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1. Introduction

The aim of the paper is to present economic cooperation between the People's Republic of China and the European Union and show its importance in the development of the Polish economy. Due to the vast amount of projects conducted in the European Union, only those selected will be listed in this paper. Nowadays, the relations of China with their partners worldwide embrace a wide range of activities and is very complex. Facts, such as the US-China trade war, expansive politics of the Communist Party, stigmatized relations between its economic partners. Diplomatic relations between the EU and the PRC, which has been established in 1975, had its ups and downs. For over 40 years they had gone through changes that made China the 2nd biggest country when it comes to the value of the GDP after the US. According to the last data acquired from the World Bank database¹, in 2019 the US GDP was at the level of US\$21,374 trillion, China's GDP was equal to US\$14,343 trillion, whereas the European Union GDP reached in 2019 US\$15.593 trillion. Annual growth was 2.3%, 6.1%, 1.5% consecutively. In 1992 China was the 5th biggest economy, shortly after with the average GDP growth of ~7%, in 2008 China gained the second position, and according to the Statista² projections based on the PPP, the People's Republic of China is expected to take lead in 2024. It undeniably influenced the perception of this Asian country, by the European Union which is currently the highest GDP region worldwide. Currently, the diplomatic ties are in the position where the EU and China refer to each other as strategic partners.

1.1 Hypothesis

After having analyzed all the documents regarding the influence of China and the EU agreements on economic development, it is justified to say that Poland has a great chance to become a huge beneficiary of those deals. Central Eastern Europe may not only be just a location on the map but as for China, it may also follow some ideological meaning. After the Cold War, CEE states were under the influence of the Soviet Union, thus were one of the first countries that established diplomatic relations with the PRC. During Hu Jintao's presidency, Chinese companies were encouraged to expand into foreign markets. Since that time, China has put its focus on CEE countries, and the trade has

¹ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=EU-US-CN> Accessed (20.09.2020).

² <https://www.statista.com/chart/22256/biggest-economies-in-the-world-timeline/> Accessed (20.09.2020).

increased. By approaching the CEE countries, China paved its path to better cooperation with the EU.

After the election of Xi Jinping in 2012, a new era for China's development has originated. In 2012, during the visit of prime minister Wen Jiabao on the CEE- China summit in Warsaw, 'China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries' were proposed. The EU on the other hand is deeply integrated into the global market. It is the biggest trading partner for 80 countries around the world, which is far ahead of the biggest single economy, the US, that is the top trading partner to slightly more than 20 countries. The value of the international investments that the EU receives, but also the outbound ones is the highest compared to other countries. The potential of the whole EU block, which includes developed and developing economies is undeniably acknowledged by China, and not only.

1.2 Research questions

The study is aimed at answering questions concerning the institutional network of China in the global and regional organizations and their impact on the Polish economy. The main research is trying to answer the question:

- Could Poland become the biggest beneficiary of the EU-China economic cooperation?

In addition, sub-questions are trying to establish:

- what is the meaning of Poland in China-EU relations, through the prism of CEE?
- why Poland found itself in the scope of the People's Republic of China's interest?
- what should be done to improve the Polish situation in the Sino-Polish relations?

1.3 Methodology

As mentioned previously, this thesis is trying to answer the question of whether Poland is one of the biggest beneficiaries of China-EU cooperation. During the research, the main focus is put on Central Eastern Europe, and particularly Poland. The research methodology is mainly based on the literature review, analysis of collected data and

relevant statistics, and analysis of political aspects in China's foreign policy. The paper is based on two types of data. The first type is primary data which were obtained from databases of international organizations publications such as the World Bank or Eurostat. Another type is secondary data, which considers information acquired from reports, journals, articles, and published works. Even though the paper mostly focuses on the qualitative framework, it is also supported by the quantitative part, which helps in understanding the matter of subject.

1.4 Paper structure

The first chapter provides an introduction to the relation between the People's Republic of China (PRC) and the European Union (EU) with international institutions. In the first place, subchapters present China cooperation with: the United Nations (UN), especially in the UN Security Council (UNSC), International Monetary Fund (IMF), World Trade Organization (WTO), BRICS, and Association of South-East Asian Nations (ASEAN). Later on, the chapter focuses on the European Union relations with global institutions and describes the EU cooperation with the United Nations, World Trade Organization, International Monetary Fund, World Bank (WB), European Bank for Reconstruction and Development (EBRD), Organization for Economic Co-operation and Development (OECD), and the European Free Trade Association (EFTA). Then the next chapter is describing the PRC-EU relations, mentioning aspects such as the strategic partnership, trade, and economic relations, China-US trade war impact on the trade with the EU, and also provides objectives of the cooperation between China and the European Union. The following chapter studies the presence of the PRC in Central Eastern Europe (CEE). Aspects such as the Belt and Road Initiative (BRI), 16+1/17+1 platform, direct cooperation of China with the Visegrad countries (V4), and the cooperation between Poland and China are described. Lastly, based on the research questions the conclusions and recommendations are provided.

1.5 Value added of the paper

In recent years major shifts in the global order had occurred. The growing importance of China's presence in the world significantly influenced every region. Additionally, the current US-China trade war has a considerable effect on the worldwide economy shape, also on Europe. The thesis provides the idea of cooperation between the EU and the PRC. Considering the fast pace of political and economic relations, the number of publications

regarding the topic is very limited and often outdated. During conducting research for the paper, various publications often stated that there is not enough information regarding the topic, especially when it comes to China relations with the European Union. The thesis provides an introduction to this field of research and also reaches even deeper, as its focus on Central Eastern Europe, with the particular emphasis on Poland, as the leader in the region. The importance of CEE in recent years is increasing as the countries became a battleground between two superpowers the People's Republic of China and the United States of America. The current war for influence in the CEE region is ongoing and still developing, thus not many data have been mentioned so far by the researchers in their publications. The thesis aims at providing the most recent information available on the EU-China cooperation through the prism of various aspects currently taking place in the world.

2. Relations of the PRC and the EU with the international institutions

China's open policy significantly affected the position of the country, which is constantly becoming internationally more influential. Simultaneously the number of institutions in which China is getting engaged is also increasing, especially in the last two decades. The status which the country gained recently allowed it to interact selectively with other countries and institutions, and sometimes even impose conditions. Since the end of the cold war, the Chinese government is willing to show its leadership in the international order leading global institutions. The EU is considered as one of the key defenders of the current global order. government is willing to show its leadership in the international order leading global institutions. EU also plays an important role internationally and this is done in two ways: (1) directly multilaterally and bilaterally by direct impact and institutional ties in international organizations, relations with states (G20, ASEM, TiSA), and (2) indirectly by its Member States and their presence in a number of bodies in international organizations (WTO, G7). Multilateral institutions among others are the core part of the EU identity. However, in recent years there is a visible shift from 'rule-based order' towards 'principled pragmatism' mainly due to the 2016 EU Global Strategy (Medinilla, Veron, Mazzara 2019:3). The current transformation of the EU's role in global governance, and the difference in approaches to foreign relations, strongly influence the external actions of the EU, whereas reconfiguration in the world order

requires the EU to evolve rapidly. In addition Blavoukos and Bourantonis in ‘Routledge Handbook on the European Union and International Institutions’ (Jørgensen, Laatikainen, 2013:128), state that “*One particular feature of the growing international ascendance of the EU in recent years is its evolving relationship with international organisations (...)*”, which is clearly visible in a variety of projects that the EU and China participate.

2.1 China and global institutions

Currently, The People's Republic of China is the biggest competitor for the global institutions dominated by the U.S. What we are experiencing now is establishing a new global order. This chapter explores this phenomenon and describes the policy of China on the international level. In this chapter, the focus is put on the relations between China and multilateral institutions, especially the UN. Nowadays it is hard even to think, that any area where the crisis occurs, whether it is a social, military, or economic one, can be solved without a co-operation or at least acquiescence of China. This is a huge success inaugurated in 1978 by Deng Xiaoping policy known as 'open and reform' (改革开放). Before the end of World War II, F.D. Roosevelt, who was president of the US at that time named China as “*(...) one of the Four Policemen that would be consulted on major policy decisions regarding the Axis Powers*” (Breslin, 2010:95). The US government played a crucial part when it comes to the presence of China on the UNSC. Back then China was nothing like the superpower it has now become. China's aspirations are often covered with the one presented by key players in establishing global order, especially the US. In 2001 the International Monetary Fund along with World Bank presented a list of G7 countries that shaped the world order. On the list, only one Asian country was present, Japan. After the bankruptcy of Lehman Brothers in 2008, the US and the Western financial systems found themselves in economic crisis, China's influence on major decisions in international financial institutions was highly constrained, as in the case of every other emerging economy. That moment decided that the need to establish a bigger group is needed. G20 list included China, as the one of world's 20 most powerful countries.

2.1.1 China and the UN

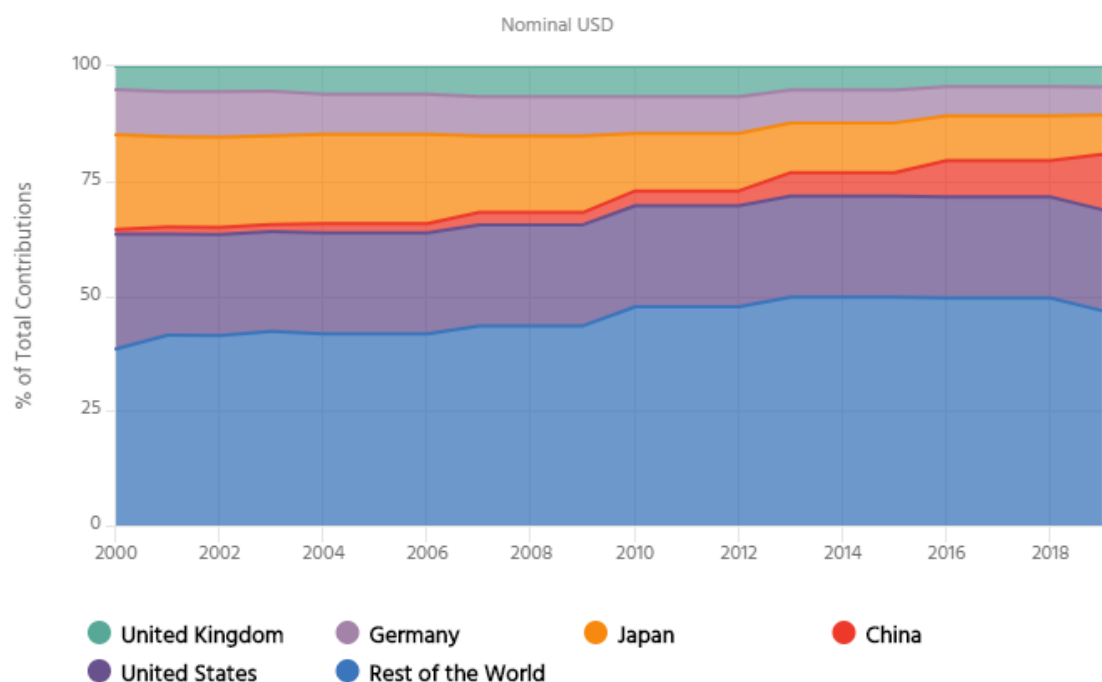
The PRC accession to the UN had a place in 1971, whereas the United Nations in China is present since 1979. In recent years cooperation increased significantly and as the report

states it consists of “24 UN funds, programs, and specialized agencies resident in the country” (UN, 2018). China and UN cooperation has encountered a lot of ups and downs. The Republic of China is mentioned as the founder of the UN in the United Nations Charter and was present in the UNSC even after the Chinese Communist Party forced on Chiang Kai Shek’s government to leave mainland China. For the next 22 years, Taiwan diplomats were officially representing China in the UN. The crucial part of China’s history was the Sino-Soviet split in the 1960s, which brought the PRC closer to the US. The Chinese government was trying to obtain its representative instead of ROC one, until December 1971 when the PRC was officially granted what it was asking for. (Breslin 2010:102).

In the past, China’s role in the UN was rather passive, however, now it is the second-largest contributor to the UN budget with the amount equal to \$367.9mln in 2019, which is 12% (Chart 1). According to The Diplomat³, 4 out of 15 UN agencies are under the lead by Chinese representatives. Chinese diplomats are managing the United Nations Department of Economic and Social Affairs, giving the Chinese government to adjust it for its own needs. DESA in 2015 adopted the 2030 Agenda for Sustainable Development. Among others, it includes the development of the Belt and Road Initiative and the promotion of collaboration among BRICS members (UN, 2018).

³ <https://thediplomat.com> Accessed (30.07.2020).

Chart 1. Top contributors to the UN regular budget⁴



Source: United Nations.

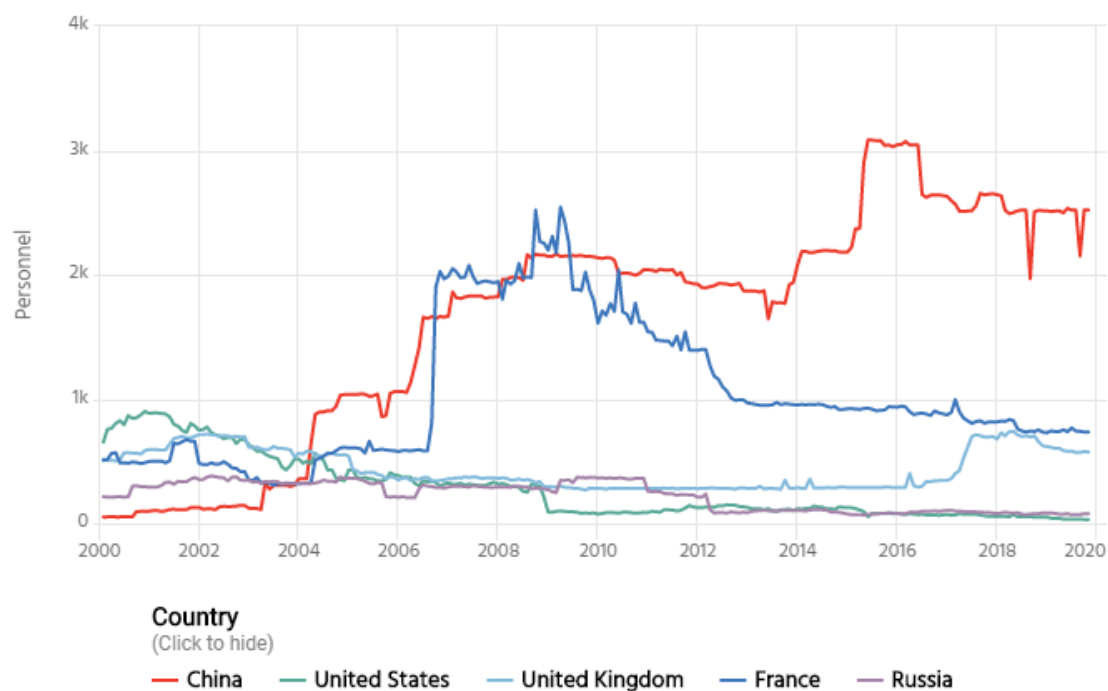
Even though China was trying to keep a low profile substituting phrases such as ‘peaceful rise’ with ‘peaceful development’ China wants to mark its presence especially in one of the UN bodies that is the United Nations Security Council. China currently is the second biggest contributor to the peacekeeping budget, and it provides more personnel in the UNSC than any other member (Chart 2). Breslin (2010:101) states that there are at least three reasons for China’s increased activity in the UN and the UNSC.

1. The UN is the only international body with significant powers and universal legitimacy. The fact that the UNSC has a considerable influence on the world matters is due to the five permanent members known as (P5) those are United States, China, Russia/USSR, United Kingdom, and France. Those countries made a meaningful effort to keep away the UN from involvement in conflicts. In this case, there is a very important matter for China, which is Taiwan. The UN is one of the most important international bodies, which has its presence in almost every area of the current world. The scope of its activities might provide some sort of global governance, and China’s recent active behavior, especially in the UNSC, is a significant indicator of the country’s attitude towards it.

⁴ <https://chinapower.csis.org/china-un-mission/> Retrieved (30.07.2020).

2. China's engagement in the UN has become more meaningful and China considers the UN as "*the best venue to practice multilateralism, and an effective platform for collective actions to cope with various threats and challenges*" (Breslin 2010:101). This statement might suggest that the UN is the place that China considers as the arena for international politics.
3. Institutions should constraint the power of countries, but instead, countries started to consider it as another way to obtain their goals. Increased engagement of the US might have influenced China's presence, as the PRC is the main competitor on the international level.

Chart 2. Peacekeeping contributions⁵



Source: United Nations IPI Peacekeeping Database.

China has some peculiarities when compared to the other countries in the UNSC. There are three that Breslin (2010:102) considered as worth mentioning, those are the number of vetoes, extensive use of abstentions, systematic use of the fourth voting option, that is not taking part in the vote. In the UN Security Council, there are five permanent members mentioned before, and another 10 non-permanent members. The veto enables any of the

⁵ <https://chinapower.csis.org/china-un-mission/> Retrieved (30.07.2020).

P5 countries to stop the Council from the adoption of any resolution. Even though it is a significant political tool the use of veto is rare (Table 1).

Table 1. UNSC vetoes (1971-2019)⁶

Country	Number of Vetoes	Share of Vetoes (%)
United States	80	65.5
Russia/USSR	38	38.1
United Kingdom	24	19.7
France	14	11.5
China	14	11.5
Total Resolutions Vetoed	122	100.0

Source: United Nations.

What is worth mentioning is the fact that China used only one veto until 1997. It shows the increased activity in recent decades. China's 11 recent vetoes aligned with Russia. In addition, China often demonstrates its willingness to cooperate with countries affected by the UN sanctions. According to the CSIS (2020),⁷ *"In May and July of 2018, China abstained on two resolutions that extended sanctions on South Sudan, where earlier in the year China signed a \$248 million loan agreement"*. Another reason why China used its vetoes is when the matter concerned a country that gave Taiwan a diplomatic recognition like in the case of Guatemala in 1997, and Macedonia in 1999. Nevertheless, China's vetoes since accession till 2019 tied on the last spot with France.

According to Chinese official rhetoric, the protection of the traditional values of the UN against Western progressivism is crucial. China's statement about the equality and sovereignty of all states, large and small, poor and rich, Western and non-Western was received with great support, especially from the developing countries. The rhetoric and behavior of the PRC in the UN Security Council, especially regarding Taiwan, presents China's interpretation of its role in shaping global governance (Breslin 2010:104).

⁶ <https://chinapower.csis.org/china-un-mission/> Retrieved (30.07.2020).

⁷ <https://chinapower.csis.org/china-un-mission/> Accessed (30.07.2020).

2.1.2 China and the IMF

Unlike the majority of western countries, China was not the initial creator of the international monetary system. Even though it joined it after the Bretton Woods era, it was constantly trying to become a part of it since the early 1980s. As a result of socialization, China learned from the IMF different approaches to the policymaking methods. With the help of international financial institutions, it has become a key player in shaping current monetary policies. However, socialization theories suggest that “(...) *the states to be further socialized into accepting the existing norms of the IOs, thanks to the mutual sympathy and understanding established between them over time*” (Wang, 2017:64). China started to encounter problems with the IMF. One of them was regarding the dispute of whether the Chinese government-controlled RMB exchange rate. Another was the accusation of China that the IMF is dominated by western governments and is holding against China and other emerging economies' development. However, socialization does not include changes in the main actors. In the beginning, China wanted to follow the IMF in order to learn more advanced methods and techniques of financial policies, as well as to receive instructions concerning economic development. Benefits of China's membership were presented by Jacobson and Oksenberg (1990:70), who have listed the following:

- Major diplomatic victory for the PRC due to withdrawal or expulsion of Taiwan from the IMF, and establishing China a legal member in the IMF.
- China's membership in the IMF would make it easier to join other IFIs.
- Membership in the UN and the IMF would strengthen bilateral relations around the world.
- Receiving more information regarding international finance and economics, and what follows a reduction of dependence on the third parties' source of information.
- Ability to receive concessional interest rate loans and other privileges provided by the IMF.

However, as China's economy grew stronger, it became more resistant to outside regulations, that were perceived by Chinese politicians as harmful, and the country's aspirations surged higher. After the economic crises in 2008 during which western economies crumbled, China emerged as a new superpower. It requested a more influential position in the IFIs such as the IMF and the World Bank. Additionally, it created its own

institutions, for instance, the New Development Bank and the Asian Infrastructure Investment Bank. China wanted to shift away IFIs' focus from the US towards China by engagement into various collaborations with the IMF, for instance, the one that occurred in 2016 when RMB became SDRs international reserve asset.

2.1.2.1 Quota Share

When it comes to the International Monetary Fund, due to the policy of the organization, each of the member countries has established its quota. The amount is based on the fraction in which a particular country contributes to the world economy. According to the annual report of the IMF, in 2003 quota share of China was at a 2.98% level. Initially, the IMF Executive Board had no intention of increasing it, but shortly after that during the annual meeting in 2006 IMF recommended ad hoc quota increase for underrepresented countries such as China, Korea, Mexico, and Turkey. According to the IMF data⁸ in 2009 China had a 4% quota, which resulted in a relatively low position, if compared to Japan (6.56%), Germany (6.11%), France, and the UK (4,50%). Thereafter, China increased its quota share by 2.4%. As for today⁹, China gathered 6.41% of quota shares, which moves it up on the 3rd position when it comes to quota share and what follows voting power, right after Japan (6,48%). Nevertheless, the disparity between countries such as the US, which contributes to 17.45% of quota share, and other developing countries remains visible. In general, a supermajority is required in order to establish a new policy. *“Notwithstanding China’s role as the most significant provider of the financing needed to sustain Washington’s large current account deficit and stimulus plans, it is the White House and Congress that still command the only single-state veto power. This reflects the IMF statutory provision requiring an 85% majority in 18 categories of decisions – including constitutional changes, quota revisions and major policy drives.”* (Breslin, 2010:97). Nowadays due to the conflict between China and the US, it might be difficult for China to promote its own ideas. In addition, it is rather doubtful, that China will agree on deploying its liquidity on a higher scale for the institution that without the consent of the US administration cannot pass any significant reform. A case reported by Reuters on April 8, 2019¹⁰, is the perfect example of this phenomenon, *“The International Monetary*

⁸ <https://www.imf.org/external/np/fin/quotas/2009/091509.htm> Accessed (02.07.2020).

⁹ <https://www.imf.org/external/np/sec/memdir/members.aspx#C> Accessed (02.07.2020).

¹⁰ <https://www.reuters.com/article/us-imf-quotas-japan/imf-to-postpone-planned-quota-increase-due-to-u-s-resistance-source-idUSKBN1WN1GC> Accessed (02.07.2020).

Fund is set to postpone its plan to raise its funding quotas, or voting shares, that would see China replace Japan as the second-most-influential voice at the body (...) The plan will be shelved due to stiff resistance from the United States (...)” As can be seen despite the growing influence in the international economic order of the PRC, the US still has a decisive power. Currently, during the US-China trade war, it is rather implausible that the US administration will allow the PRC to change its voting power.

2.1.2.2 Collaboration with the IMF

“The IMF’s essential objective is to maintain its authority and autonomy in global financial governance by providing its member states with useful loans, training, and advice” (Wang, 2017:66). What is important for every country is to pursue its own economic development. In the case of IF is such as the IMF, another important aspect is the voting power in global financial policymaking. Moreover when it comes to the country perspective major determinant is what type of solutions the IMF would provide the country with, which would benefit it. If China's needs are in common with those of the IMF, then the cooperation with the IMF tends to benefit both, China and the institution itself. However, when they do not converge, the collaboration is more demanding. Another key element that determines whether collaboration is successful or not is China's institutional role in the structure of the IMF. The larger influence on the policymaking process, the higher probability that the decisions will match China's interests. Cognately, if the impact on the decision-making process is smaller, the result might not match the state's interest.

When it comes to institutional governance, according to the numbers presented in the subchapter 'Quota Share', China currently has the third-largest voting share in the IMF. The present state of affairs was achieved after almost one decade of China's efforts. All three most recent reforms that occurred in 2006, 2008, and 2010, implemented significant changes in China's voting share. The latest one provided the biggest shift in voting shares. Even though the reform is dated to 2010, due to the US Congress delay in ratifying it, eventually was implemented in 2016. This reform increased China's voting share from 3.8% to 6.1%. It can be stated that it was a huge success achieved by China. However, the US still holds a veto right against all the major decisions, as well as the EU countries when calculating all shares together. In the case of informal decision-making processes, although China's voting power is constantly increasing, it still has little significance with

the comparison to G7 countries, which usually take sides with the US. The reason for this among others is the advanced diplomacy of the US, powerful financial institutions present around the world, and also the location of major IFIs such as the World Bank or the IMF in Washington.

Since the 1980s China has received from the IMF technical assistance in various areas, including training courses, the IMF experts' visits, knowledge about internationally standardized methods regarding financial data and policy processing. *"(...) up to the mid-1980s, China was using figures for net material product (NMP) to measure its economy, which excluded the service sector. Under the IMF and the World Bank's aid, China switched to gross domestic product (GDP) measurements, and consequently gave prominence to the service sector"* (Wang, 2017:69). In 2000, the Managing Director of the IMF and the Deputy Governor of the People's Bank of China cooperated in the establishment of a Joint China-IMF Training Program. According to the IMF News Brief dated to February 21, 2000¹¹, *"It is targeted at Chinese officials involved in the formulation and implementation of macroeconomic and financial policies, as well as the compilation and analysis of statistics. The CTP is a medium-term program, initially covering a three-year period, open to renewal. The courses that will be offered will focus on macroeconomic management, financial programming, bank supervision, financial sector issues, public finance, external sector issues, and statistics. The CTP will also include high-level seminars on topical issues"*. Since its establishment, the CTP has held five training per year. The program should have improved the process of economic decision making and implementation of financial policies. Later on, due to a high interest in training among Chinese officials, a training center was established in Dalian in 2004. The training was organized for crucial economic institutions such as the Ministry of Finance, the China Banking Regulatory Commission, the National Bureau of Statistics, People's Bank of China. The reason why training was successful is that both, the IMF and China have a common goal, which is to make China meet the IMF's standards. What might be important for China is that it has control over the content presented during training, which ensures that it does not menace the Chinese values.

Another example of activities conducted by the IMF is surveillance and policy advice. *"IMF surveillance and policy advice is designed to oversee the international monetary*

¹¹ <https://www.imf.org/en/News/Articles/2015/09/29/18/03/nb0011> Accessed (08.07.2020).

system and examine the member states' economic policies and provide them with constructive advice" (Wang, 2017:70). In order to receive some feedback about its economic policies, a state needs to provide the IMF with the data and information. Then after being provided with the advice, the country has a full right to decide whether it will implement it or not. Some of the essential issues were addressed by the IMF regarding the Chinese economy, for instance, undervaluation of the Chinese yuan exchange rate, banking reforms, lack of transparency in financial management, internal imbalances. As a result Bank of China agreed to devalue the RMB by 15,8% in 1986 against all foreign currencies. According to Lardy (1992:114), China's nominal trade-weighted exchange rate in 1986 differed from the one in 1980 around 50%. Such a trade-weighted exchange rate is known as an effective exchange rate. Another IMF advice was implemented in the reforms which led to China's economic modernization.

Nevertheless, not all the advice was fully accepted by the Chinese government. The problem that occurred in the mid-2000s regarding China's trade and current surplus made western economies concerned with the undervalued RMB. The bilateral surveillance guidelines between China and IMF due to the strong opposition of the US were revised. With the pressure from G7 countries led by the US, IMF became more critical towards China's policies and forced the country to adjust the RMB exchange rate. However, according to the Chinese authorities, RMB was considered undervalued because of the incorrect assessment provided by the IMF, and as a result, the Chinese government withdrew from the bilateral surveillance. The tension between the Fund and China decreased after the IMF along with the US gave up criticism after the global crisis. Nowadays, even though IMF goals converge with the one stated by the Chinese government, local authorities do not allow for the successful implementation of economic reforms.

Even though the tension between the Fund and PRC is visible, especially under the influence of the US policy, the collaboration between the IMF and China brought significant reforms to the country and the institution itself. One of the biggest changes China brought to the IMF and also an example of an influential policy of China in the IMF is entering RMB to the SDR basket in November 2015. The current trade war between the PRC and the US did not prevent the IMF collaboration. In April 2018 along with the People's Bank of China, the IMF inaugurated opening a new center headquartered in Beijing, with training centers based in Shenzhen and Dalian, that

provide training not only for China but also for other countries. *'(...) it serves officials in China and other countries, including those associated with the 'Belt and Road' Initiative. Through hands-on training courses and workshops, the CICDC supports Chinese government officials in building effective institutions and in policymaking.'*¹²

2.1.3. China and the WTO

China's accession to the WTO took place in December 2001. However, the beginning of their relationship was in 1947. Originally, the Republic of China was among the creators of the General Agreement on Tariffs and Trade (GATT 1947:Preamble). However, when the nationalist government led by Chiang Kai-shek moved to Taiwan, it notified the United Nations about China's withdrawal from the GATT, and the government in Taiwan received observes status. Later on, in 1965, some of the GATT members questioned the nationalist government, stating that the only government of China is the one in Beijing. In 1971 the People's Republic of China joined the UN, which opened its way for accession to the GATT. Nonetheless, it was only until the late 1970s when it became possible due to various policies on economic reforms. When a new round of negotiations started, in 1984 China received observes status, and in 1986 formally applied to continue its GATT membership *'never having recognized Taiwan's decision to withdraw from the GATT'* (Harpaz, 2018:13).

Despite China's accession in 2001 was perceived as a further step to enhancing the global structure of economic governance *'the Chinese government has so far been only partially co-operative in addressing its many shortcomings with regard to its WTO commitments'* (Breslin, 2010:99). During negotiations before China's accession, members of the WTO required China to reduce the level of interference of government in the domestic economy. What was unique when it comes to the accession protocol, it included the Transnational Review Mechanism, which was not present in protocols of accession for other countries. It allows for a regular review of the compliance of the PRC during the first decade of WTO membership (WTO, Protocol of Accession 2001). Since the People's Republic of China was not the original member of GATT and joined WTO after 1995, it had more extensive commitments, than countries that joined through GATT. However, since the beginning, China was perceived as a potential economic threat due to its size, export potential, and transitional nature (Harpaz, 2018:14). The official ceremony of

¹² <https://www.imf.org/en/Capacity-Development/Training/ICDTC/Schedule/CT> Accessed (08.07.2020).

admission took place in Doha on 11th November 2001. The fact that China formally joined the WTO benefited Taiwan, which was granted membership on 1st January 2002. Even though the accession requirements were rather extraordinary China fulfilled it fully, because the PRC expected to strongly benefit from it. From today's perspective, it can be stated that membership in the WTO enabled China to use the international market effectively. China became an active and prominent member of the WTO. The opportunity given to China to use its comparative advantage, for instance, factor costs, created a favorable environment for China's economic growth and structural reforms. Since accession, China's share in world trade increased significantly, and it was more stable than ever before.

Minister Shi who was the head of the Chinese delegation listed three factors concerning China's WTO ambitions (Lanteigne, 2005:52). Those were:

- The only way to share the benefits of globalization between countries is their cooperation within multilateral trading institutions.
- These regimes must be built by countries based on their own practices in economic and foreign policy.
- The countries will succeed only if they will adapt to the changing global economy and will consider the interests not only of the rich but all the members, including developing countries.

Those three conclusions provided by Minister Shi presented China's view that cooperation in economic globalization is crucial, but the PRC even though was considered a large country it was still a developing one, and the more powerful countries cannot exploit the weaker ones. Only then the global economy will benefit.

2.1.3.1 Challenges and gains

Becoming a member of the World Trade Organization was one of the toughest tests China had to face. It is supposed to show whether the country's economic reforms will integrate into the modern international economy. China encountered various challenges, especially after it was obvious that the Western countries such as the US would still follow its foreign policy. The PRC had to confront not only demands from the other members but also voices of anti-reform politics in government. According to Lanteigne (2005:53), the country was a part of the 'two-level game theory' presented by Putnam. Moreover, "*The*

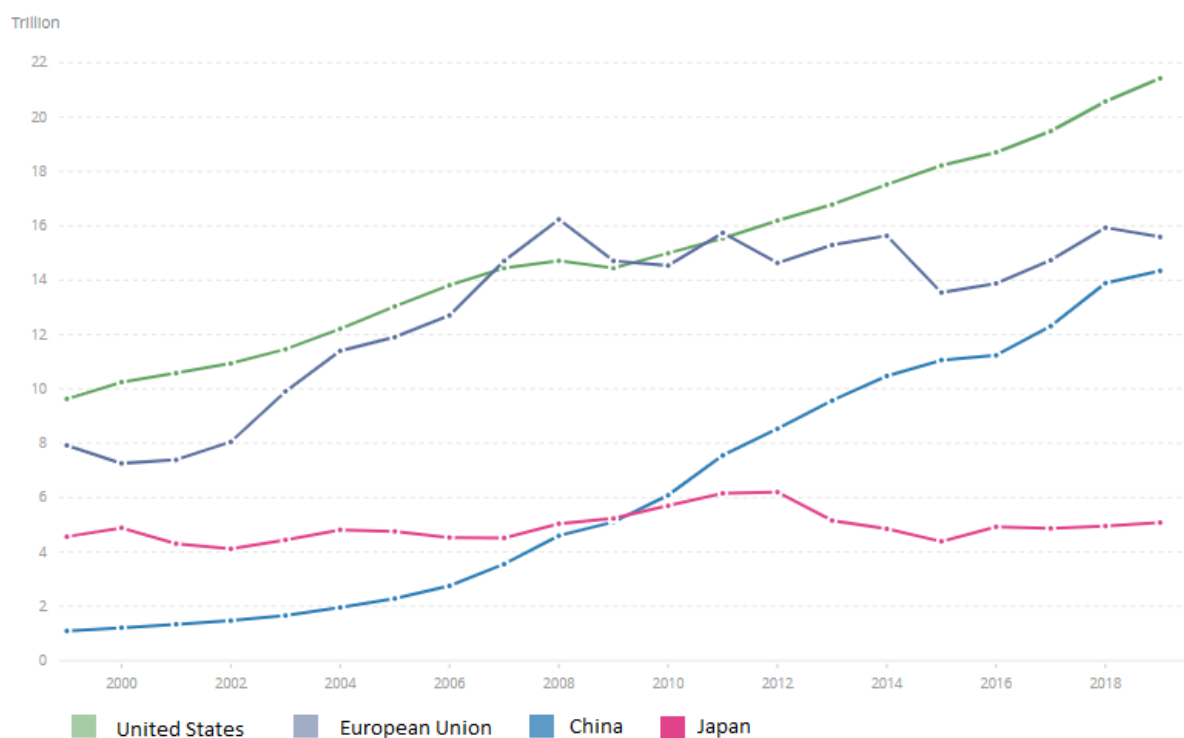
'game' was made riskier by the fact that the Chinese government made little secret of the fact that WTO membership was sought in order to force the less reform-minded elements of the government to accept the economic restructuring doctrines" As a result, there was a small margin error for the prime minister Zhu. Chinese experts believed that accession to the organization may result in significant job loss in state-owned enterprises. Moreover, sectors such as metallurgy agriculture, automobile, machinery, would suffer from international competition (Lanteigne, 2005:54). As Lanteigne states admission to the World Trade Organization might have resulted in an increasing gap in the society, between people living in the East of China, which was originally more developed due to the coastline, and people living in the Central and Western China. *"The social impact of these effects within a country which was founded on the principles of communism may be considerable"* (Lanteigne, 2005:54). When it comes to financial services for instance banking, insurance, and securities, foreign companies were foreseen to benefit from lower operating costs, whereas in the case of national banks costs would be higher. A significant part of China's financial institutions would be required to undergo major changes in order to become more competitive among WTO countries. Another crucial matter was law, which was not adjusted to the World Trade Organization standards. It would require a lot of effort to cover the differences that occurred after the admission. *"Undoubtedly the short-term transition will be difficult, but the current Chinese government accepts that such high risks are necessary to achieve the levels of economic modernity which China needs to survive and flourish as an evolving great power"* (Lanteigne, 2005:54). Despite it was a very risky move to hand over the domestic market to an international organization that is WTO, the Chinese government worked hard to convince everyone in China that it is essential for the economic future of the country.

Since the risk was very high, one can ask a question: why China was still willing to take it? The answer is rather obvious, there was more to lose if China would not act. The WTO was considered by the PRC as the essential step to economic growth and regaining its position in the international system. The Chinese government wanted people to consider every sacrifice as a measure to achieve the final goal. In the case of the Chinese Communist Party, the provision of economic growth equals the stability of the communist leadership. Deng Xiaoping referred to this phenomenon with the words *"It does not matter whether cat is black or white. As long as it catches mice, it is a good cat"*. It might be simplified to the statement that as long the communist leadership provides prosperity it

will endure. That is why the PRC under the presidency of Jiang Zemin pushed all the required reforms that affected almost all ministers.

Within the first decade after accession, the GDP rates of China on average overtook other OECD countries. It was the fastest and on average double-digit growth. In 2019 China was the second-biggest economy with the GDP equal to 14.343 trillion USD, with the comparison to 1.339 trillion USD in 2001¹³ (Chart 3).

Chart 3. GDP growth in the US, EU, Japan, and China (2000-2018)

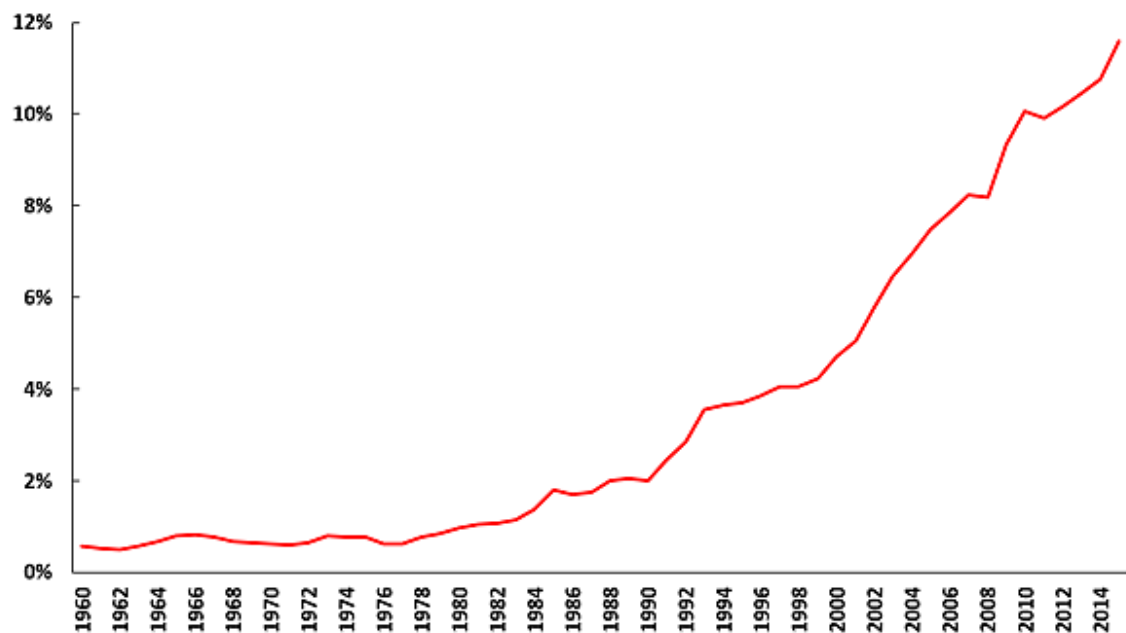


Source: World Bank.

Before joining the WTO, China was the sixth biggest exporter worldwide. China's industries became more competitive (institutionally) on international markets and soon after accession in 2001 the country was the world's largest exporter (Chart 4).

¹³ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=CN> Accessed (23.07.2020).

Chart 4. China's share of World Trade (Export & Import combined)¹⁴



Source: International Monetary Fund.

Increased competitiveness was not only visible in the present industries, but owing to the WTO's Information Technology Agreement, China's IT sector was strongly influenced, which resulted in a serious upgrade and technological advance. All the industries benefited from the expanded scope of Foreign Direct Investments as well as their amount. After following all the stipulations provided by the WTO agreement, China as a country became more stable and predictable, which had a positive impact on the investment environment. *"A number of revisions that were done to comply with the WTO regulations then became the basis for China's own market systems, thereby improving its overall socialist market-economy structure"* (Harpaz 2018:5). FDIs not only brought money to the country but what is also important, they brought new technology and knowledge. The vast market for Chinese companies, and new opportunities for foreign enterprises that want to conquer China's domestic market resulted in increased competition. It especially favored Chinese companies, which wanted to stay on the market, giving them mobilization in innovativeness and giving them stimulus in companies' structural

¹⁴ http://www.china.org.cn/china/NPC_CPPCC_2016/2016-03/15/content_38037349_2.htm Accessed (23.07.2020).

changes, that is production and employment. As a result, Chinese companies were increasing their value-added, and what follows the enrichment of society. China's accession led also to significant structural changes for instance widespread privatization. Due to receiving membership China capitalized its comparative advantages which were the reasons behind China's success in opening its economy, particularly low-cost labor, and export-oriented industries. Multinational companies were prompted to move their manufacturing to such regions. This process played a crucial role in integrating China into the Global Value Chain structure, which resulted in strong trade performance (Harpz, 2015:507). In short, the mentioned benefits resulted in Chinese attempts to profit even more by showing what cooperating companies should supply and in which way. Such an approach was enabled by a specific dependence on the Chinese supplies of western companies, often world leaders in high-tech.

2.1.3.2 China on the way to lead the WTO

Prior to joining the WTO, China strongly underlined the fact that it does not want to lead the organization. It might have been caused by the vast amount of commitments made by China, that the country had to deal with in the first place. However, shortly after the PRC slowly started to show interest in the WTO leadership. Right after accession, China argued that the new members should not be a force to implement new commitments, since the adaptation to the organization's requirements was still undergoing, nevertheless later on China started to take an active part in Doha Round negotiations. The number of proposals significantly increased from around 10 in 2005 to over 100 in 2008 (Harpaz 2018:21). During the 2013 Bali Ministerial and 2015 Nairobi Ministerial, the PRC called for the completion of the Doha Round. In the first case, it was later credited for the deal that leads to the Bali Package, and in the latter, China opposed the US and the EU who wanted to abandon negotiations. Another example was visible in 2016 when China's presidency in G20 became a great opportunity to execute leadership abilities in international economic governance while proposing the G20 Guiding Principles for Global Investment Policymaking, which were agreed on during Shanghai Ministerial Meeting that took place at Hangzhou Summit. *"It was the first time that developed, developing and transition economies reached multilateral consensus on an investment matter, albeit non-binding"* (Chen, 2020:91). Later on, based on the G20 Guiding Principles, Trade and Investment Working Group was proposed by China. This framework received significant support from other WTO members.

The E-commerce market in China is one of the biggest in the world. In the WTO China plays a crucial role in the discussion of the topic. In November 2016 during the meeting of the Council for Trade in Goods, China with the cooperation of Pakistan presented a proposal for e-commerce that included a seminar on e-commerce and trade in goods, which became the basis of the discussion on the WTO's 'Work Programme on Electronic Commerce' (Harpaz 2018:26).

2.1.4 China and the BRICS

The example of BRICS is an interesting example of China's international political presence and discourse. It is grouping, emerging, and leading the world's economies at the regional and international levels. What is worth mentioning because the five countries might soon replace the West in global architecture. *"It is an economic grouping, but also has its own strategic and diplomatic interests to fulfill"* (Sultan, 2016:75). The group of BRICS includes Brazil, Russia, India, China, and South Africa. The meaning of the group on the international stage is constantly increasing as according to the IMF 'World Economic Outlook Database' from 2019 countries create around 24% of the world's GDP. Another reason why it becomes a major player is that countries combined consist of around 42% of the world's population. BRICS gained worldwide recognition and became influential in different areas of global governance. When it comes to investment, China became one of the world's biggest investors. Current president Xi Jinping stated that China invested in a total around US\$60 billion. The group created the New Development Bank located in Shanghai, and China played a vital role in establishing the Asian Infrastructure Investment Bank with headquarters in Beijing. The PRC used a broad range of mechanisms of development assistance and investments to support its Belt and Road Initiative (Puppim de Oliveira and Jing, 2020:1). After the cold war, China has always presented views about a 'harmonious world', which follows four principles namely *"democratization of international relations, justice and common prosperity, diversity and tolerance peaceful resolution of international conflicts"* (Raman, 2018:11). With China's aspirations to become the biggest superpower the BRICS platform could be a mean to achieve its goals, and build strong multinational cooperation outside of the current Western dominance. As a result, it contains all the essential objectives of China's strategy for development which allows China to fulfill its national interests. From the Chinese perspective, the group consists of countries that are on a similar stage of development and development objectives.

Aside from Development Bank inside BRICS, another important project that the countries were working on is a Contingency Reserve Arrangement, which protects the members of BRICS against financial risks. The reserve might be important for China from the view of the internationalization of the Chinese yuan (Wacker, 2014:4).

Both, NDB and AIIB initial subscribed capital was equal to US\$50 billion and in fact, the goal of these banks is the more or less the same, “*to close a gap in infrastructure financing in emerging and developing countries*” (Wacker, 2014:5). The two banks are said to be the complements of the Asian Development Bank led by Japan and the US World Bank.

In the beginning, the current BRICS did not include South Africa. Knowing that the countries included in the group are on a similar stage of development, why RSA was included in the BRIC project? Seeing, the recent expansion of China in the African continent, it might be concluded that the RSA served as a gateway. China’s expansion would be perceived differently when done in the BRICS framework, and also would be somehow justified.

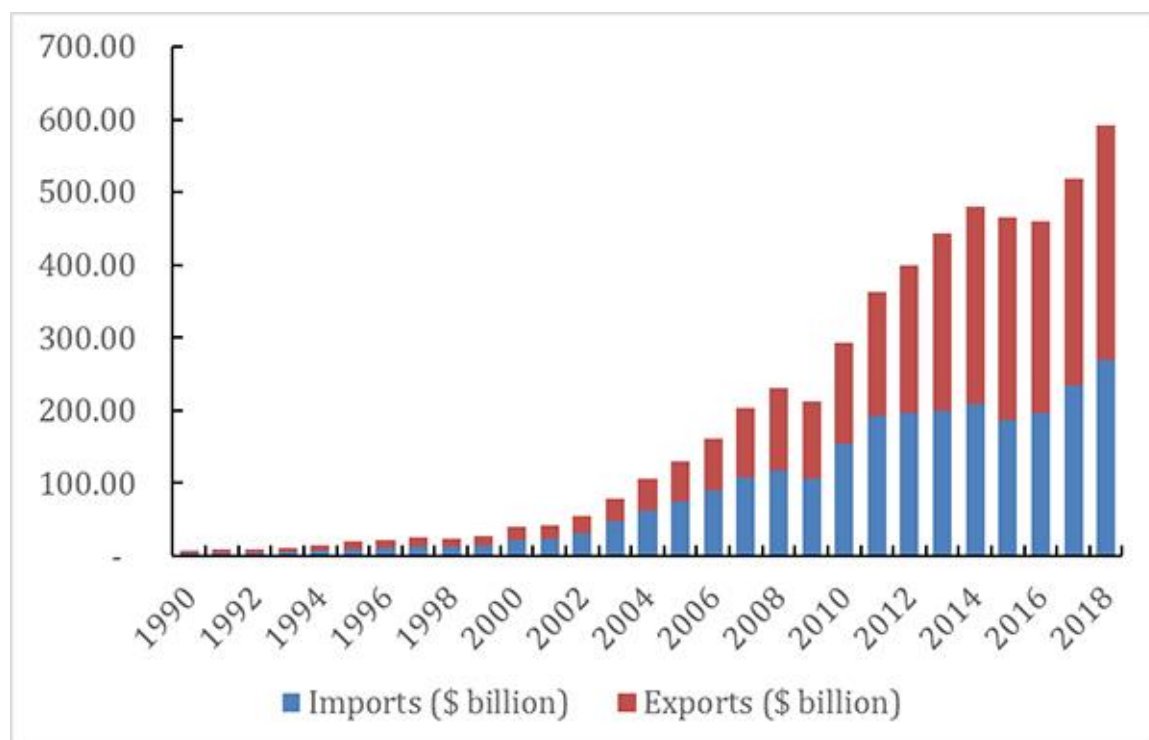
According to Wacker (2018:5), there will be a few important factors in the coming years that will shape the BRICS group. If G20 develops a particular mechanism for development, the interest of China in BRICS might decrease. With China’s global aspirations within the BRICS framework, it cannot solve global solutions. Last, but not least are the Sino-US relations. BRICS might not be perceived as a new, anti-Western group, however, it can be considered as a response to the current US-led global order.

2.1.5 China and ASEAN

China’s relations with members of the Association of Southeast Asian Nations have entered into the new era of cooperation and engagement. Cooperation is multi-dimensional reaching various aspects, such as political, economic, security, and social. According to Li Mingjiang (2011:1), four levels of the cooperation between ASEAN and China can be distinguished, those are the sub-national level including provincial and local governments, state-level that is countries individual approach, the group level, which assumes cooperation of the whole organization with China, and the multilateral level, for instance, East Asia Summit. The cooperation provides countries with better integration in the region and also gives them an additional source of economic growth.

Even though ASEAN was established in 1967, only in 1991 relations between China and ASEAN countries were formed again when the Qian Qishen requested the dialogue with ASEAN. As a result in 1996, the PRC was accepted as a dialogue partner. The phenomenon that significantly shaped current relations was the Asian financial crisis that occurred in 1997 when China provided support to the countries which were heavily struck by the crisis. China is also actively participating in institutions, such as ASEAN +1 (China) or ASEAN +3 (China, Korea, Japan). The latter one was established in 1997 and shortly after gained an opinion of *'the key institution in East Asia, which implies a new kind of East Asian regionalism'* (Liu, 2013:83). Another breakthrough happened in 2002 when China proposed the Free Trade Agreement deal to increase trade and investment in the region (Wong, 2006:17). China not only enhanced its relations with ASEAN as an organization but also developed them with each member country. The presidency of the Xi Jinping since 2013 makes ASEAN a crucial partner with a lot of initiatives from the Chinese side. An important part of cooperation is the Maritime Silk Road, which is a section of the BRI. According to Zhang and Wang *"China believes that ASEAN understands and supports China's rise better than other countries"* (Baviera and Maramis 2017:166). From 1991 to 2019 China became the largest trading partner for ASEAN and gained the second-largest trading partner with the reported US\$644 billion valued trade.

Chart 5. ASEAN-China trade (years 1990-2018)¹⁵



Source: Asia Regional Integration Center database, Asian Development Bank.

In addition due to the pandemic-related issues, ASEAN in the Q1 temporarily overtook the EU, becoming the biggest trading partner for China. The year-on-year increase was equal to 6% (US\$140 billion) and accounted for almost 15% of China's total trade.¹⁶ When it comes to FDIs, ASEAN became a major source of an investment equal to US\$7.86 billion, comparing to US\$7.11 billion in 2015, becoming the second-largest FDI source (Baviera and Maramis, 2017:168). The economic cooperation between China and ASEAN is expected to strengthen mainly due to the BRI and also upgrading the FTA deal.

2.2 The European Union and the global institutions

There are a few reasons why the EU engages with international institutions. It can be considered as a “*logical consequence of the division of competences between the EU and its Member States*”(Wessel, Odermatt 2019:6). Besides, since the implementation of the

¹⁵ <https://www.asiapathways-adbi.org/2019/08/the-upgraded-asean-prc-free-trade-agreement-could-matter-big-time/> Retrieved (03.08.2020).

¹⁶ <https://www.aseanbriefing.com/news/asean-overtakes-eu-become-chinas-top-trading-partner-q1-2020/> Accessed (03.08.2020).

Lisbon Treaty, one of the EU key objectives is becoming more active as a global actor and strengthen its relations with institutions. As Wessel and Odermatt (2019:6) state “*The Union shall seek to develop relations and build partnerships with (...) international; regional or global organizations (...) it shall promote multilateral solutions to common problems*”. Such a solution ensures a greater impact on the global order.

2.2.1 The EU and the UN

On a formal basis as well as the principles effective in the EU, the UN can be seen as a natural part of the EU external actions. The European Union is committed by Article 21 TEU to follow the principles provided by the UN Charter. However, the scope which the EU engages in the UN tasks is fully dependent on the member countries, because the EU itself is not a member of the UN and cannot become one. Since 1974 is present in the organization, due to the granted permanent observer status that gives the EU institutional representation at the United Nations General Assembly. Nevertheless, when it comes to the operational level the EU has a right to address the UN on behalf of the member countries. According to Wessel and Odermatt (2019:61), one of the most characteristic and important from the political point of view aspect of being present at UNGA is that it includes policy-making.

Since both the EU and the UN are very complex bodies, their cooperation has placed on various levels (Medinilla, Mazzara, Mazzara, 2019:11).

- The European Commission plays the most significant role in operational engagement with the UN. The Commission assigns various Directorate-Generals that are responsible for particular sectors. For instance, DG DEVCO is responsible for development-oriented agencies and programs. DG ECHO focuses on humanitarian aid. DG NEAR often helps to implement EU-financed programs. DG HOME conducts activities regarding migrations. With the exception of DGs, another important body is Service for Foreign Policy Instruments that ensures that the instruments in foreign policy such as UN resolutions are successfully implemented. In addition to that, it also supports UN operations regarding the crisis.

- The European Parliament has no direct input into the cooperation, but it controls funds as a part of the EU budget, thus the indirect influence over the EU funding can be exerted.
- The Council of the European Union provides the UN with the joint member states' positions on various matters.
- The European External Action Service is responsible for diplomacy and political affairs with the UN. It mainly engages with the UN through the delegations to New York and Geneva.

Since 1974 the EU has established a strong relationship with the UN. Among the handling problems on the various levels, one matter is often detailed by the scholars, particularly UNGA. Even though the permanent observer status was granted to the EU in the middle of the 1970s', only in 2011 the resolution allowing the EU to speak on behalf of the EU member states was adopted. It also granted the EU to take part in the general debate. That resolution was unique since it allowed the EU to present orally proposals and amendments, which no other observer can do. Since then the UNGA is addressed by the President of the European Council speaking on behalf of the European Union. Every year the EU Council adopts the EU priorities for the UNGA session. In recent years effective multilateralism is one of the key priorities for the EU.¹⁷ The last 74th session focused on three main aspects prevention of conflict, support of positive agenda, and the expansion of global engagement on globally present issues, for instance, climate, environment, and migration. In addition to the annual meetings, working papers, within the framework of the United Nations Working Group on Coordination, covering each of the six UNGA Committees are prepared (Wessel, Odermatt 2019:62).

In the UNSC the rules exclude the EU from being a member or observer, however, the European Union can be invited in order to present its position with the accordance to Rule 39 of the UNSC Rules of Procedure (Wessel, Odermatt 2019:72). Nevertheless EU's Common Security and Defense Policy along with the actions resulted in the enhancement of the cooperation with the UN. In addition in 2018, the EU-UN strategic partnership on security for 2019-2021 was agreed upon by member countries. So far the European Union could not provide funds for the UN operations, however, due to the creation of the European Peace Facility such an option might become possible The cooperation between

¹⁷ <https://www.consilium.europa.eu/en/policies/unga/> Accessed (04.08.2020).

the EU and UN on the security-related issues is somehow limited due to the different interests of member countries (Medinilla, Mazzara, Mazzara, 2019:18). Nevertheless, the EU member states contribute significantly to UNSC functioning, which is often related to statements of the strong position of the EU in the UN Security Council. So while referring to the presence of the EU in the UNSC, the reference is rather made for the permanent and non-permanent members of the UNSC, that are also members of the EU. Moreover, with the addition to taking part in some direct actions like the support in negotiations, the European Union also ensures implementation of UNSC resolutions (Jørgensen and Laatikainen, 2013:132) As mentioned before the EU is not present itself in the UN and the Security Council. The only two permanent members of the UNSC from the EU were France and the UK. However, the recent events regarding Brexit not only influenced the number of the EU members but also resulted in the loss of the EU permanent seat at the UNSC. Now, the EU is expected to look for the opportunity to regain the second seat at the UN Security Council.¹⁸

The EU is the largest financial contributor to the UN budget, including in calculations both the EU institutions along with member states. What is worth mentioning is the fact that it is a voluntary contribution. Almost 25% of all of the financial contributions for the UN was coming from the EU institutions and member states. Additionally, almost 32% in 2017 funding for the peacekeeping budget was provided by the EU member states. The funding of the UN Development System in 2017 was equal to 7% of the total. The total amount of funds granted by the EU institutions in 2018 exceeded 3 billion euro (Medinilla, Mazzara, Mazzara 2019:12-14).

2.2.2 The EU and the WTO

The European Union is one of the initial members of the WTO, and the Commission takes part just like any other foreign actor in creating policies. The Commission, however, is often divided by domestic and transnational interests. This phenomenon is often addressed as a multilevel game (Jørgensen, 2009:80). The Commission negotiates agreements and stands for the EU's interest representing all of the Member States in front of the WTO Dispute Settlement Body. The dispute settlement mechanism is one of the most important achievements of the WTO. It led to a reduction of the implemented

¹⁸ <https://www.atlanticcouncil.org/blogs/new-atlanticist/time-for-the-european-union-to-reassert-itself-in-the-un-security-council/> Accessed (04.08.2020).

defense measures which countries often used and resulted in trade wars. The EU is one of the biggest users of the settlement system. (Igler, 2019:2) The European Parliament is notified by the Commission on the results of the intended talks and the content itself. The opinion of the Parliament has equal importance with the Commission's opinion, as both of the bodies under the Lisbon Treaty are responsible for legislation including international trade. One of the peculiar aspects of the EU membership in the World Trade Organization is that the EU itself and the member states are part of the WTO. Sometimes the EU representatives speak on behalf of the member states who are also present during the meeting. This type of activity was often criticized by the US, stating that the EU community voices are double weighted (Jørgensen, 2009:81).

The European Union has always been an important actor in worldwide trade. Although it has some internal differences the stance in the GATT and later WTO matters was usually unanimous. The EU presence has always been significant in other aspects of economy *inter alia* development, policies, agriculture. What is quite astonishing is the fact that the EU, even though being an organization it often acts as a federal power. It results in being compared by scholars with trade actors such as the US. The European Union acted as a leader when it comes to launching the 2001 Doha Development Agenda within the WTO framework. However, based on the failure of the Cancun Summit, it can be stated that the emerging economies' assertiveness will influence global governance structures. (SAGE 350). The biggest differences often occur while discussing how international trade should be reshaped. The EU was a supporter of the launch of DDA and considered it as significantly beneficial to all the participating countries. However, despite the strong support from the EU reaching agreement between the major blocks and emerging economies is unattainable. Because of that WTO member countries moved to less controversial areas and finally in 2013 after 22 years for the first time reached an agreement (Igler, 2019:3).

The European Parliament along with the Inter-Parliamentary Union organizes the Parliamentary Conference on the WTO. The first formal meeting took place in 1999 in Seattle. Later on, the official meeting was established in Doha in 2001. During the annual conference parliamentarians from around the world discuss their opinions and ideas on the trade-related issues as well as WTO activity. In addition to holding talks on The Parliamentary Conference, the European Parliament takes part in more restricted negotiations, sending its delegations to the WTO ministerial meetings (Igler, 2019:4).

The EU within the WTO has a significant impact on the development of the trading system. Between member states based on the EU law custom barriers were removed and the trade increased. Such an idea was inspired by GATT. The EU perceives it as a way to enhance the development of the less developed countries by supporting their economic growth. Initially, the EU was focusing on the framework of the multilateral negotiations with additional bilateral talks, but during the Doha Round, other parties focused on the bilateral negotiations. It required the EU to follow the tendency and adjusted strategy with the switch towards bilateral and regional agreements (Igler, 2019:4).

The EU pointed the need to modernize the World Trade Organization to the new circumstances, where new actors, especially developing countries started to play a central role.

2.2.3 The EU and the IMF

The International Monetary Fund initial mission was to promote trade and economic growth in post-war Europe. The history with the European countries started in December 1945, when the Fund was established. Later on, in 1958 the European Economic Community was established by six IMF members from the European countries. Since that time more countries accessed EEC and the fund increasing their IMF quota from 15.75 to the current quota share of the EU countries equal to 25,55 (decreased by 4,03 after the Brexit)¹⁹. The turning point in the EU countries membership was in 1999 when the 12 EU member states introduced the common currency, the Euro, which strongly influenced the position of the European countries in the IMF (Jørgensen and Laatikainen 2013:222). What is worth noticing is that the EU member states do not have to fulfill their obligations under the IMF Articles of Agreement, since they transferred some competences to the Union. A similar case occurs in monetary policy, which is under the European Central Bank that interacts with the Fund. Nevertheless, the European Union has no representative itself in the IMF. The member countries express the European view with a strong quota share, however, internal disagreements often occur. Even though the position of the EU is strong, a single country voice has no much weight (Jørgensen and Laatikainen 2013:223).

According to Jørgensen and Laatikainen (2013:224). The European Commission and the ECB represent the interest of member states in front of the IMF. The ECB was granted in

¹⁹ <https://www.imf.org/external/np/sec/memdir/members.aspx> Accessed (11.08.2020).

1998 an observer status in the IMF Executive Board. Later on, in 1999 it was granted observer status at the IMF Committee, however without the right to have a voice, thus the presence is rather symbolic. In the case of the Commission, the Economic and Monetary Affairs Commissioner, has also a very limited scope of actions, due to its observer status devoid of the right to speak.

Based on the IMF report (2016:2) during the global crisis, the help for particular EU member countries was significant. In 2014 the credit provided to Greece, Ireland, and Portugal reached US\$ 92 billion. The debt decreased in recent years due to the repayments of the latter two. As for 2016, the credit for the EU members was around US\$ 56 billion. In most countries of the European Union, IMF financing was in conjunction with the EU funds, whereas Poland had a separate agreement (Flexible Credit Line).

Even though the EU has a very strong quota it still has a relatively small impact on the IMF matters. It is hard for the EU members to speak with one voice especially in the case of the monetary policy. Some of the countries still have not implemented the common European currency. As a result, the monetary policy varies from country to country, and make it impossible to be united in this area. It is also often visible during the discussion on the financial assistance for third countries. The EU countries are more coordinated in the areas where the competences were transferred based on the EU accession. Moreover, some of the countries do not want to abandon their opportunity to present their stand in the IMF on behalf of the increased coordinating mechanisms (Jørgensen and Laatikainen 2013:225).

Since 2016 the European Union is one of the main partners in capacity development to the IMF. Recently, the EU represented by the European Commissioner Ursula von der Leyen and the IMF Managing Director Kristalina Georgieva came up with a new agreement on Financial Framework Partnership, that is said to enhance the cooperation and help countries to achieve Sustainable Development Goals.²⁰

2.2.4 The EU and the World Bank

Jointly the European Union is the largest donor to the World Bank budget, however, the EU does not have the seat in the Board. It is represented by the EU member states. The resources contributed by the EU for the development and reduction of poverty have

²⁰ https://ec.europa.eu/commission/presscorner/detail/en/IP_20_126 Accessed (12.08.2020).

grown significantly since the 1990s. The voting power of the EU members gives the organization a strong potential voice in the Board. Given the significant financial contribution, the EU is openly calling for a stronger position in the World Bank. The EU member states already turned towards this direction granting the EU Executive Directors a way for informal coordination through the Eurogroup. Both, the European Union and the World Bank effectively working on various programs that have a strong input in the partner countries' policies. There is a visible shift toward the enhancement of the cooperation between two organizations. *“Coordination over budget support in fragile states, multiple initiatives to finance development in candidate and neighboring countries, as well as a sustained effort to deliver on the agreed MDG targets are examples that witness of such shift”* (Jørgensen and Laatikainen 2013:216).

Despite the post-Lisbon strengthened position of the EU in international affairs and WB's internal voice reform, the EU's position remains more or less the same. Even though the EU cooperation became significant, the reform of voting rights is yet to come.

The World Bank focuses on providing finances and knowledge to the countries. Cooperation is based on a Country Partnership Framework document. Four countries fully cooperate with the WB, mainly Bulgaria, Croatia, Poland, and Romania. With the addition to the advisory services CPF projects also include lending and guarantees. Other EU member states limit themselves to Reimbursable Advisory Services or set up by the European Commission trust funds. Since 2012 lending commitments reach over US\$ 10 billion, whereas RAS and TFs exceeded US\$ 100 million²¹. WB and the EU together carry a few major projects, which are listed below.²²

- *Europe 2020 Programmatic Trust Fund*

This program was established in 2012 in order to help the EC to obtain WB's assistance in pursuing the fulfillment of the Europe 2020 goals and meeting established growth strategy. Since the establishment, it received almost €25 million from various EC directorates. The management of this project is based on the EU-World Bank Group Framework Agreement.

- *EU 2020 Portraits of Labor Market Exclusion*

Portraits of Labor Market Exclusion initially provided the life situation during the years of crisis 2007 to 2011. The information is gathered from surveys and present profiles of individuals. It is focused on unemployed, retired, and inactive

²¹ <https://www.worldbank.org/en/country/eu/overview#2> Accessed (12.08.2020).

²² <https://www.worldbank.org/en/country/eu/overview#3> Accessed (12.08.2020).

people. The initiative is financed by the World Bank, the Europe 2020 Trust Fund, and OECD. The analysis of the labor market and socio-demographic factors provides information about beneficiaries of the various labor and support policies.

- *EU 2020 Subnational Doing Business Reports*

The difference between Subnational Doing Business Reports and World Bank's Doing Business flagship publication can be found in the scope of the research. SDBR focuses on the differences in business regulations in various locations in a particular country. In the SDBR along with the World Bank, EC through the Europe 2020 Trust Fund analyzes the business environment trying to convergence the countries toward better regulations and boost private sector development. Seven EU member countries are taking part in this project namely, Bulgaria, Croatia, the Czech Republic, Hungary, Portugal, Romania, and Slovakia.

As presented above the cooperation between the EU and the World Bank is visible in various areas. The wide range of countries participating in the projects, benefit the European society, not only in the sense of economic cooperation but also when it comes to the socio-cultural aspects.

2.2.5 The EU and the EBRD

The agreement of establishing the European Bank for Reconstruction and Development was signed in 1990 in Paris and entered into force in 1991. The EBRD is a regional development bank that finances projects, similarly to the WB, however in the case of the EBRD in the agreement it implies that it will only help countries that are democratic and respectful towards human rights. When it comes to the WB and the IMF, such a condition occurred only after the Cold War (Cogen, 2015:65). In general, the EBRD is set in order to promote and help in the development of Central and Eastern Europe, however, it also has a reach outside the EU borders in Mongolia and in the countries of Southern and Eastern Mediterranean. *“EBRD is empowered, among other powers, to promote and improve productive, competitive and private sector activity, in particular small and medium-sized enterprises, and to mobilize domestic and foreign capital and experienced management – Article 2(1) of the Agreement”* (Cogen, 2015:66). Besides, it finances legal reforms along with technical assistance.

Each member has one representative in the Board of Governors, which during the annual meeting decides on the general policies of the EBRD. All the decisions are made based on

the majority of votes. In addition to the Board of Governors, there is a Board of Directors chaired by the President. Similarly to other development institutions voting power is linked to the number of shares. Each governor has a power of vote corresponding to the representing country subscribed shares (Cogen, 2015:67-68).

The European Union owns 3% of the bank's capital. Along with the EU member states and the European Investment Bank, they gather 62.8% of the EBRD's capital. The EU is the single largest donor contributing 35% of total funds since the EBRD was created. In 2018 the EU total funding of the EBRD's projects reached EUR280 million, which was equal to 48% of total contributions that year. The EBRD has many funding channels for instance the Development Cooperation Instrument that is responsible for EBRD financing in Asia, or the Horizon 2020 program in the EU. Moreover, the bank is cooperating with the EU institutions on various policies such as environmental issues, growth plans, or Vienna 2.0 initiative. The European Union funding is based on the regional loan/grant facilities and also bilateral relations. EBRD also manages multi-donor funds with the help of the EU. The EU Research and Innovation biggest program is previously mentioned Horizon 2020, which is an example of the financing instruments level cooperation that is increasingly important in recent years.²³

2.2.6 The EU and the OECD

Out of 37 countries in the OECD 22 are the EU Member States. The EU is a full participant but has no voting power. However, it has a voting right in the OECD's Development Assistance Committee, which is described later in this subchapter. Since 1961, the European Commission takes an active part in the OECD's work as the EC representatives sit regularly on over 200 OECD committees or subcommittees. The Lisbon Treaty replaced the Paris delegation established in 1964 with the new EU Permanent Delegation which consists of the EC, European External Action Service, and national representatives (Hadzhieva, 2015:39). Replacement resulted in strengthening the EU position, which became more visible and straightforward. The EU Permanent Delegation has the same role and the same weight as the other permanent Member States representatives. A symbolic change could be a notice on the nameplate *"the nameplate of the European Commission was replaced by the European Union while the Commission stays associated with the EU Delegation"* (Hadzhieva, 2015:41). The delegation can

²³ <https://www.ebrd.com/who-we-are/structure-and-management/shareholders/european-union.html>
Accessed (19.08.2020).

attend and chair meetings, recommend agenda, suggest amendments, and is granted the right of being rapporteur. Since 2001 reviews of the eurozone are conducted whereas the reviews of the EU economy were implemented in 2007.

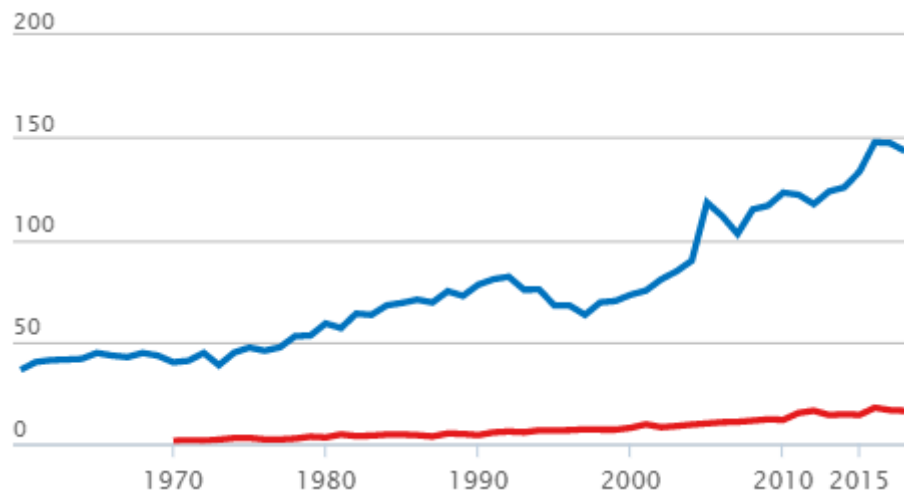
In the area of cooperation the OECD and the EU cooperate on joint projects such as Support for Improvement in Governance and Management. The main objective of this initiative is to support socio-economic development by strengthening the public governance system and public administration facilities²⁴. In addition, there are organized among others, multiple joint seminars, policy formulations, conferences, high-level visits (Hadzhieva, 2015:46).

Mentioned previously the Development Assistance Committee is responsible for providing the aid development, along with reports and suggestions to the members. It is also one of the main committees of the OECD. The EC is represented in all of the DAC committees. When it comes to the EU relations with the OECD's development activities it is guided by the DG Development, whereas external relations by the DG External Relations, that work together with the Paris Delegation. Initially, the role of the Commission in the development matters, whether it was inside of the DAC or outside, used to be constrained, and the EC has little impact on the policies, what has changed after the Treaty of Maastricht (Jørgensen and Laatikainen, 2013:253). Later on, the EU started to gain a stronger position and the DAC strategy became the base for the United Nations Millennium Development Goals. *"(...) it was not until 2000 that the first detailed EU policy statement on development was agreed, a statement that drew upon the earlier work of the DAC, notably its Strategy for the 21st Century, which the Commission earlier had endorsed, pointing out the participation the Community had in DAC and the strategy's development"* (Jørgensen and Laatikainen 2013:254). However, the European Commission development assistance was strongly criticized as the Jørgensen and Laatikainen (2013:254) invoked Shor's article 'Aid that doesn't help' that was published in the pages of Financial Times *"Commission is the worst development agency in the world. The poor quality and reputation of its aid brings Europe into disrepute"*. Also, the DAC reports from 1998 and 2002 were very critical. From the beginning, the EC presence in the DAC was based on the policy of learning, and the harsh criticism led to the far-reaching reforms in the EU's development policies.

²⁴ www.sigmaweb.org Accessed (14.08.2020).

The European Commission set new goals when it comes to international development. The new European Consensus on Development ensures that the provision of aid in order to eradicate poverty and inequalities are at the main focus of the new policy. In 2018 the EU institutions contributed to the ODA 16.13 billion USD and 143.22 billion USD in general.²⁵

Chart 6. ODA - USD billion (2017 prices & exchange rates)²⁶



Source: Organization for Economic Cooperation and Development – OECD.

Both the EU institutions' financial contribution (marked with the red line), as well as the total OECD's Development Assistance Committee, in recent years, experienced a decline. The net ODA contributed by the EU institutions decreased mainly due to the lower level of loan disbursements.

2.2.7 The EU and the EFTA

After the Second World War, there was a need for an incentive that will boost destroyed Europe. The creation of the European Free Trade Association was considered a European Iron Curtain for the economy. With comparison to the European Economic Community, EFTA was more diverse. For instance, the level of development in some countries was high, whereas in some was low (Tasneem, 2018:42). The main purposes of EFTA labeled by Marc Cogen (2015:30) based on Article 2 of the Convention were:

²⁵ <https://www.oecd-ilibrary.org/sites/dcr-2018-25-en/index.html?itemId=/content/component/dcr-2018-25-en> Accessed (14.08.2020).

²⁶ <http://www.oecd.org/newsroom/development-aid-drops-in-2018-especially-to-neediest-countries.htm> Retrieved (14.08.2020).

- Responsible for promotion and enhancement of the trade between member states, along with guaranteeing them equal conditions of competition.
- Free trade in goods.
- Liberalization of the free movement of people.
- To liberalize trade in services as well as investments.
- Opening the public procurement markets of the member countries.
- Protection of intellectual property rights.

In addition to the EFTA resolutions, the European Community established bilateral free trade agreements with the EFTA states. Each of the EFTA member states had additionally bilateral agreement on free trade with the EEC. Agreements were mostly the same, however, due to diversification between countries, they included special features based on the country. Free Traded Agreements assumed the abolishment of all the industrial products' custom duties by 1984. Underdeveloped Portugal decided to join the EFTA where the special fund for the development was created in 1975. Nevertheless, it did not benefit that much and as a result, left the EFTA in 1986 and joined EEC. In 1984 EC – EFTA relations were upgraded from bilateral to multilateral. During the ministerial meeting between the EFTA countries and the EEC, the two blocks agreed on the extension of the cooperation beyond the FTAs. The 1980s were undoubtedly significant for the EFTA and the EEC. The unification of Germany, the collapse of the Soviet Union, and the dissolution of the Warsaw Pact influenced the neutrality of the EFTA countries and led to their accession to the EEC, which after the Maastricht Treaty became the European Union (EU). However, Switzerland and Norway later withdrew their application. Later on, in 1983 the strengthening of the cooperation between the two blocks was proposed, and the EFTA countries decided to replace the bilateral FTAs with a multilateral European Economic Area (EEA)²⁷, which eventually came into force in 1994. The EFTA members are granted free trade with the EU²⁸, however, they do not have a voting right in the legislation, as well as do not have representation in the EU institutions (Tasneem, 2018:43-47).

The European Free Trade Association is currently the third-largest partner for the EU in merchandise and the second-largest partner in services. Whereas the EU is the largest

²⁷ Switzerland and Norway have concluded their individual agreements with the EU what works smoothly until now.

²⁸ Free trade embraces all four liberties of transfer covering: goods, services, capital and labor force.

partner for EFTA for both. In order to fully access the EU market, without being the EU member the EFTA countries need to contribute financially to the EU. To participate in the EU programs the EFTA countries' financial commitment for 2014-2020 was set approximately at EUR 3.22 billion. Moreover, the EFTA states financial contributions aim at the reduction of the socio-economic differences in the EEA states. The total contribution from the EFTA to the EEA Grants in 2014-2021 amounts to EUR 2.8 billion.²⁹

Currently, the EFTA might receive a new incentive due to the Brexit, after which Great Britain will seek for new commercial relations on the continent.

3. China–EU relations

During the Cold War, the PRC relations with Europe were considered important but not essential. However, in the following years, it became more crucial. In 2003 China for the first time issued a document regarding its strategy towards another country, known as 'EU Policy Paper'. Shortly after in 2004, the EU became the biggest trade partner, surpassing the US and Japan (Breslin, 2010:156). In 1975 China and the EC trade were around US\$ 2.5 million. After the 1978 Agreement on Trade and Economic Cooperation between the PRC and the European Community, bilateral trade in 1980 almost tripled. Later on, in 1985 the 1978 agreement was replaced by the new agreement which is the main legal framework when it comes to the EU-China relations.³⁰ Temporarily the European Union is China's second-biggest trade partner due to pandemic-related issues as mentioned before in chapter 2.1.5 *China and the ASEAN*. As for the European Union, China is still the second-largest trading partner after the US, however, due to the Brexit, the situation might change.

In 2018 marked the 40th anniversary of China's opening to the world. The 1978 reforms transformed China to what it is now, In the same year the People's Republic of China and the European Economic Community, signed the Agreement on Trade and Economic Cooperation, which was the first agreement that joined together China and Europe. Since then both the PRC and also EEC, undergone tremendous changes. China became one of

²⁹ www.efta.int/About-EFTA/Financial-Information-748 Accessed (20.08.2020).

³⁰ <https://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&8redirect=true&treatyId=341> Accessed (26.08.2020).

the fastest-growing world economies, whereas the EEC, became the current European Union, which is the world's largest single market. The relations between the two also deepened especially in the economic sphere (Zhou, 2018:17).

3.1 China–EU strategic partnership

The partnership between the People's Republic of China and the EC and later the European Union has started already in 1975. When for the first time official relations have been established. Circumstances that led to the stable development in cooperation between the two economies in accordance with Zhou (2017:3) are:

- Promotion of China's reforms leading to development in various areas along with the opening-up policy.
- Enlargement of the European Community/European Union followed by increased capacity.
- Globalization.

The relations between the PRC and the EC/EU had its ups and downs. In 1988, through diplomatic missions, countries were trying to improve their bilateral relations. However, in 1989 the EC imposed sanctions against the PRC based on political reasons. Nevertheless, the relations were restored mainly owing to strong trade and economic needs. The reason behind the successful development of bilateral relations is that countries do not consider themselves as strategic competitors, but rather strategic partners. Moreover, China's policy of "*supporting the construction of a strong and united Europe*" (Zhou, 2017:4) provides a favorable environment for proper cooperation. What was crucial for the China-EU partnership was the EU's agreement on China's WTO accession, which ensured the same mechanism and legal framework for trade. The initial 'cooperative partnership' established in 1998 was changed in 2001 into a 'comprehensive partnership', which later in 2003 evolved into a 'comprehensive strategic partnership' (Zhou, 2017:4). It might be considered as a turning point in EU-China relations. Jointly Press Statement when the EU-China Comprehensive Strategic Partnership was announced also pointed to cooperation in such areas as the trade, the role of the UN in peacekeeping, security, environment, intellectual property, education, employment, etc., so the cooperation considered a wide range of aspects. "*China-EU relations in 2003 were not only bathed in the atmosphere of friendly cooperation, but also covered the areas of the*

economy, politics, society, and culture of China and the EU, reflecting a strategic vision and cooperative spirit, and a possibility for orientation towards development and mutual benefit, in an all-dimensional, multi-tiered, and wide-ranging manner.” (Zhou 2017:6). The first few years of the partnership are often regarded as a ‘honeymoon’. Both, China and the EU had great expectations for their mutual development and cooperation. Especially due to the biggest single enlargement of the EU in 2004, but also due to the over 10% China’s economic growth, which resulted in the economic growth in Europe. Yet, in 2006 the European Commission adopted a new policy towards China in which some views differed from the one presented in 2003 (Zhou 2017:8). The signing of the Lisbon Treaty was not passed unrecognized. The increased significance of the EU on the global governance led to a higher probability of difference in views and disputes between China and the EU. All the problems and misunderstandings resulted in a change of unrealistic expectations and made cooperation more stable in various areas. What enhanced relations between the two sides was the 2008 global economic crisis. Along with much socio-political cooperation improvement, the only increased number of the EU export concerned China. While countries were fighting the effects of the crisis, China and the EU were bond closer due to high-level dialogues on various matters, as well as policies based on the 12th China’s Five-Year Plan and the EU 2020 Strategy (Zhou, 2017:10).

3.2 China–EU trade and economic relations

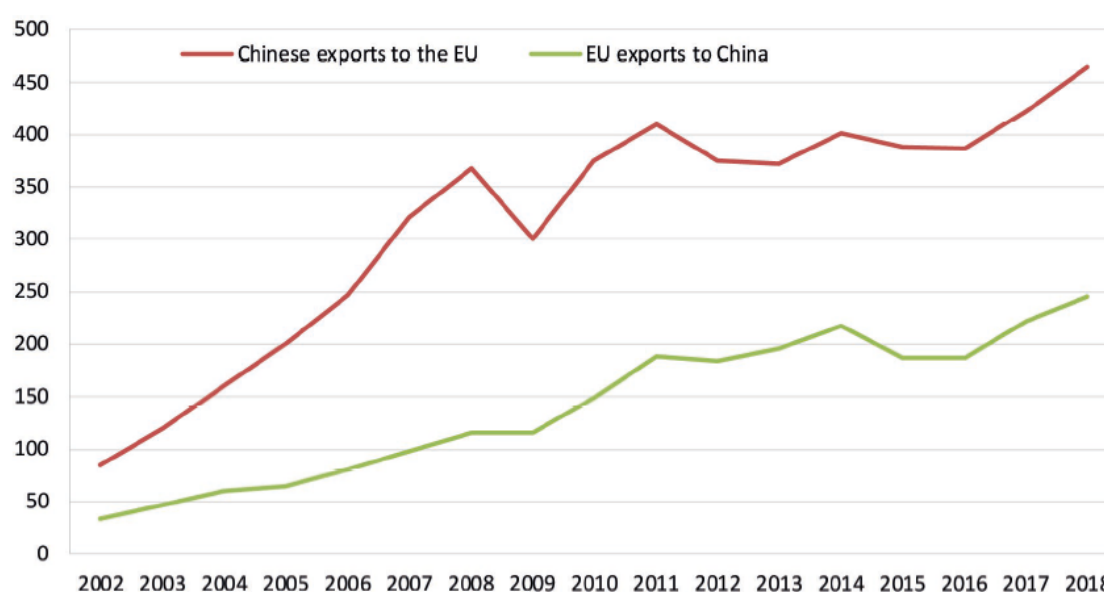
Mentioned in the previous subchapter the Comprehensive Strategic Partnership significantly boosted cooperation between the PRC and the EU. China’s export to the European Union since the CSP agreement compared to 2012 was greater by 4.6 times to US\$333.99 billion, whereas the EU export to China in the same time framework increased 4.3 times to US\$212.05 billion. From 2004 to 2019 the European Union was the leading trading partner for China. Their trade relations encountered issues three times during the history of China-EU trade. The first time was during the global financial crisis when both economies noted a decline in foreign trade and resulted in a decrease in constant 20-year trade growth. The second time happened shortly after in 2012 during the European Debt Crisis. It was especially visible in the case of China’s exports to the EU as can be seen in *Chart 7*. The current global pandemic crisis that struck the whole world enormously affecting the global trade and also EU-China trade relations (Zhou, 2017:70). As mentioned before in subchapter 2.1.5 *China and the ASEAN*, “(...) due to the

pandemic-related issues ASEAN in the Q1 temporarily overtook the EU, becoming the biggest trading partner for China". Although in the first decade the EU-China trade had its ups and downs, and encounter a huge crisis twice, still, the trade grew on average by over 20%, imports grew by 24.2% and exports grew by 23.4% (Zhou, 2017:72).

3.2.1 Bilateral trade

Excluding the 2003 CSP, the WTO accession of China played a significant role in trade development between the EU and China. From 2001 till 2018 the European Union's export to China has increased on average more than 10% per year in products and more than 15% in services (Dadush, Dominguez-Jimenez, Gao, 2019:6). From 2002 till 2018, the trade deficit of the EU with China has grown to over US\$200 billion as can be seen in *Chart 7*.

Chart 7. China-EU trade 2002-2018 (USD billions)³¹



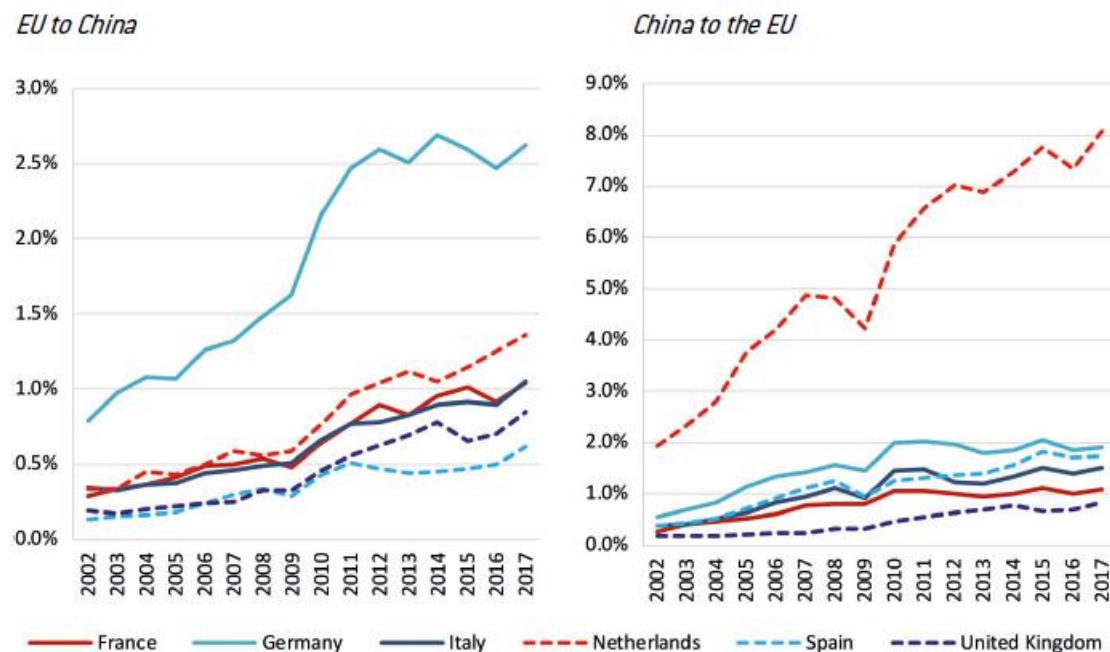
Source: World Bank WITS.

When it comes to the trade by member states as for 2019 only in Germany and Sweden export values exceeded import values. In 2017, almost 44% of the EU exports to China were coming from Germany. It is also the same amount as the next nine countries combined. What might be quite astonishing the biggest EU importer from China is the Netherlands, however outside of the statistical data this phenomenon is invalid.

³¹ Dadush, U., Domínguez-Jiménez, M., Gao, T., (2019). *The state of China-European Union economic relations*, Bruegel.

It is called a ‘Rotterdam effect’, and is caused by the fact that many goods delivered by ships to the EU are delivered to the ports in the Netherlands, and later further relocated (Dadush, Dominguez-Jimenez, Gao, 2019:8). The exact data are presented in *Chart 8* below.

Chart 8. China-EU trade by member states (2002-2017)³²



Source: World Bank WITS.

Whereas previously engagement into international trade was to import, and export was considered as a mean to pay back import, in recent years the significance of globalization increases, and imported products are becoming essential. The PRC became an important actor in the global supply chain, which was visible during the COVID-19 pandemic.

3.2.2 China–EU trade barriers

Due to economic globalization, free trade is becoming more and more important to every country. The European Union and China still tend to use tariffs as a remedy in order to either protect the domestic market or revenge each other’s measures. Duties such as anti-dumping or anti-subsidy are very common in the EU-China trade. Already at the beginning of China’s reforms in 1979, the EU filed the first anti-dumping case against China. Later on, China became “*the most accused country of EU antidumping charges*” (Liu, Vandenbussche 2002:3). Even though the trade value between China and the EU is

³² Dadush, U., Domínguez-Jiménez, M., Gao, T., (2019). *The state of China-European Union economic relations*, Bruegel.

constantly increasing, the progress is slowing down due to the implementation of tariff and non-tariff barriers.

In general, both the People's Republic of China and the European Union have to face tariffs. When it comes to Chinese exporters, duties are imposed mainly in the EU sensitive sectors, however, the tariffs imposed in China are much more substantial and concern a wide range of sectors. For instance, the tariff of the EU products entering the US on average in 2017 was 1.4%, in Japan around 2%, whereas in China 8.75%. Based on that it can be calculated that worth US\$200 billion worth goods that were exported by the EU firms were subjected to an additional US\$17.5 billion in tariffs. Vehicle was the largest product category exported to China by the EU in 2017. The effectively applied tariff in this case was around 20%. Nevertheless, higher tariffs led to higher prices of cars and it can be concluded that this was the reason why in 2018 China has adopted measures to reduce tariffs that resulted in an average decrease from 25% to 13.8% (Dadush, Dominiguez-Jimenez, Gao, 2019:10). When it comes to tariffs applied to Chinese products in the EU, the weighted average in 2017 was around 3.6% comparing to the previously mentioned 8.75% in China. The two most essential sectors for China that contribute over 50% of total China's export, namely machinery and electronic equipment, in the EU are subjected to only 1.2% and 0.8% tariffs respectively.

Moreover, the China-US trade war, and the increase of tariffs between the two countries, create a favorable environment for the European companies, which is described in detail later on in this chapter.

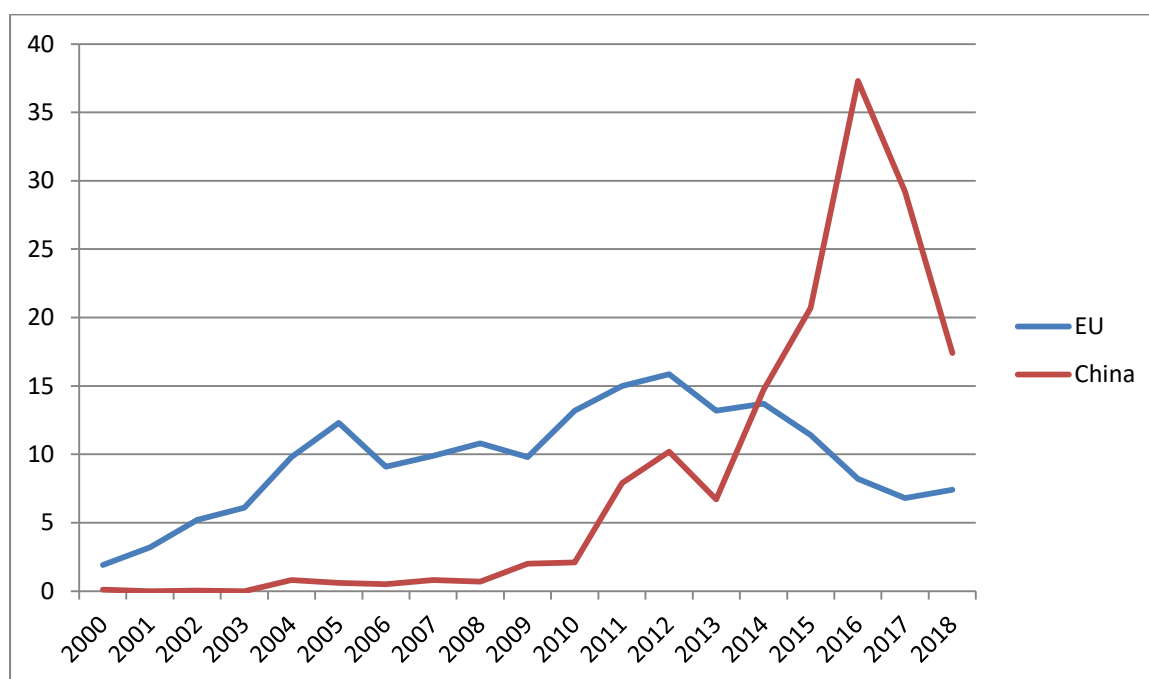
In addition to the tariff barriers, exporters have to face non-tariff barriers, which in many ways have an even bigger impact. Xiang Deng et al. (2014:20) state that *"non-tariff barriers refer to import quotas, subsidies, rules, standards, regulations etc., which are popular means used by a country or a common market to protect domestic industries"*. They are often considered as a sort of protectionism. In the agricultural sector, China's domestic standards often constrain the EU exports. Regulations in the PRC are often fragmented, incomprehensible, and unevenly respected. According to Dadush, Dominiguez-Jimenez, Gao (2019:12) *"The EU Chamber of Commerce in China (2011) estimated that the resulting efficiency and innovation losses represent a missed opportunity the size of the South Korean economy for European businesses in China"*. Public procurement procedures significantly restrain the EU business in China. As a

result of not adopting the WTO Government Procurement Agreement, European companies are challenged with a lack of transparency, unknown criteria, and unfair market access. Nevertheless, the EU is also taking measures and as for 2019 it had 20 ongoing investigations targeted against Chinese exporters in the EU, and in certain cases, the European Union imposes quotas on products imported from China. Most recently on the 4th of August 2020, the EU Commission revised and extended anti-dumping duties on stainless steel from China due to the procedures used by Chinese companies which were slightly modifying materials to avoid duties.

3.2.3 FDI

FDI flow is strongly correlated with the trade between economies. As the China-EU trade in recent years was increasing, it made a path for the FDI. Nevertheless, Chinese direct investments in the European Union and the EU investments in the People's Republic of China are still relatively small with a comparison to the economy size. As presented in *Chart 9*, at the beginning of EU-China trade relations, the European Union was very actively participating in the FDI. The breakpoint for foreign direct investments occurred in 2012 during the European Debt Crisis. The EU struggling with the crisis focused on the internal market, whereas China used the chance for expansion. What is worth mentioning is the fact that the EU investments in China since 2010 are in great majority greenfield investments and contribute to around 80% of FDI. In the case of China greenfield investments contribute to only around 6% of the total, whereas approximately 94% of China's FDI is located in M&A. In addition in 2018, the European FDIs in China bounced back after a long decline.

Chart 9. China-EU direct investments in 2000-2018



Source: Rhodium Group.

In recent years the European FDI's are on the levels from the beginning of the China-EU partnership. According to Dadush, Dominguez-Jimenez, Gao (2019:13) the reason behind that might be found in poor investor protection in China and uneven access to the market that sometimes is arbitrary. Most worrisome aspect for the foreign investors is the fact that many sectors require joint venture, that often involves the transfer of intellectual property. Nevertheless, investors are trying to avoid such measures and reroute their FDI to the more favorable regions, such as Hong Kong.

Investment coming from China to the EU has also seen a huge decline. Between 2017 and 2018 decreased by 40%. It is related to the China Communist Party Government measures in order to tighten capital controls and domestic credit. Moreover, the EU member states stricter rules and regulations took its toll. The fraction of the total incoming FDI for both China and the EU is small comparing to the economies' capacity, 5%, and 4% respectively. Yet, in 2014 the increase of China's FDI is visible in central and eastern Europe, also in Poland (Dadush, Dominguez-Jimenez, Gao, 2019:14).

In 2019 a new framework regarding screening foreign investments has been implemented in the European Union. Increased scrutiny over foreign companies pose another challenge

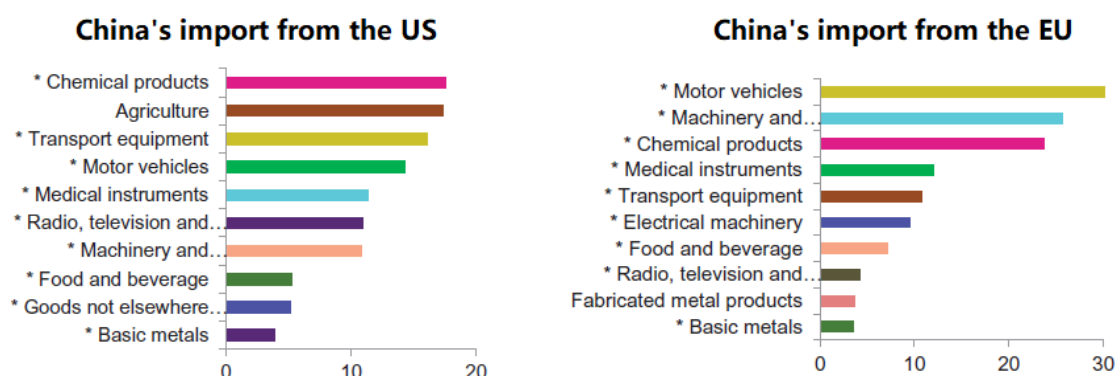
for the investors but also secures the local market. (Dadush, Dominiguez-Jimenez, Gao, 2019:15).

3.3 China–US trade war and impact on the EU trade

Since April 2018 the United States and the People’s Republic of China have been engaged in a trade war. Since the situation is happening between the two biggest economies, the whole world is affected. The European Union is strongly connected with both countries and found itself in a crossfire. In May 2019 the OECD stated that the trade war had already implications for growth and global business investment, decreasing growth predictions from 3.5% in the 2017-2018 period to 1.7% in the 2019-2020 period. The European Union and the US are cooperating closely in the building of the liberal global governance system. Moreover, the EU is a key trade partner for the US, and also a strategic ally. The policies attacked by the Trump administration are also a concern for the EU government. The companies from the US and China are the ones that are struck the most. In this situation, the European Union might stand a chance for trade benefits. For instance, according to UNCTAD *“EU exports would be the chief beneficiary of an escalated US-China trade war, with the EU capturing \$70 billion (\$50 billion of Chinese exports to the United States and \$20 billion of US exports to China)”* (Plummer, 2019:196). The numbers might not be significant considering the whole EU economy, yet on the sectorial and country level, the differences might be considerable. Improvements in areas such as intellectual property or forced technology transfer among others are being demanded by the US government. In such a case the European companies shall benefit as well.

As the trade war is harmful to the global economy, for the biggest economic block in the world like the EU it can have positive effects. Gaps in the trade between the US and China might be filled with competitors from the European Union. As the EU is both the second biggest exporter to China and the US, most likely it will further develop in the market. Even though the US market is bigger than the Chinese one, the EU shall gain more from the PRC’s market rather than the one in the US. The result is affected by the similarities in the export of the US and the EU. Both economies competed with each other in almost every sector of export to China (Chart 10).

Chart 10. China's top 10 import from the US and the EU



Source: Herrero A. (2019) *“Europe in the midst of China-US strategic economic competition: what are the European Union’s options?”*.

In such a case the best option for the European Union in order to benefit from the US-China trade war is to stay neutral and refrain from aligning with the US. In the scenario where the EU is supporting the US and also impose tariffs on the Chinese companies, China’s government the most likely will strike the European companies with similar duties. Even though at first sight it might seem that the US market has a bigger value when it comes to exports, the import should be considered as well. The EU may substitute some US exports to China, however only if the United States holds its position toward the European Union (Herrero, 2019:409-414).

What is worth noticing is the fact that even though today the US is the biggest trade partner for the EU, soon it might not be the case. According to Herrero (2019:414) within 10 years China’s contribution to the global economy will triple the US one. Yet, strengthening the relations between the EU and China with the cost of the EU-US relations even though from the trade point of view is rather practical it is also unlikely. The opportunities from the Chinese market may exceed the one in the US market, however only if China will fully open to the foreign companies, and starts to treat them equally. Such a case would provide huge benefits for the EU companies. The initial trade war currently also includes technological war. Countries allying with the US decided to give up on Huawei 5G technology, whereas other countries pursue it. In order to stay neutral and benefit from the Sino-US conflict, the EU should develop its own internet-related sector (Herrero, 2019:419). Thus it is obvious that in the EU interest is to follow its development path and keep as many allies as possible without taking sides, as neither of the choices rather than being neutral favors European economic development.

3.4 Selected objectives for China–EU cooperation

The People's Republic of China and the European Union working closely on the comprehensive strategic partnership development, which is stated in the jointly adopted EU-China 2020 Strategic Agenda for Cooperation. The documents concerns all the major areas such as peace and security, trade and investment, sustainable development, regional policies, and people-to-people exchanges.³³ Moreover, the new EU strategy on China adopted by the EU in 2016, provides the basis for the further deepening of the relations and cooperation between the two actors. It also underlines the importance of unity in the effective policy towards China, and the need to maintain EU law, rules, and policies in cooperation frameworks on the individual or sub-regional level.

- Trade and investment

The trade between China and the European Union is equal on average 1 billion euro a day. The PRC is becoming more and more active when it comes to the development of its domestic companies. Made in China 2025 policy helps countries to become world-leading tech companies. The Chinese Government is providing large subsidies to both state-owned and privately-owned companies. The European Union criticizes China for the unequal treatment of foreign companies and shielding Chinese companies on the domestic market. It also limits funding programs for the non-Chinese owned companies. In order to successfully enter China's market, foreign companies are often forced to the creation of joined ventures with the local companies or transferring of the key technologies to the domestic companies. According to the EU, such unfair treatment is also visible in fin-tech companies. While in the EU presence of the Chinese companies is in constant increase, foreign companies are denied access to the Chinese market. What follows the EU is trying to establish a more *"balanced and reciprocal economic relationship"* (EU, 2019:6). Comprehensive Agreement on Investment, which is negotiated since 2013, would be a milestone for the EU companies operating in China, which would ensure equal treatment on China's domestic market. Signed in 2019 EU-China Bilateral Aviation Safety Agreement shall boost trade related to aircraft and other similar products. The EU 2016 proposal

³³ https://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf Accessed (03.09.2020).

for an International Procurement Instrument, should benefit the EU companies with better access to protectionist markets (EU, 2019:6-7).

- Effective multilateralism

The PRC and the EU are committed to working on the global governance that is fair and equal for all. Also, both the EU and China are the permanent members of the UNSC. As the UN members, both countries worked closely on the UN core features those are: Peace and Security, Human Rights, and Development. In these areas, the EU often states its concerns when it comes to the Xinjiang or Hong Kong (EU, 2019:2).

- Peace and security

The European Union is the biggest donor to the peacekeeping budget, whereas China is the third-largest donor after the US. Owing to China's participation and support of the actions aimed at Iran, ensured successful implementation. Moreover, counter-piracy operations led to increased security inter alios in the case of the trade ships. Another important role of China when it comes to international security is the DPRK denuclearization. Nevertheless, the EU often express concern about China's maritime claims. The solution for the South China Sea conflict provided by the UN met the PRC disagreement, and increasing tension affects the safety of the sea-lanes communication and what follows the EU's economic interest.

- Sustainable Economic Development

The 2030 Agenda on sustainable development where both the EU and the PRC share commitments, provides a basis for the cooperation, especially in the third countries. The European Union believes that China should increase its engagement in multilateral fora and work closely on the introduction of the SDGs in the third countries (EU, 2019:2). In many countries China's investment-led to significant growth of economies, however, those investments might lead to financial instability and high debt, which might result in "*transfer of control over strategic assets and resources*" (EU, 2019:4). The EU calls China to promote stability and seek opportunities for trilateral cooperation based on mutual

interests. The G20 guidelines on sustainable financing shall be implemented by China to increase its debt transparency and sustainability. Additionally, the EU strategy on Connecting Europe and Asia seeks cooperation with Asian countries including China in the area of energy, transport, and digital connectivity. Plans for the EU-China railway corridors provide the possibility of the creation of a “*Trans-European Transport network policy*” (EU, 2019:5).

4. China presence in Central Eastern Europe

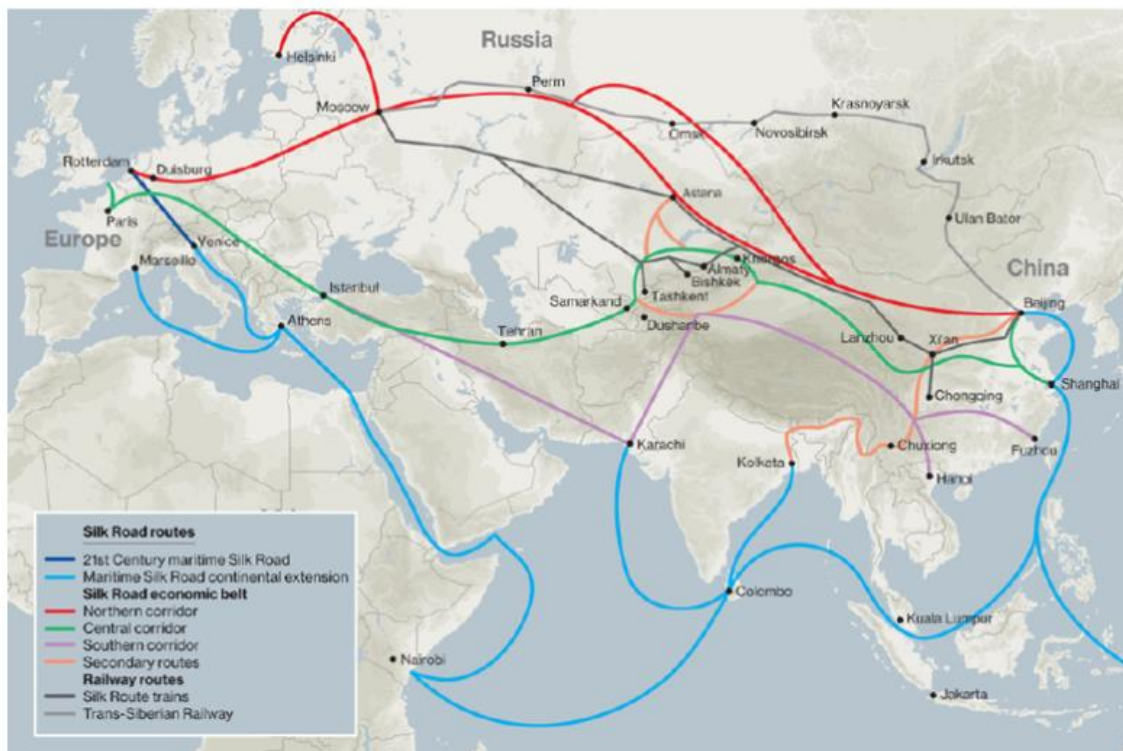
The relations between the PRC and the CEE countries in recent years have been receiving an increased amount of attention. China's presence is more and more visible, as the country is trying to regain its relations from 1949-1989 when the communists ruled in this part of Europe. Shortly after the global economic crisis, the first summit on trade and investment between China and the sixteen CEE economies (Albania, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, (North) Macedonia, Poland, Romania, Serbia, Slovakia, and Slovenia) took place in 2011 in Budapest. One year later the heads of governments met on the summit in Warsaw. Previously known as 16+1, now is referred as 17+1, due to the Greece 2019 accession to the project. Chinese presence in CEE, not only affect the group 17+1 but also challenges the EU coherence. Usually, the EU tries to speak with one voice, however, the new actor in the region showed that the countries have different political and economic interests, and as a result, the approach to China varies from a country as well (Vangeli, Pavličević 2019:361-362).

In 2013 president Xi announced the geostrategic project known as One Belt One Road (一帶一路). The official name has been changed in 2016 to the Belt and Road Initiative, in which the group 16+1 has aligned with. There is a lot of skepticism about the project, yet it brings a lot of possibilities and also a lot of challenges to the Western countries. It is said that the BRI should be implemented before the 100th anniversary of the proclamation of the People's Republic of China, that is October 1st, 2049. Mentioned in the previous chapter US-China trade war has an impact on the European countries as the US closest allies.

4.1. The Belt and Road Initiative

As a matter of fact, the BRI is not a modern idea. The Silk Road was already in use in 200 BC. It connected China with the Mediterranean bringing not only economic but also cultural exchange. The Silk Road was functioning and expanding till 1400 AD and Zhang Qian might be recognized as the father of the whole concept. Yet, the previous Silk Road was not a single road, it was more like several unmarked paths on which small quantities of cargo, mainly silk, were transported. Xi Jinping's BRI is considered the biggest trade project of the 21st century. It contains two main roads, the one on the land referred as the Silk Road Economic Belt and the one on the sea known as the 21st century Maritime Silk Road as presented in *Figure 1* below.

Figure 1. The map of the BRI³⁴



Source: Automotive Logistics.

The general idea was mentioned for the first time in 2013 during a state visit to Kazakhstan. China stressed that the countries are not well connected, and there is a need of creating routes, highways, and railways that will be supported by the IT network. Later on, in the same year, President Xi during his visit to Indonesia mentioned the fund created

³⁴ <https://www.automotive-logistics.media/supply-chain-management/stronger-ties-growth-of-a-new-silk-road/38623.article> Retrieved (05.09.2020).

by the Chinese government for the ASEAN countries which the main objective is to “develop maritime partnership in a joint effort to build the Maritime Silk Road of the 21st century” (Xi, 2013)³⁵. The first BRI forum took place in 2017 in Beijing. President Xi during his opening speech stressed that with the BRI “we can embark on a path leading to friendship, shared development, peace, harmony and a better future” (2017)³⁶. The core of the BRI is peace and cooperation, openness and inclusiveness, mutual learning and benefit.

China is said to become the biggest world economy by 2032, whereas three out of the four largest economies will be Asian countries namely, China, India, and Japan. Besides emerging economies such as South Korea and Indonesia are said to enter the world's top 10 economies list. China was looking for expansion and alternative investment opportunities. With the significant amount of capital surplus, a fair amount of bond investment was directed to the West. Under the BRI China is investing the surplus into the Belt and Road countries' infrastructure, such as roads, highways, ports, but also IT facilities. The BRI has eight key objectives: infrastructure connectivity, economic and trade cooperation, industrial investment, financial cooperation, protection of the natural environment, cultural exchange, maritime cooperation. Nevertheless, the BRI is mostly recognized as an attempt to become the world's leading economic power (Islam, 2019:9-10).

Since ages, the countries or cities that had access to the sea were developing faster. The same is in the case of China's development. Cities such as Shanghai or Shenzhen became huge economic centers. The Port of Shenzhen is one of the biggest and one of the busiest in the world. Since approximately 90% of the traded goods are transported by the sea, ongoing globalization is often called maritime globalization. Presence in the mainstream of the world economy requires the opening of the market, presence in global international institutions, and good position/connection in the world communication net. Countries that are badly connected by the communication lines are often underdeveloped and impoverished. Landlocked countries do not have the infrastructure needed for industrialization. The opportunities that come with globalization can be found mainly in the West. Now, with the BRI, China is trying to break the gap and connect the world.

³⁵ https://reconasia-production.s3.amazonaws.com/media/filer_public/88/fe/88fe8107-15d7-4b4c-8a59-0feb13c213e1/speech_by_chinese_president_xi_jinping_to_indonesian_parliament.pdf Accessed (05.09.2020).

³⁶ http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm Accessed (05.09.2020).

The majority of the countries that are part of the BRI are rather impoverished, do not have many physical assets such as capital, human capital, advanced technologies, or needed infrastructure, but they do have the labor force and natural resources, which China is planning to activate (Islam, 2019:12-13). From the Chinese perspective investment, urbanization, industrialization, and infrastructure are the key to poverty elimination. *“The Bloomberg Report said that the Belt and Road Initiative will contribute to more than 80% of the world’s economic growth and help three billion Asians grow into the middle class by 2050. China’s own research also predicts that China’s trade volume with the countries along the Belt and Road will increase to US\$ 2.5 trillion in the next 10 years”* (Islam, 2019:13). Thus, China is hoping for cooperation on international cooperation on a new version of civilization that will help in the countries development.

However, such a massive flood of investments along with credit provision might have dramatic consequences for the recipients. The projects under the BRI are often associated with the debt trap, especially for the poorest countries involved. Yet, China denies the charges and implies that there are no ulterior motives under the Belt and Road Initiative.

While mentioning the Belt and Road Initiative the aspects of geopolitics cannot be omitted. The political ambitions of the PRC are widely discussed by western commentators. Although China often underlines the fact that the BRI is for cooperation and mutual benefit, many are still skeptical about the project. First of all, the investments are often located in countries that are underdeveloped, politically unstable, corrupt, and there are no sufficient financial resources. In such a situation it is unlikely that China’s investment will bring any profits. Secondly, the project is seen as a way to decrease the US influence in the region. In general, voices are divided, but mostly even being the economic project, Western commentators consider it as a source of help in establishing political claims (Islam, 2019:16).

4.1.1 The BRI and China’s goals

The objectives of the Belt and Road Initiative were described for the first time in 2015. The purpose provided by the Chinese government is to promote connectivity on the regional and cross-continental level. The project contains five main features: infrastructure, trade, financial integration, policy coordination, human interactions. Because the BRI was initially considered as an economic project, but in the end, has also some political features it is sometimes called ‘China’s Marshall Plan’. Described in the

13th Five-Year-Plan, the initiative was received by the countries better than expected, however, the criticism especially from the US administration is also present. The eradication of the infrastructure gap is said to cost US\$ 4 trillion. The EU and the PRC jointly established the connectivity platform that aims in synchronizing the BR investments and the European Juncker Investment Plan when it comes to new European infrastructure financing. In the BRI concept two ideas can be found (Mayer, 2018:9). The first strategy is ‘march west’ (西进) articulated by the Chinese prominent scholar Wang Jisi already in 2012. It is a response for the U.S. rebalancing power to East Asia. In compliance with Mao Zedong famous strategy “敌进我退，敌退我追“ that is „If the enemy advance I retreat if the enemy retreats I chase“. In such a case China became less active in the East Asia region and pursue regions on the west of China³⁷. The second idea hidden behind the BRI was suggested by the Yifu Lin. In order to deal with the effects of the global financial crisis of 2008, he proposed a ‘Global Marshall Plan’. It included two general ideas *“China should provide global public goods through massive investments in infrastructure projects and thereby boost its image as a responsible leader—President Xi (...) China’s own economy that is increasingly slowing down would benefit from massive infrastructure construction projects and outward foreign direct investments, pushing forward structural adjustment, economic reforms, industrial upgrading, and regional development within China”* (Mayer, 2018:10). The understanding of the strategic concept in which China is trying to connect its current situation in the domestic economy and foreign policies portrays the hidden motives of the BRI. Additionally, the slowdown in the GDP rate requires the government to seek for some new solutions. The further decline in the GDP and middle-income trap that would halt the increase of the per capita income might result in political instability. In order to stimulate economic growth, the PRC could focus on developing the currently rather undeveloped eastern part of the country. Another possibility of stimulus could come from the export to the new markets, which potentiality, until now, have been marginally used. The BRI could play a vital function in boosting China’s growth. The biggest potential can be found in emerging economies such as the Central Eastern Europe regions. Some of the countries of the CEE region are already tied with the Chinese market, while the others have still to be included.

³⁷ <https://www.brookings.edu/blog/up-front/2013/01/31/march-west-chinas-response-to-the-u-s-rebalancing/?fbclid=IwAR20oAQrOs5vuyZq59DrB03kZXUHweXxFpW2TfrUKgy4muniAIVUK3kGX4>
 Accessed (09.08.2020)

4.1.2 The BRI in the CEE region

The announcement of the BRI was another step in China's return to the CEE market. The cooperation between China and CEE is perceived by the Chinese authorities as crucial, especially with Poland as it is located between in the center of Europe, and also is a gateway to the EU from the East. The BRI is supplementary to the 17+1 and is being simultaneously implemented, based on the CEE project framework. Yet, the response of the European policy community was perceived by China as 'lukewarm' (Góralczyk, 2017:5). That is one of the reasons why the difficulties in implementation may occur.

CEE investments connected with the BRI and the 16+1 platform are mainly focused on the V4 countries, which are more politically stable than the Western Balkans. Still, the V4 group contributes to the vast majority of Chinese trade in CEE, which will be detailed later in this chapter. According to Góralczyk (2017:5) *"Chinese companies are prepared to invest exorbitant amounts in alternative energy sources, mining companies, electrical power lines and power stations, among other projects"*. Similarly to the other CEE countries, Chinese investments in Poland are aiming at innovative industries and ownership of trademarks. As mentioned before China's focus is set on mergers and acquisitions, whereas greenfield investments are not that common. The potential for the investments in CEE is still huge, as around 90% of the EU-China trade before Brexit was coming from the major EU economies. Among the CEE countries, in China's perception, only one country has been referred as important by the Chinese Academy of Social Sciences, namely Poland. The series of studies provided by the CASS described Poland as the crucial partner in the region, not only in the trade point of view but also when it comes to innovation (Góralczyk, 2017:6). Yet, the current government is a strong ally with the US, which during the Sino-US trade war might have an impact on the Poland-China relations.

4.2 16+1/17+1

As mentioned before the cooperation between China and the CEE countries was initially called 16+1, in 2019 the name has changed to 17+1. Initiated in 2012 project aimed at economic, technological, and cultural exchanges. Poland was one of the initiators and become a leader of this initiative, as a regional power. What is more location of Poland makes it a hub and the corridor between China and the EU. Over the past years within the 17+1 framework, China has managed to successfully return to the CEE region, where it

was not present for a long time. Moreover, it is expected to increase its presence in the foreseeable future. The 17+1 project reflects China's scope of interests in multilateral institutions. In addition, the project was linked with the BRI, as all of the member countries take part in the initiative. Moreover, the main priorities of the BRI are more or less the same as the one constituting the 17+1 framework. The 17+1 influenced not only the 17 countries and China, but also has an impact on intra-European relations. The choice of the countries seems not to be random, all of the initial 16 countries are post-socialist. With Greece included 12 are a member of the EU, and 15 are NATO members (Vangeli, Pavličević 2019:362).

4.2.1 Politics within 17+1

While the entrance of China into the CEE region influenced the overall environment, bilateral relations vary among countries. Yet, the geopolitical interest is clearly visible. One of the biggest challenges from the Chinese perspective was: how to approach Russia, as all of the countries are states which either were part of the former Soviet Union and gained independence after the dissolution of the USSR or were in the Soviet sphere of influence, framed institutionally by Warsaw Pact and COMECON. In order to avoid operating against Russia, China has omitted countries such as Belarus, Moldova, or Ukraine in the project (Karaskova et. al. 2020:30).

Another challenge that had to be faced by China is the presence of the US in the region. The United States does not have a formal framework with CEE, however, after increased China's interest in the region, the president's D. Trump administration has manifested an increased interest towards CEE. Various countries in the region are often visited by the US delegates. In 2019 the US Secretary of State, Mike Pompeo, visited some of the states and warned against Huawei 5G technology. Later in July 2019, the PRC MFA representative Wang Yi stressed that CEE became a new battleground in the trade war between the USA and China. Some countries found themselves in a difficult position, which was concluded by Hungary, which stated that cooperation with China makes Budapest not being a reliable ally for the US and NATO. Nevertheless, in general countries in the CEE region consider that China is only an economic partner, which does not exclude the importance of the US in the region (Karaskova et. al. 2020:30-31).

The last but not least actor in CEE is the European Union, which is the biggest economic power in the region. During the 2012 Warsaw summit 12 measures were announced, yet

the prime minister Wen Jiabao did not mention the European Union. The EU was concerned that the PRC presence in CEE is an attempt to divide the EU. Later on, in order to diminish the EU's concerns, China often stressed it hopes that the 17+1 project will ensure the continuation of successful cooperation between the PRC and the European Union. Such a statement did not only support China's relations with the EU but also ensured some CEE states that their cooperation with the PRC will not have a negative impact on their relations with the EU. The concerns of the EU led to the implementation of FDI screening mechanisms. Countries that are not members of the EU such as Serbia have a theoretically institutional space for cooperation with China. It might lead in the short term to their fast economic development, but due to the EU criticism, it might influence the prospect of Serbia's accession to the EU. The rising concerns of France and Germany regarding the vanishing influence of the EU in the CEE region resulted in the special 27+1 summit between the EU and China (Karaskova et. al. 2020:31-32).

4.2.2 Economic relations within 17+1

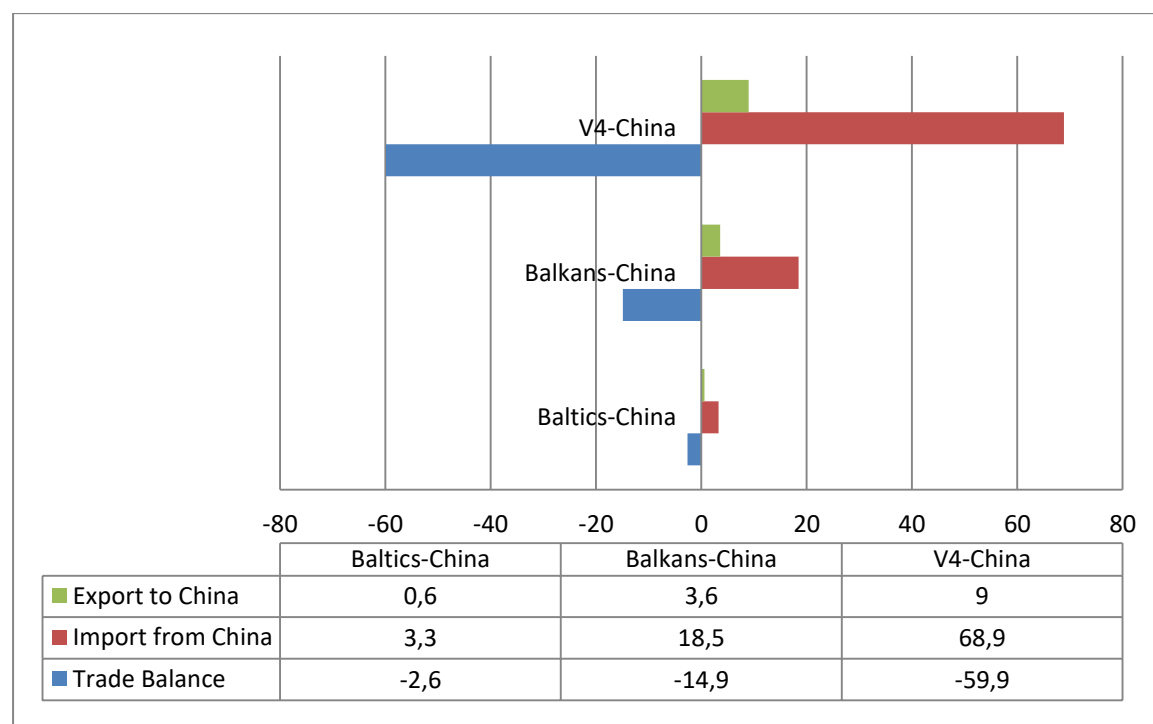
According to the analysis made by Karaskova et. al. (2020:35), economic cooperation between CEE and China within the project framework has not seen major changes. Especially the Baltic states and Balkans have a relatively low trade share with China comparing to the V4 countries. What is visible in the whole CEE region is the increasing trade deficit with China, with low export and high import values. Poland received the majority of Chinese export and has the highest deficit in the CEE block. The Chinese export to the CEE countries is constantly increasing already since the early 2000s, so it can be stated that the 17+1 platform does not play a crucial role in this area. Yet, when it comes to the CEE export to China, since 2012 it indeed has seen an increase, but after 2014 export slightly declined. It resulted in an even higher trade deficit which marginalized the export values. 17+1 platform can be divided into V4, Baltics, and Balkans. In the case of the Visegrad countries, the biggest beneficiary is Poland where the increase of Chinese imports after the platform launch is around 79%, the Czechia with 66% is in second place. When it comes to export Czechia's increase is over 50%, whereas second place belongs to Poland with a 43% increase. What is important to mention here is that the countries started from relatively low initial trade values, so even a slight difference resulted in a high change in percentage value (Karaskova et. al. 2020:35,38). Due to the fact that the V4 group is the biggest beneficiary of the 17+1 it has a separate subchapter dedicated.

When it comes to Balkans the trade with the PRC also increased after the 17+1 platform launch. However with the comparison to the V4 when the trade deficit is significant, in the Balkans increase in import and export is 50% and 65% respectively. Yet, the Balkans import in 2012 fivefold the export, the current situation provided only a small change in the trade deficit between the two. The trade with China in the region varies from country to country. However considering import and export as a whole, Greece and Romania are the key partners in the region, with US\$4.43 billion and US\$3.18billion trade deficit respectively (Karaskova et. al. 2020:38).

In the Baltic states, the tendency in trade development is similar to the situation observed in the other regions after the launching of the 17+1 platform. The biggest similarity occurs with the Visegrad, namely, the import increase transcends the export value what results in a rapid surge of the trade deficit. Lithuania noted the biggest increase in import (48%) whereas the export gained over 150%. Yet, the percentage values are misleading as the initial level of export was below US\$100 million (Karaskova et. al. 2020:40).

Chart 11. provides real trade values in USD billions. It is clearly visible that even with the high percentage numbers of particular countries within their blocks as in the case of Lithuania, the key player within the 17+1 framework is the V4 group.

Chart 11. China trade with V4, Balkans, and Baltics (in billions USD)



Source: Karaskova I., (2020). *“Empty Shell No More: China’s Growing Footprint In Central And Eastern Europe”* Policy Paper.

The majority of the FDI's are located in the Visegrad countries and contribute to 75% of all Chinese investments in the CEE region, and the rest is mainly in the EU countries. What is interesting is the fact that in the case of the infrastructure investments Chinese are mainly focused on the non-EU member countries. The reason behind it is the relatively poorly developed infrastructure and the lack of other financing sources. The increased interest in infrastructure within the 17+1 platform is related to the BRI, as the CEE region is a strategic area for the project. In 2012 during the Warsaw state visit the 17+1 group was granted by prime minister Wen Jiabao a credit line worth US\$10 billion. Yet, the EU member states could not use it as it might go against regulations of the EU. The most crucial area of the cooperation within the 17+1 framework is a rail freight. From 11 train connections between China and Europe in 2011, the number has increased to 8,255 in 2019. So far the biggest beneficiary of railway development is Poland. 95% of the trains from China enter the EU through the Polish east border, whereas the city of Łódź itself services approximately 25% of all trains coming from China. Nevertheless, the increased number of China-Europe trains does not necessarily benefit everyone in the same scope. The trade imbalance between Europe and China results in half-empty trains coming back to the PRC. Due to this situation and also the costs required for railway transportation, the sea route seems to be a better alternative (Karaskova et. al. 2020:47-50).

17+1 platform initially seemed that would have a huge impact on the region, but the reality does not match the general idea. In recent years voices of disappointments arise mainly due to the lack of expected benefits. The most striking are the values of import and export. Within the 17+1 framework, the export value to China increased by merely US\$1 billion from US\$10.5 billion in 2013 to US\$11.7 billion in 2017. Contrary to China benefited from this cooperation significantly from US\$57.8 billion to US\$73.2 billion. The platform is considered not as a regional development mechanism as the nature of trade relations is purely bilateral. In addition to the economic issues, the political challenges faced the 17+1 as well. The EU often expressed its concerns regarding the higher influence of China in the region and considering it as some sort of a threat when it comes to the EU unity (Sarek, 2019,1-4).

Many flaws in the cooperation within the 17+1 framework led to lessening interest in the project. As a result regional cooperation slowly shifts towards alternatives such as the Three Seas Initiative which helps countries in the region to diversify the alliances. Moreover, as the CEE countries failed to use the platform to benefit from China's cooperation either in the diplomatic sphere or economic, the V4+China alternative might be a potential solution to coordinate region policies towards the PRC.

4.3 V4 + China

Currently, all of the 17+1 member countries have a trade deficit with China. The biggest portion of it belongs to the V4 group. The explanation might be found in the economic structure. The V4 countries produce and export mainly the intermediary products which contribute to a great extent to the industrial output of the Visegrad. As a part of global supply chains (GVC) countries send the goods to the Western European Union countries such as Netherland or Germany for its finalization and from there they are directly sold to China. Moreover, China is a producer of intermediary products as well, so along with being one of the world's biggest final product seller it is a natural state of affairs that smaller countries/markets have a trade deficit. When it comes to the FDIs, the fraction of the Chinese investments in CEE is still relatively small, but the increase in recent years has been noticed. As mentioned previously the V4 countries accumulate over 75% of the total Chinese outward foreign direct investment in the 17 CEE countries. Two main reasons might be distinguished. First of all, all of the V4 countries are the EU member states. As Chinese investors targeting not only the local market but also the EU, investments within the V4 countries seem to be more reasonable than for instance in the Balkans. Secondly, China chooses the location of the investments based on the general FDI trend. It provides some sort of guarantee that the invested money is safe. V4 countries enjoy the highest level of FDI from around the world in the whole CEE region. As mentioned before the majority of Chinese FDIs are located in the M&A. Greenfield investments were common in the early 2000s, when companies such as Huawei or Lenovo emerged in CEE. Currently, the biggest recipient of the FDIs is Hungary, followed by Poland, Czechia, and Slovakia respectively. The highest amount of Chinese FDIs is related to the political environment, and lack of controversial government actions towards China (Karaskova et. al. 2020:42-43). Polish officials often expressed their dissatisfaction regarding trade balance. FDIs in Poland according to the latest National

Bank of Poland data³⁸ were insignificant at the level of US\$87,8 million comparing with Japan US\$132,2 million or South Korea US\$101,5 million. As for the financing of the infrastructure, Poland has a more favorable primary source that is the European Union.

When it comes to financial cooperation, since CEE and V4 are not very advanced itself in the financial sector, the cooperation is rather moderate. However, the V4 group seems to be the most attractive region for Chinese investments in this particular sector. The Bank of China established its headquarters in Budapest and the Polish branch of Bank of China opened in 2012 in Warsaw. Moreover, the Hungarian OTP Bank is present in Beijing since 2017 and in recent years the Hungarian Minister of Finance declared the Hungarian-China financial cooperation as the most rapid part of the Sino-Hungarian relations. (Karaskova et. al. 2020:51-52).

4.4 Poland–China relations

After the accession of Poland to the European Union and the latter successful development, China's perception of Poland began to change. After the EU integration and increasing recognition in the EU, which is supported by leading the V4 or TSI, China started to perceive Poland as a regional power and emerging global actor. However, the Poland-China relations from the political point of view are very complex. China's close relations with Russia and a distant one with the US are the absolute obverse of Poland's attitude and need to be considered. However, with the accordance to the Oehler-Sincai et. al. (2018:209), Poland as the country match China's expectations in the region, and three objectives are supporting this statement, namely:

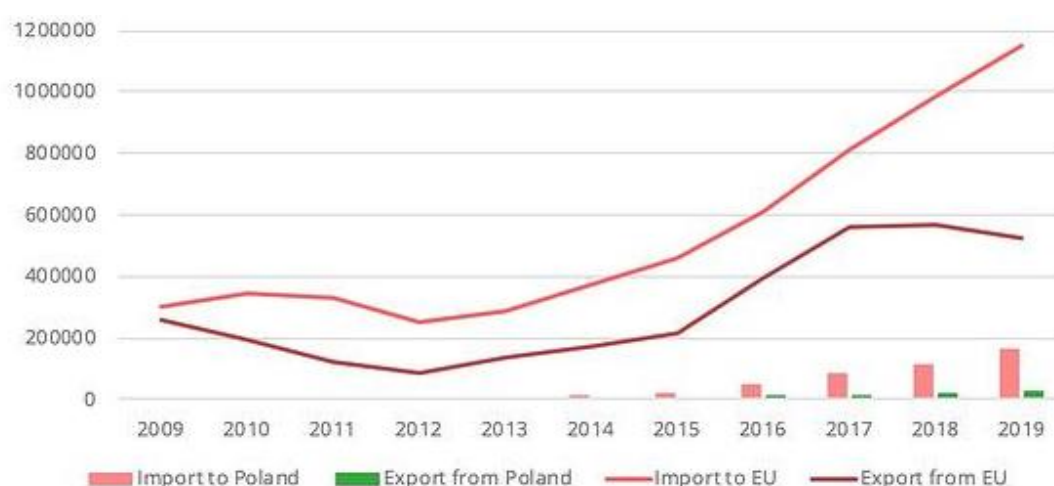
- Poland's geographic position, geostrategic advantages, and competitiveness favor potentiality to become a hub and also a production center in the BRI.
- Good performance in certain sectors e.g. high tech and machinery makes Poland a perfect fit in the BRI.
- Favorable investment environment, good and developing infrastructure, skilled labor force with lower wages than other countries in the EU benefits Poland's perception by the foreign investors.

Being a gateway to the EU with a stable political environment plays a crucial role in the FDIs. The successful Poland-China Regional Forum is considered as an essence of the

³⁸ <https://www.nbp.pl/homen.aspx?f=/en/publikacje/ziben/ziben.html> Accessed (19.09.2020).

bilateral cooperation in the Sino-Polish relations. Despite the rather US favorable attitudes of the Polish government, in 2016 the first visit of President Xi took place. Around 40 cooperation agreements have been signed, however, most importantly the discussion regarding Poland as the Belt and Road Initiative hub were held. The cooperation between Poland and the PRC is visible in investments such as Chengdu-Łódź express rail that is one of the most commonly used rail routes running 4 times a week to Europe and 2-3 times a week to China. As being the first stop in the European Union the city of Małaszewicze services approximately 90% of the whole China-EU railway cargo.

Chart 12. China-EU and China-Poland trade via railway (thousand tons)³⁹



Source: Eurostat.

The import to the EU and also Poland grew significantly after the implementation of the 16+1 platform, however, while import from China increases yearly, the export has only insignificant change. In recent years the disproportion between railway export and import in EU-China trade relations increased significantly. Yet, mentioned before the alleged decline in Chinese railway subsidies inflow might impede the railway trade.

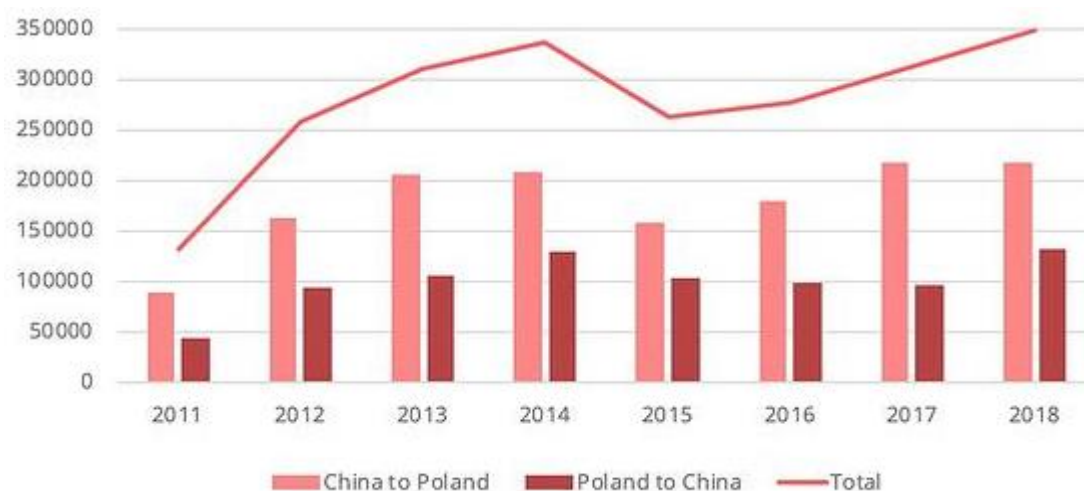
The alternative was brought up by then vice-prime minister Mateusz Morawiecki already in 2017. During the conference titled ‘Kierunek Chiny-nowe celne perspektywy’ Morawiecki spoke up about plans regarding better use of the Baltic Sea when it comes to relations with China.⁴⁰ Moreover, the Vice-President of COSCO in Europe, stated: “*The*

³⁹ <https://market-insights.upply.com/en/asia-europe-corridor-mapping-out-the-connection-between-poland-and-china> Retrieved (13.09.2020).

⁴⁰ <https://www.pap.pl/aktualnosci/news%2C1179440%2Cmorawiecki-chcemy-wykorzystac-potencjal-baltyku-w-handlu-z-chinami.html> Accessed (13.09.2020).

port of Gdańsk is China's future gateway towards Central and Eastern Europe".⁴¹ In 2017, a new distribution center of COSCO was established in Gdańsk. As a result, one year later, the city of Gdańsk opened in China its first Chinese office. Also, the nearby Gdynia has signed with the Weifang local government a letter of intent to increase the cargo flows between the two cities. The cooperation is based on the Riga Declaration which aims into enhanced cooperation between China and CEE, through the Baltic, Adriatic and Black seas.

Chart 13. Poland-China container shipping volume (TEUs)⁴²



Source: Eurostat.

Similarly to the railway trade balance, the import-export volumes increased after the 16+1 accession, however, the trade deficit is very visible.

When it comes to the trade in general as presented on *Chart 14* the trade volume between 2010 and 2019 almost tripled, however only due to the import from China. The trade balance between Poland and China according to the WITS⁴³ was very biased. Poland's export value in 2018 was equal to US\$2,501,427,070 whereas the value of import from China to Poland was over 12 times higher and was equal to US\$30,972,433,610. As a result in 2018, the trade deficit was at the level of US\$28,471,016,540. During the 2017

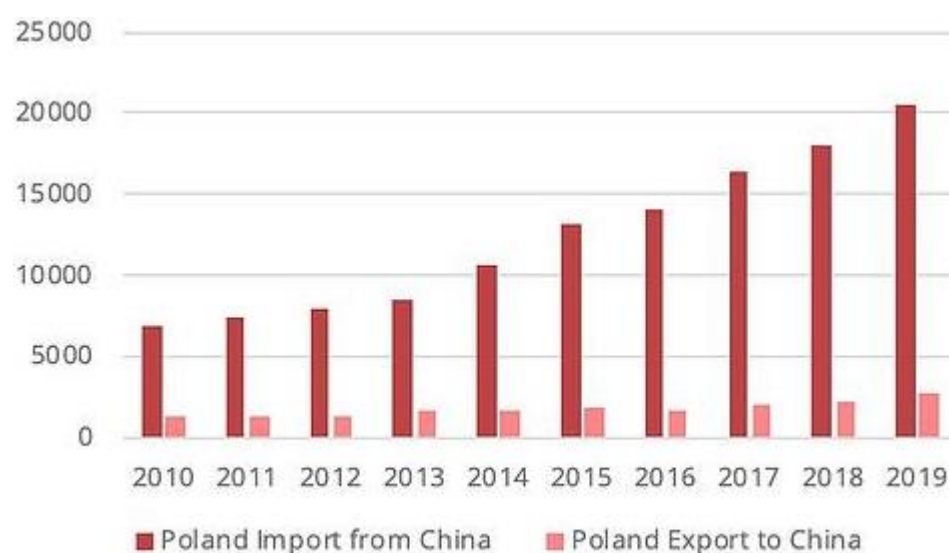
⁴¹ <https://market-insights.upply.com/en/asia-europe-corridor-mapping-out-the-connection-between-poland-and-china> Accessed (13.09.2020).

⁴² <https://market-insights.upply.com/en/asia-europe-corridor-mapping-out-the-connection-between-poland-and-china> Retrieved (13.09.2020).

⁴³ <https://wits.worldbank.org/CountryProfile/en/Country/POL/Year/2018/TradeFlow/EXPIMP/Partner/CHN/Product/all-groups> Accessed (13.09.2020).

conference, Mateusz Morawiecki stated that China has already developed trade with Poland, however, Poland still has not developed trade with China and both countries should do something to balance the trade.⁴⁴

Chart 14. Poland-China trade (million EUR)⁴⁵



Source: Eurostat.

The reason behind the huge trade deficit can be found in the size of enterprises. In Poland, the majority of the companies are small or medium-sized what results in difficulties in entering the Chinese market. Although the agricultural products seem to have export potential, yet the competition on the Chinese market is hard to deal with. Thereupon Poland is planning to develop economic ties with China in order to increase Polish exports. Moreover, Poland's economic plan ties in with China's 13th Five-year Plan in various sectors. What might favor such a state of affairs is the fact mentioned by Oehler-Sincal et. al. (2018:210) *"Poland is perceived by China as a pivot in relation to Central and Eastern Europe, one that is essential for transport, distribution and logistics, and which can be sustained by rail and maritime links"*. Yet, Poland remains the biggest China trade partner in the CEE region considering both import and export.

When it comes to Chinese FDIs a few major investments can be listed. In years 2012-2013 LiuGong Machinery Corp. invested US\$75.2 million in construction machinery.

⁴⁴ <https://www.pap.pl/aktualnosci/news%2C1179440%2Cmorawiecki-chcemy-wykorzystac-potencjal-baltyku-w-handlu-z-chinami.html> Accessed (13.09.2020).

⁴⁵ <https://market-insights.upply.com/en/asia-europe-corridor-mapping-out-the-connection-between-poland-and-china> Retrieved (13.09.2020).

The company was named in 2015 and 2017 Top Chinese Investor in Poland, and in 2017 in Warsaw, it opened its first headquarters in the EU. In 2013 Tri-Ring Group invested in a bearing factory around US\$70 million. In recent years a major cooperation deal was signed between China Coal with Prairie Mining and Jan Karski mine. The investment is expected to begin in 2023 and is estimated for around US\$630 million. Other key investments in 2016 are the Three Gorges Corporation that acquired from Portugal 49% of shares in EDPR in a wind farm in Poland worth EUR289 million, China Everbright International investment worth EUR123 million in solid waste treatment, and China Hongbo Clean Energy Europe investment in LED factory worth EUR85 million. Investments in 2016 are almost half of the sum of investments in 2000-2015. As China's interest in investments in the Central Eastern Europe region is growing, excluding economic motives, the political and geopolitical ones can be found as well. That is why the need to coordinate actions between countries in the CEE region, the EU, and the US occurs. The lack of a common attitude in the CEE countries encourages bilateral relations between some states and China, instead of a common approach for the region development. The Belt and Road Initiative was received with a positive attitude of the government, and the cooperation between the PRC and Poland is declared to increase (Oehler-Sincai et. al. 2018:210).

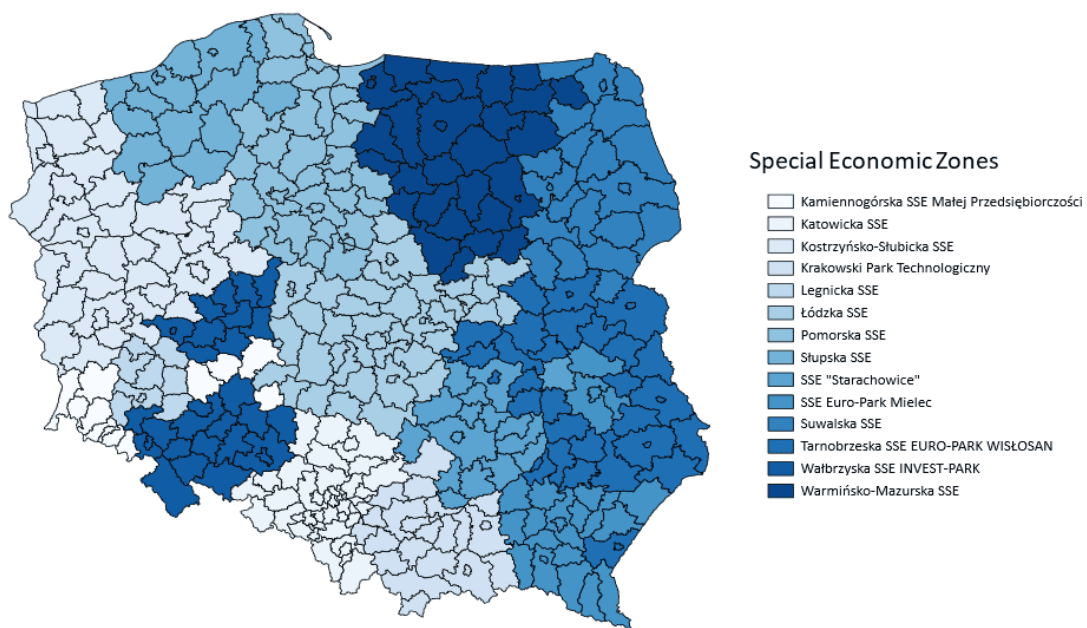
4.4.1 Why Poland is attractive to China among other CEE states?

Poland in recent years becoming an increasingly attractive place for foreign investments. Stability in the political and economic environment along with the high skilled labor favors FDIs. During the global economic crisis, Poland strengthened its position not only in CEE but also in the whole continent, as it is the only country in Europe that did not enter the recession. With approximately 38 million population Poland is the biggest consumer market in Eastern Europe, while in the EU it takes the sixth position after Germany, France, UK, Italy, and Spain. It has the biggest territory in CEE and the location in the center of Europe makes it possible to import and export goods all over the continent to more than 500 million consumers.⁴⁶ That is why Poland is important from China's perspective, especially considering the BRI. Moreover, there are 14 Special Economic Zones that under certain conditions are temporarily exempt from corporation tax (CIT) and provide many other benefits to the investors. In order to attract investments

⁴⁶ https://www.paih.gov.pl/why_poland Accessed (16.09.2020).

in less developed regions and boost the development of small and medium-sized companies in 2018, the Polish president signed an act that expands the SEZ almost to the whole Poland (Oehler-Sincai et. al. 2018:210). The current range of the Special Economic Zones is presented in *Figure 2.* below.

Figure 2. Special Economic Zones in Poland⁴⁷



Source: Polish Investment and Trade Agency (PAIH).

In addition, the positive growth in the economy is also possible due to the developing infrastructure. With the exception of roads and highways worth mentioning are the investments such as the Central Transport Hub, that will include one of the biggest airport in the EU, but also the railway that is going to connect all major cities in Poland with the CTH. When it comes to Poland's GDP between 2008 and 2018 it grew on average approximately 4% according to the World Bank data. Moreover, in 2018 it reached 5,15% which granted Poland the first place in the GDP growth in the whole CEE region.⁴⁸

⁴⁷ https://www.paih.gov.pl/why_poland/investment_incentives/sez Retrieved (16.09.2020).

⁴⁸ <https://www.worldbank.org/> Accessed (16.09.2020).

As the Global Competitiveness 2019 Report⁴⁹ shows Poland's score improved by 0,7% compared to 2018. Moreover, the current growth trend is positive for a few years.

4.4.2 Challenges in Polish–Sino relations

Undoubtedly the biggest challenge that China has to face when it comes to relations with Poland is the current pro-US government and China-US trade war implications. According to the Kuo mentioned by Oehler-Sincai et. al. (2018:215) *“The presidential palace in Poland seems to favour the BRI initiative; however, the government clearly does not show that much enthusiasm”*. Another issue might be the presence of the anti-Chinese attitudes of the population that are the result of the failure of Chinese company COVEC in the construction of the highway before the European Football Championship 2012. COVES was the first Chinese company that won a public contract in the EU. Initially, the offer was 20% cheaper than the one presented by the competitors, however after finishing less than a quarter, the company wanted to renegotiate the contract, otherwise, it will be terminated. The Polish administration did not agree on the contract value increase and as a result, the contract was terminated. The matter was widely covered in the news, putting China in a bad light. Oehler-Sincai et. al. (2018:215) list major challenges both for Poland and China that need to be faced, those are:

- Finding a compromise between economic cooperation with China and strategic partnership with the US.
- Increasing trade deficit and other aspects of the bilateral cooperation such as problems of Polish companies entering China's domestic market
- China is not a priority in Poland. Poland treats China as an economic partner, but due to the China-Russia ally and Poland-Russia, US-Russia relations, Poland in the case of facing a choice will definitely remain on the US and the EU side.
- Western perception of China's aspiration to become the new global leader, especially with the help of the BRI.

In order to strengthen relations and address the challenges, Poland and China should focus on reduction of the trade deficit, cooperation on the Polish economic interest in the trade relations, which currently benefits mainly China, and in the investment area, Poland should try to attract Chinese investors, whereas China should balance M&A and

⁴⁹ http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf Accessed (16.09.2020).

greenfield investments ratio. Aspect such as the Strategy for Responsible Development of Poland known as the Morawiecki Plan should be considered by China in the 17+1 platform development.

4.4.3 Poland–China relations in the post-COVID era

When considering Sino-Polish relations, Poland has two important factors that make a country significant in geopolitics. The first aspect is that Poland is the biggest country in CEE and also one of the biggest in the EU. The second asset is the location of Poland in the heart of Europe. Professor Bogdan Góralczyk in PCHRB (2020:18) calls it the Middle Kingdom of Europe. Those determinants led Chinese authorities to announce the 16+1 platform in 2012 in Warsaw, and also to include Poland in the main route of the BRI, with a communication hub next to Łódź. It might be assumed that the main objectives that the PRC shall work on in the nearest future are relations with the US, which after president Xi announcements of the BRI, and also China's ambitious plans headed into the trade war. Another step taken by the US administration is the technological war against China, mainly Huawei. Poland found itself in the crossfire, however, the recent news from 09.09.2020⁵⁰, reports that the Polish government presented a draft regarding cybersecurity law, that in commentators opinion is aimed against Huawei. More and more countries in Europe are pressed by the US administration to ban the Chinese telecommunication leader. From the era of globalization, the post-pandemic era seems to regard rivalry between superpowers, namely the current hegemon and the aspiring to become one. Even though before the pandemic, such circumstances were present. The Covid-19 increased the scope and the pace of the war, which was also visible in the case of the propaganda spread against the US and China. The course the two countries have chosen is almost the same, thus the clash is inevitable. The so-called ‘中国梦’ (Chinese dream) presented by the China authorities consist of three main pillars: change in the current development model that switches from import-export oriented economy towards domestic development and middle-class society, innovative society before 2039, that includes project Made in China 2025, and the most importantly 2049 中华民族伟大复兴 (Great renaissance of the Chinese nation). The trade war with the US, and the negative consequences of the hostility between the two countries, forced China to seek an alternative. Countries such as Japan, South Korea, or Australia are becoming more and

⁵⁰ <https://www.reuters.com/article/us-poland-5g-huawei-idUSKBN2602BY> Accessed (17.09.2020).

more pro-US. Russia on the other hand is not only on the bad terms with the US, but also on the EU, and with the various sanctions implemented by them is losing its lead in the region. The competition between China and India, and increasing tension between, left China with the one choice. That explains China's increased interest in the EU and CEE. In addition, the EU economy as a whole is the second largest in the world, which means a great market entrance opportunity. However, in 2019 Chinese FDI in the EU dropped from EUR18 billion to EUR12 billion, and mostly the biggest European economies are recipients. Those data suggest that the common accusations of the EU, that China through the investments in the 17+1 is trying to divide the EU are simply incorrect, as the biggest beneficiaries are Germany, France, Italy, and the ex-EU-member Great Britain. The coronavirus crisis benefits countries such as Hungary or Greece, which signed a huge Chinese express railway project between Belgrade and Budapest. However, the route does not only helps in the implementation of the BRI but what is important from China's perspective railway final destination is the Port of Piraeus in Greece, which was bought by the Chinese company COSCO in 2016. What is worth noticing is the fact that in 2020 for the first time two EU-China summits will take place. It might be a step towards the increase of China's presence in the EU and an attempt to diminish the US influence in the region. The fact is that the new strategic actor has already emerged. Yet, the Polish authorities seem to not notice the new political and economic environment. Especially during the pandemic "the war of Poland" was visible when the two ambassadors, namely Georgette Mosbacher and the Liu Guangyuan exchange letters on 23-24 March. The US ambassador accused China of the coronavirus spread and lack of transparency during the pandemic outbreak. The Chinese ambassador in response accused the US of spreading the political virus, that is linking the health issues with the political dispute, and also added that the US is trying to blame China on the not sufficient US reaction to the virus. Such exchanges are common, however, this particular one has one crucial aspect, the letters were written in Polish. It might suggest that the China-US political war has expanded to Poland, and aimed to reach the Polish public opinion. Such a state of affairs means that for both the US and the PRC, Poland is an important partner (PCHRB 2020:16-20). One of the Polish experts, Łukasz Sarek, suggests that Poland-China bilateral relations might encounter problems in the logistics, an increase of transport prices, delays in shipping, and even bankruptcy of some of the companies that have chosen the Chinese market. According to prof. B.Góralczyk in PCHRB (2020:20) after the 2008 global economic crisis led to the empowerment of China and the East Asia region, and other emerging

economies. The current crisis might have similar consequences. The Chinese authorities fear that the COVID-19 crisis may lead to a break of the global supply chains, which often starts in the PRC. The crisis showed how the lockdown of one country (China) may lead to worldwide problems, which was especially visible when the whole world was waiting for the medical supplies from China (PCHRB, 2020:20). In the closest future due to the pandemic-related issues, Chinese companies are not that likely to pursue the M&A in Poland. However, the Sino-US trade war may give a boost to Chinese investments in the region. Central Eastern Europe with the rapidly growing economy and low operating costs shall benefit the most. Furthermore, the need for geographic diversification is perceived by Chinese companies as more essential than before the COVID-19 crisis. Sectors such as infrastructure, energy, agriculture, chemicals, automotive, and also fintech are noted as attractive by the Chinese investors.⁵¹ After the pandemic, China will continue its socio-economic politics in the region, where Poland is one of the key players along with Czechia and Hungary.

4.4.4 Between China and the US – Poland as a transport hub

The Three Seas Initiative was launched by Poland and Croatia in 2015. Initially disdained by some of the EU countries, later gained importance in the EU, mainly owing to the US President Donald Trump, who participated in summits. The initiative aims at the modernization of the Eastern EU border. The region was always a battlefield of influence between the East and the West, it is also important in the current geopolitics war between the US and the PRC. The TSI meaning for the US except for the economic sphere and being a major investment opportunity is also important in the view of neighboring Russia, and some sort of control in the region. As for China, the Three Seas Initiative's importance is linked to the geopolitics, as the countries are a gateway to Europe. Also, the TSI is important from the BRI point of view as the eastern and the southern corridors of the BRI lead through the TSI countries. In addition, China wants to place logistics centers in the region, also in Poland. However, the parallel aspirations to influence the region by the US and the PRC lead to the conflict that is rather unavoidable especially when it comes to national security and IT security. In general Poland's security is ensured by the US, NATO, and the EU. As the current Polish government and most countries in the region side with the US, China's influence in this sector is limited, still, Poland tries to

⁵¹ <https://events.mergermarket.com/chinese-ma-in-poland-could-see-push-once-the-dust-settles> Accessed (17.09.2020).

maneuver between the two. The country is set to serve for the TSI and the BRI as the logistic hub. When it comes to cooperation with the US, it is mostly visible in the security area, for instance, the relocation of the US troops from Germany to Poland, or the import of the US LNG gas, which will provide the energy security in the TSI. When it comes to cooperation with China, mentioned previously railway and transport hubs are expected to develop. Central Transport Hub, one of the biggest investments of the current Polish government, should benefit both the BRI and the TSI. Another important element of the Three Seas Initiative is the Via Carpathia. The road from Lithuania to Greece will also benefit land routes of the BRI (Lewicki, 2020:23-32). As can be seen, the Polish alliance with the US does not exclude China from Poland's interests. Nevertheless, it does not mean that Sino-US relations will not pose a challenge for the Chinese aspirations in the region. As Szczudlik (2020:125) states, the threat for the Poland-China relations in the prism of the US-China relations is the same as in the entire EU. However, the dispute might result in opening the Chinese market to the investors and exporters from the EU. Also, the fact that Poland and also some other CEE regions are the battleground for China and the US might be used to 'boldly underscore' the position in the EU as a bridge between the PRC and the US.

5. Conclusions and recommendations

The increased presence of the People's Republic of China in international institutions is noticeable. Within the last 40 years, China has undergone changes from a passive country to the very active. A huge part of China's success could be found in the WTO accession in 2001. The entrance to the international market following the WTO accession, allowed China to undergo structural reforms and started its fast economic growth, based on export. Shortly after, in 2003, China included the EU into its scope of interest and issued the first policy paper regarding the region. One year later already became the biggest trade partner for the European Union, surpassing long-time ally the US. Since 2003, significant growth of China-EU trade has begun. The export numbers surged for China from around US\$125 billion in 2003 to over US\$450 billion in 2018, whereas for the EU from approximately US\$50 billion to almost US\$200 billion, in the same period. What is noticeable is the over 40% export value difference. FDIs' inflow is strongly correlated with the trade. However, in the case of the EU and China, the value of FDIs is still small

with a comparison to the trade. The breakpoint for the Chinese FDIs had place after the 2012 European Debt Crisis. Within three years from 2013-2016 Chinese FDIs' value increased almost five times. Yet, after that period it halved. In the case of the EU due to the not favorable investment environment for foreign companies in China, the EU investments fluctuate around US\$10 billion. The trade war between the US and China, in general, is harmful to the global economy, however, might have a positive effect on the EU block, as the gaps created by the trade war either in China or the US, can be now filled with the companies from the EU.

In recent years Central Eastern Europe found itself in China's interest scope. The policy of China towards the CEE region is considered a strategic one. China's aspirations to become the hegemon are clearly visible. The PRC is currently a key actor in the region and going global policy has its presence in the 2012 16+1 platform and later 2013 The Belt and Road Initiative. However, currently, the expectations differ from reality. So far the CEE economic cooperation with China within the 17+1 framework does not benefit the region to a great extent. Moreover, an enormous trade deficit, shows that only one country significantly benefits from the platform. In addition, the lack of consistent policy in the region towards the BRI and 17+1 makes it hard to benefit from the initiatives. The EU and the CEE countries are divided and undecided when it comes to policy towards China. Also, the pressure from the US takes its toll in the EU-China relationship. However, even though Poland strongly allies with the US, still leaves the door open for Chinese investments and cooperation. The majority of countries have limited benefits from the 17+1 platform, including Poland. That is the reason behind the slow disengagement of some countries from the 17+1. Such a state of affairs, especially in the case of Poland, will have a negative impact on China's plans towards CEE. Yet, the countries in the region are still willing to cooperate and gain benefits coming from the 17+1 project. However, to do so, Beijing needs to offer more, and that is where Poland as a regional power needs to be active and can benefit the most. This is the reason why in Poland's interest is to refrain from hostility towards China, but also maintain good relations with the US that guarantee security. So far, Poland is playing a vital role in the Three Seas Initiative and also the Belt and Road Initiative. The recent draft of the Law and Justice government regarding cybersecurity sides Poland with the US and is expected to result in the TSI investments from the United States, however, Poland still seeks for the BRI related investments. Remain neutral in the conflict would definitely benefit Poland in

the long term perspective. When considering the Chinese policy towards Poland, it is hard to find an example of some misconduct. Poland should still maintain its neutral courtesy, especially because the PRC development and worldwide presence are constantly increasing and new cooperation perspectives might arise. Poland as a developing economy should not base only on the US as a key and sole partner. The government should focus on what is best for Poland's development instead of following imposed by other countries' perceptions of which country is an ally and which country is a threat. In the case of the recent draft on cybersecurity that is somehow imposed by the US administration, Poland is subjected to the financial loss and left without the alternative when it comes to the 5G. Poland is a relatively small country, and it cannot dictate terms in the international area, that is why it should seek for multilateral cooperation. Poland has everything that is needed to become a regional power. The size of the domestic market, the lower competitiveness compared to the Western EU, the location that connects the East and West, along with the well-developed infrastructure and new infrastructure initiatives such as the Central Transport Port, makes Poland an attractive partner for China.

Poland, without a doubt, has the chance to benefit from the cooperation with China in various sectors, such as export. The trade deficit suggests that there is still unused opportunity in this area. However, in order to enhance Sino-Polish political and more importantly economic relations, some aspects have to be considered. Scholars such as Góralczyk often underlines one essential aspect when mentioning relations with China *"If we in CEE and the EU want to make proper use of the new initiatives in the win-win manner that the Chinese are so strongly promoting, what is needed is some kind of unification effort, if not a common strategy. Unfortunately, this is not currently visible on the horizon, as no one seems to be ready to work it out, either in the EU or in CEE."* (2017:7). The vision of the long term policy towards China widely accepted by the Polish parliament would benefit Poland not only with the relations with the PRC, but also would strengthen its position with the EU and the US. The cooperation with the EU institutions and the use of already existing mechanisms and structures, such as the EU representatives in China should be implemented. Poland is a crucial partner required for China's success. First of all, it is on the main route of the BRI. Secondly, it is the leading country in CEE. Membership in the 17+1, V4, or the TSI, might influence the future strategy of the region for China. Such a state of affairs explains China's interest in Poland. Moreover, often

mentioned in the paper neutrality in the US-China conflict might be the deciding factor in Sino-Polish future relations. Within the 17+1 format, the need for the EU-CEE cooperation when it comes to the common approach is required. The switch from the bilateral relations towards multilateral ones might benefit the whole region. The joint summit of 17 member countries, before the 17+1 meetings, would help in establishing a common goal. In order to decrease the trade deficit countries should cooperate closely with the EU. Implementation of the investment screening should be introduced to non-EU member countries participating in the initiative and aspiring to become the EU member, for instance, Serbia. When it comes to the biggest beneficiaries of the 17+1 platform, which are the V4 group and Poland, recommendations are as follows. The advantage of being the EU member state should serve as leverage with the relations with China. Being the most important region in CEE, Visegrad, and especially Poland should take active participation in European policy drafts regarding China, to protect the region's interest. Poland's export to China as well as the whole V4 is based mainly on the export of primary commodities to Germany, from where they are processed and exported to China with added value. The V4 countries should advance on the production level, and consider the direct import of already processed primary products in order to increase financial gains.

Summary

The main purpose of the thesis is to present the cooperation between the European Union and the People's Republic of China, with a particular focus on the Central Eastern Europe region, especially Poland. The first chapter describes the EU's and China's relations with international organizations. The second chapter studies bilateral relations between the European Union and China. The next chapter concerns the presence of China in Central Eastern Europe. In addition to the China-CEE cooperation, the chapter describes in detail relations between Poland and China. Aspect such as the trade values, joint initiatives, supported with the data from various organizations, for instance, Eurostat or the World Bank, and the post-COVID speculations are outlined. In addition, the influence of the US-China conflict and its impact on Poland is mentioned. Thereafter the conclusion and recommendations are presented.

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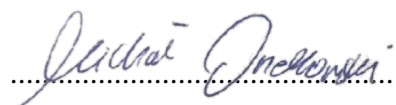
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