. As Ruchir Sharma has stated, "India's Prime Minister Manmohan Sing, who was a political protégé of Sonia Gandhi, an aggressive proponent of welfare state policies – was not in the position to push further economic reforms".

That is why in India, corruption could "re-flourish" again even during the "liberal raj".

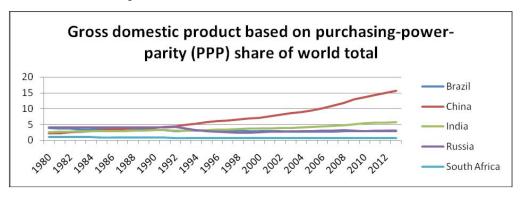
It is also interesting to compare the economic development of India with China. Looking at the GDP growth rate of India and China we can see that China was always developing more rapidly than India – probably because China had a different structure of economic development than India. In both countries it was common that share of agriculture has decreased dramatically during the last 60 years, but in case of China it was industry, which started to develop rapidly, and in case of India it was the services. Later we will see the causes of it.

# "Soft Factors" Determining Economic Development of India

Looking at the figures of the IMF, we can see that the share of China in the world economy was still rapidly increasing between 1980 and 2010 from a bear 2 percent to over 15 percent, in India share of the economy in the world economy was also growing but much more modestly, from 2.5 percent only to 6 percent. Though these figures are not explaining everything, nonetheless they are telling an interesting story about the

long-term efficiency differences of China and India. As India could hardly increase its share in the world economy, China had reached much better result much more easily.

Looking at the other "BRIC" (or BRICS) country we can see that the results of Brazil, Russia and South Africa were much more disappointing in the long term – that is why it is not founded to speak about the BRIC (or BRICS) countries.



Source: "Data and Statistics".

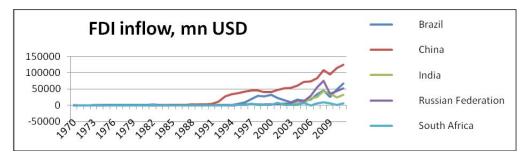
Looking at FDI inflow, it is not surprising that before 1990 there were not much FDI inflow to the BRICS countries – and even after 1990 there were great differences. China has attracted large amount of FDI – perhaps even more or even less than that of shown in the UNCTAD database, as Hong Kong is regarded separately and also there are so-called "round trip" FDIs, when Chinese saving goes out to Hong Kong and later come back as foreign investments.

In case of India, FDI is relatively modest – it is, looking at the size of the Indian economy and labour force. In India we don't have convincing FDI inflow promotion till

- infrastructure is underdeveloped;
- bureaucracy is buoyant;
- hotel and restaurant prices are very high.

In Russia and Brazil, FDI is more modest, but it has started to flow into the country even at the beginning of the 90s in case of Brazil.

In South Africa, FDI inflow is very weak, mainly due to the fact that South Africa is a highly unstable country, where only extracting industries are promising for foreign investors.



Sources: "UNCTAD Statistics". United Nations Conference on Trade and Development, http://unctad.org/en/Pages/Statistics.aspx/, 2013.

If we want to understand the causes of the different economic performances of the BRIC countries, we have to look at those "soft" factors, which are influencing economic development of a country in the long run.

These "soft" factors are the following:

- value systems;
- class (and caste) systems;
- entrepreneurial abilities and motivations;
- cultural values;
- institutional systems;
- ability of the ruling class to rule in a country, etc.

A country's success and failure are determined by these factors, and though it is true that it is not easy to understand the effects of these factors and perhaps much more difficult to modify them, we have to use this construction. We have to underline that it is not a new construction, as it was Ronald Inglehardt<sup>9</sup> who was among the firsts who not only worked out the framework of this mutual inter-action, but who made one of the first empirical analysis of it.

In the introduction of his book Inglehart has formulated his thesis, namely:

- Change is not linear there is no direction in the social and economic development.
- Previous versions of Modernisation theory were deterministic the Marxist version tending toward economic determinism, the Weberian version sometimes tending to the cultural determinism.
- Inglehart rejected ethnocentric perspectives of those who equated Modernisation with "Westernisation", as "today" (at the end of the 20<sup>th</sup> century) it was East Asia, which was leading Modernisation.
- Democracy is not inherent in the Modernisation phase, as some Modernisation theories suggested, simply democracy does become increasingly likely as societies move from Modernisation to Postmodernisation.<sup>10</sup>

This approach is presenting the benefits of analysing the "soft value system points" as determinants of economic development, and as today lots of economists are disillusioned from the "classical" macro-economic approaches, these points of views are more instructive, than the econometric models of the last 30 years.

The basis of this thesis is coming from the "World Values Surveys", which were designed to provide a comprehensive measurement of all major areas of human concern, from religion to politics, to economic and social life and two dimensions dominate the picture.

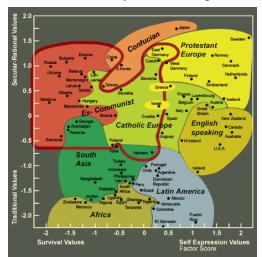
According to the findings of Inglehart, two dimensions explain more than 70 percent of the cross-national variance in a factor analysis of ten indicators – and each of these dimensions is strongly correlated with scores of other important orientations.

These 2 dimensions are the following:

- traditional/secular-rational;
- survival/self-expression.

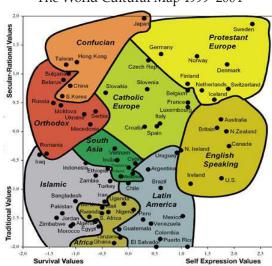
The "so-called" Inglehart map is created by using the results of these factor analysis and these results can be used for longer term predictions of the economic performance of a given country.

In case of India one hand, and China, Brazil, Russia and South Africa on the other hand, we get interesting results by looking at these maps.



The World Value Survey Cultural Map 2005–2008

Source: Ronald Inglehart and Christian Welzel: *Modernization, Cultural Change and Democracy.* Cambridge: Cambridge University Press, 2005. p. 63.



The World Cultural Map 1999-2004

Source: Ronald Inglehart and Christian Welzel: "Changing Mass Priorities: The Link between Modernization and Democracy". *Perspectives on Politics*, Vol 8. No. 2. (2010). p. 554.

Looking at the two maps, which were made by consecutive surveys, we can see that there is a surprisingly large stability in the single countries' position in the two maps – in spite of the fact that the surveys were made in very turbulent years, when socialist countries have collapsed, Japan entered into a very long recession and some countries, like India, has started to liberalise its economy.

It is also interesting to see that the BRIC or (BRICS) countries are quite far from each other – another argument why we cannot regard this country group meaningful for further analysis.

For India, it is clear that its value system is close to some ASEAN countries (like Vietnam, Malaysia, Thailand, Indonesia), to Turkey, and to some African countries, like Zambia or South Africa.

For Inglehart value systems and economic development is corresponding through the traditional–modernist–postmodernist phases of development. If a country enters to the modernist phase, its economic development will be faster, as large share of its labour force will be shifted from the traditionalist and traditionally slowly developing agriculture to the more rapidly growing manufacturing. But after some years of modernist development, in the modernist, industrial societies, physical needs of the population would be more or less satisfied, and then these countries will enter into the postmodern (or post-industrial) phase. And this is the time of the

economic slowdown as services are generally less productive than manufacturing. In case of the USA, Western Europe and Japan we can see the post-modernity and also the increasing share of services in the occupational system, and of course the slowdown of the economic development.

We can see a problem, when a country is not able to start modernisation or when it is trying to jump over it to the service industrial, post modern phase. Both cases are having inherent dangers and in both cases something should be done.

We will see that something similar has happened in India, because of the caste system, and India has tried to jump over manufacturing phase of development and tries to develop rather services – trade, financial services, business services, call centres, and similar activities.

# Problem Spots in India: Caste System, Obsolete Infrastructure and Corruption

Caste System

Not surprisingly, Indian caste system is generally regarded as a serious blocking stone of economic efficiency.

In India there are different meanings of the castes, but the basic idea is that there are four major castes, namely the Brahmins (the priests), the Kshatriyas (the warriors), the Vaishyas (the traders) and at the bottom, the Shutras (the manual workers of the untouchables). According to non-official estimations today approximately 60-70 percent of the Indian population belongs to the "low castes".

D. Ajit and colleges have presented the caste distribution of the boards of the top 1000 Indian companies. In their article they have analysed who were the members of the directors boards in India, and not surprisingly the results have shown that the caste system is widely prevalent in the Indian economy.

The empirical results showed that caste diversity is non-existent in the Indian corporate sector and the majority of the Indian corporate board members are from one caste group – the forward caste – indicating that it is a small and closed world.<sup>11</sup>

The authors also examined the caste distribution in different industrial branches. The industries where the author found the lowest class diversity were the basic metals, iron and steel products, rubber and plastic products, chemicals, natural gas transmission and construction materials. The trade and services firms generally have a lower diversity compared to the manufacturing sector. In the area of banking, the caste diversity index was very low.

Perhaps this can also explain why "service activities" have developed more rapidly in India than manufacturing activities, as traditionally the Indian caste system puts a low value on "physical" work, as compared to "mental" work, with the result that the dignity of physical labour is nearly absent in India.<sup>12</sup>

Closely related to the caste system, social structures of India also put a stress on the economic development in India. Ruchir Sharma warned that in India there are "too many billionaires", and if a "country is generating too many billionaires relative to the size of its economy, it is off balance". According to the IMF World Economic Outlook, only Russia and Malaysia have produced more billionaires than India, relative to the size of the economy. In Russia the billionaires controlled 29.2 percent of the economy, in Malaysia 20.1 percent and in India 17.2 percent. It is interesting to note that in South Korea and in China billionaires control only 4 percent of the respective economies. This also calls the attention to the closeness of the economic ruling class in India – what is greatly hampering economic efficiency.

Political class is also very closed in India, and as Ruchir Sharma mentioned, that in the Indian Federal Parliament "there are very limited fluctuation" among old and new members. It is rather in the state parliaments where we could see changes.

#### Backward Infrastructure

In India, economic development is largely hindered by backward and low quality physical infrastructure, namely roads, railways, ports, harbours and airports. Only the "E-infrastructure" is developed, namely mobile-phone and internet system, but it is much cheaper to build them, than the physical infrastructure – but the physical infrastructure is primordial for manufacturing.

Today, world subcontracting systems are generally working in "just-in-time" system, meaning that storage capacities are minimal and the stockpiles are mainly in the railways wagons, in the camions, in the cargo ships and in the cargo planes. In India, manufacturing is not as developed as it could or should be – mainly because of the 1000 years of prejudices concerning all manual work. If only the Brahmins, the Kshatriyas and the Vaishyas are esteemed, and the Shutras, who represent more than 50 percent of the population, not, in that case it is natural, that all manual activities are "despised" by the society.

And this despise of all manual activities is the root of neglecting infrastructural development – it is simply not needed for the "high brow" Brahmin activities. And this neglect contributes largely to the slow FDI inflow to India – especially to the manufacturing branches.

#### Corruption

Corruption is always present in a society if it is bureaucratic and closed, so it is natural if a relatively small and closed elite rules in economic and political life. In India, corruption was always present in the "licence raj", but interestingly it has started to increase after 1991–93, when globalisation has arrived to India as well.<sup>15</sup> M. J. Zins maintains that "Indian middle class tries to get material goods through widespread corruption".

What are the causes of this "corruption bias"?

- First of all, the tradition. If you were always corrupt, you remain corrupt even after your power base is weakened.
- Secondly, the "liberal raj" was not complete. Lots of international experts are giving good advices to China to speed up the liberalisation of its economy, but China is much more liberal in this field than India. Even today, investors need lots of permissions if they want to set up a company in India and the success of the FDIs is not granted. It is not easy to find good subcontractors in India, and also foreign companies are often forced to pay some money "under the table" to the greedy bureaucrats for further permissions and licenses.
- Thirdly, Indian "upper middle class", the state and federal bureaucrats want to live as easily as the "Western Middle Class", and for that they try to extort money from the businessmen. In India it is everyday scandal that a state or federal politician is involved in some corruption campaign. And even if the mass media is reposting those cases, the effects of them are generally negligible.

# Future of India

If we look closely at India, it is surprising why this huge country could enchant so many observers. It is not surprising that India had a robust economic development after 1991–93, but it is also true that cultural and psychological basis of this development is not as solid as it should have been. Lots of analysers are also misleading themselves with the fact that in India number of working age population is not decreasing as rapidly, as in China – but they forget that this means that Indian government in the future should find job for increasing number of unskilled or semi-skilled workers.

If we look at the trends, we can see a modest growth of Indian economy during the last 30 years – from 3 percent share it went up to 6 percent in the world economy. At the same time, China has increased its share much more vigorously: from 2 percent to nearly 16 percent from 1980 till 2013.

If we look at India we can say that there are lots of question marks, as

- the increasing population;
- the low prestige of "manual works";
- very inefficient infrastructure;
- and the increasing corruption.

If we neglect the problem of corruption, the three other problems are still burning, but it is not probable that India will be stacked into the "premature" service phase of development, where infrastructure is not important and the rapidly increasing labour force is under-skilled.

In the near future important changes might arrive in India – peacefully or not, it is not unimportant, but today it is still unforeseeable. These changes will lead somehow to the increasing prestige of manual (manufacturing and engineering) jobs and less prestige will be allocated to the "pure" theoretical and trading jobs.

Also something should be done – and it is sure that something will be done – with the rapidly increasing population, because it is not an asset, but rather a liability for the Indian society to feed workers, especially if large part of them is not skilled enough.

Government also should increase efficiency in infrastructure development, as roads, harbours, and airports.

It is understandable that it is much simpler (and cheaper) to develop telephone services than physical infrastructure, but without it, a traditional society – with nearly 1.3 billion people – is not able to jump to the post-modern phase. In India, they have tried it, when software and IT development centres and call centres were set up in Bangalore and elsewhere, but the result was dubious.

If these changes will happen in India soon, we might wait that this sub-continent will develop as rapidly as China did when it was at the same level of development. If not, India will return to the problem of difficulties of FDI attraction and finding employment to the rapidly increasing population.

#### Notes

- 1 Ruchir Sharma: "Broken BRICs. Why the Rest Stopped Rising?". Foreign Affairs, December 2012.
- 2 Ibid.
- 3 László Árva András Schlett: "The Long March: The Lessons of China's Economic Transition". *Asia Europe Journal*, January 2013.
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- 6 Ibid.
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#### László Árva

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# The Minority Issue in the Middle East, with the Kurdish Community in Focus

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The history of mankind has been coupled with conflicts originating from tribal, ethnic, racial, religious etc. differences. There have been and there are different methods of "managing" the relationship of majority and minority, from peaceful co-existence to the use of force, or even the "Endlösung".

Islam has created the pattern of the management of minorities on the basis of a religious differentiation, and with this practice it preceded Europe by several centuries. Islam, from its very beginning distinguished between pagans and the "peoples of the Book", the latter of which, under certain circumstances enjoyed the protection of the majority. In the handling of the national/ethnic minorities and the norms thereof, that were developed in the process of the developments of the European civilisation and history, by definition, Europe had a defining role. The existence and situation of national/ethnic minorities were shaped by such ideals as the principle of national self-rule, the idea of equality and the European type states system (the nation-states, the inviability of borders etc.). This distinction is reflected in the Arabic terminology as well. The term *dhimma* denoting the traditional, i.e. (accepted) religious minorities of the region is opposed to the *aqalliyya*, the new term coined to denote the new minority concept appearing upon the European colonisation. The *aqalliyya* is the translation of 'minority' and as such can be amended by e.g. the 'ethnic' or other adjectives.<sup>4</sup>

In the globalising world minorities can be characterised by a two-way system of processes:

on the one hand, the number of minorities is decreasing, the international order built on nation-states (inviolable borders) and globalisation (e.g. urbanisation, migration, telecommunication) are breaking up traditional communities and/or are assimilating them into the majority societies;

on the other hand, in reaction to globalisation, identities have been strengthening, and the cultural and political awakening of minorities is increasingly visible;

and in the meanwhile "the majority in the modern western societies is breaking up along very different identities into an increasing number of minorities".<sup>5</sup>

Similarly, the perception and management of the risks exposed by the presence of minorities have been characterised by a duality as well. The majority society often perceives the minorities living in its territory as a threat, especially if they articulate a separate identity in cultural and political terms and put forward their relevant aims proposed as a separate group. On the level of the majority state the risk is posed by the threat of secession, the change of the borders, the eventual armed struggle to this end, and in the case of a third state (e.g. the opposition of Turks and Kurds in Germany) in the spill-over effect of the conflict. On the local level, the eventual debates and confrontations between the majority and minority pose a threat, e.g. the presentation of religious symbols, the building of mosques, gettoisation etc. Due to the reactions by the majority (assimilation by force, re-settlement of groups, genocidium) the security of minorities appears in front of the international community as a humanitarian question. "International law, which was developed in the framework of western traditions - and of individual rights - considers communities as beneficiaries and not subjects of protection. It interprets minority rights as individual rights practiced in community with the other members of the group." Although there were efforts in the peace treaties following the First World War to arrange the situation of the minorities, e.g. regarding the Kurdish minority in the Treaty of Sevres, there has been no international agreement concluded on the practice of the collective rights of the minorities, thus, it still depends on the domestic practice of the individual states – in spite of the fact that the issue of minority rights "has become the basic principle of the UN Charter, while according to the International Charter of Civil and Political Rights signed in 1966 and to para 1 of the International Covenant of Economic, Social and Cultural Rights, it is a right of all peoples."

#### Minorities in the Middle East

It is an established fact that the Middle East is not homogenous from the ethnic, religious or the linguistic point of view. The colourfulness, the coexistence and the mixing of the different communities has been a decisive characteristic of the region, the delineation and the identification of which is only possible on the basis of Islam. According to Bernard Lewis,<sup>8</sup> Islam was the only feature encompassing the whole of the region, and it was Islam as a civilisation and a way of life, which basically influenced the way of living of non-Muslim groups as well. However, since Islam was born as a religion, which soon afterwards created its own political unit and state, 'otherness' in the Middle East since the advent of Islam has been expressed primarily in the form of religious difference.

This does not mean that the new Muslim community was not threatened already at the very beginning by genealogical – primarily tribal – differences. Although Islam broke up the tribal system of relationships when it advertised equality before God, it could not eradicate it once and for all. Thus, tribal belongings have had impacts till today, and it could be claimed that the role of nation and nationality is filled in – to a certain extent – by tribal identities. Historically, however, Islam has provided a comprehensive, all encompassing force and identity, compared to which genealogy is of a secondary importance only. (The same cannot be said of the Arabic language, which spread together with Islam, in which it has had a special role, but – apart from religious forums – which could not become as generally wide-spread as Islam. E.g. in North Africa the Berbers, even if they were to some extent Arabicised, preserved their own language similarly to the peoples of the Iranian Plateau, where some centres and local courts had temporarily become Arabic speaking.)

The presence of minorities and/or "other" communities posed a serious security challenge even at the beginning of Islam, exposing social problems which the new community had to manage. At the advent of Islam the Muslim community was continuously the target of attacks by the Meccan majority led by the Quraysh tribe. This naturally raised the question of the management of the relationship between majority and minority. Following the *hijra*, Mohammad and his community found themselves in a situation where the problem of "otherness" and difference had to be solved. It is well-known that Mohammad was called into Yathrib (Medina) by the local quarrelling tribes to judge and make peace amongst them. Since there was a Jewish community living there, too, the so-called Medina Constitution aimed at regulating the relationship and living together of the quarrelling groups of Medina, the Meccan immigrants and the Jews. Although the co-existence of Muslims and non-Muslims was not always without problems, with reference to the Koran and the strict monotheism of Islam the concept of the "peoples of the book" was developed at a very early stage.

It is well-known that in the most popular Muslim understanding, Judaism, Christianity and Islam are the different interpretations and practices of the same Abrahamic monotheistic religion. Therefore, Jews and Christians, considered the "peoples of the book", i.e. peoples having the divine revelation in a written form, were let live according to their own rules and regulations in return for the payment of the *jizya*, the special tax. In Iran, Zoroastrians are also enlisted among the "peoples of the book" referring to the prophetic story (*hadith*) according to which the Prophet accepted the *jizya* from the "Magicians of Hajar".9

Identification by religion has been a constant phenomenon throughout the history of Islam. It has been reflected in the *Dar al-Islam/Dar al-Harb* distinction and is manifest even today: Muslims tend to categorise the world first in Muslim/non-Muslim terms, and recognise ethnic, national or territorial state-based identity only in the second

place. In the practice of the secularised western world, however, the first element of identification is the belonging to a national and/or a territorial state, with religious identification coming only after that (if at all).

Muslim identification meant a marked difference to the newly developed European, nation-based concept, attached to the territorial state, within the practice of the Ottoman Empire. Islam's "peoples of the book" and the *dhimma* concepts were constitutionalised in the millet system of the Ottoman Empire, in which Jewish and Christian communities could live according to their own laws and could practice their own religions under the guidance of their own leaders. In this sense the accepted religious minorities enjoyed collective rights, in contrast with modern European practice.

This system provided protection to e.g. the Jews expelled from the Iberian Peninsula, and this was the framework in which the primary scenes of the national awakening of European peoples under Ottoman rule were churches and religious centres. It is not by coincidence that religion, as the primary feature distinguishing from the ruling majority, has played such a significant role in all nationalisms in the Balkans. The spill-over of European nationalism to Turkish and Arab territories has produced ambiguous situations in which religion was still the connecting element, while ethnic (national) difference could not be interpreted.

The Republic of Turkey built on the remnants of the Ottoman Empire broke with the Ottoman legacy and by taking over the model of the French laicist republic, identification with the territorial state became the decisive feature. The Atatürk model follows this pattern: everyone, who is a citizen of the Republic of Turkey, is a Turk.

#### The Kurds

The Kurds – with Islam and apart from Islam – are a national/ethnic minority in the European sense. Their ethnic 'otherness' could not be interpreted in the Ottoman Empire, since they were Muslims themselves, therefore, the primary element of their identity, Islam, connected them to the majority. European nationalism and the European practice of minority management initiated the process of nation-building among the Kurds. The Muslim Kurds were fighting together with the Turks both in the First World War and the following War of Independence. Their first revolt was against the termination of the caliphate, it was, therefore, on a religious basis. The Kurdish "nation" and especially the idea of a Kurdish state were created under a European influence and the development of Turkish nationalism. However, the Kurds were late in their nation- and state-building efforts, and have become the victims of another European idea, the inviolability and non-changeable character of nation-state borders. They could not establish a state and

were dispersed in five states as minorities. National awakening was late among the other big ethnic group within the Ottoman Empire enjoying religious sameness with the Turks, namely the Arabs. Although Arab nationalism had started to develop as early as the 19<sup>th</sup> century, it could not strengthen enough to withstand great power interests following the First World War. By the time the idea of Arab unity took roots, the Arab heartland was separated into several "nation-states".

In the 16<sup>th</sup>–17<sup>th</sup> centuries under the Qasr-i Shirin/Zohab peace treaty Kurdish territories were divided by Ottoman Turkey and Safavid Persia between themselves, although border fightings were going on for two hundred years. Turkish and Persian centralising efforts were not very successful, since till the mid-19<sup>th</sup> century several local Kurdish dynasties were ruling in the theoretically divided Kurdistan, which were practically independent from both states. <sup>10</sup> The Ottoman Tanzimat reforms were aimed at the elimination of the weaknesses of the empire, however, one of their results was the elimination of the semi-autonomous Kurdish regimes. Still, no effective central control could be built out. This vacuum caused a total chaos on the one hand, but forced the appearance of new local leaders on the other. It was the religious leaders, the sheikhs, who stepped into this vacuum, and became "national" and secular, as well as religious leaders of the Kurdish community.

The idea of Kurdish unity and the establishment of an independent Kurdistan were phrased by the best known Kurdish leader, Ubaydallah at the end of the 19<sup>th</sup> century. His movement can be considered the first instance of Kurdish nationalism in the modern sense in spite of the fact that the belonging of the Kurds and their difference from other peoples in the region have been manifest since the 12<sup>th</sup> century.<sup>11</sup> The Kurdish state perceived by him would have included both the Turkish and the Persian Kurdish territories. Its basis was the racial, cultural and linguistic similarity of the Kurdish people, its raison d'être was the lawlessness resulting from the Turkish and Persian empires' weakness and the fear from the eventual emergence of an Armenian state including the Kurdish territories. The split of the Ottoman Empire after the First World War led to the further distribution of the Kurdish territories, thus central Kurdish territories were attached to the new Arab "nation-states", mostly Iraq, but to a certain extent to Syria as well.

At the same time, it was the documents on the splitting up of the Ottoman Empire – first of all the Treaty of Sevres, which has been ever since the most important point of reference of Kurdish independence efforts –, which recognised the Kurds and promised them autonomy, and – under certain circumstances – would have made the establishment of an independent Kurdistan possible.<sup>12</sup>

The Kurds are today the Middle East's (and the world's) biggest minority without a state. Their number is estimated at 25–30 million, but Kurds usually put their number at 40 million. Their origin can be traced back to ancient times, or even further, into

the mythical times. They are a people of Iranian origin, speaking a group of dialects belonging to the Indo-Iranian branch of the Indo-European family of languages. As of today no unified Kurdish language exists. The three big dialects, the Kurmanji, the Zaza and the Sorani are spoken by communities reaching over the state borders, and have a social significance as well.<sup>13</sup>

The Kurds live in the mountainous region where Turkey, Iraq, Iran and Syria meet, in a territory that has never been clearly defined and delineated. Their number in Turkey is around 12–15 million, in Iraq and Iran 4–5 million respectively, and in Syria more than one – according to other sources two – million. In smaller numbers Kurds live in the territory of the former Soviet Union, today mostly in Armenia, as well.

In spite of the tribal, linguistic, religious and geographical differences, Kurds consider themselves as a people belonging together and the outside world also perceives them as one nation. Some experts think that the basis of this belonging together is a kind of "mountain culture". 14 Paradoxically, although modern Kurdish history can be described as a series of revolutions in each host country and in spite of the fact that the dream of the Greater Kurdistan has been on the agenda of most Kurdish organisations, there has never been a common, united movement to realise this dream. The reasons, beside the already mentioned geography and historical experience (including the already mentioned smaller centres on the periphery away from central control) could be found in the fact that Kurdish leaders were usually occupied with their own local and/or regional interests. The political fractures among the Kurds following the 20th century political settlements only added to this. Their present situation and minority position while on the one hand strengthen the sense of belonging, the fact that the different Kurdish communities have to identify themselves in opposition to different ethnic majorities among different state structures, results in different developments (away from each other). In Turkey, Kurds have to establish themselves as a different community in a strongly nationalist Turkish environment, in a republican state and among relatively democratic circumstances. In Iraq, up to Saddam Hussein's fall they were opposed by a strongly Arab nationalistic environment, while in Iran they have to live as a minority in a Persian nationalist Shiite Islamic theocratic state. However, while in Iraq and Iran the existence of ethnic minorities was officially acknowledged, Turkey was engaged in the building of Turkish identity, as a consequence of which Turkish Kurds "have developed a more uncompromising posture vis-à-vis the Turkish state than Kurds in Iran and Iraq."15

Kurds are perceived to pose a security threat both on the domestic and on the regional level. The dream and aim of an independent Kurdish state embracing all Kurds into one national-political entity is a common threat to all regional states. The expression and practice of Kurdish national identity – either in the form of an autonomy within the state borders or unacknowledged – is perceived as a threat by each majority state.

The extent and the form of this threat perception may differ from state to state and from time to time, and it depends also on the eventual relationship between minority and majority. An independent Kurdish state by definition would mean loss of territory for the majority states, and the eventual possibility is not taken lightly. Especially so, since following the Second World War there were efforts at establishing an independent Kurdish state on Iranian territory (Mahabad). Therefore, the territorial integrity of majority states is a joint regional interest, proven e.g. by the joint declarations by Turkey, Iran and Syria with regard to Iraq in the 1990s and following the 2003 war. Consequently, the thought of an independent Kurdish state is rejected by all state actors. Nevertheless, the 1991 Gulf War and the 2003 war in Iraq created the quasi independence of the Northern Iraqi Kurdish region, 16 and resulted in the establishment of the Kurdish Regional Government, which has been operating as a state within a state. (In 2012 a similar development can be observed in the Syrian civil war.) Although the Iraqi Kurds have remained within Iraq, at the referendum organised parallel with the general and Kurdish regional elections in 2005, more than 90 percent of the Iraqi Kurdish population voted for Kurdish independence. Though Masoud Barzani, the head of the Kurdish Regional Government announced that it was not on the agenda, several experts thought that the question was not so much "if", but "when", especially that the new generation of Iraqi Kurdish leaders have no contact whatsoever to Iraq. <sup>17</sup>

The Iraqi example, but especially the 2003 war have changed the political relations in the region significantly, one factor of which was the acknowledgement of Kurds as political actors and their involvement in politics. The Iraqi Kurdish Regional Government has become, even if symbolically, the central, almost state-level actor of the Kurdish issue, which takes responsibility for the fate of the other Kurds and accepts refugees, while, as a limited political actor, conducts direct negotiations with the regional states on issues including the Kurdish question. Besides, it provides an example to follow for the other Kurds, and as such strengthens Kurdish national feelings.<sup>18</sup>

The presence of the Kurdish minority, however, carries domestic political and security threats as well: on the one hand, it may imply territorial debates with other ethnic groups within the majority state, on the other, there may be disagreements and even armed clashes among the different Kurdish groups. It is well-known that in Iraq the status and ownership of Kirkuk has still not been settled: it is claimed not only by Arabs and Kurds, but – on the basis of historical evidence – by Turcomans as well. In Iran the modification of the borders of the Kurdistan province in a way to include Azeri populated areas as well, was high on the Kurdish political agenda. The division of Kurds both in Iraq and in Iran was often manifest in armed clashes, the reasons of which were the different political aims and tools of the different groups.

While Turkey's only security challenge for decades has been the activities of the PKK, which is withdrawing into Northern Iraq, in the post-2003 Iraq the armed wings of

the Iraqi Kurdish parties (KDP, PUK) were integrated into state security organisations. In Iran, the KDPI and the Komala have been fighting against the central Iranian government, while very little could be heard of the PJAK's activities so far. Still, nothing shows their being a threat for the Iranian state better than the regular joint Iranian–Turkish aerial attacks against the PKK–PJAK northern Iraqi bases. (The PJAK seems to be increasingly attached to the PKK – in some estimates, it is a part of the PKK.)

On the basis of the experiences of the past decades, a further threat can be the support by a state to the Kurdish minority in its neighbouring state, when it opposes the central government. While it can be said that Turkey, Iraq and Iran up to 1958, the fall of the monarchy in Iraq did not try to play the "Kurdish card" against each other and abided by the Saadabad Treaty,19 following the declaration of the Republic of Iraq and the coming into power of a pan-Arab, Arab nationalist government (or series of governments) changed this situation. This was especially relevant in the relationship of Iraq and Iran, up to the end of the Iraq–Iran war (1988). In fact, the situation was finally changed by the international sanctions against Iraq and then the 2003 war in Iraq, as a result of which it became clear that the territorial integrity of Iraq was more important than the ousting from power of Saddam Hussein, and that the good relationship to the Iraqi Kurds, who had come into governing position, was in the interest of all neighbours. As regards the Kurdish issue, the post-2003 regional order seems to be characterised by the cooperation of the relevant states, since the presence in Iraq of the armed Kurdish guerrillas fighting against the Turkish and the Iranian governments has not provoked huge debates, as the – often united – Turkish–Iranian operations against them has not raised heavy criticisms either.

On the basis of the above, it can be said that one of the defining elements of the region's security policy has been the dynamics of the alliances formed over the Kurdish issues. Every political actor has been (and will be) in alliance and/or in war with all the others in different formations: a state with the Kurdish organisations of another state, the central government and its own Kurdish organisation(s), and the Kurdish organisations among themselves. This "alliance kaleidoscope" may in itself pose a security threat, which should be evaluated and analysed in the given moment.

In the following, this paper examines the situation of the Kurdish minorities in the different majority states, their national efforts and the domestic and regional consequences thereof.

# The Islamic Republic of Iran

In the Islamic Republic of Iran the very existence of minorities is perceived as a threat, since the majority ethnic group, the Persians constitute only a half of the total population. The approximately 4–5 million Kurds account for 7–8 percent of

the total population of Iran,<sup>20</sup> and with that they are the second biggest ethnic minority of the country,<sup>21</sup> which has no "mother-state", but for which the several million strong ethnic Kurdish groups in the neighbouring countries provide a special background. Kurds in Iran live primarily in the five northern-western provinces of Iran (Ilam, Kermanshah, Kordestan, West-Azerbaijan and to a smaller extent in Lorestan), but a 350,000 strong group can be found in Northern Khorasan, where their ancestors were moved and re-settled in the 17<sup>th</sup> century.<sup>22</sup>

Most of the Iranian Kurds, approx. 70 percent are Sunni Muslims, 20 percent are Shiite Muslims, while the others are followers of the Ahl-e Haqq Sufi order, which has incorporated some Zoroastrian elements into their faith and practice. There are also Yazidis, Christians and Jews in small numbers among them.<sup>23</sup> While during the rule of the Pahlavi dynasty "religion was not generally considered a crucial criterion of Kurdish ethnic identity ... [after the Revolution there emerged] several indications of increased consciousness among Kurds as among Persians of the religious factor".<sup>24</sup> The Kurdish dialects spoken in Iran are called collectively as Kurmanji or Kermanji.

On the basis of their way of living, the Iranian Kurds can be broken down into city-dwelling and rural groups, in the framework of which some half of the latter used to lead a nomadic way of life. Their settling down and urbanisation took part under the influence of the Shah's agricultural reform policy, the struggle between the Islamic Republic and the Kurdish *peshmergas*, as well as the war between Iraq and Iran, in consequence of which many from the rural Kurdish population fled.<sup>25</sup>

By the mid-1970s the number of nomad Kurds decreased below 15 percent and has been decreasing ever since, which partly coincides with the above-mentioned phenomena, partly is in accordance with the global and regional trends, in the framework of which the rural Kurdish population in Iran (as well) migrated in great numbers into the cities and settled down there. The Iranian Kurdish population migrated primarily into the Iranian Kurdish cities of Bakhtaran/Kermanshah, Sanandaj, Mahabad, Bane, Ilam, Saqqez etc., while part of the educated – Persian speaking – Kurds into Tehran, Tabriz or Karaj.<sup>26</sup>

Kurds have always been a challenge for the strongly centralising Iranian state, be it under the Pahlavi dynasty rule or the Islamic Republic, and have remained so to this day. In their history independent statehood, either the Greater Kurdistan or only some of the Kurdish territory, and autonomy within a state, have been set political aims. The territorial interpretation of these, however, generate debates far overreaching the already mentioned regional or against the Islamic Republic threats, and present such domestic political and security debates as the Kurdish–Azeri territorial dispute.<sup>27</sup>

Iranian suspicions over Iranian Kurdish endeavours are further enhanced by the fact that Iranian Kurds are the only group among the whole Kurdish population, who did have a state of their own, even if only for a brief period. Although the Mahabad

Republic existed only from 22 January to 17 December 1946, and it was the result of Soviet superpower politics, the fact of statehood as a point of reference has been an important momentum both in Iranian (and other) Kurdish thinking and in the perception of the Iranian central authority regarding the Kurds.

Within the Islamic Republic of Iran as well as in Iraq or Turkey, the relationship of the Iranian Kurds to the outside world, including the dissident Iranian Kurds, and the relationship of the Islamic Republic to the Kurds outside the borders have been important elements. While dissident Kurds were usually considered a threat to be eliminated, other Kurdish minorities in the neighbouring countries often served as potential allies, especially in Iraq. Dissident Kurdish leaders often succeeded in thematising the agenda of the international community, therefore, primarily following the Islamic revolution, dissident Kurdish leaders were attacked. On 13 July 1989, Dr. Abdur-Rahman Qassemlu, the leader of the KDPI was assassinated in Vienna. In 1992, Dr. Sadeq Sharafqandi, the new Secretary General of the KDPI was also murdered in Berlin in a restaurant called Mykonos. In the case that followed, the German court passed a verdict (10 April 1997) which stated that the highest level of the Iranian leadership – including Ayatollah Ali Khamenei and President Ali Akbar Hashemi Rafsanjani – were involved in the assassination.

The most characteristic example of the relationship between Iran and the Kurdish communities living outside its borders is reflected in the relationship of Iraq and Iran, in which the "Kurdish card" has played an important role for decades. Although before the Iraq–Iran war it is difficult to estimate the extent of the Iraqi and Iranian support to the other's Kurdish groups, some phases can still be distinguished. From 1958, the fall of the Iraqi Hashemite monarchy till the Islamic revolution the Shah had regularly supported the Mollah Mustafa Barzani led Iraqi Kurdish resistance. Although following the Islamic revolution Iraq still kept accusing Iran with their support, in fact in this period it was Iraq that was supporting the Kurdish organisations in Iran. In the course of the eight-year war, however, both sides tried to have the Kurdish population involved and "use" them, which resulted in various, even if temporary forms of cooperation among the Kurdish groups themselves, with their own government or with the government of the neighbouring country.<sup>28</sup>

The political organisation of the Iranian Kurds can be described with three parties: their relationship to each other is characterised by not only ideological, but by generational and social differences. Their activities are complemented by the presence and activities of an increasing number of cultural NGOs, which try to stay away from politics The *Komala* (or 'Society' established in 1942, is a secret society of a hundred persons, whose aim was Kurdish self-rule). However, since it consisted of restricted cells with a small number of participants (only those with a Kurdish mother and a Kurdish father could be members), it could not reach out to the masses, consequently

had practically no influence over Mahabad. The Komala has taken its leftist-Marxist ideology from the Iraqi Kurds, and turned towards the Soviet Union, but since it was too nationalistic compared to the internationalism supported by the Soviet Union, and did not want to come closer to the Azeris, who were also supported by the Soviet Union,<sup>29</sup> in September 1945, a new political party was established – also with Soviet support – under the name of Kurdish Democratic Party. The KDP was meant to be an umbrella organisation with the aim of Kurdish independence, and would have had an army of its own, since – in their interpretation – Kurdistan can only be achieved by armed force. Regarding its roots and ideology, the KDPI (Kurdish Democratic Party in Iran) is an independent Iranian organisation of this Kurdish Democratic Party, which established the Mahabad Republic. Following the Islamic revolution another leftist movement was established, yet again under the name of Komala, which started an armed struggle to achieve Kurdish independence, but in the 1990s it stopped fighting. There was an ideological rivalry between the KDPI and the Komala (with the KDPI usually having a bigger followance), since the Komala was a Marxist-Leninist movement equally criticising both the Kurdish bourgeoisie and the Islamic Republic.

The Party of Free Life of Kurdistan (Partiya Jiyana Azad a Kurdistanê, PJAK) was established in 2004, mostly of young intellectuals, with the aim of changing the theocratic character of the Islamic Republic, in the place of which it championed a "radical democracy", the unity and freedom of Iranian peoples in the form of a democratic confederation. Its field of operation is defined as Eastern Kurdistan, i.e. the Iranian Kurdistan, however, unofficially its aim is the establishment of the "Great Kurdistan".30 In accordance with the declared aims of the PJAK the autonomously operating armed groups<sup>31</sup> have always been fighting the central Iranian security forces in Iranian territory, but have camps on the Iraqi side of the Iraq-Iran border in the Qandil Mountains. The Iranian army conducted operations against these camps several times, sometimes even in cooperation with the Turkish armed forces. The basis of the Iranian-Turkish joint operations was the fact that according to many sources the PJAK would be a wing of the PKK, the Turkish Kurdish Labour Party, which has been nevertheless denied by the PJAK leaders.<sup>32</sup> They added, however, that although the PJAK is participating in the pan-Kurdish political congress, it is under the control and guidance of the congress of its own party. (In spite of this in 2009 – as it is widely believed under Turkish pressure - the PJAK was put on the "black-list" by the United States.) It seems that Iran, when attacking Kurdish military camps in Iraq, is following the Turkish "practice" and tries to present at least some of its armed fight against its Kurdish minority as legal to the international community and to prevent international criticism.

Armed attacks have become increasingly frequent in the Iranian Kurdish territories, e.g. the explosion of the office of the governor of Kermanshah in May 2006,<sup>33</sup> followed

by 65 attacks between March–November 2009,<sup>34</sup> and have been followed by an armed revenge and imprisonments. Several Kurdish activists in Iranian prisons were executed between the autumn of 2009 and the spring of 2010<sup>35</sup> under the argumentation that they had participated in the demonstration following the 2009 presidential elections. However, sources point out that most of them had been sentenced to death before the presidential elections.

In the 2009, presidential elections and the campaign preceding it ethnic affiliations played an important role. A part of the Kurds, who due to political reasons often stayed away from elections/referenda both under the Shah and in the beginning period of the Islamic Republic, boycotted them in 2009 as well.<sup>36</sup> In other parts of Kurdistan (Kermanshah, Orumiye) in accordance with the demonstrations elsewhere and with the declared aims of the PJAK, mass demonstrations were taking place, where participants demanded regime change, attacked government offices and burnt the photos of Ayatollah Khamenei and President Ahmadinejad.<sup>37</sup>

As it is known, Iranian Kurds supported the Islamic Revolution in the hope that – in contrast to the anti-minority policies of the Shah – the new government would acknowledge the Kurds' role in the fall of the Shah and would support their efforts at autonomy. They were soon disappointed, however, since the Islamic Republic established a strongly centralised state, in which national/ethnic differences played no role in spite of the fact that linguistic variety is acknowledged by the constitution.<sup>38</sup> In harmony with the norms and traditions of the region, minorities are only distinguished in religious terms, consequently, Zoroastrians, Jews, Assyro-Chaldean Christians as well as Armenian Christians are entitled to send representatives to the Majles.<sup>39</sup>

Since the establishment of the Islamic Republic, both Supreme Leaders (Ayatollah Khomeini and Ayatollah Khamenei) and each administration negotiated with the Kurds and/or promised to address their concerns. 40 Under the two presidencies of Mahmoud Ahmadinejad the policy of building a united revolutionary Islamic identity has been strengthened to the detriment of regional and local identities. Due to the splits among the Iranian Kurds, however, and to the fact that even while negotiating with the government fights were still going on, Iranian Kurds could not realise their aims to this day and their demands remained practically the same declared during the reign of the Shah: Kurdish self-rule, Kurdish representatives in the local administration, arrangement of territorial disputes (with the Azeris), freedom of expression and religion and the release of political prisoners.

Although the impact of the Iraqi events on Iran and on the Iranian Kurds has been mentioned before, it should be emphasised that the 2003 war in Iraq and its consequences meant a new milestone. In the course and the aftermath of the war not only the international recognition of the Kurds meant a threat for the Iranian state, but also the fact that when the United States planned to open the second corridor of attack

from the northern-west, it wanted to rely on the Iraqi Kurds. This must have increased the threat perceived by Iran, since it proved that on the one hand if the US wanted regime change, it did carry it out, but also that it would depend on certain groups of the given country in carrying the regime change out.

Besides, following the 2003 Iraqi war the possible intervention in Iran by the US and the coalition forces in Iraq was continuously on the agenda. Iran accuses the US (and to a smaller extent Great Britain as well) of providing arms and training to the Kurdish guerrillas taking refuge in Iraq, and of inciting and supporting the resistance of ethnic minorities, including the Kurds, against the central government. Following the war in Iraq, there have been demonstrations, attacks etc. not only among the Kurds, but also among the Azeris, Arabs and Beluj<sup>41</sup> on which the official Iranian position is that these were incited and performed by foreign powers.<sup>42</sup> Such allegations seem to be proved by news of the regular meetings taking place between US officials and Iranian Kurds in the Qandil Mountains.<sup>43</sup>

## Iraq

In Iraq most of the some 5 million Kurds live in the provinces of Dohuk, Irbil (Erbil) and Suleymaniyya, but significant numbers can be found in Kirkuk and its neighbourhood. While the majority of the Iraqi Kurds are Sunni Muslims, the Faili Kurds living in and around Kirkuk are Shiite. The Iraqi Kurds speak dialects belonging to the Sorani and Kurmanji (Kermanji) groups of Kurdish dialects.

The history of the Iraqi Kurds – with the different parties and groupings organised on the basis of family and clan relationships – proves that tribalism has been and still is a defining element of the Kurdish society in Iraq as well.<sup>44</sup> In this regard "one traditional dividing line within the Iraqi Kurdish society is between those fighting for and those fighting against the government". The other faultline lies between the urban and the tribal-rural population.<sup>45</sup> In the course of the – frequently armed – struggle with the Iraqi central government significant groups of Kurds were re-settled in other parts of Iraq, primarily in Central and Southern Iraq. In consequence of the international protection following the 1991 Gulf War and of the process of urbanisation, the Kurdish population migrated to the cities – mostly the Kurdish cities – (or came back to them<sup>46</sup>), and remained there because of the international situation. Therefore, these movements have not changed significantly the ethnic composition of the Arab cities of Iraq. The only significant example is Kirkuk, which has become a political symbol in itself. The Saddam regime removed many Kurdish families and transferred them elsewhere. Simultaneously, Arab families were encouraged to move in, pushing the Turcomans and other minorities considering themselves the dominant native ethnic groups into the background.

The fight of the Iraqi Kurds against the state and the central government can be traced back to the establishment of Iraq, and the attachment of the Mosul vilayet of the Ottoman Turkish Empire to it. Mosul incorporated most of the Kurdish-habited territories of the present Iraq. Still, what defined and clearly distinguished the relationship between the Iraqi Kurds and the Iraqi state from those of the other states having Kurdish minorities, was the fact that within the Iraqi legal system and under Iraqi law Kurds were considered a separate ethnic group.<sup>47</sup> Consequently, the history of the struggle for self-determination was, at the same time, the history of negotiations. The presence of the Kurdish minority from the establishment of the Iraqi state has been one of the most constant and militarily most effective security threats, which the central government tried to use for its own benefit. Following the 1991 Gulf War the relationship of the Iraqi Kurds and the government has entered a kind of neutral phase, since although the Kurds stayed within the framework of the Iraqi state, they have gone on living under the protection of the international community as a "state within the state". The 2003 war has - even if not deliberately - practically sanctioned this state of affairs, when in its follow-up the Kurdish Regional Government and Parliament were established and the 2005 constitution acknowledged the regions. On the other hand, the new Iraq aimed at integrating the Iraqi Kurds (President, Parliament, constitution). By this, the security policy dimension of the Kurdish question in Iraq changed once and for all.

The history of the Iraqi Kurds is coupled with, besides the struggle for self-governance, the main phases of the history of Iraq, since every change in its course implied a possibility for the Kurds to achieve self-governance: the (temporary) agreements of the incoming governments with the Kurds helped them to stabilise their positions. The first Kurdish uprisings led by Sheikh Mahmoud, practically simultaneously with the establishment of Iraq, broke out against the British occupiers and the new Iraqi government. The last such uprising broke out in 1932, when it turned out that the treaty on Iraqi independence did not include guarantees with regard to the rights of the minorities, in spite of the fact that the Anglo-Iraqi declaration presented to the League of Nations acknowledged the right of the Kurds to self-rule within the framework of the Iraqi state.

The Iraqi Kurdish resistance movements were organised on a tribal as well as a territorial basis. Their future fate was defined by their relationship to each other and to the central government. The up-to-now most significant resistance movement, which later was organised into a party and as such has become the symbol of the Iraqi Kurdish struggle, is related to the Barzani clan. Its success is (was) closely related to the charismatic personality of Molla Mustafa Barzani, who in 1946 established the Kurdish Democratic Party (KDP) and who, up to his death in 1979, remained the most significant symbol of Kurdish nationalism – in spite of all political challenges and

eventual mistakes. His success lay in his ability to unite and keep united the religious and secular Kurdish groups, and he could remain the most powerful even when some of the leaders of his own party left and founded new parties. Out of these the most significant has been the Jalal Talabani-led Patriotic Union of Kurdistan (PUK), which, after its establishment in 1975, has remained a defining party of the Iraqi Kurdish political arena to this day. (It should be noted that the PUK was established only when Molla Mustafa's political carrier had practically been completed. Following the 1975 Algiers agreement he called on the Kurds to put down their weapons and till 1979, when he died, he played no active role.) As a consequence of the decade-long fights and cooperation between the KDP and the PUK besides the tribal, sectarian and ideological differences (e.g. most of the Shiite Faili Kurds support the PUK) a kind of territorial division has evolved: the KDP controls the northern-western part of Kurdistan, while the PUK the south-eastern part (neighbouring Iran).

Parallel to the armed struggle of the Molla Mustafa Barzani led *peshmergas*<sup>49</sup> negotiations between the Iraqi government and the Kurds (Molla Mustafa) were continuous, even if they were frequently stopped, and a series of agreements regarding the situation of the Kurds were concluded, and have remained unimplemented. Molla Mustafa first framed his demands in 1944, which Prime Minister Nouri Said – before the fall of his government – was ready to put on the agenda. These aims partly correlated with the aims usually phrased by the Kurds, partly went much further. They included the establishment of the Kurdistan province, which would incorporate Kirkuk and would be under the control of Kurdish leaders; the establishment of a ministerial post in charge of questions related to the Kurds; cultural, economic and agricultural autonomy; a total autonomy except for the authority of the police and the army, and the appointment of a Kurdish vice-minister in each ministry.

The 1958 military coup d'état and the declaration of the Republic of Iraq presented a new opportunity for the Kurds, since the 1958 transitional constitution recognized for the first time the Kurds as a separate ethnic group, which has national rights. According to the constitution Iraq is an integral part of the Arab nation, "and the Arabs and the Kurds are partners in this nation". The basis of the cooperation between the Abdul-Karim Qassem-led government and the Molla Mustafa led Kurds was a common political necessity: Qassem, who got into power with a military coup d'état, had to reinforce his position just as Molla Mustafa, who had recently arrived back from the Soviet Union after several years in exile. In the meanwhile there was no agreement within the KDP leadership if they should support the new government. As the two leaders were getting stronger, their cooperation was weakening.

The 1964 constitution, however, did acknowledge the equality of Arabs and Kurds, but in the uncertain situation, caused by the change of the leader<sup>51</sup> in 1966, the government offered a truce to the Kurds, which Molla Mustafa accepted. The peace

plan included the principle of the Kurdish autonomy, the free use of the language, a Kurdish legislative body elected in direct elections, and a security service by the Kurdish armed forces. However, the peace plan was not realised again, and Molla Mustafa turned to Iran and Israel for support to strengthen his position among the Kurds.

The 1968 Baathist coup d'état was supported by some of the KDP leadership (including Talabani), while Molla Mustafa was cautious, since the basic element of the Baathist ideology was Arab nationalism, in which the chances of the realisation of Kurdish self-rule – at least in the long term – were low. In spite of this there were four Kurdish ministers in the new government, though there was only one – Arabicised – Kurd in the Revolutionary Command Council. Nevertheless, the KDP leadership around Talabani had good relations to the Baathists,<sup>52</sup> which was a threat to Molla Mustafa's position.

Finally, in March 1970, the so-called March Manifesto was declared, which was the most comprehensive plan ever accepted by any Iraqi government before 2003 to satisfy the national endeavours of the Kurds. The Manifesto acknowledged Kurdish national rights, autonomy and promised relevant governing bodies, and wanted to ensure a continuous connection between the government and the local autonomous administration. The Manifesto, however, did not delineate properly the geographical territory of the autonomy, therefore, although 4 years were foreseen to implement it, no elections could be organised, no institutions established, etc. While the Kurds became further polarised and established new parties, the Iraqi society was not homogenous either, and many did not want to limit Iraqi presence in some parts of the country - to the benefit of the Kurds. Accordingly, the Arabisation of the Kurdish territories was underway,<sup>53</sup> which led to the total failure of the March manifesto. The Arabisation of the Kurdish territories went on with different techniques, well known in other parts of the world as well. The exchange of population and the re-delineation of administrative borders went hand in hand with the land reform, in the course of which the lands of the great landowners were confiscated, split into smaller units and given to Arabs. In 1974, the government presented a new plan, the autonomy law, elaborated on the basis of the March Manifesto. The Kurds should have decided on it within two weeks. However, since according the autonomy law Kirkuk would have remained out of the boundaries of Kurdistan<sup>54</sup> and under the control of the Baghdad government, Molla Mustafa rejected the plan.

External support (or interference) has been a defining element of the Iraqi Kurdish question ad well. While – upon different reasons – the US, Iran and Israel supported Molla Mustafa, when this external support was cut, it was a defining moment in the situation of the Iraqi Kurds. In the 1975 Algiers agreement as a condition to the border delineation along the Thalweg of the Shatt al-Arab, Iraq demanded that the Shah terminate the support of the Iraqi Kurds, which was a serious blow to them.

The Kurdish resistance practically collapsed, when Molla Mustafa ordered to lay down the weapons. Following a general amnesty to the peshmergas, many left for Iran, while others were re-settled far from their homes. Taking advantage of the halt of the Kurdish movement, the Iraqi Baath Party destroyed some fifty Kurdish villages and re-settled 40–300,000 Kurds elsewhere. As a further consequence a significant fragmentation of the Kurdish political forces followed/started. First, Jalal Talabani, a member in the KDP leadership established the Patriotic Union of Kurdistan (PUK), which has become the second significant party of the Iraqi Kurds. Following the death of Molla Mustafa in 1979, the Kurdish organisations fragmented further, since the KDP was split into several different political parties, one of which was led by the sons of Molla Mustafa, Masoud and Idris. Interestingly, although this party lost much of its credibility during the Iraq-Iran war (it clashed on several occasions with the Iranian KDPI and the Komala, and was the ally of Iran during the war – in contrast with the PUK, which was cooperating with the Iranian opposition and got cautiously closer to the Iraqi government), following the 1991 Gulf War Masoud Barzani became/merged as the main speaker and negotiator of the Kurds in the negotiations with the Iraqi government. One of the reasons was that the Kurdish society and opposition was still organised in the traditional way, but this was made possible also by the fact that during the Iraq-Iran war – after initial disagreements (the KDP received Iranian support, while the PUK tried to come to an agreement with the Iraqi central government), the two parties reconciled with each other and together with other smaller parties established the Kurdistan Front. This cooperation among the different Kurdish parties and groups was further strengthened by the Anfal operation of the Iraqi government against the Kurds (1988).

The most significant external support, however, was given to the Iraqi Kurds by the US and the international community. Following the expel of the Iraqi troops from Kuwait in 1991, President George Bush called on the Iraqis, especially the Shiites and the Kurds, to pull down Saddam Hussein's regime. The international community by the resolution of the UN Security Council established a no-fly zone to protect the Shiites and the Kurds. In the 'safe haven', established in defence of the Kurds, they could live practically independent from Baghdad. (In spite of this, internal fights among the Kurdish parties and groups went on till 1998, when with American–British–Turkish mediation the truce between the KDP and the PUK was concluded, although the dual control remained.)

Still, the most important external interference in the history of the Iraqi Kurds was the 2003 Iraq War itself, which profoundly changed the position of the Kurds within Iraq. The very fact that the US opened a second front from the north against the Saddam Hussein regime, in the organisation and operation of which the US relied on the Iraqi Kurds, showed that in the new Iraq the Kurds would be an equal state forming element. Although this had been mentioned before several times in several document,

the alliance with the US provided a new context and a realistic option. (This, however, posed a special difficulty for the US, since while the Iraqi Kurdish armed groups and parties were fighting their central government in the same way as the PKK was in Turkey, the Iraqi Kurds were and acknowledged partner for the US-led international community, while the PKK was listed as a terrorist organisation.)

Another important element was that although the "one man, one vote" system of the new Iraq, <sup>55</sup> and the proportional representation would not have provided the Kurds a representation bigger than their ratio among the population (20 percent), still – partly because of the initial Sunni boycott <sup>56</sup> – the Kurds could gain a much bigger role. <sup>57</sup> "In effect, the Kurds succeeded in 'Kurdifying' Iraqi politics to the extent that no decision can be taken without Kurdish input or, more, without the threat of a Kurdish veto." <sup>58</sup> The positions of the Iraqi President and that of the Foreign Minister, both filled by Kurdish politicians, are both significant and symbolic, as well as the right that by a two-third majority in three provinces any law can be vetoed. (Although this was a Kurdish success fought for by the Kurds, but eventually this could also benefit the Sunnis.) The constitution passed by a referendum in 2005 granted practically all "classical" Kurdish demands except for the independent Kurdish state. Iraq is

a country of many nationalities, religions and sects and is a founding and active member of the Arab League and is committed to its covenant. Iraq is a part of the Islamic world<sup>59</sup> ... The Arabic language and Kurdish language are the two official languages of Iraq.<sup>60</sup> ... This Constitution shall approbate the region of Kurdistan and its existing regional and federal authorities<sup>61</sup> ... Legislation enacted in the region of Kurdistan since 1992 shall remain in force, and decisions issued by the government of the region of Kurdistan – including court decisions and agreements – shall be considered valid unless it is amended or annulled pursuant to the laws of the region of Kurdistan by the competent entity in the region, provided that they do not contradict with the constitution. <sup>62</sup>

Although no political actor within and over the region supports the establishment of a Kurdish state, in Iraqi Kurdistan the issue is continuously on the agenda. In 2005, parallel with the parliamentary elections there was a separate referendum organised on the question of independence, which was finally supported by some 95 percent of the population.<sup>63</sup> However, according to Massoud Barzani, the President of the Kurdish Regional Government (then and since then) "this is not realistic", but "independence is a right of every people". In a recent interview he opined that the independent Kurdish state in Northern Iraq "will come into being "in the life of either this generation or the next".<sup>64</sup>

This means that the security policy considerations related to the Kurds have changed considerably, even if some of the old threats, primarily that of an independent Kurdish

state, still have to be taken into account – at least on the level of perceptions. Some other old threats have been re-evaluated, and some new threats have emerged. The old territorial debate (Where are Kurdistan's borders?) has most been solved, but the oilrich Kirkuk province and city are demanded by the Kurds, while the Turcomans and Arabs living there, as well as the central government reject this. The importance of the issue is signalled by the fact that a separate article of the Iraqi constitution deals with the Kirkuk debate, which should have been solved by a referendum till 31 December 2007, but has not yet been held.<sup>65</sup> In the meanwhile neighbouring Turkey has also put forward security policy demands.<sup>66</sup>

It is a new phenomenon that the situation of the region, which since 1991 could live practically in peace and undisturbed by the Iraqi central government, following the cessation of the main operations in the 2003 Iraqi war stabilised very quickly and was much better in the long run than that of the others parts of Iraq. In consequence, the economic development of the Kurdish region went on at such a quick pace that an inflow of workforce started from the Arab inhabited areas, which the Kurds wanted to limit – by immigration and settlement regulations – while the emigration of the previously settled Arabs was encouraged. At the same time, several criticisms are formulated over the situation of the "native" local minorities (Turcomans, Assyrians, Chaldeans).

A further security factor is the *peshmergas*, the armed militias of the KDP and the PUK, which since the reconciliation between the two parties have not fought with each other, and which according to the 2005 constitution form the legal force of the region. The *peshmergas* officially are part of the Iraqi army and operate within its framework, but in tense situations, e.g. like the debate over Kirkuk or the border between Iraq and Kurdistan, may pose a serious threat.

The Iraqi camps of the PKK and the PJAK pose an armed threat for the whole of the region. On the one hand, the Turkish and Iranian attacks against them have caused losses among the local population. On the other, the presence of the armed groups and their operations from Iraq territory may cause tensions with the neighbouring states.

# The Kurdish Issue in the Republic of Turkey

The most populous Kurdish community lives in Turkey. As in the previous cases, there are only estimations as to their numbers, which are generally put between 13–17 million (among to total Turkish population of 75–80 million). Accordingly, Kurds make up some 18–25 percent of Turkey's citizens, <sup>67</sup> i.e. approximately half of the Kurds living in the Middle East, live in Turkey, which is perceived as a serious security threat not only for Turkey, but also for the wider region.

Geographically, most of the Kurds in Turkey live in the south-eastern part of the country. Historically, however, due to the uprisings against the central government and the repression that followed, as well as the sinking into the background of the pastoral way of life, and such other factors as globalisation and urbanisation, many Kurds have left their homeland and moved to other parts of the country. On the one hand, there is a movement within the Kurdish territories from the countryside to the cities, on the other, Kurdish migration has been going on towards the western, more developed parts of the country. The world's biggest Kurdish community – numbering between 2–4 million – lives in Istanbul, but significant groups can be found in Ankara and Izmir as well.

During the ninety years that passed since the foundation of the Republic of Turkey, the ratio of the Kurds within Turkey's population has been on the rise. The primary reason is that in the Kurdish populated territories of Turkey, mainly in south-eastern Turkey, the total fertility rate is higher than the Turkish average, which in the beginning of the new millennium has decreased to a level close to the reproduction rate (it was approx. 2.2 in 2003). This means that in Central and Western Turkey the total fertility rate has sunk below 2, while in the eastern parts it is still between 3 and 4.

Within the Kurdish community in Turkey the emergence of a homogenous identity has been prevented by religious and linguistic faultlines. The majority of the Kurds in Turkey speak the northern Kurdish dialect, the Kurmanji, and only some two million speak the Zaza. Apart from the past few years, the usage of the Kurdish language was strictly regulated in the Republic of Turkey. As a consequence, many Kurds learnt to speak Turkish and use it every day.

From a religious point of view the majority of Kurds are Sunni, while a minority adheres to the Alevi branch that developed from Shiite Islam. (It should be noted that language and religion go hand in hand, therefore, Zaza-speakers usually are Alevis, while Kurmanji-speakers are usually Sunni Muslims.) Beside these two main affiliations, there are some followers of the ancient Kurdish religion, Yezidism, <sup>68</sup> most of who have immigrated to Germany. The different popular practices of Islam, Sufism are also very popular among the Kurds. On the one hand, these help strengthen the differences within the Kurdish community, yet the sense of belonging is still very strong within the Sufi communities.

Similarly to the neighbouring states, Kurds in Turkey are not homogenous politically either. Since in the Ottoman Empire ethnic affiliation played no determinant role, Kurds – like other minorities – defined themselves mainly on a religious and tribal basis. In contrast with the centralising endeavours following the 19<sup>th</sup> century reform efforts of the sultans, the tribally and religiously organised, relatively closed Kurdish communities revolted. The uprising led by Sheikh Ubaydallah first against the Qajar dynasty (in Persia), then against the Ottoman Empire was beaten down in 1881. In

the Turkish War of Independence (1919-1923) the Kurds were split. Some believed in the British support, while several tribes joined Mustafa Kemal's troops. The fact that Turks, Kurds and other groups were held together by the religious identity, Islam, played a role in this. This bond meant that in the developing Great National Assembly dozens of Kurds had a place. The 1923 Lausanne Treaty also refers to Turks being held together by Islam, and the minority consists of non-Muslims. This means that when the modern Republic of Turkey, considered as the ideal type of Middle Eastern secular nation-states, was born, it was not the ethnicity, but the traditional religious identity and "Ottoman patriotism" that formed the cohesive bond of the society. The split meant that the Alevi groups in 1920 in Dersim started the Kockiri uprising, which, however, Kurmanji-speaking groups did not join. The uprising fought against the Ankara government, but Nureddin Pasha brought it brutally down. The Kockiri uprising could not mobilise the majority of the Kurds, who stood by Kemal Atatürk in the War of Independence. After 1923 everything changed. The Kurds were left out from the Turkish Great National Assembly, and with that the nation-building process started by the Kemalist adaptation of the French state model, which acknowledged no ethnic minority. Upon the effect of Turkish nationalism, Kurdish nationalism appeared, advocating multiethnic society. The first Kurdish organisation was established in 1923, under the name Azadi (Freedom). The first bigger Kurdish uprising broke out in 1925, led by a Nakhshbandi Sufi leader, Sheikh Said. In March 1925, he tried to take over the city of Diyarbakir with the help of some 5-10 thousand Zaza-speakig Kurds. The main aim of the uprising was to ensure Kurdish rights and to eliminate Turkish rule. But it failed and Sheikh Said was captured and hanged. The uprising nevertheless influenced Turkey's positions negatively, as Mosul was attached to the Iraq mandated territories upon the decision by the League of Nations.

The nation-building activities of the Turkish state did not provide an opportunity for the articulation of Kurdish political and civil rights. In the framework of the Atatürk reforms Latin alphabet was introduced in 1928 and the theory of the so-called "sun language" was supported, which traced back all spoken languages to the Turkish. This theory claimed that there was no spate Kurdish language either, since human civilisation at large could also be traced back to the Turkic peoples of Central Asia. Kurds could be considered to be a people of Turkic origin speaking an earlier version of Turkish. In the Republic of Turkey, Kurds were considered to be "mountain Turks", i.e. they constituted an integral part of the Turkish nation and of Turkish culture. The myth of common history and Central Asian origin was elaborated by the researchers of Turkish history in the mindset of Kemalism. In this context the people living in the territory of the Republic of Turkey were considered Turkish irrespective of religion and ethnicity. In the elaboration of the concept of the Turkish nation, Kemal Atatürk relied on one of the determinant thinkers of Turkish nationalism, Ziya Gökalp. In Gökalp's

understanding the (Turkish) nation includes the people speaking the same language, living according to the same laws within the same geographical territory. Gökalp, therefore, attributed a special role to such bonds as the education system, the laws and the media that would keep a nation together.

Sheikh Said's uprising was followed by others. Out of the 18 uprisings between 1924 and 1938, 16 were related to the Kurdish populated Anatolian territories. The Khoyboun League, established in 1927, played an important role in the uprisings around the Ararat Mountain. In 1927, the independent Ararat Republic was declared with the help of the Khoyboun, which consisted of mainly Kurdish and Armenian populated areas. This step meant an open opposition to Atatürk's modernisation policies aiming at assimilating the multiethnic population of the Ottoman Empire into Turkish. In 1930 Ihsan Pasha, a deserter from the Turkish army started an uprising against Turkey. Most of his supporters were Kurmanji speaking Kurds belonging to the Khoyboun League. The uprising was defeated still in 1930 and the non-acknowledged independence of the Ararat Republic was terminated.

In the 1930s, yet again Dersim was the centre of an uprising. In 1934 a new law was passed according to which forced re-settlements were legal and possible in order to ensure cultural homogeneity. The name of the region was changed from Dersim to Tunceli. In 1937 the Alevi Sayyid Risa led a revolt, which was brutally let down by the Turkish authorities. In the Dersim massacre tens of thousands of Kurds were killed. The massacre went down in Kurdish historical memory as a genocidium. Several experts believe that even if the Dersim massacre was not an act of genocidium, the accusation of ethnic cleansing is justified.

The Dersim uprising and the massacre putting an end to it the age of uprisings came to an end in the history of Kurdish nationalism. The 1920s–1930s uprisings broke out in protest to maintain the feudal structure of the Ottoman Empire. Within Kurdish community aghast or sheikhs controlled authority. The logic of Kemalism first opposed religious identity, which was practically the uniting element in the multiethnic population of the Ottoman Empire. In the first Kurdish nationalist uprisings, which aimed at the restoration of the *sharia*, religious language was a strong and significant element. The Turkification process of the 1930s in the non-Turkish populated areas by their forced immigration and emigration influenced the feudal structure strongly. Following the Dersim uprising Kurdish identity was carried on mostly within the framework of the forbidden Sufi orders, but the forced cultural homogenisation seemed to be successful. The Turkish state based on the principles of Kemalism, therefore, cannot be considered democratic in any sense, since Atatürk completed his reforms over – among others – the ethnic minorities with an iron hand.

The end of the Second World War inaugurated a new era in Turkey. The Kemalist state built on a one-party system got into a serious domestic political crisis in 1946.

The Republican People's Party (*Cumhuriyet Halk Partisi*, CHP) led by Ismet Inönü was forced to open the way to multi-party democracy. The dissatisfied politicians leaving the CHP established the Democratic Party (DP), which won the elections in 1950. The DP in its program paid a special attention to the Kurdish populated areas, where opposition was expressed mostly in the form of underground popular Islam. The DP supported the traditional Sufi orders, contacted the sheikhs and the *agha*, who went into exile in 1950, also returned home. This meant that the DP succeeded in mobilising the Kurdish voters. Instead of the Kemalist etatism the DP advocated the liberal market economy, in the framework of which the modernisation of the agricultural production in the Kurdish territories was slowly put into motion. However, in consequence of the economic crisis of the 1950s the DP lost many Kurdish votes, since the CHP – learning from the political mistakes of the past – promised several infrastructural projects to the influential Kurdish *aghas*.

The first military coup d'état in 1960 eliminated the DP and many of its leaders were imprisoned. There were many victims to the military coup in the Kurdish territories as well, where in the demonstrations in 1961 hundreds of Kurds lost their lives. Following the passing of the new - much more liberal - constitution in 1961 the military junta passed the control to a civilian government. The 1960s brought about a change in Kurdish nationalism. The place of the traditional Kurdish aghas cooperating with the Turkish elite and expressing their Kurdish identity openly, was taken over by a modern Kurdish elite, which found the possibility of keeping the Kurdish issue on the agenda mostly in the leftist movements. The Kurds - first of all the Alevi groups - published several publications in the 1960s, which, however, proved short-lived. <sup>69</sup> The newly emerging Kurdish intelligentsia was aware that the Kurdish publications were necessary in order to widen the Kurdish nationalist movement. In 1967, a law forbade the spread of Kurdish publications brought into the country from abroad. In the 1960s, the first Kurdish party called the Democratic Party of Turkish Kurdistan was established and operated illegally. Kurds mostly saw the possibility to represent their interests in the newly established Turkish Workers' Party, which represented both the necessity to develop the eastern economically underdeveloped territories, and called the attention to the separate identity of the Kurdish people. In the second half of the 1960s, leftist organisations mushroomed in the Kurdish cities, which presented a new challenge to the Turkish state. In 1969, the Revolutionary Cultural Society of the East (DDKO) was established, which stepped up for the elimination of economic inequalities. Beside the leftist organisations in this period the far right organisations appeared, which opposed the spread of socialist ideology. In 1969-1971, Kurdish organisation was brutally attacked, in the framework of which the leaders of the DDKO were imprisoned. In 1971, the second military coup d'état terminated the chaos, in which radical leftist and radical right organisations were both at play. The Kurdish issue and the wave of demonstrations in the cities of the eastern part of the country further worsened the situation. The military coup had very negative consequences for the Kurds. Kurdish organisations were forced underground and the relatively wider freedom rights of the 1960s were withdrawn.

Following the restoration of civilian government in 1973, the Kurdish minority became split politically. While the intelligentsia living in the cities voted mostly for the CHP, the rural population still following the aghas and the sheikhs supported the increasingly popular, Islamist National Salvation Party (RPP) led by the Nakhshbandi Necmettin Erbakan. The RPP attracted the town intelligentsia becoming disenchanted with the left, since the party included the economic development of the eastern territories in its program. The clashes between the leftist and rightist guerrilla groups characteristic of the 1970s were reflected in the clashes between the anti-Kurdish Grey Wolves and the leftist groups. In the 1970s more than 10,000 people died in these clashes. In 1980, the army for the third time felt it necessary to intervene to protect the Kemalist values. Rightist groups were fighting the left, Turks the Kurds and Sunnis the Alevis, often with weapons, which spread all over the country. During the military dictatorship of Kenan Evren between 1980-1983 tens of thousands of people were imprisoned, consequently violence decreased. Under the military dictatorship Kurdish separatist efforts were suppressed and according to non-official sources most imprisoned persons were Kurds. Nevertheless, Kurdish separatism could not be broken, and in 1983, it resurfaced with a new force.

The Party of the Kurdistan Workers (Partiya Karkaren Kurdistan, PKK) was established in 1978, with a Marxist ideology under the leadership of Abdullah Öcalan ("Apo"), who wanted to settle the Kurdish issue with a revolution. Between 1978 and 1980, the PKK participated in the confrontation with rightist groups, first of all with the Grey Wolves. Following the 1980 military coup, the party moved its headquarters into the neighbouring states, first of all into Syria and the northern part of Iraq. The latter was partly chosen because Turkey and the Saddam Hussein-led Iraq started to cooperate to eliminate Kurdish separatism. From 1984, the PKK renewed its paramilitary activities and committed bloody attacks, mostly against the Turkish state. The PKK succeeded in addressing and attracting the Kurdish educated youth, who rejected emigration to Europe.<sup>70</sup> In the 1970s and following the 1980 coup, Kurdish migration to Europe speeded up. The revolutionary socialism of the PKK and the expression of Kurdish nationalism established a separate identity for the Kurds who did not want to assimilate. Öcalan foresaw an independent Kurdish state, which he wanted to establish by the destabilisation of the Turkish state. The primary reason of the radicalisation of the Kurdish issue was that within the Turkish state, which was considered democratic, it was still a taboo, since it would have questioned the very essence of Kemalism.

The PKK received significant foreign support, first of all from Syria and Russia. In Turkey the PKK attacked several schools and teachers who advocated assimilation. Geographically, however, they were very active among the European Kurdish diaspora, too, which points to the possibility of a minority question spilling over through migration. Most of the Kurds, however, both in Europe and in Turkey rejected radicalisation and did not join the activities of the PKK. Thus, the victims of the PKK included not only Turks, but also Kurds, who rejected the PKK ideology and radicalisation. By the second half of the 1980s, a quasi civil war developed in the Kurdish populated areas, as the result of which in 1987 Turkish military control was introduced in South-East Anatolia. Under military control a separate regulation could be introduced in the Kurdish territories. The Turkish state armed the mostly right-wing village guards, who opposed the PKK. In consequence of the civil war tens of thousands lost their lives, most of who belonged to the PKK. The PKK chose the teenage sons of the Kurdish families in the first place, who, in many cases, were taken by force to armed trainings. The Kurdish youth of the second half of the 1980s is a "lost generation", since a whole generation was raised amid everyday violence. Thus who did not participate in the violent actions, spent their lives in constant fear, be they Kurds or Turks living in the region.

In the second half of the 1980s, the democratic Turkish state looked at the Kurdish issue as a purely security problem, and paid no attention to the region's economic and political integration. The South-East Anatolian territories under a separate control due to the extraordinary situation continuously in effect, formed a separate island within Turkey. This meant that the positive impact of the modernisation did not reach the Kurdish territories in this phase. The use of the village guards against the PKK did not prove effective, since the Kurdish guerrillas easily recognised their weaknesses. The armed village guards were attacked unexpectedly and caused great losses among them, therefore, they were less and less willing to cooperate with the central government. Besides, the Turkish sate built out an electric grid along the Turkish-Syrian border to prevent PKK operations from across the border, but the mountainous character of the Iraqi border prevented effective border control. Tribal groups standing by the Turkish government were attacked, too, by the PKK activists. The Turgut Özal-led government, otherwise engaged with economic reform and privatisation, tried to suppress the Kurdish guerrilla movement both legally and militarily. Tens of thousands of Kurds were re-settled elsewhere, and any kind of Kurdish cultural or linguistic expression was forbidden. By the end of the 1980s due to the brutal reactions, the PKK lost the support of the Iraqi KDP, therefore, they built closer contacts with the KDP's rival, the PUK. The Turkish authorities closed their eyes to the cooperation between the Hizbullah established in 1983, fighting for the Kurdish Islamic Republic and the regular army fighting the PKK. Some think that the Kurdish Hizbullah was established by the Turkish state to counter-balance the PKK.

However, according to Turkish official opinion the Hizbullah is financed from Iran, although there have been no proofs of that. The guerrilla activities of the PKK and the brutal and bloody reactions of the Turkish state became self-generating processes. By the beginning of the 1990s the Turkish political elite realised that the military option cannot offer a realistic solution to the Kurdish issue. The Kurdish problem became part of the Turkish political discourse, which could not be addressed as a purely and exclusively security issue any more.

Between 1991 and 1993, during the presidency of Turgut Özal, who claimed that he had some Kurdish ancestors, the question of Kurdish identity appeared in Turkish domestic politics. Several politicians and members of parliament (e.g. Leyla Zana) openly declared their Kurdish identity, which would have been impossible before. Although there have been politicians and MPs of Kurdish origin in the Turkish political field before, but they usually did not express their Kurdish identity. Özal, who supported the military operation to liberate Kuwait under the UN Security Council resolution, gave shelter to many Iraqi Kurds.

During the presidency of Tansu Ciller, the leader of the True Path Party (DYP) the Kurdish issue was yet again interpreted as a security dimension. With the military support of the United States Ciller started to eliminate the PKK bases in Turkey. Ciller further succeeded in having the PKK enlisted both in the US and in the EU as a terrorist organisation. With this step – by referring to anti-terrorist action – the Turkish government wished to silence international criticism over its minority policies. The PKK changed tactics and committed suicide attacks in huge numbers. This was made possible by the development that in the ideology of the PKK Marxist ideas faded into the background, while Islamic elements became ever more frequent in its rhetoric. On the other hand, to counter-balance the increasingly effective operation of the Turkish army the PKK established several bases over the Turkish borders. The process was not knew, since in the 1980s the PKK found its supporters in Iraq and Syria, and in Syria and Lebanon it maintained training camps and hiding places. However, the more radical clashes in the 1990s made it necessary for the PKK to build camps over the Turkish borders. The most important background state became Syria, which gave shelter to the most prominent leaders of the PKK, including Abdullah Öcalan.

In 1998, the Kurdish question caused a serious Turkish–Syrian crisis, when fed up with the series of attacks by the PKK Turkey decided to eliminate the PKK's Syrian background. In October, Turkey gathered a significant number of troops along the Turkish–Syrian border warning Damascus that Ankara would be ready to protect its interests by military means, if necessary. Upon the Turkish threats Syria stopped the support to the PKK, but did not hand over Öcalan. Syria undertook the cut of the support to the PKK in the Adana Memorandum. Consequently, Öcalan left Damascus and travelled to Moscow, then to Italy, Greece and finally to Kenya looking for a refuge.

It was in Kenya that in 1992 he was finally captured – with American support – and handed over to the Turkish authorities.

With Öcalan's arrest, the Kurdish issue took on a European dimension. In June 1999, a Turkish court sentenced Öcalan to death for causing the death of more than ten thousand people and for threatening the stability and territorial integrity of the Turkish state. In the course of the legal case – in the certainty of defeat – Öcalan was speaking of the democratic solution to the Kurdish question. His defender took his case to the European Human Rights Court located in Strasbourg, which asked the Turkish authorities to postpone the execution of the verdict. The question of the capital punishment drew the attention to the question marks of Turkey's European Union accession. Tapital punishment and the suppression of Kurdish minority rights are contrary to the European norms. Nevertheless, Turkey promised to carry out constitutional reforms in order to meet the Copenhagen criteria.

The capture of Öcalan changed the options for the solution of the Kurdish issues. In 1999, the PKK suffered a total military defeat from the Turkish state, and the PKK leadership put down the arms. In February 2000, at the PKK congress in Northern Iraq voted for the democratic option, rejecting the use of force in the future.

The developments in the Turkish–EU relationship forced the Turkish state to give up the management of the Kurdish issue by exclusively military means. In 2001, after protracted domestic political debates, Turkey put forward a national program including the measures to be taken at legal harmonization. Accordingly, the official language of the country and of education remains Turkish, but there is a possibility to use other languages as well. The program does not mention the Kurdish language and the Kurdish minority, but refers generally that use of minority languages will be allowed in a limited way. As the result of the constitutional amendments of October 2001 and August 2002, several limitations regarding the Kurdish language were dissolved.

It became possible to use languages other than the official language openly, albeit in a limited way.<sup>72</sup> Since neither the constitution nor the law named the Kurdish minority, the limitation referred to all languages spoken in Turkey, therefore, to the Arabic and the languages of the Balkans as well. According to the regulations, TV programs must be subtitled in Turkish, but the Turkish TRT broadcasted programs had not much audience in the beginning. The programs usually emphasised the Atatürkian values and did not deal with the everyday problems of the Kurdish minority. Although the constitutional amendments started a positive legal process, which stopped treating the Kurdish issue as a security challenge, deep structural reforms were not carried out. In 2009, the TRT started a separate Kurdish TV channel (TRT6), which broadcasts its programs in the Kurmanji, Sorani and Zaza dialects, with the aim of counterbalancing the Kurdish programs broadcast from Europe.<sup>73</sup>

With regard to the capital punishment, Turkey also abided by the European norms and in 2002 suspended the execution of such punishments. Öcalan's verdict was changed to life-long imprisonment by which his turning into a martyr could be avoided. Öcalan, who has been in prison for more than a decade now, has put forward several proposals on the democratic solution of the Kurdish issue. The negotiations between the Turkish authorities and Öcalan, however, have so far not succeeded.

The expansion of the cultural rights caused the crisis of the fragile government coalition in Turkey. The November 2002 elections - to the surprise of many - was won by the Adalet ve Kalkınma Partisi, or AKP, which proposed economic and social reform. The AKP proposed the solution of the Kurdish question, by which it aimed at the separation of the Kurdish minority from the undesirable PKK, and gradually expanded the cultural and political rights of the Kurds. In the framework of the Turkish Islamic synthesis the AKP approaches the basically ethnic question on the basis of the religious identity, and it tries to solve it by the uniting force of the Islamic *umma*. The Islamism of the AKP resonated well with the Kurds, therefore, when in 2005, Prime Minister Recep Tayyip Erdoğan visited the biggest Kurdish city, Diyarbakir, a celebrating crowd received him. With the election victory of the AKP the Kurdish issue was handled as a social problem instead of looking at it from a military/security point of view only. The negotiations with the European Union also supported a lasting, permanent solution. The suspension of the capital punishment, then its elimination, as well as the gradual liberalisation of the language use met not only the demands of the Kurdish community but the Copenhagen criteria as well.

## The Kurdish Minority in Syria

Comparing the four states examined in this study, it is the Syrian Kurdish minority which is the less known with the fewest pieces of information available. The Kurds make up the most numerous minority in Syria as well, but their numbers are significantly lower than in the neighbouring states. Syria's Kurdish population is approximately some two million people, i.e. 9 percent of the total population. The Syrian Kurds are mostly Sunnis, and speak the Kurmanji dialect. Geographically they live in three separate territories in the northern and northern-eastern parts of Syria, however, as the result of the domestic political developments in the country significant Kurdish minorities live in the big cities, in Damascus and Aleppo etc. Mille the Kurds in the northern territories in spite of the Arabisation maintained the elements of the Kurdish culture (e.g. the celebration of the Kurdish new year, the *Nourouz*), the Kurds living in the cities have been significantly assimilated the local Arab communities.

The history of the Syrian Kurds has been significantly intertwined with that of the Kurds living in the other states. Up to the drawing of the present day borders of Syria, and the laying down the foundations of the mandates in the 1920's, the Kurdish community was living within the boundaries of the Ottoman Empire. In this sense, for the Syrian Kurdish minority the watershed is the mandate system as well, which on the one hand separated the Kurds living here legally and politically from the other territories of the Ottoman Empire, on the other hand separated them from the other Kurdish minorities "stuck" in the neighbouring states.

The relationship between the Kurds, the central power and the Arabs living on the territory of the Empire has shown different pictures in different historical phases. While the sultans re-settled Kurdish tribes within the Empire on more than one occasion as a "punishment", they also used them on several occasions for military purposes. (E.g. the roots of the Kurdish community in Damascus can be traced back to the 12<sup>th</sup> century, to the Kurdish Salah ud-Din, who expelled the Crusaders from Jerusalem.) The Kurdish military garrison on the outskirts of Damascus defended the road to Mecca till the dissolution of the Ottoman Empire, which was a great help to the sultans. Many Kurds from the territory of Syria joined also the Janichar army of the Ottoman Empire.

The first expression of Kurdish national awareness was the Khoyboun League established in 1927, which was operated by the Bedirkhan brothers from Syria and which was one of the flagships of Kurdish nationalism. As the result of the unsuccessful Kurdish uprisings in Turkey (the Sheikh Said-led revolt in 1925 and the Ararat revolt in 1930) the Khoyboun League saw the future in a peaceful solution instead of an armed struggle. It is not surprising, therefore, in the Syrian Arab nationalism developing with the establishment of Syria and separating from the pan-Arab efforts Kurds participated as well.<sup>79</sup>

The appearance of the printed literature and newspapers played an important role in the establishment of the Kurdish identity. Jaladat Badr Khan started to publish the *Hawar* journal in Damascus in 1932. This was the first instance when Kurmanji was written (printed) in Latin script.

The era of the French mandate and the process of the emerging of the modern Syria meant a transitional phase for the Kurdish minority, in which tribal, clan and family based relations gave way to nationalist ideas. Some Syrian tribes supported Faysal's state building efforts, while others accepted the French mandatory presence. In the anti-French demonstrations that started in the 1920's, but especially in the 1925 great revolt, which was brutally put down by the French, among others armed forces were recruited from among the Kurdish minority as well, i.e. the mandatory power played the minority card as well.<sup>80</sup>

Most of the Syrian Kurds, however, in the name of Syrian nationalism participated together with the Arab majority in the anti-French efforts, which led following the Second World War to the independence. However, Syria's independence in 1946 meant a negative turn for the Kurds. In the independent Syria military coups and government changes became frequent.

With the dissolution of the Khoyboun League most of the Kurds looked to the Soviet Union as a guarantor of their future. Consequently, most of the Kurds joined the communist movement, which, however, never put the independence of the Kurdish territories on the agenda. Within this format the Kurds stepped up primarily for the preservation of their culture and wider political rights (autonomy). The popularity of the communist movement was partly due to the fact that as the result of the agricultural revolution in the territory of the *Jazeera* (province) many Kurds were forced to move into the cities. In the short transitional period following the independence two Kurdish generals got into leading positions at the helm of Syria. However, shortly after gaining independence Syrian nationalism transformed into Arab nationalism, in which Kurds lost their place, role and interest.

The appearance of Arab nationalism meant for the Kurdish minority that the majority society saw the obstacle of the developing of the homogenous Syrian Arab nation in the Kurds. With the Baath Party coming into power in 1963 developments disadvantageous for the Kurds started.

A main step in the political awakening of the Syrian Kurdish minority was the establishment of the Syrian Kurdish Democratic Party on the pattern of the Iraqi Kurdish Democratic Party. The Party's main aim was to have the minority rights of the Kurds acknowledged, and called the attention to the economic marginalisation of the Kurdish populated areas. The KDP objected to the establishment of the United Arab Republic, the unifying of Egypt and Syria, in 1958. In the spirit of pan-Arabism the UAR represented interests contradictory to Kurdish political endeavours. The Syrian leadership pressed the movement underground and the leaders were imprisoned. In the 1960's, the Kurdish movements became even more split along ideological lines. Thus Kurds who were ready to politically express their identity found the possibility to represent their interests in the Syrian Communist Party, while the illegal KDP split into two. The moderate wing82 gave up revolutionary ideology and promoted the peaceful solution of the Kurds' everyday problems. While the more radical wing<sup>83</sup> saw the solution of the Kurdish question in the revolutionary unification of the Kurdish territories. The Iraqi Kurdish leader, Mustafa Barzani tried to mediate between the two wings, but only with partial success.84

The Syrian Kurdish community suffered from constant discrimination, thus on the occasion of the 1962 census as the result of the different measures of registration some 120,000–150,000 Kurds lost their citizenship. They were enlisted in the very

disadvantageous "foreigner" category, which was the symbol of "homelessness". \*5 The number of the estimated 150,000 Kurd homeless doubled, since the Kurdish children "inherited" the status of their parents. As a result, the social mobility of the Kurdish community was very low. \*6

The discrimination against the Kurds resulted in their marginalisation in everyday domestic politics. At the same time the political arena/sphere of Kurdish identity from the 1960's appeared on the regional level: although the KDP was forbidden and no other Kurdish party could operate in Syria, but contacts to the Kurdish political movements in the neighbouring countries was continuous. Paradoxically, the support by the Syrian Baath Party to the Kurdish movements in the neighbouring countries could be fitted into their pan-Arab efforts and regional ambitions.

Syrian Kurdish political endeavours were primarily influenced by the Iraqi Kurdish movement.

During the office of Hafez el-Assad (1970–2000) Syria tried to play the minority card against its neighbour. Although in 1961 the Syrian regime supported the anti-Kurdish campaign of the Iraqi government, however, in the following it gave shelter to the Iraqi Kurdish leaders, e.g. Iraq's present president, Jalal Talabani found refuge in Damascus in 1972, and announced there three years later the establishment of the Patriotic Union of Kurdistan. However, with the breaking down of the Iraqi Kurdish revolt in 1975, the possibilities of the Syrian leadership decreased as well. From the 1980's the attention of the Assad regime turned towards the Kurdish minority in Turkey, while the Turkish PKK found its main supporter in the Syrian regime. The Abdullah Öcalan-led PKK training camps were located in Lebanon under Syrian influence. 87 This meant that Syrian Kurdish politics was directed by the PKK. However, by the end of the 1980's the Syrian Kurdish minority gradually got disillusioned by the presence of the PKK. The strong Syrian influence over the PKK strengthened the Syrian viewpoint according to which - by their identity - there is no separate Syrian Kurdish community, but all of them had come from Turkey as refugees following the First World War. Playing the Kurdish card - especially through the PKK attacks and fights against the Turkish authorities - had a disadvantageous impact on Syrian-Turkish relations. By the beginning of the 1990's, Turkey came close to war with the Assad regime, and the situation was worsened by other controversies (e.g. the water reservoir built on the Euphrates).88 Under Turkish pressure in 1998, Syria eliminated the PKK's Syrian camps and terminated Abdullah Öcalan's support. Nevertheless, the real thaw in Turkish-Syrian relations started only when Ahmed Davutoğlu's "zero problem with the neighbours policy" was launched.

In the 1990's, the "transnational identity" of the Syrian Kurds faded into the background. The Kurdish community – although they never cut their contacts with the Kurds outside Syria – gradually identified with Syria, and did not question the country's unity. With the "Syranisation" of the Kurdish community, they increasingly turned

towards the realisation of minority rights. In this process the coming into power of Bashar al-Assad offered new possibilities for the Kurds. The "Damascus Spring" starting in 2000 offered the limited liberalisation of the domestic scene, and thus provided a chance for the Kurds to realise their civilian and political rights. <sup>89</sup> The short-lived Damascus Spring, however, could not realise these hopes, since the regime in 2001 stepped up against the criticising groups.

The frustration of the Syrian Kurds was strengthened by the fact that since 1992 their Iraqi Kurd fellows have been living in an autonomous region, reinforced in 2003, and they started to mobilise in the beginning of the 2000's. In 2004, Bashar al-Assad reinforced the security forces in the northern-eastern part of the country and ordered further troops there<sup>90</sup> Following 2004, the Kurds expressed their dissatisfaction with the regime with new political means/tools. Kurdish websites appeared which had an important role in the strengthening of the Syrian Kurdish identity. But the Syrian regime, instead of giving the Kurds their rights, answered with force and tried to silent the Kurdish community.

In 2009, nine Kurdish organisations operating from illegality established the Kurdish Political Congress to unite their forces in order to expand the Kurdish rights. But the Kurdish community – as the Syrian civil war proves – has remained politically split. In general, it can be said that the demonstrations and the uprising were concentrated mostly in the Sunni Arab medium-size cities, while the Kurdish cities remained relatively calm. Although the Kurdish community wanted to avoid further confrontations with the authorities, they saw an opportunity in the unfolding demonstrations. The regime realised that in the Syrian civil war the Kurdish community could serve as a fifth column. In April 2011, Bashar al-Assad – to make up for the 1962 damages – gave Syrian citizenship to some 200,000–220,000 Kurds registered as "foreigners". The authorities did not step up against the demonstrations in the Kurdish territories with the same force as in the Arab territories.

The Syrian Kurdish community remained/was split regarding the anti-regime demonstrations and the civil war. The Party of Democratic Unity (PYD), which was under the influence of the Turkish PKK,<sup>92</sup> according to some critics maintained its relations to the Assad regime, but this was refuted by its leader, Saleh Muhammed Muslim. The PYD is a member in the National Coordinating Committee established in 2011, which called for a "national dialogue" to settle the situation in Syria.<sup>93</sup> The PYD strongly criticises the Assad regime, but does not demand Assad's removal, and possibly enjoys the silent political support of the regime. Another Kurdish group demands regime change and the step-down of President Assad, yet, distances itself from the Syrian National Council, which – in their opinion – is characterised by strong Turkish influence and the under-representation of the Kurds. In October 2011, eleven Kurdish parties established the Syrian Kurdish National Council (*Kurdnas*), which has

been joined by several other Kurdish organisations since. The Kurdnas foresees the autonomy of the Syrian Kurdish region as the solution to the Kurdish question, which would mean the take-over of the model of the Iraqi federal state structure. The biggest political organisation within the Kurdnas is the Kurdish Democratic Party, which is the counterpart of the Iraqi KDP led by Masoud Barzani.

For the Syrian Kurds the biggest dilemma is their relationship to the opposition groups, first of all the Syrian National Council. Only very few Kurds participate in the Burhan Ghaliun-led SNC, since they are afraid of Turkish influence. In their view the present Turkish Islamist government will do its utmost to prevent the giving the Kurds their rights, since for Turkey the biggest danger would be the formation of an autonomous region in Syria, similar to the one in Iraq. That, however, would presuppose the federal structure of the new Syria, which is rejected by the opposition groups. Ghaliun announced several times that their aim was the preservation of Syria's Arab character/identity, and called Kurdish plans of an Iraqi-type autonomy unrealistic. "There is no Syrian Kurdistan ... in some cities there is a Kurdish minority, but there is no region or territory called Kurdistan." Nevertheless, Ghaliun promised that following the fall of the Assad regime the Syrian Kurds will get minority rights.

The other problem of the Syrian Kurds with the opposition is that they find themselves much under-represented among the ranks of the SNC. According to unofficial sources there are only some 22 representatives of Kurdish origin in the 230-member General Assembly, while in the highest legislative body, the Secretariat out of the 29 there are only 4 Kurds. However, in June 2012, Abd-el-Basset Sida, a Kurd living in Sweden, was elected to the place of Burhan Ghaliun – with the support of the Muslim Brotherhood. Sida's main aim is the total re-organisation of the SNC, which could result in the drawing of the Kurds into the uprising to a much bigger extent. A bigger Kurdish participation is necessary also for the body discussing Syria's future to legitimise its democratic commitment.

In the summer of 2012, the Syrian civil war took a new turn for the Kurds. Since the regime was forced the re-settle part of its troops to Damascus and Aleppo because of the increasing violence there, they had to decrease the military presence in strategically peripheral territories. In July 2012, the Kurds took over control from the government forces in the main northern-eastern Kurdish cities and established a defence force of their own. This was made possible also by the fact that in June 2012, the two rivalling Kurdish organisations, the Party of Democratic Unity (PYD), which is close to the Turkish PKK, and the Syrian Kurdish National Council met in Erbil, upon invitation from Masoud Barzani. The June agreement of the two organisations, however, was short-lived, but was followed by another agreement on 11 July. According to the agreement, the two organisations establish the Supreme Kurdish Council, and following the expulsion of the government forces they jointly control the territory of

Syrian Kurdistan. The PYD undertook to terminate receiving support from the Turkish PKK, thus decreasing Turkish influence in Syrian Kurdistan. As the result of this agreement Syrian Kurdistan "was liberated".

On 5 August 2012, the Kurdish National Council and the Syrian National Council drew up a four-point agreement on power sharing in the period following the foreseen fall of the Assad regime, including the observation of the minority rights. This, however, does not mean the acceptance of the federal system demanded by the Kurds, which is rejected by the Syrian National Council.

#### Conclusion

The Kurdish question, in its complexity, has been a distinguishing feature and a policy-making element in the Middle Eastern region from the beginning of the formation of nation states to this day. Kurdish identity cannot be understood without referring to its transnational character overcrossing national borders, mostly drawn by the mandatory powers after the First World War. During the period of independent national states in the region, different national Kurdish identities have started to emerge. The distinct Turkish, Syrian, Iraqi or Iranian Kurdish identities coexist with the transnational Kurdish identity reaching over the national boundaries. The idea of establishing an independent Kurdish state, however, has so far remained a dream.

After decades of armed resistance against the unitary Turkish state, the AKP has recently launched a national dialogue with the Kurdish hero and leader of the PKK resistance under house arrest, Abdullah Öcalan. The Kurdish question has not only been the primary security threat to the Turkish state, but has cost the life of some 40,000 Turkish citizens. The negotiation with Abdullah Öcalan is a response from the Erdoğan-led government to those political challenges in the region, which directly or indirectly affect the Turkish state.<sup>94</sup>

The Iranian Kurdish efforts at cultural autonomy have not been realised so far, in spite of the fact that at several moments in the history of the Islamic Republic they have been political factors within the domestic struggle for power among the different Iranian political forces. The situation is also more complex due to the fact that Iranian Kurds have conflicting interests and even territorial disputes not only with the majority Persian population, but with the other – biggest – minority in the Islamic Republic, the Azeris.

From a regional perspective, the civil war in Syria remains a significant challenge for Turkey and the Kurds in general. Syrian Kurds ask for a regional autonomy despite the geographic fragmentation of territories inhabited by Kurds. When the Syrian uprising turned into a bloody civil war, Kurdish fighters (*peshmerga*) filled the vacuum

taking over military positions from the Assad regime. However, Kurds in Syria failed to unite themselves under a common umbrella working for a common goal. Turkey sees the quest for autonomy as a challenge for its own Kurdish population, and wants to downplay the question over the future of Kurds at large. Turkey wants to keep the Syrian civil war outside its borders. At the time of the writing of the present paper, the future of Syria and its Kurdish population is unpredictable.

Turkey has started to enhance regional ties with the Kurdish Regional Government in Northern Iraq. The new partnership seems to be dominated by economic and political interests as Iraqi Kurdistan's oil reserves offer a chance for Turkey to become an export hub in the region. Turkey's worsening relations with the Maliki government have put the Kurds in a counterweight position for Ankara against Baghdad.

The existing Kurdish autonomy in Iraq, the quest for autonomy in Syria, and the initiative of a national dialogue in Turkey may converge into a 'virtual Kurdish state'. The potential virtual Kurdish state, however, will be based on the existing national borders accepting the status quo after the collapse of the Ottoman Empire. Both economically and politically the Kurdish autonomy in Northern Iraq serves as an example for Syria and Turkey. In Turkey, the unitary Kemalist state is very far from accepting any kind of autonomy despite the ongoing talks with the PKK and Abdullah Öcalan. The same is true for Syria, where most of the Sunni Arab rebels do not want to establish a federal state. Nevertheless, the virtual Kurdish state – consisting of and based on a close cooperation of the foreseeable autonomous regions – will have a vibrant economy based on and fostered by the oil reserves in Northern Iraq. However, it is yet to be seen if the challenge posed by the economic underdevelopment in Eastern Turkey and Northern Syria or Western Iran can be overcome within this framework.

#### **Notes**

- The International Court of Justice defined the term "minority". A minority community is one, "to which beside the community forming elements (religion, language, traditions) the feeling of solidarity and the desire of maintaining and preserving the community are coupled, especially in the form of transferring these to the children. It is characterised by the help given to each other and the territory, where they live." Quoted in Gábor Kardos: Kisebbségek: konfliktusok és garanciák [Minorities: Conflicts and Auarantees]. Budapest: Gondolat Kiadó, 2007, p. 56.
- 2 I.e. peoples in possession of divine revelations in the form of a book.
- 3 Researchers have long tried to explain the differences of terminologies developed in the different civilisations. On the explanation of traditional and modern terminology in the Middle East see e.g. Bernard Lewis: Multiple Identities in the Middle East. New York: Schocken Books, 1999; Miklós Maróth (ed.): Az iszlám politikaelmélete. Terminológiai vizsgálat [The Political Theory of Islam. An Examination of Terminology]. Piliscsaba: Avicenna Közel-Kelet Kutatások Intézete, 2009; etc.
- 4 Gudrun Krämer: aqalliyya. İn: The Oxford Encyclopedia of the Modern Islamic World (ed. by John L. Esposito. New York: Oxford University Press, 1995.
- 5 Kardos: op. cit. p.58.

- 6 Ibid. p. 42.
- 7 Ibid. p. 47.
- 8 Lewis: op. cit. pp. 5–15.
- 9 "Sahih Bukhari". (Hadith Collection, vol. 4., book 53., No. 384.). Academics, http://www.usc.edu/schools/college/crcc/engagement/resources/texts/muslim/hadith/bukhari/053.sbt. html#004.053.384; K. E. Eduljee: "Zoroastrian Heritage". Zoroastrians, Zoroastrianism in Post-Arab Iran, http://www.heritageinstitute.com/zoroastrianism/history/postArab.htm. Accessed 19 July 2010.
- 10 Saeed Kakeyi: "Kurds, Oil and International Political Economy". Kurdish Aspect, http://www.kurdishaspect.com/doc0614105K.html. Accessed 19 July 2010.
- 11 E.g. "It is interesting to note that various Kurdish ruling families have pretended to an Arab descent and proudly displayed Arab genealogies a fact no doubt because of the religious prestige that attaches to Arab descent among Islamic peoples. However, even those among them who have claimed such descent have never considered themselves anything but Kurds." Wadie Jwaideh: *Kurdish National Movement. Its Origins and Development*. New York: Syracuse University Press, 2006, p. 291.
- 12 "The Treaty of Sèvres" (1920), articles 62 and 64, http://www.lib.byu.edu/index.php/Section\_I,\_ Articles\_1\_-\_260. Accessed 19 July 2010.
- 13 In more detail see in the case studies.
- 14 Jwaideh: op. cit. p. 291.
- 15 Nader Entessar: Kurdish Politics in the Middle East. Boulder, CO: Rowman and Littlefield, 2010. p. 10.
- 16 It is well-known that following the Gulf War under the protection of the international community the Iraqi Kurdistan could develop and live practically independently from and unharassed by the Baghdad centre, but still within the boundaries of the Republic of Iraq.
- 17 Peter Galbraith: "a fully independent Kurdistan appears to be a matter of when, and not if. The younger generation of Kurdish leaders (those in their forties and younger) have no use for Iraq and will press for full independence as soon as the situation allows." Quoted by Entessar: op. cit. p. 202.
- 18 "The regional government in Iraqi Kurdistan has increased the national feeling of Kurds everywhere," said Murat Karayilan, Kurd guerrilla commander, Kurdish guerrillas launch clandestine war in Iran. By Damien McElroy in the Qandil Mountains". *The Telegraph*, http://www.telegraph.co.uk/news/worldnews/1562707/Kurdish-guerillas-launch-clandestine-war-in-Iran.html, 10 September 2007.
- 19 "The High Contracting Parties undertake to pursue a policy of complete abstention from any interference in each other's internal affairs." (Article 1) and "Each of the High Contracting Parties undertakes to prevent, within his respective frontiers, the formation and activities of armed bands, associations or organisations to subvert the established institutions, or disturb the order or security of any part, whether situated on the frontier or elsewhere, of the territory of another Party, or to change the constitutional system of such other Party." (Article 7). "Treaty of Non-Aggression or Treaty of Saadabad, Signed 8 July 1937 in Tehran". http://www.worldlii.org/int/other/LNTSer/1938/163.html. Accessed 19 July 2010.
- 20 "CIA World Factbook". Central Intelligence Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html. Accessed 19 July 2010.
- 21 The biggest minority is the Azeri, making up some 24 percent of the total population. It should be noted that in their mother-state, neighbouring Azerbaijan, fewer Azeris live than in Iran.
- 22 Iran-Kurds, http://www.mongabay.com/history/iran/iran-kurds.html. Accessed 19 July 2010.
- 23 "Iran: Freedom of Expression and Association in the Kurdish Regions". Human Rights Watch, http://www.hrw.org/en/reports/2009/01/08/iran-freedom-expression-and-association-kurdish-regions, 8 January 2009.
- 24 Entessar: *op. cit.* p. 37.
- 25 Ibid. p. 51.
- 26 Iran-Kurds, op. cit.

- 27 During the 20<sup>th</sup> century Kurds have several times put forward their demand that the Iranian provincial borders be re-drawn in a way to include all Kurdish populated areas in one province. This aim, however, could not be achieved. E.g. In June 1979 the KDPI thought that Kurdish rights can only be assured by territorial re-arrangements, i.e. territories from Azerbaijan, Ilam and Kermanshah have to be attached to Kurdistan. Although they gave this demand up, and would have agreed to a referendum on "where to belong", since Kurds were in minority in Western Azerbaijan and Ilam, while the Shiite Kurd sin Kermanshah were supporting the KDPI, in fact the territory of Kurdistan province would have decreased. Entessar: *op. cit.* pp. 36–44.
- 28 *Ibid.* pp. 172–173.
- 29 Under Soviet pressure, on 23 April 1946, they signed a friendship and cooperation agreement with the Democratic Republic of Azerbaijan. *Ibid.* p. 26.
- 30 See e.g. the website of the PJAK, http://www.pjak.org/eng/about.php.
- 31 "Iran: Freedom of Expression and Association in the Kurdish Regions". Human Rights Watch, http://www.hrw.org/en/node/79044/section/5, 9 January 2009.
- 32 "We are an Iranian party, fighting the Iranian regime. We have nothing to do with Turkey," said Rahman Hajji Ahmadi, the Secretary General of PJAK, quoted in Kenneth R. Timmerman: "Obama Blacklists Kurdish Group in Gesture to Tehran". Newsmax, http://www.newsmax.com/KenTimmerman/obama-iran-kurdish-group/2009/02/09/id/340088, 11 February 2009.
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- 34 Kenneth R. Timmerman: "Obama Blacklists Kurdish Group in Gesture to Tehran". *Newsmax*, http://www.newsmax.com/KenTimmerman/obama-iran-kurdish-group/2009/02/09/id/340088, 11 February 2009.
- 35 "Iran: Kurdish Activist Executed. Ehsan Fattahian to Be Executed on 11 November". *Human Rights Watch*, http://www.hrw.org/en/news/2009/11/10/iran-halt-execution-kurdish-activist, 10 November 2009; "Iran: Stop Imminent Execution of Kurdish Dissident. Nazila Fathi: "Iran Executes Kurdish Activist Who Was Accused of 'Armed Struggle'". *The New York Times*, http://www.nytimes.com/2009/11/12/world/middleeast/12iran.html?\_r=1; "Zeynab Jalalian, Held Incommunicado, among 17 Kurds on Death Row". *Human Rights Watch*, http://www.hrw.org/en/news/2010/06/29/iran-stop-imminent-execution-kurdish-dissident, 29 June 2010.
- 36 Total Kurdish cities, like e.g. Sanandaj stayed away from voting. "Ethnic Politics and Iran's Election". *Kurdistan Commentary*, http://kurdistancommentary.wordpress.com/2009/06/21/ethnic-politics-irans-election/, 21 June 2009.
- 37 Ibid.
- 38 Article 15 of the Iranian constitution says: "The official language and script of Iran, the *lingua franca* of its people, is Persian. Official documents, correspondence, and texts, as well as text-books, must be in this language and script. However, the use of regional and tribal languages in the press and mass media, as well as for teaching of their literature in schools, is allowed in addition to Persian." "The Iranian Constitution". *Iran Online*, http://www.iranonline.com/iran/iran-info/government/constitution-2.html. Accessed 19 July 2010.
- 39 Aricle 64 of the Iranian constitution says "The Zoroastrians and Jews will each elect one representative; Assyrian and Chaldean Christians will jointly elect one representative; and Armenian Christians in the north and those in the south of the country will each elect one representative." "The Iranian Constitution". *Iran Online*, http://www.iranonline.com/iran/iran-info/government/constitution-6-1.html. Accessed 19 July 2010.
- 40 Ayatollah Khomeini met Sheikh Ezzeddin Hosseini in April 1979, and Prime Minister Mehdi Bazargan not only wanted to assure Iran's non-Persian ethnic groups, but had two Kurds in his government. Abol-Hasan Bani-Sadr in the beginning of 1980 was in contact with Qassemlu, who submitted to him a plan on Kurdish autonomy. In May 2009 Ayatollah Khamenei visited Kordestan province etc.

- 41 In 2006, demonstrations broke out in Iranian Azerbaijan over a caricature in the Tehran papers, which depicted Azeris as cockroaches. In Belujistan the activities of the Jundallah pose severe security threats, since it regularly attacks Iranian security forces. Since it has no (or not many) local ties, it probably receives support from abroad. This seems to have been confirmed by the conditions of the death of its leader, Abdol-Malek Rigi, although this was questioned by many sources. Mahan Abedin: "Iran's Lurking Enemy within". Asia Times, http://www.atimes.com/atimes/Middle\_East/HF08Ak03.html, 8 June 2006.
- 42 "Explosion Hits Government Office in Southwest Iran". Fox News, http://www.foxnews.com/story/0,2933,194660,00.html, 8 May 2006.
- 43 E.g. Ali Larijani, the (then) Secretary of the National Security Council quoted in Damien McElroy: "Kurdish Guerrillas Launch Clandestine War in Iran in the Qandil Mountains". *The Telegraph*, http://www.telegraph.co.uk/news/worldnews/1562707/Kurdish-guerillas-launch-clandestine-war-in-Iran.html, 10 September 2007.
- 44 While the President of the regional government is Massoud Barzani, the Prime Minister is Nechervan Idris Barzani, his nephew.
- 45 Entessar: op. cit. p. 81.
- 46 It should be noted that following the Gulf War masses of Kurds fled to the Iraqi–Turkish and the Iraqi–Iranian border zones.
- 47 Ofra Bengio: *The Kurds of Iraq. Building a State within a State.* Boulder. CO: Lynn Rienner Publisher, 2012. p. 11. Electronic version: https://www.rienner.com/uploads/4f4529d46a74e.pdf.
- 48 The family moved from the neighbourhood of Irbil to Zibar two generations before. The place was named "bar zan", i.e. "the place of migration", and the name Barzani originates from this phrase.
- 49 "Peshmerga", i.e. "those standing in front of death, those facing death".
- 50 Article 23 of the 1958 Iraqi constitution, quoted in "The Significance of the Iraqi 'Revolution' of 1958 for the Kurds of Iraq". http://www.ebarzan.com/revolution1958.htm.
- 51 Abdul-Salam Arif died in a helicopter crash, he was followed by his brother, General Abdul-Rahman Arif.
- 52 So much so that Talibani was charged with the control over the Kurdish territories occupied ("liberated") by the Iraqi army.
- 53 Arabisation was not invented by the Baath Party, but had been a practice since the establishment of Iraq in 1921. The primary tool of Arabisation was education, which was under the control of religious Arabic circles. Thus, Arabic history, language and culture received the biggest emphasis, while the minorities were pushed to the background. The first Kurdish textbook was published in Iraq in 1957. Entessar: *op. cit.* p. 92.
- 54 Îrbil became the seat of the central government then, it used to be a relatively insignificant place before.
- 55 It should be noted that the United States wanted to introduce the American pre-election system, the conventions in Iraq, but upon demand by Ayatollah Ali Sistani the "one man, one vote" was introduced.
- 56 Significant Sunni groups boycotted the 2005 elections.
- 57 On the January 2005 parliamentary elections the Kurdish Alliance consisting of the KDP and PUK candidates received 75 mandates, i.e. 26 percent of the votes. On the March 2010 elections, the Kurdish votes were split since other Kurdish parties were running in the elections, and the Kurds received altogether 21 percent, 53 mandates only.
- 58 Joost Hiltermann: "To Protect or to Project? Iraqi Kurds and Their Future". Middle East Report, No. 247, http://www.merip.org/mer/mer247/protect-or-project, June 2008.
- 59 Article 3 of the "Iraqi Constitution". http://www.uniraq.org/documents/iraqi\_constitution.pdf.
- 60 Article 4 of the "Iraqi Constitution". The Washington Post, http://www.washingtonpost.com/wp-dyn/content/article/2005/10/12/AR2005101201450.html. Accessed 19 July 2010.

- 61 Article 113 of the "Iraqi Constitution". The Washington Post, http://www.washingtonpost.com/wp-dyn/content/article/2005/10/12/AR2005101201450.html. Accessed 19 July 2010.
- 62 Article 137 of the "Iraqi Constitution". *The Washington Post*, http://www.washingtonpost.com/wp-dyn/content/article/2005/10/12/AR2005101201450.html. Accessed 19 July 2010.
- 63 Kenneth Katzman Alfred B. Prados: "The Kurds in Post-Saddam Iraq". CRS Report for Congress, No. 22079, http://fpc.state.gov/documents/organization/44128.pdf, 14 March 2005.
- 64 "Barzani Says Kurds Should Declare Independence One Day". RUDAW, http://rudaw.net/english/kurds/3055.html, 20 July 2010.
- 65 Article 140 of the "Iraqi Constitution". http://www.uniraq.org/documents/iraqi constitution.pdf.
- 66 See e.g. Erzsébet N. Rózsa: "The War in Iraq and the Broader Middle East". *MKI-tanulmányok*, No. 1. (2008). Electronic version: http://www.hiia.hu/pub/displ.asp?id=YWGDII.
- 67 The Turkish census questionnaires for political reasons do not include questions on ethnic affiliations, since the Turkish nation-state does not officially acknowledge ethnic minorities. Turkish research institutions usually under-estimate the number of Kurds and put their number at ten million or below.
- 68 See e.g. http://www.kurdistanica.com/?q=node/104; http://www.kurdistanmemory.com/site/english/yezidis.html etc.
- 69 The *Dicle-Firat* should be mentioned here, which was published in Istanbul in Turkish and Kurdish, but which was terminated after some issues.
- 70 According to estimates, today some half a million Kurds live in the territory of Germany only.
- 71 In December 1999, at its Helsinki summit, the EU announced Turkey a candidate for membership. The pre-condition of accession is the fulfilment of the so-called Copenhagen criteria, the first of which demands beside the democratic political system the practice of human rights.
- 72 In the case of radio programmes, the programme broadcast in the minority language should not exceed 45 minutes per day or four hours per week, while in the case of TV programmes the Turkish media authority allowed 30 minutes per day and two hours per week.
- 73 In 2004, the Roj TV (an international Kurdish satellite television station broadcasting programmes in the Kurmanji, Sorani, and Hewrami dialects) started to operate from Denmark. It is defined as an independent Kurdish broadcaster, but Turkey considers it as the media outlet of the PKK. Turkey is putting a significant pressure on Denmark to terminate the broadcast, since it wants to have a monopoly over the information-exchange related to the Kurdish territories. On the other hand, in January 2012, Roj TV was fined in Denmark due to its "terrorism supporting propaganda".
- 74 Smaller groups of the Kurds (some ten thousand people) are Yezidis.
- 75 Out of these, the most significant is the so-called Jazeera province (today al-Hassakeh), where the previously nomadising Kurds settled down in the biggest number.
- 76 Radwan Žiadeh: "The Kurds in Syria. Fueling Separatist Movements in the Region?". USIP, Special Report, No. 220. (2009). p. 1.
- 77 Before the mandate system was introduced, Kurdish communities organised not on the basis of linguistic or ethnic affiliations, but on a tribal basis. The most important tribal grouping was the Millis, the charismatic leader of which, Ibrahim Pasha, concluded an alliance with the High Porte.
- 78 Jordi Tejel: Syria's Kurds. History, Politics and Society. New York: Routledge, 2009. pp. 9–10.
- 79 David McDowall: A Modern History of the Kurds. London: I.B. Tauris, 2007. p. 468.
- 80 Ibid
- 81 Christian Sinclair Sirwan Kajjo: "The Evolution of Kurdish Politics in Syria". MERIP, http://www.merip.org/mero/mero083111, 31 August 2011.
- 82 Led by Hamid Darwish and Nureddin Zaza.
- 83 Led by Osman Sabri.
- 84 McDowall: op. cit. p. 478.
- 85 Lowe, p. 165.; Often members of the same Kurdish family had different statuses within Syria. According to Syrian regulations a Syrian woman was forbidden to marry a man with no citizenship.

- In such a case their children also became "homeless", thus adding to the disadvantageous situation of the Kurdish community.
- 86 Ziadeh: op. cit. p. 4.
- 87 According to some sources the Syrian leadership quietly bore with the recruiting of Syrian Kurds into the PKK.
- 88 The tensions between Syria and Turkey can be traced back partly to territorial issues. In 1939, Turkey got the Syrian Alexandretta *sanjak*, which the Damascus leadership had not given up. In 1977, Turkey launched the South-East Anatolia project, in the framework of which the construction of 22 dams and 19 power plants were planned in the water collecting territories of the Tigris and the Euphrates. This would mean a significant decrease in water for Syria and would have had serious consequences for Syrian agriculture. Therefore, Syria did not sign the agreement with Turkey on the project, and started to support the Kurdish community as a pressuring measure.
- 89 The Damascus Declaration signed by different opposition groups and intellectuals called for the settlement of the Kurdish issue.
- 90 In March 2004, following a football match in the Kurdish populated Qamishli the Sunni Arab football fans and the Kurds clashed. In the intervention by the Syrian (Arab) security forces six were killed. The Kurdish population of Qamishli started demonstrations and order could be restored only after two weeks of disquiet.
- 91 However, it still could not solve totally the question of citizenship, since approximately 80,000 persons remained homeless.
- 92 Turkey considers the PYD as the local wing of the PKK, and does its best to marginalise it in Syrian and regional politics.
- 93 http://www.pydrojava.net/en/index.php?option=com\_content&view=article&id=93:we-clearly-and-openly-condemn-the-baath-authoritarian-ruler-and-we-call-for-the-fall-of-this-mono-ba&catid=34:news&Itemid=53. The PYD in its program does not demand an independent Kurdistan, but, as most Kurdish movements, would like to achieve an autonomy in the new Syria.
- 94 Emanulea Pergolizzi: "An Uncertain Road to Peace: Domestic and Regional Challenges in the Turkish–Kurdish Process". *Istituto Affari Internazionali Working Papers*, No. 13. (2013). Electronic version: www.iai.it/pdf/DocIAI/iaiwp1318.pdf. Accessed 27 June 2013.

# Democratic Transition in Myanmar – Lessons to Learn

Béla Fazekas

"What we want is value change...
Regime change can be temporary, but value change is a long-term business.
We want the values in our country to be changed.
We want a sound foundation for change.
Even if there's regime change, if these basic values have not changed, then one regime change can lead to another regime change and so on and so on."
(Aung San Suu Kyi, The New York Times, 2010)

### Introduction

**T**t is not widely known that George Orwell, the author of *Animal Farm* and 1984, two of strictly forbidden "subversive" novels in the former Soviet bloc countries, had Lbeen serving as colonial police officer between 1924 and 1929 in Burma, then part of British India. Quite a few authors gave such a wide and detailed picture of the Burmese political and social landscape during the 20s and 30s of the last century than Orwell in his novel, the "Burmese Days". At that time Burma was far the wealthiest country of South-East Asia, the food basket of the region exporting 3 million tons of rice each year, half of the world's supply. The "Burmese Days" is a perfect analysis of social and human relations, the mentality and national character of the local people apart from being an emotional love tragedy. For the Burmese, colonisation was humiliating in two senses. The fact that their country was included as a sort of "annex" of Britain's Indian empire was an outrage to a people proud of their Burmese identity. But there was something else even more humiliating. Unlike in the two Buddhist monarchies of South-East Asia – Thailand which remained independent, and Cambodia, the former French protectorate – in Burma the most important consequences of British conquest was that the two most vital institutions of Burmese society, which together defined what it meant to be Burmese, were destroyed or seriously weakened. The exile of the

king and his family meant that the ritual and symbolism of the Court was abruptly ended. The Burmese state no longer had a centre. (The throne itself was transported to a museum in Calcutta.) The king was also the patron and in many senses the head of the Buddhist hierarchy. His demise reduced the authority of the religious hierarchy, leaving Buddhist religious institutions with a much weakened central leadership. (Although in different historic circumstances, but similar situation has emerged in Laos.) These two binding forces in Burmese society were eliminated with no indigenous replacements.<sup>1</sup>

If there is something else in the colonial past of Burma which might be relevant for understanding the present situation, the diarchy (or dual government) model, implemented by the British in 1923 certainly is.<sup>2</sup> In the diarchy model there were two types of cabinet members who assisted the British Governor. The Governor handpicked the cabinet members for the most important portfolios such as home affairs/security, judicial affairs and treasury, while the remaining cabinet portfolios were given to elected natives who were then appointed by the colonial parliament. As a matter of fact, there is little difference between the military's current political setup and that of British colonial rule. According to the military's 2008 Constitution of Myanmar, the military has exclusive power to select and appoint cabinet members for such vital ministries as defence, home affairs and border area affairs, while filling the remaining and less significant cabinet posts through parliamentary approval.<sup>3</sup> In spite of some resemblances between diarchy and the 2008 Constitution, the possibility of a government headed by a genuinely civilian president does exist especially following the 2015 election.

## 50 Years of Military Rule

It is not unusual at all that military regimes represent long chapters in the recent history of many Asian, African, Latin American even European countries. But Myanmar is unique among them for having the longest military regime in modern history. After the independence in 1948, the military (Tatmadaw) gradually started to vindicate the right for privileged position. Although the military did not play a decisive role in gaining independence, they claimed to be indispensable. Besides, civil war broke out immediately after the independence which provided good excuse for the next fifty years to stay in power. The other excuse of the army was the presence of Chinese nationalists fleeing communist China in the 1950s, who crossed the border and settled in Burma (instead of Taiwan), putting the Burmese people at risk of an attack from China. The Burmese government was obsessed about China, saying that Burma was faced with extinction if the Chinese attacked. Burma's military dictatorship tried to justify its legacy by four historical reasons – a strong military tradition, a relatively

weak civil society, a long-standing fear of national disintegration and an equally long-standing fear of foreign intervention. In this sense only the military regimes of Pakistan might represent some resemblances to that of Burma. Due to "permanent threat" either of the civil war or from outside, Burma hasn't had a conventional government for almost half a century since 1962. It should have not happened. Despite permanent instability, Myanmar was a democratic state between 1948 and 1962 with elected governments operating within the limits of the Constitution. But due to endemic corruption, declining economy, regional insurrections and social unrest, the efforts to create a social consensus on building a democratic society have failed.

In March 1962 a military coup led by General Ne Win overthrew the elected government of U Nu. The reason for the coup was the military's fear that Prime Minister U Nu's government would allow the Shan and other ethnic minorities to secede from Myanmar. Many Burmese cautiously welcomed the coup because it promised to put an end to the corruption, instability, inflation and social unrest. The country was ruled by a Revolutionary Council composed entirely of military officials loyal to General Ne Win. The military created its own political party, the Burma Socialist Program Party (BSPP), as the only legal party in the country and described its ideology as the 'Burmese Way to Socialism'.

In 1974, a new Constitution entered into force, creating the Socialist Republic of the Union of Burma with a unicameral legislative system. An elected parliament was formed, but only one candidate of the BSPP was allowed to stand for each constituency. The Party moved quickly to eliminate the business class, (which was predominantly Indian and Chinese), seeing state socialism as the only way to deliver economic independence to the country. The economy worsened acutely under military rule, with the prohibition on foreign investment and the efforts of the one-party State to impose a command economy. In 1987, the United Nations gave Myanmar 'Least Developed Nation' status, recognising it as one of the world's ten poorest countries with a per capita income of no more than 200 USD.

When series of protests began early in 1988, led by students and Buddhist monks, the brutal reaction from the military failed to stop the riots. In August and September 1988, they culminated in widespread strikes and massive demonstrations in the urban areas demanding the end of military rule. The army reacted, killing thousands of protesters. On 18 September, a new organisation, the State Law and Order Restoration Council (SLORC) took over government under the control of the army chief of staff, General Saw Maung. Nevertheless, Ne Win, who had resigned as chairman of the Burmese Socialist Program Party, was thought by many to be the real power behind General Saw Maung. One of the first goals, after the establishment of power, was to expand the Tatmadaw officers to 321,000, almost double the 1988 size. In 1989, the regime has changed the official name of the country from "Union of Burma" to "Union of Myanmar".<sup>5</sup>

Under the permanent pressure of the international community the SLORC has agreed to organise general elections. Taking into account that two years earlier the army massacred more than 3,000 protesters, the May 1990 election itself was a surprisingly free and fair process if such characteristic might be given at all within the circumstances of a military dictatorship. The National League for Democracy (NLD) the leading force of the freshly formed democratic opposition led by Aung San Suu Kyi has won the elections which represented a humiliating defeat for the military regime, as the NLD won 60 percent of the popular vote meaning 392 parliamentary seats out of 485. The stunned regime declared the election null and void, refused to hand over power, put Aung San Suu Kyi under house arrest. After the elections, the SLORC began to consolidate its position by taking repressive measures against the NLD. The junta understood very well, that Asian politics in general has always been personality oriented, so putting Suu Kyi under house arrest resulted in the lack of a personality who could lead the opposition movement. Parallel with the pressure on the opposition the SLORC opened up the Burmese economy and introduced a market-oriented system, which put an end to the "Burmese Way to Socialism" and instead replaced it with the "Burmese Way to Capitalism". The results became obvious by 1993, when the economy grew by 6 percent as compared to the negative growth which it had experienced in the late 1980s. Almost all sectors of the economy showed a double digit growth and the economic relations between Myanmar and the rest of South-East Asia started to grow rapidly. In July 1996, the Association of Southeast Asian Nations (ASEAN) offered Myanmar a dialogue partner status. In spite of the continued pressure from its Western dialogue partners, ASEAN followed a policy of constructive engagement with the junta in Myanmar, ignoring the human rights situation in the country and putting economic gains ahead of a value-based approach. The Western pressure did not influence the ASEAN decision and in July 1997, Myanmar (together with Laos) entered the regional grouping. Diplomatic triumph in joining one of the most successful regional integrations of the world hardly eased the pariah status of Myanmar. A meeting between ASEAN and European Union officials - scheduled soon after the admission - was called off because the EU refused to sit with the generals. Two days earlier, the Myanmar regime made a last attempt to create a better image in the eyes of the outside world by dissolving the SLORC and setting up a new leading organisation of the regime, the State Peace and Development Council (SPDC) where old generals were replaced by younger ones. The new organisation continued to keep Aung San Suu Kyi under house arrest until her release on 13 November 2010. The council was officially dissolved on 30 March 2011, with the inauguration of the newly elected government, led by its former member and Prime Minister, President Thein Sein putting end to General Tan Shwe's 19-year-old power.7

Having entered the ASEAN and realising the international reaction this move has evoked, the SLORC did not want to become a source of embarrassment for its South-East Asian friends. But the name change to SPDC did not make any difference neither on the political continuity in Myanmar nor on the approach of the international community towards the regime. In 2003, there were only three years to go till the first Myanmar Chair of the ASEAN, a real litmus test of the international acceptance of the regime (and to some extent that of ASEAN's credibility). In August 2003, the regime announced a roadmap to restore the democracy ("Roadmap to Discipline Flourishing Democracy"). The document described the process of restoration of democracy in seven points although without setting up any deadlines or timeframes. Among the seven points one has foreseen to resume the National Convention for drafting the basic principles of transformation from the military regime to democracy, another one related to the adoption of a new constitution through national referendum, and one to the holding of free and fair elections for legislative bodies. By 2005, the National Convention resumed and adopted more than hundred proposals for the new constitution but still without any deadline. Not waiting until the US and the EU leaders boycott their meetings with their ASEAN counterparts if Myanmar takes the chairmanship, the Myanmar foreign minister has announced that his country has decided to relinquish the chairmanship. Myanmar wanted to give its "full attention" to its "ongoing national reconciliation and democratisation process," an ASEAN statement said.8

On 15 August 2007, anti-government protests started in the capital against the decision of the ruling SPDC to remove fuel subsidies which caused an immense rise of prices for diesel, petrol and gas. Although the students and opposition political activists chose the form of a campaign of nonviolent resistance, many of them were arrested and detained. From 18 September, the protests had been led by thousands of Buddhist Monks – where the name of "Saffron Revolution." is coming from – until a government crackdown a week later.

By that time the regime had already started to carefully draft a new constitution and to prepare the ground for the next elections with an important lesson of 1990 in mind: elections must not be left to the people's free choice, for we may not get the result we want. According to the constitution drafted by the military and published in September 2008, the country is a presidential republic with a bicameral legislature, where a portion of legislatures appointed by the military and others elected in general elections. The Upper House consists of 224 members of whom 168 are directly elected and 56 are appointed by the Armed Forces, while the Lower House consists of 440 members of which 330 are directly elected and 110 are appointed by the Armed Forces. The major political parties are the National League for Democracy, the National Democratic Force, and the two backed by the military: the National Unity Party and the Union Solidarity and Development Party.

The elections in 2010 resulted in a victory for the military-backed Union Solidarity and Development Party while foreign observers questioned the fairness of the elections. The election law contained strict restrictions clearly designed to block the participation of popular political opposition figures, members of non-Buddhist orders or members of insurgent groups. The law banned anyone serving a prison term from belonging to a political party, consequently running and voting in the elections, including Aung San Suu Kyi although she was "only" under house arrest. In the light of these restrictions, the National League for Democracy and two other opposition parties decided not to take part in the elections and they called their supporters for boycott. The party leaders of the NLD were not unanimous whether to register for or boycott the elections and some of them, led by Than Nyein, decided to participate and a few weeks later they founded a new opposition party, the National Democratic Force. At the end, 37 political parties registered, including the Than Nyein-led NDF and other, mainly small parties with strong ethnic background. The victory of the USDP was not a question and they received 80 percent of all seats. Not representing a threat for their election victory anymore, immediately following the elections, the government ended the house arrest of the Aung San Suu Kyi and allowed her to move freely around the country. The new president, Thein Sein took the oath in March 2011.

After unexpected reform package of the new leadership in 2011, NLD senior leaders have decided to register as a political party and to field candidates in the next by-elections which took place in 2012 and which they won by an unprecedented high margin. Although the elections involved fewer than 7 percent of the seats in the country's parliament, they were unquestionably a big step forward for a society that has experienced only manipulated or nullified elections for more than half a century.

## Analogue Transitions

In his lecture given at New York University in 2011, Carl Gershman from National Endowment for Democracy described the ongoing democratic changes in the world as part of Samuel Huntington's fourth wave referring to his theory of several historical waves of democratisation. According to Huntington, the First Wave of democratisation began with the American Revolution in 1776, which was quickly followed by the French Revolution. The Second Wave followed the victory of the Allies in World War II.

The Third Wave, according to Huntington's thesis, was a global process that began in 1974 with the fall of the military government in Portugal and the death of Franco in 1975, followed by successful democratic transitions in both countries. It then spread to Latin America, Asia, Central Europe and Africa, with the number of countries judged to be democracies by the standards of the Freedom House annual surveys. The questions we now face is whether with the step by step democratisation in Myanmar and the

much more radical changes in the countries of the Arab Spring are we witnessing the beginning of a Fourth Wave of democratisation, which could extend democracy's reach into other regions of the world or is it still early to make such conclusion?

Analysts often draw parallel between the democratic transition of Myanmar and that of other countries both within the region and outside. From regional examples the recent history of the Philippines and – to lesser extent – Indonesia are mentioned most frequently. Another source of historic parallels is the military regimes of Latin America during the 1960s and 1970s. It would not be without relevance to have a quick look at the lessons of all these transitions from authoritarianism to democracy.

The Philippines are a really good example. 11 During the Marcos regime (1972–1986), military officers were appointed to many civilian posts in government agencies being deeply involved in rigged elections. The military had a decisive role in suppressing anti-dictatorship movements. A good lesson for the Myanmar democrats might be what happened in the Philippines after the 1986 People Power Revolution: some factions of the military did not give up the intention to seize political power or influence political decisions from outside the democratic institutions. Moreover, many politicians with civilian background used some fractions in the military to destabilise the democratically elected presidencies making difficult to bring political nonpartisanships to the military. Despite many similarities, there is a difference: unlike in the Philippines where changes were resulted by a popular uprising, in Myanmar they were initiated by the military itself, and the speed of reforms were also dictated by the military. Nevertheless Thein Sein's political reforms could still be undermined given the wide political power that the military still has. Immediately before Aung San Suu Kyi and her party mates took their parliamentary oath in May 2012, the military filled its 25 percent membership quota in the parliament with high ranking officers in order to bolster its influence in legislation. So the main message of the Philippine experience is that Myanmar should gradually establish civilian control over the military, gradually take over part of its businesses and begin to strengthen non-partisanship in its ranks. 12

Another analogue example is Indonesia. When Indonesia moved suddenly away from authoritarian rule in the late 1990s, many people worried that it would not be able to handle democratisation while dealing with the push for greater autonomy in some of its provinces. Indonesia arguably faced greater internal problems at the time than Burma confronts today, as some of its internal territorial struggles (Aceh, West Papua, East Timor, Kalimantan) were about secession whereas in Myanmar the demands from the ethnic areas are more limited. But Indonesia did make it through, and the end of the authoritarian regime actually facilitated a peaceful solution with Aceh and also with Timor-Leste. Indonesia's experience raises the question: will a genuine democratic transition in Myanmar also facilitate a peaceful solution of the Kachin problem, like in Aceh?

The other example for some useful advices might be Latin America. Myanmar's reform-from-above process is reminiscent of at least some of the transitions from military rules in South America in the 1970s and 1980s. <sup>14</sup> In Brazil, for example, the softliners of the military establishment gradually reintroduced civilian rule, followed by credible electoral processes, and kept peace with the hardliners of the army by allowing them to retain many of their economic prerogatives and avoid prosecution for their past wrongs.

South American transitions have another important experience about how long they take sometimes. In Brazil, more than ten years elapsed from the opening of political reform in 1974, until a civilian president took power through credible elections. And it was almost another ten years after that until the system really worked leaving behind all remnants of previous authoritarianism. In addition, most of the South American countries had at least some significant past experience with civilian rule and democratic pluralism before the military takeovers. The Myanmar military, on the contrary, has been running the country for fifty of the country's sixty-five years of independence, and there is no extended prior democratic experience to draw from.

From different perspective, it would be quite obvious for the democratic forces of Myanmar to turn for some food for thoughts on the institutionalisation of democracy to the country's immediate neighbour, India, the largest democracy of the world. It would but it isn't. India and Myanmar share a complicated history marked by as much mistrust as friendship. During the British colonial era, Myanmar was made into a province of British India, which it remained until 1937, when it became a separate colony. The railways, post and telegraph, the police and the civil service, businesses were staffed with and run by people of Indian origin to such extent that before the Japanese invasion in 1941, 45 percent of the population of once predominantly Buddhist Yangon was Hindu, Muslim and Sikh which gave rise to sometimes fierce anti-Indian sentiments.<sup>15</sup>

The friendship inspired by the shared joy of independence and the commonly chosen path of the non-aligned movement did not last too long. A few years after the 1962 military coup the regime nationalised privately owned businesses and factories, of which an estimated 60 percent were owned by people of Indian origin. Thousands lost their property and livelihood and during a few years around 150,000 Indo-Burmese left the country. Many leaders of the pre-coup democratic Myanmar also fled, among them U Nu, the first prime minister of Burma who went into exile in India and remained there until Myanmar's 1988 uprising brutally crushed by the regime. In an official statement issued in the wake of the violence, India expressed its support for the "undaunted resolve of the Burmese people to achieve their democracy". India's sympathy for Myanmar's pro-democracy movement had also a personal element. Prime Minister Rajiv Gandhi was a personal friend of Aung San Suu Kyi. Their acquaintance dated to the early 1960s,

when Suu Kyi's mother, Daw Khin Kyi, served as Myanmar's ambassador to India and Suu Kyi graduated there. Suu Kyi's father, national independence hero Aung San, had also known Rajiv's grandfather, Nehru personally.

It is also true, that apart from value-based considerations India's support for Myanmar's pro-democracy forces was also guided by an Indian desire to counter its main regional rival China's growing influence among Myanmar's internationally isolated generals. Purely pragmatic interests of India sometimes overwrote her strong commitment to standing up for democracy. Indeed, *realpolitik* imperatives sometimes seemed to be stronger for New Delhi which never gave up her intention to have greater access to Myanmar's untapped energy resources. That explains India's reluctance to answer the West's and Myanmar's pro-democracy forces' call to take a more assertive position with regard to the military regime.

# The Experiences of Democratic Transitions in Central Europe and Myanmar

The wave of demonstrations and their brutal crushing down in 2007 provoked strong international reaction. 59 ex-heads of government and ex-heads of state signed a letter to general Than Shwee demanding to free political prisoners and immediately start negotiations with Aung San Suu Kyy and other opposition leaders. <sup>16</sup> Among the exstatesmen there were the former Hungarian, the Czech and the Polish presidents: Árpád Göncz, Václav Havel and Lech Walesa, three outstanding figures of democratic transitions of Central Europe. The leaders strongly urged the military regime "to respond to the United Nations and countless other countries and regional groupings around the world by releasing Aung San Suu Kyi and committing to participate in peaceful, tripartite dialogue as outlined by the General Assembly." They also stated that "Aung San Suu Kyi is not calling for revolution in Burma, but rather peaceful, nonviolent dialogue between the military, National League for Democracy, and Burma's ethnic groups. The UN General Assembly resolution and 15 previous resolutions also support this approach." The fact that the former leaders of three Central European countries were among those who signed the letter clearly demonstrated the special attention these new democracies paid to the events in Myanmar. From their part the Myanmar democratic forces also demonstrated strong willingness to learn from the Central European countries how to navigate the painful transition from dictatorship to democracy without bloodshed.

For Hungarians the East was always more than just a source of spiritual inspiration. For the Hungarians, the only European nation of Asian origin, the East always meant a practical target of constant attempt to find the roots of their distant past. Not that

Burma might have been the right place to find these roots; nevertheless the ancient rulers of the South-East Asian kingdom met rare Hungarian visitors as faraway relatives. So did Mindon Mihn, the legendary and perhaps the most popular king of Burma from 1853 to 1878. He tried to modernise his kingdom more than anyone else before him. He founded the last royal capital of Burma, Mandalay and it was him who invited the young Hungarian nobleman, Ödön Bethlen to take part in the modernisation of the country.<sup>17</sup> It was not Ödön Bethlen's fault that his advices did not reach the desired affects but the British's who defeated the kingdom in the third Anglo-Burmese war in 1885. So when the first steamer of the Orient Hungarian Sea Nav. Co. Ltd. serving Hungary's Far East trade between 1891 and 1920 docked in Burma, the country was already part of British India. After the independence the ideology inspired cooperation during the late 1950s and 1960s brought the two countries closer. In 1956, Hungary and Burma established diplomatic relations. One year later during the debate of the Hungarian Question in the UN General Assembly Burma proposed three amendments to soften the joint draft resolution condemning the brutal turning down of the 1956 Hungarian revolution and the Soviet military intervention.<sup>18</sup> The amendments – the aim of which was seeking compromise rather than blocking the condemnation – were rejected.

David I. Steinberg from Georgetown University drew an interesting historic parallel between the Hungarian revolution in 1956 and the situation in Myanmar prior to the anti-government protests leading to the "Saffron Revolution" in 2007. According to Steinberg, the strong moral support of the USA and other Western democracies created unrealistic expectations among protesters both in Hungary in 1956 and in Myanmar that apart from verbal encouragement the West will also provide material assistance for the revolution. In fact, the US-financed Radio Free Europe and Radio Liberty never fully recovered from the charge that they had led the Hungarian people to believe that American military assistance was on the way. Steinberg states that similarly to the fact the US, perhaps fearful of triggering World War III, did nothing to assist the Hungarian freedom fighters, so did nothing in Myanmar during the Saffron Revolution not to get China angry, which claimed her southern neighbour as part of her own sphere of interest.

For Hungary, as for other Central European new democracies, it was rather a moral obligation than a pragmatic consideration to foster the Myanmar democratic transition by offering Hungary's own experience to study. Budapest was the first European destination for U Wunna Maung Lwin, the new foreign minister of Myanmar, to arrive to where he attended the ASEM (Asia–Europe Meeting) 10<sup>th</sup> Foreign Ministers' Meeting held in Gödöllő, from 6 to 7 June 2011. He delivered a statement on political developments and the policy of what he called with some euphemism as "the first democratically elected government in Myanmar under a parliamentary democracy system in almost five decades." During the following encounters of

mid- and high-level officials of the two countries Hungary offered to share her historic experiences in the transition from dictatorship to democracy, the transformation of the centrally commended economy into a globally integrated free market economy by providing technical assistance through capacity building projects to Myanmar's institutions and civil society organisations. During a discussion with his Myanmar counterpart on the sideline of the ASEAN Summit on 5 November 2012 in Vientiane, János Martonyi, Minister of Foreign Affairs of Hungary has offered to establish connection between Myanmar and International Centre for Democratic Transition in Hungary, the leading institution of international studies on historic experiences and best practices of transitions from authoritarian regimes to democracies. Zsolt Németh, Minister of State of the Ministry of Foreign Affairs has visited Myanmar in January 2013, where he informed his hosts including Aung San Suu Kyi about Hungary's intention to focus the offered assistance in capacity building on a special training program of the members of the parliament (twinning) and the employees of the Federal Assembly. In order to support Myanmar's preparations for the ASEAN Chairmanship in 2014, upon the request of the Myanmar side Hungary has offered to share the experience of her recent EU Presidency focusing mainly on the preparation and management of largescale multilateral events.

In the case of *Poland* the historic experiences are even more relevant. After the military takeover in 1981, the Military Council of National Salvation, practically the junta imposed a two-year-long martial law in Poland. (Interestingly both in Myanmar and in Poland the leaders of the army explained the military takeover as a strategic necessity to save their nations from foreign invasion, meaning China and the Soviet Union.

After his visit to Myanmar in May 2012, accompanied by a large group of Polish businessmen, Radoslaw Sikorski, the Foreign Minister of Poland wrote in his article "Cold War Lessons for Burma's Democratic Transition":<sup>20</sup>

[In Myanmar] there are striking similarities to what happened in Poland as communism ended. A military elite favours step-by-step reform but wants to protect its position and is determined to avoid a descent into chaos. The opposition is led by a charismatic leader with huge popular support. And the ruling elite open a number of parliamentary seats to a popular vote, only to be shocked by a landslide opposition win.

Minister Sikorski rightly points out that unlike the Central European former socialist countries, Burma "already has powerful business tycoons flourishing under the existing system..., and above all, there is no immediate international context encouraging steady change and establishing standards and benchmarks."

Now Poland is making its own contribution to the process of Myanmar democratisation above all by organising lectures to help senior decision makers, opposition leaders and business representatives to understand the "technology of transitions", that is the sequencing of technical reforms.

According to Michal Lubina from Poland Asia Research Centre, one experience really valuable for both the Myanmar ruling elite and the opposition could be the model of "round table talks" of the late 1980s in Poland (and Hungary) that ended the communist regime and played a key role in successful democratic transformation.<sup>21</sup> Could there be a "Burmese round table?" – asks Lubina. What is happening now in Burma is already "a half round table", he states. To his view, the Myanmar generals are aware of the "round table talks" model which seems to be acceptable by them. The reason to that is that they might gain immunity by handing over constitutional power to a civilian government while maintaining an influence in the background. Being an experienced politician, Suu Kyi must be aware of the fact that the generals might hand over power only on their conditions. So, for her "the Polish option" is tempting, because it gives a chance. She has praised the Polish model, the attitude of General Jaruzelski and Poland's peaceful transformation of power. The contacts between the NLD and Poland have grown significantly. Quite a few NLD activists went to Poland for training in democracy and human rights issues. Michal Lubina's conclusion is that the Polish scenario could be a win-win model for all Myanmar stakeholders.

In the Czech–Myanmar relations there is a strong emotional element: it was President Václav Havel who nominated Aung San Suu Kyi for the 1991 Nobel Peace Prize that she was free to accept in person only 21 years later in June 2012 in Oslo, a few months after Havel died. Having this in mind it is quite understandable that the most emotional part of the visit of the Czech Foreign Minister Karel Schwarzenberg to Myanmar in July 2012, was when he presented to Aung San Suu Kyi a dried, yellow rose from Václav Havel's coffin on behalf of the late president, an ardent admirer of her, as a fellow tenacious fighter for democracy.<sup>22</sup> "I am very sad that I never had the opportunity to meet him (Havel) but I feel very close because his thoughts and his writings guided me during the years of struggle," Suu Kyi said.

One of the key elements of the Czech Republic's policy towards Myanmar is and always was the promotion of human rights and democracy and the support of democratic opposition activities through NGOs. During the last decade the People in Need's activity in Myanmar covered a wide range of projects such as providing direct assistance to families of political prisoners and to activists in Myanmar, organising seminars on the Czech experience of transitioning to democracy for Myanmar political refugees in Thailand, internships for Burmese activists in the Czech Republic and active international lobbying in support of democracy in Myanmar. There was hardly a year passing without a strong statement of the Czech MFA condemning the military

regime in Myanmar and demanding the immediate release of political detainees. The Czech Republic is one of those few European Union countries that annually open their doors to refugees from Myanmar through formal resettlement programs.

As a sign of long-term engagement in Myanmar the Czech Republic plans to open a diplomatic mission in Burma in the first half of 2013.

## What Might the Future Bring?

Myanmar's political scene now is a vibrant mixture of debating visions over the future with a still-powerful army; a parliament with members of the opposition no matter how weak they are, repatriated civilian advisers; flourishing civil society, including human rights groups, ambitious business community, the Buddhist religious community, more and more courageous media persons and ethnic minorities still suspicious towards the changes. The parliament is pushing for more accountability, and its speaker, Shwe Mann, is already manoeuvring to challenge the chairman of his Union Solidarity and Development Party (USDP) – current President Thein Sein – in the 2015 elections.

In the meantime, however, the establishment has also realised the importance of paying more attention to building capacity. In 2011, Thein Sein has reshuffled the Cabinet to make room for pragmatist experts in the energy and economic portfolios. He has even introduced an anti-corruption policy, admitting that Myanmar's "governance falls well below international standards." By many accounts, he is also open to advice on investment and other reforms.

Myanmar faces crucial tests of its international credibility in the coming years especially if the military's power remains dominant, which – most probably – will be the case. In 2013, Myanmar will play host to the World Economic Forum (WEF) as well as the Southeast Asian Games. In 2014, it will chair the ASEAN regional group, and in 2015, it is expected to enter a new ASEAN Free Trade Area.

A key factor in determining the success of Myanmar's transition will be the country's political stability which requires patience from all parties, "a round table talks type dialogue" instead of demanding overnight democratic changes. Not denying the importance of the reforms already taken, there has been minimal structural change in the government, yet. The military has veto power over any proposed changes to the constitution. Major constitutional changes can only be made with the approval of 75 percent of parliamentarians from both the lower and upper house, meaning that the military retains power over proposed reforms. Most probably the military-backed Union Solidarity and Development Party will remain in control trying to gain a better international image by focusing on the 2014 Chair of the Association of Southeast Asian Nations and gradually opening up the country's economy for international investors.<sup>23</sup> Far from being ideal, the current reality is likely a positive scenario out of a number

of worse ones. As the case of the "Arab Spring" clearly demonstrated the beginning of a democratisation process creates instability if the old guard suddenly disappears, leaving a power vacuum. It is a mistake to assume that overnight democracy is the cure to the ills of Myanmar. If the political reforms, how imperfect they are, will continue, if the foreign investments, and not only from China will continue to flow making Myanmar a "new Thailand" for the Japanese car manufacturers, if the regime will continue the dialogue with ethnic minorities to sign peace agreements, if the regime will have enough courage and wisdom while the opposition and the international community enough patience and empathy, Myanmar will have all the chances to be on the right track.

In 2015, Aung San Suu Kyi's National League for Democracy (NLD) will compete for seats across the country. Assuming these polls are free and fair, they will lead to a radical shift in the balance of power if they will copy the result of the 2012 by-elections which is very likely. But a landslide victory of the NLD may not be in the best interests of the party or the country, as it would risk marginalising three important elements: the old political elite, the ethnic political parties and the non-NLD democratic forces.<sup>25</sup> If the post-2015 legislatures fail to represent the true political and ethnic diversity of the country, tensions are likely to increase and fuel instability. The main challenge the NLD faces is not to win the election, but to promote inclusiveness and reconciliation. The NLD could form an alliance with other parties, particularly ethnic parties, agreeing not to compete against them in certain constituencies. It could support an interim "national unity" candidate for the post-2015 presidency. This would reassure the old guard, easing the transition to an NLD-dominated political system. In one word, the situation easily might require that the NLD make sacrifices and put the national interest above party political considerations. And even then the big question mark is still there. What kind of *modus operandi* would fit best for Suu Kyi to deal with the army? Most probably the Tatmadaw will continue to maintain some level of influence in the background. In this case, although Aung San Suu Kyi might become prime minister in 2015, but her real position would not be better than that of Benazir Bhutto in early 1990s in Pakistan: she would not be able to get out of the generals' shadow. If she accepts this kind of modus operandi she risks destroying her public image as an uncompromised moral icon. On the other hand, for the 67-year-old leader who spent 18 of the past 20 years under house arrest, this is probably the last chance to return to real power.<sup>26</sup>

Thant Myint-U, the grandson of former UN Secretary General U Thant and noted historian of modern Myanmar told in an interview on the occasion of publishing his book *Where China Meets India*: "Myanmar both deserves and is destined to play a much more crucial role in world economic, political and even military events. What's not yet clear, are the likely consequences of Myanmar's impending reintegration into the world – for its own people, for the nearby powers of India and China, and for other

nations."<sup>27</sup> It will take long-long years to get the right answer to this and many other questions on Myanmar.

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# China in Central Europe

## Judit Hamberger

n 26 April 2012, the Chinese prime minister met with the governmental heads of the Central and South-East European region (including the V4 countries) in Warsaw. At the meeting China's new regional strategy for Central Europe, which contains the main elements of Chinese focus on the region, was announced. In addition to describing and analysing the meeting, this study will also treat the evaluation, criticisms and interpretations of it. It briefly considers the bilateral relations of the Visegrad member countries (Poland, Hungary, Czech Republic, Slovakia) with China, discussing both their similarities and differences. Finally, it summarises the lesson that may be drawn from the situations described: the characteristics of the methods of Chinese expansion. It will outline the difficulties of collaborating with the Chinese, which must be confronted in China just as in the V4 countries' own markets.

## China and the Central Europe of "Visegrad"

Until the countries of Central Europe became members of the European Union, their political and economic relations with China were not significant, and the latter also placed its relations with them on the back burner. The main reason is the weak economic strength of the countries of the region and their trifling influence in the international arena. Hungarian—Chinese economic and commercial ties, which have been reviving and gaining strength since 2003, formed the only (not too significant) exception to this. Since accession to the EU, the Central European states have been declaring their economic and commercial relations with China to be of primary importance. Beginning in May 2004, EU customs duties, quotas, prices and other regulations went into force in the Visegrad countries as well.

In 2001, China became a member of the WTO, and has been exporting textile products, leather goods, foodstuffs, electrical devices and audio-visual technology to the countries of the region in increasingly larger quantities, which the latter have been unable to effectively curb or restrict. Its trade relations with the V4 countries have

picked up – so much so that some are struggling with an enormous deficit in their trade with China. Because the political and economic significance of each is, from the viewpoint of the Asian state, small, they are at a disadvantage when negotiating about lifting the Chinese trade restrictions applied to them. Because of this they are able to compensate for the enormous Chinese imports through exports only with difficulty.

The question of more successful trading with the Middle Empire has been the subject of internal debates for years in the Visegrád countries. Many argue that it is inadvisable to raise political demands against China, particularly with regard to human rights and democracy, but rather a pragmatic approach is needed, taking into account economic and commercial interests. However, a number of the region's experts on China<sup>2</sup> dispute the success of this strategy, stating resolutely that the raising of European demands concerning human rights has no bearing on commercial and economic success.

The V4 countries accept the "one China" principle and its territorial integrity. They do not maintain official relations with either Tibet or Hong Kong, nor do they reproach China officially for the human rights situation either. But each has received the Dalai Lama on private visits at least once, and all four countries maintain informal relations with Taiwan. Friendship societies, commerce and economic chambers dealing with China operate in every Visegrad country, and each one has institutionalised its relations with China – though not to the same degree. There are now 58 Confucius Institutes operating in the Central and South-East European region, where educational programs about China are organised.

The Visegrad countries do not, and for a long time will not, have a unified China policy.<sup>3</sup> There are at least two reasons for this. One is that they differ in their trade and political relations: up till now they have not been "courteous" to China either politically or economically to the same degree. The other important reason is that they have become and are each other's competitors in the competition for Chinese investments and economic "goodwill." They are also competing to see which of them will become the major or larger base and logistical expediting centre for the expansion of Chinese goods. Also at stake in this competition is whether the future great Eurasian high-speed railway corridor, which will depart from Beijing and run (through Russia) to the westernmost areas of Europe, will pass through Slovak, Polish or Hungarian territory.<sup>4</sup>

Being China's gateway to the EU, or becoming a springboard to Chinese–EU relations is a goal that not only Hungary but each of the Visegrad partners has set for itself. This was made possible also by the fact that during its visit to all four countries the Chinese side emphasised that it considered a central location within Europe important. Thus, either they exploit the advantage derived from the European "central location" jointly, to their own mutual benefit, or remain competitors to one another in this as well. The signs of the competition are most strongly discernible among the Poles. It was they who expressed the idea that the constructive development of Hungarian–Chinese relations

might be useful for Poland as well, and that it would perhaps be more practical for China to commit itself in several countries of the region than in only one of them. The Poles, who in the past two years have risen up to compete with the Hungarians for Chinese positions, were surprised at the relatively advanced state of Hungarian–Chinese relations and that they had been being built and strengthened for a long time. Nor had it been widely known to them previously that half the investments of Chinese operating capital in the region landed in Hungary.<sup>5</sup>

The reality of competition is confirmed by the Chinese prime minister's visit to Warsaw on 25–27 April 2012. Wen Jiabao affirmed that China had "noticed" Central Europe, but it did not treat it as a uniform region. In fact, it will make the 16 states represented by the prime ministers in Warsaw compete for the 10 billion dollars in investment promised to the region.

#### The Chinese Prime Minister in Warsaw

At the end of his European tour (following stops in Germany, Sweden and Iceland), Wen Jiabao visited the Polish capital, where he stayed for three days. On the final day, he travelled on an unofficial visit to Cracow and paid a visit to the former German concentration camp, Auschwitz (Oświęcim) as well. His visit to Warsaw was represented as a significant political event. The fact that it took place at the time of the EU's financial and economic crisis lent it particular significance. Arriving at the head of a sizeable Chinese delegation (300 members), Prime Minister Wen was guided first and foremost by economic aims: his intention was to increase Chinese investments and exports in Poland as well as Central Europe. He conducted talks primarily with the Poles, though he dedicated the second day to negotiations with the Central and South-East European heads of government. In absolute numbers Chinese investments in the region (especially compared with other areas of the world and Europe) were not large, but their volume in the past seven years – since the Chinese "breakthrough" – had grown to seventeen times the previous amount.

Also included in the Chinese delegation's program in Warsaw was an economic forum, the main topic of which was the possibility of Chinese investments in the countries of East Central and South-East Europe. Wen Jiabao assured the countries of the region that his homeland would increase trade and investments with the region, but in return it called on them to open their markets more to Chinese goods. The main goal of the Polish prime minister, Donald Tusk, was to persuade the Chinese side to invest in as large a volume as possible, both in Poland and the Central European region. During the visit the Chinese head of government announced a new investment strategy for the region.<sup>6</sup>

#### The Topics and Results of the Polish–Chinese Bilateral Talks

The content and details laid down in the strategic partnership, signed in Beijing in December 2011, served as the most important starting point, while one of the main purposes of the visit was the development of economic and investment cooperation between the two countries.<sup>7</sup> At the opening of the forum Wen Jiabao stated that the two countries had prepared a long-term plan for deepening ties. As part of this, they had established an intergovernmental commission to coordinate industrial cooperation and were also introducing a mechanism to make meetings between the two government leaders regular.

Among the specific topics of the Polish–Chinese bilateral talks were elaborating on alternative energy sources and the exchange of experiences obtained from extracting shale gas, as well as cooperation on the gasification of sub-bituminous coal, the development of mining technology and coal production. They also discussed those tasks that aimed to bring the trade balance between the two countries into balance. Apart from the economic questions they negotiated on the improvement of Polish–Chinese political dialogue as well. Prime Minister Tusk said that he had indicated to his Chinese colleague those areas where cooperation could be deepened, covering the political and economic spheres, from academic-level ties through local government collaboration to dialogue between the two societies. In his view the talks had been concrete and productive. He stated that in presenting the Polish experiences relating to building the modern state and civil society he had emphasised that all this was closely tied to the protection and freedom of human and civil rights also, one being impossible without the other. He also said that on this issue the two sides were ready for dialogue on the basis of equality and mutual respect.<sup>8</sup>

At the same time as the two governmental leaders' discussions, a number of bilateral treaties and memoranda were also signed. These pertain to cooperation between small- and medium-sized enterprises and infrastructural cooperation, as well as cultural and scientific cooperation, and collaboration between state agencies and institutions directing and regulating investments. Among these treaties are to be found the agreement between the Polish Information and Investment Agency (PAIiIZ) and the Trade Development Office of the Ministry of Commerce of the People's Republic of China, as well as that signed by a number of large companies (ARP, KGHM). Of the billion of the property of the People's Republic of China, as well as that signed by a number of large companies (ARP, KGHM).

#### Meeting with the Prime Ministers of the Region

Along with the Polish and Chinese leaders, 17 participants (15 prime ministers and two deputy prime ministers) attended the meeting. This "marathon" summit had a plenary section (roundtable), in which the prime ministers were given an opportunity

to exchange views concerning the most pressing problems of international relations. There was also a series of bilateral negotiations, when Wen Jiabao conducted twenty-minute discussions with the leading representatives of each government. Each of them outlined the fields in which his/her country could receive Chinese investments, the opportunities he/she saw in reciprocal trade to reduce its deficit, as well as the areas in which his/her country could cooperate with Chinese demands.

According to the press release issued about the prime ministers' meeting, 11 the participants agreed that they would develop these relations "from a strategic and long-term perspective, in a spirit of mutual respect, equality and mutual benefit." China and the Central European region were bound by traditional ties of friendship, and this was a good foundation for relations between the Asian country and Europe as well. China supported European integration and the means undertaken by the Central Europeans to achieve balanced economic growth. The Central Europeans in turn recognised China for its steady, stable and rapid growth. China resolutely wanted to cooperate with the countries of the region in the fields of infrastructure, advanced technology and green energy. All participants committed themselves to eliminating their own protectionist restrictions in trade and investments. In the interests of improving cultural and person-to-person ties they would organise joint and reciprocal events, programs and exchanges, provide scholarships, would encourage language study and academic exchanges, as well as jointly develop tourism.

Wen Jiabao stated that his country's trade was not as rich and high-volume with Central Europe as with the other regions of Europe, since it amounted to merely 52.9 billion US dollars thus far, which was identical to the size of Chinese trade with Italy. The sum invested in the region was 910 million dollars less than that invested in Sweden or Austria. He noted also that China was linked to the region by only one air connection (the Budapest–Beijing route). He also called attention to the fact that even though relations between China and the Central European countries had become dynamic in the economy, trade and other areas, mutual understanding was not as deep as it should be, and practical cooperation was far from the intrinsic possibilities.

The head of the Chinese government summarised his recommendations in twelve points. These included the establishment of a separate secretariat for promoting cooperation with the countries of the region. They were prepared to regulate trade in the currencies of these states in treaties. They would urge Chinese companies to establish special technological and economic zones in Central European countries in the next five years. China would create a scholarship fund for a thousand students from the region to study the Chinese language and would send the same number of Chinese students to them. He also urged the establishment of a tourism promotional fund, as well as more flights between his homeland and the Central and South-East European countries.<sup>12</sup> He believed that China could cooperate well

with these countries in infrastructural investments because the latter's demand for improvements of this kind was large, and China possessed the advanced technology and expertise necessary for planning and constructing these, and it was they in fact who submitted the best bids as well. Therefore the prospects for the "two sides" infrastructural cooperation were good.

One of the primary aims of the China–Central Europe Economic Forum, attended by more than a thousand businessmen, was to call the attention of Chinese business circles to the possibilities of economic cooperation offered by Poland and the region's other countries. The entrepreneurs in attendance represented almost every branch of the economy. They deliberated in plenary sections, which were headed by the competent Polish ministers. Among the topics were China's role in the world economy, the Chinese model of foreign investments, the effective economic strategies to be employed in the Chinese market, and cooperation in the application of environmentally friendly technologies. The panel discussions were also about the differences in the trade cultures of the two "regions." At the Forum, too, the new (12-point) Chinese strategy presented by Prime Minister Wen for Central Europe was outlined.

At the opening of the Forum<sup>13</sup> the Polish head of government, Donald Tusk, emphasised that just as China's significance was growing in the world economy and world politics, so too was the significance of the Central European countries growing in the Union and on the European continent. He also noted that the forum, established to improve direct ties, had begun in Budapest in 2011, and that this was now its continuation. (This was, therefore, the first meeting of prime ministers, as well as the second economic forum between China and Central Europe.) He urged the Chinese side to take part in the economic and social cooperation that could be achieved across the two continents, which represented an enormous challenge for all sides.<sup>14</sup> He recommended they make a bigger commitment in the field of Polish industry and services, since Poland was seeking capital. The Forum gave the Polish leader an opportunity to reaffirm the reality of his country's economic development and present the reasons for this as well. According to this, despite the economic crisis the Polish economy was performing well, its conditions were also good, and for this reason it had become support column for Europe's production and services. The continuous Polish economic growth was thanks to the development of exports, the increase in domestic demand and foreign investments. Wen Jiabao, however, spoke more about trade, since China was seeking new markets for its products. The Polish leader characterised not only his own country but also the entire Central European region as an attractive field for Chinese investments, while the Chinese leader spoke of how they would like to enhance ties in industry and advanced technology and wanted to double trade in the next five years. The Chinese premier frequently emphasised that they were interested in high technology.<sup>15</sup>

Also among the Chinese speakers at the Forum was the chairman of the China International Trade Promotion Committee, Wan Jifei. In his view the recipe for improving economic ties with the region was to bring the foreign trade ledger into balance and for Chinese investments to get involved in infrastructure and environmental protection. They were devoting approximately 80 billion dollars to imports from the region to them (as a quota). He stated that in the case of investments in the region they were pursuing a special policy, the goal of which was to make it easier to borrow credit or access means of support. Regarding infrastructural investments he emphasised that the Chinese predominance in this sector was enormous because they knew how to build perfectly and had many construction companies abroad. He was of the opinion that it was in this area that Poland should tighten cooperation with China. Although problems had arisen in the COVEC affair (detailed below), they could surmount them with joint effort. In environmentally friendly investments, too, he saw a chance for joint action with the Poles, even in Western Europe. The plan for a railroad connecting Europe with China was also mentioned as an important sector of the shipping of goods.

According to the other major Chinese speaker at the Forum, the director general of the Investment Promotion Agency, Liu Dianxun, from the point of view of investment, it was services, production, mining, transport, energy and wholesale trade that interested them most. Earlier they had favoured greenfield investments; now, however, the direct acquisition of companies was the primary method of their investment strategy. For the latter purpose China devoted twenty billion dollars annually. He also noted that up until now the privileged Chinese companies for such transactions had been the large state enterprises, but today private enterprises were also operating in this area.

## Official Evaluation of the Visit's Results

The Chinese prime minister summarised and evaluated his visit on the homepage of the Polish leader.<sup>17</sup> Concerning bilateral relations with the Poles stressed that both sides mutually respected the path of development chosen by the other. Apart from the aforementioned regularisation of bilateral meetings between prime ministers, they would establish an international cooperation committee and a steering committee for industrial cooperation. They would strive to increase mutual investments and balance trade. They wanted to double the value of trade within five years. The enhancement of cooperation would be carried out in the fields of infrastructure construction, extraction of new energy sources and high technology. The Chinese side would invite 50 representatives of Polish youth to China in the next year and set up each other's cultural institutes as quickly as possible. Taking advantage of the flights on the Beijing–Warsaw route (beginning in June 2012), they would increase mutual passenger traffic and tourism.

With respect to the meetings held with the Central European prime ministers, Wen Jiabao stressed: he had perceived that these states greatly valued the traditional friendship with China and sincerely awaited a further deepening of cooperation. He believed that both for China and Central Europe broad new opportunities for development were opening up. He emphasised that China was fulfilling its promise made in Warsaw, whereby it was sending trade and investment promotional missions to the countries of the region, was establishing a special line of credit in the amount of 10 billion dollars, and establishing a fund of 500 million dollars to support investments. He stated that his county would increase the volume of trade with the region by 2015 to 100 billion dollars. For this both sides must mutually open their own markets. In order to remedy the prolonged and significant trade imbalances prevailing in China's favour, Wen Jiabao expressed a willingness to import a greater quantity of goods from the region, as well as make participation in exhibitions and fairs in China easier for the countries of the region. He also assured the states of the region that China would be a good friend and partner to each one of them henceforth as well.

The Polish prime minister, Donald Tusk, also assessed the visit.<sup>18</sup> He declared it to be of strategic and far-reaching significance and underscored emphatically that in recent years Poland had become an open gateway for Beijing to Central and Eastern Europe. In his view it had become clear to the Chinese partner that Poland had established the status of a state that was capable of representing the interests of the entire Central and East European region. They were laying the groundwork for a strategy for which they could also utilise the good reputation they had earned in the years of the crisis. It was their goal to assure Poland the position of political and logistical centre in the area of economic and commercial exchange with distant, yet, from the viewpoint of international trade, key countries (China and the countries of the Persian Gulf). He also called the acceptance of declarations on cooperation with the countries of the region a success of the Warsaw visit (for instance, the promise of 100 billion dollars in trade).

## Interpretation of the Visit

There is no doubt that this large-scale visit and the Central European forum connected to it are a new element in the strategy of Chinese economic expansion. As part of its global spread China and its companies are "taking possession" of the Central European region also, for which this forum also provided an opportunity. Strategic branches such as energy, extraction of raw materials, electrical engineering, indeed, the advanced technologies of nearly every branch, are those areas towards which Chinese participation and its increase are directed. China has for a long time been pursuing a strategy that clearly asserts its own interests. Its main criteria: the successful export of its goods, the

protection of its own domestic market, access to Western high technology and weapons through purchase, getting the world to accept the unitary, single China, and silencing, or at least dividing, uniform criticism on human rights.<sup>19</sup>

A Polish analyst, who evaluated what the Chinese leader accomplished in Europe during his trip, opined that the agreements signed in the Western half of Europe (Iceland, Sweden, and Germany) provided West European companies the opportunity to increase their incomes and exports to China. By contrast, the promises made in Warsaw promoted more the foundation of Chinese interests in Central Europe. To their biggest problem, the extreme imbalance in their foreign trade, these countries received no concrete solution proposals, however.<sup>20</sup> According to foreign and Polish analysts China "is opening two entrances" for the expansion of its investments in the EU: one in Greece (the port of Piraeus will be one of the central transhipping stations for Chinese goods), the other in Poland (which is one of the biggest markets outside the euro zone). This is how it is able to reach a market of 550 million people without customs restrictions.<sup>21</sup>

According to a Chinese expert living in the West (Steve Tsang, Nottingham), the Chinese prime minister had not come specifically to Poland, but was on a European tour, with Warsaw as its final stop. He did not consider it likely that China was interested in the region as a unit: in his view the Chinese leaders were interested in bilateral relations with the individual states, and China generally thinks in terms of bilateral relations too.<sup>22</sup> It is in any case an old tradition of Chinese foreign policy that it builds up its strategic advantages gradually and in the long term, and is distrustful of various types of alliances, including the European Union.

Several dealt with the EU aspects of the visit, the relationship of China and the EU. In 2003 a complex strategic partnership agreement was reached between China and the EU, which operates on the basis of consensus. Today the EU is China's biggest trading partner. In 2010, 19.7 percent of Chinese exports headed to the markets of the EU, while 12 percent imports to China came from the EU. With this the EU is China's largest export market and second-largest source of imports.<sup>23</sup> According to Eurostat, in 2011 Chinese exports to the EU member countries was 244 billion euros. As far as foreign trade deficit is concerned, it is characteristic of not only Central Europe but the entire EU as well. While China applies bureaucratic and concealed protectionist measures on goods arriving from the EU, in the reverse direction it traded with an enormous surplus. This surplus projected for the entire EU in 2011 amounted to 160-180 billion euros, which is the largest bilateral trade deficit in the world. In contrast to Tsang, one Czech expert on China believes that Beijing successfully combines multilateral and bilateral policies in its relations with the EU member states and even exploits the latter's lack of common attitudes and the insufficient depth of the integration process. (This can be observed in its attempts to purchase weapons from the Central Europeans as

well.) China does not look kindly upon its presence in the EU's market being tied to EU internal regulations. Their strategically import demands vis-à-vis the EU include that it receive the status of a market economy and that the arms embargo against China be lifted.<sup>24</sup>

There was also a view that the Warsaw visit strengthens the division among the European Union's old and new members. While for China the partner leading to the old members of the Union (first and foremost their markets) is Germany, it wants to reach the markets of the new members with the help of Poland. The new members are the peripheral countries of the EU, through which it hopes for looser regulation and less rigor for its expansion. It believes that through Poland it may perhaps more easily penetrate the markets of Western Europe as well.<sup>25</sup> Beijing is consciously weakening the EU's cementing force in the area of relations with China and undermines EU institutions by developing bilateral relations with the individual member states.<sup>26</sup> The fact is that Brussels and the European Commission would like to force China to observe the principle of reciprocity. The essence of this is that Europeans should have the same rights in China's market as Chinese companies have in the EU market. In other words, not only should Chinese companies be allowed to participate in competition for the EU member states' public procurement market, but China, too, should open its own to investors of the EU. Germany, however, is not a proponent of this EU measure, because it fears that China will strike back at German companies exporting and investing there. The EU's other long-standing large members (the French and the British) also behave similarly. By keeping their own state interests in view and ignoring common EU interests, they strike separate deals with China. The group initiative of the Central European states is also such a deal. However, only the European Union united, not divided, is capable of exerting effective pressure on China.

The Poles interpreted the fact that the Chinese had selected Warsaw as the venue for the meeting with the Central and South-East Europeans as a message: *Poland has appeared as a leader of the region that is capable of representing the latter's interests, and of leading it in certain matters.* They also nurtured the hope that Warsaw would be the main communications centre between the Central European region and China, because it was Poland (and not Hungary) that China regarded as a key partner in the region. They connected this with the fact that up to this point Hungary had been the most important partner for the Chinese in the region and retained its privileged position even despite Prime Minister Tusk's visit to Beijing in 2008. Nevertheless, *in late 2011,* during the visit of the Polish head of state to China, *it was with Poland that they signed the strategic partnership agreement.* All this at the same time could mean also that Poland may become the bridgehead for China for expansion into western markets. Prime Minister Tusk several times underscored that his Chinese colleague's three-day visit attested to Poland's strategic position.<sup>27</sup> The basis for this was that its economic and financial

affairs were stable, its economic results were good, and this had an effect on the region as well. In addition, the fact that Poland was filling an increasingly important role not only in the region but also in the entire EU, and thus was not only the leading power of the region but was joining among the EU's leading powers as well, received emphasis. This favourable situation was mentioned and praised several times by the Chinese prime minister as well.

According to Polish thinking, Poland could be the leading power of the Central European region from the point of view of Chinese investments as well. It is thought to be more qualified for this than Hungary, because while the Hungarians look out only for their own happiness, they (the Poles) struggle for the good of the region, too, they think in terms of the entire region.<sup>28</sup> It is the most suitable place for Chinese capital and business, because it is situated geographically in the centre of the Central European region. The 14 special economic zones formed in Poland also serve this purpose: in these they offer Chinese businesspeople tax concessions, well-trained workers, experts and scientists, and assure them that if they are present in Poland, then they will full access to the common European market.

One of the Polish experts (Tomasz Starus)<sup>29</sup> has sought to cool down passions. He examined the reasons the Chinese wants to invest in this region, and mainly in Poland. In his view, the primary reason is because they have a lot of surplus money (3.2 billion US dollars, which is rapidly growing), and because they wish to copy high technologies, and by operating these participate directly in the market. Yet in his opinion neither Poland nor the Central European region could offer the Chinese anything like the western half of Europe or other parts of the world could in return for investments. China is first and foremost a market for raw materials, foodstuffs, advanced technologies and luxury goods. Polish companies have a much greater need to enter the Chinese market than vice versa. Therefore the conviction that Poland could be the gateway to Europe for Chinese companies is in his view largely a myth. China no longer needs such a gateway. It is the West that needs cheap Chinese goods. Starus judges that the Chinese have already – directly or indirectly – taken over the European companies that interest them because they have money to do so, and not in order to penetrate Europe, but rather because it is worth their while. In addition, they evade European restrictions because they are already in the market. From the viewpoint of Chinese investments Europe is not large and not an important area, only making up merely 4–5 percent of all its investments. For them this region is interesting only because of modern technology. Moreover, labour is inexpensive and the preferential policy is favourable, thus the region can be regarded as a market and production area as well. According to Starus, Polish companies should target the Chinese market in the following branches, because in all the rest they are uncompetitive: food, cosmetics, hygiene products, furniture, medical instruments, and all medical care related devices.

## Criticism of the Visit

Not everyone was delighted by the visit. Various critical and sceptical opinions also came to light. From all sides there emerged suspicious pronouncements calling into question the benign intentions of the visit. Left-wingers and liberals were of the opinion that the visit of the Chinese prime minister clearly indicated the application of the Russian method, that is, the division of the European partners. Unlike the previously mentioned China experts, political writers also proclaimed that economic relations with China unavoidably involve political criteria, because the Chinese leaders openly punish those who criticise China for the violation of human and minority rights, whether it be Tibet, the Dalai Lama, Taiwan or the situation of oppositionists and others.<sup>30</sup>

It were liberals who called attention to the fact that China is controlled by the Communist Party in an authoritarian manner, oppresses the opposition, prohibits religion and persecutes the movements of various national groups. They noted also that Chinese firms, especially the large ones, are state-owned, and are under the control of Chinese bureaucrats (and the fact that they have been trained at American universities makes no difference). Therefore it is difficult to establish which investments also conceal political considerations and which are purely economically motivated. This is true even if in ever greater numbers European politicians are asking a growing and strengthening China for help in saving the declining European economy. There was also a sceptical Czech opinion that "China will one day carve up Europe like a Peking duck."<sup>31</sup>

The Czech Luboš Palata, who has long styled himself "Central European," stated a suspicious opinion aimed at cooling enthusiasm. He emphasised that China's decisionmaking processes are – at times intentionally so – slow, so that the money that they have promised in the long run may cost the countries of the region much,<sup>32</sup> and that the relatively little experience with Chinese investments thus far has not been positive. Until now investments arrived from countries that brought high technology as well as a superior corporate and work culture, and one could learn from these. China, however, is not only (in several respects) a harsh dictatorship, but a backward country even compared to the countries of the region. It does not respect the law, its legal system is chaotic, its judicial system does not work, it does not at all respect copyrights and in fact it unabashedly copies and steals advanced production processes. In China, the conditions of the most brutal nineteenth-century capitalism predominate: there is no social security system, no pension, no vacation, the employer keeps the employee under merciless pressure, and working conditions are very poor. If we are cautious towards Russian investments because we suspect the strategic and political intentions of the Kremlin behind them, some caution would not hurt towards the Chinese either, lest we later trifle away most of our economies into Chinese hands. It may also be a humiliating situation when the 16 countries of the region must compete with one another for a tenbillion-dollar investment.

## China's Economic Presence in Central Europe

The Chinese market is becoming strategically significant at a rapid pace not only for Western but also Middle Europe. China has plans and interests in the latter region (too), among them gaining new markets and the placement of accumulated capital. The tenbillion-dollar investment credit base promised to the region will subsidise primarily the financing of projects to be carried out with the participation of Chinese firms and labour: the construction of the transportation infrastructure (roads, highways, railroads) and the implementation of energy projects (building of nuclear power plants and other power plants).<sup>33</sup>

China's trade with the entire Central and South-East European region is not as large in volume as with Europe's other regions, or even some Western European countries, but it is growing at a rapid rate, by an average of 30 percent annually: in 2010, it surpassed 41 billion US dollars. Between 2004 and 2010 investment capital grew to 18 times the previous sum, and amounted to more than 820 million dollars. With regard to the size of Chinese investments, up until now Hungary has led the way: alone it was bigger than that of all the other countries of the region combined. At the European level only in Germany and Luxemburg have the Chinese invested more than in Hungary. It is this leading place that the Poles would now like to assume. They reckon that, because the Chinese act over the long term, in this term "victory" can be theirs, since it was Poland that China chose to be a strategic partner in the region.<sup>34</sup>

Thus far, the largest Chinese investments in the region have appeared primarily in the engineering and chemical industries. In connection with this it is a frequently expressed opinion that the real reason they buy some of the companies of the industry branches that interest them is to gain access to the latter's high technology.

## Polish-Chinese Relations

In Polish–Chinese relations since the change of regime the issue of human rights has played an important role along with commercial and economic relations. The Poles kept democratic and human rights aspects in view so much that in 1989 it was they who demonstrated in the largest number in the region against the events of Tiananmen Square. The Polish state criticised China at official forums a number of times on account of the human rights situation, and it also joined UN resolutions condemning China. Tibetan representatives, too, were also permitted to demonstrate freely several times in Poland. In Polish public opinion Taiwan is frequently construed as an independent state.

Already in the first half of the 1990s, the Polish government made it clear that it recognises only one China, but it treated the Taiwanese representation as independent, and it maintains economic and cultural ties with Taiwan. Regarding the number of Chinese in Poland only estimates are available. According to these, they live primarily in Warsaw, and their number may be put at between three and five thousand. (In none of the Visegrad countries do they live in such large numbers as in Hungary.)

The first visit by a Polish head of state to Beijing after the change of regime occurred in 1997. Fourteen years later, in December 2011, the current President, Bronisław Komorowski travelled to China. Between the two presidential visits a visit by the prime minister took place in 2008, when Donald Tusk was in China. During the last two visits they have striven to find a solution to the enormous trade gap (10:1), which has prevailed in Polish–Chinese trade to the advantage of Chinese exports for many years, and clear up the COVEC Affair (to be discussed in detail later). In 2011, Polish exports to China amounted to 1.3 billion euros, but imports arriving from China were ten times this, 13 billion euros. Top Chinese politicians have visited Poland even more rarely: not since 1987, that is, 25 years, had a Chinese premier appeared in Warsaw on an official visit. Departmental ministers have visited each other more frequently than this.

In official relations we may place the turning point at 2008 (the time of the Polish governmental leader's visit to Beijing); it was following this that *the document relating to the Polish—Chinese strategic partnership*, signed at the time of the Polish president's visit in December 2011, and was drafted. Only a few EU countries (among them the Germans and the French) have such a treaty with China. This will now be the main framework for the intensive expansion of Polish—Chinese economic relations. The Poles are hoping that with this they will become a privileged partner. The Polish state is China's seventh most important trading partner in the European Union and the largest economic partner in Central and Eastern Europe. For Poland China is the second most important export market in Asia after Turkey and the largest Asian importer. In addition to Germany and Russia, the market priorities of Polish foreign trade strategy include China in third place.<sup>36</sup>

Recently Polish–Chinese mutual visits have been increasingly more frequent. They have already established 14 industrial parks as special economic zones, in which they await Chinese enterprises with tax concessions and the opportunity to participate in calls for public tenders. For the time being, however, what is most characteristic in Polish–Chinese economic relations is the serious trade imbalance, which they have been striving to whittle down, thus far with no notable success. The difficulties of Polish exporters are reflected by the data of the Economic Ministry, according to which the number of companies exporting from Poland to China is 1,700, while the number of Chinese companies exporting to Poland is more than 20,000.<sup>37</sup> The structure of Polish exports should be transformed, since Poland has been China's "raw materials supplier"

for several years now (they export mainly copper, which makes up 30–40 percent of Polish exports to China), while China ships finished goods to them.<sup>38</sup>

Up to now, Chinese investments could not be called large in volume. In 2007, they amounted to 120 million dollars, while the Poles' investments in China came to 128 million euros. At that time the Poles were still investing more in China (in the food industry, mining and chemical industries) than the Chinese in Poland.<sup>39</sup> Concerning Chinese direct investments in Poland, the most frequently used sum is 140 million USD through 2010 and 250 million USD through 2011.

The number of Chinese companies located in Poland began to grow at a high rate in 2006. By the end of 2009, 392 Chinese entities were operating, and in 378 of them Chinese capital was more than 50 percent. In 2011, the number of registered Chinese companies holding Chinese capital was 500. Of these 430 were small or microenterprises employing no more than nine persons and dealing with trade, services, tourism and hospitality. The number of Polish companies present in the Chinese market in 2011 was more than 200; the majority of them are small trading firms holding Polish capital.

Numerous signs of preparation for the expansion of mutual investments may be observed among the Poles. 40 They have established and are continuously expanding Polish–Chinese economic, commercial, cultural, educational and scientific relations, and the network of institutions, funds and societies supporting exchanges. Since 2001, the government has been operating a preferential line of credit in the amount of 240 million US dollars, with which it subsidises Polish exports to the Chinese market. The government has also announced a special promotional program (called "Go China"), the main task of which is to make of Polish entrepreneurs' conquest of the Chinese market easier.

In June 2012, the two largest Chinese banks, the Bank of China and the ICBC (Industrial and Commercial Bank of China) opened branches in Warsaw. Their basic task is to finance the operations of Chinese companies in Poland. (In the region, the Bank of China has another branch in Budapest.) The appearance of the two banks proves that the Chinese take investment in Poland seriously and want to have their own financial institutions locally as well. According to the prognosis of the Bank of China more and more Chinese companies that are interested primarily in energy supply, telecommunications and infrastructure (construction of highways, railroads, airports, energy stations), as well as green technology, would like to invest in Poland, but they also want to participate in the privatisation of Polish chemical, petrochemical, engineering, energy and pharmaceutical firms. They are interested in factories manufacturing mostly light and heavy machinery (household appliances, tools and machine tools), equipment used in mining and mining safety, the products of metallurgy (mainly copper) and the aviation industry (small aircraft, helicopters, agricultural aircraft), chemical and energy products.

The Polish side would like the Chinese to finance energy and infrastructural projects, and invest in the construction of power plants, roads and railroads. However, the path to expanding infrastructural construction investments in Poland is blocked by an obstacle that will be hard to overcome: the COVEC Affair, which erupted in 2011, and had evolved during the spring and summer of 2012 into a scandal (and impacted the frequency of Polish–Chinese summits).

In 2009, the company COVEC (China Overseas Engineering Company) as a member of a Chinese consortium won a Polish public tender by submitting the cheapest quote offer on two stretches of highway to be built in time for the 2012 European Championship. The contract for the 447-million-dollar order was duly written up. The European Commission objected to the fact that the Chinese company receives subsidies from the EU's structural funds, while EU construction firms are not allowed to participate in the public tender projects investments in the Chinese market. However, the Chinese firm that won the bid after a time did not pay the subcontractors, suddenly discontinued its work, demanded a re-negotiation of the contract, and departed Poland. (Later it cited first of all the fact that the costs of building materials and labour had gone up in the meantime.) It thereby had committed a breach of contract, because of which the Polish General Directorate of National Roads and Highways in late 2011 terminated the contract with COVEC. It also demanded compensation of 120 million złotys for breach of contract, which the Chinese banks – citing the Chinese state's decision to suspend work – did not pay. 41 From this time on the debate also centred on the trustworthiness and credibility of the Chinese company and Chinese banks. Because it is the Chinese state that stands behind the banks financing and guaranteeing the company, it is the Chinese government that must settle the matter.

COVEC's "entrée" into Poland was unsuccessful on two scores. Because of its inexpensive quote, the company won another bid as well: it was also contracted to build a hotel in Krakow, which – again because of quality issues – was likewise left unfinished. Two incidents, therefore, enriched the Poles' negative experience of Chinese firms winning tenders with conspicuously low bids. During construction the company did not use materials meeting European regulations but poorer-quality ones. In the wake of the objections, it did observe the quality obligation, but this raised the cost of the project, and therefore it did not pay the subcontractors and the workers. It is this process that ends in unfinished Chinese investments.<sup>42</sup>

The COVEC Affair shows that Chinese companies are not yet prepared to perform quality work in developed markets. They do not know the EU market, its rules, European political, legal and social norms and environment, and do not even strive to master or observe them. The incident could have a negative effect on Chinese prospects for expansion in the European market. At the same time it calls into question the credibility of Chinese investments as well, and is a warning to the EU's member states

that what is cheaper is not always better and more reliable. At the same time it shows also that Chinese state capitalism has its own significant limitations.<sup>43</sup>

## Hungarian-Chinese Relations<sup>44</sup>

From the start of the change of regime Hungary has concentrated on trade and economic ties with China, yet in the 1990s – unlike the other countries of the V4 – it introduced control measures against Chinese imports. The Hungarian side's deficit in reciprocal trade has been large since the early 1990s. Beginning in 1995, it has protected itself from poor-quality Chinese goods by not recognising the figures on the Chinese customs declarations but instead using its own price calculations on their imported goods. From 2002 on, Hungary introduced new restrictive regulations on Chinese imports.

On the question of human rights and Tibet it "did not make too much of a fuss." Nor did it support the UN's resolutions against China (unlike Poland and the Czech Republic). Beginning in 1992, visits by top politicians took place on several occasions, which were successful from an economic standpoint as well. Indeed, among the V4 member states the Chinese president, Jiang Zemin, came here first in 1995 and Hu Jintao in 2004. Between 1990 and 1992 – thanks to the Hungarian–Chinese visa exemption of the time – several tens of thousands of Chinese merchants arrived in Hungary (approx. 45,000), and although due to tightening rules and further migration out of the country their number today may be put at between 10 and 30 thousand, even so it is here that the most populous Chinese colony in the Central European region has evolved, the members of which form the region's most consolidated Chinese community. 45

A new phase in Chinese–Hungarian relations began in August 2003, following Prime Minister Péter Medgyessy's official visit, which was followed by spectacular development. The first visit by a Hungarian prime minister in 44 years was treated by China, too, as a political event of elevated importance. The sides at that time agreed that Hungary, based on its advantageous, could become China's regional centre for economic development in Central Europe. Barely one month after Hungary's accession to the EU, Hu Jintao, the Chinese head of state and party general secretary, paid an official visit to Hungary. On this occasion the sides issued a joint statement, in which they elevated bilateral relations to the level of a cooperative partnership. In addition to other documents the sides also signed the Agreement on Economic Cooperation between the two countries. High-level visits became regular: every year more and more Hungarian delegations visit China. As a consequence of the 2003 visit by the prime minister several decisions were made that both unequivocally indicated to China Hungary's commitment to improving bilateral relations and also aimed to expand the institutional system determining the country's ties to China.

In 2003, the Hungarian government declared the improvement of relations with China a priority. Since then Hungarian prime ministers have been to China a number of times. For the Hungarians' part, Chinese relations are overseen by a special commissioner appointed by the prime minister. In 2004, within the Hungarian Chamber of Commerce and Industry a Hungarian–Chinese section gathering more than 100 companies was established, which assumes an active role in developing business opportunities between the two countries, and the Chamber itself regularly organises various meetings for businesspeople and China-related events. Under a codeshare arrangement, in August 2004, Malév and Hainan Airlines launched a direct flight between Budapest and Beijing, which until June 2012 was the only direct connection in the region.

In June 2011, the first China–Central Europe Forum was held in Budapest. At this same time, during the Hungarian EU-presidency, the Asia–Europe Meeting (ASEM) also took place. In late June 2011, the Chinese prime minister, Wen Jiabao became the first Chinese prime minister to pay an official visit to Hungary in 24 years. Parallel to this, sessions of the intergovernmental mixed commission are regularly being held.

Immediately following the summit in Warsaw, on 30 April 2012, more than 300 Hungarian and Chinese businessmen attended a Hungarian–Chinese business forum tied to Chinese Deputy Prime Minister Li Keqiang's two-day visit to Budapest. The cooperation of enterprises and local governments also helps to expand direct ties. There are already a few sister-city relationships, within which productive investment opportunities also lie, and a few collaborations at the regional and province levels are also taking shape.

Despite the rapidly developing ties, the volume of economic cooperation is still not reflective of outstanding relations. Within the region, however, it is Hungary that has the most developed trade relations, because it has been building them since 2001. The China Mart has been operating as a Chinese commercial and cultural centre since 2002. In 2003, the Bank of China established a branch bank in Budapest, the only one in the region until June 2012. In March 2003, the Asia Center, the largest distribution centre in the region, was opened in the Hungarian capital. In August 2004, the previously mentioned air route was launched. In 2009, the China Brand Trade Center (CBTC) commenced its operations in the Asia Center. The result of all these things and further developments is that at present the Chinese investments in Hungary are the largest in the region: in 2012 they exceeded 2.5 billion dollars.

Thanks to the intensive networking of the past decade the volume of bilateral trade has grown steadily: in 2001, it was 1.5 billion USD; in 2005, it approached four billion dollars; and in 2007, it surpassed five billion. Reciprocal trade in 2011 amounted to 7.76 billion USD (according to Chinese data 9.26 billion). Within this imports originating from China predominate: Hungarian exports to China are merely one tenth of imports

from there.<sup>46</sup> Thus, in Hungarian–Chinese trade relations, too, the tenfold foreign trade deficit is a substantial burden. The overwhelming number of products imported from China is re-exported. Chinese companies are present mainly in the areas of computer science, communication technology, electronics, telecommunications and research and development (R+D).<sup>47</sup> Five large Chinese companies have a presence in Hungary. Among them are to be found two "global competitors" (Huawei, Lenovo), which because of their strategic significance, also enjoy expansion subsidies from the Chinese government.

#### Czech-Chinese Relations

After the change of regime for a long time the strict monitoring of human rights on the part of the Czechs prevailed in the two countries' relations. This was enforced mainly by Václav Havel, who as president of the republic (between 1990 and 2003) made frequent mention of the methods of the Chinese totalitarian regime. It spoke up on the issue of Taiwan in the UN as well, many times received members of the Chinese opposition and the Dalai Lama, whom at the same time he treated as a spiritual and intellectual partner as well. In 1998, the Czech Senate adopted a declaration in which it called on China to improve the human rights situation. A Czech parliamentary delegation also visited Tibet in order to investigate how human rights were respected. There are several NGOs operate in the Czech Republic (e.g., Lungta) that press this issue. When Václav Klaus succeeded Havel as head of state (between March 2003 and March 2013), it was trade that was proclaimed the most important in ties to China. In 2004, Klaus himself paid a visit to China in order to normalise relations and improve trade opportunities. It was his conviction that the unfavourable Czech-Chinese political relations had caused the negative balance in reciprocal trade. Top Czech politicians have been to Beijing less often than Slovak leaders, while a top Chinese leader visited the Czech Republic only once, in the person of Prime Minister Wen Jiabao, in December 2005.

Of the Visegrad Four it was the Czech Republic that was the most persistent and demanding on the issue of human rights and Tibet. It is no coincidence that while in April 2012, in Warsaw the Chinese prime minister discussed for the most part only trade and economic issues with the leaders of the other three Visegrad countries, with the Czech prime minister, Petr Nečas, he also had to clarify whether the Czech Republic accepted the "One China" principle and the inviolability of China's territorial integrity.

As for the status of Czech–Chinese economic ties, the currently best-known experts on China in the Czech Republic state unanimously that the significantly negative (here, too, ten-fold) trade balance is not a consequence of political relations but rather stems from the asymmetry between the closed Chinese market and the open Czech

market. According to Rudolf Fürst, 48 the conditions for reaching the Chinese market are extraordinarily difficult to fulfil, because Chinese protectionism is very strong, it is full of artificial trade and administrative restrictions, and in addition Czech companies are very inexperienced and unknowledgeable. China's economic policy has long been neo-mercantilist; by contrast, that of the Czech Republic is liberal. Czech political delegations regularly ask the Chinese side to make the larger-scale penetration of Czech goods into the Chinese market possible, and mention the enormous trade deficit. The problems stemming from the closed nature of the Chinese market and Czech complaints about excessively large Chinese imports, however, could be remedied only through the concerted action of the EU and jointly exerting pressure in the WTO. The Czech Republic's individual attempts remain unsuccessful. Economically it is beneficial for the Czech Republic to remain under the protective umbrella of Brussels and the large states (Germany, France) in its China policy and adhere to the latter's export subsidies and anti-dumping measures. Sticking with Germany is beneficial also because the Czech economy (and the economies of the other Visegrad countries as well) is linked to the Chinese market mainly through Germany: their economies in truth contribute to German finished products, which are shipped to China and the US stamped "Made in Germany."49

In Czech–Chinese relations the new institutions of cultural and social cooperation have been present since 1990. Chinese living in the Czech Republic, regarding whose numbers there are only estimates, likewise have established cultural, interest-protecting and networking societies. About three thousand Chinese live in the Czech Republic legally, but the estimates put the number of those residing in the country legally and illegally at between five and ten thousand.

Following his talks with his Chinese partner in Warsaw, the Czech prime minister emphasized that the Czech economy, with strong industrial traditions and innovative enterprises, would derive benefit from the Chinese offer if Czech companies were capable of exploiting this opportunity. Sober scepticism was characteristic also of the Czech entrepreneurs accompanying the prime minister. They were aware that these were only the first impulses and that real deals could follow only later. They were aware also that in the interests of results they first would have to go to China and establish personal connections ties there, too before any sort of business contract could follow.

China today is the Czech Republic's third biggest trade partner and its second biggest exporter. Trade is continuously growing, generating an enormous Czech deficit. (In 2011, the value of trade reached 20 billion dollars, with a significantly negative balance for the Czech Republic – 1.667 billion dollars against 18.9 billion, thus, more than tenfold.)<sup>50</sup> Most of the Chinese goods brought into the Czech Republic are further refined and enhanced in quality by Czech manufacturers, and are thus sold

in the developed European markets. The goods often pass from one country to the other through other countries (Chinese to the Czech through 76, and Czech to China through 26 countries), via re-exportation.

Czech companies and products present in China are represented mainly by the large enterprises that manufacture good quality. Among these, too, the car manufacturer Škoda stands out. China is the biggest purchaser of Škodas in the world. (In 2011, 220,000 units were bought.) It should be noted that Škoda was sold early on, in 1991, to Volkswagen, which benefitted the Czech car manufacturer. Thanks to this the structure of Czech exports to China is now healthier than that of the Poles.<sup>51</sup> Several large Czech companies have established joint or mixed ventures in China, though most of them have gone bankrupt or recorded large losses.

Direct Chinese investments in the Czech Republic started to become noticeable from 2007 on. It was at this time that the Chinese came in fourth place among Asian investors. For the third year in a row (since 2010) they are investing more and more intensively in the Czech Republic. In 2012, they purchased, either directly or through their companies in Germany, five Czech auto parts manufacturing companies. In the wake of this large acquisition, in 2012, direct Chinese capital investments in the Czech Republic grew to 9 billion Czech koruny, approx. 450 million dollars.

In connection with Chinese expansion it is the Czechs who have most resolutely voiced doubts, including the reality that through Chinese exports and their continuous growth China is not so much a trading partner as rather a rival. They compete with the main Czech export branches, first and foremost the auto industry. Previously they had been the competitors of the Czech textile, leather and footwear industries as well, so much so that the latter silently fell victim to them – without the Czech side receiving any concession on the Chinese market in return for its own liberal trade policy. It is the Czechs who proclaim the most audibly that they fear the Chinese will copy their products.

#### Slovak-Chinese Relations

Since the start of independent Slovakia's existence in 1993, Slovak heads of state have taken part in multi-day visits to China, and the prime minister of every political cycle along with one or another of his ministers has also been to China. The problem of the deficit in reciprocal trade has been present from the outset in this relationship as well. The dumping of cheap Chinese goods began in Slovakia in the mid-1990s and negatively impacted the textile, leather and footwear industries.

Slovak politicians know that because China is still a socialist country, the most important deals are discussed at the political level. This is why visits by top politicians

are needed, but also because it is only at such occasions that the given country moves into the focus of Chinese public life. This is a very important promotion for the actor of economic life, merchants and investors as well, and without it a small country cannot do business in China.<sup>52</sup> Good political relations and the goodwill of the Chinese government therefore are absolutely necessary in the case of those projects that require the latter's approval.

Up until now two cases have occurred when the political support of the Chinese government was needed for investment. One is the construction of the Shenzhou electric power plant, in which Slovak and Czech companies are participating in a joint consortium. They received this opportunity, however, only fifteen years of negotiations, and moreover, in such a way that they were forced to accept a substantial price reduction (the price was 268 million instead of 400 million US dollars).<sup>53</sup> The other is the aforestation project called "Green China" (an area of 50–100,000 hectares is being planted with trees, valued at 200 million dollars annually), in which Slovak companies are also taking part.

However, according to the best-known Slovak expert on China, Gabriela Gregušová-Pleschová, the number of Slovak high-level political visits (six times during the first ten years of independent statehood) is disproportionately large compared to the results achieved thus far. Although during such events many opportunities for developing mutual economic ties and for trade are mentioned, only a negligible portion of them have been realised. The summit meetings have not brought noteworthy result in the economy and trade, despite the fact that on both sides sizeable delegations have taken part.

It was in 2003, that Slovakia signed with China that political agreement in which it affirmed that there is only one China, governed from Beijing, and that Taiwan is not separable from China. It was at that time that the Slovak Republic established that it would not maintain official ties with Taiwan and would maintain only economic and trade cooperation initiated by the private sector. In official Slovak–Chinese relations, too, EU membership meant a turning point. On 7–8 December 2005, the Chinese head of government, Wen Jiabao, during his European tour paid a visit to Bratislava as well. The visit was the first visit by a Chinese head of government in the history of independent Slovakia. The subject of the discussions was the current state of bilateral relations and their possible direction of development, with particular regard to trade cooperation, as well as the possibility of China and EU member Slovakia cooperating in international organisations and institutions.

At the start of the first Fico government in 2006, the Slovaks would have liked to ship engineering, chemical and automotive products and consumer goods to China. They changed their foreign trade strategy as well: building and strengthening ties with Asian countries was also added to the most important aims.<sup>54</sup> At this time they

opened a chief consulate in Shanghai as well. Between 5 and 7 February 2007, Robert Fico participated with a large delegation in an official visit to Beijing and negotiated with Wen Jiabao. He presented how they would like to assert the economic dimension of Slovak foreign policy, and affirmed that he would support mutually advantageous economic relations between the two countries.<sup>55</sup> The Slovak prime minister asked the head of the Chinese government to support the activity of a few, specifically named Slovak enterprises in China, which the latter was not willing to do, though he did stress that they would gladly see Slovak agricultural, energy and engineering products in China.

On 18 and 19 June 2009, the Chinese head of state, Hu Jinbao, officially visited Bratislava. This was the first visit by a Chinese president to Slovakia in history. He arrived with a large retinue. The main subject of the presidential talks was economic and trade cooperation (energy, mining, geology, transportation, environmental protection, agriculture and the food industry). The visit was not free of incidents, because the Slovak and Chinese (Tibetan) civil organisations protesting against Chinese policy were prohibited from voicing an opinion. On this visit the Slovak side, in addition to once again requesting support for the previously mentioned Slovak companies investing in China, also wanted to persuade the Chinese side that Chinese state and investments funds take part in Slovak PPP-projects, which in Slovakia are realised mainly in road construction. (Drawing Chinese money into road construction was urged not only by Slovak but also Czech and Polish politicians. Because of the failure of COVEC, however, the Czechs and Slovaks have quietly backed out for the time being,)<sup>56</sup>

At the Warsaw meeting on 26 April 2012, Slovakia was represented by the head of government, Robert Fico, and his delegation. In his bilateral discussion with the Chinese prime minister he returned to the agreement signed in 2007 on cooperation in agrarian policy. Thanks to this Slovak viticulturists were doing better and better in the Chinese market, and cooperation in the timber industry was also taking shape. Among Chinese investment opportunities the Slovak side is interested in infrastructure and tourism. Fico believed that in Slovakia and China mutual economic relations they should concentrate on only a few large projects because the difference and asymmetry between the two countries was exponential, with respect to both the size of the economies and the population. He considered the Chinese aspiration to have the state support economic relations with other countries something to learn from and emulate.<sup>57</sup>

Regarding the number of Chinese living in Slovakia there is no official data, but that of those residing there legally is estimated at around one thousand, and those living there illegally at around 2–4,000.<sup>58</sup> The highest forum for Slovak–Chinese economic relations is the Intergovernmental Mixed Commission, which based on the agreement signed by the two countries' cabinets convenes once a year, alternately in Slovakia and China, though according to many this is a formal institution without results.

The Chinese–Slovak Chamber of Commerce is a successfully functioning organisation, the task of which is to make up for the serious shortage of information on trade conditions between the two countries. According to its Slovak vice-chairman, Marián Farkaš, <sup>59</sup> a number of their companies are succeeding in the Chinese market, among them more than ten large enterprises.

Since 1996, Slovakia has been continuously establishing institutions that support trade and economic relations with China as well as Slovak investments there, but they have been working to intensify these only since 2007. Their main aim is to reduce the foreign trade deficit, attract Chinese investors to Slovakia and send Slovak investors to China. Slovakia's situation in part differs from that of the other Visegrad countries, because it has been a member of the euro zone since 2009, and *its foreign trade deficit, too, is "only" three-fold.* Slovakia is successfully reducing its foreign trade deficit vis-à-vis China: in 2005, the Chinese surplus was still nine-fold; in 2011, by contrast, it did not even reach 3:1. *In 2011, reciprocal trade came to 4.7 billion euros* (according to Chinese figures 6 billion dollars), one third of this Slovak exports.<sup>60</sup>

The Slovaks' exports to China began to grow noticeably in 2000. Current Slovak exports, increasing in proportion, consist of automobiles, automotive parts, electrotechnical products and machines, but they include boilers, rubber goods, paper goods, agricultural products, and technological knowledge equally. Most Slovak exports are provided by foreign companies that have subsidiaries in both Slovakia and China (such as the Volkswagen car plant).

Chinese direct capital investment in Slovakia is very low even in the Central European context: according to the data of the Slovak National Bank<sup>61</sup> in 2010, it represented 37.086 million euros, while in 2011, no investment worth registering even arrived. And yet, in Slovakia Chinese companies now invest not only in Slovak companies but in the ventures of local governments as well, primarily in the areas of computer science and telecommunications (digital television). The latest project to invite Chinese capital to Slovakia is underway in Senec. They would like to build on 17 hectares an enormous European Chinese Centre ("Chinese quarter"), which they at times also call the Chinese gateway to Europe, and which could be a rival to the one in Budapest.<sup>62</sup>

## Conclusions and Lessons

The visit of the Chinese prime minister to Warsaw and the failure of the COVEC experiment have also raised the question of the nature of China's method of expansion. A wide range of professionals, politicians, economic experts and investors present in China as well widely expressed an opinion on it. They have dealt with the methods of China's expansion in Europe and the methods of restricting European investments in China. They have concluded that for 30 years, since the economic opening China has

wanted to exploit western advanced technologies, raw materials and capital for the development of its own economy. This is the strategy its European expansion follows, in the course of capital investments and its company acquisitions. In this the state also supports the Chinese firms. They are interested mostly in raw materials and minerals, the extraction of these, companies working with and manufacturing high technology, as well as the founding of greenfield factories. In addition to gaining markets, they invest in production and establishing infrastructure. Where this is profitable and reliable, they open their own bank branches, and through them (mostly from Chinese state funds) they finance their own investments and their production, too. They invest first in consumer products and transport, then in advanced technology (pharmaceutical industry, media and telecommunications).<sup>63</sup> It is important to them that wherever they go there be no trade restrictions against them (while in their own domestic market they expressly enforce these). Part of the methods of Chinese construction firms is that they not only want to build but they offer favourable financing for it as well. This is precisely their strongest trump card in competition. What is less favourable is that they often seek to carry out their projects with their own labour force.

In connection with the expansion of these Chinese investments doubts are raised by the fact that these investments are controlled by the Chinese government: these companies are dependent on the state and its decisions also influence the ultimate financing and indeed, which of them will be allowed to be filling the order in question. This is the reality, despite the fact that on the Chinese side proclaim more and more frequently that they now have private companies, too. Chinese companies are in reality state companies: the government gives them the money of the state banks at low interest – which means ultimately the expansion of the Chinese state.

Since those voices that warn against Chinese expansion are increasingly louder, the Chinese strategy (at least in Europe) is cautious. Often they do not enter into the tenders directly; instead they seek European partners, with whom they set up mixed companies and through them, they carry out expansion generally slowly. They are increasingly interested in shares in state companies. They purchase not so much the bonds of the given state as the shares in the companies. China in the long term strives to have its largest (and as a rule state) companies buy up the shares of the individual states and companies in the key branches and sectors – in the auto industry, in the manufacturing of solar energy cells and in infrastructure. It is especially interested in the construction of transportation networks and airports, and the manufacture of airplanes as well as locomotives and railway carriages. <sup>64</sup>

China's trade policy is that it keeps the exchange rate of its national currency artificially low, which helps it to favour its exports, at the same time it restricts imports into China. Beijing utilises the exchange-rate policy as a tactical device in its relations with Europe and the USA. $^{65}$ 

China is a difficult partner. It is difficult to penetrate its market, which does not operate according to free market competition: only 47 percent of Chinese trade standards are in harmony with international regulations. It is characterised by an internal support and regulatory system that is discriminatory against foreigners. Funding, subsidies and tax incentives are in effect within, while outwardly quotas, restrictions and exclusionary regulations. In China the economic situation and economic-trade regulation(s) change annually, many internal relations cannot be treated as stable, among them the relationship between the Chinese state and the entities involved in foreign trade. The regulation of enterprise and commerce is not transparent. There are products for which concerns have divided up the internal market amongst themselves, and they do not let outside producers and shippers in.<sup>66</sup>

Investments in China are by no means devoid of various risks. Many obstacles must be overcome, because numerous restrictions protecting the home market make entry difficult. The financial demands against foreign investors, high costs of acquisitions and linguistic and cultural barriers are to be expected.<sup>67</sup> China uses a great many restrictions against foreign food goods. In companies operating in the area of branches important to it (e.g., car manufacturing) the ownership share of the foreign investor may not reach 50 percent. In the construction industry one must demonstrate many years' international experience if he wants to succeed in the Chinese market. Whoever wants to set up a commercial firm with foreign capital must count on a long process, often lasting years, before receiving permission.

China is a slow partner. In China, which is operating a socialist market economy, they continue to think in terms of five-year plans, and the state's leaders make decisions based on these, slowly, awkwardly or deliberately; for this reason one must wait several years for the actual decisions of the Chinese side. The success and lasting effects of the signed memoranda and contracts, therefore, can be judged and evaluated only from the perspective of several years. Promises of investment also must be treated in fiveyear cycles. The cultural difference prevailing in economic and trade relations is also a significant influencing factor. The uniqueness of their methods is connected to the fact that their mentality and train of thought differ radically from the western one, and individualist thinking is much less characteristic of them. A condition of penetrating the Chinese market and having success is the maintenance of long-lasting, multi-year commercial and personal contact with the Chinese partners, which frequently demands a long-time constant presence in China. Chinese deal-making has a ceremony, which must be observed, because in their country that is the process of obtaining mutual trust. The quick deal customary in Europe is suspicious, because serious business in China is established and built up for many years.

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# China's Engagement in Slovenia and the Western Balkans in the Light of the Warsaw Meeting

Imre Szilágyi

The China–Central and Eastern Europe Business Forum (the Warsaw Meeting), held in Warsaw on 26 April 2012 and attended by political and business leaders from China and the CEE region, has provided clear insights into the Chinese leadership's ambitions in the region of the former Yugoslavia. Chinese business leaders seeking a presence in European markets are primarily interested in the expansion and development of the Adriatic ports and the associated rail and road networks, but an additional goal is to engage in the energy sector.

In the summary below, the various countries are not given equal weight. There are various reasons for this: first, the situation in Slovenia is not the same as the situation in, for instance, Montenegro. Whereas Slovenia has fostered close relations with China ever since 1992, Montenegro's relations with China began to be forged hesitantly as late as 2003 (when Serbia and Montenegro created a loose federation), and the process accelerated only after Montenegrin independence in 2006. Second, whereas a large amount of information concerning Slovenia's relations with China is available on the Internet and elsewhere, in the case of Bosnia and Herzegovina it is far more difficult to find relevant material. And whereas the websites of the ministries of foreign affairs in Croatia and Slovenia (as in Hungary) offer access to annual reports going back several years, it would seem Bosnia and Herzegovina's foreign ministry has drafted no such reports. Many other similar problems could be mentioned.

One should note at the outset that statistical offices and other institutions in the various countries have different ways of supplying data. For this reason the various data (for bilateral trade and inward investment in particular) could not be presented in a uniform fashion.

#### Slovenia and China

As Slovenia prepared for independence in 1991, it made substantial efforts to establish foreign relations. As part of this process, an official representative of what was to become Slovenia's Ministry of Foreign Affairs paid a visit to China. In February 1992, the Slovenian minister of foreign affairs, on an unofficial visit to China, received an assurance from the Beijing government that it would not prevent Slovenia from becoming a member of the UN and would give consideration to the issue of recognition.<sup>1</sup> China recognised Slovenia on 27 April 1992, and in May the two countries signed an agreement on the establishment of diplomatic relations in Ljubljana. However, neither the 1992 report of the Slovenian Ministry of Foreign Affairs nor contemporary Slovenian press reports – which gave only limited coverage to the Chinese delegation's visit - mentioned that a joint declaration had been an important part of the agreement (done in Slovenian and English). Even so, the text of the agreement was published in the Slovenian Gazette. In the agreement, the Government of the Republic of Slovenia recognises that the Government of the People's Republic of China is the sole legal Government of China and that Taiwan is an inalienable part of Chinese territory. The Government of the Republic of Slovenia affirms that it will not establish official relations with Taiwan."<sup>2</sup> In subsequent bilateral meetings, senior Slovenian politicians repeatedly reaffirmed this position. In November 1992, in China, the two countries signed an agreement on trade and economic cooperation, which, among other things, granted MFN status to each side.3

In 1993, China's minister of foreign affairs paid a visit to Slovenia. On this occasion, an agreement was signed on cultural, scientific and technical cooperation and on the reciprocal promotion and protection of investments. Concurrently, the China–Slovenia Joint Commission on Trade and Economic Cooperation held session, at which specific matters of economic cooperation were discussed. In addition, a 22-member Chinese economic delegation also visited Slovenia at this time.<sup>4</sup> China's minister of foreign affairs, who recalled that Slovenian and Chinese firms had cooperated successfully during the Yugoslav era,<sup>5</sup> travelled from Ljubljana to Zagreb where he stated that Slovenia was to become a good economic partner to China as "demonstrated by the development of bilateral relations to date."

In June 1994, his Slovenian counterpart reciprocated the visit. An important Slovenian objective was to gain Chinese support for Slovenia's demand for an end to the arms embargo imposed on Slovenia at the time of the Yugoslav war. During this visit, the two sides once again signed several economic agreements. In 1995, the Slovenian prime minister, accompanied by 22 business leaders, paid a visit to China. Known for his terseness, Janez Drnovšek proved to be a tough negotiating partner. While expressing support for the "One China Policy," he made no secret of Slovenia's desire to trade with

Taiwan. He proposed means for reducing Slovenia's trade deficit while increasing the total volume of trade. One of the four economic forums held during the visit, took place in Sichuan Province, with which Slovenia had traditionally enjoyed cordial relations.<sup>8</sup>

The yearbook of the Ministry of Foreign Affairs referred to the Slovenian president's four-day visit to China in October 1996 as the most important event in the field of bilateral relations with non-European countries.9 On this visit, the president was accompanied by the economy minister, the health minister, and 24 business leaders. According to Chinese figures, in 1995 Sino-Slovenian bilateral trade was valued at 8 million US dollars, but Slovenian exports had seen a fourteen-fold increase in a single year. 10 The Slovenians were pleased when China expressed understanding for Slovenia's desire to seek a non-permanent seat on the United Nations Security Council and they also welcomed the Beijing government's willingness to assist the succession negotiations on the former Yugoslavia. It is noteworthy that a newspaper report also mentions (without directly quoting) a statement made by the Slovenian president concerning Taiwan (similar to those customarily made by visiting heads of state) according to which Slovenia would refrain from seeking any (that is not only official but also unofficial) relations with Taiwan.<sup>11</sup> This is interesting for two reasons: firstly because the Slovenian Gazette contains no reference to this statement, and, secondly, because it is not included in the English version of the communiqué available on the website of China's Ministry of Foreign Affairs.<sup>12</sup> And yet the agreement with Macedonia (see below) refers to the one signed with Slovenia as if the statement "quoted" by the newspaper were indeed present in that agreement.

The Slovenian Chamber of Economy signed an agreement with its Chinese partner institution. For Slovenia it was important that China gave assurances to support, in a constructive fashion, talks on the distribution of the former Yugoslavia's assets. The Chinese were unwilling, however, to express this in writing. Slovenia's president took the view that Slovenia should hold a dialogue with China, a long-term strategic partner for Slovenia, also on issues where there was disagreement. The Chinese side was presumably impressed by Slovenia's donation of medical equipment to Beijing Medical University. The journalist reporting on the event mentioned – as an example of potential cooperation between Slovenia and China – a Slovenian–US–Chinese joint venture that had been established to manufacture Slovenian Tomos mopeds in China and was now producing 150 mopeds per day. The company was not only an example of how Slovenia could break into the Chinese market; its experiences also revealed some potential problem areas: the safeguarding of intellectual property and Chinese resistance to modern technology. The company was not only an example of how Slovenia could break into the Chinese market; its experiences also revealed some potential problem areas: the safeguarding of intellectual property and Chinese resistance to modern technology.

In spite of the foregoing, it would seem that the Beijing government was not really bothered by Slovenia's limited but flourishing relations with Taiwan. Tibet, however, was a different matter. In the summer of 2000, after an encounter with a

group of pro-Tibet protestors in Ljubljana, a Chinese delegation led by the president of the People's Congress made an early departure from Slovenia, resulting in the cancellation of a planned meeting with the Slovenian prime minister. The protests had been organised by Amnesty International Slovenia or, allegedly, by the Slovenian-Tibetan Friendship Association. To resolve the issue, Slovenian representatives were then invited to visit China and Tibet. A delegation led by Jelko Kacin, a member of the Foreign Affairs Committee and a supporter of minority rights, arrived in China in June 2001. After his visit to Tibet, the Xinhua News Agency cited Kacin as follows: "On my visit to Tibet, I saw that the Tibetans have the right to express their religious sentiments. They lead happy lives." In response to criticism from Amnesty International, Kacin claimed his words had been taken out of context. Nevertheless, he noted "the existence of various truths about Tibet. The international community knows the Dalai Lama's version of the truth, but official China has its own version, too."

The Chinese side was very satisfied with the position taken by the delegation, but in the very next year Tibet once again gave rise to a dispute between the two countries. Slovenia's leaders – the president, parliamentary speaker, prime minister, and minister of foreign affairs – welcomed the Dalai Lama on a non-official visit to Slovenia. While the Slovenian government claimed that the visit was non-official, China's ambassador to Slovenia regarded it as an official visit. In his view it constituted a breach of the 1992 agreement on Chinese territorial integrity and an impediment to Sino-Slovenian relations. At the same time, he acknowledged that Slovenia continued to adhere to the "One China" principle and would not change its policy.<sup>18</sup>

Thereafter the goal of cooperation and the dispute over the Dalai Lama became cofeatures of relations between the two countries. The Dalai Lama has now made three non-official visits to Slovenia (in 2002, 2010, and 2012) and he has always met with the country's political leaders. China protested against such meetings in 2010, <sup>19</sup> but appears to have refrained from doing so in 2012. The Chinese are well aware of what Janez Drnovšek (Slovenia's prime minister from 1992 to 2002 and president from 2002 to 2007) stated most clearly in a February 2006 interview and in meetings with China's leaders: neither Slovenia nor the Dalai Lama wish to break off Tibet from China; rather, they seek an appropriate form of autonomy. <sup>20</sup> Accordingly, relations have developed continuously since then.

Indeed, the Chinese have expressed great interest in Slovenia's gradualist approach to economic and social reform. Experience in this field was not the only thing shared by the Slovenian prime minister to his Chinese hosts during his 2003 visit to China. He also told them that Slovenia, which was due to chair the Central European Initiative (CEI) in the following year, wished to organise a summit between CEI members and China (I have found no evidence that the summit was actually held) and sought Chinese investment in Slovenia. "Above all, we emphasised the potential of the Port of Koper, and I hope that this will prove fruitful," the Slovenian prime minister stated.<sup>21</sup>

While I shall not cover here the various high-level meetings, ministerial visits and economic forums held over the years (there were several in each year), I do note that the current president, Danilo Türk, visited China in 2008, and that a Confucius Institute was established at the University of Ljubljana in 2010. In what follows, I shall focus on bilateral trade, investment issues, and the Warsaw Meeting.

Slovenia-China Trade Figures from 2006 until May 2012 (in thousand euro)<sup>22</sup>

	Exports	Imports	Total	Balance
2006	53,579	245,841	299,420	-192,262
2007	60,571	345,932	406,503	-285,361
2008	68,978	440,974	509,952	-371,996
2009	64,567	362,639	427,206	-298,072
2010	89,913	510,670	600,583	-420,757
2011	91,174	571,928	663,102	-480,754
2012*	36,122	236,888	273,010	-200,766

China's ambassador to Slovenia provided different figures for bilateral trade. According to the ambassador, trade increased by 20.2 percent in 2011, at which time the total volume of trade reached 1.88 billion US dollars. He underlined that Slovenia was thus China's main trading partner among the various constituent republics of the former Yugoslavia. He stated that China expected Slovenia to improve its investment environment, thereby attracting additional Chinese companies.<sup>23</sup>

Although the focus of the Warsaw Meeting was the economy, the Slovenians decided not to send a large delegation of business leaders. Instead, Slovenian companies were represented by the Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments (Japti). In 2012, Japti actively contributed to a consolidation of Sino-Slovenian relations. In late March, under the auspices of Japti, 11 Slovenian companies visited China, and according to plans, Japti was to organise a reciprocal visit by Chinese companies (see below). Slovenian officials considered the potential to be huge, for in 2010 Slovenia – an otherwise active participant in foreign trade – exported goods worth only 90 million euros to China's enormous market, while Chinese exports to Slovenia were worth 450 million euros (evidently, this figure differs from the data in the table). An acknowledged problem is the small capacity of Slovenian companies in relation to the size of the Chinese market. Although Chinese investors are not currently active in Slovenia, the government in Ljubljana hopes to attract Chinese capital in the infrastructure field. Potential areas of cooperation are the Port of Koper, the rail line

between Koper and Divača, and the energy sector. However, the two sides are still at the negotiating stage and no agreement has been signed. Whilst all senior Slovenian politicians and government officials have considered it necessary to visit China, the Chinese side has not reciprocated the visits at a similar level.<sup>25</sup> This is not the entire truth, however, as China's minister of foreign affairs visited Slovenia in 2003 and again in 2008 – albeit on the second occasion the visit coincided with Slovenia's EU Presidency.<sup>26</sup>

After the Warsaw Meeting, Janez Janša, the Slovenian prime minister, expressed satisfaction that the Chinese side had made specific proposals. He underlined that while closer relations had been established under previous governments, the process now needed to be accelerated, for much time had been lost during the preceding year, owing to domestic political problems in Slovenia: the on-going negotiations had not been concluded and China was still waiting for Slovenia's responses. Modernisation in the infrastructure field was justified, given that goods destined for and originating from China accounted for around 20 percent of goods handled by the Port of Koper.<sup>27</sup>

The prime minister's words were somewhat qualified by the president of the Slovenian State Council, who, in early May 2012, received the visiting vice president of the China Development Bank (CDB): "Already last year China politely informed us that Slovenia was sending mixed messages: sometimes we were pleased to see them, but sometimes this was not so. Evidently, at the government level – either (earlier) at the time of Borut Pahor or now under Janez Janša – there is no negotiating partner able to negotiate on development issues with potential foreign business partners in a competent manner," he stated. Given that Slovenia had been a pioneer in establishing relations with foreign partners ever since the end of the 1960s, one must ask what could explain Slovenian reticence. Aside from noting Slovenia's traditional caution in opening its markets to foreign investors (a Slovenian economist once chided his fellow countrymen as follows: "We have prejudices against foreign investors, because we are small." it is worth citing two events from the past.

In June 2010, Borut Pahor, the then prime minister, was holding discussions in China when – among other events – he attended the opening of the Slovenian consulate in Shanghai. Slovenia's finance minister, who was accompanying Pahor, called on Chinese companies to be more active in Slovenia and to invest in the Slovenian automotive industry, in tourism, in the energy sector, in the environment and in research, <sup>31</sup> but Pahor was more cautious in his remarks, saying: "Chinese investors are welcome, but, in view of its small size and complete openness, [Slovenia] wants foreign investments to be plural, with no country or corporation having an essential or decisive role in Slovenia's stagnation or development." According to the Slovenian prime minister, the investment demand and capacity of the Chinese is great, but the extent to which Slovenia wishes to see Chinese capital is questionable. In Pahor's view, in terms of

Chinese investments, China's prime minister regarded Slovenia as a bridge both to EU member states and to those non-members with which Slovenia has cordial relations.

Pahor's rather cryptic remarks may be better understood if we consider what he said almost a year later, during the May 2011, background discussions. On this occasion, his words achieved a degree of notoriety, even though they had not been intended for public consumption. He made two important claims regarding the relationship with China. First, he claimed that the Chinese wanted to buy up everything, for which he had an example. According to Pahor, at the time of their discussions in China in June 2010, the Chinese prime minister had offered China's participation in the recapitalisation of Slovenia's banks. When his Slovenian counterpart had stated that his country would have to announce an international tender for this, Chinese prime minister had responded that China was willing to pay twice as much as the highest offer. The Slovenian prime minister had rejected this option.<sup>33</sup> Pahor's second claim was that China had made an extraordinarily attractive but nevertheless unacceptable offer concerning the modernisation of Slovenia's rail network:

The problem was that they made the offer conditional on all the engineering and technical staff coming too. This would have meant 25,000 Chinese for the construction of a modern railway; for social reasons, we cannot allow 25,000 Chinese to come. This is a fact. Where would we house them? Intolerance would be an enormous problem. The Chinese prime minister then said that 25,000 was nothing. Well, of course, for China it is nothing, as there are 1 billion and 300 million of them, but in our country it would cause a social problem.<sup>34</sup>

It would seem the Slovenians are still mulling over how to resolve the issue of the development of the Port of Koper and whether or not to involve China in the project. Indicatively, on 8 May 2012, the Slovenian prime minister met with the head of Deutsche Bahn. Although nothing was leaked from their discussions, it is known that, as early as 2008, Janez Janša had raised the idea of establishing a logistical holding company, a consortium consisting of the Port of Koper, Slovenian Railways, Deutsche Bahn and Intereuropa. The realisation of this project has been delayed, owing in part to Intereuropa's financial problems. At the May 2012 meeting, Janša indicated a desire to revive the idea of a holding.<sup>35</sup>

Japti's website includes information about the representative offices offering assistance to Slovenian businesses abroad. We know, based on the data provided by the representative office in Shanghai, that more than 30 Slovenian companies are present in China, with production targeting the Chinese and Asian markets. According to the Shanghai representative office,

business conditions in China are ordered and stable, and it is your choice alone whether to take on the new business challenges. ... China is a very demanding

market. If you want to get involved in anything – exporting, importing, participating in technological development or seeking out market opportunities – you should plan for the long term and make sure you have the appropriate amount of capital. You cannot become successful overnight.<sup>36</sup>

Those who fail to get the message are reminded to think back to the difficulties faced by Slovenian companies emerging from communism: it is only now that Chinese companies are setting out on this path. An advantage for Slovenian companies is an ability to share their experiences with their Chinese partners.

On 12 June 2012, Japti informed 200 Slovenian companies – which were signed up for a meeting with Chinese companies on 18–19 June –, that the event had been "postponed indefinitely as a result of technical problems and the financial difficulties of the Chinese partner." According to a subsequent, more detailed explanation, the Chinese co-organiser had requested more time to process information and draw up a list of appropriate Chinese companies (aptitude test). Such preparation was vital in order to ensure the success of the economic delegation's visit. The Slovenians expressed regret at the postponement; they had prepared for the conference in cooperation with Slovenian companies, districts, regional agencies and other institutions, all of which had expressed substantial interest in the event.

In the summer of 2012, Slovenia decided to make Chinese lessons more widely available: Chinese language lesson had been available in only a few select schools, but now (from the beginning of the next school year) they were to become an optional subject on the curriculum at primary schools.<sup>38</sup>

I could not use the publication *Twenty Years of Relations between China and Slovenia* when writing this paper. Published in China, it was presented to the Slovenian minister of foreign affairs by the Chinese ambassador to Slovenia in September 2012.<sup>39</sup>

## Croatia and China

China's most senior diplomat recognised Croatia's independence in a cable on 27 April 1992. The two countries apparently signed a protocol establishing diplomatic relations on 13 May. However, I have not been able to find this document in the Croatian Gazette (*Narodne novine*) or elsewhere. The year 1992 was also significant in terms of Sino-Croatian economic relations. In March of that year a delegation from the trade office of the Chinese Embassy in Belgrade visited Croatia, and the two sides agreed to switch from the barter system to standard forms of trade. 40 On 27 October 1992, the two countries signed an agreement on trade and economic cooperation. As part of this, they agreed to grant each other MFN status and pledged to adopt legislation promoting and protecting investments in the other country. 41

In June 1993, Croatia's president paid a visit to China, in the course of which several agreements were signed, among them a joint declaration. (Between May 1992 and May 2012, Croatia signed in total 50 agreements with China. News reports on the presidential visit indicated that Croatia had already been cooperating with China: it had purchased oil from China, its shipyards had produced several ships to order, and it had sold telephone exchanges and other products. A weekly newspaper that otherwise tended to be critical of the president, noted that the visit was extremely important to Croatia. According to the newspaper's correspondent, at a time when the West was failing to distinguish between the aggressor Serbia and the victim of aggression Croatia (with the latter even being subjected to a "silent boycott") and at a time when UNPROFOR was not functioning effectively, when the international financial institutions were preventing trade with Croatia, and when Western politicians were shunning the Croatian president, it was important for the government in Zagreb to demonstrate its cordial relations with a major country such as China – which was also an important partner for the Western powers. Advanced to the country such as China – which was also an important partner for the Western powers.

In September 1993, China's minister of foreign affairs declared in Zagreb the support of his country for the integrity of the borders of the various Yugoslav republics. This, however, meant not only that China would oppose Serbian demands for border changes, but also that it would remind Croatia that this principle also applied to Bosnia and Herzegovina – where the government in Zagreb was hoping for a change. In October 1996, after long preparations, the president of the Croatian Parliament and several other politicians paid a week-long visit to China. Although Croatia was at the time China's third economic partner among the post-communist states after Russia and Ukraine, the event was barely mentioned by *Viesnik*, Croatia's leading newspaper.

In 2002, at the invitation of a pro-Tibetan NGO, the Dalai Lama visited Croatia, but according to the Croatian press, China – unlike in the case of Slovenia as described above – made no protest against the visit, although one should note that, in this instance, the Dalai Lama did not meet with politicians.<sup>47</sup> In the same year, Croatia's president paid a visit to China, where a further joint declaration was signed on partnership and enhanced relations. (At the time, Croatia was the only country to establish a partnership relationship with China.)<sup>48</sup> In June 2004, the Chinese vice premier visited Zagreb. He stated that China was very satisfied with cooperation between the two countries, stressing that China valued Croatia's support for the "One China" policy. He proposed that Croatia hold a presentation of products that might be of interest to the Chinese market. He then said that China wished the Port of Rijeka to become a distribution point for Chinese goods destined for European markets.<sup>49</sup> The Croatians offered China the possibility of participating in the financing of roads, airports and a rail wagon production plant. The Chinese delegation expressed interest in cooperating in the fields of harbour freight and shipbuilding.<sup>50</sup> In November 2004, the Dalai Lama

paid a renewed visit to Croatia. It seems the Chinese embassy merely signalled its hope that the Croatian government would remain faithful to existing principles – which the Croatian Ministry of Foreign Affairs then affirmed.

In March 2005, the Croatian Ministry of Foreign Affairs, following a statement by Beijing, announced that, in the matter of Taiwan, it continued to support the "One China" policy and that it considered peaceful unification modelled on Hong Kong's "one country, two systems" to be the right solution.<sup>51</sup> Since Croatian independence in 1992, Taiwan and the issue of human rights have never cast a shadow over Sino–Croatian relations, because the government in Zagreb – having regard for the problems associated with its own borders – has always stressed the aforementioned principle and has always received China's backing in the international forums at the time of major events.<sup>52</sup>

On 26 May 2005, the Croatian and Chinese prime ministers signed an agreement on partnership in general cooperation. The Croatian government was of the view that economic relations in the preceding 10 years had been characterised by stagnation. It called on Croatian companies to export more to China and it confirmed that the Port of Rijeka would be developed as a distribution point for Chinese goods.<sup>53</sup>

In 2009, the two countries signed – as a replacement for the 1992 treaty – a three-year agreement on economic cooperation. The agreement gave particular emphasis to opportunities in shipbuilding, engineering, infrastructure, agriculture and food production, pharmaceuticals, telecommunications, and wood processing.<sup>54</sup>

Whilst the volume of trade between the two countries has increased steadily, there has also been an increase in Croatia's trade deficit with China, which reached USD 1.8 billion in 2008. The import cover rate (exports as a percentage of imports) was only 1.8 percent.<sup>55</sup> In 2009, due to a decline in Croatian imports of Chinese goods, this rate improved to 2.314 percent. Even so, the outlook is far from rosy. In 2010, Croatia, which has many shipyards, ordered two ships from China because production costs there were 60 percent lower than in Croatia.<sup>56</sup> Shortly thereafter, it was announced that the China Ocean Shipping Company (COSCO), a state-owned shipbuilder, was interested in a multi-year concession for the Port of Rijeka. The offer seemed attractive; it promised a significant profit for Croatia and, thanks to the investments, Rijeka might have become one of the Adriatic's major ports.<sup>57</sup> Despite the apparently favourable offer, no agreement was signed. In the spring of 2012, representatives of COSCO paid a renewed visit to Rijeka, signalling an interest in the port and in the rail line from Rijeka to Hungary. The Croatians underlined the geo-strategic importance of the port and indicated their willingness not only to negotiate, but also to remove any obstacles to the investment process.<sup>58</sup> Apparently, this was a reference to the fact – duly reported by a left-wing newspaper in connection with the visit and with the Warsaw Meeting – that at the time of the Chinese prime minister's meeting with Central European leaders in

Budapest in 2011, the then Croatian prime minister had failed even to respond to the Chinese prime minister's invitation.<sup>59</sup>

According to COSCO, the Port of Rijeka accords with the company's plans for Central Europe. At present, a more optimal use of the port's capacity – which would, of course, bring economic benefits to the broader region – is hindered by the poor condition of the rail line and by domestic political inertia. Although Croatian shipbuilding would clearly benefit from such assistance, this was not a topic of the discussions, according to the government minister responsible. In this connection, some have suggested that in many cases the Chinese seek in this manner to gain access to more developed technology. Even more remarkably, although the minister urged Croatian decision-makers to hasten the process, the discussions failed to result in an agreement; the two parties merely clarified principles. In part this was because the Croatian government was also seeking financial support for rail modernisation from the EU funds. This latter option is hindered, however, by the inability of the Croatian budget to meet the own contribution (co-funding) requirement.<sup>60</sup>

This is unsurprising, given that a sum of four billion euros would be required to modernise the rail line and to construct the proposed container terminal on the island of Krk – which is a condition for the Rijeka investment project. The Croatians believe that Rijeka's natural attributes (sea depth etc.) are more favourable than those of the rival ports of Koper, Trieste and Venice. In Croatia's view, a simplification of customs procedures between Hungary and Croatia would further enhance Rijeka's competitiveness in relation to Koper.<sup>61</sup>

Concerning the Warsaw talks, no specifics were reported, but based on what the Croatian prime minister said at a press conference (only a three-minute recording is available), it seems the Croatian side is concerned at the possibility of the arrival of a large number of Chinese workers (10–20,000), which is a Chinese requirement for the above projects.<sup>62</sup>

Despite the difficulties, China lays emphasis on fostering relations with both Croatia and Slovenia. Evidence of this is their 2008 decision to open a website in Croatian.<sup>63</sup> A one-hour radio broadcast in Croatian was included on the webpage; the broadcast on 9 May 2012 was devoted to a Slovenian art exhibition in China. In April 2012, the president of the Croatian Economic Chamber described, in an extended interview, Sino-Croatian relations. He stressed the significance of the Croatian ports for Chinese investors and exporters with an interest in South-East and Central Europe and – in terms of the future – for those Chinese companies with an interest in the EU. He also mentioned opportunities in tourism. (Croatia wishes to develop its network of hotels and it also aims to increase the number of Chinese tourists visiting Croatia to 100,000.<sup>64</sup> Since 2010, Chinese citizens have not required visas to travel to Croatia.) Miloslav Karamarković expressed hope for the increased engagement of Chinese

investors in many sectors of the economy. However, when asked by the Chinese reporter which companies would have a serious chance, he – similarly to Pahor – gave an evasive answer, saying that in all these matters Croatia was required to announce an international tender, whereby Chinese companies would face stiff competition from rivals.<sup>65</sup>

There was lively contact between the two sides in the period May–September 2012. The Confucius Institute opened in Zagreb on 8 May. In mid-May, a Croatia–China economic forum was held, attended by business delegations from Jilin Province. In addition to the usual topics (they too expressed a desire to supply goods to Europe by way of Rijeka), the Chinese visitors also expressed interest in cooperating in the automotive and metallurgy industries. <sup>66</sup> On 18 May, in the presence of the Croatian prime minister, a memorandum of understanding on cooperation in the field of mutual investment was signed. <sup>67</sup> The text of the memorandum has yet to appear in the Croatian Gazette, but it would seem to be a renewal of the 2009 agreement. The civil rights activist who disturbed the Chinese delegation's visit by shouting "Free Tibet!" was detained by the police and charged with public disturbance. <sup>68</sup> Only a day earlier, however, two Croatian mayors had met once again with the Dalai Lama in Maribor (Slovenia), where he was giving a lecture. <sup>69</sup>

At a conference on Sino-Croatian relations organised by the Croatian Economic Chamber in late May, it became clear that although China had opened several trade and company representative offices, there was still no Chinese investment in Croatia.<sup>70</sup>

Whilst Chinese investors are awaiting opportunities, the Croatian government is still at the stage of considering how foreign (Chinese) capital might be used in highway construction and development. Evidently, there are a number of factors to consider, because as the author of an article on this topic pointed out, a condition for Chinese involvement in Serbia's highway construction was that 60 percent of the work should go to Chinese companies and 40 percent to Serbian companies. The article's author was of the view that Zagreb would probably have to reckon with similar conditions.<sup>71</sup> In early September, Croatia's transport minister travelled to Beijing in order to attend the opening of a secretariat assisting cooperation between China and the CEE countries. He made use of the opportunity to explore Chinese investment possibilities and offered his support for the opening of a technological centre in Tito's birth house (at Kumrovec near the border with Slovenia). In addition to the Port of Rijeka, the discussions also examined the matter of the airport at Osijek–Vukovar.<sup>72</sup>

#### Serbia and China

According to a Serbian assessment drafted in 1998,73 after the dissolution of Yugoslavia, relations between to two countries (that is, between the PRC and the Federal Republic of Yugoslavia (FRY), which was established by Serbia and Montenegro in April 1992, and became the State Union of Serbia and Montenegro in 2003) were influenced by the following factors. Solidarity between China and the FRY was strengthened by the fact that China continued to be a socialist country, while the multi-party FRY continued to be dominated by the Socialist Party (the country's main political force) and it retained its support for the goals of the socialist revolution. An additional factor was that both countries faced international pressure – in China's case, because of the events at Tiananmen Square and the accusation of human rights violations, and in the case of the FRY, because of its role in the Yugoslav wars (which the author of the report described in rather opaque terms). Moreover the breakup of Yugoslavia had sent a warning signal to China, which was concerned about its own territorial integrity. Indeed, China's concerns had been heightened by Western intervention in Yugoslavia. At the same time, China was also tied to the major powers of the Western world by many important interests.

Bearing such interests in mind, China maintained diplomatic relations at ambassadorial level with Belgrade (whereas the Western powers recalled their ambassadors),<sup>74</sup> but it abstained in the UN Security Council when decisions were taken against the FRY. At the same time and despite the embargo, it signed many barter trade agreements with Belgrade, which proved vital to the FRY as it struggled with a lack of oil supplies. In 1997, China's deputy foreign minister emphasised the importance, among these deals, of the agreements on the promotion and reciprocal protection of investments and on the avoidance of double taxation.<sup>75</sup> A peculiarity of the latter agreement is that its text can still be found on the Internet, even though very little information exists on relations between the two countries prior to 2000.<sup>76</sup>

According to the 1998 analysis, China had not always offered unambiguous support to the FRY. As a gesture towards the West, it had not vetoed sanctions. Moreover, following the breakup of Yugoslavia, it had established diplomatic relations with the newly formed states.

Shortly before publication of the above assessment, the two countries signed a declaration of friendship and cooperation (13 November 1997). Under Point 5 of the declaration, the two parties are to encourage economic cooperation, the establishment of joint ventures, and their joint engagement in third markets.<sup>77</sup> According to information supplied by Serbia's foreign ministry, the two countries signed 10 agreements between 1995 and the end of July 2000.<sup>78</sup>

At the time of the 1999 war against Serbia, NATO bombed the Chinese Embassy in Belgrade, claiming that it had forwarded military information to the Serbian army.<sup>79</sup>

There was no deterioration in relations between the two countries even after the fall of Milošević in 2000 and the coming to power of the opposition parties. In fact, relations continued to flourish. On 3 December 2000, the Serbian and Chinese ministers of foreign affairs signed a joint declaration, in which Serbia accepted the "One China" policy and recognised the government of the PRC as the sole legal government of China. I have been unable to locate the original text of the document, and so I do not know whether Taiwan was mentioned in it. In the closing section of the statement, China promised grants worth 2.4 million US dollars.

In 2003, Serbia's prime minister held discussions in Beijing on how to deal with the issue of debt stemming from oil imports from China. The two sides agreed that the debt of NIS, the Serbian oil company, amounting to 262 million US dollars should be reduce by 70 million US dollars and that the remaining amount should be repaid by the company over an eight-year period.<sup>81</sup>

In 2005, China's minister of foreign affairs paid a visit to Belgrade (by this time the country was called the State Union of Serbia and Montenegro). The visit was a rare opportunity for Serbia, as in general senior Serbian politicians had visited China and there had been few reciprocal visits. The Chinese politician indicated that the issue of Serbian debt would soon be resolved. He also reiterated China's support for Serbia in the matter of Kosovo. "In return" he asked for Belgrade's support for Chinese efforts to reform the UN Security Council. China's objective was, namely, the inclusion of smaller and poorer countries in the Security Council. His Serbian counterpart expressed support, subject to this aim being achieved through negotiation and consensus rather than in a confrontational vote.<sup>82</sup>

In financial terms, China was very generous. On a 2006 visit to Belgrade, the Chinese state secretary signed an agreement whereby China would offer grants worth 1 million euros to Serbia. It was made public that the government in Belgrade had so far received 17 million euros in (non-repayable?) support from Beijing. At this time the Confucius Institute was opened in Belgrade. The state secretary also announced that China regarded Serbia as an opportunity for tourism. Serbia's prime minister and foreign minister thanked the state secretary for China's support in the UN Security Council on the matter of Kosovo (China's rejection of independence for Kosovo). Notably, this is still China's position. After the bilateral discussions, it was reported that whereas in the 1990s the value of Chinese imports to Serbia had been around three times the value of Serbian exports to China, in 2006 the value of imports was almost two hundred times that of exports. Indeed, imports from China were valued at half a billion dollars, whilst exports were valued at three million dollars.

In 2007, a Chinese business delegation told its Serbian partners that in view of the favourable conditions, it was willing to invest a sum of 20 million euro, primarily in Serbian agriculture. The delegation also expressed interest in "establishing a Chinese industrial zone on Serbian territory." The delegation did not conceal that Serbia was considered to be ideal for Chinese investors because of its cheap labour and preferential tax regime.<sup>86</sup>

In 2009, Serbia's president paid a visit (the third in four years) to Beijing, in the course of which an agreement on a strategic partnership between the two countries was signed. Previously, China had signed similar agreements with only four countries: the United States, Russia, Brazil and South Africa.

The fourth point of the joint statement addresses the matter of Taiwan in some detail: The Serbian side reaffirms its commitment to the One China policy, recognising that there is only one China in the world and that the government of the PRC is the sole legal government of China and Taiwan is an inalienable part of China's territory. Serbia shall not establish formal relations or conduct official exchanges with the Taiwan authorities. Serbia opposes any form of Taiwan independence and supports China's peaceful unification.<sup>87</sup>

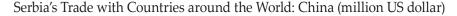
The sixth point gave support to Serbia's policy on Kosovo, while the next point called for a broad expansion of economic relations. Particularly noteworthy was the pledge to assist the construction of bridges, roads and power plants in Serbia, as well as other infrastructure projects and certain industrial sectors. The ninth point, in rather flowery language, referred to Chinese objectives regarding the UN Security Council.

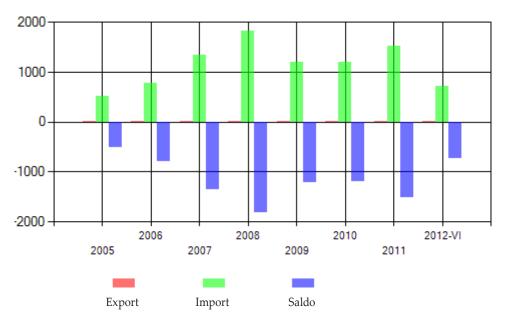
Serbia's president underlined that, in view of his country's central geopolitical situation, it had the potential to become an arena for cooperation between all the states in the Balkan region. He also stated that Serbia's foreign policy had previously consisted of three pillars: Brussels, Washington and Moscow. Now, however, with the signature of the partnership agreement, there was a fourth pillar: China. On the same day, the ministers responsible signed agreements on cooperation in the economic and infrastructure fields.<sup>88</sup>

Serbia remains a beneficiary of China's economic policy. In the summer of 2011, the Chinese government provided a loan of 300 million US dollars for the construction of the Kostolac thermal power plant. <sup>89</sup> Meanwhile, the Serbian minister responsible called on Chinese companies to take part in the construction of the Belgrade–Bar highway and the modernization of Serbia's rail network. The cost of the first project was estimated at 5 billion euros and the cost of the second at 4.6 billion euros. <sup>90</sup> In the same year an agreement was signed concerning Chinese participation in the construction of a further power plant and other energy sector projects, the combined value of which was estimated at 2 billion euro. There were also discussions on Chinese investment in

telecommunications and in other high-tech fields. Serbia's minister of foreign affairs expressed hope that China would be the most significant foreign investor in 2012. 91

Statistical data published in late June 2012 show that Serbia continues to have an enormous bilateral trade deficit.<sup>92</sup>





These data are supplemented by information provided by the National Bank of Serbia, according to which between 2005 and June 2011 China invested 13.83 million US dollars in Serbia.<sup>93</sup>

At the time of the Warsaw Meeting, Serbia's prime minister referred to the traditionally cordial Sino–Serbian relationship, adding that relations were of strategic significance (the two countries had signed a statement on strategic partnership in 2009). Regarding the bridge between Zemun and Belgrade, built with Chinese assistance, China's prime minister called it a good example of what can be achieved in the field of infrastructure through cooperation between China and the CEE countries. Serbia's prime minister added that cooperation had also proved beneficial in the case of the power plant project at Kostolac. He praised the Chinese company Huawei as well as ZTE's operations in Serbia, expressing hope that they would be followed by other Chinese companies and that Chinese direct investment would grow. He argued that there were still major opportunities for cooperation in the infrastructure and energy

sectors. He also expressed hope that Belgrade would host a meeting similar to the Warsaw Meeting in the future.  $^{94}$ 

If we examine in more detail the bridge construction project – cited by China's prime minister as a good example of cooperation – we can draw the following conclusions. The Serbian government signed an agreement with China's CRBC on the construction of the bridge in 2009. Under the terms of the agreement, China's EXIM bank was required to provide 85 percent of the necessary funding. "From the planning of the bridge to its construction and financing, the whole project is to be administered by Chinese companies and banks." The final agreement was signed in April 2010. Construction was due to begin in the second half of 2011, but while the Chinese ambassador to Serbia was still praising the significance of the project, it was announced in June that construction could begin in September. The Chinese do not seem to have been at fault; rather there was a dispute over the expropriation of land. Accordingly, it was only in March 2012 that work on the bridge began. This investment project is important not only to Serbia (it significantly shortens the journey time between Belgrade and Zemun), but also for Europe, because Pan-European Transport Corridor No. 10 passes through here.

In August 2012, Serbia's transport minister announced that China had made a favourable offer for the construction of Corridor 11 (an investment worth 2.5 billion euro), but he also pointed out that was merely a statement of intent and that the matter was still under negotiation.<sup>98</sup> Chinese investors have since shown regular interest in Serbia.

Serbian and European media sources have stressed the following in connection with the agreed and anticipated investment projects. In October 2011, Elektroprivreda Srbije (The Electric Power Industry of Serbia) signed a contract with a Chinese consortium (China Environment as well as Shenzhen Energy Group) concerning the construction of the third block of a thermal power station. Around six weeks later the Serbian minister responsible and the Chinese ambassador to Serbia (!) signed an agreement on the granting of a loan worth 344.63 million US dollars, which is needed in order to finance the renovation of two blocks of the Kostolac power station. Reports have also mentioned the investments made by the Chinese store chain 'Dragon,' which represent the largest greenfield investment in Serbia.<sup>99</sup>

Sino–Serbian relations are also being strengthened by the introduction of Chinese language lessons in 31 elementary and high schools as of the end of 2012, complementing the efforts of Serbia's Chinese immigrants (an estimated 60,000 Chinese live in Serbia) and their children to learn Serbian and to integrate into Serbian society.<sup>100</sup>

### Macedonia<sup>101</sup> and China

Macedonia – recognised as an independent country by the EC in January 1992 – and China established diplomatic relations at the ambassadorial level on 12 October 1993. The joint communiqué issued at that juncture is not available on the Macedonian foreign ministry website, while the PRC's Ministry of Foreign Affairs website merely provides access to an unofficial version of the communiqué. The communiqué was, however, published in printed form by the Foreign Broadcast Information Service (FBIS) in 1997. According to the joint communiqué, Macedonia welcomed China's acceptance of Macedonia's constitutional name – which the government in Skopje reciprocated by recognising the government of the PRC as the sole legal government of China and by stating that it deemed Taiwan to be an inalienable part of China's territory. Macedonia also undertook not to establish any official relations with Taiwan. In the light of these statements, it is a little odd that a dispute arose between China and Macedonia over the Taiwan issue in 1999.

Although Beijing's relations with Macedonia were less intense than its relations with Croatia or Slovenia, nevertheless the chairman of Macedonia's leading political party – the Social Democratic Union of Macedonia – strongly praised Chinese policy. Despite the limited nature of bilateral trade relations in the 1990s (the value of Chinese imports in 1999 was only 4 million US dollars), in the latter half of the decade China offered Macedonia a loan worth 83 million US dollars for the construction of a hydroelectric electric power plant. Beginning in 1997, politicians of what was then the opposition established cordial relations with Taiwan. The content of Macedonian negotiations with Taiwan remains unknown, but we do know that much foreign investment in Macedonia in the subsequent period came either from Greece or from Taiwan.

In 1998, a new government took office in Macedonia. In January 1999, it recognised Taiwan. This action caused a major domestic dispute in Macedonia and it also gave rise to countermeasures by Beijing. Indeed, citing a violation of the previous agreement, China broke off diplomatic ties with Macedonia. Even the Western powers considered Skopje's decision to have been a mistake, as Macedonia was in need of an extension of the mandate of the UN peacekeeping mission, which served to guarantee the country's internal and external stability. The mandate had expired in late February 1998, and China's consent was required for an extension of the mandate. It seems, however, that the government in Skopje was more interested in obtaining the anticipated assistance and loans (the value of which has been disputed) from Taiwan. Macedonian expectations in this regard appear to have been wildly exaggerated, thus becoming a source of controversy in Taiwan. At any rate, while China gave its support to Serbia during the bombing of Kosovo, Taiwan

offered Macedonia 4 million US dollars for the care of refugees from Kosovo as well as medical supplies worth 300,000 US dollars.

Subsequent developments in Macedonia–Taiwan relations will not be detailed here, but it is worth noting that following domestic political changes in Macedonia, the country's policy on China underwent a revision. Accordingly, in May 2001, Macedonia's minister of foreign affairs announced the upcoming restoration of relations with the PRC – this took place in June. The main reason for the change was apparently a realisation on the part of the government in Skopje that in view of the armed Albanian uprising it needed to avoid China's opposition in the UN Security Council. The state of the security Council.

The subsequent period saw a substantial improvement in Sino-Macedonian relations. At the time of the 2005 visit to Macedonia of the PRC's minister of foreign affairs, his Macedonian counterpart confirmed his country's support for the "One China" policy. China then offered Macedonia grants worth 2.5 million euros and the possibility of Chinese investment in Macedonia's textile industry and its hydroelectric energy and tourism sectors. China also proposed commercial cooperation in third country markets. In connection with the latter, it should be noted that at the time the EU was negotiating with Macedonia on the granting of candidate status, which the country finally received in late 2005.

During the visit to China of Macedonia's president two years later – at which time he reaffirmed Macedonia's support for the "One China" policy – Beijing rewarded Macedonia by reiterating its support for the country's territorial integrity and by offering technical assistance worth 1.2 million euro. The two countries then signed an agreement on cooperation in the economic, technical, agricultural, cultural and sport fields. A committee was established with the task of promoting Chinese investment in Macedonia. In the summer of 2009, at a Macedonia-China business forum, 50 Macedonian and 30 Chinese companies consulted on potential forms of cooperation. Reflecting the increased cooperation between the two countries, bilateral trade increased to 316.3 million US dollars in 2008 – albeit Chinese imports to Macedonia accounted for 315 million US dollars of this total. In view of the trade imbalance, it is hardly surprising that the Macedonians announced their intention to take a more aggressive stand in Chinese markets.

Since 2001, the two countries have cooperated in the military field, with China donating a million dollars to the Macedonian army in the period until 2010. In Macedonia's view, such cooperation is compatible with the country's Euro-Atlantic integration strategy.<sup>112</sup>

In March 2012, Macedonia was visited by the most senior Chinese delegation to date. The delegation was headed by the deputy chairman of the State Council and included several government ministers. An agreement was signed on agricultural cooperation (Macedonian produce was highly popular in the former Yugoslavia), on expert and

technical assistance, and on Chinese aid worth 3 million euros for the health and education sectors. In the course of the negotiations, in addition to the aforementioned investments, the two sides also noted the 30 percent increase in bilateral trade over the past year. Macedonia expressed hope that this trend would continue. At the same time, the question arose whether, in place of the major 'Vardar Valley' project, it might be better to invest in several smaller power plants.<sup>113</sup>

Concerning bilateral trade, it is difficult to get a clear picture. According to a newspaper report published in the summer of 2010, the statistical data show that Chinese exports to Macedonia were worth 300 million US dollars, while Macedonian exports to China were worth only 3 million US dollars. This figure roughly equates to the 2009 data. Confusingly, the article then stated that the bilateral trade ratio was 100:3. (Perhaps it is no coincidence that on 22 July 2012 the newspaper article disappeared without trace from the Internet.) The following table shows the relevant preliminary trade figures for the first half-year, published by the Macedonian Statistical Office in August 2012:

	Value 1000 USD	%	Export 1000 USD	%	Import 1000 USD	%	Export-import coverage rate
Total	5,126,206	100.0	1,937,649	100.0	3,188,557	100.0	60,8
Germany	865,001	16.9	566,494	29.2	298,507	9.4	189.8
Greece	462,299	9.0	93,534	4.8	368,765	11.6	25.4
Serbia	381,861	7.4	137,950	7.1	243,910	7.6	56.6
Bulgaria	350,269	6.8	139,985	7.2	210,285	6.6	66.6
Italy	332,395	6.5	135,870	7.0	196,524	6.2	69.1
UK	302,367	5.9	28,904	1.5	273,463	8.6	10.6
China	244,232	4.8	68,785	3.5	175,447	5.5	39.2

The figures indicate a significant improvement in Macedonia's position during the last two years.

In the run-up to the Warsaw Meeting, Macedonia signed an agreement about the opening – within a few months – of a Confucius Institute at Skopje University. An analysis published two days before the meeting noted how Macedonia was receiving a negligible share of Chinese investment. In the author's view, Macedonia's industrial capacity was too small for a significant presence in the Chinese market, but that the export of Macedonian wine and cigarettes to China could be a successful venture, subject to government assistance.<sup>116</sup>

At the time of the Warsaw Meeting, the two sides reconsidered potential forms of cooperation, as a continuation of their talks at the end of March. The Macedonian prime minister stated,

We have discussed a large number of projects in the economic field, which are either underway now or under consideration: as in the case of "Cerben" and "Galasite" projects, we have signed a memorandum with a Chinese bank on the "Vardar Valley" and "Kozjak" projects [hydroelectric power plants], which are now in the conclusion phase, and on other possible projects facilitating tourism between the two countries and investment in infrastructure.<sup>117</sup>

The possibility of Chinese companies opening a free-trade zone or technology-industry zone was also mentioned. $^{118}$ 

The memorandum – signed in 2011, as reported elsewhere – does not commit the parties to anything specific. This is well demonstrated by the following. According to the article, the "Vardar Valley" project is an extremely complex and expensive undertaking. Although one of the Chinese corporations took part – in 2004 – in the realisation of a part of the "Kozak" project, nevertheless there has been little mention of the "Vardar Valley" project since the memorandum was signed. Perhaps it is no coincidence that in March of this year Macedonia presented its ideas for the project to the world's richest man, the Mexican Carlos Slim.<sup>119</sup>

At the time of the Warsaw Meeting, the head of Macedonia's power industry announced the purchase of three Chinese bulldozers that would be equipped with German motors. He specifically noted that the bulldozers would meet European regulations.<sup>120</sup>

After the Warsaw Meeting, talks were rapidly resumed, as the Macedonian prime minister travelled to China on 13 May for a five-day visit. The talks held in China may be regarded as the direct continuation of earlier negotiations. On this occasion, investment opportunities in Macedonia were presented to 500 Chinese business leaders in five different cities. Apparently, the visit was accompanied by great interest, but it seems to have resulted in just two rather vague agreements. A memorandum promoting investment was signed, and it was announced that the two sides would sign an agreement on the supply of Macedonian wine to China.<sup>121</sup>

In the summer, two Chinese delegations visited Macedonia, but both visits failed to result in substantial agreements and were more a matter of formality.<sup>122</sup>

# Montenegro and China

From 2003–2006, China operated a consulate in Montenegro, which was at the time the minor partner in the State Union of Serbia and Montenegro. Relations between China and Montenegro flourished even at that time. Montenegro's prime minister travelled to China as early as July 2003, at which time he affirmed his country acceptance of the "One China" principle. The two sides agreed to enhance cooperation in the fields of tourism, industry and maritime affairs, <sup>123</sup> and by December, they were discussing specific Chinese investments. In August 2004, an agreement was signed on cooperation between the ports of Qingdao and Bar. <sup>124</sup>

In May 2006, Montenegro decided in a referendum to become an independent country; China then recognised the new independent Montenegro on 14 June 2006. Montenegro's minister of foreign affairs visited China in July. He met with the Chinese prime minister<sup>125</sup> and the two sides signed a joint communiqué on the establishment of diplomatic relations. The communique included a detailed definition of the "One China" policy:

The Republic of Montenegro recognizes that there is but one China in the world, that the Government of the People's Republic of China is the sole legal government representing the whole of China, and that Taiwan is an inalienable part of China's territory. It opposes "Taiwan independence" of any form and opposes Taiwan's accession to any international or regional organizations whose membership applies only to sovereign states. The Republic of Montenegro undertakes not to establish official relations of any form or have any official exchanges with Taiwan. 126

In late August, the two sides signed an agreement on economic and trade cooperation. They did not, however, sign an agreement concerning the granting of assistance by the Chinese side to Montenegro's Ministry of Foreign Affairs – despite the fact that such an agreement had been under consideration. <sup>127</sup> In the subsequent period, save for one occasion, meetings between senior leaders of the two countries were held on an annual basis, mostly in China. In 2009, the volume of trade amounted to 28.9 million euro, whereby imports to Montenegro amounted to 28.8 million euros and exports to China were valued at 0.09 million euro. Meanwhile, China invested 2.47 million euros in Montenegro. <sup>128</sup>

In 2009, an agreement was signed with Poly Technologies Inc. concerning the construction of two cargo ships by the Chinese side for Montenegro. The first ship was delivered in January 2012. 129 Of the various visits, one of the most important was that of Igor Lukšić in 2010. At the time, Lukšić was Montenegro's finance minister (he is now the prime minister). This visit saw the signing of several agreements with Poly Technologies and with another company concerning investments in the field of

infrastructure (roads and bridges). Talks were also held with the Huawei Company, a major actor in the telecommunications market, as well as with the Gezhouba Corporation and with Sinotrans, which have interests in the energy sector and in road construction.<sup>130</sup>

In April 2012, an official from the government of Montenegro told the press off the record that China was seeking good positions for itself in Montenegro, counting on Montenegro's upcoming membership of the EU.<sup>131</sup>

In Warsaw, China's prime minister – with reference to Montenegro's integration possibilities – told his Montenegrin partner that the Chinese government was supporting and promoting investment in Macedonia. In the course of the talks, a wide range of topics were addressed: marine trade, ship-building, a container terminal and road infrastructure, as well as investment in education and healthcare. Montenegro's prime minister expressed hope of attracting Chinese investment worth 150 million euros in the course of the next three years. In his view, all of this depends on the motorway issue, but he hopes that the plan will be realised with assistance from the European Bank of Reconstruction and Development (EBRD). 132

In late August 2012, Montenegro's prime minister travelled to China to receive the second cargo ship produced for his country. The visit represented an opportunity to resume bilateral talks on Chinese investment in Montenegro with the heads of Gezhouba and Sinohydro. Montenegro hopes to receive an offer from the Chinese companies on investment in the power plant at Pljevlja in late September. The other objective is an increase in Montenegrin wine exports to China.<sup>133</sup>

Since Montenegro's independence in 2006, China has invested 5.7 million euros in the country – half of which came in 2009. In 2010, a company signed an agreement for truck production worth 3 million euro. In the same year, the two countries signed a treaty on economic and technical cooperation, under the terms of which Montenegro is to receive grants worth 1 million euro. <sup>134</sup> China has also provided, in several instalments, Montenegro with computer accessories worth 1.5 million euro. <sup>135</sup> In September 2012, a Montenegro government advisor (!) and China's EXIM bank signed a memorandum on the intent of both sides to develop Montenegro's transport and energy infrastructure and renew the Montenegrin navy. <sup>136</sup>

The yearbook of Montenegro's Office of Statistics indicates the following figures for bilateral trade: 137

China	2008	2009	2010
Imports	123,834	90,343	88,864
Exports	152	95	149

While the press in Montenegro has reported, with evident pride, on the many trips to China made by politicians of the newly independent country, the only Chinese visits to Montenegro worth mentioning are that of a member of China's State Council three months after the independence referendum as well as the discussions held by China's deputy transport minister in the country.<sup>138</sup>

## Bosnia and Herzegovina (BiH) and China

The two countries established diplomatic relations at ambassadorial level on 3 April 1995. The part of the communiqué (signed in Zagreb!) referring to Taiwan is half a sentence longer than the same section in a similar document signed with Macedonia – albeit the essential meaning is the same. The two countries signed an agreement on trade and economic cooperation in 2000. Beginning in 2002, there was an upturn in bilateral relations: it was in that year that BiH and China signed an agreement on the protection of investments. In the period 2001–2011, relations were particularly intense in 2005.

In March 2007, China's ambassador in Sarajevo stated that his country wished to invest in Bosnia. In May 2010, the president of Bosnia's Council of Ministers met with the Chinese prime minister in Beijing. China not only voiced its support for Bosnian membership of the WTO; it also offered Sarajevo assistance worth 1.09 million Bosnian marks. The Bosnian side pledged to dismantle the administrative hurdles to cooperation. In Inc. 141

An interesting issue is the proposed construction of a highway between Banja Luka and Doboj in the Serbian entity. The idea was initially floated in 2006. An agreement was signed first with Strabag in 2008, and then with a Slovenian company (CPM), but neither company managed to obtain the required loans. 142 The municipality of Banja Luka had no wish to borrow money and thus favoured a highway concession arrangement. The then prime minister, Milorad Dodik, negotiated with China on the construction of the highway in 2010,143 but by that time the aim was to receive a loan rather than a concession. 144 Even so, in early 2011, several companies were mentioned as potential investors. Then, in August 2011, a preliminary agreement was signed with China's CRBC. Under the terms of the agreement, the previous plan was to be revised (originally, the construction of the highway in two sections had been envisaged). The Chinese company now undertook to build the whole stretch of highway (72 kilometres). For this purpose, the Bosnian Serbian side would have received a loan of 401 million euro, while most of the materials used and workers employed would have been Chinese. Although the agreement indicated that domestic companies would receive 45 percent of the work on construction and Chinese companies 55 percent, nevertheless a dispute

arose over these ratios. "They say the goal is for as many domestic contractors as possible to take part in this huge project, but the Chinese EXIM bank is tying the loans to its own contractors." At the time, it was thought that the issue would be discussed in subsequent negotiations with an agreement signed by the end of October 2011. In September, delegations from the two foreign ministries strove to reach an agreement on the highway construction project, hopeful that this would lead to increased Chinese investment. In October, however, the uncertainty surrounding the project was perceptible. Finally, in early December, it became known that the Chinese side had not signed the agreement by the agreed date.

Since the press did not report on the reasons for the Chinese withdrawal and the government's website contains no relevant information, we can only speculate as to what lay behind the Chinese decision. Possibly, the Chinese side reneged because of the dispute over the ratio of contracts to be awarded to domestic and foreign companies. But another possibility, as one commentator has claimed, is that the Chinese side realised that the proposed highway would not be profitable given the projected levels of traffic. Three subsequent developments failed to clarify the situation. In December 2011, the Banja Luka government asked the EBRD for a loan of 150 million euro, stating its intent to revert to the original plan of constructing the highway in two sections. Thus, it required funding for the construction of the Prnjavora–Doboj section of the highway. On 25 August 2012, having received a funding pledge from the EBRD, the Bosnian company "Integral inženjering" and the Skopje company "Granit" signed an agreement on the construction of the aforementioned section of the highway over a period of three years.<sup>148</sup> The second development came in June 2012, when – even though the aforementioned had fallen through – the Bosnian transport minister requested the Chinese ambassador in Sarajevo to urge Chinese corporations to contribute to the construction of the V/c European transport corridor and to other infrastructure projects. 149 Finally, the third noteworthy development was the signing of a memorandum between the EXIM bank and Montenegro.

At the Warsaw Meeting, the president of Bosnia's Council of Ministers laid emphasis on the two sides' traditionally cordial relationship, while the Chinese side stressed the potential for cooperation between the two countries, expressing hope that Bosnia and Herzegovina would participate in a future conference on developing the region's dilapidated transport network and in efforts to enhance tourism between China and the region. The Bosnian leader was hopeful that the Chinese side would show interest in opportunities in the energy sector and in highway construction. He called on Chinese companies to make direct investments in the country, pledging the support of the country's institution. It was clear from the Bosnian leader's speech that Bosnia had accumulated a colossal deficit in bilateral trade with China. In Inc.

# The Opening of the Secretariat in Beijing

At a meeting in Beijing on 4–6 September 2012, a secretariat for cooperation between China and the countries of Central and Eastern Europe was inaugurated. The secretariat is to oversee communication and coordination between the 16 countries of the region and China. Some of the countries have appointed national coordinators to further cooperation. Each country in the region was represented at the inauguration. Evidently, the meeting was primarily a formal protocol event (the delegates were also received by the prime minister), but it is worth examining the various responses of the different countries.

In Slovenia, the head of the economic relations department of the Ministry of Foreign Affairs was appointed as coordinator. Concerning his speech at the opening of the secretariat, it seems he emphasised the imbalances in foreign trade and investment between Slovenia and China. "Slovenia is the largest investor in China of the 16 participating countries, and yet Chinese investment in Slovenia is negligible," he said. 152 He expressed hope that the Warsaw initiative would contribute to a reduction in the imbalances.

This abruptness was counterbalanced by a speech given by Slovenia's ambassador to China in which he referred to the pragmatic nature of the twenty years of bilateral Sino-Slovenian relations. In his view, the consensus and agreement prevailing between China and Slovenia was extremely broad in international and regional matters. There existed three twinned town arrangements: Chengdu and Ljubljana, Yixing and Novo Mesto, Jiujiang and Koper. He noted that trade had increased from the initial level of 11 million US dollars to 1.88 billion US dollars by 2011 – in other words, by a factor of 160. Among the former Yugoslav republics, Slovenia was China's largest trading partner. In terms of cooperation, he pointed out Slovenia's favourable geographical position. While the Chinese prime minister had stated in Warsaw that China was encouraging its companies to make deals in Slovenia, the ambassador called on the Slovenians to make efforts to attract Chinese investors. He claimed that "Slovenian companies have invested more than 10 million US dollars in China."153 He stressed that the deputy president of the Chinese investment bank had visited Slovenia in May and that China was willing to cooperate on various types of infrastructure projects, including the railway, ports and motorways. In his view, the success of these projects depended above all on the business environment.

Croatia was represented in Beijing by the minister for the navy, transport and infrastructure, but the delegation also included the minister of foreign affairs and the deputy finance minister. A brief report on the visit indicates that the Croatians reminded their Chinese partners of opportunities in the field of Croatia's infrastructure and energy, transport and tourism sectors. The Croatian delegation

met with the leaders of many public administrative bodies and commercial companies, but no further details were made known.<sup>154</sup> Croatian media ignored the event.

Serbia was represented by its minister for education, science and technology, who met with his Chinese counterpart. He proposed that the Chinese explore investment opportunities in Serbia, particularly with regard to the nascent science-technology parks. His Chinese counterpart welcomed this measure and called for the establishment of such parks. According to the minister – who presented a list to his partners of 50 projects that might be suitable for Chinese investors or for some kind of cooperation – Serbia regarded the meeting as confirmation and consolidation of the strategic partnership launched in 2009. 156

Macedonia's delegation was led by the country's prime minister and included other government ministers with responsibility for economic matters. No specifics are known about the work of the delegation, but we do know that Macedonia's ambassador in Beijing signed a Memorandum of Understanding between the government of the Republic of Macedonia and China's export-import bank.<sup>157</sup>

It would seem that representatives from Bosnia–Herzegovina and Montenegro were also present at the opening of the secretariat, but neither of these countries considered the event important enough to report on officially. However, newspaper reports indicate that a delegation from the Socialist Party of Montenegro – whose leader stated that his party had been in power ever since its foundation (in 1991) and had contributed to the fullest extent to the country's development – also visited Shanghai, accompanied by a group of business leaders. In Shanghai they held talks with the local leader of the Communist Party of China. They informed senior port officials in Shanghai about opportunities at the Port of Bar. It was agreed that the Chinese side would send a group of experts to Montenegro with the task of exploring opportunities for cooperation. The Montenegrin delegation also visited the Pudong Special Economic Zone and other industrial parks.<sup>158</sup>

## Summary

China is significantly engaged in the republics of the former Yugoslavia – primarily in terms of its exports to the region. However, these countries are barely capable of exporting to China, and so their trade deficits with China are colossal. There has been talk for some years of the possibility of substantial Chinese investment in the infrastructure, energy and telecommunications sectors, but so far progress has been limited to the holding of negotiations accompanied by declarations of intent. Aside from the bridge at Zemun, there have been no major Chinese investment projects. The Warsaw Meeting may have stirred decision-makers and business leaders to action. Still, it is too early to determine the results.

One of the most interesting questions in this whole story is how we should evaluate a conclusion drawn in the German newspaper *Frankfurter Rundschau*. An opinion writer for the newspaper<sup>159</sup> pointed out that, in the matter of a coal power plant in the Bosnian Serb entity, a Chinese company had made an offer that was 50 percent more favourable than offers received from the French company Alstom and from companies in Canada and Poland. The opinion writer then briefly described the ambitions of Chinese companies in the region, concluding that the Chinese – because they are cheaper – are bound to squeeze out rival companies from this promising market.

In my view, both the contents of this review and the above anecdotal evidence indicate that certain Chinese companies will succeed in acquiring various markets. Still, the uncertainty surrounding final decisions shows that decision makers in the region (especially in Croatia and Slovenia) will carefully weigh up the desirability of particular investments in their countries.

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# China's Economic Expansion into Central Europe

## Tamás Matura

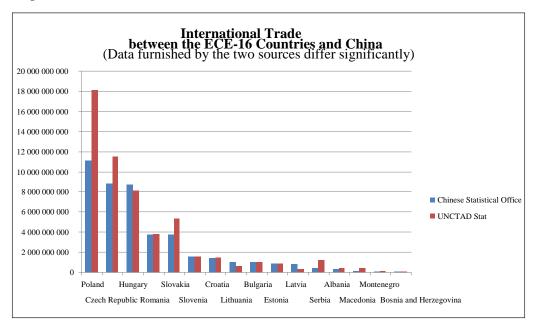
hina's investments in Europe have made front-page news on several occasions in recent years, especially in those cases when one well-established European company or another has become its target for acquisition. The fact that MG Rover, Saab and finally Volvo passed completely or partially into Chinese ownership, has aroused the interest of the press, and indeed, frequently the sources regarded as authoritative also warned of Europe's acquisition by China. Naturally, all of these fears are exaggerated; at the same time it is quite true that the weakness of the European economy and listed companies has created an excellent opportunity for Chinese companies to buy up their European competitors for various reasons.

Although Europe in general is a proponent of an open and investor-friendly business environment, concerns often arise regarding the motivation behind the Chinese purchases and their consequences. In my opinion, a lack of reliable and comprehensive information and data makes discernment difficult; knowledge of them would promote understanding of the rapidly changing situation. In addition, there also exists a serious dearth of up-to-date specialist literature, which stems on the one hand from the lack of appropriate databases, and on the other from the novelty of the Chinese economic presence. That the situation changes so rapidly that even the existing data and statistics soon become obsolete, and no pan-European data are available, represents a further obstacle. The Europe China Research and Advice Network (ECRAN) presented at Chatham House its publication entitled *Chinese Overseas Direct Investment in the European Union* in September. It is striking that the volume, meant to be authoritative, publishes data that is not particularly fresh (2008). According to it, Chinese operating capital in the amount of 9 million euros has been invested in Hungary. By comparison, the valid figure today is approximately 222 times this: 2.5 billion dollars (2 billion euros).

At the same time, data published by the Chinese Ministry of Commerce (until 2010) <sup>1</sup> as well as the UNCTAD database are available. It should be noted at the same time that even with data in the appropriate quantity and of appropriate quantity, it would be difficult to state the genuine sources of the capital flow, since in 2010 more than three quarters of Chinese operating capital exports left the People's republic of China

through Hong Kong, Luxemburg, Singapore or the British Virgin Islands and other tax havens (often only for a brief time, because the "globetrotting" of Chinese capital for reasons of taxation is a common phenomenon). Hong Kong itself receives 55 percent of the flow of Chinese ODI (*Outward Direct Investment*).

The situation is often similarly uncertain regarding foreign trade with China. Frequently quite serious deviations can be encountered among the data published by the individual (Central) European countries, Chinese sources and international organisations.



What seems certain: based on the trend witnessed in the past decade, the volume of trade between the ECE-16 Region<sup>2</sup> and China increased significantly, but that is characterised mostly by the serious adverse balance of the countries of the region. The reality of the trade deficit vis-à-vis China in the case of certain countries – including Hungary – is nuanced by the fact that a significant (though hard to measure) proportion of imported products ends up re-exported to Western Europe built into the product manufactured by the country in question. At the same time it is also true that the majority of the exports of states capable of showing more significant exports to China – Hungary among them – is generated by the multinational corporations present there, which allows one to conclude that the small- and medium-sized company sector of the ECE-16 Region is still hardly capable of meeting the challenges of the Chinese market.

Based on the above, the present study makes an attempt to dispel a few misunderstandings relating Chinese investment activity in Europe and suggest that for the region China's economic and commercial role will hardly spell salvation, though in the uncertain European economic environment it may become an important complementary resource.

#### Literature Review

Because China's presence and investment activity in the East Central European region is a relatively new phenomenon, the number of reliable and comprehensive sources is quite low. In the area of general EU-China relations, Françoise Nicolas in her 2009 study pointed out that although China's investments in Europe are growing continuously, their percentage is really infinitesimal within total operating capital in Europe.3 Although the amount of foreign direct investment (FDI) invested in the European Union has declined somewhat since 2009 (from 7,322 billion dollars in 2009) to 7,275 billion in 2011, based on the figures of UNCTAD Stat), the overall picture has hardly changed. According to official Chinese numbers, 4 in 2010 Chinese capital invested in the EU was 12.5 billion dollars, while according to the study by Thilo Hanemann and Daniel H. Rosen, entitled "China Invests in Europe: Patterns, Impacts and Policy Implications," in 2011 was 20.9 billion dollars, and according to the Heritage Foundation's China Global Investment Tracker it was 60.3 billion (including already signed but not yet actually implemented contracts). In other words, even in the latter case Chinese investments represent a mere 0.82 percent of all foreign operating capital invested in the European Union.<sup>6</sup> In Nicolas' opinion – and in this area the specialist literature is unanimous – the primary motivations for Chinese investments in Europe are: new markets, strategic investments and technology transfer. Obtaining through acquisitions and mergers prestigious brands, as well as the know-how and logistical systems connected with them, has similar significance for them. According to Nicolas, up till now the performance and profitability of Chinese companies present in Europe have been disappointing. (At the same time it is my view that in certain cases this may also derive from the fact that Chinese companies, in order to gain new markets, deliberately allowed for initial losses. The trouble is being caused by the prolonged European crisis, which is swelling these losses to a much larger size than planned.)

In their study,<sup>7</sup> Haico Ebbers and Jianhong Zhang pointed out that the member states of the EU, including the East Central European Region, have created a favourable investment environment in connection with the introduction of the Chinese "Going out" strategy in order to attract as much Chinese capital as possible. The ECE-16 Region is particularly interested in this opportunity, and this is why they are attempting, with

the help of tax concessions, relief from customs duties, industrial parks and agreements on avoiding double taxation, to strengthen their ability to attract operating capital. The Czech Republic, Hungary, Poland and Romania have also signed bilateral taxation agreements with China. Despite all this, Europe represents a quite small slice in the total Chinese foreign direct investment (5 percent according to Chinese figures), which is particularly striking if we take into consideration the EU's weight in the global economy.

In connection with the correlation between economic and political relations (or the lack thereof, to be more precise), Rudolf Fürst and Gabriela Pleschová have reached an interesting determination.<sup>8</sup> In their opinion, China's relations with the Czech Republic and Slovakia, and its activity in Central Europe in general, form part of that broader strategy that aims to strengthen bilateral relations with the smaller, less critical EU member states. Their truly noteworthy determination, however, is that ideological differences, and even the more critical tone, have no particular effect on business relations with China. While Prague previously had struck a substantially more forceful tone with China in connection with the defence of human rights or the question of Taiwan than had Bratislava, Czech–Chinese economic relations suffered no disadvantage whatsoever compared to Slovak–Chinese relations. All this is contradicted somewhat by the research of Andreas Fuchs and Nils-Hendrik Klann, according to which receiving the Dalai Lama, for example, sets back the given country's exports to China by 8–16 percent, for a duration of about two years.<sup>9</sup>

China's activity in Central Europe gives cause for concern, according to one of the best-known China researchers in Western Europe, Francois Godement. The professor at Science Po, who observes developments from a pan-European perspective, came to the conclusion in his article on the Warsaw summit, <sup>10</sup> that the rapprochement of the Central European states to China is strengthening the forces pulling the Union apart. Instead, a unitary, EU-level China strategy, to be worked out by the EC, would be needed; at the same time, he acknowledges that the large member states – including the United Kingdom and Germany – keep mostly their own economic interests in view when it comes to their ties with China.

A rare example of a regional-level overview of Chinese–Central European relations is the publication of the Polish Central &Eastern Europe Development Institute *Partners or Rivals? Chinese Investment in Central and Eastern Europe*, which, as its title suggests, places mostly investment relations under the microscope.<sup>11</sup> This study is one of the first tangible signs that Poland, shaking off its previous lethargy, is attempting full steam to make up for lost time in its relations with China. As the authors also frequently point out, it is surprising and at once unacceptable to the Polish side that although their homeland is striving for a regional leading role in every area, in Hungary substantially more Chinese investment(s) have come about so far. The study makes no secret of

the fact that Warsaw's aim is to strive for primacy in the region. In the interests of this goal, Polish foreign policy, which in any event has serious material and human resources at its disposal (it is enough to point out that the PISM, that is, the Polish Institute of Foreign Affairs, has more than 30 researchers), is doing particularly much. Aside from the Warsaw summit, an example of this is also that in connection with the Polish presidency of the V4 Polish Foreign Minister Sikorski during his visit to Beijing arranged for the heads of the foreign affairs institutes of the Visegrad countries to travel as members of his own delegation to the conference jointly organised by the China Institute for International Studies and the PISM.

#### Chinese Motivations

The question is what economic opportunities China sees in the Central European region (in the broad sense), meaning those sixteen countries whose leaders attended the summit meeting with the Chinese premier in April 2012 in Warsaw. It is an oftenmentioned and at once obvious fact that the EU membership of the Central European countries enhanced their political and economic role in the eyes of China. At the same time, it must also be pointed out that five of the participating countries (Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia) are not EU member states, nevertheless, from a Chinese viewpoint they are to be regarded as belonging to the region; in the Chinese foreign ministry they have significance in the work of the secretariat responsible for maintaining relations with the region, too. All the while Ukraine and Belarus did not figure on the list of invitees – probably not unrelated to their relations with Moscow.

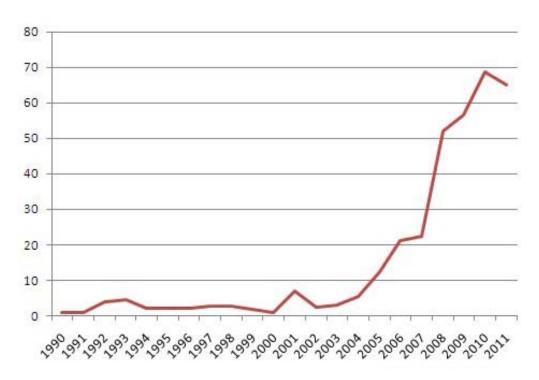
An additional, often voiced argument in connection with China's role in the region is that it views the states of the region as a sort of gateway to the entire EU; indeed, the countries in the region themselves would like to portray themselves in this capacity in the eyes of Beijing. The trouble with this approach is that it is nonsensical and uninterpretable, or at the very least, none of the parties concerned has given it any real substance. On the one hand, one of the biggest markets for Chinese goods has long been the European Union – the gateways of this trade are the large Western sea ports and container terminals. That is, from this aspect there are already ample gateways and logistical centres. On the other hand, Chinese direct investments have also found their way to Western Europe, whereas up till now only a small proportion of this has arrived in the Central and East European region. It may also happen that Chinese companies, hoping for a laxer regulatory environment compared with that in the west (e.g., in the area of labour law) might move production to the new EU members states, availing themselves of the opportunities provided by the cheaper labour, or they might

appear in the area of infrastructural investments, relying on the "tailwind" of local governments and the seductive power of their unrealistically low bids. The previously mentioned highway investment in Poland was the first (and at the same time failed) test of this. Based on all this, at present the goals such as being "China's centre in Central Europe" can hardly be viewed as anything more than a mere rhetorical device, if only because from a Chinese perspective nothing justifies concentrating on a single country instead of creating positions in every corner of the region. Taking into account the size of Central Europe and the quantity of available Chinese resources, this easily fits within China's means.

In my view, the most realistic Chinese motivation is in fact the simplest solution: European economic players, weakened by the world economic and mainly the euro crisis, represent an excellent acquisition target for Chinese companies. In connection with the Central European region, it is worth adding that because of the crisis the previous financing arriving from western EU members by now has dried up, meaning a sort of market vacuum has formed in the region, which in an almost natural way attracts the Chinese side struggling with a capital surplus. According to news reports, the most enticing point in the business offers of the Chinese companies is frequently the fact that they at the same time might also bring the financial blueprint with them, naturally in the form of Chinese financial institutions. According to diplomatic sources, this process severely hurts western companies' interests in the region because while traditionally it was them who supplied and implemented significant investments in Central Europe, the drying up of western financial resources now is playing into the hands of the Chinese.

Looking at the overall picture, it should be noted that the Chinese are in fact not only willing to lend financial support and credit; it is an economic necessity as well for them. The enormous domestic savings rate, the huge foreign trade surplus of the past decades and the PRC's status as a net importer of capital has accumulated a currency reserve of nearly 3.300 billion dollars, which is now inconvenient for the Chinese government. Although the exact figures constitute a state secret, experts agree that at least 60–70 percent of these reserves are in dollar-based assets, while an additional 20-30 percent of them are in euros.<sup>13</sup> The fate of these two currencies in recent years has been rather vicissitudinous, which naturally fills the Chinese side with concern. China could not invest a sum of this size even in its own economy - indeed, not even a fraction of this without it ramping up the number one enemy, inflation. Nevertheless, they cannot keep a sum equivalent to twenty-three years of Hungarian GDP under the mattress: it is not safe, and with a sum of this size the conservative asset management strategy generates enormous alternative costs. That is, it is a much more profitable decision (and, in the long run, one that generates considerable influence) decision to invest a substantial portion of the reserves in the real economy than to keep it in state bonds barely earning interest. Amidst the above economic circumstances the Chinese "Go Global" strategy, i.e., the global spread of domestic Chinese giant companies largely protected from market competition and strengthened in state-subsidised market conditions, is gaining momentum. It is to this process that the Chinese capital surplus can provide enormous help, and this is how Chinese companies are able through bank partners to also offer financial backing in addition to their business offers, and thanks to the extremely low Chinese lending rates easily finance their own activity as well. All this contributes in large part to the fact that China's outward direct investment (ODI) is increasing dynamically year by year. And according to forecasts, the turning point may soon come when the country goes from being a net importer to a net exporter of capital. Even so, based on the figures of UNCTAD Stat, the share of the PRC in the world's total ODI flow in 2010 was only 5.14 percent.

China's Outward Direct Investment, 1990–2011 (billion USD)



Source: UNCTAD Stat

The above graph clearly shows how steeply the sum of operating capital flowing out of China has increased since the announcement of the so-called "Go Out Policy" or "Going Global Strategy" (Zŏuchūqū Zhànlüè) in 1999. In 2010, it reached 68 billion dollars, only to drop somewhat in 2011. From other data it can be gleaned that the sum of total capital invested in Europe was barely 5 percent of all Chinese ODI in 2010, yet the continent's share was 10 percent in that same year, in other words, Chinese interest strongly increased.

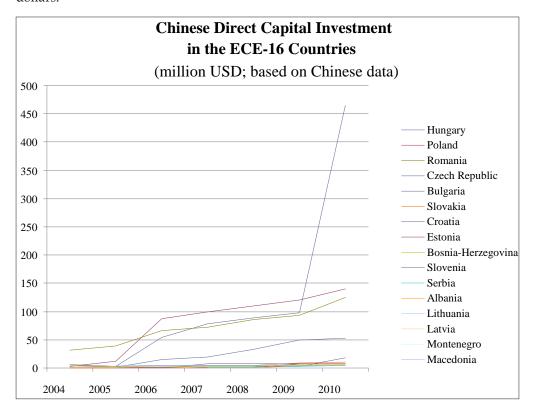
According to research examining the overall picture of Chinese global investment activity, for the Chinese side the most important thing is to obtain new markets, access raw materials and energy sources, and carry out strategic acquisitions. According to Roland Berger's survey, cited in Nicolas's 2009 study, 56 percent of Chinese investors indicated seeking new markets as the main investment priority, while 16 percent of them indicated the acquisition of new technologies and brands. Regarding investments in Europe, obviously the main Chinese motivation may not be the desire for raw materials so much as it is to gain markets and acquire new technologies and *know-how*. Already quite early on, in 2005, the prestigious British car manufacturer MG was purchased by Chinese investors, while a significant share of Volvo was acquired in 2009, just to mention only the most spectacular acquisitions.

The EU's crisis, however, helps Chinese investors during their acquisitions not only through the weakening of companies, but also through the reduction of the EU's cohesion. Although based on the data, such sensationalist declarations as "China is buying up Europe" appear to be an exaggeration, nonetheless one must wonder what kind of situational advantage the lack of a genuine, common and mandatory European China policy places the Chinese side in. This phenomenon is perceptible in the Central European region as well, where by now a competition has developed among the states of the region about which of them is capable of attracting more Chinese resources. Naturally, the leadership in Beijing is also aware of all this, but (as Godoment also notes) preserving the unity of the EU is not part of the Chinese leaders' job description.

### The Chinese Economic Presence in Central Europe

Contrary to common opinions and expectations, the number and value of executed Chinese investments in Central Europe continues to be insignificant compared to all of the invested capital. On the basis of the data of UNCTAD Stat, a total of about 639 billion dollars in operating capital arrived in the ten Central European EU member states through 2010, inclusive, while the value of Chinese investments amounted to

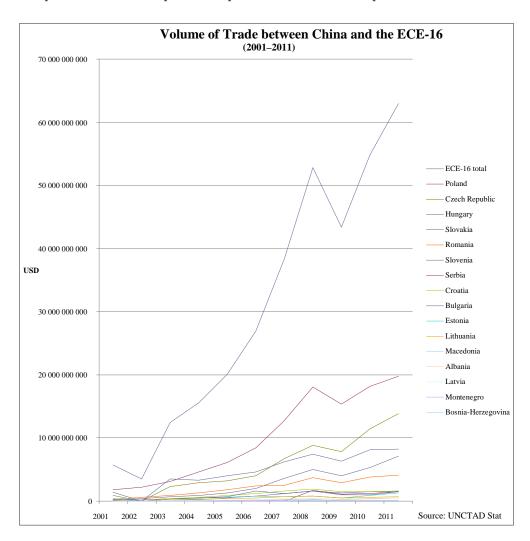
barely 828 million dollars, meaning that their share was 0.12 percent. At the same time, it is also true that the inflow of Chinese capital has greatly accelerated in the period since then: whereas in 2010, Chinese capital invested in Hungary amounted to 465 million dollars (according to Chinese sources),<sup>15</sup> today that figure stands at 2.5 billion dollars.



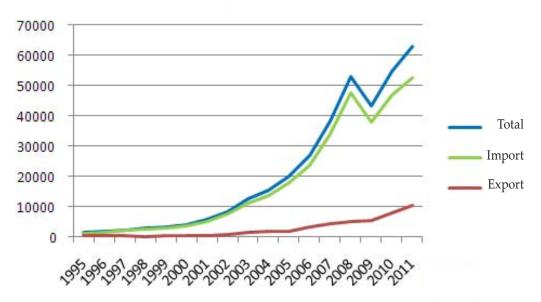
For lack of official sources, the above graph does not yet contain the 2011 data, based on which Hungary's exceptionally high share continued to grow, to approximately 2.5 billion dollars.

Naturally, one must not overlook the fact in the present critical, capital-poor environment, when the traditional sources of finance have dried up, even the relatively little actual Chinese investment and capital inflow can mean significant help to the Central European economies. Once again, based only on the data of UNCTAD Stat, the decline of capital inflow into the Central European region is clearly visible: while in 2007 nearly 80 billion dollars arrived in the region, by 2010 this sum had declined to 29.3 billion dollars.

In the area of trade relations – unsurprisingly – essentially all of the Central European countries are struggling with an enormous foreign trade deficit in their trade with China. The ten EU member states in the region on average import five times more from the Middle Empire than they export, but in the case of certain countries the ratio can be as much as 10:1. This is startling even if according to assessments a significant portion of Chinese import goods – though the exact proportion is unknown – ultimately end up re-exported westward as part of the products of Central European countries.

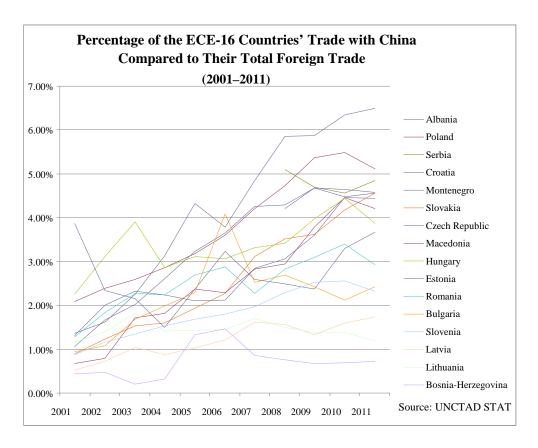






Source: UNCTAD Stat

During the negotiations with Chinese leaders, the leaders of the states in the region one after the other receive promises of a shift in foreign trade in a more balanced direction. The fulfilment of this, however, for the time being appears to be a vain hope: the so-called "empty container phenomenon," that is, the nightmare of logistical experts, when the containers loaded with merchandise arriving from China head for home empty for lack of export items, apparently continues to exist. In vain does the Chinese market await Central European goods, since there is hardly a local product that could be competitively exported to China. And yet it would be necessary to identify those gaps in the market through which the states of the region could become capable of increasing the export of their products to China, because their traditional western markets have dwindled. In the meantime, the Chinese relationship in the foreign trade of the Central European countries – at least compared with the rhetorical zeal – represents a surprisingly small slice, merely 4 percent on average; in other words, there is plenty of room for growth, which occurs at a rapid pace – albeit mostly in the area of imports.



At the same time, comprehensive research that also includes Germany in the equation could yield important results, since 47 percent of total EU–China trade is transacted by Germany alone, <sup>16</sup> while for the majority of Central European countries, too, Berlin is the most important foreign trading partner. It is difficult to measure, but likely that some of Central European exports bound for Germany ultimately end up in China integrated into German products.

### Summary and Conclusions

Based on the above, it is worth making clear that the countries of the ECE-16, especially its EU member states, form such an integral part of the European economy (they carry out 60–90 percent of their foreign trade with the EU) that not even a turn to the East and close cooperation with China is capable of actually changing this. At the same time, the flow of capital from China into the region during the crisis could mean great help in

the area of creating or preserving jobs. In Warsaw the Chinese prime minister offered the region a total credit line of 10 billion euros, which, although not a negligible sum, would form only a small part of the operating capital normally arriving in the region. Especially if out of this 10 billion euros Beijing in fact were to finance the investments of Chinese companies in the region, as certain reports indicate.

I see the formation of at least a minimum of regional cooperation or dialogue to be necessary. Currently Beijing is in the comfortable position of being able to negotiate with many small countries, which compete with one another for Chinese investments. In the course of regional-level research those areas should be determined where the economies of the countries concerned are complementary, and thus could offer Chinese investors territorially and sectorally integrated packages, as well as the areas there is room for healthy competition.

It would be worth thinking on a regional level if for no other reason than because some of the production sectors preparing to withdraw from China due to the necessities of economic processes could be enticed to the ECE-16 Region (inverse China policy<sup>17</sup>).

What appears certain is that the rapprochement of Beijing and the Central European region will continue in the coming years. Several countries in the region have already indicated that following: Budapest and Warsaw would gladly host the next summit meeting between the Chinese and Central European sides. Based on the visit to Budapest of Li Keqiang, the deputy prime minister and presumably next prime minister, in April 2012, it may be hoped that the new Chinese leadership coming to power in the coming months also will look upon cooperation with similar openness.

#### **Notes**

- 1 2010 Statistical Bulletin of China's Outward Foreign Direct Investment. Beijing: Ministry of Commerce of the People's Republic of China, 2010.
- 2 Although works seeking to define the concepts "Central Europe" and "East Central Europe" (often with varying geographical delimitations) could fill an entire library, in the realm of relations with China we are now in the convenient position of being able to use the simple concept of ECE-16. By this we mean the 16 countries in the region (Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, Estonia, Croatia, Poland, Latvia, Lithuania, Macedonia, Hungary, Montenegro, Romania, Serbia, Slovakia and Slovenia) that met with the Chinese prime minister in April 2012 in Warsaw and participate in the work of the secretariat promoting cooperation, formed in the Chinese Foreign Ministry in September 2012.
- 3 Françoise Nicolas: "Chinese Direct Investment in Europe: Facts and Fallacies". Chatham House Briefing Paper, No. 1. (2009).
- 4 2010 Statistical Bulletin....
- 5 Thilo Hanemann Daniel H. Rosen: "China Invests in Europe: Patterns, Impacts and Policy Issues". Rhodium Group, http://rhgroup.net/events/china-invests-in-europe-patterns-impacts-and-policy-issues. Accessed 7 June 2012.
- 6 Derek Scissors: "China Global Investment Tracker: 2012". *The Heritage Foundation,* http://www.heritage.org/research/reports/2012/01/china-global-investment-tracker-2012. Accessed 6 January 2012.

- 7 Haico Ebbers Jianhong Zhang: "Chinese Investments in the EU". Eastern Journal of European Studies, Vol. 1. No. 2. (2010). pp. 187–206.
- 8 Rudolf Fürst and Gabriela Pleschová: "Czech and Slovak Relations with China: Contenders for China's Favour". *Europe–Asia Studies*, Vol. 62. No. 8. (2010). pp. 1363–1381.
- 9 Andreas Fuchs Nils-Hendrik Klann: "Paying a Visit: The Dalai Lama Effect on International Trade". SSRN, http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=1694602. Accessed 19 October 2010.
- 10 Francois Godement: "China Goes for the New Europe in Warsaw". E!Sharp, http://esharp.eu/be-our-guest/17-china-goes-for-the-new-europe-in-warsaw/. Accessed April 2012.
- 11 Partners or Rivals? Chinese Investment in Central and Eastern Europe. Warsaw: Central & Eastern Europe Development Institute, 2012.
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- 13 Yu-Wei Hu: "Management of China's Foreign Exchange Reserves: A Case Study on the State Administration of Foreign Exchange (SAFE)". European Commission, Directorate-General for Economic and Financial Affairs, Economic Papers, No. 421. (2010).
- 14 François Godement Jonas Parello-Plesner: "China's Scramble for Europe," European Council on Foreign Relations, Policy Brief, No. 37. (2011).
- 15 2010 Statistical Bulletin....
- 16 András Inotai: "Impact of the Global Crisis on EU-China Relations." <u>In</u>: Asian Studies 2011 (ed. by Tamás Matura). Budapest: Magyar Külügyi Intézet, 2011.
- 17 See Tamás Matura: "Felkészülés az inverz Kína-politikára. Kínai gazdasági struktúraváltás és a magyar lehetőségek" [Preparation for the Inverse China Policy. Structural Shift in the Chinese Economy and Hungarian Opportunities], MKI-elemzések, No. 11. (2012), http://www.hiia.hu/pub/displ.asp?id=YJGPJS. Accessed 10 May 2012.

# New Opportunities and Challenges for China's Investment in Central and Eastern Europe

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This article will concentrate on the investment opportunities brought to China by the Central and Eastern European Countries (CEECs), the main characteristics of the Chinese investment in CEE, and the problems and challenges faced by China in this environment. Besides, it will also offer a number of suggestions from the Chinese side on enhancing investment cooperation between China and CEECs.

Strengthened ties between China and Central and Eastern Europe (CEE) were highlighted within Sino–EU relations in 2012. During his trip to the region in April, Chinese Premier Wen Jiabao put forward 12 measures<sup>2</sup> to promote Sino–CEE friendship and cooperation. On 6 September, Beijing hosted the Inaugural Conference of the China–CEE Cooperation Secretariat. With the fast growth of economic and trade cooperation between China and CEE,<sup>3</sup> flourishing Chinese investment in the area has helped to stimulate the further development of bilateral relations.

At a meeting of the China–CEE Cooperation Secretariat in Beijing on 19 December, China's Vice Foreign Minister and Secretary General of the Secretariat, Song Tao said that with their cooperation – though still in its infancy –, China and CEE should continue to expand collaboration in 2013, by maintaining high-level exchanges and launching new initiatives to accommodate future developments.

In the year of 2013, Chinese investors are expected to seize opportunities to establish a greater business presence in CEE. Although Chinese leadership will experience a change in March 2013, the new leaders will still have strong wishes to continue the trade and investment cooperation with the CEECs.

# The Appearance of "a Window of Opportunity" for China's Investment in Central and Eastern Europe

The improvement of a country's investment environment can greatly boost the inflow of foreign direct investment (FDI). However, important investment opportunities often appear when a country or region is undergoing a significant transformation or reform, or a country with resource endowment is reshuffling due to social instability, such as the post-war redesigning of the energy structure of Libva by Western countries. In fact, after the drastic change of the Soviet Union and Eastern Europe, CEE offered a comparatively big investment opportunity to China - the transformation period in the 1990s, when all countries in CEE were carrying out the privatisation reform and the market opening policy, offering preferential policies to foreign investors and encouraging the private economy to various extents. Later, the opportunity disappeared gradually, with the acceleration of the integration to the EU. Unfortunately, restricted by its investment capacity, China failed to issue relevant investment strategies then. It only encouraged migrants to actively participate in the market development of the CEECs,4 mainly through short-term investment. From 2005 to 2011, although the investment stock of China had been rising in some CEECs (see the table<sup>5</sup>), the base number was comparatively low, and China has yet to fully exploit the investment potential of CEE.

The Investment Stock of China in Major CEECs from 2005 to 2011 (Unit: Million US dollar)

Year Country	2005	2006	2007	2008	2009	2010	2011
Hungary	2.81	53.65	78.17	88.75	97.41	465.70	475.35
Poland	12.39	87.18	98.93	109.93	120.30	140.31	201.26
The Czech Republic	1.38	14.67	19.64	32.43	49.34	52.33	66.83
Bulgaria	2.99	4.74	4.74	4.74	2.31	18.60	72.56
Romania	39.43	65.63	72.88	85.66	93.34	124.95	125.83

Source: 2011 Statistical Bulletin of China's Outward Foreign Direct Investment.

With China's opening-up policy in full swing and the launch of the "Going Global" strategy in the 10<sup>th</sup> Five-Year Plan period (2000–2005), China began seeking investment opportunities in global markets. But the CEECs always regarded EU countries as their main prospective investors. Due to China's unfamiliarity with the rules of the big EU market and the ambiguous positioning of the CEECs, it has been difficult for China to find suitable investment opportunities in this region. However, in the 11<sup>th</sup> Five-Year Plan period (2005–2010), the investment regions of China were obviously transferred from Hong Kong, Macao, North America, and Western Europe to Asia-Pacific, Africa, Latin America, and CEE. Chinese investors began to realise the investment potential of the CEE region.<sup>7</sup>

In 2010, the Greek sovereign debt crisis triggered a continuous turmoil in the euro zone, and exerted significant influence on the economic development of CEE. In terms of investment opportunities, CEE offered "a window of opportunity" to China. The details are as follows:

Firstly, the debt crisis has contributed to the change of the investment environment of the CEECs. In 2010, the debt crisis in the euro zone took a heavy toll on CEE, leading to a slowdown in the economic growth of the countries in the region. The World Investment Report 2012, released by the United Nations Conference on Trade and Development (UNCTAD), pointed out that against the background of continuous uncertain prospects of economic development in Europe, continued instability in global financial markets and the slowdown of economic growth in most emerging economies, that many countries adopted FDI as a way to promote economic growth, making the investment environment of some countries in 2011 very conducive to foreign investors.

According to statistics, the proportion of countries adopting restrictive policies to FDI decreased from about 32 percent in 2010 to 22 percent in 2011, and the policies for investment liberalisation and promotion are increasingly aimed at some specific industries, such as electric power, gas and water supply, transportation and communications. It has been particularly evident that the CEECs areusing investment promotion as a means of stimulating economic growth. Affected by this, foreign investors have shown a growing interest in investing in the region. A 2012 survey of multinational corporations by UNCTAD showed that the new EU-12 countries (10 CEECs plus Cyprus and Malta) have become one of the top investment destinations immediately following South-East Asia, the EU-15, North America and Latin America, and followed by South-East Europe and members of the Commonwealth of Independent States, which include six CEECs that have not joined the EU. The new EU-12 countries are ahead of West Asia, North Africa, sub-Saharan Africa and some developing countries.

Secondly, due to the impact of the debt crisis, it was difficult for euro zone countries, such as Greece and Italy to keep their investment sustainable in the CEECs, resulting in a large number of poorly managed assets, which provided opportunities for foreign investors to step in. Meanwhile, the spill-over of the euro zone crisis has seriously affected the economic growth and social stability of the CEECs, which used to "go westward" but now they are "looking both eastward and westward," seeking closer cooperation with Eastern countries such as Russia and China to promote economic growth. The CEECs manage to improve transportation infrastructure, promote the construction of energy facilities, vigorously develop information and communications technology, and make them as the main industries with preferential policies to attract investment. In light of China's good investment foundation in these industries, first-mover advantage, and abundant foreign exchange reserves, some CEECs vied to attract investment from China. Various investment forums and investment promotion activities were held in China and CEE. Their investment interactions have reached an unprecedented level.

It should be emphasised that the major factor affecting the changes of the investment environment in CEE is the European debt crisis, and the judgment of the outlook of the crisis will directly affect Chinese investment in the region. In fact, the crisis does not pose a fundamental challenge to the capitalist system; it is just a structural crisis within the euro zone. Despite the ongoing crisis, the grimness of the situation is expected to ease in the near future due to the internal structural adjustment and suit each other between different members within euro zone. If the situation was improved, the interaction with and even control over CEE by euro zone countries would be restored again, CEE's dependence on the euro zone would increase again correspondingly, and investment opportunities for external countries would gradually disappear. Therefore, we can say that this round of investment opportunities in CEE is just "a window of opportunity" against the backdrop of the European debt crisis.

To seize "the window of opportunity" is very important for China and Sino–EU economic and trade relations. Currently, investing in CEE is an important opportunity for China to upgrade export products and extend its investment value chain. Losing the chance, China will miss not only the opportunity to occupy the CEE market, but also the opportunity to realise the transformation of its industrial development model and the upgrading of its value chain with the help of the European market. The European debt crisis has led to the shrinking of the real economy of EU countries and the decline in import demand, and directly affected the EU's imports from China. Since mid-2010, the growth rate of Chinese exports to the EU has continued to decline. What is worse, negative growth occurred in 2012, -1.8 percent in the first quarter and -0.8 percent in the second quarter, and 5.6 percent in the third quarter, respectively year on year, according to China's Ministry of Commerce. In the first

quarter of 2012, the non-energy product import growth of the EU was 0.8 percent, while the growth of China's non-energy product exports to the EU was -2.28 percent. The decline in the share of non-energy product exports from China in the EU market is the main reason for the negative growth in China's exports to the EU in the first quarter. Miscellaneous products (labour-intensive products mainly including furniture, garments and accessories, and footwear), as well as machinery and equipment are the two major categories of Chinese exports to the EU. The growth of the shares of these two types of Chinese exports in the EU market began to have a declining trend from 2004 to 2005, and the absolute value of the market share of miscellaneous products from China began to decline in 2011. Despite the fact that the absolute value of the market share of Chinese machinery and equipment products is still growing slowly, the growth rate has been close to zero, 10 according to EU statistics.

All these show that the slowdown in the growth rate of China's exports to the EU has accumulated for some time, and is the result of the decline in the competitive advantage of China's exports. The competitiveness of labour-intensive exports in the EU market has long been in decline, and even the competitive advantage of capital-intensive machinery and equipment exports barely exists now. To change this downward trend, China cannot expect or wait for the recovery of the EU economy to compensate the loss. On the contrary, it should focus on enhancing the competitiveness of its exports in the EU market and on moving the products to the upstream of the value chain. Speeding up the upgrading of the export industry so as to increase investment in Europe has become a new way to compensate the negative growth of China's largest export market, as well as to drive China's economic growth. With its good investment foundation in terms of labour, capital and industry, and convenience to access the EU technology and market, CEE is quite a good investment place that can produce lots of added value.

### The Main Characteristics of China's Investment to CEE

China Focuses on the Integrity of Investment Distribution, and Strengthens the Overall Transfer of the Chain of Production, Processing and Marketing

Currently, more and more Chinese investors can be seen in construction fields from transportation (ports, airports, and roads) to local assembly and distribution networks (the construction of industrial parks), and even to logistics facilities (investment in sea transportation and the construction of container companies and telecommunications networks) in the CEECs. Chinese investment in CEE has already possessed the characteristic of integrity. It has been developed from the trade towns and trade

centres focusing only on the concentration of labour and on fixed stalls selling to the diversification of investment industries and the development of the value chain. With the increase of green field investment, mergers and acquisitions, and joint ventures in CEE, Chinese enterprises have attempted to introduce specific production models, such as infrastructure construction, machinery manufacturing, information and service industries as well as the development of chemical and agricultural products, to CEE. They also regard CEE as a centre for product upgrading, sales and distribution to realise the localisation and even "Europeanisation" of the production, circulation, sales and branding of Chinese products, and use CEE as a springboard to enter the markets of the EU, Russia and Turkey. This is one of the main characteristics of Chinese investment in CEE at present, and will remain so in the foreseeable future.

#### Characteristic Investment Industries have Gradually Emerged

Currently, China's characteristic investment industries in CEE have been gradually emerging. Largely relying on China's comparative advantages in technology and human capital, as well as its first-mover advantage, Chinese investment is implemented in keeping with the actual investment needs of the CEECs. Investment industries mainly include infrastructure construction, the development of information and communications technology, investment in clean energy (mainly technological investment) and machinery processing and manufacturing.

China Road and Bridge Corp. signed the Zemun–Borca Danube River Bridge project contract with the Serbian government in Belgrade in April 2010. This is a landmark project for bilateral cooperation. Although a Chinese company withdrew from Poland's A2 highway project after incurring heavy losses, China's investment in infrastructure construction in CEE has a sound momentum of development and has covered many countries and regions in CEE. Chinese information and communications technology companies Huawei and ZTE have invested across CEE. With a wide business scope, the companies have exerted a relatively large impact. China has also made achievements in making investment in clean energy in the CEECs, and accelerated capital and technological investment in hydropower stations, nuclear power plants and thermal power stations. In terms of machinery processing and manufacturing, China has invested in the production lines of electrical appliances, automobiles and heavy machinery in many CEECs including Hungary, Poland, Bulgaria and Serbia. For example, at the end of January 2012, Liuzhou-based Liugong Machinery Corp. acquired the Polish construction machinery enterprise HSW, one of the largest construction machinery manufacturers in CEE, with a very high position in the heavy engineering equipment field, whose products are exported to more than 80 countries. After acquiring HSW, Liugong can get all its intellectual property rights

and trademarks, and establish a manufacturing as well as research and development base in Poland. Based on its operations in Poland, Liugong can radiate its influence to the whole European market. As part of its efforts to integrate the above-mentioned competitive industries, China has also strengthened the construction of industrial parks in CEE so as to encourage and attract investors from China, and expand the influence of Chinese investment in CEE.

In the near future, China will play an increasingly important role in the privatisation of the industries and enterprises of finance, telecommunication, energy and electric power in CEECs, and become the new holders and managers.

China Focuses on Cooperation with the Major Countries of CEE and Expands Investment from Key Countries to the Whole Region

China does not invest in all CEECs indiscriminately, but pays more attention to countries that have prominent investment advantages and hold more balanced composite indicators, especially to the CEECs having advantages in geography, industrial bases, resource endowment and labour force quality. What China values most is the function of a "springboard" and "bridgehead" of some CEECs. For example, Hungary and Poland have become important choices for China. Hungary has attracted more Chinese-funded institutions and Chinese businessmen than any other country in CEE. Chinese investment in Hungary covers industries such as trade, finance, aviation, chemicals, logistics, real estate, consulting services, communications and electronics manufacturing.<sup>11</sup> In 2010 and 2011, Wanhua Industrial Group Co. Ltd., the controlling shareholder of Yantai Wanhua Polyurethanes Co. Ltd., invested a total amount of 1.263 billion euros for two consecutive years and acquired a 96 percent stake in Hungarian chemical company BorsodChem. It is the largest Chinese investment in CEE. China's direct investment in Poland had always been small for many years until 2007 when Chinese investors began to notice the Polish economy's strong development. Chinese investment in Poland has experienced rapid growth since, involving areas such as machinery manufacturing, communications technology, mineral exploration, real estate, and infrastructure construction.<sup>12</sup> After the Warsaw meeting, the author predicts optimistically that, Poland will be the new leader for Chinese investment in CEECs considering its size, good economic performance and increasing weight in EU's decision-making systems during the debt crisis. Statistics of the Chinese government show that China's investment in CEE primarily went to Hungary, Poland, Romania, Bulgaria and the Czech Republic in 2010 and 2011. Hungary attracted the highest investment stocks, which was 465.7 million US dollars in 2010 and 475.35 million US dollars in 2011. It was followed by Poland, 140.31 million US dollars in 2010 and 201.26 million US dollars in 2011; Romania, 124.95 million US

dollars in 2010 and 125.83 million US dollars in 2011; Bulgaria, 18.60 million US dollars in 2010 and 72.56 million US dollars in 2011; and the Czech Republic, 52.33 million US dollars in 2010 and 66.83 million US dollars in 2011.<sup>13</sup> To a certain extent, investment in these countries will drive investment in the entire region of CEE.

The Soft Environment of Investment in CEE is Improved

The Chinese government vigorously promotes cultural exchanges between China and CEE, holds various investment forums, dispatches "investment promotion delegations" to the CEECs to promote investment and strengthens the exchange of information and sharing of experience. Especially, it invites officials in charge from the CEECs to China for exchanges and training, so as to help them understand China's economic situation and foreign investment policies in CEE. Besides, China has also set up a cultural exchange mechanism between China and CEE and founded a research fund to promote mutual understanding.

### The Main Challenges of Chinese Investment in CEE

China's main investment approach in CEE is to move the whole industrial chain to the region and build it into a product upgrading centre as well as a sales centre, so as to realise the localisation of production, flow and sales of Chinese goods, and further to enter EU, Russian and Turkish markets. However, there are certain investment risks. Some EU member states have realised the investment tendency of China. Some members of the European Parliament clearly express that China will be welcomed if its investment can provide employment opportunities and bring profits and will meet with strong opposition if it only wants to use the CEECs as its export bases or sales centres. The competition caused by the convergence of some kinds of industries between China and some CEECs cannot be ignored either. For example, both Poland and Hungary feature the processing industries to meet the demand of the European market and they are regarded as the miniatures of China in the EU market.<sup>15</sup>

Chinese investors have been concerned about the investment value and the market capacities of the CEECs for a long time. Most of the high-quality assets of the CEECs have been absorbed by Western countries due to privatisation in the transformation period in the 1990s. So currently, most of the high-quality assets are still being controlled by those "sooners". What Chinese enterprises gained from the CEECs are mainly poorly managed businesses. Meanwhile, most of the CEECs' market capacities are comparatively limited, which makes it difficult for Chinese investors to receive high profits. Besides, the integration of the market rules of the CEECs with the EU

also makes it more difficult for Chinese enterprises to step in the region. It makes the situation worse, that in some CEECs, especially in South-East European countries, grey economy and corruption is rampant, and sometimes, laws and regulations cannot be put into practice, all of which bring risks for Chinese investors.

Stakeholders, mainly including some influential commercial interest groups in the EU, Russia and CEE, are concerned about China's entry into the CEE market and try to curb it. Since the outbreak of the European debt crisis, China's involvement in CEE has triggered high concern from the EU's institutions, Germany and other EU members – which speculate that China is trying to divide the EU and establish a "CEE group." In 2012, the joint communiqué to be publicised during the meeting between China and CEE was submitted to EU institutions for review in advance. The EU strongly opposed the proposal of developing long-term China-CEE relations and institutionalising these relations. German Chancellor Angela Merkel expressed her concern about the closed, exclusive discussions between China and CEE.<sup>17</sup> Along with their deepening cooperation, EU institutions and member states concerned might set up obstructions. Russia, another great power keeping close relations with CEE, also suspicious of China, worrying that the Chinese will gradually enter its "backyard" and take over its trade opportunities and political clout. Apart from this, the commercial interest groups of the CEECs are also important forces that hinder China's efforts to step in the CEE market. Due to competitive relations in purchasing and bidding with China, these groups will be certainly threatened if Chinese enterprises enter their dominated territories. Therefore, they often ask their government to impose various restrictions in market access, terms of tender, visa, residency, etc., with the excuse of protecting the enterprises of their own country.

Moreover, the negative campaigning of media and think tanks pose pressure on Chinese investment. When entering CEE, China was criticised by some local media of abusing fair trade rules and using the price dumping to compete unfairly. Some think tanks suggest that, the CEECs need to unite together to conduct economic diplomacy and bargain with China, so as to prevent China from gaining more profits by virtue of the conflicts among the CEECs. They claim that CEE can properly cope with the economic "invasion" from China only by uniting together. Some think tanks believe that the Chinese investment policies are driven by political interests. China needs the support of the CEECs to exert its clout on the great powers in EU, they argue, adding the formation of a CEE alliance may push the EU to make decisions beneficial to China. Some other think tanks even think that China adopts different diplomatic criteria toward the CEECs based on their economic potential and political attitudes. For example, Poland and the Czech Republic, whose state leaders often meet with the Dalai Lama and criticise China's human rights records, usually get Chinese investment in disproportion to their economic scale. While Hungary, Romania and Bulgaria,

thanks to their full support for China, get more Chinese investment in return. The negative campaign of media, the ignorance of China by people in the CEECs, and their non-recognition of China's political system lead to an unfavourable public opinion environment for Chinese investment in some CEECs.

China is not familiar with the CEECs after their transition. After drastic changes took place in the Soviet Union and Eastern Europe, the priority of the CEECs is to consolidate democracy, integrate with the West and join the EU. China is mainly engaged in developing its economy and maintaining social stability. China and the CEECs used to be close with each other; however, they get estranged due to their different strategic development orientations after the Cold War. There are different kinds of languages, cultures, ethnic groups, religions and histories in CEE. The CEECs are geographically far from China and have changed a lot. All these factors make them more difficult for China to understand.

Last but not the least, whether the CEECs have made good preparations to make some deals with China on investment cooperation is still out of the question. China can easily make a long and forward-looking strategy on trade and investment cooperation with CEE. But the CEECs comparatively have less advantage to do this. What's more, some of them are still hesitating about the measures ought to be taken to receive China.

### Chinese Investment in CEE: a Case Study and Lessons Learned

In September 2009, Poland's A2 highway opened invitation for bids. Directly connecting Warsaw, Poland with Berlin, Germany, the highway was an important project for the Euro 2012 Football Championship jointly hosted by Poland and Ukraine. China Overseas Engineering Group Co. Ltd. (COVEC), as a subsidiary of China Railway Group Ltd., responded to the tender quickly. Finally, the bidding consortium headed by COVEC won the contract with 1.3 billion zlotys (472 million US dollars, 3.049 billion yuan) to build sections A and C. The highway was Chinese companies' first large-scale infrastructure project in EU countries. COVEC had been trying to enter the European infrastructure market, and undoubtedly, the A2 highway provided a good opportunity for the company to demonstrate itself. However, this project eventually ended with the Polish government terminating the contract with COVEC in June 2011, and Chinese infrastructure companies' "first bid" in CEE ended up in failure. For COVEC's investment in Poland, the domestic media concluded that COVEC got clobbered due to its blind entry. In fact, we should analyse COVEC's investment in an objective and comprehensive way. Only by this, can the case provide rich and comprehensive references for Chinese companies' investment in CEE in the future.

Some Unpredictable Risks should be Considered in the Investment by COVEC in Poland

- 1) It happened to encounter the financial crisis in 2009, when raw material prices were relatively low. After winning the bid, the schedule was put off due to cold weather. Meanwhile, the Polish economy recovered quickly and Poland began to build infrastructure projects extensively for Euro 2012. Prices of various raw materials for infrastructure rose so sharply that the rental prices of some raw materials and excavating equipment went up more than five times in just one year. Given soaring costs of infrastructure construction, the Chinese investor suffered losses at the very start.
- 2) China gained explicit support from Polish authorities to invest in the project. On the one hand, the Polish Peasants' Party, one of the ruling parties, was eager to create achievements and strongly believed in the "Chinese speed" of Chinese enterprises. On the other hand, European and American contractors had been charging too high. In order to drive down prices, the Polish government tended to have Chinese companies involved, and Polish Peasants' Party representatives were sent to China to lobby. The Chinese took it for granted that they could win the contract first and then ask the Polish government for help when troubles occurred. So they proposed an extremely low offer, which didn't arouse suspicions from the government officials of Poland. In fact, things didn't work out as expected when the Chinese contractor encountered difficulties. In June 2011, Donald Tusk, Polish Prime Minister, firmly refused China's request for adjusting the bid and terminated the contract with China.
- 3) Poland's highway authority operated irregularly in the bidding process and deliberately concealed some difficulties of the construction. In addition, the bidding procedure was not fair and transparent either. Given all the above-mentioned factors, there were particular reasons for the failure of investing in Poland by COVEC.

#### COVEC's own Carelessness or Ill-Preparedness should also be Noticed

1) Reckless investment and unfamiliarity with the situation. In the early stage of the investment, the Chinese side relied too heavily on the opinions of several Polish experts. Neither did the Chinese side fully examine the particular local situations for infrastructure, nor did it know the special provisions of the EU, such as provisions that specialised passages for protecting wildlife shall be constructed along the highway and local workers shall be hired. Worse still, the Chinese side was not familiar with local suppliers of raw materials. All these resulted in serious over-budget.

Slack technical check is another problem. Neither did the Chinese party realise that the functional specification provided by Poland was unclear, nor did it comprehend the complex geological conditions of the sections it was contracted to build. The Chinese technical staff made the decision in a hurry without making sufficient preparations before bidding.

2) Poor internal management. With many disputes existing in the consortium and the working relationship not straighten out, the work efficiency of the Chinese side was seriously affected.

Chinese Companies are Seriously in Lack of Crisis-prevention Awareness and Public Relations Capabilities

When evaluating the investment of COVEC against the larger background of the "Going Global" strategy of China, we can find more in-depth problems that Chinese companies will face when investing overseas, such as unsound supplementary measures for investment. As a highway for Euro 2012, the most widely watched sporting event in the whole Europe, COVEC's "unfinished project" in Poland was scrutinised by all walks of life ranging from prime ministers and royal families to civilians in European countries, resulting in the negative impact being magnified beyond expectations, to which the Chinese side had no preparations at all. It reflected that Chinese companies are seriously in lack of crisis-prevention awareness, public relations capabilities as well as sound supplementary measures in investment.

However, it must be emphasised that, the COVEC case is only anecdote for China's investment in Poland which only makes China fully realise that there exist many risks in CEE's market but more opportunities if dealt properly. China is ready to double trade with CEE, to 76 billion euros a year by 2050, which was announced by Wen Jiabao in Warsaw, in April 2012. Until now, Hungary in CEE has received the most investment from China. However, Poland remains China's biggest trade partner, and with the LiuGong takeover of HSW, now the largest recipient of investment made by a Chinese corporation in the region. In 2011, 633 million euros came from China to Poland, with the Chinese becoming the 3<sup>rd</sup> largest investor in the country.<sup>21</sup>

#### Recommendations on China's Investment Policy in CEE

China must Clarify Its Strategic Intentions of Investing in CEE, Namely, Further Promoting Cooperation between China and the EU via Cooperation with CEE

When investing in CEE, China has the intention of upgrading the industrial chain and localising production in the region, which is basically a kind of economic behaviour. It needs to be clarified to the EU, via policy interpretation, that Chinese investors always pursue the principles of mutual benefit and win-win outcomes, and will comply with

EU laws and regulations. China's investment plays an important role in the promotion of economic development in CEE and also is a useful driving force for more balanced development between Eastern Europe and Western Europe within the EU. And this will be a great opportunity to deepen the comprehensive strategic partnership between China and the EU.

In view of the close relationship between CEE and the EU, the role and the function of the EU needs to be included in the process of promoting bilateral cooperation between China and CEE. And this will be an effective way to make the EU hold more comprehensive understanding and less groundless suspicions to China. On condition that cooperation between China and CEE is not diluted, China ought to partially create conditions for EU institutions and member states to participate in this process, transforming the China–CEE cooperation into a moderately open and inclusive multilateral cooperation platform.

China should Properly Address the Issues of Risk Aversion and Crisis Management when Investing in CEE

The support of local governments and non-governmental organisations is indispensable to investing in the economic development of the CEECs. So sound supplementary work will be necessary, and China ought to make use of investment opportunities to extensively contact local institutions for deeper understanding and cooperation. For the purpose of risk aversion and improving crisis management capabilities, China needs to create conditions for the establishment of analysis teams of investment risks and local foundations formed by local elites and relevant agencies. The main purpose of the analysis teams of investment risks is to gather information, conduct in-depth investigations into investment risks, and avoid walking into unfamiliar territories blindly. The principal objective of establishing local foundations will be for crisis prevention and crisis management. At first, enterprises ought to engage some of the local elites in their investment activities. Once Chinese enterprises suffer losses or obstructions in investment in host countries, the foundations can come forward to do public relations work to help defuse the crisis.

The Chinese Government ought to Strengthen the Guidance and Support of Investment Behaviour

The government needs to guide enterprises to flexibly choose the right model of investment according to the specific characteristics of a project. In addition to green field investment, enterprises can explore and adopt models like joint ventures, mergers and acquisitions and participating in privatisation. They may also seek the possibility

of cooperating with multinational companies on projects that call for huge investment and draw public attention.

The government ought to take the initiative in resolving specific technical barriers set by some CEECs. First, it is difficult for Chinese workers to get labour visas, work permits, and take up residence, which affects the expansion of investment in CEE. Second, social security poses a problem. There are no social security agreements between China and CEECs. Chinese workers need to pay pensions and unemployment insurance in the CEECs. However, when they return to China, the insurance premiums paid cannot be returned and that will be an additional burden to Chinese enterprises. Third, in order to attract investment, the CEECs will generally promise to provide some preferential policies; nevertheless, it is difficult to put them into practice due to systemic constraints in the actual implementation process. The Chinese government ought to come forward and urge the governments of the CEECs to strengthen policy implementation on these issues.

China Needs to Explore a New Model on Developing Relations with the CEECs

The 12 measures proposed by the Chinese government need to be implemented as a core policy for deepening bilateral friendly cooperation. Meanwhile, China ought to actively sum up experience and amend some existing problems of the 12 measures. Drawing on its practice in other regions, China needs to explore a new model on developing relations the CEECs. In addition to China–Africa cooperation, China–CEE cooperation can be another good example of country-to-region cooperation. To this end, the research fund on relations between China and the CEECs proposed by the Chinese government ought to concentrate upon this dimension for some useful exploration, extensively absorb the opinions of political, academic and business elites to agree on a new model of cooperation between China and CEE and help make it prevail. Currently, China is emphasising the mutual benefit cooperation with new emerging countries, and deepening the regional and sub-regional cooperation with some countries. The CEECs are labelled as emerging countries and CEE is a special region (or sub-region) as well for China. China can develop the special model from those two dimensions.

#### **Notes**

- 1 This paper was published in the China International Studies (November/December 2012) for the first time, in the requirement of the Asian Studies, the author edited this paper and added new development and comments on this topic.
- 2 The 12 measures on promoting the pragmatic cooperation between China and CEE include: to found the China–CEE Cooperation Secretariat, China to earmark the special loan totalled 10 billion US dollars for the CEECs, China to initiate the Sino–CEE Cooperative Fund, China to dispatch the

- trade and investment promotion delegation, and etc. For details, please visit *Xinhuanet.com*, http://news.xinhuanet.com/2012-04/26/c\_123043845.htm.
- 3 According to statistics of the Ministry of Commerce of the PRC (MOC), from 2008 to 2011, the total trade volume between China and the EU new members (eight CEECs plus Cyprus and Malta) continued to grow steadily, from more than 38 billion US dollars to more than 54 billion US dollars. The total trade volume between China and the six Western Balkan countries also showed a rising trend, from over 7,000 million US dollars in 2008, to more than 2.4 billion US dollars in 2010, and to over 2.9 billion US dollars in 2011. According to the statistics of the Department of European Affairs of the MOC: http://ozs.mofcom.gov.cn/date/date.html
- 4 Li Minghuan: "Social Transformation of Eastern Europe and the Formation of the New Chinese Businessmen", World Ethno-National Studies, No. 2. (2003).
- 5 MOC, National Bureau of Statistics of China (NBS), and State Administration of Foreign Exchange of PRC(SAFE): 2011 Statistical Bulletin of China's Outward Foreign Direct Investment. No. 8. (2012). pp. 37–38.
- 6 According to statistics of the MOC, as of 2011, the investment stock of China in the 16 CEECs totalled 1.00877 billion US dollars, far less than the investment to Sweden (1.53122 billion US dollars). And the gaps between Chinese major investment countries in Europe are even larger: France (about 3.7 billion), Germany (about 2.4 billion), and Russia (3.8 billion). The investment stock of Luxembourg, the largest investment from China in EU members was about 7.1 billion, and that of the Netherlands, the second largest was about 6.6 billion, which were more 6 to 7 times than the investment in the 16 CEECs. Data sources as the above.
- 7 According to MOC, NBS, SAFE: 2011 Statistical Bulletin of China's Outward Foreign Direct Investment.
- 8 UNCTAD, World Investment Report, (2012). p. xix.
- 9 See the statistic data of MOC: http://ozs.mofcom.gov.cn/date/date.html.
- 10 Data from Eurostat and refer to the collated data of the World Economic Forecasting and Policy Simulation Laboratory of the World Economics and Politics Research Institute of the Chinese Academy of Social Sciences.
- 11 http://hu.mofcom.gov.cn/aarticle/zxhz/hzjj/201103/20110307426966.html
- 12 PMG: "Poland's Position as a Business Partner of China: How do Chinese Investors View Poland". http://www.paiz.gov.pl/files/?id\_plik=16210, 2011. pp. 5–6.
- 13 According to MOC, NBS, and State Administration of Foreign Exchange of PRC: 2011 Statistical Bulletin of China's Outward Foreign Direct Investment, pp. 37–38.
- 14 As far as the author knows, the trainings of the officials of the CEECs in China mainly funded by MOC and led by Ministry of Foreign Affairs, have produced comparative good effects.
- 15 Marek Belka, the Governor of the Central Bank of Poland, mentioned this point in the speech in the Institute of World Economics and Politics at the Chinese Academy of Social Science on 12 July 2012.
- 16 Of course Chinese enterprises still have comparatively good opportunities to step in such stateowned enterprises that are not completely privatised in CEECs.
- 17 The materials above are from the interview of relative Chinese decision-makers by the author.
- 18 Marta Golonka, Bartek Nowak, and Daniel Timoner, ed.: "Partners or Rivals? Chinese Investments in Central and Eastern Europe". Central and Eastern Europe Development Institute, www.ceedinstitute. org.
- 19 The European Council on Foreign Relations: "Facing the Risks of the 'Going Out Strategy'". China Analysis, No. 1. (2012). http://www.ecfr.eu/page/-/China\_Analysis\_Facing\_the\_Risks\_of\_the\_Going\_Out\_Strategy\_January2012.pdf.
- 20 Materials were compiled from interviews of relevant Polish figures.
- 21 Golonka, Nowak, and Timoner, ed.: op. cit. p. 23.

# Political Economy of the Chinese Investments in Eastern, Central and South-East Europe

Dragana Mitrović

The global economic crisis has changed – more precisely, has focused and intensified, and in a way eased realisation of huge Chinese interests in Europe and the EU. On the other side, it has significantly influenced change of the EU's attitude towards China, which suddenly became a pleasing big investor, and for some, even saviour of the EMU – through purchasing of the EFSF bonds –, as well as the Union's economy itself. For the others, it remained a threatening challenge. An important part of the very same phenomenon has been the reviving of the economic cooperation between China and countries of Central and South-East Europe.

In spite of that we could still follow traditionally strong Chinese economic engagement primarily in Asia, it is present as a big donor and investor in Africa and Latin America, but – in accordance with its' high leaders' repeated announcements in 2009, 2010 and 2011 – a very obviously growing Chinese economic involvement has been happening in Europe. Particularly noticeable Chinese interest was seen in the Mediterranean area, where some 30 percent of all Chinese "European" investments concentrated since the outbreak of the global economic crisis in 2008. Although some analysts saw recent Chinese economic interests in countries that recently have become or are about to become EU members, as an attempt to get a shorter or a cheaper way to the EU market, that engagement in fact has spread wider – into Eastern and South-East European countries. It looks more realistic to conclude that China is using every open door to enter the EU, but also to the European market as a whole.

China has strong motivation to invest in strategic infrastructure in South and South-East Europe. The other factor should be realised: that those sectors in Serbia, but also in Greece – and most of those countries beyond their strategic importance as situated on the crossroads of major inter-regional and intercontinental routes –, have been neglected sectors of their relevant national economies that for this reason are expected to have strong growth. That makes them profitable and wise investment choices. Additionally, an important development that is being arranged is the influx of the Chinese funds

through bilateral loans, share placements and foreign direct investments (mostly joint ventures) into these countries, thus creating what many define as a long-term strategy of Beijing to create a significant foothold in one of the most strategic placements of the European continent.

On the other side, China enters the EU through every channel it finds or creates: a good example for that is the highly costly traffic infrastructure project in Greece – a member state that has serious problems with the sustainability of its economic model and the liquidity of its economy. However, it did not prevent China from making a long-term investment of 2.5 billion US dollars by renting the Piraeus seaport for thirty five years – the main Greek trade port that is at the same time strategically positioned between the three continents of Europe, Asia and Africa.¹ Chinese state owned shipping giant COSCO also invested an additional 400 million euros in upgrading and enlarging three container terminals of the port to enable them to connect with South-East Europe.² Since 2009, PCT (Piraeus Container Terminal), a wholly-owned subsidiary of COSCO Pacific Limited, a world-leading container terminal operator, has been operating in Greece and its engagement has been concentrated on increasing the capacity of the port's terminal by 30 percent.³

During the 2010 visit of Chinese Prime Minister Wen Jiabao to Europe (his tour included Belgium, Italy, Greece and Turkey), the Chinese side also announced the acquirement of Greek state bonds and the formation of the regional investment fund for the south-eastern part of Europe, run by one of the "big four" Chinese state-owned banks: *China Development Bank*. During the high-level visit Chinese corporations' intentions to rent Thessalonica seaport were also expressed, as well as interests for investments in railways, airports, shipbuilding, telecommunications, tourism and agriculture.

This particular visit also had an important role in eliminating scepticism of some political and academic circles in the EU about the very nature of Chinese intensions. Chinese Prime Minister Wen Jiabao asked for undisturbed access for Chinese companies while announcing and making new business deals, which paved the way for long-term significant presence of the Chinese companies and state in Europe. The message for sure was that China has already become an important player in the European financial market, the EU market and in numerous national markets of the EU member states and other European states.

# The Southern European Door

In June 2010, during China's Vice-Premier Zhang Dejiang's visit to Greece, Greek and Chinese companies signed fourteen, mostly shipbuilding and construction deals, worth several hundred millions of euros, according to both sides' official sources. It happened

in a particularly sensitive moment when the globally influential rating company, Moody's Investors Service significantly downgraded Greek government bond ratings and was an important step towards different perception of Greece's and EU's business and general capacity. Such vision was stressed by the Chinese Vice-Premier. One of the agreements among the signed was the "memorandum of understanding" between China and Greece in the area of shipping that foresee favourable chartering rates for Greek vessels. Seven of the contracts were between Chinese COSCO Pacific Limited and Greek ship-owners for the construction of new ships and the chartering of Greek vessels.

As tourism grows bigger in mutual economic ties, with visits from China increasing by 20 percent per year – reaching some 300,000 high-income tourists for 2009 – this sector is becoming particularly attractive for Chinese investors. As a prompt respond, agreements were also signed between Chinese group BCEGI and Greece's Helios Plaza for the construction of a large hotel complex in Piraeus.

Also, OTE telecom reached an agreement with China's Huawei Technologies as the Chinese brand has made a dynamic entrance in the telecommunication market and supply with equipment provided for major Greek companies in that sector. Additionally, four Chinese food firms were planning to start importing Greek olive oil in an attempt to fill part of the fast growing market of a "new" gastronomy or posh cuisine for the Chinese "new reach".

On the scale of small enterprises and numerous private investments, the most notable were moves by numerous Chinese vendors that run more than 1,500 commercial shops who aroused the Athens area real estate market by numerous acquisitions of homes and tourism facilities.

Lastly, Chinese state power companies were in talks with the Public Power Corporation of Greece in order to attain part of the modernisation job of an electricity sector.

During those high-level visits, agreements or intentions were announced of making several long lasting contracts between Chinese and Greek companies, primarily in shipbuilding industry, backed by newly created fund worth 5 billion US dollars that would be used for the modernisation of Greek trade fleet by ships made in China. Other deals were publicised in tourism, railways, possible privatisation of Greek Telecommunication Company, constructing industry and agriculture.

All those business deals and announcements of the others, as well as high-level visits sent a clear message about Chinese importance in the European financial market, within different European economies, but also in the EU and the European market as a whole. The total quantity of debt bonds of Greece, Italy, Spain, Portugal, Germany and few other EU states, purchased by China, remained unclear due to the cumulative nature of its and the EU's relevant statistics. On the other hand, the Chinese side has

repeated several times warnings and responsibility pleads towards EU partners that proved its determination towards investments that were considered challenging, but still with poor alternatives.

Together with appeals towards bigger Chinese involvement in this process came the opposite ones, too. Some analysts and politicians within the EU saw such development as a threat to economic and geopolitical independence of the European Union, as allegedly China has been becoming important economic, but also political factor within the EU and Europe by using problems of the EMU economies to empower its influence over certain countries, and over the EU as a whole, as well. Although such development comes naturally along the road, it expresses reservations and prejudices towards China that exists within certain circles in Europe. On the other hand, Chinese analysts find that the EU uses the situation of the Chinese investments not accessible for US market. as well as the Sino-American trade disputes to get most of the Chinese investments. At the same time, more EU products could enter Chinese market. That is why it is a reasonable conclusion that the whole Europe gains from the American uneasiness towards Chinese growth. Also, fears that Chinese corporations will withdraw their capital, technology and by this, jobs from the companies they bought into Europe, proved to be untrue. On the contrary, Chinese companies have strengthened many industrial branches in Europe.

Chinese approach, though, is very pragmatic and similar to the Russian one, and thus, it is making valuable bilateral business arrangements with individual EU member states, which significantly reduces the negotiating power of the EU as a block. On the other hand, such approach sometimes enables member states to achieve national interests on the expense of the EU's one, or without seeking for consensus decision on each and every individual case. Also, it is for sure that nominal devaluation of many assets within Europe made possible for China to maximise the effects of its investments in potentially prosperous and strategically located parts of Europe, especially those on the crossroads between Europe, Middle East and Russia.

Mr. Wen's last visit to the EU, as Premier of the People's Republic of China in 2012, proved to be dissatisfying to him personally (the EU did not express the expected gratitude to his personal engagement for strengthening Sino–EU relations), and towards Chinese expectations from the summit's outcomes. At the same time, it almost corresponded with the "alternative" Chinese approach to Europe, e.g. through comprehensive, but primarily economic cooperation with the Central and South-East European countries through the financed framework, created for this purpose. In April 2012, Prime Minister Wen Jiabao met in Warsaw with high envoys from 16 Central and South-East European countries at the economic forum (announced a year before in Budapest), where they have introduced twelve measures for development within the "sixteen + one" program, including the establishment of the Secretariat in Beijing and

credit line worth 10 billion US dollars for support of the future projects, among which some 30 percent of the amount would be financed under the preferential conditions for the third world countries. Projects in the area of infrastructure, high-technology and renewable energy will be prioritised, while China will try to stimulate "16+1" trade relations as to reach the value of 100 billion US dollars by 2015 (double than current value of it), build one high tech zone – to promote economic development – in each of the 16 countries in next five years. As well as, it will organise "forums of cultural cooperation" with each of them, will provide 5,000 scholarships for students from those countries to study in China and will organise the first political forum of the youngsters, among other programs.

# Chinese Engagement in the Central, Eastern and South-East European Countries

Growing Chinese involvement with the economies of Eastern and South-East European countries shows primarily that China has significant commercial interest to be present. There is an obvious interest of China to invest into traffic infrastructure in this part of the world – from ports, railways, roads, bridges, but also into agriculture, energy industry, renewable energy sector, auto-industry, electronics, as well as into trade, tourism and financial services.

On the other side, China invests in this part of Europe for the reason it invests anywhere around the Globe: to expand its export markets, to gain missing resources, including strategic goods, like fertile soil, water, but also stakes of the automobile industry or energy businesses that became relatively cheap as their shares lost much of its value. As a result of the above mentioned, we saw relatively robust Chinese investment in Belarusian, Romania, Bulgaria, Macedonia, Serbia, etc.

Additionally, beyond investing small part of its foreign reserves, employing some of its plentiful workforce, China has been sending powerful message to its major business partners about its high technological, managing and overall business capacities. For example, the bridge on the Danube ("Zemun–Borca") and the revitalisation of "Kostolac B" thermo power plant in Serbia are set to be exemplary models for similar investments of Chinese companies in South-East and other European countries.

China has also been creating an alternative entrance to its largest foreign market – the EU – and Europe as a whole, under Chinese lease and administration, as in sea port of Piraeus. An unavoidable collateral gain China gets out of the process is an undoubted geopolitical influence.

Central and South-East European countries, as former communist countries, have history in doing business with China, even exporting technology and experiences of the

first steps in their transition during the first phase of the Chinese reform and opening up project. Especially after the EMU crisis, they rediscovered China as a promising investor and a reliable partner. Also, they have relatively cheap and skilful workforce and do not press China with ideological issues.

When President Hu Jintao visited Croatia in 2009, it was the first highest-level visit from China to the region and the first time that Chinese intention to develop economic relations with all the countries of the region was announced.<sup>4</sup> During the visit, and later, Chinese companies expressed interests to invest into Rijeka seaport, and into the Rijeka–Zagreb railway line, that would fit into wider Chinese positioning into transport and producing capacities in Europe. Croatia also lifted visas for Chinese tourists during the summer season, which was welcomed.

One important ingredient of the cooperation is that there are no open questions among China and the 16 states and there is a history of traditional friendship and cooperation, as well as mutual wish and interest to upgrade the cooperation. As Chinese President Hu Jintao pointed out in Zagreb, "China has always respected sovereignty and territorial integrity of the South European countries, as well as the development model chosen by the peoples of these countries". In that sense, economic, political and every other aspect of cooperation with China flatters each of these countries.

In the following year, in 2010, the second person in China's state hierarchy – Wu Banguo, visited Serbia and declared the preferential financing and the building of the now famous "Chinese bridge" on the Danube in Belgrade (Zemun-Borca). Those were signs that both countries appeared on the priority list of the Chinese foreign policy agenda. The speech of the Chinese President Hu in Zagreb in 2009, was very important, stressing that China supports speedy Croatian accession to the EU - as well as similar choice made by all the countries in the region – as Croatian prompt admission would facilitate Croatian economic and general development that would give impetus to similar development of the other South-East European countries. By such process they would all become much more qualified for the Chinese partner in economic and general cooperation. Cooperation with China is, unlike with major Western powers, in on an equal level, with no subordinating treatment or humiliating preconditioning. In that sense, all countries of the region are feeling very stimulated to deepen cooperation with China, although, in some of them there were concerns that such development could harm their close ties with countries that – paradoxically – have China as high priority global partner. When it comes to Serbia and its problems with Kosovo's self-declared independence, it is especially important for the country that China – as permanent member of the UNSC and strong supporter of the UN global management – is a guarantor of the UNSC Resolution 1244.

Beyond the two mentioned high level visits to Croatia and Serbia, there are also other elements that contribute to the impression of a much stronger political presence

of China in the region. As a state that opposes unilaterally declared independence of Kosovo and guarantor to the UNSC 1244 resolution that keeps the runaway province within Serbia, for the first time China behaved proactively when taking part into debate before the ICJ in Hague, against unilateral secession. Also, Chinese police forces took part into UN missions in Bosnia and Herzegovina and in Kosovo.

Chinese and Romanian cooperation has a long tradition (Romania recognised the People's Republic of China as soon as only three days after it was established). It was continuously developing even during the split from the other communist countries within the Eastern bloc. Since 2000, trade volume between the two countries has increased by ten folds with Romania, and exports to China grew by a big margin. Under the support of the government, Chinese companies have steadily increased investment in Romania. The two sides have developed cooperation in the areas of science and technology, education, culture and military exchanges. They have maintained sound coordination and communication in regional and international issues. Chinese President Hu visited Romania in 2004, when the two countries established a comprehensive, friendly and cooperative partnership. Xi Jinping visited Romania in 2009, as Vice President. The latest visit by senior Chinese leaders to Romania was in April 2011, when Li Changchun went to Bucharest, as a Standing Committee Member of the Political Bureau of the Chinese Communist Party Central Committee.

China remains Romania's biggest Asian trade partner with significant trade of some 3.76 billion US dollars. Trade volume impressively grows by 20 percent annually, as Romania has been "rediscovering" Asian partners since the shrinking of the EU markets for the Romanian export. In some 9,000 Chinese firms (mostly joint ventures) a half billion US dollars, mostly private capital, was invested. Those firms are mostly engaged in trade, clothes manufacturing, tobacco production, wooden furniture, sweets, mining, energy, automobile industry and tourism. Many of those investments are twenty years old, while lately the presence of Chinese transnational corporations from telecommunication and IT sectors like Lenovo and ZTE was obvious.

Big setback was done to the cooperation by the Romanian action of demolishing the China Town (Nile) in Bucharest, when some 3,000 little Chinese shops and property of some several million euros was destroyed, after which Chinese, sustaining loss, complained before the EU institutions. After a year, the new Chinese centre was opened with significant Romanian help to repair the damage and turn towards Chinese partners again, as after an excellent start, they were strongly hit by retreat of the Western financial assets at the beginning of the EU crisis. In August 2011, Romanian Prime Minister Emil Bloc visited China, first time after he was elected in 2009.<sup>5</sup> He urged Chinese investors to take part in building infrastructure, as well as in joint ventures in energy sectors, agriculture and transportation.

Before this latest wave of investment and interest, China had invested relatively big in Hungary, where the *Bank of China*, one of the four top Chinese banks and one of the world's biggest five hundred corporations has been operating. On 24–26 June 2011, Chinese Premier Wen Jiabao visited Hungary, which, for many, seemed to be the central Chinese point of interest at this part of the world. Hungary, then closing out its term in the rotating presidency of the EU Council of Ministers, was though, engaged in purely bilateral dialogue with high Chinese guest. During the visit, Wen and Hungary's Prime Minister Viktor Orbán signed a dozen agreements worth around 3.6 billion US dollars, which the Hungarian government proclaimed would create thousands of jobs in the country.<sup>6</sup> High level visits from China continued with the next year's visit of the Chinese Vice Premier Li Keqiang on 30 April 2012, when he met with Hungarian acting President and Speaker of the Hungarian Parliament László Kövér.<sup>7</sup> Other sectors that experienced investments from Chinese companies were chemicals, machinery, home appliances, telecommunications, R&D, finance, agriculture and tourism.

China expressed steady interest to upgrade economic cooperation with Belarus, Ukraine and Moldova as well, in accordance with their economic capacity and political readiness to engage in cooperation with China. Belarus for both reasons was the biggest beneficiary of its position, as it was not submitted to (in)formal complaints from the EU and IMF about receiving unconditioned Chinese loans. In 2011, Beijing's trade with Ukraine, Belarus and Moldova was around 12 billion US dollars.8 China has been constantly the highest priority in the foreign policy of Belarus President Alexander Lukashenko. His last visit to Beijing was in December 2005, among many high level visits from Belarus side, while Chinese Prime Minister Wen Jiabao visited Belarus in 2007, Vice President Xi Jinping in 2010 and Head of the People's National Congress Wu Banguo in 2011). As a result of high level meetings over the past two decades, Beijing has made credit lines available to Belarus worth a total of 6 billion US dollars, while several contracts for joint projects have been signed. Also, there has been constant growth in trade as twenty years since the establishment of diplomatic relations mutual trade has grown almost 100 times larger – from 34 million US dollars to 3 billion US dollars in 2011.9 It is interesting, that only since 2006, China has achieved surplus in the bilateral trade. In 2011, China was the ninth largest market for Belarusian exports and the third largest exporter to Belarus. Belarus predominantly exports potash fertilisers to China (44 percent of total exports), and China exports mainly processed goods to Belarus. Joint projects were worth 5.5 billion US dollars in February 2012, and the 10.5 billion US dollars are still available as part of the credit line opened to be utilised over the next few years. According to the Belarus Embassy in Beijing, projects already realised are: BeST mobile phone network, capacity enlargement of the Minsk power plant, construction of housing block and a hotel in Minsk and technology upgrading of the three cement factories. Beyond these, the planed projects have the value of some 8

billion US dollars, including the biggest one – an industrial park in Smalyavich. <sup>10</sup> Beijing is also interested in buying Belarusian technology (mostly machinery for agriculture and large construction vehicles) and for that reason joint ventures have been established in China, mostly in Harbin, with Belarusian companies BelAz, MTZ and GomSelMash, with production assigner for local Chinese market. In an attempt to reduce newly emerged deficit, the big Belarusian companies have – according to official sources – opened trade offices in China.

When it comes to another East European partner – Ukraine – China has been becoming a more and more important trade and investment partner. Regarding the growing trade, Ukraine has been mostly exporting crude ore and importing processed goods. Several big joint projects have been ongoing. The main ones are: the bullet train line from Kiev to its airport, a part of the ring-road around Kiev and the upgrading of the state-owned Melnykov coalmine in Luhansk region. According to President Yanukovych, Ukraine plans to raise 1 billion US dollars of Chinese investment for its coal industry.

Beyond this reported pattern: trade, infrastructure and energy, China and Ukraine are involved in several R&D projects,<sup>12</sup> transfer of military technology and weaponry (including the famous 60,000 ton unfinished Soviet aircraft carrier, formerly known as "Varyag", that China bought from Ukraine in 1998 as an empty shell and turned it into its first aircraft carrier). According to the Russian press, military cooperation includes aircraft building, tank construction and in air defence and practically would mean selling secret Soviet military technologies.<sup>13</sup>

Some analysts saw the "hidden Dragon action here", saying that China treats the political dialogue merely as an instrument which helps it achieve its economic goals. <sup>14</sup> The priority Chinese interest is to invest part of its financial surplus in the form of low-interest loans secured with government guarantees. The model of China's engagement is described as typical of the entire engagement in the Eastern European region. The ultimate goal of the model is to support Chinese export: companies from China operating in the region are suppliers of the engaged equipment and technologies and the main contractors in infrastructural projects which are financed with Chinese loans. In turn, the scale of direct investments is small, host country's trade balance gains bigger and bigger deficit as import from China – construction materials and machinery, used in the projects – have been growing.

On the other hand, others see Chinese one-billion-dollar loan for infrastructure projects offered to Moldova, 15 as well as Chinese investments in energy and infrastructure sectors in Serbia as almost pure geopolitics and strategic positioning. Governments and business communities, from their side, are getting more and more ambitious with incorporating Chinese growing presence into their own political and economic agendas and along with this go the rising seriousness of their pro-China deals engagements.

In accordance with its adopted national strategy of transforming national economy into an export-oriented and competitive one, Bulgaria has started unwrapping the project of setting up industrial investment zones in its several strategic points, e.g. transition lines towards Greece, Turkey and on few intercontinental crossroads on its territory. For its cooperation with China the "Bozhurishte" Industrial Zone (former heavy industry complex) is of special importance as many Chinese companies are about to start production there in accordance with the economic cooperation memorandum signed between the two governments.<sup>16</sup> According to official Bulgarian date, Chinese investments for the period 1996-2010 were worth only 15 million US dollars. But during 2009 and 2010, official contacts of the relevant ministries from both sides were intensified. Especially the Bulgarian attempt was obvious, to include China in revitalisation of its water routes, ports and railways. In 2011, the minister of transportation attended the meeting of the Chinese and Turkish officials to seek way for Bulgaria to join the "Asia-Europe" fast train railway project. Bulgarian officials emphasise the confidence of the Bulgarian offer for Chinese investors, while realising the south-eastern competition it has been facing.

But from 2010, the industrial park within the Bozhurishte Industrial Zone started functioning as a joint venture company run by Zhejijang Province and Bulgarian National Company Industrial Zones, on the bases of economic cooperation between this Chinese province and Bulgarian government from the same year. In March 2011, one of the wealthiest Chinese provinces, Jiangsu, joined the project (Jiangsu alone invested abroad a billion US dollars in 2009). Automobile parts factory was open near Lovech by the end of 2011, as FDI of Chinese Great Wall Motors, Glass factory in Ragrad as FDI of Luojang Float Glass and solar park in Ihtiman, as investment of Polar Photovoltaics.

By the end of 2011, Chinese investments in Bulgaria have reached a total of 70 million US dollars, as according to the Chinese Embassy in Bulgaria in 2011, the Chinese investments in the country grew by 320 percent year-on-year, with new investments in telecommunications, car manufacturing, energy and agriculture.

Port Varna on the Black Sea was seen as another place for the construction of another industrial park facility in Bulgaria with Chinese funding. Renewable energy, infrastructure and agriculture are two of the key sectors where Bulgaria is going to see most of the future Chinese investments with approximate value of 1.5 billion US dollars, according to high level officials from both side.<sup>17</sup>

Trade between Bulgaria and the PRC hit the record in 2011, when it reached 1.3 billion US dollars, according to the data of the Bulgarian National Statistical Institute. Bulgaria's export to China grew by 61 percent year-on-year, reaching 403 million US dollars, and in just a decade it became forty times larger, although not big enough to bit

China's export to Bulgaria, which was worth 943 million US dollars in 2011. Bulgaria was mostly exporting copper, aluminium and some electric equipment, while China exported durable consumer goods, machinery and industrial equipment.

Also, Bulgaria enjoys the status of approved tourist destination according to a memorandum between the EU and China's national tourism administration.

Not all of the attempts were successful. In November 2009, Dongfeng Motor Group Ltd., China's largest truck maker, signed a memorandum of understanding with Serbia's state-owned truck manufacturer Fabrika Automobila Priboj from the Serbian city of Priboj. Dongfeng was supposed to control the product and the brand, while FAP was due to handle the manufacturing. Surprisingly, later the deal was off permanently.

How important Central and Eastern Europe is for China – with no difference towards the EU and non-EU member states among them – became clear when China initiated the project of Cooperation between China and Central and Eastern European Countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia) in April 2012, when the first meeting between the leaders of China and CEE countries was held in Warsaw. At the occasion Premier Wen Jiabao announced the 12 measures<sup>18</sup> "on promoting the friendship and cooperation with CEE countries".

It is very interesting that the Chinese press was analysing the fact that "Central and Eastern European countries were among the first to recognise the People's Republic of China". Also, it was often pointed out that "compared to their strong political relationship, the cooperation between China and Central and Eastern Europe needs to be improved" and elaborated with the date of the 16 CEE countries that have a population of 123 million and an area of over 1.3 million square kilometres, but their total trade volume with China is less than that of Italy.

The first measure was to establish a secretariat for the cooperation between China and CEE countries. The Secretariat is established within the Ministry of Foreign Affairs of China as a Chinese agency, responsible for communicating and coordinating China–CEE cooperation matters. The 16 CEE countries have designated national coordinators or specialised agencies to work with the Secretariat. Through internal and external coordination, the Secretariat should work to facilitate the implementation of the outcomes of meetings between leaders of China and the Central and Eastern European countries, plan for cooperation initiatives in accordance with the latest development and serve as a bond of cooperation through resources mobilisation and integration.

The second measure includes opening the special credit line worth 10 billion US dollars, a certain proportion of which (some 30 percent) will be concessional funding. The whole amount should be used for the investment cooperation and sixteen countries should apply for the funds by submitting project proposals in such areas as infrastructure, high

and new technologies, and green economy. The project application should be sent to the National Development Bank of China, Export and Import Bank of China, Industrial and Commercial Bank of China, Construction Bank of China, Bank of China or China Citic Bank.

The third measure consists of setting up an investment cooperation fund between China and the 16 countries with the goal of raising 500 million US dollars in the first stage. The fourth measure that Premier Wen proposed was for China to send trade and investment promotion missions to 16 CEE countries with the purpose to take concrete steps to move forward bilateral economic cooperation. The target for two-way trade was set to reach 100 billion US dollars by 2015.

China promised to encourage Chinese enterprises to cooperate with the 16 countries to establish one economic and technological zone in each country in the next five years. Also, it would continue to encourage and support more Chinese enterprises to take part in the development of existing economic and technological zones in these countries as the fifth measure. The sixth measure was in the area of financial cooperation, where the readiness was expressed for currency swap, local currency settlement for cross-border trade, and the establishment of bank branches in each other's countries, so that it will improve support and services for practical cooperation in this area. The seventh measure includes the establishment of an expert advisory committee on the construction of transportation network between China and the sixteen CEE countries, where the Ministry of Commerce of China should be the coordinator. The CEE countries would participate, if interested, in cooperating with China in the eventual building of regional highway or railway demonstration networks either through joint ventures, joint contracting or other frameworks.

Proposal of a forum on cultural cooperation between China and Central and Eastern European countries in China in 2013, and, within this context, hold regular high-level and expert meetings on culture, cultural festivals and similar activities was the eight proposed measure. The next measure was China's offer to provide 5,000 scholarships to the 16 countries in the next five years, to expand support the Confucius Institutes and Confucius Classroom programs in them, to invite 1,000 students from the relevant countries to study the Chinese language in China in the next five years, to boost inter-university exchanges and joint academic research, and to send 1,000 students and scholars from China to the 16 CEE countries in the next five years. The Ministry of Education of China plans to host an education policy dialogue with the relevant institutions of the 16 countries in 2013.

The tenth measure was a proposal for establishing a tourism promotion alliance between China and the 16 CEE countries, which would be coordinated by China Tourism Administration and would be open to participation by civil aviation authorities, travel agencies and airline companies of the two sides. The purpose of this was to improve

mutual business promotion and joint tourist destination development and to explore the possibility of opening more direct flights between China and the 16 countries. China Tourism Administration co-organised a promotion of tourism products for China and the 16 countries during the China International Tourism Mart that was held in Shanghai in the autumn of 2012, as a prompt implementation of that scheme.

Establishment of a research fund that would be used by researchers on relations between China and 16 CEE countries, that would be financed by China with 2 million yuan (247,184 euro) every year and would be used for supporting academic exchanges between research institutes and scholars of the two sides. The final proposed measure was China's plan to organise and host the first forum of young political leaders of China and the 16 CEE countries in 2013, with the idea to improve mutual understanding and friendship.

On 14 August 2012, China-Central and Eastern Europe Cooperation Secretariat held a forum on localities and businesses participating in China-Central and Eastern Europe cooperation in Beijing. Vice Foreign Minister and Secretary-general of the Secretariat, Song Tao delivered a keynote speech to the forum, that was attended by officials from foreign affairs offices of 11 Chinese provinces, autonomous regions and municipalities (Tianjin, Inner Mongolia, Liaoning, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Chongqing and Sichuan), representatives from dozens of Chinese enterprises and financial institutions and envoys and diplomats of 16 CEE countries.

On 6 September 2012, the Inaugural Conference of China-Central and Eastern European (CEE) Cooperation Secretariat and the First National Coordinators' Meeting was held in Beijing with the participation of representatives from Chinese members of the Secretariat and national coordinators, representatives and diplomatic envoys of 16 CEE countries<sup>20</sup>. Following the inaugural ceremony for the establishment of the Secretariat, Song Tao, Vice Foreign Minister and Secretary-General of the Secretariat, chaired the first national coordinators' meeting. Song stressed that the meeting between the leaders of China and CEE countries in Warsaw in April 2012, created a new landscape for the development of state-to-state relations between China and CEE countries and that "pragmatic cooperation between China and the 16 CEE countries in economy, culture, education, tourism and other fields is moving forward steadily" as China's agencies, departments and local regions were fully mobilised to participate in China-CEE cooperation. The representatives from the Chinese Ministry of Commerce, Ministry of Agriculture, National Tourism Administration, Ministry of Education, Ministry of Culture, International Department of the CPC Central Committee, Ministry of Foreign Affairs and other member agencies of the Secretariat spoke respectively at the meeting, reviewed the progress made by China in implementing the 12 measures, and introduced measures and plans for the next-phase cooperation.

The inaugural meeting of the Secretariat and the First National Coordinators' Meeting also marked the establishment of a network at the working level for the cooperation. A very important point was given by Song Tao, who emphasised that China–CEE cooperation is an important part of China–Europe relations as the increasing pragmatic cooperation between China and CEE countries will help to improve the size and quality of the China–Europe cooperation, will benefit the development of China–Europe relations in a more comprehensive and balanced manner, and will help Europe to overcome the current difficulties. <sup>21</sup> China–Central and Eastern Europe Cooperation Secretariat held its annual meeting in December 2012, headed by Vice Foreign Minister and Secretary-general of the Secretariat Song Tao. <sup>22</sup>

Under the given framework, Serbia that signed agreement on strategic partnership with China in 2009, proved to be especially active and attractive at the same time, as due to this strategical position, the state have already attracted over 1.3 billion US dollars of the preferential funding (one project financed this way is bridge on the Danube "Zemun–Borca" and the other is the two-phased upgrading and expanding of the two blocks of "Kostolac B" thermo power plant, both financed by China Exim Bank with 1.3 billion US dollars) and is negotiating for the additional approximately 400 million US dollars for the projects of two parts of the planned high-way construction. Beyond financing, Chinese companies should be involved in the construction of the Pojate–Preljine part on the Morava corridor of the highway and the other part in Vojvodina: Novi Sad–Ruma. The first two projects got high-level political support, since Wu Banguo's visit to Serbia in 2010.

Serbia is an important country in the Central and Eastern region of Europe and one of the strategic partners of China. Traditional friendship has been deepening between the two countries. Contacts on political level are getting closer, economic cooperation has been developing and project of constructing the bridge over Danube and revitalisation of Kostolac thermo-power station became excellent models for development of cooperation with China in the sense of managing such huge projects in Central and Eastern Europe.<sup>23</sup>

For the domestic economies of the 16 CEE countries such investments are most welcome as, like in Serbian case, twenty one years since the dismemberment of SFR Yugoslavia, nowadays Serbia has the GDP value of some 70 percent of the one it had in 1989 and in spite of some 8–billion-dollar-worth donations since 2001, and foreign direct investments inflow in the last thirteen years worth more than 16 billion euro,<sup>24</sup> the centrally positioned south-eastern country is burdened with the same old weak and backward transport or energy infrastructure in which the youngest projects were realised 30 or 40 years ago. Every investment, especially one under favourable financial conditions and no political ones, is very good news for Serbia and its economic and

general ambient. Additionally, strategically speaking, it is good for Serbia to widen its political and geographic spectre of big investors, so that it is not too dependent on EU or any other centre of power.

By the end of 2012, Serbian Minister of Natural Resources, Mining and Spatial Planning went out publicly with another potential giant project – possible construction of the waterway Danube–Morava–Vardar, which would link Serbia, Macedonia and Greece with Central Europe and through the Danube countries with the rest of the world. According to Minister Bacevic, implementation of this historically significant project, the next waterway connecting these countries, creating the conditions for the development of Serbia in the field of transport and energy, with respect to the given space, opens up the possibility for the construction of five to seven power plants total capacity of 350–400 megawatts. The construction of irrigation systems on the banks of the Morava River would improve conditions for development of agriculture and the economy as a whole. On the banks of the river lays the densest concentration of population and settlements in Serbia, and therefore the importance of the infrastructure would be multisided. As potential partners, Chinese and global giant in construction engineering, China Gezhouba Group Corporation was mentioned, as well as China International Water and Electric Corp.<sup>25</sup>

According to the very recent<sup>26</sup> media reports and representatives of the Economic Department of the Chinese Embassy in Belgrade and Serbian Minister of Transport Mr. Milutin Mrkonjic – the Chinese Embassy in Budapest launched an initiative for the construction of high-speed rail on the Corridor 10 between Belgrade and Budapest for trains whose speed exceeds 300 km/h. The total value of the investment would go up to approximately 2 billion euro, as early estimates showed, two decades ago, EC top priority project, would be built in almost perfect conditions due to the extremely favourable terrain. According to the same sources, the Chinese initiative for the construction of high-speed rail was already discussed at the session of the joint Hungary-Serbia commission held in December 2012, and it was included in the proceedings on the commission's work. Talks on the model and the ownership structure of the project ought to be conducted. At this stage, it is known that Chinese investment would come from the Chinese Development Fund aimed at investments within the framework "16+1" investment fund. Chinese officials suggested that loans should be ensured and this matter should be discussed by the governments of Serbia and Hungary within the framework. According to recent analyses and the data procured by economic and expert teams, the railway would pay off and its construction and thus would be commercially justified since the flow of passengers, goods and capital between the two countries has been constantly increasing.

Obviously, cooperation between China and countries from Central and Eastern Europe is going to gain more and more importance. The value of trade between them

and China, that was only 4.3 billion US dollars in 2001, reached 52.9 billion US dollars in 2011, with the annual growth rate of 27.6 percent. After the outbreak of the global economic crisis, average growth rate of the Chinese import from those countries has been 30 percent.<sup>27</sup> Double flow investments became more frequent, investments and other engagements of Chinese enterprises have been numerous, especially in area infrastructure, chemistry, machinery, home appliances, telecommunications, automobiles and green energy. Cooperation in the field of agriculture, finance, science and technology has been expending.

#### Conclusion

The ongoing global economic crisis has sharpened some of the existing problems in the relationship between the EU and China, but also urged solutions for their resolution. On the other hand, growing economic presence of China in the economies of the new EU members, Bulgaria and Romania, and especially Serbia, does not represent some special behaviour of China, but entirely fits into its emphasised engagement in the EU and Europe in total.

Stronger Chinese engagements could be understood as a good student behaviour, who understood the lesson that says that gaining stronger influence on the EU and on its individual member states comes with more significant economic presence within, and not only as trade partner and FDI destination for particular corporations from particular EU countries.

Repeating the same pattern that China has used to strengthen its impact in its closer neighbourhood, in Africa, Latin America and even in the USA, China has moved towards multiplying and strengthening its presence in Europe. Since the outbreak of the global crisis, especially Mediterranean, Eastern and Southern European countries have become very attractive for the Chinese business community, supported by their government.

Almost all investors noticed from both sides expressed willingness of Chinese and Eastern, Central and South-East European countries that has led to competition among them as destinations for Chinese investments and between them and traditional Chinese business partners among the EU countries. Advantages of the new EU member and "hopeful members to be" are expected high growth rates, relatively low wages and skilful workforce, closeness to or the very EU market with "made in EU" branding, as well as horizontally connected production. Also, not less important cooperation with them means the absence of the human rights topic and other "judging on" positioning, including one on the openness of the Chinese market.

Additionally, Central and South-East European countries, as former communist countries have history in doing business with China, even exporting technology and experiences of their first steps in transition during the first phase of the Chinese reform and opening up project. Especially after the EMU crisis they rediscovered China as promising investor and reliable partner. Also, they have relatively cheap and skilful workforce and do not press China with ideological issues. Serbia is doing the same thing as Germany and Italy and others are doing – when their partners within EU are getting incapable to provide recovery and growth – they are turning towards Russia and China. Of course, in the geopolitical game, growing influence of China or Russia means the decreasing dominance of the EU and the USA in the region, but that is good for Serbia and it is even better for the EU, as an important part of Europe is being helped to stabilise.

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# Non-Proliferation without Assurances in Central Asia

Kinga Szálkai

#### Introduction

Tuclear-weapon-free zones constitute important parts of the international nuclear non-proliferation regime. On the one hand, they play a great role in reaching the aims of the global disarmament and non-proliferation processes with the strengthening of the restraints on the military use of nuclear weapons. On the other hand, they encourage the expansion and development of the peaceful use of nuclear energy, through which they contribute to the broadly understood security of the member states.

The Treaty of Semipalatinsk (Central Asian Nuclear-Weapon-Free Zone Treaty) established the fifth nuclear-weapon-free zone when it entered into force on 21 March 2009. The negotiation process began in 1997 and lasted almost a decade long. The treaty was signed on 8 September 2006 by the five post-soviet Central Asian republics: Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan. The zone (CANWFZ) is considered to have special characteristics that make it unique among nuclear-weapon-free zones. However, the CANWFZ has a significant shortcoming as well: the nuclear-weapon-states were namely not willing to sign the negative security assurances protocol of the Treaty of Semipalatinsk.

This paper examines the reasons why the nuclear-weapon-states refused to accept the negative security assurances protocol of the CANWFZ. In order to do this, first of all the paper introduces the general significance of negative security assurances. Then it moves on to investigate into the special characteristics of the Semipalatinsk Treaty, proving that the CANWFZ is really unique among the existing nuclear-weapon-free zones. After this, the paper analyses the possible emerging reasons for the refusal of the signature of the negative security assurances protocol of the Treaty of Semipalatinsk. At the end the paper summarizes the relevant broader conclusions, concerning not only the CANWFZ, but also the whole international nuclear non-proliferation regime.

# The Significance of Negative Security Assurances

The UN General Assembly defined the principles of nuclear-weapon-free zones in 1975.¹ In 1999, this list of principles was extended.² According to the General Assembly, the contributions and assurances of the nuclear-weapon-states are among the most important pillars of NWFZs. The organisation recommends that great powers who dispose over nuclear weapons have to respect the commitments of the states of NWFZs. They have to express their own commitment to uphold and support these zones in the form of a signed and ratified protocol, which contains the provision that the nuclear powers refrain from using nuclear weapons against the states of the zone, and that they also stay back from threatening them with nuclear weapons.³ These negative security assurance protocols are important and organic parts of NWFZ treaties, and they explicitly describe the obligations, rights and responsibilities of the nuclear powers concerning the certain region.⁴

Among the four earlier regional NWFZs, only one has a signed and ratified negative security assurances protocol: the Latin American NWFZ, which was established in 1967 with the Treaty of Tlatelolco. This protocol contains three important commitments concerning the nuclear powers: they are obliged to respect the status of the NWFZ, they have to refrain from the performance of acts involving a violation of the obligations of the Treaty, and they also undertake not to use or threaten to use nuclear weapons against the parties of the Treaty.<sup>5</sup>

The other three earlier NWFZ treaties, the Treaty of Rarotonga (1985), the Treaty of Bangkok (1995) and the Treaty of Pelindaba (1996) so far have not acquired the negative security assurances of the nuclear powers, in spite of the fact that the relevant protocols are considered as organic parts of the treaties.<sup>6</sup> The protocol of the Treaty of Rarotonga is signed by each of the nuclear-weapon-states; however, the United States has not ratified it so far. Washington namely declared that (even if in practice its behaviour is in compliance with the treaty) it does not accept any limitations on the right of passage of its nuclear vessels and aircraft in the region.<sup>7</sup> The issue of the Treaty of Rarotonga was raised in the Senate in 2011; the Obama administration is committed to the ratification of the negative security assurances protocol of the treaty.

In the case of South-East Asia, no nuclear-weapon-states have signed the negative security assurances protocol.<sup>8</sup> The reason for this is that there are broad areas of international waters in this zone, and the ratification of the protocol would raise obstacles against the right of passage of nuclear-armed vessels.

The situation of the Treaty of Pelindaba is similar to that of the Treaty of Rarotonga in the sense that each nuclear-weapon-state has signed the treaty, but the United Stated has not ratified it so far. <sup>9</sup> The question of the negative security assurances was raised in the Senate in 2011, but there has no development happened since then. Washington

argues that it needs to uphold its right to the use of nuclear weapons in case if an African state would use chemical weapons. (In the conceptualisation of this standpoint, the US put a great emphasis on the threat coming from Libya. Because of the events of the Arab Spring, this necessitating circumstance was overwritten; however, Washington has not issued an official response yet.)<sup>10</sup>

The Treaty of Semipalatinsk also contains a negative security assurances protocol. Nonetheless, this protocol has not been signed by any of the nuclear-weapon-states yet, in spite of the fact that China and Russia have referred to it many times, that they accept and support its provisions.<sup>11</sup> The United States, the United Kingdom and France, however, unambiguously refuse to accept the protocol.<sup>12</sup>

In Central Asia, thus, it is not possible to talk about a certain state's refusal, as it is in the case of the Treaties of Rarotonga and Pelindaba. Neither it is possible to consider the case as a consequence of mutual or similar great power interests, such as in the case of the South-East Asian international waters and the Treaty of Bangkok. Although among the possible reasons of the refusal the presence of US military bases in the region could be mentioned from the side of the Russia or China, these two countries are willing to accept the protocol, as they indicated in the Bishkek Declaration of the Shanghai Cooperation Organisation of 2007.<sup>13</sup> In this declaration, they emphasised the significance of the Treaty of Semipalatinsk, and confirmed their support for the parties of the treaty. The reasons for refusal from the side of the United States, the United Kingdom and France are, however, multidimensional and complex, and can be led back to the special situation of the region and the treaty itself.

# The Unique Characteristics of the Treaty of Semipalatinsk

The Treaty of Semipalatinsk established the first NWFZ which is located in its whole scope on the northern hemisphere. Moreover, it was established in a region where the traditions of developing and stockpiling nuclear weapons are much more significant than those of disarmament, arms control and non-proliferation. Central Asia used to be a part of the Soviet Union, and was the home of Soviet nuclear testing bases. Until 1991, nearly 500 nuclear tests were conducted in Semipalatinsk. As for nuclear weapons themselves, after the dissolution of the Soviet Union, more than 1400 warheads were left in Kazakhstan, which meant that the state temporarily disposed over the fourth greatest nuclear arsenal over the world. The other Central Asian republics also took part in certain phases of the Soviet nuclear military program. With the efficient help of the international community and the great commitment of Kazakhstan, during the 1990s the region managed to get rid of most of the burdens of the Soviet nuclear heritage. The "Kazakh" warheads were delivered to Russia by 1995; and in 2000, the elimination

of the Semipalatinsk nuclear testing base was finished.<sup>15</sup> The Kazakh commitment towards disarmament has become a significant part of the state identity.

Although the region was cleared of Soviet nuclear military facilities, it remained vulnerable to the initiatives of not only the de facto and de jure nuclear-weapon-states, but also to those who pursue the aim of becoming a nuclear power. Central Asia is located near the crisis-ridden regions of the Middle East and Afghanistan, in the neighbourhood of such areas where the use of nuclear weapons means a real and possible danger. Moreover, the region has neighbours of nuclear powers (Russia, China) and *de facto* nuclear powers (Pakistan, India). Those nuclear-weapon-states that are located further from the region (United States, United Kingdom, and France) also have significant interests concerning Central Asia, based on the significance of the Middle East and Afghanistan.

All in all, the treaty was able to overcome the tensions within the Central Asian region and the neutrality of Turkmenistan, and it became the first regional agreement in the area which unified all five of the Central Asian republics. Moreover, supporting nuclear non-proliferation in the intersection of crisis-ridden regions also contributes to the unique significance of the treaty. The fact that the UN participated in the conceptualisation of the treaty through its General Assembly and its Secretariat also shows the regional and global significance of it. The member states cooperated with the UN and used its principles during the establishment of the new NWFZ and gave extended rights to the International Atomic Energy Agency in the monitoring of the peaceful use of nuclear materials. Beside these initiatives, member states decided to take responsibility for the rehabilitation of Soviet nuclear damages and they banned the import of nuclear waste. It is also unique in the treaty that it obliges its member states to accept the Comprehensive Nuclear Test Ban Treaty. Energy Agency is the member of the comprehensive Nuclear Test Ban Treaty.

In sum, the content of the treaty has a great significance in the history of nuclear disarmament and non-proliferation. However, not all aspects of this content are in line with the interests of the nuclear-weapon-states, moreover, the United States, the United Kingdom and France are even not convinced that the compliance to these precedent-setting provisions could be guaranteed under the given circumstances.

# Compromises and Refused Parts

The United States, the United Kingdom and France declared that they are not willing to sign the negative security assurances protocol of the Treaty of Semipalatinsk until the member states do everything possible to guarantee that the provisions of the treaty are going to be implemented in practice. The often-present rupture within the interests of the nuclear-weapon-states (which are also the members of the UN Security Council (P-5)),

especially between the US–UK–France and the Russian–Chinese platform is apparent in the case of the CANWFZ as well. During the negotiations of the treaty, Central Asian states many times found themselves in a decision-making situation where they had to balance between the interests and claims of the two platforms, or where their decision explicitly and unavoidably expressed their commitments to one of these rivalling platforms. The core of the foreign policy of the Central Asian republics is, however, multivectorality. A multivectoral foreign policy means that the states try to avoid being highly dependent on certain great powers, while preserving the benevolence of each great power is also considered as an important priority. Negotiations about the Treaty of Semipalatinsk, thus, were carried out in the atmosphere of compromise searching. Compared with the earlier versions, the final version of the text contains many parts that reflect the middle-ground (and also the multivectoral foreign policy of Central Asian states) between the different interest groups.

Among the acquired compromises, two deserves special attention. The first one is the provision that "each Party, in the exercise of its sovereign rights, is free to resolve issues related to transit through its territory."<sup>20</sup> The importance of this question lays in the fact that the P-3 is distrustful not only against Russia, but also against other countries in the neighbourhood of Central Asia. In this neighbourhood, there are several states that mean a much higher security challenge for the Western great powers than the Kremlin. One of these is Iran, which, because of its presumed nuclear military program, has become one of the most important threats to the security of the United States and its allies. Therefore, the P-3 has an interest in maintaining the possibility to deploy various military forces and use a wide range of diplomatic means in the area – among them the use and the threat of nuclear weapons as well. Central Asia has an important geopolitical position which enables great powers to access the crisis-ridden and risk-prone areas in its neighbourhood. US military bases in the region can give significant support for a possible military attack – as it is proven in reality in the case of the war in Afghanistan.

However, the earlier versions of the text of the Treaty of Semipalatinsk could definitely prevent the use of nuclear weapons in the CANWFZ. Those versions banned not only the production, acquisition, stationing, storage or use, of any nuclear weapon or other nuclear explosive device, but also their transit through the member states' territory. This provision was against the interests of the P-3, and Russia did not favour it either, especially as more Central Asian states are involved in the military initiative named Collective Security Treaty Organization led by Moscow. Therefore, the great powers considered an explicit restriction of their transit rights in the area undesirable. As for the member states themselves, the potential regional leader Uzbekistan and the neutral Turkmenistan argued to put an explicit ban on all kinds of nuclear transits within the region,<sup>21</sup> while the more moderate Kazakhstan, Kyrgyzstan and Tajikistan

supported a compromised version of delegating the question to the sovereign decision-making institutions of member states, where they can decide individually about nuclear transits. Thus, although the earlier versions of the text contained an explicit and comprehensive ban on nuclear transits, the objection of nuclear-weapon-states led to the acceptance of a compromised final version, in line with the suggestion of the moderate member states.

The second important compromise was the elimination of the right of later accession from the text of the treaty. This act also has its roots in the risks that the instable neighbourhood presents. Initially, the treaty explicitly stated the right of later accession, but the P-3 did not find this provision acceptable. The reason for the refusal is mainly Iran. According to many analysts, Tehran might use a membership in the CANWFZ to demonstrate its peaceful commitment towards nuclear energy and to emphasise that it does not have a nuclear military program. According to the P-3, the Iranian accession to the CANWFZ would make steps against Iran much more difficult, in case it works on the development of nuclear military capabilities. To answer this concern, the right of later accession was removed from the text, and final version of the Treaty of Semipalatinsk does not contain any provisions concerning this matter. The peculiar thing about this acquired compromise is, however, that it did not satisfy the P-3. The United States, the United Kingdom and France still maintains their claim that the text has to state explicitly the prohibition of later accession.

# The Main Reason for the Deadlock: Article 12

In spite of the long negotiation process and the acquired compromises, the United States, the United Kingdom and France refused to sign the negative security assurances protocol. They claim that the search for the middle ground ended up with the inclusion of vague points in the treaty and that the acquired compromises are not sufficient to ensure the implementation of the treaty in practice.

In spite of the fact that compromise was possible in several issues, the most alarming problem raised by the P-3 side was not among them. This problem is related to the Article 12 of the treaty. The United States, the United Kingdom and France claim that this article does not exclude explicitly the deployment of Russian nuclear weapons in the region, rather maintains the right of Moscow to do that. Article 12 namely states that the treaty does not affect the rights and obligations of the member states under other international treaties which they may have concluded prior to the date of the entry into force of the Treaty of Semipalatinsk. Member states are obliged to comply these provisions meanwhile they implement the CANWFZ treaty.<sup>22</sup>

Concerning this article, the P-3 expressed their concerns about the Collective Security Treaty accepted by the Commonwealth of Independent States in 1992. They claim that if this treaty stays in effect, the implementation of the provisions of the Treaty of Semipalatinsk are exposed to a great risk. The Collective Security Treaty and its Organisation (CSTO) is namely the backbone of the post-Soviet security cooperation. As a collective security treaty, it expects its members to consider an aggression against any of the parties as an aggression against themselves, and to give all possible assistance (including military help) to counter this aggression.<sup>23</sup> In the region of Central Asia, Kazakhstan, Kyrgyzstan and Tajikistan are presently members of the CSTO (Uzbekistan left the organisation in 2012 for the second time, and Turkmenistan has never took part in its work because of its declared neutrality). Therefore, the circumstances regulated by the CSTO make it possible; moreover, can expect that member states help each other with military means – including nuclear weapons from the side of Russia. As the Article 12 of the Treaty of Semipalatinsk ensures respect for the regulations of the Collective Security Treaty, this possibility of deploying nuclear weapons in the area of the CANWFZ is still viable and endangers the implementation of the treaty – especially according to the United States, the United Kingdom and France.

Central Asian states themselves are divided concerning the CSTO and Article 12 of the Treaty of Semipalatinsk. Those countries which maintain stronger ties with Russia, that is, Kazakhstan, Kyrgyzstan and Tajikistan believe that the treaty cannot contain any provisions that might affect the regulations of the Collective Security Treaty, and during the negotiations, they argued that Article 12 has to state very explicitly that the Treaty of Semipalatinsk cannot affect the obligations and rights stemming from previously concluded treaties. On the other hand, the regional power-aspirant Uzbekistan and the neutral Turkmenistan objected this standpoint, and stood up for the cushioning of the collective security mechanism which transmits Russian influence to the region.

These interests formed Article 12 during the negotiations and enabled the inclusion of the present version to the text, which is considered as vague by the P-3. The present form of Article 12 makes a positive gesture towards Russia, as it strengthens the provisions of the Collective Security Treaty, but it also contains a further obligation towards the member states stating that they have to "take all necessary measures for the effective implementation of the purposes and objectives of this Treaty in accordance with the main principles contained therein."<sup>24</sup> In the sense of this obligation, member states may even object the implementation of the Collective Security Treaty concerning the deployment of nuclear weapons to their area.<sup>25</sup>

The United States, the United Kingdom and France are not satisfied with this compromise, and require the total removal of the article as the condition of the

signature of the negative security assurances protocol.<sup>26</sup> This condition, however, could not be fulfilled without losing the Russian support for the protocol – thus, it would not be able to solve the deadlock around the question. The Treaty of Semipalatinsk, furthermore, explicitly states that it is not possible to make reservations, which further aggravates the situation, as it does not allow signing the negative security assurances even for the price of the opt-out of some great powers from Article 12.

# Summary

This paper examined the reasons why the nuclear-weapon-states refused to accept the negative security assurances protocol of the CANWFZ. The analysis of the provisions of the treaty unambiguously show that the establishment of the fifth NWFZ significantly contributes to the aims of the disarmament and non-proliferation processes, its regulations contain many precedent-setting elements, and the treaty plays a great role in the stabilisation of the crisis-ridden and conflict-prone neighbourhood of Central Asia. However, without the negative security assurances of nuclear-weapon-states, the Central Asian NWFZ cannot fulfil the goals to which it is designed by the text of the treaty; its provisions and precedents lose part of their significance. The preamble of the Treaty of Semipalatinsk emphasises that the establishment of the CANWFZ can only "help to promote the security of Central Asian States particularly if the five Nuclear-Weapon States ... adhere to the accompanying Protocol on security assurances."<sup>27</sup>

The debates over the text determine the future of the treaty. The compromises that were acquired during a particularly long negotiation process seem to be inadequate to ensure the support of nuclear-weapon-states and the signature of the negative security assurances. The disagreement around Article 12 can block the acceptance of the protocol for a long time – which can also lead to the blocking of the actual fulfilment of the aims of the treaty. The lack of great power assurances does not only mean the weakening of the significance of the CANWFZ or the failure to reach a compromise among the nuclear-weapon-states. It can also lead to the weakening of other initiatives for establishing NWFZs, discouraging the states which pursue similar aims, and having a significant negative effect on the overall legitimacy of the global nuclear disarmament and non-proliferation processes.

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# The Publisher

# History

The Hungarian Institute of International Affairs (HIIA) was founded under this name in 1972 within the framework of the Helsinki Process. In the early 1990s it was integrated into the *Teleki László Foundation*, which served as an umbrella organisation for the Centre of International Studies and the Centre of Central European Studies. The Foundation ceased to exist in late 2006 and a new *Hungarian Institute of International Affairs* was launched by the Government of Hungary as a centre for research and advice on 1 January 2007.

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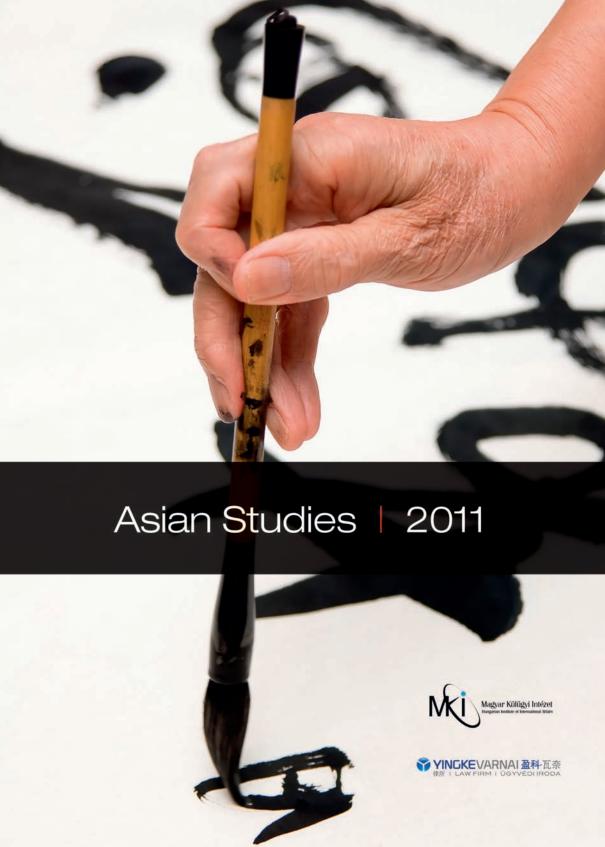








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