

# POLAND AND THE EU: SEEKING A TWO-WAY STREET WITH CHINA

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The Yalta system, the “Iron Curtain” and membership in the Warsaw Pact, situated Poland as the borderland state at the crux of two hostile camps. Political changes in 1989 opened the possibility of establishing normal relations with Western European countries, and the breakthrough was June 1, 2004, when Poland joined the European Union.

Membership in the EU had a huge impact not only on our relations with Western and Eastern Europe, but also with non-European countries. Poland became a part of the common European market and it has gained the ability to participate in decision concerning European affairs. The West was opened to Polish exports and Poland to Western products and

services. The entry into the EU set the optics of Polish foreign and economic policy. Relations with the EU, its members and the US became priorities for the Polish government. For many years, relations with most non-European countries outside the US were not given enough attention, and if they were, they were often chaotic, without a long-term perspective and consistent implementation.



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**WARSAW, POLAND, SEPTEMBER 4, 2017. VICE-CHAIRMAN OF THE NATIONAL COMMITTEE OF THE CHINESE PEOPLE'S POLITICAL CONSULTATIVE CONFERENCE (CPPCC) MA BIAO AND MARSHAL OF THE SENATE STANISŁAW KARZEWSKI BEFORE A MEETING IN THE SENATE OF THE REPUBLIC OF POLAND.**

### **WHAT IS POLAND'S RELATIONSHIP WITH CHINA?**

The question of how sustainable and long-term relations between Poland and China should be shaped unfortunately remains an open one. Our country still lacks a consistently implemented long-term and accurate strategy for

the development of foreign policy, including economic policy towards China. The key elements of such a policy should be based on consensus between the main political parties. It is not possible to pursue far-reaching political and economic goals towards foreign partners, if after every election, and

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even more often, the governmental team is reshuffled or replaced, and the key elements of Polish foreign policy (just the declarations) are changed. Some issues, such as trade policy, including customs and market protection and the negotiating of an agreement on the mutual protection of investments, have been transferred to joint EU bodies. However, the significant great majority of prerogatives connected with running foreign policy are still in the hands of Poland. Relations with China are a reflection of wider problems of Polish foreign policy towards non-European partners.

In the first phase of their governance, the Civic Platform (PO) and Polish People's Party (PSL), maintained a cautious stance towards developing cooperation with China. In 2008, despite strong pressure from Beijing, Prime Minister Donald Tusk met with the Dalai Lama, and earlier, the Minister of Foreign Affairs Radosław Sikorski, pointed to the need to press China on human rights. The cautious distance in political relations had no effect on economic relations. Trade with China grew dramatically, but the increase in imports far outpaced export growth. This trend was not unique to Poland. The situation was similar in other Central and Eastern European countries. The most substantial increase in trade with China was recorded by the Czech Republic during the presidency of Vaclav

Havel, who openly raised the issue of human rights violations in the Middle Kingdom.

The second term of PO-PSL governance marked the beginning of an intensification of economic cooperation and a warming of political relations. In 2011, President Bronisław Komorowski signed a strategic partnership agreement during his visit to China. Deputy Prime Minister Waldemar Pawlak was already a supporter of the revival of cooperation with China in the first years of the coalition government. In 2012, under his patronage, the Go China program was launched. The issues of China's violation of human rights and threats from the authoritarian regime in Beijing to the world of liberal democracy were strongly downplayed in the rhetoric of the Polish authorities. Emphasis was placed on pragmatic economic interests, but the political rapprochement with China and change in rhetoric did not result in a strong enough growth in exports that would compensate for the increase in imports in terms of value. Chinese investments in Poland did not take off either.

### UNSOLVABLE DIFFICULTIES?

Initially, the Law and Justice (PiS) government continued PO's policy towards China, but with greater involvement and enthusiasm. The visit of Andrzej Duda in China in 2015 and then Xi Jinping in Poland the following year, were to open a new chapter in relations between Warsaw and Beijing and create new economic opportunities for Polish exporters. However, the visit of Prime Minister Beata Szydło to Beijing in May 2017 during a forum devoted to the Belt and Road Initiative (BRI), despite meetings with the President of the PRC, Xi Jinping and Prime Minister Li Keqiang, did not bring any significant economic agreements. The pace of

cooperation at the government level has begun to slow down, weakening hopes for significant benefits from cooperation with Chinese partners. At the end of last year, current Prime Minister Mateusz Morawiecki declared that economic relations with China are difficult, and the Chinese market is hermetic and closed.

The inconsistency of policy towards China results from differences in the goals and methods of conducting foreign policy by individual political parties and factions within the parties, as well as the lack of cross-party agreement regarding the main principles governing relations with Beijing. The discrepancy between the expectations related to cooperation with China and their effects, results from insufficient consideration by some decision-makers in Poland of the goals and priorities pursued by the Communist Party of China (CPC). China's rapid economic development, huge share in global trade, technological development, emergence as one of the world's leading investors and bold economic initiatives, obscure the fact that we are dealing with an authoritarian regime that pursues its goals, often at odds with the goals of potential partners.

The Chinese economic system, known as state capitalism, or a Market-Leninism model, gives Chinese party leaders the opportunity to control the economy at the central level and, in recent years, also more and more effectively, at the local and individual enterprise level. This was especially apparent after 2013, when the fifth generation of rulers under the leadership of Xi Jinping took power in China. The CPC has increasingly effective mechanisms for interfering in the economic life and business decisions of individual enterprises, and the possibility of subordinating their activities to party strategy and ideology.

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Currently, China is implementing its Made in China 2025 program, as well as many other similar projects aimed at modernizing the industrial base and implementing modern technologies. The latter will be supposed to maintain the competitiveness of domestic industry, both on the domestic market and on foreign markets. There is also often a lack of reflection that despite many advantages, Poland is at best a secondary partner to the Chinese government, mostly due to its limited possibilities for negotiating terms of cooperation.

Beijing is both playing the role of a leading defender of globalization and free trade, while at the same time making it difficult for foreign companies and products to access China's own market through formal and informal barriers. Forcing foreign enterprises to

sign joint venture agreements with a majority share held by a Chinese partner, forcing technology transfer to companies located in China, preventing or hindering participation in public tenders to Wholly Foreign-Owned Enterprises (WFOE) or companies with foreign capital, these are just some of the elements blocking the development of foreign companies in China. At the same time, the Chinese authorities support Chinese enterprises by means of various forms of subsidies and legal regulations as well as actual actions, that give them an unfair competitive advantage on the domestic market. The special requirements imposed on imported products and services (in fact, some of them are not applied to Chinese producers) or limits in access to the market for specific groups of foreign products, constitute an additional barrier. There is great hope in the transformation of China's economy from an investment model to a consumer model. One should be however aware that the increase in internal consumption does not mean that the authorities are willing to accept a significant increase in imports. In the food sector where the Polish government sees the competitiveness of Polish producers, the Chinese authorities have implemented a number of programs focused on increasing the efficiency of agriculture and at the same time the competitiveness of the domestic processing industry.

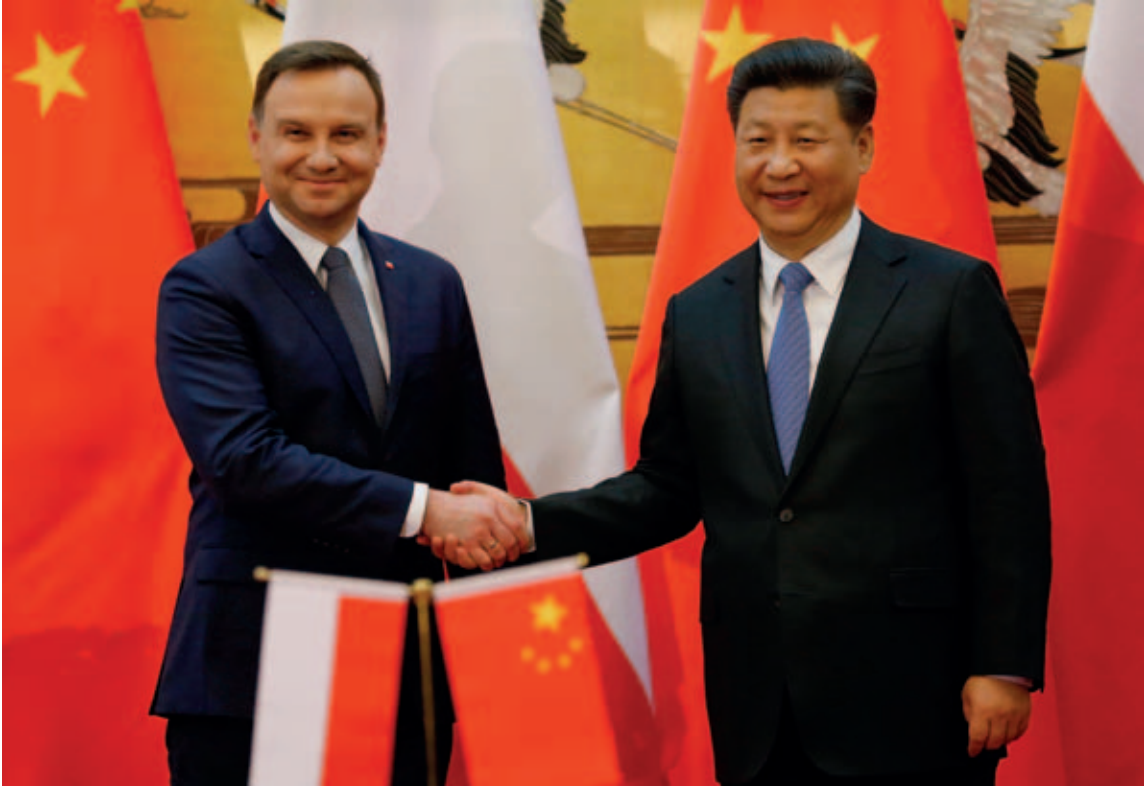
### **THE BELT AND ROAD INITIATIVE**

Poland was one of the countries that quite enthusiastically adopted the Belt and Road Initiative (BRI) announced in 2013. The Belt and Road Initiative is said to serve the development of economic cooperation between states through the creation of a network of economic links between them, through the coordination of the strategic development plans of

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**BEIJING, CHINA, NOVEMBER 25, 2015. PRESIDENT OF POLAND ANDRZEJ DUDA (LEFT) AND PRESIDENT OF CHINA XI JINPING (RIGHT) SHAKE HANDS AFTER A SIGNING CEREMONY FOLLOWING THEIR MEETING AT THE GREAT HALL OF THE PEOPLE.**

relations through cultural and academic exchange.

The authorities in Warsaw were counting on this initiative and Polish activity to grow Polish exports, decrease the trade deficit. They also hoped for Chinese investments to flow to Poland. Chinese companies are interested in participating in infrastructure projects in Poland, but more as contractors, not as investors who are responsible for their market success, and derive profits from current operating revenues. The export of infrastructure construction services was one of the objectives of the BRI, which would create an outlet for Chinese overproduction and at the same time allow state enterprises to survive the transformation period. Chinese companies are bidding for contracts in Poland, competing with

domestic Polish enterprises or Polish branches of foreign companies, while Polish companies do not have similar opportunities in the Middle Kingdom. Big Chinese direct investments have still not emerged. Polish Investment and Trade Agency (PAIH) announcements about untying the bag of Chinese investments got stuck in the realm of declarations. The few investments of private enterprises, however welcomed, have not reached a critical mass that would create a snowball effect. Also, Poland's participation in another Chinese initiative, the Asian Infrastructure Investment Bank (AIIB), has not brought any tangible effects to date, apart from only obligations to pay the share in initial capital, despite the fact that a Pole, Radosław Pyffel, is the deputy director of this institution. Among AIIB projects implemented in Asia, the ones closest to Poland are in

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the Caucasus, and Polish construction companies are left with little chance of signing lucrative contracts in the near future.

In 2017, the Polish trade deficit with China amounted to over 94 billion PLN (~\$26 billion) — three times more than with Russia, our largest supplier of energy, and higher than in 2016, which means a continuation of the unfavorable trade trend with China, despite more dynamic export growth. According to some analysts, an increase in the trade deficit with China should not be a cause for concern. Some of the deficit-increasing products are components manufactured in China by international corporations, e.g. from the automotive industry, which bring them to Poland as a component to manufacture a finished product, which is then exported to Western European countries. Development of railway connections is a chance for Poland within

the framework of BRI, thanks to its geographic location, its already existing railway infrastructure and new investments, Poland may become a logistics hub for Chinese goods shipped to Europe. Analysts also indicate that Poland has a significant deficit in trade with other Asian countries. However, it should be taken into account that in many industries in which Chinese imports are growing, it competes with domestic Polish producers and it does not serve as support for export competitiveness by supplying cheaper components. There is an increase in pressure from Chinese importers on industries such as: textiles and clothing, metal products, leather footwear, aluminum products, tires, bathroom ceramics, fittings, some product groups of household appliances and many others. In these industries, the increase in imports means, at least in part, the displacement of Polish products by Chinese producers. It has also not been demonstrated that the potential benefits resulting from the increase in revenues of the logistics industry and customs and other levies will outweigh the costs associated with the growth of imports from China. They do not solve the problem of pressure felt by Polish producers related to asymmetric mutual access to both Chinese and Polish markets.

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Cross-border e-commerce is considered a serious opportunity to introduce foreign products into the Chinese market.



**WARSAW, POLAND, JUNE 25, 2014. PRESIDENT OF THE CENTER FOR POLISH-ASIAN STUDIES RADOSŁAW PYFFEL DURING THE "POLAND-CHINA – TOWARDS AN EFFECTIVE MODEL OF ECONOMIC DIPLOMACY" CONFERENCE, ON THE SECOND DAY OF THE 70TH SITTING OF THE SEJM.**

### **PROSPECTS FOR THE DEVELOPMENT OF E-COMMERCE**

Cross-border e-commerce is considered a serious opportunity to introduce foreign products into the Chinese market. Indeed, E-commerce could also be an opportunity for small and medium-sized Polish enterprises, especially in narrow or niche industries, or those for which barriers created by the Chinese authorities significantly impede export. However, in terms of actually opening this trade channel, Polish companies need to have the same opportunities to offer their products and services to Chinese customers, as those available to Chinese companies in Europe and Poland. Increasing numbers of Polish consumers are making their purchases through the Alibaba-owned AliExpress. The Chinese platform is, however, only available to Chinese exporters. The leading platforms offering foreign companies cross-border, retail sales to China through e-commerce,

such as Tmall Global, JD Worldwide, Kaola and others, are not an attractive channel for Polish micro-enterprises and small companies. The seller selection process favors large, recognizable, premium or luxury brands. Also the deposit amounts needed and the high level of formalization of cooperation, as well as the required selection of products offered, are serious impediments to entry.

Poland is not alone in its disappointment in cooperating with China. Hindrances to European companies accessing the Chinese market, public procurements, and many lucrative industries as areas for investment, have led to growing dissatisfaction in the capitals of Old Europe. Frustrations in Germany, France and other countries, are raising because of formal and informal barriers to the export of European products. Berlin's anxieties have been amplified by China's acquisitions of German companies with their modern



In December 2017, a EU regulation, aimed primarily at China, entered into force. The law provides the Commission with new instruments to protect the European market against the influx of subsidized and dumping-priced imports.

technologies, with threatens the loss of the competitive advantage of German industry. President Emmanuel Macron also points out that France and Europe may lose the technology race with the US and China, and states the need to increase spendings on science and technology development and to start cooperation in this area with other European countries. Both these countries, along with Italy, were in favor of last year's proposals to change the rules on foreign investments and the powers of Member States to control countries that limit investment opportunities for European companies or hinder access to public procurement. In September 2017, the European Commission presented its proposal for unified rules on the control and assessment of foreign investments in Member States, which was in fact aimed at China.

The dissatisfaction of many European capitals is amplified by the inflow of heavily subsidized Chinese products, in industries such as steel, aluminum,

chemical and ceramic products. The EU authorities have decided to confront Beijing in the fight to stop unfair Chinese expansion. In December 2017, a EU regulation, aimed primarily at China, entered into force. The law provides the Commission with new instruments to protect the European market against the influx of subsidized and dumping-priced imports. The regulation was accompanied by a comprehensive report devoted to the mechanics and effects of the influence of the CPC and state administration on the Chinese economy. Unfair Chinese competition also affects the competitiveness of Polish companies. This applies to the steel industry, the ceramics industry, the production of tires, niche industries, such as electric bicycles or industries that are being rebuilt in Poland, such as the clothing industry. In industries in which Polish companies are trying to become European leaders, such as the industrial application of graphene or railways, unfair Chinese competition may become a threat in the coming years.

In Western European capitals, dissatisfaction is also growing with Chinese actions treated as political expansion. Chinese investments and infrastructure projects as well as loans to the Balkan countries go hand in hand with growing political influence. Albania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia are striving to join the European Union. There is concern that if China gains a lasting influence among the political elites of these countries, before entering the European Union, it will allow Beijing to influence the decision-making processes in the European Union. Western politicians are increasingly claiming that China is breaking up the unity of the EU. They attach particular concern to the 16 + 1 initiative, a platform for cooperation between China and the Central and Eastern European group of states comprising the Visegrad Group

countries, the Baltics and Balkans. Poland was treated by the Chinese side and by Western European states as a significant member state and potential bloc leader. The rapprochement between Warsaw and Beijing was perceived in the West as a threat and an attempt to build a bloc connected to China within the EU.

This point of view is understandable to some extent. Chinese investments and inflows to the Czech Republic have increased significantly in recent years. The former head of CEFC China Energy, Ye Jianming, until he was detained in China, was an adviser to President Milos Zeman. In 2015, Greece and Hungary, tempted by Chinese investments, were said to have blocked tougher EU resolutions calling for China to recognize the South China Sea ruling. In June last year, Greece blocked an EU initiative to criticize China for violating human rights. In the middle of April this year Hungary was the only EU country to reject the text of the report criticizing the Belt and Rail Initiative for violating international standards of transparency and serving only Chinese purposes. Not without significance should also be the fact that China and Russia are currently developing a quite close political cooperation. Russian and Chinese intelligence services were also considered as the most active in Germany, France and the countries of Central and Eastern Europe (especially in the Czech Republic and Hungary).

Real Prospects for Cooperation with China. Poland should strive to maintain good relations with Beijing, which is beneficial for the intensification of economic cooperation. On the other hand, it is also necessary to convince European partners that Poland will not be a Chinese bridgehead in the EU and the regional initiatives in which it participates will not serve as a tool to break down intra-Union unity. Bilateral relations with China should be

developed as far as possible without affecting the relations and position of Poland within the EU. Warsaw should use its position and look for partners and build alliances within the Union in order to have the greater impact on the shape of a common EU policy towards China. Maintaining relations with Beijing should not obscure Polish politicians' prospects for cooperation with Taiwan. In terms of absolute values it gives way to the PRC, but it is also a significant economic partner of Poland, and in terms of GDP and population and market openness — it is also quite promising.

Threats tied to China's foreign and economic policy should not completely shut off the possibility of cooperation. Lack of huge investments from Chinese state giants can be at least to some extent compensated for through investments made by private enterprises. However, attracting them requires a completely different strategy. Instead of relying on intergovernmental relations, investment offers targeted specifically at Chinese investors and communication channels should be created to reach Chinese entrepreneurs, trade unions, companies and agencies dealing with foreign investments.

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**Bilateral relations with China should be developed as far as possible without affecting the relations and position of Poland within the EU.**

Poland does not have many companies with technologies that would be attractive

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The Polish government should work as closely as possible with the EU authorities and other Member States in order to press Beijing to actually and definitely lasting market opening for European products and services. Similarly, they should strive for protection against the arbitrariness of the authorities and they should advocate the idea of equal treatment between foreign investments and Chinese domestic enterprises.

for Chinese investors, although the number of enterprises creating and introducing innovative solutions is still growing. Poland, on the other hand, has a qualified labor force, industrial facilities and a network of specialized suppliers and subcontractors in many industries, as well as constantly improving transportation and industrial infrastructure. It also offers its own sizable market and good access to Western European markets. These are favorable conditions for investment in the manufacturing sector. If trade tensions

between the EU and China worsen, an additional incentive for Chinese investors may be to avoid the effects of EU market protection instruments by locating production within the EU. At the same time, Warsaw should cooperate with Brussels and the Member States on the issues of controlling and limiting investments threatening Europe's competitive advantage, of course, taking into account the differences in interests between Poland and more advanced economies such as Germany or France.

Poland is not a country significant enough to be able to force concessions from China regarding access to their market by enterprises and products. Many other EU members face similar problems. The Polish government should work as closely as possible with the EU authorities and other Member States in order to press Beijing to actually and definitely lasting market opening for European products and services. Similarly, they should strive for protection against the arbitrariness of the authorities and they should advocate the idea of equal treatment between foreign investments and Chinese domestic enterprises. For Poland, it is not good in the long term to serve as a Chinese gateway to Europe. It is not beneficial to open logistic centers, to create transport hubs and to improve transport infrastructure, only to increase imports from China. Forcing China to make real concessions may be a long-term process with an uncertain outcome. Before this objective is achieved, concrete support should be provided to the widest possible groups of exporters, also in narrow or niche industries, where Polish companies have a chance to gain a competitive advantage in the Chinese market.

**Lukasz Sarek** ■  
March 30, 2018