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China-CEE Trade, Investment and Politics

Abstract

The aim of this paper is to contribute to the literature on the link between international trade, investments and politics through an assessment of the state of bilateral relations between China and Central and Eastern European Countries. There has been extensive criticism and concerns from EU institutions and Western members of the Union regarding the '16+1 Cooperation' between China and its sixteen Central and Eastern European partners. The most common fear is that Beijing may use its new leverage in the region to gain political support in the EU through CEE member states in exchange of economic, trade and investment benefits. The following paper attempts to evaluate the correlation between the quality of bilateral political relations and economic relations to reveal the important, or on the contrary irrelevant impact of the former on latter.

1. Introduction

The aim of this paper is to contribute to the literature on the link between international trade, investments and politics through an assessment of the state of bilateral relations between the People's Republic of China (PRC) and Central and Eastern European Countries (CEE). After decades of ups and downs China's relations with its Central European partners are witnessing a new beginning since the establishment of the cooperation between China and sixteen Central and Eastern European countries (the so called 16+1 cooperation) in 2011.

At a first glimpse the economic prospects of cooperation are bright, CEE countries need liquidity and investment, China needs investment opportunities and new markets, and of course both sides are eager to boost their trade relations. However, as always, Devil is in the details, thus success looks less obvious if someone looks behind the curtain. Meanwhile certain institutions and major Western member states of the European Union (EU) have been expressing their concerns with regard to the Chinese activities in Eastern members of the EU. CEE governments have been accused by their Western counterparts and by EU institutions, saying that Eastern member states are trading the political cohesion of Europe in exchange of trade and investment benefits from China, and that ‘China and the sixteen CEE countries are building a new Berlin Wall’.

The question is clear: are CEE governments really favour economic relations with China over the political unity of the EU? Or, otherwise, are CEE governments able to provide any political payment for Beijing in exchange of economic benefits? Could China threaten CEE countries with the deterioration of economic relations in case of undesired political actions at all?

Based on an extensive analysis this paper argues that after five years of intensive China-CEE cooperation available data do not support the idea of Chinese leverage in CEE capital cities. When it comes to trade relations the correlation is very weak (and even negative in nature) between the strength of political relations and trade volume. Even though previous researches presented in the review of literature have found strong links between these two factors (e.g. the Dalai Lama effect), it seems that Central and Eastern Europe is somewhat different, and thus most governments have no reason to fear any alleged Chinese political pressure.

However, when it comes to investment relations the picture is different. Data suggest a strong and positive correlation between the quality of bilateral political relations and Chinese investment activity in CEE countries. Even though private enterprises have invested 60 percent of all the Chinese capital in the region, it cannot be ruled out that CEE politicians would try to attract more Chinese investment into their home countries even at the price of political requests from Beijing.

Following the introduction the second section of the paper describes the methodology of the research, the third presents a general overview of the political and historical background of China-CEE relations, while the fourth section summarizes the most relevant literature of the topic. The fifth section provides an empirical analysis, based on statistical databases and the political ranking system of the Chinese Academy of Social Sciences, followed by a section on the limitations of the paper and further research opportunities. Finally concluding remarks give an overview of the findings and consequences.

2. Methodology

Although China has created its cooperation with sixteen CEE countries, out of which eleven are EU members, the most relevant countries are the Czech Republic, Hungary, Poland, Romania and Slovakia. The above mentioned five countries represent almost 82 percent of the GDP of CEE member states and 89 percent of the region's USD 64 billion bilateral trade with China. Hence, even Chinese experts on the CEE region consider the 'big five' as the most important and politically most relevant countries in the region (see below). Therefore it seems to be reasonable to focus mostly (but not exclusively) on these countries, while the other six EU members in the region play only a less significant role.

According to certain concerns China might play CEE member states against the unity of the EU with offering economic benefits. Therefore this paper tries to find answers on the two following assumptions:

A. China may get political favours from Central and Eastern European member states in exchange of export benefits.
B. China may get political favours from major Central and Eastern European member states in exchange of higher level of foreign direct investment,

In order to evaluate such an alleged threat the context and extent of Chinese activity in the CEE region have to be understood. The timeframe of the research starts in 2009, the first year of the global economic crises when CEE countries experienced the first wave of the shock and turned their attention toward China, and I stop in 2013 or 2014 based on the availability of data sources. The analytical section of the paper compares Chinese trade with and investment in Central Europe to the EU level. As a next step I analyse the development of trade dependency of individual CEE economies in contrast of their political relations with China.

As for investment relations I analyse the flow of Chinese investment into CEE economies compared to the quality of their political relations with Beijing, and I also compare the relative importance of Chinese financial capital in the CEE region and in other parts of the EU. Since ownership structure of the investors also play a significant role, finally I review the background of Chinese companies with a presence in the region.

3. Political and historical background of China – CEE relations

When it comes to China, history does matter, therefore some important notes have to be made on the background of China – Central Europe relations. First, CEE countries have never invaded the Middle Kingdom, and our Chinese partners mention this fact regularly. Second, CEE countries were the first to establish diplomatic relations with the People's Republic of China, as early as October, 1949, what is politically important to Beijing. Of course, relations were heavily influenced by the tensions between Moscow and Beijing during the Cold War, while after the collapse of the Eastern Bloc countries of the region put all their efforts into joining the NATO and the EU. Therefore China was not a priority until the dawn of the 21st century. Hungary was one of the first CEE countries to rediscover China right after Budapest successfully concluded its EU accession in 2003. All Hungarian prime ministers have visited Beijing during the last decade, most of them for more than once. Other CEE countries tried to foster better economic relations with China as well, sometimes even in spite of political tension, but it was the European financial crises which have set the environment for a new approach.

The severe economic downturn gave a new impetus to China – CEE relations, when traditional foreign direct investment and financial sources dried up in Europe. Weaker EU member states had to find new business opportunities, not only in Central but in South Europe as well. At the same time China was filled with cheap capital and industrial overcapacity. It seemed obvious to find common interests in troubled European markets. As an effort to revitalize relations, the Hungarian government was pleased to host the first meeting of the Central and Eastern European Countries and China in 2011. The next meeting in Warsaw, the first summit for 16+1 prime ministers (16 from the CEE region and their Chinese colleague) was a clear sign of success in 2012. The setup of the Secretariat for China-CEE cooperation meant the next milestone of the development of cooperation in September 2012, while the third meeting in Bucharest (2013) and the fourth in Belgrade (2014) both proved the sustainability of the project.

The 16+1 cooperation is not an institution, but rather an intergovernmental mechanism and its main aim is to reduce transaction costs of interactions between China and the CEE region. Literally, it is a forum where sixteen Central and Eastern European (11 of them are already EU members) countries have the chance to meet the Chinese premier on a regular basis. It is clear that otherwise some minor regional players would have very rare opportunities for a bilateral chat with the Chinese PM. For Beijing it is also more attractive to have access to the leaders of 120 million people at once, instead of pursuing bilateral talks one by one. It is also important that China would like to influence the entire region, therefore it does make sense to have such a forum. When German, French or UK leaders rush to Beijing on a regular basis in order to make huge deals, CEE leaders would also like to grab their own chance to make at least small deals.

In my understanding the general purpose of the 16+1 cooperation is economic. Although there have been political concerns with regard to human rights and democracy issues especially in Prague and Warsaw, these have mostly faded away recently, just as they have in other European capital cities. It seems to be more convenient for governments to leave these issues to the European Parliament. What really matters today, at least according to most politicians, are trade and investment. The total bilateral trade volume between China and the 16 CEE countries was around USD 74.8 billion in 2014, or 11,8 percent of the total EU-China trade. Given the fact that the trade dependence of CEE countries on EU markets is between 60 to 90 percent, it was a natural reaction to seek for alternate trade routes amid the European crisis. Although most CEE countries have to face a major trade imbalance with China, the deficit itself is not a real problem, since the majority of imports from the PRC represents spare parts, accessories and other inputs for CEE industrial production. Therefore, not surprisingly, the overwhelming majority of imported Chinese products are re-exported to Western EU members as parts of high-tech products manufactured in CEE countries. However, when it comes to exports to China, the picture is less promising, since indigenous CEE products can rarely find their ways to the Middle Kingdom, mostly due to the lack of quantity or proper financial background. Hungary or Slovakia are major exporters to China, but 93-99% of their exported goods are produced by multinational companies.

It is even harder to provide a clear picture of investment relations, as official statistical data are inaccurate. For instance in case of Hungary the stock of Chinese FDI is around USD 600 million according to the European and Chinese statistical bureaus, while the real number is close to USD 3 billion. But the real problem is the divergent economic interests of China and the CEE countries. The region would like to attract green field foreign direct investment in order to create jobs and to boost production and tax incomes. (Kaczmarski – Jakóbowski, 2015) At the same time the Chinese are mostly interested in mergers and acquisitions and in public procurement tender opportunities of infrastructure construction. And even though Beijing is willing to provide financial solutions for infrastructure development in the region, these would be loans, and not non-refundable funds what the EU provides. Meanwhile it would spark some criticism if CEE governments decided to finance Chinese construction companies from European funds.

4. Review of literature

"Political relations with China may have 'improved' in the particular case of Hungary, as Orban openly declared China a success model while at the same time denouncing liberal democracy as a model for global competitiveness. Consequently, China may profit from such positions within the EU, as 'good relations' with a number of countries such as Hungary, may soften the EU's trade policy and allow China to receive a proper market economy status from the EU, for instance. In any case, the EU's challenge will be to reflect upon its major principles and values as much as its interests vis-à-vis China. Coordination among Member States and EU institutions will be key to a coherent approach that informs EU-China relations not only in the EU-China Strategic Dialogue, but also in the individual bilateral relations between EU Member States and China. At the same time, the Western Balkan countries which will eventually join the EU, should also feel embraced and convinced by the EU's approach towards China." (DG for External Policies, 2015)

The review of literature has to be split into two section. First, I would like to present general thoughts on the links between political and economic relations with China. In the second section I rather focus on the scientific research of recent China-CEE relations.

When it comes to the political economy of bilateral relations with China the paper of Fuchs and Klann (2010) on the Dalai Lama effect on international trade provides an excellent initial approach. Based on their empirical analysis the authors conclude that deteriorating political relations with China (i.e. high level governmental meeting with the Dalai Lama) lead to a considerable reduction of exports to China. The effect is mainly driven by the reduced exports of machinery and transport equipment. Their results suggest that China does use economic (trade) sanctions in case of political tensions with other countries, but the deterioration of trade exists predominantly for those goods that are sold in the course of state visits and trade missions. Meanwhile the effect on raw materials or mineral fuels is weak or non-existent. The authors conclude that bilateral relations are of large importance for trade with China, and that the increasing economic power of China will likely result in the growing importance of trade as a foreign policy tool. Political relations do have an impact on bilateral trade with the extent of this influence varying between political regimes. Governments in free market economies still set the rules under which firms import and export, while governments in managed economies directly negotiate the terms of trade. (Fuchs – Klann, 2010).

As for the Chinese investment strategy Filippov and Saebi write about its three main motives. Macroeconomic reasons like the enormous amount of foreign exchange reserves makes investment abroad inevitable for China. Business motives also play their part, since major Chinese companies seek for international opportunities to expand, to gain experience, and to survive competition both home and abroad. However the third motive is political in nature: China wants to build political influence around the world. According to the authors Europe has to face the perils of the strong political influence of the Chinese government over its companies. Thus, Chinese investment in the EU potentially exposes the integration to the political leverage from Beijing. (Filippov-Saebi, 2008)

Quan Li and Guoyong Liang argue in their paper on the relations between political relations and Chinese outbound foreign direct investment that international relations play an important role in Chinese outbound investment. They identify the mechanisms and reasons for why China's political relations with potential hosts significantly influence firm investment decisions. According to their results Chinese ODI is more likely to flow to countries with which the Chinese government has better political relations, in hope of better treatment and protection of their investments. (Li-Liang, 2012).

Brown and Wood draws an even more worrisome picture in their book on Chinese ODI. They believe that the Communist Party of China and thus the government of the PRC itself see investments abroad as a national strategic issue, not something purely economic or commercial. Through their global investment patterns Chinese enterprises pursue the interests of the party and the state as well, and strategic considerations are an important driving force behind the growth of Chinese ODI. (Brown – Wood, 2009)

When it comes to China-CEE relations in particular, Richard Turcsanyi gives a great overview of the political background and misunderstandings of the 16+1 cooperation. His policy paper also reflects on the suspicions of Western EU members that China and its sixteen new Central and Eastern European partners are trying to divide the EU. Turcsanyi argues that China is interested in investing in the CEE region due to the favourable business opportunities, proximity to Western Europe, and relatively rapid economic development. The EU is a huge and attractive market, therefore it makes sense for the Chinese side to build production sites in the relatively cheap Eastern members of the EU. It is also clear, that Beijing wants to build stable relations with countries which are strong within the integration and not with troublemakers. It is also important to note that all participant emphasise that the 16+1 cooperation is in line with EU rules and conducted under the EU-China framework. The sixteen countries do not form a homogenous bloc, they rather see each other as competitors in attracting Chinese attention, thus trade and investment opportunities (Turcsányi, 2014).

Chinese investment in Central and Eastern Europe constitutes quite a relatively small share in China’s total FDI in Europe and is quite a new phenomenon, however, we could observe rising inflows of Chinese OFDI in the region which are currently expected to increase due to the recent political developments between China and some countries of the region, especially Hungary and Poland. (Szunomár – Biedermann, 2014)

In order to understand the Chinese assessment of their political relations with CEE countries the paper of Liu Zuokui is a fundamental source. Liu has introduced a brand new ranking system to evaluate CEE countries from a Chinese perspective. Most relevant to this study is his bilateral relationship indicator which includes partnership treaties, top-leader visits, mutual public favourability, investment and trade treaties etc. The maximum level of this indicator is 30 point, thus Poland (28), Hungary (27) and Romania (26) have the best bilateral (political) relations with China, while Slovakia (21) is lagging behind, and the Czech Republic (18) sits at the bottom of the ranking (Table 1.) Not surprising, given the many political issues between Prague and Beijing in the fields of human rights or Tibet. (Liu, 2014)

Table 1.

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

Source: Liu, 2014

Liu's paper also provides an insight into the motives of Chinese investment in CEE countries. According to his understanding the Greek sovereign debt crisis has triggered a turmoil in the EU, which offered a "window of opportunity" to China. Should the economic situation get better in the EU, CEE countries will turn back to their traditional Western European partner, the Eurozone will continue to grow again, and thus investment opportunities for external countries like China will gradually diminish. Poland is the largest and therefore most appealing country for Chinese investors in the CEE region. Liu emphasizes the economic and geographic advantages of CEE members of the EU. According to Liu, better political relations with China mean better investment opportunities for CEE countries like Poland, Hungary, Slovakia and Romania or Serbia. He stresses that tensions in Czech – Chinese bilateral relations have had a deteriorating effect on Chinese FDI flows into the country. It is important to note that EU membership is not necessarily attractive for Chinese companies, since it means more regulations. Non-EU member countries, like Serbia may provide more opportunities, or at least low hanging fruits.

According to Liu China does not invest in all CEE countries indiscriminately, since it pays more attention to countries with better investment advantages, more balanced composite indicators, or with geographical advantages. EU members like Hungary and Poland tend to attract Chinese investment with the promise of further expansion opportunities into bigger EU markets. Hungary has attracted more Chinese-funded institutions and Chinese businessmen than any other country in the CEE region. Liu mentions as well that some people believe that Chinese investment policies are driven by political interests: CEE members of the EU may push Brussels to make decisions beneficial to China.

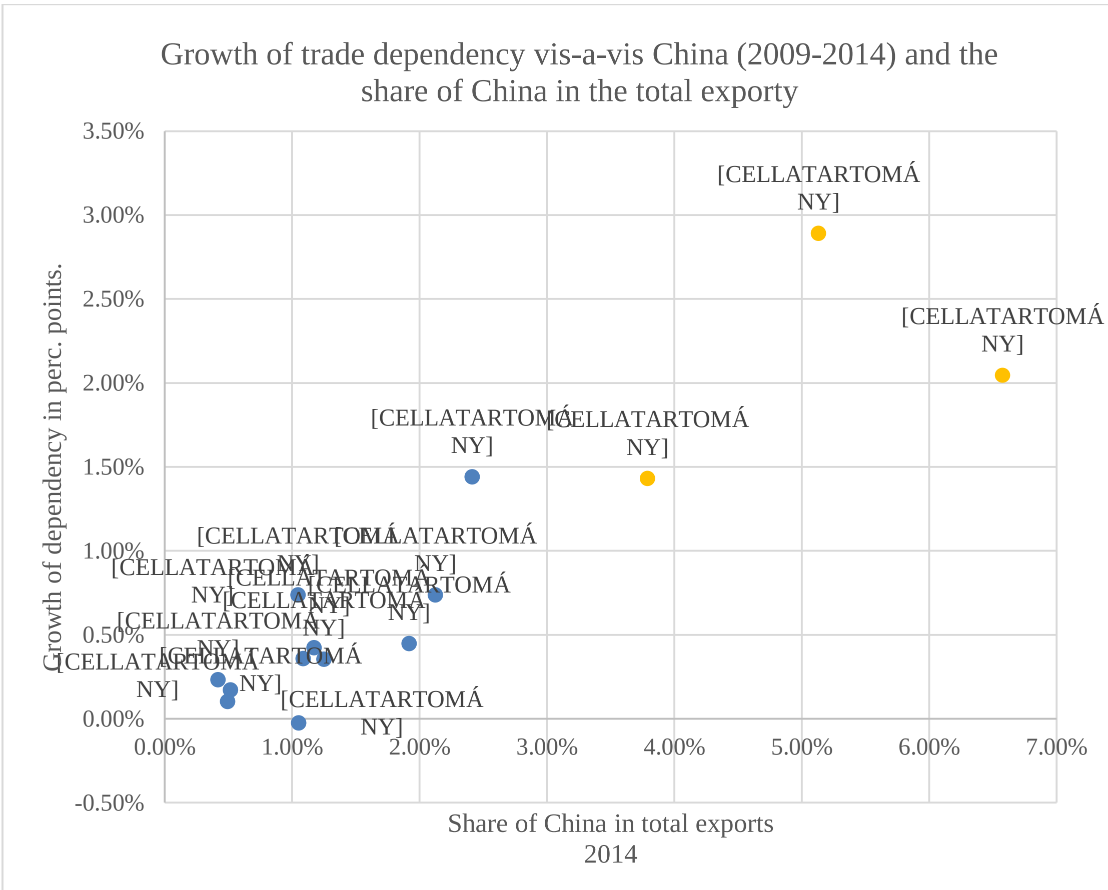
5. Empirical Analysis

Trade relations

Based on the literature conclusion might be that the deterioration of bilateral political relations means lower levels of bilateral trade between China and any given country. Conversely, better political relations have to mean better trade relation, therefore CEE countries might be eager to satisfy political request from the Chinese side in the light of potential trade retaliation (reduction of imports by China). Second, according to the findings of Fuchs and Klann countries with higher levels of exports in the category of “machinery and transport equipment” are more vulnerable to potential Chinese trade sanctions, and thus these countries are even more likely to accommodate themselves to Chinese political expectations or requests. In the followings I analyse the dynamism and product structure of trade relations of the PRC and CEE countries in comparison with France, Germany and the United Kingdom between 2009 and 2014. This period starts with the first year of the global financial downturn when CEE countries have initiated their turn towards China in order to offset the effects of the crises.

True, CEE countries have more than doubled their exports to the PRC between 2009 and 2014. This development has increased the average share of China from 0.96% to 1.3% in their total exports to the World. At the same time Germany, France and the UK have boosted their exports to China from 4.53% to 6.58%, from 2.4% to 3.8% and from 2.2% to 5.1% respectively as a share of their total exports. Western economies have also increased the share of Chinese export in their total exports (Graph 1.) Bulgaria has the highest level of export dependency (2.41%) on China among EU members of the 16+1 cooperation, but it is still much less dependent on the PRC than any of the three major Western European economies.

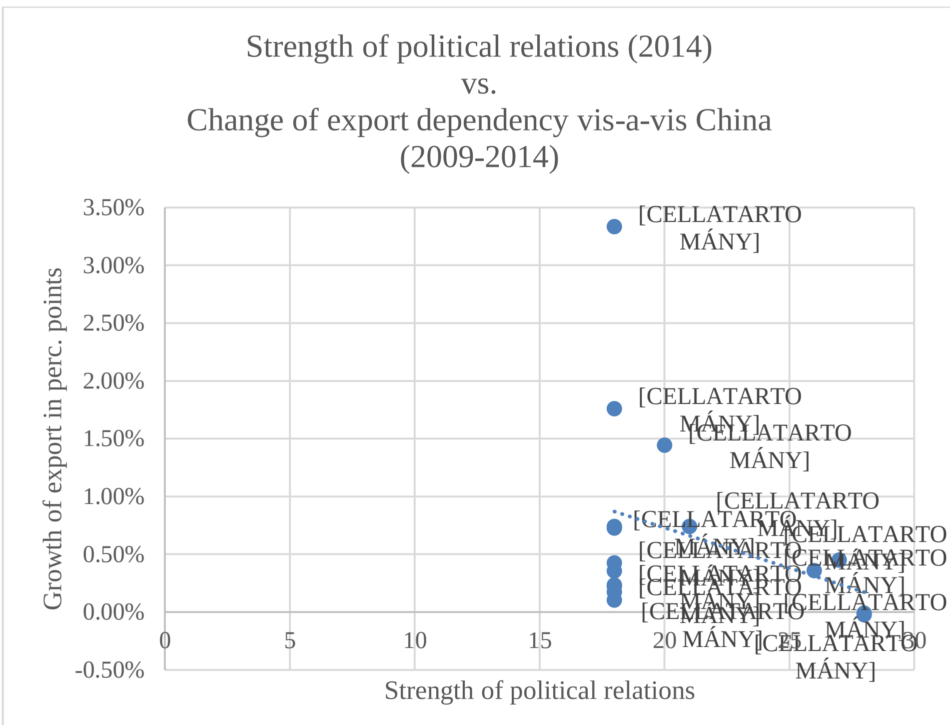
Graph 1.



Source: Own calculations based on UNCTAD Stat and CASS

Have CEE member states worked on fostering better political relations with China in hope of better trade relations with China, which might erode the integrity of the EU? If the answer is ‘yes’ there has to be a clear pattern of the connection between political relations and the development of export relations vis-à-vis China. Based on the evaluation of bilateral political relations by the Chinese Academy of Social Sciences (Liu, 2014) and trade data by UNCTAD, it can be concluded that such pattern does not exist. The following chart compares the strength of political relations (max. 30 points) with the development of exports to China as a share of total exports for all 16 CEE countries. (Graph 2.) The correlation between political relations and trade development is weak and even negative as well (r= - 0.32). Thus, countries with the best political connections to Beijing have experienced the lowest increase of export opportunities to China, while other, politically low ranking countries have enjoyed high export growth to China (the figure has even slightly dropped in the case of Poland and Serbia, both countries having the highest ranks in terms of bilateral political relations).

Graph 2.



Source: Own calculations based on UNCTAD Stat and CASS

Consequently I argue that the quality of political relations has no effect on the development of bilateral trade relations between China and the 16 CEE countries. This assumption can be bolstered even by concrete cases: the Czech Republic has been considered as a political troublemaker by the PRC, and the meeting of the Czech foreign minister with the Dalai Lama in 2011 triggered deep concerns in Beijing. Still, Czech exports to China slightly grew in 2012, while total Czech exports to the World dropped by 3.7 percent. Poland also used to be politically more critical towards China, and when the Dalai visited Warsaw in 2008, he was welcomed even by the Speaker of the Senate. Still, total Polish exports to China grew by 14.9 percent from 2008 to 2009, while the export of product group of "machinery and transport equipment" (considered to be the most sensitive to the resentment of Beijing) experienced a remarkable 29.3 percent increase!

The lack of correlation between political relations and trade development is even more surprising if trade structure is also taken into consideration. Namely that "machinery and transport equipment" is the most important product group of most CEE countries' export to China, especially of the five top partners of China in the region. The exports of Slovakia (93.2%), Hungary (74.4%), the Czech Republic (63.3%), Romania (38.1%) and Poland (27.8%) are all focused on this product group. (Even the relatively low Polish figure represents a sensitive connection to China. 27 percent of total Polish exports to China means more than USD 626 million, and their largest product group exported to China is a politically non-sensitive commodity: 'ores and metals' (35%).)

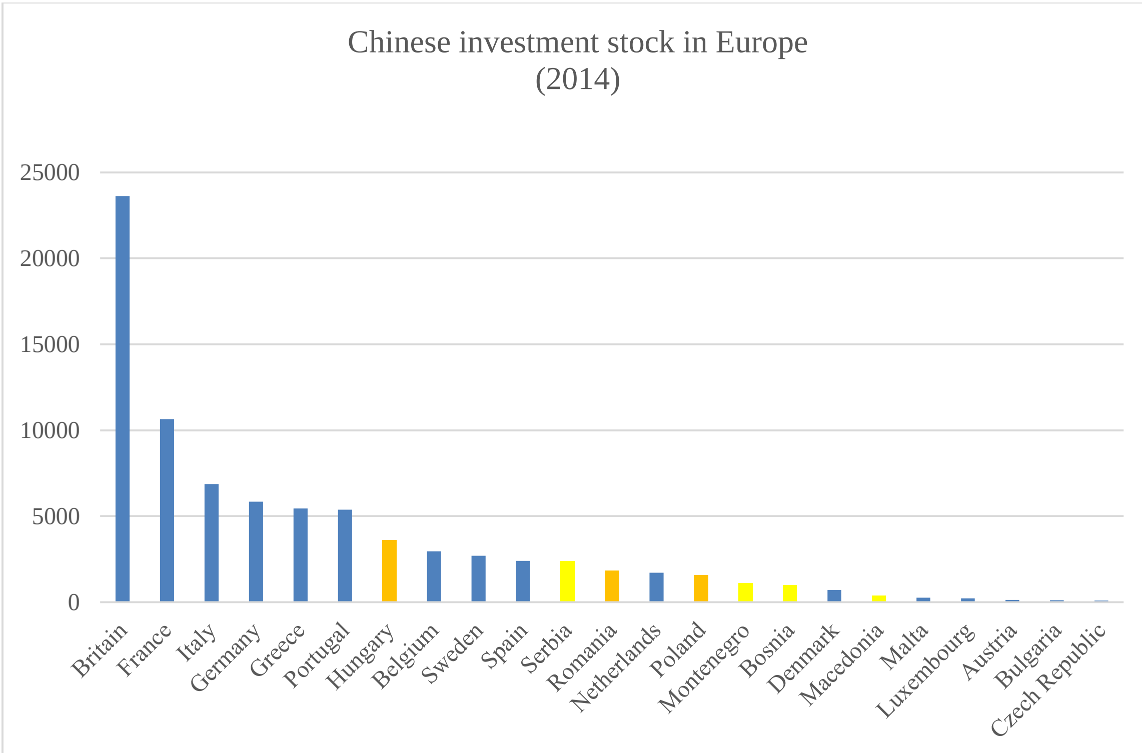
In order to double check the importance of bilateral relations I have checked the correlations between trade development and the three other ranking factors of CASS. Political environment, economical environment and social environment all have a weak and negative (r= -0,33; -0,26; -0,5 respectively) correlation with trade development, which supports the assumption that none of these factors have had a considerable impact on China-CEE trade relations.

To sum it up, based on UNCTAD data and on the political ranking system of the Chinese Academy of Social Sciences correlation between the quality of political relations and the success of trade cannot be found after five years of intensifying China-CEE relations. Further research might reveal the most plausible explanation: a large share of CEE exports of "machinery and transport equipment" to China is produced by (Western) multinational companies, and thus bilateral political or economic relations between China and any given CEE country cannot have any serious impact on the total volume of exports. (For instance Beijing could not, or did not want to retaliate on the Czech Republic for high-level meetings with the Dalai Lama, since any action would have had an impact on the e.g. Volkswagen Group of Germany instead on real Czech interests.) As Éltető and Toporowski (2013) states although Polish trade with Asia seems to be less influenced by global value chains, the Czech Republic, Hungary and Slovakia are small, therefore their integration in the multinational networks determines their trade. This undermines the presumption that in hope of political gains Beijing could put pressure on CEE member states of the EU with the threat of trade reduction.

Investment relations

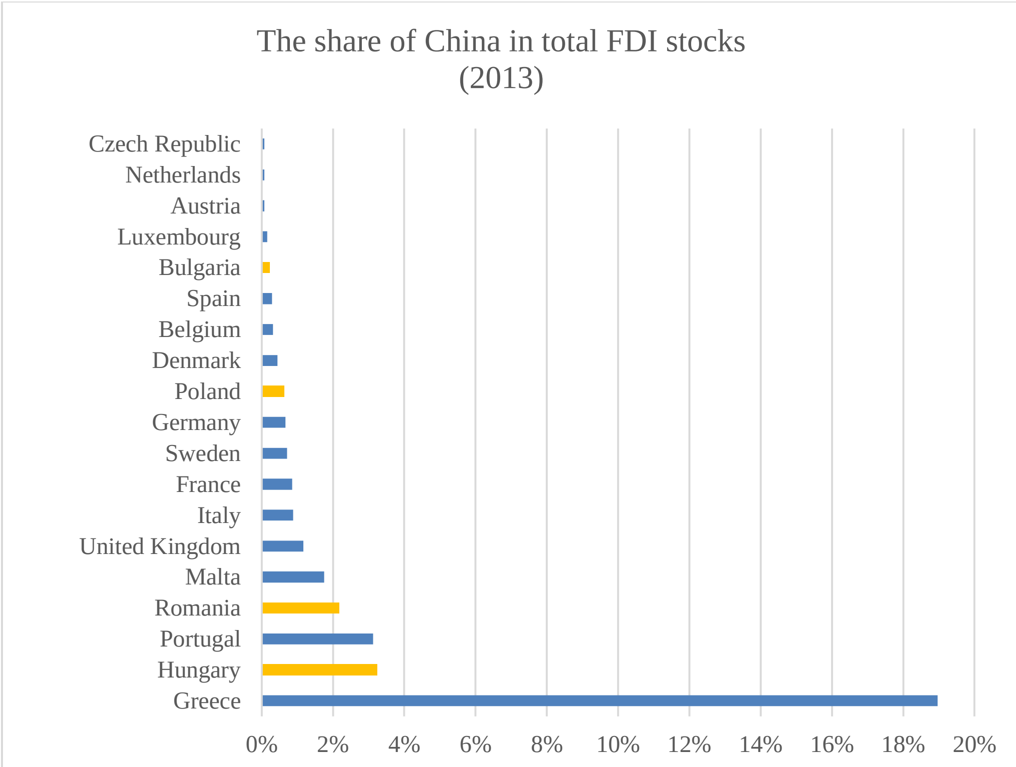
First, it has to be emphasised, that available data on investment is totally ambiguous and it is very hard to provide a clear picture of Chinese investment activities in Europe. For instance in case of Hungary the stock of Chinese FDI in the country is around USD 600 million according to EU and Chinese statistical bureaus, while according to reality the figure is closer to USD 3 billion. Still, it can be stated that CEE countries have received only a small friction of all the Chinese investment in the EU. (Graph 3.) When it comes to the share of Chinese investment as a share of total FDI stocks, Greece has an exceptionally high level, followed by Hungary, Portugal and Romania. (Graph 4)

Graph 3.



Source: China Global Investment Tracker

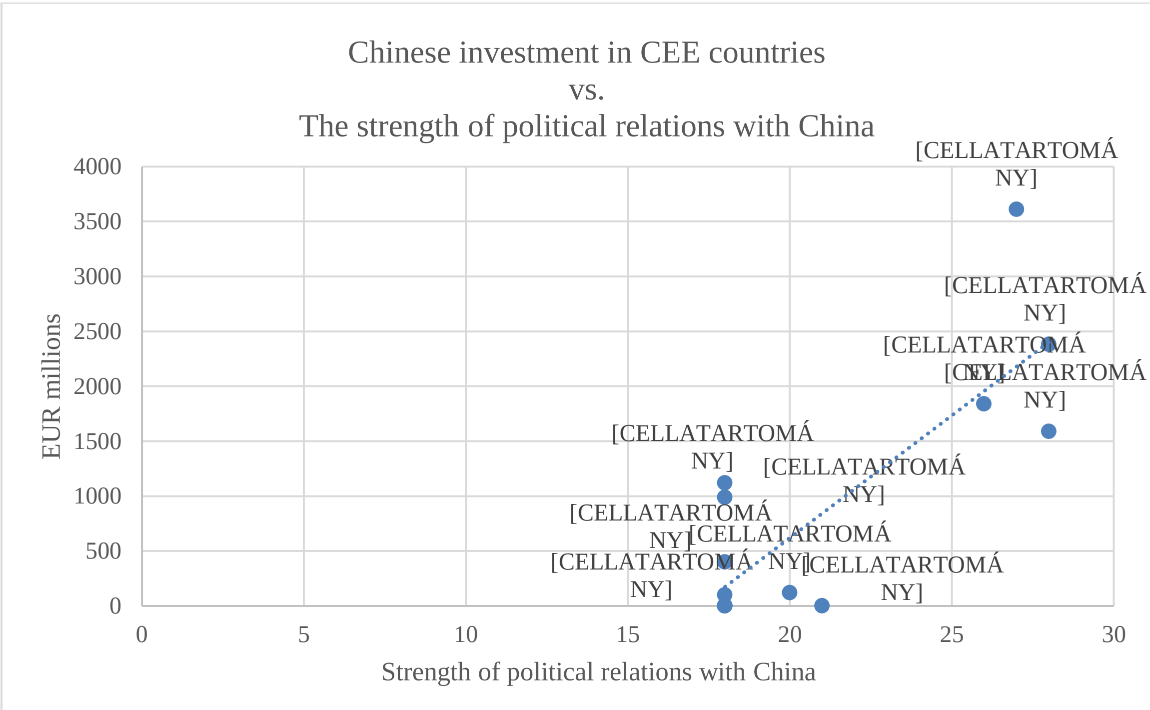
Graph 4.



Source: China Global Investment Tracker and UNCTAD Stat

In order to incorporate all Chinese investment into the analysis I rely on the datasheet of the China Global Investment Tracker of Heritage Foundation (Heritage, 2015). Their statistic database includes both settled transactions and contracts. Based on their data I present a chart comparing Chinese investment stocks in CEE countries in contrast of their political relations with Beijing. Unlike in the case of trade relations the picture is clear now, there is a strong and positive correlation (r=0.83) between the two variables. (Graph 5.) Countries with stronger political relations have higher levels of Chinese investment stocks. The result is in line with the general findings of Quan Li and Guoyong Liang that Chinese investment is more likely to flow to countries with which the Chinese government has better political relations, in hope of better treatment and protection of their investments. (Li-Liang, 2012) It is also in line with the paper of Liu Zuokui saying that better political relations with China mean better investment opportunities for CEE countries. (Liu, 2014) However there is one important detail which makes the picture less obvious: if timing is also taken into account, then Hungary turns out as a special case. Even though Budapest has one of the best political relations with Beijing and hosts by far the highest level of Chinese investment in the region, Hungary has not received any new Chinese investors since the beginning of its new China Policy and since the establishment of the 16+1 cooperation.

Graph 5



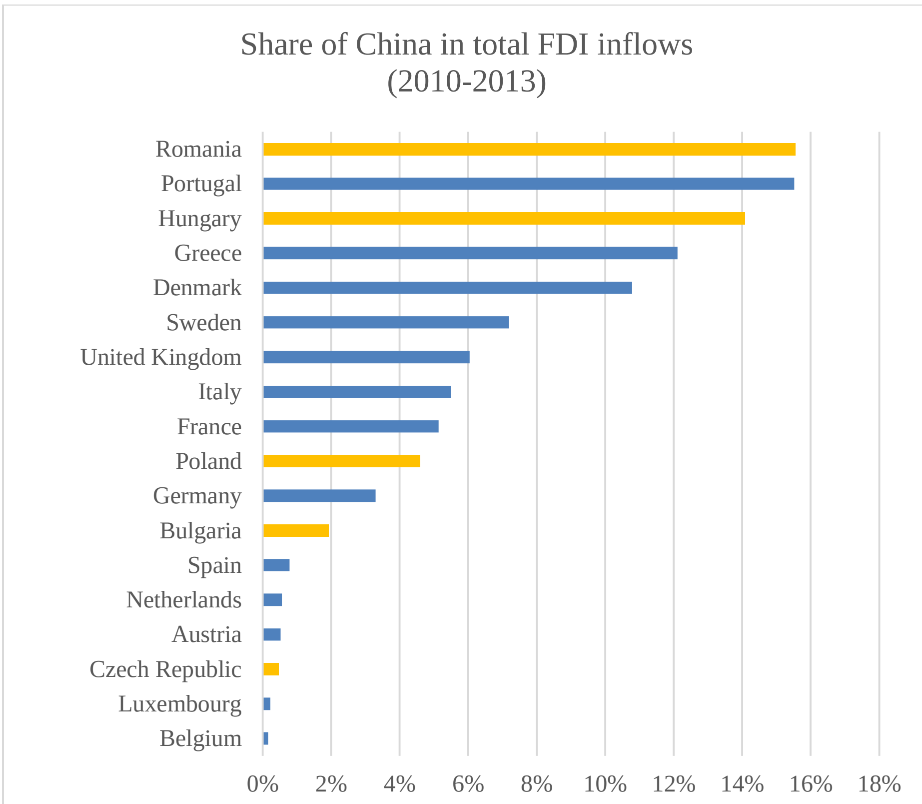
Source: Own calculations based on data by China Global Investment Tracker and CASS

It has to be underlined however, that results say nothing about causality between the two factors. The level of investment stock can be either the cause or the consequence of the quality of political relations, although the reality might be somewhere in between: hard to tell whether the hen or the egg came first. However the ambiguity of the relationship between politics and investment might not refrain CEE politicians from offering political concessions in exchange of attracting new investment projects. This scenario obviously cannot be ruled out, therefore it is worth to check the relative importance of the inflow of Chinese investment between 2010 and 2013. (Graph 6.)

Among CEE countries Romania and Hungary have received relatively the most investment from China as a share of their total FDI inflow between 2010 and 2013. (Remember, Hungary has not attracted any new Chinese investors after 2010. The inflow of Chinese FDI after 2010 is simply the prolonged result of investment decisions made by companies present in the country prior to

2010.) However, Chinese investment has not contributed to a great extent to the FDI inflow of the rest of the CEE countries, while it has indeed played an important role in Portugal, Greece, Sweden and France and in the United Kingdom.

Graph 6.



Source: Own calculations based on data by China Global Investment Tracker and UNCTAD Stat

As for the form of ownership 60 percent of the capital has been invested by private firms (Great Wall Motor, Wanhua Industrial Group, Huawei Technology and China Ming Yang Wing Power Group), while the remaining 40 percent belongs to state-owned enterprises (Sinomach, Guangxi Liu Gong Machinery, Huadian, China Power Investment and China Energy Engineering).

In order to double check the importance of investment relations I have checked the correlations between investment stocks in individual CEE countries and the three other ranking factors of CASS. Political environment has a weak and negative effect (r= -0,13), economical environment has a weak but positive effect (r= 0,15), and social environment has a weak and positive (r=0,10) correlation with investment stocks, which supports the assumption that bilateral relations have had by far the greatest impact on China-CEE investment relations.

In summary better political relations with China indeed mean better investment attracting ability for CEE countries. It is also remarkable that the size of the host economy seems to be less relevant than other factors. Poland which is by far the largest economy in the region has attracted only a fragment of the Chinese investment in Hungary, but Belgrade and Bucharest have been also more successful than Warsaw. The result is in line also with the statement of Liu Zuokui with regard to impact of unfavourable political relations between Prague and Beijing on the low level of Chinese investment in the Czech Republic.

6. Conclusions

Based on the analytical section the following conclusions can be drawn with regard to the basic questions of the present paper.

A. China may get political favours from Central and Eastern European member states in exchange of export benefits.

Available data does not support the idea that CEE member states of the EU might trade the political unity of the union for economic benefits from China.

First, the link between the development of export dependency on China and the quality of political relations is pretty weak, even negative in nature. Countries with better political ties have experienced considerably slower development of export growth to China compared to countries with less political capital in Beijing.

Second, it is also noteworthy that major Western economies like France, Germany and the UK have experienced not only the fastest growth of exports to China, but their level of dependency is also higher than any of the CEE member states of the EU.

Third, even specific cases prove the lack of political leverage of Beijing over CEE countries. Despite the visits of the Dalai Lama to Warsaw and Prague, neither of his trips have resulted in deteriorating trade relations between Poland, the Czech Republic and China.

Fourth, after checking the correlation of the other three factors (political, economic and social environment) used by the ranking system of CASS, it became clear that none these have had a considerable effect on China-CEE trade.

The most plausible explanation is the high contribution of MNCs to the Chinese exports of CEE countries. Any Chinese retaliation in the fields of trade would have an impact on companies with foreign ownership instead of the original target of sanctions.

B. China may get political favours from major Central and Eastern European member states in exchange of higher level of foreign direct investment.

Based on available statistics countries with better political relations do have better investment relations with China. The correlation is strong, even though the special case of Hungary somewhat distorts results. Generally speaking CEE countries have received a small fragment of all Chinese investment in the EU, and excepting Hungary and Romania it did not represent a major share of inflow between 2010 and 2013. In absolute terms France, Germany and the UK have attracted much more investment from China than any of the CEE countries. There are countries in the EU with much higher share of Chinese investment in their total FDI stock. Even though the causality between the quality of political relations and the level of investments is not clear, it cannot be ruled out that CEE politicians may try to attract more Chinese investment even at the price of political favours. However the leading role of private Chinese firms in the region mitigates the possibility of political influence.

After checking the correlation of the other three factors (political, economic and social environment) used by the ranking system of CASS, it is obvious that bilateral relations have had a considerable effect on China-CEE trade. It is remarkable that even domestic economic environment of CEE countries has played an insignificant role (r=0,15) in Chinese FDI allocation.

7. Limitations and further research

The main limitation of the present paper is its reliance on the ranking system of political relations designed by the Chinese Academy of Social Sciences and presented in the paper of Liu Zuokui. It would be obviously better to incorporate other assessment on the quality of political relations between China and the sixteen Central European Countries, but further data sources are not available. However it has to be noted that the CASS is the most important adviser of the Chinese government on the CEE region and the 16+1 cooperation in particular, therefore its assessment has to be very close to the mindset of policymakers.

According to the paper of Nitsch (2007) there is an empirical evidence that state and official visits have a trade-increasing effect. Therefore the number and level of bilateral political meetings (and especially their impact on trade and investment relations) could be another indicator of the level of bilateral relations between China and the CEE countries. However, ironically, it was the establishment of the 16+1 cooperation itself, which has made it impossible to produce such an assessment. Since all top leaders meet each other automatically at the annual summits, and most of the high-level governmental officials have their own regular gatherings, it is useless to count and evaluate bilateral meetings anymore.

Further research might bolster the assumption that since large share of CEE exports to China is produced by (Western) multinational companies, bilateral political or economic relations between China and any given CEE country cannot have any serious impact on the total volume of exports. Unfortunately statistics on the role of MNCs in the exports of individual CEE economies are either non-existent, or available only on request and for a charge.

The ultimate argument could be derived from the statistics of votes and decisions on China in the Council of the European Union. In case the EU published the detailed votes of individual member states with regard to anti-dumping cases against China, it would be easy to track any changes in the political behaviour of CEE members of the Union. However antidumping proceedings are kept as a secret, neither the preliminary votes, nor the final votes in the Council are published. (Nordström, 2011)

The Chinese initiative of “One Road, One Belt” might make certain CEE countries even more important in the eyes of China. The Southern corridor of the land based new ‘silk road’ will connect Western China through Central and South Asia and the Balkan with Europe. The ongoing negotiation about the high-speed railway line for freight trains between Budapest and Belgrade is part of this development. Further research might be needed to reveal how this huge infrastructure project will affect CEE-China and EU-China relations in the future.

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