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ECONOMIC COOPERATION OF THE COUNTRIES OF CENTRAL AND EASTERN EUROPE WITH THE PEOPLE'S REPUBLIC OF CHINA¹

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ABSTRACT

The aim of the paper is an assessment of the current state of economic cooperation between the People's Republic of China and the countries of Central and Eastern Europe. We present volumes and structure of Chinese trade and investments in the region in the period 2010-2017.

At present, the countries of Central and Eastern Europe are becoming some of the most important directions for China to develop foreign economic relations, which is confirmed by the inclusion of European countries in the Chinese initiative "Belt and Road" and the development of the "16+1" interaction strategy. Strengthening of economic ties with China stimulates the flow of Chinese capital to the region, which is necessary for modernizing the infrastructure of the CEE countries, while the People's Republic of China will receive new logistics routes for its products and strengthen its positions in the European market.

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JEL Classification: F02, F15, F36, F55

INTRODUCTION

Recently, China has become one of the key partners of the Central and Eastern Europe. The role of the Chinese initiatives "16+1" and "Belt and Road", aimed at developing the transport infrastructure of the countries of Central and Eastern Europe, is growing rapidly. The goal of the paper is an assessment of the current state of economic cooperation of the People's Republic of China (PRC) and the countries of Central and Eastern Europe (CEECs).

The problems of economic relations between the countries of Central and Eastern Europe and China are in the focus of attention of many researchers. For instance, Zhdanova, Istomin (2017) describe some strategies and economic problems of development of China–EU bilateral relations in general, using theoretical and comparative analysis. The article shows mutual benefits of China–EU relations, in particular, they conclude that EU seeks to maintain the position of a key recipient of investment and an important partner of China in the development of both bilateral and exclusively Chinese infrastructure projects. China, in turn, is interested in the European Union, which offers its highly liquid market for the sale of goods and services.

Mikheev, Shvydko (2016) deal with platforms of economic cooperation of China and Central-Eastern Europe. The article analyses economic consequences of the platforms and Chinese initiatives on bilateral relation of China and Central and Eastern Europe. China increases its role in the region by the means of infrastructure investments.

Chen (2016) analyzes the business environment of CEECs and the development of the cooperation between China and 16 countries of the region under the "16+1" initiative. According to the study, the cooperation between China and CEECs almost matched their business environments. Also, China's "16+1" initiative should be based on political cooperation, perceive financial cooperation as a lever for strengthening bilateral cooperation and modernizing the transport infrastructure of the CEE countries in order to achieve interconnectedness and facilitate trade.

Kizekova (2018) shows the differences in the approaches of individual countries to the Chinese format of cooperation and questions the benefits in relation to promised investments and real outcomes. The article concludes that the common European strategy concerning Chinese initiatives is still under developing. The CEECs will benefit if Chinese initiatives complement the objectives of the EU, reducing unproductive competition and improving the overall benefit of Europe's relationship with China.

Karášková, Matura (2018) take the example of Slovakia to demonstrate the flexibility of the Chinese strategies and the possibilities for further development

of China's relations with the CEECs. The study finds that the Chinese strategy is multidimensional and takes into account all the features of each country in the region. Even countries with underdeveloped economic relations with China now have new opportunities to strengthen ties with China.

Our analysis covers the period 2010–2017, and trade and investment relations between China and 16 countries of CEECs, which includes 11 EU members: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, and 5 non-EU countries: Albania, Bosnia and Herzegovina, Montenegro, TFYR of Macedonia and Serbia.

The article is organized as follows. Section 1 describes the China's strategy in the region. Section 2 presents the current state and structure of trade between CEECs and China. Section 3 gives a review on volumes and structure of Chinese investments in the region.

1. CHINA'S STRATEGY IN CENTRAL AND EASTERN EUROPE

A new step in the development of economic interaction between China and CEECs was the Chinese initiative to establish a platform for international cooperation with sixteen CEE countries, the "16+1" strategy, announced in 2012 in Poland. The countries of Central and Eastern Europe represent the strategically important region for China, which largely reflects their transition aimed at integration with the European Union. Strengthening economic cooperation with the CEE countries through bilateral investment agreements and possible free trade zones will help China to strengthen its position on the European market (Anosova, Editus, 2017).

The Chinese initiative "16+1" is similar to other Chinese strategies to penetrate foreign markets, but at the same time, it actually became one of the main platforms for strengthening cooperation in the framework of the initiative "Belt and Road" declared by China in 2013, which should contribute to the economic integration of China, Asia and Europe by improving infrastructure and expanding trade and investment. As a part of this broader initiative, Europe is becoming one of the best destinations for Chinese capital, and in this context, the CEECs represent a potential gateway for China to further strengthen its growing economic and political influence in Europe.

All countries in the region are included in the Belt and road initiative, which demonstrates the importance of Central and Eastern Europe in the Chinese strategy. Each country has its own role and contributes to bilateral cooperation between China and Europe (Karásková, Matura 2018).

Also of great importance is the large potential of the CEE countries in the transport infrastructure (ports, highways, railway networks) that dovetails with the Chinese initiative "Belt and Road", the goal of which is to penetrate into the Eurasian continent by means of investments and development of trade routes (Glinkina, Turaeva, Yakovlev, 2016). Europe is the western end point of the Chinese "Belts and the Way" initiative. As members of the EU, the countries of

Central and Eastern Europe are part of the European market. Of course, the volume of China's trade with the Central and Eastern region is much smaller than with Western Europe. Therefore, China seeks to build distribution networks and modernize the regional transport infrastructure of the countries of Central and Eastern Europe in order to stimulate bilateral trade.

While it is clear that the 16+1 initiative is aimed at enabling China to send more of its goods, capital, labour and services to Europe, it has been widely welcomed in CEE countries as a basis for bilateral and multilateral projects in trade, investment and transport networks.

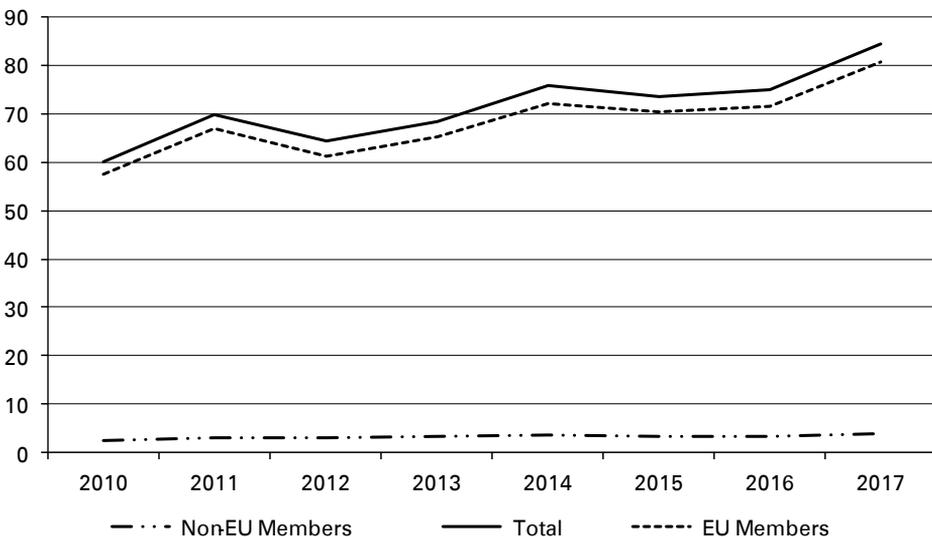
China's economic relations with the CEECs are mutually beneficial. By means of the Chinese "Belt and Road" initiative, China strives to resolve its internal problems, while the countries of the region receive the necessary capital for the modernization of their transport infrastructure.

2. TRADE RELATIONSHIPS

2.1. TRADE TURNOVER AND TRADE BALANCE

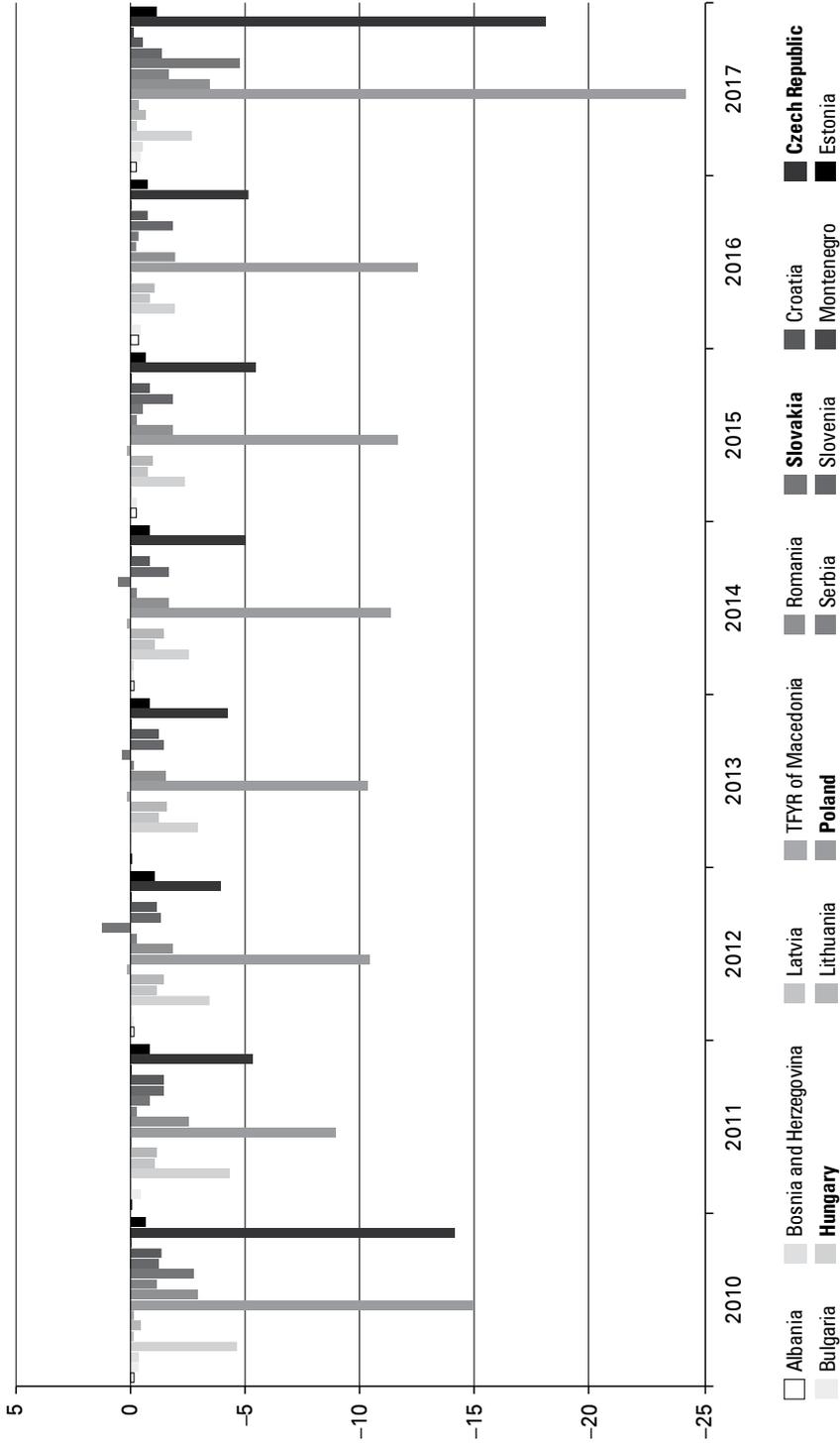
As for the foreign trade of the countries of Central and Eastern Europe, the European Union is the main trading partner, although in recent years the share of Asian countries has increased significantly, mainly thanks to the PRC. The volume of trade between the PRC and the CEE countries is characterized by a high level of dynamism (see Figure 1).

Figure 1. Volume of trade of Central and Eastern European countries with China (2010–2017, in billions US Dollars)



Source: Compiled according to UNCTADstat, URL: <https://comtrade.un.org/data/>

Figure 2. Volume of the trade balance of Central and Eastern European countries with China (2010–2017, in billions US Dollars)



Source: Compiled according to UNCTADstat, URL: <https://comtrade.un.org/data/>

China has become one of the key trade partners of the countries of Central and Eastern Europe in Asia, especially the large share of trade with the PRC is concentrated in the states of the Visegrad Group. Positive growth dynamics can be traced both in exports and in imports of the CEE countries from China.

According to UNCTADstat data, Poland had the largest volume of trade turnover with China in 2016, which accounted for 30.1% of total Chinese trade with Central and Eastern Europe. Among the countries of the region should be also singled out Czech Republic, Hungary, Slovakia, Romania, Slovenia and Bulgaria as their volumes of trade turnover with China are high. Namely, Czech trade turnover with China accounted for 18.7% of total Chinese trade with the region, Hungary's – 15.1%, Slovakia's – 8.9%, Romania's – 8.3%, Slovenia's – 4.6% and Bulgaria's – 2.8%. The EU member states have larger volumes of trade with China than non-EU members. Membership in the EU has increased China's interest in the development of trade with the country. Common feature of trade with China for all countries of Central and Eastern Europe is the growing negative trade balance (see Figure 2).

According to UNCTADstat data (see <https://comtrade.un.org/data/>) in 2017, the share of exports of the countries of the region to China accounted for 0.53% of total Chinese imports that is 0.1% higher than in 2016. The share of exports of the CEE EU members to China is 0.5%, meanwhile the share of non CEE non-EU states is 0.01% of Chinese imports in 2017.

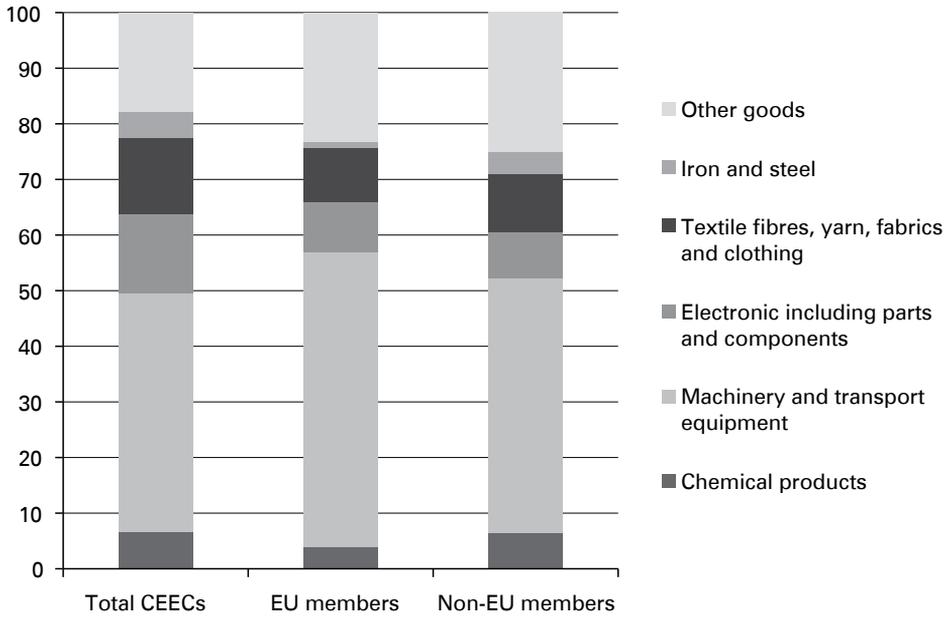
According to UNCTADstat in 2017, the share of imports of the countries of the Central and Eastern Europe from China accounted for 3.95% of total Chinese exports that is 0.15% lower than in 2016. The share of imports of the CEE EU members from China is 3.76%, while CEE non-EU states' imports from China are 0.19% of Chinese exports in 2017. So, the share of imports of the countries of the region from China is higher than their exports to China.

In recent years, there has been a favorable trend of faster growth of exports from Central and Eastern Europe to China, compared with Chinese exports to the region (in 2017, an increase of 19% and 12%, respectively), as well as an increase in the share of CEE countries in the Chinese market. However, the absolute growth of CEE exports to China remains far below the absolute growth of Chinese exports to these countries. As a result, the increase in trade turnover between them in 2011–2017 was mainly due to the growth of Chinese exports and the trade deficit of Central and Eastern Europe in trade with China increased by 34%.

2.2. STRUCTURE OF TRADE

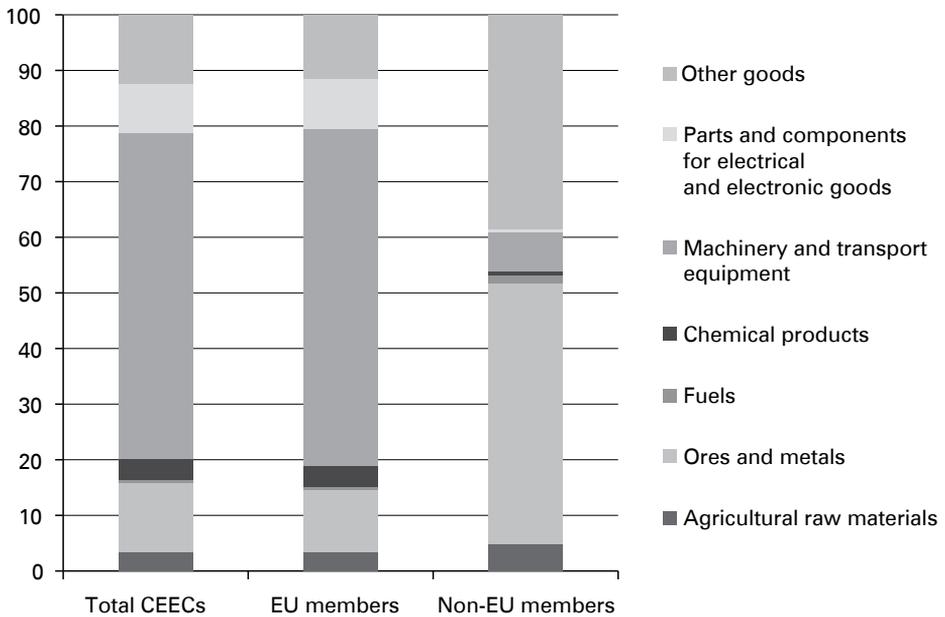
China exports mainly machinery and transport equipment, electronics and communication equipment, textiles and chemical products to Eastern European countries. Machinery and transport equipment account for about 32% of China's total exports to the region, with textiles and electronics accounting for 9.1% and 8.9% respectively. The main part of Chinese exports is represented by goods with low or medium added value (see Figure 3).

Figure 3. Structure of Chinese exports to the CEECs (in 2017, in %)



Source: Compiled according to UNCTADstat, URL: <https://comtrade.un.org/data/>

Figure 4. Structure of Chinese imports from the CEECs (in 2017, in %)



Source: Compiled according to UNCTADstat, URL: <https://comtrade.un.org/data/>

As for the export of the CEECs to China, it is not homogeneous in its structure and technologies and it reflects Chinese needs for European manufactured goods, mainly machinery and transport equipment and electronics, as well as mineral and agricultural raw materials.

According to UNCTADstat, in 2017 the CEE countries supplied USD 11.7 billion worth of machinery and transport equipment to the Chinese market, which accounted for 58.6% of their total exports to China. The vast majority of these supplies were provided by Hungary (USD 3.3 billion, accounting for 74.5% of total Hungarian exports to China), Czech Republic (USD 2.8 billion or 71% of Czech exports to China), Slovakia (USD 2.5 billion or 92.7% of Slovak exports to China) and Poland (USD 1.3 billion or 37.9% of Polish exports to China).

The value of exports of ores and metals amounted to USD 2.5 billion, and their share in total exports to China is 12.7%. The bulk of the supply of goods of this group was provided by Poland (30.2% of Polish exports to China), Bulgaria (72.3%), Romania (9.3%) and Albania (89.9%). Agricultural raw materials accounted for 3.3% of total CEE exports to China.

Electronics, including parts and components, are China's only significant high-tech export to CEE countries. Their share in the commodity structure is almost 9% of Chinese export to the region. It should be noted that the Chinese exports of this commodity group remain stable for at least five years. This means that it is difficult for Chinese producers to find other competitive advantages than labor costs.

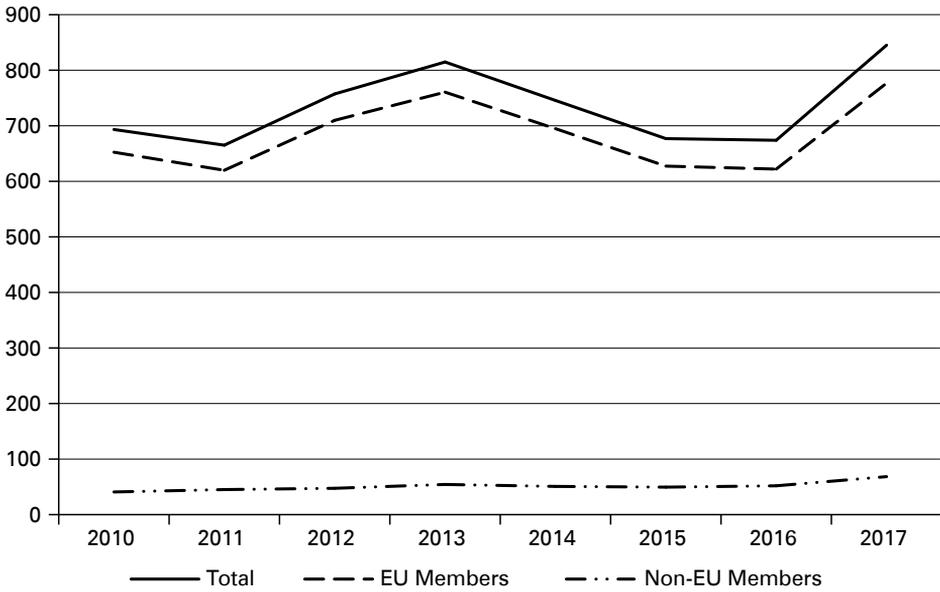
3. INVESTMENT COOPERATION

3.1. CHINA'S INVESTMENT STRATEGY IN THE REGION

According to Ernst & Young estimates for 2012 (see: www.ey.com/gl/en/home), Central and Eastern Europe ranks third in the world in attractiveness for foreign investment. In the 1990s, the CEECs liberalized investment regimes, gradually reducing restrictions on the activities of foreign investors, as a result of which a model of dependent capitalism was built in CEECs (Glinkina 2016), which allowed them more than 20 years to be considered one of the most attractive regions for long-term investments. The reasons for this were systemic transformation and openness of economies for foreign investors, relative cheap labor and profitable European territorial location, as well as general economic security associated with membership in international organizations and entry into the European Union in 2004, which further increased the interest of foreign investors.

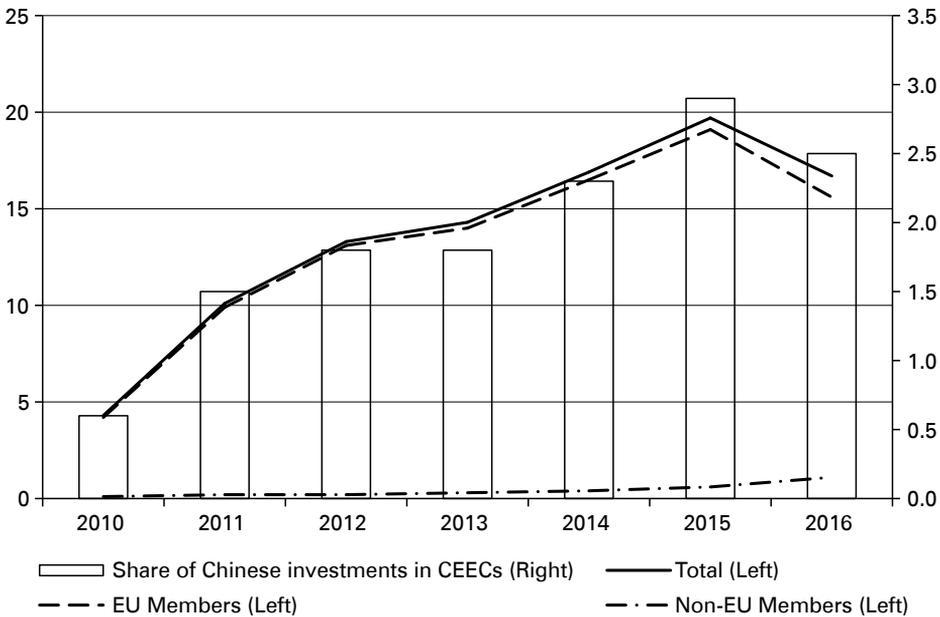
China's investment activity in the CEECs, like trade relations, is developing with varying degrees of intensity, reflecting the factor advantages of the countries. The dynamics of accumulated foreign direct investment for the period from 2010 to 2017 shows how successfully reforms and liberalization of investment regimes in CEE countries were implemented, as the volume of attracted FDI

Figure 5. Volume of total FDI stock in Central-Eastern Europe (2010–2017, in billions US Dollars)



Source: Compiled according to UNCTADstat, URL: <https://comtrade.un.org/data/>

Figure 6. Volume of accumulated Chinese direct investments in Central-Eastern Europe, (2010–2017, in billions US Dollars)



Source: Compiled according to UNCTADstat, URL: <https://comtrade.un.org/data/>

varies widely between countries. Some researchers believe that such an uneven distribution of foreign direct investment in CEE countries cannot be fully explained by traditional factors (Glinkina 2016). In addition to the traditional factors that influence the inflow of FDI, transformational factors also have a significant impact. Obviously, after joining the EU, the competitive advantages of the new member states have improved.

Although China considers the Central and Eastern Europe as an economic bloc, some countries seem to be more popular investment destinations than other European countries. Among the countries of Central and Eastern Europe should be singled out Hungary, Poland, Romania, Bulgaria, Czech Republic and Slovakia, as they attracted a significant amount of Chinese investment. These countries are interested in evaluating economic relations with China as Chinese FDI has a key role in developing and restructuring their economies. In addition, a significant influx of Chinese investment played an important role in restoring the region from the financial crisis (Jacimovic et al., 2018).

According to UNCTADstat data, Hungary attracted the largest share of Chinese investment in 2016, accounting for 37.8% of total Chinese investment in Central and Eastern Europe. The second place is taken by Poland (17.7%), followed by the Czech Republic (13.8%), Bulgaria (10.7%), Romania (9.4%) and Slovakia (5.4%). The greatest amount of Chinese investment has been received by the EU member states. In 2016 the CEECs accumulated Chinese investments in amount of 24.7% of total capital stock, that is 5% lower than in 2015. CEE EU members received 25.1% of their total accumulated investment stock, meanwhile CEE non-EU states attracted 20.2%.

Active inflow of Chinese direct investment in the countries of Central and Eastern Europe began at the beginning of 2012 after introduction of Chinese initiative “16+1” (see Figure 6). The main reasons for China’s growing investment interest in Central and Eastern Europe are as follows.

Central-Eastern Europe has a strategically ideal geographical location for the Belt and road project, which can significantly reduce the time and costs for the delivery of Chinese goods to Europe.

The geopolitical position of Central and Eastern Europe, namely, the membership of most of the countries of the region in the EU, provides Chinese companies that have entered their markets with access to the market of the whole European Union. This allows China to regard the region as a springboard for the production or assembly of goods with their subsequent sale in all European countries.

China’s investment interests in Central and Eastern Europe may be linked to current opportunities for privatization and participation in large-scale infrastructure projects, as well as access to public procurement.

Chinese investment strategy changes in the direction of improving the efficiency of FDI, in Central and Eastern Europe, positively influence the quality of human capital (essential in the production of goods for developed markets) and the relatively low costs of labor. As the cost of labor in China increases, manu-

facturers may find it more advantageous to locate their businesses closer to European destination markets.

The increase in the flow of Chinese investment to Central and Eastern Europe is not only one of China's key objectives, but is also welcomed by the leaders of the region, but the implementation of this strategy, despite the listed competitive advantages of CEE, is slower than expected at the time of the creation of the "16+1" format.

3.2. STRUCTURE OF CHINESE INVESTMENT

The priority sectors for FDI identified by the Chinese authorities vary according to the specialization of each country. For countries with less developed industries, mainly in the Western Balkans, mining, woodworking and food processing operations are recommended, with state-owned commodity companies listed as potential acquisition targets. In more developed countries, such as Hungary, Poland and the Czech Republic, the emphasis is on information technology, automotive, electronics, biotechnology, nanotechnology, precision engineering, research centers.

Most of the Chinese FDI in Central and Eastern Europe during 2000-2014 was invested in assets in the energy sector (28%), automotive (13%), agriculture (12%), real estate (11%), industrial equipment and machinery (9%), the sector of information and communication technology (6%) (Evans et al., 2015).

In recent years, reflecting the focus of the Chinese investment strategy on the modernization of technology and the acquisition of recognizable brands, the focus has shifted to the purchase of advanced production assets (Drahokoupil, 2017).

According to China Global Investment Tracker (see <http://www.aei.org/china-global-investment-tracker/>) in 2016-2017, Chinese FDI in Central and Eastern Europe was directed to electronic industries, the energy sector and transport infrastructure. In 2016, Chinese companies invested USD 1.3 billion in real estate in the Czech Republic. In 2017, the Chinese company Zhejiang Jinke invested USD 1.05 billion in services in Slovenia. The Chinese Eximbank in the same year allocated USD 210 million to the modernization of telecommunications in Hungary. In Romania, USD 350 million was invested by Chinese investors in the energy complex. Poland also received in 2017 USD 150 million of investment in the modernization of the energy complex from the Chinese Power Construction Corporation.

CONCLUSIONS

In general, the development of China's economic relations with the countries of Central and Eastern Europe within the framework of the "16+1" strategy can be considered mutually beneficial. In fact, China provides investments in

exchange for the market for its manufactured goods. In turn, the countries of Central and Eastern Europe, accustomed for several decades that economic growth depends on foreign investment, see a new driver of economic development in Chinese investments.

The transformation of China into one of the key foreign investors in the countries of Central and Eastern Europe is accompanied by a rapid growth in trade turnover, with the growing positive Chinese trade balance. Hence, Chinese initiatives “16+1” and “Belt and Road” both can be considered as one of main factors that stimulate volumes of bilateral trade and Chinese investments into the Central and Eastern Europe.

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WSPÓŁPRACA EKONOMICZNA KRAJÓW EUROPY ŚRODKOWEJ I WSCHODNIEJ Z CHIŃSKĄ REPUBLIKĄ LUDOWĄ

STRESZCZENIE

Autorzy analizują współpracę gospodarczą krajów Europy Środkowej i Wschodniej z Chińską Republiką Ludową. Obecnie kraje Europy Środkowej i Wschodniej stają się jednym z najważniejszych kierunków rozwoju stosunków gospodarczych z Chinami, co potwierdza włączenie krajów europejskich do chińskiej inicjatywy „Jeden pas – w jedną stronę” i rozwój strategia interakcji “16+1”. Wzmocnienie więzi gospodarczych z Chinami stymuluje przepływ kapitału chińskiego do regionu, który jest niezbędny do modernizacji infrastruktury krajów EŚiW, podczas gdy Chińska Republika Ludowa otrzyma nowe szlaki logistyczne dla swoich produktów i wzmocni swoje pozycje na rynku europejskim.

Słowa kluczowe: Europa Środkowa i Wschodnia, Chińska Republika Ludowa, nowy jedwabny szlak, Strategia “16+1”.

Klasyfikacja JEL: F02, F15, F36, F55