

DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft
ZBW – Leibniz Information Centre for Economics

Oehler-Şincai, Iulia Monica; Dumitrescu, Alina Ligia

Article

The outlook of the economic cooperation between China and Poland

Provided in Cooperation with:

Dimitrie Cantemir Christian University, Bucharest

Reference: Oehler-Şincai, Iulia Monica/Dumitrescu, Alina Ligia (2018). The outlook of the economic cooperation between China and Poland. In: Academic journal of economic studies 4 (3), S. 209 - 217.

This Version is available at:

<http://hdl.handle.net/11159/2511>

Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/econis-archiv/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.

<https://zbw.eu/econis-archiv/termsfuse>

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.

The Outlook of the Economic Cooperation between China and Poland

Iulia Monica Oehler-Şincai¹, Alina Ligia Dumitrescu²

¹Romanian Academy, Institute for World Economy, Department of New International Economic Order,

¹E-mail: oebler.sincai@gmail.com,

²Romanian Academy, Institute for World Economy, Centre for European Studies, ²E-mail: alinaligia1@yahoo.com

Abstract After China and Poland lifted their ties to a strategic partnership in 2011, and in April 2012, the inaugural summit of the 16+1 platform took place in Warsaw, the bilateral relations entered a new phase. In June 2016, the two partners upgraded their relations to a comprehensive strategic partnership during Chinese President Xi Jinping's state visit to Poland. Against the backdrop of the Polish elites' ambition that their country should gain a more prominent role at the regional and even global level, a pragmatic attitude towards China gradually emerged, which created the favourable premises for strengthening bilateral relations. That explained the adoption by Poland of an "open door" policy towards China, but taking into account the asymmetries between the two countries in terms of size of their markets, territory, population, as well as the supply and demand capacities. The objectives of this paper are threefold. First, it emphasizes the economic, political and geopolitical arguments on both sides to strengthen the bilateral cooperation. Second, it underscores Poland's economic advantages as compared to the other CEE countries and consequently its attractiveness for Chinese investors. Third it stresses several challenges for the Polish-Chinese strategic partnership, taking into account that very high expectations in 2011-2012 were not materialized and consequently the expectations are gradually diminishing. The paper concludes on an optimistic note that the strategic partnership is still relevant for both sides, as Chinese and Polish development strategies are complementary.

Key words Sino-Polish strategic partnership, 16+1, Belt and Road initiative (BRI), regional development, Central and Eastern Europe (CEE)

JEL Codes: F10, F15, F19, F21, F29, F50, O52, O57

© 2018 Published by Dimitrie Cantemir Christian University/Universitara Publishing House.

(This is an open access article under the CC BY-NC license <http://creativecommons.org/licenses/by-nc-nd/4.0/>)

1. Introduction

China's goals and expectations with respect to the economic cooperation with Poland are linked to the latter's success stories of transition to a functioning market economy and EU integration. Due to Poland's growing role within the EU since its accession in 2004, China has perceived it as a genuine regional economic power, which has also the ambition to become a global actor by means of wise foreign policy tools. As underlined by Mierzejewski (2017), on the one hand, Poland can play a more and more independent role in shaping its domestic investment environment, on the other hand, its relations with the United States and Germany, its goal of reducing its dependency on Russian energy play and its military objectives play a significant role for its own position and attitude towards China. In this equation one should take into account the different nature of Poland's relations with the US and Russia on the one hand and China's relations with these two partners on the other hand (Szczudlik, 2016a). Poland has specific advantages that match China's objectives in the 16+1 cooperation framework.

- First, due to its geographic position and proximity to Western European countries, geostrategic advantages, transport infrastructure, competitiveness and logistics, Poland could be a production and distribution centre for goods and services alongside the Silk Road Economic Belt to different destinations in the EU.
- Second, through the strategy of "re-industrialization" and by virtue of the strong performance of certain industries, from high technology and aviation to machine and machinery production, Poland perfectly integrates into the Chinese Belt and Road Initiative.
- Third, Poland offers a favourable environment for foreign investment, a good infrastructure as well as a skilled labour force and relatively lower wages compared to the Western EU Member States.

Therefore, Poland is a suitable entry gate for China in the EU, providing access to the European market and stimulating conditions for attracting Chinese investment. Cooperation with Poland can thus provide good experience for further implementation of Chinese initiatives. As underlined in the literature (Skorupska and Szczudlik-Tatar, 2014, Góralczyk, 2017) and also by the successive editions of the Poland-China Regional Forum, cooperation between local Chinese and Polish authorities is considered one of the pillars of Sino-Polish bilateral cooperation. Success stories such as the partnership between Łódź and Chengdu, including the launch of a regular freight railway service Łódź-Chengdu since 2013, point to the relevance of Polish-Chinese cooperation at local level. Starting from the arguments mentioned above, the paper

is structured around three main sections, underlining: Poland's economic advantages as compared to the other CEE countries and consequently its attractiveness for Chinese investors; various arguments on both sides to strengthen the bilateral cooperation; the need to address the existing challenges.

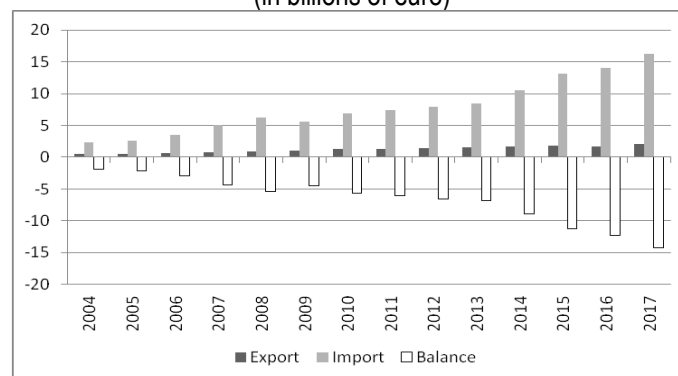
2. Literature review

Economic cooperation, the main pillar of Polish-Chinese bilateral cooperation

As highlighted by recent studies, Poland considers economic issues as the absolute priority in relations with China (Yao, 2017). Given the high dependency on the EU Common market (accounting for about 75% of Polish trade), Poland has begun to pay more attention to the Asian markets. Therefore, the importance of bilateral cooperation with China, Poland's largest economic partner in Asia, is growing. Among the main objectives pursued by Poland there are: increasing exports of goods to China in order to diminish the trade deficit, attracting Chinese investment and promoting infrastructure development. However besides such goals there are other ones, but of another nature, including: the acquirement of a supplementary negotiation power and increasing their regional role and diminishing the overdependence on the EU and establishing a system of more balanced relations with strong economic partners outside the EU, including China.

Between 2004 and 2017, the volume of bilateral trade has increased significantly, however: (1) even if bilateral exchanges have grown significantly, that started from a low base; and (2) that evolution was due to import volumes rather than exports, which led to a substantial increase in the trade deficit, from around €2 billion as the average of 2004-2005 to €12.3 billion in 2016 and €14.2 billion in 2017 (Chart 1).

Chart 1: Poland's trade with China, 2004-2017
(in billions of euro)



Source: Own representation based on Eurostat (2018).

The asymmetry of bilateral trade and investment is explained by the fact that most of the Polish firms are in the category of small and medium-sized ones and these do not have the ability to enter the Chinese market, where competition is extremely high (Pendrakowska, 2017). Michalski (2010) adds a significant explanation: as of 2009-2010, circa 1,100 Polish companies exported to the Chinese market, instead, 15,000 Chinese companies exported to the Polish market. These data underline why Polish imports from China have recorded such a high growth rate in contrast to corresponding exports, justifying the rising trade deficit (Garlick, 2015). However, Poland remains the main trader among the ECE countries in relation to China, taking into account both flows, export plus import.

Although Polish agricultural products (apples, pork, dairy products, sweets and alcoholic beverages) are considered to be a high potential export category, recent studies (Szcudlik, 2016b; 2016c) support the idea that it is difficult for the Polish exporters to cope with competition on the Chinese market, respectively, with native apples, or pork imported from the USA, France, Denmark, or dairy products imported from Australia and New Zealand.

Under these circumstances, Poland has set out to increase exports to China through closer economic ties. On the one hand, the Polish Government's Economic Plan and China's 13th Five-year Plan (2016-2020) are compatible as regards the modernisation of the economy alongside the introduction of IT solutions, advanced technologies and innovation instruments. On the other hand, 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. For Polish exporters, railway will be an attractive option for transporting goods to China due to shorter delivery times; however, the cost will still be higher compared to shipping.

Poland is the second major beneficiary of Chinese direct investment in CEE after Hungary. Chinese investors focus on mergers and acquisitions nevertheless the Polish authorities pursue the Greenfield investments (Góralczyk, 2017). For instance, LiuGong Machinery Corp. made two major investments in construction machinery, totalling \$75.2 million (HSW and Poland ZZN) in 2012-2013, while Tri-Ring Group invested around \$70 million in the biggest bearing factory in Poland in 2013 (Szczudlik, 2017). LiuGong was awarded *Top Chinese Investor in Poland* in 2015 and 2017 and in September 2017 it opened its European headquarters in Warsaw. Recently, China Coal, together with the Australian company Prairie Mining, signed an agreement on co-operation in the construction and financing of the Jan Karski mine located in the Lublin Coal Basin. The investment is estimated at circa 630 million dollars and production is expected to start in 2023 (Góralczyk, 2017). Lubina (2017) underscores that the Chinese FDI in Poland in 2016 amounted for more than half of all Chinese FDI in Poland during 2000-2015, even if the overall amount remains modest as compared to Western Europe or even Hungary.¹ Szczudlik (2017) mentions among the key Chinese investors in Poland in 2016 the following:

- Three Gorges Corporation (acquired 49% of the Portuguese EDPR shares in a wind farm in Poland, euro 289 million);
- China Everbright International (Mława, central Poland, solid waste treatment, euro 123 million);
- China Hongbo Clean Energy Europe (Opole, LED factory, euro 85 million, greenfield, with plans to create an R&D centre).

It is also worth mentioning that in 2016, the Chinese took over the majority of the assets of Ryszard Krauze's Bioton Insulin Producer, which is extremely important for China, with millions of diabetics. As Góralczyk (2017) appreciates, the Chinese are pragmatic negotiators, and one of their main objectives within the Belt and Road initiative is to promote innovation on their own market, hence the predilection for mergers and acquisitions. Poland's priorities are different, focusing on stimulating greenfield investment, financing and creating innovative companies, so that investment will have lasting effects on economic growth (Góralczyk, 2017). Infrastructure development is another important objective pursued by Poland in its relations with China. Poland plans to invest 500 billion zlotys (more than euro 100 billion) in infrastructure over the next period, and even if it is a net beneficiary of EU funds it needs also additional financial resources (Yao, 2017).

China's interest in the CEE is growing. Even if the focus is set on the economic cooperation, some scholars point to the fact that beyond economic priorities there are also those of a political and geopolitical nature, which implies the need to coordinate Polish foreign policy with the foreign policy of other countries in the region and also with key actors such as the Western EU member states and the US (Szczudlik, 2016b). Szczudlik (2016b) draws attention to several aspects. At the economic level, it is highlighted the size of the Polish market, but also the lower level of competitiveness compared to Western Europe. The central position in the EU, the proximity to the Western markets, the well-developed transport infrastructure, all give Poland the attributes of an attractive logistics, production and distribution centre for China. This is in line with Poland's need to diversify its sources of capital and its export markets. Politically, China needs partners which support it to achieve its objectives such as obtaining the market economy status and the reduction of pressures by the EU on sensitive issues, including China's territorial disputes in the South China Sea. Taking into account both economic and political arguments, it is argued that the emphasis should be on the principle of reciprocity in economic co-operation and avoiding the situation whereby Poland's economic benefits are being used by China as a tool for influencing its political decisions (Szczudlik, 2016b).

As another study points out, decision-makers in Poland have a positive attitude towards Belt and Road initiative, and since 2015 (when the Law and Justice Party won the parliamentary elections) there is even a greater inclination towards cooperation with China, at least at declarative level (Szczudlik, 2016c). Polish companies also have a rather positive attitude towards Belt and Road initiative, although they lack sufficient knowledge of the Chinese market, transport connections and existing funding opportunities. The media do not pay special attention to China, except for high-level visits and meetings or special events. The same study, however, points out that there are also critical positions towards China, such as those associated with the potential risks of granting China's market economy status, one of which is the deepening of the trade deficit.

Another recent study by Pendrakowska (2017) draws attention to the asymmetries in the China-CEE bilateral relationship, reflected by political culture, trade imbalances, economies size, communication models, competition, etc. The lack of a joint

¹ Szczudlik (2017, pp. 110-111) presents different estimations of Chinese FDI stock in Poland in 2016, these varying from euro 123 million to 936 million. The main sectors attracting Chinese investment are: electronics (TCL and Digital View, LCD panels), electromechanical sector (Nuchtech, X-ray inspection system), machinery (LiuGong, Tri-Ring), distribution, IT (ZTE and Huawei), energy (Three Gorges Corporation), environment (Everbright), infrastructure (Sinohydro), banking (Bank of China, ICBC, Haitong, China Construction Bank).

CEE negotiating body with China is considered one of the weaknesses of the 16+1 platform, which rather encourages competition between Central and Eastern European countries to the detriment of their cooperation and does not give them a strong negotiating position. However, in our opinion the spirit of the 16+1 cooperation framework is not that of competition, but of cooperation for the benefit of all, as indicated by the Chinese official documents. As underlined by Oehler-Şincai (2018), China's focus is to bring benefits for all the participants, as all of them are invited to contribute to the agenda setting according to their priorities which negate the accusations associated with a "China-centric agenda".

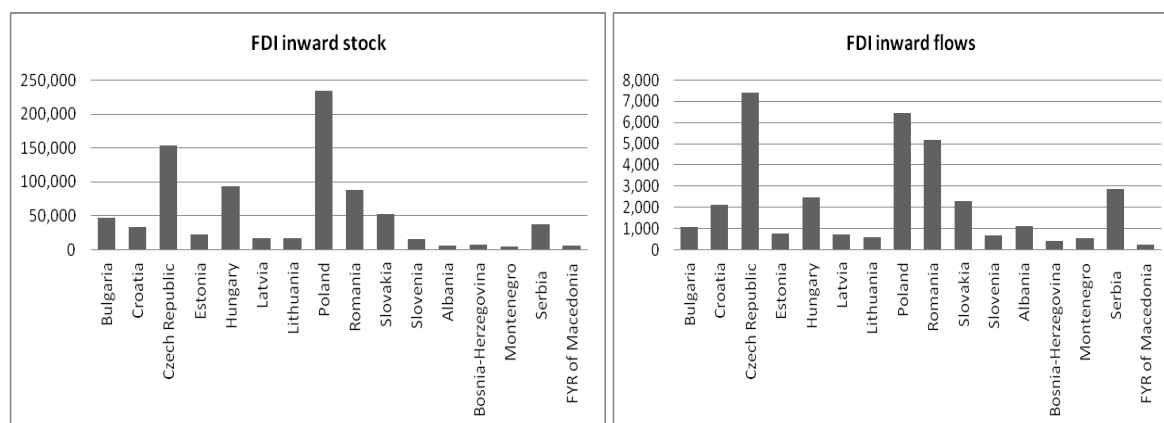
CEE's relations with China are on multiple levels (as reflected also by Poland's relations with China): bilateral; sub-regional (Poland-China within the Visegrád Group); relations with China in the framework of the 16+1 platform; relations with China under the EU, taking into account the strategic partnership between the EU and China. But is it possible to have a common position of all 16 CEE countries in relation to China in all areas, given their multitude of interests and, in particular, their attitudes towards the EU, US and other major actors (including China)? By all means the answer is no. But while the lack of a joint negotiating body of the ECE with China is not that bad, because it would be almost impossible to reach a consensus at ECE level with China, the absence of a national strategy in relationship with China, including Poland, is a major weakness (Szunomár, 2014).

3. Methodology of research and data analysis

Poland's advantages in economic terms as compared to the other CEE countries

The present paper is based on literature review, relevant statistics, case studies and analyses of both Chinese and Polish recent initiatives. The objectives of this paper are threefold. First, it emphasizes the economic, political and geopolitical arguments on both sides to strengthen the bilateral cooperation. Second, it underscores Poland's economic advantages as compared to the other CEE countries and consequently its attractiveness for Chinese investors. Third it stresses several challenges for the Polish-Chinese strategic partnership, taking into account that very high expectations in 2011-2012 were not materialized and consequently the expectations are gradually diminishing. The paper concludes on an optimistic note that the strategic partnership is still relevant for both sides, as Chinese and Polish development strategies are complementary. Among the Central and Eastern European (CEE) countries, Poland has the largest economy and also the largest population and vastest territory. At regional level, Poland is the champion in attracting foreign direct investment (FDI) in terms of stocks, even if in 2017 Czech Republic received a higher value of FDI inflows than Poland (Chart 2).

Chart 2: FDI inward stock and inflows in CEE countries in 2017 (millions of dollars)



Source: Own representation based on UNCTAD (2018).

The Special Economic Zones (SEZ) in Poland (now 14 in number), offering exemption from corporation tax under certain conditions and many other facilities, were extended until 2026 and provide a higher degree of attractiveness of this country in CEE. Moreover, on June 1, 2018, the Polish President signed an act providing practically the whole Poland the status of a SEZ (Deloitte, 2018) with two main goals: to stimulate the investment in less developed regions and to encourage the development of small and medium-sized enterprises.

Poland's economic performance is closely linked to the success of the regional development process based on decentralization, intensification of development activities carried out by the public administration, and efficient use of structural funds by the regions. At the same time, this is also due to the substantial development of infrastructure, as reflected by the increase in the number of roads and highways in recent years, with road infrastructure being a major factor in the efficient functioning of the economy. In a report for assessing the achievements of the 10 years after joining the EU,

the Polish government underlined that with the support of EU funds, 673 km of highways were built, 808 km of expressways were constructed or upgraded, and besides there were developed 36,000 km of sewerage networks and 683 water treatment plants in Poland (Polish Ministry of Foreign Affairs, 2014).

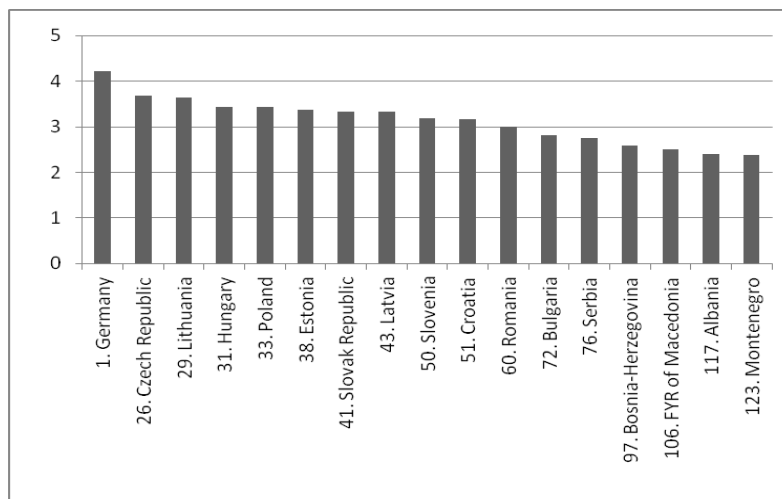
In the period 2007-2013, Poland ranked first among the EU member states in terms of increasing the motorway network with the support of EU funds. By the end of 2013, Poland had more than 2,800 km of roads and motorways in use compared to 912 km at the end of 2007. Under the new EU budget for 2014-2020 Poland will remain the main beneficiary among the Member States, eligible for approximately €106 billion (€86 billion from EU funds, €20 billion representing the national contribution). The amounts allocated to Poland from the Structural Funds will be used to subsidize some of the largest investments in infrastructure, environment, human capital, innovation and information and communication technology (Dumitrescu and Iordache, 2015).

In terms of its macroeconomic indicators, Poland maintained a sustainable growth rate of more than 3% over the last few years, although at least 4% annual economic growth is considered as the lowest threshold for an evolution that makes it possible the catching up process with the Western EU member states.

According to a report by McKinsey & Company (2015), the scenario of an average annual growth rate of real GDP of 4% between 2015 and 2025 could turn Poland into a driver of growth in the Community and increase its competitiveness which would lead to a similar living standard as Spain, Slovenia and even Italy in terms of GDP per capita at purchasing power parity.² For this, however, it would be necessary to increase labour productivity in each sector of activity, to stimulate sectors with high potential (technology-intensive industries, pharmaceutical industry, medical and optical equipment, advanced systems and equipment, business services, advanced technologies in manufacturing industry, mining and mineral processing industries, agriculture, energy, transport, retail and wholesale). At the same time, specific strategies for attracting foreign investment would be required, depending on city's development level, respectively for: the first tier cities: Krakow, Wrocław, Warsaw, the second tier cities: Łódź, Katowice, Poznań and Gdańsk (Danzig) and the third tier cities: Szczecin, Bydgoszcz, Toruń, Białystok, Opole and Lublin.

Taking into account the above mentioned factors, in our opinion cooperation with strong partners such as China open new opportunities and the 16+1 cooperation format could lead to accelerating economic growth and solving economic development issues not only for Poland but for the whole CEE.

Chart 3: CEE countries' ranking, depending on logistics performance



Note: The logistics performance index is estimated based on opinion polls. The main elements taken into account are: the efficiency of customs procedures, the quality of infrastructure for trade and transport, the ease of organizing transportation at competitive prices, the quality of logistic services, the punctuality in transport operations, which are marked from 1 (lowest) to 5 (highest).

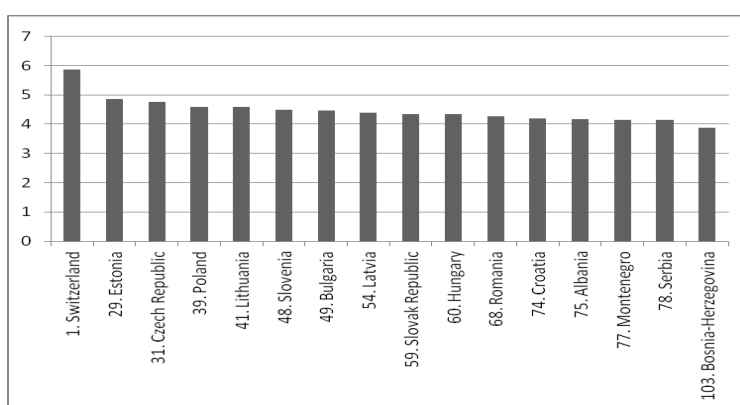
Source: Chart elaborated by authors based on data provided by The World Bank (2016).

² As of 2016, Poland's GDP per capita represented 68% of the EU average (<http://ec.europa.eu/eurostat/documents/2995521/8700651/1-28022018-BP-EN/15f5fd90-ce8b-4927-9a3b-07dc255dc42a>).

Logistics performance is considered to be one of the determinants of the economic growth and competitiveness of countries worldwide, being recognized as one of the basic components of economic development (The World Bank, 2017). The Logistics Performance Index is an interactive comparative analysis tool designed to help countries identify challenges and opportunities for their performance in areas such as trade and transport, and set up solutions to improve their performance. Among the 160 countries analysed by the World Bank in terms of logistics performance, Poland is ranked the 33rd. It is outperformed by the Czech Republic, Lithuania and Hungary, but it is ahead of all the other Central and Eastern European countries participating in the 16 +1 (Chart 3).

According to the World Competitiveness Report 2017-2018, elaborated by the World Economic Forum, which evaluates 137 countries of the world in terms of competitiveness, Poland is ranked the 39th in the world ranking after Estonia and the Czech Republic, but ahead of all the other CEE countries (Chart 4).

Chart 4: CEE countries' ranking among 137 competitors, according to Global Competitiveness Index



Notes: Scores are measured on a scale from 1 (lowest level) to 7 (highest level). The index is based on 12 main components: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, efficiency of the goods market, labour market efficiency, financial market development, technological progress, market size, the degree of sophistication of business and innovation.

Source: World Economic Forum (2017).

The loss of three positions in the ranking as compared to the previous edition of the Global Competitiveness Report, when Poland ranked the 36th (Table 1), was due to a change in the methodology, which for the first time also included very small companies. According to the Polish coordinator of the survey, Piotr Boguszewski of the National Bank of Poland, “the very small companies always have more problems than small and medium-sized firms.”

Table 1. Evolution of Poland's position according to Global Competitiveness Index, in 2012-2018

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Position*	41/144	42/148	43/144	41/140	36/138	39/137
Score**	4.5	4.5	4.5	4.5	4.6	4.6

Notes: * Position in Global Competitiveness Index/Total number of analyzed countries; ** Score in the Global Competitiveness Index rankings. The scale ranges from 1 to 7.

Source: World Economic Forum (2017).

In the Global Competitiveness Index of 2017-2018, Poland recorded an average score of 4.6 (7 being the highest value). Out of the 12 main pillars taken into account, for seven of them it had scores higher than or equal to the global average score, respectively: health and primary education (6.2), macroeconomic environment (5.2), market size (5.2), higher education and training (5.0), technological readiness (4.9), infrastructure (4.7) and efficiency of the goods market (4.6). For the rest of the main pillars taken into account, the level was below the global one, namely: financial market development (4.2), labour market efficiency (4.1), business sophistication (4.1), institutions (3.8) and innovation (3.4).

In the world ranking, as regards innovation, Poland (59th place) is positioned after Estonia (30), Slovenia (35), Czech Republic (36) and Lithuania (41), but outstrips all the other CEE countries. We consider that its priorities towards development and promotion of new technologies will be stimulated once more by the actual innovation-friendly economic environment at both levels, private and public, through close collaboration between research institutes, universities and industry.

4. Challenges to bilateral cooperation: examples

Szczudlik (2017) considers that China is “a difficult partner, which in a very assertive way is trying to export its excess manufacturing capacity and loan and credit schemes”. Kuo (2017) synthesizes the bilateral relationship as follows “the current euro-sceptic and pro-U.S. Polish administration, however, sends mixed messages to China. The presidential palace in Poland seems to favour the BRI initiative; however, the government clearly does not show that much enthusiasm. That was very clear when the current minister of national defence blocked a tender [that would have seen] a large piece of land belonging to the Military Property Agency ending up in the hands of a Chinese company and destined for development of a major logistics hub for the BRI. He cited national security reasons for that matter.”

Beyond the political will to strengthen or, on the contrary, to keep the Polish-Chinese relationship under control there are concrete case studies underlining weaknesses, misunderstandings and challenges of another nature for the bilateral partnership.

The most relevant case study in this regard relates to the failure of Chinese company China Overseas Engineering (COVEC), a subsidiary of China Railway Corporation, in the construction of two sections of the A2 motorway in Poland. COVEC was the first Chinese company to win a public works contract in the EU. With a length of 49 km, the two sections of the Warsaw-Lodz highway were to be completed at a price of 447 million dollars before 2012, when Poland hosted the European Football Championship with Ukraine. The proposed price represented half of the budget planned by the General Directorate for National Roads and Motorways (the central authority of national administration set up to manage the national roads and implementation of the state budget in Poland, GDDKiA) and was 20% lower than the price proposed by the competitors and was considered to be dumped by the latter.

The Chinese company relied on the import of equipment and the project's own financing, without taking into account the potential risks that materialized: increased fuel prices (i.e. increased transport costs), increased commodity prices, difficulties in obtaining the necessary labour force and the issue of certification of imported machinery from China. Other factors have been added to those risks: the problem of financing, as the parent company did not provide for the financing of the project, additional costs related to environmental protection and relations with Polish subcontractors, which had a “hostile” attitude (Kanarek, 2017).

At the beginning of June 2011, when the work had been executed only in a proportion of 20%, COVEC informed GDDKiA that it had decided to terminate the contract if it had not been renegotiated. However, the Polish side remained firm and did not accept the renegotiation of the contract, which led to its termination.

Therefore, the failure of COVEC in Poland was not only due to the management of the company but also to the communication gap between the Polish and the Chinese side. The Chinese company did not understand at first instance the importance of taking into account the EU's legal, business and cultural norms, extremely complex and different from the Asian ones. COVEC concluded a contract under Community law without first knowing EU legislation (labour, public procurement, etc.). Among the immediate consequences of COVEC's withdrawal from Poland was the creation of an unfavourable image of Chinese companies in Poland, which discouraged Polish firms from cooperating with Chinese firms.

The literature highlights three major risks associated with Chinese investment projects, these being related to: selecting projects, implementing them and putting political motivations first, to the detriment of the economic ones (Djankov, 2016). COVEC faced all three risks mentioned. The Chinese company was convinced that an attitude which was favourable to bilateral political cooperation would ensure the successful implementation of the project, which has not been verified, however, in practice.

Probably against the backdrop of this highly publicized failure, there is a prudent attitude of Chinese companies in bidding and procurement for extensive infrastructure projects, with previous failures a difficult psychological obstacle to overcome. Although there are a multitude of memoranda of understanding and agreements, the project implementation process is almost inexistent (McNeice, 2017).

Among the challenges mentioned in the literature are the following: (1) finding a balance between the economic motivations to cooperate with China and the constraints on the part of strategic partners such as the US and the opposition of the population; (2) the sensitive aspects of the bilateral relationship, such as the considerable trade deficit (due to the different export and import structures, but also the ban on Polish pork imports, the difficulty of obtaining export certificates for agricultural and food products), differences in values and ideology; (3) for Poland, China is not a priority of its foreign policy; (4) the way in which China's recent initiatives, especially Belt and Road, are perceived as being a strategy to give China the leading role of the New International Economic Order; (5) the contradictions between Poland's relations with the US and Russia on the one hand and China's relations with the US and Russia, on the other hand (Szcudlik, 2016a).

In order to counteract weaknesses, interpersonal exchanges are considered the best way to strengthen mutual understanding and trust. An important place in the bilateral relationship is cooperation in the direction of boosting Poland's exports to China and reducing the trade deficit, attracting Chinese investment, and linking the 16+1 initiative with Poland's own development priorities (such as the Morawiecki Plan for Responsible Development) (McNeice, 2017).

5. Conclusions

China is regarded by Poland as the most important partner in Asia, while Poland is for China one of its most important partners in Central and Eastern Europe. Poland remains the main trader among the CEE countries in relation to China (the second largest exporter but the largest importer) and the second major beneficiary of Chinese investment after Hungary.

Seen in the larger frameworks of 16+1, BRI and EU-China strategic partnership, the Polish-Chinese bilateral cooperation should have as a major goal that of deepening the synergies among the EU, Chinese and Polish objectives, such as connecting the Belt and Road Initiative with the Trans-European Transport Networks. At the same time, as underlined by recent studies (Oehler-Şincai, 2018) China pays attention to Poland's and other CEE countries' expectations from the 16+1 format, including those related to: (1) diversification of their export markets and investment/financing sources; (2) the need of an upgraded infrastructure; (3) acquirement of a supplementary negotiation power and increasing their regional role; (4) diminishing the overdependence on the EU and establishing a system of more balanced relations with strong economic partners outside the EU, including China.

Chinese and Polish development strategies are complementary. Poland's re-industrialization strategy opens up countless possibilities for cooperation with China, including infrastructure, industrial parks, science and technology. Poland's economic development is considered a "success story" in China. Poland seeks to reduce its dependence on the Community market and to counteract the effects of Russia's sanctions (in response to community sanctions) but at the same time to follow its own foreign policy priorities (related to a strong Poland in Europe, a focus on transatlantic relations and the role of the North Atlantic Treaty Organization as a guarantor of security, balanced relations with neighbours and an increasing importance of Poland at international level). In achieving these objectives, the Polish-Chinese cooperation under the strategic partnership acquires a new significance. Moreover, the Polish-Chinese bilateral relations express more than any other case studies in the 16+1 framework that regional cooperation is sometimes the key determinant of a comprehensive development of bilateral relations, as a testing laboratory of the best cooperation formulas and strong foundation of trust and mutual understanding.

References

- Deloitte (2018). *Successful completion of works on the act on the support of new investment projects*, SEZ Newsletter, June 8.
- Djankov, S. (2016). *The Rationale behind China's Belt and Road Initiative*, in: Djankov, S., Miner, S. (editors), *China's Belt and Road Initiative: Motives, Scope and Challenges*, Peterson Institute for International Economics, March, PIE Briefing 16-2.
- Dumitrescu, A. L., Iordache, L. (2015). *Poland's Performance in Creating a Sustainable Market Economy*, Journal of Global Economics, vol. 7, nr. 2, pp. 109-123.
- European Commission (2017). *European Economic Forecast – spring 2017*, European Economy, Institutional Paper 025, May, Brussels.
- Eurostat (2018). *International trade in goods*, DS-016893, database available at: <http://ec.europa.eu/eurostat/web/international-trade-in-goods/data/database>.
- Garlick, J. (2015). *China's Trade with Central and Eastern European EU Members: An Analysis of Eurostat Data, 2004–2014*.
- Góralczyk, B. (2017). *The Chinese are coming to Poland*. Central European Financial Observer, available at: <https://financalobserver.eu/poland/the-chinese-are-coming-to-poland/>.
- Kanarek, P. (2017). *Perspectives for development of China-EU relations in the infrastructure investment sector: a case study of COVEC's investment in Poland*, Journal of Political Risk, Vol. 5, No. 8, August.
- Kuo, M. A. (2017). *China in Eastern Europe: Poland's perspective*, Insights from March Jaskula, The Diplomat, December 19.
- Lubina, M. (2017). *Big Words, Little Results: The Chinese Investment in Poland from the Political Perspective*, Polish Political Science Yearbook vol. 46 (2), pp. 150-171.
- McNeice, A. (2017). *Poland embraces strategic development role*, May 5.
- McKinsey&Company (2015). *Poland 2025: Europe's New Growth Engine*, January.
- Michalski, M. M. (2010). *Trade and Procurement Reform in Poland and China: Responding to the Next Globalization Wave of Interdependent Economies*, Business and Public Administration Studies, Vol. 5, No. 3.
- Mierzejewski, D. (2017). *Poland external relations briefing: Poland and Budapest 16+1 Summit*, November.
- Oehler-Şincai, I. M. (2018). *16+1, a New Issue in China-EU Relations?*, Working Paper series of the Chine-CEE Institute, No. 1, Budapest, June 22.

- Pendrakowska, P. (2017). *A Balancing Act: the 16+1 Cooperation Framework*, Institute for Security and Development Policy, Policy Brief, No. 202, September 12.
- Polish Ministry of Foreign Affairs (2014). *Polska EU 10*, Warsaw, Poland.
- Skorupska, A., Szczudlik-Tatar, J. (2014). *Regional Cooperation Key to Polish-Chinese Strategic Partnership*, The Polish Institute of International Affairs (PISM), Strategic File, No. 25 (61), November.
- Szczudlik, J. (2016a). *When the Silk Road meets the EU: towards a new era of Poland-China Relations?*, in Angela Stanzel, Agatha Kratz, Justyna Szczudlik & Dragan Pavličević, "China's investment in influence: the future of 16+1 cooperation", European Council on Foreign Relations, December 14.
- Szczudlik, J. (2016b). *Poland in China's Foreign Policy—Not Only Economic*, The Polish Institute of International Affairs (PISM), June 16, 38(888).
- Szczudlik, J. (2016c). *Poland on the Silk Road in Central Europe: To Become a Hub of Hubs*, in: Van der Putten, F.-P., Seaman, J., Huotari, M., Ekman, A., Otero-Iglesias, M. (editors), "Europe and China's New Silk Roads", pp. 45-48.
- Szczudlik, J. (2017). *Poland's Measured Approach to Chinese Investments*, in: Seaman, J., Huotari, M., Otero-Iglesias, M. (editors), "Chinese Investment in Europe – A Country-Level Approach", pp. 109-116.
- Szunomár, A. (editor) (2014). *Chinese Investments and Financial Engagement in Visegrad Countries: Myth or Reality?*, Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences, Visegrad Fund, Budapest.
- The World Bank (2017). *Connecting to Compete, Trade Logistics in the Global Economy*, The Logistics Performance Index and Its Indicators, Washington D.C.
- UNCTAD (2018). *World Investment Report 2018, Annex Tables*, available at: <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>.
- World Economic Forum (2017). *The Global Competitiveness Report 2017-2018*, Geneva.
- Yao, L. (2017). *China and Poland: Economic Cooperation under the 16+1 Formula*, Nouvelle Europe, 1 February, available at: <http://www.nouvelle-europe.eu/node/1960>.

Glossary

- 16+1: cooperation platform proposed by China in 2011, having as participants sixteen Central and Eastern European countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia), plus China.
- BRI: Belt and Road Initiative
- CEE: Central and Eastern Europe
- COVEC: China Overseas Engineering Group Co. Ltd.
- EU: European Union
- FDI: Foreign Direct Investment
- SEZ: Special Economic Zone.