Chinese investments and financial engagement in Visegrad countries:

myth or reality?

MTA KRTK VGI

Visegrad Group

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Institute of World Economics,
Centre for Economic and Regional Studies
of the Hungarian Academy of Sciences

Visegrad Fund

CHINESE INVESTMENTS AND FINANCIAL ENGAGEMENT IN VISEGRAD COUNTRIES: MYTH OR REALITY?

Edited by
ÁGNES SZUNOMÁR

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Institute of World Economics
Centre for Economic and Regional Studies
Hungarian Academy of Sciences

Budaörsi út 45., 1112 Budapest, Hungary
tel. +36-1/309-2643; fax +36-1/309-2624
email vgi.titkarsag@krtk.mta.hu;
www.vki.hu

Cover design
TAMÁS FALUS

Typeset, printing and binding
Globál Kft.
global@globalreklam.hu
tel. +36 1 236 0836

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FOREWORD

With rapidly growing outward foreign direct investment Chinese companies increasingly target Central and Eastern European countries, where Visegrad countries – the Czech Republic, Hungary, Poland and Slovakia – are among the most popular destinations for Chinese investors. Chinese investment in the Central and Eastern European (CEE) region constitutes quite a small share in China's total FDI in Europe (around 10%) and is quite a new phenomenon but since 2006 we could observe rising inflows of Chinese investments in the region which are currently expected to increase due to recent political developments.

There are quite a few comprehensive analysis which focuses on Chinese investments in Central and Eastern Europe so far, despite the recent change in the relations: on one hand, the transformation of the global economy is responsible for growing Chinese interest in CEE, but on the other hand, CEE represents new challenges and new opportunities for China, too. The growth potential, institutional stability and market size make the CEE region an attractive place for Chinese investments. The European sovereign debt crisis has been an additional impetus for both China and the V4 countries to strengthen their economic relations.

This book consists of the studies prepared in the framework of the project '*Chinese financial assistance in Visegrad countries: myth or reality?*'. The research analyzed Chinese investments in Visegrad countries before and after the crisis with a special focus on Chinese financial engagement. In addition to economic issues and intents, the research examined the underlying political interests of both sides as well as the attitude of V4 societies to incoming Chinese capital and growing influence. The research project was supported by the International Visegrad Fund and coordinated by the Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences with the contribution of various institutes and think-tanks from Visegrad countries, such as the East Asian Center of Warsaw School of Economics, the Institute of International Relations (Prague) and the Institute of Asian Studies (Bratislava).

The book provides a closer insight into the results of the above-mentioned research on Chinese investments in the Visegrad region. After a general overview on Chinese outward foreign direct investment in Europe and the CEE region, four studies deal with the relationships of individual V4 countries with China with a special focus on investment issues. The study *'China's public diplomacy toward Visegrad countries: beyond economic influence?'* presents the Chinese steps and intentions towards the V4 region from a Chinese point of view, while the next studies *'The Visegrad countries' Political Relations with China: Goals, results and prospects'* and *'Towards tapping Visegrad countries' full potential for attracting Chinese OFDI'* focus on future prospects of the relation. All of the studies draw relevant conclusions and provide recommendations on potential tasks and policies for further development.

Ágnes Szunomár
Editor

Chinese OFDI in Europe and the Central and Eastern European region in a global context

Ágnes Szunomár – Zsuzsánna Biedermann[1]

1. Introduction

In parallel with the new challenges the Chinese economy is facing, China's role in the global economy is changing too. Chinese outward foreign direct investment (OFDI) has increased in the past decades, however, in the last few years this process accelerated significantly. In 2012, China became the world's third largest investor – up from sixth in 2011 – behind the United States and Japan with an OFDI flow of 84 billion US dollars and it still hold its position (90.2 billion US dollars in 2013 according to Chinese statistics). Several factors fuelled this shift, including the Chinese government's wish for globally competitive Chinese firms or the possibility that OFDI can contribute to the country's development through investments in natural resources exploration or other areas (Sauvant – Chen, 2014, pp. 141-142).

Although the majority of Chinese OFDI is directed to the countries of the developing world, Chinese investments into the developed world, including Europe increased significantly in the past decade. According to *Clegg and Voss*, Chinese OFDI to the European Union increased from 0.4 billion US dollars in 2003 to 6.3 billion US dollars in 2009 with an annual growth rate of 57 percent, which was far above the growth rate of Chinese OFDI globally. While the resource-rich regions remained important for Chinese companies, they started to become more and more interested in acquiring European firms after the financial and economic crisis. The main reason for that is through these firms Chinese companies can have access to important technologies, successful brands and new distribution channels, while the value of these firms has fallen due to the crisis, too (Clegg – Voss, 2012, pp. 16-19.).

The aim of the paper is to analyse Chinese OFDI to Europe by presenting its main trends, patterns and motivations with a special focus on the impact of these investments in the EU and European countries, respec-

[1] Ágnes Szunomár and Zsuzsánna Biedermann are research fellows at Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences.

tively. In order to assess the role and importance of OFDI from China towards Europe, it must be evaluated within a global context, taking into account its geographical, as well as sectoral distribution.

After the introductory section, the *second chapter* examines Chinese foreign direct investment globally, taking into account trends, patterns and investors' potential motivations when choosing a specific destination for their placements. In the *third chapter*, sectoral preferences and global dispersion of Chinese OFDI will be detailed, relating major investment areas, recipient countries and regions. The *fourth chapter* will be devoted to outlining Chinese investments in Europe. By detailing certain major investments of strategic importance the authors will try to debunk myths on China as a neo-colonial power using its economic "soft power" to influence recipient countries' political decisions. Chinese investments in sovereign bonds or European financial institutions during the crisis will be evaluated, too. The *fifth chapter* deals briefly with a new phenomenon, Chinese OFDI in the Central and Easter European region. In the *sixth chapter* the authors will conclude their investigation by arguing that although the majority of Chinese investments are directed to the developing world, European countries are at the forefront of Chinese OFDI to developed countries. Based on analysed patterns and observed Chinese preferences, the authors will try to formulate policy recommendations for the attraction of Chinese investors.

The authors will usually take into account foreign direct investment by mainland Chinese firms (where the ultimate parent company is Chinese), unless marked explicitly that due to data shortage or for other purposes they deviate from this definition. Since data in FDI recipient countries and Chinese data show significant differences, the two data sets will usually be compared to point out the potential source of discrepancies in order to get a more complex and nuanced view of the stock and flow of investments. For Chinese global outflows statistics from Chinese Ministry of Commerce (MOFCOM) and UNCTAD will be taken into account and compared.

2. Trends, patterns and motivations of Chinese OFDI

As recently the Chinese economy is facing new challenges and its economic strategy is transforming, the country's global investment position is altering as well, however, a bit more than a decade ago the amount of Chinese OFDI was almost negligible.

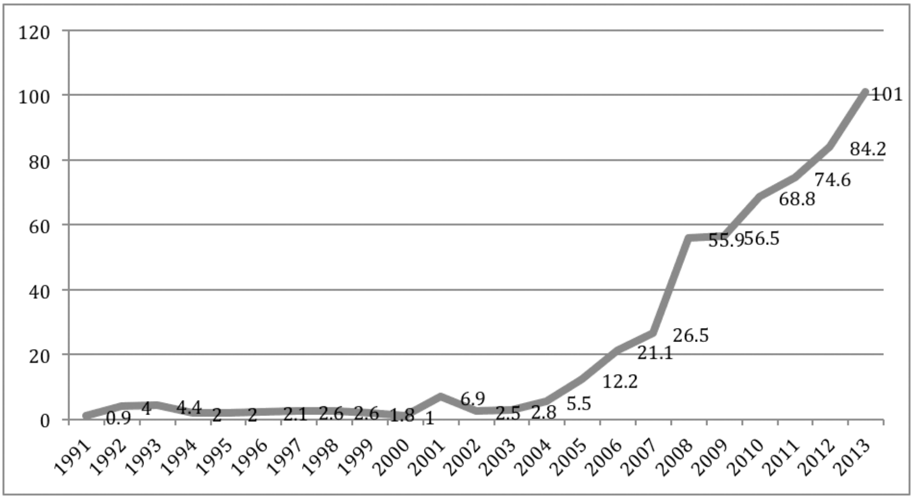
[2]FDI from Hong Kong Special Administrative Region (SAR), from the Macao SAR, from Taiwan or from any offshore tax haven will not be taken into consideration.

In hand with the "Open Door" policy reforms, the Chinese government encouraged the country's investment abroad to integrate China to the global economy, although the only entities allowed to invest abroad were state-owned enterprises (SOEs). The total investment of these first years was not significant and concentrated to the neighbouring countries, mainly to Hong Kong. The regulations were liberalized after 1985 and a wider range of enterprises – including private firms – was permitted to invest abroad. After Deng Xiaoping's well-known journey to the South, overseas investment increased dramatically, Chinese companies established overseas divisions almost all over the world, concentrated mainly in natural resources. Nevertheless, according to UNCTADstat, Chinese OFDI averaged only 453 million US dollars per year between 1982 and 1989 and 2.3 billion between 1990 and 1999.

In 2000, before joining the World Trade Organization (WTO), the Chinese government initiated the *go global* or *zou chu qu* policy, which was aimed to encourage domestic companies to become globally competitive. They introduced new policies to induce firms to engage in overseas activities in specific industries, notably in trade-related activities. In 2001 this encouragement was integrated and formalized within the 10th five-year plan, which also echoed the importance of the *go global* policy (Buckley et al 2008). This policy shift was part of the continuing reform and liberalization of the Chinese economy and also reflected Chinese government's desire to create internationally competitive and well-known companies and brands. Both the 11th and 12ndfive-year plan stressed again the importance of promoting and expanding OFDI, which became one of the main elements of China's new development strategy.

Chinese OFDI has steadily increased in the last decade (see *Figure 1.),* particularly after 2008, due to the above-mentioned policy shift and the changes in global economic conditions, that is, the global economic and financial crisis. The crisis brought more overseas opportunities to Chinese companies to raise their share in the world economy as the number of ailing or financially distressed firms has increased (Artner, 2010, p 933). While OFDI from the developed world decreased in several countries because of the recent global financial crisis, Chinese outward investments increased even greater: between 2007 and 2011, OFDI from developed countries dropped by 32 percent, while China's grew by 189 percent (He-Wang, 2014, p. 4; UNCTAD 2012). According to the World Investment Report 2013, in the ranks of top investors, China moved up from the sixth to the third largest investor in 2012, after the United States and Japan – and the largest among developing countries –as outflows from China continued to grow, reaching a record level of 84 billion US dollars in 2012. Thanks largely to this rapid increase of China's outward FDI in recent years, China also became the most promising source of FDI when analysed FDI prospects by home region (UNCTAD 2013, p. 21).

Figure 1. China's outward FDI flows, 1991-2013 (USD billion)



Source of chart data: Data for 1991-2013 are from *UNCTAD's FDI/TNC database*, available at http://unctadstat.unctad.org/ (the data before 2006 doesn't include financial OFDI, that is, OFDI in financial services). Data for 2013 is the estimation of UNCTAD's *Global Investment Trends Monitor*, available at http://unctad.org/en/PublicationsLibrary/webdiaeia2014d5_en.pdf, which includes financial FDI outflows. According to MOFCOM, Chinese OFDI increased to 90,2 billion US dollars in 2013, however, this data excludes financial FDI flows.

According to MOFCOM statistics, Chinese companies invested overseas in 5090 enterprises, in 156 countries and regions in 2013. Chinese non-financial OFDI amounted to 90.17 billion US dollars, up by 16.8 percent over last year, of which equity investments and other investments were 72.77 billion, accounting for 80.7 percent, and earnings reinvested were 17.4 billion, accounting for 19.3 percent. As of the end of 2013, China's non-financial direct investment overseas totaled 525.7 billion US dollars. While more and more Chinese companies are investing overseas, Chinese OFDI raises concerns and therefore causes strengthening protectionism against it, especially in the developed world. Several experts believe that Chinese OFDI could be greater if host countries were more hospitable. According to *He and Wang*, there are several reasons for that:

1. state-owned enterprises (SOEs) are the dominant players in Chinese OFDI and they are often viewed as a threat for market competition as they supported by the Chinese government;
2. foreign companies often complain that Chinese companies may displace local companies from the market as they bring technology, resources and jobs away;
3. there are fears about Chinese companies' willingness to adapt to local environment, labor practices and competition.

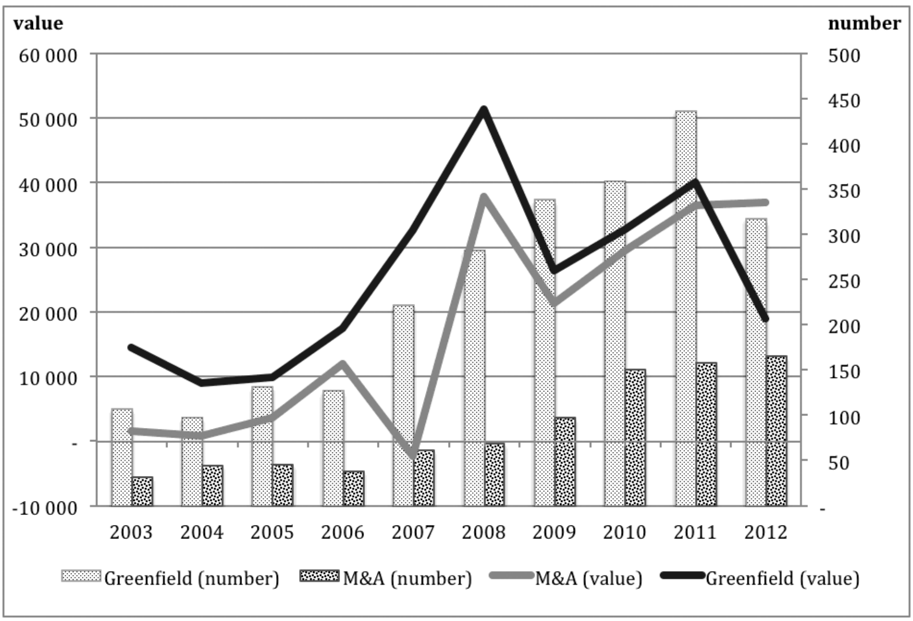
Although the above-mentioned problems indeed exist, they are overestimated as Chinese companies are willing to accommodate to the international rules of investment (He-Wang, 2014, p. 4-5). According to *Scissors*, if it is about national security, the role of Chinese ownership status is overblown as Chinese rule of law is weak, which means that a privately owned company has to face as much pressure and constraint as its state-owned competitor (Scissors, 2014, p. 5). Nevertheless, it is worth to differentiate between SOEs, which has two types: locally administered SOEs (LSOEs) and centrally administered SOEs (CSOEs). Most of the LSOEs operate in the manufacturing sector and they are facing competition from both private companies and other LSOEs, while CSOEs are smaller in number but more powerful as they operate in monopolised industries such as finance, energy or telecommunication (He-Wang, 2014, p. 6).

Although the share of private firms is growing, SOEs still account for the majority – more than two-thirds – of total Chinese outbound investments, however, the range of investors is broader, next to state-owned and private actors it includes China's sovereign wealth fund and firms with mixed ownership structure. The role of SOEs seems to be declining in the past few years, although the government will continue to emphasize their importance as they rely on the revenue, job creation and provision of welfare provided by the SOEs (He-Wang, 2014, p. 12).

According to the *go global* strategy, Chinese companies should evolve into globally competitive firms, however, Chinese companies go abroad for varieties of reasons. The most frequently emphasized motivation is the need for natural resources, mainly energy and raw materials in order to secure China's further development (resource-seeking). Mutatis mutandis, they also invest to expand their market or diversify internationally (market-seeking) (Artner, 2009, p 1044). Nevertheless, services such as shipping and insurance are also significant factors for OFDI for Chinese companies if they export large volumes overseas (Davies, 2013, p 736). Despite China's huge labour supply, some companies move their production to cheaper destinations (efficiency-seeking). Recently, China's major companies also looking for well-known global brands or distribution channels, management skills, while another important reason for investing abroad is technology acquisition (strategic asset-seeking).

Scissors points out that clearer property rights – compared to the domestic conditions – are also very attractive to Chinese investors (Scissors, 2014, p. 4), while *Morrison* highlights an additional factor, that is, China's accumulation of foreign exchange reserves: instead of the relatively safe but low-yielding assets such as US treasury securities, Chinese government wants to diversify and seeks for more profitable returns (Morrison, 2014, p. 15-16).

Figure 2. The value and number of China's outward cross-border M&A purchases and greenfield FDI projects, 2003-2012 (USD million)



Source of chart data: UNCTAD's World Investment Report 2013 Annex Tables, available at http://unctad.org/en/pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx

Regarding the entry mode of Chinese outward investments globally, greenfield FDI is continues to be important, but there is a trend towards more mergers and acquisition (M&A) and joint venture projects overseas. Overall, greenfield investments of Chinese companies outpace M&As in numerical terms, however, greenfield investments are smaller in value in total (see *Figure 2.)* as these include the establishment of numerous trade representative offices. The weight of M&A has risen steadily in the past years: M&As accounted for only 18 percent of Chinese OFDI in 2003, while nowadays it is around two-thirds of China's total investments overseas (Nicholas, 2014, p. 104 and Rosen-Hanemann 2009). Although joint venture (both contractual and equity) as an entry mode for Chinese outward investments accounted for the largest share in the 90s and at the beginning of the 2000s, its role became less significant in the past years, accounting for around 20 percent of China's total OFDI[2] (Davies, 2013b, p. 71).

3. Global dispersion and sectoral preferences of Chinese OFDI

China's OFDI has become more sectorally diversified in the past years: mining and manufacturing dominated Chinese investments overseas with a share of over 60 percent till 2003, the following years saw the growing share of high technology, infrastructure and heavy industry, while the sectoral preferences of Chinese OFDI lately turned to the tertiary sector[3], that is, to business services and finance primarily and also health care, media and entertainment. *Clegg and Voss* point out that this progress can be regarded as part of the internationalization process of Chinese companies: firms from business services and finance follow their major domestic clients or prepare their entry to the new market (Clegg-Voss, 2012, pp. 18-19). According to MOFCOM, in terms of industrial breakdown, in 2013 almost 90 percent of the investment flew to commercial service industry (leasing and business services), mining industry, wholesale and retail industry, manufacturing industry, construction industry and transportation industry (see *Figure 3*.). Nevertheless, OFDI in natural resources will remain an important component of Chinese investments in the future as Chinese companies still have a huge interest in extraction investments overseas due to the on-going urbanization process and the limited domestic deposits of most resources (Rosen-Hanemann, 2009, pp. 9-10).

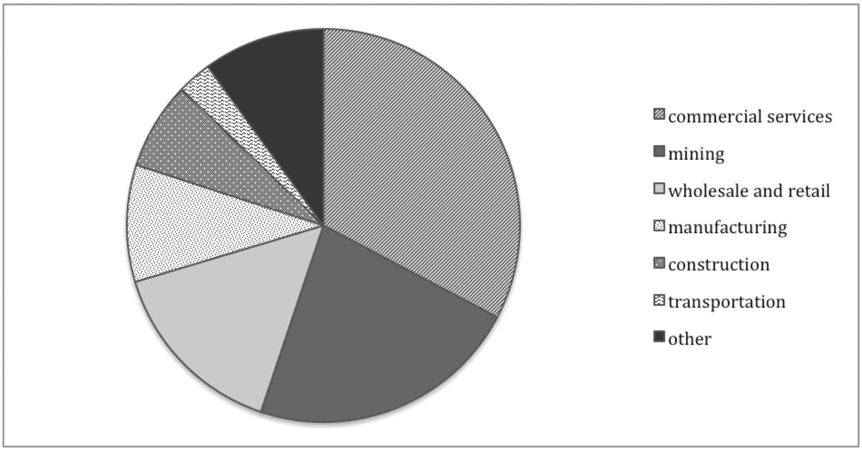
As *Figure 3*. shows, commercial service industry (leasing and business services) is the largest category of Chinese OFDI, however, the exact nature of these investments is uncertain and it is likely that a large share of these investments are redirected to the manufacturing or mining sectors (He-Wang, 2014, p. 7). *Wang* tried to follow the final destination and actual

[2]According to MOFCOM statistics, the outward equity joint venture FDI was 21.7 billion US dollars in 2012, while the realized value of contractual joint ventures was 2.3 billion US dollars in the same year. Its share of total Chinese OFDI was 19.4 and 2.1, respectively.

[3]For example, according to MOFCOM data, in 2010, almost 80 percent of Chinese OFDI was destined to the services sector, 13 percent of total OFDI stock invested in financial services.

industries of Chinese OFDI by examining project-level data and found that despite of the official listing mining and manufacturing are the major attractions for Chinese investors (Wang, 2013). Another interesting finding is that overseas investments in the manufacturing sector were mostly made by the private sector and LSOEs, while investments in the mining sector were dominated by CSOEs (He and Wang, 2014, p. 7).

Figure 3. Sectoral distribution of Chinese OFDI, 2013



Source of chart data: MOFCOM's Brief Statistics on China Direct Investment Overseas in 2013, available at http://english.mofcom.gov.cn/article/newsrelease/press/201401/20140100463687.shtml

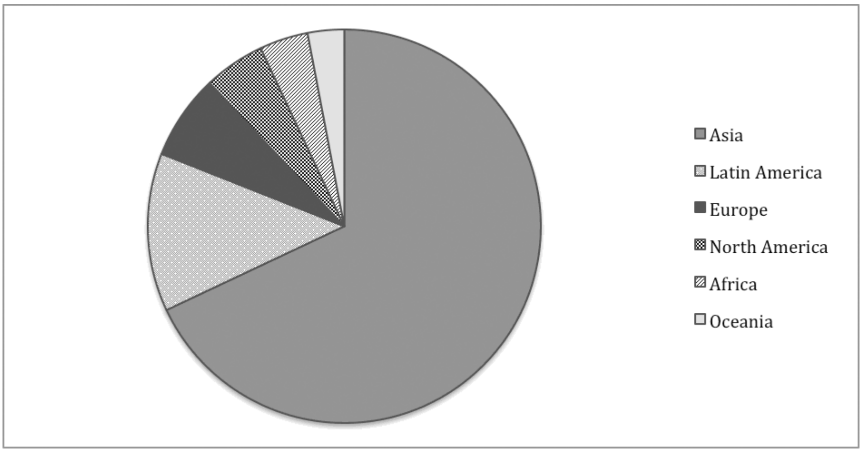
The sectoral distribution of Chinese outward FDI has varied between provinces, while also the level of diversification between the above-mentioned sectors are diverse among the various provinces or province-level units (Davies, 2013b, pp. 50-51).

Regarding geographical distribution, Asia continues to be the largest recipient, accounting for nearly three-quarters of total Chinese OFDI[5]. According to MOFCOM statistics, Chinese OFDI to Hong Kong, the ASEAN, the EU, Australia, the US, Russia and Japan reached 65.45 billion US dollars in 2013, accounting for 72 percent of China's total foreign direct investments overseas, up by 9.1 percent year-on-year. Investments in Hong Kong, EU and Japan fell by 6 percent, 13.6 percent and 23.5 percent respectively, while investments in Russia, the US, Australia and the ASEAN reached 4.08 billion (+ 518.2 percent), 4.23

[5]Within the region, Hong Kong is the largest destination, attracting 58.4 percent of China's total FDI outflows.

billion (+ 125 percent), 3.94 billion (+ 82.4 percent) and 5.74 billion (+ 29.9 percent) US dollars, respectively. The direction of outward FDI has also varied between provinces due to geographical proximity (border provinces), coastal or inland positions (access to world market) and wealth differences. Chinese diaspora in South East Asia and North America – and their province-level connections – also plays an important role in the direction of Chinese OFDI (Davies, 2013, pp. 49-50).

Figure 4. Geographical distribution of Chinese OFDI stock, 2012



Source of chart data: MOFCOM and BBVA Research (BBVA, 2013, pp. 6-7)

If we analyse the geographical distribution of Chinese OFDI stock in MOFCOM statistics (which identifies only the first destination of investments), we can learn that a major part of investments is received by Hong Kong and the Caribbean offshore financial centres: the British Virgin Islands, the Cayman Islands and Hong Kong usually account for the two-thirds of China's investment flows and stocks. This high share is related to a phenomenon called *round-tripping*. Round trip investments are typically following the same pattern: a Chinese resident establishes or takes control of an offshore holding company, and use this offshore company to control a Chinese company by either direct acquisition or captive contractual arrangement (Chao-Xu, 2008, pp. 1-2). In this case, the investment is placed in a special purpose entity – a transit or intermediary destination – outside China only to flow it back in the form of inward FDI to China to benefit from fiscal incentives designed for foreign investors. Round-tripping therefore might (mis)lead experts to overestimate overall Chinese OFDI.

Some part of Chinese OFDI to Hong Kong stays in the PRC's Special

Administrative Region as Hong Kong also used as a platform for making further investments in other countries, especially developed ones. During the examination of the actual final destination of Chinese OFDI, *Wang* found that developed countries receive more Chinese investments than developing economies: according to his project-level data analysis, 60 percent of Chinese ODI went to developed economies like Australia, Hong Kong, the United States, Germany, and Canada (Wang, 2013). *Davies* warns that an underestimation is equally possible if not attaching enough importance to the growing role of private investors, who might opt for circumventing the official approval process and use their capital concentrated overseas (Davies, 2013a, p.757).

Being one of the top investors of the developing world, since 2008 Chinese investment increased substantially in developed economies as well. Although this increase is impressive by all means, China still accounts for less than 5 percent of total FDI inflows into the EU or the US. In the case of developed economies Chinese investment are less dominated by natural resource seeking or trade-related motives but more concerned with the wide range of objectives, including market-, efficiency- and strategic assets-seeking motives (Rosen-Hanemann, 2013, p. 69 and UNCTAD, 2013, p. 46).

As *Clegg and Voss* note, the industry-by-country distribution of Chinese OFDI is difficult to determine from Chinese statistics. However, based on their findings, it can be stated that Chinese investments in mining industry are taking place mainly in institutionally weak and unstable countries with large amounts of natural resources and that these investments are normally carried out by SOEs. Investments in manufacturing usually take place in large markets with low factor costs, while Chinese companies seek technologies, brands, distribution channels and other strategic assets in institutionally developed and stable economies (Clegg-Voss, 2012, p. 19). In developed economies Chinese SOEs usually have the majority of deal value but non-state firms make the greater share of deals (Rosen-Hanemann, 2013, p. 71). In addition to greenfield investments and joint ventures, China's merger and acquisition (M&A) activity in developed countries has recently gained a momentum and continue an upward trend since more and more Chinese firms are interested in buying overseas brands to strengthen their own. However, some attempted Chinese acquisitions failed[6] in the United State and Australia in recent years (Davies, 2013, p. 36).

[6]In the U. S. CNOOC tried to acquire UNOCAL unsuccessfully and Haier and Huawei also failed to compound important deals. In Australia, Chinalco and Minmetals Resources failed to clinch the planned acquisitions (Davies, 2013b, p. 37).

4. Chinese FDI in the EU: general overview, effect of the crisis

The European Union has been the major destination for foreign direct investments in the last twenty years, with a preponderance of intra-European FDI, extra-European FDI representing only about one-third of the total sum. Compared to the aggregate, Chinese foreign direct investment stock in the EU remains insignificant. However, regarding the trends and dynamism of Chinese inward FDI, the economic "footprint" and impact of Chinese foreign direct investment in the EU is indisputably expanding.

Although Chinese investors continue to breed anxiety in Europe, several experts point out that growing European investments are simply part of the going global strategy rather than a specific grand design related to Europe (Hanemann, 2013). *Hanemann* also points out commercial reasons behind most investments: the acquisition of rich-world brands and technology to increase competitiveness, money-saving by moving higher value-added activities in countries where regulatory frameworks are more developed, or by acquiring firms cheaper due to the crisis or due to a stronger renminbi (Hanemann, 2012). So the crisis only accelerated the long-term Chinese strategy of going global and moving up the value chain (Jonas Parello-Plesner, 2013, p.19).

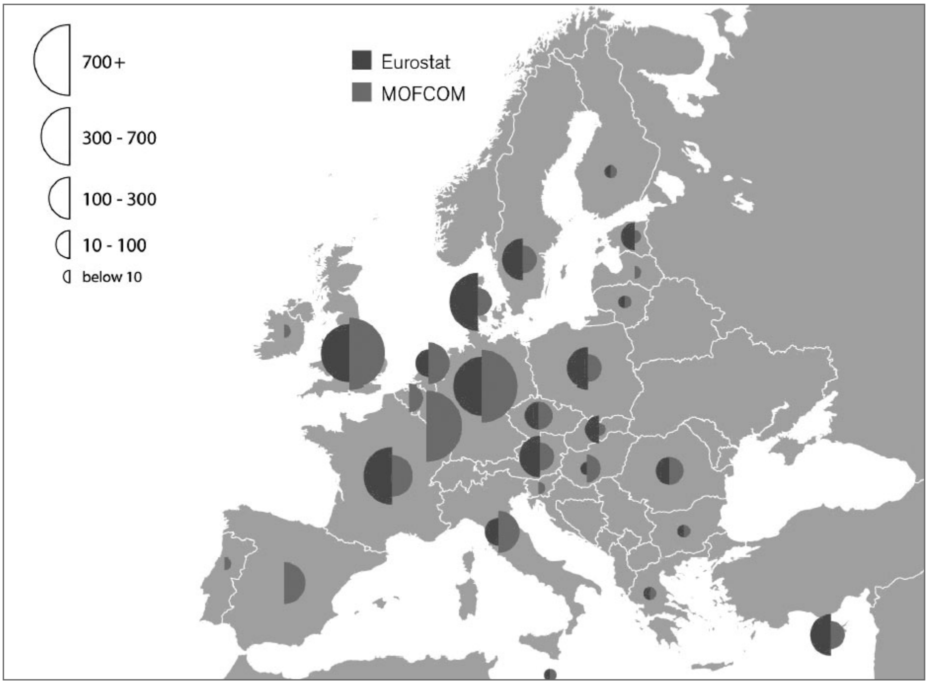
According to Eurostat statistics, in 2009 and 2010, Chinese FDI stock into the EU 27 amounted to 5.9 and 6.1 billion euros respectively. However, in 2011, Chinese FDI stock reached 18.5 billion euros and by the end of 2012, 26.8 billion euros (still only 0.068 percent of total stocks held by the rest of the world in the EU27)(Eurostat News Release, 12/2014**)**. The sudden surge is due to large-scale acquisitions in utilities, consumer products, industrial machinery, and infrastructure.

However, Chinese statistics show a similar trend, but different numbers. MOFCOM has not yet released data for 2011 and 2012 when investment trends became more dynamic and country rankings changed according to European data. Chinese OFDI stock in Europe (but taking into account European countries that are not member states of the EU like Albania, Azerbaijan, etc.) amounted to 3352.72 billion US dollars and 6760.19 billion US dollars in 2009 and 2010. Outward Chinese FDI stocks in major EU economies reached 1689.3 billion US dollars in the UK, 1523 billion US dollars in France, 1421.3 billion US dollars in Germany and 336.1 billion US dollars in Sweden (MOFCOM, 2010). Taking into account MOFCOM statistics, in 2010, the flow of Chinese OFDI to Europe doubled over that in 2009 (Davies, 2012, p.3).

In order to highlight the difference between Chinese and European statistics, *Figure 5.* showsan illustration of Chinese OFDI in the EU in

2009 in million euros according to *Clegg and Voss,* based on Eurostat, NBS (National Bureau of Statistics of China), MOFCOM, SAFE (State Administration of Foreign Exchange) (2011) data (Clegg-Voss, 2012, p. 23).

Figure 5. Chinese OFDI in the EU, 2009 (EUR million)



Source of data: Eurostat (2011b) and NBS, MOFCOM and SAFE (2010) available at http://www.chathamhouse.org/sites/default/files/public/Research/Asia /0912ecran_cleggvoss.pdf

A combined analysis of both data sources suggests that Chinese investment in Europe is intensifying. It is more than probable that this dynamism is just the beginning of a long-term process (Söderman-Jakobsson-Soler, 2008 and Cui-Jiang, 2009). The European Union Chamber of Commerce in China questioned a sample of 74 Chinese enterprises that had already invested in the EU. They found that 97 percent of these firms intend to make future investments in the EU, mostly even higher amounts than before. (European Chamber, 2013, p.5.) However, unfamiliarity with local conditions might keep some investors away from European markets (Shixue, 2013): 78 percent of the above-mentioned 74 firms noted that they were facing bureaucracy and high costs-related operational difficulties in the EU and 48 percent were confronted with regulatory approval obstacles (European Chamber 2013).

4.1. Bond purchases: is China willing to save the EU?

European markets seem more and more attractive for Chinese investors because investing in Europe is perfectly in line with long-term Chinese goals: gain access to a large consumer market, high value-added technologies in a relatively stable, well regulated destination.

The Eurozone crisis definitely attracted Chinese investors due to falling prices. However, China is not willing to play the role of the Eurozone's rescuer, as some might assume. As Europe is China's largest trading partner and export destination, Chinese leaders throughout the crisis voiced their support: a robust and financially stable Europe is in China's interest. Yet when it comes to define the actual size of Chinese financial investments, uncertainty is prevailing. China definitely possesses the means to financially back the Eurozone. Chinese foreign exchange reserves reached a record 3.88 trillion in 2013 (Hanemann, 2014). But Chinese willingness to give a helping hand is determined by its investors' risk-averse investment strategy. Actual numbers on bond purchases is practically impossible to assess: China only publishes the total amount of its foreign exchange reserves, not the exact composition. So China officially has never given data on its stake in public debt financing in Europe. The other side, the European Central Bank does not track the nationality of foreign investors in the debt market (Parello-Plesner, 2012, p.12). Given the lack of precise data, experts try to resort to estimates.

The European rescue fund, European Financial Stability Facility (EFSF) indicates Asian investors separately. Since EFSF ratings[7] are acceptable for risk-averse investors, it is logical to suppose that we can ascribe most of Asian investments in EFSF issuances to China. However, in 2011 (its first year of operation), Asian investors bought 40 percent of the EFSF issuances, Japan (being transparent on its purchases) accounting for half of the Asian total. Parello-Plesner's assumption is that China accounts for 40 percent of the Asian total, 16 percent of all investors buying issuances (altogether estimated at 5.6 billion euros). Another important assumption claims China holding approximately a quarter of its foreign exchange reserves in European bonds. This would mean several tens of billions of

[7]EFSF has been assigned the best possible credit rating by Fitch Ratings (AAA). EFSF has been assigned a 'AA+ ' rating by Standard & Poor's and a Aa1 rating by Moody's. EFSF has also been assigned the highest possible short term rating from the credit rating agencies – Standard and Poor's 'A-1+'; Moody's (P) P-1 and Fitch Ratings 'F1+'. (EFSF Frequently Asked Questions, p.3.)

EFSF bond purchases. However, in reality, China prefers placing its money in unanimously triple AAA-rated countries like Germany rather than taking the risk of investing in indebted, riskier countries (Parello-Plesner, 2012).

The original plan was to leverage the EFSF up to 1 trillion euros using outside financial resources, among others Chinese investments (Spiegel Online, 2011). This grand design was never realized among others because China was reluctant to play a more decisive role in rebuilding the EU's financial stability. Bailing out EU countries is difficult to justify in the eyes of Chinese people. Why would Chinese pay for Europeans to retire early when they do not have an adequate pension system themselves? Another rightful question the Chinese population might pose: if Germany is not willing to contribute more, why should China step in (Yongding, 2011)?

4.2. Chinese investments in the EU: sectoral and geographical distribution

China's strong desire for success envisions the next phase of development building on innovation and high and green technology. In line with these ideas we've seen large-scale Chinese acquisitions in the chemicals sector: BorsodChem became part of the Wanhua Industrial Group (borsodchem.hu, 2011); and the automotive industry: Rover Group belongs to the Shanghai Automotive Industry Corporation, Chinese Geely Automobile Holdings owns Volvo and Chinese also have a share in what is left of the Swedish group Saab. Great Wall Motors Company has opened a new plant in Bulgaria and thus became the first Chinese automaker to assemble cars in the European Union (novinite.com, 2012). Romania has also been attracting Chinese greenfield investments, among them a plant by Shantuo Agricultural Machinery Equipment to produce tractors.

Chinese investors have also been active in communication equipment and services, industrial machinery and equipment and renewable energy regarding the number of deals. However, since these sectors are not so capital intensive, the average deal size is smaller. Chinese have also invested in automotive components, financial services and software and IT services across Europe (Hanemann-Rosen, 2012, p. 40). With respect to investment amount, chemicals, plastics and rubber, utility and sanitary services, and automotive original equipment manufacturers (OEM) and components rank highest (Ibid., p. 41).It must be added that access to resources remains of crucial importance in the developed markets as well, illustrated by recent stakes acquired in Gaz de France and Energias de Portugal (Bugge, 2011 and The Portugal News Online, 2011).

Gao Xiqing from China Investment Corporation, China's sovereign wealth fund (CIC) claimed in an interview with Xinhua that Europe is an optimal destination for infrastructural investments as well. These

Figure 6. Chinese OFDI in the EU by industry, 2000-2011 (USD million)

	Sector	Value (USD mn)			Number of Projects		
		Greenfield	M&A	TOTAL	Greenfield	M&A	TOTAL
1	Chemicals, Plastics & Rubber	126	3,505	3,631	13	9	22
2	Utility and Sanitary Services	0	3,259	3,259	0	1	1
3	Automotive OEM & Components	655	1,961	2,615	23	12	35
4	Coal, Oil & Gas	18	1,603	1,621	4	7	11
5	Communications Equip. & Services	1,180	177	1,357	95	5	100
6	Transportation Services	784	546	1,329	9	7	16
7	Metals Mining & Processing	25	1,200	1,225	13	14	27
8	Consumer Electronics	187	983	1,170	33	9	42
9	Industrial Machinery & Equipment	495	499	993	34	23	57
10	Food, Tobacco & Beverages	110	570	679	10	9	19
11	Financial Services & Insurance	495	31	526	26	2	28
12	Real Estate	146	340	486	4	1	5
13	Pharmaceuticals	21	280	300	4	3	7
14	Electronic Equip. & Components	133	152	285	22	5	27
15	Software & IT Services	256	13	269	21	5	26
16	Aerospace, Space & Defense	79	174	253	7	4	11
17	Textiles & Apparel	137	96	233	8	4	12
18	Alternative/Renewable Energy	145	84	229	45	7	52
19	Healthcare & Medical Devices	30	63	93	9	2	11
20	Paper, Printing & Packaging	74	0	74	2	1	3
21	Leisure & Entertainment*	48	0	48	3	0	3
22	Other Transport Equipment	31	15	46	4	1	5
23	Business Services	43	1	44	13	2	15
24	Minerals Mining & Processing	1	42	43	1	2	3
25	Semiconductors	18	17	35	4.0	3	7
26	Biotechnology	24	10	34	6	2	8
27	Consumer Products & Services	28	0	28	9	1	10
28	Furniture & Wood Products	0	27	27	0	3	3
29	Engines & Turbines	14	4	18	2	1	3
30	Construction Services	6	0	6	4	0	4
	Total	**5,306**	**15,650**	**20,957**	**428**	**145**	**573**

Source: Rhodium Group / Hanemann-Rosen (2012) p.40, available athttp://rhg.com/wp-content/uploads/2012/06/RHG_ChinaInvestsInEurope_June2012.pdf

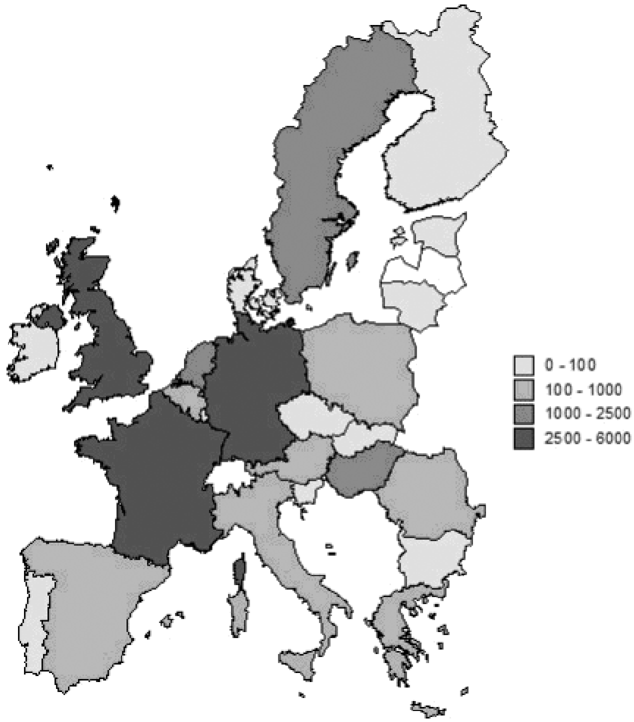
investments would suit the Chinese sovereign wealth fund's strategy since they require massive funds but have slower yields and European governments have modified taxes and regulatory policies to attract investors from outside in order to recapitalize their economies (Global Times Canada, 2013). In line with that, in 2012, CIC purchased an 8.68 percent stake in British utility company Thames Water for 1.8 billion US dollars, and it acquired a 10-percent stake in the operator of London's Heathrow Airport for 720 million US dollars. Another emblematic infrastructural project was the successful COVEC (China Overseas Engineering Group) bid for the construction of a key highway meant to link Warsaw to its Western neighbor Germany. This investment melted into thin air in 2011 when COVEC failed to pay its Polish subcontractors referring to soaring prices (Reuters Online, 2011).

"Trying to bring in Chinese workers was one of the reasons why that investment went sour", said Eberhard Sandschneider of the German Council on Foreign Relations (DGAP) in Berlin. "One of the lessons Chinese investors will have to learn is that they have to adapt to the local market. And that means adapting to local laws." (Spiegel Online, 2012). The creation of a 10 billion US dollar credit line to support Chinese investments in Central Europe is also partially devoted to infrastructural projects (as well as new technology, and renewable energy).

Another significant research element when taking a closer look at Chinese OFDI in Europe is the geographical distribution of investments. Chinese investment is very unevenly distributed among EU countries. The top recipients of Chinese FDI are traditionally France, the United Kingdom and Germany. These three countries have on average drawn 36.8 percent of annual Chinese OFDI in Europe from 2003 to 2009 (NBS, MOFCOM and SAFE (2010). France's leading role is due to a mega-investment: the Chinese sovereign wealth fund China Investment Corporation's alliance with Gaz de France in 2011.CIC paid 2.3 billion euros for a 30 percent stake in GDF's gas and oil exploration and production capacity. CIC also bought GDF's natural gas liquefaction plant in Trinidad and Tobago (Financial Times, 2011). Without this deal, France would end up being only the fourth most important host economy to Chinese money. The United Kingdom ranked second with Chinese investments targeting mostly the automotive, banking, real estate and infrastructural sectors, as well as some mining companies with assets in the developing world (Hanemann-Rosen, 2012, p.37.).Chinese FDI in Germany concentrated mainly in sectors of industrial machinery; automotive and transport; and information and communication technology (Ting-Thiess-Tianlong, 2012, p.23). This highly concentrated investment profile is probably due to market size (the attraction of a possible entry to a huge consumer market) since Chinese investors currently do not perceive the EU as an integrated single market (Clegg-Voss, 2012, p. 24). High Chinese investment in these countries is the result of "sound bilateral economic relations and effective promotion of inward investment" (Clegg-Voss, 2012, p. 24).

In order to give a general overview of the main host economies in the EU27, *Figure 7.* representsthe accumulated deal value of Chinese OFDI in the EU27 between 2000 and 2011.

Figure 7. Chinese OFDI in the EU, 2000-2011 (USD million)



Source: Rhodium Group / Hanemann-Rosen, available at http://rhg.com/wp-content/uploads/2012/06/RHG_ChinaInvestsInEurope_June2012.pdf

Chinese government sources refer to Luxembourg as the largest host country of Chinese FDI in Europe. This anomaly is due to the Luxembourgish business environment promoting the foundation of holding companies in the country when the actual investment is targeted to another country. (European Chamber of Commerce, 2013, p. 8). Cross-border investments often benefit from tax havens and offshore financial centers on a large-scale, making it even more difficult to discern official FDI statistics.

4.3. Urgent need for investment, fear of China?

European companies are in need of financial investors. Chinese investors inject money to European economies at a point when most countries are fighting mass and long-term unemployment. So Europeans are looking for job-creating greenfield investments. At the same time, Chinese investors prefer getting stakes in successful European brands with good reputation or taking over well-established enterprises. So far, it is too early to draw definitive conclusion about the nature of Chinese investments regarding job creation. Usually, mergers and acquisitions neither created a considerable amount of new jobs, nor laid off previous employers to repackage factories end technologies to China (as predicted by some) (Parello-Plesner, 2013, p.23).

The Chinese Ministry of Commerce paints a different picture, putting emphasis on greenfield investments: over 1600 Chinese enterprises in the EU have hired 50000 local workers. Rhodium Group also claims that Chinese have a definitely positive impact on European labor market: the 428 greenfield projects from 2000-2011 created an estimated 15000 new jobs. However, there are legitimate concerns related to spurring Chinese investments in the EU. These anxieties stem from the exceptional growth of China, the blurred character of state and private Chinese investors. State-owned enterprises might be more subject to political guidance directly from the Communist Party. According to Parello-Plesner, approximately 72 percent of Chinese investments in Europe originate from SOEs, but there is a growing private investor activity.

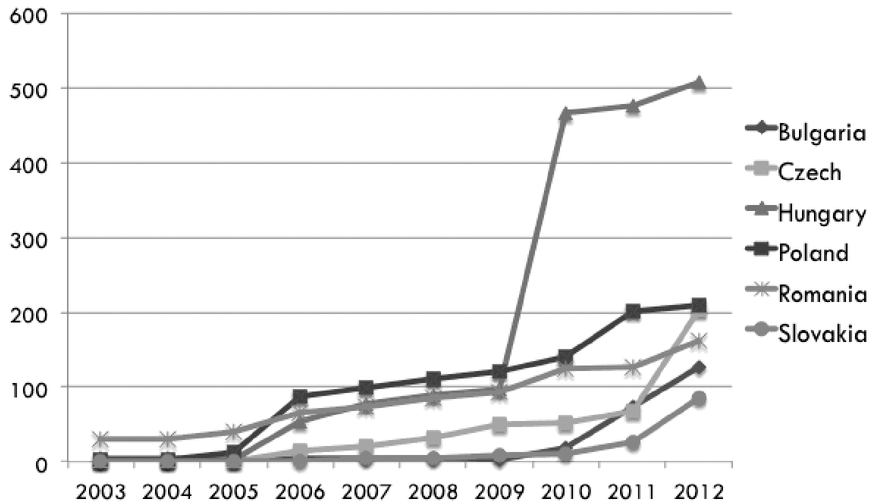
Chinese investment is often seen as a means of gaining a strategic foothold in Europe. But why are we more afraid of China accounting for only 1.4 percent of the total FDI inflow share in 2011 than we are of the United States ranking first with an overwhelming 50 percent share in the same year (Shixue, 2013)? The answer probably lies in the frequent opacity of the investors' intentions, of their relationship with the Chinese government and Communist Party. However, European market actors are also concerned regarding market access asymmetries. Since Chinese public procurement process if often closed to outsiders, European investors do not have the same room for maneuvering in China as Chinese companies in European markets.

Public perception is also of primary significance: the increasing number of Chinese mergers and acquisitions are often considered strategic takeovers where Chinese FDI is involved in unfair obtainment of technologies and knowledge Some also voice concerns over China's labor conditions and poor human rights and corporate social responsibility record (European Parliament, 2013, p. 4). Chinese companies on the other hand also have their own worries regarding European markets: the lack of an EU-level uniform regulatory framework on requirements regarding foreign investments and the high administrative costs, as well as strict visa rules and restrictive work permits might keep Chinese investors away (Shixue, 2013).

5. Chinese OFDI in Central and Eastern European countries

Although the Central and Eastern European region is not a priority target of the intensive Chinese FDI outflows of recent years, since the turn of the millennium Chinese investments show a growing trend here (see *Figure 8*. below).

Figure 8. China's OFDI stock in CEEC, 2003-2012, (USD million)



Source: CEIC China Premium Database, 2012; MOFCOM 2013.

The main recipients of Chinese investments within the Central and Eastern European region (CEE) – Hungary, Poland, Romania, Bulgaria and the Czech Republic – differ in many respects, but they have some common features as well. They have been in the process of economic catching up over the last decades, their development paths are defined mainly by the global and European powers, rules and trends and FDI has a key role in restructuring these economies. Most of the above-mentioned countries started to get more interested in Chinese relations – more properly in attracting Chinese investments and boosting trade relations – since the new millennium, however, the economic and financial crisis of 2008 drew the attention of these five countries more than ever to the potential of Chinese economic relationship.

As mentioned above, Chinese investments in Central and Eastern European countries (CEECs) are still considerably small compared to all the invested capital – or even to EU 15 – but gained momentum in recent years and also played (and plays) an important role in the region's recovery from the crisis. In the case of the selected countries – with the exception of Hungary – there is a growing demand for attracting Chinese companies in the last two to five years, while in Hungary this process has already begun after 2003. Chinese investors typically target secondary and tertiary sectors of the selected five countries. Initially, Chinese investment has flowed mostly into manufacturing (assembly), but over time services attracted more and more investment as well, for example in Hungary and Poland there are branches of Bank of China and Industrial and Commercial Bank of China as well as offices of some of the largest law offices in China, Yingke Law Firm (in Hungary in 2010, in Poland in 2012), Dacheng Law Offices (in Poland in 2011, in Hungary in 2012) (McCaleb-Szunomár, unpublished manuscript).

Typically, main Chinese investors targeting these five countries are interested in telecommunication, electronics, chemical industry, transportation and energy markets. Their investments are motivated by brand seeking, new technologies or market niches that they can fill in on European markets. The main type of Chinese FDI in the selected countries is market-seeking investment: by entering CEE markets Chinese companies will have access not only to EU market but also to markets of CIS, Mediterranean, EFTA (Wi?niewski, 2012, 121), and in interviews Chinese investors also speak about the possibility of accessing North American markets. In addition to that, there are cases of Chinese companies following their costumers to CEECs like in the case of Victory Technology (supplier to Philips, LG and TPV) or Dalian Talent Poland (supplier of candles to IKEA) (McCaleb-Szunomár, unpublished manuscript).

When searching for possible factors which make the region a favorable investment destination for China, the cost of labor is to be considered first. Labor costs are lower in the CEE region than the EU average, however, there are differences within the region – and the selected five countries – as well; unit labor costs are cheaper in Bulgaria and Romania than in Hungary, Czech Republic and Poland. These differences don't seem to really influence Chinese investors as there is more investment in Hungary, Poland and Czech Republic than in Romania and Bulgaria, however, an explanation for that can be the theory of agglomeration effect as generally OFDI in these countries is the highest in the region (McCaleb-Szunomár, unpublished manuscript). With corporate income tax rate established at 10%, Bulgaria has the most favorable tax regime in the region. Nevertheless, it is the least popular investment destination for Chinese companies in the selected countries.

According to Eurostat's 'Demography Report 2010', Poland and Romania are the biggest markets in terms of the size of population (38,1 and

21,5 million), while the others are medium-sized (10,6 million in Czech Republic, 10 million in Hungary and 7,6 million people in Bulgaria), although from Chinese point of view all of them are considered rather small. Czech Republic, Poland and Hungary are relatively affluent markets as well: based on IMF WEO database, GDP per capita is highest in Czech Republic (18600 USD in 2012) somewhat lower in Poland (12700 USD in 2012) and Hungary (12600 USD in 2012) but considerably lower in Romania (7900 USD in 2012) and Bulgaria (7000 USD in 2012).

In all of the above-mentioned countries there are investment incentives for potential foreign investors, for example tax incentives and job creation grants or 'personalized' advantages. In Poland there are special economic zones as well, two of them dedicated to Chinese investors (Kielce, Koszalin), while in Hungary there is a possibility to receive a residence visa for a certain amount of investment (see the chapter below). Bulgaria provides full tax exemptions in areas with unemployment 35% above average. Besides national government's incentives for FDI, foreign investors can also use financial support coming from EU funds for increasing employment, which can amount even to 50% of total investment (McCaleb-Szunomár, unpublished manuscript).

6. Conclusions and policy recommendations

Chinese outward foreign direct investment has been on the rise, and the increase has accelerated in recent years: China seems to assume the role of one of the world's largest investors – reflecting its global economic power.

The Chinese government launched the *go global* policy in 2000, to transform Chinese companies into globally competitive firms through outward foreign direct investments. In line with this strategy, and particularly after 2008–since the crisis raised the number of financially distressed firms and thus created additional overseas investment possibilities for China– Chinese OFDI steadily increased. Another important factor encouraging Chinese OFDI is the accumulation of foreign exchange reserves: next to safe but low-yielding assets, the Chinese government is looking to diversify its investment portfolio and seeks more profitable possibilities.

While Chinese OFDI in emerging or developing countries is characterized more by resource-seeking, Chinese companies in the developed world are focusing typically on buying themselves into global brands or distribution channels, getting acquainted with local management skills and technology, so-called strategic asset seeking. Regarding modes of entry, investments shifted from greenfield investments to mergers and acquisitions currently representing around two-thirds of all Chinese OFDI in value. This shift is driven by the financial crisis, however it also seems to be a new trend of Chinese FDI to the developed world, while greenfield investment remains significant in the developing world. Although host countries would prefer the latter since it usually creates jobs, one cannot deny the positive effects of Chinese M&As either. As several of these mergers and acquisitions took place during or after the crisis to save dysfunctional and unprofitable companies from bankruptcy, they often saved already existing jobs (or created new ones, too).

China's OFDI has also become more diversified in the past years: from mining and manufacturing it turned towards high technology, infrastructure and heavy industry, and lately to the tertiary sector: business services and finance but also health care, media and entertainment. Asia continues to be the largest recipient, accounting for nearly three-quarters of total Chinese OFDI, followed by the EU, Australia, the US, Russia and Japan. Numbers might be misleading though due to round-tripping (the investment is placed in offshore financial centers only to flow it back in the form of inward FDI to China to benefit from fiscal incentives designed for foreign investors). According to project-level analysis, 60 percent of Chinese ODI is aimed at developed economies like Australia, Hong Kong, the United States, Germany, and Canada.

As for Chinese OFDI to the European Union, the increase was far above the growth rate of Chinese OFDI globally. A combined analysis of both Chinese and European data sources suggests that although Chinese investment in Europe is still insignificant compared to other investors, but it is rapidly intensifying. The main reason for that is investing in Europe is perfectly in line with long-term Chinese goals of gaining access to a large consumer market, high value-added and green technologies as the next phase of their development. Regarding investment amount in sectoral distribution chemicals, plastics and rubber, utility and sanitary services, automotive original equipment manufacturers (OEM) and components rank highest. As for geographical distribution, Chinese investment is very unevenly distributed, the top recipients of Chinese FDI being traditionally France, the United Kingdom and Germany.

The Eurozone crisis attracted Chinese investors due to falling prices. However, China is reluctant to play a decisive role in bailing out European countries struggling with sovereign debt crisis. Chinese bond purchases were lagging far behind levels that Europeans hoped for. Since most European companies, financial institutions and countries urgently need capital, it is of crucial importance to attract investors from a country where foreign exchange reserves amount to almost four trillion dollars.

So European decision-makers on the one hand must address negative public perception of Chinese investments where necessary. In order to achieve that, the EU needs better FDI statistics, focusing especially on the positive impact of Chinese OFDI (e.g. preserving jobs and creating new ones). On the other hand, they must make sure Chinese investors are ready to adapt to local circumstances by clearing requirements for foreign investors and by creating an EU-level common investment framework. Chinese firms are mostly struggling with regulatory inconsistency and uncertainty across EU-member states. Bilateral investment treaties create a large room for protectionist moves which is far from the common European interest. Therefore, an EU-wide strategy should be elaborated (and in the post-Lisbon treaty legal Framework, the EU is legally entitled to realize that) towards Chinese (and other foreign) investors with uniform requirements. Furthermore, the EU could incorporate inward FDI into its own development plans, and make recommendations regarding the types of investment and industry to be promoted and prioritized.

As we mentioned above, Chinese investors prefer „old European" investment destinations not only because of market size but also because of well-established, sound economic relations with these countries. Therefore, investment promotion agencies (IPAs) should work on investment facilitation, such as clear administrative requirements, facilitation of visa and work permit processes, etc. all over Europe, giving a helping hand to Chinese investors unfamiliar with local circumstances. *Clegg* even suggests Chinese firms may need "mentoring" to explore European markets (Clegg, 2013). However, IPAs often compete against each other indirectly with different strategies, different opportunities and approaches: some of them have a distinct approach on emerging countries, some even have a China-specific strategy with Chinese-language website or local offices in China. It is worth examining the possibility of regulating national IPAs on the EU-level in order to avoid counterproductive effects.

Chinese investment in Central and Eastern Europe constitutes a relatively small share in China's total FDI in Europe and is quite a new phenomenon. Nevertheless, Chinese FDI in the region is on the rise and expected to increase due to recent political developments between China and certain countries of the region, especially Hungary and Poland.

CEE countries might attract more FDI from China with new fiscal (e.g. tax exemptions) and non-fiscal incentives. However, most of the CEE governments lack a unified strategy towards Chinese investors. Hungary is one of the few exceptions where in the spring of 2012 the government launched a new economic policy with special emphasis on the so-called "Eastern opening". This strategy puts emphasis on developing trade (and technology) relations with China and other emerging countries, too. The success of the strategy translates into an increasing amount of Chinese FDI in Hungary, which is by far the highest in the region.

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Chinese investments and financial engagement in Hungary

Ágnes Szunomár, Katalin Völgyi, Tamás Matura[1]

1. Introduction

Hungarian-Chinese relations are historically good: over the past decade, Hungarian governments – regardless of political orientation – have committed themselves to the development of the Chinese-Hungarian relationship. This trend was further confirmed after the economic crisis of 2008, when Hungary started to look for new opportunities in its recovery from recession: the so-called "Eastern Opening" policy was initiated after – and partly as a result of – the crisis. Officially, compared to previous years, this policy puts more emphasis on the further development of Chinese-Hungarian relations, including the increase in Chinese investments.

Chinese foreign direct investment (FDI) to Hungary started to increase significantly after the country joined the EU in 2004. According to Chinese statistics, in 2010, Hungary itself took 89 percent of the whole Chinese capital flow to the Central and Eastern European (CEE) region (Chen, 2012). The amount of Chinese investment in Hungary has continued to increase and reached 2,5 billion USD cumulatively by 2013, which is by far the highest in the region. These results have led to greater expectations: infrastructure development and the financing of Hungarian public debt are just some of the areas where Chinese involvement is expected in Hungary.

The aim of the paper is to analyze the partnership between the two entities and describe the main factors, which brought them closer to each other. The study will give a thorough overview of Chinese investment in Hungary before and after the crisis, with a special focus on Chinese financial engagements and promises in this regard. The paper will describe and analyze the realized investments, while also examines the reasons for failure/non-realization of Chinese financial involvement in Hungary.

[1] Ágnes Szunomár and Katalin Völgyi are research fellows at Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences. Tamás Matura is the head of Central European Center for Asian Studies and assistant professor at École Supérieure des Sciences Commerciales d'Angers.

After the introductory section, the *second chapter* briefly presents the history of Hungarian-Chinese relations, including a short examination of trade data. In the *third chapter* the issue of Chinese investments will be detailed, relating its main characteristics, realized and non-realized investments in Hungary. The *fourth chapter* will be devoted to outlining the main factors determining the development of the relationship, including Chinese opinions on Hungary as an investment destination as well as Hungarian political and social attitudes towards China. Finally, in the *fifth chapter* the authors will conclude their investigation by arguing that although Hungary currently receives the majority of Chinese investments within the Visegrad region, it can easily lose this position. Based on analyzed patterns and observed preferences, the authors will try to formulate policy recommendations for the attraction of both state-related and private Chinese investors.

The authors conducted a series of interviews with representatives of government and investment institutions of Hungary (government officials responsible for China and/or the Eastern Opening policy, or investments in general) as well as relevant institutions and companies from Chinese side. These interviews were anonymous, the information provided therein are – in most cases – confidential, therefore we won't publish the full versions here.

The authors will usually take into account foreign direct investment by mainland Chinese firms[2], unless marked explicitly that due to data shortage or for other purposes they deviate from this definition. Since Hungarian and Chinese data show significant differences, the two data sets will usually be compared to point out the potential source of discrepancies in order to get a more complex and nuanced view of the stock and flow of investments.

2. History of the relations

Hungary formally recognized the People's Republic of China on 4th October 1949. During the following decade the relationship began to develop with a huge number of high-level visits followed by the improvement of economic, political and cultural ties. Although the Hungarian-Chinese relationship was basically within the Soviet sphere of interest, Hungarian foreign policy did not follow, but rather differed a bit from the policy of Moscow: in international affairs Budapest cooperated closely with Beijing and supported the Chinese position on Tibet, the One China

[2]FDI from Hong Kong Special Administrative Region (SAR), from the Macao SAR, from Taiwan or from any offshore tax haven will not be taken into consideration.

Policy and the United Nations Security Council membership from the very beginning.

By the end of the 1950s, deep ideological differences began to appear between the two countries and in the wake of the 1960s – during the Chinese "cultural revolution" – the relationship became increasingly colder. Later on, with the reorientation of the Chinese Communist Party in 1978 (economic reforms and opening-up) the two countries were brought closer together again. The Chinese leadership was genuinely interested in the experiences of the Hungarian economic reform process of 1968, therefore a series of expert delegations visited Hungary in this spirit. In the 1980s, state and inter-party relations were normalized and high-level delegations were reinitiated, too. After the democratic transition of 1989, the level of contacts between the two countries declined again, primarily as a result of the reorientation of Hungarian foreign policy, as more attention was given to Euro-Atlantic interests. For more than a decade, the degree of contact declined to a minimum, however, the relations were still free of tensions, within the framework of cordiality.

A new fruitful period began after the turn of the millennium, after the Hungarian Prime Minister, Peter Medgyessy visited Beijing in 2003. The new wave of development was initiated independently by Hungary as the government recognized that China is an unavoidable player in the global economy and international politics, while EU membership made Hungary more attractive to China as well. The government took several confidence-building measures and gestures towards China, including the creation of a new special envoy position within the Prime Minister's Office for the development of Hungarian-Chinese relations and for the coordination of the China-related work of governmental institutions and the public administration[3]. The first results of the new policy were the arrival of a branch of the Bank of China to Hungary (2003), the creation of the Bilingual Chinese-Hungarian Primary School in Budapest (2004) and the initiation of a direct flight connection between Budapest and Beijing (2004). Cultural contacts have deepened as well: the first Confucius Institute was established in Budapest in December 2006[4] and a program series called "Hungarian Season" was held in China in 2007-08.

Although China was neglected by the first Orbán government (1998-2002), it is glorified by the second (2010-). Viktor Orbán kept emphasizing

[3]After PM Péter Medgyessy's journey, Chinese President Hu Jintao visited Budapest in 2004. In 2005 PM Ferenc Gyurcsány returned the visit. In October 2009, Vice-President Xi Jinping came to Budapest for an official visit.

[4]Since then, there are two more Confucius institutes: the second one was opened in Szeged in 2012, while the third one was opened in Miskolc in 2013.

the importance of the East even before the elections and said that although Hungary's "ship is sailing in Western waters, the wind blows from the East." Prime Minister Orbán visited China at the end of 2010. In Shanghai, Viktor Orbán negotiated a Chinese buyout of the Hungarian biochemical giant, BorsodChem, by China's Wanhua Industrial Group in February 2011. This meeting was returned by Premier Wen Jiabao's visit in Budapest in the summer of 2011[5]: Wen made a European tour to three countries only: Hungary, Great Britain and Germany. His journey was started in Budapest and was designed to buy European debts and "help" Europe by shoring up its investments.

The results of this successful relationship-building became almost immediately apparent in the form of economic indicators too. The intensification of trade relations illustrates the success of this period (see *Figure 1.*), however, the import increased to a much greater extent compared to exports, that is, Hungarian foreign trade deficit vis-á-vis China improved impressively[6].

Regarding imports, China is one of Hungary's most important trading partner: since 2005, it is fourth in the ranking (except for 2010, when it held the third position). By 2012, the Chinese share within Hungary's total import increased by more than two-and-a-half times, while the value of import rose more than five-fold compared to 2003. Between 2003 and 2008, Chinese imports increased dynamically by an average annual rate of 24 percent. Since 2010, the value of import is between 1200 and 1300 billion Hungarian forints (3934-4261 million euros)[7]. The value of Hungary's export to China is significantly lower compared to the import, however, it shows an increasing trend since the turn of the millennium: it was 412.2 billion Hungarian forints (1351 million euros) in 2013, which is more than ten times the value of Hungarian export to China in 2003. China is the 15th most important partner – and the first out of Asian countries – in the ranking of countries importing from Hungary. Hungarian exports to China represents around 2 percent of the total Hungarian exports[8].

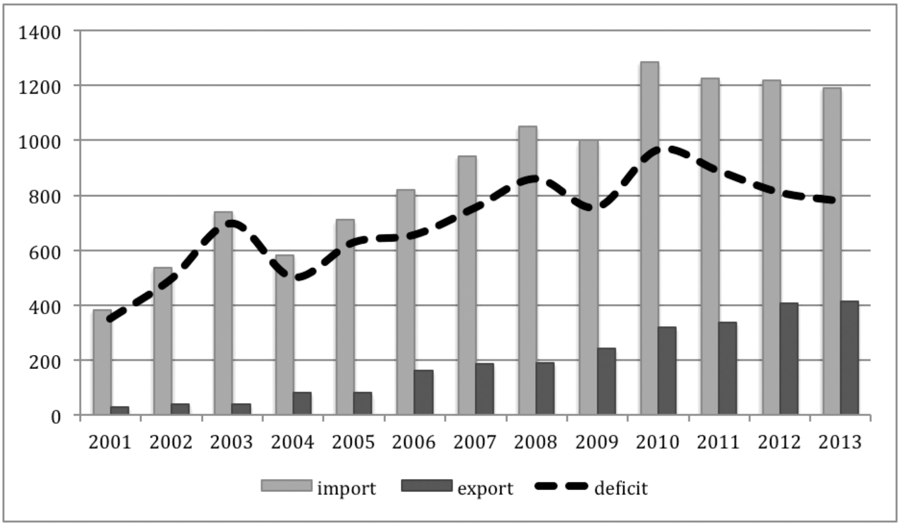
[5]Before Wen's visit, in May 2011, Chinese State Councilor Dai Bingguo visited Budapest and met with Hungarian President Pál Schmitt and Prime Minister Orbán to discuss joint business deals in transportation, aviation and energy, as well as political and cultural cooperation.

[6]Before Central and Eastern European countries joined EU, Hungary was China's biggest trading partner in the region. Several years later it was replaced by Poland. Since 2010 Hungary is down to the third place.

[7]Since 2004, machinery and transport equipment accounts for around 85-90 percent of Chinese import, while processed products constitute around 10-14 percent.

[8]A significant share, around four-fifths of Hungarian exports to China come from the sale of machinery and transport equipment, while manufactured goods constitute around 17 percent of total exports.

Figure 1. Hungary's trade with China, 2001-2013 (HUF billion)



Source of chart data: Hungarian Central Statistical Office's (KSH) STADAT database, available at http://www.ksh.hu/stadat_eves_3_5

3. Chinese investments and financial engagement in Hungary

Although Hungary is not a priority target of the intensive Chinese FDI outflows of recent years, since the turn of the millennium Chinese investments show a growing trend here. Chinese investment to Hungary started to increase significantly after the country joined the EU in 2004. According to Chinese statistics, it means a really rapid increase from 0.65 million US dollars in 2005 to 370.1 million US dollars in 2010. In 2010, Hungary itself took 89 percent of the whole Chinese capital flow to the region (Chen, 2012). By 2012, the amount of Chinese investments has further increased and reached 507 million USD according to MOFCOM data, which is by far the highest in the region. Nevertheless, this amount is far greater when taking into account cumulative Hungarian data, since a significant portion of Chinese investment is received via intermediary countries or companies, therefore it appears elsewhere in Chinese statistics. According to Hungarian reports, Chinese investment in Hungary by 2013 was about 2.5 billion USD, or more[9]. More than 1.5 billion USD from that is the investment of the Chinese chemical company Wanhua, which acquired a 96 percent stake in the Hungarian chemical

[9]Some of the interviewed Hungarian officials claimed that the stock of Chinese investments in Hungary has already reached 3 billion US dollars.

company BorsodChem through its Dutch subsidiary in 2010 and 2011. This subsidiary also made some investment for the development of BorsodChem later. It is the largest Chinese investment in CEE so far.

In addition to the chemical industry, the investment of Chinese companies in Hungary covers industries such as manufacturing, telecommunications, trade, wholesales or retails, banking, hotels and catering, logistics, real estate and consultancy, etc. According to the data of the Hungarian Investment and Trade Agency (HITA), more than 5000 Chinese companies operate in Hungary, including several multinationals, but most of them are small businesses operating in the service or retail sector: restaurants, perfumeries, and so called 'Chinese shops', selling bargains everything from shoes and clothes to plastic toys. According to the Hungarian Central Statistical Office, the number of Chinese-controlled foreign affiliates increased steadily between 2008 and 2010 and then decreased slightly in 2011. However, the Chinese-controlled companies – with the exceptions of TNCs – typically employ a few people, while their economic performance is also below the average of other foreign subsidiaries (KSH, 2014).

In addition to Wanhua, major investors are Huawei, ZTE Corporation, Lenovo, Sevenstar Electronics Co., BYD Electronics and Comlink. Regarding entry mode, there are examples for quasi-greenfield[10] investments (Huawei, ZTE, Lenovo), as well as M&As (Wanhua) and joint ventures (Orient Solar, BBCA). While Hungary would prefer greenfield investments (as they create jobs), Chinese investors tend to choose the forms of mergers and acquisitions and joint ventures when investing in Hungary.

Hungary is a country where the combination of traditional economic factors with institutional ones seems to play an important role in attracting Chinese investors. As mentioned above, Hungary has had historically good political relations and earlier than other CEE countries (CEECs), since 2003, intensified bilateral relations in order to attract Chinese FDI. Hungary is the only country in the region that introduced special incentive for foreign investors from outside the EU, which is a possibility to receive a residence visa when fulfilling the requirement of a certain level of investment in Hungary[11]. Moreover, as will be mentioned later on, Hungary has the largest Chinese diaspora in the region which is an acknow-

[10] Parent companies of Huawei, ZTE or Lenovo haven't built up new operational facilities (as they chose the form of contract manufacturing) but created new long-term jobs by hiring new employees.

[11] Third country nationals are allowed to acquire Hungary's permanent residency status through investing in Special Hungarian Government Bonds that have a minimum 5-year maturity. The minimum initial investment by each subscriber is 250,000 EUR.

ledged attracting factor of Chinese FDI: in relevant literature that is a relational asset constituting a firm's ownership advantage (e.g., Buckley et al., 2007). An example is Hisense's explanation of the decision to invest in Hungary: besides traditional economic factors, it was also motivated by "good diplomatic, economic, trade and educational relations with China; big Chinese population; Chinese trade and commercial networks, associations already formed" (CIEGA, 2007).

With qualified population and a lot of Chinese living here, Hungary is considered as preferential partner (Liu, 2013) but there are some further factors, which seem to be favourable for Chinese companies. Chinese experts often mention Hungary's geopolitical position, that is, it is located in the junction of roads and railways, therefore both Eastern and Western markets are easily accessible from there. *Chen* mentions some additional competitive advantages of Hungary, such as Hungary's successful integration in the world economy, better utilization of foreign investment in regional comparison and development advantage over neighbouring countries, including educational system, the potential for innovation and the corporate efficiency of international companies settled in Hungary (Chen, 2009).

3.1. Chinese FDI in Hungary

In terms of size, Chinese companies located in Hungary can be divided into two major categories: transnational corporations (TNCs) and small businesses linked to the Chinese diaspora living in Hungary. Chinese state-owned or private TNCs have been operating mainly in the following sectors: electronics, chemical and pharmaceutical industry, telecommunication, banking and trade.

- One of the early arrivals was *Hisense*. Initially, Flextronics – one of the world's leading EMS (Electronics Manufacturing Services) providers – assembled Hisense's flat-screen televisions for the European market in its factory in Sárvár. In 2006, Hisense opened its own factory in the industrial park of Szombathely. Some years later, in 2009, Hisense closed its assembly plant due to decreasing European demand caused by the global economic crisis.
- Unlike Hisense, other Chinese TNCs in the electronics and telecommunication sector had or still have ambitious plans regarding their presence in Hungary. *Lenovo* bought IBM PC Division in 2004 and started to assemble PCs in the factory of Sanmina[12] in Székesfehérvár.

[12] In 2003, Sanmina bought the former plant of IBM in Székesfehérvár to provide electronics manufacturing services.

In 2008, Lenovo decided to finish assembling activities in Székesfehérvár and move to a newly built own plant in Poland. This plan ultimately failed and Lenovo found a new EMS partner – Flextronics – to continue assembling in Hungary. In 2009, Flextronics opened a new plant in Sárvár and started to produce Lenovo PCs, servers and storages. The Sárvár plant is the only facility in Europe where Lenovo brands are produced. This factory supplies the whole European continent. In 2012, Lenovo extended the production agreement with Flextronics and in 2013, as we mentioned before, Lenovo decided to expand its production.

- The world's largest telecommunications equipment vendor, *Huawei* is also about to expand its production in Hungary. Huawei opened its Hungarian office in Budapest in 2005. For some years, Flextronics[13] in Pécs and Foxconn[14] in Komárom assemble Huawei telecom equipment, while in 2013, Huawei also opened an enlarged logistics centre in Biatorbágy[15]. These four units constitute Huawei's European Supply Center, the company's second largest supply centre in the world, which distributes Huawei products to Europe, the Middle East, Russia and North Africa. In Hungary, Huawei also involved in network development for the two major ICT providers (Vodafone and Magyar Telekom). By 2015, Huawei would like to expand the range of products assembled in Hungary and double the number of (direct and indirect) employees from 1500 to 3000. So far, Huawei has invested at least 200 million US dollars in Hungary.
- *ZTE Corporation*, another major player of global telecommunications equipment market, is also present in Hungary. The state-owned ZTE[16] opened a representative office in Budapest in 2005 and a subsidiary in 2010. In 2012, ZTE started to operate a new European regional network operation centre (NOC) and a call centre in Budapest. In recent years, ZTE constantly expanded investments in Hungary, which are expected to reach 13.8 million US dollars soon. In 2013, ZTE decided to open a European mobile phone repair centre in Budapest. Like Huawei, ZTE cooperates successfully with ICT providers in Hungary: it is involved in network development for the third biggest ICT provider, Telenor.

[13]Firstly, Elcoteq assembled Huawei products in Pécs, but the company went bankrupt in 2011.
[14]Huawei changed Nokia in the position of the most important partner of Foxconn in Komárom.
[15]The former transportation and warehouse units in Üll?, Budapest and Biatorbágy have been integrated and transferred to this enlarged logistics centre.
[16]The state-owned Shenzhen Zhongxingxin Telecom Equipment Co. Ltd. is the largest shareholder of ZTE.

- Among Chinese TNCs, *Wanhua* is the biggest investor in Hungary. This state-owned chemical company[17] acquired a 96 percent stake in BorsodChem for appr. 1.7 billion US dollars in 2010 and 2011. Wanhua rescued BorsodChem from the shutdown.[18] As a result of the acquisition, Wanhua has become the second largest isocyanate producer (after Bayer) in the world. BorsodChem is Wanhua's first step to establish a production base in Europe to manufacture and sell its products.
- In 2009, Energosolar, which produced equipment for solar industry, was closed due to the negative effects of the global economic crisis. Its business and 70 percent of its employees were taken over by *GreenSolar*, which is a 100 percent subsidiary of the Chinese *Beijing Sevenstar Group*.
- In 2008, the Chinese mobile phone manufacturer *BYD Electronics* bought the Hungarian plant of the South Korean electronics molder Mirae for 2.14 million US dollars in Komárom.
- In 2013, one of the most important suppliers of Huawei, *Comlink* invested 1.38 million US dollars in Hungary and started to produce fibre optical cables and plugs for telecommunication companies. The company rents a production hall in Szerémi Business Park in Budapest.

Beside these investments listed above, we can find Chinese investors in non-manufacturing sector as well.

- In 2003, *Bank of China*, which is one of the four big state-owned commercial banks of the PRC, established its first CEE subsidiary in Budapest. Its main aim is to play an intermediate role in developing Chinese-Hungarian economic, financial and trade relations. In 2012, Bank of China opened its second branch in Budapest. The Hungarian subsidiary of Bank of China would like to extend it activities throughout the CEE region in the future.
- *Tiens Biotech,* a big Chinese conglomerate based in Tianjin opened its first European office in Budapest in 2000 to sell traditional Chinese medicines in the Hungarian market.
- In 2010, unknown Chinese investors bought Hotel Tisza (Tisza Szálló) in Szolnok, which is a historical building including spa, restaurant and hotel.

[17]The majority owner of Wanhua Industrial Group is Yantai Municipal Government of the PRC.

[18]The global economic and financial crisis hit BorsodChem – the most important employer in Kazincbarcika and the surrounding area – badly. Wanhua helped BorsodChem to get rid of its huge debts and to start restructuring.

In spite of the efforts and supports of the Hungarian governments, unfortunately, there have been some unrealized or long-delayed Chinese investments, including the following examples:

- The environment-friendly packaging manufacturer *Livan* failed to open a factory in Alsózsolca in 2007.
- Due to the global economic crisis, the Hungarian-Chinese joint venture *Orient Solar* failed to open a solar cell and solar panel plant in Berettyóújfalu.
- For some years, there have been negotiations on the building of a citric acid factory (*BBCA*) in Szolnok. According to the latest announcements, the construction is expected to be started in 2015. The 100-150 million US dollar investment will be financed by China BBCA and the Hungarian Development Bank.

FDI stock in Hungary was around 111 billion US dollars at the end of 2013, based on this and according to our calculations, Chinese investments represent around 2-2.5 percent of Hungary's total FDI stock.

To summarize the above, in Hungary, most of the significant Chinese TNCs operate in the manufacturing sector and have started to increase their investments in Hungary in the last few years. Chinese TNCs' investments in Hungary are usually not greenfield investments: Chinese TNCs have bought plants of other companies or replaced former partners of EMS providers. Although Chinese TNCs represent a relatively small share of total FDI stock in Hungary, they have saved and/or created jobs and contributed to the economic growth of Hungary with their investments and exports during the crisis. Furthermore, many of them (e.g. Lenovo, ZTE, Huawei, Bank of China) have turned their Hungarian businesses into the European regional hub of their activities. Hungary's importance as a regional distribution centre can be observed in the field of trade, too. Some big retail and wholesale trade, as well as business matching centres in Budapest – e.g. Asia Center, China Brand Trade Center, Budapest Fashion Center, Budapest China Mart[19] – support the distribution of different Chinese (or other Asian) products[20] in the CEE region and also supply Hungarian customers. Several retail shops run by the Chinese community can be found not only in these centres, but also throughout

[19] Asia Center and China Brand Trade Center are owned by Strabag SE. Budapest Fashion Center and Budapest China Mart are owned by Chinese investors.

[20] e.g. entertainment electronics, household electronics, IT products, bags, gifts, crafts, accessories, jewellery, shoes, footwear, textile, home textile and garments, etc.

Budapest and other Hungarian cities and towns. Besides retail, Chinese immigrants often choose to operate restaurants in Hungary.

3.2. Chinese financial engagement in Hungary

As detailed above, since 2004, Hungarian-Chinese political, economic and cultural relations have become even stronger. Several meetings of high-ranking politicians have been organized to promote bilateral relations. The global economic and financial crisis, which has severely hit the Hungarian economy, has opened a new and more intensive phase in Hungarian-Chinese relations. In this new phase, several organizations (e.g. Chinese department of the Hungarian Chamber of Commerce and Industry, ChinaCham Hungary, Hungarian-Chinese Business Committee) have been established and a new foreign economic policy has been launched with special emphasis on the so-called 'Eastern opening'. China has been playing a central role in this strategy since it is considered as an alternative source of external financing when Hungary is still struggling with the lingering effects of the global economic crisis. Hereinafter, we will primarily deal with bilateral agreements signed during the meetings of high-ranking politicians in the last few years.

In 2011, when the Chinese Prime Minister Wen Jiabao visited Hungary, several agreements were signed (see the box below), which had been prepared and negotiated during the Hungarian politicians' previous visits to China[21]. Officially, the extensive agreements were worth around 3.6 billion US dollars, however, some of them have never been realized.

1. **Agreement on the development of air and river transport:**
In 2011, the Hungarian government negotiated with HNA Group about a possible investment in MALÉV. Unfortunately, the deal did not realize and MALÉV went bankruptcy in 2012. The planned building of an airport near Vát and Porpác also failed to realize.

2. **Agreement on the development of railway transport:**
Hungarian State Railways (MÁV) and China Railway Construction Co. agreed on the construction of a downtown-to-airport high-speed train connection in Budapest. The building has not been started so far. The realization of this investment is unlikely because of the shutdown of Franz Liszt Airport Terminal 1 after the bankruptcy of MALÉV in the first half of 2012.

[21] Such negotiations took place when the Hungarian Prime Minister Viktor Orbán visited China in October 2010, or when the Minister of National Development (also the Special Government Commissioner of Hungarian-Chinese economic relations) Tamás Fellegi visited China in December 2010 and April 2011.

3. Agreement with Huawei on the creation of its European Supply Centre in Hungary: As mentioned above, this investment has been successfully realized. The Hungarian government puts a lot of effort into building long-term engagement with Chinese TNCs (see details later).

4. Financial agreement between BorsodChem and Bank of China
Bank of China agreed to provide 1.5 billion USD to finance the long-term development of BorsodChem owned by Wanhua.

5. **The China Development Bank offered 1.38 billion USD credit for Hungarian – Chinese development plans.**
In November 2011, Minister of National Development Tamás Fellegi visited China to negotiate on the potential projects (Orient Solar solar cell and solar panel factory in Berettyóújfalu, BBCA citric acid factory in Szolnok, downtown-to-airport high-speed train connection in Budapest).

6. **China promised to purchase a certain amount of Hungarian government bonds.**
In October 2011, Tamás Fellegi announced that China had started to buy Hungarian government bonds in small amounts.

In 2012, Chinese Vice Premier Li Keqiang visited Hungary. During his stay, seven bilateral agreements were signed. Most of them only confirmed former agreements of 2011 and – as analysed above – some of the planned infrastructural development and joint venture investments have failed to be realized ever since. The realization of Chinese investments can mostly be observed in case of TNCs, however, their investment decisions are usually independent from bilateral meetings of high-ranking politicians. Nevertheless, the Hungarian government tried to strengthen these companies' commitments to Hungary by concluding official bilateral agreements with them.[22]

In April and November 2013, State Secretary of Foreign Affairs and External Economic Relations, Péter Szijjártó – also Government Commissioner for the development of Hungarian-Chinese economic relations – travelled to China to negotiate on further development of bilateral economic relations. Among others, he negotiated the construction of the so-called 'V0 rail cargo ring', a ring rail line around Budapest, as a possible infrastructural project, which could be financed from China Development

[22] In the framework of the new foreign economic strategy, the Hungarian government has started to sign 'strategic cooperation declarations' with 40 TNCs to reinvest their earnings in Hungary, develop R&D activities, increase their participation in vocational trainings and strengthen supplier relations with Hungarian SMEs.

Bank's 1,38 billion US dollars credit line. Later in 2013, new Chinese financial sources were opened for Hungary. In the framework of the China–CEE cooperation, Hungarian Eximbank and its Chinese counterpart concluded an agreement on a 138 million USD (100 million euro) credit line for export financing. The amount was doubled later. According to the original plan, this credit line will allow Hungarian SMEs to export to China, while it will also help Chinese companies operating in Hungary to access preferential export financing[23]. A 500 million US dollar "Chinese – Central Eastern European Investment Fund" was also established, to which Hungary will contribute with 30 million US dollars. In return, it can channel 100 million US dollars from the Fund into investments in the field of infrastructure, telecommunication, energy and manufacturing. During the China–CEE summit of 2013, in Bucharest, China, Serbia and Hungary also reached a tripartite agreement on the Budapest-Belgrade railway modernization. This investment is planned to be financed from the above-mentioned Chinese–Central Eastern European Investment Fund.

In 2014, the Hungarian Prime Minister Viktor Orbán visited China, accompanied by a large delegation of both politicians and businessmen. In the bilateral economic negotiations, Chinese TNCs operating in Hungary played a central role again, while there were no progress in the field of financial issues, except that Prime Minister Orbán and the President of Bank of China negotiated the establishment of a branch network of Bank of China in Budapest to finance Chinese companies' activities in the Central and Eastern European region.

Although we have no information about the exact amount of Hungarian bonds purchased by China, we can state that China's 'helping hand' could not save Hungary from turning to IMF for financing at the end of 2011. On the other hand, according to media reports, hundreds of Chinese citizens purchased the special bonds offering permanent residency in Hungary for 250 000 euros. Some unofficial sources mention more than 400 Chinese applicants[24].

4. Main factors determining the development of relations

When it comes to investment issues, Hungary ranks first by far among CEECs. As it has been mentioned several times above, the cumulative value of Chinese investments in Hungary is probably more than the rest

[23]BorsodChem (Wanhua) has already signed an agreement on a 96.6 million USD credit with Eximbank.

[24]The Program was officially launched and opened to applicants from China on 18th April 2013 in Beijing.

of the region combined, and although precise statistics are not available, according to estimates its amount is somewhere between 2.5 and 3 billion US dollars. Therefore it is natural to raise the question whether political relations and the Chinese perceptions of Hungary or the Hungarian attitudes towards Chinese do affect investment relations, or not.

4.1. Chinese opinions on Hungary as an investment destination

Unfortunately it is hard if not impossible to find reliable and scientifically valuable sources on the Chinese sentiment about individual CEECs; therefore we have to rely mostly on interviews or the communication of Chinese politicians, businessmen and scholars. However, even interviews and other types of Chinese sources might be misleading, since the Chinese side tends to repeat slogans of potential fields of cooperation, which have originally been created by CEECs themselves. For instance, Hungary has been advertising itself as a „hub" or „centre" for China in the EU, and polite Chinese sources like to repeat this idea, basically without any certitude, since Beijing probably does not need any „hub" or „centre" anymore in the Union.

Fortunately, there are some real features of Hungary mentioned by all Chinese sources as attractive forces of the country:

Excellent political relations

Chinese diplomats, politicians and businessmen always start their speech with the glorification of bilateral political ties. Indeed, Budapest and Beijing nurture one of the most pleasant high level political relationship compared to other European capital cities. As mentioned earlier, the dawn of the new era began in 2003 when the Hungarian Prime Minister visited Beijing for the first time after the political transition of the country, while during the next decade almost every Hungarian PM paid visits to China, some of them even multiple times. The appointment of a special government commissioner for China and the announcement of the Eastern Opening Policy were also well received in Beijing, perceived as a clear sign of Hungarian political will to boost bilateral relations. This perception was further strengthened when the Hungarian PM refused a meeting with the Dalai Lama in 2010, and when authorities made it impossible for the World Uyghur Congress to convene a meeting in Budapest in 2013. Some Chinese sources regard the latter one as a great gesture of the Hungarian government to Beijing, since Chinese diplomats in France were not able to prevent the convention there.

EU membership

It is obvious that Hungary, along with other V4 countries enjoys the benefits of its EU membership. Chinese activity has increased significantly in Hungary since its accession to the Union, however the WTO accession of China and its new "Go Global Strategy" might have played an important role in its opening to the CEE region as well. Meanwhile the EU membership has its dark side as well from the Chinese perspective. On the one hand Beijing and different segments of the Chinese population have downgraded the EU's general assessment since the Eurozone crisis, while on the other hand, EU regulations are major obstacles of Chinese involvement into public procurement projects. Given the fact that one of the major goals of Beijing is to win infrastructure tenders in the region, the EU seems to be the main barrier.

Favourable geographical location of the country

Without any doubt Hungary stretches out in the heart of Europe, important EU transportation corridors cross the country and Hungary enjoys close relations with the CEE region. Therefore it provides an excellent platform for product distribution and other services. Hungarian governments have tried their best to advertise the country as a hub, centre or bridge for China in the EU. As it has been mentioned before, the Chinese side is always polite enough to repeat such slogans, however it is not clear whether they also believe in it or not. According to interviews with experts, China does not need such a hub or centre in Europe, since it is already present almost everywhere. However, Hungary's advantageous location is a recurring element of Chinese communication with regard to the attractiveness of the country.

Bank of China

It is clear that the setup of the first regional branch of the BoC in Budapest was originally the result and not the source of Hungarian attractiveness. Still, ever since its opening, it has always been a major symbol of the success of Sino-Hungarian cooperation and its spillover effect influenced the arrival of other Chinese companies in the region. According to recent negotiations between the Hungarian PM and the Chairman of the Board of Directors of the BoC, it seems probable that the bank will upgrade its current presence to the status of a regional headquarter. Both the Chinese and the Hungarian sides emphasize that this step is not only an obvious sign of Chinese trust in Hungary, but it is an opportunity as well to attract even more investment into Hungary from the Middle Kingdom.

Chinese diaspora

Most likely there is a strong relation between the success of the Chinese-Hungarian relationship and the Chinese population in Hungary. The fact is that within Central and Eastern Europe the highest Chinese population can be found in Hungary: there are around 15 000-20 000 native Chinese living here[25]. This population is certainly one of Hungary's biggest advantages when building economic, political and cultural relations with China as confidence and good impressions are of particular importance for Chinese people. Today, members of the second generation with good command of Hungarian and Chinese are already setting up their own businesses and they provide a potential pool of human resources for mainland Chinese investors. Obviously it is nearly impossible to scientifically measure and evaluate the exact role of this minority in Chinese investment to Hungary, still, as we know it well, *guanxi* does matter.

Bilingual School

The establishment of the Chinese-Hungarian Bilingual Elementary School in Budapest in 2004 was also a significant milestone of bilateral relations. The original aim of the school was to provide educational opportunities for children of the Chinese diaspora, therefore, among the first students there were 90 Chinese and only a dozen Hungarian. Not surprisingly, Hungarian parents have soon realized the potential of such a school, thus 70 percent of the kids are already Hungarian today. The school might be an important pulling factor for Chinese investors, since it is the only institution in the region, which provides proper education for expat's children.

4.2. Hungarian political and social attitudes towards China

Although the Hungarian political arena is rather divided, Sino-Hungarian relations enjoy a privileged position on all major parties' agenda. The second and third Orbán administrations not only continued the efforts of their predecessors but even increased them in order to forge excellent

[25]The majority of this population arrived in the early 1990s, after a Hungarian-Chinese consular agreement of 1988 abolished visa requirements between the two countries. In 1990, 11 000 Chinese people arrived to Hungary, while in 1992 the number was even higher, 27 000. Overall, in the 1990s Hungary had a Chinese minority of approximately 40 000, while the number of Chinese people living in Hungary was only a few hundred in the 1980s. After 1992, the Hungarian authorities re-introduced the visa requirement. Some of the original Hungarian Chinese population left the country, went home or moved to other countries in the following 5-10 years, but close to 30 percent have stayed, supplemented over time by a small number new arrivals – for the most part relatives of the Chinese already living in Hungary.

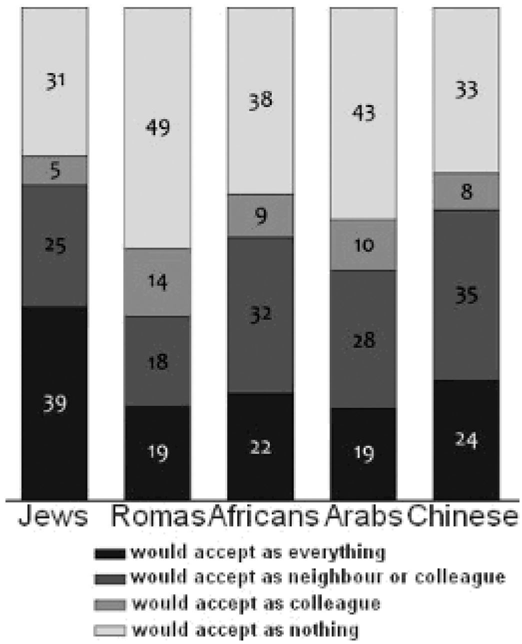
political relations with Beijing. No matter how fierce the domestic political debates are, none of the parties question the importance of China. This attitude might have some roots in the generally favourable views of Hungarians about China.

The main goal of Hungarian governmental policies towards China has always been economic in nature since 2003. Good political relations were and are the tool and not the purpose. The purpose has been the boosting and possibly the restructuring of bilateral trade, the relative reduction of the trade deficit and the inflow of Chinese FDI to create jobs. Recently a pure political factor has been involved as well, since the potential Chinese support might have provided political capital to the Hungarian government during its clashes with the EU. Generally speaking, the impression is that in their public communications Hungarian politicians tend to overestimate the significance of the Chinese involvement in the country, and they generate exaggerated hopes and expectations in the society as well. What is for sure, is that the important player of the political arena embrace a rather pragmatic stance with regard to China, i.e. possible political concerns are overruled by potential economic gains. When citizens criticize this pragmatic attitude, politicians usually point at Western examples, saying that major EU members do not really care about political issues either.

The attitude of the Hungarian society is complex and hard to evaluate. On the one hand, compared to general xenophobic tendencies, the level of tolerance towards Chinese people is fair enough. According to surveys, the level of their acceptance is much better than sentiments towards Arab, African or Roma people.

Still, this result cannot be evaluated as a clear sign of Hungarian openness towards Chinese people. However, according to other opinions, Hungarians are more tolerant to immigrants from the Middle Kingdom, since during the severe downturn of life quality in the first decade after the transition, the low prices of Chinese markets and restaurants helped the mitigation of the shock to some extent. It also counts that the Chinese diaspora has always kept a low profile, major conflicts or criminal activities have been rarely publicized, and the overall image of Chinese immigrants can be described as ‘diligent and humble’. However, despite all efforts of modern media and the three Confucius Institutes in Hungary, misconceptions are still alive. The most common perception of the Chinese people and China is about poverty, low quality products, environmental degradation and cheap restaurants. It is only a recent development that people have started to realize the modern and rapidly changing side of China. Unfortunately public opinion surveys aimed specially at Hungarian attitudes towards the Chinese are not available, therefore we have to rely on interviews and personal impressions so far.

Figure 2. Social distance towards ethnic groups in Hungary



Source: Simonovits-Szalai, 2013

5. Conclusion and policy recommendations

As described above, over the past decade, the Hungarian government – regardless of political orientation – has committed itself to the development of its relations with China. And Hungary indeed occupies a prominent place among Chinese people and government compared to its geopolitical position. When considering the reasons for choosing Hungary instead of other countries within the region, several factors may be taken into account.

Many Central European countries have mixed feelings of closer economic ties with China: they fear of the reliability of Chinese firms, don't want to lose trade and business opportunities, or they simply have reservations about the lack of democracy in China and sensitive to human rights issues (Russell-Matthews, 2011). Hungary is more lenient in this field, open to many types of cooperation, takingevery opportunity to promote the bilateral trade and economic relations with China. In fact, the government itself is very cooperative: they support China in many sensitive issues such as lifting the arms embargo or granting market economy status to China. Besides, the Hungarian government never meets diplomatic delegations on governmental level from Taiwan or Tibet and also tends to remove anti-China protesters from the streets of Budapest, when a high-level Chinese delegation visits the Hungarian capital.

Hungarian politicians strongly believe that the above-mentioned factors and the strong support of the Eastern Opening Policy create an irresistible investment environment for the Chinese. Indeed, it is hard to imagine any system of incentives more sophisticated than the current one. In fact, Hungary has by far the highest level of Chinese investment not only in the V4 but in the entire CEE region. However, if one takes a closer look, it becomes clear that the majority of Chinese investment is connected to one single deal, the already mentioned acquisition of BorsodChem by Wanhua. It means that the success of Hungary as an attractive destination for Chinese FDI is questionable, since the company had been sold to foreign investors well before of the arrival of Wanhua, and the main aim of the Chinese side was to acquire the isocyanate production capabilities. Thus, the acquisition had almost nothing to do with the Hungarian investment environment or with the Chinese perception of Hungary. Although it might be true that the Hungarian government played an important role during the decision to sell the chemical factory to the Chinese.

Another interesting detail is that only minor amounts of fresh Chinese investment have arrived to Hungary since the announcement of the Eastern Opening Policy. This is partly due to the Eurozone crisis and partly due to some loss of trust in business circles. The reason behind might be the diverging economic interest of the two sides. Hungary would gladly receive Chinese greenfield investment and cheap if not free financial support. Meanwhile the Chinese are interested in infrastructure investment through public procurement and in providing credit lines which are not necessarily compatible with EU regulations. According to in depth interviews, there are some miscomprehensions as well on the Chinese side with regard to Hungarian needs. It seems the Chinese believe that Hungary desperately needs their capital, which is not true. In fact Budapest will never risk the billions of Euros of the EU funds, in exchange of a much smaller and much more uncertain inflow of Chinese capital.

As detailed above, Hungary is willing to deepen a pragmatic cooperation with China, however, for the time being this objective appears rather in the field of rhetoric and politics, while the economic results lag behind in recent years. *Liu* argues that Hungary had developed an advanced and comprehensive strategy towards China because of strategic considerations: to mitigate the lash caused by its uncomfortable ties with the EU (Liu, 2013). In fact, the Hungarian government proudly repeats its forerunner role in the region and its intention to be the bridgehead of the China-CEE cooperation, however, other countries of the region also began to develop their relations with China and achieved more success recently (e.g. Poland's strategic partnership with China), compared to Hungarian-Chinese relations.

In order to attract more Chinese investment, the Hungarian government should find a balance between Hungarian needs and Chinese plans to avoid miscomprehensions mentioned above. Hungary should offer more opportunities and incentives for potential Chinese investors while authorities should also help them to familiarize with laws, regulations and business habits in Hungary. Simultaneously, the Hungarian (business) society should learn more about China and Chinese business practices.

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Chinese FDI and financial engagement in Poland

Guenter Heiduk – Agnieszka McCaleb[1]

1. Introduction

The growing inflows of Chinese foreign direct investment (FDI) into the countries of Central and Eastern Europe (CEE) and China's recent establishment of China-CEE16 Secretariat attracted attention of politicians and academia regarding CEE-China relations.

The paper aims at providing the current state of relations between the two countries since the establishment of the Republic of Poland in 1991 as well as the attitudes of Polish society and politicians towards Chinese and their presence in Poland. The study's core focus is on China's inward FDI and other forms of financial engagement in Poland. In the first part political relations among the two countries are briefly discussed. Second part deals with FDI in Poland in general with detailed characteristics of Chinese investments. The third part presents Polish society's attitude towards China and Chinese investments.

2. Poland-China political relations

After the establishment of the Republic of Poland in 1989 Poland and China renewed their political relations in 1991 with exchange of visits of ministers of foreign affairs (see *table 1* for major high-level bilateral visits since 1991). Bilateral periodic political consultations at the level of undersecretaries of state and contacts between parliaments of Poland and China were re-established (Go China website[2]). In 1993 the new agreement on economic and trade relations was signed between the two countries. In general, relations between Poland and China in the 1990s were not very intense as Polish authorities were focused on domestic systemic and economic reforms as well as preparations for the EU membership.

[1]Guenter Heiduk is a professor, Agnieszka McCaleb is a lecturer of East Asian Center, Warsaw School of Economics

[2]www.gochina.gov.pl

The important moment in the relations between Poland and China coincided with Poland's entry into the EU in May 2004. In June 2004, President of the People's Republic of China, Hu Jintao, came to Warsaw which was the first-ever official visit of the head of the Chinese state to Poland. During Hu's visit the Joint Statement between the Republic of Poland and the People's Republic of China was signed which is the basis for current relations between the two countries. The Joint Statement elevated the level of bilateral relations to the friendly cooperative partnership. The Statement also comprised main goals of economic cooperation between the two countries. Main areas of cooperation in carrying out common projects included: industry and mining, science and technology, energy, communication, transport, environmental protection, maritime economy, architecture and construction industry, urban planning and housing, and cooperation among small and medium enterprises (McCaleb, Palonka, 2009).

The growing importance of China on the global stage especially in the aftermath of the financial crisis of 2007-2008 resulted in Polish authorities' attaching greater importance to this country and intensification of bilateral relations. Poland aimed at attracting Chinese investors as alternative to Western investors from the United States and the old EU countries. The global financial crisis also pushed China to search for alternative sources of growth for its economy. The mutual relations started to significantly improve since the EXPO 2010 in Shanghai. It was mainly the result of Polish government's promotional campaigns. For example, since 2010 Polish Information and Foreign Investment Agency (PAIZ) has had its website available in Chinese language. In 2011, PAIZ set up its only overseas office in Shanghai. PAIZ also established its only geographically dedicated unit "Poland-China Economic Cooperation Center". In 2013 the Polish Ministry of Economy launched website GoPoland.gov.pl in Chinese language. Recently Polish Ministry of Foreign Affairs created a working group for economic cooperation between Poland and China.

In December 2011, President Bronis?aw Komorowski visited China, which was the first official visit of a Polish head of state to China in 14 years. During President Komorowski's visit the relations between Poland and China were upgraded to the status of a strategic partnership. Poland became the eight strategic partner of China in the EU and the first among countries that joined the EU after 2004. In April 2012, Premier of the People's Republic of China Wen Jiabao visited Poland. Within the framework of the last meeting, a strategy of '12 steps' was established to realize the objectives of the strategic partnership between Poland and China (Ministry of Foreign Affairs Republic of Poland website).

Table 1. Poland-China: Major high level bilateral visits since 1991.

In China		In Poland	
1991	Minister of Foreign Affairs Krzysztof Skubiszewski	1991	Minister of Foreign Affairs Qian Qichen
1994	Prime minister Waldemar Pawlak (meeting with president Jiang Zemin and prime minister Li Peng)	2000	Minister of Foreign Affairs Tang Jiaxuan
1997	President Aleksander Kwasniewski (first visit to China of the Polish president in 38 years)	2004	President Hu Jintao
2000	Minister of Foreign Affairs Wladyslaw Bartoszewski	2007	Chairman of the Standing Committee of the National People's Congress Wu Bangguo
2006	Minister of Foreign Affairs Stefan Meller	2011	Minister of Foreign Affairs Yang Jiechi
2008	Prime minister Donald Tusk	2012	Prime minister Wen Jiabao (first since 1987)
2011	President Bronislaw Komorowski		
2012	Minister of Foreign Affairs Radoslaw Sikorski		
2013	Speaker of Polish Sejm Ewa Kopacz		

In bilateral relations most important is the accomplishment of economic goals – reduction of trade deficit through increase of Polish export to China and attracting Chinese FDI. Political goals focus on the maintenance of regular high-level dialogue (Szczudlik-Tatar, 2012). Currently Polish diplomacy aims at "making up for the lost time" in fostering relations with China when Poland was not present in the Chinese media, culture, etc. However, as in case of most of other countries of Central and Eastern Europe (CEE) also in Poland main complaints regard the government's lack of concrete strategy towards China (McCaleb, Szunomár, 2012; Szczudlik-Tatar, 2012).

It is important to note that current political and economic relations between Poland and China are negatively influenced by the historical developments at the end of the 20th century. The events at Tiananmen Square nearly coincided with Solidarity movement leading peaceful political changes in Poland. Strong anti-communist, pro-democratic and pro-human rights slogans have remained key political tools among right political circles which are widely supported in the Polish society. The main problem in the mutual relations is the case of Tibet and Dalai Lama. In March 2008, Polish prime minister Donald Tusk announced he would not participate in the Olympic Games organized in Beijing as he most likely was pressured by the public opinion after bloody riots in Tibet in March 2008. In December 2008 Polish President Lech Kaczyński met with Dalai Lama, which was criticized by the Chinese Minister of Foreign Affairs.

2.1. Regional cooperation

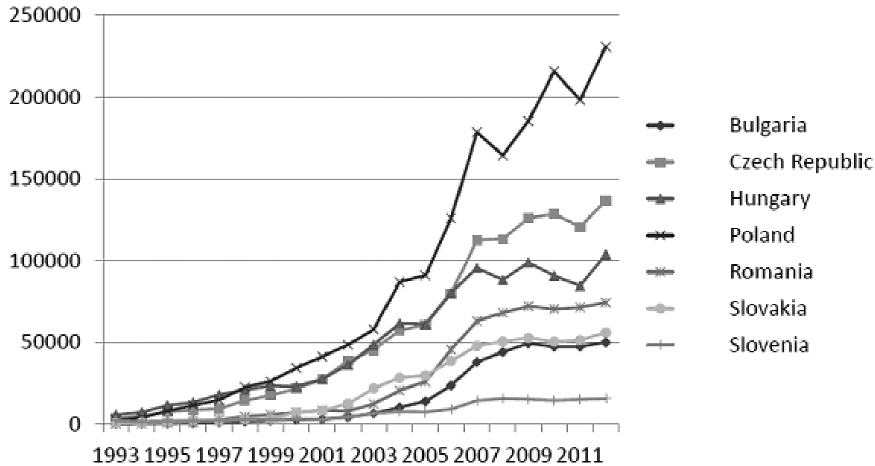
Recently Polish government started to encourage local governments to establish and develop cooperation with their counterparts in China. On 22nd April 2013 in Gdańsk took place the First Regional Forum Poland-China, which is hoped to intensify regional cooperation of the two countries in the fields of economy, culture, education, and tourism. The Forum was attended by approximately 200 representatives from China and is expected to become cyclical event.

Many Polish Voivodships and Cities initiated cooperation with Chinese partners such as Malopolskie Voivodship with Jiangsu Province, Opolskie Voivodship with Fujian Province, Gdańsk with Shanghai Municipality, Mazowieckie Voivodship where capital of Poland (Warsaw) is located with Shandong Province, Lubuskie Voivodship with Hainan Province. This year Lódź City celebrates 20 years of its partnership with Tianjin City. Moreover, in 2014 Lódź opened its representative office in Chengdu Municipality with which it has cargo railway connection (Puls Biznesu, 10.02.2014).

3. Poland – CEE region's inward FDI leader

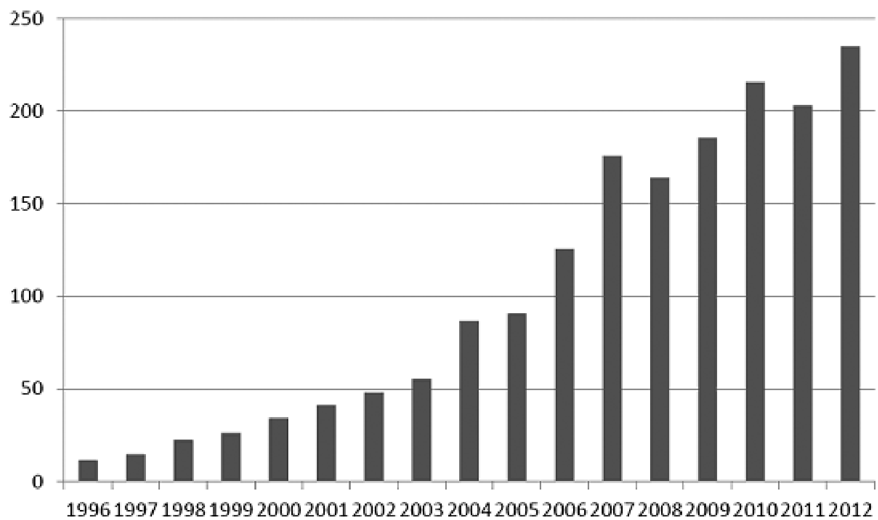
Since the beginning of 2000s Poland has been the CEE region's leader in terms of the volume of FDI stock (*figure 1*). The political and economic transformation that resulted in joining the EU in 2004, but also Poland's OECD (1996) and NATO (1999) membership had created attractive investment environment for foreign firms (Weresa, 2004).

Figure 1. FDI stock in main CEECs, 1993-2012 (USD million).



Source: UNCTAD Stat.

Figure 2. FDI stock in Poland, 1996-2012 (USD billion).



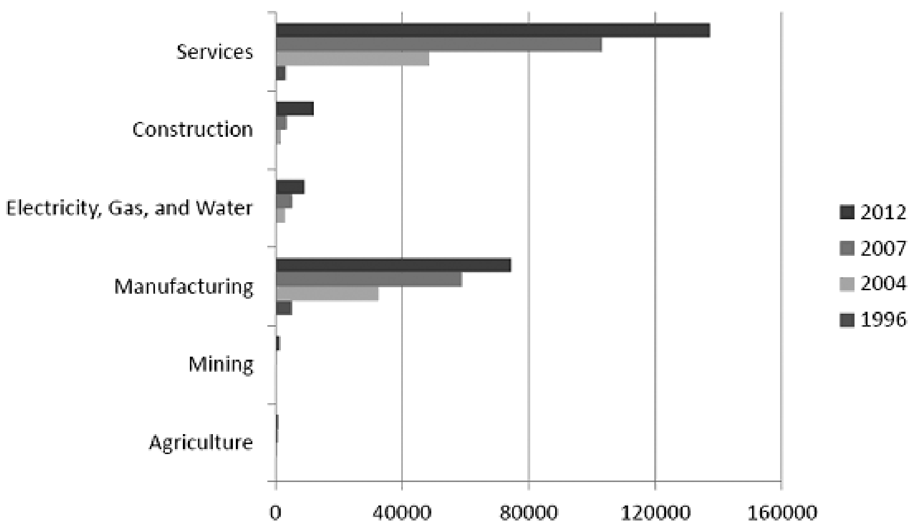
Source: National Bank of Poland.

Until 2001 foreign firms mainly engaged in manufacturing although its share in total FDI was declining from 55.7 percent in 1997 to 35.3 percent in 2001 which was due to increased investment in services sector (Weresa, 2004). At the end of 2001, the leading branches in manufacturing FDI were: production of food products, beverages and tobacco (7.3

percent of total FDI stock), transport equipment (5 percent), wood and paper products together with printing and publishing (3.9 percent), chemicals (3.8 percent), machinery and equipment (1 percent). Investment in financial services amounted to 22 percent of total inward FDI stock. Wholesale and retail trade ranked third with 17.8 percent.

In 2012, manufacturing amounted to 31,6 percent of total FDI stock. The leading areas in manufacturing changed in comparison to 2001: metal & machinery products (19.9 percent), food products, beverages and tobacco products (18.9 percent), petroleum, chemicals, pharmaceutical products, rubber & plastic products (18.4 percent), vehicles & other transport equipment (16.8 percent), and motor vehicles, trailers and semitrailers (14.1 percent). The FDI stock in services sector reached 58.35 percent with largest share of financial and insurance activities (41.6 percent), followed by wholesale and retail trade (24.3 percent), real estate (11.8 percent), professional, scientific and technical activities (9.6 percent), and information and communication (7 percent) (National Bank of Poland).

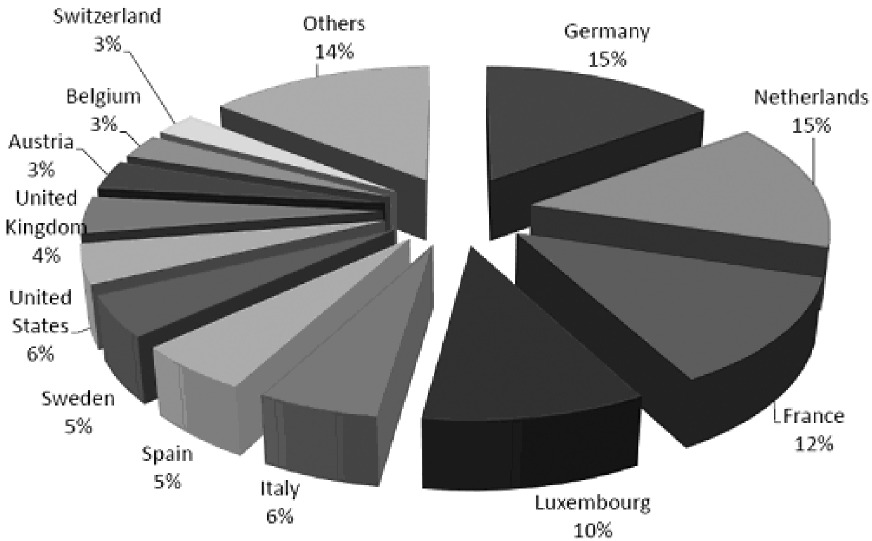
Figure 3 Structural change of FDI stock in Poland, 1996-2012.



Source: National Bank of Poland

Main investors in Poland are developed countries of the EU. Major non-EU investors are the United States and Japan (4.2 percent and 0.6 percent of the total stock in 2012 respectively). “IFDI from economies such as the Netherlands and notably Luxembourg is often FDI from other economies that is routed via holding companies or regional headquarters located in these economies.” (Zimny, 2012).

Figure 4 Main investors in Poland by FDI stock at the end of 2012.



Source: National Bank of Poland

4. Poland-China trade relations

China is Poland's largest trading partner in Asia. In 2013, China was the leader, followed by Russia, in contributing to the Polish trade deficit. China is the top third source of Polish imports (after Germany and Russia) accounting for approximately 9 percent of Poland's total imports. In 2013, export to China amounted to 1 percent of Poland's total exports positioning it on 22nd place of Polish exports' destinations. When comparing with other EU-28 countries, Polish export to China is on the 15th position and regarding turnover and imports on 8th. The main exporters to China in the EU are: Germany, Netherlands, UK, France, Italy, Belgium, Spain, Sweden, Finland, Czech Republic, Denmark, Hungary, Austria, Ireland, and Slovakia. The EU countries that have positive trade balance with China are: Germany, Sweden, Austria, Ireland, and Slovakia. In the years 2007-2013 Polish export to China as well as imports from China more than doubled (table 2). Polish export to China is several times higher than Polish export to Japan, South Korea, Hong Kong or Taiwan. Polish export to China is dominated by nonferrous metals, mainly copper (38 percent). However, there is slight improvement in the structure of Polish export to China as highly processed products (machinery, vehicles, precision and miniature products) comprise 29 percent of total exports to China. There is high increase of animal products from 4.2 percent in

2012 to 8.8 percent in 2013, which is mainly due to approval by Chinese authorities of selling Polish pork to China. Polish imports from China record growing share of highly processed products (machinery, vehicles, precision and miniature products) (61.1 percent in 2013). According to product groups, imports from China comprise mostly of: electromachinery products (56.5 percent), textiles (10.8 percent), and miscellaneous goods (6.6 percent) (The Polish Ministry of Economy, May 2014). The change of trade structure implies a trend from inter-industry toward intra-industry trade, which however should be verified in future research.

Table 2. Trade between Poland and China in recent years (in million euro)

	2007	2008	2009	2010	2011	2012	2013
Export	721	866,5	1051	1229	1347	1358	1595
Import	8516	11465,5	9983	12615	13245	13687	14573
Trade volume	9237	12332	11034	13845	14592	15045	16168
Trade balance	-7795	-10599	-8932	-11386	-11898	-12329	-12978

Source: Polish Ministry of Economy

5. Chinese FDI in Poland

Although Poland is the leading recipient of FDI in the CEE region it attracted little Chinese FDI. Before Poland's entry into the EU Chinese investments were almost insignificant as in 2000, they amounted to 10 million USD and in 2003 increased slightly to 17.8 million USD (NBP website). By the end of 2012 Chinese FDI stock in Poland increased more than sixteen times to 288.1 million USD. However their importance is low as they represent only 0.1 percent of Poland's total FDI stock.

It is well known that statistics on China's OFDI differ between the data of China's Ministry of Commerce (MOFCOM) and host countries' national sources (eg., Apoteker, 2012; Clegg and Voss, 2012) (see *figure 5* and *6* for comparison of statistics from the National Bank of Poland and MOFCOM). According to MOFCOM, at the end of 2012 China's FDI stock in Poland amounted to 208 million USD.

Figure 5. China's OFDI stock in Poland according to MOFCOM, USD million

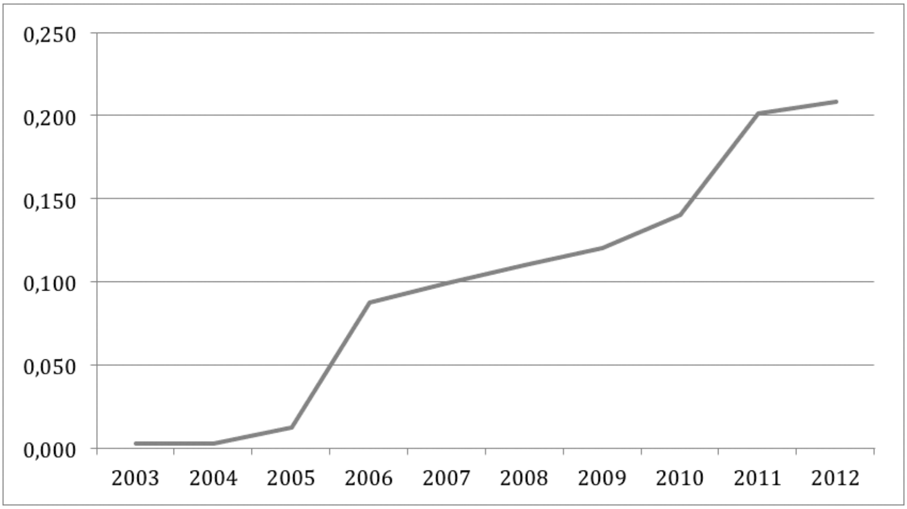
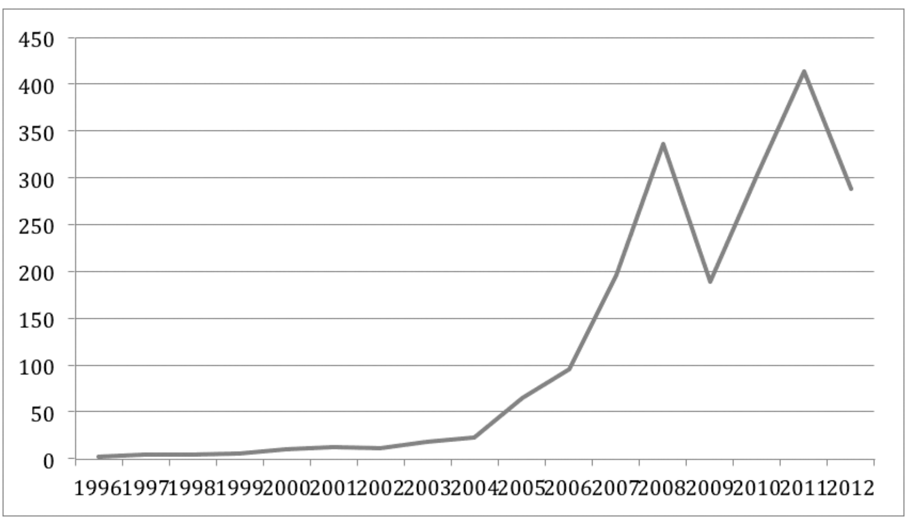


Figure 6. China's OFDI stock in Poland according



to the National Bank of Poland, USD million

The differences in the data between the National Bank of Poland and MOFCOM may result from limitations of Chinese data:

- MOFCOM data are underreported as they include investments approved by MOFCOM. Thus, in practice investment projects (especially small projects) that do not require approval or unauthorized projects are not included. The recent administrative reforms decentralized approval system of smaller investment projects which may enhance underreporting (Apoteker, 2012, p 14; Korniyenko and Sakatsume, 2009).
- "Chinese investment abroad by intermediaries or their subsidiaries or affiliates operating outside China (Hong Kong, Macao, and offshore destinations such as the Cayman Islands) appears not to be properly included in MOFCOM data." (Apoteker, 2012, p 14)
- The considerable differences in shape of the curves between 2007 and 2010 in *figure 6* are the result of the statistical standards adopted by the National Bank of Poland (NBP) when calculating inward FDI. Since 2004 the intercompany loans also include commercial loans. In 2009, "other investments" that comprise of intercompany loans amounted to –163,2 million euro, which may be the result of Chinese subsidiaries in Poland granting loans to the affiliated companies (information provided through email by NBP employee). Moreover, in 2010 "own capital" coming from China amounted to –3 million euro, which means withdrawál of capital (selling by foreign investor of its shares or stocks) (Wisniewski, 2012). It was most probably caused by Lenovo that in 2009 withdrew from the project of building a factory near Legnica due to the global financial crisis.

There are about 700 firms with Chinese capital in Poland but the majority of them (574 firms in 2011) are small companies employing less than 9 persons. Most investors are private companies; SOEs are represented by ZTE, LiuGong Machinery, Nuctech. By 2004 Chinese investors were mainly small companies in wholesale and retail trade. Poland's EU entry attracted mainly companies from electronics sector.

Recent years after the global financial crisis mark the emergence of M&As and wider representation of sectors in Chinese FDI in Poland. By 2013 the major investors from China were LiuGong Machinery, Haoneng Packaging, Shanxi Yuncheng Plate-making Group, Sino Frontier Properties Ltd., Suzhou Victory Precision Manufacture Co., and TPV Technology Ltd. (PAIZ website).

5.1. Sectoral representation

Chinese investment in Poland is mainly related with electronics sector, production of TV sets and LCD monitors (TCL Corporation, Victory Technology Polska, Chung Hong Electronics Poland, Digital View), electro-machinery (Nuctech, 2004[3]), heavy machinery (LiuGong Machinery), publishing and printing (Haoneng Packaging), manufacturing of metals and metal products (Shanxi Yuncheng Plate-making Group), hospitality and real estate (Min Hoong Development Co., Sino Frontier Properties Ltd.), distribution of goods (GD Poland Investments Sp. z o.o.), and IT sector (Huawei, ZTE) (Heiduk et al., 2012). The companies from electronics sector located in Poland mostly in the years 2005-2007.

In recent years Chinese FDI in services increased with establishment of branches of Bank of China (2012) and Industrial and Commercial Bank of China (2012) as well as offices of the largest law offices in China, Yingke Law Firm (2012) and Dacheng Law Offices.

5.2. Entry modes

Most of the Chinese firms investing in Poland engage in greenfield investments. According to *Hanemann and Rosen* (2012) at the end of 2011 there were 15 greenfield projects. However, recently there were three cases of mergers and acquisitons (M&As) in the fields of construction machinery (Liu Gong), aviation (Lantian Aerospace Industrial Park) and automotive parts (Tri Ring) (PAIZ interview). The latter is said to be the result of Wen Jiabao's visit in 2012. Poland still has about 400 state companies to be privatized, which might be attractive for Chinese investors.

Chinese FDI enter Polish market also through their M&As in third countries. For example, Beijing West Industry (BWI) Group (a joint-venture of Shougang Corp., Bao'an Investment Corp. and Fangshan State-Owned Asset Management Corp.) in November 2009 acquired the Chassis Division of former Delphi Corporation (USA) together with its subsidiaries which included Polish production plant in Krosno and R&D center in Cracow that employed 200 engineers (AutomotiveSuppliers.pl, 24.11.2009; Deloitte, 2012). In 2013, Chinese Shuanghui International acquired the American Smithfoods along with its Polish subsidiary, which is one of the most recognized meat producing companies in Poland, Animex.

[3]The year next to company name stands for its investment year in Poland.

5.3. Localization of Chinese firms in Poland

Chinese firms when investing in Poland choose major cities or their vicinities (see *figure 7*). Naturally the capital of Poland is the leader followed by Cracow, Lódz, Trójmiasto, and Poznan. Some firms are attracted by incentives offered by SEZs. Example here is Lódz SEZs that hosts Shanxi Yuncheng Plate-making Group. In 2014 Chinese global online retail company, LightInTheBox, established its distribution center in Lódzkie Voivodship.

China had plans of opening its own industrial zones in Poland which would attract Chinese investment. However, until now were not very successful. In 2004 in Koszalin Special Economic Zone (SEZs) Chinese company rented a land in order to create industrial zone with other Chinese firms. For several years a Chinese company was assembling bikes there and since 10 years Digital View has been producing TV sets at this location. In Kielce a Chinese Business Park was created.

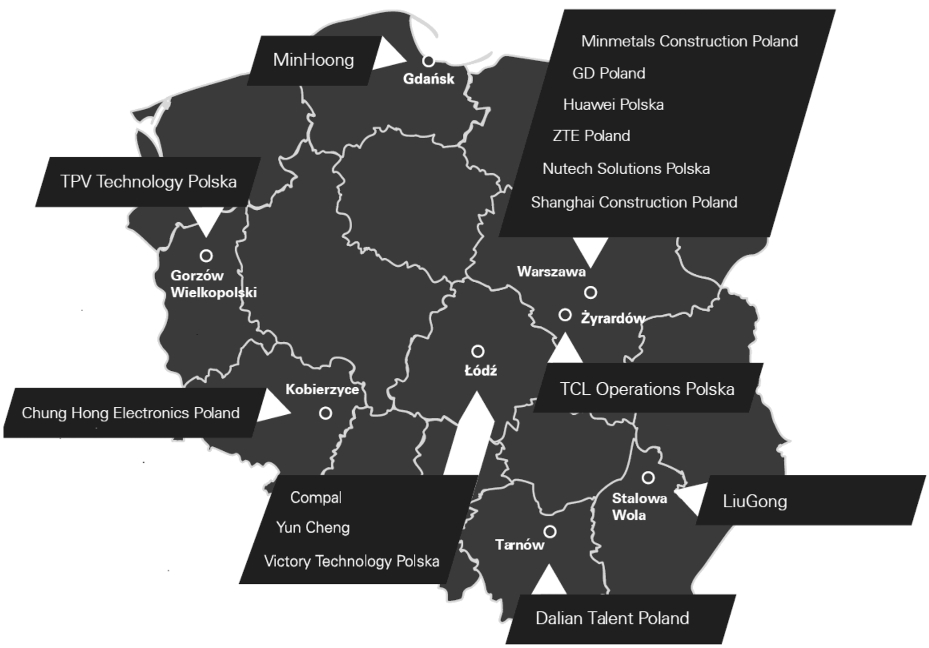


Figure 7. The Localization of major Chinese firms in Poland.
Source: KPMG, 2012.

5.4. Motivations of Chinese FDI in Poland

The increased inflow of Chinese FDI into Poland after 2004 can be explained by the access to the attractive markets of Western European countries and avoidance of trade barriers. Chinese investors in Poland utilize relatively cheap and well-educated Polish labor force while treating Poland mostly as an assembly base. Some companies follow their customers. Example is Dalian Talent Poland that is the major supplier of candles to IKEA. Increased number of Chinese investments in Poland is also explained by the goal of Chinese investors to diversify their assets and opportunities created by the global financial crisis. Since its outbreak in 2007-08 Chinese companies benefit from lower costs when acquiring Western companies. Moreover, Chinese firms in Poland target not only the EU market but also sell their products in the markets of CIS, Meditarrean, EFTA (Wi?niewski, 2012, 121).

Some of the recent Chinese FDI in Poland was attracted by privatization of state enterprises, which provide access to technology (patents), brands, distribution networks, and manufacturing capacity for European markets. Examples are: in early 2012 Liugong Machinery's acquisition of Huta Stalowa Wola's construction equipment division and its distribution subsidiary, Dressta. The total value of this investment is 300 PLN million (Ministerstwo Gospodarki, June 2013). Secondly, in 2013 China's Tri Ring Group Corporation acquired Polish Fabryka Lozysk Tocznych, producer of bearings for automotive sector.

5.6. Credit cooperation

In September 2000 the governments of Poland and China signed a credit agreement, which initially was meant for financing of investment related with environmental protection. However, it was later modified and in the end regarded granting a credit for exports of machinery for infrastructure, mining, energy, and construction. The value of the credit amounted to 285 million USD. The credit contract expired at the end of January 2013. The largest contracts within the agreement were related with export of machinery and equipment for mining (in total 160 million USD in the years 2007-2009). The remaining amount of the credit was used for export of facilities used in sewage plants.

In 2012 China offered 16 countries of CEE region a credit amounting to 10 billion USD for projects in cooperation with Chinese firms. Initial talks regarding usage of the credit took place in Poland on 27th February 2013 between the Polish Ministry of Economy and Bank Gospodarstwa Krajowego (Poland's state-owned bank) and from Chinese side China's ExIm Bank. However, the credit has not been used until now as its conditions as not as attractive as of the credits available on the EU market. According to professor *Song Xinning*[4] (Renmin University, Beijing) the China-CEE16 cooperation was initiated by former prime minister Wen Jiabao because he wanted to have some achievements before finishing his term. He argued the current leadership under president Xi Jinping does not know how to distribute the credit among 16 CEECs.

In 2013, China Investment Corporation invested in the Polish treasury bonds 1 billion USD (70 million euro), which amounted to 2.9 percent of Polish foreign treasury bonds in 2013.

On 9th October 2013 the first Chinese company, Peixin International Group, had a debut on the Warsaw Stock Exchange. Peixin International Group is manufacturer of machinery for production of sanitary products.

6. The attitudes of Polish politicians and Polish society towards China

In general, Polish people have little knowledge about China (Wysie?ska, 2011). The picture of China in mass media is rather negative, focusing mainly on human rights violation and the case of Tibet. The mass media in Poland present China in a narrow subjective way, lack broader knowledge about China and are based on information from English language sources. *Mierzejewski* (2009, p 99) analyzed articles about China published in three leading daily papers in August 2008 during Olympics in Beijing. He found that 61 percent of articles were negative, 31 percent presented objective information about China and 8 percent positive. This image of China was further negatively affected by failed case of COVEC and withdrawal of Lenovo in 2009 from its plan of establishing manufacturing plant, which was supposed to be one of the largest investments in Poland in recent years (Szczudlik-Tatar, 2012).

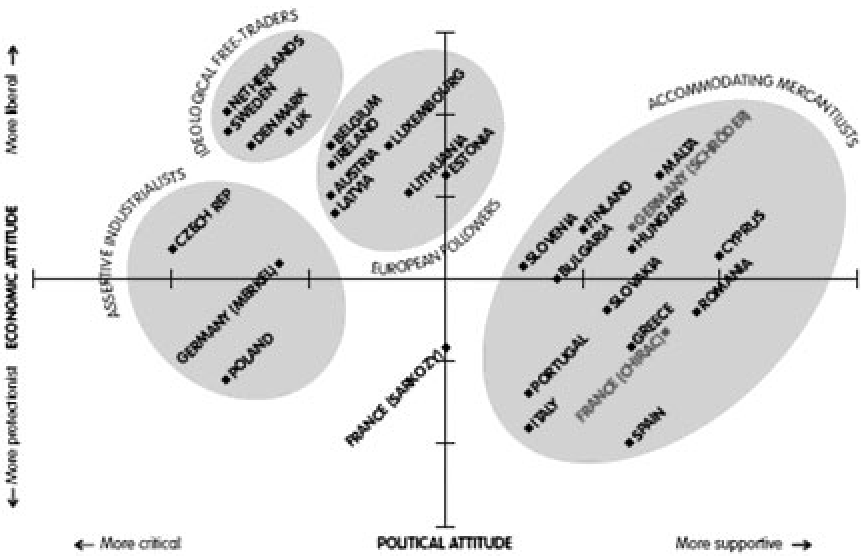
According to Eurobarometer (2010, cited in Burgoon and Raess, 2014, p 188) Polish citizens when answering the question “Do you agree or disagree with the following statement: The EU and China have the same interests when dealing with globalization.” placed themselves slightly above average; being less positive than Hungarians, Romanians, Portuguese, Lithuanian, Austrian, and Slovaks, but more positive than the Dutch, Czech, Slovenians, French, Belgians, Spanish and Germans.

Fox and Godement (2009) grouped EU Member States based on their attitudes towards managing China’s economic influence on the EU and managing China politically (*figure 8*). According to it Poland together

[4]Presentation by Prof. Song at the seminar "Perspectives of China-CEEC Cooperation" on 15th May 2014 organized by East Asian Center, Warsaw School of Economics.

with Germany and the Czech Republic are “the only EU Member States willing to stand up to China vigorously on both political and economic issues.”

Figure 8. EU Member State attitudes towards China



Source: Fox and Godement, 2009, p 4.

According to *Cunningham* (2012) who refers to global poll done by Pew Research, BBC Global Span/Pipa Institute, and the European Commission’s Eurobarometer the Polish contrary to most Europeans, who consider China to be greater economic superpower than the US, believe that “the US and China are on a par”. According to a study done by KPMG and the Polish Institute of International Affairs among 500 Polish firms employing at least 50 people, Polish firms believe that Chinese firms have little influence on their industry (KPMG, PISM, 2013). This underestimation of importance of China among Polish citizens and businessmen in comparison to other EU countries may be the result of general lack of knowledge about the actual economic developments in China and persistent general belief that China is backward country that produces low quality products, mainly clothes, shoes, toys.

Based on the Pew Global Attitudes Project (2012, cited in Cunningham, 2012) Polish people’s view of China have improved since 2005 and as of 2012 was rather favorable (less favorable than Greece and UK but more favorable than Spain, Czech Republic or Germany). It would be worth to further investigate the reasons behind this change of attitude.

7. Conclusion

Chinese investments in Poland are small but growing. According to PAIZ larger Chinese investments are expected in 2 years. The overriding issue is that Chinese firms are mostly interested in M&As and infrastructure projects while Polish government wishes to have greenfield investments that create jobs for Polish citizens.

Chinese firms are also increasingly interested in public procurement for realization of infrastructure projects. China construction company, COVEC, was a case of a first Chinese company to win a public bid in the European Union for construction of part of A2 highway. However, it was unsuccessful (COVEC broke the contract in 2011) and might have negatively impacted other Chinese companies participating in public procurement.

More research (quantitative studies) is necessary on:

- Clarifying the differences in statistics, especially IFDI 2007-2012
- Do sub-national agreements (partnerships on regional and city level) matter for FDI?
- What are the results of cooperation agreements in higher education?
- What are the specific location advantages that Poland offers to Chinese companies and how to promote them (in comparison with other CEE)
- How to complement China-Poland trade by Chinese IFDI

7.1. Policy recommendations

Polish authorities in order to attract more Chinese investment should:

1. Formulate long-term strategy regarding development of Poland-China relations which would be reflected in coordinated actions of all relevant ministries.
2. Develop and nurture high-level contacts (politicians having contacts with their Chinese counterparts should be taught about the etiquette rules and Chinese ways of "doing business").
3. Adopt a strategy suited for Chinese investors that would solve their problems (informing about investment opportunities and incentives, inform about laws, regulations, and "doing business" in Poland, more customized services).
4. Further promote cooperation between Poland and China at regional level (cities, provinces, special economic zones).
5. Support campaigns in China promoting Poland (culture, tourism, education, products, industries, etc.).

6. Promote student exchange between the two countries.
7. Polish authorities should learn more about China in general. Besides, they should promote activities aimed at spreading objective knowledge in the Polish society about China.
8. Promote Polish-Chinese private partnerships: e.g. Polish-Chinese business associations, Polish-Chinese academic networks in social sciences, extending the cargo railway connection to Gdansk port (access to Scandinavian countries, UK etc.).
9. Consider whether Poland should lead or coordinate the CEE16 group and what would be the advantages for Poland and the CEE16

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Czech-Chinese relations: Evaluation of economic ties

Rudolf Fürst[1]

1. Introduction

China has always been perceived in the Czech Republic (Czechoslovakia before 1993) as a country with great economic perspective due to many reasons: i.e. its huge internal market, Czechoslovak past time investment and trade tradition during 1920s-1930s, and 1950s-1980s, China's favourable macroeconomic statistics (especially since 1990s), and of course, due to a need to enlarge the Czech export areas beyond the EU common market.

This paper explores current situation in Czech-Chinese relations, mainly in the field of economic ties, and traces also their political context. The study is generally based on Czech national statistical data, Czech media reports, interviews with Czech diplomats, staff of the Ministry of Industry and Trade, and individual businessmen. As the investment flows and bilateral trade still have not reached relevant volumes and rates, the out of date or unavailable current Chinese statistics do not cause serious problem to gain an approximate outline.

The Czech (including Czechoslovak before 1993) relations with the People's Republic of China (PRC) experienced a great deal of discontinuity, which arose from past time political framework during the Cold War era, and after the fall of communism in Europe they resulted from the transformation processes in Central and Eastern Europe (CEE) through developing divergent political regimes that temporarily caused political estrangement with Beijing, mainly due to different views on liberal democracy and the issue of human rights. Nevertheless, the common economic interests focused on trade and investments prevailed in Czech relations with China since the beginning of 1990s, and received new and significant impetus from the emerging regional format between China and CEE countries (1+16) after 2010, which took shape its institutional form in the PRC-CEE Warsaw summit in 2012.

[1]Rudolf Fürst is a senior researcher of Institute of International Relations, Prague.

The first and main part of the paper deals with Czech-Chinese bilateral trade and investment relations, which remain still deeply under their potential, and which in Czech statistics represent only minor percentage. The second part explains how the Czech-Chinese bilateral relations were one of the most strained in the whole Europe. Since 2013, however, a significant positive shift occurred that resulted both from Czech domestic political changes in 2013, as well as from favourable international circumstances given by emerging the regional format 1+16. The conclusion summarises Czech specific experiences in economic relations with China and revels specifically limited casual relations between economic and political agenda.

2. China as an economic partner of the Czech Republic

The Czech efforts to boost economic relations with the PRC since the beginning of 1990s have been so far unsuccessful. The basic reasons of poor results of Czech exports and investments in China are the followings:[2]

1. The post-communist economic transformation in CEE, as well as in the PRC, resulted in abolishment of the previous barter trade system of annual bilateral agreements. Whereas the Czech Republic preferred the previous system to continue, China refused that. Czech exporters failed to find alternative deals in reforming China under the changed conditions based in market economy. Also the transformation of the Chinese state-owned enterprises (SOE) and growing pressure on their profitability limited their capacity to maintain investments in technical equipment and service by purchasing imported technologies.
2. Opening up Chinese economy brought about fierce competition into the Chinese market, still mostly occupied by domestic producers and traders, as well as relevant global players. The Czech investors and traders realized that the sales rate is the main precondition for being successful in China, not only the dislocation of production there.
3. Decline of Czech technology level, and decreasing awareness of Chinese partners of past time cooperation. Czech Republic, as the small country, have so far not yet been able to develop stronger promotion activities to increase the Czech image in China due to high costs and limited national capacity. The formerly well-known and successful Czech trademarks (mainly Tatra and Liaz off-road trucks,

[2]See more in detail Fürst, Rudolf (2010) *Česko-čínské* vztahy po roce 1989 [Czech-Chinese relations after 1989], Praha, Karolinum.

Zetor tractors, Jawa motorcycles, before the year 2000 also Škoda cars) quickly lost their reputation despite of comparably fair quality and price conditions.

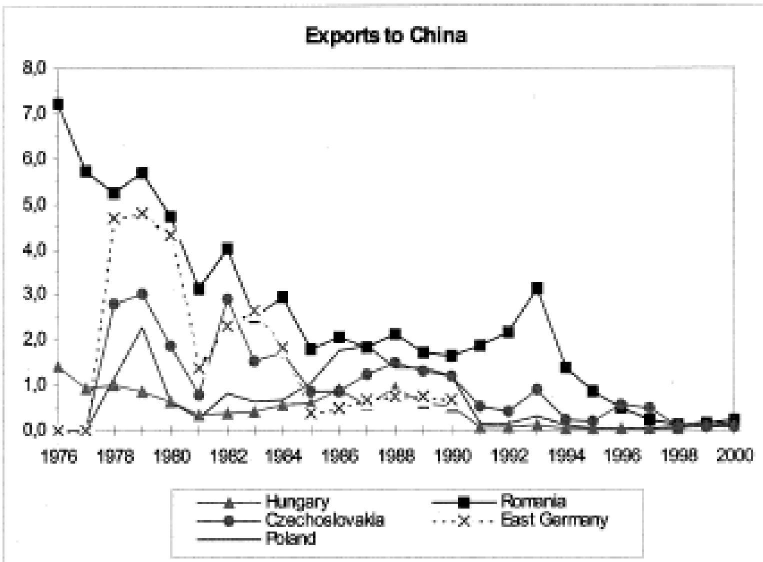
4. Difficult conditions in China for overseas business partners in general: direct and indirect protectionism, economic nationalism, bureaucracy. Even though the Chinese macroeconomic data continuously showed excellent results, and especially the rapidly growing GDP, these could have no direct effect on specific economic achievements of Czech exporters and investors in China.
5. Mutually insufficient experience at doing business in the culturally different terrain.

The Czech economic diplomacy since the early 1990s – which was supported by high level Governmental (Prime Minister Václav Klaus in 1994, Milos Zeman in 1999, Jirí Proubek in 2005) and Presidential (Václav Klaus in 2004) visits in China – did not bring about significant changes, the meetings of politicians, ministers, and members of Czech-Chinese Joint Chamber for Economic Cooperation did not influence economic processes. The Czech business in China was untouched by political activities, and especially exports were not that case.

Moreover, as *figure 1* shows, there was a common trend of decreasing exports to China from post-communist states since the 1970s,[3] and the case of Czechoslovakia was not exceptional. The bilateral trade of Czechoslovakia (Czech Republic after 1993) with China than followed the European common development of growing trade deficit, with rapidly rising imports along with slowly increasing exports.

[3]Taube, Markus (2002) 'Economic Relations between the PRC and States of Europe', China Quarterly, No.169, pp. 78-107: 96.

Figure 1. Exports to China, selected countries



Source: Czech Ministry of Industry and Trade

The trend of imbalanced trade continued after the year 2008, just the positive dynamics of the Czech exports appeared mainly since the year of 2010, as shows the following scheme:

Table 1. Czech trade with China after 2008

Year	Export		Import		Turnover		Balance	
	million USD	+/- %	million USD	+/- %	million USD	+/- %	million USD	+/- %
2012	1 674,47	4,3	15 616,53	-17,4	17 291,01	-15,9	-13 942,06	-19,1
2011	1 667,32	33,3	18 900,62	20,5	20 568,66	18,5	-17 233,36	20,6
2010	1 215,56	43,9	15 554,21	46,8	16 769,77	46,6	-14 338,65	47,1
2009	843,88	9,2	10 591,49	-15,1	11 435,37	-15,5	-9 747,60	-16,5
2008	773,01	11,8	12 470,94	36,4	13 243,96	34,7	-11 667,93	38,0

Source: Czech Ministry of Industry and Trade

Since the late 1990s Czech Republic developed the supportive network of state-sponsored investment and trade representative offices *CzechInvest*, *CzechTrade* and *CzechTourist*. Currently there are two CzechTrade offices in Shanghai and Chengdu (Sichuan provice), and also the Economic Division at the Czech Embassy in Beijing. All attempts for political support – conducted mainly by Social Democratic Party led coalition governments – for increasing trade and investment exchange brought about no apparent effect. The Czech exports to China so far have not exceed one percent of the Czech exports in total, which are focused mainly on EU (approx. 80 %), and especially to Germany. Czech trade with China is unbalanced; the trade deficit has been continually growing since the beginning of 1990, and in 2012 reached 13,9 billion USD.[4] The statistics of both – imports and exports – do not display amounts of re-exports through other European countries, up to twenty, especially Germany, Russia, Austria and the Netherlands.

No matter of the trade deficit, the Czech economic policy towards China remained very liberal in principle, and the media discourse, which is usually tough on China, never accepted any idea of trade barriers as a tool for asserting claims on Chinese insufficiently opened market. Surprisingly, even though the Czech traditional textile, shoe and leather goods producers suffered significant loses, and their trade unions repeatedly lobbied for Government's support, the state trade policy always followed the strategy aimed at compensation the imbalance by supporting exports. Such the strategy usually met with Chinese reply that the Czech exporters cannot expect any PRC's state protection.[5] By contrast, the Chinese exporters to the Czech Republic met with no obstacles to receive import licenses for cars, and other domestic strategic industrial products. Also getting registered the status of the company limited for Chinese traders was incomparably easier than that in China, each Chinese individual applicant might register altogether three Co Ltd, meanwhile such the system provided difficult terrain for Czech financial and tax control authorities.

The establishing of *Warsaw Initiative* and the declaration the *Twelve Measures Program* in 2012 received great attention in current Czech governmental bodies, as well as in Czech business circles. Nevertheless, no matter of worsening political relations with Beijing after the Dalai Lama's meeting with Czech Prime Minister Jan Fischer in Prague in 2009, Czech exports in 2010 and 2011 annually soared at spectacular rise of 43,9%, and 33,3%. Unfortunately, during the following year 2012 the increase in export fell to 4% due to economic slowdown in China. The

[4]Czech Foreign Trade, Business Info, www.businessinfo.cz/cs/zahranicni-obchod-eu/teritorialni-informace-yeme/cina.html, accessed 2014.

[5]The interviews conducted by author with Czech business representatives in China, the CzechTrade representatives, and with Czech diplomats since late 1990s up to now.

Czech trade deficit in 2012 grew up to approx. 14 billion USD. Even though that deficit is the second biggest one in Czech trade balance (the number one is with Russia), the Czech exports to EU, and mainly to Germany, may compensate that imbalance.

The Czech export commodities to China are the following: engineering manufacturing products, such as steam turbines, automobiles and car parts, tramways, subway trains, engines and generators, electrical devices, pumps, machine tools, textile machinery, steel pipes and profiles, transmission shafts, rubber and plastics processing machinery, glass, organic chemicals, dyes and pigments, plastics, ferrous and non-ferrous metal scraps.

Main import commodities from China to the Czech Republic are comprised of: automated data processing equipment and components, telecommunications devices, TV and radio accessories, integrated circuits, electrical appliances, electronic devices, converters, organic and inorganic chemicals, clothing, footwear, fancy goods, toys and sports goods, bicycles, canned fruits and vegetables.[6]

3. Investments

3.1. Czech investments to the China

Czech investment attempts, which hoped to prolong the communist era tradition, were mostly unsuccessful, especially those that established Czech-Chinese joint-ventures in the PRC in the 1990s. The biggest and mostly media-observed project was the already existing thermal power plant in Shentou (Shanxi province), the Czechoslovak technology equipped six energy blocks that were built during communist era in 1979-1989. The enlargement of two more blocks, 500 MW each, provided by Czech group of Škoda Energo Plzen, Škoda Export Praha, and SES Tlmače (Slovakia), backed with the continuous top-level political support, was negotiated throughout the 1990s, with the result of the originally claimed price of 400 million USD got reduced to 256 million USD.[7] The frustrated Czech lobbies that time argued that the non-profitable character of the project was the direct consequence of Czech human right policy and inviting the Dalai Lama, and the investors, by contrast, justified the project by a need to create in China a positive reference effect.

The other well known unsuccessful large joint-venture case was the

[6]See the Czech Business Web Portal, http://www.businessinfo.cz/en/, accessed in June 2014.
[7]"Osud elektrárny Sen-tchou je pochybny", iDnes.cz, Maz 4, 2000, available at: http://ekonomika.idnes.cz/osud-elektrarny-sen-tchou-je-pochybny-dx3-/ekonomika.aspx?c=A000504154412ekonomika_jjx, accessed in July 2014.

Desta, the that time leading Czech forklift truck manufacturer, which found the partner factory in Hengyang city, Hunan province in 1995. However, the Hunan-Desta joint-venture, with estimated capital value of 50 mil USD, never got out of debts since the first months of its existence, and all the Czech staff eventually left in 1998. The crucial problem of the bankrupted factory was insufficient sale in China, as the similar experience may confirm other Czech joint-ventures in China that time in 1990s.[8] The other and smaller joint-ventures usually based their profitability on exporting outside China, therefore their history show more positive results.

The so far most relevant and successful Czech production and sale items in China are Škoda-Volkswagen cars that are assembled in China, since gaining the production license in 2007. In Shanghai Skoda Co there have been produced models Fabia (Jingrui), Octavia (Mingrui), Superb (Haorui), Rapid and Yeti. Besides, the new production line is being open in Ningbo. The Škoda cars reached the million pieces production in total in 2013, and the Chinese sales market became the Škoda's second biggest one, after the EU.[9]

The other Czech successful investment project in China is the SKE joint-venture, that consist of Czech Škoda Electric and Chinese Kingway Transporation Jiangsu, which won the tender to supply the traction equipment for 23 five-car metro units in Suzhou, worth 25 million USD. Skoda Transporation Co. also sold ten years license for production city tramways in Chinese big cities.[10] Meanwhile, Skoda Electric signed also second contract on supplying another new line 4 in Suzhou´s metro system.[11]

The new emerging relevant player in the Chinese market is the PPF financial group, which opened up the Home Credit financial services as the provider of non-cash loans to retail customers for purchasing consumer goods. The Home Credit is expanding in the CEE, and also in Russian Federation, Belarus, Kazakhstan, India and Vietnam.[12] The PPF Group

[8]The author´s personal experience during his one year employment in Hunan-Desta Co. in 1997-1998.

[9]"Škoda v Číne vyrobila uz milion aut", auto.cz, available at: http://www.auto.cz/skoda-cine-vyrobila-uz-milion-aut-77845, accessed in June 2014.

[10]"V Číne zacala jezdit první tramvaj v licenci Škoda", Novinky.cz, March 6, 2014, available at: http://www.novinky.cz/ekonomika/329577-v-cine-zacala-jezdit-prvni-tramvaj-v-licenci-skoda.html, accessed in June 2014.

[11]"Škoda Electric vyhrála dalsí tendr na dodávky zarízení pro čínské metro za více nez miliardu korun", *Skoda.cz,* available at: http://www.skoda.cz/cs/press-room/archiv-novinek/skoda-electric-vyhrala-dalsi-tendr-na-dodavky-zarizeni-pro-cinske-metro-za-vice-nez-miliardu-korun/, accessed in June 2014.

[12]See the PPF Group, Home Credit web pages, available at: http://www.ppf.cz/en/ppf-group-portfolio/banking/home-credit-group.html, accessed in June 2014.

received in China the first ever non-banking license of this kind in 2007, and established its headquarters in Tianjin city. In 2010 the Home Credit had over 150 000 customers in 180 sales centres in various Chinese big cities.[13] The turnout has never been published.

The future perspectives in mutual interest are in environmental technologies, aviation, nanotechnologies, and also in tourism, health care, and cultural exchange.

3.2. Chinese investments to the Czech Republic

The growing relevance of Chinese investments in post-communist Europe altogether with the PRC's diplomatic initiative made an impression on Prague. However, the Chinese investments inflow to the Czech Republic has remained far behind Czech expectations, even though the Czech Republic already became an attractive foreign direct investments (FDI) destination. After having improved its business environment by liberalizing and privatization programs and completing its economic stabilizing, having submitted its application for EU membership in 1996, the Czech Republic became a prominent foreign investment hub in the CEE. Since that time it enjoyed high volumes of foreign investment inflow, and it was one of the highest foreign direct investment (FDI) receivers in the whole post-communist Europe in terms of per capita FDI rates. The Czech Republic obviously ranked the top FDI receiver within the Visegrad group. [14]

Table 2. Stock of inward foreign direct investment per capita (USD)

	2006	**2007**	**2008**	**2009**	**2010**	**2011***	**2012****
Czech Republic	7,761	10,828	10,812	11,976	12,200	11,880	12,310
Slovakia	6,166	7,822	9,339	9,667	9,305	9,430	9,780
Hungary	5,558	5,965	6,555	6,779	7,026	7,490	8,270
Poland	3,298	4,680	4,311	4,853	5,261	5,000	5,120

Legend: * Estimates, ** Forecasts.

[13] "PPF má povolení poskytovat spotrebitelské úvery v Cíne", iDnes.cz, February 22, 2010, available at http://ekonomika.idnes.cz/ppf-ma-povoleni-poskytovat-spotrebitelske-uvery-v-cine-p2j-/ekoakcie.aspx?c=A100222_181522_ekonomika_fih, accessed in June 2014.

[14] The Economist Intelligence Unit, CzechInvest, March 2013, http://www.czechinvest.org/data/files/fs-02-inflow-of-fdi-66-en.pdf, accessed in November 2013.

However, the Chinese investments into Czech Republic for long time remained much lower than those from main Asian investors, such as Korean Republic, Japan, and Taiwan. The recent increase of Chinese investment share made the PRC the second biggest investor, after South Korea (365 mil. USD), the Chinese FDI in 2012 reached 77 million USD.[15] Rising rank of Chinese investments has been influenced by temporary decrease of Japanese share, and disappearance of Taiwan from a list of relevant Asian investors in Czech Republic statistics within last decade.

The PRC became the second biggest Asian investor in the Czech Republic, yet there is no direct outcome of the recent charm offensive of the PRC's economic diplomacy; the amount of Chinese FDI in 2013 figures in minus value (-62, 6 million USD, compared to South Korea: +339 million USD, including the fusion of the Korean Airways with the Czech Airlines in 2013).

The so far biggest Chinese investment project in Czech Republic before launching of the Warsaw Initiative is the Changhong Europe Electric, the LCD and LED TV manufacturer (approx. 330 million USD) placed in Nymburk Industrial Zone (central part of Czech Republic). Besides, there are numbers of small Chinese companies that sell consumer electronics in the Czech Republic. Shanghai Maling is an other relevant Chinese investor. Aquarius, food producer, which established the factory nearby Teplice (north of Czech Republic) in 2007 with the property 22,5 million USD. 10 percent of the production stays in the Czech Republic, the rest is exported to EU and USA. The IT giants Huawei a ZTE also opened their offices in Czech Republic, so far they employ about 350 of local staff, and their yearly turn over in the Czech market exceeded yearly 80 million USD in 2010. Huawei and ZTE cooperate with local mobile phone operators in the Czech Republic, and established also their own sale of mobile phones and smartphones.

There are negotiations held on establishing the first Czech-Chinese industrial zone in the North of Moravia, and also on establishing direct flights between Prague and Beijing. As no more details are yet available, the results are expected to be announced later this year.

[15]Czech FDI Statistics, Czech National Bank, http://www.cnb.cz/cs/statistika/platebni_bilance_stat/pzi/, accessed in November, 2013.

3.3. Financial assistance

There is no need for Chinese financial assistance and loans, the Czech Republic's rate of public debt and state budget deficit are not exceeding EU average levels, no such negotiations between the PRC and the Czech Republic have been launched. The Czech financial lobbies (mainly PPF group) conducted their own negotiations in China – with, as well as without – state level support. The topic of any financial assistance from China has never appeared in Czech media, business reviews, as well as academic discourse. The Czech basic concern in economic relations with the PRC is increasing the export flow to China, not to gain credit

4. Recent bilateral political relations

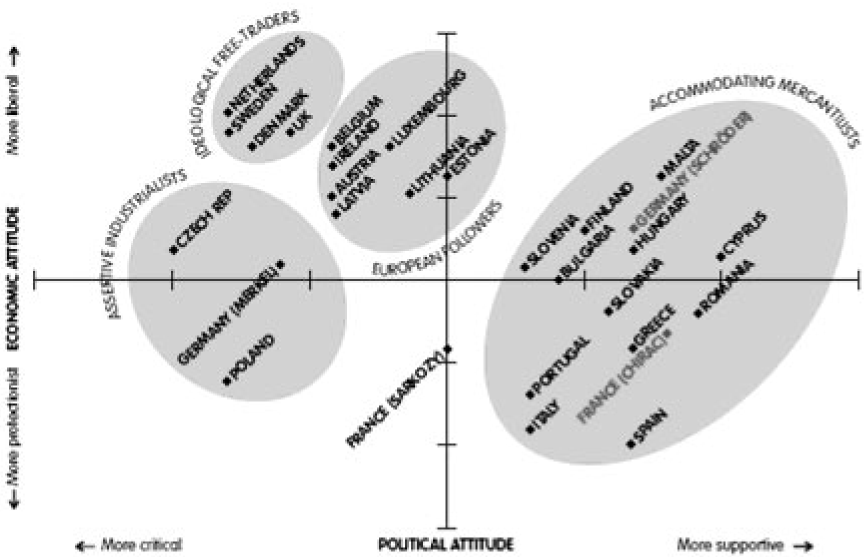
Czech political relations with China so far belonged to the coldest ones in the whole Europe. Even though the high level meetings in 1990-1991 ended with mutual agreement on not connecting the issue of different political systems and political ideas with business, the Chinese reactions to Czech repeated invitations to the Dalai Lama, Tibet exile representatives, as well as to prominent Chinese dissidents, and Taiwan's politicians resulted in cooling down relations with Prague. Surprisingly, there is no obvious evidence of sanctions and negative economic consequences on Czech investment and trade deals. The number of Dalai Lama's visits in Prague reached number eleven in 2013, as the Tibetan exile spiritual and political leader maintained cordial relations with president Havel, former Czech dissidents and several influential politicians, and also with Czech Tibet support groups and individual activists.

Czech political circles are divided on the issue of Chinese human rights record and the existence of non-democratic political system; on the other hand, there has been reached broad political consensus on the economic relevance of China for Czech economic prospects. Czech political elites do not support lifting arms embargo against PRC, yet they may consider to support any EU mainstream development towards redefining and updating the embargo conditions.

The Chinese political ties with Czech Republic have been so far limited, the first ever visit of the Chinese Prime Minister happened in 2005, one year after Czech accessing to the EU. The Chinese President never visited Prague; the previous Czech Foreign Minister Karel Schwarzenberg (the Czech conservative party 'TOP 09' leader) did not visit China during his six years lasting state service (2007-2013). Czech political ties with China were seriously deteriorated since 2009 when Prime Minister Jan Fischer met with the Dalai Lama in Prague in his official residence. No matter that the meeting was declared as the private visit, the Chinese reactions resulted into cooling down high-level bilateral contacts and imposed measures that reduced meetings between PRC governmental institutions and the Czech diplomatic staff on the central, as well as the regional level. Besides, the Czech Prime Minister did not receive official invitation to Shanghai Expo in 2012.

The Czech Republic has been displayed as the most assertive political partner of China within the whole EU, as show the two following research schemes of the ECFR that were consequently published in 2009 (EU Member States attitudes toward China),[16] and in 2011 (Member state attitudes to China after the crisis).[17] In the case of *figure 4.*, the author, who did not participate in that ECFR research, would rather place the Czech Republic even more forward in front of the politically assertive states, and the economic position of the Czech Republic would be more in line towards the group of "frustrated market-openers" (see *figure 3 an 4* below).

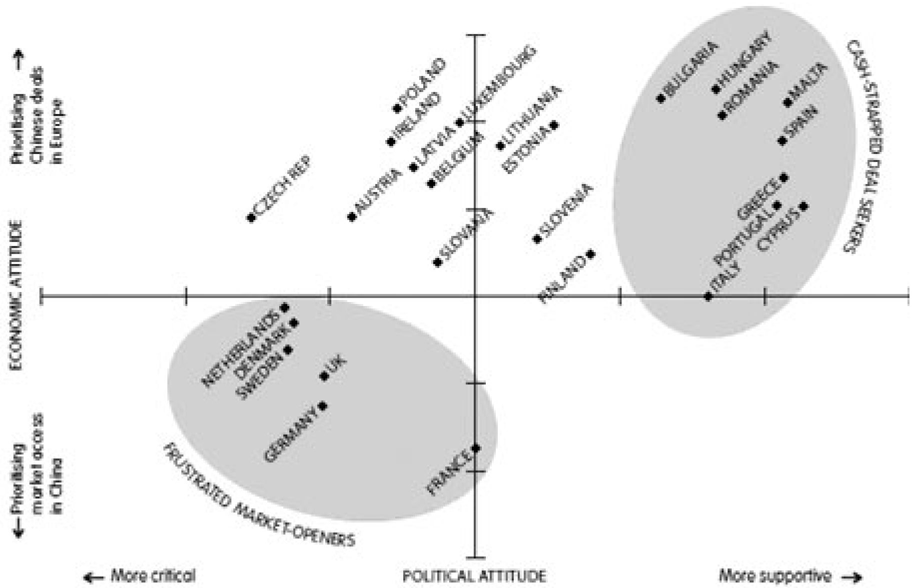
Figure 3. EU Member State attitudes towards China before the crisis



Source: Fox and Godement, 2009

[16]Fox, John and Godement, François (2009) "A Power Audit of EU-China Relations", European Council on Foreign Relations (ECFR), London.
[17]Godement, François, Parello-Plesner, Jonas and Richard, Alice (2011) "Scramble for Europe", ECFR paper, p. 9.

Figure 4. EU Member State attitudes towards China after the crisis



Source: Fox and Godement, 2011

4.1. The current development as a result of Czech domestic political changes and as an implementation of the Twelve Measures Program (2012)

Meanwhile, the Czech domestic political situation went through groundbreaking shift in 2013 since Mr. Milos Zeman assumed the office of the President after the first ever direct vote; and that he immediately indicated his support for improving the ties with China. The liberal-conservative Government led by premier Petr Necas resigned soon after that, and was temporarily replaced by President appointed Caretaker Government of Prime Minister Jirí Rusnok. The new cabinet was attended by President Zeman's close allies, mostly present or former Social Democratic Party members.

Also the new coalition government – which came to existence after the new parliamentary elections in 2014 – is led by the Social Democratic Party, and its foreign policy program includes significantly stronger priority for upgrading the ties with China. The current left-wing coalition perceives China as one of the top future economic priorities; President Zeman announced his plan to visit China in 2014, when he hosted the "Czech-Chinese Investment Forum" in Prague, in November 2013. The

Forum was attended by the Chairman of the Secretariat for 1+16 agenda, Mr. Song Tao.

There has been the obvious advancement happening in the Czech-Chinese political agenda since the autumn 2013, during the Bucharest 1+16 Summit the Czech Prime Minister Jiří Rusnok declared a "restart" of Czech-Chinese relations. The currently new Government, lead by new Prime Minister Bohuslav Sobotka, is expected to pay high attention to the relations with the PRC. Czech Foreign Minister Lubomír Zaorálek visited Beijing in April 2013, 15 years after the last Czech Foreign Minister arrival in Beijing. The Czech media coverage was unusually negative, having accused the Minister from 'betrayal of Tibet' by trading it for business, and diverting from the human rights policy style, which was introduced by former President Václav Havel.

5. Conclusion and recommendations

The Czech-Chinese political relations improved significantly since the second half of the year 2013 mainly due to the rapprochement based on 1+16 format, and as a result of internal political changes in the Czech Republic: the current left-wing Government coalition pays much stronger attention to the ties with the PRC than did the previous liberal-conservative cabinet. However, the "restart" of bilateral political agenda still has proven no specific economic outcome, except of official joint declarations, and new optimistic forecasts.

In terms of economic figures, i.e. trade and investment volumes, they did not soared alongside the enhancement of political ties, as if the Czech experience proved that political agenda may have only very limited influence on business affairs that follow their own specific ways, and can not be directed through the past time bilateral bureaucratic arrangements. This may undermine the currently culminating wave of optimism of the members of 1+16 format, or at least some of them. The Czech slowly emerging exports success – despite the previously cold political relations – shows chances how to break into the Chinese market even without the backing in Beijing high political circles. The liberalization of the Chinese economy and behaviour of economic actors favour for attractive bids, good quality and price, and ability to find proper partners. The Czech experience proves the relevance of domestic state support for business, as well as joining the other foreign partners (see the example of Skoda Auto and Volkswagen) for entering the difficult Chinese market.

As for the Warsaw Initiative project, which has been designed mainly for the Chinese purposes, it is not yet clear enough how far and to whom it may serve better. Even though the Chinese growing interest in CEE can be perceived as an unprecedented shift in the Chinese European policy, and it may help to upgrading the PRC's ties with the post-communist part of Europe, which carried the stigma of former communist Moscow´s satellites, and small countries that do not worth to pay high attention. There is the positive signal that points at China as the emerging new relevant investor. On the other hand, the V4 countries are aware of that China is so far scarcely a sufficient alternative to the EU internal economic space and political framework. Besides, China´s European policy of dividing the EU on the level of EU-PRC strategic partnership, on the level of individual bilateral relations with strong EU states (mainly Germany, France, UK), and also by opening up the new regional Eastern EU agenda 1+16, that all may lead to the worsening of Brussels-Beijing relations. There is growing diplomatic task for V4 countries to assuage the EU that their new 1+16 format with China does not aim at weakening the central-level EU position. The V4 states, on the other hand, represent comparatively cooperative and coordinated segment within the non-coherent group of 16 states.

The Czech specific experience calls for not missing the chance to attract China's economic attention, but not to expect too much. The organization and political format of the 1+16 still remains in the stage of formal meetings. The Czech experience also indicates the emerging issue of Chinese competition in traditional CEE industries, and increasing possibility of the rising domestic unemployment, which is not yet highlighted by the media, which is obsessed with the negative stereotypes in the field of human rights issue and Tibet.

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CHINESE FINANCIAL PRESENCE IN SLOVAKIA AND SLOVAK 'CHINA POLICY'[1]

Richard Q. Turcsányi[2]

1. Introduction

Not long time ago, China was considered in Slovakia as just another large country "somewhere there", perhaps not so important that we should pay too much of our attention to, as it did not have capacity to influence us significantly. This is natural for obvious geographical reasons and also contributing political factors throughout the history did not give Slovaks many opportunities to familiarize with China. Yet recently it seems that China is becoming more present in daily life and it is impossible to ignore any longer. Most Slovaks are already aware of the fact that large part of their basic consumption products (and not just that) originates in China – just about everything from their iPhones and laptops to socks and toys. While definitely lagging behind the trade volumes, Chinese investments to Slovakia kicked-off as well in the previous years. Interestingly, even more than the real numbers it is the discourse, which raises expectations that more Chinese money is about to come.

The major goals of this chapter are to present a thorough picture of Chinese financial presence in Slovakia, analyze its patterns and motivation; discuss Slovak government's approach to Sino-Slovak relations; and elaborate on public attitude towards China and Chinese presence in the country.

As for the description of Chinese financial presence, we will draw from already available resources as well as from specially generated data for this research. We will firstly consult statistical databases of National Bank of Slovakia on one hand and the Chinese Ministry of Commerce on the other hand. Secondly, we will present findings of other academic and professional publication dealing with Chinese investments in Europe.

[1] I would like to thank researchers of Institute of Asian Studies/CENAA - Filip Šebok, Šimon Drugda, Jakub Žaludko, and Veronika Končikova, for their contribution to this research. Furthermore, I would like to thank dr. Gabriela Pleschova, dr. Katarína Brocková, prof. Tomáš Dudáš, and dr. Martin Grančay for their willingness to share their research findings and opinions with me during this research.

[2] Richard Q. Turcsányi is a researcher of *Institute of Asian Studies/CENAA, Bratislava.*

Thirdly, we will present specific findings from (mainly) Slovak media about examples of Chinese investments in the country. Based on this we will get a basic picture about the Chinese financial activities in Slovakia. In particular, we shall answer the question of quantity and volume of Chinese FDI, its geographical and sectorial location within the country, historical dynamics and possible investment activities in the near future. In the following section of the text, Slovak government and public approaches towards China and Chinese investments will be briefly discussed as potential factors influencing Chinese investments. While not aiming at reaching a definite answer on the extent to which these factors contribute to the investment volumes, possible answers will be provided based on the data.

Throughout the text we will also draw from various interviews conducted during the research for this text with relevant academics, representatives of companies, government officials on both Slovak and Chinese side and others. These interviews were conducted predominantly in Bratislava between March and May 2014, but also data collected from previous interviews by the author in Brussels (autumn 2013) and Beijing (August 2013) will be consulted. The information from the interviews will be listed without explicit naming of the person and institution for possible unwanted consequences.

2. Chinese investments in Slovakia

2.1. Statistical information

There are various readily available official sources of information about the amount of inflow and stock of Chinese investments in Slovakia. In general, it can be observed, that differences exist between Chinese-origin data, provided by the Chinese Ministry of Commerce, and the data from the National Bank of Slovakia, which are generally in accordance with the information of Eurostat and other international statistical sources. It is difficult to observe a clear regularity between the two – when it comes to the flow, Chinese data show very moderate (positive) rates, while the Slovak data shows greater fluctuation in both positive and negative direction. While the data for the stock amount of Chinese investment both show positive numbers, they similarly diverge – while until 2011 Slovak data found more Chinese investments in the country than Chinese, in 2012 Chinese data show about three-fold increase while Slovak data show stagnation. In both cases there are no available Chinese data for the year 2013, the data of Slovak provenience show decrease of Chinese investments.

Figure1. Chinese investment flow to Slovakia

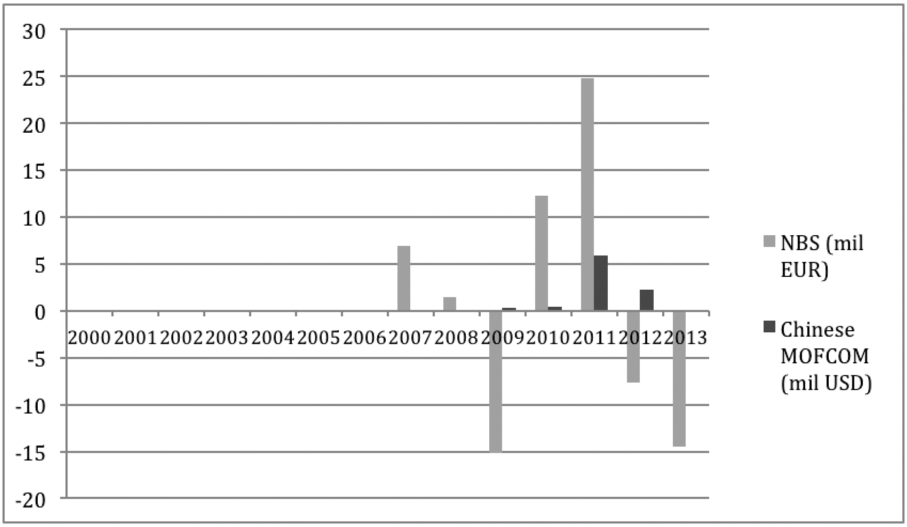
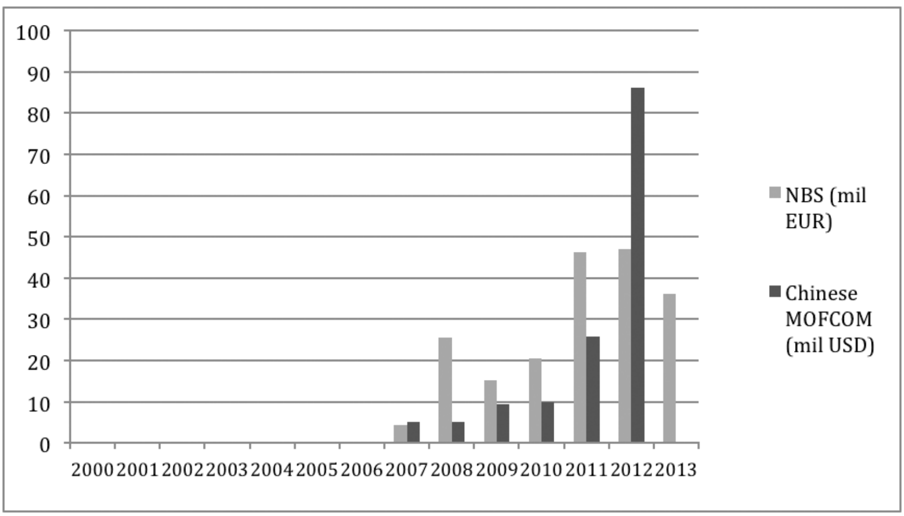


Figure 2. Chinese investment stock in Slovakia



When looking at the data provided by Heritage Foundation China Global Investment Tracker[3], which lists bigger Chinese investments

[3]http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map

worldwide (of more than 100 million USD), there is no single enlisted Chinese investment in Slovakia – neither realized, announced, nor failed. For comparison see the table listing the large investment in V4 countries.

Table 1. Chinese investment in Visegrad countries

Heritage Foundation – China Global Investment Tracker	Total volume (million USD)
Poland	1400
Hungary	4600
Czech Republic	100
Slovakia	0

Regarding the Chinese portfolio investments in Slovakia, after contacting the relevant body in the National Bank of Slovakia it was communicated to us, that such information is not available due to complexities of tracking the geographical source of the investor. Furthermore, we were informed, that China does not participate in the program of the IMF, which tries to gather these information by asking directly investor countries. Hence, it can be concluded, that no official statistics on Chinese portfolio investments would be available also in other countries, unless Chinese side decides to disclose this information. Similarly, Debt and Liquidity Management Agency (ARDAL), body responsible for trading with the Slovak government bonds, declined our request to disclose the amount of Chinese-bought and owned Slovak bonds. The only information we received was that there was an "interest" from the Asian investors in Slovak bonds and with the "high probability" it can be said that some of them are owned by Asian investors.

It can be suggested, that not much can be determined from the official statistical information about the sectorial and geographical distribution of Chinese investments within Slovakia. According to the information by the National Bank of Slovakia, up to 99 percent of Chinese acquired companies' shares are in the steel products and machineries.

2.2. Academic and professional publication

Using information from the Amadeus database[4] which unlike the upper mentioned statistical information based on balance of payment uses

[4]For this research we have used only information as cited in Euro-China Investments Report 2013-2014 by Antwerp Management School which, was based, among others, on the data from Amadeus database.

information from the companies' annual reports; we would be able to shed more light on the Chinese investments in Slovakia, as well as in other countries. Here, *Zhang et al* (2013, 66) finds Slovakia in rather unfavorable position of 'weak presence [of Chinese investments] with negative growth'. As for comparison, Hungary was listed as 'strong position with negative growth', Czech Republic as 'strong position with high growth' and Poland with 'weak presence with high growth'. According to this data, it can be observed that among the V4 countries, Slovakia is performing by far the worst when it comes to attracting the Chinese investments. In particular, there are almost no Chinese companies being active in Slovakia, which is strikingly in contrast with the number for Hungary and the Czech Republic which score among the countries with the highest number in whole Europe (6 percent respectively 7 percent of all European companies based there) (Zhang et al 2013, 29-30). While the cited report shows relevant numbers of Chinese direct investments in various fields such as knowledge intensive and less-knowledge intensive companies, high-tech and low-tech manufacturing or geographical distribution of assets and employment Europe-wide, it seems there are no tracked Chinese investments in Slovakia in neither of the categories.

Another finding of the report shows some correlation between the number of sister cities and the amount of investments. Here, Slovakia scores with three sister-cities connection with China only slightly better than the Czech Republic with the two links. In comparison, Hungary had 23 and Poland even 42 sister-cities links to China in 2013 (Zhang et al 2013, 54). In line with that, similar 'bleak' picture of Chinese investments in Slovakia is painted by the Rhodium Group research, which lists Slovakia as one of five countries[5] in the EU with zero total deals concluded, covering both greenfield projects and acquisitions (Hanemann and Rosen 2012, 96). *Clegg and Voss* (2012, 82) using statistics of Eurostat find that all Chinese investments in Slovakia in years 2006-2009 went into manufacturing, however, with most other detailed information was found to be 'confidential'.

Finally, the position of Slovakia compared to other EU countries when it comes to Chinese investments is demonstrated by the study of the European Chamber (2013, 39), surveying Chinese investors in the EU. Out of 69 (randomly picked and major) investors only four have invested in Slovakia – same number as for Finland, Ireland, Malta and Cyprus, and better than one in Estonia, Latvia, Lithuania, and Slovenia.

[5]Others are Estonia, Lithuania, Malta, and Slovenia.

2.3. Media information

As it was found, the official information and other available sources paint very basic picture about the amount of Chinese investments in Slovakia and there are almost no information about further distribution of these investments within the country. While perhaps some of the investment may have slipped the general picture for being too small and insignificant in the perspective of overall Chinese investments in Europe, there are also further statistical problems with the circumventing and investing via so-called tax-havens. This way, the original Chinese capital would not appear in the statistics as such due to previous different origin. Typical roles here are played by places such as Luxemburg, Hong Kong, British Virgin Islands and others. Further information can be thus obtained while examining directly local media and other informative sources.

Table 2. Realized investments[6]

Name	Volume	Employees	Year of invest-ment	Location	Characteristics & further information
Lenovo	5 million EUR	600 (in 2013 company announced it would fire about 100 people)[7]	2006	Bratislava	Lenovo Operation Center for Europe, Middle East, Africa (EMEA)[8] Center was moved from England and Lenovo chose the place reportedly due to high number of qualified and competitive work force and assistance of SARIO. Company did not receive government stimulus.[9]

[6]Some data for this table come from the presentation of Tomáš Dudáš (http://fmv.euba.sk/files/Slovak-China_investment.pdf)

[7]http://hn.hnonline.sk/lenovo-skrta-desiatky-miest-v-bratislave-551807

[8]http://www.webnoviny.sk/ekonomika/cinske-firmy-chcu-investovat-na-slov/513557-clanok.html?from=suggested_articles

[9]http://www.zive.sk/clanok/24366/lenovo-zriaduje-v-bratislave-administracne-centrum

Name	Volume	Employees	Year of invest-ment	Location	Characteristics & further information
SaarGummi [10]	Tens of millions EUR[11]	1000[12]	2011	Dolné Vestenice (Western Slovakia)	Leading production facility of the company's total 10 factories worldwide Production of sealants for the automotive industry and distributing to companies such as Wolkswagen. The SaarGummi group (German) was acquired by Chongqing Light Textile Industry Holding, public company owned by the municipal government of Chongqing.
ZVL Auto		160 (one third from the pre-crisis level)[13]	2007	Prešov (Eastern Slovakia)	Local company sold controlling stake (55 percent) to Chinese corporation TSB Bearings Group Co., Ltd. (45 percent owned by an Italian ZVL Italia S.p.A)[14] Automotive supplier, production of roller bearings.
Heiland Sinoc Automotive[15]		80	Slovakia)	Stupava (Western	Automobile accessories
Inalfa Roof Systems[16]		170-270	2011	Krakovany (Western Slovakia)	Beijing Hainachuan Automotive Parts Co Ltd (Hainachuan) owns 100 percent of the stock. Special roof windows for BMW and all Truck OEM's: Mercedes Benz, Scania, MAN, DAF, Iveco, Ford, Volvo and Renault Trucks. There are plans to build a new production facility at the same location.[17]

[10]http://www.saargummi.sk/
[11]http://hn.hnonline.sk/cinania-vleju-na-horne-ponitrie-miliony-482278
[12]https://is.muni.cz/th/401225/esf_m/Diplomova_praca_ic09t.txt
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[17]http://ekonomika.sme.sk/c/6257671/inalfa-roof-systems-planuje-na-slovensku-rozsirit-vyrobu.html

Name	**Volume**	**Employees**	**Year of invest-ment**	**Location**	**Characteristics & further information**
Mesnac European Research and Technical Centre		20	2009	Dubnica n. Váhom (Western Slovakia)	Research and development center focused on development of the tyre machinery and providing service of Mesnac machines in Europe and Middle East. Joint venture between Slovak company and Chinese Mesnac Qingdao Co. Ltd.
Huawei		25-49	2013	Bratislava	e-shop run by IRDistribution, a. s. [18]
IEE Sensing Slovakia	Several millions EUR	500[19]	2013	Kechnec (Eastern Slovakia)	Chinese company acquired the Luxembourg based company with its production facility in Slovakia. Chinese investor was chosen for its best business and strategic plan. Locals were very supportive and there are no signs of aversion towards the Chinese investor, quite the opposite. Yet, Chinese presence is in fact very limited still and no steps have been taken by the ownership.

Table 3. Announced and planned investments

Name	**Employees**	**Expected time**	**Location**	**Characteristics and further information**
FLAME shoes	150	2014	Kruzlov, Bardejov (Eastern Slovakia)	Production of rubber gumshoes using special EVA technology. 70 percent of production aimed at export markets. Main customers will be large chain markets such as Tesco, Kaufland, LIDL etc. Components and materials of about 84 percent of final products will be provided from China. Announced to invest 13,9 million euros in next 2 years

[18]http://mobilmania.azet.sk/clanok/93058/huawei-spusta-na-slovensku-svoj-oficialny-e-shop
[19]http://www.kechnec.sk/clanok/iee-sensing-slovakia

Name	Employees	Expected time	Location	Characteristics and further information
Slovak-Chinese WDL Airlines[20]		2013-2015	Bratislava	Opening of direct flight between Bratislava and Tianjin and possibly more Chinese cities. Purpose is both business and development of tourism. Joint venture, Chinese partner owning 60 percent of shares, Slovak 40 percent.
European China Centrum	240		Senec (Western Slovakia)	Business center aimed at Chinese companies and their distribution centers in Europe. Project was announced in 2011 and even up to 200 Chinese companies were expected to join, including establishing of branch of Bank of China. However, according to the newest information, project seems to be cancelled.
Zhuzhou	600		Trnava (Western Slovakia)	Acquisition of a Slovak located factory (among 9 others) from its German owner ZF Boge Friedrichshafen.[21] Automotive industry production.

To sum up, it can be observed in general, that there were practically no Chinese investments in Slovakia prior to 2007. This is perhaps the result of the combination of general patterns of Chinese outward investments, which only started to grow in 2000s and were primarily directed towards the developing countries and in particular countries rich in primary commodities. Later on and more recently, Chinese investors were becoming increasingly interested in investing in developed countries, allegedly with the aim of acquiring high-end technology and brand (European Chamber 2013). Slovakia is neither a 'typical' developed country with world-class technology or brands nor developing country abundant with primary materials. These combined with its landlocked geographical position and small size may be the prime reasons for belated and relatively modest start of Chinese investors' interest.

From 2007 on we can notice varying levels of Chinese investments in the country. While little can be asserted due to large fluctuation, we can notice the start of the investments even before the crisis. Consequently, the investments increased, yet it is difficult to establish whether this was

[20] http://spravy.pravda.sk/ekonomika/clanok/316123-slovensko-cinske-aerolinky-startuju-od-buduceho-roka/

[21] http://www.pluska.sk/spravy/ekonomika/cinania-kupuju-zavod-trnave-co-bude-so-600-zamestnancami.html

the result of the crisis or some other factors, which may include natural development of Chinese investors' increasingly available source and willingness to penetrate new destinations.

The definite number of Chinese investment is impossible to tell, but according to available sources it can be established that it is relatively modest – compared both to neighboring countries and to other investors in Slovakia, including Asian ones. In case also companies owned by a non-Chinese based but Chinese-owned subsidiary are counted, we can estimate current Chinese investments in Slovakia to be up to 100-200 million EUR. However, the significance of this number should not be exaggerated, as a single large Chinese investment can increase it by several times.

3. Slovak 'China policy'

China is, according to official position, regarded as a rising global power with which Slovakia wants to develop intense relations. Slovak government's interest in relations with China is viewed as mainly economic – both trade and investments, although also mentions security aspects are considered important due to the fact that China is aspiring to become a leading global power.[22]

After the independence of Slovakia in 1993, China was not the priority of the foreign policy of the country – and it has never become one. During the 1990s the debate about foreign policy was between the West (EU and NATO) and the East (Russia). Since 1998 elections the country reconfirmed its Western direction and integration with the EU and NATO became the foremost priorities of the foreign policy.

For these reasons, relations with China did not attract much interest and it was only in 2003 when during president Schuster's trip to China the new institutional framework of the bilateral relations was established after signing new agreements about cooperation. However, even during this time period there were relatively large numbers of state visits on both sides (Gregušová 2003). Economically, after 1989 country's export markets in the East collapsed and again the direction was reversed towards West, especially after the 1998. This year the new right-wing coalition and its market-oriented reform program led to the increase of Chinese imports and later on also in increased Slovak exports to China – mainly originating from the large foreign companies established in the country, typically automobile industry and others (Szikorová 2002).

[22]Interview at the MFA, Bratislava.

A look into major documents of Slovak foreign policy reveals an interesting feature – more recent documents seem to pay less attention to China than somewhat older documents. For instance, the recent mid-term strategy of foreign policy until 2015[23] does not mention China (or Asia in general) at all, and instead the document presents rather 'traditional' European and Atlantic approach. Similarly, there is only single and indirect mention of China in the government program declaration of 2012[24] as part of developing economic diplomacy towards Russia and other BRICS countries. The declaration of foreign policy direction for the year 2014[25] mentions EU-China strategic partnership; proposes possible development of relations with China in the platform of V4 and mentions the possibility of utilizing Chinese economic potential. Interestingly, it does not mention the newly developing 16+1 platform and even the three mentions of China are rather indirect, not too specific and listed among other countries in the same category. Similar document of 2013[26] mentions also vaguely goal of "intensifying the economic cooperation" with China and in 2012 document[27] we can read about "supporting of Slovak exports" to newly emerging markets.

Looking into timely more distant documents – and also those of the right-wing pre-2006 governments) – we can see more elaborated mentions of China-policy in the 2004 foreign policy directions.[28] Interestingly, though, we can read here also about the preference of being "cautious" in raising the sensitive issues such as Tibet, Taiwan and human rights. Similarly to the editions of subsequent years, the document explicitly mentions the principle of "One China" in its dealings with both China and Taiwan. In general, this document talks about the continuity in further relations but mentions economic cooperation with China as one of the major economic partner, with a comment that perhaps the project of the electric plant in Shantou may help in support of exporting opportunities

[23]https://www.mzv.sk/App/wcm/media.nsf/vw_ByID/ID_D9D5A743A2CE0A4FC12578950037A688_SK/$File/strategia%20ZP%20SR.pdf

[24]https://www.mzv.sk/App/wcm/media.nsf/vw_ByID/ID_D79B776034EEB158C12577850041BCAC_SK/$File/120511_programove_vyhlasenie_vlady_zahranicna_politika.pdf

[25]https://www.mzv.sk/App/wcm/media.nsf/vw_ByID/ID_CCDA4C778C8470ADC1257C7F0048B977_SK/$File/Zameranie%20zahrani%C4%8Dnej%20a%20eur%C3%B3pskej%20politiky%20Slovenskej%20republiky%20na%20rok%202014.pdf

[26]http://www.foreign.gov.sk/App/wcm/media.nsf/vw_ByID/ID_B86CC0812D7B5174C1257AF40036FD64_SK/$File/Zameranie%20ZP%20SR%202013.pdf

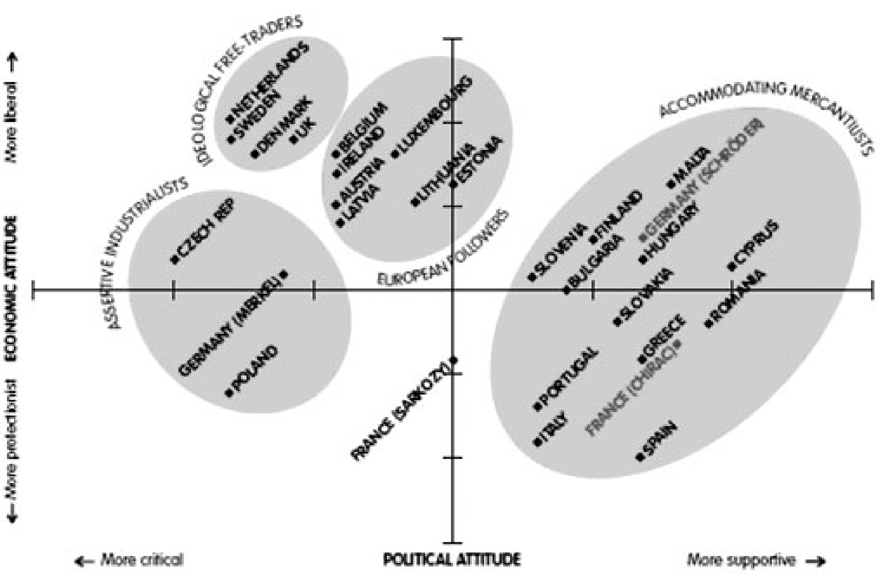
[27]https://www.mzv.sk/App/wcm/media.nsf/vw_ByID/ID_CD45CBC6506FFB16C1257A86002D75A5_SK/$File/120927_zemranie_ZP_2012.rtf

[28]http://www.foreign.gov.sk/App/wcm/media.nsf/vw_ByID/ID_F6DAB00E72E059DDC1257648004332A8_SK/$File/Zameranie_zahranicnej_politiky_na_rok_2004.pdf

of Slovak companies. Unlike the subsequent documents, this year foreign policy directions do not discuss the Chinese investments in Slovakia.

The defining feature of Slovak official foreign policy towards China may be that it is explicitly and practically unwilling to touch on "sensitive" political issues. As could be seen from the official positions, critical comments about China are rare and sensitive approach is supported. This position is perhaps best visible from the adjoined graph (Godemong and Fox, 2009). Here, Slovakia is listed among "Accommodating mercantilist", suggesting that the country is willing to sacrifice its value priorities for the sake of potential economic benefits, as it believes that there exists a link between the two. Interestingly, Slovakia's position here is close to the one of Hungary, while the Czech Republic and Poland are to be found among "Assertive Mercantilist", willing to stand strong vis-à-vis China in both political and economic sphere. Apparently, however, there must be other reasons for the good level of economic and other relations as the case of Hungary and Slovakia shows, where the two took similar political position but achieved very different outcomes when it comes to actual relations, especially measured by the investment volume.

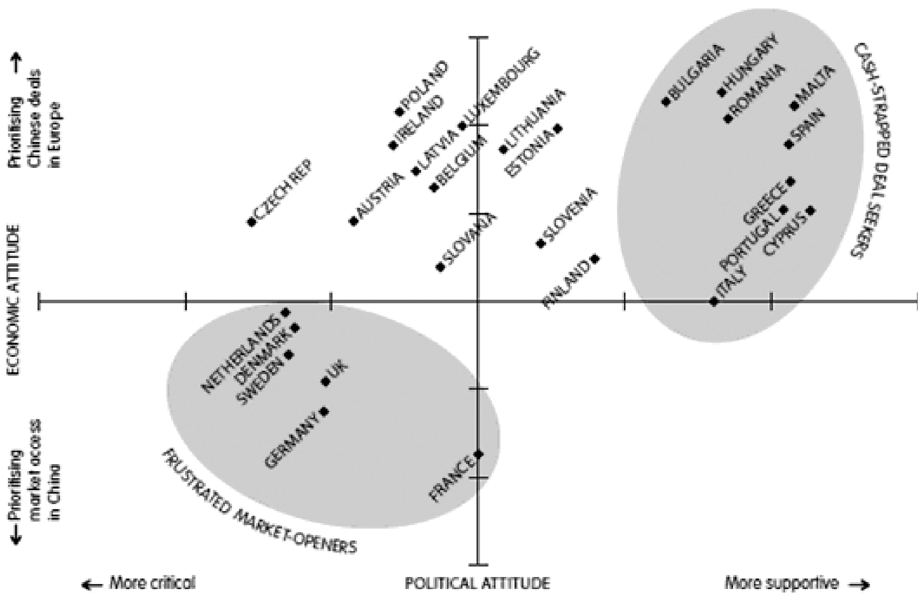
Figure 3. EU Member State attitudes towards China before the crisis



Source: Fox and Godement

After the crisis of 2008, ECFR looked again at the positions of the EU countries and there appeared to be new positions of many countries. Slovakia apparently underwent a significant shift and moved towards being much more critical towards China politically, while not changing its economic policy much. In comparison, Hungary seemed to keep its position of being politically accommodating, which is interpreted in the publication as the result of poor financial situation and little chance of exporting success thus an attempt (and necessity) to seek for Chinese investment in the country to help its troubled economy. In fact, Czech Republic, Poland and Slovakia are positioned in between the two suggested groups of countries (see Godemont; Parello-Plesner and Richard 2012).

Figure 4. EU Member State attitudes towards China after the crisis



Source: Fox and Godement

An easy explanation of the significant shift of the Slovak position vis-à-vis China would be the government political ideology. While in the time of the first publication (2008) the left-wing SMER-led coalition government was in its mid-term, in 2012 it was just the time of the second (and last) year of right-wing coalition government led by Iveta Radičová. This proposition was also confirmed by a number of respondents during interviews, especially on the Slovak side, that election results do influence

Slovak China-policy – right-wing parties tend to be for instance more pro-Taiwan and more willing to stand up on the political issues.

Yet, as was shown also from the political declarations, neither right-wing government are prepared to sacrifice their economic goals for the ideological and value-oriented goals and they are willing to restrain their positions, believing this influence economic outcomes of relations. Actually, it may be questioned to some extent whether Slovakia's position in the second table is in fact fully legitimized and perhaps a slight adjustment towards more accommodating position could be discussed.

4. Public sentiments towards China and Chinese presence in Slovakia

Slovak perception of China was elegantly summed up during one interview as "40 percent of the mixture of curiosity, mysticism, culture and such, and the rest coming from the perceived bad quality of Chinese products and of being a remaining communist country". While the official policy stance seems to position Slovakia into somewhat China-friendly position, there are also voices in the society, which take rather critical view on China and propose the foreign policy based on "values". The good example would be the document authored by *Ivan Kuhn* – "The Values Orientation of Slovak Foreign Policy"[29] – published by the Conservative institute of M. R. Štefánik in 2008. Here, it is stated that China and Cuba are the two countries with systematic and brutal breaches of human rights. The document goes on and criticizes then (and now) Prime Minister Robert Fico for failing to raise the human rights issues while meeting with Chinese officials.

As this research did not attempt primarily to study complexities of perception of China in Slovakia, only a pilot media study was conducted to back the findings coming from interviews and overall observation of the public and scholarly discourse. First of all, it can be asserted that the media picture of China is prevailingly negative. Topics which often appear in Slovak media are the problems of human rights, Tibet and Dalai Lama, rise of military and its threat, suppressing dissidents and various freedoms and so on. The positive news on the other hand talks about economic rise and technological development, culture and tourism possibilities. Differences can be observed between various media depending on their political orientation. The right-wing SME for example publishes more negative and less positive articles about China than left-wing Pravda.

[29]http://www.institute.sk/upload/pdf/Kuhn_studia.pdf

However, it can be observed, that the level of negative perception of China in Slovakia is not comparable to the Czech Republic. While similar ideas appear in both countries, it seems that public in the Czech Republic is more influenced by these and is more willing to act in this regard. Various human rights campaigns attract considerably more attention in the Czech Republic than in Slovakia, with the best examples being perhaps the Flag for Tibet[30], which has become a popular event in the Czech Republic where hundreds of town halls and other public institutions participate apart from individuals participate, unlike in Slovakia[31]. Another recent example would be the wide-spread Czech reaction to the foreign minister announcement respecting the Chinese territorial sovereignty[32]. Similar comments from Slovak politicians never attract comparable public and media reaction (compare Rudolf Fürst and Gabriela Pleschová 2010; Fürst 2005).

As for the impact of Slovak public opinion on current and possible Chinese investment, its role perhaps stays limited. First of all, there is little evidence that Chinese are aware of the complexities and/or would perceive Slovakia as exceptionally good/bad partner. Secondly, the evidence suggest that even the negative leaning media are positively oriented towards Chinese economic achievements and thus would welcome Chinese investments in Slovakia as another means to help developing the local economy. The interviewees from Chinese-owned companies in Slovakia confirm that both local authorities and public is welcoming Chinese investment.

5. Conclusions and policy recommendations: Perspectives and troubles of Sino-Slovak relations

First of all, it has to be admitted that it is unclear what the exact volume of Chinese investments in Slovakia is. However, what seems to be the case is that the level of Chinese investments in the country is relatively low – both compared to other foreign investors, even such as South Korea or Taiwan; and also in comparison with the neighboring recipient countries, especially Hungary. Those few Chinese investments which are present in Slovakia tend to locate interestingly either in Western or Eastern Slovakia, with the Central Slovakia being largely left out. Typical examples of Chinese investments are acquisitions of local or foreign-owned locally based production facilities, especially in the automotive industry. Though,

[30]http://www.ceskatelevize.cz/ct24/domaci/265733-vlajku-pro-tibet-vyvesily-obce-napric-ceskem/
[31]http://www.vlajkapretibet.sk/
[32]http://zpravy.idnes.cz/zaoralek-ujistil-cinu-ze-cesko-samostatnost-tibetu-nepodporuje-pxa-/zahranicni.aspx?c=A140429_073059_zahranicni_jpl

there are also some Chinese greenfield investments in service or research sectors. Some Chinese investments would probably not appear in the official statistics and therefore we expect that more Chinese investment would be in the country than the official data would suggest – with the approximated amount possibly reaching 100-200 millions EUR.

Different answers can be given to why there is so little Chinese investment in Slovakia. Political issues such as being 'China-friendly' or not would probably not play too large a role as Slovakia takes traditionally rather restrained position vis-à-vis China and avoids causing controversies. Similarly, public opinion towards China is not perceived to significantly impact the volume of Chinese investments. While there are critical voices in Slovakia on China, these are comparably lower than in the Czech Republic and also are not perceived so by Chinese, themselves. While media discourse may be regarded as prevailingly negative towards China in general, the positive news in fact mentions the Chinese investments and other economic and technologic successes of China. These are also the responses we got from the companies owned by Chinese capital about reactions from local officials and people.

A possible answer for little Chinese investments in Slovakia would be mere geographical factors. Slovakia has the smallest economy and size among the Visegrad countries and is also the one with the shortest border with the Western countries (in this case Austria). With the exception of Bratislava region and Western Slovakia, the rest of the country is not located conveniently in the vicinity of Western markets, which may be regarded as the target for the potential Chinese investors aiming at production of consumer products. In fact, even the transport linkages to other V4 countries are not very smooth, which is especially truth for the Northern and Eastern regions of the country and connections with Poland.

There have been discussions about possible large-scale infrastructure projects where Chinese state-owned companies could take part in, with examples such as the construction of highways, bridges, airport terminals etc. However, while there have been signs about negotiations taking place (for example during the visit of Hu Jintao in 2009); none of these projects have been seriously discussed and appeared in public debate. Reasons again may be found in relatively small scale for Chinese investments (as was revealed during an interview in Bratislava in April 2014, while China seeks for investments starting at 100 million euros, largest projects in Slovakia are of about a third size). Another reason may be political – it was the left-wing government which supported the so-called 'Public Partnership Projects' (PPP) as the means to build large infrastructure projects with the right-wing parties strongly criticizing the idea and instead trying to build it using the EU funds. It may be possible that the pre-arranged projects from the 2006-2010 left-wing government were cancelled during the short right-wing intermezzo in 2010-2012 and were not renewed after another change of government in 2012.

Other reasons for not materializing of any of the larger projects cited by some interviewees were inefficiencies or even lack of will on the Slovak side to engage in the projects. Restricted visa regime and allegedly low rate of accepted visa proposal by the Slovak embassy in Beijing are yet another example of allegations about the inefficient policies or perhaps unwilling or nor serious government. As an example, it was mentioned that the recently announced high-speed railway project connecting Bucharest and Budapest could terminate in Bratislava, yet for the lack of will did not. Similarly, corruption in Slovakia was cited as another factor why Chinese investors lose their interest in proceeding with their projects in Slovakia.

On the other hand, it may be opined that Chinese investors seek partnership and state guarantees which are not common under 'normal' business circumstances and which are not compatible with the EU and OECD rules and regulations for fair competition. The example of the failed highway project in Poland is perhaps the best demonstration of sometimes diverging expectations between Chinese investors and the host country and it may have contributed to the absence of Chinese large-scale infrastructure investments in Slovakia.

As for the future prospects of Chinese investments in Slovakia, it can be argued and it is widely accepted that there will be a steady increase, yet perhaps not too rapid. Growing Chinese investments appetite and free capital will generally mean that most world regions will be experiencing increase of Chinese financial presence. This is also in accordance with the fact that China is increasingly becoming involved in global affairs and it wants to develop stable and positive relations with all the world countries. The importance of Slovakia is here twofold – being the member country of the EU and NATO and thus participating in its decision making, but also being the bordering region with Ukraine and Eastern Europe. In fact, Slovakia's position within the Central European region could be perceived as a convenient hub, which could connect states in this part of Europe. However, at the moment, the missing connection lines might make Slovakia more like a barrier rather than a hub. With the growing Chinese interest in forging relations with the Central and Eastern European countries, the interest in investing in Slovakia may further increase and it may target these infrastructure projects.

Slovakia could benefit from its location as the core of Visegrad region[33] if a form of common investment policy of the four countries is negotiated – yet this seems quite unlikely now. Without proper infrastructure connecting for example Poland with Hungary via Slovakia and better links between Czech Republic, Poland and Slovakia, all countries can be expected to continue with their individual economic policies and trying to attract investors (from as many places as possible) and secure customer markets (mostly in the West) alone.

Other factors, which could increase Chinese investments would include obvious intra-state ones – such as tax policies, incentives but also and in particular general entrepreneurial and investment environment of the country. Here perhaps Slovakia can have two advantages to build on – it has the lowest trade deficit with China from the V4 countries and relatively strong export position, and secondly, which is also the reason for the latter – it has become a leading automotive production location. In fact, even today we can see most Chinese investors entering sectors connected with industrial production and in particular related to production of cars. Keeping the major automotive plants is essential for further investments and possible entrance of another major production facility would further increase this advantage of the country.

Finally, other obvious policies would almost certainly lead to the desired situation of attracting the Chinese investment of good quality – tackling the corruption, improving the visa-regime, opening the direct flight-connection between Slovakia and China, improving China-knowledge among professionals dealing with Slovak foreign policy and Slovak economic diplomacy and general public information about the foreign country, its culture, language, etc.

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[33]It is in fact the only Visegrad country bordering all the remaining three.

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CHINA'S PUBLIC DIPLOMACY TOWARD VISEGRAD COUNTRIES: BEYOND ECONOMIC INFLUENCE?

Song Lilei[1]

1. Introduction

Chinese public diplomacy toward Visegrad countries means all diplomatic activities led by the Chinese government and participated by the Chinese public, in order to promote China's image and make the public in Visegrad countries understand China. The article reviews the roadmap China formulates for its public diplomacy toward Visegrad countries, explores the development of China's public diplomacy toward Visegrad countries in recent years and gets the conclusion that albeit their bilateral relationship has been strengthened since 2012, China should have a more initiative public diplomacy toward these countries. After all, the presence of China's soft power in Visegrad countries aims to expand and deepen V4's relations with China, for political and economic interests. From this point of view, there is quite a long way to go.

2. The roadmap of China's public diplomacy toward Visegrad countries

Visegard group (V4) is a loose organization of four Central European states, including Czech Republic, Hungary, Poland and Slovakia, for the purposes of furthering their European integration as well as advancing their military, economic and energy cooperation with one another.[2] The foundation of Visegard group in 1991 was intended to build its own political identity interested in democratic transition and strengthening civil society after the fall of communism with systemic change. After joining the EU in 2004, the members of the Visegrad group had to find

[1] Song Lilei is an associate professor at the Institute of Central and Eastern Europe Studies, Tongji University, Shanghai.

[2] Chinese did not pay too much attention to Visegard group before 2012. Through literature review on Chinese academic journals online, there are around 10 papers focusing on this topic, see for example Jiang Li, "Evolution and Prospects of Visegrad Group Cooperation", *Russian,Central Asian & East European Studies, issue* 4, 2010 pp 27-34 or "Impact of the euro zone debt crisis on Visegrad Group", *Russian,Central Asian & East European Studies, issue* 11, 2011. pp 45-50.

new aims where they could make a specialized and visible imprint on EU policies. The geographic proximity helps the V4's members to build their own positions within the EU as well as shape its political agenda. As new EU Member States speak in one voice is thus a good opportunity to increase their influence in the EU.

The Visegrad countries did not have a unified China policy until 2011, when the V4 countries introduced themselves together in Beijing, with a common offering of tourism possibility. Chinese academics began to inquire about how it might be possible to cooperate in a 'V4 plus China' framework.[3] It has been regarded as a sub-regional cooperation platform. In the process of China's pushing the pragmatic cooperation with Central and Eastern Europe (CEE) China tries to use "regional approach" to describe relations with this region which is relatively neglected in China's strategy toward Europe after their transition process following the end of the cold war. [4]

Though not on the same level, all Visegard countries have institutionalized their relations with China. Poland, as the largest economy in V4, appeared as the leader when dealing with China, as both sides signed strategic partnership agreement in 2011. Hungary already elevated bilateral relations with China to cooperative partnership in 2003 and the country's so called Strategy of Eastern Opening makes it the most active partner for China in Central Europe. The Czech Republic's economy is the group's second largest and its relationship with China moved toward a more pragmatic relation recently, as a result the president of the Czech Republic visited China in October 2014. However, within V4, Czech is the most persistent and demanding country on the issue of human rights and Tibet. Slovakia has been developing trade and economic relations with China since 1996. The main aim here is to reduce trade deficit, attract Chinese investment and send investors to Chinese market.

Whether China's influence in Visegard countries goes beyond economic relations? Slovenia believes that the political goals of the development of relations with China should be subordinated to economic goals, and

[3]For example, "Visegrad Group plus Japan" mechanism was formed in 2004. It is a dialogue and coordinated mechanism between the four Central European countries (Poland, Hungary, Czech and Slovakia) and Japan. The bilateral cooperation includes politics, economy, military, culture, society, diplomacy, etc.

[4]China clearly defines the CEE as a region which includes five Central European countries (Poland, Hungary, Czech Republic, Slovakia), three Baltic States (Estonia, Latvia and Lithuania) and nine Southeast European countries (Slovenia, Bulgaria, Rumania, Serbia, Montenegro, Croatia, Macedonia, Bosnia and Herzegovina and Albania).

thinks that the good political relations will bring economic gains (Fox-Godement, 2009, p. 26). Poland also rethinks policies towards China that should be reconsidered. Poland must be smart enough to recognize China's current importance, abandoning excessive emotional and stereotypes understanding on China (Godlewski, 2014).

It should be highlighted that China and V4 countries had established diplomatic relations as early as 1949 and both sides stress the importance of traditional friendship and held many celebrations for the 65th years anniversary in 2014. Affected by changes in the international situation, bilateral relations between China and Central European countries also experienced a relatively tortuous development process. After the end of the Cold War, all Central European countries have proposed a "turning to the West" strategy, and their priority object were to join NATO and the European Union. It seems that the process of Europeanization of V4 countries is irreversible and these countries have already established European norms to understand the world. Despite a marginal presence of Euroscepticism in V4 countries to European integration process (Pelinka, 2009, p 18), they are getting more and more Euro-enthusiastic. They already became militarily in line with the NATO and politically close to the EU. Against this background, while most V4 countries are in favor of economic cooperation with China, they are suspicious of China's political clout and rising military capacities.

Chinese scholars dealing with how to enhance China's international image began to focus on China's public diplomacy from 2003, though there were no consensus on China's public diplomatic strategy until Chinese President Hu Jintao advocated public diplomacy for the first time. [5] Hu urged Chinese diplomats to promote China's political influence, its economic competitiveness and more attractive image in the coming

[5]In recent years, politics and academic circles made a number of policy recommendations for the improvement of the public diplomacy system of China, for example, to upgrade public diplomacy to a strategic height, to play down the role of government, to launch public diplomacy by multiple actors and make policy meeting. See Zhao *Qizheng, Gonggong Waijiao Yu Kua Wenhua Jiaoliu,* Public Diplomacy and Cross Culture Communications, Beijing: Renmin University of China Publisher, 2011; Han Fangming ed., Gonggong Waijiao Gailun, *Introduction to Public Diplomacy,* Beijing: Peking University Press, 2011; Zhao Kejin, Ruanzhan Shidai de Zhongmei Gonggong Waijiao, *The Public Diplomacy Between China and the U.S*, Beijing: The Current Affairs Publisher, 2011; Zhao Kejin, *Public Diplomacy: Theory and Practice,* Shanghai: Lexicographical Publishing House, 2007; Fei Gao, Public Diplomacy: definition, formation conditions and its functions, *Diplomatic Review,* Issue 3, 2005;Kejin Zhao, The Rise of American Public Diplomacy, *Fudan Journal,* Issue 3, 2003; Xiaosong Tang, Yiwei Wang, From "offensive" to "defensive"-the role change of American public diplomacy, *American Studies Quarterly,* Issue 3, 2003.

years (Wu, 2009). This statement is considered as the basic direction for China's public diplomacy. Since then, some high-level officials such as State Councilor in charge of foreign affairs, Mr. Dai Bingguo and Foreign Minister of China, Mr. Yang Jiechi also emphasized the necessity for China to utilize public diplomacy.[6] As the importance of public diplomacy were strengthened by more and more high-level Chinese leaders in recent years, the aim to enhance China's international voice and promote a good image through public diplomacy has become an important part of China's foreign strategy. The Public Diplomacy Office was established in October 2009 to systemically design public diplomacy and coordinate with the Ministry of Foreign Affairs, overseas Chinese embassies and consulates on this issue. Meanwhile, the 18th CPC National Congress proclaimed China would effectively promote public and humanistic diplomacy.[7] Since then, China's public diplomacy is implemented in other countries too.[8]

Europe is one of the most concerned regions to develop public and cultural diplomacy as some Chinese scholars have suggested (Zhongping, 2011, p 5). Since EU strategists and policy makers are re-evaluating the Sino-EU relationship, this is a key moment for China and Europe to build strategic cooperative partnership, therefore China must have a greater impact in its public diplomacy on Europe. As a leader of international public opinion, Europe often dictates the Western view of China. Therefore, China has invested heavily in its public diplomacy toward Europe in recent years.[9] The obstacles to smooth Sino-European relations are not

[6] Yang Jiechi, Nuli Kaichuang Zhongguo Tese Gonggong Waijiao Xin Jumian, Try to Open New Horizon of China's Public Diplomacy, *Qiushi,* Issue 4, 2011, pp. 43-46; Qiu Yuanping, Zhongguo De Heping Fazhan Yu Gonggong Waijiao, China's Peaceful Development and Public Diplomacy, *Guoji Wenti Yanjiu,* Issue 6, 2010, pp. 1-3.

[7] Hu Jintao, Report to the 18th National Congress of the Communist Parties of China, November 8, 2012, http://www.china.org.cn/china/18th_cpc_congress/2012-11/16/content_27137540

[8] Brief and comprehensive overviews on the development of Public Diplomacy Studies, models, concepts and challenges can be found in Gilboa, Eytan: Searching for a Theory of Public Diplomacy. In: The ANNALS of the American Academy of Political and Social Science 2008, 616, pp. 55-77, a historical overview of "modern public diplomacy" is given by Gregory, Bruce: Public Diplomacy: Sunrise of an Academic Field. In: The ANNALS of the American Academy of Political and Social Science 2008, 616, pp. 274-290.

[9] On the development of China's Public Diplomacy to Europe, see Jamie Otero Roth, "China Discovers Public Diplomacy", WP24/2007-1/6/2007,Real Instituto Elcano, pp.1-14., Bolewski, Wilfried., "Cultural Impact on China's New Diplomacy", *The Whitehead Journal of Diplomacy and International Relations,* 2008, volume 9, issue 2, pp. 83-96; Ingrid d'Hooghe, "The Limits of China's Soft Power in Europe: Beijing's Public Diplomacy Puzzle", *Clingendael Diplomacy Papers,* No.25, January 2010, pp. 1-42;Song Lilei and Wang Yiwei, Chinese public Diplomacy toward Europe: Goals, progress and Challenges, *Contemporary International Relations* Sept/Oct 2011, pp. 8-24.

others but ideological and cognitive ones. The cognitive differences in soft power have important influence on many aspects of China-EU relations (Chen-Song, 2012, p 62). To break through these, China has launched series of public diplomacy activities toward Europe (Song-Wang, 2011, p 8). But the effectiveness is not as what we anticipate: in some cases, its public diplomacy efforts have instead aroused new conflicts and Chinese soft power has become viewed as a threat (Follath, 2010). Chinese government is now rethinking of how to strengthen the effectiveness of China's public diplomacy in Europe. At the 14th EU-China Summit, held in Beijing in February 2012, the European Commission and Chinese leaders agreed on establishing the EU-China High-Level People-to-People Dialogue (HPPD) as the third pillar of EU-China relations. This initiative mirrors the increasing importance of public diplomacy to Europe by providing scholarships and practical politics.

With some exceptions, Chinese scholars think that public diplomacy toward Central and Eastern Europe may be the breaking point of the Chinese public diplomacy in Europe.[10] It is regarded as a new stage in the relations between China and CEE. Premier Wen Jiabao also appealed for closer cultural and people-to-people exchanges, especially for those between youth and between media.[11] The secretary-general of the Secretariat for Central and Eastern Europe as well as China's vice Foreign Minister Song Tao, said that China and CEE countries have steadily pushed forward pragmatic cooperation in the fields of economy, culture, education, tourism and others. Strengthening cooperation between China and Central and Eastern European countries is conducive to realize a more comprehensive and balanced China-Europe relationship, as well as overcome the current difficulties in Europe.[12]

The increasing importance of China in the foreign economic and trade agenda of Visegrad member countries provides opportunities for China

[10]Chinese scholars deal with the development or political problems of the region in rather general theoretical analyses. These types of different country studies and comparative studies are not very sufficient. Many of them focus on the historical lessons of the fall of the Soviet Union and Eastern Europe, with a general introduction on the transformation and restructuring of the region. The recent researches are more concentrated on the revival of left-wing forces in the region after the drastic changes in 1989. See Kong Tianping: "Review of Chinese Research on Central and Eastern Europe 2001-2010" http://ies.cass.cn/Article/cbw/zdogj/201107/4109.asp.

[11]In Chinese Premier Wen Jiabao's speech at a Chinese and CEE leaders' meeting in Warsaw, Poland, April 26, 2012 he put forward a four-point proposal on further promoting relations and deepening cooperation between China and Central and Eastern European countries, http://news.xinhuanet.com/english/china/2012-04/27/c_123044233.htm

[12]China to enhance cooperation with Central and Eastern Europe, http://news.xinhuanet.com/english/china/2012-09/06/c_131832154.htm.

to strengthen soft power tactics in this region. China's public diplomacy toward V4 countries is part of the strategy towards Central and Eastern Europe, which already has a clear roadmap, however, it is important to implement it as well as to channel it into real projects. The long-term goal of Chinese public diplomacy is to constructively build a good image among Central and Eastern European public; the medium-term goal is to cooperatively build a better Sino-EU strategic partnership through making CEE countries the "bridge" between China and the European Union; the short-term goal is to defensively counteract "China-bashing" sentiments in the CEE media, which sees China as a threat to Europe. The most common misunderstanding is that China has been pursuing a strategy for a long time that clearly asserts its own interests. The main criteria is the successful export of its goods, protection of its own domestic market, access to Western high technology and weapons through purchase, getting the world to accept the unitary, single China, and silencing or at least dividing uniform criticism on human rights (Hamberger, 2013, pp 77-78).

3. Development of China's public diplomacy toward Visegrad Countries

Chinese public diplomacy toward Visegrad countries refers to all diplomacy activities led by the Chinese government, participated by the Chinese public and targeting the public in V4 countries in order to promote China's image and enhance their understanding of China. To realize these goals China has lunched a series of public diplomacy activities toward Visegard countries. Many government agencies including the Ministry of Foreign Affairs, the Ministry of Commerce, the Ministry of Education, the Ministry of Culture, the Information Office of State Council, some other chambers of the Central government, companies, media, and think tanks have been tried to create some programs related to the topic.[13] The practices of China's public diplomacy can be analyzed from perspectives of politics, economics, and public perception.

3.1. China's public diplomacy in political level

Politically, Chinese public diplomacy aims to help Visegard Countries to understand China's policies, practices and domestic concerns. There are four approaches to address this goal. The first is the *government's public relations activities*, especially communication between Chinese leaders

[13] During the 11th Foreign Diplomats Conference in 2009, then Chinese President Hu Jintao only briefly noted the need to improve public diplomacy instead of accrediting it into a particular department, many departments assumed public diplomacy to be one of their tasks.

and the public in V4 countries. In recent years, public diplomacy activities, such as speeches in universities, media interviews, events with local employees, banquets with celebrity guests, visits to tourist attractions, etc. have been increasingly packed into the schedules of Chinese leaders' visits to V4 countries. This promotion of China by Chinese leaders on unofficial occasions has breathed new life into Chinese public diplomacy. In 2012, Chinese Premier Wen Jiabao visited the Auschwitz concentration camp memorial, mourning victims of World War II by laying a wreath, during his visit in Poland. Wen wrote the followings in the guest book: "people can't embrace a beautiful future without understanding history". Invited by the Polish Prime Minister Donald Tusk, Premier Wen Jiabao also gave a speech to Polish television.[14] Former Vice Premier Li Keqiang, accompanied by Hungarian Deputy Prime Minister Tibor Navracsics, visited the Chinese-Hungarian Bilingual School in Budapest, Hungary on April 30, 2012. Li watched the performances of students and youths, together with the teachers, students and their parents. After the performance, Li Keqiang went onto the stage and delivered a warm speech. He said that the bilingual school and students would contribute to a new chapter in the history of the relationship between China and Hungary. Finally, Li presented Chinese language learning CDs to the principal of the school and took a group photo with the teachers and students. Li also proposed to invite the students to participate in martial arts performance to visit the Shaolin Temple in China.[15] These exchanges have displayed the affability of the Chinese leaders to Visegard countries.

The second approach is *media diplomacy*. The press, publishing, radio, television, movies, the Internet, etc. have all been widely employed by China to promote its achievements in the period of 'reform and opening-up', to improve its national image, and to enhance the understanding of Central European countries and change their negative perceptions of China. China Radio Imitational (CRI) has launched new channels targeted at Central Europe in local languages, including Czech, Hungarian and Polish.[16] And at the same time the CRI Online website – which introduces various (political, economic and cultural) aspects of China – are using 48 languages, including the vast majority of Central and Eastern European languages such as Polish, Czech, Hungarian, etc.[17] In addition, the

[14]"Chinese premier visits Auschwitz concentration camp memorial in south Poland", http://news.xinhuanet.com/english/china/2012-04/28/c_123050216.htm
[15]"Vice Premier Li Keqiang Visits the Chinese-Hungarian Bilingual School", http://www.fmprc.gov.cn/eng/wjb/zzjg/xos/gjlb/3175/3177/t928664.htm
[16]"Description of China Radio Imitational (CRI)", web, March 26, 2013, http://gb.cri.cn/cri/gk.htm
[17]"China Radio Imitational (CRI)", web, March 26, 2013, http://english.cri.cn/

Chinese central government and the local government often held press conferences, government spokesmen and government officials often accept foreign media interviews, which are also an important part of China's public diplomacy in Europe. In 2011, according to incomplete statistics, China's ambassadors and senior diplomats have gave speech more than 2300 times, accepted interviews more than 3600 times and published articles about a thousand times in their countries of residence. They held various public diplomatic activities more than 3600 times, released news on their embassy websites over 14000 times. All of these activities have showed China's development achievements, declared China's major policies, told the true, vivid "China story" and enhanced mutual trust.[18] On all the websites of the embassies of China in European countries, there are Chinese-English bilingual website link such as "learn a real Sinkiang", "Tibet's Past and Present" which explains China's internal affairs concerned by Europeans. In order to celebrate the 65th year anniversary of bilateral relations between China and V4 countries, Chinese Ambassador in Slovakia gave an interview to Slovak News Agency.[19] He also published the article "Deepening Traditional Friendship and Promoting Practical Cooperation" in the Nouvelles d'Europe (Central and Eastern Europe Edition).[20] At the same time, one of Hungary's largest daily newspaper "Hungarian Nation" (Magyar Nemzet) published the article "China's new journey, a new opportunity for the world," written by China's Ambassador Xiaoqian. The article is about the Chinese Communist Party's 18th National People's Congress.[21]

China's public diplomacy not only focuses on "going out", but also notices the important role of "bringing in". In order to make Central and Eastern Europeans better understand China's development and changes. International Liaison Department of the CPC Central Committee organized seventeen media reporters from China International Radio and Television Correspondents to visit Shanghai, Guizhou, Shandong, Beijing and other places of China, to make an all round and in-depth coverage of China's

[18]"A spokesman from the Foreign Ministry, Director-General of Information Department Qin Gang talk about public diplomacy", web, March 26, 2013, http://gb.cri.cn/27824/2012/04/11/5187s3638261_1.htm

[19]Ambassador Pan Weifang accepted Slovakia TV network interview", http://china.huanqiu.com/News/fmprc/2014-10/5180389.html

[20]"Ambassador to Slovakia Pan Weifang Writes an Article for Nouvelles d'Europe (Central and Eastern Europe Edition)", http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/zwbd_665378/t1137314.shtml

[21]"Hungarian media published article by the Ambassador Xiaoqian about the 18th Party Congress", http://www.mfa.gov.cn/mfa_chn/ziliao_611306/zt_611380/dnzt_611382/xysbd/t999507.shtml

economy, society and people's livelihood.[22] According to the invitation by China-CEE Cooperation Secretariat, 46 journalist from CEE visited Beijing for 8 days, they also attended a symposium organized by the association of China's public diplomacy and observed the Chinese Foreign Ministry's regular press conference and discussed with the Foreign Ministry's Public Diplomacy Advisory Committee. [23]

The third approach is *diplomatic activities* sponsored by the Chinese government, conducted mainly by Chinese elites, such as discussions and exchanges of views between parliaments, civilian groups, think tanks, etc. Over the past decade, political parties of China and Eastern European countries exchange in high-level frequently.[24] The National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) are the main players in Chinese parliamentary diplomacy. The Chinese Communist Party maintained bilateral exchanges and cooperation with more than 50 political parties and parliamentary groups of the 16 countries of Central and Eastern Europe in different way. Until 2013, China-EU High-Level Political Parties Forum has been held respectively in Beijing and Brussels four times. About dozens of Party leaders from Progressive Alliance of Socialists and Democrats, European People's Party and Greens/European Free Alliance (Greens/EFA) are active participants. [25] In addition, China has strengthened multilateral communications with Visegard countries, such as in the platform of Asia-Europe Parliamentary Partnership Meeting (ASEP) and other international and regional parliamentary organizations. For example, former Vice Minister of the International Department of the CPC Central Committee Zhang Zhijun went to Poland to attend the General Assembly of the European People's Party in 2009. During the meeting, the two sides made in-depth exchange of views about advancing Polish-Chinese relations and other common concern issues.

In civil group diplomacy, the European Federation of Chinese Organizations (EFOCO) is the major player. It is the largest and only

[22]"The CPPCC Literary History Librarian Curator talk about stimulating domestic demand and well-off society with Central and Eastern Europe Journalists" http://news.china.com. cn/live/2012-11/27/content_17376553.htm.

[23]"Central and Eastern Europe correspondent group began their visit in China", http://gb.cri.cn/42071/2014/04/17/6871s4507636.htm

[24]"Inter-party exchanges with the political parties from Eastern European countries, the Communist Party of China is facing new opportunities", http://www.chinadaily.com. cn/hqgj/jryw/2012-11-09/content_7468638.html.

[25]"China EU High Level Political Party Forum" http://www.idcpc.org.cn/english/special%20reports/cn-eu2_eu/

transnational, overseas Chinese organization with members spread all around Europe, which acts as the leader in local Chinese communities. The EFOCO has become a unified voice of Chinese people in Europe and serves as a platform for dialogue with the EU institutions. Currently, more than 200 associations from 24 European countries joined it, such as "Chinese Friendship Association" in Slovakia, "Association of Qingtian" in Czech, "Economic and Cultural Association" in Poland, "Chinese Women's Federation" in Hungary.[26] Through regular meetings and close contacts with EU officials, the EFOCO conveys the opinions of local Chinese.

The fourth approach is *think tank diplomacy*. Chinese think tanks attract the attention of European politicians and influence European public opinion by publishing reports, communicating with think tanks of Visegard countries, and pushing forward policy initiatives. The establishment of a research fund on relations between China and Central and Eastern countries was included in the plan of 2012. China was willing to provide two million RMB every year to support academic exchanges between research institutes and scholars of the two sides. It also hold the forum on cultural cooperation between China and CEE countries as well as the first Young Political Leaders Forum of China and CEE countries and the first Education Policy Dialogue between China and CEE countries in 2013.[27] Institute of European Studies of Chinese Academy of Social Sciences (IES CASS) set up the Central and Eastern Europe Branch in Beijing in December 2012, and it held the "State-to-state relations between China and Central-Eastern Europe International Seminar". Ambassadors of Poland and Hungary delivered important speeches at the meeting, made positive observations and interpretation to regional cooperation.

3.2. China's public diplomacy in economic level

In economic sphere, China's public diplomacy toward Visegard countries is conducted through bilateral and multilateral channels aiming to diffuse disputes and misunderstandings between China and V4 on economic and trade issues; to enhance the foundations for economic and political cooperation; and to further strengthen their comprehensive strategic partnership. The most important activities are the investment and trade

[26]"European foundation of Chinese organizations" March 26, 2013, http://www.theefoco.com/zslist.asp?id=24

[27]"China to Strengthen Coop with Central, Eastern Europe" March 26, 2013, http://english.cri.cn/6909/2012/09/07/53s721138.htm

promotion campaigns that go hand-in-hand with head-of-state diplomacy and other important diplomatic mechanisms. Commercial delegations visit Europe together with national leaders holding trade and investment meetings and workshops, etc. For example, in 2010, the business representatives of China and Poland signed five cooperation documents for economic and technical cooperation, during Jia Qinglin, chairman of the National Committee of the Chinese People's Political Consultative Conference visited Poland.[28] Likewise, China holds trade forums, meetings and workshops when European leaders and their commercial delegations visit China. In 2011, Chinese Vice Premier Li Keqiang and Polish President Komorowski attended the opening ceremony of the China-Polish Economic Forum and delivered speeches. Over 400 delegates of both governments, business people participated in this forum.[29]

Using existing multilateral and bilateral cooperation mechanisms to enhance commercial exchanges is also an important part of Chinese public diplomacy toward Visegard countries. China – Central and Eastern European Countries Economic and Trade Forum have continued from 2011.[30] The agricultural, trade and economic cooperation forums of China-Central and Eastern European countries have been held 7 times by the end of 2012.[31] In 2012, China's Ministry of Commerce held Seminar for trade officials of Central and Eastern European countries. 21 officers of Ministry of Economic Affairs, the State Trade Affairs and the Ministry of Foreign Affairs from 12 CEE countries learned about "The condition of China", "Relations between China Central-Eastern Europe", "The development of SMEs in China", "China's reform and open policy and economic sustainable development" and visited Wuxi, the city regarded as cradle of China's national industry and township industry.[32] Sponsored by the Polish Patent Office, Ministry of Economic Affairs and the China State Intellectual Property Office, the Hungarian Intellectual Property Office, the Czech Industrial Property Office and the Slovak Industrial Property Office held together the event "Intellectual Property and Business

[28] "Jia Qinglin attended the Chinese and Polish entrepreneurs breakfast meeting"? http://cppcc.people.com.cn/GB/71578/13125350.html

[29] "China - Poland Economic Forum", http://www.cfsbcn.com/news/14629132.html

[30] "Premier Wen Jiabao attended the Second China - Central and Eastern European Countries Economic and Trade Forum", http://www.ccpit-developer.org/newscontent.asp?key=A00770002&id=949

[31] "Seventh China - Central and Eastern European countries Agriculture and Trade Cooperation Forum held in Anhui", http://www.022net.com/2012/9-6/466926163091900.html

[32] "The closing ceremony of Economic and Trade Seminar for officials of Central and Eastern European Countries", http://china-aibo.cn/xxfb/ztxx/270729.shtml

– Forum of Small and Medium-Sized Enterprises of the Visegrad Group countries – China" in Poland in 2012. The participants discussed Chinese market opportunities and issues of IPR protection in China.[33]

In addition, China has developed multilateral exchanges with Visegard countries in some international and regional parliamentary organizations such as ECOSOC and the Asia-Europe Parliamentary Partnership Meeting. China Economic and Social Council and the European Economic and Social Committee have organized 11 roundtable meetings, where Poland, Hungary and other European countries participated actively. China Economic and Social Council, ECOSOC and its Chinese partner organization International Association in Shanghai held summer school in 2012. Dozens of young students from Central European countries communicated around the theme of "The ECOSOC and sustainable development".[34]

At the bilateral level, the Chinese Ministry of Commerce and the Polish Ministry of Economic Affairs cosponsored China-Poland trade and investment cooperation forum in 2012. More than 40 Chinese entrepreneurs from the electricity, building materials, and communications industries exchanged views with over 100 Poland entrepreneurs.[135] In 2012, Conference of enterprises of Czech and China was organized jointly by the Chinese Embassy in the Czech Republic and the Czech-China friendship association to strengthen the exchanges and cooperation between the two sides.[36] China International Trade Promotion Committee signed an agreement with Hungarian entrepreneurs and employers' associations to establish the Bilateral Business Council of China and Hungary. The previous meetings are all accompanied by bilateral commercial exhibitions and bilateral economic and trade forums.

Promoting China's image through daily commercial exchanges is an important aspect of Chinese public diplomacy. China Council for the Promotion of International Trade (CCPIT) generally sets up special zones to introduce China to the local people when it holds exhibitions in Europe.

[33]The "Intellectual Property and Business – Forum of Small and Medium-Sized Enterprises of the Visegrad Group countries - China, http://www.uprp.pl/uprp/_gAllery/48/14/48140/Program_Forum_EN.pdf

[34]"Economic and Social Council and similar International Association organizations 2012 summer school training activities held in Shanghai", http://www.china-esc.org.cn/ news.asp?id=1014

[35]"China - Poland trade and investment cooperation forum successfully held in Warsaw", http://www.mofcom.gov.cn/aarticle/wtoxieding/yiyao/201210/20121008402035.html

[36]"China and the Czech enterprises reception Organized by the Chinese Embassy in the Czech Republic", http://www.fmprc.gov.cn/mfa_chn/zwbd_602255/t947350.shtml

For example, at the exhibition of Chinese exports to Central Europe in 2011, magazines like *China Trade News, China's Foreign Trade, China Business Guide,* and *China's exports of goods* and other publications have furnished. Trade and investment information was published on the English language website of CCPIT, while consulting services were also provided. These steps can also be seen as China's public diplomacy on Europe in the economic realm. In addition, the Chinese government also carries out public diplomacy program with Central European business organizations in China, for example, the Investment Chamber of Commerce of Poland as well as the Slovak Asian Chamber of Commerce have offices in China.

3.3. China's public diplomacy in cognitive level

As to cognitive level, Chinese public diplomacy to Visegard countries focuses on projecting the soft power of Chinese culture, to dissolve Europeans' negative perceptions of China and to enhance their understanding of Chinese values. There are three elements of this cultural diplomacy. The first is *increasing cultural exchanges*. China regards construction of its cultural soft power as a matter of national strategic importance, and, in recent years, it has been striving to increase its cultural influence in the world. Since 2009 Chinese Cultural Festival has been organized in Poland and Hungary, including the Chinese Culture Festival Concert, Exhibition of Contemporary Art and Ink Painting, China National Day photo exhibition, China Film Week and other cultural activities.[37] Many Chinese embassies and consulates in V4 popularize Chinese New Year and Chinese culture. For example, Chinese embassy of Czech held "Happy New Year – 2014 Czech and China Horse Year Music Festival " in nine cities of the Czech Republic, as a result celebrating Chinese New Year has become a hot topic among Czechs.[38]

The second element is *promoting the study of China and Chinese language abroad*. The Chinese government plans to provide 5000 scholarships to the 16 CEE countries in the next five years. It supports the Confucius Institutes and Confucius Classrooms program in the 16 countries and invites 1000 students from relevant countries to study the Chinese language in China in the next five years. The government enhances inter-university exchanges and joint academic research, and sends 1000

[37] "The Chinese Culture bloom overseas", http://www.cnr.cn/allnews/200912/t20091228_505819393.html.

[38] "Happy New Year – 2014 Czech and China Horse Year Music Festival" http://www.chinadaily.com.cn/dfpd/2014jjcy/2014-01/29/content_17264970.htm

students and scholars to the 16 countries in the next five years. The Ministry of Education of China plans to host an education policy dialogue with Central and Eastern European countries in 2013.[39] To the end of 2013, 23 Confucius Institutes and 58 Confucius Classrooms have established in 12 of CEE countries.[40] Nearly one fifth of those 45 languages, which used by Online Confucius Institutes are Central and Eastern European languages. There are 9 Confucius Institutes in Visegard countries[41], which give great convenience for people of Visegard countries to learn the Chinese language and understand China. The Bilingual School in Budapest, Hungary is currently the only public school using both host country language and Chinese for full-time teaching in Europe, which was founded 10 years ago. More and more Hungarian families decide to send their kids to study here in recent years.

The third element is *cultural and inter-city diplomacy*. China have 24 pairs of sister provinces/states relationship and 30 pairs of twin cities arrangements with Visegard countries.[42] The economic and trade delegation of Amoy visited the Czech Republic and Hungary in 2012, organized two investment promotion meetings in Budapest and communicated with the Czech Chamber of Commerce, Fujian Chamber of Commerce, Fujian Chamber of Commerce in Hungary.[43] According to China's Twelve Measures, China Tourism Administration will coordinate by civil aviation authorities, travel agencies and airline companies of the two sides. The purpose is to enhance mutual business promotion and joint tourist destination development, and explore the possibility of opening more direct flights between China and the Central and Eastern European countries (MOFCOM, 2012). A meeting of special promotion tourism product of China-Visegard countries was held in Shanghai 2014, co-organized by China and V4 Tourism Administration to present product for Chinese to experience "the medieval Europe". [44]

[39]China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries, People's Daily, April 28th, 2012, p. 9.

[40]"Confucius Institutes and Classrooms",http://www.hanban.edu.cn/confuciousinstitutes/node_10961.htm

[41]Confucius Institutes online, http://english.chinese.cn/

[42]"List of sister city relationship between China and Countries in the world, http://www.cifca.org.cn/Web/WordGuanXiBiao.aspx.

[43]"Xiamen Municipal Government, P. R. China - Strengthen economic and trade cooperation and cultural exchanges", http://www.xm.gov.cn/zt/gclsgwygyzc/xmdt/201209/t20120925_538718.htm

[44]"V4 countries to propose tourism offers"http://shanghai.kormany.hu/v4-countries-to-propose-tourism-offers

In short, China's practice of public diplomacy in Visegard group is based on the political, economic as well as cognitive elements and develops through a variety of channels and patterns, different emphases in targets. On the political level, to improve its communication techniques in order to promote Central European publics' understanding and acceptance of the Chinese political system and policies; on the economic level, to unfold public diplomacy at the process of economic and trade cooperation for keeping stable, reliable, and responsible commitment of an emerging economic power; on the cognitive level, relying on the charm of the traditional and modern cultures, to make the V4 countries believe that China is a reliable and capable member of the international community which is willing to make a contribution to the world peace.

4. The challenge of China's public diplomacy in Visegrad countries

China has invested heavily in its public diplomacy toward Visegard countries in recent years, but the outcome has not been so encouraging. Western scholars even believe that China has little influence on the global cultural trends, its soft power is very weak, and the international image is mixed or even indulge in negative now (Shambaugh, 2013, p 10). China's public diplomacy is constrained by a cognitive gap between China and V4 countries too. The specifics are as follows:

First of all, the Chinese public diplomacy in Visegard countries is *not well received at the political level* because of the V4's communist past. China utilized information technology to enhance traditional propaganda efforts of public understanding and acceptance of China's political system and foreign policy in Central Europe, but the citizens of the V4 countries are easily link today's China with the Soviet Union in the Cold War. A common ideology could help them understand the domestic politics of China, the largest socialist country, but after the transition of political system in V4 countries, it seems that they showed stronger anti-socialist stances than Western countries. For the fear of Stalinist socialist period and the Brezhnev Doctrine, this understanding is often easy to form to a negative impression when they observe China. For example, many believe that Chinese investments are controlled by Chinese government, which means the expansion of the Chinese State. In addition, Central Europe still tends to believe that Western norms and values can be useful to transform China. In their eyes, a rising China is still one of the "others" that differs from Western community (Larson-Shevchenko, 2010, p 64).

Secondly, the *lack of mutual understanding* hinders China from playing its pubic diplomacy cards in Visegard countries. China's public diplomacy must be implemented from "what the Europeans should known" to "what the Europeans want to know". As the ancient Chinese saying goes, "amity between people holds the key to sound relations between states". Harmony is built on the basis of mutual understanding and cooperation between people. According to the author's interviews with some elites of the V4 countries, people are most concerned of China's political reform, foreign policy adjustment, common peoples lives and social problems. The problem is the of lack relevant polls data focusing on the public opinions on China in Central European countries. Western think tanks' on the China Cognitive surveys often focus on the Western countries. Only the Pew Research Center's poll "Respondents opinion of China" includes Poland and Czech Republic.[45] Both 2010 BBC's poll respondents in seven European countries (Russia, the United Kingdom, Portugal, France, Spain, Germany, Italy) and German Marshall Fund's "Trans-Atlantic Trends 2010" report showed a downward trend in European people's favorability to China in 2006-2010. However, these surveys do not cover the public impressions of Visegard countries on China.[46]

Similar to the European public opinion, Chinese people also have cognitive problems on Europe. According to the survey of the Chinese Academy of Social Sciences in Europe, the level of understanding of Central and Eastern Europe is still low to Chinese people, awareness on EU-related knowledge are less than half, and negative evaluation of Europe started to rise from 2008. The majority of Chinese scholars believe that the European public has limited understanding of China; Chinese publics vice versa (Dong, 2010, p 81). The cognitive gap objectively brings difficulties for China to carry out the public diplomacy to the Central European countries.

Thirdly, the public in Visegrad countries holds a *relatively unfavorable attitude toward China's public diplomacy*. As most Central Europeans learn about China from their own media and publications, they are suspicious towards Chinese messages issued by Chinese official sources. Since the 1990s, V4 countries have been actively building their civil societies. They are more willing to accept the information distributed by civil groups and non-governmental organizations. These attitudes deepen the negative impression that China's propaganda system is carefully construct "What is the appropriate to be known" for European people

[45] According to Pew research poll, 37% people hold favorable view of China in Poland in 2005, 39% in 2007, 33% in 2008, 43% in 2009, 46% in 2010, 51% in 2011, 50% in 2012, http://www.pewglobal.org/database/?indicator=24&survey=14&response=Favorable&mode=chart

[46] Gallup poll "China's Leadership Unknown to Many"- April 18, 2008, http://www.gallup.com/poll/106621/chinas-leadership-unknown-many.aspx.; BBC Country Rating Poll http://www.worldpublicopinion.org/pipa/pdf/mar11/BBCEvalsUS_Mar11_rpt.pdf.

(d'Hooghe, 2007, p 38). Europeans generally believe that the propaganda sponsored by a government is not the mainstream of soft power outlet (Shambaugh, 2007, pp 25-58). Providing more information is not enough to bridge the value gap between China and the Europe. The information passed to the public of V4 countries, through a variety of channels, is still mainly about the economic achievements and traditional Chinese culture. Too amplified the development of China, exacerbate the pressure of the "China's responsibility". Publicity of traditional culture is one of an important tool of public diplomacy by China, yet language, arts and other cultural exchanges cannot eliminate the negative impact of the "China threat theory". As Joseph Nye points out, if a country's culture, values or policies lacks inherent attractiveness, the public diplomacy effort of that country may create an undesired negative image, rather than creating effective soft power (Nye, 2008, p 95).

Transfer from informing to influencing each other through the public diplomacy toward Europe requires more diplomatic wisdom. As Western scholars have commented, the presence of China's influence in Europe is due to that Europeans expect to expand and deepen its relations with China, for political and economic interests. From this point of view, there is still quite a long way to go (d'Hooghe, 2008, pp. 37-61).

5. Conclusions: Future of Chinese Public Diplomacy toward Visegrad Countries

The effect of China's public diplomacy in Visegard countries is limited. China needs time and patience to evaluate whether its influence in V4 countries goes beyond economics. The increasing importance of China's position in the foreign economic and trade relations with Visegrad countries provides opportunities for China to operate its public diplomacy in this region. After all, while the EU faces a sovereign debt crisis, Visegard countries are confronted with additional financial difficulties. They find themselves in need of a new, reliable economic partner, and China may prove to be a good alternative.

Whatsoever, public diplomacy has become one of the fundamental approaches of China's diplomatic strategy to be used in the foreseeable future. The long-term, medium-term and short-term goals, together with the political, economic and cognitive goals of China shape and develop each other and finally will formulate a blueprint for its public diplomacy toward Visegard countries. The urgent goal of China's public diplomacy in this region is to consolidate the existing diplomatic achievements, create mutual understanding and – with the support of local governments and civil institutions – help the Chinese domestic enterprises to enter their markets.

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THE VISEGRAD COUNTRIES' POLITICAL RELATIONS WITH CHINA: GOALS, RESULTS AND PROSPECTS

Richard Q. Turcsányi – Tamás Matura – Rudolf Fürst[1]

1. Introduction

The relevance of individual Visegrad countries in Beijing's foreign policy shows significant stereotype: they are traditionally viewed as small countries. This opinion did not vanish despite the declarative importance of 16+1 relations and the V4-China cooperative formats on the side of China. Even though the V4 countries show the high potential for trade and investments among the 16 Central and Eastern European (CEE) countries, there has been a minimal annual increase of the economic statistics since 2011/2012. At the same time the Balkan states have received more tangible political attention of Beijing, as could be seen for example by prioritizing them as the hosts of annual 16+1 summits (2013 in Bucharest and 2014 in Belgrade), and declaring strategic partnerships (Serbia and Albania).

The common knowledge of the CEE in China has been so far minimal and originated from the context of Russian and East European studies, which does not entirely fit the present realities of these countries. This is even more true for Central Europe, which tend to perceive itself historically and culturally as a specific region between Western and Eastern European tradition. This might explain the so far limited range of Chinese middle and large scale investment projects in the V4 states that noticeably lag behind the Korean, Japanese and Taiwanese investments, which received basic political backing, but never attached to superfluous political and bureaucratic agendas. On the other hand, trading Chinese goods and trade inflows into V4 confirms the advanced level of market liberalization, as the result of their generally liberal trade policies achieved after the transformation and reforms in the 1990s and early 2000s.

There is therefore a remaining great challenge for V4 states' diplomacies to attract Chinese public from the predominantly pragmatic and economy

[1]Richard Q. Turcsányi is a researcher of Institute of Asian Studies/CENAA, Bratislava; Tamás Matura is the head of Central European Center for Asian Studies and assistant professor at École Supérieure des Sciences Commerciales d'Angers; Rudolf Fürst is a researcher of Institute of International Relations, Prague.

focused attention, and increase the Chinese understanding of CEE cultural and historical identity and relevance. In political and economic agenda, the V4 group is potentially the one of possible regional groups, which may be interested to set their agendas into closer coordinated strategy in 16+1, respectively in 4+12+1 format.

This chapter is discussing political relations of four Visegrad states with the People's Republic of China (PRC), and explores the impact of the so-called "Warsaw initiative" on their recent development. Did the diplomatic effort of the two most ambitious states Poland and Hungary push forward the relations with China, or was the dynamic influenced mostly by the establishing of 16+1 format and the leading role of Beijing? How far the V4 states benefit from the format of 16+1, and what the V4 are supposed to do to increase their image in the eyes of Beijing? Should the V4 group consider any effort at closer coordination of individual bilateral policies of Poland, Hungary, Czech Republic and Slovakia?

To present the answers to these questions, this chapter will start with a short summary of the recent development of political relations between the V4 countries and China, especially since the summits in Budapest in 2011 and in Warsaw in 2012. It will be claimed that it is China who is the driving force of the 16+1 project and the V4-China relations and therefore to understand the dynamics and possible future paths it is imperative to recognize Chinese intentions vis-à-vis the V4 countries. It should be admitted that intentions and goals of countries in foreign affairs cannot be scientifically proved and it is even more the case of China due to still very much hidden nature of its political system. Therefore, we will interpret Chinese intentions in the V4/CEE16 based on its behavior and the general foreign policy interests.

Two alternative theories explaining Chinese approach in the V4 regions will be presented. First one is based on the assertion that it is foremost economics, which motivates China to build relations with the V4 countries, therefore the political relations serve as the facilitator for the business interests. Second works with a seemingly countering rational and it claims that it is the long term strategic goal of China to develop stable relations with the countries in the region and the economics serve as a means to achieve the goal of stable political relations. While these two theories might seem to be in direct conflict, it must be acknowledged that the difference may be to a large extent determined by a viewpoint and definition. Due to the authoritarian nature of China, the economic development is in fact one of the core national interests and legitimizer of the Chinese government and hence an economic performance is also a crucial political goal, even more than it is the case of Western democratic countries.

2. Comparative perspective of the development in V4-China relations

Visegrad countries appeared to be high in the Chinese focus from the beginning of its recent rapprochement with the CEE region. The initial 16+1 business forum took place in Budapest in 2011 and saw Chinese Premier Wen Jiabao visiting Budapest. The year after Warsaw hosted the first summit of the heads of the government where Wen Jiabao presented the '12-measure initiative', which marked the formal beginning of the 16+1 platform. Besides, Poland became a strategic partner of China in 2011, both as a sign of already intensive contacts between the countries and acknowledging the mutual interest in further forging close relations. Furthermore, Hungary had long been considered as the most stable Chinese partner in the region, hosting vast majority of the Chinese investments, largest Chinese community and the most developed cultural relations among the CEE16. On the top of that, Chinese president Hu Jintao visited Slovakia in 2009, which can be also regarded as an express of high-level political interest in the V4. Yet, the things seem to be changing. The 16+1 summit in 2013 took place in Bucharest and this year's gathering has been recently called for December 2014 in Beograd, irrespective of attempts of both the Czech Republic and Slovakia to host the event. Similarly, Hungary did not elevate its relations with China to a strategic partnership level, although Serbia and Albania have done so (see Tesař 2014).

To demonstrate dynamics of the recent development of the V4-Chinese relations, the Czech case is an interesting example at the moment. The political relations of the Czech Republic with China belonged to the coldest ones in Europe. The biggest crises in Czech-Chinese relations happened in 1990, when President Havel received the visit of the Dalai Lama in Prague; then in 1995 on the occasion of arrival of the Prime Minister Lien Chan led delegation from Taiwan in Prague; and President Havel's verbal support for Taiwan's independence in the UN session in the same year. The recent crisis with respect to tough response of Beijing happened in 2009 after another visit of the Dalai Lama in Prague and his meeting with the Czech Premier Jan Fischer. The government level mutual visits ended and the Beijing's authorities significantly reduced all official ties with Czech diplomats. The only exception was short meeting of the Prime Minister Nečas with his counterpart in the Warsaw 16+1 meeting. Nevertheless, the crisis in official political ties did not stop annual meetings of regional representatives and widely developing relations in the field of trade, environmental protection, academia and culture.

Paradoxically, among all the 16 CEE states, the Czech political attitude towards Beijing recently revealed the most positive shift as a result of the Warsaw initiative's attainment. The positive change in Czech policy towards China resulted from two strong impulses: firstly from a domestic shift in political establishment in 2013 after the fall of liberal-conservative cabinet and result of first direct presidential elections that saw a comeback of social-democratic strong person Miloš Zeman back to Czech high policy`; and secondly from the outside, i.e. the Chinese move to establish the Warsaw initiative that brought Prague back from the temporary diplomatic blockade of China.

Czech political agenda with China accelerated significantly since 2013: at first by conducting the Czech-Chinese Economic Forum in Prague in November 2013, and the following session in 2014. Besides, the Czech minister of foreign affairs Lubomír Zaorálek arrived in Beijing in April 2014, 16 years after the last visit of his predecessor. The other Czech delegation led by minister of industry and trade appeared in China in June 2014, and the Czech diplomatic offensive culminated by arrival of President Miloš Zeman in the PRC in October 2014.

Compared to other V4 countries, the current Czech 'China-policy' seems to have moved towards the most China-friendly, second only to Hungary. Orbán government, ruling since 2010, had taken an unprecedented scope with regards his China-policy, most recently culminating in the comments that Hungary should consider moving away from the liberal democratic system and learning from the successes of countries like Russia and China, to serve the Hungarian national interest (Orbán 2014). In fact, this direction of Hungarian foreign policy is making it somewhat different from its V4 colleagues – it is widely acknowledged that the prime motivation of the V4 countries in forging relations with China comes from the economics (see e.g. Golonka 2012). With the strong criticism Hungary has been receiving from the EU and the US with regards its domestic political development, China has become a hedging factor vis-à-vis the Western partners. On the other hand, this China-friendly approach is likely to be motivated by the financial problems and the conviction, that China would reward positive political gestures financially.

This belief was seemingly held, too, in Slovakia during the first Fico left-wing government in 2006-2010; yet, the second Fico government after 2012 seems to revise its China policy. After the consideration of employing a Chinese company to build Slovak highways, which was later on abandoned, Slovakia now does not appear to have any huge expectations from China recently, its foreign minister even mentioned the topic of human rights to visiting Chinese delegation and human rights activists were allowed their public demonstration during the visit – something which did not happen in 2006-2010 (see Pleschová 2014, 55-56). Relatively good financial situation of the country might help to sustain this position, when Slovakia is currently able to sell its bonds at the capital markets at the historically lowest rates (Ministry of Finance 2014).

The largest among the V4 and the CEE16 countries, Poland is sometimes perceived as a front runner of the whole group, although not without contestation. This position may be earned as much by its size, geography and perceived economic potential, as by its relatively pragmatic and stable approach towards China, at least since its accession to the EU in 2004 and later on since 2008. Poland has combined strong desire of developing close partnership with China with its value-laden position, when it, for instance, emphasizes its historical experience with the workers' rights. At present there exist a complex framework of contacts between the two sides, which include highest political levels, regional governments, business forums, cultural exchanges, academic, and research oriented and others (see Szczudlik-Tatar 2014). Warsaw was also the venue of the first summit of the heads of government of China and 16 CEE countries, which gave the whole project a nickname as 'Warsaw initiative'.

The collected evidence of the relations between the V4 countries and China, with the special focus on the most recent period, shows a number of interesting points. It is China who is the driving force behind the recent increase of contacts, especially in the form 16+1 platform. However, there is no clear and detailed plan in the Chinese strategic calculation for specific micro regions and individual states, and the quality of bilateral relations with individual countries mirror to some extent their approach. Yet, China does not seem to expect an all-out political support from these countries, as shown by the lack of rewards offered after the China-friendly gestures of Hungary, currently the Czech Republic, and in the past Slovakia. In particular, different political strategies of individual V4 countries did not lead to significantly different levels of economic exchanges with China, which is still relatively low especially in the amount of received investments from China.

3. China – V4 relations: the Devil's Advocate approach

According to the Chinese way of thinking, friendship has to be established first, in order to facilitate good business relations later. A question somewhat suspicious Western diplomats have been asking at least since the Warsaw 2012 summit goes: "*Why is Central Europe so important for Beijing now, what is so special about these sixteen countries*?" In fact, nothing is. China has built splendid political relations with many countries and regions all around the world where it has hoped to find potential trade and investment opportunities. Having developed its global presence in

Africa, Asia or Latin America for decades, China had to find new and maybe somewhat less obvious partners. The crisis of the European Union and the resulting financial vacuum revealed potential opportunities in the CEE region. Even though these opportunities are modest compared to the usual Chinese appetite, Beijing has to utilize every possible chance to find business projects for the overcapacity of its companies and for its abundant financial assets.

According to publicly available information, China wants to keep its activities in the economic sphere in the CEE region and to avoid potential international political tensions. The exclusion of Belarus, Ukraine and Moldova from the 16+1 project signals that Beijing regards these countries too important to Moscow to interfere.[2] Furthermore the regular invitation of EU officials to 16+1 discussions attempts to lull any suspicions about the nature of the cooperation, even though the effectiveness of these communication measures needs some further polishing, but the intention is clear. Indeed, there are no signs of any political request from the Chinese side, which could be considered as maleficent from the EU's perspective. Hence, both China and the Central European countries emphasize that the 16+1 can only be interpreted in the context of general EU-China relations.

Still, we have to face some problems when it comes to the future and progress of the 16+1 initiative. In the following some major contradictions that might jeopardize the success of the entire project would be spotlighted.

3.1. Size and complexity

When China created the 16+1 cooperation it invited all countries between the traditional 'West' and 'East' from the Baltic to Balkans, with the exception of Belarus, Ukraine, Kosovo and Moldova. To put it simple, China has established a framework with the countries of the so-called "New Europe" and with those to join the club in the future. This initiative is not unprecedented; the China-Nordic cooperation could be seen as a predecessor to some extent.

Meanwhile, there are some questions with regard to the effectiveness of such a broad and comprehensive cooperation of seventeen countries very different is size, economic and political status. According to personal talks with researchers, the Chinese side is aware of the complexity of the CEE region, therefore evaluation of possible sub-regional forums, like a China-V4 dialogue, is already on the table. However, it seems that the Chinese Ministry of Foreign Affairs does not support such ideas. The dip-

[2]Kosovo was excluded since China did not acknowledge the independence of the country.

lomatic corps values the 16+1 mostly as a transaction cost reducing tool, which gathers sixteen leaders at once. The sub-regional level would erode this feature of the China-CEE cooperation; therefore Beijing is unlikely to support a V4-China forum. It also seems improbable to work out common V4 standpoints vis-à-vis China since the Czech Republic, Hungary, Poland and Slovakia are mostly competing with each other for Beijing's attention.

3.2. Trade and investment issues

Although capital and trade seeking CEE countries look at China as a potential source of foreign direct investment and trade opportunities, there are serious doubts about their governments' ability to influence bilateral economic cooperation between their respective nations and China. In the fields of FDI issues there is a fundamental contradiction between Chinese and Central European intentions. While China is mostly looking for infrastructure investment opportunities (preferably through governmental public procurements), most CEE countries are keen to attract greenfield investments in order to create jobs and industrial production. However, according to the dataset of China Global Investment Tracker of the Heritage Foundation,[3] China has barely set up any new facilities in the region. Chinese companies rather pursued acquisitions or infrastructure building opportunities. Central European EU member states can apply for non-refundable financial support for infrastructure development; therefore Chinese loans are not attractive, while any attempts to pay off Chinese construction companies from European funds might likely provoke political turbulences. Both sides are looking for something different, which is a fundamental problem.

When it comes to merchandize trade issues the role to be played by CEE governments seems to be even more modest. In the case of the Czech Republic, Hungary and Slovakia approximately 90 percent of exports to China is produced by foreign owned multinational companies. It is clear that governments in Budapest, Bratislava or Prague cannot really influence such trade relations; no matter how good (or bad) their relations are with Beijing. Meanwhile SMEs in Central Europe are usually too weak to facilitate their own business relations with Chinese counterparts. This is also a serious problem to be addressed.

[3]http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map

3.3. Structural contradictions

If one looks at the proposed fields of cooperation[4] between China and the EU members of the 16 countries, it could be found that the two sides would like to work together in spheres, which are mostly regulated by Brussels. The rules of the investment, trade or financial environment are set by the EU at large, or even when it comes to the details of tourism (visa issues), it is clear that EU member states of the region, especially Eurozone and/or Schengen Area members cannot do too much on the governmental of policy level to please the Chinese side. It is the business community, which could really facilitate these relations, but then the actual role of the 16+1 mechanism is questionable. Meanwhile such areas of potential cooperation where member states still enjoy their full sovereignty, like education or culture, are being developed mostly on a bilateral level. Thus the role of the 16+1 (or a theoretical 4+1) cooperation seems to be unnecessary there as well.

All of the above-mentioned structural contradictions might lead us to a surprisingly ironic conclusion: although Central European EU members have done all efforts to advertise themselves as a prospective hub, centre, or bridge for China in the European Union, it seems that non-EU countries could be more attractive to Beijing. Personal consultations with Chinese experts have confirmed this assumption. It has been admitted that countries, where EU regulations and standards do not exist (or are weak at least) could be much more alluring to Chinese businesses. Recent successful deals between China and some Western and Eastern Balkan countries could also provide some evidence to this perception.

4. Chinese goals and Visegrad expectations: Poor match or slow start?

The level of Chinese presence in the V4 should not be exaggerated. In fact, when measured economically, China is in a number of aspects behind other East Asian economies such as Japan, South Korea and Taiwan. However, much of Chinese influence comes from the expectations held around the region about the ‘massive’ increase in economic interaction, most recently especially in the form of received investments. So far, however, we have not seen any significant increase of economic activities or new investments, which could be explained by the recent increase in political activities.

[4] http://gov.ro/en/news/the-bucharest-guidelines-for-cooperation-between-china-and-central-and-eastern-european-countries

This begs the question of whether China's interest in V4 is more political than economic. At present it would indeed seem that 'politics is hotter than economics' as the political and other contacts between the two sides have developed further than the economic ones. It remains to be seen, whether this would change and Chinese investors would discover economic benefits of investing in the region and/or V4 companies will become able to export to China. It has been long argued that the V4 countries are potentially well positioned to serve as a base for the activities of Chinese companies in the Western Europe, who could use the favorable ratio between the cost and quality of inputs here and the geographical proximity (see e.g. Matura 2012; Szczudlik-Tatar 2010; Clegg and Voss 2012; Zhang, Yang and Van Den Bulcke 2013). The V4 countries could also serve as a 'training ground' for Chinese companies to get familiar with the EU rules before investing in the Western Europe on a larger scale. This was perhaps one of the goals behind the COVEC investment in Poland. However, the COVEC investment failed and the V4 still waits for another major Chinese investments – or in fact any increase of incoming Chinese investments.

It is not clear whether Chinese investors are interested in trying to conquer the difficulties of establishing their business in the V4 as the intermediate means if their final goal is the Western Europe. Perhaps they would choose to go straight for the real thing and establish their physical presence in the Western Europe. We should also keep in mind relatively complex investment environment in the V4 countries, general Chinese lack of knowledge about the culture, languages, political and social environment of the V4 region, etc. Other issues make this region less attractive for potential Chinese investors, such as government inefficiencies, corruption and the lack of world class technology and famous brands.

The Bucharest Guidelines for Cooperation between China and CEE countries, issued during the Meeting of Heads of Government of China and CEE countries in Romania in November 2013, is the last official document, which can be read as a formal expression of Chinese intents in the region. China offers the CEE countries increased investment and trade volumes, as well as increased cooperation in the fields of science, education, technology, people to people exchanges and infrastructure development. One of the highlights of the document is the designation of 2014 as the China-CEE Investment and Business Promotion Year. While the scope of cooperation and interaction between the sides is surely aimed at boosting the business links, there still appears to be more than a simple business facilitation would expect. If the 16+1 platform and Chinese goals in the region were economic, would it be necessary or profitable to invest this much of political attention and capital to support non-economic initiatives? The wide scope of the 16+1 initiative thus may support the assertion that Chinese goals in the CEE region and/or V4 may be at the end more political than economic.

The possibility of Chinese political goals in the CEE sounds like a nightmare to many in Brussels and even the politicians and public in the CEE, who often hold rather critical perspective of China. This may be the reason why Chinese leaders, researchers or media never announce it and instead keep the official line of economic goals, on the basis of win-win cooperation. However, Chinese political goals in the region do not have to be necessarily worrying. It is reasonable to assume, that Chinese goals in the CEE/V4 region will be in line with their general foreign policy interests. The three "core national interests" of China, according to former State Secretary Dai Bingguo (2010), are the preservation of the state system and leadership of the Chinese Communist Party; territorial integrity and national sovereignty; and the sustainable development of the economy and society. Europe plays a critically important role for China's development as a major economic partner, supplier of technology and investments, but also possessing significant political influence holding two of the UN Security Council permanent seats, not talking about the level of international legitimacy and soft power, which European stance enjoys worldwide. China has also for a long time called for the establishment of a multipolar world which is presumably better suited for China than a world with a single 'hegemon' – the US. According to this scenario, the role of the EU is crucial here for it is the most likely candidate to become another 'pole', and without which the multipolar world would be hardly achievable. Shortly, reasonably united and strong Europe is an important partner for China both economically and politically (for elaboration of this argumentation see Turcsányi 2013).

It is obvious that China's interest in the V4 countries increased rapidly after they joined the EU. Similarly, countries involved in the 16+1 platform, which are not members of the EU, yet are expected to join sooner or later, which seems to be, in fact, the defining characteristic of the grouping. That China does not want to act like an alternative to the EU is demonstrated by its relations with Hungary, which were arguably not rewarded in any way for their strong support of China. China clearly wants to build a stable relation with the countries which form an important decision making power within the EU and not with the 'EU rebels'. This way, China understandably wants to control to some extent EU internal decision making and the V4 plays important role here with the number of members of the European parliament larger than the one of Germany and an equal voting power in the Council of the EU as Germany and France combined. Moreover, there are also voices about a larger China geopolitical strategy in developing better relation with the CEE16 countries. China is aware that the space between Germany and Russia has been historically very sensitive and it might be interested to preserve its stability, both for economic reasons of facilitating smooth connection with the Western Europe, but also possibly to check any potential Russian rise which would be geopolitically threatening to China.[5]

While the idea of China building a position to influence thinking of the V4 and the EU may sound as sensible, it should be admitted that this is a normal diplomatic practice in international politics. It may be comforting to some extent, that there is no clear evidence that China would be interested in playing the dividing role in the EU – and it is a long way from having the capacity to do so, if it ever reaches it.

To sum up, there are a number of reasons why China is interested in developing political relations with the V4 region. While on the side of the V4 countries economics prevails – even in the case of Hungary – it is not clear whether China is actually interested in rapid increase of its economic activities in the region. Economics or economic promises may serve as a way of increasing its influence in the region, but unless the V4 countries would decide to bend the EU and OECD rules or until China would develop capacity to play with these rules, no rapid increase is to be expected. On the other hand, when China develops sufficient capacity to compete in the EU, much of its attention will probably focus on Western Europe. The role of the V4 and CEE16 may then become of what it is today for Korean, Japanese and Taiwanese investors.

At the moment, therefore, the V4 countries should hold more sober and patient expectations from China and they should attempt to attract Chinese investors in the same way as any other – with the promise of economically beneficial and stable investment environment based on the economically sound comparative factors. While the well-functioning diplomatic relations are useful for both political and economic reasons, they are not a recipe for instant growth of financial inflows and exports, not even in the case of China, who may be at the end more interested in "just" having the positive political relations.

5. Conclusion

Numerous theories have emerged on the true nature of the China-CEE cooperation in recent years. Some believe that China nurtures hidden

[5]Interview with MEP Adrian Severin, 27 November 2013, European Parliament, Brussels.

political intentions covered by business cooperation and even tries to divide Europe from the inside. Others say that the 16+1 is a purely economic cooperation fostering investment and trade relations. The truth is probably somewhere in between.

The (in)famous 16+1 platform shall witness in the end of 2014 already its third summit of the heads of the governments. While the first such event took place in Warsaw in 2012 (in the year 2011 there was a business forum organized in Budapest attended by the Chinese Premier), in 2013 the leaders met in Bucharest and in 2014 the venue had been set for Belgrade. The choice of the places, like most of the directions of the platform, had been taken by China itself and this may bring the question whether the V4 is not losing position to the Balkan countries in the Chinese focus on the CEE16. To support this allegation, we have found that with the exception of Sino-Czech relations there has not been any substantial change in the political relations between the V4 and China since 2012. That is mirrored by the lack of clear economic takeoff, although in economic exchange the four countries are still much ahead the rest of the group of CEE16.

Politically the major improvement of the bilateral relations with Poland came in 2011, thus before the official kick-off of the 16+1 platform. Ever since then, Hungary has not experienced any significant increase in their political relations with Beijing and similar thing is truth for Slovakia. Paradoxically, the Czech relations with China witnessed recently the most obvious positive shift since 1989. However, this should be perhaps solely attributed to the change of the government in the country, which has been only welcomed and accepted in Beijing. This may show that China, while being the driving force of the 16+1 platform, does not have any particular scheme for the V4 and neither it planned any political or economic offensive after announcing the Warsaw initiative in 2012.

However, the steady process could have been anticipated and can be understood. Visegrad countries present a special type of actors for China, as they are neither technologically developed nor rich to the level of the major Western European countries, and neither willing (for the most part) to accept risky deals with China, which may be perceived critically in Brussels. Even if they were, it seems China is not interested to support them against the EU, as the development of the relations between Hungary and China show. Furthermore, the historic relations and geographic position may put the V4 in somewhat disadvantaged position vis-a-vis Balkan countries, which seem to be approached as 'special' – indeed 'strategic' – partners by China (see also Tesa? 2014)

As discussed, the V4 countries follow similar goals defined by the economic expectations in their dealing with China, although the level of necessity may vary. While it is often presented that they are competitors when it comes to (Chinese) investors, the situation when they would conduct a 'race to the bottom' should be prevented. In fact, the competitive advantages of the four countries (see Éltető and Toporowski 2013) provide space for political deals and common approach in presenting at the more distant places. The resulting effect of the increased amount of good quality investments in the fitting areas could be good reward for compromises required for unified position.

When we are looking for something particular which could provide the V4 countries with a prominent role within the 16+1 cooperation the answer might be the "One Belt, One Road Project", also known as the New Silk Road project of China. All proposed new lines (the Chinese Transcontinental Network and the New Eurasian Land Bridge) would cross Visegrad countries, while already existing railroad tracks are also connecting East and West through the V4. Further research could reveal some common ground, which might provide an opportunity to Budapest, Bratislava, Prague and Warsaw to develop their joint strategy.

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Towards tapping Visegrad countries' full potential for attracting Chinese OFDI

Günter Heiduk and Agnieszka McCaleb[1]

"Visegrad means creativity and efficacy."
Aleksander Kwaśniewski[2]

1. Introduction

So far, the question of this research project whether China's financial assistance in the four Visegrad countries (Czech Republic, Hungary, Poland, Slovakia – V4) is a myth or reality has two answers: In a narrow definition of financial assistance which usually refers to Overseas Development Aid (ODA) China's engagement is rather a myth, especially when compared to countries in Africa or Latin America. When interpreting financial assistance from a business perspective China's OFDI in V4 are moving from myth to reality with accelerating speed. Last but not least, it is questionable whether Chinese government institutions and/or Chinese MNCs consider V4 as a myth or are actually aware of V4 as a region with a clearly defined profile based on common characteristics. This paper aims to present arguments that are in favor of a long-lasting stronger presence of China's OFDI in V4. They are divided into OFDI push factors in China (part 2.), and pull factors in V4 (part 3.). The existence of macroeconomic and policy-related barriers in V4 cannot be ignored. Part 4. identifies major barriers, which pose handicaps to development and implementation of a V4 "Go Far-East and Invite-in" strategy. Policy recommendations – presented in part 5. – intend to show ways how to tap V4's potential to attract a higher share of Chinese OFDI. The paper does not deal explicitly with Chinese ODA. It is rather obvious that on the one hand China's ODA is primarily oriented towards resource-rich African and Latin American countries/regions and on the other hand V4 countries use EU's funds as primary and advantageous source to finance infrastructure projects. Part 6. summarizes the main findings and points to future research that improves the basis for V4' policy actions to speed up Chinese OFDI.

[1]Guenter Heiduk is a professor, Agnieszka McCaleb is a lecturer of East Asian Center, Warsaw School of Economics

[2]Kwaśniewski, A. A History of Common Success, available at: http://www.visegradgroup.eu/the-visegrad-book/kwasniewski-aleksander

2. China's growing OFDI: Home country's push factors

The dynamic trend of Chinese OFDI growth since the launch of the Go Global Policy in 2000 has not even slowed down during the global financial crisis of 2007-2008. It is expected that China's OFDI will continue growing as the country's leaders recently set a goal of balancing the inflowing FDI with the outflowing ones. Moreover, Beijing perceives OFDI as an important tool in nurturing China's economic development. However, there are more signs indicating more Chinese OFDI in the near future, which are briefly discussed below.

In the aftermath of the global financial crisis, which hit Chinese export, Beijing policy-makers decided to take steps towards shifting the country's reliance on exports towards more balanced domestic consumption. This goal has been one of the priorities in the 12th Five Year Plan. Increased consumption would allow Chinese firms to grow basing on the domestic market demand. However, the shift of Chinese economy towards consumption-based is not an easy task as it requires introduction of welfare system so that Chinese consumers feel secure and start spending their savings. *Hubbard et al.* (2012) argue that China's consumption depends on household's disposable income. As in China household income comes from wages their increase is necessary for achieving higher consumption. Since 2008 Chinese government has been increasing the minimum wage. In the recent years the wages in private sector have been growing at double-digit rates wages (12.3% in 2011; 14% in 2012) (Orlik 2013). The government's push to increase wages may result in increased demand however its effect may not be as strong due to young Chinese people pressure to save money for buying homes/apartments, the future possible health problems and education for their children. On the other hand, the further increase of wages, especially in the coastal manufacturing hubs, will be a driver for Chinese companies to move production abroad. Locations with moderate wages but close to the markets with high purchasing power will be most attractive. Example is Liugong that acquired Polish Huta Stalowa Wola's construction equipment division and its distribution subsidiary, Dressta. It is said that the acquisition, among others, helped the company to reduce the production costs as in Poland industrial manufacturing costs as well as labor costs are the lowest in Europe. In the same type of work Liugong Poland employees' remuneration is 1/6 of German employee and 1.5 times of Chinese employee (Zhongguo Jingji, 2014).

Since 2004 consumption in China has been rising at an impressive rate of 8 percent annually. However, consumer spending has been growing at a lower rate than that of the whole economy. The already low private consumption amounting to approximately 35 percent of the GDP is expected to have fallen in 2013 year-on-year (Das, 2014; Tejada, 2014), which is very low compared to the world average of 60 percent (Rosen and Bao 2013). In addition to insufficient consumer demand the domestic competition intensifies as foreign firms are attracted to China since their hitherto markets suffer from suppressed demand. The lack of adequate domestic demand may push Chinese firms to search for overseas markets.

Another factor pushing Chinese companies to venture abroad is the government's policy towards OFDI. Chinese decision-makers in the 12th Five Year Plan emphasize the need to balance the incoming with outward FDI. The goal is set to have all large Chinese multinational companies, including the ones from the finance sector, to expand their foreign activities by 2015 (in der Heiden, 2012, p. 28). The government has set a target of increasing OFDI at an average annual rate of 17 percent through 2015, which is expected to amount to 150 billion USD (Beijing Review, 2013). It seems that China is likely to achieve this goal when looking at China's FDI outflows in the last years (in 2012 they amounted to 88 billion USD while in 2013 already to 101 billion USD; WIR, 2014).

Another reason for Chinese companies to invest abroad is overcapacities in production. *Zhang Lizhou*, general manager of the investment banking department of China Minsheng Banking Corporation said that "In the past, real estate, energy, manufacturing firms all made money in China, but now it is very hard. Overcapacity has haunted various industries like steel, photovoltaic and shipbuilding. Private enterprises have to go overseas for more opportunities." (Xinhua News, 2014). Chinese companies facing overcapacities in the domestic market search for foreign locations where their products and services are in need. For example, Jidong Development Group, a cement maker moved its operations to Africa. The chief financial officer of the company's South African subsidiary says: "The project is Jidong's first business overseas. The group has huge cement production capacity at home, but the price has been low in recent years. Rising environmental concerns have restrained development of the industry, which uses a lot of energy. That is where the idea of going abroad came from." (China Daily, 2014).

The growing number of Chinese innovative firms may be pushed to move their R&D activities to foreign countries where intellectual property rights (IPR) are well protected as the execution of IPR in China is still inadequate and piracy is widespread. In general the lack of property rights and recent unstable political situation resulting from the campaign targeted at fighting corruption may encourage companies to move some of their property/assets abroad. Moreover, innovative private firms need access to venture capital, which is limited in China.

Private firms in industries such as electronics, communication facing SOEs as their competitors that are supported by the government may be forced to search for production locations abroad.

Another factor pointing to the future increase of Chinese OFDI comes from the developments related with the established in the autumn of 2013 Shanghai Free Trade Zone that is a model for creating more Chinese FTAs in the future. The official representing the zone's authorities said that "The Shanghai FTA expects to have more than 100 mainland companies make a total of 3 billion to 4 billion USD of overseas investments by the end of this year" (South China Morning Post 2014). The zone provides Chinese companies with less bureaucratic work related with OFDI and thus should promote more Chinese investments overseas in the coming years.

Chinese companies might be more eager to invest overseas due to the fact that more and more of them hire natives who worked abroad ("sea turtles", "*haigui*"), especially in the United States, Australia and Europe. These managers are naturally driven in their business decisions by global thinking. According to China's Ministry of Education (cited in The Wall Street Journal, 2014) the number of Chinese nationals returning from overseas has been increasing (69000 in 2008, 186000 in 2011 and 353000 in 2013), which has been in part being caused by the global financial crisis during which many jobs disappeared.

The EU is expected to be destination of the growing share of China's OFDI. In spite of a slowdown of China's OFDI flows into Europe in 2013, as opposed to peak years of 2011 and 2012, when China's OFDI stock quadrupled from over 6.1 billion Euro in 2010 to almost 27 billion Euro in 2012, based on planned deals the analyst are forecasting that Chinese investments in the EU will increase substantially by 2020 (Financial Times, 2014).

The Europe's leading attractive factor is technology. According to *Derek Scissors*, scholar of American Enterprise Institute Besides, besides top technologies there is not much that China wants in Europe (cited in Financial Times 2014). However, Clegg (2013) provides wider scope of motivations of Chinese investors in Europe summed up as "...anything to help them up the value chain", which includes: "Access to markets, Technology acquisition and R&D capability development, skilled labour, develop[ing] capabilities to compete better at home". It is confirmed in a study of Chinese investments in Italy by Pietrobelli et al. (2010, p. 2), which finds that "Chinese multinational enterprises also are investing in Italy to get access to local competitive advantages in sectors such as automotive and home appliances. This location choice is clearly linked to the intention to tap local competences available at the cluster level."

Chinese investors might be driven to Europe also in search of companies from services sector as the domestic market is supposed to be shifting from reliance on manufacturing and exports to services. Example is the growing Chinese middle class that enjoys tourist attractions offered both in China and abroad, especially Europe. Chinese company Fosun after buying a minority stake in 2010 in the French ClubMed, leisure tourism operator, is now under the process of buying all its shares. The main reasons behind the deal are the expansion of the ClubMed's services to Chinese market but also growing number of Chinese tourists. Fosun informs on its website that "In 2012, China tourists visiting resorts worldwide increased by 30%."[3] There are already cases of Chinese companies acquiring or purchasing minority shares in European specialized industries such as wine producers, luxury yachtmakers. These investments seem to target the rich Chinese customers. For Chinese firms that are driven by insecure domestic market where property rights are often breached the EU offers protection of property rights and business environment subjected to the rule of law.

It should be noted however that Chinese firms in Europe face problems such as complicated bureaucratic procedures. "Luxembourg is a favourite destination of Chinese investors. Many use holding companies there to expand across the continent. In addition to seeking tax advantages, they are attracted by its swift action on permits and visas and its willingness to handle paperwork in English. Nicolas Mackel, the country's consul general in Shanghai, notes that its only advantages over rivals are 'speed and pragmatism'. Eurocrats and their national counterparts might take note." (Economist 2013).

Chinese companies may choose to locate their activities in V4 to benefit from the clusters established there, mainly by Western European firms, in industries such as electronics or automotive as they are driven by upgrading their manufacturing capabilities. Chinese companies that require in their manufacturing skilled labor which is becoming more expensive in China may be attracted in V4. The example is the above-described case of Liugong's that invested in Poland not only attracted by the access to the EU market but also benefitting from Polish skilled but relatively cheap labor. V4 have the skilled labor already having working experience from Western European companies that moved their production to CEE countries that could be attractive to Chinese firms still lacking advanced organizational, managerial and manufacturing skills.

[3]http://www.fosun.com/en/philosophy/philosophy_7.html, accessed 30.10.2014.

V4 can also serve Chinese companies as logistics and distribution center, especially in the light of the existence of the railway route connecting Western China with Europe (Chengdu-Lódž connection).

Chinese companies may be more interested in investing in Europe as a result of the Wen Jiabao's launch of 16+1[4] initiative in 2012 that attracted attention of Chinese businesses to the region of Central and Eastern Europe. As a result individual V4 countries carried out promotional campaigns in China that should have raised awareness of Chinese citizens about the specific traits of each country. In addition special fair introducing the sixteen countries and their products was organized in June in Ningbo. Universities and research institutes in China recently created research centers dedicated to CEE region, which should also contribute to the better understanding of the region, by Chinese people. Chinese government's New Silk Road Economic Belt strategy also constitutes additional focus on the CEE region, which has been incorporated in the strategy (Szczudlik-Tatar, 2013).

3. V4's attractiveness: Host region's pull factors

The findings from the previous part – firstly, China's OFDI engagement in V4 is low compared to the remaining EU as well as to regions in other continents, but relatively fast growing, and secondly, evidence suggests a high potential of domestic factors in China that push its OFDI forward – lead to the crucial question how V4 can benefit more than proportionally to their market size from future Chinese OFDI flows. Without claiming completeness, this part concentrates on three factors, which can be considered as special assets attracting FDI from the West and may attract increasing FDI from the Far East in the future. First, after the collapse of the Eastern bloc and the COMECON as its economic "subsidiary", V4 documented the common interest to slide under the umbrella of EU's institutional system. This signal created positive expectations for foreign investors, which decreased with increasing distance. Western neighbors closely observed V4's transformation processes and made full use of the advantage of proximity by investing in V4 already in the early 1990s. OFDI from far distant countries started later and mostly with lower amounts of capital. Second, the advantage of the geographic location came to the fore after opening up. Western European companies aim to leave the EU-15

[4]The 16 countries of Central and Eastern Europe are Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Croatia, Montenegro, Czech Republic, Estonia, Lithuania, Latvia, Poland, Romania, Serbia, Slovakia, Slovenia and Hungary.

with parts of their value chain and moving them to V4, whilst Far Eastern companies aim to enter the EU-15 market by using V4 as production platform. Third, V4 countries offer a unique combination of economic transition and development experiences, which appears to be a competitive advantage from Chinese perspective, even if domestic companies in V4 may view this as disadvantage.

3.1. V4's institutional framework

Since the four countries' accession to the EU on 1st May 2004 "the group's members had to find some sort of niche where they could make a specialised and visible imprint on EU policies. There, because of its geographical proximity, Eastern Europe quickly became the Visegrad's area of specialisation, and as such helps the V4's members to build their own positions within the EU as well as shape its political agenda" (Kalan, 2013. pp 1). In order to shape politics, the four countries gradually moved from consultations to common actions. The document on "Visegrad Cooperation approved by the Prime Ministers' Summit Bratislava on 14th May 1999" lists nine areas of cooperation including "towards the maintaining of Visegrad's regional profile ('image – PR')". Predominantly instruments were consultations on government and expert levels. On the occasion of the 20th anniversary of the Visegrad Group the "Bratislava Declaration" from 15 February 2011 states amongst others that "nowadays, the Visegrad Group is a recognised symbol of successful political and economic transformation and, in many areas, also a model for regional cooperation." In the light of the Ukraine crisis the "Budapest Declaration" of the Prime Ministers, issued on 24 June 2014, announced the deepening of their regional defense cooperation.

In the past political leaders of V4 countries often claimed that the group is speaking with one voice, especially in order to document their importance in EU's decision-making processes. The new challenges on the Eastern border of the EU stimulate not only discussions in policy consulting and research institutions across Europe, but also motivates V4's political leaders (including Bulgaria and Romania – V4+2) to push forward debates in the EU on some economic consequences such as the dependence on Russian gas (Kalan, 2013, p 10). This could prove to be a turning point in V4's self-conception and outward perception as an actor who addresses more than common security interests with one voice. It seems that the Ukraine conflict has strengthened V4's position inside the EU, at least with respect to its security and defense policy. From a broader perspective, V4 can capitalize on its 2012 established "Visegrad 4 Eastern Partnership Program" which aims at contributing to the social and economic transformation, democratization and regional cooperation among governments, universities and individual citizens in Eastern European countries.

The above described emergence of V4 countries' common interests and their implementation can be divided into the following phases: awareness of geographical, historical and cultural proximity; common interest of joining the EU but separate negotiations; designing internal cooperation programs; developing the partnership with Eastern European countries; reacting to the new Eastern border challenges with an emerging "one-voice-strategy" inside the EU but to a minor degree against Russia. The Ukraine crisis seems to be a key test for common positions and actions. *Markovic* (2014, internet) states "that on the issues of the crisis in Ukraine countries of the V4 hold positions that sometimes divide them more than unite them. These positions range from Poland's pro-NATO and anti-Russian stance, to Hungary's attempt to emulate Moscow's regime, with the Czech Republic and Slovakia somewhere in-between. Occupying the same region, despite their cultural and historical proximity, each country has its own reasons behind their respective foreign policies: whether it be history, economy, ideology, political opportunism, personal animosities or even an attempt to re-define its system from liberal to illiberal." Fawn (2013) comes to a rather positive evaluation by pointing to V4's influence on EU's policy towards the Western Balkan and European Partnership countries.

Evidence suggests that the four countries do not instrumentalize V4 to weaken the EU as an institution embracing 28 member states, even if increasingly louder anti-EU voices criticize EU's internal supranationalism and external weaknesses. It has to be noted that the voting scheme would give V4 considerable power in the Council of the EU. V4's 58 votes equal the votes of two of the largest four countries (e.g. Germany and France). There are concerns that increasing controversies among V4 hinder the formation of one-vote coalitions (see part 4.).

3.2. Geographic location

It has been argued that making full use of the advantage of V4's geographic location – most visibly characterized by the border with the EU – needs some kind of joint political presence.

From a geographical point of view the V4 group is often classified as Central Europe or Eastern-Central Europe. Especially the latter term indicates that there are borders to countries in West-Central Europe such as Germany and Austria. The division of Central Europe in East and West indicates close cultural and historical ties between both regions. These common grounds suggest that the three countries Czechoslovakia[5], Hungary and Poland aimed to direct their opening up towards their Western neighboring countries. The interest to bundle first and foremost their Western integration (not clear) into the framework of an intergovernmental cooperation resulted in an alliance, which was formed at a meeting of the Presidents of Czechoslovakia, Poland and the Prime Minister of Hungary in Visegrad (Hungary) on 15th February 1991. The Visegrad Declaration reflects the strong will to cooperate in order to "create a modern free market economy" and to achieve "full involvement in the European political and economic system, as well as the system of security and legislation." The explicitly formulated orientation toward Western Europe was not accompanied by an internal integration strategy. In fact, it was outsourced under the umbrella of the Central European Free Trade Agreement (CEFTA).[6] In the 1990s, the coaction of V4's preparations for joining the EU with the integration effects of CEFTA has considerably contributed to reaping the full economic benefits of its location advantages. CEFTA proved to be an instrument dispelling fears that V4's priority in joining the EU could increase its vulnerability to adverse shocks coming from the EU (for example Baldwin, 1995). According to *Adam et al* (2004, p 4) CEFTA – and also the Baltic Free Trade Area (BFTA) – had two objectives: "First, they were an early and important test of the CEECs' capacity to work together within cooperative trade arrangements. They hoped to counter the growing dependence of the CEECs on EU markets by re-establishing regional trade flows." The liberalization of trade within CEFTA (achieved on 1st January 1997) increased regional trade flows without significantly reducing the dependence on EU-15 markets. This may be partly explained by *Brülhart's et al* (2003) simulation model. It predicts that the enlargement of 2004 shifts the economic geography of the EU to the East with border regions to the new member states as the main beneficiaries. It is assumed that western border regions of the V4 countries benefit more than their peripheral regions. *Niebuhr* (2005) confirms this result by adding that the new member states win more than the EU-15 members. Furthermore, her study suggests evidence that the "change in market potential of the CEECs will be higher, if we assume more pronounced decline of border

[5]On 1st January 1993 Czechoslovakia split into Czech Republic and Slovak Republic. Both countries became members of V4 in 1993.

[6]In October 1991 the V4 group reached an understanding on the formation of a free trade area. The agreement was signed on 21st December 1992 and came into force on 1st March 1993. Slovania, Romania, Bulgaria and Croatia joined CEFTA between 1996 and 2003.

impediments between EU15 and CEECs than among CEECs. Integration among old and new member states is more important for benefits of the CEECs ...than integration among the new member states" (Niebuhr, 2005, p 19). A recently published study by *Márkus* (2014) compares V4's CEFTA period with the period after leaving CEFTA and joining the EU in 2004.[7] Based on V4 group's trade with EU-15 and each V4 country's domestic trade in the period 1995-2008, Márkus (2014, p 12) concludes that in 1995 "an average Visegrad country traded much more within its borders than that was justified by the internal distances and the country's income. The border effect, nevertheless, has been diminishing year by year, as a result in 2008 there was just a small preference observable towards domestic partners against foreign ones. From this fact we can conclude to gradually deepening trade integration between the V4 countries and the European Union. ...Poland and Slovakia have received respectively higher values than Hungary and the Czech Republic..."

3.3. Competitiveness

The competitiveness of V4 can be analyzed on different levels. Following the division of economics into microeconomics and macroeconomics, the former approach analyzes the competitiveness of goods and firms, whereas the latter uses the state as object of investigation. It is ever more accepted that modern economies are characterized by intensive interdependencies between micro- and macroeconomic competitiveness. The Global Competitiveness Index 2014-15 (Schwab, 2014, pp. 14) – one of the well-known approaches to measuring countries' competitiveness positions[8] – ranks Czech Republic 37, Poland 43, Hungary 60 and Slovakia 75. Hungary and Poland are classified into the category "transition from efficiency-driven to innovation-driven" economies, whereas Czech Republic and Slovakia already achieved the innovation-driven status. Despite these differences in the overall ranking, which are attributed to differences in sub-indices such as market size, institutional quality, financial sophistication, level of higher education, *Daszkiewicz and Olczyk* (2014) test the hypothesis that the V4 countries show a relatively small heterogeneity in the fundaments of their competitiveness. If the 78 most competitive countries are clustered into six homogenous groups[9], it turns

[7] A paper collection edited by Štepánek (1999) looks from different perspectives at CEFTA's role in EU's enlargement process.

[8] Another example is the World Competitiveness Index of the IMD World Competitiveness Center.

[9] The authors separate countries into clusters by using Ward's method of a distance matrix.

out that the V4 countries belong to the same large (7^{th} bond) distance cluster. This result implies that the strategy of improving the competitiveness should not be significantly different for each Visegrad country. From a dynamic point of view the proposal how to improve a country's competitiveness looks similar to the Asian flying geese model. *Bartha and Gubik* (2014a, 2014b) apply another method to identify strengths and weaknesses of business competitiveness in the V4 group by elaborating on distinctions between development paths. Based on a model that divides relevant factors into those that determine the future outside and inside potential of a country (FOI model), Bartha and Gubik construct the FOI-index of the V4 group by using OECD data.[10] A large number of factors that are expected to drive the F-, O- and I indices are tested and grouped as follows (appendix, table 2): F-index human capital, accountable corporations, quality of the education system; O-index national goodwill, investment conditions; I-index business competitiveness, government intervention, availability of resources. Within the OECD countries, "the V4 countries generally have a rather high outside potential, while their inside and future potentials are either mediocre or very weak. The index values measuring the potentials ... indicate that the main source of competitiveness in the Visegrad countries is the ability to attract outside resources (capital, knowledge and technology) and to create goods and services with them that are highly demanded on the world market. The best goods and services are thus produced by multinational companies, the presence of which is crucial for the competitiveness of the region." (Bartha and Gubik, 2014a, p 143). The second index, which almost reaches the OECD average, refers to government intervention. In fact, the low values of the I-index mirror the low income within the OECD ranking, but could be interpreted as the result of low spending for education and health which in turn contributes to the low F-values (appendix, table 3). Splitting the V4 indices into country indices shows differences in several categories. The scores in "accountable corporations" in Hungary and Slovakia are significantly lower than the scores for Czech Republic and Poland. V4's positive performance in investment conditions can be attributed to several factors: location advantages, privatization, government support for regions and/or industries (in some cases coupled with funding from the EU). The incentive systems are similar between Czech Republic, Hungary, Slovakia, but differ from Poland's stricter system. Low wages

[10]See appendix table 1 for the components of the FOI model.

are considered the main advantage, which contributes to the attractive investment conditions.

When concentrating on V4's competitiveness in attracting FDI, a number of empirical studies test traditional determinants such as distance, openness, taxes, infrastructure, wage differentials, exchange rate regime as well as specific determinants such as transition and economic reform measures or the accession announcement and the accession to the EU. Recent studies address the institutional quality as a factor, which determines a country's attractiveness for FDI.[11] *Mateev and Tsekov* (2012) confirm that FDI flows to CEECs are determined specifically by cost-related factors such as tax rate and unit labor costs. Regarding macroeconomic and political determinants such as trade openness, infrastructure quality and country risks, CEECs' attractiveness does not differ from Western European countries. This also holds for the traditional factors such as distance and GDP per capita. It may surprise that institutional factors such as rule of law and accountability are found to have a stronger effect on FDI in EU-15 than in CEECs (Mateev and Tsekov, 2012, p 19). The comparison of studies on FDI determinants in V4 countries (and also in other countries) shows that firstly the aim of a study determines the selection of analyzed variables and secondly the method and the data determine the result. An example is *Stanay's* (2013) study who concentrates on the differences of FDI determinants among CEECs. He concludes that traditional variables such as distance, wages, taxes do not provide consistently statistically significant estimates in contrast to transition-specific variables such as privatization, banking reform, corruption, which are statistically significant to explain differences in FDI inflows to CEECs.

Due to V4's cost-related competitiveness the bulk of FDI extended and modernized the manufacturing sector with focus on automotive industry and electronics. This holds especially for the 1990s. After 2000, V4 region benefited from the global trend of fast increasing service sector investment. Access to pools of skilled labor is called the most important determinant of business service FDI in V4. Empirical studies on firm level provide evidence that FDI in business service sector often followed FDI in manufacturing. The governments supported this new trend by redesigning their incentive schemes and direct subsidies in favor of FDI in the service sector (Capik and Drahokoupil, 2011, p.1618). After joining the EU the incentive systems were adjusted to EU rules which reduced

[11] Bloningen and Piger (2011) deliver a comprehensive discussion on the set of variables which are included into gravity models.

the competition within the V4 group. The increasing costs for office space and infrastructure in V4's urban regions weakened their competitiveness in favor of Bulgaria and Romania after their accession to the EU in 2007. In contrast to FDI in manufacturing, which significantly contributed to V4's technological and economic catching-up, thus creating manufacturing competitiveness, FDI in business sector services rather exploited the existing human capital resources without essentially contributing to the development of a knowledge-based economy. The combination of relatively high skill level (which includes strong language skills) with relatively low wages is considered as the main competitive advantage. Compared to a number of Asian countries labor costs in V4 are higher, but according to a study of *Fifekova and Hardy* (2010) the whole package of competitive advantages makes V4 a feasible location for companies looking to establish business service centers. This holds especially for Hungary with the positive effect of creating new jobs (Sass, 2010). Based on World Bank indicators of knowledge-based competitive advantage, *Kadeřábková et al* (2007, p. 42; Kadeřábková, 2008) noted that "the international position of the Visegrad countries indicates lingering gaps between old and new EU members." Even compared to other new members (Estonia, Slovenia) V4 countries are lagging behind. Due to manifold methodological and statistical problems, the results of empirical studies must be interpreted with caution. If main determining indicators are the result of rounded averages resulting from different economic policies of the member states, then the information content for decision-makers in companies is low, especially if they are geographically and mentally distant.

The interplay between geographic location and competitiveness results in clearly visible patterns of regional industrial clusters. Empirical studies on regional competitiveness and innovativeness in V4 are usually based on 35 NUTS-2 Visegrad regions (for example Golejewska, 2013; Kilar and Rachwal, 2014; Rechnitzer and Smahó, 2012). Not surprisingly, *Golejewska* (2013, p. 108) finds substantial differences among regions regarding competitiveness and innovativeness. But her major conclusion that the development of regions depends on their nationality signals weak or even malfunctioning region-wide competitive forces in V4. This may increase information costs for far distant investors. The concentration of industries in or near the border to Germany and Austria has historical roots that have been revived and even strengthened after 1990 (Kilar and Rachwal, 2014). Most prominent example is the automotive industry: Since the early 1990s the considerable inflow of FDI – mostly from Western European companies – has upgraded the technological level, created

European production networks, increased intra-industry trade and changed the geography of automobile production in V4 (Frigant and Miollan, 2014; ICEG, 2012; Jürgens and Krzywdzinski, 2009; Klier and McMillan, 2013; Pavlínek et al, 2009; Pavlínek and Ženka, 2011; Rechnitzer and Smahó, 2012). Foreign owned vehicle assembly plants are mainly located in the Western part of V4. The geography of suppliers shows a lower density, not least because of the increasing number of domestic suppliers. Measured by production value, foreign subsidiaries reached shares between 90–100 percent, including 60–70 percent from other European countries (Frigant and Miollan, 2014, p. 18). An increasing shortage of skilled labor may negatively affect V4's competitiveness for latecomers, e.g. from China.

4. Barriers on V4 countries' external attractiveness

The review of V4 group's competitiveness in part 3. suggests evidence that its remarkable growth is to a large extent a result of its orientation towards the EU. In turn, it can be argued that the group's EU-external competitiveness lags behind. Western European companies' advantage of proximity – realized by relatively low information and transaction costs[12] of their presence in any region/city of V4 – allows investment decisions that are based on sub-national/city indicators of competitiveness. From a far distant perspective V4 is perceived as a region where even extensive information might not resolve the risk of misestimating or even undiscovering competitive locations. At first glance, what will attract somehow negative attention is the economic heterogeneity in terms of macroeconomic performance and four currencies without any type of common exchange rate arrangement. When analyzing economic conditions on a sub-national level, the patterns of local, cluster, industry-specific competitiveness are difficult to understand. The larger the distance to the V4 region, the more difficult is the evaluation of competitiveness – even on the national level – because macroeconomic performance is taken as indicator.

4.1. Diversity in macroeconomic performance[13]

Despite the fact that the Visegrad Declaration covers a broad range of fields for cooperation, evidence suggests priority for a westward oriented political cooperation. This leads hardly sufficient space for developing

[12]The difference between transaction and information costs is discussed amongst others by Engelbrecht (1997).

[13]Latest data and assessment of V4 countries (except Czech Republic) is provided by EBRD (2013, 2014).

and implementing a concerted economic transformation strategy. The different approaches might be one of the reasons why the V4 countries nowadays still differ in main economic and institutional indicators. The dominating topic in official V4 documents as well as in the relevant literature was Visegrad group's position within the EU and the NATO, and still is in recent times with respect to security issues at the Eastern border of the EU.[14] Immediately after the opening up of CEECs each V4 country puts the fast move under the umbrella of the EU on top of its foreign policy agenda. *Dangerfield* (2008, p 633) classifies their sub-regional cooperation aiming to support this aim as *complement/preaccession instrument.* The Visegrad agenda "has mainly emphasized political cooperation around strategic goals of EU and NATO membership, acting as an incubation chamber and the organising framework for joint policies and actions to serve those goals" (Dangerfield, 2008, p 635). Despite different transition strategies (for example Janotik, 2010; Kornai, 2006; Zecchini, 1997) economic data suggest convergence. The EU is the locomotive for four different trains, which move with different speed in different directions. The failure to undertake efforts to develop and implement a collective economic transformation approach results till now in a fragmented V4 economy, which is measured by differences in main macroeconomic indicators. "During the past 6 years ... the development of the Visegrad countries has begun to show greater signs of divergence than in 5-6 years before. This is largely due to the differences inherent in the economic models pursued by the individual states... The economic model differences were mostly related to public finance, government debt levels and the level of integration into production networks of large multinational firms" (Novak, 2014, p. 24).

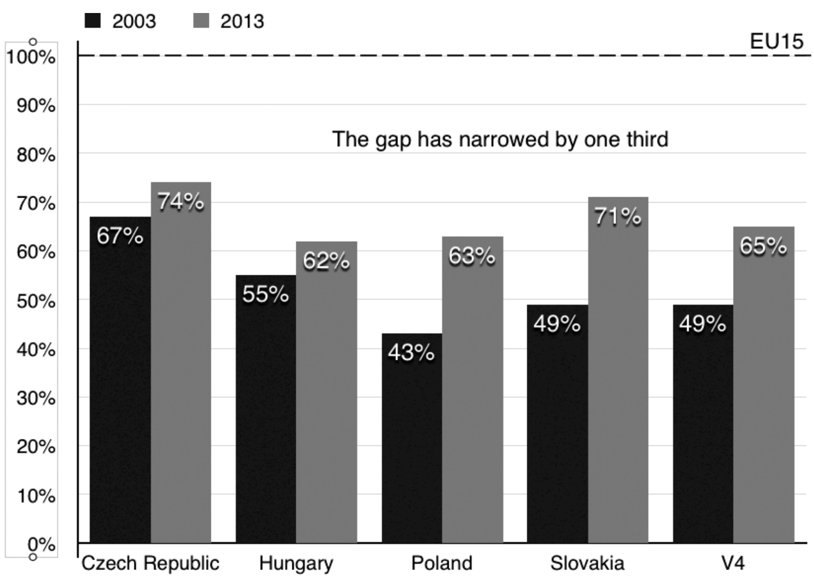
The opening up of Central and Eastern European countries (CEECs) in 1989 – approximately ten years later than China started its opening up – unearthed their real economic backwardness. Measured by income per capita in purchasing power standards CEECs' income was hardly a third of EU 15 average. During the 1990s the average increase in CEEC was less than 5 percentage points. It is obvious that there was no common development path resulting from economic differences in their initial situation as well as different transition strategies. CEECs that even became poorer included the Baltic countries and the Eastern European countries

[14]Examples are the growing number of official statements and communiqués (available at: http://www.visegradgroup.eu/documents/official-statements) and special journal editions such as The Polish Quarterly on International Affairs, 2012, 21(4) (available at: http://msz.gov.pl/resource/c3deb95e-3b92-4221-8b12-8ecb9c3ddea1:JCR).

such as Bulgaria and Romania (Martin et al, 2001, p. 25). Within the V4 group the income level (measured in percent of EU15 average) of Hungary, Poland and Slovakia was relatively similar at the beginning of the 1990s. Whereas Poland could not reduce the gap and even could not keep up with EU15 GDP growth, Hungary and Slovakia succeeded in slightly reducing the gap. Czech started its opening up with the highest GDP per capita but had to take a slight loss at the end of the 1990s. The uneven development of GDP per capita within CEEC and even V4 mirrors the differences in the development of labor productivity. Hungary showed by far the best performance, whereas Bulgaria, Lithuania and Romania posted decade-long decreasing productivity trend (Martin et al, 2001, p 24).

At first view, V4 experienced a twofold process of economic convergence after joining the EU in 2004. Firstly, the income gap of V4 to the EU15 average decreased by one third (Jedlička et al, 2014, p 3). From 2003 to 2013 V4's average GDP in purchasing power standards has increased from 49 to 64 percent of EU15 (figure 1). Secondly, at the same time the income gap between V4 countries measured by their gap to EU15 decreased by more than 50 percent. Anyhow, *Borsi and Metiu*'s (2013, pp 13) analysis of convergence in the EU suggests evidence that V4 countries belong to different convergence clubs.

Figure 1. V4 Countries GDP per capita in purchasing power standards 2003 and 2013 (% of EU15)



Source: Jedlička et al, 2014, p 3.

It should be noted that the EU accession seems to be an important factor which creates gains from trade of almost equal size for Czech Republic, Hungary, Poland and larger gains for Slovakia (Calin-Vlad, 2013, p. 19). Another effect of the deeper integration via growing interdependencies in trade, especially intra-industry trade, is the expected long-run synchronization of business cycles in V4 countries with the Eurozone. Speeding up convergence requires convergence in fiscal policy as well as increase in labor market flexibility (Benčík, 2011).

The pre-crisis large dispersion of real GDP growth rates is expected to almost vanish in 2014, which also holds for the inflation rates whilst considerable differences still exist in public debt (Vida, 2014). *Fisher* (2012, p. 5) warns that "governments must take care to avoid large sustained increases in public debt, which can hurt international confidence and diminish long-term growth prospects."

V4 countries' exchange rate regimes in the 1990s till 2009 are characterized by regime changes and high fluctuations.[15] The growing dispersion in exchange rate fluctuations since 2008 has initiated a number of studies aiming to shed light on the correlation between exchange rates and fundamentals. *Stavárek* (2013, p. 95) concludes that the "most significant relationship with exchange rates was discovered for government debt and, to a lesser extent, for imports." It can be assumed that investors from China accustomed to relatively high stability of the Renminbi are deterred from the exchange rate uncertainties in V4. This does not only apply to diverging fluctuation paths but also to uncertainties regarding the future of their exchange rate regimes. With the exception of Slovakia's adoption of the Euro on 1st January 2009 the other V4 countries did not even join the ERM II and do not have a goal of adopting the Euro.[16] Tomanova (2014, p. 14) notes that for Hungary, Czech Republic and Poland exchange rate is a tool for dealing with exogenous shocks. However, the short-run reaction of exports on exchange rate fluctuations differs between these countries. Pomčnková et al (2014) point to the relevance of cross-country differences in sectoral specialization, which may reduce the synchronization of business cycles. Finally it must be

[15] Kočenda and Valachy (2006) describe the different exchange rate regimes of V4 countries in the 1990s and conclude that the volatility tends to increase after floating exchange rate regimes were introduced.

[16] For details see the Convergence Report (European Commission 2014). In 2013 Poland's Minister of Finance noted that the euro adoption remained a strategic goal for the government (Ministry of Treasury, Economic News, 27.02.2013). There are no similar signals from Czech republic and Hungary.

stated, that the split within the V4 group is the result of the combination of political will and economic factors. The small size of the economy and the strong political will to adopt the Euro has separated Slovakia from the other three V4 countries (Caroll, 2011). Despite the fact that Hungary and Poland currently do not fulfill the convergence criteria it seems that the political consensus to move quickly towards Eurozone membership is missing. The latter holds also for Czech Republic.

During the last decade V4 countries recorded considerable success in reducing their unemployment rates. Anyhow, when isolating long-term unemployment, a study of *Tvrdon* (2011) suggests evidence that long-term unemployment as share in total unemployment is the highest among EU member states. The increasing regional dispersion of unemployment in V4 – except Poland – till 2008 signals poor labor market efficiency. The unsatisfactory match between supply and demand leads to a wasteful utilization of the labor force. After 2008, this situation improved in Czech Republic, Hungary and Slovakia, but worsened in Poland.

In order to measure the depth of integration within the V4 group, respectively the economic interdependencies, an adequate measurement seems to be the response to economic shocks provides. Due to the growing integration of V4 countries into the EU-15 after the accession in 2004 it is to be expected that the reaction to macroeconomic shocks has synchronized. *Beck and Janus* (2014) find that with respect to supply shocks the correlation among V4 countries as well as with other EU members is low. Furthermore, the study identifies stronger supply shocks in V4 than in EU-15. Demand shocks among V4 show the highest correlation. This could be interpreted as a justification for the readiness to form a monetary union by the V4 countries (Beck and Janus, 2014, p 54).

More than 10 years ago *Fidrmuc et al* (2002, p. 2) found that "they [V4] are currently far from having formed an effective regional economic and/or monetary integration arrangement." Nowadays, the far distant observer, e.g. in China, might come to a similar result. Despite the fact that differences in macroeconomic performance also occur in other deeply integrated regions and crisis-related worsening of growth affects also other transition/emerging countries, objections are raised regarding the policy responses. *Novak* (2014, p. 10) points to the long-run negative effects of an emerging "postponement policy" in V4. The focus of governments on redistributive policies, the economic orientation on West European zero- or below zero-growth economies and the lack of a concept how to position V4 region in the global economy may curb investment initiatives of Chinese companies and/or OFDI supporting government institutions.

5. Policy recommendations

"The Visegrad Group will increase efforts to coordinate V4 policy on China in order to better benefit from cooperation between China and CEE countries. Common efforts would enable V4 countries to capitalize on the 12 measures introduced by China after the China CEE Economic Forum in April 2012."

2013-2014 Hungarian Presidency[17]

This part aims to discuss the policy options of the V4 countries to attract a higher share of Chinese OFDI respectively speed up the growth of Chinese OFDI inflows. From a policy-oriented view there are four general options: First, V4 group can "ride on the back" of EU's China strategy, especially aiming to bring in its common interest into the EU-China negotiations on an investment agreement. Second, V4 group can take the lead in China-CEEC relations.[18] Third, V4 group develops and implements an own China strategy. Finally, each member of the V4 group can undertake own initiatives. These options do not completely exclude each other. It is argued that the optimal choice is to rank these options and to develop a strategy that avoids contradictions and optimizes synergies. In special cases a cooperation of V4 countries with Western neighbors might result in successfully attracting Chinese investments, e.g. in Polish-German border regions.

The following proposals aim to extract from the above discussion some reasonable measures that could increase V4's attractiveness for Chinese OFDI. Further going proposals for fiscal, monetary and transformation measures are beyond the framework and scope of this paper.

5.1. V4-China "Go-Far-East and Invite-China" strategy

V4 should add a new chapter to its successful "Go West" venture and pave the way for a joint "Go-Far-East" venture and based on that implement an "Invite-China" strategy. Creating or increasing attractiveness for Chinese investment starts with awareness building and ongoing presence on the spot.

Political leaders in China perceive Central and Eastern Europe as a heterogeneous region with Poland as the leading and therefore first-point-

[17] Available at: http://www.visegradgroup.eu/documents/presidency-programs/20132014-hungarian

[18] The Chinese view on China-CEEC relations was given by Kong Tianping at a speech at Poland's Embassy on 27th February 2013, available at: http://pekin.msz.gov.pl/resource/2a451c0d-8d19-431d-895e-3f3de8746ec4:JCR

of-contact country. In principle, China considers its relations to CEECs as part of Sino-EU relations. In a speech at the Embassy of the Republic of Poland on 27th February 2013 *Kong Tianping*[19] noted that the "[R]elations with Central and Eastern European countries are embedded in the strategic framework of China-Europe relations. China's foreign policies towards Europe can be categorized into different layers: the relations with European powers (Germany France and UK); the relations with EU institutions; relations with subregions (Southern Europe, Northern Europe and Central and Eastern Europe). The forming of inter-government network for China-Central and Eastern Europe cooperation is one of the achievements of the Sino-CEE relations." There seems to be not much room for special China-V4 relations. As a consequence so far, V4 group had to incorporate its (still not clearly defined) China-related political interests into EU's China interest aggregation. In order to be attractive for Chinese companies, tourists, universities, V4 group needs to develop and successfully implement first of all a China-affine branding strategy and secondly a concept that guarantees V4's permanent presence and awareness in China.

V4 has achieved its main aims of joining the EU and NATO by going beyond declarations of cooperation. The strong common interest served V4 as a coordinative platform. The new challenges at EU's/V4's Eastern border may probably bind considerable efforts regarding coordinated actions. Strengthening V4's economic stability and sharpening its global competitiveness create space for political actions on the Eastern border. The economic contribution of East Asia, especially China, has not been evaluated so far. Based on an in-depth evaluation of a multi-disciplinary and multilateral expert group that highlights the potential of V4-East Asia economic relations, coordinated actions within an efficient institutional framework should exploit the potential of trade and investment gains to the advantage of all included parties.

Following the suggestions of *Jankowski and Grzegrzólka* (2014, pp 21) V4 should:

- increase its visibility by one-voice contributions at events that touch the interest of the V4 group, e.g. negotiations on an EU-China investment agreement,
- specialize in topics where well developed national strategies in each V4 country show the largest possible overlaps among V4,

[19]Professor and Director of the Research Center on Central Eastern European Countries of the Chinese Academy of Social Sciences, Beijing. Available at: http://pekin.msz.gov.pl/resource/2a451c0d-8d19-431d-895e-3f3de8746ec4:JCR

- pay attention to the economic powerhouse outside Europe by developing a consistent East Asia and especially China inviting strategy.

Political statements often suggest that there is a gap between an ambitious bundle of hardly cohesive aims, the strength of the institutional platform and the political and financial power to act. Therefore, the political leaders should agree on priorities and rank future activities by taking into account V4's capability to achieve the aims.

5.2. Branding V4

"Milan Kundera, Václav Havel, György Konrád, József Antall, Leszek Kolakowski, John Paul II all articulated a Central Europe defined not by geography but by values... We bring to the European level a specific brand... Ours is a powerful brand. It is a brand that has the huge advantage in today' s European Union of being reasonably successful... It is a brand worth developing, the more so as the Nordics and Benelux are already established groupings. Our brand is far bigger. It represents 65 million Europeans."

Radoslaw Sikorski, Poland's Minister of Foreign Affairs[20]

Since the beginning of the 1990s regional branding has gained attention as an academic discipline and a concept that allows regions to promote sustainable development. The bulk of the literature deals with regional branding of agricultural products or rural areas (e.g. Messely et al, 2009). Empirical studies suggest a number of positive effects such as increase in income, creating "cultural capital", facilitating networking and information flows, improving transparency (Martin, 2014).

The perception of V4 as a brand varies between government officials, academics and the public. "Visegrad coordinators were confident already in 2004 that Visegrad was a recognized 'brand name'." (Fawn, 2013, p. 347). *Koran* (2010, p. 117) considers the branding of V4 as "an extremely difficult task and as such it is a never ending story with not so satisfactory outcomes." According to a public opinion poll 40% of the citizens say that they do not recognize the term "Visegrad" (Zenker and Wartuschová, cited in Fawn, 2011, p. 347). Even if V4 is recognized as a brand, it has

[20] Sikorski, R. The Visegrad Group – Building the Brand, Speech at Hungarian Academy of Sciences, 05 July 2012. Available at: http://www.mfa.gov.pl/resource/c417f00d-b09e-42a9-8db9-d2654a535087:JCR

no regional reference. The larger the geographical distance of people who are confronted with V4 as brand, the lower is their perception of its location and characteristics. This might hold for Chinese who are used to think in regional categories.

Promoting V4 as an attractive region for Chinese investment has to start with "selling" V4 as a brand name. The soft part consists of a China-affine advertising campaigns, the hard part refers to the permanent institutionalized presence.

5.3. Institution building

Whereas treaties and agreements are often labeled with the location of their signature, regions are identified by geographical categories (in some cases by adding the political/economic type). The term "Visegrad Group – V4" lacks a regional dimension which might be a handicap to use it as a brand name which promises a special combination of geographical, economic, cultural assets. The term "Central Europe" makes it easier, especially for non-Europeans, to associate the four countries with their location.[21] This differentiates the group clearly from similar fuzzy terms such as G20, G8 etc. Till now, political leaders intend to foster a specific Central European grassroots identity (Fawn, 2013, p. 347). In order to document that Central Europe is more than a geographical definition, the reference to the institutional anchor increases awareness, acceptance as well as comparability with other regions. The present intergovernmental structure is on the low end of what could be called international institution. "Visegrad cooperation is not institutionalized in any manner" (Visegrad website: Aims and Structure). Anyhow, V4's challenges on the Eastern border as well as its ambitions to present itself globally as a "special region" within the EU need an institutional upgrading. It is argued that the institutional weakness allows "higher flexibility and openness to new ideas and content, more efficient spending of financial resources and possibilities of organizing ... coalitions with other countries" (Visegrad website – Arrival, Survival, Revival).

Since the outbreak of the Ukraine crisis the V4 Group has turned its main focus on closer regional defense cooperation (Budapest Declaration). The relatively weak institutional system of V4 might be overstrained with the implementation of additional aims, especially those where

[21]Fawn (2001) discussed the justification of the V4 group to represent Central Europe and concluded that the latter miss a well-defined identity. But "despite obstacles…Visegrad cooperation as a discernible membership and makes the best claim to defining 'central Europe'" (p. 66).

experiences and expertise cannot capitalize on a long tradition – which is definitely the case in political and economic relations with China. A starting point could be the creation of a multi-disciplinary advisory group aiming to work out a concept for a "Going-China" part as well as an "Invite-China" part including a work plan, financial plan and institutional development plan. Instead of coordinating China policies of V4 countries (see Budapest Declaration), the aforementioned independent advisory group should recommend an institutional framework for both parts of the strategy that takes into account the narrow scope of action. In order to avoid long lasting high-level political discussions a China initiative could start under the umbrella of the International Visegrad Fund.

A strong political signal to establish an institutionalized relationship with China might alleviate concerns of investors regarding the new challenges on V4's Eastern border. Empirical studies suggest that foreign investors often react on real and expected changes in political risks with an abrupt change in their sentiment[22]. *Khan and Akbar* (2014) find out that upper middle-income countries experience the strongest negative correlation between political risks and FDI.[23] As a side effect, a visible and long lasting institutional basis for the proposed "Go-Far-East and Invite-In" initiative might contribute to calming down the controversial discussions (for example McDonagh, 2014) on the future of V4.

5.6. Reach-out

First, the presence of V4 in China needs to be coordinated with V4's activities related to Japan and Korea. So far high-level V4 relations with Asian countries exist with Japan[24] and Korea[25]. Second, the size and diversity of China make it advisable to concentrate V4's China presence on a region, which offers the best fit in terms of economic, industrial and technological complementarity. Criteria that facilitate the search are amongst others the importance of automotive and electronics industry, the number of small and medium companies, the share of private companies, the access to the railway Chengdu-Lodž. A first step could

[22]There is no common sense on the risks that are included into the category of political risks. Sǎvoiu and Taicu (2014) discuss methods to extract statistically significant results from a number of studies.

[23]The study includes 94 countries but none of the V4 group.

[24]2014 is labelled as "V4 plus Japan Exchange Year" celebrating the 10th anniversary and further strengthening of their ties.

[25]Visegrad website V4 and RoK joint press statement, available at: http://www.visegradgroup.eu/calendar/2014/joint-press-statement

be the establishment of a "Visegrad House"[26] representing and "selling" Central Europe's economic advantages for investors, academics and students as well as tourists. Furthermore, it should be examined to what extent the achievements of the Asia policy that Hungary's Presidency of the Council of the EU in 2011 put on prominent place in its agenda (Szerdahelyi et al, 2011) still provide a basis for V4 in intensifying its relations with China.

At home, the V4 initiative should bundle China relations rather on working levels than on "talking levels" in order to increase the awareness and presence of V4 as an in some respect coherent European region. On the working level activities could include amongst others measures to increase the attractiveness of capital cities for Chinese tourists (e.g. selling them as a visiting package), to coordinate and revitalize sister cities and partner university relations, to intensify or implement China activities at V4 universities (e.g. contemporary China studies programs, common degree programs of universities in V4 and China).

Within the EU V4 group should strongly support TTIP negotiations. In case of implementation of TTP and TTIP China will be at risk of being excluded from the largest part of free trade in the Pacific and Atlantic area. China will also lose considerable power in shaping rules and regulations within the WTO. This may push China forward to shift production in manufacturing industries into the EU and to use TTIP to access the US market. V4 can be the main winner because of its cost-related advantages.

5.7. Improving V4's general attractiveness for FDI

In addition to the China-specific measures the V4 group can improve its attractiveness for foreign investors in fields such as improving transportation infrastructure (e.g. to link and deepen production networks), developing a region-wide innovative cluster network, furthermore, accelerating the obviously slagging privatization, creating the prerequisites for a venture capital market. As innovation is expected to be an increasingly important determinant for FDI from China (and other non-European countries), the innovation performance – measured by the relation of output innovativeness to input innovativeness – should be improved in lagging behind regions that are identified by two studies of *Golejewska* (2013, 2014). Innovation-focused studies have shown that on the one

[26]Besides the Visegrad House in Capetwon, Southafrika, which operates since March 2010, the Hungarian Presidency put the opening of a Visegrad House in Ho Chi Min City, Vietnam, on its agenda with expected results in 2015.

hand in open economies FDI inflows contribute to improvement of the host countries' innovative knowledge base. On the other hand, high innovation capacity in host countries is an important determinant of FDI inflows. This allows the plausible conclusion that countries such as the V4 should implement a combination of FDI attracting policies and innovation supporting policies. These policies should be embedded into a concept of a V4 embracing regional policy, which takes into account the slowly declining role of manufacturing industries (measured by share of employment and compared to Western European countries). *Kilar and Rachwal* (2014, p. 50) note that "the industrialized regions occurring in the area of Visegrad countries, being subject to intense changes as a result of increasing globalization in terms of shaping the knowledge-based economy, should seek to strengthen the role of modern industries."

As mentioned in part IV an important obstacle to non-European investors seems to be the different exchange rate systems in V4. Based on a panel gravity model approach, *Wojciechowski*'s (2013) analysis of the determinants of FDI from EU-15 finds out that Poland as the economic leader in V4 would benefit from joining the Eurozone. Slovakia experienced this effect after introducing the Euro. In their study on shock synchronization *Beck and Janus* (2014, p 54) conclude that "the Czech Republic and Poland are eligible to unify their currencies, and they also constitute, among all the analysed countries, the best two partners for Hungary to join a currency union."

A common "Invite-in" approach would increase the probability of an optimal allocation of FDI inflows. This in turn could lead to deeper regional division of labor, which finally results in increasing trade, most probably in intra-industry trade. Finally, it should be noted that an increase of Chinese OFDI contributes to the reduction of negative effects of V4's considerable trade deficit with China.[27]

6. Summary

6.1. Key findings

There is a general expectation that China's OFDI will continue to grow in the near future. China's home country push factors include the government's goal to promote OFDI so that it balances the IFDI, in-

[27] V4-China trade shows high growth since the beginning of the Millennium. V4's trade deficit grew till 2008 and is slightly shrinking since then. Poland's trade deficit with China is by far the largest, whilst Slovakia's deficit is the smallest (Chinese statistics show a surplus of Slovakia in 2011 and 2012); Czech Republic and Hungary are approximately in midway. A detailed analysis of V4-China trade provides a study edited by Mráz and Brocková (2014).

sufficient domestic demand that forces companies to search for alternative markets, production overcapacities, inadequate domestic protection of intellectual property rights that may push Chinese innovative firms to locate R&D activities abroad, Chinese managers with international experience eager to venture into foreign markets. Finally, Shanghai Free Trade Zone is expected to be the source of Chinese firms' OFDI as it provides easier bureaucratic procedures. Europe should benefit from China's growing OFDI due to its technology, attractive market as well as developed services sector that becomes more interesting for Chinese businessmen as their economy is supposed to shift more towards reliance on services. The EU countries should however make efforts in order to facilitate OFDI process for Chinese firms in terms of procedures such issuance of visas, permits and ability to carry out procedures in English. V4 countries offer Chinese investors the possibility to join clusters formed by local and Western European firms which would allow them to upgrade their manufacturing capabilities. The region has potential to become logistics and distribution center for Chinese companies operating in the EU due to cheaper land and labor. Finally recent political developments such as 16+1 cooperation triggered campaigns, conferences and scientific exchange that should contribute to Chinese people's better understanding of the CEE region and thus also result in more Chinese OFDI in V4.

V4's geographic location and its competitiveness are pull factors that are likely to attract a larger inflow of Chinese FDI. But there are several counteracting forces: institutional weaknesses, lack of branding strategy; lack of China strategy; exchange rate regimes, emerging disagreement of political leaders' view on the role of the EU as well as on political actions on the Eastern border. It is recommended to develop and implement a V4 "Go Far East-Invite-In" strategy which is firstly based on an external component consisting of a one-voice branding campaign, regionally focused, permanent presence, broad range of measures covering economics, culture, and education. Secondly, an internal component should provide an adequate institutional framework and a bundle of V4-specific integration measures ranging from infrastructure improvements, exchange rate arrangement, support for V4-wide innovative cluster building, agreed behavior towards the EU and Eastern neighbors. Third, V4's Far East/China strategy should benefit from EU-China and China-CEEC relations, but also contribute to strengthening of these relations.

6.2. Future research

Future research should shed light on three main topics. First, the China-oriented branding concept needs a scientific basis (determining the components of a V4 brand and their interdependencies, developing several brand models and testing them with respect to the perceptions of Chinese companies and citizens). Second, the search for a fitting region in China needs a broad stocktaking of economic, cultural and educational relations of V4 with China. Third, model-based empirical study should provide a ranking list of Chinese regions with the highest degree of complementarity regarding investment and trade relations. Fourth, a study of the national and sub-national components is needed, which determine the location choices of non-European FDI (including a comparison with FDI from Western European countries).[28] Knowing the impact of "nation-ness" and "local-ness" components on non-European companies to invest in V4 would allow to develop a targeted region-wide and even sector-specific FDI promotion concept, which would suggests efficient measures. Last but not least, research on the determinants of exchange rate fluctuations between V4 countries is of broader interest, however, non-European companies might perceive greater exchange rate stability as an important signal for a forward moving integration of V4.

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[28]Recently published studies (for example Casi and Resmini, 2011 and 2010) show the importance of the differentiation between national and regional/local level with respect to the FDI promotion policy.

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APPENDIX

A table 1 Components of future, outside and inside potential of competitiveness

Future potential	Outside potential	Inside potential
Social responsibility (L1-3)	Trade to GDP ratio (L3-4)	Burden of government regulation (L2-3)
Industrial disputes (L1)	Country credit rating (L4)	Quality of life (L4)
Energy infrastructure (L3)	Exchange rate stability (L3)	Collected total tax revenues (L3)
Total public expenditure on education per capita (L3)	Financial institutions' transparency (L3)	Pension funding (L2-3)
Ageing of society (L1-2)	English proficiency (L4)	GDP (PPP) per capita (L4)
Renewable energies (L3)		Real GDP Growth (L4)
Healthy life expectancy (L3)		Ease of access to loans (L3)
Ecological footprint (L1-2)		Rigidity of employment (L3)
Total expenditure on R&D per capita (L3)		Labour force (L4)
Total R&D personnel nationwide per capita (L3)		Skilled labour (L3)
Educational assessment / Mathematics (L3)		

Source: Bartha and Gubik, 2014, p. 140.

A table 2 Factors of the F-, O-, I-Index

F-index	O-index	I-index
F1 Human capital	**O1 National goodwill**	**I1 Business competitiveness**
Labour productivity (PPP) Overall productivity (PPP) Total health expenditure per capita Total public expenditure on education per capita Healthy life expectancy Total expenditure on R&D per capita	Parallel economy Investment risk Image abroad Country credit rating Brain drain Risk of political instability	Innovative capacity Productivity of companies Small and medium-size enterprises Information technology Large corporations
F2 Accountable corporations	**O2 Investment conditions**	**I2 Government intervention**
Ethical practices Social responsibility Credibility of managers	Foreign investors Exchange rate stability Capital markets Investment incentives State ownership of enterprises	Subsidies Finance and banking regulation Protectionism Legal and regulatory framework Ease of doing business Bureaucracy
F3 Quality of the education system		**I3 Availability of resources**
Educational assessment / Mathematics Educational assessment / Sciences Science in schools Educational system		Labour force Total primary energy supply per capita Burden of government regulation Employment rate Gross domestic savings

Source: Bartha and Gubik, 2014, p. 142.

A table 3 F-, O- and I-indices of the OECD countries

Country	F	O	I	Country	F	O	I
Australia	4.20	5.32	4.35	Japan	4.80	3.68	4.01
Austria	4.70	5.41	4.05	South Korea	4.00	4.26	3.33
Belgium	3.90	5.56	3.47	Luxembourg	5.30	6.56	4.45
Canada	3.90	5.41	4.50	Mexico	2.70	3.98	2.85
Chile	3.80	5.03	4.13	Netherlands	4.40	5.54	3.83
Czech Republic	3.10	4.97	3.57	New Zealand	4.20	4.52	4.00
Denmark	4.80	5.77	4.30	Norway	5.20	5.70	4.13
Estonia	3.00	4.94	3.08	Poland	2.90	4.42	3.07
Finland	5.00	5.72	4.02	Portugal	3.50	4.33	2.91
France	4.40	4.46	3.04	Slovakia	3.00	4.82	3.25
Germany	4.30	5.26	3.73	Slovenia	3.40	5.08	2.70
Greece	2.90	3.66	2.50	Spain	3.40	4.23	2.99
Hungary	2.90	4.56	2.55	Sweden	5.10	5.22	4.13
Iceland	5.90	2.33	4.42	Switzerland	5.40	5.37	4.89
Ireland	3.90	4.17	3.91	Turkey	3.30	3.63	3.14
Israel	3.60	4.89	4.13	United Kingdom	3.90	4.35	3.60
Italy	3.50	3.82	2.66	USA	3.80	4.27	4.47

Source: Bartha and Gubik, 2014, p. 141.