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review paper

CHINA AND POLAND: ECONOMIC LINKAGES WITHIN THE COMPREHENSIVE STRATEGIC PARTNERSHIP

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Abstract: Poland is the largest economic, trade and investment partner of China in Central and Eastern Europe. In recent years, the comprehensive strategic partnership between China and Poland has developed steadily and made positive progress. Still, some problems persist in economic and trade cooperation, such as the expansion of Poland's trade deficit with China, the small scale of mutual investment, and the lack of awareness of China's SMEs on the Polish economy, trade and investment environment. This article begins with an analysis of the economic performance of Poland since its accession to the EU, then evaluates the development of China-Poland cooperation from the perspective of economic interaction in the fields of trade and investment, and aims to provide a useful reference for strengthening economic and trade cooperation with bilateral states.

Key words: China-Poland relations, trade, investment, cooperation between China with Central and Eastern European countries.

INTRODUCTION

On 7 October 1949, China and Poland established diplomatic relations at the ambassadorial level. In 2004, the two countries became "friendly partners" and became "strategic partners" in 2011. In 2016, with Chinese President Xi Jinping's state visit to Poland, the relationship between the two countries was upgraded to a "comprehensive strategic partnership" (Embassy PRC, 2016). Despite the recent Sino-US trade disputes affecting the friendly relations between China and

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Poland, it has not seriously affected the development of bilateral economic and trade relations. China and Poland, as important emerging markets of Asia and Europe, have continued to develop rapidly in economic, trade and investment cooperation. In the past 70 years since the establishment of diplomatic ties, China and Poland have steadily improved cooperation in various fields. Especially in the context of the drastic changes in world politics and the economy, the common interests of China and Poland are expanding.

According to data from the Polish Statistical Office (GUS), by 2018, China has become Poland's third-largest source of imports after Germany and Russia, accounting for 8.63% (GUS, 2018) of Poland's main source of imports. At the same time, Poland is also China's largest trading partner in Central and Eastern Europe. In 2018, China's imports from Poland reached US$ 3.644 billion, an increase of 8.7% over the previous year. In addition, China's investment in Poland has increased simultaneously. By the end of 2017, China's stock of direct investment in Poland was US$ 405 million, an increase of 26.2% from the previous year (Ministry of Commerce PRC, 2017).

In 2018, the FTSE Russell Index raised Poland from the emerging market economy to the developed economy.[2] According to the World Bank data, Poland's GDP grew by 5.1% in 2018, far higher than the average of 1.9% in the EU member states. (World Bank, 2018) The good prospect of economic development has also gradually made Poland the most attractive investment destination in Europe.

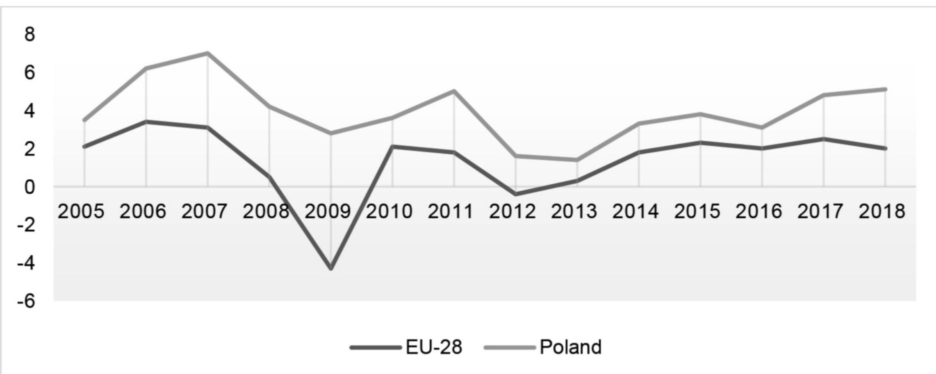
Therefore, in the context of the "Belt and Road Initiative" and China-Central and Eastern European Countries Cooperation Mechanism (referred to as the "16+1 Cooperation"), the Chinese government and enterprises are paying more attention to Poland's manufacturing base, labor force, the EU market and other advantages. So, what is the current status of economic and investment relations between China and Poland? What opportunities and challenges meet the Chinese government and enterprises in their economic and trade cooperation with Poland? Therefore, this paper aims to analyze the trade and investment relationship between China and Poland under the comprehensive strategic partnership in recent years.

[2] The FTSE Russell index's assessments relate to the regulatory environment, infrastructure and capital market quality, depository and clearing systems, and the status of derivatives markets. For such criteria, Poland has secure transactions and services, developed infrastructure. On 2 October 2018, the FTSE Russell Index upgraded Poland from the emerging market economy to the developed economy. Poland: The Journey to Developed Market Status, FTSE Russell Insights, available on https://content.ftserussell.com (last accessed on 18/04/2020)

TRADE AND INVESTMENT IN POLAND: AN OVERVIEW

After the collapse of the Soviet Union, joining the European Union was the goal of the political and economic transformation for all Central and Eastern European countries, including Poland. Since joining the European Union in 2004, Poland has benefited a lot from free trade, tariffs and EU economic policies. The most significant one is that it has greatly boosted its economic growth, and its GDP growth rate has remained above the EU average.

Figure 1. Comparison of GDP Growth Rates between Poland and EU Countries (Average) (2005-2018, %)

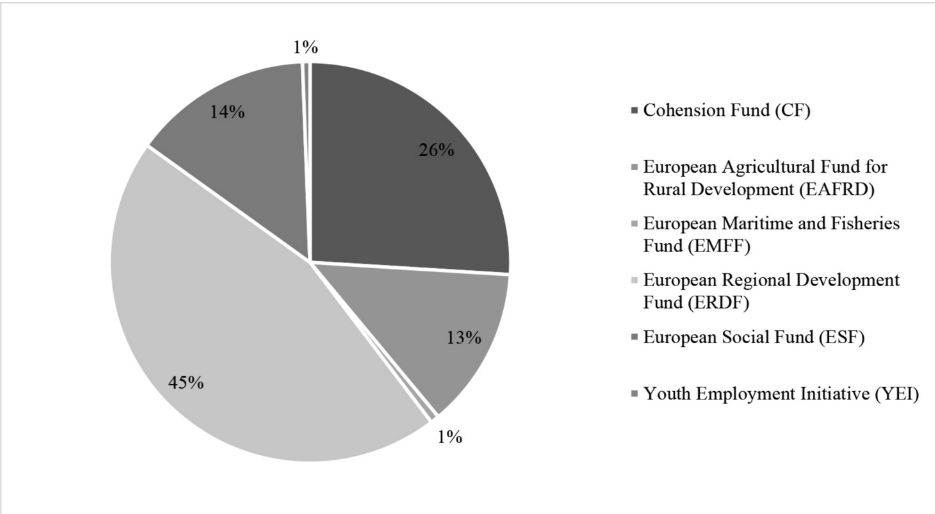


Source: Eurostat (2018). Statistics Poland, the data is counted by the author, available on https://ec.europa.eu/eurostat (last accessed on 12/04/2020)

The European Cohesion Policy, which aims to narrow the development gap between new and old member states, directly benefits the new member states of CEE, of which Poland is the largest beneficiary. The Cohesion Fund (CF), which accounts for one-third of the EU budget, is directly provided by the EU to the member states whose GDP per capita is less than 90% of the EU average. The operation of the Fund is composed of four levels: the European Commission, the governments of member states, local governments and interest groups at the transnational level.

The European Commission is responsible for the management and disbursement of funds; the relevant departments of each member state are responsible for the management of national structural funds; the various project management agencies under the recipient governments are responsible for specific project plans, applications, approvals, and fund disbursement. The structural fund is coordinated with the EU, member states and local governments, and constitutes a multi-level networked regional coordination mechanism. If we take the fiscal year 2007-2013 as an example, 10 new member countries received a total of EUR 178 billion in financial aid.

Figure 2. Distribution of the EU Structure and Investment Fund (ESIF) in Poland (2014-2020)

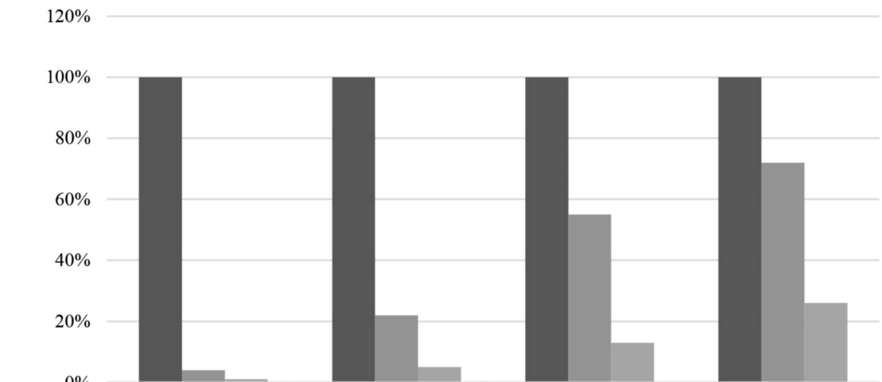


Source: The European Structural and Investment Funds (ESIF). 2020, Country: Poland, the data is counted by the author, available on https://cohesiondata.ec.europa.eu (last accessed on 12/04/2020)

In the period 2014-2020, the Cohesive Fund was incorporated into the EU Structural and Investment Fund (ESIF), while Poland received EUR 86.11 billion from the Fund, of which the most important parts were the Regional Development Fund (ERDF) and the Cohesive Fund (CF), accounting for 45.3% and 26% respectively (Figure 2).[3]

[3] The current Structure and Investment Fund (ESIF) is divided into six major projects: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD), the Youth Employment Initiative (YEI) and the European Maritime and Fisheries Fund (EMFF).

Figure 3. Usage of the EU Structure and Investment Fund (ESIF) in Poland (2015-2018, %)

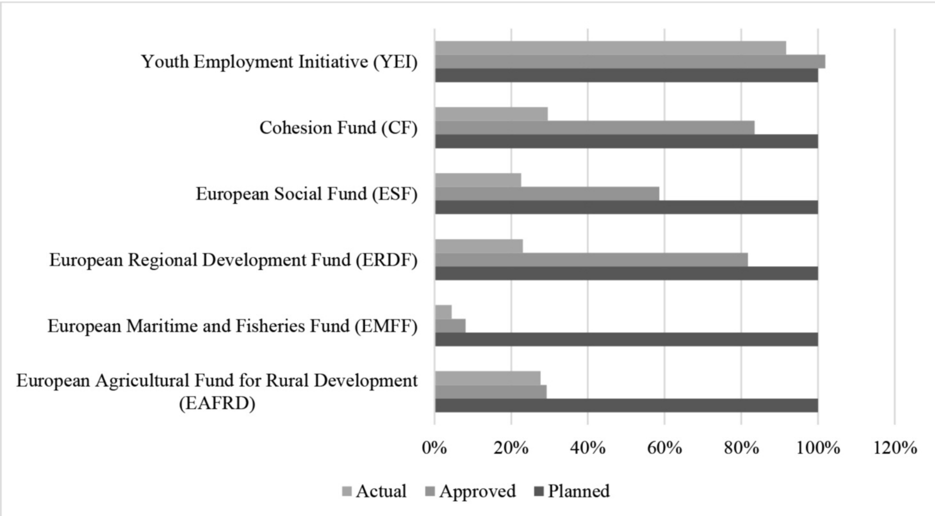


	2015	2016	2017	2018
Planned	100%	100%	100%	100%
Approved	4%	22%	55%	72%
Actual	1%	5%	13%	26%

Source: The European Structural and Investment Funds (ESIF). (2018), Country: Poland, the data is counted by the author, available on https://cohesiondata.ec.europa.eu (last accessed on 12/04/2020)

But according to the actual distribution and use of the above funds, since 2015, the amount of funds actually paid by the EU has been much smaller than planned. In 2018, the total expenditure of the ESIF Fund accounted for only 72% of the planned expenditure, and the final implementation amount only accounted for 26% of the plan (Figure 3).

Figure 4. Poland's Access to the EU Structural and Investment Funds (ESIF) in 2018 (%)



Source: The European Structural and Investment Funds (ESIF). 2018. Country: Poland, the data is counted by the author, available on https://cohesiondata.ec.europa.eu (last accessed on 12/04/2020)

In Poland, the decision expenditure of the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) accounted for 81.3% of the planned expenditure, while the final expenditure accounted for 23.05% and 23.52% of the planned expenditure respectively (Figure 4). Although according to the plan, Poland will receive support from the EU's cohesion policy, due to the European debt crisis and the sharp decline in the EU's overall budget, Poland's actual income is far from its commitments.

The reasons for the above status due to the following, first of all, the factors that affect the utilization rate of structural funds, exist at all stages of project management, especially in the selection and execution stages because there is a time lag between the selection and execution of projects by management agencies. Within the framework of the regional policy, the applicant for structural funds should be a member state or its region. After receiving the application for assistance, the European Commission must conduct a pre-evaluation of the applied projects or plans, the relevant agencies should investigate whether the applicant has the ability to operate the project, but the relative factors may have changed during this period. For instance, if the applicant's management team has changed, in this case, the applicant must provide relevant documents, which will undoubtedly reduce the efficiency of the structural fund.

Secondly, the EU stipulates that the use of structural funds must follow the "additional principle". Structural fund assistance is not a "free subsidy" to the member states, but only a supplementary financial means. The relevant member governments or local governments must provide corresponding matching funds for projects assisted by the structural funds. If they cannot afford it, the structural funds cannot be started. Although it helps to mobilize and enhance the enthusiasm and sense of responsibility of the member states or regions receiving aid, it establishes an effective accountability mechanism and improves the efficiency in the use of structural funds. However, on the other hand, once the member governments are financially tight and cannot afford the corresponding matching funds, the pre-allocated structural funds of the EU will not be used.

Thirdly, the EU's structural fund assistance implements the "reimbursement mechanism", which is also helpful to enhance the sense of responsibility of the beneficiaries. Before the reimbursement of funds conforming to EU regulations is received, the beneficiary needs to advance the funds that the EU has promised to assist within a certain period when the project starts to operate. However, the utilization rate of structural funds depends on the administrative capacity at the EU or national levels. For example, the project requires that the funds be repaid within 45 working days (Szabó, 2011). In addition, if the beneficiary's documents for reimbursement are incorrect, it must be rearranged, and the delayed date may cause some funds not to be paid, it may result in the beneficiaries not having sufficient funds to continue to operate, whilst decreasing the utilization rate of structural funds.

Therefore, with funding from the European Union likely to decrease after 2020, when a new EU budget goes into effect, the Polish government is looking for new sources of investment, and it would like to internationalize Polish companies and introduce them to Asian markets.

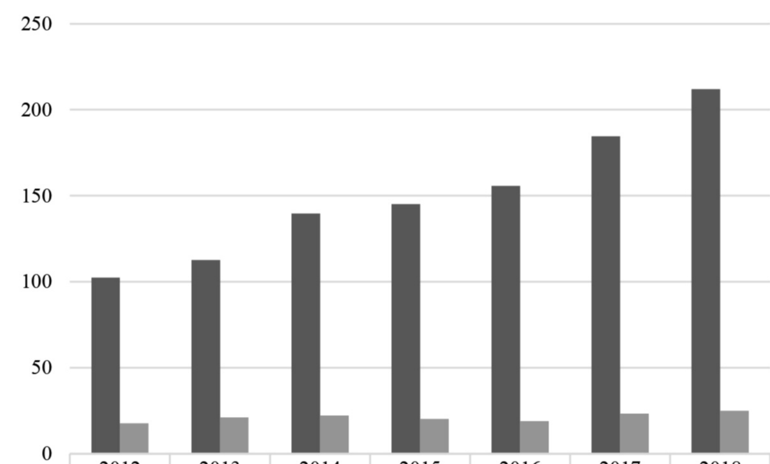
THE RISE OF CHINA-POLAND ECONOMIC RELATIONS

Starting from 1951, Chipolbrok (Chinese-Polish Joint Stock Shipping Company) is the first joint venture in the People's Republic of China (Wróbel, 2016, p. 5). Since entering the new era, the willingness to cooperate between China and Poland has prompted the exchange of visits between leaders in recent years, and the bilateral relations have upgraded to a comprehensive strategic partnership. The opportunities in the economy, trade and investment between the two countries are also expanding.

Trade

In recent years, the volume of trade between China and Poland has grown rapidly. Statistics from China's Ministry of Commerce show that in 2018, the total import and export volume of China and Poland was about US$ 24.524 billion, up 15.5%. China's export to Poland was US$ 20.879 billion, up 16.8%, while China's import to Poland was US$ 3.645 billion, up 8.7%. The BRI and the "16+1" mechanism have greatly promoted Poland's imports from China, but their effect on promoting exports to China is not significant. From 2012 to 2018, Poland's import share from China rose from 5.22% to 8%, while its export share to China remained at about 1%. As China's largest trading partner in Central and Eastern Europe, Poland's trade deficit with China increased from US$ 8.48 billion in 2012 to US$ 18.71 billion in 2018 (Ministry of Commerce PRC, 2019). The excessive trade deficit between China and Poland is becoming an important issue in the bilateral economic and trade relations.

Figure 5. Import and Export Trade between Poland and China (2012-2018, US$ 100 million)



	2012	2013	2014	2015	2016	2017	2018
Exports to PL	102,4	112,6	139,7	145,1	155,7	184,6	212
Imports from PL	17,6	21,2	22,3	20,2	19	23,3	24,9

Source: Ministry of Commerce of the People Republic of China. (2019). Country Trade Report, available on https://countryreport.mofcom.gov.cn, (last accessed on 12/04/2020)

Despite the large trade deficit, the cooperation between the two countries in the fields of food and agricultural products is still stable. Due to China's strict laws and regulations or ban on public health considerations, it is difficult to obtain Chinese food and agricultural market access permits. Poland has expanded its food exports to China by promoting institutional cooperation and using its industrial advantages to narrow the trade deficit with China. In 2015, China and Poland signed a quarantine protocol on the export of animals and animal-derived products to China (Suzhou Guidelines, Chapter VII, Article 4, 2015). It established fixed rules for Polish meat products to enter the Chinese market. Moreover, the Ministries of Agriculture of the two countries have also established a cooperative relationship and regularly hold meetings at the working group level. After several rounds of negotiations, dairy products from 71 companies in Poland, fishery products from 14 companies, meat products from 17 companies and milk-based infant formula from one company have obtained market access permits from China (Embassy of PRC, 2019).

Investment

In 2018, Chinese companies signed 52 contract projects in Poland, which amounted to US$ 259.346 million and the turnover was US$ 9.665 million. A total of 43 laborers was dispatched, and 79 laborers were employed in Poland at the end of 2018. Some large-scale engineering contracting projects include Shanghai Electric Power Construction Co., Ltd. to undertake the reconstruction of the Polish Rzeszów 750/400/110 kV substation and the installation of reactive power compensation equipment (Embassy of PRC, 2019).

China's investment in new energy and environmental protection in Poland is an example. In September 2014, the China-Central and Eastern Europe Investment Cooperation Fund invested 240 million zlotys in the purchase of 16% shares of Polish Energy Partners (PEP). In August 2016, China Everbright International Co., Ltd. acquired NOVAGO, Poland's largest solid waste treatment company, for EUR 123 million, including a share value of EUR 118 million and a land reserve of EUR 5 million. In addition, Chinese companies CRRC Zhuzhou Electric Locomotive Co., Ltd., Huawei, and TCL have invested in Poland. On the other hand, some companies in Poland also choose to invest in China, including KGHM, Bioton, Polfa Łódź, PZL Świdnik, Selena, Kopex, Fakro and Rafako.

Besides, numerous investment projects of the China-Central and Eastern Europe Investment Cooperation Fund have also settled in Poland. In the first phase of the fund, Poland became the biggest beneficiary, and about one-third of the projects were invested in Poland. The Grenoble wind power project in Poland is a typical representative of the investment project of the China-Central and Eastern Europe Investment Cooperation Fund. The original wholly-owned owner of the project is GEO Renewables, the largest independent wind power project developer in Poland. In 2014, the Fund transferred part of the Grenoble wind power project and formed a joint venture with Israel Enlight Renewable

Energy to invest in a wind power station (Huang and Liu 2017, p. 65). Moreover, in December 2014, the Export-Import Bank of China proposed an additional capital injection of US$1 billion for the fund. Currently, the fund has invested in several projects, such as in the table below.

Table 1. Partial Achievements of China's Investment Projects in Poland

Area	Investment Project	Year
Energy	Skyline Energy and the Grenoble Wind Power acquired a 50.1% stake in two premium wind farms, including the Grenoble Wind Power Station.	2014
	Invested PEP 2.4 billion zlotys in exchange for 16% of the company's shares.	2014
	Participated in the investment of the Polenergia Group wind power loan project.	2015
	Acquisition of the Zoborwy wind power project.	2015
Telecommunications	Investment telecommunications service builder Electronic Control System S.A.	2015
Biochemical medicine	Acquisition of a 13.2% stake in Bioton S.A.	2015
Manufacturing	Guangxi Liugong acquired the Engineering Machinery Division of HSW.	2012
	Hubei Tri-Ring Group acquired 89.15% of the shares of Polish KFLT.	2013
	China Haier teamed up with Fagor to build a refrigerator factory in Wroclaw, Poland.	2014
	Chinese LED manufacturers are stationed in the Walbrzych Special Economic Zone in Poland.	2016

Source: Huang Ping, Liu Zuokui, "The Cooperation between China and Central & Eastern European Countries (16+1) 2012- 2017", *CASS Report on China-CEEC Cooperation*, Social Sciences Academic Press, Beijing, p. 65, 2017.

At the same time, some Chinese-funded enterprises began to try to invest in Poland through mergers and acquisitions, holdings, or other means. For example, Liugong Group has acquired ZNN, a construction machinery business unit, and a core parts factory under the HSW Company in Poland. Since the beginning of the merger, Liugong Poland has concentrated on three aspects of work: first, cultural integration, which eliminates the inherent culture formed by the HSW's

75-year history and integrates the differences in the way of thinking among Chinese and Polish employees; Second is organizational restructuring, which breaks barriers between multiple independent accounting units within the HSW while improving communication and administrative efficiency; Third is cost optimization when signing the acquisition agreement. Liugong signed a social security-related agreement with five trade union organizations within the company to ensure that personnel optimization can be completed in the later period. At the same time, Liugong Poland attaches great importance to fulfilling local social responsibilities and providing assistance to local cultural bureaus, museums, nursing homes and orphanages.

Financial Cooperation

The cooperation between Poland and China in the financial sector is mainly concentrated in the following aspects. First, China's commercial banks opened several branches in Poland. The Bank of China (BOC), the Industrial and Commercial Bank of China (ICBC) and China Construction Bank (CCB) established branches in Warsaw, Poland, to engage in the financial business. Second, in terms of financial laws and regulations, according to the Suzhou Guidelines in 2015, the China Banking Regulatory Commission (CBRC) and the Polish Financial Supervision Authority (KNF) signed a memorandum of understanding on bank supervision cooperation. Third, China and the Central and Eastern European countries have not cooperated much in the bond market in promoting the internationalization of the RMB. Currently, only Poland and Hungary have cooperated with China. Poland is the first European country to issue "Panda Bonds". On 20 June 2016, the Bank of China and the Polish Ministry of Finance signed a memorandum of cooperation on the issuance of panda bonds. As one of the lead underwriters, the BOC assisted the Polish Ministry of Finance in registering and issuing panda bonds. The issuance scale was 3 billion yuan, with a term of 3 years and an interest rate of 3.40%. The issuance of panda bonds was the first time the Polish government issued RMB-denominated government bonds, and it was the first sovereign country in Europe to enter the Chinese mainland to issue panda bonds. At the same time, China also opened its financial market to Poland, and the National Bank of Poland entered the Chinese interbank bond market in the name of an overseas central bank.

In addition, Poland sought to join the Asian Infrastructure Investment Bank (AIIB) as a founding member. Polish Finance Minister Paweł Szałamacha said during a visit to Poland by Jin Liqun, president of the AIIB, in May 2016 that Poland hoped to establish a representative office of the AIIB in Central and Eastern Europe, and stressed that membership of the AIIB and closer cooperation with China were very important for Poland to realize its own economic strategy (Ministerstwo Finansów, 2016). As a founding member of the AIIB, Poland actively participated in the preparation and operation of the Asian Infrastructure Investment Bank. Moreover, as one of the 57 founding members, Poland was the only founding member of the Central and Eastern European countries. On 25 August 2015, Poland's Council of Ministers (RMP) approved the agreement between Poland and China to join the Asian Infrastructure Investment Bank. Poland contributed about US$ 830 million, accounting for about 0.83% of the total AIIB capital (AIIB, 2016).

Poland aims to strengthen its participation in the construction of the BRI by joining the AIIB. It can further gain access to Asian infrastructure markets, especially for non-Asian enterprises. As a typical example of cooperation between China and Poland, China initiated the establishment of the AIIB, which aims to broaden financing channels, expand aggregate demand, and promote regional common development. In addition to actively joining the AIIB, Poland also actively participates in financial cooperation under the "16+1 Cooperation" mechanism. For example, Poland contributed EUR 300 million to participate in the China-CEE Fund and 16+1 Financial Co., Ltd., which is the largest contributor among the CEE countries (CCEE ICF, 2018).

Interconnection

The China Railway Express is an essential way for China to connect with Europe. A focus on cooperation projects in such areas as infrastructure is one of the 12 measures to promoting friendly cooperation with the Central and Eastern European countries (China's Ministry of Foreign Affairs, 2012). "Connectivity" has also been officially included in the Budapest Guideline (2017).

Poland attaches importance to its position as a hub in China-Europe transportation and logistics, and actively promotes the development of China-Europe freight trains. In April 2013, Chengdu started an international railway freight train (Rong'ou Express Train) to Łódż, Poland, with transportation time of about 12 days. The goods were distributed to the various European regions within 3 days after arriving in Łódż from Chengdu. The Rong'ou Express Train starts from the Chengdu Qingbaijiang Container Center Station. The domestic section is 3,511 kilometers from Baoji and Lanzhou to the Dzungarian Gate in Xinjiang. The international section is 9,826 kilometers long from the Dzungarian Gate through Kazakhstan, Russia, Belarus and other countries to Poland's Łódż Station. In September 2015, the first cargo return train arrived in Chengdu, which marked the official two-way operation of the Rong'ou Express Train.

At present, the Rong'ou Express Train has become the largest and most stable trade and logistics channel between Asia and Europe. In 2017, 1,012 trains were operated, accounting for a quarter of the 35 cities nationwide (Xie 2018, p. 36). According to the governor of Łódż Voivodeship of Poland, Witold Stępień, the Rong'ou Express Train has realized "three full returns for every five trips", and the freight balance is expected to be realized as soon as possible (Kamiński 2019, p. 227). The Rong'ou Express Train is a successful example of the China Railway Express and a landmark project of China-Poland cooperation in the context of the BRI. After the connection between Chengdu and Łódż, the end of the line in China also extended to the Xiamen Pilot Free Trade Zone. The endpoint in Poland also extended from Łódż to the Łódż Special Economic Zone and Kutno. It takes only three days to transfer the goods to the European capitals (Yao 2018, p. 65).

As one of the crucial reasons for Poland's active cooperation with China is that its own development strategy is highly compatible with China's initiative, i.e., the "16+1" and the "Belt and Road". In February 2016, Polish Prime Minister Mateusz Morawiecki made a "Sustainable Development Plan" for Poland's economic development in the next 25 years, which consists of five pillars, with strengthening Polish capital, large investments, supporting innovation, the digital revolution, and better-paid jobs (SDP, 2016). According to the plan, the Polish government unveils 1 trillion zlotys by 2040 to strengthen the innovative capabilities of Polish enterprises and their competitiveness in the international market. The investment will be used in 20 large projects in infrastructure and industry, focusing on supporting the development of innovative industries and helping Poland to participate more actively in global cooperation (SDP, 2016).

Similarly, in *Poland Foreign Policy Priority 2012-2016*, Poland regards its ambitions as an essential member state in the EU with its global competitiveness and influence (MSZ 2012, pp. 1-2). Therefore, Poland has put forward "strong Poland in a Strong Union" in terms to actively promote cooperation with non-EU countries (MSZ 2012, pp. 1-2). Moreover, the document emphasizes that China has become one of the rising actors in the FDI global game. Poland and China particularly declared activities promoting cooperation within the Polish Plan for Responsible Development and the Chinese "Belt and Road Initiative" (Xinhua, 2016). For example, it can expand exports to China by strengthening infrastructure interconnection, or further attracting Chinese investment through the establishment of special economic zones and industrial parks, thereby promoting the construction of the transportation infrastructure such as roads, high-speed rails and international ports in Poland and even in Central and Eastern Europe. In addition, such measures as the China-EU railway express and financial cooperation are highly consistent with Poland's objectives of re-industrialization and expansion of international competitiveness.

Following the first China-CEE leaders' meeting held in Warsaw in 2012, Poland established two multilateral business promotion agencies in 2014, namely, the China-CEE Joint Chamber of Commerce established by the Polish Agency for Enterprise Development (PARP) and the China-CEE Investment Promotion Agency Contact Mechanism led by the Polish Investment and Trade Agency (PAIH). In April 2015, the first meeting of the China-CEEC Joint Chamber of Commerce was held in Katowice, Poland. In October of the same year, the sixth meeting of national coordinators for China-CEE cooperation was held in Warsaw, Poland. Besides, Poland has also assumed the China-CEEC Coordinating Secretariat for Maritime Issue to promote China-CEE maritime cooperation in the Baltic, Adriatic and the Black Sea regions (State Council PRC, 2017).

Poland has also made multi-level institutional arrangements, for example, the Polish Information and Foreign Investment Agency (PAIiIZ) launched the "Go China" project and the Polish-Chinese Economic Cooperation Center. Poland's embassy in China has put forward a representative post in the Ministry of Agriculture and Rural Development. The Polish government has specially established an inter-departmental committee to coordinate the development of the Polish-Chinese strategic partnership. Poland's Ministry of Investment and Development (PMIR) has set up a working group on local cooperation between Poland and China.

LIMITATIONS AND PROSPECTS

In recent years, trade and investment between Poland and China have been continuously developing, especially after China and Poland have reached a comprehensive strategic partnership. China and Poland are paying more attention to each other's markets and capital. At the same time, Chinese enterprises have gradually realized Poland's dominant position in logistics and transportation, infrastructure and other aspects, and its bridgehead role as the Chinese capital entering the EU. But with the rapid development of economic and trade relations, in recent years, the friction between China and Poland in the field of economy and trade is also prominent. In addition, as China's investment in various fields in Poland has increased significantly, it has also attracted the attention of the Polish government, external powers and organizations (including the European Union).

Growing Implications in Sino-Poland Relations

As with most Central and Eastern European countries, Poland's economic cooperation with China remains underdeveloped. One of the most important problems in the current Sino-Polish relationship is that Poland's trade deficit with China is constantly expanding, and the scale of mutual investment between China and Poland is still small. Despite cooperation mechanisms such as the BRI or "16+1" have greatly promoted the development of bilateral economic and trade relations and investment relations, the effect is not significant, and there is still a clear gap between the two sides' expectations at the beginning of the establishment of the cooperation mechanism, especially in Poland, where disappointment has increased in recent years.

The large gap between the economies of China and Poland is an essential reason for such an issue. China's GDP is about 8 times that of the 16 Central and Eastern European countries in total and 22 times that of Poland (World Bank, 2018). The gap in an economic aggregate does not necessarily affect the establishment of friendly relations. It will certainly affect the degree and scale of economic and trade cooperation between the two sides. Also, China and Poland and other Central and Eastern European countries have relatively weak economic complementarity and are not major trading partners with each other. For instance, China is not one of Poland's major export destinations, while China ranked third after Germany and Russia in its major importing countries (GUS, 2018).[4] On the other hand, Poland is not one of the major countries in China's both import and export trade. Among China's trading partners in Europe, Poland is the 9th largest exporter, but its export volume is about 1/5 of Germany. Poland ranks 10th among the import partners, with the import volume only 1/32 of Germany (GUS 2018; Ministry of Commerce 2018).

China's investment in the Polish market is also developing rapidly, but the investment barriers it encountered are becoming the focus of the Chinese government and enterprises. As the only European country that maintains positive economic growth during the economic crisis, Poland has abundant capital, and the main purpose of attracting Chinese investment is to acquire advanced technology to promote the process of re-industrialization. However, Poland prefers China to invest in Greenfield rather than acquisitions and mergers, especially to avoid over-reliance on Chinese capital. In recent years, Chinese enterprises have significantly increased their investment in infrastructure in Poland. However, the twists and turns in the past cases of China's A2 highway and the Budapest–Belgrade railway project have also made Poland more cautious in its investment cooperation with China. For example, the recent inability of the China Railway Express to obtain investment in the Małaszewicze region was also affected.

The same example is the logistics park to be built in Poland's Łódż Voivodeship. Former Prime Minister Beata Szydło, who led the government from 2015 to 2017, seemed to be quite optimistic about the cooperation with China, but she encountered some opposition from the members of her Cabinet. For example, then-Minister of National Defense Antoni Macierewicz was known to

[4] According to the latest data from Poland's Central Statistical Office (GUS) in 2018, the top three export target countries of Poland are Germany, Britain and the Czech Republic respectively.

be worried about Chinese plans to develop logistics hubs in Poland. In a 2015 interview, just before he became defense minister, he expressed concern that China's Belt and Road Initiative could pose a danger for Polish sovereignty. Two years later, the Ministry of National Defense, under his leadership, declined to sell a plot of government-owned land to the Polish container shipping company Hatrans, which wanted to build a logistics hub near Lodz. But due to the questioned implementation of the agreement between China and Poland, a communication (mainly the rail) hub is being created, not in Łódż as was initially intended, but in the nearby city of Kutno (Góralczyk 2017, p. 160).

In recent years, the number of new economic cooperation achievements between China and Poland is less significant than that of previous years, so they focus more on promoting the implementation of previous cooperation commitments. However, due to the expectation of the two sides for the cooperation outcomes, the decrease of economic cooperation highlights has affected their enthusiasm for participation to some extent. As the largest country in Central and Eastern Europe with a great impact in the region, China-Poland cooperation may remain crucial to the "16+1 cooperation". Such a phenomenon poses a challenge to China's engagement with partner countries' expectations and proper handling of bilateral relations.

Presence of the External Powers

External factors such as the current Sino-US trade dispute and the EU's doubts about the "16+1 cooperation" pose potential risks to the economic and trade cooperation between China and Poland.

In the context of the Sino-US trade disputes, economic and trade cooperation between China and Poland has also been affected. For example, in early 2019, after the arrest of Huawei's local authorities, Poland set off a contradiction between the two countries. As Huawei has been accused by many countries of collecting intelligence for the CPC in recent years, it has been boycotted by countries including the United States. The European Commission and the Czech government have also publicly announced the banning of Huawei equipment. The Polish government may adopt amendments to restrict the products produced by Chinese IT companies.

In terms of pressure from U.S. officials, many European countries are considering banning Huawei equipment. U.S. Secretary of State Mike Pompeo said that the U.S. believed Huawei's equipment contained a back-door that China could use for espionage activities. Once Huawei equipment appears in the international network, it will damage the cooperation relationship between the United States and other countries (AP News, 2019). In December, Poland's

Ministry of Foreign Affairs released a statement of concern about cases of cyberespionage, singling out China. It was several weeks later that Wang and Durbajlo were arrested and charged with espionage.

Some Polish experts and commentators see this case as a sign that Poland is openly siding with the strategy of its ally, the United States, which is hoping to exclude Chinese 5G equipment manufacturers from entering European markets. There has indeed been a shift in Poland's stance related to cybersecurity and telecommunication toward a more cautious approach vis-a-vis China, but so far this shift has not spilled over into broader economic ties. For example, freight trade between Lodz and Chengdu is proceeding as usual, and plans to further develop the logistic links are moving forward. We will need to wait for more information from prosecutors on the evidence against Wang and Durbajlo and whether the allegations are reasonable. That will shape China's response and determine whether there will be a broader backlash affecting the bilateral relationship.

At the same time, the cooperation between China and Poland is also doubted by the EU. A study by the EU Council on Foreign Relations compared the attitudes of the EU member states towards China before and after the 2008 crisis. It showed that Poland was "an established industrialist" before the crisis. After the crisis, the EU was divided into "frustrated market-openers" and "cash-strapped deal-seekers" with Poland in between (Godement, Parello-Plesner, Richard, 2011, p. 9). Poland's economic attitude towards China shows that Poland hopes to reach more deals with China rather than confronting China on issues such as the market economy status. But this comparative study reflects the considerable anxiety of the EU. The EU argues that the member states on Europe's periphery that had long considered China's market with caution and feared dumping by China's low-cost producers now see China as a complement or even an alternative to the European or IMF loans (Godement et al., 2011 p. 8).

In addition, the EU's skepticism about the "16+1" mechanism has not yet been eliminated. The EU is concerned that the trade and investment agreements reached between the Central and Eastern European member states and China violate relevant EU laws and regulations. It is even more worried that the close relationship with China will weaken the EU's influence on the Central and Eastern European countries and make it difficult to form a unified China policy stance. For example, at the beginning of 2019, the European Commission and HR/VP contribution to the European Council (2019) released *EU-China: A Strategic Outlook*. In this report, it argues China as a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance.

At present, the problems existing in China-EU relations have increasingly become the most important influence variables affecting the "16+1 cooperation" and the bilateral relationship between China and Poland. The current protectionism prevailing in Europe has intensified the investment review of China and affected China's investment in Europe. To this end, the EU's tendency has also affected how Poland chooses to cooperate with China. For example, Poland needs to consider whether it is consistent with the EU in terms of investment protection and trade fairness and reciprocity. In addition, the EU has doubts about investments from China's sovereign wealth funds and state-controlled enterprises, it argues that these investments lack openness and transparency, and is worried that the Chinese government will seek to control its target industries, especially strategic industries through these investments, thus threatening its economic security. At the same time, the increasingly close Sino-Russian relations and Poland's accelerating "anti-Russia" movement have also made Poland wary of cooperation with China.

Non-correspondence to Mindset in Legislative

As an EU member state, Poland must abide by EU law, and the EU's economic legal system is particularly complicated and cumbersome. There are not only detailed economic and trade laws but also laws on labor, environment, government procurement, anti-monopoly, anti-dumping. If a Chinese company contracts a project in Poland and needs EU approval, it must act in accordance with EU law and the two sets of legal systems in the host country (Zhang X.W. and Zhang L.H., 2017, p. 81).

In addition, projects in China and Poland are also at risk of under-recognition of contract terms. In 2009, China Railway Group, Shanghai Construction Group (SCG) and the Polish local company consortium successfully won the Polish A2 highway project at a price lower than half the budget of the owner. The contract signed was strict for the contractor, and the tender contract was based on the Fédération Internationale Des lngénieurs Conseils (FIDIC), which is commonly used in international engineering tenders. However, compared to the standard contract, the project contract removes the terms favorable to the contractor. The Chinese side was eager to win the project and signed a contract with the other party without knowing the terms and conditions. Before the start of the project, the owner did not advance the start-up funds. Due to the low bid price and the unexpected difficulties encountered during the construction process, the project was seriously insufficient. The Chinese asked the owners to properly raise the project funds and was rejected by the other party. In the end, China took the initiative to withdraw due to the shortage of funds and was unable to complete the work on time. As a matter of fact, the other owner's failure to advance the start-up capital and increase the project funds obviously violates FIDIC, which is commonly used in international project bidding. However, due to the cancellation of these clauses to protect the contractor in the contract, Chinese enterprises are unable to fight for their rights and interests and suffer serious economic losses (Wu, 2015, pp. 50).

At the same time, Chinese enterprises also need to encounter the problem of higher operating costs caused by the change of Polish laws. For example, under the existing Polish Retail Tax Act, retailers are taxed on income derived from their retail sales, i.e., income derived from the sale of goods to customers, but this does not currently apply to e-commerce sales.[5] Therefore, it means that enterprises such as Alibaba will also confront the problem of a tax rate increase when selling online to Poland, which also increases hidden costs for operators and consumers.

CONCLUSION

Although China is currently expecting growing trade and investment cooperation with Poland, there are still a lot of obstacles to the partnership between China and Poland. For example, the expectations, the extraterritorial powers (or organizations) and Poland's unclear strategy towards China. At the same time, Chinese enterprises are still not familiar with the Polish investment mechanism or policies, and the overseas investment system and regulations need to be improved. The above obstacles not only affect the rapid growth of Chinese economic cooperation and trade investment in Poland but also impact the long-term development of China-Poland relations.

The trade deficit between China and Poland is a common phenomenon in the bilateral trade between China and most of the CEE countries, which is a structural problem in trade between China and the CEE countries. Poland's exports are mainly aimed at the EU market, i.e., Germany. Poland exports raw materials to Germany and Germany exports its manufactured products to China. In fact, the exports of the Central and Eastern European countries to China are underestimated. Poland's automobile, electronics, machinery and equipment manufacturing industry are well developed, and their exports account for about 80% of the country's total exports (GUS, 2018). The main market for these products is Germany. Poland has been deeply integrated into the supply chain of Germany, Poland and China. A large number of Polish products are actually exported to China under the trademark of Germany[6].

[5] Ustawa z dnia 6 lipca 2016 r. o podatku od sprzedaży detalicznej, Sejm Dz.U. 2016 poz. 1155.

[6] According to the interview with Professor Dominik Mierzejewski from the University of Lodz (Poland).

At the same time, the global industrial chain is increasingly complex, diversified and highly integrated, the geographical nature of products is becoming less obvious, the added value of products caused by the flow of industrial chain is constantly changing. In fact, it is difficult to fully reflect the trade relationship between the two countries only from the trade deficit data. At present, both China and Poland hope to obtain greater economic benefits from cooperation. Therefore, for China, it is necessary to implement various agreements reached with relevant parties in Poland in the future, the relevant departments in China need to prudent study and implement the agreements on cooperation, especially paying attention to some problems in the process.

First, Poland, as an EU member state, is different from China in legal and social systems. When developing investment relations with Poland, China should pay attention to the study of relevant EU laws and regulations. This requires a comprehensive understanding of Polish domestic law and European Union law, with directives and rules as the most important tools for dealing with Polish parties. On the other hand, the relevant legal system is also the most powerful tool for Chinese enterprises and individuals to safeguard their interests. In the process of carrying out relevant trade and investment activities, China should act in accordance with its legal provisions. In case of conflicts and disputes, it is the most reliable method to resort to law to safeguard rights and interests.

Second, China should develop industries that complement Poland's advantages and look for key areas. This requires relevant domestic parties, including government departments and think tanks, to jointly conduct in-depth research on the Polish market, industry and make their own judgments. At present, the service industry can be a major area of cooperation between China and Poland. The trade in services has a high added value, such as communication and information technology services, innovative industries, consulting, scientific and technological research and development, tourism and other fields.

Third, there is still a lack of support for SMEs and private enterprises in promoting cooperation between Chinese domestic and overseas enterprises. Due to ideological and social cognitive reasons, China's large state-owned enterprises encounter obstacles sometimes when investing in the Central and Eastern European countries such as Poland. According to the Polish Investment and Trade Agency (PAIH), Poland affords preferential treatment to investors in the development of small and medium-sized enterprises at the national and local levels, such as eliminating minimum employment creation limit, setting up investment subsidies and tax incentives, etc.

Fourth, the one-sided trade and investment between China and Poland (mainly the flow of Chinese products and capital to Poland) is a structural issue, which is difficult to convert in the short term. Poland also needs to enhance the competitiveness of its own enterprises and products in China. At the same time, Chinese enterprises should also pay attention to innovation to gain a foothold in the Polish market.

In June 2016, China and Poland upgraded strategic partnership to a comprehensive strategic partnership to further deepen China-Poland cooperation. Moreover, the substantial cooperation between China and Poland is still in the field of the economy and trade, especially based on the huge differences in the international legal status, values, positions, preferences for actions, etc. At present, the cooperation between the two sides in the non-economic, trade or investment fields is mostly in plans or intentions. Therefore, China and Poland should strengthen economic, trade and investment cooperation as the main direction in the future, while promoting fair cooperation and growth of flow and quality for mutual benefit and common prosperity.

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KINA I POLJSKA: EKONOMSKE VEZE U OKVIRU SVEOBUHVATNOG STRATEŠKOG PARTNERSTVA

Apstrakt: Poljska je najveći privredni, trgovinski i investicioni partner Kine u Srednjoj i Istočnoj Evropi. Poslednjih godina, kinesko-poljsko sveobuhvatno strateško partnerstvo se postojano razvijalo i ostvaren je pozitivan napredak. Ipak, neki problemi i dalje postoje u privrednoj i trgovinskoj saradnji, poput povećanja poljskog trgovinskog deficita sa Kinom, malog obima uzajamnih ulaganja i nedostatka svesti o kineskim malim i srednjim preduzećima u poljskoj ekonomiji, trgovini i investicionom okruženju. Ovaj članak započinje analizom ekonomskih performansi Poljske počev od njenog pristupanja EU, zatim procenjuje razvoj kinesko-poljskih ekonomskih odnosa u oblastima trgovine i investicija, i pokušava da pruži korisne preporuke za jačanje ekonomske i trgovinske saradnje u bilateralnim odnosima.

Ključne reči: kinesko-poljski odnosi, trgovina, investicije, saradnja Kine sa zemljama Centralne i Istočne Evrope.

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