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David A. Jones, Ph.D. Prof. (University of Warsaw)

ALIGNING THE ABACUS BEADS: CHINA'S NEW EUROPEAN ECONOMIC PRESENCE

Китайський прем'єр Вень Цзябао оголосив у Варшаві 26 квітня 2012 року про намір Китаю збільшити свої прямі іноземні інвестиції в країни Центральної та Східної Європи на 10 мільярдів доларів США, що призначатимуться для високих технологій, нових технологій та екологічно чистих технологій. Цей документ покликаний оцінити значення цих інвестицій для Китаю та Європи.

Ключові слова: Китай, Європа, прямі іноземні інвестиції, технології, регіональна політика.

Китайский премьер Вэнь Цзябао объявил в Варшаве 26 апреля 2012 года о намерении Китая увеличить прямые иностранные инвестиции в страны Центральной и Восточной Европы на 10 миллиардов долларов США, предназначенные для высоких технологий, новых технологий и экологически чистых технологий. Эта статья призвана оценить значение этих инвестиций для Китая и Европы.

Ключевые слова: Китай, Европа, прямые иностранные инвестиции, технологии, региональная политика.

Chinese premier Wen Jiabao announced in Warsaw on 26 April 2012 China's intent to increase its Foreign Direct Investment to Central and Eastern Europe by US$ 10 Billion, earmarked for high technology, new technology, and green technology. This paper aims to evaluate this investment's significance to China itself and Europe.

Keywords: China, Europe, FDI, Technology, Regional Policy.

The decision of China's outgoing administration to commit US$ 10 Billion as a line of credit for new Foreign Direct Investment (FDI) to the Central and Eastern European Community (CEEC) over the next decade [1; 1-4] is eye-catching. It raises as many questions as it answers and possibly more. Among such questions raised will be the following: Will Premier Wen Jiabao's successors, scheduled to assume office in November 2012 at the 18th National People's Congress that has been delayed already, continue, modify, or abort such huge FDI in Europe? A derivative question to that is what specific industries have been or will be targeted to receive this FDI, and why? More issues will follow, but these are first.

China's new leadership probably will continue, possibly increase, this enormous FDI for the same reasons China's old leadership crafted this plan to begin with: to deconstruct State Owned Enterprises (SOEs) in sectors that include banking, electric utilities, oil, and steel that are losing favor at home due to corruption and inefficiency leading to waste [2], change their composition, headquarters, corporate names, and visible management, move them abroad, and in this shuffle export a large proportion of China's cash to foreign locations where the current managers of SOEs can set up shop under different corporate charters, names, by-laws, and governmental restrictions, possibly through surrogate managers, and secure their own professional futures and personal wealth away from China. Reducing the amount of cash on hand at home decreases the likelihood China will encounter runaway inflation. Relocating actual manufacturing and assembly to the European Union (EU) will reduce cost of transporing raw materials from Africa to China, for example, and finished products from China to the EU or elsewhere in Europe as well as to markets in Africa and the Western Hemisphere.

In this same process, many products currently bearing the label "Made in China" will have bills of lading, certificates of origin, other documents and prooduct labels that will recite "Made in the EU," making them much more attractive to consumers in Europe and the United States, although only the place of final assembly will change. Similarly, goods manufactured or assembled by Chinese companies inside the EU should not be subject to EU tariffs and non-tariff barriers (NTBs) including quotas on products such as shoes and textiles.

In addition, European Commission (EC) complaints against China arising from its use of state subsidies are likely to vanish altogether with this FDI but, should they persist, probably will be heard and determined in the community courts of the EU, ultimately by the European Court of Justice (ECJ) instead of in the World Trade Organisation (WTO), a global forum. Currently, China faces six WTO complaints lodged against it by the EC: Case DS 339 concerning automobile parts, Case DS 372 involving foreign financial information, Case DS 395 related to China's export of different raw materials, Case DS 407 alleging "dumping" of iron and steel fasteners, Case DS 425 alleging "dumping" of x-ray security equipment, and DS 432 involving export of Tungsten, Molybdenum, and rare earths. [3]. Some cases brought by the EC against China in the WTO, such as auto parts and export subsidies, are brought also by the United States against China, jointly challenging China to meet its obligations under the Agreement on Subsidies and Countervailing Measures (SCM) [4], and so if China can change forum on such issues its strategy may be to divide and conquer, separate Europe from America.

It is easy to talk in generalities such as China's resolve to infuse US$ 10 Billion into "Central and Eastern Europe," a vast area. Into what countries? Into what regions? In order for such decisions to be made intelligently, precise calculations are needed. China will have to align its abacus beads, and anticipate how the European states and their trading partners including the Russian Federation and the United States in turn will align their abacus beads. A more efficient result will occur is all these parties will reach a concensus before mistakes are made, such as by Chinese firms violating EU laws.

One issue is systemmic: does China want a highly-regulated business structure such as the EU provides to all 27 member states, or a more laissez-faire economic climate such as 21st China itself enjoys and Ukraine offers in Europe? Probably China will select structure because with regulation exists predictability. Not too much structure, on the other hand, which may be why China appears to be scoping the Polish environment: Poland has steadfastly refused to join the Eurozone, arguing it does not meet criteria for membership, and China is skeptical of the Euro as a stable currency.

Another issue is proximity: Ukranian seaports such as Illichivsk, Odessa, Sevastapol, and Yuzhny on the Black Sea are closer to Asia. Is proximity to Asia what China is seeking? Only for some products, such as agriculture, destined to be shipped back to China. Not for manufacturing, intended for distribution across Europe and the Western Hemisphere, where Gdansk makes sense, even ahead of Durrës or Shëngjin, Albania and Ploče, Croatia on the Adriatic Sea, because Gdansk on the Baltic leads directly into the major North Atlantic shipping lanes to the United States. Ukraine is a breadbasket, with meticulously cultivated fields, suitable for supplying China with agricultural produce that it lacks. Poland contains unforested fields that have not been cultivated in decades, more suitable for construction of high-technology factories than farming. European gauge

(Stephenson Gauge) rail lines (1,435 mm; 4' 8-1/2") run across Poland and most of the continental EU, facilitating input of raw materials and output of finished products. Ukraine railroads operate on Russian Gauge rail lines that are wider (1,520 mm; 4' 10") [5]. Freight and passenger cars must have wheels adjusted each time they enter or leave the Russian Gauge network going East or West. This complicates transportation in Belarus and Russia itself.

A third issue is the duration of FDI projects. The European mindset tends to be traditional in envisioning FDI as lasting indefinitely. Not so with Chinese. Making FDI available is tied to time parameters, as are state subsidies at home in China. This is because government appointments in China last for five years, renewable once. Each official targets projects to begin and end with his current term. This is another reason to expect that Premier Wen Jiabao was announcing FDI for his successor, not for himself, adumbrative of the likelihood this FDI will last across the next decade as Premier Wen stated. What this means in practical terms is that China is interested in projects such as factory, office, and residency building construction plus erection of transportation infrastructure such as airports, railroads, highways, and seaports that will be completed well inside of a five year time period, but much less eager to manage hospitals and schools, for example, that lack specific completion time because they are ongoing. One reason why Premier Wen targeted "new tech" and "green tech" industries is that these are likely to generate innovative new products within a five year time period for which a Chinese government administration will expect to take credit during its current term of office, expecting to spring-board this success to justify a future five year term in a higher office.

A fourth issue is the interface of economic sectors and industries. Chinese FDI is intended to bring credit and opportunity to multiple sectors at the same time, such as banking and manufacturing, seaport construction and shipping. Projects earmarked to earn profits in more than one industry will receive high priority approval. In much the same fashion, credit and blame will be apportioned across sectors: bankers will expect to share in the profits or losses of manufacturing or construction projects they bankroll. Also, manufacturing of finished products, clothing and computers first, automobiles soon, are being transferred to Europe to be sold in Europe: manufacture within the market to save transportation cost.

Predicting the success of China's new economic presence in Europe will be difficult to do before measuring hard data, which can be done only once China actually implements its anticipated FDI into CEEC. The Theory of Endowment, Intra-Industry and Multi-National Trade suggests that the infusion of FDI such as China proposes can be expected to increase trade volume at first, with this increase expected to fall with the eventual convergence of incomes, endowments, and technologies [6]. Other research is mixed, some concluding that trade volume increases as transportation cost structure is reduced [7], with other research predicting this will not be the case following the infusion of FDI within CEEC [8], and still other evidence showing that Japanese FDI into CEEC did increase vertical intra-inidustry trade (VIIT) within the CEEC [9]. China's commitment to FDI in CEEC offers opportunity to study the initial and the lasting effects of such endowment on different forms of trade in various places.

The success of China's FDI within CEEC wiill depend to some extent upon cooperation within the Chinese managerial community that moves to Europe and between these Chinese managers and their European counterparts. Will sufficient FDI be poured into industries where the outcome of this investment will be fruitful? Will the amount of this investment be favorably matched to achieve salubrious partnership with the specific CEEC communities within which FDI is made? Will banking decisions consistently support construction and manufacturing decisions? Most important of all, perhaps, is the question whether FDI that bennefits China also benefits Europe, and vice versa? What benefits are sought?

Undoubtedly, the Chinese want to relocate the assets of many SOEs away from China, and if it is possible to relocate these in the center of Chinese markets in Europe. China is likely to want to reopen shop in CEEC as Small to Medium-Size Enterprises (SMEs), thereby discarding the negative iage SOEs have created at home, and minimizing criticism by Europeans, especially in Brussels and elsewhere in Western Europe, that such SMEs are state-subsidized.

China aims to move into "new" technologies because it is facing obsolescence in manufacturing that uses current technologies. Digital manufacturing, robotics, and artificial intelligence such as International Business Machines (IBM) used in its "Deep Blue" computer to beat grand master Gary Kasparov at chess in 1997 and "Watson" computer to beat "Jeopardy" television winners in brain twisters in 2011 will be necessary to compete in global manufacturing [10]. China intends to develop deeper blue new technologies in Europe where patent protection is tighter than in China and from where it will not have to repatriate profits, making them available for reinvestment in Europe and around the world. Within its portfolio of new technologies China will earmark "green" technologies for two purposes: to stay inside of European and CEEC pollution guidelines, and to enable China to clean up its own air, soil, and water pollution at home after transferring much of its manufacturing base to CEEC.

China's planned FDI into CEEC is its way of aligning the abacus beads by attempting to finance its own SOEs and SMEs as they reposition to competitive advantage outside of China and inside CEEC. In the beginning, China enjoys an advantage of being able to determine what iknfrastructure to build and where to assemble or manufacture specific products in Europe. Eventually, iknvestors from Europe itself, the United States, and elsewhere will position themselves, and CEEC regulators will impose unfavorable tax burdens, shrinking the galaxy of opportunities that China enjoys in Europe now. Really, China enjoys only a decade at best, more likely half that, within which to carve out its European manufacturing market share, empower financial institutions to do this in Europe, and join the European Neighbourhood.

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