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CHINA-V4 TRADE RELATIONS 2000-2012 – AN OVERVIEW

Kong Tianping[1]

The trade relations between China and Visegrad states have special position in consolidation of pragmatic cooperation between China and CEEC. This paper will put the cooperation between China and V4 in the global economic landscape, analyze the characteristics of China-V4 trade, point out the change of trade structure in the last 13 years, give some policy recommendation for improvement of China-V4 trade relations.

Key words: China, Visegrad Group, V4, Central Europe, China-V4, Foreign Trade,
JEL: F100, F140,

1 INTRODUCTION

After the EU enlargement in 2004, 8 countries from Central and Eastern Europe (CEE) became the full member states, Visegrad countries joined the EU. Before the enlargement, China published China's EU Policy Paper, which was aimed to the enlarged EU. China didn't have clear-cut policy towards CEE although China's interest in CEE increased. After the global financial crisis, the relationship between China and Central and Eastern Europe countries (CEEC) has strengthened. During Prime Minister Wen Jiabao's official visit in Hungary in June 2011, he delivered a speech at China-Central and Eastern European Countries

Economic and Trade Forum, expressed the political will to tap the potential of the bilateral trade. China started to deal with CEEC in regional approach. China has expanded the scope of its European policy, increased its engagement with CEEC. The regional approach signaled a new way of thinking in the Chinese EU-policy (Juhász Ottó 2013,). Premier Wen stated that trade between China and CEEC takes up less than 4 percent in respective total foreign trade, and less than 10 percent in China-EU trade. 2012 saw the substantial improvement of the relations between China and CEEC, Central and Eastern Europe was on the agenda of China's foreign policy.

Premier Wen paid official visit in Poland in April 2012, announced the 12-point measures to consolidate the relationship between China and CEEC, the formation of China-Central and Eastern Europe Cooperation Secretariat within the Ministry of Foreign Affairs could be seen that China is ready to further boost the relations between China and CEEC. He mapped out the ambitious plan to double the value of trade between China and CEEC to the level of 100 billion USD by the end of 2015. After the transfer of power in leadership, the new leadership continued the main line of foreign policy of previous leadership. New premier Li Keqiang's tour in Romania in November 2013 demonstrated that there was no substantial change of China's policy towards CEEC. It was rare that chinese premier

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paid official visit in CEEC in 3 consecutive years in the last two decades. Premier Li also mentioned the issue of trade, made a proposal to double the trade volume in 5 years.

While Central and Eastern European countries suffering from the global financial crisis turned to China to seek economic cooperation and trade promotion. Hungary expressed its readiness to act as a long standing economic, financial and logistic bridgehead in the South-East European region when premier Wen visited Hungary. Some Central and Eastern European countries reiterated that they can serve as China's gateway towards the markets in EU, the world's largest economic bloc. As the consequence of global financial crisis, especially the Euro-zone debt crisis, the fall of demand in the West compelled firms to look for market outside Europe, China as one of the largest emerging markets was regard as an option.

Central European government actively sought the way to deepen economic relations, Poland launched "Go China" strategy aims at encouraging Polish entrepreneurs to cooperate with Chinese business partners, explore the booming Chinese market. China Investment Forum held in Czech Republic was aimed to give the boost to the economic relations between China and Czech Republic. Both political leaders and business leaders demonstrate the willingness to develop economic and trade relations in the last 3 years. The window of opportunity has opened.

The economic relations between Asia and CEEC arise interests in academic community in recent years (Krystyna Palonka 2010, Andrea Éltető and Katalin 2013, Andrea Éltető and Patryk Toporowskihis 2013) The paper will put the cooperation between China and V4 in the global economic landscape, analyze the characteristics of China-V4 trade, point out the change of trade structure in the last 13 years, give some policy recommendation for improvement of China-V4 trade.

2 CHINA AND V4 IN THE WORLD ECONOMY

Both China and Visegrad countries underwent the process of economic transformation in the recent 2 or 3 decades. China started reform and opening after 1978, gradually introduced socialist market economy, maintained sustainable high-speed economic growth, made China become the economic powerhouse. Communist-led China enthusiastically embraces globalization, opens its economy to the outside world. China's entry into WTO at the end of 2001 is an event of milestone that drives the growth of foreign trade. In the last decade prior to China's WTO accession, China's growth in foreign trade averaged 15.5% per annum. In the next ten years from 2002 to 2011 following the accession, the average yearly growth rate increased up to 22.6%.

After the global financial crisis, China's foreign trade slowed down substantially. China's imports and exports decreased by 13.9% in 2009 as China felt the pinch of the the shocks from the US sub-prime crisis. China's foreign trade saw strong recovery in 2010, increased by 34.7%. Comparing to previous year, China's foreign trade surged 22.5 percent in 2011. As the consequences of weak demand of the external market, especially the effects of the sovereign debt crisis in Europe, growth in China's foreign trade in 2012 slowed to 6.2%, the lowest since 2009 and the fourth slowest during the past two decades. China's foreign trade dependence ratio rose sharply after it entered the World Trade Organization in 2001, hitting a record high of 67 percent in 2006.

The ratio has declined since then. According to the General Administration of Customs, China's foreign trade dependence ratio dropped 3.1 percentage points to 47 percent in 2012. As China is the

world's largest exporter and second-largest importer, China becomes a trading power. As China's value of exports and imports reached 4.16 trillion USD in 2013, China overtook the US, became the the world's largest trader in goods for the first time. It is a landmark milestone for China's foreign trade. In spite of the shock from the global financial crisis, Visegrad countries remains the most successful transition economies.

Over the last 25 years, Central Europe has become a zone of peace, stability and prosperity in Europe because the painful and drastic reform introduced in the early 1990s has borne fruits. Poland is one of the successful stories of economic transition, Poland has kept the good record of Poland's economic growth in the last 20 years, the catching-up process has accelerated. Poland realized positive economic growth in 2009 when global economy and European economy was in recession. Historically, last two decades can be regarded the best period in the last 300 years. Some economists conclude that Poland "has just had probably the best 20 years in more than one thousand years of its history."(Marcin Piatkowski 2013). Visegrad countries have roughly the population of France, a third of Germany's GDP and an intra-European Union voting weight equal to France and Germany combined. It has sizeable latent strategic potential (Robert Kron 2013).

Both China and Visegrad states support for open economy and free trade. As table 1 and table 2 show, China is less dependent on foreign trade than Visegrad countries. For V4 countries, after the EU enlargement in 2004, the share of the imports of goods and services in GDP and the share of the exports in GDP increased noticeably while China followed the reverse trend, the share of the imports of goods and services in GDP and the share of the exports in GDP decreased in the same period. It should be noted that Poland's economy relies less on foreign trade than other Visegrad states among V4. If we put the GDP of Visegrad states together, the combined GDP of V4 in 2012 is 902.5 billion USD.

The share of V4 in world total merchandise exports and imports is 2.85% and 2.74%. China as the second largest economy and largest trader in the world continues the market-oriented economic reform after the change of leadership, will create more opportunity for the development of trade relations with Visegrad states.

Table 1: Imports of Goods and Services Average as a percentage of GDP

	2004	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***
Czech Republic	62.1	61.7	64.0	65.6	62.1	55.7	64.7	70.7
Hungary	66.9	68.1	78.7	80.4	81.2	72.7	80.0	85.1
Slovakia	77.3	80.9	88.5	88.0	85.9	71.7	82.6	86.5
Poland	39.8	37.8	42.2	43.6	43.9	39.4	43.5	45.9
China	31.4	31.5	31.4	29.6	27.3	22.3	25.6	26.0

Source: OECD Factbook statistics.

Table 2: Exports of Goods and Services Average as a percentage of GDP

	2004	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Czech Republic	63.0	64.4	67.0	68.2	64.4	59.7	67.9	74.9
Hungary	63.3	65.9	77.7	81.3	81.7	77.6	86.5	92.5
Slovakia	74.5	76.3	84.5	86.9	83.5	70.9	81.2	89.1
Poland	37.5	37.1	40.4	40.8	39.9	39.4	42.2	42.8
China	34.0	37.1	39.1	38.4	35.0	26.7	29.4	28.6

Source: OECD Factbook statistics.

3 CHINA'S TRADE WITH V4: MAIN CHARACTERISTICS

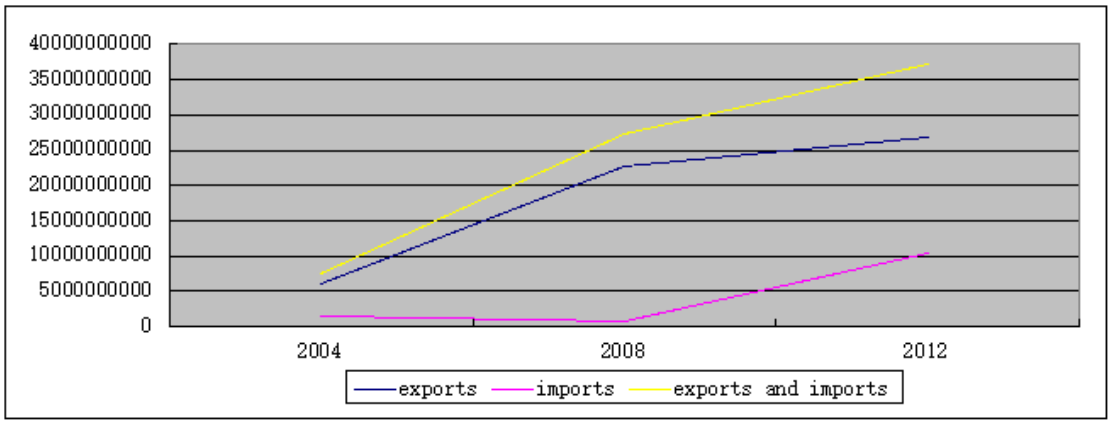
3.1 Asymmetry of trade partner between China and V4

China is the most populous country in the world, it's population is about 1.35 billion, therefore it becomes one of the largest emerging market. Visegrad countries are small and open economies, their combined population is about 64.4 million. Comparing with China, the market size is quite small for individual Visegrad countries. V4 is not the major market for China. China's total value of exports to V4 accounted for 1.3% of the total value of export in 2012, the total value of imports from v4 is 0.57% of the total imports. For Visegrad countries, China is not their major exports market, however, China is their major import partner. Based on the date from Observatory of Economic Complexity, the share of imports from China in Czech Republic accounted for 13% of total imports, the share of total imports in Poland, Hungary and Slovakia is 10%, 8% and 6% respectively.

3.2 China'a trade with V4 increased steadily

It is acknowledged that China's trade with CEEC is not as large in volume as with Europe's other region, but it is growing at a rapid rate (Judit Hamberger 2013). Bilateral trade between China and Visegrad states grew rapidly 2000-2012 (figure 1). The value of trade between China and V4 in 2000 was 2.44 billion USD, of which China's exports was 2.15 billion USD, the imports from V4 was 0.29 billion USD. The value of trade between China and V4 in 2012 reached 37.25 billion U.S. dollars, of which China exported $ 26.8 7billion, imports of $ 10.38 billion. The value of trade between China and V4 in 2012 is more than 16 times than the figure in 2000. The share of value of China's exports to V4 was 1.3% of the total value of exports in 2012 while the share of the value of China's imports from V4 was 0.57% of China's total value of imports.

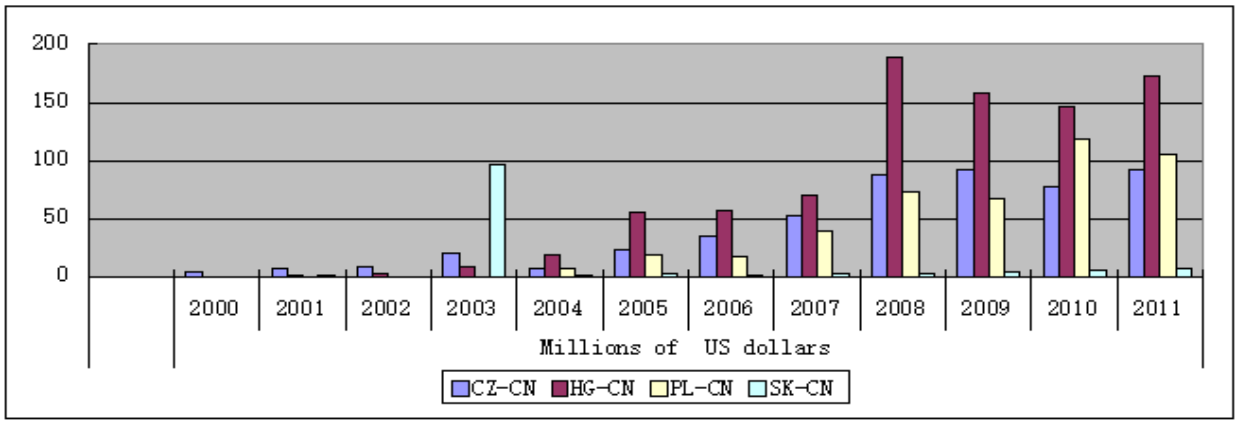
Figure 1: The Trend of China's Trade with V4 ((USD 10,000)



Source: China Statistics Yearbook.

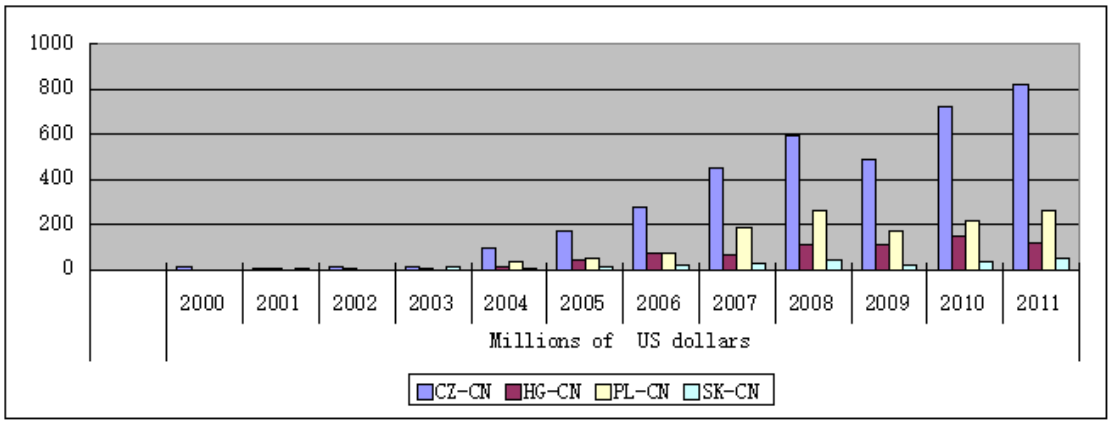
Based on the Data from OECD, It can be found out that China exports more service than imports (Figure 2 and Figure 3). China's exports of services to Czech Republic increased from 0.01 billion USD to 0.82 billion USD from 2000 to 2011. The exports of services to Hungary and Poland reached 0.12 billion USD and 0.26 billion USD respectively in 2011. China;s exports of services amounted to 0.04 billion USD. China's imports from Hungary and Poland increased to 0.17 billion USD and 0.10 billion USD respectively in 2011 while China'a imports from Czech Republic amounted to 0.09 billion USD, the imports from Slovakia was 7.5 million of USD.

Figure 2: The Exports of Service to China by V4 (2000-2011)



Source: OECD.

Figure 3: The Imports of Service from China by V4 (2000-2011)



Source: OECD.

After the historical big bang enlargement, Czech Republic, Hungary, Poland and Slovakia became the full member sates of the European Union. Naturally the trade relation between China and Visegrad countries became the part of China-EU trade relation. The value of exports and imports between China and V4 in 2004 was around 7.52 billion USD while the value of exports and imports between China and EU was 177.2 billion USD, the share of China'a trade with Visegrad group was 4.2% of the trade between China and European Union in 2004.

The value of exports and imports between China and Visegrad group reached 37.2 billion USD in 2012, while China's trade with EU amounted to 546.04 billion USD in the same year, the share of the trade between China and V4 raised to 6.8% of the trade between China and enlarged EU with 27 member states.

3.3 Trade Imbalance

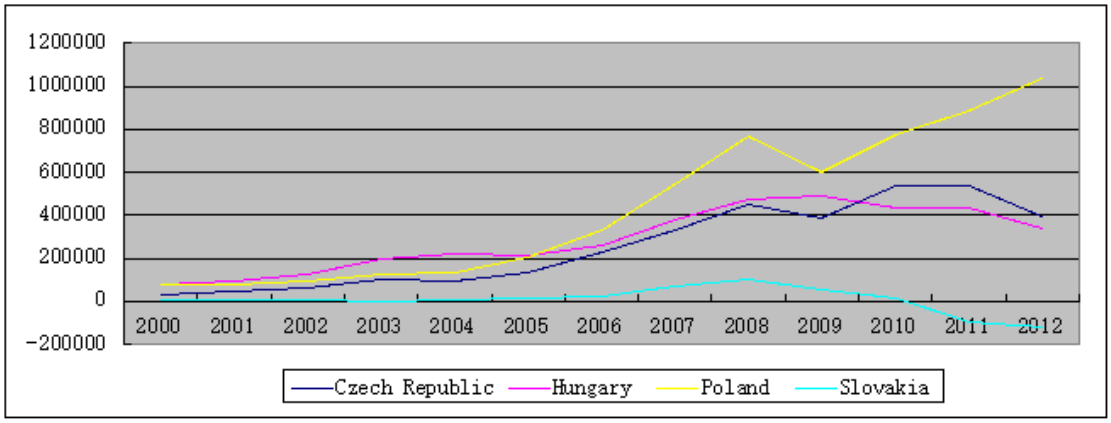
Trade imbalance is a long-lasting phenomenon for the trade between China and CEEC, there in no exception for Visegrad states. Figure 4 shows the trend of trade balance between China and V4. China's trade surplus with Czech Republic was 0.27 billion USD, the number reached 3.91 billion USD in 2012, it is more than 14 times than the surplus in 2000. The trade surplus with Hungary was 0.79 billion USD, it increased to the peak of 4.87 billion USD in 2009, then fell to 3.41 billion USD. Concerning China's trade surplus with Poland, trade surplus increase steadily from 2000 to 2012. The trade surplus of with Poland in 2000 was 0.76 billion USD, it reached a new high by the surplus of 10.38 billion USD in 2012. As for China's trade with Slovakia, China kept trade surplus with Slovakia from 2000 to 2010. It should be noted that the trade surplus started to fall after 2008. The trade surplus went down from the historical high point of 0.98 billion USD in 2008 to the low level of 0.16 billion USD in 2010. After 2010, China's ran trade deficit with Slovakia in 2011 and 2012. The trade deficit with Slovakia amounted to 1.23 billion USD in 2012. This situation rarely happened in China's trade with Central and Eastern European countries in the last two decades.

Trade imbalance issue sometimes becomes the topic of high-level political meeting, however, seeking for the solution of trade imbalance is not easy. As China becomes the world factory, enjoy competitive edges in many products from primary commodities to high-tech products, almost every

country, except for resource-exporting countries has more or less trade deficit with China. To some extent, Central Europe's trade deficit may be result of transfer of productive factors by multinational firms. It is estimated that about 80% of the imports to Hungary leaves as reexport (Juhász Ottó 2013). Visegrad countries import intermediate products, such as automobile parts, to make final products, export to third countries. The so-called "empty container phenomenon" was mentioned by some scholars (Tomas Matura 2013), it means that the containers loaded with merchandise from China to Europe have to back home emptied without merchandise.

The Chengdu-Łódź railway cargo line arrives in Poland with import products from China and trains return almost "empty"to Chengdu (Justyna Szczudlik-Tatar 2013). The other railway cargo lines face with the same problem.

Figure 4 China'a Trade Balance with V4 (2000-2012)



Source: China Statistics Yearbook 2001-2013

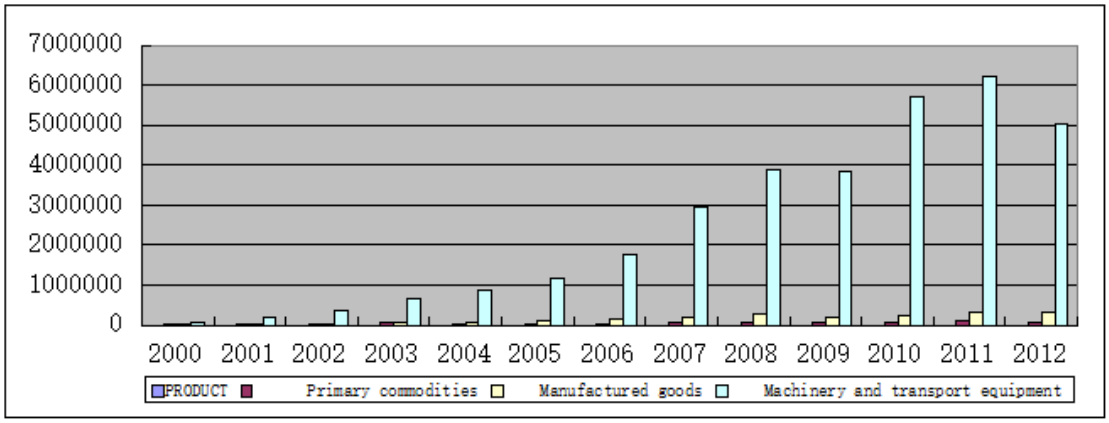
4 TRADE STRUCTURE BETWEEN CHINA AND V4

4.1 Composition of exports and imports Between China and V4

In term of exports to V4, machinery and transport equipment takes a predominant position, the value of exports to V4 increased substantially from 2000 to 2012. While the primary commodities and manufactured goods became less important in the last 13 years, the value of those products only had minor growth in the period (Figure5, Figure 7, Figure 9, Figure 11). In term of China's imports from V4, the picture is quite different. Among China's imports from Czech Republic, Hungary and Slovakia, machinery and transport equipment dominated the bilateral trade while the primary commodities and manufactured goods became less important.

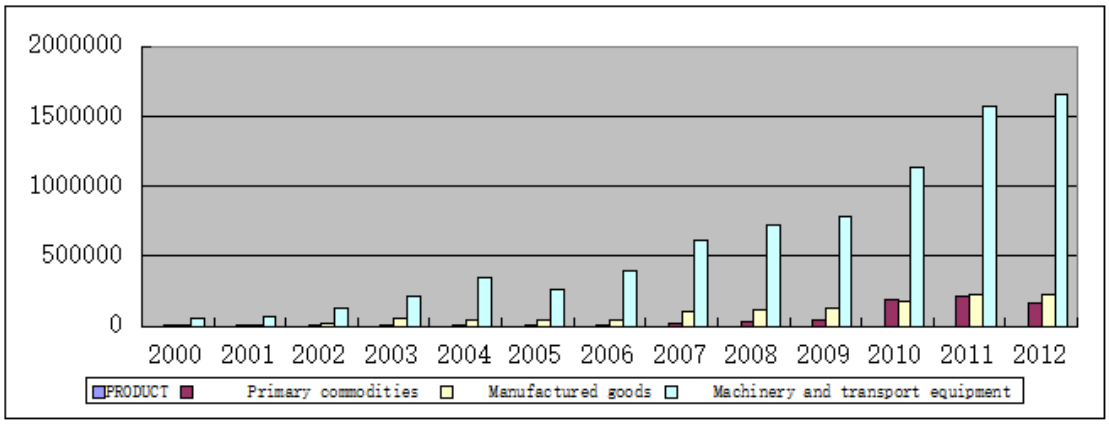
The composition of the imports from Poland is more balanced, growth of import in primary commodities is faster than manufactured goods and machinery and transport equipment （Figure 6, Figure 8, Figure 10 , Figure 12）.

Figure 5: China's Composition of Exports to Czech Republic (in thousand dollar)



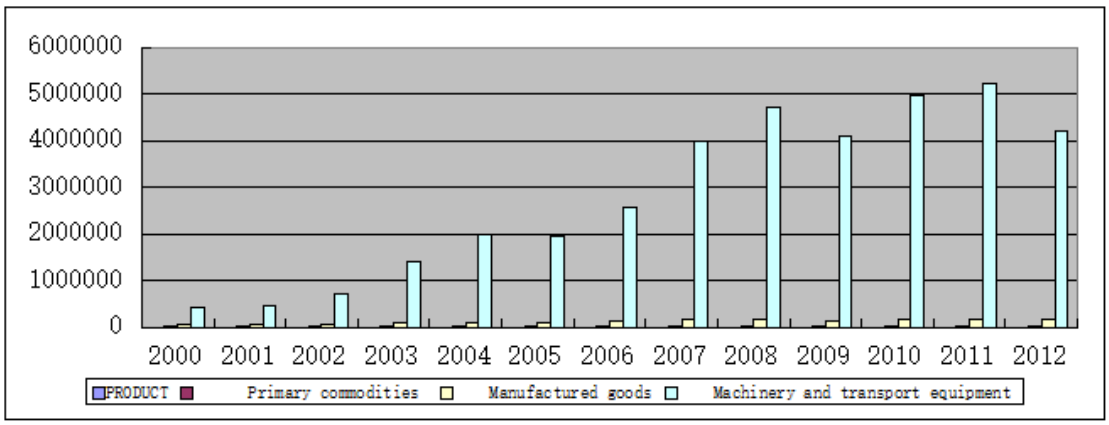
Source: UNCTAD, UNCTADstat.

Figure 6: China's Composition of Imports from Czech Republic (in thousand dollar)



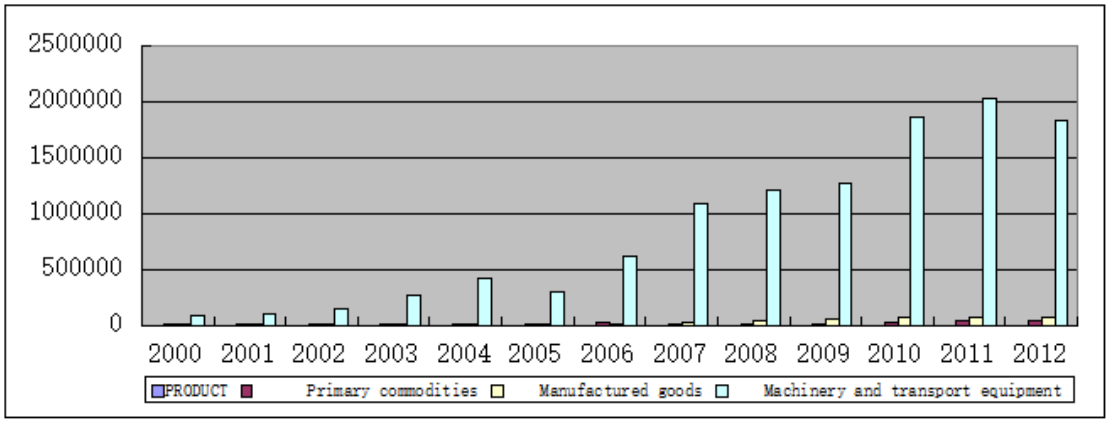
Source: UNCTAD, UNCTADstat.

Figure 7: China's Composition of Exports to Hungary (in thousand dollar)



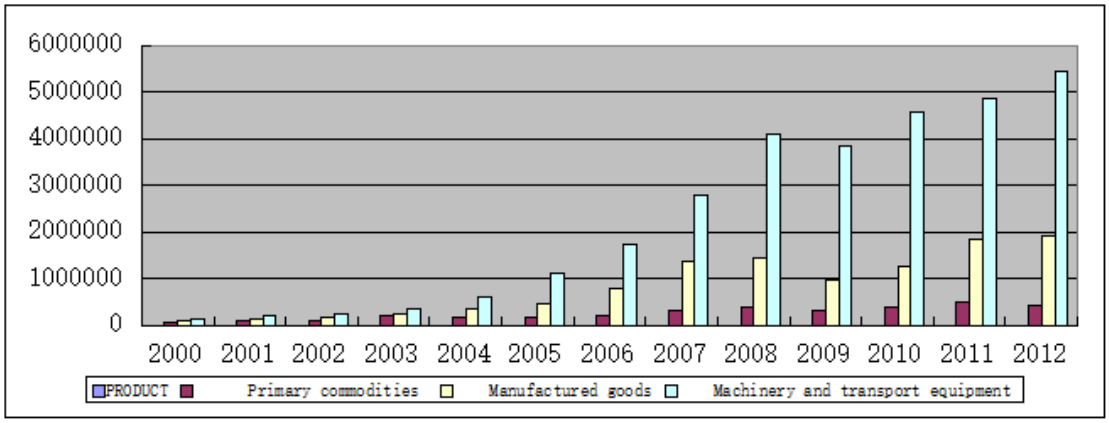
Source: UNCTAD, UNCTADstat.

Figure 8: China's Composition of Imports from Hungary (in thousand dollar



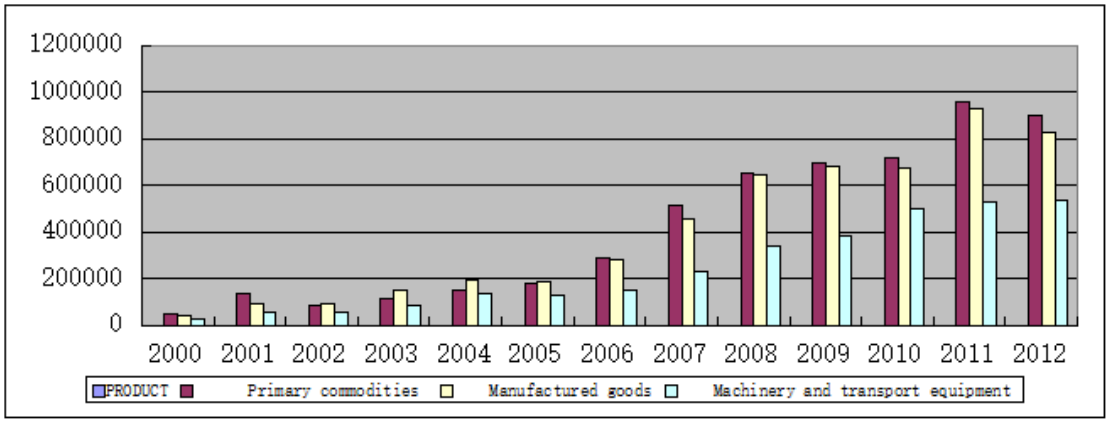
Source: UNCTAD, UNCTADstat.

Figure 9: China's Composition of Exports to Poland (in thousand dollar)



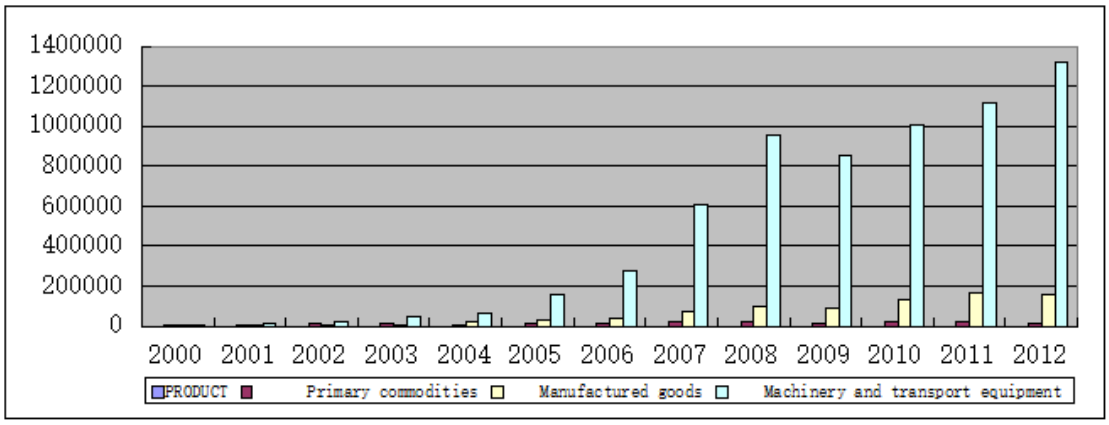
Source: UNCTAD, UNCTADstat.

Figure 10: China's Composition of Imports from Poland (in thousand dollar)



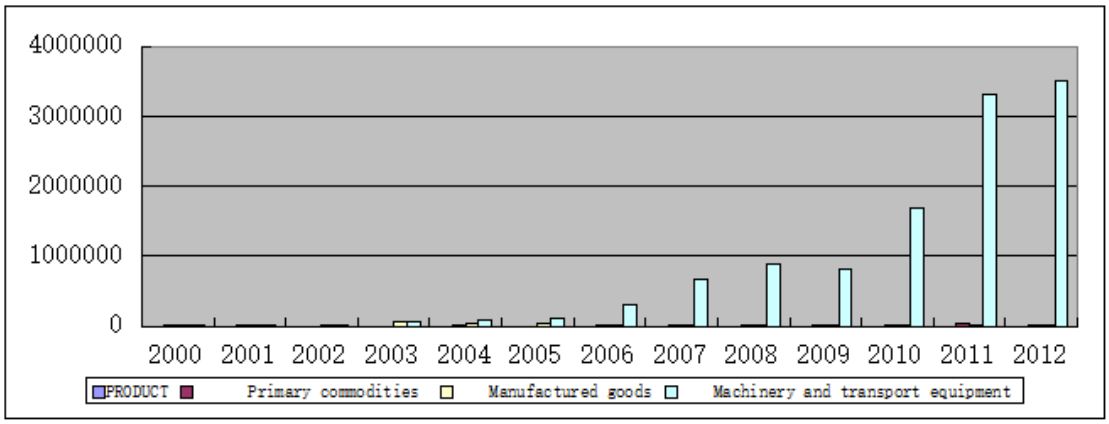
Source: UNCTAD, UNCTADstat.

Figure 11: China's Composition of Exports to Slovakia (in thousand dollar)



Source: UNCTAD, UNCTADstat.

Figure 12: China's Composition of Imports from Slovakia (in thousand dollar)



Source: UNCTAD, UNCTADstat.

4.2 Change of commodities structure

China and Czech Republic: As table 3 shows the change of commodities structure between China and Czech Republic. China's export to Czech Republic in Category 5(machinery and transport equipment was only 13.89 % of the total export in 2000, the share of machinery and transport equipment in total export increased over time, it took up 81.91% of the total value of exports, ended in 79.87% in2012. The decline of the importance of the manufactured goods (category 6) in China's export to Czech Republic over the course can be observed.

The value of the manufactured goods in the share of total export value fell from 81.5% to 17.88% in the period. It can be seen that category 5 and category 6 just have exchanged position in the last 13 years. The two categories of commodities, machinery and transportation equipment plus manufactured goods, accounted for 97.75 in 2012, back to 2000, the share was 95.41%, therefore the other categories of commodities were negligible.

As for the structure of import commodities from Czech Republic, imported commodities mainly concentrated in three kinds of commodities: chemical products (category 4), machinery & transportation equipment and manufactured goods. The share of the 3 kinds of commodities was

around 90% in the period. The share of the manufactured goods was almost the twice of the share of machinery and transport equipment.

China and Hungary: China's structure of export commodities to Hungary followed the same pattern as exports to Czech Republic (Table 4). The weight of machinery and transportation equipment in total exports increased while the weight of manufactured goods decreased from 2000 to 2012. The share of machinery and transportation equipment in total exports accounted for 7.68% in 2000, the share had peaked at 79.61% in 2009, by 2012, it amounted to 73.15%. During the 2000 -2012 period , the share of manufactured goods in total exports experienced downward trend, it reduced from 50.43% in 2000 to 19.20% in 2007, then rebounded to 24.69% in 2012. China's exports mainly concentrated in two kinds of commodities ie. machinery & transportation equipment and manufactured goods had maintained about 97-98% of the share of total exports. As for the imports from Hungary, machinery and transportation equipment had been always important, its share in total imports fluctuated in the range of 78-90% while the share of manufactured goods in total imports had moderate rise in the period of 2000-2012, it moved up from 5.81% to 15.56%.

China and Poland: Table 5 demonstrates the change of commodities structure. Like China's exports to Czech Republic and Hungary, China's distribution of exports commodities to Poland was highly centralized in 2 categories of commodities, ie. machinery & transportation equipment and manufactured goods. Those products had taken up predominated share in total exports, it accounted for 87-93%. However, the distribution among the two categories of commodities had moved from strong C6 and weak C5 to more balance between C6 and C5 during the 2000-2012 period, by 2012, the share of machinery & transportation equipment and manufactured goods in total exports was 43.87% and 49.82% respectively. As for the imports, China's imports commodities from Poland were more diversified, including crude material, chemical products, machinery & transportation equipment and manufactured goods. As the Table demonstrates that the share of crude materials (C2) had increased slightly while the chemical products (C4) had reduced by around half, machinery and transportation equipment had kept almost the same share, manufactured goods had increased its share in total imports moderately.

China and Slovakia : As Table 6 shows, China's exports to Slovakia had concentrated in two categories of commodities, ie. machinery & transportation equipment and manufactured goods. The share of those two kinds of commodities had taken up around 94-98%. The share of machinery and transportation equipment in total exports accounted for 14.44%, it had peaked to 61.33% in 2009, fell to 54.47 in 2012. The predominated position of the manufactured goods had been eroded, the share of the manufactured goods in total exports declined from 79.90% to 44.13% in the period of 2000-2012. As for the imports from Slovakia, the change of the structure of imports commodities in last 13 years show different picture. In 2000, the share of crude material was 55.9% of the total imports, it had come down to very low level, its share decreased to 0.55%. The share of chemical products once taken up 16.21% of the total imports in 2000 had reduced to 0.4% in 2012. The share of manufactured goods in 2000 accounted for 9.46, it peaked 45.61% in 2002, by 2012, it had fallen substantially to 3.31%. The share of machinery and transportation equipment in total imports amounted to 18.34% in 2000, it experienced rapid rise, exceed 90% after 2007, peaked 95.92% in 2012. Machinery and transportation equipment had become the most important import commodities.

Table 3: The Trade Structure Change over Time 2000-2012 (China vs Czech Republic)

Export Commodity (SITC Rev 3)							
Year	C1(Ex)/TEx	C2(Ex)/TEx	C3(Ex)/TEx	C4(Ex)/TEx	C5(Ex)/TEx	C6(Ex)/TEx	C7(Ex)/TEx
2000	2.26%	0.24%	0.00%	2.10%	13.89%	81.51%	0.00%
2001	2.87%	0.33%	0.00%	2.62%	33.58%	60.59%	0.00%
2002	2.69%	1.10%	0.01%	2.03%	47.16%	47.01%	0.00%
2003	2.74%	1.21%	0.00%	1.94%	50.29%	43.82%	0.00%
2004	2.33%	0.52%	0.00%	1.88%	63.02%	32.25%	0.00%
2005	1.46%	0.20%	0.00%	1.88%	71.34%	25.11%	0.00%
2006	0.87%	0.18%	0.00%	1.53%	75.21%	22.20%	0.01%
2007	0.59%	0.12%	0.00%	1.14%	71.03%	27.10%	0.01%
2008	0.54%	0.24%	0.00%	1.18%	70.76%	27.27%	0.01%
2009	0.53%	0.26%	0.00%	0.95%	76.85%	21.41%	0.00%
2010	0.51%	0.31%	0.00%	1.00%	80.22%	17.95%	0.00%
2011	0.48%	0.54%	0.00%	1.09%	81.19%	16.70%	0.00%
2012	0.56%	0.35%	0.00%	1.34%	79.87%	17.88%	0.00%
Import Commodity (SITC Rev 3)							
Year	C1(Im)/TIm	C2(Im)/TIm	C3(Im)/TIm	C4(Im)/Tim	C5(Im)/Tim	C6(Im)/Tim	C7(Im)/Tim
2000	5.61%	3.74%	0.00%	20.76%	26.56%	43.34%	0.00%
2001	2.19%	20.14%	0.03%	12.57%	23.64%	41.43%	0.00%
2002	1.74%	8.10%	0.04%	19.77%	25.69%	44.66%	0.00%
2003	0.95%	1.97%	0.00%	26.87%	23.84%	46.37%	0.00%
2004	1.49%	3.55%	0.03%	28.88%	8.84%	57.21%	0.00%
2005	1.25%	3.77%	0.00%	31.68%	23.15%	40.14%	0.00%
2006	2.97%	4.25%	0.00%	21.97%	22.05%	48.77%	0.00%
2007	1.28%	7.88%	0.00%	22.40%	20.39%	48.04%	0.01%
2008	0.79%	5.94%	0.00%	12.13%	24.55%	56.59%	0.00%
2009	0.91%	5.78%	0.21%	12.64%	25.27%	55.18%	0.00%
2010	1.30%	5.07%	0.14%	15.86%	29.34%	48.30%	0.00%
2011	1.62%	4.87%	0.72%	12.08%	25.79%	54.92%	0.00%
2012	3.10%	7.36%	0.01%	11.81%	26.72%	51.00%	0.00%

Note: C1(Ex)/Tex = The percentage of exported Category 1 to total export value.
C1(Im)/Tim = The percentage of imported Category 1 to total import value
Source: unctadstat.

Table 4: The Trade Structure Change over Time 2000-2012 (China vs Hungary)

Export Commodity (SITC Rev 3)							
Year	C1(Ex)/TEx	C2(Ex)/TEx	C3(Ex)/TEx	C4(Ex)/TEx	C5(Ex)/TEx	C6(Ex)/TEx	C7(Ex)/TEx
2000	0.23%	0.19%	0.15%	1.31%	47.68%	50.43%	0.00%
2001	0.33%	0.10%	0.03%	1.45%	45.56%	52.54%	0.00%
2002	0.19%	0.11%	0.00%	1.14%	50.10%	48.47%	0.00%
2003	0.24%	0.10%	0.00%	1.53%	61.56%	36.56%	0.00%
2004	0.23%	0.06%	0.00%	2.03%	74.55%	23.12%	0.00%
2005	0.25%	0.03%	0.00%	1.34%	78.00%	20.38%	0.00%

2006	0.31%	0.04%	0.00%	1.15%	77.95%	20.55%	0.00%
2007	0.27%	0.05%	0.00%	0.86%	79.61%	19.20%	0.00%
2008	0.22%	0.09%	0.00%	0.92%	77.15%	21.63%	0.00%
2009	0.16%	0.06%	0.00%	0.82%	76.60%	22.35%	0.00%
2010	0.16%	0.05%	0.00%	1.05%	76.50%	22.22%	0.02%
2011	0.19%	0.05%	0.00%	1.61%	76.69%	21.46%	0.01%
2012	0.20%	0.04%	0.00%	1.91%	73.15%	24.69%	0.00%
Import Commodity (SITC Rev 3)							
Year	C1(Im)/TIm	C2(Im)/TIm	C3(Im)/TIm	C4(Im)/Tim	C5(Im)/Tim	C6(Im)/Tim	C7(Im)/Tim
2000	5.28%	4.92%	0.03%	5.41%	78.56%	5.81%	0.00%
2001	2.74%	2.67%	0.02%	5.91%	80.97%	7.69%	0.00%
2002	0.79%	2.06%	0.04%	7.16%	82.60%	7.35%	0.00%
2003	0.36%	1.69%	0.00%	5.49%	86.56%	5.89%	0.00%
2004	0.08%	1.45%	0.01%	5.48%	87.46%	5.52%	0.00%
2005	0.18%	1.99%	0.01%	6.02%	82.85%	8.94%	0.00%
2006	0.26%	1.81%	0.00%	2.46%	88.74%	6.72%	0.00%
2007	0.06%	0.74%	0.00%	2.53%	90.05%	6.62%	0.00%
2008	0.16%	0.46%	0.00%	3.62%	87.86%	7.90%	0.00%
2009	0.11%	0.42%	0.00%	3.08%	86.80%	9.58%	0.00%
2010	0.16%	0.66%	0.00%	3.05%	84.81%	11.33%	0.00%
2011	0.17%	1.67%	0.01%	2.64%	82.45%	13.06%	0.00%
2012	0.22%	1.57%	0.02%	3.65%	78.97%	15.56%	0.00%

Note: C1(Ex)/Tex = The percentage of exported Category 1 to total export value.
C1(Im)/Tim = The percentage of imported Category 1 to total import value.
Source: UNCTAD, UNCTADstat.

Table 5: The Trade Structure Change over Time 2000-2012 (China vs Poland)

Export Commodity (SITC Rev 3)							
Year	C1(Ex)/TEx	C2(Ex)/TEx	C3(Ex)/TEx	C4(Ex)/TEx	C5(Ex)/TEx	C6(Ex)/TEx	C7(Ex)/TEx
2000	2.60%	5.25%	0.04%	4.66%	16.52%	70.93%	0.00%
2001	4.08%	4.94%	0.03%	3.67%	19.80%	67.47%	0.01%
2002	4.33%	4.84%	0.09%	3.90%	21.95%	64.90%	0.00%
2003	4.27%	7.02%	0.12%	3.87%	22.08%	62.64%	0.00%
2004	3.13%	5.66%	0.02%	4.60%	32.34%	54.25%	0.00%
2005	3.05%	3.08%	0.04%	4.50%	42.83%	46.49%	0.00%
2006	2.30%	2.23%	0.10%	3.84%	43.15%	48.37%	0.00%
2007	2.22%	1.58%	0.02%	3.56%	42.32%	50.30%	0.00%
2008	1.46%	2.00%	0.09%	2.97%	45.42%	48.05%	0.00%
2009	1.88%	1.43%	0.06%	2.84%	50.71%	43.07%	0.01%
2010	2.23%	1.07%	0.07%	3.39%	48.54%	44.69%	0.01%
2011	2.21%	1.09%	0.16%	4.16%	44.39%	47.99%	0.01%
2012	1.80%	0.76%	0.09%	3.66%	43.87%	49.82%	0.00%

Import Commodity (SITC Rev 3)							
Year	C1(Im)/TIm	C2(Im)/TIm	C3(Im)/TIm	C4(Im)/Tim	C5(Im)/Tim	C6(Im)/Tim	C7(Im)/Tim
2000	5.61%	3.74%	0.00%	20.76%	26.56%	43.34%	0.00%
2001	2.19%	20.14%	0.03%	12.57%	23.64%	41.43%	0.00%
2002	1.74%	8.10%	0.04%	19.77%	25.69%	44.66%	0.00%
2003	0.95%	1.97%	0.00%	26.87%	23.84%	46.37%	0.00%
2004	1.49%	3.55%	0.03%	28.88%	8.84%	57.21%	0.00%
2005	1.25%	3.77%	0.00%	31.68%	23.15%	40.14%	0.00%
2006	2.97%	4.25%	0.00%	21.97%	22.05%	48.77%	0.00%
2007	1.28%	7.88%	0.00%	22.40%	20.39%	48.04%	0.01%
2008	0.79%	5.94%	0.00%	12.13%	24.55%	56.59%	0.00%
2009	0.91%	5.78%	0.21%	12.64%	25.27%	55.18%	0.00%
2010	1.30%	5.07%	0.14%	15.86%	29.34%	48.30%	0.00%
2011	1.62%	4.87%	0.72%	12.08%	25.79%	54.92%	0.00%
2012	3.10%	7.36%	0.01%	11.81%	26.72%	51.00%	0.00%

Note: C1(Ex)/Tex = The percentage of exported Category 1 to total export value
C1(Im)/Tim = The percentage of imported Category 1 to total import value .
Source: UNCTAD, UNCTADstat.

Table 6: The Trade Structure Change over Time 2000-2012 (China vs Slovakia)

Export Commodity (SITC Rev 3)							
Year	C1(Ex)/TEx	C2(Ex)/TEx	C3(Ex)/TEx	C4(Ex)/TEx	C5(Ex)/TEx	C6(Ex)/TEx	C7(Ex)/TEx
2000	2.32%	0.01%	0.00%	3.33%	14.44%	79.90%	0.00%
2001	12.83%	0.22%	0.00%	2.50%	14.77%	69.67%	0.00%
2002	9.18%	2.24%	0.00%	1.69%	21.72%	65.16%	0.00%
2003	4.40%	2.77%	0.00%	1.21%	36.76%	54.87%	0.00%
2004	2.38%	0.88%	0.00%	2.01%	41.56%	53.18%	0.00%
2005	0.85%	2.27%	0.00%	2.22%	49.77%	44.90%	0.00%
2006	0.63%	0.93%	0.00%	1.50%	48.28%	48.67%	0.00%
2007	0.71%	0.38%	0.00%	1.02%	41.46%	56.42%	0.00%
2008	0.53%	0.31%	0.00%	0.94%	48.72%	49.49%	0.01%
2009	0.31%	0.42%	0.00%	1.40%	61.33%	36.53%	0.01%
2010	0.24%	0.35%	0.00%	1.17%	51.50%	46.72%	0.01%
2011	0.23%	0.31%	0.01%	1.00%	44.36%	54.08%	0.00%
2012	0.15%	0.20%	0.00%	1.05%	54.47%	44.13%	0.00%
Import Commodity (SITC Rev 3)							
Year	C1(Im)/TIm	C2(Im)/TIm	C3(Im)/TIm	C4(Im)/Tim	C5(Im)/Tim	C6(Im)/Tim	C7(Im)/Tim
2000	0.00%	55.99%	0.00%	16.21%	18.34%	9.46%	0.00%
2001	0.41%	6.09%	0.01%	9.41%	67.30%	16.79%	0.00%
2002	0.08%	1.69%	0.00%	3.35%	49.26%	45.61%	0.00%
2003	0.01%	0.27%	0.00%	1.91%	52.07%	45.74%	0.00%
2004	0.31%	0.57%	0.00%	3.48%	62.66%	32.98%	0.00%
2005	0.00%	0.37%	0.00%	3.37%	63.23%	33.03%	0.00%

2006	0.00%	1.30%	0.00%	2.28%	89.47%	6.95%	0.00%
2007	0.01%	0.73%	0.00%	1.78%	92.16%	5.33%	0.00%
2008	0.00%	2.32%	0.00%	1.91%	90.35%	5.41%	0.00%
2009	0.01%	1.49%	0.00%	2.30%	91.74%	4.46%	0.00%
2010	0.01%	0.95%	0.00%	0.50%	94.80%	3.74%	0.00%
2011	0.01%	0.75%	0.00%	0.36%	95.73%	3.14%	0.00%
2012	0.00%	0.55%	0.00%	0.40%	95.92%	3.13%	0.00%

Note: C1(Ex)/Tex = The percentage of exported Category 1 to total export value .
C1(Im)/Tim = The percentage of imported Category 1 to total import value .
Source: UNCTAD, UNCTADstat.

4.3 The trend of trade structure: Moving in different direction

Table 7: Comparative diversification indices of merchandise exports china-v4 2000-2012

year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
CN-CZ	(5) 0.557	(5) 0.530	(5) 0.503	(5) 0.513	(5) 0.505	(5) 0.498	(5) 0.481	(5) 0.465	(5) 0.452	(5) 0.471	(5) 0.459	(5) 0.444	(5) 0.449
CN-HG	(5) 0.480	(5) 0.445	(5) 0.430	(5) 0.454	(5) 0.470	(5) 0.461	(5) 0.461	(5) 0.474	(5) 0.488	(5) 0.492	(5) 0.495	(5) 0.485	(5) 0.494
CN-PL	0.5440 0	0.539	0.55	0.56	0.56	0.558	0.549	0.532	0.515	0.529	0.515	0.514	0.505
CN-SK	0.614	0.596	0.598	0.617	0.583	0.564	0.57	0.567	0.562	0.562	0.554	0.55	0.55

Source: UNCTAD, UNCTADstat.

Table 8: Comparative diversification indices of merchandise imports china-v4 2000-2012

year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
CN-CZ	(5) 0.406	(5) 0.413	(5) 0.432	(5) 0.431	(5) 0.441	(5) 0.452	(5) 0.466	(5) 0.479	(5) 0.487	(5) 0.489	(5) 0.472	(5) 0.482	(5) 0.487
CN-HG	0.398	0.383	0.39	0.412	0.439	0.461	0.465	0.49	0.458	0.488	0.496	0.474	0.479
CN-PL	0.388	0.413	0.431	0.443	0.447	0.456	0.449	0.474	0.467	0.451	0.431	0.416	0.407
CN-SK	0.463	0.461	0.463	0.473	0.472	0.458	0.45	0.5	0.504	0.508	0.502	0.479	0.48

Source: UNCTAD, UNCTADstat.

The trade structure between China and V4 moved in different direction. On the one hand, for the merchandise exports, the trade structure between China and V4 became more similar from 2000 to 2012. As Table 7 shows, comparative diversification index of merchandise exports between China and Czech Republic decreased from 0.557 to 0.449, the same index went down from 0.544 to 0.505 between China and Poland, the index reduced from 0.614 to 0.55 between China and Slovakia.

The comparative diversification index between China and Hungary followed the same trend from 2000 to 2007, however, the trend reversed after 2007, the index increased from 0.474 to 0.494 in the last 5 years. On the other hand, for the merchandise imports, the trade structure between China and V4 became more different from 2000 to 2012. As Table 8 indicates, comparative diversification index of merchandise imports between China and Czech Republic increased from 0.406 to 0.497, the same index went up from 0.398 to 0.479 between China and Hungary, the index expanded from 0.388 to 0.407 between China and Poland, the index between China and Slovakia maintained the same pattern as other Visegrad states from 2000 to 2009, increased from 0.463 to 0.508 while the trend was reversed after 2009, the index decreased to 0.48 in 2012.

4.4 Measurement of Trade Complementarity between China and V4

Table 9: China-V4 Merchandise trade complementarity Index, annual, 2000-2012

year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CN-CZ	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.6
CN-HG	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
CN-PL	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
CN-SK	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.5	0.5

Source: UNCTAD, UNCTADstat.

It is always said that there is high level of the trade complementarity between China and CEEC. Based on the merchandise trade complementarity index by UNCTADSTAT, it can be seen that the level of the trade complementarity between China and V4 is at the medium level. As Table 9 shows, in the last 13 years, the trade complementarity index between China and Hungary remains the same at 0.5, it also applies to the trade between China and Poland. The complementarity index between China and Czech Republic increased from 0.5 in 2000 to 0.6 in 2012, it means that the trade profile between China and Czech Republic becomes more compatible. The complementarity index between China and Slovakia experienced ups and down, it went up from 0.4 to 0.6 in the period of 2000-2008, then it went down to 0.5 after 2009.

4.5 Competitiveness between China and V4?

Central Europe is the factory of Europe, like China is the factory of the world. After transformation and enlargement, Visegrad states has become competitive economies in Europe. In a new-published report, it is said that "Central Europe is now a growth engine for the wider EU economy. Thanks to the continued "catch-up" dynamic, consisting of lower wage costs, well trained labor force, healthier banking sector, and less public and private debt, our economies are expected to continue growing faster than Western Europe.

The combined GDP of the four Visegrád Group countries already makes them the world's 15th-biggest economy."(Milan Nič and Paweł Świeboda edt. 2014). It is inevitable to compete with each other in the era of globalization, whether large or small nation. Table10 shows that there is similarity in major exports between China and V4. The similar exports include automatic data processing machines, telephone, TV etc. If we examine the major imports in Table 11, some of the imports can match the

exports between China and V4.

Central European countries have their competitive sectors. Czech Republic's major sectors are as followed: motor vehicles, machinery and equipment, metallurgy (including iron and steel production) and metalworking, glass, china, ceramics, brewing, armaments, electronics, footwear, wood, paper products, chemicals, and pharmaceuticals. Poland's competitive sectors include automobile sector, metal products, electrical equipment, textiles and furniture industries. Hungary has strong sectors such as automobile,electronics, pharmaceuticals, ICT, food. Car manufacturing, engineering, chemicals, oil refining, plastics are Slovakian competitive sectors.

Table 10: China and V4: The Major Exports and Trade Partner

Country	**Major exports**	**Major trade partners (exports)**
China	Automatic data processing machines (9%), Telephones (4%), Transmission apparatus for radio, telephone and TV (4%), Parts and accessories for office machines (3%), Printers and copying machines (2%)	United States (19%), Hong Kong (11%), Japan (8%), Germany (5%), Korea, Rep. (4%)
Czech Republic	Cars (10%), Parts and accessories of the motor vehicles (7%), Automatic data processing machines (6%), Monitors and projectors; reception apparatus for television (2%), Insulated wire; optical fiber cables (2%)	Germany (31%), Slovak Republic (8%), Poland (6%), France (5%), United Kingdom (5%)
Hungary	Transmission apparatus for radio, telephone and TV (11%), Monitors and projectors; reception apparatus for television (7%), Cars (4%), Parts and accessories of the motor vehicles (4%), Automatic data processing machines (3%)	Germany (24%), Romania (6%), United Kingdom (6%), Italy (5%), France (5%)
Poland	Cars (5%), Parts and accessories of the motor vehicles (5%), Monitors and projectors; reception apparatus for television (4%), Seats (2%), Automatic data processing machines (2%)	Germany (25%), France (7%), United Kingdom (6%), Italy (6%), Czech Republic (6%)
Slovakia	*Cars (15%), Monitors and projectors; reception apparatus for television (12%), Parts and accessories of the motor vehicles (4%), Petroleum oils, refined (4%), Vehicle Bodies (2%)*	*Germany (20%), Czech Republic (12%), France (7%), Poland (7%), Austria (6%)*

Source: Observatory of Economic Complexity.

Table 11: China and V4: The Major Imports and Trade Partners

Country	**Major imports**	**Major trade partners (imports)**
China	Electronic integrated circuits (10%), Iron ores and concentrates (6%), Liquid crystal devices (4%), Petroleum oils, crude (3%), Cars (3%)	Japan (15%), Korea, Rep. (12%), Asia NES (12%), United States (9%), Germany (7%)
Czech Republic	Automatic data processing machines (5%), Parts and accessories of the motor vehicles (5%), Parts and accessories for office machines (3%), Diodes, transistors, semiconductor devices; photosensitive	Germany (28%), China (13%), Poland (7%), Slovak Republic (6%),

	semiconductor devices, including photovoltaic cells (3%), Medicaments, packaged (3%)	Italy (4%)
Hungary	Telephones (5%), Parts of radios, telephones and TVs (5%), Electronic integrated circuits (5%), Medicaments, packaged (3%), Parts and accessories of the motor vehicles (3%)	Germany (26%), China (9%), Austria (6%), Slovak Republic (5%), Italy (5%)
Poland	Cars (4%), Parts and accessories of the motor vehicles (3%), Medicaments, packaged (3%), Parts of radios, telephones and TVs (3%), Automatic data processing machines (2%)	Germany (26%), China (10%), Italy (6%), France (5%), Czech Republic (5%)
Slovakia	Parts and accessories of the motor vehicles (8%), Parts of radios, telephones and TVs (7%), Petroleum oils, crude (5%), Petroleum gases (4%), Cars (3%)	Germany (18%), Czech Republic (16%), Russia (9%), Korea, Rep. (9%), China (6%)

Source: Observatory of Economic Complexity.

5 CONCLUSIONS

The trade volume between China and Visegrad countries has increased at rapid pace in the period of 2000-2012. The trade between China and V4 still has potential to growth. In last April, president Xi pointed out that China's imports will reach 10 trillion USD over the next 5 years. It will create opportunity for Central European entrepreneurs. As Central Europe has been integrated with the global value chains of multinational firms, to what extent trade deficit is linked with the transfer of productive factors remains to be answered. In term of the commodities structure, the machinery and transport equipment had dominated the trade between China and V4, manufacturing goods had become less important. Concerning the limited data, the structure of commercial service is not analyzed.

Both China and V4 should make full use of the window of opportunity for cooperation. As one scholar put, China's Twelve Measures for promoting cooperation with Central and Eastern European countries is undoubtedly charting the way forward, but the success of bilateral cooperation resides in the efforts made by each country (Sarmiza Pencea 2013). What can be done to give a boost to the bilateral trade with V4?

The government should give a helping hand to entrepreneurs to explore external market, seek business partners and land business opportunity. It is noteworthy that Central European government introduced some measure to encourage businessmen to forge trade relations with China, export more products to China. China already announced a series measures to facilitate trade relation with CEEC, for example, hosting of round table meetings with commerce ministers, exhibition CEE products in China and running of agricultural and trade forum. However, It will take some time to bear fruits . The government should realize that its role in trade promotion is limited, it needs the cooperation of chamber of commerce , agency of trade promotion and local government.

The entrepreneurs should have the final say in business decision-making. The entrepreneurs should make use of various opportunities to explore external market, tap the business potential. It is said Central Europe is far from China, geographic distance hinder the development of trade

relation. Although businessmen in Central Europe regards the EU market as top priority for business, now smart businessmen are aware of the importance of seeking new market while the traditional market suffers. The emerging market like China should be a backup. What hinders the trade relation is cultural obstacle as businessmen don't know business culture and business practice in foreign country. Only through communication and interaction people can bridge the cultural difference and overcome cultural obstacle.

Reduction of trade deficit requires common efforts between China and V4. On the one hand, Visegrad countries should promote their products with competitive advantage to China's market, encourage firms to exploit the chain of European supermarket in China to sell their products. On the other hand, China should encourage domestic companies to buy more high-quality products made in Central Europe, Some public radio and public TV stations should give certain free time to air the Central European commercials to publicise products and tourist service from Central Europe.

Diversified trade structure should be formed. Authough it is easier said than done, as trade partner, China and Visegrad state should make joint endeavor to change the concentration on machinery and transport equipment.Diversification of trade structure will create more opportunities for entrepreneurs, contribute to the increase the turnover of trade.

Finally, Regional partnership should be formed. The central government should push forward regional authority to build partnership through twinning program with regional government with other countries. The twinning partnership can bring businessmen together from different countries, contribute to build long-term business link, form the network for business. It may be the better way to know business culture, find out adequate business partner. Taking into the size of province in China, twinning program has bright prospect for trade promotion.

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THE ANALYSIS OF CHINA'S INVESTMENT IN V4

Liu Zuokui[1]

This article will concentrate on the investment opportunities brought to China by the V4, the main characteristics of the Chinese investment in V4, and the problems and challenges faced by China against this background. Besides, it will also offer some relative policy suggestions on China's investment in V4.

Key Words: Visegrad Group, Investment Relationship between China and V4, Policy Suggestions

INTRODUCTION

During his trip to Warsaw, Poland in April 2012, Chinese Premier Wen Jiabao put forward 12 proposals[2] on promoting China-CEE friendship and cooperation. On September 6 2012, the Inaugural Conference of the Secretariat for Cooperation between China and Central and Eastern European Countries (CEECs) was held in Beijing, marking a new important phase of China-CEE cooperation. In November 2013, the new Chinese Premier Li Keqiang visited Bucharest, and attended the China-CEE Economic and Trade Cooperation Forum. A new proposed cooperation framework so called Bucharest Guidelines by Li was supported by CEECs. With the fast growth of economic and trade cooperation between China and CEE, flourishing Chinese investment in V4 and other CEECs has helped stimulate further development of bilateral relations.

1 CONCLUSIONS THE BASIC FACT OF CHINA´S INVESTMENT IN V4

1.1 China's investment in V4: status quo and features

After the drastic fracturing of the Soviet Union and subsequent changes in Eastern Europe, V4 countries offered China comparatively big investment opportunities-the transformation period in the 1990s, when all countries in this region were carrying out privatization reforms and market opening policies, offering preferential policies to foreign investors and encouraging the private economy to various extents. Later, with the acceleration of integration into the EU, these opportunities gradually disappeared. Unfortunately, restricted by its investment capacity, China failed to issue relevant investment strategies at the time. It only encouraged Chinese emigrants to actively participate in the market development of V4, mainly through short-term investment (Li Minghuan, 2013, p,42). From

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[2] The 12 measures on promoting the pragmatic cooperation between China and CEE include: to found the China-CEE Cooperation Secretariat, China to earmark the special loan totaled 10 billion US dollars for the CEECs, China to initiate the Sino-CEE Cooperative Fund, China to dispatch the trade and investment promotion delegation, and etc. For details, please visit http://news.xinhuanet.com/2012-04/26/c_123043845.htm.

2004 to 2012, although the investment stock volume of China in V4 was rising (see Table 1), the base number was comparatively low, and China has yet to fully exploit the investment potential of V4.

Table 1: The Investment Stock of China in V4 from 2004-2012 (Unit: Ten Thousand US Dollar)

Country\Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Poland	287	1239	8718	9893	10993	12030	14031	20126	20811
Czech Republic	111	138	1467	1964	3243	4934	5233	6683	20245
Hungary	542	281	5365	7817	8875	9741	46570	47535	50741
Slovakia	10	10	10	510	510	936	982	2578	8601
Estonia	-	126	126	126	126	750	750	750	350
Latvia	161	161	231	57	57	54	54	54	54
Lithuania	-	393	393	393	393	393	393	393	697
Romania	3110	3943	6563	7288	8566	9334	12495	12583	16109
Bulgaria	146	299	474	474	474	231	1860	7256	12674
Slovenia	-	12	140	140	140	500	500	500	500
Croatia	-	75	75	784	784	810	813	818	863
BiH	401	351	351	351	351	592	598	601	607
Montenegro	-	-	-	32	32	32	32	32	32
Macedonia	-	20	20	20	20	20	20	20	26
Serbia	-	-	-	200	200	268	484	505	647
Albania	-	50	51	51	51	435	443	443	443
Total				**30100**	**34815**	**41060**	**85258**	**100877**	**133400**

Source: 2012 Statistical Bulletin of China's Outward Foreign Direct Investment, China Statistics Press, 2013.（From 2002, Chinese Government has introduced the statistical system for its investment in foreign countries. Since 2004, we can get the complete investment data.In the above table, the data from 2004—2006 does not include the financial sectors.）

Three characteristics could be found from the above data of China's investment in V4:

First, the growth rate of investment in V4 is rapid. For example, the investment in Poland in 2012 is twice times as in 2007. The investment stock volume is more than 200 million USD in 2012 and about 100 million USD in 2007. Czech Republic is ten times in 2012 as in 2007. In 2007, the investment stock is 20 million USD and 200 million USD in 2012. Slovakia is seventy times in 2012 as in 2007. In 2007, the investment stock is 5 million USD and 86 million USD in 2012; Hungary is six times in 2012 as in 2007 which the investment stock in 2007 is 78 million USD and more than 500 million USD in 2012.

Second, China's investment in V4 holds the largest part of its investment in CEECs. China's investment in V4 in 2012 amounts to 1.00398 billion USD which accounts for 75.3% in 16 CEECs (1.334 billion USD). Hungary, Poland, Romania, Czech Republic and Slovakia are the top five countries for China's investment in CEECs.

Third, the proportion of China's investment in V4 and CEE is very small comparing to the investment in the EU old members. Although V4 hold the most proportion of the China's investment in CEE, they hold a very small part of China's investment in the EU. In 2012, China's investment stock volume in the EU amounts to 31.53825 billion USD and all the CEECs only accounts for 4.2% and V4

accounts for 3.18% (Ministry of Commerce of China, National Bureau of Statistics of China, State Administration of Foreign Exchange of China, 2013).

The industries that China invested in V4 mainly include: manufacturing, financial service, information and communication technologies, infrastructure, agriculture, clean energy and chemical industries and etc, according to sources from the Ministry of Commerce of the People's Republic of China. [3]

1.2 The Root Cause of China's increasing Investment in V4

With China's opening-up policy in full swing and the launch of the "Going Global" strategy in the 10th Five-Year Plan period(2000-2005), China began to seek more investment opportunities in global markets. Due to China's unfamiliarity with the rules of the large EU market and the ambiguous strategic and trade positioning of V4, it was difficult for China to find suitable investment opportunities in the region. However, in the 11th Five-Year Plan period (2006-2010), China's investment regions were clearly transferred from Hong Kong, Macao, North America, and Western Europe to Asia Pacific, Africa, Latin America, and CEE. Chinese investors began to realize the investment potential of the CEE region, especially the V4 countries due to its specific industry advantages comparing to other CEECs (Ministry of Commerce of China, National Bureau of Statistics of China, State Administration of Foreign Exchange of China, 2012). In 2010, the Greek sovereign debt crisis triggered continuous turmoil in the Euro zone and exerted significant influences on the economic development of V4. Besides Poland, the other V4 countries underwent serious economic situation. In terms of investment opportunities, V4 began to offer China a "window of opportunity".

The debt crisis has contributed to the change of the investment environment in V4. In 2010, the debt crisis in the Euro zone took a heavy toll on CEE, leading to a slowdown in the economic growth of the countries in the region. The World Investment Report 2012, released by the United Nations Conference on Trade and Development(UNCTAD, 2012, p.xix), noted that against the backdrop of sustained economic development uncertainty in Europe, continued instability in global financial markets and the economic slowdown in most emerging economies, many countries adopted FDI as a way to promote economic growth and some CEECs turn their eyes to China, making the investment environment of some countries in 2011 very conducive to China's investors. For example, Hungary has adopted the eastern dimension of its foreign policy besides the western dimension towards the EU and established the China policy unit in the cabinet to further the investment. Poland attached much importance to China and Asian countries recently as well which jointly with China hosted the first Economic and Trade Cooperation Forum. Czech Republic, although has no better relations than other V4 countries with China, it is always seeking the cooperation opportunity with China. After the new leadership came into power in 2013 and 2014, both parties began to enhance the exchange, especially in February 2014, Chinese President Xi Jinping met Czech Republic President Zeman in Sochi, Russia. Czech President even invited Xi Jinping visit his country this year and exchange the possibility to hold the third China-CEE Economic and Trade Cooperation Forum after Poland in 2012 and Romania in 2013. Slovakia is also keeping the good relationship record with China for long to keep the investment cooperation momentum.

[3] http://www.mofcom.gov.cn/

It should be emphasized that the major factor affecting changes in the investment environment in V4 is the European debt crisis. As such, the future and outlook of the crisis will directly affect Chinese investment in the region. In fact, the crisis does not pose a fundamental challenge to the capitalist system; it is just a structural crisis within the Euro zone. Despite the ongoing crisis, the grimness of the situation is expected to ease in the near future due to the internal structural adjustments between different members within the Euro zone. If the situation improves, the interaction with and even control over V4 by Euro zone countries will be restored again, V4's dependence on the Euro zone will increase again correspondingly, and investment opportunities for external countries will gradually disappear. Therefore we can say that this round of investment in V4 is a "window of opportunity" against the backdrop of the European debt crisis.

2 V4'S INVESTMENT ENVIRONMENT-FROM CHINESE PERSPECTIVE

2.1 The evaluation indicator of V4 investment environment

This evaluation system synthesizes the specific characteristics of Standard&Poor, Fitch, Moody's, DAGONG(China), EIU, CROIC-IWEP, GI, ICRG, at the same time, emphasizes China's specific requirement and investment preferences, and especially increase the evaluation weight of bilateral relations. Therefore, it's a new designed framework for investment environment indicators from Chinese perspective. The specific indicators are as follow:

Table 2: Political Environment Indicators（30 points）

Indicators	Description and Explanation of Indicators
Government Stability	From 0 to 5 point, higher point, more stability of the government.
Control of Corruption	From 0 to 5 point, higher point, more effective control of the corruption.
Government Effectiveness	From 0 to 5 point, higher point, more effective ability of the government.
Rule of law	From 0 to 5 point, higher point, more ability to respect the rule of law of the country.
External Conflicts	From 0 to 5 point, higher point, less intensity of external conflicts.
Internal Conflicts	From 0 to 5 point, higher point, less intensity of internal conflicts.

Major reference resources: International Country Risk Guide of PRS, Worldwide Governance Indicator of World Bank, Transformation Index of Bertelsmann Stiftung.

Table 3: Economic Environment Indicators（20 points weighted）

Indicators	Description and Explanation of Indicators
Economic Size	The average of the latest five years GDP (2011-2015), From 0 to 10 point, higher point, bigger size of the Economy.
Development Level	The average of the latest five years Per Capita (2011-2015), From 0 to 10 point, bigger point, higher level of economic development.
GDP Growth Rate	The average of the latest five years GDP growth rate (2011-2015), From 0 to 10 point, bigger point, higher growth rate of the economy.
Trade	The average of the latest five years (export + import)/GDP (2011-2015), From 0 to 10

Openness	point, higher point, more openness of the Trade.
Investment Openness	The average of the latest five years (FDI+ODI)/GDP (2011-2015), From 0 to 10 point, higher point, more openness of the investment.
Inflation	The average of the latest five years CPI (2009-2013), From 0 to 10 point, higher point, lower inflation.
Debt Burden	The average of the latest five years external debt (2009-2013), From 0 to 10 point, higher point, lower debt.

Major reference resources: Economic Intelligence Unit, World Development Indicator of World Bank.

Table 4: Social Environment Indicators（20 points weighted）

Indicators	**Description and Explanation of Indicators**
Restriction of Capital and Personnel Movement	From 0 to 10 point, higher point, more freedom to the capital and personnel.
Regulation of Labor Force Market	From 0 to 10 point, higher point, more freedom to the labor force.
Commercial Control	From 0 to 10 point, higher point, less control of the commerce.
Average Education Level	From 0 to 10 point, bigger point, higher level of the average education.
Social Safety	From 0 to 10 point, higher point, safer of the society.
Unemployment Rate	From 0 to 10 point, higher point, lower unemployment rate.

Major reference resources: Economic Freedom of the World, UNESCO, UNODC.

Table 5: Bilateral Relationship Indicators（30 points）

Indicators	**Description and Explanation of Indicators**
Bilateral strategic level	Whether signing the comprehensive or simple strategic partnership treaty? From 0 to 6, bigger point, higher lever of bilateral cooperation.
Top-leaders mutual visits	Whether the top-leaders between two sides visit each other and how many times they visit each other in the latest five years. From 0 to 6, bigger point, higher frequencies of top leaders visit.
Mutual perceptions between bilateral public	The mutual favorability between two sides in the latest five years. From 0 to 6, bigger point, higher degree of favorability.
Signing the investment or trade agreements	From 0 to 6, bigger point, the higher level of investment and trade negotiation and signing. The project classified by three stages: no plan to sign, under negotiation, and signing the treaties.
The Degree of Mutual dependence with each other in individual regions	The cooperation mechanisms or organizations from each part, and the openness and inclusiveness to each other of these mechanisms or organizations each part joined. From 0 to 6, bigger point, the higher level of openness and inclusiveness.

Major reference resources: Ministry of Commerce of PRC and Ministry of Foreign Affairs of PRC, Pew Global Attitude Project and Transatlantic Trends Survey, Delphi Methodology.

2.2 The investment environment evaluation of V4 countries

Table 6: The rank and rating of CEECs' investment environment (100 points)

Rank	***Country***	***Score***	***Political environment***	***Economical environment***	***Social environment***	***Bilateral relations***	***Rating***
1	*Poland*	*88*	*24*	*18*	*18*	*28*	Very good
2	*Hungary*	*79*	*20*	*16*	*16*	*27*	
3	*Czech*	*78*	*24*	*18*	*18*	*18*	
4	*Slovakia*	*77*	*24*	*16*	*16*	*21*	Good
5	Romania	76	18	16	16	26	
6	Serbia	76	18	14	16	28	
7	Estonia	70	20	16	16	18	
8	Latvia	70	20	16	16	18	
9	Lithuania	70	20	16	16	18	Not
10	Croatia	68	20	14	16	18	Bad
11	Bulgaria	67	18	14	15	20	
12	Slovenia	66	20	12	16	18	
13	Montenegro	65	18	14	15	18	
14	Macedonia	65	18	14	15	18	
15	Albania	64	17	14	15	18	Not
16	BiH	62	15	14	15	18	Good

In the table, over 95 points means excellent; from 85 to 95 means very good; from 75 to 85 means good; from 65 to 75 means not bad; from 55 to 65 means not good; and less 55 means very bad.)

From the above evaluation, we can get the following conclusions:

First, the investment environment of V4 countries is better than any other CEECs and locate the top 4 countries in the table. Especially, Poland is more favorable according to this evaluation and near to Germany (90 points) in the EU. The market potential and prospects from V4 are favorable generally.

Second, Except Poland, V4 and other CEECs' market sizes are not big. However, Chinese investors are more preferable to a relatively bigger size market. Thus the evaluation points are lowered to some extend which may be the major influential variables to influence the Chinese investors' interests in this regain. V4 and CEECs' advantages in the long run are the economic or political geography near to EU and Eurasia markets, at the same time, the unified CEECs including V4 also has some attractions for China.

Third, we should not neglect the factors of bilateral relationship. Poland, Hungary, Slovakia, Romania and Serbia have good relationship with China, So they have more investment performance and higher evaluation scores. Czech is influenced by bilateral relations, otherwise, it will earn more investment from China. Let just take Serbia as a special example, Serbia has not big size market, not EU membership and more favorable environments compare to V4, however, due to the special strategic partnership with China, it becomes a favorable location in South East Europe for Chinese investors.

Last but not the least, EU membership has some influences to China's investment,but not the most decisive factor. This is a twin sword effect. On one side, EU membership is a good confirmation of the countries' good performance in political, economical and social indicators. However, from Serbia case, we can find that, no EU membership means less restrictions from EU, and it shows a more opportunities for Chinese investors on the contrary. So you can see, although the bad rating of Western Balkan countries, Chinese investors still show its interests in this region. The ten billion credit line from China were granted to Montenegro and BiH last year. This also shows China's new investment inclination, if those countries have some risks, but not huge, China will have a try.

3 CHINA'S INVESTMENT PATTERN AND CHARACTERISTICS IN V4

3.1 China underlines the integrity of investment distribution and strengthens the overall transfer of the chain of production, processing and marketing.

Currently, more and more Chinese investors can be seen working in construction sectors that range from transportation (ports, airports, and roads) to local assembly and distribution networks (the construction of industrial parks), and even to logistics facilities (investment in sea transportation and the construction of container companies and telecommunications networks) in CEECs. Chinese investment in V4 can already be characterized by integrity. It has been developed from trade towns and trade centers, focusing only on the concentration of labor and on fixed stall sales to the diversification of investment industries and the development of the value chain. With the increase of green field investment, mergers and acquisitions,and joint ventures in V4 Chinese enterprises have sought to introduce specific production models, such as infrastructure construction, machinery manufacturing, information and service industries as well as the development of chemical and agricultural products. They regard V4 as a center to upgrade, sell and distribute products to realize the localization and even "Europeanization" of the production, circulation, sales and branding of Chinese products. They can also use V4 as a springboard to enter the vast markets in the EU, Russia and Turkey. This is one of the main characteristics of Chinese investment in V4 at present, and it will remain so in the foreseeable future.

3.2 Characteristic investment industries have gradually emerged

Currently, China's characteristic investment industries in V4 are gradually emerging. Largely centering on China's comparative advantages in technology and human capital, as well as its early-bird advantage, Chinese investment is implemented in keeping with the actual investment needs of V4. Investment industries mainly include infrastructure construction, the development of information and communications technology, clean energy (mainly technological investment) and machinery processing and manufacturing.

Although a Chinese company withdrew from Poland's A2 highway project after incurring heavy losses in 2012 (see the case studies in the following), China's investment in infrastructure construction in V4 has a sound momentum of development. In 2013, China signed the agreement with Hungary and Serbia to build the Hungary-Serbia Railway when Premier Li Keqiang visited Bucharest. Chinese information and communications technology companies such as Huawei, ZTE or Lenovo have invested

across V4, especially Lenovo established technical service center in Slovakia serving for Europe, Middle East and Africa. With a wide business scope, many Chinese companies have exerted a relatively large impact. In terms of machinery processing and manufacturing, China has invested in the production lines of electrical appliances, automobiles and heavy machinery in many V4 including Hungary, Poland. For example, at the end of January 2012, Liuzhou-based Liugong Machinery Corp. acquired the Polish construction machinery enterprise HSW, one of the largest construction machinery manufacturers in CEE with a highly respected international position in the heavy engineering equipment sector, exporting to more than 80 countries.

After acquiring HSW, Liugong can obtain all of the company's intellectual property rights and trademarks, and it can establish a manufacturing as well as research and development base in Poland. Based on its operations in Poland, Liugong can radiate its influence to the whole European market. As part of its efforts to integrate the above-mentioned competitive industries, China has also strengthened the construction of industrial parks in V4 so as to encourage and attract investors from China and expand the influence of Chinese investment in V4.

3.3 China focuses on cooperation with V4 and expands investment from key countries to the whole CEE region.

China does not invest in all CEECs indiscriminately; it pays more attention to countries that have prominent investment advantages and that hold more balanced composite indicators, especially CEECs that have advantages in geography, industrial bases, resource endowment and labor force quality. What China values most is the fact that some CEECs can serve as springboards and bridgeheads. For example, Hungary and Poland have become important choices for China. Hungary has attracted more Chinese-funded institutions and Chinese businessmen than any other country in CEE.

Chinese investment in Hungary covers industries such as trade, finance, aviation, chemicals, logistics, real estate,consulting services, communications and electronics manufacturing.[4] In 2010 and 2011, Wanhua Industrial Group Co. Ltd., the controlling shareholder of Yantai Wanhua Polyurethanes Co. Ltd., invested a total amount of 1.263 billion euros in two consecutive years to acquire a 96% stake in the Hungarian chemical company BorsodChem. This is the largest Chinese investment in CEE. To a certain extent, investment in these countries will drive investment in the entire CEE region.

3.4 The soft environment for investment in V4 has improved.

The Chinese government vigorously promotes cultural exchanges between China and V4, holds various investment forums, dispatches "investment promotion delegations" to V4 to promote investment, and strengthens the exchange of information. China has especially sought to invite officials in charge of foreign investment in V4 and other CEECs to China for exchanges and training, so as to help them understand China's economic situation and investment policies. On top of this, China has set up a cultural exchange mechanism between China and CEE and created a research fund to promote mutual understanding.

[4] http://hu.mofcom.gov.cn/aarticle/zxhz/hzjj/201103/20110307426966.html.

4 PROBLEMS AND CHALLENGES

China's main investment approach in V4 is to move the whole industrial chain to the region and build it into a product upgrading center as well as a sales center, so as to realize the localization of production, flow and sales of Chinese goods, and further to enter EU, Russian and Turkish markets. However, there remain certain investment risks. Some EU member states have realized China's investment tendencies.

Some members of the European Parliament clearly express that China will be welcomed if its investment can provide employment opportunities and bring profits, but that it will be met with strong opposition if it only wants to use V4 as its export base and sales centers. Competition between China and V4 caused by the convergence of some industries cannot be ignored either. For example, both Poland and Hungary feature processing industries to meet the demand of the European market and they are regarded as the miniatures of China in the EU market (Marek Belka, 2012).

Chinese investors have long been concerned about the investment value and the market capacities of V4. Most of the high-quality assets of V4 have been absorbed by Western countries due to privatization that occurred during the transformation period of the 1990s. As a result, most of the high-quality assets are currently still being controlled by those early birds. What Chinese enterprises gained from V4 are mainly poorly managed businesses. Meanwhile, most of V4's market capacities are comparatively limited, which makes it difficult for Chinese investors to reap high profits. Besides, the integration of the market rules of V4 with the EU also makes it more difficult for Chinese enterprises to establish themselves in the region.

Stakeholders, including some influential interest groups in the EU, are concerned about China's entry into the V4 market and are thus trying to curb it. Since the outbreak of the European debt crisis, China's involvement in CEE has triggered serious concerns from EU institutions, Germany and other EU members, which speculate that China is trying to divide the EU and establish a "CEE group". In 2012, the joint communiqué to be publicized during a meeting between China and CEE was submitted to EU institutions for advanced review. The EU strongly opposed the proposal to develop long-term China-CEE relations and institutionalize these relations. German Chancellor Angela Merkel expressed her concern about closed, exclusive discussions between China and CEECs including V4. EU Trade Commissioner Karel De Gucht even said that China's behavior will pose challenge for EU common trade policies.

Moreover, negative campaigning by the media and think tanks poses other pressures on Chinese investment. When entering V4, China was criticized by some local media of abusing fair trade rules and dumping products at low prices to compete unfairly(Marta Golonka, 2012,). Some think tanks believe that Chinese investment policies are driven by political interests. China needs the support of CEECs to exert its clout on the great powers in the EU, they argue, adding that the formation of a CEE alliance may push the EU to make decisions beneficial to China. Some other think tanks even posit that China adopts different diplomatic criteria toward CEECs based on their economic potential and political attitudes. For example, Poland and the Czech Republic, whose state leaders often meet with the Dalai Lama and criticize China's human rights records, usually get Chinese investment disproportionate to their economic scale. While Hungary and Slovakia, thanks to their full support of

China, get much Chinese investment in return.

Finally, China is not familiar with V4 after their political transitions. Since the early 1990s, the priority of V4 has been to consolidate democracy, integrate with the West and join the EU. China is mainly engaged in developing its economy and maintaining social stability. China and V4 used to be close with each other; however, they became estranged from one another due to their different strategic development orientations since the end of the Cold War. There are different kinds of languages, cultures, ethnic groups, religions and histories in V4. V4 are geographically far from China and have undergone considerable change. All of these factors make them more difficult for China to understand.

Let's just take Poland as an example.

In September 2009, Poland's A2 highway opened invitation for bidding. Directly connecting Warsaw and Berlin, the highway was an important project for the Euro 2012 Football Championship, which was jointly hosted by Poland and Ukraine. China Overseas Engineering Group Co. Ltd. (COVEC), a subsidiary of China Railway Group Ltd., responded to the tender quickly. Ultimately, the bidding consortium headed by COVEC won the contract with 1.3 billion zlotys(US$472 million, RMB3.049 billion) to build sections A and C. The highway project marked the first time for Chinese companies to engage in such large-scale infrastructure construction in any EU country. COVEC had been trying to enter the European infrastructure market, and undoubtedly the A2 highway project provided a good opportunity for the company to prove itself. However, this project eventually ended with the Polish government terminating its contract with COVEC in June 2011, and as a result, Chinese infrastructure companies' "first bid" in CEE ended in failure. For COVEC's investment in Poland, the domestic media concluded that COVEC got clobbered due to its blind entry. In fact, we should analyze COVEC's investment in an objective and balanced way. Only by doing this can the case provide comprehensive references for future Chinese investment in CEE.

4.1 Some unpredictable risks should be considered in COVEC's investment in Poland.

COVEC's project happened to coincide with the financial crisis in 2009, when raw material prices were relatively low. After winning the bid, the schedule was put off due to cold weather. Meanwhile, the Polish economy recovered quickly and Poland began to extensively build infrastructure projects for Euro 2012. Prices of various raw materials for infrastructure rose so sharply that the rental prices of some raw materials and excavating equipment went up more than five times in just one year. Given soaring costs of infrastructure construction, the Chinese investors suffered losses at the very start.

China gained explicit support from Polish authorities to invest in the project. On the one hand, the Polish Peasants' Party, one of the ruling parties, was eager to create achievements and strongly believed in the speed of Chinese enterprises. On the other hand, European and American contractors were charging way too much. In order to drive down prices, the Polish government tended to have Chinese companies involved, and the Polish Peasants' Party representatives were sent to China to lobby. The Chinese took it for granted that they could win the contract first and then ask the Polish government for help when troubles occurred. So they proposed an extremely low offer, which did not arouse suspicions from Polish government officials.

In fact, things did not work out as expected when the Chinese contractors encountered

difficulties. In June 2011, Polish Prime Minister Donald Tusk firmly refused China's request to adjust the bid and terminated the contract with China.

Poland's highway authority operated irregularly in the bidding process and deliberately concealed some construction difficulties. In addition, the bidding procedure was neither fair nor transparent. Given all the above-mentioned factors, there were particular reasons for the failure of COVEC's investment in Poland.

4.2 COVEC's own carelessness and ill preparedness should not go unnoticed.

COVEC was unfamiliar with the situation and invested recklessly. In the early stages of investment, the Chinese side relied too heavily on the opinions of several Polish experts. It did not fully examine the particular local situations for infrastructure, nor did it know the special provisions of the EU, such as provisions that mandated passages for protecting wildlife along the highway and the employment of local workers. Worse still, the Chinese side was not familiar with local suppliers of raw materials. All these resulted in COVEC seriously overshooting its budget.

Slack technical checks were another problem. The Chinese contractors did not realize that the functional specification provided by Poland was unclear, nor did they comprehend the complex geological conditions of the sections they had been contracted to build. The Chinese technical staff made the decision in a hurry without undergoing sufficient preparations before bidding.

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

4.3 Chinese companies must seriously improve crisis-prevention awareness and public relations capabilities

When evaluating COVEC's investment against the larger background of China's "Going Global" strategy, we can find more in-depth problems that Chinese companies will face when investing overseas, such as unsound supplementary measures for investment. As a highway for Euro 2012, the most widely watched sporting event in all of Europe, COVEC's "unfinished project" in Poland was scrutinized by people of all walks of life, ranging from prime ministers and royal families to regular civilians, resulting in a negative impact that the Chinese side was unprepared for. It showed that Chinese companies are seriously in lack of crisis-prevention awareness, public relations capabilities as well as sound supplementary measures when investing.

5 POLICY SUGGESTIONS

China should clarify its strategic intentions to V4 and other CEECs when investing in CEE, namely further promoting cooperation between China and the EU via cooperation with V4 and CEECs.

When investing in V4, China has the intention of upgrading its place on the industrial chain and localizing production in the region, which is basically a form of economic behavior. Chinese investors always pursue the principles of mutual benefit and win-win outcomes; and they will also comply with EU laws and regulations. China's investment plays an important role in the promotion of economic development in V4 and the promotion of balanced development between Eastern Europe and Western Europe within the EU. This will be a great opportunity to deepen the comprehensive strategic

partnership between China and the EU.

China should properly address the issues of risk aversion and crisis management when investing

The support of local governments and non-governmental organizations is indispensable to investing in the economic development of V4. As a result, sound supplementary work will be necessary, and China ought to make use of investment opportunities to extensively contact local institutions for deeper understanding and cooperation. For the purpose of risk aversion and improving its crisis management capabilities, China needs to create conditions for the establishment of investment risk analysis teams and foundations formed by local elites and relevant agencies such as think tanks. The main purpose of the risk analysis teams is to gather information, conduct in-depth investigations into investment risks, and avoid walking into unfamiliar territories blindly. The principal objective of establishing local foundations is to help with crisis prevention and crisis management.

Both Chinese and V4's governments ought to strengthen the guidance and support of investment from China.

Bilateral governments need to guide enterprises to flexibly choose the right model of investment according to the specific characteristics of a given project. In addition to green field investment, enterprises can explore and adopt models like joint ventures, mergers and acquisitions and participating in privatization. They may also pursue the possibility of cooperating with multinational companies on projects that call for huge investment and draw public attention.

Bilateral governments ought to jointly resolve specific technical barriers. First, it is difficult for Chinese workers to get labor visas, work permits, and legal residencies, factors that hurt the expansion of investment in V4. Second, social security poses a problem. There are no social security agreements between China and V4. Chinese workers need to pay pensions and unemployment insurance in V4. However, when they return to China, the insurance premiums paid cannot be returned and this poses an additional burden to Chinese enterprises. Third, in order to attract investment,V4 generally promise to provide some preferential policies; nevertheless, it is difficult to put them into practice due to systemic constraints in the actual implementation process. Bilateral governments ought to negotiate to push the policy implementation on these issues.

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ANALYSIS OF THE EXISTING SYSTEM OF RESOLUTION OF POTENTIAL INTERNATIONAL INVESTMENT DISPUTES CONCERNING V4 COUNTRIES AND CHINA

Bin Ye[1]

This article analyses the existing system of resolution of potential internatonal investment disputes concerning China and V4 countries. Many of BITs between China and other states were concluded from 1982 to 1998, such as China-Poland BIT and China-Hungary BIT. Those BITs provided compartively lower protection to investment. The second generation China BITs expand the scope of national treatment, liberalize the limitation on the transfer of payments, and accept the ICSID's jurisdiction on the investor-state disputes. However, there no public arbitration case between China and V4 Country. In practice, V4 countries prefer to submit its case to the ISCID or constitute ad hoc tribinal under the Arbitration Rules of UNCITRAL.

Key words: bilateral investment treaty (BIT), ISCID, arbitration, investor-to-state

1 INTRODUCTION

This article analyse the existing systme of resolution of potential internatonal investment disputes concerning China and V4 countries. Many of BITs between China and other states were concluded from 1982 to 1998, such as China-Poland BIT and China-Hungary BIT. Those BITs provided compartively lower protection to investment. The second generation China BITs expand the scope of national treatment, liberalize the limitation on the transfer of payments, and accept the ICSID's jurisdiction on the investor-state disputes. However, there no public arbitration case between China and V4 Country. In practice, V4 countries prefer to submit its case to the ISCID or constitute ad hoc tribinal under the Arbitration Rules of UNCITRAL.

2 EXISTING FRAMEWORK FOR INTERNATONAL INVESTMENT PROTECTION BETWEEN CHINA AND THE INDIVIDUAL V4 COUNTRY

Generally, the investement regulation panorama is very diverse and multilayered. The sources of international investment rules include both demestic laws and internatonal laws. The demestic laws divide into the laws on foreign investment of capital-import countries and the the laws on oversea investment of capital-export contries. The international rules include cumstomry international laws, multilateral treaties and bilateral investment trieaties (BITs).

This article focus on the multilateral treaties which China and individual V4 country signed or acceded and the bilateral investment treaties between China and individual V4 country.

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2.1 INTERNATIONAL INVESTMENT TREATIES

2.11 ICSID convention

The International Centre for Settlement of Investment Disputes (ICSID), an institution of the World Bank group based in Washington, D.C., is considered to be the leading international arbitration institution devoted to resolving disputes between States and foreign investors. ICSID was established in 1966 by the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (known as the ICSID Convention or Washington Convention). ICSID provides a legal and organizational framework for the arbitration of disputes between Contracting States and investors who are nationals of other Constracting States, which depoliticize the settlement of investment disputes. Over 150 countries have signed the ICSID Convention.

China and almost all member states of European Union, merely except Poland, are contracting states of the ICSID Convention. When China signed the Convention, China declared that pursuant to Article 25(4) of the Convention, the Chinese Government would only consider submitting to the jurisdiction of the ICSID over compensation resulting from expropriation and nationalization. The ICSID Convention entered into force for China on February 6, 1993. In the BITs between China and any V4 country, there is no ICSID arbitration clause. Although the 1991 China-Hungry BIT agreed that in case China becomes a party to the ICSID Convention, the two governments will enter into a supplementary agreement converning the scope of disputes to be submitted to the ICSID, China and Huagry do not acturally conclude such agreement.

However, China has changed its position on ICSID Convention since 1998. According the 1998 China-Barbados BIT, the investor can choose to submit any concerned dispute to ICSID or an arbitral tribunal set up under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL). There is a similar clause in the 2003 China-Germany BIT and the 2005 China-Cezch BIT.

If non-constracting state and investor agree to refer their dispute to ICSID, ICSID will have the jurisdiction on the specific case. For example, although Poland do not accede the ICSID Convention, there are three ICSID cases between Poland and nationals of other states. In the three cases, one was concluded, others still pending.

There are only three cases involving China in ICSID investor-state cases. In Tza Yap Sun v Peru (ICSID Case No. ARB/07/6), a Hong Kong investor claimed Peruvian Tax Administration's actions constituted indirect expropriation which breached the China-Peru BIT. The Tribunal awarded against the Peruvian goverment on July 07, 2011. However, enforcement of the award was suspended because the Peruvian goverment applied for annulment of the award. In Ping An v Belgium (ICSID Case No. ARB/12/29), a Chinese investor claimed the Belegian government's actions, which nationalized the Ageas N.V./S.A. during the banking crisis, constitued expropriation. The case is pending. On May 24, 2011, ICSID regestered the first case wich the Chinese government being claimed. A Malysian investor claimed that the government of Henan Provence expropriated its assets. The claiment gave up the case at later since the China-Malysia BIT do not contain the ICSID arbitration clause.

ICSID Cases revolving China, Czech, Hungary, Poland and Slovak

Respondent	**Claimant**	**Case No.**	**Status**
China	Ekran Berhad	ARB/11/15	Concluded
Czech	Phoenix Action Ltd	ARB/06/5	Concluded
Hungary	Le Chèque Déjeuner and C.D Holding Internationale	ARB/13/35	Pending
Hungary	Edenred S.A.	ARB/13/21	Pending
Hungary	Dan Cake (Portugal) S.A.	ARB/12/9	Pending
Hungary	Accession Mezzanine Capital L.P. and Danubius Kereskedöház Vagyonkezelö Zrt.	ARB/12/3	Pending
Hungary	Emmis International Holding, B.V., Emmis Radio Operating, B.V., and MEM Magyar Electronic Media Kereskedelmi és Szolgáltató Kft.	ARB/12/2	Pending
Hungary	Vigotop Limited	ARB/11/22	Pending
Hungary	Electrabel S.A.	ARB/07/19	Pending
Hungary	AES Summit Generation Limited and AES-Tisza Erömü Kft.	ARB/07/22	Concluded
Hungary	Telenor Mobile Communications AS	ARB/04/15	Concluded
Hungary	ADC Affiliate Limited and ADC & ADMC Management Limited	ARB/03/16	Concluded
Hungary	AES Summit Generation Limited	ARB/01/4	Concluded
Poland	Vincent J. Ryan, Schooner Capital LLC, and Atlantic Investment Partners LLC	ARB(AF)/11/3	Pending
Poland	David Minnotte and Robert Lewis	ARB(AF)/10/1	Pending
Poland	Cargill, Incorporated	ARB(AF)/04/2	Concluded
Slovak	Slovak Gas Holding BV, GDF International SAS and E.ON Ruhrgas International GmbH	ARB/12/7	Concluded
Slovak	Branimir Mensik	ARB/06/9	Concluded
Slovak	Československa obchodní banka, a.s.	ARB/97/4	Concluded
Chinese Companies v. Another State			
Peru	*Tza Yap Shum (a national of the People's Republic of China)*	*ARB/07/6*	*Pending*
Belgium	*Ping An Life Insurance Company of China, Limited and Ping An Insurance (Group) Company of China, Limited*	*ARB/12/29*	*Pending*
Hungarian Company v. Another State			
Croatia	*MOL Hungarian Oil and Gas Company Plc*	*ARB/13/32*	*Pending*

Source: https://icsid.worldbank.org/ICSID, until 20-2-2014.

2.12 MIGA convention

Like the ICSID, the MIGA is also a part of the World Bank Group. It was established by the Convention Establishing the Multilateral Investment Guarantee Agency, of 11 October 1985. The MIGA only offers political risk insurance (guarantees) to investors and lenders. It aims to insure cross-border investments made by investors in any MIGA member country into a developing member country. The MIGA Convention has 180 Member Countries. China is a founding member of MIGA. All Member States of EU are MIGA's Contracting States.

The MIGA Convention divide its member countries into two parts. One part is 155 developing countries, including China, Hungary, Poland and Slovak Republic. Another part is 25 industrialized countries, including 17 EU Member State (More information, please see http://www.miga.org/whoweare/index.cfm?stid=1789). In April 2005, Work Bank classified Czech Republic as industrialized country.

According the MIGA Convention, Investment from China to Hungary, Poland and Slovak Republic and investment from all V4 Countries to China could be garanteed by the MIGA. So far, the MIGA has insured 39 projects invested to China, including 14 projects invested from EU Member State, but none from V-4 countries.

2.13 WTO rules

In the regime of WTO, the main investment-related rules include the Agreement on Trade-Related Investment Measures (TRIMs Agreement) and the General Agreement on Trade in Services (GATS).

The TRIMS Agreement prohibits trade-related investment measures, such as local content requirements, that are inconsistent with basic provisions of GATT 1994. The TRIMs Agreement can be considered as a breakthrough of international investment law, because it extends the natinal-treatment obligations and the general prohibition on quantitative restriction from trade law into investment law.

In additin to the TRIMs Agrement, the GATS also deals with some kind of investment. The GATS addresses commercial presence, which also being foreign investment in services, as one of four modes of supply of services. For this reason, the GATS can be deemed as the first multilateral investment liberalization treaty.

All V4 countries, EU and China are members of WTO. The future China-EU BIT shall be consistent with the investment related WTO rules.

Besides the above-mentioned mutilateral rules, the Arbitration Rules of UNCITRAL are also often refered, for example, the case of Ronald S. Lauder v. The Czech Republic (Award dated 3 September 2001, see http://www.italaw.com/cases-by-respondent).

2.2 BITs between China and Visegrad-4 respecitively

After concluding the first bilateral investment treaty with Sweden in 1982, the People's Republic of China has signed BIT with 131 countries by September 8, 2013. China has concluded BITs with all Member States of EU but Ireland.

BITs concluded by the Five Countries

Country	**BIT amounts**
China	90
Czech	79
Hungary	58
Poland	62
Slovak	40

Reference: ICSID database of Bilateral Investment Treaties.

Many of BITs between China and other states were concluded from 1982 to 1998, such as China-Poland BIT and China-Hungary BIT. Those BITs provided compartively lower protection to investment. In 1998, the Chinese Communist Party propounded "go global" strategy. According to the stratey, China changed its position on BIT, in particular, accepting the ICSID's jurisdiction. After acceded WTO in the end of 2001, China amended some former BITs, including China-Germany BIT, China-Cezch BIT and China-Slovak BIT. The second generation China BITs expand the scope of national treatment, liberalize the limitation on the transfer of payments, and accept the ICSID's jurisdiction on the investor-state disputes.

Bilateral Investment Treaties between China and Individual V4 Counries can be divided into two kinds. The first kind includes the 1988 China-Poland BIT and the 1991 China-Hungary BIT, whch are typical BIT concluded between socialism countries. The second kind includes the 2005 China-Czech BIT and the 2005 China-Slovak BIT.

Following subsectors compare these BITs.

Bilateral Investment Treaties between China and Individual V4 Counries

Country	**BITs**	**Date of Signing**	**Effective Date**
Czech	Agreement between the Government of the Czech and Slovak Federal Republic and the Government of the People's Republic of China for the Promotion and Reciprocal Protection of Investments	4.12.1991	1.12.1992
	Agreement between the Czech Republic and the People's Republic of China on the Promotion and Protection of Investments	8.12.2005	1.9.2006
Hungary	Agreement between the Republic of Hungary and the People's Republic of China concerning the Encouragement and Reciprocal Protection of Investments	29.5.1991	1.4.1993
Poland	Agreement between the Government of the Polish People's Republic and the Government of the People's Republic of China on the Reciprocal Encouragement and Protection of Investments	7.6.1988	8.1.1989
Slovak	Agreement between the Government of the Czech and Slovak Federal Republic and the Government of the People's Republic of China for the Promotion and Reciprocal Protection of Investments	4.12.1991	1.12.1992
	Additional Protocol between the Government of the Slovak Republic and the Government of the People's Republic of China to the Agreement	7.12.2005	25.5.2007

	between the Government of the Czech and Slovak Federal Republic and the Government of the People's Republic of China for the Promotion and Reciprocal Protection of Investments		

Source: http://tfs.mofcom.gov.cn/article/Nocategory/201111/20111107819474.shtml, last visited on 20.2.2014.

2.21 Definition of "Investment"

In the BITs between China and other states, the term of investment is almost same, which means every kind of asset invested in connection with economic activities by foreign investors. The 2003 China-Germany definites it more clear, which explicitly includes direct investment and indirect investment.

According to the TFEU and the Court of Justice's interpretation, FDI means the shareholder participates effectively in the management of that company or in its control. This contrast with indirect investment, commonly referred to as "portfolio investment", where there is no intention to influence the management and control of an understaking (Communication from the Commission, Towards a Comprehensive European International Investment Policy, Brussels, 7.7.2010). The Lisbon Treaty grants the Euorpean Uion exclusive competence merely on foreign direct investment (FDI) but indirect investment. Therefore, the future China-EU BIT will be a mixed agreement, which need the member states of EU participate the BIT negotiation and shall be ratified by the member states.

2.22 Treatment of Investment

The 1991 China-Hungary BIT and the 1988 China-Poland BIT provide that investments and activities associated with investments of investors of either Contracting Party shall be accorded equitalbe treament, and the treatment of protcetion shall not be less favourable than that accorded to investments and activities associated with investments of investors of any third State. There are no national treatment in the two BITs. Compare with the two BITs, there a national treatment clause in the 1991 BIT between Czech and Slovak Federal Republic and China

The 2005 China-Czech BIT provide the scope of fair and equitable treatment, national and most-favoured-national trements, as regards management, maintenance, use, enjoyment or disposal of theire investment. The scope of the treatments in China-Czech BIT are less than that of NAFTA, which regards establishment, acquisition and expansion. The treatments on establishment can be interpretated as the treatment of investors "pre-entry" or "pre-admission".

2.23 Market Access

The China-US BIT talks are being conducted on the basis of pre-establishment national treatment, accompanied by a "negative list" approach ("US-China trade talks a 'turning point' in relations", China Daily, 24.10.2013). The China-EU BIT negotiation is also based on the starting point with the adoption of a 'negative list', which specifies bans and restrictions on types of foreign investments ("China, EU talking investment", China Daily, 22.1.2014). How to enumerate the nagative list will be the most taugh task for both China and EU.

According to the Chinese regulations, which include the Guidance of Direction of Foreign Investment Provisions and the Foreign Investment Industrial Guidance Catalogue, industries are

divided into four categories, namely industries in which foreign investment is "encouraged", "restricted", "prohibited" and "permitted" by the Staes. The commitment of nagative investment list means China should reform its current foreign investment laws and regulations. Another problem rised from the pre-establishment commitment is whether the Chinese medium-sized and small enterprises would get faire and equitable treatment in the demestic market.

The Ministry of Commerce of China is consultating on amending the laws on three kinds of foreign-invested enterprises or ventures
(see http://tfs.mofcom.gov.cn/article/as/201312/20131200417369.shtml).

To amend the laws can be cansidered as a part of the Comprehensively deepening reform which guided by the 2013 CPC Third Plenary Session.

3 THE EXISTING SYSTEM OF RESOLUTION OF POTENTIAL INVESTMENT DISPUTES

BITs typically provide for twon types of dispute settlement. One provision offers arbitration between the Contracting parties to the treaty. Another provides for arbitration between the host state and an investor.

3.1 State-state Dispute Settelment Clause

Nearly all BITs contain arbitration clauses for the settlement of disputes arising rom their application between the contracting states. In the BITs between China and individual V4 country, the arbitration clauses are nearly same. All arbitration clauses require the contracting states consulting first.

According the article 9 of the China-Czech BIT, disputes between the contracting paries concerning the interpretation or application of the agreement shall as far as possible, be settle by consultation through diplomatic channel. If the dispute cannot be settled with six months, it shall be submitted to an ad hoc arbitral tribunal. All arbitration clause contain the formation of the tribunal and the self-determined procedure.

	Settlement of Disputes between Conrating Parties	**Settlement of Disputes between investor and state**
China-Czech BIT, 2005	Step 1：Consultation，within six months; Step 2: Ad hoc arbitral tribunal.	Step 1：Negotiation; Step 2: the investor can choose to a) the competent court of the Conracting Party, or; b) ICSID, or; c) an hd hoc arbitral tribunal, established under the Arbitration Rules of UNCITRAL, unless otherwise agreed upon by the parties.
China-Hungary, 1991	Step 1：Consultation，within six months; Step 2: Ad hoc arbitral tribunal	Arbitral tribunal, only concerning the amount of compesation for expropriation.
China-Poland, 1988	Step 1：Consultation，within six months; Step 2: Ad hoc arbitral tribunal	Step 1: file complaint with the competent authority of the Contracting Party , only concerning the amount of compesation for expropration; Step 2: refer to competent court or an ad hoc international arbitral tribunal.

China-Slovak, 1991 and 2005	Step 1：Consultation，within six months; Step 2: Ad hoc arbitral tribunal	Step 1：Negotiation; Step 2: the investor can choose to: a) the competent court of the Conracting Party, or b) mediation, or an hd hoc arbitral tribunal, established under the Arbitration Rules of UNCITRAL, concerning the amount of compesation for expropration. The award can be enforced under 1958 New York Convention.

3.2 Investor-State Dispute Settelment Clause

In BITs between China and individual V4 Coutry, investor-State dispute settelment clause is very different. Four treaies have four different provisions.

The scope of investor-State dispute settelment clause in China-Hungary BIT, China-Poland BIT and China-Slovak was limited on the disputes concerning the amount of compesation for expropration.

Compared with investor-State dispute settelment clause in the other three BITs, the provision of 2005 China-Czech BIT is more modernized. It permits the investor choose competent court of the contracting, ICSID or any hd hoc arbitral tribunal to resolve their disputes. It means that there is no neccerary for exhaustion of local remidies. The treaty do not set a limit to the scope of invesment disputes. It shows that the Chinese government has entirely accepted the ICSID jurisdition on investor-state dispute.

4 CONCLUSIONS

On account of China transformed from capital-import country to both capital-importing and captial-exporting country in recent years, the future China-EU BIT shall provide effecient protection on investment and due policy space for investor host country to manage public interests. However, there are huge challenges against to Chinese Market. How to enumerate the nagative list will be the most taugh task for both China and EU.

Although EU has exclusive competence on FDI, there are huge space for V4 countries to promoting investment, which is consistent with EU law. Furthermore, V4 countries remains rights on portfolio investment. EU member states shall participate in EU-China BIT negotiation actively.

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CHINA-V4 TRADE RELATIONS – A CZECH PERSPECTIVE

Tereza De Castro, Zuzana Stuchlikova[1]

The Czech Republic (CR) runs a huge trade deficit with the People's Republic of China. Not only are Chinese imports into the CR much larger, they also show a structure highly geared towards investment goods and products used for further manufacturing. The prevailing traded groups are SITC 7, SITC 8 and SITC 6. The Czech Republic is losing the number of groups where is has a comparative advantage in its exports and China has a comparative disadvantage. On the contrary, China has increased this figure. However, there are some SITC-3 digit groups that are not being exported but the Czech Republic has a comparative advantage in them and China a disadvantage.

Key words: international trade, China, Czech Republic, trade deficit, balance of foreign trade, revealed comparative advantage, Balassa´s index, trade complementarity
JEL: F10, F14

1 INTRODUCTION

The importance of trade in goods between the Czech Republic and China has been growing steadily. At present, China is the most important trade partner of the Czech Republic outside the European Union. Its position in Czech trade is extremely strong mainly in Czech imports, while Czech exports to China are still very low. It follows, that similarly to most European countries, the Czech Republic runs a huge (and constantly growing) trade deficit with China.

The aim of this paper is to evaluate the past development of trade patterns between the Czech Republic and China and to identify trade potential between the two countries on the basis of the Revealed Comparative Advantage Index (RCA) and Trade Complementarity Index (TCI) analysis.

The paper is divided as follows. Chapter two contains information about the used methodology and data collection. The next section provides an overview of trade relations between the Czech Republic and China, trade partner ranking, trade balance and priority markets for the Czech Republic with a special focus on China. The following section analyses the export and import composition of mutual trade between the Czech Republic and China and its changes within the examined time period 2000 to 2012. It further discusses the main traded SITC groups and identifies the trade potential between the two countries. The main findings and further research proposals are summarized in the conclusion.

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2 METHODOLOGY AND DATA

The analysis of trade patterns between the Czech Republic and China since the turn of the new millennium until 2012 is based on the Revealed Comparative Advantage Index (RCA) and Trade Complementarity Index (TCI).

The method of RCA calculation was proposed by Balassa (1965). It is based on the assumption that the exports of a given country reflect the difference in relative costs as well as in non-price factors. The RCA index reveals the exported commodities on which the country relatively specializes in regardless the specialization is a result of factor endowments or trade policy (Batra and Khan, 2005: 6). There are various modifications of Balassa's index (e.g. Kunimoto (1997), Yeats (1997), or Iapadre (2001)) trying to improve some of the limitations of the original index such as the interpretation of results however, they themselves provide other limitations as well. For the sake of simplicity Ballasa's index still remains being used the most and we follow this approach also in this paper.

The RCA index is defined as a ratio where the export of a given commodity *i* country *j* to total export of the country *j* is in numerator and where the share of the same commodity from the world to total world export is in denominator. The equation is as follows:

$$RCA_{xj}^{i} = \frac{\frac{x_{ij}}{x_j}}{\frac{x_{wi}}{x_w}}$$

where,

x_{ij} - export of commodity *i* by country *j;*

x_j - total export of country *j;*

x_{wi} - export of commodity *i* by the world;

x_w - total export of the world.

The value of the RCA index reaches from zero to infinity. The values from zero to unity indicate the comparative disadvantage, unity means neutrality and all values above one indicate the comparative advantage.

The Trade Complementarity Index is another trade measure identifying the possible commodity trade between two countries and their trade potential. This index was proposed by Kojima (1964) and further modified by Drysdale (1967), Drysdale and Garnanout (1982) or Michaely (1996).

In this paper we follow the version of the trade complementarity index used e.g. by Shuai and Wang (2011) which is based on RCA. The formula is defined as follows:

$$TCI = RCA_{xj}^{i} \times RCA_{mk}^{i}$$

where,

RCA^{i}_{xj} - export comparative advantage of country *j* in commodity *i;*

RCA^{i}_{mk} - import comparative disadvantage of country *k* in commodity *i*.

The values above unity indicate trade complementarity in commodity *i* in which exporting country has the comparative advantage and in which importing country has the comparative

disadvantage. The higher the value there is more trade complementarity. Low complementarity is for values below unity and again smaller values indicate less complementarity.

The trade data was collected from the international UN-COMTRADE statistics at SITC rev. 3, one-digit and three-digit categories providing information about industries. The calculations are based on import data for a more precise reflection of true trade flows between the countries.

Chapter three uses on-line statistical data and an additional analysis of the Czech Statistical Office (CZSO) and the Ministry of Industry and Trade of the Czech Republic (MIT). It should be pointed out that as well, considering the extent of the paper, we do not deal with the trade in services between the Czech Republic and China, which is rather limited today.

3 TRADE IN GOODS BETWEEN THE CZECH REPUBLIC AND CHINA

China is now the Czech Republic´s 4th trade partner (according to the turnover of mutual trade in 2013, see MIT 2014) behind Germany, Slovakia and Poland – see Table 1. It´s the most important trade partner of the Czech Republic outside the European Union. Both the Czech Republic and China have registered a relative slowdown in their domestic economic activity, weighing in on bilateral trade relations (e.g. Jirankova, Hnat 2012 or Stuchlikova, Hnat 2012). The CR-China bilateral trade (turnover) declined by 15.7% from its historical maximum in 2012 on an annual basis. In 2013, total bilateral trade reached USD 17.3 million, representing a 0.2% fall on annual basis (CZSO 2014).

Table 1: Top trading partners of the Czech Republic, 2012-2013 (in the order given by the trade turnover in 2013, in % of total)

Partner		***Turnover***		***Exports***		***Imports***	
		2012	***2013***	***2012***	***2013***	***2012***	***2013***
1.	Germany	28.5	28.6	31.4	31.3	25.3	25.6
2.	Slovakia	7.6	7.4	9.0	8.9	6.0	5.8
3.	Poland	6.6	6.6	6.1	5.9	7.1	7.4
4.	**China**	**5.8**	**5.7**	**1.1**	**1.2**	**11.1**	**10.7**
5.	Russia	4.7	4.6	3.8	3.7	5.6	5.5
6.	France	4.1	4.1	5.0	4.9	3.1	3.2
7.	Austria	3.9	3.9	4.6	4.6	3.2	3.1
8.	Italy	3.7	3.8	3.6	3.6	3.9	4.0
9.	United Kingdom	3.4	3.4	4.8	4.8	1.9	1.9
10.	Netherlands	3.3	3.0	3.2	2.8	3.5	3.3
	Total	71.7	71.7	72.7	71.7	70.6	70.5

Source: MIT (2014).

China´s position is extremely strong mainly in Czech imports, while exports to China are still very low – see Table 1. In 2013, a dominant portion of Czech exports (71.7%) went to ten states, mainly to Germany (31.3% of total exports), Slovakia (8.9%) and Poland (5.9%). China was on the 18th place with a share of only 1.2% in total Czech exports. However, a strong year-on-year growth was recorded in exports to China in 2013 (14.6%), and exports to China reached USD 1.9 million. Due to a

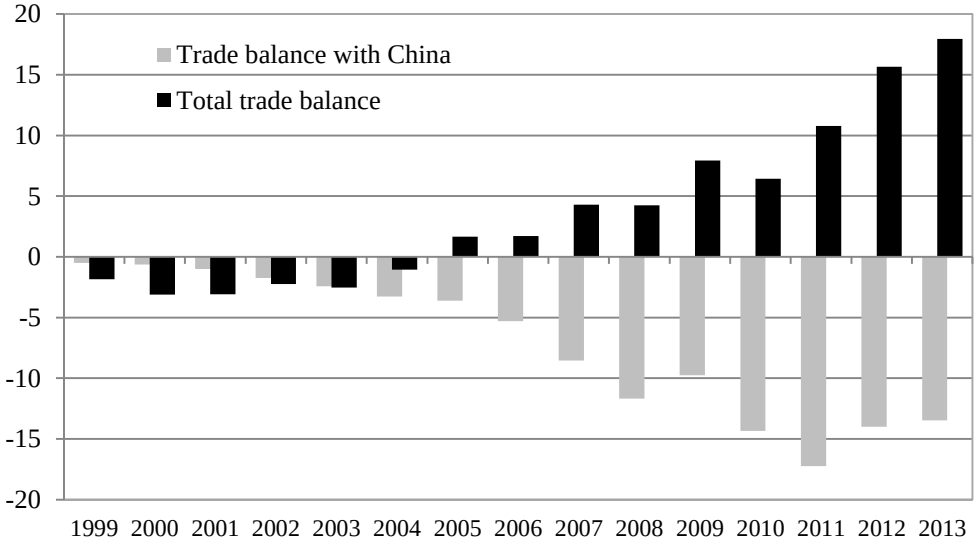
strong depreciation of the Czech currency against both main currencies (euro and US dollar) Czech exports grew fast in general.

The prevailing portion of imports (70.5%) in 2013 also arrived from ten states. The strongest position in total imports belongs to Germany (25.6% of total imports), China (10.7%) and Poland (7.4%). The ten main trade partners composed of eight EU Member States and two non-members, of which China and Russia occupied very high rankings (4th, respectively 5th). Imports from China fell by 8.4 % in 2013, and reached USD 15.4 million – see Table 2.

The total positive trade balance of the Czech Republic (USD 17.9 million) has been affected in an adverse manner by huge deficits of external trade with non-EU countries. In 2013, the largest trade deficit of the Czech Republic was once again with China (USD -13.5 million) – see Figure 2.

As for the Chinese perspective, the Czech Republic is not an important trading partner. Trade with the Czech Republic accounts for less than 0.5% of the total value of both China´s imports and exports. Within the European Union, Chinese exports go primarily to Germany, the Netherlands, the United Kingdom, France and Italy. Similarly, Germany is the largest exporter to China, followed by France and the United Kingdom. In the first six months of 2013, all member states, except Germany and Finland, registered deficits in trade with China (see e.g. Eurostat 2013 or 2011).

Figure 1: Trade balance of the Czech Republic, 1999-2013 (Mio USD)



Source: CZSO (2014); own calculation and construction.

3.1 Long-term Development of Trade in Goods between the Czech Republic and China

In 2005-2012, the importance of trade in goods between the Czech Republic and China had been growing steadily (with the exception of the decline of mutual trade in 2009 after the global financial crisis and actual slowdown), primarily due to the expanding imports of goods from China – see Table 2 and Figure 2. In 2013, total imports from China were 27 times higher than in 1999. Similarly, total Czech exports to China were 33times higher. As a result, the share of Czech imports from China rose from 2.0% in 1999 to 12.4% in 2011 (the peak), and then declined to 10.7% in 2013. The share of exports to China in the Czech Republic total also rose, from 0.2% in 1999 to 1.2% in 2013.

Table 2: The CR-China trade flows, annual data, 1999-2013

	Imports from China		***Exports to China***		***Balance***	***Turnover***
Year	***USD***	***% of total***	***USD***	***% of total***	***USD***	***USD***
1999	563,464	2.0	58,435	0.2	-505,029	621,899
2000	690,575	2.2	65,944	0.2	-624,631	756,519
2001	1,073,259	2.9	80,554	0.2	-992,705	1,153,813
2002	1,896,405	4.7	151,063	0.4	-1,745,342	2,047,468
2003	2,681,348	5.2	243,341	0.5	-2,438,007	2,924,689
2004	3,547,233	5.2	271,635	0.4	-3,275,598	3,818,868
2005	3,912,167	5.1	298,487	0.4	-3,613,680	4,210,654
2006	5,711,359	6.1	400,770	0.4	-5,310,589	6,112,129
2007	9,252,271	7.8	698,724	0.6	-8,553,547	9,950,995
2008	12,447,064	8.8	777,518	0.5	-1,1669,546	13,224,582
2009	10,591,490	10.1	843,886	0.7	-9,747,604	11,435,376
2010	15,554,218	12.3	1,215,560	0.9	-14,338,658	16,769,778
2011	18,918,779	12.4	1,668,645	1.0	-17,250,134	20,587,424
2012	15,685,145	11.1	1,674,741	1.1	-14,010,404	17,359,886
2013	15,401,631	10.7	1,918,495	1.2	-13,483,136	17,320,126

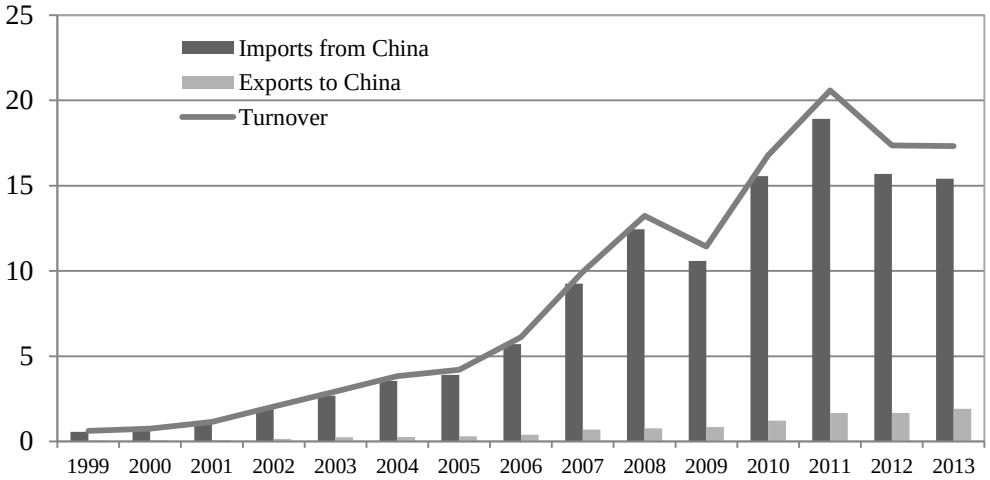
Source: CZSO (2014); own calculation.

Nevertheless, these shares are lower than the EU average. According to Eurostat (2013), the share of imports from China in the EU28 total rose from 9.6% in 2002 to 16.2% in 2012, while the share of exports to China grew from 4.0% to 8.6% in the same period (for a more detailed analysis on Sino-EU trade and its intensity see e.g. De Castro 2012a or 2012b).

The turnover of trade in good with China has been growing faster than the total Czech trade as well. Owing to the slowdown in Czech imports from China, the bilateral trade has been decreasing since a peak in 2011 (USD 18.9 million). The continuous bilateral trade deficit has been declining steadily.

On a long-term basis, the importance of imports from China is much higher than the importance of exports to China. Imports from China cover the general Czech import demand for the most part, e.g. Chinese imports constituted more than 20% of total Czech imports of general machinery and transport equipment in 2012. And general machinery and transport equipment (SITC 7) account for the largest portion of total trade with China (CZSO 2014) – in detail see chapter 4.

Figure 2: The CR-China trade flows, annual data, 1999-2013 (Mio USD)



Source: CZSO (2014); own calculation and construction.

3.2 China among Priority Markets for the Czech Republic

According to Article 207 of the Treaty on the Functioning of the European Union, the trade policy is an exclusive power of the EU – so only the EU, and not individual member states, can legislate on trade matters and conclude international trade agreements. Thus, the Czech national trade policy is conducted in the context of the European principles and objectives. It has been tasked especially with enhancing economic growth and competitiveness within the EU (e.g. MIT 2008, Bič 2009).

The Export Strategy of the Czech Republic 2012-2020 (hereinafter only the "Export Strategy"; see MIT 2012) was approved by the government of the CR in 2012. It is a strategic paper defining framework for the foreign trade and pro-export policy by the state until 2020. It follows other important documents and strategies of the Czech government, mainly the 2012-2020 International Competitiveness Strategy for the Czech Republic (aiming at improving the position of the CR in terms of competitiveness by 2020), National Innovation Strategy, Foreign Policy Concept, Security Strategy, and Strategic Sustainable Development Framework of the Czech Republic.

According to the Export Strategy, twelve priority countries were defined as the most important and promising trade partners (based on the requirements of business representatives and on the growth potential of the economy in the countries in question, the absorption capacity of their markets, measured by their share of world imports and their compatibility in relation to the Czech Economy): Brazil, the PRC, India, Iraq, Kazakhstan, Mexico, the Russian Federation, Serbia, Turkey, Ukraine, the USA and Vietnam.

China is a target country and very important market for the Czech Republic. Efforts have been focusing on maintaining the existing export position and further development of this position, primarily in the small and medium-sized enterprises segment. According to EU SME (2013, 4), as the fastest growing market for European exports, vast potential for the export of goods manufactured by European small and medium-sized enterprises exists in the Chinese market.

4 CZECH-CHINA TRADE ANALYSIS

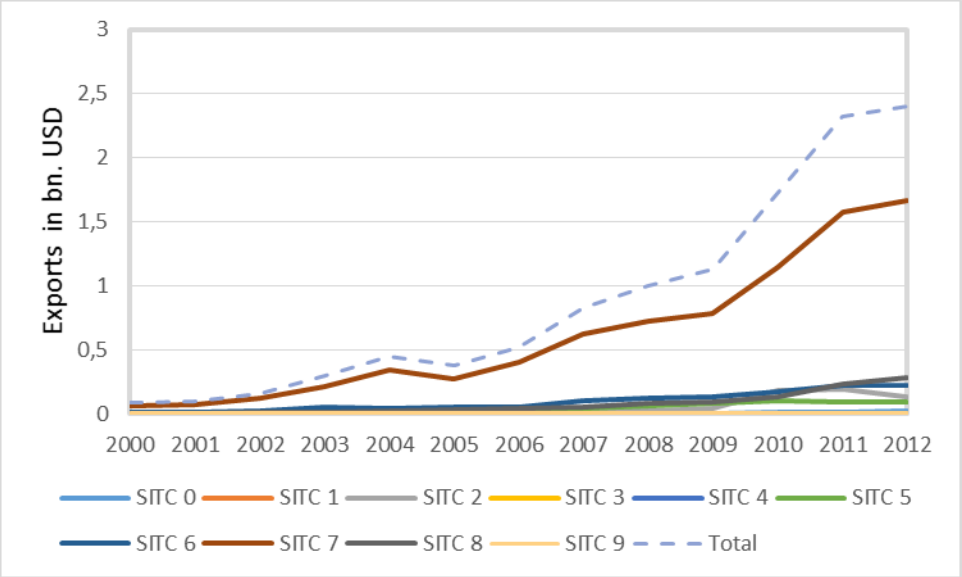
The Czech-China trade analysis is based on the SITC 1-digit export and import trade assessment capturing general trade trends further completed by the analysis of main export and import groups at the SITC 3-digit level. Finally, we identify the trade potential between the two countries.

4.1 Czech-China Commodity Trade Composition

The prevailing trade group in mutual trade between the Czech Republic and China is the SITC 7 - Machinery and transport equipment. In both Czech exports and imports this commodity group recorded the highest increases in terms of USD. Its predominant role in Czech-China trade is supported by the fact that the rest of the combined SITC groups do not reach the level of SITC 7 trade in terms of USD.

The major increases in exports of SITC 7 were reached between 2001 and 2004, the time period after China's accession to the WTO and general prosperity in the world trade also caused by the recovery after the 2001 crisis and applied stimulation packages. The SITC 7 exports to China slightly declined in 2005 which might be a result of the Czech Republic's accession to the European Union and related export reorientation[2]. Nonetheless, the SITC 7 exports remained growing afterwards with a rapid increase in the post-crisis period 2009 to 2011. This period was characteristic for continuing Chinese economic growth supported by stimulation packages.

Figure 3: Czech SITC 0-9 Exports to China, 2000-2012 (bn. USD)



Source: UN Comtrade (2014); own calculation and construction.

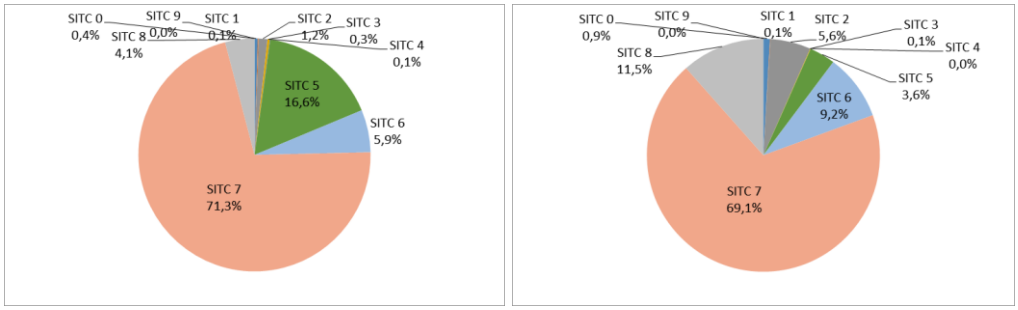
As far as other SITC groups we can also observe a constant growth of SITC 6 (Manufactured goods classified chiefly by material) and with a rapid increase since 2010 also SITC 8 (Miscellaneous manufactured articles). There was a sudden increase in SITC 2 (Crude materials, inedible, except fuels) exports between 2009 and 2010, otherwise growing constantly and in the latter year even declining.

[2] The same or similar trend is apparent by all other SITC groups' exports.

The SITC 5 (Chemicals and related products, n.e.s.) group also grew moderately during the examined period but has been slightly declining since 2010. In comparison to the previously mentioned the rest of the SITC groups have been insignificant in Czech exports to China which can be seen in Figure 3.

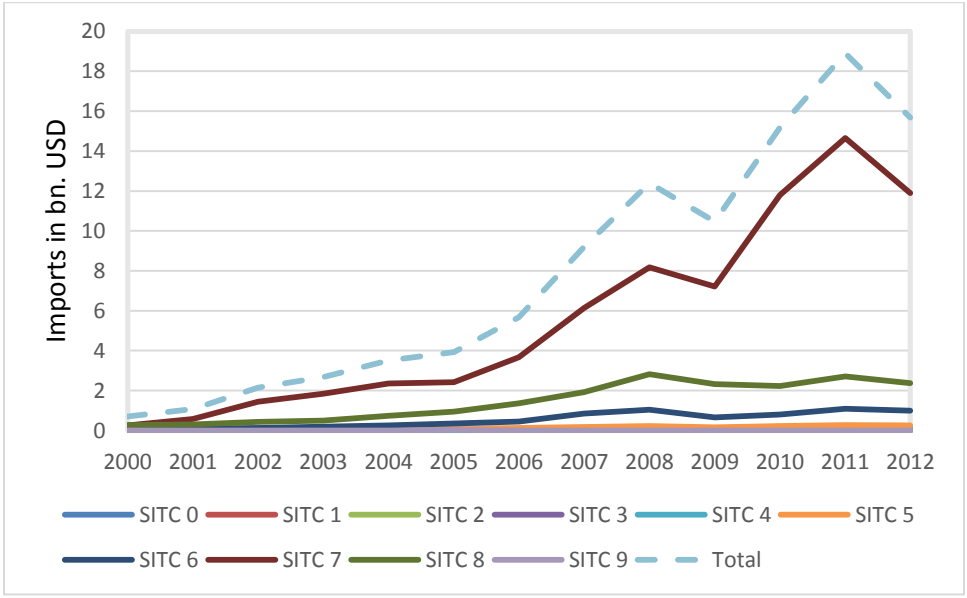
Even though SITC 7 represents the majority of Czech exports to China it lost a small amount of its percentage share between 2000 and 2012 (see Figure 4). The same can be observed for SITC 5 (with the largest percentage decline) and SITC 6. On the contrary SITC 2 and SITC 8 recorded an increase at the expense of the aforementioned SITC groups with loses.

Figure 4: Czech SITC 0-9 Exports to China, 2000 and 2012 (in %)



Source: UN Comtrade (2014); own calculation and construction.

Figure 5: Czech SITC 0-9 Imports from China, 2000-2012 (bn. USD)



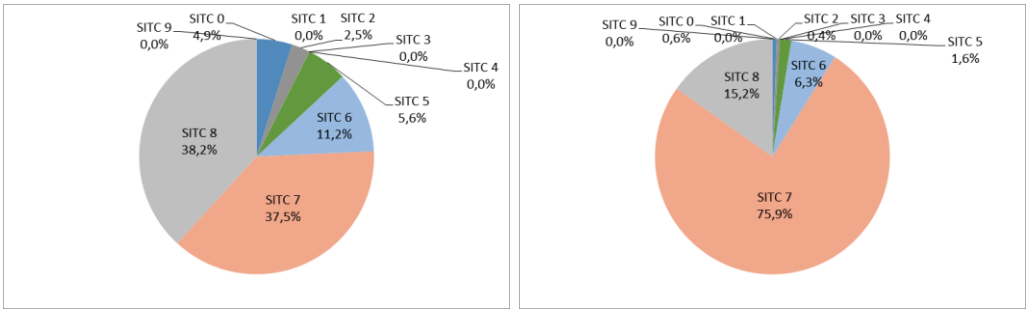
Source: UN Comtrade (2014); own calculation and construction.

Imports of the Czech Republic from China at the beginning of the millennium were slightly dominated by the SITC 8 group. Nevertheless, SITC 7 has been the most imported commodity group to the Czech Republic from China since 2001 and has remained constantly growing (see Figure 5) – compare e.g. with Zapletal, Stuchlíková (2013). Periods of sharp increases within 2006 to 2008 and 2009 to 2011 with subsequent declines within 2008 to 2009 and 2011 to 2012 were characteristic for the second half of the assessed period. Hence, we can observe that Czech imports from China were more crisis sensitive than exports.

Apart from SITC 7 growing tendencies were also recorded for SITC 6 and SITC 8. Both followed the world trade pattern i.e. growth till 2008 followed by a decline in 2009 and subsequent moderate growth until 2011 and lastly by a drop in 2012. Other SITC imports play a negligible role.

Figure 6 shows that in the year 2000 SITC 8 held over 38% of all Czech imports from China. Within the next twelve years imports of the second largest group SITC 7 doubled to 75.9% at the expense of nearly all other groups mainly SITC 8, SITC 6, SITC 5 and SITC 0 (Food and live animals).

Figure 6: Czech SITC 0-9 Imports from China, 2000 and 2012 (in %)



Source: UN Comtrade (2014); own calculation and construction.

4.2 Major Export and Import Commodities

Most of the top ten exports from the Czech Republic to China belong to the SITC 7 group and two exports to SITC 8 (see Table 3). In the year 2000 these top ten comprised exports representing 20.96% of all exports to China. Twelve years later it was more than double 51.64%. The largest share in exports in 2012 represents SITC 772 - Electrical apparatus (9.53%) which also recorded the largest increment by 8.51% between the year 2000 and 2012. While the majority of all top ten SITC groups show improvements in export shares, SITC 788 - Electrical machinery and app. n.e.s. revealed a drop by 7.01% but still remains the third utmost exported group. The most significant relative increase was recorded by SITC 871 - Optical instruments n.e.s.

Table 3: Top 10 Exports from the CR to China for the Years 2000, 2006 and 2012
(in 1000 USD and %)

		2000		*2006*		*2012*	
SITC	***Group name***	***USD***	***% of total***	***USD***	***% of total***	***USD***	***% of total***
S772*	Electrical apparatus	843	1.02	55,450	10.73	229,293	9.53
S784	Parts etc. for motor vehicles	2,328	2.81	27,400	5.3	201,822	8.39
S778*	Electrical machinery and app. n.e.s.	12,054	14.53	90,694	17.55	180,658	7.51
S712*	Steam turbines and parts n.e.s.	32	0.04	9,082	1.76	165,684	6.88
S764	Telecom. equipment and parts n.e.s.	194	0.23	4,433	0.86	97,150	4.04
S874	Measuring/checking instrum. n.e.s.	890	1.07	7,633	1.48	85,191	3.54
S742	Pumps for liquids; liquid elevators	497	0.6	2,050	0.4	80,213	3.33
S871*	Optical instruments n.e.s.	515	0.62	11,483	2.22	70,566	2.93
S718*	Power generators; parts n.e.s.	29	0.04	859	0.17	67,354	2.8
S762	Radio-broadcast receivers	0	0	13	0	64,752	2.69
Total 10		17,383	20.96	209,098	40.47	1,242,686	51.64

Source: UN Comtrade (2014); own calculation.
* Commodities exported from the Czech Republic with a comparative advantage by which China has the comparative disadvantage.

The top ten imports represent 69.19% of all imports from China. The largest imports from China in 2012 comprise of SITC 752 - Computers and units thereof (37.37% of total Czech imports). The imports of this commodity grew rapidly by 20% between the year 2000 and 2012. Shares of other imports did not grow to such an extent e.g. the second SITC 764 - Telecommunications equipment and parts n.e.s. (by 11.7%), and the third SITC 759 - Parts for office machines and computers (by 7.7%) or even declined in its share. The largest relative increase in imports was recorded by the second Telecommunications equipment and parts n.e.s.

It is evident that the top ten imports from China are mainly based on the comparative advantage[3]. The same is true only for half of the Czech exports to China.

[3] Marked with the asterisk (*).

Table 4: Top 10 Imports to the CR from China for the Years 2000, 2006 and 2012 (in 1000 USD and %)

		2000		*2006*		*2012*	
SITC	***Group name***	***USD***	***% of total***	***USD***	***% of total***	***USD***	***% of total***
S752*	Computers and units thereof	54,699	7.87	857,717	15.11	4,290,052	27.37
S764*	Telecom. equipment and parts n.e.s.	16,631	2.39	394,223	6.95	2,208,007	14.09
S759*	Parts for office mach. and computers	34,716	5.0	1,008,055	17.76	1,989,883	12.7
S778*	Electrical machinery and app. n.e.s.	24,110	3.47	121,694	2.14	405,662	2.59
S894*	Baby prams, toys, sporting goods	51,318	7.39	191,763	3.38	386,718	2.47
S776	Electronic equipment and parts	6,658	0.96	243,366	4.25	350,728	2.24
S772*	Electrical apparatus	7,212	1.04	140,688	2.48	340,680	2.17
S851	Footwear	39,809	5.73	166,952	2.94	308,279	1.97
S771*	Electric power machinery and parts	9,353	1.35	82,238	1.45	306,095	1.95
S775*	Household equipm. electr. & non-electr.	27,508	3.96	116,899	2.06	257,388	1.64
Total 10		272,015	39.16	3,321,593	58.52	10,843,491	69.19

Source: UN Comtrade (2014); own calculation.

* Commodities exported from China with a comparative advantage by which Czech Republic has the comparative disadvantage.

4.3 Commodities with Trade Potential

Trade complementarity results based on RCA (for methodology see Chapter 2) reveal a declining trend in the number of SITC groups where the Czech Republic has the comparative advantage in its exports and China has the comparative disadvantage. In the year 2000 Czech Republic exported 40 SITC 3-digit groups and in 2012 only 23 groups. On the contrary, China increased its exports of groups with the comparative advantage where the Czech Republic has the comparative disadvantage from 39 in 2000 to 61 in 2012.

During the first six years (2000-2006) SITC group 724 - Textile and leather machinery, and 712 - Steam turbines and parts n.e.s showed relatively high TCI (the highest 10.14 and 10.1 in 2000). Even though, their complementarity has been declining they still hold quite a significant share in Czech exports to China (1.53% and 6.88% respectively in 2012).

In the year 2012 the Czech Republic's trade complementarity with China was the highest (16.52) for exports in SITC group 268 - Wool; other animal hair; wool tops. Its TCI has remained high and growing since 2000. The SITC group with the second highest TCI (12.31) is 247 - Wood, rough or roughly squared, whose TCI has also been improving over the period. Other commodities with the highest TCI also include 322 - Briquettes, lignite and peat, and 321 - Materials of rubber. All four groups (268, 247, 322 and 621) have been increasing their potential for trade with China nevertheless, their export share is quite small (see Table 5). Only SITC 731 - Machine tools working by removing

metal or other material is characteristic by relatively high and stable TCI over the whole period 2000 to 2012 and also maintains a higher percentage share in total Czech exports to China yet with a declining trend from its maximum 8.85% in 2005 to the current 1.85%.

Table 5: SITC Groups with the Highest TCI for Czech Exports to China, 2012

SITC	***Group name***	***TCI***	***% of total exports to China***
268	Wool; other animal hair; wool tops	16.52	0.23
247	Wood, rough or roughly squared	12.31	0.15
322	Briquettes, lignite and peat	7.15	0
621	Materials of rubber	7.05	0.46
731	Machine tools working by removing metal or other material	5.22	1.85

Source: UN Comtrade (2014); own calculation.

The TCI with China from the import perspective of the Czech Republic has been dominated by 612 - Manufactures of leather or composition leather since the year 2000 but with a negligible share in total imports (see Table 6).

During the first six years groups of 325 - Coke and semi-coke, and 685 – Lead also revealed quite high trade complementarity (20.62 and 8.56 in 2000 respectively) but were nearly not traded.

Since 2006 group 894 - Baby prams, toys, sporting goods, and 268 - Wool; other animal hair; wool tops have been increasing its TCI and decreasing/slightly increasing their import shares respectively to the current 2.47% and 0.11%.

The group 752 - Computers and units thereof had both the largest TCI with an increasing trend over the examined time period and the largest share in imports from China. The TCI for 759 - Parts for office machines and computers amount for relatively high numbers moreover, its share in total imports is the third largest.

Table 6: SITC Groups with the Highest TCI for Czech Imports from China, 2012

SITC	***Group name***	***TCI***	***% of total imports from China***
752	Computers and units thereof	10.07	27.37
612	Manufactures of leather or composition leather	8.98	0.02
894	Baby prams, toys, sporting goods	7.6	2.47
759	Parts for office mach. and computers	7.37	12.7
268	Wool; other animal hair; wool tops	5.74	0.11

Source: UN Comtrade (2014); own calculation.

From the TCI results of all SITC 3-digit groups we can identify a potential for Czech exports to China for the following groups:

- 043 - Barley, un milled
- 246 - Wood chips, particles or waste
- 322 - Briquettes, lignite and peat
- 654 - Other textile fabrics, woven.

These commodity groups are not being traded with China but the Czech Republic has a comparative advantage in them and China disadvantage. Hence it offers export possibilities for Czech producers.

Reversely, there were not identified any imports from China to the Czech Republic that would have a trade potential and were not traded. Herewith, it is obvious that China fully utilizes its export possibilities to the Czech Republic.

5 CONCLUSIONS

China is a key country and very important market for the Czech Republic. However, China´s position is extremely strong mainly in Czech imports, while Czech exports to China remain very low on a long term basis. In 2013, China was on the 18th place with a share of only 1.2% in total Czech exports. The Czech Republic tends to have a large and increasing trade deficit with China. A closer look at total exports and imports within the period 2000 to 2012 reveals that Czech exports to China remain constantly growing with a short decline in 2005 most likely affected by the Czech Republic's accession to the EU. On the contrary, Czech imports from China were more crisis sensitive.

The prevailing traded groups are SITC 7, SITC 8 and SITC 6. The top ten exported and imported groups at the SITC 3-digit level belong to the groups SITC 7 and SITC 8.

Within the years 2000 and 2012 the current top ten exported commodities from the Czech Republic more than doubled in relative terms and currently cover over 50% of all Czech exports to China. The existing main imports from China increased by 30% since the year 2000 and hold now nearly 70% of all imports to the Czech Republic. While Czech exports are comprised of more groups with smaller shares in total exports, imports from China consists of especially three large groups covering about 54% of all imports. The largest group SITC 752 - Computers and units thereof corresponds to 37% total imports to the Czech Republic.

Generally, the Czech Republic is losing the number of groups where is has a comparative advantage in its exports and China has the comparative disadvantage. China, on the contrary, increased this figure. The results revealed that only half of the top ten exports to China are based on the comparative advantage in comparison to most of the imports from China based.

The assessment further disclosed that China is more successful in exporting products with high complementarity between the two countries than the Czech Republic. According to the findings the SITC 268 group (Wool; other animal hair; wool tops) shows high TCI for both partners. This could indicate intra-industry trade. A more detailed analysis would provide further insights.

Finally, we identified four SITC 3-digit groups that are not being exported but the Czech Republic has a comparative advantage in them and China the disadvantage. This provides space for further research and potential for Czech exporters to enter the Chinese market.

Considering the extent of the paper, we have not dealt with trade in services between the Czech Republic and China, which is rather limited today. According to the Export Strategy of the Czech Republic 2012-2020 (MIT 2012), the Czech goal is to increase the total export volume of services by 20% by 2020, particularly services with high added value (such as in ICT, creative industry, consulting, science and research services or tourism). This provides further potential for Czech exporters to enter the Chinese market.

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CHINA-V4 INVESTMENT RELATIONS – A CZECH PERSPECTIVE

Pavel Hnát, Zuzana Stuchlikova[1]

Since mid-1990s, the Czech Republic has been attracting significant amounts of Foreign Direct Investment namely due to its above-average performance during the transition process and its convenient geographical location. Until recently these flows were not underpinned by any official policy. After 2000 FDI in the Czech Republic increased further to create inward stock of more than 130 billion USD in 2012; most FDI flow into services. In spite of its outstanding performance in inward FDI, Czech outward investment abroad rises only slowly. Since most Czech investment abroad targets EU countries, investment relation between the Czech Republic and China lags far behind its potential. Still, there are promising investment projects that can change the relation in the future.

Key words: foreign direct investment, transition, China, Czech Republic
JEL: F21, F23, P26

1 INTRODUCTION

The Czech Republic has been attracting significant amounts of FDI during its transition process since it benefits form it stable political and economic environment, above-average pace and progress of its transition process as well as it geographical proximity to EU markets. Even though the Czech Republic showed a relatively reserved attitude towards foreign direct investment during initial stages of its transition, investors soon found their way to the Czech Republic. Besides marked benefits that the FDI usually brings, the Czech Republic soon started to pay attention to the flaws that can come with them. For the Czech Republic it is namely the negative current account of the balance of payments as well as limited value added in country's exports – both clearly linked with subprime performance of competiveness and business environment strategies.

Aim of this paper is to analyze the flow and stocks of the foreign direct investment in the Czech Republic and compare it to its V4 peers and rest of the CEE region. Special attention will be paid to investment relations to China even though general analysis suggests that this particular investment relation is not very significant at the moment. In order to identify main drivers of the FDI developments, the study first studies and explain FDI trends during the Czech Republic transition (1993-1999) and link its findings with transition and restructuring processes of the Czech Republic. Subsequently it takes transition process as completed and follows modern development where EU accession and financial globalization are seen as main drivers (2000-2012). Final section of the paper

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focus specifically at Sino-Czech investment relation and to specific case studies; its aim is to explore future perspectives and its drivers as well as reasons for a limited investment performance so far.

The paper works mainly with UNCTAD data of FDI flows and stock and their geographical and industrial breakdown, mostly stated in USD and current exchange rates and prices. Only where such data is not available, it seeks for more detailed sources of regional data, which can be stated in CZK. Company case studies do not mention sensitive or classified data even though authors draw from their interviews and contacts with their managers.

2 INVESTMENT PERFORMANCE OF THE CZECH REPUBLIC DURING ITS TRANSITION

During its transition process, the Czech Republic attracted a significant amount of foreign direct investment. According to EBRD (2001: 1), foreign direct investment fulfilled and important role in country's transition namely as "an important source of financing and supplement of inadequate resources to finance both ownership structure and capital formation. Compared to other financing options, FDI also facilitates transfer of technology, know-how and skills, and helps local enterprises to expand into foreign markets." Main determinants of FDI in transition countries of the CEE region, which include domestic and potential export market size, gravity factors, resources or skills endowment, progress in transition reforms, and economic and political, were especially favorable in the case of the Czech Republic. As a result, together with its V4 peers, the Czech Republic has attracted the most of FDI flowing into the transition region in the initial stages of economic transition. If measured by share on gross capital formation or by FDI inflow per capita, it was the Czech Republic specifically, which attracted the highest relative amount of FDI even in V4 comparison.

Table 1 shows the regional FDI inflows between 1993 and 1999. It shows that the Czech Republic has started to attract significant amounts of FDI relatively later, namely when compared with Hungary. This is usually explained by different modes of privatization conducted in different countries. Even though the Czech Republic clearly preferred a shock therapy approach and implemented various range of privatization methods, role of foreign capital was initially lower than expected and lower when compared to its V4 peers – namely Hungary or Poland where FDI played higher role in the privatization process from its very beginning. Even though FDI inflows gradually increased despite the lack of special policy to support foreign investments in the Czech Republic, it remained relatively low. Liberalization in trade and capital flows as well as trade reorientation being the most reinforcing factors for FDI inflows into the whole transition region (UNCTAD, 2003: 8). If compared to other privatization methods it brought a significant inflow of capital and thus contributed both to capital formation and fiscal consolidation; it is estimated that initial FDI inflows created 52 per cent of cash earnings from the large scale privatization in the Czech Republic (EBRD, 1993: 8). It remained relatively sluggish around 1993 also because anticipated political instability connected with the split of Czechoslovakia. As late as in 1995, main portions of FDI started to inflow and remained relatively high since then to play a major role in Czech Republic's privatization and restructuring process. EBRD (2001: 9) suggests that cumulative FDI inflow per capita of more than 2 billion USD between 1989 and 2000 was the highest in the whole transition region and was clearly linked to a progress in the transition process as well as to its speed.

This overall trend is well in line with other transition countries experiences, where form mid-1990s onwards, "inward FDI has gained importance reinforcing a successful reintegration of these countries into the world economy" (UNCTAD, 2003: 7). While FDI inflows into the CEE region remained under 1 billion USD by 1995, it exceeded 14 billion in 1995 and 27 billion by 2001. UNCATD further suggest that as a result of these inflows, CEE region's inward FDI stock quadrupled from 40 to 160 billion ISD between 1995 and 2001. For the Czech Republic, the introduction of investment incentives in 1998 has stimulated a massive inflow of FDI into both greenfield and brownfield projects.

Table 1: FDI Inward and Outward Flows 1993-1999 (US Dollars at current prices and current exchange rates in millions)

Economy	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***
Inward FDI							
Czech Republic	**653,5**	**868,3**	**2561,8**	**1428,4**	**1301,4**	**3716,4**	**6329,7**
Hungary	2443,0	1143,4	5103,5	3299,6	4167,3	3334,9	3311,9
Poland	1715,0	1875,0	3659,0	4498,0	4908,0	6398,4	7270,8
Slovakia	179,1	255,2	2587,1	369,7	230,6	706,8	428,5
Transition economies	3143,1	2045,3	4106,7	5871,1	10349,3	8121,7	8607,3
Outward FDI							
Czech Republic	**90,2**	**119,6**	**36,6**	**152,9**	**25,2**	**127,1**	**89,9**
Hungary	10,7	49,0	59,1	-3,6	461,5	278,1	250,0
Poland	18,0	29,0	42,0	53,0	45,0	317,7	31,0
Slovakia	12,8	17,7	-41,4	56,5	95,1	-146,6	377,3
Transition economies	-	-	-	-	3425,6	1411,3	2291,1

Source: UNCTAD (2014).

Both privatization and restructuring processes also markedly influenced the structure of inward FDI flows in the Czech Republic. Even though the Czech Republic started with relatively highest share of state-owned enterprises among its V4 peers, speed of its transition (namely in terms of small scale privatization) soon outperformed other countries. Gravity factors and skilled labor eased the country's restructuring towards a more modern service-based economy structure, which was soon reflected also by the structure of FDI inflows. Since 1995, FDI inflows into manufacturing industries only account for less than a half of FDI inflows into the Czech Republic. Within industry, chemical industry (from 5 to almost 20%), and food processing and tobacco industries (from 63 to 14%) played the most significant role. Most FDIs were however attracted by services: namely financial services (more than a third of nonmanufacturing FDI inflow into the Czech Republic) and tourism.

Table 2: Czech Republic Inward Foreign Direct Investment by Industry 1993-1999 (in %)

	1993	***1995***	***1997***	***1999***
Nonmanufacturing				
Agriculture, hunting, and forestry	0,7	0,5	0,8	0,1
Mining and quarrying	4,8	1,3	0,0	5,8

Electricity, gas, and water supply	8,3	2,3	42,0	7,7
Construction	22,5	4,0	4,3	0,3
Trade, hotels and restaurants	13,8	8,6	13,9	34,0
Transport, storage and communications	1,0	79,2	0,1	4,6
Financial intermediation	48,8	4,0	33,4	34,9
Real estate and business activities	0,0	0,0	4,7	9,8
Education	0,0	0,0	0,0	0,0
Health and social work	0,0	0,0	0,8	0,1
Other social and personal services	0,0	0,0	0,0	2,7
Total	**44,2**	**66,5**	**68,6**	**68,3**
Manufacturing				
Food and tobacco	62,7	14,2	23,0	17,9
Textiles, wearing apparel, and leather	0,3	0,2	3,7	2,3
Wood, paper and publishing	0,0	0,0	25,0	10,4
Refined petroleum and chemicals	5,2	10,5	12,5	19,6
Nonmetallic products	13,4	20,7	4,2	15,7
Basic metals and metal products	0,0	0,0	19,4	9,2
Machinery and equipment	18,4	54,4	3,9	22,5
Recycling and other manufacturing	0,0	0,0	8,3	2,4
Total	**55,8**	**33,5**	**31,4**	**31,8**

Source: CNB (2013).

Developed countries clearly dominate FDI inflows into the Czech Republic during 1993 and 1999. Due to geographical proximity and anticipated accession to the EU, other EU countries have accounted for more the 80% of the FDI inflows during the transition period, Germany (17,9% in 1999) and the Netherlands (17,9 % in 1999) being by far the most important sources of the Czech FDI inflow. Marked US participation in large FDI inflows is only connected with several privatization projects in early 1990s; afterward FDI form the United States is most important in larger transition countries, like the Russian Federation (34% in 2000) (UNCTAD, 2003: 9). In smaller transition countries, US investment almost neglected financial services as a matter of which, all major banking investors on the CEE region are European companies. Also Asian investors are clearly underrepresented in the Czech Republic during 1993-1999, as they are in the rest of the transition region; Japan and Korea holding some of the most important acquisitions.

Table 3: Czech Republic Inward Foreign Direct Investment by Country 1993-1999 (in %)

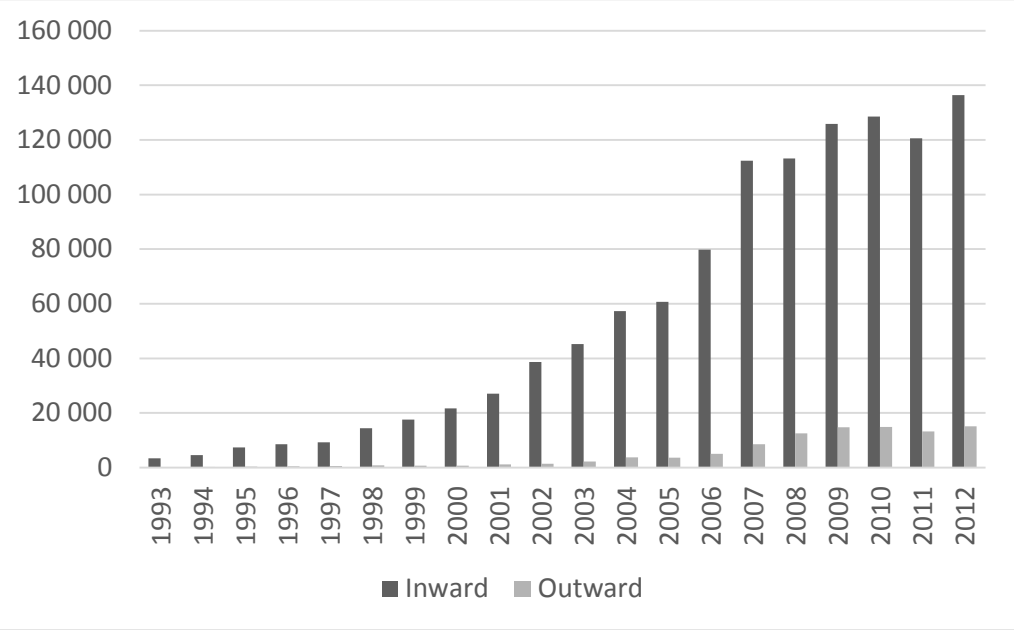
Country	***1993***	***1995***	***1997***	***1999***
Western Europe				
Belgium	4,9	1,0	4,3	21,8
Denmark	0,3	0,5	0,2	0,7
France	5,2	6,6	7,8	3,7
Germany	12,5	22,1	30,1	20,6
United Kingdom	0,0	2,1	15,1	1,6

Italy	1,8	0,0	-2,8	0,7
Netherlands	4,6	28,7	10,3	17,9
Austria	8,4	3,4	7,3	13,2
Sweden	1,8	0,9	6,8	2,0
Switzerland	2,1	26,5	3,6	5,6
Canada	3,1	0,0	0,0	0,2
United States	39,0	3,9	7,6	9,2
Japan	0,0	0,0	0,8	0,1
Other	16,2	4,3	8,7	2,8
Total	100,0	100,0	100,0	100,0

Source: CNB (2013).

Figure 1 and Table 4 suggest that inward FDI stock markedly increased after main transition components were completed in the Czech Republic. By late 1990's more marked FDI inflows into the Czech Republic were limited by postponed banking sector privatization. Marked FDI inflows were also later connected with major balance of payments issues. Specifically, at the example of the Czech Republic, reverse effect of FDI inflows on the balance of payments can be seen, which stresses long-term and competitiveness factors in the transition process. As a result of marked profit repatriation by the owners of FDI inflows, Czech Republic's current account has been negative ever since the transition process started. After 2004, when the Czech Republic turned its trade balance into positive numbers (balance of trade in services has been positive even before), this striking fact was even more obvious. Creating more attractive investment and business environment, not as a part of the transition strategy, but as a part of developed country's competitiveness strategy thus seems to be a crucial factor which can improve highly sensitive current account developments. Moreover, export performance of the Czech industries should have more value added by the Czech skilled labor than is often the case today. Also here long-term structural reforms and adjustment must play more marked role.

Figure 1: Czech Republic FDI Inward and Outward Stock 1993-2012 (US Dollars at current prices and current exchange rates in millions)



Source: UNCTAD (2014).

Table 4: FDI Inward and Outward Stock 1993-1999 (US Dollars at current prices and current exchange rates in millions)

Economy	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***
Inward FDI Stock							
Czech Republic	**3423,1**	**4546,8**	**7350,1**	**8572,4**	**9233,8**	**14375,1**	**17552,1**
Hungary	5575,9	7086,8	11303,5	13281,9	17981,1	20745,7	23380,9
Poland	2307,0	3789,0	7843,0	11463,0	14587,0	22461,2	26075,0
Slovakia	641,9	897,1	1297,1	2045,6	2082,8	2919,6	3227,6
Transition economies	2554,2	6821,5	11467,7	17355,4	29586,4	33662,0	42904,4
Outward FDI Stock							
Czech Republic	**181,4**	**300,4**	**345,5**	**497,9**	**548,3**	**804,0**	**698,0**
Hungary	170,0	219,0	278,1	265,5	660,1	797,2	1044,9
Poland	198,0	461,2	539,3	735,2	677,9	1164,7	1024,3
Slovakia	148,7	166,4	138,5	182,8	236,4	408,2	346,0
Transition economies	3070,8	3509,4	4337,1	5426,7	8805,5	10247,1	10717,0

Source: UNCTAD (2014).

Even though the FDI inflows of the Czech Republic have remained to the highest in the CEE region, its FDI inflows were even below its CEE peers in 1990s. Whereas inward FDI stock accounted for almost 30 % of the Czech Republic's GDP, outward stock exceeded 1% of GDP only slightly in 1999. Even though this is a common trend for the whole CEE region (according to UNCATD (2003: 30) only Estonia exceeded 5% outward FDI stock to GDP ratio followed by the Russian Federation, Hungary and Slovakia), Czech Republic's outward investment performance is very low even in

region's comparison. According to Bohata, Zemplinerova (2004: 3), several attempts of the Czech companies to invest abroad in the initial years of the transition process (namely in heavy industries in China, Korea or Latin America) mostly ended due to limited capital stock and incomplete privatization process. After 1997 Czech outward investment grew only slowly and the CEE region (Slovakia being the most important partner) accounted for more than 40% of Czech outward investment between 1997 and 2000 namely due to an ambition not to lose former export markets after foreign trade significantly reoriented during transition. "Most acquisitions were based upon personal contacts and former experience with the market". Only some 10% of Czech outward investment directed to the EU (Lichtenstein accounted for 20% of Czech outward investment flows in 2001). Bohata, Zemplinerova (2004: 8) however suggest that many investment project connected with Czech companies are in fact investments by transnational corporations, which operate in the Czech Republic and "use Czech experts but foreign capital to invest abroad". Statistically, these project are not Czech outward investment.

Table 5: FDI Inward and Outward Stock 1993-1999 (% of GDP)

Economy	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***
Inward FDI Stock							
Czech Republic	**8,7**	**10,0**	**12,7**	**13,2**	**15,5**	**22,5**	**28,2**
Hungary	14,2	16,7	24,8	28,9	38,6	43,3	48,5
Poland	2,5	3,5	5,6	7,3	9,3	13,0	15,5
Slovakia	4,8	5,7	6,6	9,7	9,7	13,0	15,8
Transition economies	0,4	1,3	2,1	3,3	5,1	7,7	12,7
Outward FDI Stock							
Czech Republic	**0,5**	**0,7**	**0,6**	**0,8**	**0,9**	**1,3**	**1,1**
Hungary	0,4	0,5	0,6	0,6	1,4	1,7	2,2
Poland	0,2	0,4	0,4	0,5	0,4	0,7	0,6
Slovakia	1,1	1,1	0,7	0,9	1,1	1,8	1,7
Transition economies	0,5	0,6	0,8	1,0	1,5	2,3	3,2

Source: UNCTAD (2014).

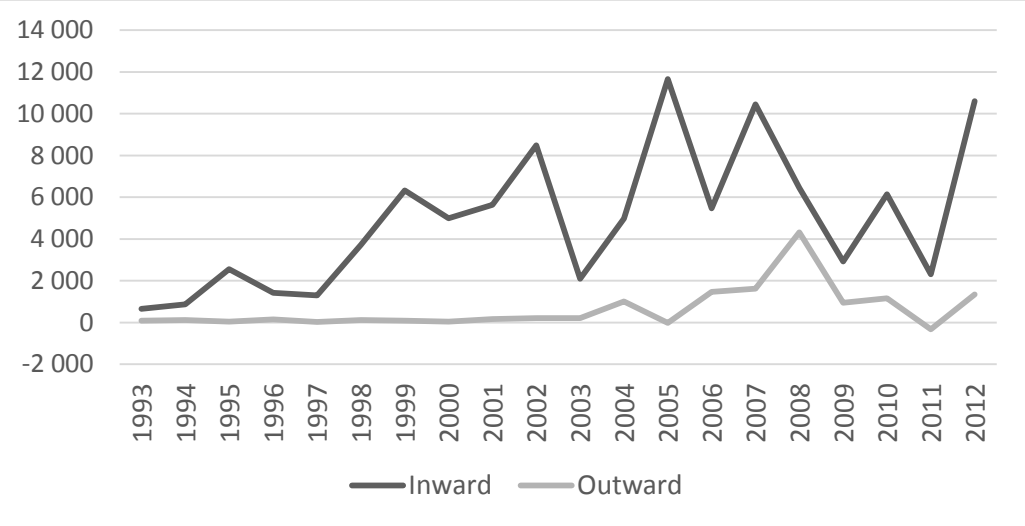
Bohata, Zemplinerova (2004: 14) further suggest that 74% of Czech outward investment led to services during the 1990s, financial intermediary, trade and transport playing the most significant role and only 13% of equity is connected with manufacturing industries. These however account for most jobs, turnover and export based upon Czech investment abroad. Most Czech outward investment before 2001 were motivated by increased production, cheaper resources and by avoiding the trade policy barriers, which were only gradually eliminated in the CEE region during the transition period.

3 INVESTMENT PERFORMANCE OF THE CZECH REPUBLIC AFTER 2000

After 2000, the Czech Republic continues to be a magnet for foreign direct investment in the enlarged EU and even increased its FDI performance compared to its V4 peers as Hungary's FDI performance decreased relatively. Poland, on the other hand, started to attract markedly more FDI than before, but if compared to countries GDP, the performance of Poland still lags behind the one of the

Czech Republic and Hungary. In the peak year of 2005, the Czech Republic has attracted almost 12 billion USD in FDI, while Poland accounted for some 10,3 billion, Hungary for 7,7 billion and Slovakia for 3,1. Other transition countries however attracted more than 33 billion new investment in the same year; Russian Federation accounts for most (UNCTAD, 2014). During the global recession, FDI inflows into the Czech Republic markedly slowed down – see Table 6 – but returned to almost as high levels as before the crisis in 2012 (10,6 billion USD). In 2012, the Czech Republic was only outperformed by Hungary (13,5 billion), since Poland slipped to recession later and Slovakia suffered the most if measured by FDI performance during the crisis. Moreover, as FDI projects are maturing in the Czech Republic, the relative importance of new equity investments has fallen: reinvested earnings have replaced equity capital as the main component of FDI inflows (UNCTAD, 2011: 1).

Figure 2: Czech Republic FDI Inward and Outward Flow 1993-2012 (US Dollars at current prices and current exchange rates in millions)



Source: UNCTAD (2014).

The 2005 peak performance is closely linked to EU accession and is common to all V4 countries. As A. T. Kearney (2007: 30) suggest, "the 2004 entrants to the European Union continue to attract investors, although they may soon be eclipsed by the new 2007 members, Bulgaria and Romania. From 2000 to 2006, FDI inflows to the 10 states that joined in 2004 increased by 78 percent to about 39 billion USD". When assessed by A. T. Kearney FDI Confidence Indicator, both Poland and the Czech Republic remained in the top 25 in 2007, but Poland slipped 17 spots from fifth to 22nd, and the Czech Republic slipped from 12th to 25th. "These countries continue to enjoy advantages as production centers for goods destined for markets inside the Common Market, and wages remain far below Western European labor market standards. Indeed, 48 percent of respondents cite low labor costs as a factor in pursuing investments in Central and Eastern Europe. Another attraction is the EU-10's flat-tax regimes: The average implicit tax burden in the EU-10 is approximately 19.4 percent, compared with almost 27.6 percent in the EU-15. With this investment, however, have come rising living standards and wages. Between 2000 and 2006, average labor costs rose 173 percent in the Czech Republic, 128.9 percent in Hungary, and 87.5 percent in Poland. Still, average wage costs in the new

member states remain low in comparison to the European average: For example, labor costs are 31 percent of the average in the Czech Republic, 25 percent in Poland and Hungary, 22 percent in Slovakia. However, these states now face new competition from further east. The accession of Romania and Bulgaria introduced two new low-wage locales into the EU customs union. European investors list Romania sixth and Bulgaria 13th in their top FDI destinations in the future, closely trailing Poland at fifth place and the Czech Republic at 12th place respectively" (A. T. Kearney, 2007: 30).

Table 6: FDI Inward and Outward Flows 2000-2012 (US Dollars at current prices and current exchange rates in millions)

Economy	**2000**	**2004**	**2008**	**2009**	**2010**	**2011**	**2012**
Inward FDI							
Czech Republic	**4985,2**	**4974,5**	**6451,0**	**2926,8**	**6140,6**	**2317,6**	**10592,5**
Hungary	2764,1	4265,7	6325,4	1994,6	2162,8	5757,1	13469,0
Poland	9445,3	12874,4	14838,7	12932,1	13875,6	18910,5	3355,7
Slovakia	2720,4	4029,0	4868,0	-6,1	1769,8	2142,9	2825,9
Transition economies	7038,4	30232,7	121428,7	72749,9	75056,1	96290,2	87382,0
Outward FDI							
Czech Republic	**42,8**	**1014,3**	**4323,1**	**949,5**	**1166,8**	**-327,4**	**1340,7**
Hungary	620,5	1118,8	2234,1	1882,7	1134,9	4693,4	10578,4
Poland	17,0	900,0	4414,3	4699,1	7226,5	7211,3	-893,9
Slovakia	40,6	-28,1	550,1	904,4	946,1	490,1	-73,4
Transition economies	3196,5	14129,5	60591,1	48368,8	61871,6	72879,9	55491,0

Source: UNCTAD (2014).

As an ongoing trend started in mid-1990s confirmed by Table 7, the services sector accounts for more than 70% inward FDI flows, with financial services representing more than 40% per cent of the total non-manufacturing investment, still followed by logistics and telecommunications, and tourism industries, where the Czech Republic clearly benefit from it geographical location. Manufacturing has attracted about one third of the inward FDI stock. With this being said, it should also be noted that global slowdown affected services more markedly returning industrial investment to 37% of total in 2007. Within the manufacturing industries, machinery accounted for most FDI inflow in 2012, followed by chemical, food and tobacco industries. Due to its high FDI exposer, the Czech Republic belongs to the most globalized countries of the world: according to UNCTAD (2011), foreign affiliates in the Czech Republic employed 694 728 people in 2006 and generated sales of CZK 3,3 trillion (148 billion USD).

Table 7: Czech Republic Inward Foreign Direct Investment by Industry 2000-2012 (in %)

	2000	***2004***	***2007***	***2012***
Nonmanufacturing				
Agriculture, hunting, and forestry	0,3	2,1	0,1	0,4
Mining and quarrying	2,6	3,3	..	1,8
Electricity, gas, and water supply	7,0	7,3	..	-0,8
Construction	3,4	0,3	0,5	1,5
Trade, hotels and restaurants	18,7	18,7	19,1	24,7
Transport, storage and communications	8,7	6,8	11,6	27,2
Financial intermediation	31,8	19,3	35,1	39,8
Real estate and business activities	25,5	41,5	42,5	4,8
Education	0,0	0,0	0,0	0,0
Health and social work	0,6	0,0	0,1	0,5
Other social and personal services	1,4	..	3,6	0,3
Total	**58,9**	**79,7**	**63,0**	**71,2**
Manufacturing				
Food and tobacco	8,6	0,8	9,0	10,7
Textiles, wearing apparel, and leather	3,3	..	3,0	2,2
Wood, paper and publishing	2,5	27,4	0,8	0,7
Refined petroleum and chemicals	14,5	26,3	10,2	16,7
Nonmetallic products	5,6	0,1	13,7	0,0
Basic metals and metal products	12,2	49,9	20,7	9,5
Machinery and equipment	51,3	-3,8	40,6	42,9
Recycling and other manufacturing	1,9	0,4	2,0	17,3
Total	**41,1**	**20,3**	**37,0**	**28,8**

Source: CNB (2013).

Even after a marked increase in investment after 2000, the EU countries account for most FDI inflows into the Czech Republic (88 per cent in 2009). The Netherlands was the largest investor in 2012 (43,1%), followed by Germany (15,5%) and Austria (13%). As a result, relative position of the United States or Asian investors did not change significantly after 2000 and confirm the trends explained in Section 2. Moreover, FDI inflows form less traditional region are rather volatile and cannot be assessed easily as to any general trends in their developments. This applies the more to China and other BRIC countries, which are displayed separately in Table 9 (data in CZK millions; all other investors only accounted for 5,7 of the Czech FDI inflow in 2012). FDI inflows form the BRIC countries into the Czech Republic are very unstable turning form positive investment to disinvestment very easily. Only 2006 saw a more significant inflow of Chinese and Indian FDIs into the Czech Republic of 826 and 625 million CZK respectively. But 2008 saw disinvestment of 328 and 292 respectively.

Table 8: Czech Republic Inward Foreign Direct Investment Flows by Country 2000-2012 (in %)

Country	***2000***	***2004***	***2007***	***2012***
Western Europe				
Belgium	1,1	..	2,6	7,7
Denmark	2,1	..	2,2	1,0
France	4,7	..	0,5	3,7
Germany	26,5	15,2	11,5	15,5
United Kingdom	3,2	0,4	..	1,9
Italy	0,7	1,0	0,5	1,2
Netherlands	20,8	40,2	21,2	43,1
Austria	14,8	8,8	10,5	13,0
Sweden	3,0	..	3,3	1,0
Switzerland	4,6	3,7	9,3	3,2
Canada	3,1	..	0,2	..
United States	6,1	10,2	4,0	5,0
Japan	0,9	0,8	3,9	..
Other	8,6	28,3	35,4	5,7
Total	100,0	100,0	100,0	100,0

Source: CNB (2013).

According to CEED (2012: 16), institutional background surrounding Chinese investment in the CEE region largely correspond to its volatile nature: “since 2003, there was number of high level visits between China and CEE countries, however, it is hard to find any documents on the current strategy toward CEE. This could perhaps be reconstructed from the visits between China and CEE, as well as. The Czech Republic has been the most active in this field, with the first Head of State to visit Beijing in 2004. In 2005, Czech Prime Minister was revisited by Wen Jiabao in Prague. In 2004, Hu Jinato came to Warsaw, while in 2008, Polish PM Tusk was received in Beijing. In 2009, Xi Jinping, future Chinese President designate, went to Romania and Bulgaria, while Hu Jintao visited Slovakia. In 2010, Hungary's Victor Orban was also present at the Chinese Expo”. Emerging Europe, should now take the lead in developing its growth potential by turning to new dynamic markets in the East. In fact, as Chinese investment shift from natural resources towards higher tech goods and developed economy assets, CEE countries and firms have much to gain from entering into partnerships with the Chinese. CEE is well-placed to deliver both growth and investment return opportunities, as well as the stable regulatory framework of the EU (CEED, 2012: 17).

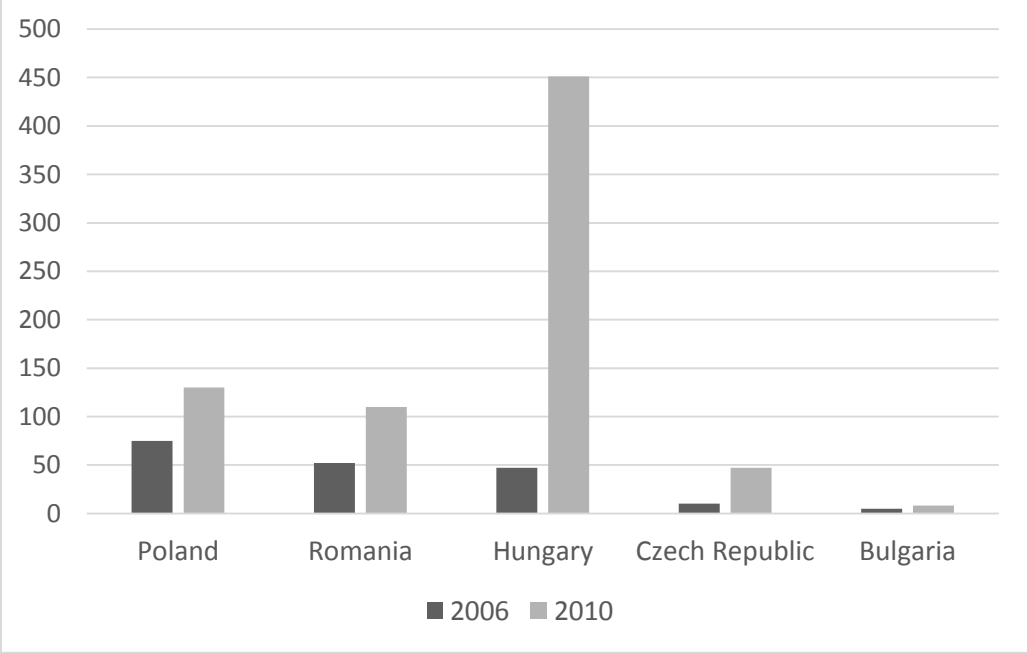
It seems that the recent increase of China's outward FDI in the CEE region is only the start of a much broader process. Less than seven years ago, Chinese investments in the region were almost inexistent. In 2004, the total flow of China's FDI in the Czech Republic was only 0,46 million USD and in Poland, of 0.1 million. However, in recent years, China has significantly increased its foreign investments in the whole CEE region. China's outward FDI stock in the area, which was only 43,67 million USD in 2004, augmented to 821,28 million in 2010 (CEED, 2012: 21).

Table 9: Czech Republic Inward Foreign Direct Investment Flows from the BRIC Countries 2000-2010 (in CZK millions)

Country	***2000***	***2004***	***2006***	***2008***	***2010***
Brazil	..	-18	13	-43	-28
China	**52**	**16**	**826**	**-328**	**40**
India	-1	11	625	-292	-335
Russian Federation	-103	813	-517	2769	1689

Source: UNCTAD (2011).

Figure 3: China's Outward FDI Stock in the CEE Region (US Dollars in millions)



Source: CEED (2012).

All in all, the Czech Republic's inward FDI stock peaked at almost 130 billion USD in 2010 a volume equivalent to two thirds of the gross domestic product and rose again in 2012 to 136 billion. Among V4 countries it is only higher in Poland, but when measured per capita or as a share to GDP (69,6 % in 2012) it is higher than in Poland (47,3%), but as a matter of Hungarian economic downturn in recent years lower than in Hungary (81,7 % in 2012). In contrast, the FDI outward stock of the country remained modest (15 billion USD in 2012), and is dominated by foreign acquisitions carried out by the State-owned electricity company CEZ. UNCTAD (2011) further suggests that in 2009, the foreign affiliates of Czech TNCs employed 35 141 people abroad and had sales of 7,5 billion USD.

Table 10: FDI Inward and Outward Stock 2000-2012 (US Dollars at current prices and current exchange rates in millions)

Economy	***2000***	***2004***	***2008***	***2009***	***2010***	***2011***	***2012***
Inward FDI Stock							
Czech Republic	**21644**	**57259**	**113174**	**125827**	**128504**	**120569**	**136442**
Hungary	22870	61567	88003	98803	90641	84467	103557
Poland	34227	86755	164307	185202	215639	198196	230604
Slovakia	6970	28185	50416	52537	50284	51293	55816
Transition economies	60829	197507	427320	627913	765095	764343	847854
Outward FDI Stock							
Czech Republic	**738**	**3760**	**12531**	**14805**	**14923**	**13214**	**15176**
Hungary	1280	6018	17592	19736	20489	24048	34741
Poland	1018	3351	24094	29307	44444	49657	57525
Slovakia	555	1084	2940	3152	3334	4210	4413
Transition economies	21366	111584	229634	336687	404802	405605	460760

Source: UNCTAD (2014).

As expected by Bohata, Zemplinerova (2004) within their paper's conclusion, also Czech outward FDI started to grow more rapidly after 2000 and its stock accounted for 7,7% of the Czech GDP, which is still well below Hungary (27,4%) and Poland (11,8%). Almost all outward FDI stock targets the EU (94 per cent in 2009 and around 90% in 2012). Czech FDI mostly targeted the Netherlands (total stock of 111 billion CZK in 2009), Slovakia (total stock of 41 billion and additional flow of 4 billion in 2010), and Bulgaria (13,3 billion CZK stock in 2009 and flows of 1,5 billion in 2010) where it accounts mainly for the above mentioned CEZ acquisitions in energy production and trading. Overall Czech investment stock in developed countries accounted for 272 billion CZK in 2009, additional 5 billion were located in developing countries.

Table 11: FDI Inward and Outward Stock 2000-2012 (% of GDP)

Economy	***2000***	***2004***	***2008***	***2009***	***2010***	***2011***	***2012***
Inward FDI Stock							
Czech Republic	**36,8**	**50,2**	**50,2**	**63,8**	**64,6**	**55,5**	**69,6**
Hungary	49,3	60,4	57,1	78,0	70,8	60,9	81,7
Poland	20,0	34,3	31,0	43,0	45,9	38,6	47,3
Slovakia	34,2	66,8	53,5	60,2	57,7	53,4	60,8
Transition economies	15,3	22,9	18,2	35,2	36,1	29,4	30,8
Outward FDI Stock							
Czech Republic	**1,3**	**3,3**	**5,6**	**7,5**	**7,5**	**6,1**	**7,7**

Hungary	2,8	5,9	11,4	15,6	16,0	17,3	27,4
Poland	0,6	1,3	4,6	6,8	9,5	9,7	11,8
Slovakia	2,7	2,6	3,1	3,6	3,8	4,4	4,8
Transition economies	5,4	12,9	9,8	18,9	19,1	15,6	16,7

Source: UNCTAD (2014).

Table 12: Czech Republic Investment Flows Abroad by Country 2000-2010 (in CZK millions)

Country	***2000***	***2004***	***2006***	***2008***	***2010***
Developed Countries	1654	26067	33170	73803	32508
European Union	-120	17652	36085	71791	29151
Germany	-147	42	3762	805	1702
Slovakia	886	2225	5097	2468	3934
Poland	733	884	992	1105	2750
Bulgaria	96	9831	6086	805	1466
USA	296	-56	234	-296	60
Developing Countries	108	..	-5195	1005	1471
Brazil	-106	-905	10	11	-93
China	**31**	**9**	**11**	**-83**	**47**
India	..	367	22	-191	1348
Russian Federation	-7	1227	1783	938	1389

Source: UNCTAD (2011).

This clearly suggest that also Czech investment, i.e. investment of the Czech owned capital, in China is rather insignificant: in 2010 China accounted for 47 million CZK in flows and overall stock (after disinvestment of 83 million in 2008) and total stock of 211 million CZK in 2009.

This is rather low even in comparison with other BRIC countries, where Russian Federation plays major role with 3,1 billion CZK in stocks in 2009 and additional flow of 1,3 billion in 2010. India's stock of Czech investment was also higher than the one of China (522 million) and flow similar to the one of Russia (1,3 billion) in 2010.

Table 13: Czech Republic Investment Stock Abroad by Country 2000-2009 (in CZK millions)

Country	***2000***	***2004***	***2006***	***2008***	***2009***
Developed Countries	27889	84087	104743	242428	271929
European Union	16918	60752	87364	229716	255535
Germany	1393	1155	4829	6740	5146
Netherlands	7	9642	22728	105442	111484
Slovakia	8385	18679	33271	40186	41369
Poland	1650	1944	3047	9858	9883

Bulgaria	130	7029	10417	14070	13300
USA	557	499	689	266	264
Developing Countries	3546	11544	2568	3322	4922
Brazil	77	2	-14	20	25
China	**103**	**192**	**254**	**226**	**211**
India	80	198	492	869	522
Russian Federation	170	3062	4127	4462	3152

Source: UNCTAD (2011).

As far as product breakdown of Czech FDI abroad is concerned, it accounts almost exclusively for services (233 billion CZK in 2009), of which more than 60% flew to Other business activities. Only 23,6 billion accounted for manufacturing industry; see Table 14 for more details.

Table 14: Czech Republic Investment Stock Abroad by Industry 2000-2009 (in CZK millions)

Country	***2000***	***2004***	***2006***	***2009***
Primary	101	1547	2175	..
Secondary	3718	10443	20855	23610
Tertiary	24081	72098	81383	233771
Business Activities	1916	11056	24216	142924

Source: UNCTAD (2011).

4 CURRENT FDI PROJECTS RELATED TO CHINA

Even though both Chinese investment in the Czech Republic and Czech investment in China lags behind global as well as regional trend, there are promising projects and examples in both relations worth analyzing.

4.1 Czech companies in China

Czech companies try to be very active in investing in China lately, especially via joint-ventures with Chinese companies that present advantages when it comes to gaining access to and already developed network of distributors, the need for a strategic local partner or the desire to share operational costs (EU SME Centre 2011a). However, the total Czech investments in China are still insignificant (in comparison with other countries) and experience of Czech firms often (see Fürst 2010), negative because of their insufficient knowledge of the Chinese market and culture. Coastal areas remain key markets both for European and Czech companies. Western and Central China is of growing interest for Czech companies as well, especially Sichuan province and Chongqing. These vast areas appear to be interesting to Czech companies because they may be closer to their customers, reduce costs and take advantage of the Chinese government incentives (in accord with the revised Catalogue for the Guidance of Foreign Investment Industries, which entered into force in 2012).

There are some important Czech investors in China. Let´s mention the most known ones briefly in the following text. Additional examples of Czech investments in China are listed in Table 15 below.

Skoda Company (seated in Pilsen) has been active in engineering and supplies for the nuclear energy industry; it has a lot of subsidiaries expanding all around the world. For example, its subsidiary company, Skoda Machine Tool, is one of the leading engineering enterprises in Europe, with a wide product portfolio. In 2007 Eastern Skoda (Shenyang) Machine Tool Modernization Company was founded in Dalian. In 2013 the Czech-Chinese consortium SKE (Skoda Electric and the Chinese company Kingway Transportation Jiangsu) established a common production line for vehicle traction units in Suzhou, worth over 25 million USD (Businessinfo 2014).

Skoda Auto company (seated in Mlada Boleslav) is the oldest and biggest automobile producer in the Czech Republic. Its production has spread do many countries worldwide over time, especially into the developing markets, e.g. in China, India and Russia. Today, Skoda Auto is a member of the Volkswagen Group, whose production plant in Shanghai (China) was officially opened in 1984 as a joint venture with the Chinese company SAIC. In 2005 the factory´s production program was expanded to include SKODA models; and in 2013, already 1 million SKODAs have been produced in China (Skoda Auto 2014). Skoda Auto strongly profits from the Volkswagen brand awareness. Thanks to its strong position in the Chinese market it is successful. In general, brand recognition and marketing is a huge competitive advantage in China.

Another example of a successful Czech investment in China is the business of Home Credit Group (a member of Czech financial company PPF Group, seated in Amsterdam). Home Credit China (HCC) established its business in Beijing in 2004. In 2007 HCC launched its consumer finance operations in Guangdong Province; in 2010 it received a unique license from the China Banking Regulatory Commission to establish a Consumer Finance Company. Today, HCC is a leading provider of consumer credits in China. As of 31 December 2012, Home Credit's customer base in China accounted for over 1.2 million active borrowers served by 7,788 employees (Home Credit Group 2014). HCC´s business has been probably the biggest Czech investment in China.

There are also very promising plans to deepen the technological cooperation between the Czech Republic and China and Czech high-tech investments in China, e.g. between the Chinese firm Suzhou Cleanet and the Czech company Nafigate Corporation. Nafigate is a very dynamic company focused on the development of a new energy saving generation of nanofiber membranes for water and air cleaning technologies, textile industry, or batteries. In 2013 Nafigate together with Guodian Group, one of the leading Chinese companies, established GD Nanodec – a joint research and development center. The first plant of Nafigate and Suzhou Cleanet is being built in Suzhou as well.

Sometimes, it may be very difficult to establish a successful business in China because of complicated distribution channels and other obstacles (mentioned below). Linet Company (seated in Slany). is a major Czech manufacturer of hospital and nursing beds and wide range of medical accessories. Its products and services are very innovative and very competitive around the world, the company has been awarded many domestic and international prizes (e.g. for competition as a New European Champion in 2011). Linet manufactures around 40,000 hospital beds per year, the vast majority of which are intended for exports to more than one hundred countries. As China has a huge and growing market for high-graded medical beds, Linet has been trying to enter the market in collaboration with a local Chinese distribution company to sell its beds. Nevertheless, due to

unsatisfactory sales results of the first Chinese company, Linet had to sign a contract with another local distributor and prepare a new strategy to re-enter the Chinese market (EU SME Centre 2011a).

Table 15: Examples of Biggest Czech Direct Investments in China

Investor	***Manufacturing sector***	***City/region in China***
Lang Fang PAN Vítkovice Environmental Engineering	Ecological equipment	Langfang
Eastern Skoda Machine Tool Modernization	Machine tools	Dalian
KOH-I-NOOR	Pencils	Nanjing
Hong Ye SVIT Machinery Company	Machine tools	Dagang-Yancheng
Tangshan Broumov Cleaning Machinery Company	Car washes	Tangshan
TOS Kunming	Machine tools	Kunming
Agrofert Holding	Titanium white	Tongling
Ravak Shanghai Bathroom Equipment	Bathroom equipment	Shanghai
TESCAN	Electron microscopes	Shanghai
Skoda Kingway Electric	Underground coaches	Suzhou
Stavus Pribarm	Tractore engines	Lanzhou

Source: Businessinfo (2014).

According to the European Chamber (2013), the regulatory environment in China (see also WTO 2012 or Fürst 2010) is a primary disadvantage of the market, indicating the need to further liberalize the Chinese market and to promote fair competition. Among the top 10 regulatory obstacles in Mainland China, there are e.g.: market access difficulties, administrative issues (e.g. regulatory reporting and guidelines), discretionary enforcement of regulations (due to various jurisdictions in Chinese provinces), intellectual property rights protection, ownership restrictions, bureaucracy, restrictions on access to financing, registration processes for companies or products, unlawful transactions and discrimination against foreign companies in public procurement. In addition to general difficulties arising from cultural differences and the mentioned tough regulatory environment, both European and Czech companies in China are also experiencing slower economic growth in China, increased competition; rising labor costs and difficulty in retaining and developing talent (the right human capital to drive company growth). However, the key reason for being in China is to serve the huge and promising market; and opportunities for foreign companies ‘expansion still exist in China (see e.g. European Chamber 2013).

4.2 Chinese investments in the Czech Republic

China has become an important source of foreign direct investments all over the world. However, as mentioned before, Chinese investments in the Czech Republic remain very low (also in comparison with other Asian investments, mainly from Taiwan, South Korea or Japan). In general, Chinese companies abroad invest mainly in manufacturing industry (electrical machinery, foodstuff,

telecommunications and transport equipment) and mining. On the whole, the sectoral structure of the Chinese investments in the Czech Republic is corresponding with these patterns.

The biggest Chinese investor in the CR is Changhong Electric, one of the world´s biggest LCD TV producers from Sichuan province. Its factory in central Bohemia (established in 2005 in town of Nymburk) could produce/assemble more than 1 million LCD TVs a year. Changhong´s investment has totaled 660 million CZK (Businessinfo 2014).

Shanghai Maling Aquarius is a food company from Shanghai region, primarily engaged in food processing and distribution (mainly canned meat). Its investment in the Czech Republic was the first in Europe and totaled 450 million CZK. Only 10% of the total production capacity is placed on the local Czech market, the majority is exported all over the world.

Table 16: Biggest Chinese Investments in the Czech Republic

Investor from mainland China	***Manufacturing sector***	***Investment (CZK mil.)***
Sichuan Changhong Electric	Electrical equipment	660.0
Shanghai Maling Aquarius	Food processing	450.0
ShanxiYuncheng Plate – Making Group	Metal-working	49.9
Shandong Linyi Yuli Foodnuts	Food processing	50.0
Beijing Fight Company	Food processing	12.0
Baolong	Glasswork	1.0

Source: CzechInvest (2009), Businessinfo (2014).

There are some other interesting Chinese projects and new investments. Nevertheless, their value, extent and impact (on the total production end employment in the Czech Republic) are still limited – see Table 16 and Zapletal, Stuchlikova, Meng (2013) or Potuzakova, Demel (2011). For example, Noark Electric Company is a producer of electrical devices and components. It has established a regional center in Prague (beside centers in Shanghai and Chicago) to manage its business operations in Europe from here, without any production capacity. This company is planning to establish a special department for research and development in the Czech Republic as well. The increasing interest of Chinese investors in common research projects (e.g. in biotechnology) in the Czech Republic is of special relevance.

It should be pointed out that majority of mentioned Chinese investments in the Czech Republic were mediated by CzechInvest (the Investment and Business Development Agency, see www.czechinvest.org). This agency of the Czech Ministry of Industry and Trade was established in 1992. Its aim is to contribute to attracting foreign investments and developing domestic companies through its services and development programmes. CzechInvest has several foreign offices, including the Chinese one (in Shanghai). It also publishes list of the Chinese direct investment projects in the Czech Republic.

5 CONCLUSIONS

During its transition process, the Czech Republic attracted a significant amount of foreign direct investment and foreign direct investment fulfilled and important role in country's transition namely as an important source of financing and supplement of inadequate resources to finance both ownership structure and capital formation. Compared to other financing options, FDI also facilitates transfer of technology, know-how and skills, and helps local enterprises to expand into foreign markets. Main determinants of FDI in transition countries of the CEE region, which include domestic and potential export market size, gravity factors, resources or skills endowment, progress in transition reforms, and economic and political, were especially favorable in the case of the Czech Republic. As a result, together with its V4 peers, the Czech Republic has attracted the most of FDI flowing into the transition region in the initial stages of economic transition. If measured by share on gross capital formation or by FDI inflow per capita, it was the Czech Republic specifically, which attracted the highest relative amount of FDI even in V4 comparison.

After 2000, the Czech Republic continues to be a magnet for foreign direct investment in the enlarged EU and even increased its FDI performance compared to its V4 peers. In 2012, the Czech Republic was only outperformed by Hungary, since Poland slipped to recession later and Slovakia suffered the most if measured by FDI performance during the crisis. Moreover, as FDI projects are maturing in the Czech Republic, the relative importance of new equity investments has fallen: reinvested earnings have replaced equity capital as the main component of FDI inflows. Even after a marked increase in investment after 2000, the EU countries account for most FDI inflows into the Czech Republic (88 per cent in 2009). Moreover, FDI inflows form less traditional region are rather volatile and cannot be assessed easily as to any general trends in their developments. This applies the more to China and other BRIC countries. FDI inflows form the BRIC countries into the Czech Republic are very unstable turning form positive investment to disinvestment very easily. Only 2006 saw a more significant inflow of Chinese and Indian FDIs into the Czech Republic of 826 and 625 million CZK respectively. But 2008 saw disinvestment of 328 and 292 respectively.

This clearly suggest that also Czech investment in China is rather insignificant and far below its potential: in 2010 China accounted for 47 million CZK in flows and overall stock (after disinvestment of 83 million in 2008) and total stock of 211 million CZK in 2009.This is rather low even in comparison with other BRIC countries, where Russian Federation plays major role with 3,1 billion CZK in stocks in 2009 and additional flow of 1,3 billion in 2010. India's stock of Czech investment was also higher than the one of China (522 million) and flow similar to the one of Russia (1,3 billion) in 2010.

With the EU membership, relatively low wages and favourable geographical (logistical) position, the Czech Republic should be an optimal location of production destined for the EU countries. Undoubtedly, the CR has the political will to cooperate with the PRC, including efforts to obtain Chinese investment. However, both Chinese investments in the Czech Republic and Czech investments in China still lag behind global as well as regional trend. Yet, there are some promising projects, e.g. production of SKODA cars in China or the expanding Home Credit China financial business. The increasing interest of Chinese and Czech investors in common research projects is of special relevance as well.

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CHINA-V4 INVESTMENT REGIME – A CZECH PERSPECTIVE

Pavel Hnát, Martin Tlapa[1]

The Czech Republic's trade and investment regime has been markedly influenced by country's successful transition and swift integration into formal world economy links including the association agreement with the EU, OECD membership and WTO commitments. These all created a framework for national and most-favored-nation treatment for investors. In bilateral terms Bilateral Investment Treaties and Double Taxation Treaties were also used, both in the case of China. Based upon recent case studies, following factors were identified as areas for improvement in Sino-Czech investment relations: Finally the potential of new EU-China investment regime has been explored.

Key words: foreign direct investment, BITs, DTTs, China, Czech Republic
JEL: F13, F21, F23

1 INTRODUCTION

International links have played an important role in the conduction of systemic, institutional as well as structural changes within the transformation process. Within the systemic changes, namely by liberalization of external economic relations and by restitution of price and exchange rate mechanism, regionalism enabled practical establishing of trade and capital links with the EU (especially through the European Agreements) as well as with other countries.

Liberalization and restructuring are seen as crucial part of institutional changes, i.e. changes connected to the formulation and enforceability of legal and institutional framework of social and economic processes, as the PTAs often created the needed framework of an external part of transformation. At the beginning, especially the European Agreements again, together with their strong institutional provisions, applied proven rules of the (Western) world to the CEE countries' foreign trade. Subsequently, the regional integration in the CEE region itself formed autonomous institutional framework for trade, too. In terms of investment regimes, also these were markedly influenced by Czech Republic swift progress in transition and besides the agreement with the EU, Czech OECD membership as well as membership to specialized WTO provisions markedly influenced the investment climate.

The aim of this paper is to analyze existing trade and investment regime of the Czech Republic with special regard to its relations with China and to find areas for possible improvement based upon experience of specific firms and investors. Since the Lisbon Treaty has recently incorporated

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investment relations into the provisions of the Common Trade Policy, ready to be negotiated provisions of the EU regime can change the framework of Sino-Czech investment markedly.

In the first section, the paper analyses driving moments of the Czech Republic's investment regime which has been largely aligned with its trade opening, preparation for the EU accession as well as country's OECD and WTO commitments. Special attention is paid to bilateral treaties, namely to Bilateral Investment Treaties and Double Taxation Treaties, since these have been governing the relations with China the most. Second section section explores the potential impacts of the new EU-China trade and investment regime, including the potential EU-China FTA. It draws attention to problems that European investros encounter while investing in China as well as drivers of Chinese investment in the EU and CEE region more specifically.

2 Evolution of the Trade and Investment Regime of the Czech Republic

According to Hnát, Cihelková (2007: 374-376) Czech Republic's and other CEE countries basic instrument that on one hand increased the EU's influence on the CEE countries as it gave pace to the transformation process during the pre-accession period, were the European Agreements; on the other hand it created bases on which free trade areas between the EU and particular candidate states were built. All in all, they were the association agreements between the EC/EU and its candidate countries and constituted a framework of mutual cooperation in the areas of economic integration as well as legal and social environment (i.a. for meeting the Copenhagen criteria). In mutual relations between the EC/EU and CEE countries, the European Agreements created a situation, where the relations between EC/EU and particular candidate countries were better and more firmly institutionalized than their mutual relations.

The European Agreement between EC/EU and the Czech Republic was signed in 1991 as interim, governing the relations before the division of Czechoslovakia, and subsequently as final, effective since February 1995. On the basis of it, asymmetric trade liberalization for industrial goods was applied, however, also the Czech Republic eliminated its trade barriers sooner than requested. Besides gradual creation of the free trade area for industrial goods and elimination of quantitative restrictions in agriculture, the European Agreement had following main features:

- implementing the national regime for trade in services,
- creating conditions for free movement of capital and workers,
- legal and technical norms' and standards' harmonization,
- further broad cooperation in economic and political area.

Already during the pre-accession period, it was possible to examine the effects of the Agreement on economic relations between the Czech Republic and EU. As displayed in Table 1, already in 1990s there was a strong orientation of trade of the Czech Republic (and other CEE countries) to the EU. It did not result exclusively form the existence of the Euro-agreement; also time (the Council for Mutual Economic Assistance (CMEA) and existing economic order collapse) and psychological (efforts on presence in perspective Western markets) factors must be taken into account. However, as a matter of this development, the share of the EU on the trade of the Czech Republic (as well as other CEE countries) increased markedly, amounting to more than 85% for exports and almost 80% for imports at the end of pre-accession period (Hnát, Cihelková, 2007 : 375).

Table 1: Trade Relations between the Czech Republic and EU, 1985-2004
(million USD and % of total trade)

Trade Flow	*1985*		*1995*		*2004*	
	mil. USD	***%***	***mil. USD***	***%***	***mil. USD***	***%***
Exports	6 617,0	46,90	13 974,3	81,35	46 559,7	85,43
Imports	7 839,7	50,48	17 597,9	76,60	55 623,6	79,89

Source: UNCTAD (2007), (Hnát, Cihelková, 2007)

Besides the orientation to the EU itself, which is most important due to the amount of trade lows, PTAs of the Czech Republic were directed also to other developed partners of the European region; e.g. free trade areas with the EFTA countries (i.e. Norway, Iceland, Switzerland and Liechtenstein). Free trade agreements with Turkey (which has a custom union with the EU) and Israel (which has a free trade area with the EU) had very similar character, too (see Stuchlíková 2006 or 2007). "Given the large number of preferential trading agreements to which the Czech Republic participates, MFN rates applied only to a limited share of Czech imports (78% of total imports in 1999 were from free-trade agreement partners). Although these have helped further open the Czech market, such arrangements may also distort trade and investment patterns as they involve different margins of preferences" (WTO, 2001). Nevertheless, integration with the EU should accelerate the Czech Republic's economic development and provide renewed opportunities for further economic and trade reforms. As such, also these agreements must be treated strictly in the EU integration context, i.e. as a part of the integration into the EEA and the European region in broader sense. Trade relations of the Czech Republic with Developed Europe are displayed in Table 2, which moreover shows that similar trends are valid also for other CEE countries.

Table 2: Visegrad Countries Trade with Developed Europe (EU-15 plus EFTA-4),
1985-2004 (million USD and % in total trade)

Country	*1985*		*1995*		*2004*	
	mil. USD	***%***	***mil. USD***	***%***	***mil. USD***	***%***
						Imports
Czech Republic	**5 259,3**	**42,88**	**17 597,9**	**76,6**	**55 623,6**	**79,89**
Hungary	3 941,4	47,9	11 015,1	71,14	43 540,1	73,2
Poland	5 210,3	41,23	21 512,8	74,06	66 644,7	76,83
Slovakia	..	..	6 756,4	70,03	23 609,8	82,64
						Exports
Czech Republic	**4 534,7**	**39,83**	**13 974,3**	**81,35**	**46 559,7**	**85,43**
Hungary	3 447,5	40,36	9 371,3	72,86	44 302,4	80,87
Poland	5 052,8	42,15	18 045,0	78,82	50 371,7	80,23
Slovakia	..	..	7 230,1	84,28	21 693,6	86,18

Source: UNCTAD (2007), (Hnát, Cihelková, 2007)

Besides it crucial relations with the EU, the Czech Republic became a leading power in several regional economic integration projects within the CEE region (Hnát, Cihelková, 2007): of the Central

European Free Trade Agreement (CEFTA) including its institutional specificity Czech Republic – Slovakia Custom Union. CEFTA was signed in 1992 among the Visegrad Group members. It has been effective since 1993, after the division of Czechoslovakia. Taking the future EU membership and strong trade re-orientation as a fact, its main objective was to support the economic cooperation among the CEE countries. CEFTA implemented trade in goods liberalization relatively swiftly and finished the free trade area for industrial goods (with few exceptions) already on January 1st 1999 (originally planned by the end of 2000). As far as the liberalization of agricultural trade and capital is concerned, CEFTA was less successful, which was caused namely be the overall stagnation of its integration process during intensive preparations for full EU membership. „Most agricultural goods, however, are protected by relatively high tariffs. The simple MNF tariff average for agriculture products (WTO definition) in 2001 was 13.4%, compared with an average rate of 4.3% for non-agricultural goods" (WTO, 2001). Nevertheless, solid ideas on further economic liberalization and on signing PTAs in its external relations, existed within CEFTA, too. It represents swift and flexible approach to economic liberalization of trade in goods, strictly intergovernmental institutional structure, which was aimed to economic relations and was flexible; these features are seen almost as necessary for the successful PTAs in the era of globalization. All in all, CEFTA positively influenced the mutual economic relations in the CEE region and contributed to at least partial preservation of existing economic relations in the region. Between 1993 and 2002, the foreign trade of the Czech Republic with CEE countries almost doubled as well as its trade with CEFTA countries; Slovakia remained at the position of second greatest trade partner of the Czech Republic, behind Germany (Hnát, Cihelková, 2007).

The Czech Republic became an observer to the WTO Agreement on Government Procurement in August 2000. Competition rules as well as intellectual property rights legislation have been strengthened and the Czech Republic has enacted legislation pertaining to anti-dumping, countervailing and safeguard measures in early 2000s (WTO, 2001).

Alongside with the trade liberalization, also the foreign investment regime of the Czech Republic has been largely governed by its reintegration to Western organization, too. "As part of its accession to the Organization of Economic Cooperation and Development (OECD) in December 1995, the Czech Republic agreed to meet, with a few exceptions, the OECD's standards for equal treatment of foreign and domestic investors, and on restrictions on special investment incentives." Only in some sectors of services, foreign investment remained restricted or controlled by that time (WTO, 2001). Based upon the OECD membership, National treatment of foreign affiliates became the basic rule of law in the Czech Republic and other CEE countries, which later acceded the OECD; moreover, EU association restricted the space for discriminatory policies and require that equal rights are given to domestic and foreign firms (UNCTAD, 2003: 20). The regime remained quite straightforward in spite of the introduction of official policy on foreign investment incentives in 1998 and its adjustment in 2000. According to WTO (2001), "a package of incentives approved in May 2000, changing the previous policy of offering investment incentives on a case-by-case basis (subject to governmental approval), means a major change from the "no incentives" policy during 1992-98. The package appears to have been designed to bring the Czech Republic into line with its competitors for inward investment. However, it is not clear if the benefits of the incentive package outweigh the associated costs;" namely the performance requirements which were hard to be met by domestic SMEs.

Additionally, also the Czech Republic have sought to attract FDI through proactive promotion activities. "Most CEE countries set up investment promotion agencies and entrusted them with a range of responsibilities aimed at facilitating the investment process, including the provision of information on investment opportunities, matchmaking with suppliers, and pre- and after- investment services; most of them being members of the World Association of Investment Promotion Agencies. A number of free trade zones and industrial parks have been created that target specific types of investments" (UNCTAD, 2003: 23).

Apart from the special relationship of the eight CEE countries with the EU and its member States, efforts to create a favourable investment climate at the national level have been complemented with the conclusion of international agreements aimed at providing additional guarantees of liberalization and legal protection for foreign investments. CEE countries have concluded an increasing number of Bilateral Investment Treaties (BITs) and double taxation treaties (DTTs) with most of their important partner countries. CEE countries had concluded a total of 693 BITs during 1990s and early 2000s. Of these, 116 (12%) were concluded between themselves, 297 (31%) with the developed countries, mostly with members of the EU, and 280 (29%) with developing countries (UNCTAD, 2003: 23-24).

CEE countries concluded about 400 DTTs between 1990 and 2002, bringing the total number to 574 at the beginning of 2002. Most of these (304) were signed with developed countries, mainly members of the EU. CEE countries signed 85 DTTs among themselves. The remaining 185 DTTs were signed with developing countries. DTTs were concluded more widely by countries that are the largest FDI recipients, Czech Republic, Hungary and Poland. Furthermore, all CEE countries except one have acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (CREFAA) and have ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID). The ICSID Convention provides an arbitration mechanism specifically designed for the resolution of investment disputes between host countries and foreign investors, thus significantly expanding the range of choices available for foreign investors in the critical area of dispute settlement. All CEE countries are also members of MIGA, thereby allowing access to a multilateral mechanism for insurance against non-commercial risks in these countries. Finally, many CEE countries have become members of WTO. Consequently, they are parties to the three main WTO investment-related agreements, the General Agreement on Trade in Services (GATS), the Agreement on Trade-related Investment Measures (TRIMs) and the Agreement on Trade related aspects of Intellectual Property Rights (TRIPS) (UNCTAD, 2003: 23-24).

As far as DTT treaties between China and the Czech Republic are concerned, the recent DTT has been ratified in 2011 and it came into effect on 1 January 2012, replacing the previous DTT from 1987. The treaty stipulates the following withholding tax rates for dividends and interest income (Unicredit, 2011):

a) Dividends: 10%, resp. 5% if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.

b) Interest: 7.5%, reps. 0% if interest is paid to the government, local state authority, central bank of the other contracting state or to a financial institution fully-owned by the government.

Based upon UNCTAD (2014a) database, original BIT between the Czech Republic and the People's Republic of China, was signed by the Government of the Czech and Slovak Federal Republic on December 4th, 1991 in Beijing. It was replaced by current agreement signed on December 8, 2005. It calls for national and most-favoured-nation treatment in investment, even though in respect of the People's Republic of China, there are exceptions for any existing non-conforming measures maintained within its territory provided that future amendments do not increase the non-conformity of such measures and China will take all appropriate steps in order to progressively remove the non-conforming measures (UNCATD, 2014a).

Any dispute which may arise between investors shall be subject to negotiations between the parties to the dispute. If any dispute cannot be settled within six months of the date when the request for the settlement has been submitted, the investor shall be entitled to submit the case, at his choice, for settlement to one of following:

a) the competent court of the Contracting Party which is the party to the dispute;
b) the International Centre for Settlement of Investment Disputes (ICSID)
c) an ad hoc arbitral tribunal, unless otherwise agreed upon by the parties to the dispute, to be established under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL).

Even though the European Commission (2013: 15), welcomes the improved provisions of the post-1998 BITs (including the one of the Czech Republic): "Agreements signed after 1998 benefited from China's "going out" policy and include stronger investment protection provisions. These BITs generally contain all standard provisions found in recent BIT practice, including general principles of fair and equitable treatment, full protection and security, non-discrimination, as well as investor-to-state dispute settlement which can be invoked with regard to all provisions under the agreement", it critically asses that even these new generation BITs are missing in certain cases important elements:

- provisions granting national treatment, the principle of giving third country investors the same treatment as one's own investors and their investments, are currently weak in a majority of BITs;
- while all contain a "Most Favoured Nation"25 (MFN) clause, unlimited MFN treatment is only guaranteed in eight agreements, excluding the one with Czech Republic;
- investor-to-state dispute settlement arbitration is subordinated to the exhaustion of local review procedures, even if it is limited to a period of three months.

Crucially, there are also types of clauses that are entirely absent in both old and new generation BITs that are much in the focus of stakeholders. In particular in discussions with civil society and the European Parliament the European Commission has been called upon to ensure that a future EU investment policy promotes the integration of these clauses that are currently absent in all Member State agreements with China and are only present in some other BITs into EU investment agreements (European Commission, 2013: 16):

- no current Member State BITs with China, includes clause preventing attraction of FDI through a non-lowering of standards (e.g. environmental, labor laws) by the parties to the agreement;
- no current BIT includes a reference to the issue of corporate social responsibility or the OECD Guidelines on Multinational Enterprises;
- no current BIT includes comprehensive provisions regarding questions over state-owned enterprises, subsidies and performance requirements including forced technology transfer.

Finally, (European Commission, 2013: 16) suggests that "all existing BITs with China are limited to provisions dealing with protection of investment once the investment has been made – none deals with the question of market access for prospective investors (pre-establishment). Other countries, such as the United States and Canada pursue investment agreements that combine both, protection of investment and market access."

3 POSSIBLE IMPACTS OF THE PLANNED EU-CHINA PROVISIONS

Besides increasing the powers of the European Parliament in terms of the Common Trade Policy, the Lisbon Treaty fundamentally changes the framework for EU countries investment relations. According to the Europa Institute (2008), it is notably "the inclusion of foreign direct investment within the scope of the common commercial policy merits special mention. Given the linkages between trade and investment, which are also being recognised in current negotiations of bilateral and regional trade agreements, conferring these additional powers on the EU makes sense. Yet in view of the Member States' long-standing attachment to the bilateral investment treaties they have negotiated individually with third countries, and the occasional sensitivity of foreign investments domestically, this rather sudden transfer of authority to the EU comes as a surprise."

Commission (2013: 17) itself however doubts that he reinforced power can lead to a significant change in the EU-China Investment relations any time soon: "An improvement of the EU-China bilateral investment relationship cannot reasonably be expected, neither from the ongoing PCA negotiations nor from an FTA". Negotiations on an EU-China Partnership and Cooperation Agreement (PCA) have been ongoing since 2007. The PCA is not a preferential trade agreement in the meaning of the WTO (i.e. no further liberalisation of tariffs and services). "The EU proposed a chapter on establishment and services, integrating regulatory provisions and liberalisation commitments for non-services sectors. However China indicated that they did not have a mandate covering the liberalisation of investments in non-services. Furthermore, China has made it clear that its main interests lie in the area of investment protection, which in turn is not covered in the European Commission's negotiating directives, which pre-date the entry into force of the Lisbon Treaty and hence of the new competence on investment. It seems unrealistic to expect any progress on the trade related parts of the PCA in the near future that could improve the EU-China investment relationship."

"An EU-China Free Trade Agreement is not politically feasible in the near future. China has made it clear that it is not interested and EU stakeholders do not support such an agreement" (European Commission, 2013: 17). The EU is currently negotiating FTAs with India (see e.g. De Castro, 2011), Canada and Singapore where the negotiating guidelines have been modified to also include investment

protection. Hence, these three partner countries stand to be the first potentially to benefit from a uniform EU-wide standard of protection as well as further investment liberalisation. The EU and Japan are moving towards a negotiation of an FTA.

Based upon the EU's exclusive competence for the common commercial policy and through Article 206, "the Unions shall contribute to progressive abolition of restrictions on (…) foreign direct investment". Article 207 (1) sets out the need for uniform principles including for FDI and liberalisation measures. With respect to future EU-China investment relations, the EU's general policy objectives translate into (Commission, 2013: 20):

- improving legal certainty regarding treatment of EU investors in China,
- improving the protection of EU investments in China,
- reducing barriers to investing in China,
- increasing bilateral FDI flows.

Table 3: EU's Operational Objectives in EU-China Negotiation

1.	Provide EU investors better market access and effective non-discrimination for investments (both before and after establishment)
2.	Increase the transparency and predictability of controls or screening of European investment into China
3.	Seek the highest possible level of uniform standards of legal protection and certainty for European investors in China
4.	Ensure that investment protection standards include strong protection of intellectual property rights
5.	Seek to increase Europe's attractiveness as a destination for Chinese foreign direct investment by offering a uniform European standard of protection to Chinese investors
6.	Increase transparency
7.	Ensure the creation of enquiry points and one-stop shops designed to provide specific information and to respond promptly to questions and enquiries by investors regarding the operation of the Agreement,
8.	Seek to improve the competitiveness of EU companies investing in China and ensure a more level playing field to remedy the advantages enjoyed by Chinese state owned enterprises
9.	Ensure the right of the parties to take measures necessary to achieve legitimate public policy objectives including e.g. environmental, social, labour and human rights objectives
10.	Seek to ensure that domestic laws and policies provide for high levels of environmental and labour standards
11.	Seek to include a reference to obligations of investors' regarding corporate social responsibility
12.	Ensure the enforcement of any agreed rules through adequate dispute settlement including access to out of Court arbitration.

Source: European Commission (2013: 20-21).

Important factors also drive Chinese on outward foreign investment and its institutional setup. First, financial: with US$3.2trn of hard currency reserves, China has an incentive to push foreign investment of all kinds, in order to improve returns on assets, and as a hedge against currency fluctuations. The bulk of Chinese reserves are kept in the form of government and quasi-government debt, but the China Investment Corporation held US$410bn of assets at the beginning of 2011, to be used for financial and direct investment, and with a policy of increasing the weight of direct

investment. Finally, private individuals in China hold some US$9.6trn of investible wealth, about 20% of which is invested abroad. Second, the real economy: as an emerging economy with a high growth rate but a limited domestic resource base, China has a strong incentive to invest in raw material and energy production in other countries of the world-usually in developing countries, but also Russia (Economist Intelligence Unit, 2012).

Most of the factors cited above (apart from technology transfer back to China) also drive Chinese FDI in the central-east European EU member states (CEE). The most striking examples of Chinese FDI as a channel for transfer of Chinese technology to the region are the Chinese telecoms company Huawei's investments in Hungary and Romania. With the development of the Huawei European Design Centre in Romania, a pattern of two-way technology transfer could be established here in the future. The Great Wall Motors car-assembly plant which went into production in Lovech in Bulgaria earlier this year is a classic example of 'reverse outsourcing', with most of the components coming from China. However, just as Chinese FDI in the EU as a whole is a small item within the global investment picture, so Chinese FDI in the new member-states of the EU is a very small item within the EU picture. The proportion of Chinese FDI accounted for by small, family firms, usually working in low-tech sectors, is higher in CEE than in the EU as a whole. Hungary is the only CEE country with a stock of more than EUR1bn of Chinese FDI (largely on account of the EUR1.1bn takeover of an isocyanate producer, BorsodChem, by Wanhua in 2011).

During 2012 China has signed a number of new investment agreements with Hungary. And in Romania negotiations continue on possible Chinese investment in the Cernavoda nuclear plant. In Poland, cumulative Chinese FDI stands at a modest US$250m (EUR195m). There is plenty of political will on both sides to make these figures grow. On the occasion of his visit to Poland in April 2012, the Chinese Prime Minister, Wen Jiabao, announced the setting up of a US$10bn credit line for joint investments in the areas of infrastructure and technology, and a US$500m investment fund for CEE. The Polish side has responded positively, and in October 2012 more than 30 Chinese companies participated in a China-Poland Trade and Investment Co-operation Forum in Warsaw.

Against these bright prospects must be weighed a number of disappointments in relation to Chinese involvement in the CEE economies. In Poland, the picture is clouded by the disaster of the A2 highway. The tender for construction of the new road was awarded to a Chinese construction firm, COVEC. The firm fell down badly on the job, and the road had to be completed by Polish firms. The Chinese side has been accused of dragging its feet on investment projects in Hungary, and has notably failed to step in to save Malev, the Hungarian national airline, from bankruptcy.

These stories reflect two important points. Chinese capabilities are not limitless. And China is being as cautious in CEE as it has been in relation to other investment destinations. However, there are good, practical reasons why Chinese investment in CEE should expand and prosper. If negotiations on an investment accord between the EU and China start 'as soon as possible', as agreed between the two sides at their September 2012 summit, China can look forward to an easier passage through the formalities of investment in CEE. But the same will be true for the other EU countries as well. The key to the future of Chinese investment in the new member states is good projects, and these still appear to be at a premium.

Based on the public consultations and business surveys (Business Confidence Study by the EU Chamber of Commerce in China, 2011) the major barriers identified in Czech Business in China accounts lack of legal certainty and transparency, such as licensing, regulatory procedures, protection of intellectual property and technologies. Many Europeans investors are expressing the lack of confidence in protection of their rights as investors and such of transparency and consistency. The investors are complaining about the negative influence of Chinese subsidy policy and unfair competitive advantage when it comes to public procurement and bidding procedures. Discriminatory treatment of foreign investors at various levels, as well as lack of sufficient protection of their assets, increase risk and uncertainty and can threaten the viability of existing investment.

The public consultation highlighted that, despite the growing attraction and strategic importance of China as an FDI destination, the lack of a predictable and secure environment both for prospective and existing investors negatively affects EU outwards FDI flows to China. The result is not only an untapped potential, but also a growing imbalance, given the relative absence of barriers in the EU towards increasing Chinese inward investment.

In the OECD FDI Restrictiveness Index 201018, China appears as the most restrictive of the countries examined, with an FDI restrictiveness index of 0.457 (0 being totally open, 1 being totally closed). Moreover, this restrictiveness index has worsened since 2006, where China ranked 3rd, behind India and Iceland, with an index of 0.405.

The current bilateral and multilateral framework for investment between the EU and China does not offer the possibility to comprehensively address this situation which is unsatisfactory for the future competitiveness of European investors.

At the same time it is equally important to consider the interests of China. While current FDI flows and stocks from China into the EU may still be relatively low, they are increasing rapidly. China has expressed a vested interest in negotiating an EU-wide investment protection agreement and ensuring that the EU maintains its current level of openness to Chinese investors.

The public consultation confirmed that 77% of business respondents had experienced difficulties when investing, or trying to invest in China. 25% of this group of respondents (9 respondents) even stated that those difficulties had deterred them from going through with investment plans. When asked to list and rate the kind of barriers considered most problematic for companies investing, or trying to invest in China the following were named as the top five:

- licensing requirements/procedures
- foreign ownership limitations
- regulatory approval procedures
- prohibition to invest/limited scope of business
- joint venture requirements.

In the survey by Copenhagen Economics (2012) the barriers listed as most frequently encountered included the same as above as well as capital requirements, standards and testing requirements, a general lack of transparency and lack of consultation with foreign investors (e.g. for establishing new standards) and qualification requirements for personnel.

Table 4: EU's Operational Objectives in EU-China Negotiation

1.	Baseline scenario: No agreement – continue with the status quo
2.	EU Commission recommendation for negotiating directives for standalone investment protection agreement
3.	EU Commission recommendation for negotiating directives for an agreement combining investment protection with market access
4.	EU Commission recommendation for modifying the existing negotiating directives for the PCA to include investment protection
5.	Seek a comprehensive FTA with China rather than pursuing a sectoral agreement

Source: European Commission (2013: 22).

The Commission (2013: 22-23) is currently considering the five possible options to achieve the objectives in the coming years which will be disused in the Council to authorise negotiations for the mandate.

The first option would be to continue to operate under the current framework of bilateral policy dialogues and existing multilateral commitments. Since the Commission do not include investment protection it would be impossible to pursue EU protection in this area. Under this scenario the existing 25 agreements between China and EU would remain in place.

The second option would be mean for the Commission to propose negotiation guidelines to replace the existing BITs with one single agreement which cover protection and treatment of investments, but not market access. As a part of this option the EU would seek to include clause regarding the non.-lowering of labour and environmental standards, corporate social responsibility and provisions dealing with the questions of state-owned enterprises and performance requirements.

The third option would lead to combinations investment protection with market access with investment protection. This approach would apply for provisions on establishment for all sectors for national treatment and market access with horizontal and sectorial liberalization and facilitation of investment flows and improvement of treatment in a manner consistent with GATS in services.

The four options consist in integration the investment protection into Partnership and Cooperation Agreement PCA negotiations which should overcome the gap in investment, political and trade part into a new agreement. The fifth option is mentioned for completeness but will be not explored since there is no interest on the side of China to negotiate FTA with the EU in the near future. This fourth and mainly the firth scenario is not considered a realist at this moment.

The preferred Option for the EU would be to pursue an investment agreement seeking to combine both investment protection with market access elements (Option 3). China's stated preference has been a pure investment protection agreement to replace today's patchwork of agreements (Option 2). However, it has agreed at the 14th EU-China Summit that it would be willing to pursue a negotiation covering all issues of interest to either side, and has conceded in bilateral discussions that this entails not only protection but also market access. China maintains interests in possible EU concessions outside the area of the consolidation of the existing BITs.

5 CONCLUSIONS

The Czech Republic's trade and investment regime has been markedly influenced by the country's swift and successful transition and restructuring, which led towards its quick reintegration into global economy's institutional structures. The association treaty with the EU markedly influenced its trade orientation as well as legal and technical adjustment and also created platform for non-discriminatory opening of the financial account. Foreign direct investment regime was further directed by Czech Republic's OECD and WTO commitments.

As a result the Czech Republic soon introduced national and most-favoured-nation treatment to its trade as well as investment partners and benefited markedly from FDI inflows that only increased after official investment incentives were introduced in line with OECD restrictions. Additionally, also the Czech Republic have sought to attract FDI through proactive promotion activities and set up investment promotion agency to facilitate the investment process, including the provision of information on investment opportunities, matchmaking with suppliers, and pre- and after- investment services.

Apart from the special relationship of the eight CEE countries with the EU and its member States, efforts to create a favourable investment climate at the national level have been complemented with the conclusion of international agreements aimed at providing additional guarantees of liberalization and legal protection for foreign investments. CEE countries have concluded an increasing number of Bilateral Investment Treaties (BITs) and double taxation treaties (DTTs) with most of their important partner countries. The Czech Republic's DTT with China has been ratified in 2011 and it came into effect on 1 January 2012, replacing the previous DTT from 1987. BIT between the Czech Republic and the People's Republic of China, was signed by the Government of the Czech and Slovak Federal Republic on December 4th, 1991 in Beijing. It was replaced by current agreement signed on December 8, 2005. Even though the new agreement benefits from China's "going out" policy and include stronger investment protection provisions, it is missing important elements and namely does not include clause preventing attraction of FDI through a non-lowering of standards (e.g. environmental, labor laws) by the parties to the agreement, reference to the issue of corporate social responsibility, or comprehensive provisions regarding questions over state-owned enterprises, subsidies and performance requirements including forced technology transfer.

After Lisbon Treaty entered into force, the EU can markedly improve its investment regime within the framework of the Common Trade Policy. According ot the Commission it however seems unrealistic to expect any progress on the trade related parts of the PCA in the near future that could improve the EU-China investment relationship. Thus there are several possibilities of future development. The preferred Option for the EU would be to pursue an investment agreement seeking to combine both investment protection with market access elements, while China's stated preference has been a pure investment protection agreement to replace today's patchwork of agreements. However, it has agreed at the 14th EU-China Summit that it would be willing to pursue a negotiation covering all issues of interest to either side, and has conceded in bilateral discussions that this entails not only protection but also market access. China maintains interests in possible EU concessions outside the area of the consolidation of the existing BITs.

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HUNGARIAN – CHINESE RELATIONS: FOREIGN TRADE AND INVESTMENTS

Attila Fábián – Tamás Matura - Erzsébet Nedelka – Zoltán Pogátsa[1]

FDI investment cannot help mitigate the huge gap in foreign trade between the two countries. In the last years the Hungarian deficit in bilateral trade continuously increased. Hungary could not reach surplus even in agriculture. While a regional leader in incoming FDI, Hungary is still negligible from the point of view of China.

Key words: China, Hungary, bilateral trade, deficit, new commercial way
JEL: F10, F50

1 BILATERAL TRADE

The first trade and shipping contract with China, in which Hungary was also a partner, was signed by the Austro-Hungarian Monarchy in Beijing in 2nd of September in 1869. It was valid until 1917. Shortly after it came into force the Monarchy opened a General Consulate in Shanghai and in 1897 in Beijing too. The Monarchy's presence in China strengthened after it took part in the suppression of the riot in 1900 and it got concession area in Tianjin where a Consulate was also opened. Fortunately the relationship stayed bilateral and in 1902 China opened a representation. Four years later a delegation led by a Manchu prince visited the Monarchy; they were followed by other prince in 1910. As a result of the visits the two empires signed seven loan agreements.

During the First Word War, in 1917, diplomatic relations were interrupted for a long period of time, because China declared war on the Monarchy. They concluded a peace treaty only in 1926. The new period in the relationship started after the Second Word War, when China and Hungary became part of the same global political block. Shortly after its declaration, Hungary recognized the People's Republic of China and the two countries reestablished diplomatic relations, which helped foreign trade between the two economies. (Salát, 2009) In the period after the Cultural Revolution the two countries drifted away from each other and relationship got back to normal only after 1978, when reforms started in China, and its leaders interested in the Hungarian New Economic Mechanism.

In the first period (1949-1990) relationships were influenced by politics, while in the second period, after 1990 trade relations depended on economy. Despite Hungary's regime change, the relationship stayed stable and well-balanced, but it did not intensified. Trade relationships also improved, and nowadays China is the fifth most important import partner, while it ranks fifteenth as an export destination.

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China is the second largest trade partner for Hungary outside European Union after Russia and Hungary is the third main partner for China in the Central European region after Poland and the Czech Republic.

The first main meeting in the second period was in 1991 when Chinese Secretary of State visited Hungary, than in 1994 when President of Hungary Árpád Göncz traveled to China, which was crucial for the relations. After visits the bilateral meetings became regular in order to deepen relations. When the Chinese Secretary of State visited Hungary the two countries signed an investment protection treaty, in the next year a treaty against double taxation of incomes and a preventative agreement about tax evasion. Moreover, in that year China opened a Commercial Center in Budapest. As the relations deepened, Hungarian governments decided to set up a special government committee which deals specifically with Hungarian-Chinese relations.[2] (Német, 2013)

In 2003 the Hungarian Prime Minister and his delegation also visited China; it was a short but very successful trip. Peter Medgyessy had discussions with the Chinese Premier, with the State President and with the Chairman of the National People's Congress Standing Committee. The visit was also a special political event. This was not only a political trip but it was a gesture as well in order to rebuild the confidence. To further strengthen this confidence and relations in general, on 19th of April, 2004 there was the meeting of the Hungarian-Chinese Joint Economic Committee in Beijing. The discussion was not only about economical but also political issues. Beside of the meetings Embassies were also expanded and new representations were established.

In 2006 the 11th Chinese Five Year Plan came into force, which determined new fields of the cooperation. This plan was an opportunity for Hungary as well, because the Chinese leadership wished to improve technology in industry and in environmentally friendly agriculture. These aims opened new ways for Hungarian agriculture, in product level and also in technological level. In this year there were two considerable events as well: China Hi-Tech Expo and Style Hong Kong[3] were organized in Budapest.

In 2007 the 'Hungarian Season' event took place in China, which was not only an economic, but also a touristic and cultural event. Economical programs helped to provide knowledge about the Hungarian economy and investment environment. It gave also support to business meetings and indirectly provided an opportunity for Hungarian enterprises to become suppliers during the Olympic Games in Beijing. 2008 was not only success for some enterprises but also was success for political relationship. There were many meetings between the two parties.

2009 was the 60th anniversary of the diplomatic relations and in this year China was the guest of honor at Budapest's International Fair. In this year an agreement was concluded between the Chinese Stock Exchange and ITD Hungary, which supported Hungarian SMEs to create partnership with Chinese partners. (Szunomár, 2010)

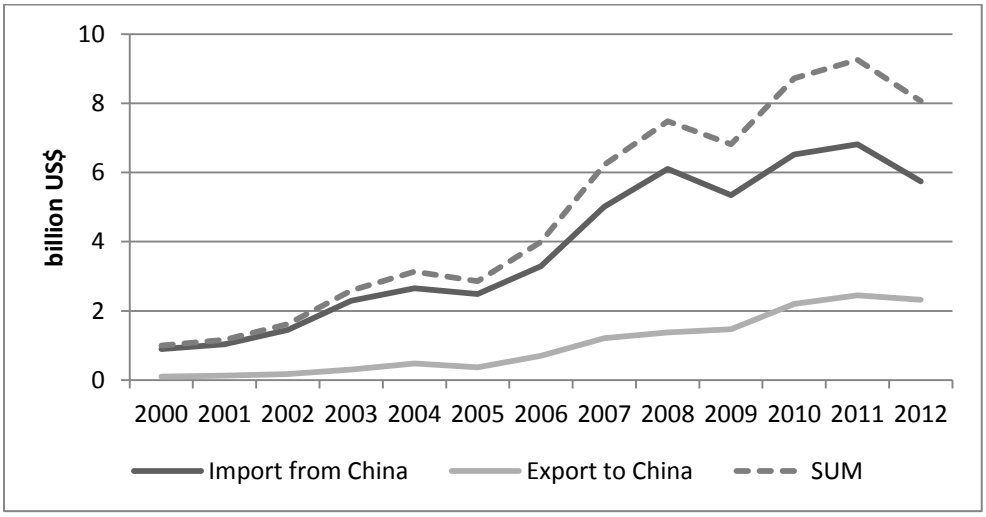
After the Hungarian elections of 2010, the policy of 'Opening to the East', which naturally includes China, became a priority for the new Hungarian government.

[2] Hungarian Consulate General, Shanghai, China.
[3] An exhibition of products that are essential for modern lifestyle.

Hungary has a trade relationship with almost every Chinese province and city, but the main partners are Beijing, Guangdong, Zhejiang, Guangxi, Jiangsu, Shanghai and Tianjin.

Similarly to other member states of the European Union, Hungarian foreign trade with China has increased in the last two decades. China's WTO membership has had a positive effect. Not only has trade volume increased for the whole EU and also in Hungary, but also the deficit, as it is shown in the first diagram. After 2003-2004 trade volume (more exactly import from China) increased quite fast. During a decade after the millennium, it increased tenfold. (Figure 1)

Figure 1: Foreign trade volume between China and Hungary



Source: MOFCOM of the PRC

Chinese exports have been significantly higher than imports, but Hungary could achieve significant increase in absolute terms, and in spite of the world economic crisis it was able to expand its exports to China in 2009, while world trade shrank during that year. The entire value of trade was 6.81 billion US$, from which Hungarian export was 1.47 billion US$. Compared to the previous year this was 6.5% increase, while Hungarian imports from China decreased by13%.[4] This year was the first year during the analyzed period when Hungarian deficit was smaller compared to the previous year. Similar developments took place in 2012 as well, Hungarian imports decreased by 11% in USD terms, however the value of exports increased by more than 7%. The reason for the high deficit is multinational companies and their division of labor; therefore on bilateral level countries cannot take measurements so easily for a better balance. (Matura, 2013)

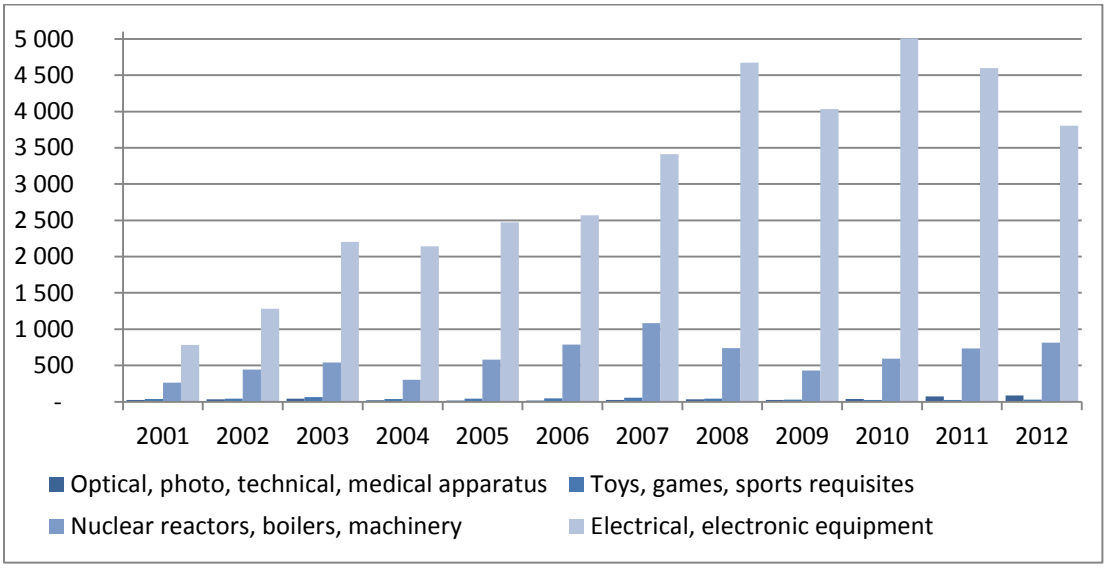
The structure of the bilateral trade is quite similar; the main products are motor vehicles and its parts, electronic and telecommunication equipment. But let us see import and export side in details. In 2013 China was the the fifth largest imports partner for Hungary after Germany, Russia, Austria and Slovakia. The number of export commodities exceeds 1900 items, and import commodities 650 items. The main import products are electrical and electronic equipments, which are followed by machineries, mobile phones, medical optical instruments. Organic chemicals, toys and games, footwear and

[4] It has to be noted that the available data sources on Chinese-Hungarian bilateral trade are ambiguous, there are significant differences between Chinese and Hungarian data from year to year.

furniture also feature, but these values are much less than the two main categories. In spite of widely held beliefs to the contrary, textiles and cloth apparels are only 0.6% of overall imports.

When the crisis erupted in 2009, all products categories saw a decrease. However, by 2010 there was some increase. After that, imports could not reach the value of the previous year[5], which did not depend on China but on Hungary.[6] The biggest decrease happened in not so important import products like products of animal origin; mineral fuels, oils, distillation products; explosives, pyrotechnics, matches, pyrophorics.

Figure 2: Main import commodities from China to Hungary (in million US$)



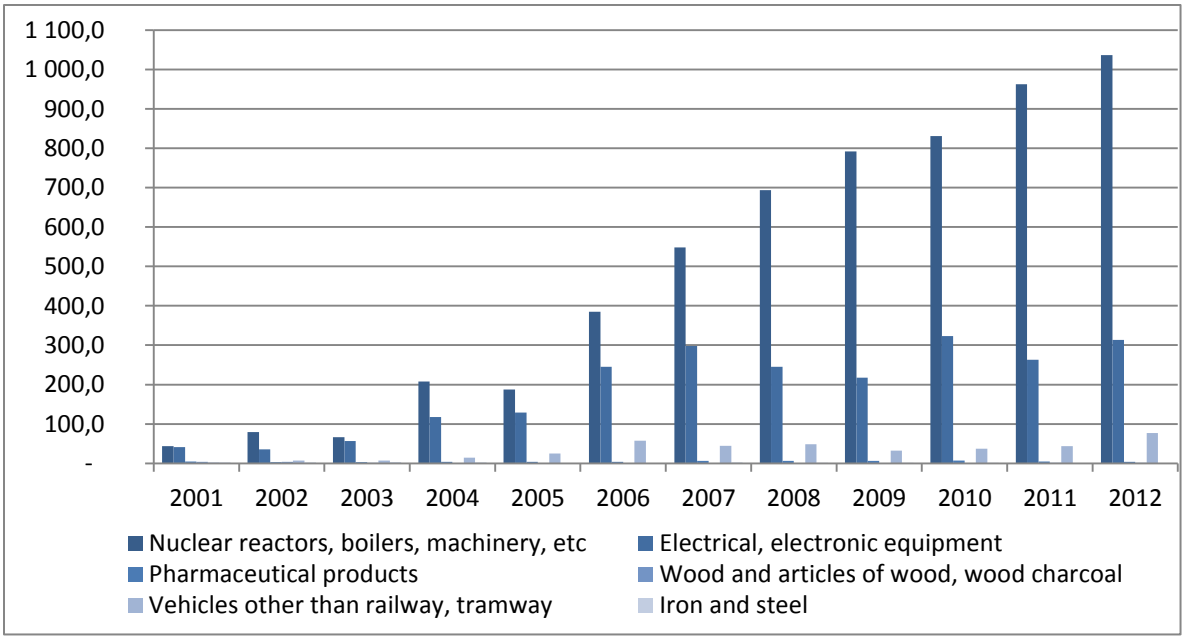
Source: OECD Statistics

If we take a look at the surrounding countries' imports, we can see similarities to the effect that imports mostly contain manufactured products, transport equipment and other machineries (of course at a different rate).

Hungarian exports to China, like imports, increased significantly in the last decade. Export consist mostly of machinery and electrical machinery products. These products are exported by the largest European multinational companies which have subsidiary companies in Hungary. They include AUDI, Siemens, IBM, Allison and Microsoft (earlier Nokia). (Thai Trade Center Budapest, 2012) The biggest increase can be seen in vehicles (except railway, tramway), whose value was 31 fold higher in 2012 compared to the millennium. (Figure 3) The reason is the increasing production of the above mentioned multinational car companies. The biggest drop since 2000 took place in not so high-volume products: in furniture, lighting, signs, prefabricated buildings.

[5] 2008/2009 – 81%; 2009/2010 – 125%; 2010/2011 – 98%; 2011/2012 – 89%. (OECD Statistics)
[6] Whole Hungarian import decreased in the last five years and the country had and still have surplus in foreign trade.

Figure 3: Main exports commodities from Hungary to China (in million US$)



Source: OECD Statistics

There are many factors that can influence the future trade volume and value: the world economy, world political situations, the domestic economy and domestic politics. But if we suppose that everything will be stable in the next years, then Hungarian import from China will reach 10 billion US$ in 2019 while Hungarian export to China will be 5 billion US$. Hungarian export will increase faster in percentages, but in value the gap between export and import will increase in favor of China.

On the import side the ratio of electrical and electronic equipments will increase faster than machineries. The value of machineries will achieve 1 billion US$, and the value of electrical equipment will exceed 8 billion US$ by 2019. The value of optical, photo, technical and medical apparatus will also increase: during the next 5 years it will double. Some import products will almost disappear: toys, games and footwear, gaiters. Toys and games have been the third main import commodities, but their value is decreasing from year to year as well as footwear and gaiters, as it can be seen in the first Annex.

On the export side the two main products are also machineries and electronic equipment. The value of the first one will exceed 2 billion US$ already by 2018, and the second one will exceed half a billion US$ by 2017. Vehicles are likely to remain the third most important export commodity, but their ratio in overall export will slightly decrease thanks to the developing car industry in China. More and more multinational car companies have subsidiary companies in China, mostly because of the lower wages, and thus vehicles are manufactured in the target country. Main export products include pharmaceutical products, whose ratio significantly increased in the last decade, except in the years of the crisis. Their value will be above 70 million US$ in the upcoming two years. Wood and articles of wood will show hectic changes in the next years, because their value depends on volatile demand. If we can believe in trends, two commodities will almost disappear from Hungarian exports: iron and steel, as demand for them continuously decreases. The data are summarized in the second Annex.

There is no lack of political will. In the last years numerous agreements have been signed, but the Hungarian economy is too small for China. The demand is large but supply is not. Hungarian enterprises, producers have not got enough capacity to fulfil it. China favours Hungary as a gateway to Europe through foreign direct investment, since if at least 50% of the products are produced in the EU, it becomes a European ware. But FDI investment cannot alleviate the huge gap in foreign trade between the two countries.

More optimistic points of view also exist. András Inotai and his colleagues can see opportunities in partnership in agriculture, where Hungary still has a deficit. China is the world's largest producer of agricultural products, but it has also has serious production and supply problems. If Hungary could strengthen its exports and exports structure, new co-operations could be carried into execution mostly in the field of technologies like drought resistant crops, production practices, food safety, grape processing and wine production. Further opportunities exist in 'knowledge-export': research and development. Inotai and his co-authors see possibilities in 'knowledge sale' because the first priority for China is investment into human factor on which modernization depends. (Inotai-Juhász, 2009)

Matura (Matura, 2013) warns that according to his estimates some 91.24% of Hungarian exports to China are made up of the exports of multinational enterprises active in Hungary. Quite a lot of that might actually be intrafirm trade. As far as imports are concerned, the popular image of Chinese imports to Hungary consists of clothes and shoes. According to Matura, in fact they make up no more than 0.7%. Some 85.4% are machines and vehicles. A very significant part of imports might also be intrafirm trade, components that are re-exported after assembly in Hungary, especially in the electronics sectors.

2 NEW COMMERCIAL CHANEL FROM CHINA TO MIDDLE-EUROPE

The transport connection between the northern Adriatic ports and Central-Europe through the Western Balkans is one of the major importance for the regions in Central and South East Europe. Besides the efforts set for developing the Trans-European Networks, actions have to be defined to provide efficient connections between and to the main transport corridors for example the Chinese goods. These connections are one of the major importances for the regions which are not directly linked to these corridors. The new planed corridor will provide an efficient railway connection on existing tracks between Central Europe and the North Adriatic Ports connecting Rail Network Europe (RNE) Corridors 7, 8, 10 and 11. The improvement of international accessibility is strongly connected to the increasing inner-regional connectivity, but it is also important for new hinterland connection with the Northern Adriatic ports Koper and the only Adriatic deepwater, Harbour Rijeka. The establishment of the upgraded TEN-Axes 17, 18, 22, 23, 25 (as well as the planned possible enlargement of Russian broad gauge railway) find their intersection in the Vienna/Bratislava region and build a transnational hub in this region. The planed railway corridor is an interconnection among this transnational hub, Balkan countries, the Northern Adriatic ports of Rijeka and Koper as well as the corridors to Eastern Germany. It will focus on upgrading of already existing rail infrastructure (with moderate investment costs) and the connection to all other means of transport.

Is it not the only a project dealing with the development of the transport system, but also with cooperation between existing projects and initiatives dealing with similar topics and highly perspectives commercial way for the Chinese goods.

2. 1 Main objective

Implementation of measures for the **improvement of accessibility and logistic workflow** as a basis for regional development in South East Europe:

a) Better accessibility as basis for **regional economic growth** in South East Europe
b) Develop **environmental friendly freight transport** (green corridors)
c) Improve (economic) **cooperation** between Central and South East European regions
d) Access **alternative financing options** for the necessary improvement of transport infrastructure
e) Create a **common interest** between and within the partner regions
f) New possibility for the **chines investment capital**

3 INVESTMENS

Due to large scale Chinese export profits and savings, enormous amounts have been flowing into the Chinese banking system. Together with state regulation, these have led to very low (often negative real) interest rates. Naturally, this has caused an excess supply of capital and a strong propensity to lend (the negative effects of which are already felt across the country). This capital no longer restricts itself to China, but is also seeking opportunities abroad.

As it is well known, the Chinese government has been seeking a reorientation of its strategy on foreign financial markets in recent years. There has been a shift away from purchasing (mainly Western) government debt, replaced by investment into the real economy. It is little known that since 2011 the PR of China essentially no longer finances United states borrowing, which had been a central element of the global economy earlier. At the same time investments by Chinese firms and state investment funds are estimated to have reached some USD 90 billion in 2012. The time is nearing when China will no longer be a net recipient of investment, but a net investor. It is hard to follow the precise global distribution of Chinese ODI, only estimates are available. The picture is further complicated by the fact that some 75 per cent of Chinese overseas investment is channelled through tax havens such as the Cayman Islands, the British Virgin Islands and Hong Kong[7].

As far as Chinese investment in Central and Eastern Europe is concerned, the largest stock of it in the region, approximately USD2.5 billion, is to be found in Hungary. However, this stock is extremely concentrated. About three quarters of it are connected to a single deal, the Chinese acquisition of the Borsodchem chemical corporation. (Matura, 2012) In recent years there have been numerous proposals for investments, which have not materialised. Some investments are frozen (citric acid and solar panel plans), others have not even taken off (Debrecen industrial park, cargo airport).

There were proposals for Chinese investments into the renewal of major terminal railway stations in Budapest, as well as a railway link between the Western Railway Station and Budapest Liszt Ferenc

[7] 2010 Statistical Bulletin of China's Outward Foreign Direct Investment. Beijing: Ministry of Commerce of the People's Republic of China, 2011. Electronic version: http://hzs.mofcom.gov.cn/accessory/201109/1316069658609.pdf.

International Airport. These have also not materialised. Negotiations related to Chinese acquisition of the bankrupt Hungarian national air carrier, Malév, have also ended without success.

There has also been media speculation about the Chinese purchasing of Hungarian government bonds. Little can be known about how much this has materialised, not least because – as we have already mentioned - the implementation of Chinese overseas investment comprises a state secret. At the same time the fact that China has made an offer of no more than one hundred billion euros for the entire European Union, we can conclude that the sum aimed at Hungary cannot be overly significant. According to analysts, Hungary's external borrowing requirement was about two thousand billion forints, which was about ten billion dollars. This was significantly higher than the financial aid China was read to provide the EU. (Matura, 2012)

4 RESOLUTION OF POTENTIAL INVESTMENT DISPUTES

Due to the low value and the high concentration of investments, the resolution of investment disputes has not been a major issue so far. More important are the factors that restrict the increase in investments.

A major obstacle is the absence of direct flight connections between the two countries, as well as the difficulties related to issuance of visas. Hungary still has a relatively dispersed network of state organs responsible for receiving Chinese investment.

There have been successes in cultural relations. Three Confucius Institutes have opened in Hungary, in Budapest, Szeged and Miskolc. The Hungarian Cultural Centre was opened in Beijing in 2013, but an adequate budget for the centre is still not guaranteed.

Educational and research cooperation is rather one sided, as the Hungarian higher education and research sector, which suffers from continuous underfinancing, is unable to respond in most cases to Chinese initiatives.

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Annex I. Yearly value of the main Chinese export commodities and the result of the trend calculation (2013-2021) (US$)

	84: Nuclear reactors, boilers, machinery, etc	***85: Electrical, electronic equipment***	***90: Optical, photo, technical, medical, etc apparatus***	***95: Toys, games, sports requisites***	***64: Footwear, gaiters and the like, parts thereof***
2001	263 955 000	783 137 000	25 951 000	35 946 000	18 620 000
2002	441 508 000	1 279 562 000	33 409 000	43 932 000	22 908 000
2003	541 731 000	2 201 062 000	44 042 000	63 363 000	30 605 000
2004	303 971 000	2 140 081 000	19 653 000	36 589 000	13 786 000
2005	580 291 000	2 471 711 000	14 568 000	40 165 000	13 767 000
2006	789 158 000	2 567 077 000	15 674 000	48 306 000	9 679 000
2007	1 083 351 000	3 410 276 000	24 065 000	55 808 000	8 218 000
2008	738 708 000	4 672 944 000	34 014 000	40 393 000	10 206 000
2009	428 177 000	4 034 748 000	25 576 000	28 705 000	7 952 000
2010	594 551 000	5 006 263 000	39 017 000	22 996 000	5 036 000
2011	733 919 000	4 597 352 000	70 717 000	26 104 000	7 899 000
2012	813 424 000	3 804 242 000	86 051 000	26 684 000	12 719 000
2013	883 068 550	5 693 875 169	63 807 247	23 974 096	2 428 019
2014	895 841 793	6 073 640 881	71 518 806	17 548 929	-
2015	926 626 420	6 464 912 385	82 033 016	11 419 817	-
2016	970 842 934	6 987 574 985	97 196 392	9 400 613	-
2017	950 070 886	7 465 225 115	109 722 883	2 458 640	-
2018	957 773 429	7 951 643 767	121 529 925	-	-
2019	1 002 744 764	8 381 576 756	133 021 003	-	-
2020	1 131 369 730	8 906 136 899	145 393 838	-	-
2021	1 223 272 715	9 690 225 923	159 214 975	-	-

Annex II. Yearly value of the main Hungarian export commodities and the result of the trend calculation (2013-2021) (US$)

	Nuclear reactors, boilers, machinery, etc	***Electrical, electronic equipment***	***Pharmaceutical products***	***Wood and articles of wood, wood charcoal***	***Vehicles other than railway, tramway***	***Iron and steel***
2001	43 829 000	41 044 000	4 935 000	3 464 000	2 447 000	2 237 000
2002	78 989 000	35 397 000	3 003 000	4 063 000	7 072 000	2 216 000
2003	66 236 000	56 939 000	3 108 000	958 000	6 822 000	2 870 000
2004	208 089 000	117 204 000	3 708 000	522 000	14 552 000	2 257 000
2005	187 515 000	129 115 000	4 026 000	420 000	24 929 000	143 000
2006	385 100 000	245 209 000	3 423 000	453 000	57 304 000	317 000
2007	548 127 000	297 838 000	6 029 000	354 000	44 529 000	1 946 000
2008	693 816 000	245 370 000	6 098 000	294 000	48 243 000	1 696 000
2009	792 247 000	217 187 000	6 427 000	390 000	31 787 000	1 231 000
2010	831 259 000	322 969 000	7 202 000	630 000	37 150 000	969 000
2011	962 528 000	263 123 000	4 591 000	1 552 000	43 240 000	879 000
2012	1 036 894 000	313 410 000	3 812 000	1 014 000	77 076 000	616 000
	Nuclear reactors, boilers, machinery, etc	***Electrical, electronic equipment***	***Pharmaceutical products***	***Wood and articles of wood, wood charcoal***	***Vehicles other than railway, tramway***	***Iron and steel***
2013	1 242 340 945	395 183 957	6 087 061	994 139	72 319 171	346 344
2014	1 409 514 215	432 850 835	6 665 286	308 392	79 112 653	139 929
2015	1 585 038 995	464 493 760	6 900 433	858 874	85 958 581	-
2016	1 752 755 333	492 604 580	7 057 975	1 011 171	91 507 039	-
2017	1 939 708 140	525 314 411	7 229 731	1 112 985	96 958 926	-
2018	2 109 855 709	553 564 733	7 371 557	1 200 726	103 074 557	-
2019	2 302 258 137	601 441 690	7 242 766	1 293 243	116 025 171	-
2020	2 517 727 388	664 502 505	7 530 242	1 355 440	128 099 671	-
2021	2 758 833 072	721 571 254	7 878 714	1 376 047	141 870 247	-

Source: Own calculation between 2013-2021 based on OECD Statistics' data

TRADE AND INVESTMENT WITH CHINA - A POLISH PERSPECTIVE

Tomasz Jurczyk[1] - Dominik Mierzejewski[2]

While having long history of bilateral relations Poland-China economic relations only recently have intensified. After the state visit of president Bronisław Komorowski to China in 2011 Polish interest in Chinese market as well as Chinese FDI has grown. This has the potential to lower significant trade deficit in trade and neglible number of investments, although results are yet to be seen.

Key words: Poland-China trade, Poland-China investment
JEL: F59

1 INTRODUCTION

The timeline of the Poland-China relationship has its long history. In 1949 Poland followed the Soviet Union's decision that recognized the People's Republic of China (PRC) as a legal entity in international relations. Next, due to the ideological conflict between Moscow and Beijing, Central Europe supported the Soviet Union. Along with the detente process, tensions softened and in the 1980s Poland started to strengthen its economic ties with the PRC. In the 1990s on the other hand, the bilateral relationship began to cool. An important signal was made by President Aleksander Kwaśniewski who visited China in 1997 and Hu Jintao who paid an official visit in 2004. The most important step was made in 2011 when Polish President Bronislaw Komorowski and his Chinese counterpart Hu Jintao signed a strategic partnership. In April 2012 Prime Minister Wen Jiabao declared his 12 steps toward Central and Eastern European Countries; however, this was shortened in Bucharest during a visit by Li Keqiang in November 2013 to 6 steps. Nevertheless, Poland hopes to attract Chinese investors and reduce its trade imbalance.

2 TRADE OVERALL PERSPECTIVE

One need to put Polish-Chinese trade relations, especially Polish exports to China in broader perspective. First of all, after 2000 Poland has seen a rapid and significant growth of exports, both in absolute terms and as a share of GDP.In absolute terms it's value has grown from 31,6 billion USD in 2000 to 184 billion USD in 2012, share of GDP rose from 27% in 2000, and 37% in 2004 to 46% in 2012[3]. Secondly, Poland's trade partners started to become more diversified, with growing share of trade with non-European countries. In Asia,China being the largest trade partner in the region, starting in 2007 it became the third source of

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[3]According to the World Bank, Polish National Statistics put in at a slightly lower share.

Polish imports with a 7.1% share (in 2009 China for one year became Poland's second source of imports with 9.3% share).

In 2012 bilateral trade reached 19,4 billion USD, with imports from China being about ten times larger than Polish exports. Over 50% of imports consist of components used by manufacturers in Poland. When it comes to sections, 54% belong to electro machinery, 11,7% to textiles, and 7,1% belong to miscellaneous articles. As for products, biggest portion belong to electronic and computer appliances, printed circuits, toys. In recent years Poland exports more processed goods (about 30%), and agriculture products showing fastest rise. Base metals (42%), machines (18,7%), and transport equipment (8,9%) are sections with the highest share. Top ten commodities were: copper, chemicals, airplanes, rubber, fire service cars, crude and concentrate lead, frozen pork meat, furniture, pipes and computer parts (see table no 1).

Table 1: Structure of Poland's trade with China in 2012

	Imports		***Exports***	
CN Section	***in thous. USD***	***% of total***	***in thous. USD***	***% of total***
Live animals; animal products	197 349	1,1%	73 589	4,2%
Vegetable products	105 533	0,6%	3 677	0,2%
Prepared foodstuffs	84 795	0,5%	7 422	0,4%
Mineral products	58 315	0,3%	32 083	1,8%
Products of the chemical industry	505 581	2,9%	151 528	8,7%
Plastics and rubber and articles of thereof	496 331	2,8%	109 442	6,3%
Raw hides and skins, articles of thereof	241 126	1,4%	3 166	0,2%
Wood and articles of wood	81 056	0,5%	6 469	0,4%
Pulp of wood, paper, paperboard and articles of thereof	91 032	0,5%	6 182	0,4%
Textiles and textile articles	2 058 970	11,7%	8 064	0,5%
Footwear, headgear, etc.	566 335	3,2%	606	0,0%
Articles of stone, ceramic products, glass	314 215	1,8%	23 712	1,4%
Pearls, precious stones and metals, articles of thereof	75 355	0,4%	618	0,0%
Base metals and articles of thereof	1 157 886	6,6%	734 112	42,0%
Machinery and mechanical appliances, electrical and electrotechnical equipment	9 492 781	54%	325 969	18,7%

Transport equipment	368 372	2,1%	155 884	8,9%
Optical, photographic, measuring, checking instruments, etc.	464 624	2,6%	26 378	1,5%
Miscellaneous manufactured articles	1 250 595	7,1%	77 822	4,5%
TOTAL	**17 620 453**	**100%**	**1 747 335**	**100,0%**

Source: Yearbook of Foreign Trade Statistics of Poland 2013

National comparative advantage

Ranking of revealed comparative advantage for Polish exports to China shows that from almost 60 Harmonized System (HS) classified product groups that Poland has relative advantage, for 12 groups that are listed below the advantage is particularly strong. For services, only 7 groups have advantage (Wysokinska 2010, 38-41 and 49).

Commodities:

- Copper and articles thereof
- Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof
- Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included
- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
- Plastics and articles thereof
- Rubber and articles thereof
- Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings
- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, and parts and accessories of such articles
- Ores, slag and ash
- Organic chemicals
- Iron and steel
- Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard

Services:

- Travel
- Other economic services
- Other economic services, special and technical
- Sea transport services; cargo and others
- Other transport (other than sea and air); cargo
- Law, accounting, management and public relations consulting services

Future trends in Sino-Polish trade

In recent years Polish government is actively promoting internationalization of Polish economy.There are currently about 60 thousand exporters and the Ministry of Economy aims to double this number by 2020, and reach 60% export share in GDP as well (Ministry of Foreign Affairs 2014). Economic diplomacy has been upgraded to one of the most important elements of Polish foreign policy.Seminars, congresses and trade missions are organized regularly.Within this context China occupies a leading place, having a dedicated "Go China" program that is collaboratively run by several institutions and is meant to help Polish companies establish their presence on the Chinese market (the only other program of its kind is devoted to Africa). EU funded food export promotion plans for milk, apples and other product supplement it.

In recent years agriculture product start to play increasingly important role in Polish overall exports, with China not being an exception. This is a relatively new phenomenon as Chinese market is opened for Polish dairy product companies since 2007, and only in January 2011 first 5 companies where allowed to export poultry, with first 6 companies obtaining pork export permits in April 2012. In 2012 Poland's meat export to China reached 31 million USD (Embassy of Poland in Beijing 2013), but in 2013 the figure rose to 141 million.

Transportation services and logistics should also bring new opportunities. Euro Asiatic land bridge connections are increasingly developing. Thanks to its location Poland can increase its service export to China. All existing China-Europe train connection pass through Poland.One terminating in Poland, Chengdu-Lodz, having a 40% market share in 2013. What needs to be stressed is that Polish logistics companies take advantage of it, i.e. above mentioned route is operated by a Polish-Chinese joint venture of local company from Lodz (Hatrans). Gdansk port facilities were also upgraded, and there are plans for building a logistics center there dedicated to trade with China.

Investment overall perspective

The major issue within both sides of the relationship is to improve the quantity of mutual investment. Poland started relatively late offensive campaigns in China when comparing to other Central European countries. The government acknowledged the importance of China in the global economy and paid more attention to an ever growing China. In 2007 Suzhou Victory Tech launched a Polish subsidiary in Lodz, Victory Technology Poland, in order to enter the European market. In 2008, a subsidiary of Huawei was established in Warsaw as a management centre for Central and Eastern Europe, Southern Europe and the Nordic countries. According to the Polish Investment and Foreign Investment Agency (Polska Agencja Informacji i Inwestycji Zagranicznych S.A. –PAIiIZ), in 2011 the Chinese invested mostly in machinery and electronics within the borders of Poland. In 2012 Chinese entrepreneurs displayed a greater interest by investing in manufacturing, aviation, energy, chemicals and pharmaceuticals. At the beginning of 2012, Liugong Group acquired the Engineering Machinery Unit of HSW, a Polish company that specializes in the production of a wide range of heavy utility vehices. The process of privatizing the civil equipment arm of HSW began in January 2010. Finally, in 2013 Liugong purchased HSW for 300 million PLN (less 100 million USD). In November of the same year, both parties signed an agreement of intent. Bank of China (whose headquarters are located in Luxemburg) established a Warsaw branch in June 2012 and the Commercial Bank of China set up its branch in 2013.

Compared to Germany, where in 2012 alone as many as 132 Chinese companies opened new branches, Poland is still far away from having such a big group of Chinese Greenfield and Brownfield investors. According to PAIiIZ, in 2012 the amount of Chinese companies that opened offices in Poland was 6. The problem is that even though the first two companies, Yun Cheng and Dong Yun, have different names, they are actually the same company. First they rented industrial space and next they moved to the Lodz Special Economic Zone. Min Hoong Development invested in hotels and the restaurant sector in Sopot and TPV Display Polska invested in manufacturing electronic machinery (see table no 2 and 3).

Table 2: Chinese companies in Poland (2011)

Investor name	***Activities (PKD)***	***Activities (class)***	***Corporation***
China Shan Xi Yun Cheng Group Plant Making Ltd.	Manufacture of pulp and paper, publishing and printing	Publishing, printing and reproduction of recorded media	YUNCHENG (POLAND) Sp. z o.o. - Łódź
Dong Yun	Manufacture of metals and metal products	Forging, pressing, stamping and roll forming of metal; powder metallurgy	Dong Yun (Poland) sp. z o. o. - Łód?
Min Hoong Development Co.	Hotels and restaurants	Hotels	Min Hoong Development Co. Pte. Ltd. Poland Sp. z o. o. - Sopot
Sino Frontier Properties Ltd.	Construction	Building of complete constructions or parts thereof; civil engineering.	GD Poland Investment Sp. z o. o. - WólkaKosowska
Suzhou Victory Precision Manufacture Co	Manufacture of rubber and plastics	Manufacture of plastic products	Victory Technology Polska sp. z o. o. - Gorzów Wielkopolski
TPV Technology Ltd	Manufacture of electrical machinery and apparatus	Manufacture of television and radio receivers, sound or video recording or reproducing apparatus and associated goods	TPV Displays Polska sp. z o.o. - Gorzów Wielkopolski

Source: List of Major Foreign Investors in Poland 2011, PAIiIZ

Table 3: Chinese companies in Poland (2012)

Investor name	***Activities (PKD)***	***Activities (class)***	***Corporation***
Haoneng Packaging	Manufacture of pulp and paper, publishing and printing;	Printing and service activities related to printing;	IllochromaHaoneng Poland Sp. z o.o. - Skawina
LiuGong Machinery	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	Wholesale of machinery, equipment and supplies	Dressta Sp. z o.o. - StalowaWola; LiuGong Machinery (Poland) Sp. z o.o. - StalowaWola

Shanxi Yuncheng Plate-making Group	Manufacture of pulp and paper; publishing and printing	Publishing, printing and reproduction of recorded media	YUNCHENG (POLAND) Sp. z o.o. - Łódź
Sino Frontier Properties Ltd.	Construction	Building of complete constructions or parts thereof; civil engineering	GD Poland Investment Sp. z o. o. - WólkaKosowska
Suzhou Victory Precision Manufacture Co	Manufacture of rubber and plastics	Manufacture of plastic products	Victory Technology Polska sp. z o. o. - Gorzów Wielkopolski
TPV Technology Ltd	Manufacture of electrical machinery and apparatus	Manufacture of television and radio receivers, sound or video recording or reproducing apparatus and associated goods	TPV Displays Polska sp. z o.o. - Gorzów Wielkopolski

Source: List of Major Foreign Investors in Poland 2012, PAIiIZ

With its 3.2 trillion USD foreign exchange reserves, China is mainly interested in the financial, mining, power and infrastructure sectors. Contrary to this, Poland would rather see Chinese buyers entering its IT and Telecommunication sectors, as well as food processing and chemical production. According to the Ministry of Economy, the Chinese invested around 150 million EURO in Poland, though the Chinese assessed the amount invested to be 120 million EURO. Moreover, in Poland 509 companies with Chinese capital were registered, however, the majority of them employed less than 9 personnel (in Chinese nomenclature these companies should be defined as 个体户*getihu*). Comparing to the capacity that China has, the overall Chinese investment in Poland is less than 1% of global investment, though in the upcoming years Poland should see an increase in investments.

Although Poland experienced massive numbers of Chinese delegations and Chinese construction firms are interested in bidding for tenders regarding power units launched by Polish utility companies in the energy sector like Tauron, Enea and Energa, we still have a long way ahead. Moreover, cooperation by both sides is overshadowed by a dispute that plays a negative role in the relationship between Poland and China.The Chinese construction company China Overseas Engineering Group(COVEC) was picked by Poland to build part of a motorway ahead of the Euro 2012 soccer tournament. In June, just a few month a later, the Polish government withdrew the contract when it became clear it would miss the deadline and failed to pay its Polish partners. The Polish side blamed the staff of COVEC of having no idea what Central and Eastern Europe is about. The Ministry of Infrastructure realized that this investment was not a strategic one for COVEC as it was just one of their 300 projects.

An additional fact that is worth mentioning is that the Chinese packaging machinery manufacturer Peixin Co. has launched its IPO procedure on the Warsaw Stock Exchange. The company hopes to raise up to 100 million PLN by issuing 4 million shares. Peixin plans to sell 20 percent of the offered shares to individual investors and 80 percent to institutional ones. Its Warsaw Stock Exchange debut was scheduled for October 10, 2013. As mentioned by the

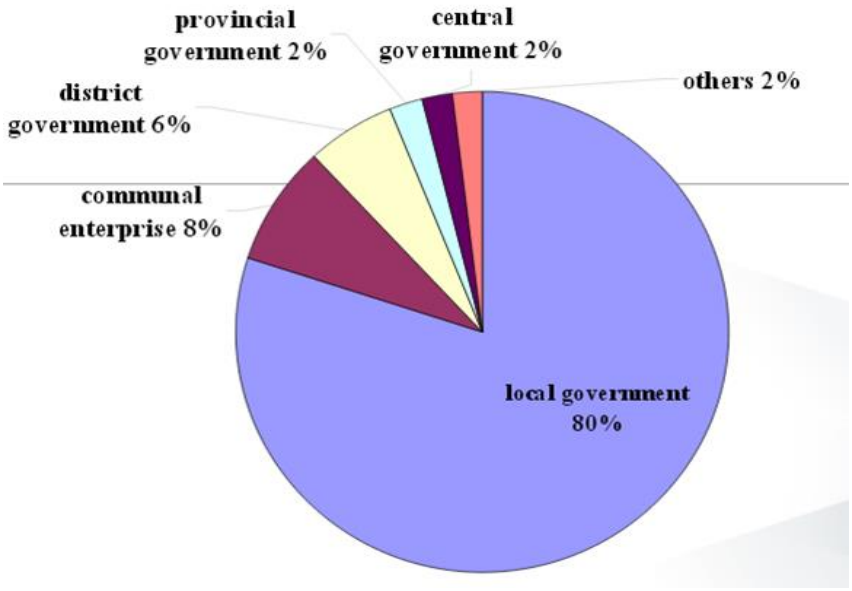
company president XieQiulin "*We're not big enough to be traded in the USA or Germany, but we're a perfect fit for the Warsaw Stock Exchange, which is a stable and growing bourse.*" What is interesting is that Peixin did not mention any further plans for investing in Poland. Peixin hopes to expand production with 50 million RMB capital of 75%.

Poland's expectations

From the Polish perspective, the major challenge is to attract Chinese "big capital" from national champions or financial institutions, such as the China Development Bank, China Investment Corporation or China's National Development and Reform Commission. During the December 2011 visit by President Komorowski, the Polish agency signed deals with the China Development Bank, and with the National Development and Reform Commission. As mentioned by Sławomir Majman: "*The deal with NDRC is especially important, because it defines benchmarks for annual investments by 2015.*" So Poland has a plan, however, the government failed to know the details.

In fact Chinese investments are far behind expectations. Both economies are not complementary and development is mainly based on export led growth. The Polish government hoped to create new job places, while the Chinese side is afraid of losing them. The Chinese side prefers to inherit or buy shares rather than to investing Greenfield projects. In this context, the Chinese investment within the next budget perspective and looking for Chinese companies to take part in the Public Private Partnership (PPP) sounds quite challengeable. The majority of PPP (80% of PPP) projects are managed by the local government (see diagram no 1). The most important are infrastructure investment (roads, railway and aviation) and teleinformatics. Between 2020-2030 more 95 EURO billions will be invested. The Ministry of Economy has created better facilities for Chinese companies to understand procedures regarding cooperation via a special webpage on PPP in Chinese (see picture no 1). Moreover, the regional forum within the strategic partnership of the Poland-China Regional Forum in Gdansk (2012) and this year in Guangzhou should facilitate this kind of cooperation. It is worth mentioning that Chinese provinces like Guangdong, Jiangsu or Zhejiang doubled Polish global GDP. In this case Poland should be compared with the central province of China: Henan.

Diagram 1: PPP projects in Poland



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CHINA-V4 TRADE RELATIONS – A SLOVAK PERSPECTIVE

Martin Gračay[1]

The aim of this paper is to analyze historical development of Slovak-Chinese bilateral trade, to identify each partner´s comparative advantage and to predict possible future trends in mutual trade. We show that bilateral trade between China and Slovakia has undergone radical changes in the last two decades: its value has increased almost 100-fold and its structure has changed completely. While Slovakia´s exports to China have been growing faster, China´s exports to Slovakia have had higher dynamics of change. We estimate that mutual trade of the two countries will rise 5 to 45-fold by 2030.

Key words: foreign trade, commodity structure, comparative advantage, RCA index, concentration
JEL: F14

1 INTRODUCTION

Economists have long known that there is a strong negative correlation between the size of a country and its dependence on foreign trade. Small countries are unable to provide goods to fulfill all needs of the domestic economic subjects and hence they tend to have high level of trade openness. Slovakia is no exception from this rule. With an area of less than 50,000 square kilometers, relatively low abundance in natural resources and geographical location in the middle of Europe, it is no wonder that the country´s trade accounts for more than 186 % of the GDP (UNCTAD, 2013). It belongs to top ten countries by level of trade openness in the world (table 1).

In the recent decade, Slovakia has become a full member of the European Union and its trade patterns have changed accordingly. While Germany and the Czech Republic are still Slovakia´s most important export partners, their share has decreased in favor of other EU members such as Poland, Hungary or France. Similar trend can be observed in Slovakia´s imports. However, the most striking is the increase of trade with non-EU countries, led by China. Chinese exports to Slovakia have increased fifty-fold since 2000. Although this is an impressive number, it is easily dwarfed by a hundred-fold increase in Slovakia´s exports to China. The dynamics of Slovakia´s bilateral trade with China is enormous and it provides clear evidence that China has become one of the most important partners for central European countries.

The aim of this paper is to analyze historical development of Slovak-Chinese bilateral trade, to identify each partner´s comparative advantage and predict possible future trends in mutual trade.

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Table 1: Economies with the highest trade openness in 2012

Rank	*Country / area*	*Trade openness*
1.	Hong Kong SAR	435 %
2.	Singapore	388 %
3.	Luxembourg	265 %
4.	Seychelles	239 %
5.	Maldives	221 %
6.	Malta	204 %
7.	Estonia	195 %
8.	Ireland	192 %
9.	Slovakia	186 %
10.	United Arab Emirates	184 %

Source: Own calculations based on UNCTAD (2013).

The paper consists of six sections. This introduction is followed by a thorough historical overview of trade flows between China and Slovakia, where we discuss changes in mutual trade volumes between 1995 and 2012. Section 3 analyzes development of commodity structure of trade. Section 4 uses indices of revealed comparative advantage to ascertain industries where Slovakia and China possess comparative advantages and analyze whether their mutual trade follows the expected pattern. Section 5 uses simple gravity model of trade to see how predictions match actual trade volume between the countries and to identify possible future trends. Section 6 offers conclusions and some final comments.

2 HISTORICAL OVERVIEW OF TRADE FLOWS BETWEEN CHINA AND SLOVAKIA

The 1990s in Slovakia was a decade of changes. After the fall of the socialist regime in 1989 and becoming independent nation in 1993, the country underwent a series of political and economic reforms. Slovakia quickly deregulated and liberalized its economy, which left domestic firms vulnerable to foreign competition. The imports began to pour in especially from countries of the Western Europe. However, China soon followed suit and became one of the most important import markets.

As shown by Szikorová (2012) "the neoliberal trade rules, which the Slovak government adhered to in the 1990s, were beneficial to the Slovak economic relations with Europe, but in relation to China this policy only opened the way for cheap imports without adequate reciprocal market access." Chinese products established themselves in the Slovak market relatively easily. Conversely, Slovak companies were unable to successfully penetrate the Chinese market. Pleschová (2007) sees the main reasons in large protective measures enforced in China, such as protectionist policies, bureaucracy, violations of property rights, problems with guanxi[2], unclear legislation and a lack of transparency in taxation regulations. Table 2 shows that while Chinese exports to Slovakia rose steadily in the 1990s, Slovak exports to China declined.

[2] Guanxi is a Chinese term for business based on good relations. Good personal relations between partners are seen as an important prerequisite for making business in China.

Table 2: Slovak-Chinese bilateral trade 1995-2012 (mil. USD)

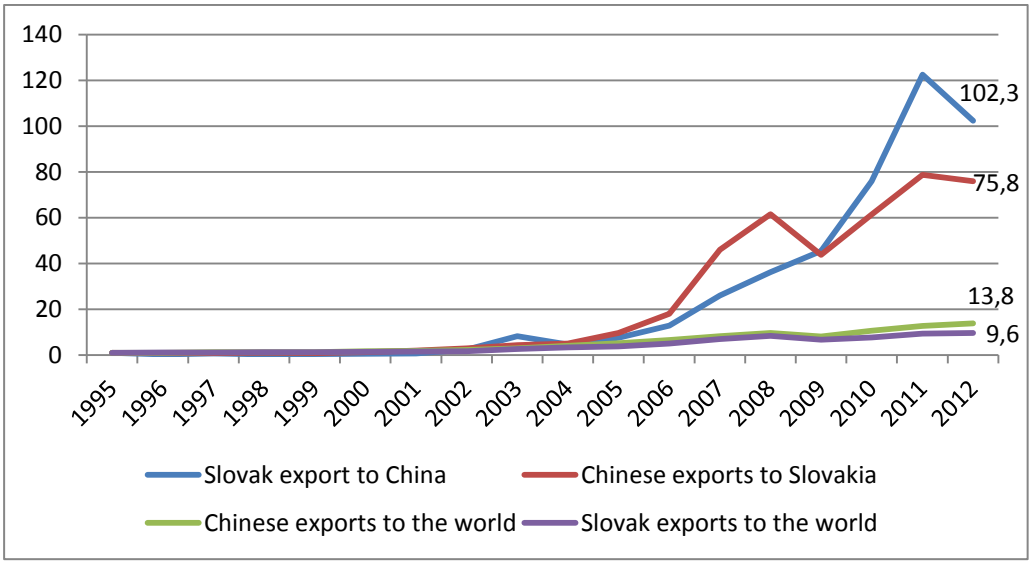
	1995	*1998*	*2001*	*2004*	*2007*	*2010*	*2012*
Slovak exports	17.0	4.2	12.6	77.9	439.9	1287.9	1733.8
Chinese exports	31.9	32.2	61.4	159.9	1470.7	1958.5	2423.1
Trade balance	-14.9	-28.0	-48.8	-82.0	-1030.8	-670.6	-689.3

Source: UNCTAD (2013).

The volume of mutual trade between Slovakia and China began to rise rapidly after 2002 when China became member of the World Trade Organization (WTO) and when Slovakia´s new right-wing government introduced a series of deep market reforms.

Chinese entry into the WTO meant that inequality in its bilateral trade relations with Slovakia came to an end. China had to conform to the same rules of international trade as Slovakia, hence access of Slovak firms to the Chinese market improved considerably. Moreover, successful economic reforms in Slovakia led to a massive inflow of foreign direct investment into the country. Multinational companies such as Kia, Peugeot and Samsung built new production facilities in Slovakia and they soon began to export their produce. Hence, Slovak exports became more competitive and they started finding their way into the global market, including into China. Consequently, Slovak exports to the country increased more than 100-fold between 1995 and 2012 (figure 1), compared to the 10-fold increase in Slovakia´s total exports. Within two decades, China became Slovakia´s most important non-European export market.

Figure 1: Growth indices of Slovak and Chinese exports 1995-2012



Source: Own calculations based on UNCTAD (2013).

Similar dynamics can be observed in Chinese exports to Slovakia. While they increased only 2-fold between 1995 and 2001, they experienced a radical growth of 4,000 % between 2002 and 2012. Again, the most important factor behind this development was China´s entry into the WTO.

As is often the case, increased trade relations between China and Slovakia in the first decade of the 21st century were complemented by strengthening of cultural ties. The

Department of Slovak Language and Culture was opened at Beijing Foreign Studies University in 2004, the Confucius institute was founded in Bratislava in 2007, etc.

3 COMMODITY STRUCTURE

The vast majority of Slovak exports to China are motor vehicles. Their share has increased from 60 % in 1995 to more than 80 % in 2012 and there appears to be no downward trend (table 3). The most prominent export goods are Audi Q7s and Volkswagen Touaregs which are enormously popular on the Chinese market. Other important exports include auto parts, machinery and pumps. In general, Slovakia exports to China mainly goods with medium skill and technology intensity.

Table 3: Slovak exports to China – top 10 commodities exported in 1995 and 2012

1995			***2012***		
No.	***Item***	***Share***	***No.***	***Item***	***Share***
1.	[781] Motor vehicles for the transport of persons	60.2%	1.	[781] Motor vehicles for the transport of persons	80.8 %
2.	[673] Flat-rolled prod., iron, non-alloy steel, not coated	18.5%	2.	[728] Other machinery for particular industries, n.e.s.	5.5%
3.	[737] Metalworking machinery (excl. machine-tools) & parts	6.4%	3.	[743] Pumps (excluding liquid), gas compressors & fans; centr.	1.6%
4.	[713] Internal combustion piston engines, parts, n.e.s.	3.9%	4.	[851] Footwear	1.4%
5.	[675] Flat-rolled products of alloy steel	3.2%	5.	[821] Furniture & parts	1.2%
6.	[582] Plates, sheets, films, foil & strip, of plastics	1.6%	6.	[748] Transmis. shafts	0.8%
7.	[723] Civil engineering & contractors' plant & equipment	1.6%	7.	[776] Cathode valves & tubes	0.6%
8.	[718] Other power generating machinery & parts, n.e.s.	1.0%	8.	[764] Telecommunication equipment, n.e.s.; & parts, n.e.s.	0.6%
9.	[874] Measuring, analysing & controlling apparatus, n.e.s.	0.7%	9.	[772] Apparatus for electrical circuits; board, panels	0.5%
10.	[665] Glassware	0.6%	10.	[598] Miscellaneous chemical products, n.e.s.	0.4%

Note: Based on SITC, Revision 3 commodity classification at 3-digit group level.
Source: UNCTAD (2013).

On the other hand, Chinese exports to Slovakia are relatively well diversified. The leading commodity are optical instruments with more than 25-per-cent share on total exports, followed by automatic data processing machines, telecommunication equipment, energy power machinery and office machines (table 4). The majority of these goods are classified as high-skill-and-technology intensive. This is an important change from China´s traditional exports which were labor intensive and included clothing, apparel and footwear. Table 4 provides a clear evidence of this dynamics: from the list of ten commodities with the highest share in Chinese exports to Slovakia in 1995, only one (articles of apparel of textile fabrics) still remains on the list in 2012. The top ten exported products had a cumulative share of 93 %

on total exports to Slovakia in 1995. These same ten products had a share of mere 7 % in 2012. Conversely, top ten exported products in 2012 reached a 70-per-cent share on total exports to Slovakia, whereas the share of these same 10 products had been 26 % in 1995; if articles of apparel are excluded, the number drops to 0,1 %.

Table 4: Chinese exports to Slovakia – top 10 commodities exported in 1995 and 2012

1995			***2012***		
No.	***Item***	***Share***	***No.***	***Item***	***Share***
1.	[841] Men's clothing of textile fabrics, not knitted	27.8%	1.	[871] Optical instruments & apparatus, n.e.s.	25.5%
2.	[845] Articles of apparel, of textile fabrics, n.e.s.	25.6%	2.	[752] Automatic data processing machines, n.e.s.	13.8%
3.	[844] Women's clothing, of textile, knitted or crocheted	9.1%	3.	[764] Telecommunication equipment, n.e.s.; & parts, n.e.s.	8.3%
4.	[671] Pig iron & spiegeleisen, sponge iron, powder & granu	5.6%	4.	[771] Electric power machinery, and parts thereof	5.1%
5.	[842] Women's clothing, of textile fabrics	5.6%	5.	[751] Office machines	4.2%
6.	[843] Men's or boy's clothing, of textile, knitted, croche.	5.2%	6.	[784] Parts & accessories of vehicles of 722, 781, 782, 783	3.0%
7.	[846] Clothing accessories, of textile fabrics	4.9%	7.	[778] Electrical machinery & apparatus, n.e.s.	2.9%
8.	[851] Footwear	3.9%	8.	[763] Sound recorders or reproducers	2.7%
9.	[541] Medicinal and pharmaceutical products	3.7%	9.	[759] Parts, accessories for machines of groups 751, 752	2.5%
10.	[689] Miscellaneous no-ferrous base metals for metallur.	1.4%	10.	[845] Articles of apparel, of textile fabrics, n.e.s.	2.2%

Note: Based on SITC, Revision 3 commodity classification at 3-digit group level.
Source: UNCTAD (2013).

Differences in development of commodity structures of mutual exports can be observed in table 5. While concentration of Slovak exports to China has risen considerably, China managed not only to successfully change the types of commodities exported to Slovakia towards ones with higher added value, but also to diversify her exports. In 1995, China exported 16 key products to Slovakia and Slovakia exported 12 key products to China, where key product is defined as a product that is greater than 100,000 dollars or more than 0.3 per cent of the country's total exports to the other trading partner. Until 2012, China increased the number of key export products to 132, whereas Slovakia´s number of key export products to China reached only 73. Moreover, as we have already shown, Slovakia´s exports were completely dominated by motor vehicles.

Table 5: Bilateral concentration indices of merchandise exports 1995-2012

	1995	***1998***	***2001***	***2004***	***2007***	***2010***	***2012***
Slovak exports to China							
Number of products	12	24	29	46	55	65	73
Concentration index	0.552	0.177	0.216	0.246	0.617	0.738	0.793
Chinese exports to Slovakia							
Number of products	16	28	41	88	122	133	132
Concentration index	0.305	0.283	0.229	0.150	0.411	0.284	0.261

Note: Number of products is based on SITC, Revision 3 commodity classification at 3-digit group level. The table includes only those products that are greater than 100,000 dollars or more than 0.3 per cent of the country's total exports to the other trading partner. Maximum number of products is 261.
Source: Own calculations based on UNCTAD (2013).

The picture changes somewhat when all products are taken into consideration. In 1995, Sino-Slovak bilateral trade consisted of 66 products, of which 46 were exported by China and 28 were exported by Slovakia. Seventeen years later, the countries traded 182 products; 163 were exported by China and 146 by Slovakia. The role of intra-industry trade has visibly gained importance – while in 1995, 8 out of 66 products (i. e. 12 %) were traded mutually, in 2012 it was 127 out of 182 (i. e. 70 %), representing almost 97 % of total value of Sino-Slovak trade. The value of Grubel-Lloyd index increased from 0.35 in 1995 to 0.46 in 2012.[3]

4 COMPARATIVE ADVANTAGE

The most widely used indicator in analyzing comparative advantages of countries is Revealed Comparative Advantages (RCA) index. The indicator was developed by Hungarian economist Béla Balassa (1965). From the theoretical perspective, it is a measure of relative export performance by country and industry, defined as a country's share of world exports of a good divided by its share of total world exports (Deardorff, 2014). It takes values from 0 to infinity, where all industries with RCA values higher than 1 are considered being comparatively advantageous for the exporting country and all industries with RCA values lower than 1 are considered being comparatively disadvantageous. There has been a lot of criticism of this indicator and it has been clearly shown that it is accurate only in a hypothetical world of free trade; yet no better indicator exists and it still remains popular among economists and policy makers alike.

Top ten goods with the highest values of 2012 RCA index for both Slovakia and China are summarized in table 6 below. It appears that Slovakia has the highest revealed comparative advantages in relatively medium-skill-and-technology intensive goods such as television receivers, motor vehicles, bearings or transmission shafts. On the other hand, People´s Republic of China has the highest revealed comparative advantages in silk, pottery, clothing and other similar labor and resource-intensive goods. The lists of goods with revealed comparative advantages are completely different from each other, which might lead us to conclusion that Slovakia and China are a good fit for mutual trade, because their

[3] Own calculations based on UNCTAD (2013).

strengths do not overlap. However, to confirm this conclusion, a thorough statistical analysis must be performed.

Table 6: Revealed comparative advantages of Slovakia and China in 2012

Slovakia			***China***		
No.	***Item***	***RCA***	***No.***	***Item***	***RCA***
1.	[761] Television receivers, whether or not combined	16.72	1.	[261] Silk	6.04
2.	[812] Sanitary, plumbing, heating fixtures, fittings, n.e.s.	9.87	2.	[666] Pottery	5.35
3.	[746] Ball or roller bearings	5.30	3.	[844] Women's clothing, of textile, knitted or crocheted	4.64
4.	[678] Wire of iron or steel	5.23	4.	[813] Lighting fixtures & fittings, n.e.s.	4.53
5.	[781] Motor vehicles for the transport of persons	4.66	5.	[843] Men's or boy's clothing, of textile, knitted, croche.	4.26
6.	[673] Flat-rolled prod., iron, non-alloy steel, not coated	4.57	6.	[752] Automatic data processing machines, n.e.s.	4.23
7.	[612] Manufactures of leather, n.e.s.; saddlery & harness	4.27	7.	[658] Made-up articles, of textile materials, n.e.s.	4.11
8.	[748] Transmission shafts	4.27	8.	[831] Travel goods, handbags & similar containers	4.08
9.	[674] Flat-rolled prod., iron, non-alloy steel, coated, clad	4.24	9.	[697] Household equipment of base metal, n.e.s.	3.97
10.	[873] Meters & counters, n.e.s.	4.09	10.	[846] Clothing accessories, of textile fabrics	3.84

Note: Based on SITC, Revision 3 commodity classification at 3-digit group level.
Source: Own calculations based on UNCTAD (2013).

In 2012, Slovakia had revealed comparative advantages in 83 goods and China in 105 goods. Forty of these overlapped, which means that there is a strong potential for mutual competition in them. They included goods such as footwear, television receivers or articles of plastics. This is almost a half of the total number of goods where Slovakia possesses comparative advantage. Therefore, it is necessary to look once again at Slovakia´s structure of exports and see whether the goods Slovakia exports to China are actually goods with revealed comparative advantage and compare RCA indices of these goods for both countries. If we find that Slovakia exports goods with low values of RCA index, it might be the case that bilateral Sino-Slovak trade is based on different principles and has different determinants than exports of the country in general. On the other hand, if Slovakia exports goods where it possesses comparative advantage, but China is found to have comparative advantages in the same industries as well, this might mean that Slovak exports are endangered from the long-term perspective and it might soon come to trade reversal, where China starts to export goods it once imported from Slovakia. RCA indices for the top ten export products of Slovakia and China can be seen in table 7.

Table 7: Top ten export products of Slovakia and China in 2012 and their RCA indices

Slovak exports			***Chinese exports***		
Item	***SVK***	***CHN***	***Item***	***CHN***	***SVK***
[781] Motor vehicles for the transport of persons	4.66	0.07	[871] Optical instruments & apparatus, n.e.s.	3.22	0.26
[728] Other machinery for particular industries, n.e.s.	0.59	0.57	[752] Automatic data processing machines, n.e.s.	4.23	0.56
[743] Pumps (excl. liquid), gas compressors & fans; centr.	1.54	1.03	[764] Telecommunication equipment, n.e.s.; & parts	1.91	3.14
[851] Footwear	2.16	3.57	[771] Electric power machinery, and parts thereof	2.29	1.41
[821] Furniture & parts	1.65	3.21	[751] Office machines	3.52	0.66
[748] Transmis. shafts	4.27	0.99	[784] Parts & accessories of vehicles of 722, 781, 782, 783	0.57	3.22
[776] Cathode valves & tubes	0.14	1.33	[778] Electrical machinery & apparatus, n.e.s.	1.85	0.71
[764] Telecommunication equipment, n.e.s.; & parts	1.91	3.14	[763] Sound recorders or reproducers	2.99	3.27
[772] Apparatus for electrical circuits; board, panels	0.69	1.32	[759] Parts, accessories for machines of groups 751, 752	1.84	0.43
[598] Miscellaneous chemical products, n.e.s.	0.31	0.58	[845] Articles of apparel, of textile fabrics, n.e.s.	2.92	0.59

Note: Based on SITC, Revision 3 commodity classification at 3-digit group level. Countries have revealed comparative advantages in export products with RCA index higher than 1.
Source: Own calculations based on UNCTAD (2013).

The left columns of table 7 indicate that Slovak exports to China consist not only of goods where the country possesses comparative advantage, but also of quite a high number of goods where it does not. Moreover, from among top ten export goods, there are only three in which Slovakia has a strong advantage over China: these are motor vehicles, transmission shafts and pumps. The other goods are exported in spite that Slovakia does not possess an advantage in their production; or even if it does, China´s advantage in their production is higher. This can be explained by the fact that it is intra-industry trade with intermediate products (cathode valves and tubes) or trade based on differences in consumer preferences (footwear). However, the most important export product – motor vehicles – which accounts for more than four fifths of Slovak exports to China, is a product in which Slovakia has a clear advantage: its RCA index is 70-times higher. It therefore appears that although Slovak exports to China are extremely concentrated and vulnerable to industry-specific crises, they are sustainable.

The right columns of table 7 show that China´s exports to Slovakia are in line with her comparative advantages. The only exceptions are parts and accessories of vehicles, where China has RCA index of 0.57 and Slovakia 3.22. This is probably caused by Slovak imports of intermediary products which it then uses in car manufacturing.

5 POSSIBLE FUTURE TRENDS

The aim of this section is to predict the development of Sino-Slovak trade relations based on the recent trends. Using statistical analysis and taking into account possible future changes in the world economy, we create several scenarios of Sino-Slovak trade until 2030. The baseline scenario is based on OECD´s (2013) long-term predictions of economic growth up to 2030. Lower scenario for each country uses conservative estimates of slow economic growth and upper scenarios use "optimist" estimates of fast economic growth. All scenarios combine linear trend analysis with gravity modelling.

5.1 Baseline scenario

The baseline scenario uses OECD´s (2013) long-term predictions for economic growth. It expects real GDP in Slovakia to grow by 3.2 % annually in the period 2014-2017 and by 2.4 % between 2018 and 2030. Chinese GDP growth is estimated at 8.4 % for the period 2014-2017, slowing to 5.4 % annually between 2018 and 2030. We use simple linear trend prediction methods taking into account GDP growth in both countries and value of mutual exports in the previous year. The model is based on data for the period 2002-2012, i.e. after China became a full member of the World Trade Organization.

5.2 Lower bound scenario

Lower bound scenario is calculated using the same method as baseline scenario; however, conservative GDP growth estimates are used. Annual GDP growth rates of Slovakia are reduced to one half of baseline values and annual GDP growth rates of China are set to three quarters of baseline values. This practice is in line with creation of long-term lower bound scenarios by other forecasters and is based on estimation of risks such as slow growth of the world economy, Eurozone crisis, high prices of oil, etc.

5.3 Upper bound scenario

Upper bound scenario is similar to the previous scenarios. However, unlike lower bound scenario, it is based on "optimist" estimates of rapid economic growth in the world economy. It assumes that the countries will not be influenced by any economic crises. Annual GDP growth rates of Slovakia are estimated at 4.0 % for the period 2014-2017 and 3.5 % for the period 2018-2030. Annual GDP growth rates of China are estimated at 10.0 % for the period 2014-2017, then gradually decreasing to constant 8.0 % for the period 2019-2024 and constant 7.0 % annually for the period 2025-2030.

5.4 Summary of all scenarios

Results of all three scenarios are presented in table 8. The baseline scenario predicts a 34-fold increase in Slovak exports to China and a 45-fold increase in Chinese exports to Slovakia. While this might appear to be an unreasonable overestimate, it should be noted that for example German-Slovak bilateral trade has increased ten times over the last two decades and its values in 1995 were similar to today´s values of Sino-Slovak trade. If we take into account the strength of the Chinese economy and advances in transportation (such as regular direct freight trains from China to Europe and new post-Panamax container ships capable of handling huge amounts of cargo), it might be expected that the growth of mutual trade

between China and Slovakia will remain strong in the next two decades and it will be even higher than the growth of German-Slovak trade between 1995 and 2012.

Lower bound scenario predicts a relatively conservative 5-fold increase in Slovak exports to China and 7-fold increase in Chinese exports to Slovakia. Conversely, upper bound scenario predicts a 56-fold increase in Slovak and a 64-fold increase in Chinese exports to the partner country.

Table 8: Sino-Slovak trade 2015-2030 – 3 scenarios (trade in mil. USD)

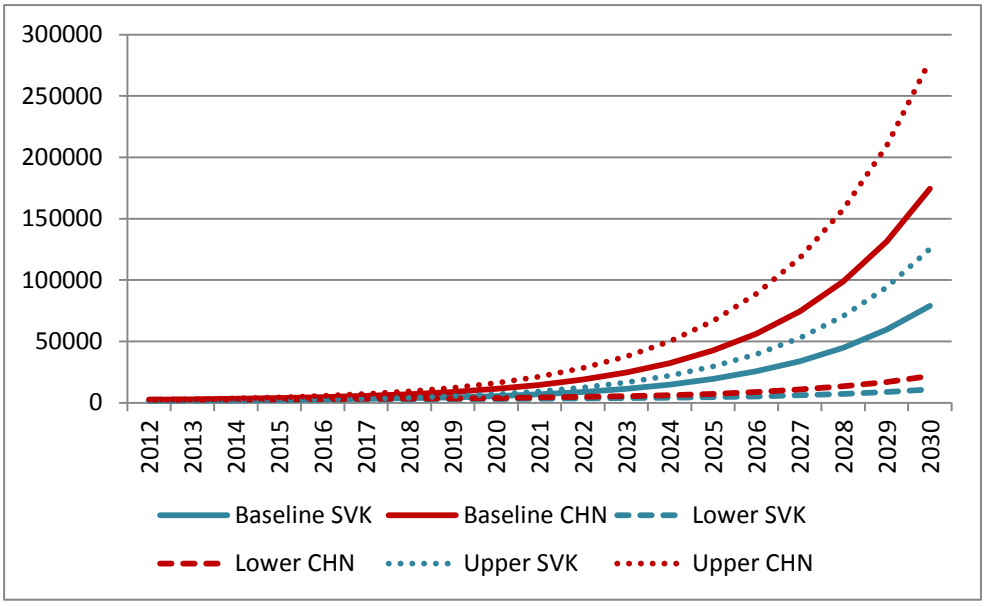
		Scenario 1 ***Baseline***	***Scenario 2*** ***Lower bound***	***Scenario 3*** ***Upper bound***
Slovak exports	2015	2,342	2,298	2,238
	2020	5,467	3,039	7,005
	2025	19,455	4,575	29,525
	2030	78,992	10,967	125,449
Chinese exports	2015	3,812	2,877	4,356
	2020	11,235	3,888	16,118
	2025	42,619	7,288	66,677
	2030	174,290	21,671	278,834

Note: Scenarios are based on the following annual real GDP growth rates: Baseline: 2.56 % for Slovakia, 6.18 % for China; Lower: 1.33 % for Slovakia, 4.76 % for China; Upper: 3.52 % for Slovakia, 8.13 % for China. GDP growth predictions in individual years differ.
Source: Own calculations based on UNCTAD (2013).

Because of the methodology used, all scenarios predict accelerating pattern of trade. This is especially visible from figure 2. The majority of growth takes place in the last five years of the prediction period, which will most likely not be the case. However, our model is statistically significant and it offers meaningful results, therefore we decided to use it despite its obvious shortcomings.

It can be seen that both baseline and upper bound scenarios of Chinese exports to Slovakia lie above all scenarios for Slovak exports to China. This is hardly surprising. Although Slovakia has recently managed to achieve positive foreign trade balance, its balance of trade with China is negative and rising. This is not likely to change in the future. The only plausible variant that might lead to a positive trade balance is a combination of baseline scenario for Slovakia and lower bound scenario for China. This situation could arise if Chinese domestic demand outgrows global demand for Chinese goods. Chinese companies will see themselves forced to decrease their export-to-production ratios in favor of allocating more goods to the domestic market. Simultaneously, the rise in Chinese domestic demand will present new opportunities for foreign companies and Chinese imports from abroad (including from Slovakia) will rise.

Figure 2: Sino-Slovak trade 2015-2030 – 3 scenarios (mil. USD)



Source: Own calculations based on UNCTAD (2013).

It is always a decent rule of thumb that the most likely scenario in any prediction should be the baseline scenario. In this case we believe that actual trade volumes will fall between the lower bound and baseline scenarios. While we have argued that our baseline scenario is not overestimated, we have several reasons to believe that actual trade volumes will be lower. First, the past decades have shown that globalization and growth are accompanied by regular economic crises. The crises have severe effects on international trade and often lead to double-digit decreases in trade volumes. It is reasonable to expect that there will be one or two crises in the next 17 years hence the trade will probably grow slower than expected by the baseline scenario. Second, we base our predictions on the assumption that there will be no new protectionist measures which will hinder trade between countries. As the WTO has not made almost any progress recently and is still highly inefficient in settling disputes between its members, a new wave of neo-protectionist measures might intervene with free trade. Finally, gravity models show that Sino-Slovak trade has already reached a much higher volume than would be expected from countries of this size lying this much apart. Based on a simple gravity model of Slovakia´s foreign trade we developed in our previous research (Grančay, 2013), the volume of Slovakia´s actual trade with China is almost four times higher than the volume predicted by the gravity model.[4] While we acknowledge that gravity models are not an ideal tool for predicting bilateral trade flows, they can still be used to compare predicted and actual trade flows and reach some conclusions regarding trade potential. In this case we observe that Sino-Slovak trade exceeds its present potential, hence we expect slower growth in the future.

[4] Gravity models have long been seen as one of the most important instruments of international trade theory and policy. Our model takes the form $\ln T_{SRi} = 8{,}80 + 1{,}05.\ln GDP/cap_i + 1{,}12.\ln POP_i - 1{,}29.\ln D_{SRi} - 0{,}11.\ln TARIFF_i$, where T_{SRi} is predicted volume of Slovakia´s trade with country i, GDP/cap_i is country i´s gross domestic product per capita, POP_i is its population, D_{SRi} is the distance between Slovakia and country i and $TARIFF_i$ stands for country i´s average tariff on imports from Slovakia.

6 CONCLUSION

In the present paper, we have analyzed the development of Sino-Slovak trade relations. We have identified revealed comparative advantages of Slovakia and China, and have focused on possible future trends. We have come to the following main observations and conclusions:

- Between 1995 and 2012, Slovak exports to China increased more than 100-fold, while Chinese exports to Slovakia increased more than 50-fold; the majority of this growth took place in the first decade of the 21st century. The main factors behind this radical growth appear to be Chinese entry into the WTO and reforms taken by the Slovak government in 2002.
- Slovak exports to China are strongly dominated by motor vehicles with a share of more than 80 % on total exports. Chinese exports to Slovakia are relatively well diversified, led by optical instruments and automatic data processing machines. Their structure has completely changed in the last 15 years, from labor and resource-intensive goods to high-skill-and-technology intensive products.
- RCA index analysis has shown that Chinese exports to Slovakia are fully in line with her comparative advantages. Surprisingly – with the obvious exception of motor vehicles – this cannot be said about Slovak exports to China. This can be explained by intra-industry trade with intermediate products and trade based on differences in consumer preferences.
- The volume of Sino-Slovak trade will continue to rise rapidly in the next couple of years. We expect Slovak exports to China to increase 5 to 34-fold by 2030 and Chinese exports to Slovakia to increase 7 to 45-fold by 2030. The most accurate estimate will probably lie in the middle of these intervals.

To conclude, it must be said that as a small country, Slovakia will most likely never be one of the key trade partners of China. Conversely, China has already become Slovakia´s second most important non-EU trade partner after Russia and her role in the world economy is still increasing. Therefore, it is reasonable to expect that Sino-Slovak trade will continue to grow and the impact of China´s economy on economic development in Slovakia will increase in the future.

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CHINA-V4 FDI RELATIONS – A SLOVAK PERSPECTIVE

Tomáš Dudáš[1]

The aim of this paper is to analyze the historical development and current trends of Slovak-Chinese FDI flows. The first part of the paper describes the global FDI position of China and Slovakia with an emphasis of FDI outflows. In the next part of the paper we concentrate on the mutual Slovak-Chinese FDI flows from 1993 to 2012. In this part we try to identify the most important Chinese companies that invested in Slovakia and also Slovak companies that invested in China. In the last part of the paper we try to estimate the future of Slovak-Chinese FDI flows with an emphasis on the identification of the most promising sectors for investment.

Key words: foreign direct investments, Slovakia, China, historical trends, future perspectives
JEL: F21

1 INTRODUCTION

China is undoubtedly one of the key players in the global economy nowadays. Since the start of the economic reforms in the 1970s China experienced decades of rapid economic growth and today it is the second largest economy in the world. The pace of Chinese economic growth will be slower in the coming years and decades, but all long-term economic prognoses show that China will become the largest economy in the world around 2020-2025. Rapid economic growth in China created a very strong internal market based upon a growing middle class. China is the largest market for many goods and services – from cars to bier and cigarettes. This development combined with a cheap and efficient labor force gained the attention of many multinational corporations and they started to move more and more activities to China. In the 1990s China became one of the most important recipients of foreign direct investments (FDI) and today it is the second largest recipient of FDI beyond the USA. Almost all Fortune Global 500 corporations have invested in China and global corporations such as Volkswagen or GM will continue to invest billions of USD in the coming years.

The decades of uninterrupted economic growth in China led also to the creation of strong group of Chinese corporations that started to expand internationally in the late 1990s and early 2000s. Corporations like Lenovo, ZTE, Huawei or Sinopec started to gather international attention and today they are often leaders of their industries. Lenovo acquired IBM's personal computer business in 2005 and continued its global expansion with the acquisition of the mobile phone handset maker Motorola Mobility from Google in 2014. State owned Sinopec gradually became one of the largest oil corporations in the world with

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activities in many countries – especially in Africa. Nowadays China is one of the most important investor nations in the world, in Asia only Japanese corporations invest more abroad.

All these facts mean that it is not possible to overlook the economic power of China at the moment. China is one of the most attractive countries to invest and Chinese corporations play stronger and stronger roles in their industries. That is why Slovakia and Slovak corporations have to take into account the possibilities offered by the Chinese market and the possible investments of the rising Chinese corporations. Although Slovakia is an economy strongly oriented on the EU markets, China can be a key factor in the future economic development of our country.

The main goal of the chapter is to describe the past and current FDI flows between China and Slovakia and to try to identify sectors for possible investments in the future. The first part of the chapter describes the FDI flows between Slovakia and China since the independence of Slovakia in 1993 up until 2012. The next part identifies key corporations active in Slovakia and the key Slovak corporations active in China. The last part of the chapter tries to identify the economic sectors in Slovakia that can be attractive to Chinese investors and sectors and locations that can be interesting to Slovak investors in China.

Analysis of the FDI flows on international level is always complicated by missing or distorted data. Multinational corporations often channel their FDI through foreign subsidiaries that are frequently located in tax havens. The situation is no different in the case of China and Slovakia, as especially the Chinese data are distorted. In the case of Slovakia, we based our analysis on the data available from the National Bank of Slovakia and the Chinese data originates from the Ministry of Commerce of the People's Republic of China. The problem of Chinese data is that large parts of Chinese FDI flows are channeled through Hong Kong or offshore financial centers such as the Maldives or Seychelles. We tried to overcome the data problem in our analysis, but the situation is less than ideal (especially compared to international trade data).

2 HISTORICAL OVERVIEW OF FDI FLOWS BETWEEN CHINA AND SLOVAKIA

The position of China and Slovakia in the global economy is rather asymmetric. China is one of the main economic powers in the world with the second largest internal market on the global scale. In comparison, Slovakia is a small economy with five million inhabitants. China is the largest exporter in the world and has a growing array of multinational corporations investing abroad. Slovakia is the 46th largest exporter in the world and the number of Slovak corporations investing abroad rather limited (Table 1). There were 89 Chinese corporations on the Fortune Global 500 list in 2013. In the same year, there was not a single one Slovak corporation on the same list.

Table 1: Position of China and Slovakia in global economy in 2012 (million USD)

	China	***Slovakia***
Total export	2 048 714	80 612
Total import	1 818 405	77 398
FDI inflows	121 080	2 826
FDI outflows	56 530	-73

Source: WTO and UNCTAD

The asymmetric position of China and Slovakia also translates into the mutual FDI flows between these countries. These flows are furthermore decelerated by the vast geographical distance between the two countries and the huge linguistic, social and cultural differences. Slovakia is an economy clearly focused on the EU and China has strong economic ties with other countries in East and Southeast Asia.

The latest available FDI data from the Ministry of Commerce of the People's Republic of China clearly shows the focus of Chinese corporations investing abroad. In 2012, Chinese corporations invested 87.8 billion USD abroad. This means that in 2012 China was the third largest investor country in the world (behind USA and Japan). At the end of 2012 Chinese corporations owned roughly 22 000 enterprises in 179 countries. The composition of Chinese outward FDI in 2012 clearly shows the territorial focus of domestic corporations. Hong Kong is by far the most important destination for Chinese FDI nowadays, in 2012 58.4 % of the Chinese outgoing FDI moved to this country. The dominance of Hong Kong is overwhelming, the second largest destination country (USA) has only 4.6 % share on the total FDI outflows from China. MOFCOM data show that the top 20 destination countries make up more than 90 % of the Chinese outward FDI[2].

It is not surprising that the Visegrád Four countries (Slovakia, Czech Republic, Poland and Hungary – V4) were not among the most significant destination countries for Chinese outward FDI. *The total inflow of Chinese outward FDI into these countries in 2012 represented only 0.079 of the total Chines outward FDI that year.* To make a comparison, Myanmar received approximately 749 million USD of Chinese FDI in the same year.

Table 2: Chinese outward FDI flows to Visegrád Four countries (million USD)

	2006	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***
Slovakia	-	-	-	0.26	0.46	5.94	2.19
Czech Republic	9.1	4.97	12.79	15.6	2.11	8.84	18.02
Poland	-	11.75	10.7	10.37	16.74	48.66	7.5
Hungary	0.37	8.63	2.15	8.21	370.1	11.61	41.4

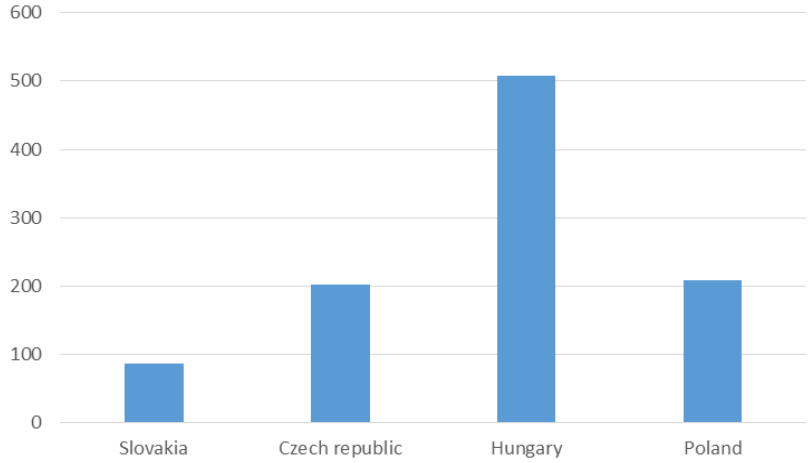
Source: MOFCOM 2012 Statistical Bulletin of Chinese Outward Foreign Investment

If we compare the Chinese FDI flows heading to V4 countries, it is clearly visible that Slovakia is the weakest destination country in the whole grouping. Chinese statistics does not register FDI flows to Slovakia until 2009 and these flows never reach the level of 10 million USD in any year (Table 2). The look at the total Chinese FDI stocks in V4 countries at the end of 2012 shows a similar picture, as Slovakia has by far the smallest FDI stock from China – 86 million USD. Poland and Czech Republic more than twice this amount of FDI from China in the same time period – 208 and 202 million USD. Hungary is the overall leader of Chinese FDI in the V4 groups, as the total FDI stock from China exceeded 500 million USD at the end of 2012. It is worth to mention that the strong position of Hungary comes from only one cross-border acquisition. In 2011 Wanhua Industrial Group acquired the Borsodchem chemicals manufacturer from Permira - a British investment fund (Financial Times, 2011). Up

[2] Source: MOFCOM 2012 Statistical Bulletin of Chinese Outward Foreign Investment.

until this moment, this is the only significant cross-border acquisition made by a Chinese corporation in the V4 countries.

Figure 1: Chinese outward FDI stock in V4 countries as the end of 2012 (million USD)



Source: MOFCOM 2012 Statistical Bulletin of Chinese Outward Foreign Investment

Looking at the incoming FDI flows from the Slovak perspective, it is safe to say that most of the FDI inflows to Slovakia since gaining independence in 1993 came from Western Europe. The total FDI inflow between 1993 and 2012 is dominated by European countries and 9 from the top 10 investor countries are from this continent (Netherlands, Germany, Austria, Hungary, Italy, France, Czech Republic, Luxembourg and Cyprus). The only strong non-European investor country in Slovakia is the Republic of Korea (South Korea) that is represented in our economy by two big multinational corporations – Samsung and Hyundai/Kia.

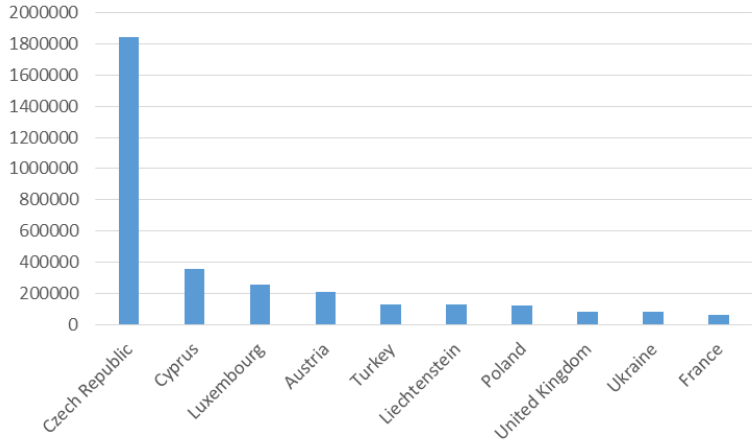
The official Slovak FDI statistics shows a total stock of FDI in Slovakia at the end of 2012 in the amount of 34 758 million EUR. The share of incoming Chinese FDI on this total stock is extremely low; the National Bank of Slovakia registered only 9.8 million EUR coming from China (0.028 % of the total stock)[3]. For comparison, the total FDI inflow from South Korea in the same time period amounted to 1 395 million EUR (4 % of the total stock). This clearly shows a severe lack of interest from the Chinese corporations to invest in Slovakia – they did not participate in any of the privatization transactions and also did not create any significant greenfield project in Slovakia.

The picture of Slovak FDI in China is rather disappointing, as there is no outward Slovak FDI heading to China in the official statistics of the National Bank of Slovakia. The situation in Chinese statistics is the same, MOFCOM data show zero FDI inflows from Slovakia to China. This fact is not surprising, as the FDI outflows from Slovakia are low compared to the inflows and they are highly concentrated in Europe. Slovakia does not have real domestic multinational corporations and the smaller corporations investing abroad prefer

[3] One can note significant differences in the Chinese and Slovak FDI statistics. According the Slovak official statistics the total stock of Chinese FDI reached only 9.8 million EUR at the end of 2012. In contrary, Chinese official statistics shows significantly more FDI in Slovakia – approximately 86 million USD. This difference is caused by different methodic employed by the National Bank of Slovakia and MOFCOM and by the fact that the Slovak data presumably does not include all Chinese FDI. The Chinese data captures the real flows more accurately. But it does not change the situation that China is a marginal investor in Slovakia.

mostly local destinations in Central Europe. The most important destination for Slovak outward FDI is clearly the Czech Republic with a 55 % share on the total FDI stock abroad at the end of 2012. Czech Republic is followed by Cyprus and Luxembourg, as both countries are often used as tax havens by Slovak entrepreneurs.

Figure 2: Top 10 destinations of Slovak outward FDI 1993-2012 (thousand EUR)



Source: Online statistical database of the National Bank of Slovakia

Official data show that China is not an exemption; there are no significant destination countries for Slovak FDI in Asia. As we mentioned, Slovak corporations abroad are usually smaller compared to corporations from developed countries. The big Asian markets (China, India, Indonesia, South Korea etc.) are very competitive and lots of big multinational corporations enter these markets. The Slovak corporations lack capital, know-how, market knowledge and technology to compete with the global corporations investing in East and Southeast Asia, so they rather concentrate on investments in neighboring countries in Central Europe.

3 MOST IMPORTANT CHINESE CORPORATIONS IN SLOVAKIA

The list of Chinese corporations that invested in Slovakia is not a very long one and they are mostly smaller less known companies. The only exemption is Lenovo, which is one of the global leaders in computer manufacturing business. Lenovo was one of the first Chinese global corporations and is the global leader of the PC industry. Lenovo sells its products in more than 170 countries and has operations in more than 60 countries.

Lenovo decided to invest in Slovakia in 2006 as it was looking for a shared services center (SSC) for the region of Eastern Europe, Middle East and Africa. The goal of Lenovo was to decrease operating costs and that is why the moved their operation from Great Britain to Slovakia. This SSC is the largest operation of Lenovo in Central Europe and is located in Bratislava (capital of Slovakia). The primary role of this center is to provide support to sales and logistics in the whole region. Lenovo was very satisfied with the new Slovak location and the SSC grew very quickly from 70 to more than 600 employees. Unfortunately, the problems in the IT industry in the last years led to cuts in the number of employees in Bratislava, nowadays the service center has approximately 450 employees. Despite this fact, Lenovo sees

the future of the Slovak subsidiary optimistically; it will remain the key operation in the region in the coming years.

SaarGummi Slovakia is the second largest Chinese owned corporation in Slovakia. This industrial corporation is located in Dolné Vestenice and is a subcontractor for the automotive industry. SaarGummi Slovakia was originally a German investment in Slovakia in 1994 and later became part of the German SaarGummi Group. This corporation specializes on complex automotive body sealing systems and had factories in Germany, Spain, Czech Republic, Slovakia, Brazil, USA and India. Unfortunately, the company started to have financial problems and eventually it became insolvent. The management of the corporation was looking for a new investor and ultimately the whole group was purchased by Chongqing Light Industry & Textile Holding from China. It is a corporation in the ownership of Chonqing, a city in southwest China and it has activities mostly in the automotive industry as a supplier of various automobile parts.

The Slovak factory of the SaarGummi Group remains an important operation also after the Chinese acquisition. The factory in Dolné Vestenice currently employs approximately 500 employees and produces sealants for brands like Volkswagen, General Motors, Suzuki or Peugeot. The Chinese owners have bold plans with the factories in the Czech Republic and Slovakia as they want to strengthen the position of the SaarGummi Group in the European automotive industry. The global automotive industry can be a volatile environment, but the future of the SaarGummi factory in Slovakia looks very solid at the moment. Despite this fact we have to remember that the location of the FDI in Slovakia was not chosen by Chinese investors but the original German ones.

The ZVL Auto in Prešov is a different story. It is a Slovak company with long tradition that started operation in 1957. ZVL Auto produces bearings for automotive and machinery industry. In 2007 the Chinese TSB Bearings Group purchased the 55 % controlling share in ZVL Auto and effectively became its majority owner. TSB Bearings Group is a Chinese company that specializes on the production of bearings and possesses several factories in China (Ningbo, Shanghai and Shaoxing). The acquisition of ZVL Auto was an important step for the company, as the factory in Slovakia is the only factory outside of China. The acquisition was influenced by the global economic crisis of 2008/09 as ZVL Auto went almost insolvent due to a sharp decline of orders from the automotive industry. Fortunately, the situation in the automotive industry started to turn around in 2010 and the new management of the company was able to make the company profitable once again. Nowadays, ZVL Auto employs approximately 160 employees and is a successful part of the TSB Bearings Group.

Mesnac European Research and Technical Centre (MERTC) is maybe the most interesting Chinese owned corporation in Slovakia. MERTC was established in 2009 as a Greenfield investment by the Chinese MESNAC corporation. MESNAC is a rubber and tire machinery supplier that has not only very strong position in the Chinese market but also on the global markets. The management of the company decided that it in order to improve its global position the company needs to expand internationally and that is why they started operations in Europe and in the USA.

MERTC is located in Dubnica – a town with a long history of tire production. When the German Conti Machinery closed its factory in near Púchov in 2009, MESNAC decided to use the knowledge and expertise of the key personnel laid off from this factory in a

development center. Today, MERTC employs only 20 employees, but the strong orientation on research and development makes this company unique among the Chinese owned companies in Slovakia. The company focuses on development of tire building lines and its first prototypes are currently tested by Chinese customers. The goal of MESNAC is to expand this subsidiary in the future in order to develop a full range of tire building lines for the production of tires for both passenger cars and trucks.

The remaining relevant Chinese owned corporations in Slovakia are small companies that are active in the manufacturing sector. *Heiland Sinoc Automotive* is a good example of such company. It is a subsidiary of the Chinese Sinoc corporation and produces protective covers for the automotive industry that are used to protect the newly produced cars during transport. Heiland Sinoc is located in Stupava (near the Volkswagen factory) and currently employs approximately 80 employees.

Inalfa Roof Systems Slovakia is another relatively small automotive supplier that was established in 2011. Inalfa Roof Systems is a global is one of the world's biggest providers of vehicle roof systems. It was originally a Dutch company, but in 2011 it has been purchased by Beijing Hainachuan Automotive Parts Co., a Chinese automotive parts conglomerate. Currently, approximately 100 employees work for Inalfa in Krakovany. Due to growing business in Europe, Inalfa plans to expand the facility in Krakovany. The Slovak factory produces for global automotive corporations such as Mercedes Benz, Scania, MAN, DAF, Iveco, Ford, Volvo and Renault Trucks.

There are a few other Chinese owned companies in Slovakia, but they are not relevant on the international level. These are usually small companies owned by smaller Chinese firms that focus on international trade between China and Slovakia. As these companies employ only a few employees, their impact on the Slovak economy is rather limited.

4 MOST IMPORTANT SLOVAK CORPORATIONS ACTIVE IN CHINA

As we already mentioned, the Slovak economy is dominated by huge foreign multinational corporations and the number of Slovak companies able to invest abroad is very limited. Despite this and despite the fact that the official FDI statistics shows zero Slovak FDI in China, we decided to search for possible Slovak companies with investment activities in China. In this search we conducted a search of the Slovak media and used contacts in the Ministry of Economy in Slovakia and in the SARIO – the Slovak investment and international trade promotion agency. After our exhausting enquiries we must state that we were able to find two companies with investments in China.

The first Slovak company with FDI in China is Antik from Košice. Antik is a relatively young Slovak company established in 1999 that focuses on telecommunication and internet technologies. The company produces its own set-top boxes, GPS transcoders and IPTV hardware. To improve the management of logistics in China, Antik established a Chinese subsidiary named Antik Technology in 2010. This company is located in the Shenzen special economic zone and facilitates and coordinates Antik's assembly operations in China.

The second Slovak company that had invested in China is Víno Nitra – one of the largest producers of wine in Slovakia. Eduard Šebo, the owner of the company, is a very ambitious businessman and has well-crafted plans for the international expansion of Víno Nitra. Mr. Šebo recognized the growing demand for quality wine in China and that is why Víno Nitra established a joint-venture with the Chinese Xiangyao corporation located in the

Hebei province. The two firms established a new factory Zhongjie-Nitra that opened in 2013 and is able to produce approximately 300 thousand liters of wine yearly.

As for the future trends, we believe that the weak presence of Slovak companies in China will continue also in the short and medium perspective. China is too far for most local corporations and the competition on the Chinese markets is very intensive. Moreover, the largest part of the outward Slovak FDI originates form Slovak financial groups active in private equity business (ex. Penta, J&T[4]). These financial groups usually focus in cross-border acquisitions in the neighboring countries and it is quite improbable that they will shift their focus to East Asia.

5 POSSIBLE SECTORS FOR CHINESE FDI IN SLOVAKIA IN THE FUTURE

As Chinese corporations are starting to be more and more active on the global level, we can clearly see *three very strong motives of the outward Chinese FDI – natural resources; large markets and advanced technology* (see Kolstad and Wiig, 2009 or Lu, Liu and Wang, 2010). If we look at these factors in the V4 countries, we can see a clear disadvantage. V4 countries possess only a very *limited range of natural resources* and are especially week in the area of strategic resources such as oil, natural gas, copper or bauxite. The only potential resource to develop in V4 countries is shale gas in Poland, but even these shale fields are not commercially feasible today. Slovakia possesses interesting quantities of gold and uranium, but fears of potential environmental damage turned local inhabitants against foreign corporations (from Australia and Canada) that wanted to develop the mining of these resources in Slovakia. I fear that a potential investor from China in this segment would face a very strong opposition from the local population and the organizations focusing o environmental protection.

The size of the market is also a weak point of the V4 countries. Compared to China, all V4 countries are tiny with 10 million (Czech Republic and Hungary) or even 5 million inhabitants (Slovakia). Only Poland offers a larger internal market for the market oriented FDIs, but even Poland cannot compete with countries like Germany, France, Spain or Turkey. On the other hand, all V4 countries are EU member states and so they part of the large common market of approximately 500 million inhabitants. This fact combined with a relatively low level of wages compared with Western Europe makes V4 countries a good production base of a European expansion.

So, as the attention of a growing number of Chinese companies shifts to Europe, Central Europe has a good chance to become the starting base for the Chinese expansion. The V4 countries offer stable political and economic conditions, good geographic location and a relatively cheap and skilled labor force. Many Korean, Japanese and Indian companies already realized these advantages and nowadays more and more Chinese companies start to negotiate FDI possibilities in these countries.

The V4 countries are especially strong in the *automotive industry*. Global automotive corporations (VW, PSA and KIA) produced approximately a million cars in Slovakia in 2013. These companies created a complex industry in Slovakia with many subcontractors present in the country. Chinese automotive producers could use the expertise gathered in Slovakia to

[4] Penta completed private equity transactions in the Czech Republic and Poland, J&T in Czech Republic, Germany and Poland.

establish their European production base, as especially the eastern part of the country could provide a good location for an automobile factory.

The first Chinese automotive producer present in Slovakia is Qoros, which is active in the luxury segment. Qoros is a new Chinese-Israeli joint-venture that was established in 2007. The first showroom of Qoros in the whole world has been opened in Slovakia in 2013 and the company will use Slovakia as a springboard for its further European expansion. In the recent months, new speculations surfaced in the Slovak media about a possible Qoros factory in Slovakia. The managers of Qoros declined to comment, but the truth is that Qoros plans to establish a production base in Europe. It is safe to tell that this possible factory will be located Central Europe, so Slovakia has good chances to compete for it if the Qoros investment becomes real in the future.

"Green projects" could be another area that could attract Chinese FDI to Slovakia. Green technologies are getting more and more important in China these days, as many regions suffer from environmental degradation. China invests billions of USD into waste treatment, solar technology and other renewable energy sources. There are several firms in Slovakia in the area of green technologies that could be interesting for Chinese investors. Slovak firms possess interesting know-how in the area of waste water treatment, ultra-deep geothermal drilling and renewable energies. Possibilities for joint-ventures with Chinese partners would be very interesting for Slovak companies that could use this partnership to gain a foothold in the rapidly growing Chinese market. On the other hand, there are also fears associated with a possible joint-venture with a Chinese partner. Protection of intellectual property is still not satisfactory in China and there were numerous cases when Chinese partners stole the technology of its foreign partner.

The last area that could be interesting for Chinese investors is tourism. As the Chinese economy continues to grow, domestic firms in the tourist industry are also getting stronger and ready to invest abroad. Slovakia has very good possibilities for tourism – not only for winter tourism, but also wellness and congress tourism. Currently the investments in the tourist industry are mostly dominated by domestic companies, but strong foreign corporations with a lot of capital available could find interesting opportunities in the form of ski resorts or wellness hotels. The only drawback of Slovakia is that it is a relatively small country and it cannot compete with big tourist magnets in Europe and Southeast Asia. Investing in Malaysia, Vietnam, Thailand, France or Italy offers better possible returns on the investments compared to FDI into the tourism industry in Slovakia.

6 CONCLUSION

Economic relations between China and Slovakia are nowadays driven by international trade relations. The volume of the mutual trade between China and Slovakia is increasing every year and available projections show (see the chapter about Slovak-Chinese trade) that the volume of mutual trade will continue to rise in the coming years.

Unfortunately, we cannot say the same about the mutual flows of FDI between the two countries. Chinese outward FDI focuses mostly on Southeast Asia and the V4 countries are clearly not in the focus of Chinese companies planning an international expansion. V4 countries cannot offer natural resources, technology and large internal markets to Chinese corporations, so it is not surprising that in 2012 these countries received only 0.079 % of the total Chinese outward FDI n that year. Moreover, Slovakia has the weakest position among

the V4 countries and official FDI statistics barely register the Chinese FDI inflow to Slovakia. FDI flows from Slovakia to China are even less significant, we were able to identify only two Slovak companies with FDI projects in China.

The question is – is there a room for improvement in the mutual Slovak-Chinese FDI flows? Latest developments give us cause for careful optimism, as several Chinese companies willing to invest in Slovakia emerged in the last months. The Chinese Flameshoes became the first corporation that plans to move production capacities from China to Slovakia. Flameshoes produces rubber footwear and is currently successfully expanding in Europe. To satisfy the increasing need of the European market the company decided to build production facilities here and they have chosen Eastern Slovakia as they location. The Chinese investor will employ approximately 150 people and will invest 15 million euros in Slovakia. This is the first direct greenfield FDI from China in Slovakia in manufacturing and if it will be successful, it can pull more Chinese investors here. Slovakia is a stable economy with a relatively cheap and educated labor force, so it has good chances to attract more Chinese greenfield FDI from China.

Regrettably, it is not realistic to await increased inflows of Slovak FDI to China. Slovak corporations will continue to focus their FDI activities in Central Europe and a Slovak firm with an FDI in China will be still a rare sight in the foreseeable future. The fact that the Slovak economy is dominated by foreign owned companies created by FDI inflows guarantees that the Slovak outward FDI will not take off in the short and medium term. This means that the mutual FDI flows will remain asymmetric in the future, but that is not surprising given the asymmetric position of China and Slovakia in the world economy.

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CHINA-V4 INVESTMENT REGIME – A SLOVAK PERSPECTIVE

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The aim of this paper is to analyze the existing system of resolution of potential international investment disputes between investors from the People's Republic of China in the Slovak Republic and vice versa. Despite the currently low level of protection available for investors from both states in the respective host states based on the applicable bilateral investment treaty between the People's Republic of China and the Slovak Republic, it is expected to be significantly enhanced by the currently negotiated China-EU investment treaty. This paper further analyzes the key areas that should be addressed while creating the new legal framework of protection of international investment between the People's Republic of China and the European Union.

Key words: bilateral investment treaty, international investment arbitration, ICSID, EU-China investment treaty

1 INTRODUCTION

The People's Republic of China and the Slovak Republic (formerly part of the Czech and Slovak Federative Republic) have enjoyed a long standing good cooperative relationship that translates into many areas of common interest. One of the most important issues is their mutual economic cooperation which is largely effected through trade and investment. The aim of this article is to map out the current landscape of mutual investment protection between China and the Slovak Republic and the prospects of possible improvement of the existing system especially in terms of the anticipated negotiations on China-EU investment agreement.

While the current investment protection regime is notably weak and outdated considering the first-generation Chinese investment treaty status applicable to the China-Slovak Republic bilateral investment treaty, it had also not undergone any practical testing due to the absence of any investment disputes between investors from either China or Slovak Republic in the respective host country.

Following the widening of the exclusive competences of the European Union through incorporating the issues of foreign direct investment into EU's common commercial policy, the European Union has begun negotiating investment treaties or comprehensive trade and investment treaties with its major economic partners. Currently the most advanced negotiations are with the Comprehensive Economic and Trade Agreement with Canada (CETA), but very recently, the European Union and China have agreed on the launch of negotiations on an EU-wide investment agreement with the People's Republic of China. Due to the current state of international investment protection regime and its many challenges, this

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could be a welcome opportunity to continue shaping the new global legal framework on interational investment protection.

2 INTERNATIONAL LEGAL PROTECTION OF FOREIGN INVESTMENT

The field of international investment law had seen its most significant expansion only in the last two decades. The proliferation of international investment treaties („IIAs“) – bilateral investment treaties and numerous other multilateral investment treaties treaties – have substantially contributed to the protection of foreign investors and their investments in host countries. Quite importantly, nearly all of these international investment treaties allow for the disputes arising betwen foreign investors and host governments due to an alleged breach of the agreed investment protection standards to be brought to international investment arbitration.

Thus, national legislation of each country provides its own conditions for the establishment and operation of foreign investors and hence, creates the actual investment environment of the respective country. However, a crucial role is played by international legal instruments that allow for international investment protection.

Currently, international investment protection is largely covered by international investment treaties. The international investment framework consists of close to 3,000 international investment treaties, including bilateral investment treaties and free trade agreements that include investment protection provisions. Recently, the trend has shifted towards concluding comprehensive trans-regional free trade agreements with detailed investment protection chapters, such as NAFTA, ECT or the currently negotiated Transatlantic Trade and Investment Partnership between the U.S. and the EU (TTIP) or the Comprehensive Economic and Trade Agreement recently agreed upon between Canada and the EU (CETA).

Most investment agreements, both bilateral investment agreeements and free trade agreements with investment chapters contain standard provisions on investment protection standards such as the standard of fair and equitable treatment, non-discrimination standard, full protection and security standard, limits and conditions on expropriation of foreign investments, free transfer of capital clause, most favoured nation clause and national treatment clause. Most investment agreements also provide for international arbitration as a means for resolving international investment disputes. Bilateral investment treaties with arbitration clauses generally allow for foreign investors to directly initiate international arbitration proceedings against the host government in case of their violation of investment protection standards agreed in the investment treaty.

The investment environment in terms of market accession and establishment of foreign investors in each respective country is mainly governed by their national legislation, nothwithstanding each country´s undertakings based on their membership in the WTO and/or OECD[2] as well as other international agreements, double taxation treaties etc.

However, with respect to mutual protection of investment between China and the Slovak Republic, this relationship has been governed mainly by the bilateral investment treaty

[2] Slovak Republic is a member of the OECD, China is not a member of the OECD

between the Czech and Slovak Federative Republic and the People´s Republic of China[3] signed in Beijing on 4 December 1991. Since 1 January 1993, Slovak Republic as a newly independent state has remained bound by this treaty by way of succession.

3 CURRENT INVESTMENT PROTECTION REGIME BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE SLOVAK REPUBLIC

The bilateral investment treaty between the People´s Republic of China and the Slovak Republic signed in 1991[4] follows the policy implemented by the People´s Republic of China during that period in concluding investment treaties with a restricted access of investors to international arbitration.

Based on the bilateral investment treaty between the People´s Republic of China and the Slovak Republic, the investments covered by this treaty are defined as follows:
"every kind of asset invested by investors of one Contracting party in accordance with the laws and regulations of the other Contracting Party in the territory of the latter, including, in particular, though not exclusively:

a) movable and immovable property and other property rights;
b) shares in companies or other form of interest in such companies;
c) a claim to money or to any performance having an economic value;
d) intellectual property rights, including copyrights, trade marks, patents, industrial design, technical processes, know-how, trade secrets, trade names and goodwill;
e) concessions conferred by law, including the concessions to search for or exploit natural resources.“[5]

Based on the above, in can be concluded that the bilateral investment treaty between China and the Slovak Republic currently covers not only foreign direct investment, but also and other rights of investors in China or the Slovak Republic, respectively. This fact is relevant in determining the scope of protection to be provided to investors from China in the European Union and investors from the European Union in China once a EU-wide investment agreement with China is conlcuded in the future.

With respect to investors that enjoy protection under the bilateral investment treaty between the People´s Republic of China and the Slovak Republic, the term *investor* is defined as follows:
„any natural or legal person who invests in the territory of the other Contracting Party.“[6]

More precisely, „the term "natural person" means any natural person having the nationality of either Contracting Party in accordance with its laws“[7] and „the term "legal person" means with respect to either contracting Party, any entity incorporated or constitued in accordance with its laws.“[8]

[3] Agreement between the Government of the People's Republic of China and the Government of the Czevha dn Slovak Federal Republic for the Promotion and Reciprocal Protection of Investment signed at Beijing on 4 December 1991
[4] See the English version of the China-SR BIT available at:
http://investmentpolicyhub.unctad.org/Download/TreatyFile/777
[5] Article I (1) China-SR BIT
[6] Article I (2) China-SR BIT
[7] Article I (2)(a) China-SR BIT
[8] Article I (2)(b) China-SR BIT

With respect to the generally accepted standards of foreign investment protection, the original bilateral investment treaty of 1991 included the most favored nation clause[9], the national treatment clause[10], free transfer of capital clause[11] and the clause on protection against unlawful expropriation[12].

The access of foreign investors to international investment arbitration in this bilateral investment treaty was agreed in a rather limited way and was stipulated in Article 9 as follows:

„Any dispute between an investor of one Contracting Party and the other contracting Party in connection with an investment in the territory of the other Contracting Party shall, as far as possible, be settled amicably through negotiations between the parties to the dispute.“[13]

If the dispute is not settled amicably through negotiations within six months, either party may submit its claim to:

“ a) to the competent court of the Contracting Party accepting the investment;

b) to an international ad hoc arbitral tribunal established under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) as then in force provided that the dispute relates to the amount of compensation for expropriation and any other dispute which is agreed upon by both parties to the dispute (...).“[14]

Thus, this bilateral investment treaty contains „partial consent“ to international arbitration in case of an investment dispute between the foreign investor and the host state. It is limited to claims regarding the compensation granted by the host state to the foreign investor in case of an expropriation and other disputes only if expressly agreed upon by the host state and the foreing investor.

In connection with the recogintion and enforcement of the arbitral award, it is to be stated that both People’s Republic of China and the Slovak Republic are signatories to the 1958 New York Convention[15]. Therefore, the arbitral awards shall be recognised and enforced by both China and the Slovak Republic in accordance with the provisions of the said Convention.

As for the resolution of disputes between the contracting parties themselves, i.e. People’s Republic of China and the Slovak Republic, regarding the interpretation or application of the bilateral investment treaty, these disputes shall be resolved according to Article 8 of the bilateral investment treaty through diplomatic consultations. Otherwise, if not amicably resolved within six months, the dispute shall be submitted to an ad hoc tribunal.

The bilateral investment treaty between the People’s Republic of China and the Slovak Republic signed in 1992 was later amended by the additional protocol, effective since 2007[16]. This additional protocol concerned the provisions on treatment of investment as well as the provisions on free transfer of capital which were slightly modified.

[9] Article 3(1) of the China-SR BIT
[10] Article 3(2) of the China-SR BIT
[11] Article 6 of the China-SR BIT
[12] Article 4 of the China-SR BIT
[13] Article 9 (1) of the China-SR BIT
[14] Article 9 (2) of the China-SR BIT
[15] 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards
[16] Additional Protocol between the Government of the Slovak Republic and the Government of the People’s Republic of China to the Agreement between the Government of the People’s Republic of China and the Government of the Czech and Slovak Federal Republic for the Promotion and Reciprocal Protection of Investment, signed at Bratislava on December 7, 2005

However, the additional protocol had not brought any changes to the agreed scope of the arbitration clause. This has been despite the fact that since 1998, China is considered to have abandoned its practice of restricting access of investors to investment arbitration[17].

Thus, based on the current international legal framework of protection of investment applicable to Slovak and Chinese investors investing in the respective host country, foreign investors may only rely upon national courts of the host country or, in cases limited to disputes on the amount of compensation for expropriation of the investment, to international investment arbitration. This kind of dispute resolution mechanism cannot be considered sufficient in terms of effective claiming of the rights of foreing investors derived from the bilateral investment treaty. Moreover, the open access to international investment arbitration has been widely considered as a separate international standard of investment protection.[18]
It is interesting to note that up to the present time there have been no publicly known investment disputes neither between Slovak investors and China nor between Chinese investors and the Slovak Republic.

In general, there have been very few known investment disputes brought to international arbitration involving the People's Republic of China as a host state.[19]

As far as China's attitute towards ICSID arbitration is concerned, it has also been limited due to the reservations China has made when acceding to the ICSID Convention. According to Article 24, paragraph 4 of the ICSID Convention, China only agreed to submit to ICSID jurisdiction the compensation disputes arising from expropriation and nationalization.[20]

Since 1998, when China signed its first bilateral investment treaty with Barbados accepting full ICSID jurisdiction, it has concluded further nearly 30 investment agreements with full investors' access to international investment arbitration.[21]

Among these, China has signed several bilateral investment treaties with EU member states other than the Slovak Republic that encompass any instances of investment disputes between foreign investors and host states that can be brought before international investment arbitration. An example thereof is the bilateral investment treaty signed between China and the Netherlands:
"(...) if the dispute fails to be resolved within six months since the date being submitted to an amicable settlement, the parties shall unconditionally agree that the dispute is submitted to ICSID or an ad hoc arbitral tribunal established following UNCITRAL Arbitration Rules upon the demanding of the investors concerned."[22]

[17] Irwin A.: Crossing the Ocean by Feeling for the BITs: Investor-State Arbitration in China's Bilateral Investment Treaties, GEGI Working Paper (Research From the Global Economic Governance Initiative), Boston University, May 2014, at p. 2, available at http://www.bu.edu/pardee/files/2014/05/China%E2%80%99s-Bilateral-Investment-Treaties-Working-Paper.pdf
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[19] The only ICSID case known involving China as a host state was Ekran Berhad v. People's Republic of China (ICSID Case No. ARB/11/15) which had been discontinued
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[21] Ibid.
[22] Article 10 of the China-Netherlands BIT 2001

A similar dispute resolution provision was included in the bilateral investment treaty concluded between the People's Republic of China a and Germany in 2003.[23]

This may be regarded as a significant step towards ensuring effective enforcement of investor rights also in the investment agreements China has yet to conclude with its economic partners.

However, despite China's recent trend of concluding bilateral investment treaties with open access to international investment arbitration, the effect brought about by this change of attitude is yet to be seen.

4 EU – NEW COMPREHENSIVE INVESTMENT POLICY

The Treaty of Lisbon has amended the Treaty on Functioning of the European Union (TFEU) also in that it had widened the powers of the European Union in the realm of foreign direct investment. Based on this development, concluding agreements concerning foreign direct investment, i.e. also bilateral and multilateral investment agreements has now become the exclusive competence of the European Union. For the sake of stability of the investment environment in the European Union member states and for greater protection of foreign investors investing in the European Union member states as well as for securing continuance of legal protection of European investors investing in third states outside of the European Union, it had been agreed that all previously concluded investment agreements remain in force, subject to their notification to the European Commission[24], until a EU-wide investment agreement with that particular third country is concluded replacing the original bilateral investment treaty.

With respect to the EU's exclusive competence in concluding future investment agreements with third countries, there are a few unsettled issues within the European Union itself. These concern especially the scope of EU's exclusive competence, particularly whether it covers only foreign direct investment[25] or portfolio investment as well. Notably, most of the international investment treaties include all types of property rights of foreign investors, including portfolio investments. There are numerous expert opinions on this matter. However, should the interpretation excluding portfolio investment from EU's common commercial policy prevail, future EU-wide investment agreements would have to be concluded as mixed agreements.

All the outstanding issues are to be solved in a near future as the first major EU-wide trade and investment agreement to be concluded with a significant trading partner has recently been negotiated between the European Union and Canada (CETA).[26]

Another important issue to be solved is the system of resolution of potential investment disputes that would arise from such a EU-wide investment treaty. Firstly, there is the issue of allocation of responsibility between the EU and its member states for the potential breach of a EU-wide investment treaty. Secondly, should the European Union be held responsible for the breach of the investment treaty, which forum would be available for

[23] See Article 9 of the China-Germany BIT 2003

[24] In very limited circumstances, especially when the bilateral investment treaty is in contradiction with the complex European investment policy, the European Commission may withdraw its authorization for the extra-EU BIT to remain in force

[25] Article 207 (1) of the TFEU only defines foreign direct investment (not „foreign investment") as part of the EU's common commercial policy

[26] Comprehensive Economic and Trade Agreement to be concluded between the European Union and Canada

resolving the dispute in investment arbitration?[27] With respect to allocation of responsibility between the EU and its member states, the question also comes up regarding the financial liability for damages in case of an investment arbitration awards against the EU.[28] All these issues need to be resolved in the course of defining the future complex European investment policy.

5 FUTURE EU-CHINA INVESTMENT AGREEMENT

In January 2014, China and the European Union have launched negotations about a future investment agreement between these two major economic partners.[29] This agreement should replace 26 bilateral investment treaties that individual EU member states have concluded with China in the past. As had been mentioned above, different EU member states have concluded bilateral investment treaties with China that differ in terms of scope of investment protection and access to arbitration. A common EU-wide investment agreement with China may strive to overcome these differences and potentially bring about the optimal protection for investors from both China and the EU.

In addition, it has been stated that the negotiations on the future investment agreement between the EU and China should be „ a test case for both partners' new approaches towards negotiating IIAs and are acknowledged as a stepping stone towards a much bigger project—an EU-China free trade agreement"[30].

Currently, the system of international investment arbitration faces many challenges. Following twenty years of intensive international investment arbitration, the current system of resolution of investment disputes has come to a crossroads. The balance between foreign investor's interests and host state's policy space for adopting measures of public interest, the overall legitimacy of the investor-state dispute resolution due to the increasing number of inconsistent decisions of individual investment arbitration tribunals in similar matters to name a few, have been at the forefront of political and public concerns ever since the rise of international investment arbitration. The protection of rights of foreign investors granted to them through international investment agreements and the rights of host states to take action expected from them in cases of economic crises or in the course of solving various environmental and other societal issues have often clashed and almost as often resulted in substantial amounts of damage compensation granted to foreign investors in international investment arbitration.

The currently negotiated investment agreements or comprehensive trade and investment agreements among key global economic players are putting to test various suggested measures and provisions aimed at alleviating the shortcomings in the current state of regulation of international investment law.

Limiting the rights of foreign investors in specific circumstances through enhancing the policy space of the host state to secure sustainable development, including the protection

[27] The EU currently is not a member to the ICSID Convention and will not be able to become a member under the current wording of the ICSID Convention as only states may become signatories

[28] See Commission Communication "Towards a comprehensive European international investment policy" of 7 July 2010, COM (2010)343 final

[29] EU-China Bilateral Investment Agreement Negotiations, 30 May 2014, EURObiz, Journal of the European Union Chamber of Commerce in China, available at: http://www.eurobiz.com.cn/eu-china-bilateral-investment-agreement-negotiations/

[30] Ibid.

of environment, labor standards, health and safety, human rights or allowing the host state to take necessary action in the aftermath of economic crises, have been among the core negotiated issues.

It had been suggested that the standards of protection of foreign investments, such as provisions reflecting the obligation of fair and equitable treatment to be granted to foreign investments as well as prohibition of their unlawful expropriation, need to be defined in a more precise manner optimally carving out objective situations in which the host states are entitled to take legislative measures they deem necessary in order to protect public interest. Hence, limits would be imposed on the interpretation freedom that international investment tribunals have enjoyed with respect to these investment protection standards in the past.

A significant shift towards achieving a greater balance between the rights of foreign investors and the policy space of the host states has been reported in the course of the CETA negotiations between the European Union and Canada. Up to this point, leaked preliminary drafts of the negotiated agreement on trade and investment between Canada and the European Union suggest that the host state should be exempted from the liability for the breach of the investment protection provisions in specified cases, e.g. in case of „non-discriminatory measures by a Party that are designed and applied to protect legitimate public welfare objectives, such as health, safety and the environment (...)“[31]

The provisions of the newly negotiated CETA may serve as an indicator of the latest EU stance on some of the crucial issues in shaping a new global legal framework for international investment protection.

As for the part of the People's Republic of China, it had also shown its tendency in shifting the limits of the international investment protection, particularly in its bilateral investment treaty concluded with Colombia in 2008 by including an „essential security clause“ stipulating that environmental protection could justify an exception to other provisions of the bilateral investment treaty.[32]

It remains to be seen how much further the policy space of host states will be expanded in terms of international investment protection in the China-EU investment treaty.

With respect to the investor-state dispute settlement, CETA will be the first EU-wide investment treaty to set new standards on resolving investment disputes involving both EU and its member states. While it is expected that investment arbitration will remain the primary method of dispute settlement, the technicalities thereof are yet to be finalized.

6 CONCLUSION

The legal framework for the protection of Chinese investment in the Slovak Republic as well as the protection of Slovak investment in the People's Republic of China as currently applicable is insufficient. The bilateral investment treaty between China and the Slovak Republic concluded in 1991 counts as part of the ‚first generation' Chinese bilateral investment treaties. It only provides for some of the now generally accepted standards of investment protection and it does not provide for an open access to international investment arbitration. Therefore, most of the investment protection standards included in this bilateral

[31] Annex X.11: Expropriation, leaked draft text of CETA as of April 2014, available at http://www.tradejustice.ca/wp-content/uploads/2013/08/EU-Canada-FTA-Negotiations-Investment-chapter-4-April-2014_clean.pdf

[32] Article 5 of the 2008 China-Colombia BIT

investment treaty can hardly be considered effectively enforcable by the investors. There is also a lack of actual investment disputes that would have put to test the current legal regime.

However, as of January 2014, the European Union has started negotiations with the People's Republic of China on a future EU-wide investment treaty. Within its widened exclusive competence in the realm of common commercial policy, the European Union is now entitled to negotiate and conclude agreements concerning foreign direct investment with third countries on behalf of its member states.

This comes at a time crucial to re-defining the scope of international investment protection provided for by international law as well as putting new limits on investor-state dispute settlement mechanism. As both the European Union and the People's Republic of China are major economic partners with significant bargaining power, this investment treaty is highly anticipated as it may set new trends in the realm of international investment protection.

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