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Slovenia–China (Economic) Relations

Abstract

Slovenia started cooperating with China already in the 18th century. Initially economic cooperation lagged behind political–cultural ones. Later economics started to dominate, particularly trade, while foreign direct investments and tourism became more important later but still lags much behind potential. A major barrier is the small size of the Slovenian economy, lack of knowledge and weak competitiveness of firms compared to large MNCs. Strengthening the cooperation of Slovenia with China is of strategic importance in view of China's growing role in the global economy. By strengthening economic cooperation with China, Slovenia can reduce its dependence on the EU and strengthen the resilience of its economy.

Keywords: China, history, trade, FDI, policy

Short history

Early roots of relations between Slovenia and China can be traced already in the activities of the Jesuit Ferdinand Halerstein,² a Slovenian astronomer and mathematician who made an important contribution to the development

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² Chinese name: Liu Songling.

of science and astronomy in 18th century China as well as in Korea, playing a historic role as a cultural link between Europe and China. In the court of Emperor Qianlong, he was appointed the very high rank of mandarin of the third rank. Among other things, he elaborated a map of China in the world.³

Another historic “connection” of the two nations was the Boxer rebellion (1900) which attracted the attention of the Slovenes who “understood the essence of events unfolding in China at the turn of the 20th century”. Independence and nation building was for both nations of high importance. All leading Slovenian newspapers of the time openly sided with the Chinese in defending against foreign colonial aggressors under the Slogan, “China to the Chinese”.⁴

As a part of Yugoslavia, Slovenia started cooperation with China soon after Yugoslavia recognised China in 1949, although China, because of Informbiro,⁵ has not recognised Yugoslavia until 1955 when diplomatic relations were established. In 1958, China’s foreign policy changed and relations deteriorated so much that the ambassadors were recalled. Normalisation started in 1970 when Slovene sinologist Vinko Trček started his advisory position in the Yugoslav Embassy (1970–1974) in Beijing. After the Tiananmen incident in 1976,⁶ relations deteriorated again to be strengthened only after the death of Mao Zedong (1976). Doors were opened for the visit of President Tito in China in 1977 and continued with President Hua Guofeng’s very important visit in Yugoslavia in 1978, laying the foundations for future relationship between the two countries. After his visit, quite a number of industrial cooperation projects started.⁷ The new Chinese Open Door Policy (the Reform and Opening Up) and economic reforms opened the gates for the cooperation of the Yugoslav republics with Chinese

³ SAJE 2015; VAMPELJ SUHADOLNIK 2015..

⁴ LIPUŠČEK 2013.

⁵ Abbreviation of the “Communist Information Bureau” dominated by the Soviet communist party. In 1948, Yugoslavia started a more independent policy, strengthening cooperation with the West and getting out of the Soviet ideological domination. The conflict with the Soviet Union, referred usually as Informbiro, was a consequence.

⁶ The incident occurred on the traditional day of mourning, the Qingming Festival, and was triggered by the death of Premier Zhou Enlai earlier that year.

⁷ For instance: 1. semaforisation of Beijing (Iskra Avtomatika equipped with traffic lights all the major transport hubs in Beijing); and 2. micro motors for refrigerators by Rotomatika (interview with V. Lukanc).

provinces. Ljubljanska Banka opened a representative office in Singapore covering also China and Hong Kong in 1970s.

Soon after Hua Guofeng's visit, a consortium of Slovene companies for cooperation with China was established. Economic cooperation was thus facilitated and resulted in quite a number of deals. Smelt's business was the largest: it set up an oil refinery in Guangdong province (1985–1990) and built a titanium dioxide factory in the province of Gansu (1988). Important investment projects in China were carried out by Emona (two poultry farms), Gorenje (refrigerator factory), Kostroj (leather goods), IKOS (reconstruction of shoe factory), Krka (development of anti-malaria medicines) and Adria Airways with Sichuan Province to train pilots and airport staff.⁸

Slovenia became in the 1980s the strongest economic partner of China from Yugoslavia (approximately 60% of all Yugoslav industrial projects in China). It was not a surprise that Chinese president Jiang Zemin visited Slovenia as a party representative in the 1980s. Chinese Prime Minister Zhao Ziyang stated, during his visit in Slovenia in 1986, that relations between Slovenia and the Sichuan Province are an example of successful cooperation.

Afterwards cooperation started to stagnate due to the crisis of the Chinese economy and financial (payments) problems related to compensation business. The penultimate Ambassador of Yugoslavia in China (1985–1990), Zvone Dragan of Slovene nationality, was very active in stimulating the bilateral cooperation. He was also instrumental in organising the visit of the Prime Minister of the Yugoslav Republic of Slovenia, Šinigoj, in China at that time. After returning home, he was helping the organisation of the visit of the Foreign Minister of Slovenia, Rupel, in Beijing (February 1992). He was received by Chinese Foreign Minister Qian which was rather exceptional since China was against the disintegration of Yugoslavia. This visit was instrumental in the official recognition of the republic of Slovenia by China three months later.

The cooperation was not limited to economics. Cultural and scientific cooperation evolved swiftly in early Yugoslav times. The first cultural exchange could be traced back to 1956 when the Slovene Octet visited China and the Chinese circus came to Ljubljana.⁹ Later on, the driving force for greater links with China began at the Faculty of Arts with the introduction

⁸ ČEPLAK MENCIN 2012, 184.

⁹ ČEPLAK MENCIN 2012, 173.

of Sinology in 1995,¹⁰ culminating with the establishment of the Confucius Institute in Ljubljana at the Faculty of Economics in 2010. The Chinese Government accepted the proposal of the Slovenian President Danilo Turk during his visit in Beijing in the year 2007, to establish a lectorate (department) of Slovenian language in one of the Chinese universities. The lectorate for Slovenian language in the University for Foreign Studies in Beijing, which was the result of this initiative, will start the new academic year with the Slovenian language as a major course. At present, lectures of Slovenian language also exist at the Beijing International Studies University and at the Hebei International Studies University.

Slovenian attitudes towards cooperation with China

The knowledge about China is not very strong in Slovenia although many firms cooperating with China have better knowledge and experiences. The general public support for cooperation with China has been strengthening although some reservations remain when it comes to a more developed form of cooperation like FDI or undertaking large infrastructural projects by Chinese firms. According to the Episcenter public opinion poll in 2015, more Slovenes have a negative than positive view on China (52% vis-à-vis 45%), but almost a third admire China's economic development.¹¹ Like in many other CEEs,¹² the majority reports and analyses in the Slovenian media regarding China are rather negative following the same attitude in EU and especially U.S. corporate media. Like the majority of Slovenian politicians,¹³ leading Slovenian media editors are also not aware of the more and more decisive influence of China in the world.

Future looking attitudes related to China can be traced in the survey conducted by Raskovic and Rašković and Vuchkovski¹⁴ among Slovenian

¹⁰ Teaching on China and Chinese language started much earlier but was really strengthened by the establishment of the Asian Studies department in 1995.

¹¹ MAKOVEC 2015.

¹² See ŠIMALČIČ 2018.

¹³ President Pahor has not included China among the most important non-EU and NATO partners of Slovenia in his lecture to the diplomatic core in 2014. Mentioning India and Japan, the Chinese ambassador left the event.

¹⁴ RASKOVIC 2018; RAŠKOVIĆ–VUCHKOVSKI 2016.

Millennials.¹⁵ They have a generally positive attitude towards China (over 80%). However, Millennials are not totally representative for the general public opinion being by definition more liberal, more open-minded and less path dependent. The majority of the respondents do not support the acquisition of either Nova Ljubljanska Banka or its biggest retailer (Mercator) by the Chinese. Strengthening China–Slovenian relations are seen in the area of trade, international relations and FDIs, there is a very high support for Chinese investments into selected infrastructure projects.

Slovenian foreign policy relations with China

The first priority of the Slovene foreign policy, after becoming independent in 1991 was international recognition of the new state and its integration in all major international organisations. In 1992, Slovenia became a member of the United Nations. By becoming a member of the UN Security Council (non-permanent seat from 1998 to 1999), Slovenia realised one of its priorities, to become an important player in international relations. The second priority was to become a member of the EU and NATO.¹⁶ The third foreign policy priority was to get *away from the Balkans*, to dissociate from it. This orientation lasting from 1992–1998 was later gradually changed into *back to the Balkans* (1999–2004). Ironically, the very same Euro-Atlantic external foreign policy environment to which Slovenia wanted to get closer, pushed Slovenia to reorient its foreign policy ‘back to the (Western) Balkans’ in 1998. During the presidency of the EU Council in 2008, the Western Balkans appeared to be one of the specific contributions Slovene presidencies could make.¹⁷

¹⁵ A survey and a study were conducted in November 2017 among Millennials (born in the 1980s and 1990s) in Slovenia, students of either business and economics, or international relations studying at the University of Ljubljana. The analysed sample included 293 university students. This segment of the population has been deliberately selected because Millennials will represent the future businesspersons, policy makers and leaders who will shape the further development of China–CEE cooperation. They are also good and “neutral” yardsticks in terms of measuring stereotypes, perceptions and attitudes in social psychology, as well as international business and relations.

¹⁶ This was so high a priority that even the Strategy of International Economic Relations of Slovenia with other integration groupings and countries has not selected China among the selected countries to develop specific cooperation with (see MEOR 1996).

¹⁷ See BOJINOVIĆ FENKO–ŠABIČ 2017, 53–55; BOJINOVIĆ FENKO–POŽGAN 2014.

Initially, the country's foreign policy orientation was mostly a bottom up spontaneous activity without any strategic documents to back it. The Slovene Parliament adopted the first strategic document *Declaration on the Foreign Policy of Slovenia* as late as 1999. Its main emphasis was Europeanisation and strengthening cooperation with neighbours. Asia or China has not been given much attention, although the declaration stated that:

“Particular emphasis will be devoted to cooperation with the People's Republic of China as a permanent member of the UN Security Council and to those countries in which large groups of Slovenian emigrants live.”¹⁸

This Declaration was followed by the more comprehensive foreign policy of the Republic of Slovenia adopted in 2015.¹⁹ It follows previous priorities among which strengthening relations with China was again not very high on the agenda (less than one page for the entire Asia among the total of 25 pages). The strategy stipulates that:

“Slovenia's leading Asian partners include India, Japan, and China as the world's economic superpower. Slovenia's economic interests in Asian countries are closely associated with the Port of Koper, Slovenian railways, the Slovenian automotive industry, and Hi-Tech cooperation. The highly important segments of Slovenia's cooperation with Asia concern the fields of science, development and innovation.”²⁰

Although of a relatively low priority, political relations with China were strengthened to the very high level rather early.

Table 1
Major bilateral meetings until 1996

1992	Visits of the delegation of the Chinese Foreign Ministry
February 1993	Slovenia Embassy opened in Beijing
August 1993	Chinese Embassy opened in Ljubljana
September 1993	Protocol on consultations between foreign ministries signed in Ljubljana during the visit of China Deputy Prime Minister and Foreign Minister
June 1994	Foreign Minister Peterle visited China
February 1995	Prime Minister Drnovšek visited China

Source: CENCEN 2011, 279–281.

¹⁸ Declaration of the Foreign Policy of the Republic of Slovenia, the National Assembly of the Republic of Slovenia adopted at its session of 10 July 2015 (see National Assembly 2015).

¹⁹ Ministry of Foreign Affairs of the Republic of Slovenia 2015.

²⁰ Ministry of Foreign Affairs of the Republic of Slovenia 2015, 21.

From 1992, there were 24 visits of high Slovene politicians, including 4 visits of Slovene prime ministers in China (1995, 2003, 2007 and 2015) and one by its deputy prime minister in 2016. The President of the Republic of Slovenia (RS) visited China 3 times (1996, 2008 and 2009) followed also by visits of the President of the Slovene National Assembly (2011 and 2015).

China officials also visited Slovenia at high political level rather frequently (13 times from 1992) including visits by prime and deputy prime ministers, the minister of foreign affairs and high officials of the Chinese People's Political Consultative Conference (CPPCC) and other high party officials of central and regional levels.

The reasons for such rather intensive bilateral political relations were initially in the interest of Slovenia to get international recognition and it was also important for China, as a permanent member of the UN Security council. The main driver on the Chinese side was to establish relations with the new state as well as to deter Slovenia from getting too friendly with Taiwan. That was successful since Slovene authorities many times reiterated that they support the one China state policy.²¹ In the economic field, China regarded Slovenia as a springboard to the EU (the Port of Koper is regarded by the Chinese as a hub) and finally a more intensive economic and technological cooperation was beneficial for the competitiveness of their firms.

Table 2
Interests for bilateral cooperation

Chinese	Slovene
Establishing relations with new states as part of global strategy	Recognition of a new state
Deterring Slovenia from Taiwan	China as a member of the UN Security Council
Economic and technological cooperation	Large Chinese market
Slovenia as a springboard to the EU	
Strengthening its position in Europe	

Source: CENCEN 2011, 280–281.

China was also interested in observing development in the region after the dissolution of Yugoslavia and, as the latest 16 + 1 initiative demonstrated, in the development of the whole region of Central and Eastern Europe

²¹ China also stated frequently that the Tibet question was equally important.

(CEE). Not least since China has been in transition, therefore, its interest was also to study experiences of countries like Slovenia on their path through transition. Because China is, as Yugoslavia was, a multi-ethnic–multinational state, the experiences in this regard were also of interest to China. However, China was somehow reluctant to support the position that all successor states of former Yugoslavia are equal successors of former Yugoslavia. China has also not supported the position that Milošević's Federal Republic of Yugoslavia has to apply for a membership in the UN as a new state. It was only after 1996 that China clearly stated (President Jiang Zemin) that China has no special interests in Southeastern Europe seeking good relations with all states.²² Nevertheless, it has not recognised Kosovo as an independent state.

Institutional basis for mutual cooperation

Such intensive bilateral relations resulted in a number of agreements, signed quite early and aiming at building the institutional framework to facilitate bilateral political and economic cooperation.

The first official visit after Slovenia became an independent state happened in February 1992, when Foreign Minister Rupel visited China. Soon after (May 1992), the two countries established diplomatic relations and the Slovene Embassy in Beijing started to work in February 1993. In order to boost economic cooperation, a cooperation agreement was signed in 2000 between the Slovene Chamber of Economy and CCPIT, according to which a Joint Commission for Trade and Economic Cooperation was established.

The first economic strategy towards China was developed only in 1999 by the Ministry for Economic Cooperation and Development (MEOR) and the Slovene Chamber of Economy. Its basic orientation was to expand export in four priority areas: automotive, pharmaceuticals, industry of electrical machines and wood industry. The Program gave special attention to new emerging markets like BRICS. Such programs were upgraded in 2015 with the 2015–2020 *Programme for Internationalisation*²³ which gave special attention to diversification of economic ties, to increasing export to

²² See CENCEN 2011, 281.

²³ Government of Slovenia 2015.

non-EU members in which China is of course included. China is specifically mentioned in the context of the promotion of the international operation of companies, especially SMEs, including Intellectual Property Rights (IPR) Helpdesk China.

Table 3
The major economic agreements between Slovenia and China

Interstate	Agreement on trade and economic cooperation Agreement on scientific and technological cooperation Agreement on the promotion and mutual protection of investments Agreement on the avoidance of double taxation and the prevention of tax evasion
JAPTI ²⁴	CIPA (China Investment Promotion Agency) – agreement on mutual cooperation
Chamber of Commerce and Industry (GZS)	China Council for the Promotion of International Trade (CCPIT) – agreement on mutual cooperation Council for the Promotion of International Trade (CCPIT) – agreement on the establishment of China–Slovenia Business Council Trade Development Board at the Ministry of Trade (MOFCOM)
EU	Agreement on trade and economic cooperation ADS (Authorized Destination Status), which also obliges Slovenia as of 01.05.2004 – Chinese tourists must enter and leave the EU as a group with at least five people; they have to travel within the EU area within the tourist program The bilateral EU–China agreement on WTO

Source: Compiled by the author.

The last strategic document adopted by the Government of Slovenia was the Development Strategy of Slovenia 2030. It is predominantly internally oriented, more a list of development objectives with an almost absolute omission of the international setting. It does not give any regional or foreign trade priorities. China is mentioned in the global context chapter only implicitly by a statement that: “economic power is moving towards Asia, which influence the global changing power relations.”²⁵

²⁴ The Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investment.

²⁵ Government of Slovenia 2017, 10.

Two memoranda of cooperation in infrastructure and sports were signed in 2018. China has shown interest in boosting cooperation with Slovenia in sports and sports infrastructure particularly in the context of the preparations for the 2022 Beijing Winter Olympics.

The memorandum on the participation of countries in transport and infrastructure was signed in 2018 in Beijing in spite of the many times expressed interest of China to invest in that area. The Memorandum stressed the importance of maritime transport and infrastructure development in the area of railways, motorways and logistics. Slovenia would like the transport routes along the Silk Road to get connected with transport corridors crossing Slovenia.

Slovenia and China also signed agreements on boosting cooperation in aviation that will allow Slovenia's producer of ultralight aircraft Pipistrel to sell its planes in the Asian country. The Chinese aviation is growing fast and has great market potential and this agreement will boost sales of ultralight aircraft and equipment on the Chinese market.

Economic cooperation

There are three major starting points that serve as the framework for bilateral cooperation. The first is the geostrategic position of Slovenia represented by the Port of Koper, the largest container terminal in the Adriatic, and second largest car terminal in the Mediterranean.²⁶ It offers one of the best logistic access to Southeastern Europe.²⁷ Over 800 million euros worth of goods is transhipped in the Port of Koper (the Chinese data is much higher, approximately double, because they count all the shipment to Koper as export to Slovenia even if its final destination was elsewhere). Each week a Chinese ship with 5,000 containers is coming to Koper. The plan is that a larger one, for 8,000 containers, will start operating regularly between China and Koper. Therefore, it is no surprise that "China is willing to actively participate in Slovenia's projects at the Port of Koper and railway reconstruction and carry out cooperation with Slovenia in fields such as trade parks, logistics, equipment manufacturing, and transportation infrastructure based on China's initiative of 'cooperation

²⁶ VRABEC ŽORNADA 2016.

²⁷ See more in MIROŠIČ 2016.

in three port areas' of the Adriatic Sea, Baltic Sea and Black Sea. China supports its enterprises to participate in the privatisation of some state-owned enterprises in Slovenia and launch cooperation with Slovenia in fields such as new energy, high and new technology, biological pharmacy and environmental protection. China is willing to expand cooperation in agriculture, forestry and tourism."²⁸

The second is that Slovenia offers to China the way to materialise one of its major strategic objectives for the next decade, the penetration of global markets by higher value-added manufacturing and hi-tech products. The cooperation with CEE countries may be regarded by the Chinese as a "soft belly" entrance in the EU.

The third is whether the spectacular rise of China and their FDI abroad, in this case in Slovenia, is an opportunity or a threat. In the article the "Chinese are coming",²⁹ the authors see the growth of China mainly as an opportunity and a challenge. Twelve years later, the same title was applied by Finance's special dossier, China,³⁰ largely based on the analysis of Godement and Vasselier,³¹ with almost the same title. Nevertheless, the main message was quite different, warning about the threats of the enhancing role of China in the global economy, the Chinese sharp power, about imposing its standards etc.

Foreign trade

The country's strong dependency on Europe is based on the traditional European orientation of the Slovene international economic relations; this necessarily implies a lower priority to the cooperation with Asia and China in such a framework. Tectonic changes are underway; the particularly spectacular growth rates of China were underestimated (9.6% growth rate in the period 1979–2005, which slowed down during the great recession but were still very high at 6–7%).³²

²⁸ See the interview with H. E. YE Hao, Ambassador of the People's Republic of China in Slovenia (FISTER 2016).

²⁹ SVETLIČIČ–SICHERL 2006.

³⁰ Finance 2018, 14–31.

³¹ GODEMENT–VASSELIER 2017.

³² The Economist 2018.

Initially the bilateral trade was rather unbalanced. China exported to Slovenia much more than Slovenian firms to China. The important step forward in stimulating economic cooperation was the establishment of the Slovene representative office in Shanghai by JAPTI in February 2008. In addition, there is also the Club of Slovenes in Shanghai, which brings together 40 entrepreneurs who work mostly in the eastern part of China and share their experiences and contacts.

As late as in 2014, Economy Minister Dragonja said at the conference of trade and economy ministers from China and 16 Central and East European countries in Ningbo that Slovenia plans to double its exports to China over the next five years. The Chinese side meanwhile expressed interest in investing in infrastructure, energy, biomedicine and automotive sectors. Gao Hucheng expressed support for Slovenia's plans and said that Slovenia should boost food exports and expressed the wish that activities related to the issue of visas and work permits at Slovenia's embassy in Beijing and the Shanghai consulate would be simplified.

In spite of the constant growing trade with China, its share in the total Slovenia foreign trade remained very modest although gradually increasing (see Table 4). It has become much higher in terms of import, which substantially increased while the share of export to China in the total Slovene export still remained modest at 1.12%. Nevertheless, China remained a less important trade partner for Slovenia assuming in 2017 the 8th most important import (in 2005 17th) and the 21st most important export destination country (in 2005, 32th).

Table 4

The share of export and import from China in total export and import of Slovenia (in %)

	1994	2000	2008	2012	2017	2018	2019
Export	0.6	0.16	0.39	0.65	1.12	0.99	0.83
Import	0.5	0.39	1.91	2.79	3.14	3.34	3.70

Source: Bank of Slovenia 2017 and 2020.

The EU has remained the major foreign trade partner of Slovenia in the whole period, where almost 77% of the Slovene export and 80% of import is directed, followed by countries of former Yugoslavia. The export to Serbia alone is more than 4 times larger than that to China (2015).

The foreign trade with China increased in the period 2000–2017³³ by 15 times: export from 2.2 million euros to 32.5 million euros, while the import from 53 million euros to 801 million euros. More reliable data after 2004³⁴ show an increase of the export to China by almost 9 times and the import by 4.4 times. The result of such unbalanced trade resulted in the substantial and growing trade deficit. It increased from 27 million euros in 1994 to 502 million euros in 2017. Although Slovenia is a small open economy, according to the last available data (2011), there were as much as 8,000 Slovene firms importing from China and 270 exporting there; on the one hand, this is good news but on the other, it increases transaction costs and risks. Not all firms, particularly small ones, have the knowledge and skills to successfully overcome all the risks involved in international operations.

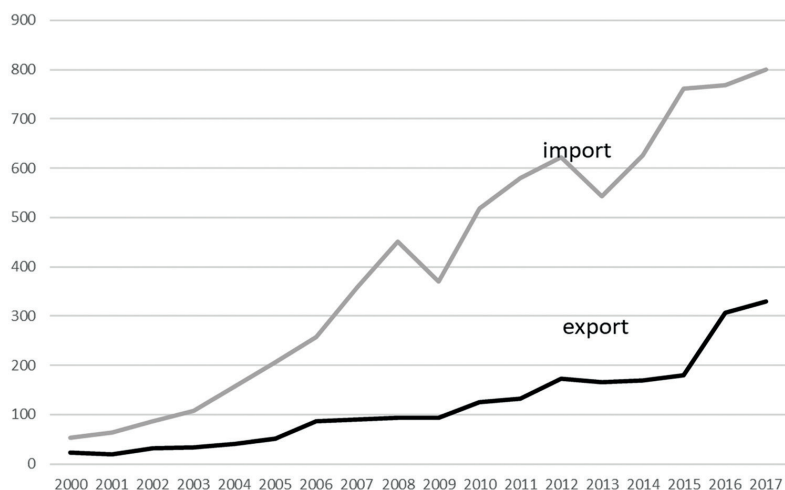


Figure 1

Dynamics of Slovenia trade with China 2000–2017 (value in EUR millions)

Source: Statistical Office of the Republic of Slovenia (SURS).

³³ 11 months only.

³⁴ Data on trade before 2004 is not compatible totally with those before 2004. The methodology has been changed after Slovenia became EU member. Therefore, the more reliable comparisons are only those after 2004.

Trade with China started to increase after its WTO membership. Prior to 2002, only those firms that had already established contacts with China from Yugoslav times were active there, or those whose managers transferred the knowledge of doing business with China from the companies in which they had been employed at the end of the 1980s and early 1990s and then opened their own businesses.³⁵

Oscillations in the export can be explained by some huge deals some firms made in particular years while drop in import in 2009 occurred due to the crisis of the Slovene economy. Unfortunately, Slovenia has not seized the opportunity to facilitate exit from the great recession in 2008 by enhancing export to China. On the contrary, import from China during the crisis increased more than export. Slovenia was not very specific in that regard as most EU member countries, including new members, have not grasped the opportunity of enhancing cooperation with China as a way out of the crisis.³⁶

Initially trade with Hong Kong (HK) was rather important, since it represented as much as 40% of export to China in 2000 (import much less; 21%). Parallel with strengthening cooperation with China, the share of imports and exports to HK has been decreasing, although the import was in fact in these 17 years almost halved (0.7% of the shares in total import from China), while the export increased 6 times to 12% of the shares.

Huge oscillations in trade have been parallel with substantial changes in trade structure; otherwise, it was similar as in the case of import from China. The machinery and equipment dominated in the Slovene export to HK with a decreasing trend. To conclude, Slovene firms are not using “small” Hong Kong enough as a good starting gate to the large Chinese market. Such cooperation can be particularly suitable for new entrants and SMEs.

Along with the transition, restructuring of the Slovene economy and high growth of China’s economy, trade has become more and more inter-industry trade. Manufactures dominated in the whole period on both sides in export and import. While initially textile, a traditional export item of less developed countries, represented a rather high share in the Slovene imports from China, its share in 2000–2017 decreased almost 4 times. Just the opposite trend could be observed in the export, where the share

³⁵ IVANČIČ 2009, 36–37.

³⁶ TKALEC–SVETLIČIČ 2014, 176.

of machinery and equipment (capital goods) increased more than 4 times. Consumer goods formed initially a high share in the Slovene import from China, but almost halved in 21 years partly as a reflection of the higher standard of living in Slovenia and enhanced awareness of the importance of health and environmental standards where Chinese firms are still not following all the European standards.

Table 5
Trade structure of export and import of Slovenia with China 1994–2015
(SITC rev.2), in %

	Export				Import			
	1994	2000	2008	2015	1994	2000	2008	2015
Manufactures	88.85	97.99	94.34	90.95	91.08	93.17	96.83	95.42
Machinery and transport equipment	30.25	32.45	73.90	49.65	11.26	29.82	43.60	46.73
Chemicals	10.26	22.99	6.04	18.12	11.89	7.87	7.14	13.17
Food	4.84	0.01	5.46	4.54	5.19	2.97	0.92	0.67
Agricultural raw material	1.69	1.58	0.16	3.15	2.38	0.40	0.34	0.33
Ores and metal	3.27	0.41	0.02	1.22	0.62	3.42	1.90	2.80
Textiles	12.99	0.72	1.66	0.78	38.34	16.03	16.10	10.85
Fuel	1.13	n.a.	0.01	0.13	0.74	0.04	0.02	0.77

Source: Statistical Office of the Republic of Slovenia (SURS).

Increasing opportunities are also offered in services, particularly tourism. In 2016, about 156 million Chinese tourists crossed the border (including businessmen), spending USD 261 billion. Slovenia attracted 62,000 Chinese tourists in 2017 (35% more than in 2016) who stayed overnight. Slovenia would like to become the entrance gate for Chinese European tours.

Investment cooperation

Chinese firms started to be interested in investing in Slovenia in 1996, while Slovene firms only after 2000. The major motives of Slovene firms for investing in China are the market (tariff jumping factories or other types of protectionism) and efficiency seeking FDI (large market, low labour costs).

The market seeking investment and recently, gaining knowledge were the second major motives. It seems that without local production it is, at least in the long run, impossible to sell the products on the large market of China.

In addition to FDI and business activity, there may be some macro-economic, even political considerations behind them as well. On the Slovene side, such consideration can be diversification of its economic ties from the very high European dependence. On the Chinese, it can be “jumping” on the EU markets through Slovenia, particularly using the Port of Koper or acquiring Maribor Airport as a springboard. In such a way, China also gets insights and influence on what is going on in the EU. Their investment in infrastructure³⁷ can be regarded as a part of the China flagship project, the One Belt One Road initiative (OBOR).

In terms of microeconomic motives, Chinese investment in Slovenia in industry does not depart much from general motives for investing in Europe: gaining knowledge, getting access to technology and trademarks are the motives of such investments, usually combined with EU market seeking strategies.

Slovene investments in China are surprisingly extremely low since they started much before Slovenia became an independent state (see section *Short history*). Initially major motives were to exploit low labour costs locally and to import such labour-intensive products back in Slovenia. In some cases of semi-finished products, suppliers to large multinational companies operating in China entered the market in order to get closer to their “customers” building their product in, e.g. cars (induced internationalisation). Getting access to the huge local market was the next motive.

³⁷ Chinese investors have been interested in buying or investing in the Port of Koper. In 2011, the Slovene Prime Minister Pahor revealed that the Chinese Government offered up to 10 billion euros for the purchase of Slovenian Railways and the construction of high-speed lines that would be carried out by Chinese companies with Chinese workers. He had rejected the offer, as the arrival of thousands of Chinese workers to Slovenia could have caused a social bomb that our country could not tolerate. Chinese Southern Airlines (the second largest in the world) was ready to buy Adria Airways, a freight airport and aviation school. Their plan was to convert Brnik Airport into a hub to Western Europe. The project collapsed as no Slovenian state representative found the time to accept the Chinese delegation (JENKO 2016). The airport was rather sold to the German Fraport AG in 2015, reflecting, at least partly, the traditional Slovene mentality: “Made in Germany means quality.”

The share of investments in China in the total Slovene investments abroad increased from 0.3% in 2012 to 0.8% in 2016. In terms of value, they gradually increased (although oscillating annually) from extremely modest 0.1 million euros in 2002 to 7.7 million euros in 2006 and finally to 44 million euros plus 4.4 million euros in HK in 2016.³⁸ This is of course far from what other countries are doing in China being, after USA, the number two location for FDI in the world and considered the most promising FDI home economy for 2017–2019.³⁹

The main activities of Slovenian companies in the Chinese market are production of footwear, products and semi products for thermoplastics electronics and electromechanical industry, products and components for the automotive industry, sales promotion and market operations, support to the purchasing activities of the parent company. More than thirty Slovenian companies have representative offices and companies in the field of automotive, electro, chemical, footwear, textile industry, trade and transport, operating in China.⁴⁰ Among them are Le-technika,⁴¹ Gorenje, Domel,⁴² Etol, Cablex, Letrika, Kolektor, Krka,⁴³ Cosylab,⁴⁴ Alpina, Unior, EURO PLUS engineering, Cablex, Gostol.

The Chinese FDI in Slovenia, although growing, is also very modest, so small that the Bank of Slovenia does not report about it among the 4 most important Asian investing countries. That is surprising due to the fast growth of Chinese investment in Europe in general which increased

³⁸ Data according to Bank of Slovenia 2017, 31.

³⁹ UNCTAD 2017, 9.

⁴⁰ Due to data confidentiality, it is not possible to include the comprehensive list of such ventures.

⁴¹ It was the first wholly owned company (Sinoslo Technology) established by a Slovene company in 2002.

⁴² Entering China in 2005 in order to get closer to its suppliers like Philips, Electrolux and Rowenta.

⁴³ Krka and its Chinese partner Ningbo Menovo Pharmaceutical have set up a joint venture Ningbo Krka Menovo Pharmaceutical in 2017. Krka holds a 60% stake. Another pharmaceutical firm, Lek was active in China but after being taken over by Novartis, this activity of Lek in China terminated.

⁴⁴ According to Mark Pleško, General Manager and owner, Cosylab gained a larger deal in the treatment of cancer with proton therapy, and so was able to employ in its own company there a top team of seven Chinese. The Chinese now have fewer than five proton centres, and they want to have 70 in the next five years. “With our software we can shorten their entry to the market from five to two years” (see BERTONCELJ 2018).

over 4 times in the period 2013–2016. Among CEE countries only Estonia, Macedonia, Latvia and Montenegro host less Chinese FDI. Nevertheless, their share in total outward FDI increased from extremely low 0.3% in 2012 (first time they appeared in 2002) to still very low 0.8% in 2016 or 11 million euros.⁴⁵ They are almost 4 times smaller than the Slovene FDI in China. The situation is in practice a little better because some investments are not registered as Chinese since they are undertaken by Chinese firms located in other countries or are Slovene companies located abroad.

Chinese investors believe Slovenia to be very attractive due to its strategic location and well-educated work force. Their investments in Slovenia are typically strategic; they want to acquire modern technology and knowledge.⁴⁶ Here are the examples.⁴⁷

- The largest Chinese FDI in Slovenia is the purchase of Outfit 7 bought from Slovene owners for 1 billion dollars by Zhejiang Jinke Peroxide (renamed after the acquisition into Zhejiang Jinke Culture Industry).
- The investment in the Slovenian high-tech company Elaphe⁴⁸ (producing in-wheel electric motors).
- The joint venture (JV) Pipistrel Asia Pacific (49% by Chinese partner Danny Wu and 51% by Pipistrel) was started by the construction of a new factory to produce 800 advance airplanes annually. Pipistrel would additionally sell 100 planes by export. The original idea of a simultaneous JV investment by the Chinese firm Sino in Pipistrel in Slovenia later collapsed due to the opposition to Chinese co-ownership in Pipistrel in Slovenia. The EUR 350 million deal in seven years will be upgraded with 5 additional ventures of Pipistrel Asia Pacific for airport construction, aircraft production, airport management, aviation training and construction of business and housing work.

⁴⁵ Bank of Slovenia 2017, 19.

⁴⁶ Some examples may be investment in DINOS (although waste processing is also becoming quite technology intensive), Javna razsvetljava [public lighting] and Maribor Airport.

⁴⁷ If not otherwise stated, data according to Finance 2018, 22–23.

⁴⁸ According to the agreement, the Zhejiang Asia-Pacific Mechanical & Electronic APG will become a 20% owner of the Slovene company and strengthen it with 10 million euros of fresh capital (Delo 2015). This cooperation is of a strategic importance in view of one among major long-term strategies of Chinese automakers to boost export of cars, particularly electric ones in Europe.

- TAM Europe. TAM Durabus, a Chinese–Dutch JV, re-launched bus production in Maribor in spring 2013; it is specialising in the production of electric busses. However, the company is producing losses although the general manager is optimistic about the future.
- Fotona, also a hi-tech producer, was bought from the state by Americans in 2014 to be three years later sold to Chinese Agic Capital.
- Arctur offering super computer services has also a Chinese co-owner.
- Acies Bio, the biotechnology firm is 22% (5 million euros) in Chinese Desano, a pharmaceutical firm.
- Huawei is also present in Slovenia with a small company employing only one person.
- The China-Central and Eastern Europe Investment Cooperation Fund, (China–CEE Fund) spent 22 million euros to get 84.1% share in Javna razsvetljava [public lighting], lighting, signalisation, engineering and electricity production.
- In January 2019, SHS Aviation has terminated its fifteen-year concession of the airport, less than two years since taking over in March 2017. Despite not delivering on most of what it promised, including transforming Maribor Airport into a hub for Chinese tourists, the operator expressed its unhappiness with delays by the central government in adopting a zoning plan, which would allow it to begin its massive 660 million euro airport redevelopment project (extend the airport track and expanding the airport with other facilities so that the airport would allow intercontinental flights) which was not very welcomed by the local population.⁴⁹
- DINOS (waste processing) was bought by the Chinese firm Chiho Tiande Group from German owners.
- In May 2019, Hisense announced a takeover bid for Gorenje offering 12 euros per share which valued the company at about 293 million euros. By July 2018, it acquired over 95% of the Gorenje shares, which is the largest Chinese investment in Slovenia after the investment in Maribor airport turned out to be a failure.

⁴⁹ KUTIN LEDNIK 2019.

The experiences of investors on both sides clearly show that:

- The best way is to have a two-way (investment) cooperation: Chinese firms in Slovenia and Slovene firms with the same partners in China. Cases of such cooperation are Pipistrel, Arctur,⁵⁰ Elaphe.⁵¹
- Concentrating cooperation in specific niches, particularly hi-tech is the best for smaller Slovene firms not able to compete on economies of scale or scope.

Problems

Slovene firms cooperating with China are claiming that entering the Chinese market is harder (64%) than doing business on other markets. It implies that firms are facing there more problems. Among them the firms have indicated a poor competitiveness, a lack of financial resources (for investments), cultural and language barriers⁵² and lack of trust. Lastly, the firms also ran into problems because of the poor preparations before entering the Chinese market. Quite a number of them reported that they have not consulted anybody prior to entering the Chinese market. A number of more general concerns regarding cooperation with China, indicated by Istenič,⁵³ are also relevant for Slovenia. For instance:

- a) “Chinese investment in CEE will raise Beijing’s ability to wield political influence over the decision-making process in the EU.” It will “divide” CEE from the rest of the EU due to states’ competition to attract Chinese investment what might significantly affect the EU unity and coherence and weaken European leverage vis-à-vis China on matters of strategic importance.
- b) Chinese acquisition of key/strategic industries, which are critical for a nation’s economic growth and international competitiveness,

⁵⁰ This high technology firm active in high-performance computing can also promote hi-tech export goods from China to Europe having the exclusive rights for export to Europe.

⁵¹ It is a leading firm producing in-wheel electric motors, which are considered the future in electric cars.

⁵² Interestingly, the language problem had the same rating by firms who have employees mastering mandarin language and those lacking such cadre.

⁵³ ISTENIČ 2017, 10, 11.

would endanger the national security of the individual CEE country in question.

- c) Trade imbalance with China and the lack of investment reciprocity due to limited access to the Chinese market are creating uncertainty and could bring serious challenges in the future.

The open Slovene market is not met by the same openness on the Chinese side applying less transparent selective FDI channelling approach to some strategic sectors. The danger of acquiring key strategic industries is less relevant with the exception perhaps of the Port of Koper and related railways.

The nonexistence of any Chinese bank in Slovenia⁵⁴ limits future cooperation. Economic cooperation seems not to be grasping the totality of opportunities offered by the growing importance of China in the global economy. Slovenia has not attracted more Chinese investments in spite of their spectacular growth in the last decade, nor the opportunity to enhance export to China as a crisis exit instrument. Slovene firms are also not utilising enough the opportunities offered by regional programs such as the EU SME Centre, or China IPR SME Helpdesk, also under the auspices of the European Commission. They provide practical information and free assistance to European companies, including protecting and enforcing intellectual property (IP) rights in China. It is particularly important since China remains one of the most problematic countries in terms of intellectual property protection, local market protectionism and human rights. Companies must be vigilant in order to be faster than local imitators. Internationalisation is a way to address weak IP protection or forced transfer of technology by China.

Slovene companies can also use the services of the Eurochambres, the association of 43 European Chambers of Commerce and Industry. Membership of Slovene companies in such an organisation could be very instrumental in facilitating cooperation.

⁵⁴ The presence of such a bank could stimulate bilateral cooperation such as membership in the Asian Infrastructural Investment Bank (AIIB) of which Slovenia is not a member although 21 EU member countries are (including all CEEs except Slovenia and Croatia). According to Lipušček (interview), “it is impossible to develop strategic cooperation with China not being a member of AIIB”.

There are several further explanations for lagging cooperation with China. On the one hand, there are objective factors like the small size of the Slovene economy and comparatively small size of its firms. Even the largest Slovene firms, few Slovene multinationals, are small compared to most Chinese firms either state or privately owned. The large geographic and cultural distance and the historically strong European orientation of international political and economic cooperation are also barriers in this regard.

Several biases are preventing the expansion of future cooperation. The first one is the lack of knowledge about China in general in Slovenia, as well as the inferiority complex of the Slovenes in considering themselves a small country with many limitations which is preventing closer cooperation with such a big country as China. Survey among managers and graduate students has demonstrated that managers rated knowledge about Chinese culture (together with India's) the lowest. Not surprisingly, they rated the improvement of such knowledge as the most important way to avoid mistakes in business relations⁵⁵). In the heads of the general population, China is still prevailing a less developed economy, with consumers demanding cheap products. Chinese firms like to cooperate with Europeans in order to boost their sales on the local market. Firms are informed better, but many stereotypes exist regarding China as a less reliable partner, with goods of lower quality, low technology development, low health safety or environmental standards, which make Chinese products less reliable for Slovene customers.

There is also a fear of the Chinese side, imposing their way of doing things, their management styles and their standards, which do not match the European ones. Firms are not well prepared when entering into cooperation. They lack knowledge about their Chinese partners and their subcontractors. The last in the chain to execute the contract is paid much less and consequently the performance is not up to the desired standards (interview with Tanja Drobnič, SPIRIT Slovenia).

In order to promote cooperation with countries such as China, a lot of time, money and human resources have to be invested. This is a problem particularly for SMEs lacking capital and human resources.

⁵⁵ KRALJ–SVETLIČIČ 2017.

Not surprisingly, a Manual has been prepared by the Chamber of Commerce and Industry of Slovenia on how to do business with China.⁵⁶

There are also problems, which Chinese firms are facing when operating in Slovenia. The favourable geographic position and the Port of Koper alone are not enough to convince Chinese companies. Chinese partners observed a significant deterioration in payment discipline and a lot of mistrust among business partners.⁵⁷

One problem is also that Slovene companies are not paying enough attention to macro political-economic plans China is making for the future development. Firms should pay close attention to China's national economic development plan for 2016–2020. It unveils the development concept of *Innovation, Coordination, Green Development, Opening Up and Sharing*, as well as the action plan *Made in China 2025* and *Internet+*, which show that the internet, ocean and green economy are becoming the key development points.⁵⁸

Concluding remarks

In spite of the spectacular growth of China's economy in the last four decades, becoming the number one economy in terms of GDP (PPP) and foreign trade, Slovene–Chinese economic relations, although growing fast in the last decade:

- a) are substantially lagging behind its potentials
- b) have not received appropriate high priority attention in foreign policy orientation of Slovenia
- c) have not been utilised as a crisis exit instrument
- d) are also lagging behind the very strong international economic involvement of Slovenia since the share of trade in GDP is over 146% while the share of export to China in total export constitutes only around 1% (import 3%)
- e) investment cooperation (inward and outward FDI, and GVCs) are much below the potential

⁵⁶ POLAJŽER–TURK 2013.

⁵⁷ KOS 2014.

⁵⁸ See Fister 2016.

- f) have missed the time to grasp the first mover advantage of the Chinese market which would at least partly reduce the shortcoming of a small economy/firms
- g) have not utilised enough the opportunities offered by the 16 + 1 initiative due to a rather late and not proactive enough approach

The reasons for such lags or missed opportunities are:

- a) Attitudinal barriers and stereotypes regarding China, although recently they started to change.
- b) Lack of knowledge on the development of China in the last decades.
- c) Predominant orientation towards Europe. Consequently, it was forgotten that necessary internationalisation of a small open economy demands “walking on 2 legs”: European and global.⁵⁹
- d) Objective factors like 1. lower competitiveness of Slovene companies compared to technologically more advanced multinational firms from Western countries; and 2. the complexity of a small economy/firm presents a barrier for cooperation with such a large market as China.
- e) The fears of Slovenia that the Chinese can dominate certain infrastructure objects in Slovenia (port, railway) if allowed to build them, which is a part of a general public, not official, fears regarding FDI.

Strengthening the cooperation of Slovenia with China is of strategic importance, both in political and economic terms. Therefore, in the future, Slovenia–China relations must be designed more strategically in line with the role of China in the global GDP and trade.⁶⁰ A long-term visionary approach is also needed taking into account where the future consumption will come from. The emerging-market middle class in Asia-Pacific is estimated to grow from USD 4.9 trillion in 2009 to USD 32.9 trillion in 2030, at which point it will comprise 59% of the global middle class spending.⁶¹ The bulk of this growth will come from Asia: by 2030, Asia

⁵⁹ SVETLIČIČ 1993.

⁶⁰ The export of Slovenia to China is lagging much behind the import absorption capacity of China. If Slovenia wants to grasp more proactively China's import absorption capacity, export to China should increase substantially.

⁶¹ The Futures Centre 2018.

will represent 66% of the global middle class population and 59% of the middle class consumption, compared to 28% and 23%, respectively in 2009.⁶²

The next major challenge is to be on time in catching the opportunities if wanting to benefit from first mover advantages, which offers many possibilities.⁶³ Latecomers get “crumbs from the table”.

By strengthening economic cooperation with China, Slovenia can reduce its dependence on the EU and strengthen the resilience of its economy. Good political relations are a precondition for successful economic cooperation and have more weight as compared to some other countries.

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⁶² PEZZINI 2012.

⁶³ “Anyone who has been with the Chinese up to now is treated better or at least as equal. Soon Chinese will be looking at those who will take too long to deal with that giant market or offering lower quality goods than Chinese can produce themselves, *from above*.” (Mark Pleško, Director and Co-founder of Cosylab).

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