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COMPARING THE CZECH-POLISH APPROACH TO CHINA: ASSESSING BOTH CHALLENGES AND OPPORTUNITIES FROM A SECURITY-MINDED PERSPECTIVE

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INTRODUCTION

Former Czech Prime Minister, Bohuslav Sobotka, noted in 2015 during the China Investment Forum in Prague that relations with China were at their historical best. Similar remarks were made in 2016 by the Polish President Andrzej Duda, as he welcomed the Chinese President Xi Jinping on his state visit to Poland. Until recently, such high-level visits and exclusive forums were rather rare, hence these events alone suggest that a change in bilateral relations has occurred in recent years. Often accompanied by a strong insistence on public image, there is no doubt that, with the help of political backing, they signal improved ties.

Leaving aside political dynamics, macroeconomic reality suggests that major trade deficits are characteristic for Sino-Czech and Sino-Polish relations since the early 1990s. Moreover, the relative role of China in foreign direct investment (FDI) stocks is limited in comparison to other trading partners, but there seems to be a tendency to exaggerate the current levels of investment.

Nevertheless, in light of China's economic prowess built over the years, and an increased leverage on the world stage, both the Czech Republic and Poland are keen to find opportunities for cooperation. These two countries share both differences and similarities in their approaches to China. This is partly affected by the transformation process following the disintegration of the Soviet Union, which involved rapid changes and required forming new partnerships. Subsequently, membership within the EU increased attractiveness of both countries as trading partners, which translated into higher trade volumes. In this regard, it is to be expected that the extent of development of bilateral relations with China follows a gradual and continuous process.

With regard to the Belt and Road Initiative, the centerpiece of China's economic diplomacy, both countries afford this fluid project an unprecedented level of attention in an effort to strengthen their strategic partnerships. It shall be noted that, within this framework, the Central European countries are likely to play a less important role by focusing on fairly narrow economic projects. Since the financial crisis in 2008, Beijing has demonstrated increased appetite for European investment inroads, affecting the Czech Republic and Poland to a limited extent as well. It is suspected that Chinese investments will be increasingly situated along this mega project, and that investment projects will mainly correspond with Chinese interests, reflecting a combination of assertive foreign policy and pragmatism.

Although it is undeniable that expanding cooperation will continue and is likely to bring fruitful results in numerous areas, there is a dangerous lack of awareness on possible challenges. Given that China is viewed as strategically important, in part due to the upcoming decrease in EU funds and the saturation of the European market, addressing this debate enhances a security-minded awareness as both the Czech Republic and Poland find themselves at a unique juncture vis-à-vis China.

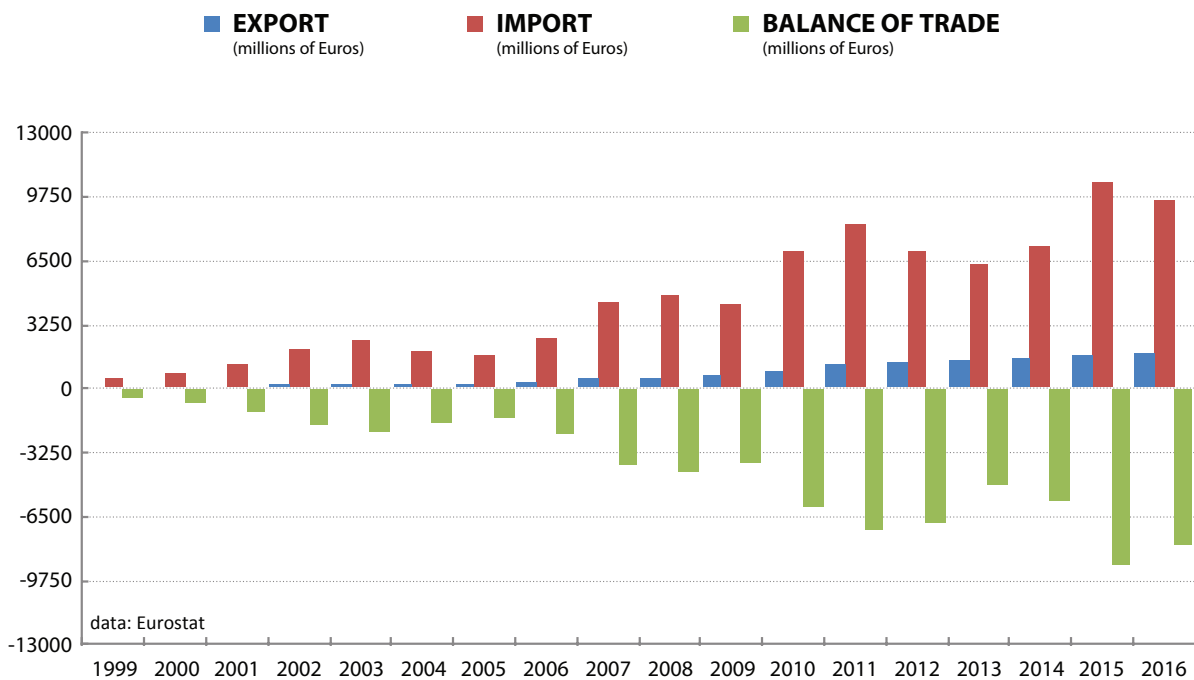
This study seeks to shed light on the development of Sino-Czech and Sino-Polish relations, focusing on the economic point of view. Given the increased debate on China, our efforts also highlight key points and challenges that are associated with such a partnership. The paper also benefits from numerous conversations with members of diplomatic staff, high-level government officials, and representatives of academia and the think-tank community that took place in the framework of this project.

CZECH REPUBLIC

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OVERVIEW OF ECONOMIC RELATIONS BETWEEN CZECH REPUBLIC AND CHINA

Graph 1: Sino-Czech Bilateral Trade



The aim of this chapter is to briefly describe the development of economic relations between the Czech Republic and China, and also to analyze possible developments in the future. The text is divided into four sections. Firstly, it will describe the development of economic relations between the two states in the first decade of the Czech Republic's independence, when the bilateral relations were influenced by the transformation of the Czech economy. Secondly, it will delve into how these relations progressed as the Czech Republic became a member of the EU up until 2012, when economic exchanges started to experience new levels of growth. Thirdly, special attention will be given to 2013 and thereafter, in which Chinese investments significantly entered the Czech market. The last section will consider future prospects for Sino-Czech economic relations.

As can already be seen from the select time period, this chapter briefly reflects important political events that had an impact on the economic ties between the Czech Republic and China. Although the aim of this publication is mainly to examine the economic side of mutual relations, the picture would be incomplete without mentioning its political dimension. This factor is especially relevant in light of the debate on Sino-Czech relations within the Czech Republic, which tends to be highly politicized, polarizing, and used by various actors as a means for pursuing their domestic political agenda.

1993–2003: THE ERA OF MUTUAL DISINTEREST

Even during the communist era prior to the Velvet Revolution, the economic relations between Czechoslovakia and China were limited. Similar to other cases of the Eastern bloc countries, economic

relations were partially driven by an ideological and political struggle between the Soviet Union and China. The limited convalescence of economic linkages took place between 1986 and 1990, however, even over the course of these years the volume of trade remained far behind the intended results.

Despite the fact that major changes that occurred in Czechoslovakia in 1989 undeniably complicated mutual economic ties, these events were not the only reason for their decline. At the time, Czechoslovak goods already had to compete with products made by Western countries in the Chinese market. Czechoslovak goods were unprepared to face such competition due to their lower quality caused by years of state-led planning, in addition to the consequent ongoing restructuring of the Czech economy. Also, Czechoslovak businessmen had limited previous experience with such a competitive trade environment. Moreover, the goal of the new political leadership was to move closer to Western countries (which had certain implications also for the economic domain) and the Chinese market offered limited access. As a result, Czech exports to China dropped to insignificant figures after 1993, and did not recover until the end of the decade. During that time, the dominant export was machinery, while the key import was consumer goods. Chinese imports, on the other hand, following the fall in the early 1990s, were quickly resuscitated and during this period the volume of Chinese exports skyrocketed. This performance was, among other factors, spurred by a liberal customs policy adopted during the economic transformation. In light of this situation, the Czech Republic developed a trade deficit with China by 1994, which has continued to grow ever since.

During this time, there were several Czech businessmen who sought to invest in the Chinese market. However, most of these projects—often realized in the form of joint ventures—did not prove to be very successful (e. g. planned production of forklifts by the Czech-Chinese company Chun-an – Desta ended in bankruptcy). One of the most interesting examples of Czech investment in China during this period is the enlargement of the coal power plant in Shentou, built in the 1980s with the use of Czechoslovak components and technology.

This project, whose planning process began prior to 1989, was agreed to only due to a strong political backing from the side of the then government in 1999.¹ Soon after signing the contract, the Chinese side started to ask for new financial guarantees. In the end, this unprofitable investment was covered by loans from the Czech export bank.

POLITICAL CONTEXT

The political relations between Czech Republic and China were at the time influenced by then Czech President, Václav Havel, as well as by some features of Czech foreign policy in Asia. Regular contacts between Havel and the Dalai Lama in addition to the positive Czech relations with Taiwan were often interpreted from Chinese side as undermining the territorial unity of China. For example, in 1995, the statement of President Havel describing the non-presence of Taiwan in the United Nations as “unfortunate”, lead to a significant crisis in diplomatic relations.² This was then overcome at the beginning of new millennium as diplomatic relations focused predominantly on the economic agenda (e. g. lobbying for the aforementioned Shentou power plant). This emphasis on economic linkages became even stronger when Czech politicians started to perceive the negative trade balance as a problem spurred by differences in political positions.³

Year	Export (millions of Euros)	Import (millions of Euros)	Balance of trade (millions of Euros)
1999	54	528	- 474
2000	71	754	- 683
2001	89	1 198	- 1 109
2002	157	1 991	- 1 834
2003	213	2 417	- 2 204

Source: Eurostat⁴

2004–2012: THE ERA OF GROWING ECONOMIC EXCHANGE

The decade following the joining in the EU, a historical event that generally increased the

1 Miloš Zeman jede do Číny a Vientamu dělat dobrý byznys, Lidové noviny; 14. 12. 1999

2 Václav Havel: Jsem už prostě takový trošku originální prezident; Týden; 13. 11. 1995 (available at http://www.vaclavhavel.cz/showtrans.php?cat=rozhovory&val=743_rozhovory.html&typ=HTML)

3 Furst, Rudolf; Česko-čínské vztahy po roce 1989; Karolinum 2010

4 Data prior 1999 are not available at Eurostat

attractiveness of the Czech Republic as trade partner from China's perspective, is connected to the rapid development of economic relations. During this time, the volume of Czech exports grew steadily. In the year 2004, China represented 0,4 % of all Czech exports, but in 2012 the percentage grew to 1,2 %. As for the composition of trade articles, the most important trade commodity was electronic devices which accounted for 60% of exported goods. It is also important to note that China started to play a significant role due to re-exports. This channel for exports of Czech products occurred mainly through Germany.⁵ On the import side, the volume of Chinese imports continued to increase, tripling in volume from 2004 to 2012. Over the years China's significance as a trading partner for the Czech Republic demonstrated an upward trajectory, while also taking into account the negative trade balance. In 2012, China became the second most important importer to Czech Republic—11% of the share—following Germany, and the most important trade partner outside of the EU. In terms of trade composition, around 75% of these imports were electronic devices.⁶ Despite this rapid growth of mutual trade when compared with the previous decade, Chinese investments in the Czech Republic remained insignificant.⁷

Since 2004 Czech companies began to be much more active in the Chinese market. One of the most illustrative examples is the car company SKODA auto, which is owned by the German consortium Volkswagen. It entered the Chinese market in 2006, and quickly became one of the most popular car brands in the local market.⁸ Another important example is the insurance company Home Credit. Owned by the Czech financial group PPF, it officially entered the Chinese market in 2007. Even though Home Credit was not highly successful in the early stages, it started to cultivate ties within the local environment, and today its parent company PPF is

considered to be one of the most important actors when it comes to nurturing ties with China.⁹

POLITICAL CONTEXT

Despite the rise in economic exchanges since 2004, improvement on the economic side did not show such a strong correlation with political relations. From 2004 to 2006, the new political elite, represented by Czech President Václav Klaus and Prime Minister Jiří Paroubek, attempted to pursue a more positive approach towards China by weakening their previously strong emphasis on human rights, an agenda which they perceived to be harmful for mutual trade.¹⁰ But, with the government formed in 2007, which included the Green party that harshly criticized the Chinese policy towards Tibet, political relations were unable to improve to such an extent as envisioned by the previous government. Moreover, the post of Foreign Affairs Minister was subsequently represented by Karel Schwarzenberg until 2013, with the exception of the short-lived interim government in 2009–2010, who once again emphasized the agenda of human rights in relations towards China. One example was the Czech government's criticism of the 2008 Olympic Games in Beijing. Although the question of relations with China also caused an internal struggle within the government itself, especially after departure of interim government in 2010, the Czech Republic was continuously regarded as one of the most critical countries towards China in the EU.

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- 5 The volume of re-export is difficult to measure, but according to estimates of the Association of small and middle range businesses, its volume was 52 million CZK (app. 2 million Euro) in 2015 (Analýza AMSP ČR: Obchodní a investiční a specifické aktivity mezi ČR a Čínou; Asociace malých a středních podniků a živnostníků ČR; 23. 9. 2016 (available at www.amszp.cz/uploads/dokumenty_2016/TZ/Analýza_obchodnich_a_investicnich_aktivit_mezi_CR_a_Cinou_2.pdf))
- 6 Zahraniční obchod ČR s Čínou – 2005 až 2012; Český statistický úřad; 26. 6. 2013 (available at <https://www.czso.cz/csu/czso/zahranicni-obchod-s-cinou-2005-az-2012-63zz81k8k1>)
- 7 According to the Association of small and middle-range business only 18 Chinese direct investments were realized between 2003 and 2015; those investments accounted for 381 million USD (app. 322 million Euro) and created less than 4000 jobs. (For source see 3)
- 8 Booming China becomes key market for Czech Skoda Auto; Aktuálně; 13. 12. 2010 (available at <https://zpravy.aktualne.cz/booming-china-becomes-key-market-for-czech-skoda-auto/r~i:article:685507/>)
- 9 Czech finance firm banks on bumper borrowing in China; Reuters; 18. 10. 2017 (available at <https://www.reuters.com/article/us-czech-home-credit/czech-finance-firm-banks-on-bumper-borrowing-in-china-idUSKBN1CN1CI>), it is worth to mention that PPF had been preparing its entrance since 2004 when the company's representatives were a part of business delegation that accompanied president Klaus
- 10 On the political and diplomatic side several positive changes were nevertheless achieved – e. g. Chinese prime-minister realized the official visit of Czech Republic, that was postponed since 1999, in 2005

Year	Export (millions of Euros)	Import (millions of Euros)	Balance of trade (millions of Euros)
2004	220	1 881	- 1 661
2005	240	1 676	- 1 436
2006	317	2 606	- 2 289
2007	506	4 335	- 3 829
2008	548	4 720	- 4 172
2009	601	4 302	- 3 701
2010	918	6 929	- 6 011
2011	1 199	8 313	- 7 114
2012	1 301	6 964	- 6 834

Source: Eurostat

FROM 2013 UNTIL NOW: THE ERA OF THE “U-TURN”

The growth of mutual Sino-Czech trade culminated in 2014. Since then, the volume of exports and imports has remained consistent, signifying that China currently accounts for a 1,2% share of Czech exports. The main exported article is vehicle components. For China, the Czech Republic stands for 0,38% of its imports, with the main imported article being phone devices. The balance of trade continues to be negative for Czech Republic,¹¹ however tourism has recently been developing between the two states.¹²

Even though mutual trade is stagnating, foreign direct investments (FDIs) have risen in comparison to the period before 2013. It is especially relevant for the Czech banking company Home Credit, who in 2014 received the license to provide loans to Chinese consumers. Subsequently, the company experienced a rapid boom, and is nowadays the third largest provider of banking services in China. On the other hand, at this time Chinese FDIs in Czech Republic started to demonstrate a notable increase (in 2015 it was 6 661 million CZK, approximately 259 million Euro). In this regard, the most visible Chinese investor is the investment group CEFC (China Energy Company Limited). However, it must

be said that Chinese investments largely focused on areas that did not generate much added value for the Czech economy. The list of acquisitions includes various properties which are briefly described in the following chapter. Regarding the number of Chinese FDIs, they represented only 0,23% of FDIs in the Czech market in 2015.¹³ However, Chinese investors have recently shown a growing appetite for enlarging their ownership stakes.

POLITICAL CONTEXT

Nevertheless, the rather modest state of economic relations with China contrasts with the rhetoric used at the political level. The year 2013 represented a crucial change in Sino-Czech relations, and Czech Republic quickly became one of the most positive countries towards China in the EU. On the one hand, it was spearheaded by the change of the political representation; the new government and new President, Miloš Zeman, set the improvement of bilateral relations as a key goal on their agenda. This issue promptly turned into a topic of internal political struggle between the government, which was seeking to attract new investment opportunities, and the opposition, which was against what they perceived to be a removal of human rights from foreign policy agenda.¹⁴ On the other hand, there was an eminent interest of influential business groups, especially from the investment group PPF, which needed political backing for their interests in China.¹⁵ The Chinese were also experiencing a demand for furthering the development of relations; at the same time the “One Belt, One Road” initiative and 16 + 1 framework was introduced. All these factors combined lead to the “U-turn” of the Czech policy towards China. However, there is evidence to suggest that this change was based on a false or premature assumption (at least partly). Chinese investors did not bring as many investments as the Czech government initially hoped, and the Czech market turned out to be less attractive for Chinese businessmen than

11 Mudrová, Renata, Semerák, Vilém; One Belt, one road in 2017; Conference presentation at Warsaw 2017

12 350 00 Chinese tourists Czech Republic in 2016 – that is two-times more than in 2013 (Do Česka přijíždí rekordní počet turistů. Podívejte se, odkud přijíždějí a co je nejvíce láká; Aktuálně; 25. 6. 2017; available at <https://zpravy.aktualne.cz/ekonomika/turiste-v-cesku/r~39181512571f11e7898e002590604f2e/>)

13 See 10

14 Turcsányi, Richard; Is the Czech Republic Chinas New “Bridge to Europe”?; The Diplomat; 12. 9. 2015 (available at <https://thediplomat.com/2015/09/is-the-czech-republic-chinas-new-bridge-to-europe/>)

15 Břešťan, Robert; Petr Kellner a Čína. Nejbohatší Čech zavelel k politickému obratu a Home Credit vytrvale roste; HlídacíPes; 20. 6. 2017 (available at <https://hlidacipes.org/petr-kellner-cina-nejbohatsi-cech-zavelel-k-politickemu-obratu-home-credit-vytrvale-roste/>)

previously suggested by the Czech government representatives.¹⁶

Year	Export (millions of Euros)	Import (millions of Euros)	Balance of trade (millions of Euros)
2013	1446	6281	- 4835
2014	1541	7156	- 5615
2015	1671	10528	- 8911
2016	1733	9624	- 7891

Source: Eurostat

FUTURE PROSPECTS OF SINO-CZECH ECONOMIC RELATIONS

The upcoming era of Sino-Czech economic relations could be labelled as sobering. Despite high expectations, only a limited number of planned projects were implemented. The rapid growth of the Czech economy may soon show signs of overheating. Given that the relatively small Czech market offers only limited possibilities for new investments, there is no reason to expect another period of steady growth in mutual economic exchanges, or an unexpected influx of new Chinese FDIs. The stagnation that followed after 2013 seems to be a new normal, since mutual trade has appeared to have reached its limits. Although the trade balance is still negative for the Czech economy, it is questionable if this state of affairs can be changed through the use of

NOTEWORTHY CHINESE INVESTMENTS IN CZECH REPUBLIC

As described in previous chapter, within a span of few years, the Czech Republic has moved away from a country perceived among the EU countries to be one of the most critical toward China to a position which enabled the country to attract attention of some of the largest Chinese companies. This included successes as was the case with one of the world's leading banks, the Industrial and Commercial Bank of China (ICBC) opening its branch in Prague, as well as setbacks, especially as the Czech Ministry

political tools, and if it is not simply a logical result of trade ties between highly unequal economies. In this regard, it is important to note that re-exports create a significant part of economic exchange between China and the Czech Republic. This might inspire Czech policy-makers as they create strategies for the future, because the economic relations between the Czech Republic and China should not be perceived only from a bilateral level, but within the EU framework where the Czech Republic may demonstrate greater activism.

Following the 2017 parliamentary elections, the new political leadership is likely to descend from the honeymoon period in relations with China. The leader of the strongest political party ANO and current Prime Minister, Andrej Babiš, has already voiced his dissatisfaction several times with the results of Chinese investment into the Czech economy.¹⁷ The Social Democrats, on the other hand, which had in its ranks a number of representatives promoting stronger ties with China, suffered significant losses during the election. Moreover, the most vocal proponent of Chinese investments, President Zeman, will have to fight for re-election in January 2018. In light of these shifts, the changing political representation could bring about the return of standard diplomatic relations which will not be accompanied by controversial gestures. This could thus usher in a more rational phase and apolitical debate about the factual prospects, as well as challenges, which accompany economic ties with China.

of Interior has rejected cooperation with Huawei technology in September 2016 on security grounds.¹⁸

On a general level, the past few years demonstrated an unprecedented turn in bilateral relations. A wave of Chinese investments was promised as result of this transformation, especially evident since 2013, partly in an effort to explain the necessary readjustments of the Czech Republic's policy toward China and implicit accommodation of China's interests.

16 Čínské investice v Česku. Nadměrná očekávání střídá hluboké zklamání; IDNES; 24. 10. 2016 (available at https://ekonomika.idnes.cz/vzajemny-obchod-s-cinou--letos-klesa-rada-projektu-ma-zpozdeni-pub-/ekonomika.aspx?c=A161024_164929_ekonomika_rts)

17 Babiš: Čínské investice v Česku nevidím, peníze jdou do kapes soukromníkům; ČT24; 26. 10. 2016 (available at <http://www.ceskatelevize.cz/ct24/domaci/1943794-babis-cinske-investice-v-cesku-nevidim-penize-jdou-do-kapes-soukromniku>)

18 Kundra, Ondřej; Čínská Huawei nesmí na české vnitro, Respekt, 3. 9. 2016 (available at: <https://www.respekt.cz/tydenik/2016/36/cinska-huawei-nesmi-na-ceske-vnitro>)

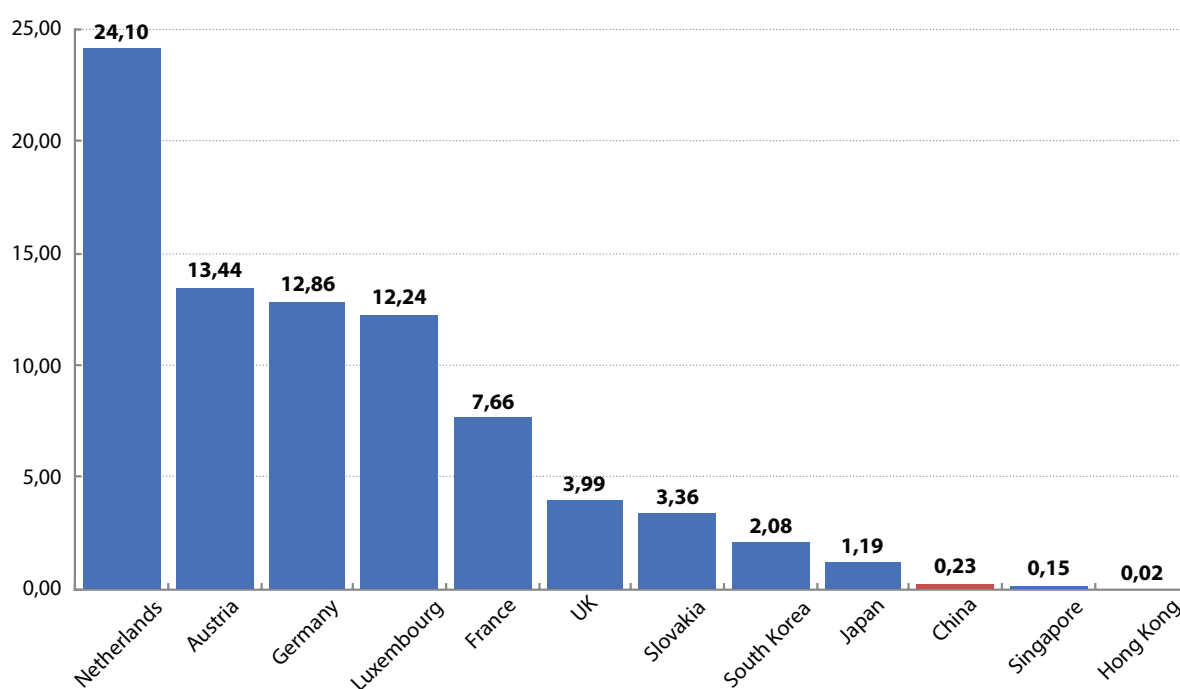
Retrospectively it can be assessed, however, that pompous declarations by Czech state officials about large investment inroads were too ambitious. Since the pragmatic economic approach vis-à-vis China gained an upper hand in the foreign policy toolkit, the largest projects realized by Chinese investors focused upon acquisitions, instead of investments benefiting the general economy.

More than one year after the visit by President Xi Jinping in Prague in 2016, which spurred concerns about invasion of Chinese capital, it is fair to say that the level of investments coming from China is still relatively insignificant in comparison to the Czech Republic's most important investors such as Netherlands, Austria, Germany or other key partners. Instead, what existing trends on Chinese investment injections in the Czech Republic show is exaggeration about its impact, as well as unhelpful generalization, which negatively contributes to the broader debate on China.

relevant to specific actors. While this may seem as a condition in order to achieve improved business relations, it leads to heightened polarization and could be dependent upon election cycles. If the current state of relations continues, created partnerships and informal alliances may have laid the groundwork for more targeted investments. Moreover, there are already clear attempts to focus on strategic sectors such as airlines or nuclear sphere, and thus adequate mechanisms should be put in place to examine potential security implications. This is especially relevant in light of recent case with Prague-based company HE3DA focusing on production of batteries and energy efficiency, whose daughter company HE3DA Technologies, created in an effort of joint production with Chinese investor CDG, currently faces legal action due an attempt to get access to sensitive information.²⁰

The recent process of catching-up to improve bilateral ties with China was largely realized along

Graph 2: Relative role of China in FDI stocks in the Czech Republic (December 2015, %)¹⁹



At the same time, there are concrete examples which indicate a large interconnectedness between the political and business sphere. This is especially

with the Belt and Road initiative gaining prominence, concept for a mega project promoted by the Chinese government. In this regard, the Czech Republic

¹⁹ Mudrová, Renata, Semerák, Vilém; One Belt, One Road in 2017; conference presentation in Warsaw, September 2017.

²⁰ Břešťan, Robert. Čínská špionáž u českého výrobce baterií. Zapadá do strategie Pekingu stahovat "domů" nové technologie. Hlídací Pes. 8 listopadu 2017 (available <https://hlidacipes.org/cinska-spionaz-u-ceskeho-vyrobce-baterii-zapada-strategie-pekingu-stahovat-domu-nove-technologie/>)

sought to position itself as a bridge to Central Europe which shows a clear intent to be a part of this fluid project and preparedness to make concessions if required.

THE MOST VISIBLE ACTOR – SHANGHAI-BASED CEFC

In light of close cooperation with the previously ruling left-wing political elite that encouraged Chinese investment, one of the most visible actors on the Czech scene has been the Shanghai-based company China Energy Company Limited (CEFC China, CEFC China Energy Company), which invests mainly in energy, petrochemical industry and finance. Through this entity China has been making an effort in the past few years to expand its influence in the Czech Republic, but also Kazakhstan, Russia or Romania. It may be privately-owned on paper, but this little-known company linked to the People's Liberation Army clearly follows the national strategies by situating its activities along the route of the Belt and Road Initiative.²¹

Their business activities in the Czech Republic are predominantly represented by the former Czech defense minister Jaroslav Tvrdík and Ye Jianmin, the company's founder, who has been appointed as unofficial adviser to President Miloš Zeman when the company entered the Czech market in 2015. Most recently, former EU Commissioner Štefan Füle joined CEFC Group Europe.

The company's main investment inroads have mainly taken the form of acquisitions. Specifically, looking more closely at the contours of its business plan, it paid special attention to getting a foothold in a wide range of sectors including finance, media, aviation, heavy industry or tourism. Added value of these investments, however, has since been challenged due to limited number of created job opportunities. In the vast majority of cases CEFC investments went into functioning entities, instead of supporting greenfield projects.

In 2015 CEFC announced a series of acquisitions that were mostly symbolic. As a relatively young investor in Central Europe these new inroads served the purpose of building positive image. It tested the business environment by purchasing a number of assets such as five star hotels Mandarin Oriental Prague and Le Palais Art Hotel Prague, brewery

Lobkowicz, internet tourism agency Invia.cz or Prague-based football club Slavia. In addition, CEFC engages in the construction of a clinic in Hradec Kralové to foster traditional Chinese medicine. As can be seen, diversity of its business portfolio suggests a comprehensive effort to understand the local market conditions and build people-to-people contacts. Some of the most important investments are briefly described below.

J & T FINANCE GROUP

Among the most noteworthy investments by CEFC in the Czech Republic has been the acquisition of shares in Prague-based financial entity J & T Finance Group, which is active on the Russian, Slovakian and Croatian markets. Since early 2016 CEFC holds a 9,9 % stake in the company, but is in the process of purchasing additional 40,1 %. It is yet to be disclosed what outcome this cooperation between CEFC and J & T Finance Group will bring, but it was previously suggested that both entities may set up joint investment fund of up to 5 million euros.

MEDIA

While CEFC was a relatively unknown company until a few years ago, it attracted greater visibility by partnering with media houses Empressa Média and Médea Group. This partnership was formally finalized in February 2016. By purchasing a 49 % stake in Empressa Média CEFC promptly gained a dominant foothold in one of the largest media groups in the Czech Republic whose business activities range from popular weeklies (Týden, Instinkt) to a television channel TV Barandov. Médea Group, on the other hand, in which CEFC received a minority stake, is instead a communication company offering full spectrum of services, including analysis of target audience or impact evaluation.

Although CEFC withdrew its support from media house approximately a year later, there is hardly any doubt it received valuable know-how and insight on media operations within and outside the Czech Republic. By working as a part of growing media agency in the EU, important lessons have been learned and can be utilized in future. Possible glimpse of this continuation was suggested in November when CEFC figured among investors

21 Hornby, Lucy, Weinland, Don; Opaque Chinese oil group makes clear gains in former Soviet bloc; Financial Times, 13. September 2017 (available at <https://www.ft.com/content/e3f8cbd2-983f-11e7-a652-cde3f882dd7b>)

that are interested in acquiring Central European Media Enterprise (CME) which controls the largest TV channel Nova in the Czech Republic and Slovakia.²²

AIRLINES

Another noteworthy investment is the 50% stake in Czech airline Travel Service, a charter operator and low-cost airline under the Smartwings brand. Travel Service holds 34% stake in Czech national flag carrier Czech Airlines (CSA) thanks to which CEFC investment group has indirect ownership control over this carrier. As reported in October, Travel Service currently demonstrates efforts to buy Korean Air's and the Czech government's stakes in CSA, which together control close to 64%.²³ Thus CEFC is undertaking a process through which it seeks to expand its leverage over Czech aviation.

CHINA GENERAL NUCLEAR POWER (CGN) AND NUCLEAR POWER PLANT DUKOVANY

Plans to expand the Czech nuclear power plants Dukovany is an issue of strategic importance to the Czech Republic. Meanwhile the previous tender related to expansion of nuclear power plant Temelín was canceled in 2014 over the project's dubious

economic viability, it is currently planned to expand the nuclear power plant Dukovany. Among the firms that are currently eyeing for this lucrative contract is the state-owned China General Nuclear Power (CGN). It was first announced during a visit by China's First Deputy Prime Minister Zhang Gaoli in 2014 that Chinese firms would like to participate in the bidding process.²⁴

In last decade China has built a remarkable industrial potential to build nuclear power plants, hence its interest in Dukovany project is not entirely surprising. It is especially noteworthy as CGN, together with French EDF, is involved in the British Hinkley Point C nuclear power plant project. Both companies are also collaborating on a planned Bradwell nuclear plant, where it is expected that Chinese-built reactor will be used for the first time on European territory. Prior to the announcement of this deal, scheduled for President Xi Jinping's visit to the UK in 2015, it was accompanied by concerns about national security because some members of security community found China's involvement in a UK nuclear project as potentially sensitive.²⁵ It thus led to a revised agreement. As a result, EDF is currently barred from selling its stake in the power plant during construction and the British government holds a "golden share" for future nuclear schemes.

22 Reuters: Čínská CEFC a Penta mají zájem o CME, majitele Novy, ČTK, 22. 11. 2017 (available at <http://www.ceskenoviny.cz/zpravy/reuters-cinska-cefc-a-penta-maji-zajem-o-cme-majitele-novy/1553516>)

23 Muller Robert, Lopatka, Jan; Czech Travel Service buying Czech Airlines stakes from Korean Air, government: Czech TV, Reuters, 6 October 2017 (available at <https://www.reuters.com/article/us-csa-travelservice-koreanair/czech-travel-service-buying-czech-airlines-stakes-from-korean-air-government-czech-tv-idUSKBN1CB12A>)

24 Richter, Jan; Chinese and Korean firms eyeing future Temelín nuclear deal; Radio Prague, 3. 9. 2014 (available at <http://www.radio.cz/en/section/marketplace/chinese-and-korean-firms-eying-future-temelin-nuclear-deal>)

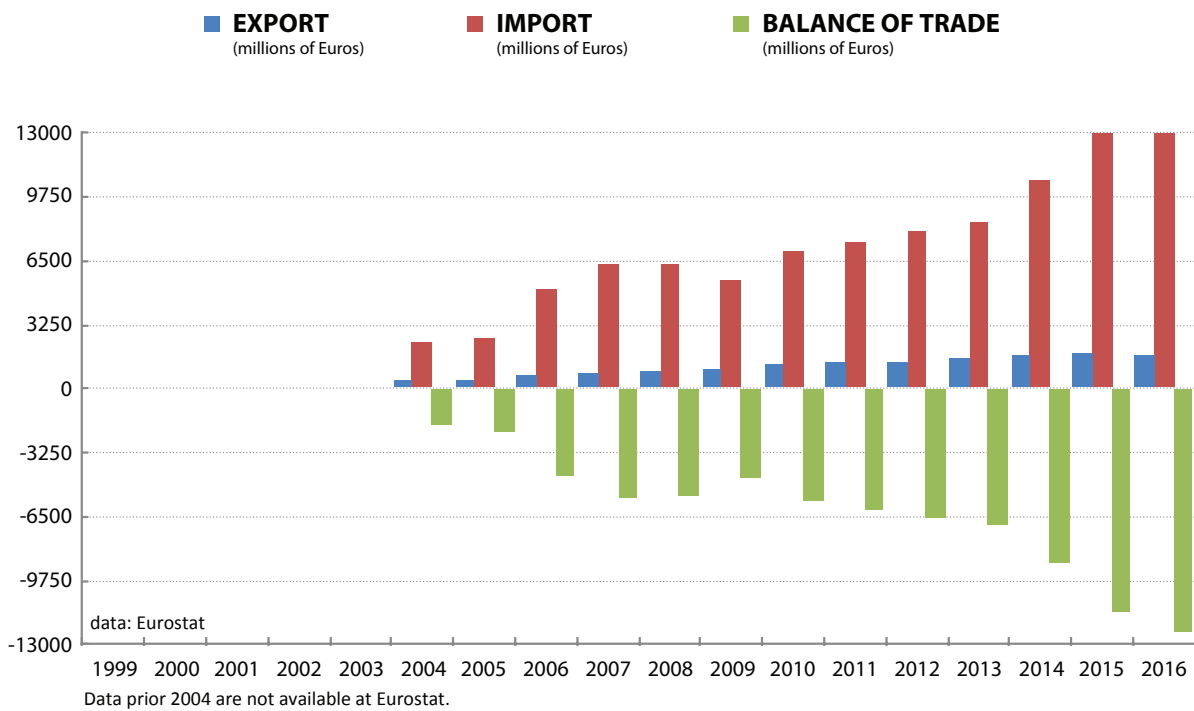
25 Ward, Andrew, Pickard, Jim, Stothard, Michael; Hinkley go-ahead after 'national security' safeguards; Financial Times, September 15, 2016 (available at <https://www.ft.com/content/0cde26b6-7b66-11e6-b837-eb4b4333ee43>)

POLAND

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OVERVIEW OF ECONOMIC RELATIONS BETWEEN POLAND AND CHINA

Graph 3: Sino-Polish Bilateral Trade



Poland has made many “firsts” in Chinese diplomatic history. It was one of the first countries, after the Soviet Union, to establish diplomatic relations with the new authorities in the People’s Republic of China – a new Polish diplomatic mission was launched in Beijing as early as in 1949. Poland set up the first joint venture in the Middle Kingdom; a Chinese-Polish Joint Stock Shipping Company that started in 1951 with six old vessels and has developed with time into an ocean-wide shipping corporation with net assets today of over 300 million USD. In addition, Poland was the first to sign a cultural cooperation agreement with China, also in 1951. In spite of all of this, for many decades the Sino-Polish relations were not very developed, nevertheless, China’s position in Poland grew in

strength as a trade partner, especially in the import sector.

The situation began to change about ten years ago, with the turning point being the establishment of a Strategic Partnership between Poland and China in 2011 and the launch of the official government’s program “Go China” aiming to enhance cooperation between Polish companies and their Chinese partners. Since then bilateral relations have intensified. The trade exchange increased by over 30%, while Chinese companies invested over one billion dollars in Poland.²⁶ In 2012, the first ever summit of prime ministers from China, Poland, and 15 other countries in Central and Eastern Europe, took place in Warsaw, marking the official beginning

26 Ministry of Foreign Affairs, Polish Embassy in Pekin, Wymiana handlowa i aktywność inwestycyjna (available at http://www.pekin.msz.gov.pl/pl/wspolpraca_dwustronna/wspolpracagospodarcza/wymianahandlowa/)

of the “16+1” platform. It has created a favourable political atmosphere for the bilateral engagement in the Chinese project, “One Belt One Road”, officially launched by President Xi Jinping in September 2013.

The Polish elections in 2015 brought the change of both the president and the government but did not change the Warsaw’s strategy towards Beijing. China was the first Asian country that Polish President Andrzej Duda visited soon after taking office in November 2015. A memorandum on an agreement between the Polish and Chinese governments on jointly supporting the One Belt, One Road initiative was then signed. The following year, during the President Xi Jinping’s visit to Poland in June 2016, a declaration was adopted regarding the strategic partnership reiterated once again that Poland and China viewed each other as long-term and stable strategic partners.²⁷ Some forty deals and memoranda of understanding were also subscribed, mostly related to construction, raw materials, energy, new technologies, finance and science. Both the Polish and Chinese presidents jointly greeted the arrival of the first China Railway Express train that arrived in Warsaw, symbolically inaugurating the opening of the New Silk Road.

During the First Edition of the Belt and Road Forum held in Beijing in May 2017, the then Polish Prime Minister, Beata Szydło, discussed with President Xi Jinping and Prime Minister Li Keqiang the possibilities of deepening economic cooperation with China, with particular focus on issues related to increasing Sino-Polish trade turnover, as well as removing barriers to the Chinese market for Polish products, which is still an obstacle both parties are facing.²⁸ A memorandum on cooperation in the field of water management was signed between the Government of the Republic of Poland and the Government of the People’s Republic of China, as well as an agreement on cooperation in the field of tourism. Since 2012, Warsaw has had direct flights to Beijing, provided by LOT Polish

Airlines, which facilitates exchange in both the business and tourism sectors.

Moreover, Poland is the only Central European co-founder of the Asian Infrastructure Investment Bank (AIIB), with a share of 831.8 million USD, which translates to less than 1 percent of the AIIB’s capital, granting Poland slightly more than 1 percent of the vote (three times more than Hungary, the only other AIIB member from the Visegrad region, who became a member in 2017).²⁹ Poland is treating its accession to this global institution as an investment in the future, in light of the realisation that the EU funds will eventually run out; hence why the Polish Sejm voted unanimously in support of Poland’s membership in the AIIB.³⁰ During the parliamentary debate on the ratification of the agreement, similarities between the AIIB and the European Bank for Reconstruction and Development, or the European Investment Bank were pointed out. Being a member, Poland is hoping to influence the bank’s activities, and put forward projects considered important from the Polish perspective. Polish companies are interested in taking part in infrastructural tenders and exporting products to Middle East, Central Asia and ASEAN region.

Poland has been China’s largest trading partner in Central and Eastern Europe, while China has been Poland’s largest trading partner in Asia, and second largest importer overall.³¹ However, from the Polish point of view, the biggest problem of Polish-Sino economic relations is the drastic imbalance between exports and imports. According to the Central Statistical Office, in 2016 Poland’s export to China accounted for twelve times less the value of their imports, creating a trade deficit equal to 20 billion EUR.³² Poland imports machines, electronic and mechanical equipment—especially telecom equipment—parts and accessories, as well as computers, radio and TV equipment from China. Other key product groups are textiles, apparel and footwear, metals and metal products. Poland also imports household decor, toys and sports accessories,

27 Polish President’s official website (available at: <http://www.prezydent.pl/aktualnosci/wydarzenia/art.258,wspolne-oswiadczenie-ws-ustanowienia-wszechstronnego-strategicznego-partnerstwa.html>)

28 Polish Prime Minister’s official website (article available at: <https://www.premier.gov.pl/mobile/wydarzenia/aktualnosci/premier-beata-szydlo-w-pekiniu-polska-wiaze-duze-oczekiwania-z-projektem-pasa.html>)

29 AIIB Welcomes New Prospective Members, March 23, 2017, AIIB website (article available at: https://www.aiib.org/en/news-events/news/2017/20170323_001.html)

30 Kaliński, Adam; Poland joins the Asian Infrastructure Investment Bank and hopes for benefits; Central European Financial Observer; May 11, 2016, (article available at: <https://financialobserver.eu/poland/poland-joins-the-asian-infrastructure-investment-bank-and-hopes-for-benefits/>)

31 Xinhuanet News Agency; Xi’s visit to usher in new era in China-Poland partnership; June 16, 2016 (article available at: http://news.xinhuanet.com/english/2016-06/16/c_135442123.htm)

32 Matejak, Aldona B.; Obroty towarowe handlu zagranicznego ogółem i według krajów w okresie styczeń – grudzień 2016 r.; Główny Urząd Statystyczny; February 16, 2017

chemical products, rubbers and plastics, precision and optical appliances as well as transportation equipment from China. The value of Polish imports in 2016 amounted to 22 billion EUR.³³

Polish exports to China constitute but a fraction of the value of the imports amounting to just 2 billion EUR in 2016.³⁴ Metals and metal products constitute the key element of Polish exports to China, especially copper and its derivatives (this constitutes 1/3 of all exports). Other important categories include machinery and electronic equipment, car parts, chemical products, as well as rubber and plastics. The Chinese market also welcomes Polish quality fruits, dairy and other agricultural products. There is a potential for further development of trade, as the Chinese middle class continues to grow and is eager to buy expensive goods of higher quality, ranging from organic and ecological agricultural products to handicraft, fashion, art, cosmetics and traditional or bio health products. It has to be noted, however, that China is the largest world producer of pork and apples, and the second largest world producer of poultry, so it is not very likely that the DRC will go for a considerable share of imported food products—despite Polish attempts to promote them to the Chinese market at the times of Russian counter-sanctions. China is for Poland barely the 21st largest export market.

Also, the scale of Chinese investments in Poland looks very modest. Although in 2016 they reached the value of 563 million USD, this gave Poland only the eighth position in Europe.³⁵ Chinese investors focus primarily on Germany and the UK, which account for 46 percent of all investment in Europe. For comparison, Germany attracted over 12 billion USD of investment last year, while the UK attracted 9 billion USD. Regarding the prospect of China's investment, Poland prefers foreign direct investment, the building of factories (greenfield investments) and job opportunities for local people. There is always some hope that Chinese construction companies will build new roads, railway stations and power plants – and at the same time will finance these investments. In reality, a “Chinese investment” often means a loan, given (on more or less preferential conditions) to the Polish government, regions or entrepreneurs by Chinese financial institutions. Chinese companies then manifest these investments with this

borrowed money. Part of it will stay with Polish sub-contractors, but the majority will go back to China. Regarding acquisition, there is a growing concern that the Chinese will take over leading technological companies, transfer the know-how, and will then have no interest in keeping these facilities.

Perhaps the biggest challenge to Chinese financial expansion is that the present Polish government has been focusing on cooperation with the USA, which is attempting to counter the growing importance of China in the world. Competing with Beijing for hegemony and leverage, Washington is somewhat averse to the dynamic Chinese presence not only in Poland, but also in the whole region. China has been more and more visible, especially with the “One Belt, One Road” initiative, with its new air and train connections, takeovers, investments, business talks, international summits, partnership programs, academic co-operation and exchange. It is argued that another factor withholding Polish-Chinese economic cooperation connected to the lobbying of some European countries against Chinese investment, so as to protect the interests of their companies on the Polish market. In addition, Poland seems to lack a comprehensive and consistent strategy to attract Chinese investors, as well as a broader, more precise information and promotion campaign.

It is still a popular narrative in Poland that the country is a natural and real leader of the 16+1 format. However, this is not taking place in practice and the Polish position is not that strong. At the same time, Germany and some other EU countries, as well as the European Commission, are suspicious towards the initiative, seeing it as a platform to build Chinese leverage in Europe, rather than as a regional initiative that would bring advantages to the whole of Union. Another challenge is possible competition for regional influence and attracting Chinese investment within other Central and Eastern European countries under the “16+1” formula. Poland owns specific advantages that match China's goals under the initiative, such as geographical position, transportation, and logistics industries, thanks to which Poland could potentially be a production and distribution centre for commodities from countries along the Silk Road Economic Belt to different European destinations.

33 See: note 7.

34 Ibid.

35 Kalwasiński, Maciej; Rekord chińskich inwestycji w Polsce; Bankier; March 6, 2017 (available at: <https://www.bankier.pl/wiadomosc/Rekord-chińskich-inwestycji-w-Polsce-7501220.html>)

CHINESE INVESTMENTS IN POLAND

For the biggest country in Central Europe – like Poland – the 6th largest economy in the EU³⁶ with substantial infrastructural needs, the scope and value of Chinese investment is disappointing. Chinese companies, unlike South Korean ones, are not ranked on the list of larger investors in Poland, according to data quoted by TVN24BIS.³⁷ Rhodium Group's research shows that the value of all Chinese Direct Investments in Poland between 2000-2016 equaled as little as 936 million EUR, with over half of this amount achieved last year.³⁸ However, as radical as the rise might seem, the scale of Chinese investment is still relatively small—especially in comparison with some of the large infrastructural projects in the Balkans (for example, an investment of 580 million EUR from the Chinese Exim Bank for highway construction in Macedonia and Montenegro, or an investment of 689 million EUR for a highway leading from the port of Bar to the Serbian border).³⁹ Only three transactions accounted for the 2016 record sum, two of which were acquisitions⁴⁰; the company China Three Gorges Group took over the Polish assets of the Portuguese EDP Renováveis—a global renewable energy company—for 398 million USD, in addition to the acquisition of Novago—a leading solid waste treatment enterprise—by the China Everbright International for 123 million USD. Only one investment was „greenfield“ and of a much smaller value (42 million USD): a global manufacturer of aluminum structures, the Chunxing Group, opened a prototyping workshop in Gdańsk.

These examples demonstrate a larger trend that has been observed not only in Poland, but also across Europe. The Chinese are mostly focused on mergers and acquisitions, particularly of innovative companies

in the field of new technologies,⁴¹ companies looking for advanced technological solutions,⁴² or finally, industries important from the point of view of Chinese interests in Europe⁴³ and the Chinese market.⁴⁴

Consequently, China's investments in Poland are welcomed with distrust, despite the popular expectation that Chinese companies will sponsor the construction of roads, airports and factories. A paradox can thus be observed: on the one hand, China is perceived as a sort of a “Santa Claus” who will make way for costly projects, on the other, China is perceived as a threat, especially given that some concerns are not unjustified. Cases of reduction of employment as a result of Chinese acquisitions can be observed in Poland. A well-known example is in the case of Huta Stalowa Wola (a construction equipment manufacturer) where Liu Gong Machinery invested over 75 million USD, promising the enterprise would blossom, but encountered problems and eventually workers were made redundant. However, LDM, which today employs about 1200 workers, still remains one of the largest employers in the region, and is planning to develop new projects. Fortunately for Sino-Polish relations, former allegations that the Chinese acquired the company to destroy it in an attempt to dispose of competition on the global market turned out to be unfounded.

Nevertheless, the credibility and image of Chinese investors is still overshadowed to a certain extent by the infamous deal with the China Overseas Engineering Group Co. (Covec), one of the largest construction and engineering companies in Asia. In 2009, the company won a contract to build two sections of the A2 highway in Poland for a price

36 Szczudlik, Justyna; Poland in China's Foreign Policy—Not Only Economic; PISM Bulletin; June 16, 2016 (available at: <http://www.pism.pl/publications/bulletin/no-38-888>)

37 Bednarczyk, Mateusz; Koreańczycy zdetrzonizowali Niemców. Lista największych inwestycji w Polsce; October 14, 2017; tvn24bis.pl (available at: <http://tvn24bis.pl/pieniadze/79/najwieksze-inwestycje-zagraniczne-w-polsce-po-1989-roku,781349.html>)

38 See: note 10.

39 Szpala, Marta; Chiny „wyrczają” Unię Europejską na Bałkanach Zachodnich; WNP Economic Portal; December 12, 2017 (available at: http://www.wnp.pl/rynki-zagraniczne/chiny-wyrczaja-unie-europejska-na-balkanach-zachodnich,311981_1_0_1.html)

40 Góralczyk, Bogdan; The Chinese are coming to Poland; Central European Financial Observer; February 3, 2017 (available at: <https://financialobserver.eu/poland/the-chinese-are-coming-to-poland/>)

41 Such as the high-profile acquisition of Kuka, the German manufacturer of industrial robots.

42 Such as the afore-mentioned Novago, which is involved in the production of energy from alternative sources, including waste-to-energy, which is very important for the heavily polluted China, or Bioton, a Warsaw Stock Exchange listed company, one the first worldwide producers of recombinant of human insulin, which is in high demand by millions of Chinese diabetics.

43 Zhonglu Fruit Juice To Buy Poland's Appol For 68.5 Million Zloty, Reuters Agency; December 15, 2017; (available at: <https://af.reuters.com/article/commoditiesNews/idAFH9N1OD01Y>)

44 Such as beverage manufacturing—Zhonglu Fruit Juice Co. has just announced its plans to take over Poland's Appol, a leading apple juice producer in Europe.

of about 447 million USD, which was considered impossibly cheap.⁴⁵ Soon after construction began, the consortium encountered liquidity problems, and delayed payments to local subcontractors. Consequently, the work was halted, which created a major concern for the Polish authorities just before the Euro 2012 soccer championships which Poland was hosting for the first time; the contract was then cancelled. The dispute between Covec and the Polish General Directorate of National Roads and Motorways with claims exceeding one billion PLN was settled amicably only in July 2017.⁴⁶ On the one hand, the settlement is important from the point of view of the Sino-Polish relations in the field of economic cooperation, and creates a more favourable climate for further Chinese investments. On the other hand, a concern regarding the Chinese practice of selling goods and services at dumping prices still remains legitimate. This concern has even been demonstrated in the recent EU decision to single out China as distorted state-run economy, and to introduce new rules to guard against excessively cheap Chinese imports.

It has also to be noted that in Poland, Chinese companies are building strategic investments in the field of energy security. In 2016, the Sinohydro Corporation won Polish Power Grid Company's (Polskie Sieci Energetyczne, PSE) tender for the construction of a 67-km long section of the high power transmission line between Chełm and Lublin.⁴⁷ Two years earlier, the Pinggao group, a subsidiary of the State Grid Corporation of China, won several infrastructural tenders, owned by PSE, for the modernization and construction of the transmission networks near Gdańsk, along with the flagship project of the Żarnowiec-Gdańsk Błonia line. However, these are not Chinese investments, since it is PSE who finances the realisation of these activities, and the sub-contractors are Polish. In all these cases, the lowest price was the main criterion for the selection of the successful tenderer. Earlier, the Chinese had tried in vain to purchase at least one power block in the Kozienice power plant. It is worth

mentioning that one of the bidders was Covec, who filed the lowest bid for the construction of the block.⁴⁸

An increasing number of new projects executed in cooperation with China are done on a regional level. There are also an expanding number of initiatives by local authorities (including even the smallest entities), who, in an attempt to attract Chinese investments, organise business meetings with Chinese entrepreneurs or presentations of possible investment opportunities in their region. In 2016, the PCC Intermodal terminal in Kutno launched a regular connection to China. From there, Chinese shipments are sent to Rotterdam, Hamburg and Berlin. Łódź, which had previously launched a railway connection to the Chinese city of Chengdu (the capital of the most populous province of Sichuan) hopes to become an infrastructural hub in the land-based part of the New Silk Road, which will run across Europe, as well as the future location of a logistics and science park. The authorities of Opole signed an agreement with the Chinese company Hongbo for the sale of a property for nearly 80 million USD, intended for the construction of an LED lamp factory—much to the discontent of the existing Polish company Auto Power Electronic—which, as a result, may be threatened with such an acquisition. China Coal, together with the Australian company, Prairie Mining, signed an agreement regarding cooperation in the construction and financing of the Jan Karski mine, located in the Lublin Coal Basin. The investment will reach over 630 million USD.⁴⁹ The flow of investment throughout Polish regions will be facilitated by the development of Polish infrastructure, which is a pending process.

At the governmental level, Poland is seeking Chinese assistance in the financing of the construction of the Central Communication Port (CCP) situated between Warsaw and Łódź—a transport hub that will encompass the Central Airport and Central Railway—and integrate road and rail links not only to the rest of the country, but also to the entire region. According to early projections, this mega-investment, with a planned opening in 2027, will cost 30 billion PLN (circa 7 billion EUR). In the next six years, the government wants to invest over 65 billion PLN in

45 Poland hopeful for cooperation; CPC News; July 26, 2011 (available at: <http://en.people.cn/90001/90778/90861/7451368.html>)

46 GDDKiA porozumiała się z firmą Covec ws. budowy fragmentu autostrady A2; Rzeczpospolita; July 07, 2017 (available at: <http://www.rp.pl/Transport-drogowy/170709347-GDDKiA-porozumiala-sie-z-firma-Covec-ws-budowy-fragmentu-autostrady-A2.html>)

47 Sudak, Ireneusz; Chińskie firmy realizują strategiczne inwestycje w naszej energetyce. Polskimi podwykonawcami; Gazeta Wyborcza; February 21, 2017

48 Enea eyes signing Kozienice power block deal mid-year; The Warsaw Voice; April 26, 2012 (available at: <http://www.warsawvoice.pl/WVpage/pages/article.php/20660/news>)

49 See: note 15.

rail infrastructure; there are plans to build up to 450 new kilometers of rail tracks.⁵⁰ Chinese banks have recently voiced an interest in participating in the investment, but no concrete offers have yet been made. It is important to note that Łódź is a nodal point on the so-called New Silk Road rail link. With the CCP, Poland is positioning itself as a port of entry into the EU's single market for the Chinese (and Asian) producers.

The mutual Sino-Polish relations have been, in recent years, facilitated by the launch of the regular direct flight connection between Warsaw and Beijing. Polish airlines LOT was the first to do so in 2008, with the state-owned Air China following in its footsteps in 2016. For some time now, there have been discussions of a possible third connection to China, perhaps to Shenzhen. This is very important in the context of Polish exports, the large part of which is carried out by small and medium-sized enterprises. Concurrently, the two countries invest in railway connections such as the Łódź-Chengdu cargo trains, which have been going once a week since 2013. Moreover, Łódź decided to open its promotional office in Chengdu to strengthen cooperation between the Łódzkie voivodeship and Sechuan province, one of the fastest growing regions of China. The rail cargo has become a popular logistical route for Chinese trade with Europe, as well as the cheapest and fastest direct freight route between Poland and China (taking only 12 days). The direct rail connection has helped the city of Łódź to become an important business hub, creating opportunities for local producers of juices, sweets, and alcohol, including the famous local cider. Now Łódź positions itself in Poland as a gateway to China. Poland, in turn, likes to position itself in a similar way on the European scene, as China's "gateway to Europe." It is not the sole candidate for this title in the region, however, so the competition is on for China's entryway to Europe.

50 Strzelecki, Marek; Poland Approves Plan to Build \$9.6 Billion Central Airport; November 7, 2017; Bloomberg (available at: <https://www.bloomberg.com/news/articles/2017-11-07/poland-approves-plan-to-build-9-6-billion-central-airport>)

CONCLUSION

In last ten years, China has positioned itself as an actor which is increasingly more active on the European stage. This is a reflection of its potential built since the turn of the millennium. Contours of this strategy are apparent through the creation of platforms for cooperation, such as the Belt and Road Initiative, whose broad framework enables space for manoeuvring, and serves as a timely diplomatic tool. In this regard, opportunities for cooperation are provided in the political, economic, or social domain. Through this effort to improve its public image and increase its voice, they are designed to create a favourable atmosphere in order to build more positive relations on both the bilateral and multilateral level. As a result, China's interests are to be more easily accommodated.

In light of this context, both the Czech Republic and Poland are keen to develop closer partnerships with China. They are both interested in taking part in the Belt and Road Initiative, a fluid mega project promoted by the Chinese government, where their role will be rather limited. A similarly active approach can be seen with the 16+1 initiative, created to foster greater cooperation between China and the Central and Eastern European (CEE) countries (the first ever summit was held in 2012 in Warsaw). In addition, Poland is a co-founder of the Asian Infrastructure Investment Bank.

It is noteworthy that a turning point in Sino-Polish relations occurred with signing of the Strategic Partnership with China in 2011, and the subsequent government program „Go China,” which aimed to enhance cooperation between Polish companies and their Chinese counterparts. For comparison, the Czech Republic signed a similar partnership agreement five years later, but a revision in Sino-Czech relations started to be evident in 2013, spearheaded by the change in political representation, and accompanied by an eminent interest of influential business groups.

Poland has been China's largest trading partner in CEE, while China has been Poland's largest trading partner in Asia. Although support at the governmental level did not fade away with the parliamentary elections in 2015, Sino-Polish economic relations are still characterized by a drastic imbalance between exports and imports. Significant trade imbalance with China is also evident in the Czech Republic. Moreover, the growth of mutual Sino-Czech trade culminated in 2014. Since then, the volume of exports and imports has remained consistent.

As for investments, both the Czech Republic and Poland share a common trend, which can also be observed in other countries – Chinese investments mostly focus on mergers and acquisitions (M & A), partially demonstrating current interests by Chinese investors, or unfulfilled expectations on the side of Central European countries. Yet, it results in a paradox illustrating the broader debate on China, in which it is either regarded as a sort of “Santa Claus” by sponsoring the construction of infrastructural projects and building factories, or as a mysterious state-led threat. Unfortunately, such a debate disregards vital nuances that should form the foundation for building a comprehensive strategy (e.g. what kind of investments are welcomed versus which companies or sectors should be more closely protected from foreign influence).

Despite a strong focus on M & A activity, it should be expected that China as an investor is continuously learning. Over time, as it becomes better acquainted with local realities, future investments will be increasingly focused on more narrow projects that go in line with China's interests, unless clear priorities are set vis-à-vis China, resulting in a more mutually beneficial cooperation.

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