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CHALLENGES OF BUSINESS AND FINANCIAL TRANSFORMATION OF CHINA IN NEW NORMAL ECONOMY

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Abstract: The Peoples Republic of China has a new Government whose mandate started in 2013, and under which there are undergoing major changes in China both on internal and external level regarding its economy. After almost 30 years of growth that was around 10%, China's GDP rate started to slowly fall down. During previous years, Chinese Governments were aware that some things in China's economic model need to be changed, so it can continue to develop in a steady way. President Xi Jinping stated that there is a need for "New Normal" economy, that will help China's adjusting to a new economic development model which will generate GDP growth rate of about 5-7%. In order to do so, the PRC must implement many changes on its domestic level, but also many changes on an international level within its international economic policies. This paper will present the economic factors that boosted China's economy; why they need to change; what is a New Normal economy and how it will affect China's economy, business and finances. At the same time, it will be shown how new Chinese initiatives on international level: "One Belt - One Road" and Summit "16+1", are part of this New Normal policy on the international business market.

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The final part of this paper will be dedicated to Serbia's place among Chinese international plans, in order to see what Serbia's current projects with China are, what the future plans are and how Serbia can benefit from this new China's plans.

Key words: China, New Normal policy, business, finance, New Silk Road, Summit 16+1, Serbia.

INTRODUCTION

During the previous two years, different activities and news from China's economy had been globally oriented with world-wide scale repercussions in international financial policies and relations among strongest world's countries. At the end of 2014, after more than 140 years, the IMF officially stated that China surpassed the USA as a biggest world economy, measuring in GDP, with purchasing power parity (PPP) taking into account.³

Before that, the Government of China proposed foundation of the Asian Infrastructure Investment Bank (AIIB), an international financial institution that is focused on supporting infrastructure construction in the Asia-Pacific region, with Chinese major shareholder role.

As a result of reforms toward market-oriented economy and for boosting slowdown in export activities, People's Bank of China (PBOC) surprised financial markets in August 11th 2015 with three consecutive devaluations of the yuan, losing over 3% of its value. Since 2005, China's currency has appreciated 33% against the US dollar and the first devaluation marked the largest single drop in 20 years. For the first time in recent history, China had its own stock market bubble issue, creating in that way economic turmoil on international scale.

Latest, and maybe most tremendous news refers to the process of further internationalization of China's currency- yuan (renminbi), as a new "member" in IMF⁷ special drawing rights, with first major revision of basket since creation of euro in 1999.

These economic and financial events reflect the new position of China in global geo-political and economic relations, but also they represent signal for moving into a new stage of further comprehensive reforms, in all areas of social and business life. These kind of reforms are (and will be) necessary prerequisite for accomplishing ambitious objectives of a nation's prosperity and overall development. Started almost four decades ago, reform plans have been continuously improving in

³ The Chinese economy in that time was worth \$17.6 trillion, slightly higher than the \$17.4 trillion the International Monetary Fund (IMF) estimates for the USA. Without the PPP adjustment, the IMF estimated that China's economy was worth far less - \$10.3tn. Latest data from 2015 shows even more difference between China and USA (\$19.5 and \$17.9 trillion respectively).

achieving long-term goals of modern and developed society, that are part of the New Normal Economy.

At the same time, besides the changes in the Chinese domestic market, China started to promote completely new international economic initiative called One Belt – One Road (The New Silk Road). Chinese President Xi Jinping officially promoted this initiative in 2013 at his meeting with Kazakhstan Government in Kazakhstan. What started as an idea with a relatively uncertain vision, right now is the most interesting project and topic all over the world. The idea of this project is to better connect China with countries in Europe, Asia and Africa by building roads, railways, infrastructure such as ports that can shorten the time for transportation of goods, and then help lower the transportation costs.

Two years before that China started with a smaller project that was only concentrated on Europe. China realized that, although Africa was one of its main strategic regions to invest heavily, there are still many problems that cannot be easily settled there, and that it needs a region with which it can work much faster and with which it can have more benefits. Therefore, after careful consideration, China chose to promote one new initiative that will promote her better relations with countries coming from the Central and Eastern Europe, under the name Summit 16+1. That is a Summit under which China will make plans with 16 countries coming from Central and Eastern Europe to make better relations not only in the field of economy, but also in the field of infrastructure, tourism, technology, culture and education.

In a sense, this summit is a smaller version of One Belt – One Road initiative, but with the more versatile program. The New Silk Road initiative is mainly focused on the road and railroad infrastructure, while 16+1 is broader oriented.

Modifying its own role in global markets, China is combining its New Normal policy on the internal and the New Silk Road initiative (together with Summit 16+1) on the external level, for improving its bilateral and multilateral relations in a function of bigger economic growth and both-side prosperity. On that road China will experience many changes and challenges that she most to overcome in order to stay on her right path.

OVERVIEW OF CHINA'S DEVELOPMENT FACTORS

China's two historic transformations, from a rural, agricultural society to an urban, industrial one, and from a command economy to a specific hybrid one (with elements of both systems), have combined to yield spectacular results. GDP growth averaged 10 percent a year, and over 500 million people were lifted out of poverty (from more than 65% to 10%). China is now the world's largest exporter and manufacturer, and its second largest economy (IMF, 2015). Even with slowing growth in the future, China is likely to become a high-income economy and the

world's largest economy before 2030, notwithstanding the fact that its per capita income would still be a fraction of the average in advanced economies.

Many unique factors lie behind China's impressive growth record, including the initial conditions of the economy in 1978 that made it particularly ripe for change. The spark came in the form of agricultural reforms, including the household responsibility system that foreshadowed sustained reforms in this and other areas over the next 30 years. Key features of the reforms included (World Bank, 2013, p. 4-5):

- Pragmatic and effective market-oriented reforms. By introducing market-oriented reforms in a gradual, experimental way⁴ and by providing incentives for local governments, the country was able to discover workable transitional institutions at each stage of development. One key feature of these reforms was their “dual-track” nature — supporting state-owned firms in old priority sectors while liberalizing and encouraging the development of private enterprises (Lin, 2012, p. 3),
- Balancing growth with social and macroeconomic stability. Early reform successes quickly transformed this priority into a national objective that was effectively used to mobilize all quarters of society—individuals and firms as well as local governments—to focus their collective efforts on economic development. The government employed a mix of fiscal, monetary, administrative and employment policies to maintain social stability during a period of rapid economic and structural change.
- Interregional competition. China built on its strong local governments at various levels by allowing them to compete in attracting investment, developing infrastructure, and improving the local business environment. Decentralization policies, including fiscal reforms in 1994 (which significantly increased resource transfers from the central government), gave subnational governments the incentives and the resources to aggressively pursue local development objectives. Officials were rewarded for delivering key reform goals: growth, foreign direct investment, employment, and social stability. The resulting competition between local governments and regions became a strong driver of growth—far beyond the expectations of the authorities.
- Domestic market integration. A key element of the reforms was the dismantling of regional barriers to the movement of goods, labor, and capital and the establishment of a single national market. Major infrastructure investments connecting regions and the interior to the coast helped to create a capital investment with enormous scale. For example, China is home to the world's second-largest highway network, the world's 3 longest sea bridges, and 6 of the world's 10 largest container ports (World Port Rankings, 2009).

⁴ China adapted a strategy known as “crossing the river by feeling stones,” that originates from Deng Xiaoping's phrase and his view on gradual process of liberalization.

- Steady integration with the global economy. With the establishment of special economic zones, Deng Xiaoping's remarks during his famous South China tour, and accession into the World Trade Organization (WTO) as milestones in 2001, China expanded and deepened its economic integration with the global economy. This policy reaped large dividends for China, bringing investments, advanced technologies, and managerial expertise; opening the international market for China's goods and services; and giving a boost to China's internal economic reforms. The proximity of Hong Kong, China, and Taiwan, China, helped, as did a large Chinese diaspora dispersed across the globe.

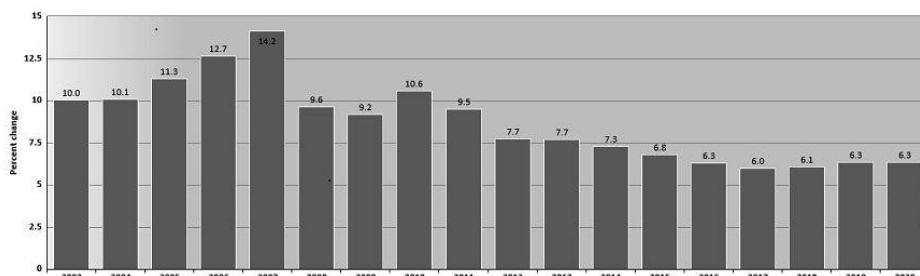
CURRENT ECONOMIC SITUATION AND NEED FOR “NEW NORMAL”

The decade from 2000 was marked by a very dynamic recovery in the Chinese economy, a recovery that was both technological, with sustained productivity gains, and capitalist, with a very high investment rate, especially in capital goods. In 16 years, GDP per capita (in purchasing power parity) in China increased fivefold (from about \$2,500 in 1998 to more than \$12,500 in 2014), with three times bigger wages than just one decade ago (Tradingeconomics.com, 2015). This convergence phase was both longer and more intense than similar phases observed in other Asian countries, such as Japan in the 1970s or Korea in the 1980s.

Even there is many of data showing remarkable results in economic growth and overall development, China is facing new trends and characteristics, especially in the second decade of the 21st century. President of PRC, Xi Jinping, said the nation needs to adapt to a “New Normal” in the pace of economic growth, with the aim of shifting focus from the speed to the quality of growth. The Chinese economy can no longer postpone facing and solving a series of structural imbalances. Rebalancing the drivers of growth to change the structure of the economy will require deep economic and institutional reforms. Some of that statement can be seen in GDP results and forecasts in the coming years. Since 2010, when it was last two-digit economic growth, GDP has started to slow down, especially in the 2012-2014 period. At the opening of the annual National People's Congress (NPC), Chinese premier Li Keqiang officially announced that the growth target for China in 2015 would be of “approximately 7 per cent”, considerably lower than in the past, with entering the stage of the new normal, shifting from high speed to medium-to-high speed. By assuming steady reform and no major shock, economic growth will be little more than 6 per cent (Figure 1). After the first two years of Xi Jinping's term, the Chinese economy grew by 7.3 per cent ‘only’ in 2014 – the lowest rate since 1990 – low enough to convince Chinese policy makers to shift to a new policy stance, as they realize previous growth targets are no longer sustainable. The shift to a lower but more sustainable growth target came soon after

the International Monetary Fund (IMF) warned last year that a series of danger signs suggested that China would probably face a hard landing in the absence of crucial reforms.

Figure 1. Previous and forecasting GDP growth in China



Source: IMF, World Economic Outlook, October 2015, www.imf.org.

Just as growth is expected to slow in some emerging markets over the coming two decades, many signs point to a growth slowdown in China as well. One reason for the slowdown is that much of the growth contribution from shifting resources from agriculture to industry has already occurred. And going forward, the continued accumulation of capital will inevitably contribute less to growth as the capital-labor ratio rises. China's existing comparative advantage in low unit labor costs will shrink gradually. Rapidly rising real wages for unskilled workers in coastal provinces are encouraging firms to relocate to neighboring interior provinces where labor and land are more plentiful and relatively cheap. The rise in wages associated with increased productivity will continue to spur rapid expansion in the ranks of the middle class, which, in turn, will increase consumption of consumer durables and raise the share of consumption in GDP (Table 1). Modernization in the domestic economy will mean major shifting inside the economic structure toward different kinds of services.

Table 1. Projected growth pattern in China

	1995-2010	2011-15	2016-20	2021-25	2026-30
GDP growth (%)	9.9	8.6	7.0	5.9	5.0
Labor growth	0.9	0.3	-0.2	-0.2	-0.4
Labor productivity growth	8.9	8.3	7.1	6.2	5.5

	1995-2010	2011-15	2016-20	2021-25	2026-30
Structure of economy (%)					
Investment/GDP ratio	49	42	38	36	34
Consumption/GDP ratio	47	56	60	63	66
Industry/GDP ratio	46.7	43.8	41.0	38.0	34.6
Services/GDP ratio	43.1	47.6	51.6	56.1	61.1
Share employment in agriculture	36.7	30.0	23.7	18.2	12.5
Share employment in services	34.6	42.0	47.6	52.9	59

Source: World Bank (2013), *China 2030: Building a Modern, Harmonious and Creative Society*, Development Research Center of the State Council, the People's Republic of China p. 9.

In the first half of 2015, the contribution of final consumption expenditure to growth hit 60 percent— 5.7 percentage points higher than the corresponding period of last year—and continued to outperform that of investment. The share of value added by the tertiary industry in GDP climbed 2.1 percentage points over the same period of last year to 49.5 percent, 5.8 percentage points higher than that of the secondary industry, while energy consumption per unit of GDP dropped 5.9 percent on a year-on-year basis (Gang, 2015, p. 3).

New Normal, as a new paradigm in overall policy transformation and society progress, can be summarized in multiple characteristics and key objectives:

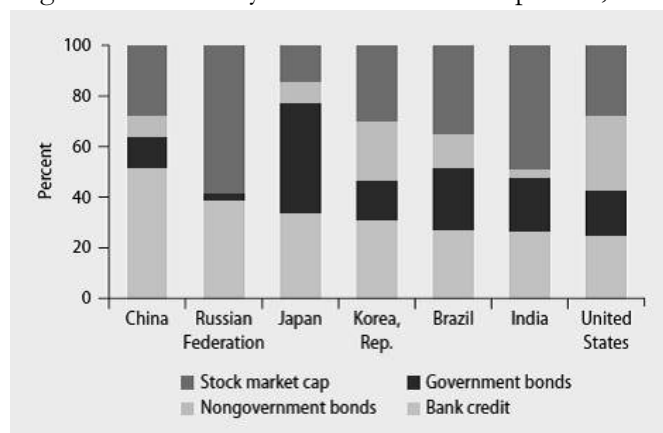
- Give priorities more to qualitative than quantitative aspects of economic growth,
- Shift from the position of “global manufacturer” to more sophisticated economic activities,
- Need for ecological shift with the aim of “going green”,
- Adequate approach to demographic issues and ageing population,
- Achieve balanced and sustainable growth, consistent with market force,
- Promotion of R&D activities parallel with innovation-based economy,
- Further process of decentralisation and reduce social and economic inequality,
- Strengthen the small and medium enterprise sector versus big state-owned companies,
- Further reform in various segments of the financial sector.

FINANCIAL SECTOR IN NEW NORMAL ECONOMY

A well-functioning financial system is essential in China's drive to become a harmonious and high-income society. Overall, financial sector reform and development have been out of step with the real economy. The current financial system, characterized by bank dominance (Figure 2) and strong state intervention, served to mobilize savings and allocate capital to strategic sectors during the economic take-off, but such benefits are increasingly outweighed by the costs of the accompanying distortions and the resulting buildup of imbalances and risks.

Despite recent efforts to promote direct financing, bank credit still accounts for close to 90 percent of funds raised by the corporate sector. While it is not uncommon for financial systems to be weighted toward banks at China's stage of development, international comparisons show that China's is especially so, with more than 50% of funds in a financial system that comes from bank credit. Another characteristic is the ownership structure of the banking sector and overemphasized role of state activities. The levels of state ownership in the banking and government intervention in the financial system are much higher than in other countries at a similar stage of economic development that later achieved high-income status. Despite changes in the ownership structure of commercial banks from the previous system of exclusive state ownership to the current system of joint-stock ownership, the government continues to dominate in the financial sector. Banks have been used as instruments of the government's macroeconomic and sectorial policy goals and have not always been in a position to lend prudently. While this approach may have helped achieve policy goals, it has also exposed banks to a greater risk of deteriorating loan portfolios, increasing the ultimate costs of such public policies.

Figure 2. Financial system structure in comparison, 2009



Source: World Bank (2013), *China 2030: Building a Modern, Harmonious and Creative Society*, Development Research Center of the State Council, the People's Republic of China, p. 116.

Complexity of banking systems implies necessity for further “marketization” of financial activities, on local, regional and national level. China’s current banking system include various types of banking institutions, such as commercial banks, policy banks, credit cooperatives and foreign banks. These banking institutions can be divided into four levels: People’s Bank of China, as the regulatory department, and the China Banking Regulatory Commission are in the first layer; the second layer includes four state-owned commercial banks⁵; Development Bank, China Export-Import Bank and Credit Cooperatives belong to the third layer; foreign banks belong to the fourth level (Harrison, 2009, p. 239).

Recent events concerning the stock market bubble crash at two Chinese stock exchanges⁶ reflected strong government role in financial markets and its fragile nature, together with lack of regulation in some speculative activities. Nevertheless, since the foundation of the Shanghai Stock Trade Market at the end of 1990, China stock had developed at high speed and experienced the process with only over ten years which the advanced national markets has experienced several decades or even one hundred years. The state –owned industries’ difficulties in collecting funds after the reform of investment system had produced direct energy for the development of China stock market. The stock market improves with an anniversary average of 50% and its speed of expansion is much higher than any other industries (Harrison, 2009, p. 269).

After three decades of outstanding economic growth, China’s economy began overheating in 2007 and signs of speculation and over-exuberance started to appear, such as a brief stock bubble that year (Figure 3) and a housing bubble in 2008. The 2008 global financial crisis caused China’s exports to plunge, forcing China’s leaders to abruptly refocus their worries from overheating to a potential domestic economic crisis and its very real threat to social stability. In November 2008, China launched a massive \$586 billion economic stimulus program that was primarily invested in public infrastructure projects, housing, rural development and the rebuilding of areas hit by the 2008 Sichuan earthquake. China’s stimulus plan was successful at staving off a recession and social crisis – so successful that inflation, overheating and overbuilding quickly became a concern again as the newly printed stimulus money sloshed around the economy, creating very alarming distortions and speculative activity.

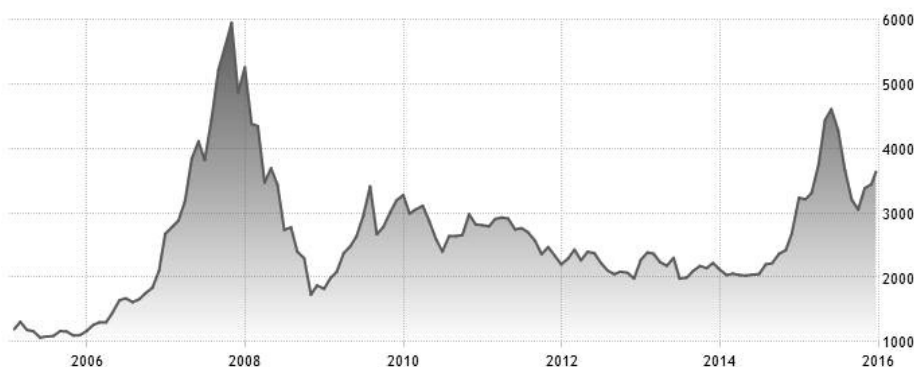
The dramatic upswing in Chinese equity prices that began in mid-2014 was driven by a combination of factors. Perceptions of official support for equities, a reallocation of household saving from a weaker property market, and optimism

⁵ “Big Four”: Bank of China, China Construction Bank, Agricultural Bank of China and the Industrial and Commercial Bank of China.

⁶ There is some estimations that 2015 crash on Shanghai and Shenzhen stock exchange had cost investors \$4 trillion.

about reforms in state-owned enterprises all contributed. The defining feature, however, was the surge in individual investor leverage in the form of margin financing. By early 2015, equity valuations reached very high premiums of about 50 percent over international peers, and even higher in some segments of the market. Daily market turnover rose to 1.7 trillion renminbi (RMB) in June 2015 from less than RMB 0.2 trillion the previous year, compared with a free-float market capitalization of RMB 24 trillion at end-June (GFSR, 2015, p.18). The systemic importance of equities remains limited, but the market's interconnectedness with the rest of the Chinese financial system has grown.

Figure 3. Shanghai Composite Index (2005-2015)



Source: www.tradingeconomics.com

Composite Index (Figure 3) falls more than 40% (after even bigger rise in first half of the year), the Chinese government needs different, enhanced approach to deliver the basic requirements to investors, who wants to see the same way of progress and transformation like in the real economy. For accomplishing such tasks, financial markets, with whole financial system, will continue constantly to improve themselves. Reforms should focus of the following tasks:

- Full commercialization and rationalization of the financial system, with reorientation of government roles and responsibilities,
- Further process of interest rate liberalization,
- Deepening the capital market with bigger role of equity financing and innovative financial institutions, like institutional investors,
- Upgrading the financial infrastructure and the legal framework,
- Strengthening the regulation and supervision framework.

CHINA'S NEW SILK ROAD INITIATIVE – “NEW NORMAL” ON INTERNATIONAL LEVEL

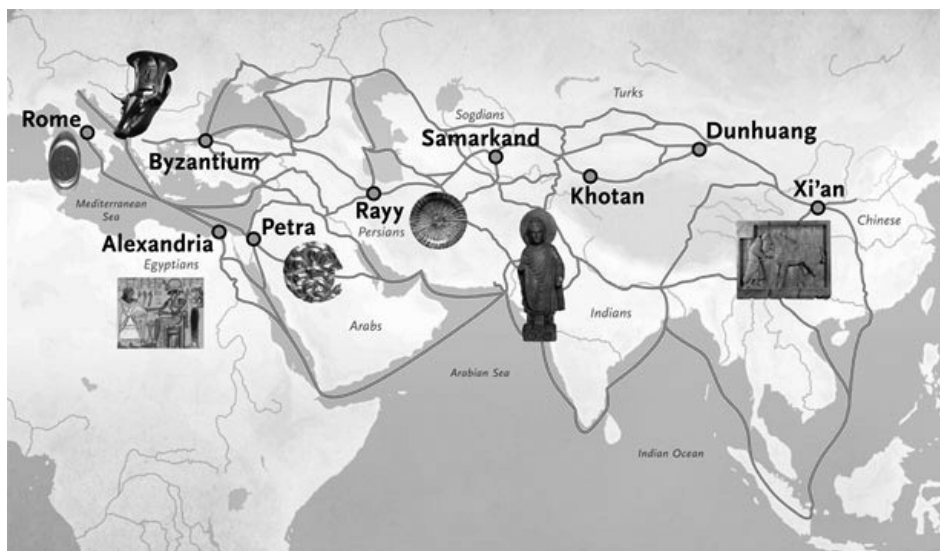
The beginning of the New Silk Road initiative came from Chinese President Mr. Xi Jinping in September 2013 during his speech in Kazakhstan. One month later during his trip to Indonesia, President Xi has widened this initiative and stated that China also wants to establish a Maritime Silk Road. So, what is the main idea behind this project?

In ancient times, The Old Silk Road was actually one of the busiest roads (routes) between 3rd century BC and 15th AD, through which many merchants coming from China and Europe traded with many goods that were significant at that time, such as silk, tea, salt, silver, porcelain, gold, precious stones, textile, wool, wine etc. Many routes were used during that time, but the main goal was to transport goods from China to Europe (and vice versa):

1. through middle Asia and Middle East by land – Old Silk Road, or
2. to transport goods by ships using South Pacific, then Indian Ocean and at the end Persian Gulf in order to reach Mediterranean sea and Europe.

Many traders not only from Europe and China, but also from all countries lying on that route, made good profit and the results were satisfying to all parties involved.

Picture 1. Old Silk Road – different routes



Source: http://www.penn.museum/silkroad/exhibit_intro.php

In a sense, the New Silk Road uses the former glory of this transportation route in a new way. The purpose is to use the knowledge that we have today and to implant it in a new way, so the all countries (that are willing to participate in this project) benefit. The main idea is to try to connect in a better way China with the West of the Europe by more modern railroads and roads on land, and to build modern ports and their infrastructure in order to have better Maritime Silk Road.⁷ The focus will be on lowering transportation cost by gaining on time, and by doing that then accelerating capital turnover. For example, there are predictions that the time for the transportation by sea will be shortened from 6 to 4 months to make a complete round from China to Europe and vice versa. Also, by building special high speed railroads the time for goods to travel from China to Europe will be shortened by more than 50%. In a world where time means everything, it is not difficult to imagine, how this project will help all countries involved to have a better economic and development results.⁸ Investment in infrastructure will help any country, not only in the field of transportation, but also in the field of transferring technology, education, knowledge. China's leaders, on the other hand, know that if they want to maintain their stable economy, they need to find the markets on which they can invest their financial reserves, so the capital can make its natural flow and return with an interest. Therefore, those two reasons were among those that were most important when choosing to promote this project.

In table 2, there is a list of countries that are participating in this project. In a recent period, Hungary and Serbia signed the agreement to take part in this initiative, and also countries like Albania, Montenegro, Bosnia and Herzegovina and Switzerland, expressed their willingness to become members.

This market has roughly a population of 4.4 billion people, with a collective GDP of 21 trillion US\$. (Rolland, 2015) This means that on this territory, 63% of world population is living, and they are currently producing 29% of world GDP (Yaleglobal, 2015). At this moment, according to the Chinese Ministry of Commerce, China's bilateral trade with countries along the Silk Road represent 26 percent of China's total in the first quarter of 2015 (Yale global, 2015).

⁷ Note: EU is the largest trade partner for China.(<http://ec.europa.eu/trade/policy/countries-and-regions/countries/china>)

⁸ Example: Citation: "China has signed an investment agreement of US \$46 billion, about one fifth of Pakistan's annual GDP and 10 times US investment in Pakistan, to connect the two nations by rail, road, pipelines, and optical cables. In April, China's state Xinhua news agency reported that the nation will invest in the Thai Canal, also known as Kra Canal, cutting through southern Thailand to save up to 48 hours to shipping companies transiting routes between Asia and Europe, a route also circumventing the Strait of Malacca."(Yale global, 2015) On this example we see that in case of these two countries what the potential benefits are. The same story goes for all other infrastructure projects and countries.

In order to finance this grand initiative China established a 40 billion US\$ New Silk Road Fund (Kaczmariski, 2015) that will primarily service needs for funds on this project. Besides that, the Asian Infrastructure Investment Bank (AIIB) will also participate in this project with its funds, and there is also an interest from some different infrastructure and investment funds to join this process.

Picture 2. New Silk Road (One Belt – One Road)



Source: <https://www.chinadialogue.net/article/show/single/en/7849-China-s-new-silk-roads-tie-together-3-continents>

Table 2 – Countries are part of One Belt- One Road initiative

Silk Road Economic Belt: 65 Countries		
China	ASEAN (10)	EU (28)
Mongolia	India	Bangladesh
Pakistan	Sri Lanka	Kazakhstan
Kyrgyzstan	Uzbekistan	Tajikistan
Turkmenistan	Afghanistan	Iran
Iraq	Syria	Lebanon
Israel	Turkey	Azerbaijan
Georgia	Armenia	Ukraine
Belarus	Russia	Kenya
Egypt	Tanzania	

Of course, besides many advantages that this project is having, there are also some challenges that need to be overcome:

- Different countries have different pavement rails, trains, systems of transportation, so it will be very challenging to build a railroad system that will be the same on the whole route;
- Different law regulations;
- Various customs and tariffs,
- Many countries have a high level of public debt, so they cannot afford to take any more credit for infrastructure, although they know that this project is good for them,
- Security of transporting goods, especially when using maritime roads,
- At the end, but certainly not something that we can overlook – number of the countries that are involved. Although this number is an impressive one, harmonizing all interests and sometimes even conflicts between countries that are involved, can be very difficult to say at least.

Using this project on an international level, together with New Normal policy on the internal level, China will try to adjust its economy to the changes that are at this moment historically very complex and tough. At this moment, we have very pessimist economic predictions for the year 2016 that are stating that the world is maybe facing a new economic crisis like the one in 2009. So for China, not only that it has a problem of changing the model of its economic development, at the same time Chinese economy needs to adjust to worsening of the economic situation in the world.

Looking from this point of view the initiative such as One Belt – One Road is highly supported in all countries that are affected by the possible effects of this kind of crisis.

PERSPECTIVES OF ECONOMIC COOPERATION BETWEEN CHINA AND CEE

2011 was the first year during which there were the first reports in which the international audience heard about the Chinese strategy to build stronger relations with Central and East European countries. The first step that was done at that time was to organize an economic forum in Budapest in which 16 countries coming from Central and Eastern Europe took part (countries listed in a table 3). This forum summarized the need to establish better economic, politic and cultural relations among countries that were present.

Table 3. Countries that are part of project of cooperation between China and Central and East European countries (so called Summit 16+1)

Countries that participate in Summit 16+1	
1. The People's Republic of China	2. The Republic of Serbia (former SFRY)
3. The Republic of Albania	4. Bosnia and Herzegovina (former SFRY)
5. The Republic of Bulgaria	6. The Republic of Croatia (former SFRY)
7. The Czech Republic (former Czechoslovakia)	8. The Republic of Estonia (former SSSR)
9. Hungary	10. The Republic of Latvia (former SSSR)
11. The Republic of Lithuania (former SSSR)	12. The Republic of Macedonia (former SFRY)
13. Montenegro (former SFRY)	14. The Republic of Poland
15. Romania	16. The Slovak Republic (former Czechoslovakia)
17. The Republic of Slovenia (former SFRY)	

The initiative was developed in a broader sense in 2012 during the Warsaw meeting, and that meeting is being seen as the official start of the Summit 16+1. After that, there were annual meetings of the prime ministers of countries listed above in Bucharest in 2013, then in Belgrade in 2014 and Suzhou in 2015. These meetings showed great enthusiasm and interest from this part of Europe to participate in the opening of these countries towards each other and towards China.

Why Europe, or should we say this part of Europe, is significant to China? As we already stated in this paper, Europe as a market is very important to China. According to the document issued by the European Commission: "The European Union and China are two of the biggest traders in the world. China is now the EU's second trading partner behind the United States and the EU is China's biggest trading partner... China and Europe now trade well over €1 billion a day." (European Commission, Trade, 2015) Judging by these numbers, it is no wonder that China is interested in becoming even more successful in this market.

Of course, the numbers are telling us that the biggest trade is between China and Western Europe. China Daily stated in an article from March 2014 that the volume of trade between China and CEE (that are part of the EU) was in 52.9 billion US\$ in 2011, and 52 billion US\$ in 2012, while at the same time the trade volume for all European Union was respectively 594 and 546 billion US\$. That means that CEE region was only involved in 10% of the whole trade volume, and that is not a very good result.

If we now look at the countries that are part of this project, never minding if they are members of the EU or not⁹, this region has a population of 128.3 million people, and their trade with China in 2014 surpassed 60 billion US\$. It means that there is a lot of space to improve this situation, and to try to work in a new way that will bring benefit to all parties involved.

The main reason for countries to join resources and become part of this initiative is to prosper in economic way, and there are many reasons for that. First, this part of Europe has a history of being Communist countries block up until 1989, and it is also seeking the chance to improve its economic development, which is presently not so good. Many of those countries went from the transformation of centrally planned state economies into the capitalist oriented economies. Unfortunately, transformation and privatization process did not go very well in all of them.

Also, many countries started to disintegrate (as seen in table 3), so that in the last 30 years there were a lot of political, social and economic problems, which put back the economic results of countries involved.

Thirdly, these countries were very affected by the global financial crisis that happened in 2009. At that time, the EU was the main investor in this part of Europe. Since the crisis started, the EU had to withdraw and to reduce its investments here. That also affected the development of this region.

Through past three meetings with Prime Ministers of China and CEE countries, there were a lot of agreements, and new initiatives. In this paper, only the conclusions of the latest meeting in Suzhou will be presented.

Xinhuanet in its report from these meetings stated: “China and 16 Central and Eastern European (CEE) countries on Tuesday identified priority areas for cooperation from 2015 to 2020, ranging from infrastructure, finance, agriculture to culture, in a latest effort to make their cooperation develop in an all-round way... Chinese and CEE countries leaders agreed to link China’s Belt and Road Initiative with development strategies of CEE nations, taking advantage of China’s strength in infrastructure construction and finance and meeting CEE countries’ own needs for better infrastructures and connectivity... Li reassured the leaders that the Chinese economy is resilient with huge market potential and will maintain sustainable growth with ongoing structural reforms.” Projects that were given special attention were: building railway link between Serbia and Hungary; renovation of Slovenia’s Kopar port; building of the China-Europe land-sea express passage; agriculture - China will increase import of competitive farm produce from CEE

⁹ Note: we have eleven EU countries (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) and five are EU candidate countries (Albania, Bosnia and Herzegovina, FYROM (Macedonia), Montenegro, and Serbia).

countries and enhance quarantine with them; language teaching in each other's country or countries and boosting tourism and traveling; more civil aviation cooperation between China and CEE countries with direct flights.

It is also obvious from this report that China is now considering this summit as integral part of the New Silk Road initiative, and that these two projects will go together.

Challenges of this Summit are more or less the same as the ones that we have in "One Belt One Roads" project. Besides them, there is a need to stress some of them that were not part of the problems in the Silk Road initiative:

- Some countries are EU members, and some of them are not, so it implies that they do not have a unified system of law and currency, that would otherwise help a lot;
- Turbulent political background – lots of changes on the political elections in countries involved;
- Unresolved conflicts and political issues with some of the states involved;
- This market is not as familiar to Chinese businessman as EU market is – there are problems with knowledge of languages, different mentality, different cultures (the same goes from the European side).

SERBIA'S POSITION AMONG CHINA'S PLANS

Serbia and China have been good political partners and friends for many years. Serbia inherited these good relations thanks to former Yugoslavia and President Tito. After the separation of the republics in the SFRY, Serbia continued to maintain its good and friendly relations with China.

Although the relations were good, they were not on the highest diplomatic level. Things started to change in 2009 when China and Serbia (President Hu and Tadić) signed the Agreement of strategic partnership.¹⁰ Serbian President Tadić during his visit to China made an agreement with the Chinese Government to start their new relations by building the bridge on river Danube together. That bridge "Mihajlo Pupin" was finally finished in 2014, and officially put in use on December 18th 2014, during Summit 16+1 in Belgrade. The bridge was built by China Road and Bridge Company with the help of domestic companies, and the total value of this bridge together with all connecting roads amounted to 260 million US\$. The Chinese Exim Bank financed this bridge by 85%, and the rest of it was financed by the Republic of Serbia and the city of Belgrade. (RTS, 2014)

¹⁰ Serbia was the fifth country at that time, with which China signed this kind of agreement – after the Russia, Brazil, USA and South Africa. It was a real surprise on international level, and many newspapers and TV crews dedicated a lot of attention to this event.

Overall, we have six years of constant and good development of relations with China. This is very important, because Chinese people highly value long-term relations that are based on mutual respect and friendship. The steadiness together with the upgrading of relations between partners is for them the only way in which they see the benefit of the connections and mutual cooperation.

Serbia has been very active partner of China in this couple of years. Our Government is China's partner in both international initiatives that China is promoting right now - New Silk Road and Summit 16+1. In 2014 Serbia was actually the host of the annual meeting of the Prime Ministers coming from Central and Eastern Europe and China.

At this meeting, Serbia signed 13 agreements and memorandums with China. (B92net, 2014) Agreements were signed in the field of economic and technical cooperation, air traffic and giving the loan for the second stage of the thermal plant in the Kostolac B project, an agreement that will allow each side to open cultural centers in the other country, but the most important one is about building the high-speed railway between Serbia and Hungary. Memorandums were signed for: financial cooperation between these countries; starting a feasibility study on the construction of an industrial park; cooperation on a project referring to a part of the ring road around Belgrade, Bubanj Potok and Vinča; financing infrastructural projects in Serbia; protocol on health standards for exporting Serbian meat to China. Therefore, this Summit had excellent results regarding agreements, and since then some projects already started, such as building the high-speed railway and building the Kostolac B thermal plant. Also, there are various meetings in both countries regarding the start of other projects (e.g. industrial parks and steel factory Železara Smederevo) and the ways of financing them.

Because of these projects, we have presence of several very important companies coming from China that work on our market such as: ZTE, Huawei, China Road and Bridge Company, Sinohydro, Shandong high speed company, CMEC – hydro plants, China International Water and Electric Corporation, Belmax – whole sale of Chinese products and China Development Bank.

In recent times, there are also many initiatives in Serbia coming from both business and academic environment to speak more and write more about Chinese and Serbian cooperation.¹¹ That is a signal that the people who are involved and

¹¹ Institute of European Studies (part of Chinese Academy of Social Science) visited Institute for International Politics and Economics (Belgrade) in April 2015, and there were there at the round table conference about Serbia's place on the New Silk Road initiative. This Institute also published the special edition of its magazine *International Problems* 2/3 2015 that was dedicated to this topic. Serbian Chamber of Commerce together with magazine *NIN* organized in January 2016 round table conference with similar topic. At this conference important people from Serbian and Chinese political and economical environment agreed that there are a lot of possibilities for Serbia on that road, that the relations between this two countries are best so far, and that both countries are expecting good results.

interested in these projects, coming both from Serbia and China, think that many economic and business goals can be reached on both sides, which will in the end result in a win-win situation.

CONCLUSION

Deng Xiaoping started reforms in China in 1978, with the opening of Special Economic Zones and the presentation of “Open Door Policy” that historically made the biggest changes in China’s economy. His political ancestors followed his path and made a big success. This time the new generations of Chinese people are reaching once again crucial moment in PRC history. It is a time for a new change.

The old model of development was the right one for that time. The new millennium is bringing changes that need to be sorted in a right way. President Xi Jinping, together with the Prime Minister Li Keqiang, is a leader who will be in charge of pursuing and implementing “New Normal” Policy that will help China to continue to be one of the strongest economies in the world. Besides that, the process of internationalization of Chinese economy, which started with Summit 16+1 and “One Belt, One Road” initiative will help as president Xi said to fulfill “Chinese dream”.

Serbia, thanks to its geo-economic position, efforts of our Government and willingness to participate in China’s projects is also on a right path to recover from its difficult situation and try to have better results in the upcoming years.

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IZAZOVI POSLOVNE I FINANSIJSKE TRANSFORMACIJE KINE U “NEW NORMAL” EKONOMIJI

Apstrakt: Narodna Republika Kina ima novu Vladu čiji je mandat započeo 2013. godine, u čijoj vladavini se dešavaju velike promene kako u domaćoj, tako i u spoljnoj ekonomiji. Posle skoro 30 godina u kojima su stope rasta GDP u Kini bile oko 10%, kineske stope rasta su polako počele da padaju. Tokom proteklih godina, kineske Vlade su bile svesne da se neke stvari u ekonomskom modelu

zemlje moraju promeniti, kako bi se ona mogla na stabilan način razvijati. Predsednik Si Đinping je rekao da postoji potreba za “New Normal” ekonomijom koja će pomoći Kini da se prilagodi novom ekonomskom modelu koji će stvarati stope rasta GDP između 5-7%. Kako bi ovo uradila, NR Kina mora da sprovede mnoge promene kako na domaćem tržištu, tako i promene na međunarodnom nivou, u okviru svoje spoljno-ekonomske politike. Ovaj rad će pokazati koji su ekonomski faktori uzdigli kinesku ekonomiju, zašto se oni moraju promeniti, šta je to “New Normal” ekonomija i kako će ona uticati na kinesku ekonomiju, poslovanje i finansije. U isto vreme, u ovom članku će biti pokazano kako su nove kineske inicijative na međunarodnom nivou: “Jedan pojas - jedan put” i Samit “16+1” deo “New Normal” politike na međunarodnom poslovnom tržištu. Poslednji deo rada posvećen je mestu Srbije u kineskim međunarodnim planovima, kako bi se uvidelo koji su trenutni projekti Srbije sa Kinom, koji su planovi za budućnost i kako Srbija može imati benefit od ovih novih kineskih planova.

Ključne reči: Kina, “New Normal” politika, poslovanje, finansije, Novi put svile, Samit 16+1, Srbija.

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