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HOW SLOVAKIA PERCEIVES THE BELT AND ROAD INITIATIVE AND CHINA-CEEC COOPERATION

Editor in Chief: Chen Xin

Editors: Junchi Ma and Katarína Brocková

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Address: 1052 Budapest Petőfi Sándor utca 11.

Editor in Chief:

Dr. Chen Xin

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Preface

Slovakia is located at the Central Europe, neighboring with Ukraine, Hungary, Czech, Austria and Poland. The population is 4.5 million and the land is 49,000 Km2. In recent years, Slovakia had successfully attracted FDI from Germany, Korea and Japan in automotive industry, and established an export oriented market economy with the industry pillars in automotive and electronics.

As an inland country, connectivity is very important for Slovakia, who had be aware of it. In November 2015, Slovakia government has signed the Memorandum of Understanding on Cooperation within the Framework of the BRI with China. In April 2017, Slovakia government had published a document named Conception of Development of Economic Relationship between Slovakia and China, which is a strategic response toward the China's Belt and Road Initiative. In the framework of the China-CEEC Cooperation, Slovakia had initiated the "China-CEEC Technology Transfer Center", which is the only China's technology transfer platform for CEE countries in promoting the cooperation of technology transfer between China and CEE countries.

This year is 2019, we are celebrating 70 years anniversary of the diplomatic relations between China and Slovakia. In order to have a better understanding on the Slovakia's view on China's Belt and Road Initiative and China-CEEC Cooperation, explore the potential of economic and trade cooperation between China and Slovakia, and promote the bilateral relations, the China-CEE Institute in cooperation with Bratislava University of Economics has the honor to publish this book. The views are represented by the individual authors instead of the China-CEE Institute. I would like to express my sincere thanks to H.E. Dušan Bella, the ambassador of Slovakia to China, for his insights in the book.

The book is part of a series Think Tank Report published by the China-CEE Institute on How CEE countries perceive the Belt and Road as well as China-CEEC Cooperation. The series reports can provide an angle of partner country with original research output on Belt and Road Initiative. I do hope the reports can enrich the library of the Belt and Road Initiative studies.

By Chen Xin

Executive President and Managing Director,
China-CEE Institute
Deputy Director-General of Institute of European Studies,
Chinese Academy of Social Sciences

China-CEE cooperation and BRI as viewed from Slovakia

By Dušan Bella

Slovak Ambassador Extraordinary and Plenipotentiary to China

From the very start, Slovakia has given a lot of attention to China's increased outreach in Central and Eastern European region as manifested through the establishment of the China-CEE cooperation format and the Belt and Road Initiative (BRI). Slovakia appreciates the positive effects of China´s increasing role on the global stage, which in close cooperation with the EU can strengthen international multilateral system and stabilize our multipolar world.

As the world most dynamic economy, China is offering many opportunities for countries along Belt and Road that can bring their people wellbeing and prosperity. Under the China-CEE cooperation platform and the BRI, the contacts between Slovakia and China increased both in frequency and in a number of areas of common cooperation. This has created a stable mechanism for multi-sectoral communication beneficial for both countries.

As a member state of the EU, Slovakia sees the cooperation with China under the China-CEEC format and the BRI as a complement to the existing framework of the EU-China strategic partnership. We appreciate and support China's efforts in making the existing formats more transparent including incorporation of the EU as a dominant player in the region into the most of them. Since major issues of importance regarding the issues of trade, investments and connectivity are decided upon at the EU level, we believe that Slovakia can play an active role in shaping the agenda of China-EU relationship with specific focus on Central Europe. There is currently an untapped potential in a broad area of the EU-China cooperation, which might create synergies, such as under the EU-China Connectivity Platform. Finally, as one of the crucial foreign policy priorities of Slovakia is assisting Western Balkan countries in their integration into the EU, we hope that China's activities in the region will contribute to this process in a transparent way and in line with the EU standards.

Slovakia is interested in focused and pragmatic cooperation in fields of common interest between China and Slovakia under the China-CEE cooperation and the BRI. In April 2017, the Slovak Government approved its strategic approach towards the BRI and manifested it in the Conception of Development of Economic Relationship between Slovakia and China for 2017-2020.

In terms of connectivity, Slovakia has expressed its interest to develop cooperation through signing the BRI Memorandum of Understanding in 2015. Slovak Republic is actively seeking to increase the share of a rail cargo transport between China and Europe passing through its territory and thus gain economic effects from the increasing trade exchange between the two sides of the Eurasian landmass. To buttress the "soft infrastructure" of connectivity, Slovakia and China signed the Memorandum on Customs Cooperation in 2016.

Another priority field of cooperation for Slovakia is export of agricultural products to China. Slovakia welcomes that the issue of improved access for food and agricultural products from CEEC was included in the Sofia Guidelines at the last summit of China-CEE in July 2018. We believe that increased access of our high quality agricultural products could at least partially contribute to the mitigation of the huge trade imbalance between our countries and strengthening our ties in this area.

Slovakia is also interested in cooperation in science, technology and innovations. Under the CEE-China cooperation, Slovakia hosts the Virtual China-CEEC Technology Transfer Centre, which should coordinate and facilitate technology cooperation of participating countries. We believe that there is an immense potential in this field, especially if concentrated efforts will identify common priorities in the new technology fields, such as biotechnology, green energy, nanotechnology, information and communication technologies, which are getting more and more important in the 21st century economy.

Furthermore, Slovakia is also seeking to use the opportunity of new cooperation mechanisms with China to deepen cooperation in the financial field. At the 2016 Budapest Summit of China-CEE cooperation format, the agreement on establishing Inter-Bank Association (with the participation of Slovak Eximbank) was signed. We believe that we can expand cooperation in view of achieving long-term, stable work on financing of specific development projects, as was already specified in the relevant Action Plan.

Last, but not least, I would like to accentuate that apart from the pragmatic cooperation in common fields of interest, we should fully use the opportunity that the China-CEE cooperation and the BRI offer in terms of increasing understanding between our countries and strengthening people-to-people contacts. Despite the increasing role played by China on the global stage, there is still not enough information and knowledge among the common people in both countries. The various programs under the new formats of cooperation can facilitate interaction between our countries on various levels, such as between students, researchers, civil servants or businesspeople. While the benefits from this kind of cooperation are impossible to measure by simply counting the numbers, it creates important building blocks that ensure the vitality of long-term relationship.

Looking to the future, I am sure that Slovakia and China will deepen and expand practical, result-oriented collaboration and mutual understanding within the China-CEE cooperation format as well as in the framework of the BRI initiative. This will be the best contribution to the building comprehensive and vibrant China-EU relationship up to the task of promoting peace, prosperity and sustainable development in the challenging global environment of today.

Chinese cooperation with Slovakia in trade

By Martin Grešš

Associate Professor

Faculty of International Relations, University of Economics in Bratislava

Abstract

The article analyzes the trade relations between Slovakia and China during the period 1999-2017 with a focus on international trade in goods. We come to conclusion of rather asymmetrical trade relations between Slovakia and China with latter exporting much more value than the former and thus the trade deficit for Slovakia. We conclude that total trade increased 30-fold between 1999 and 2017, with imports to Slovakia increasing 22-fold and exports from Slovakia rising 220-fold. Despite the drastic increase in the value of exports, Slovakia was unable to reach balanced trade or even trade surplus in mutual trade relations with China. We also note the significant changes in the commodity structure of both exports and imports of Slovakia in its mutual trade relations with China between 1999-2017.

Keywords: China, foreign trade, SITC, Slovakia

Introduction

Even though there was a cooperation between China and Central and Eastern European countries before the second decade of the 21st century, it became more formalized and deepened in 2012, when 16+1 cooperation started as a Chinese initiative aimed at activating and fostering cooperation between China, 11 EU member states and 5 Balkan states. Areas of cooperation include trade, investment, transport, science, technology, finance, agriculture, forestry, education, culture, tourism, health, and people-to-people contacts. Based on these, China defined three potential priority areas of economic cooperation including infrastructure, high technologies, and green technologies. The initiative was announced at the first 16+1 Summit held in Warsaw, Poland in 2012 entitled as China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries (2012). Of those 12 measures, measures 2-5 focus on investment and trade cooperation between China and the CEEC region.

Table1： Economic performance of 16+1, 2015, GDP p.c., PPP, constant 2011 international USD

EU Average	**35622**	Croatia	20664
Czech Republic	30381	Romania	20484
Slovenia	29097	Bulgaria	17000
Slovakia	28254	Montenegro	15254
Estonia	27345	China	13572
Lithuania	26807	Serbia	13278
Poland	25323	Macedonia, FYR	12732
Hungary	24831	Albania	11015
Latvia	23080	Bosnia and Herzegovina	10119

Note: In descending order based on GDP p.c.

Source: World development indicators. Available online http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators.

Besides the 16+1 cooperation, the CEEC region could also benefit from the Belt and Road Initiative that was proposed in September 2013 by paramount leader Xi Jinping focusing in the first years on investment to infrastructure, construction materials, real estate, power grid, automotive industry and railways, and iron and steel. According to The Diplomat (Zeneli, 2016), over the last decade mutual relations between China and the EU has significantly expanded. Zeneli

(2016) states that Chinese investment in the EU reached 23 billion USD in 2015, almost 8-fold increase from 3 billion USD in 2009. Even though most of the investment flowed to western European countries, the CEEC region also attracted Chinese attention starting the cooperation of "16+1". Even though economic performance in the CEEC region based on the GDP p.c. in PPP is lower than the EU average as shown in Table 1, there is a potential for economic growth in the region that may exceed the growth in western European countries. Also, the region represents a total population of 120 million (100 million people for the EU member states which is approximately 20% of the total EU population). Hence both, the market potential of the region and serving as the entrance to the EU market are significant.

Table 2: Exports and imports of goods, and trade balance of the CEEC region with China, 2016, million nominal USD

	Exports to China	**Imports from China**	**Trade balance**
Montenegro	20,93	203,56	-182,64
Latvia	130,25	444,09	-313,84
Albania	60,05	409,61	-349,56
Macedonia, FYR	47,81	421,23	-373,42
Croatia	83,84	645,48	-561,64
Bosnia Herzegovina	14,72	617,44	-602,73
Lithuania	136,31	784,26	-647,95
Bulgaria	481,16	1 147,02	-665,86
Estonia	189,82	1 294,79	-1 104,97
Serbia	25,27	1 603,04	-1 577,77
Hungary	2 246,49	4 868,86	-2 622,36

Romania	682,48	3 818,30	-3 135,82
Slovakia	1 263,35	6 348,68	-5 085,33
Czech Republic	1 921,55	17 770,97	-15 849,42
Poland	1 911,14	23 447,67	-21 536,52

Note: In descending order based on trade surplus; data for Slovenia N/A; Slovakia in italics.

Source: UN Comtrade Database. Available online https://comtrade.un.org/data/.

Important aspect of relations between China and third countries is mutual trade. Focusing on the trade relations between China and the CEEC region, we note that these relations are rather asymmetric in favor of trade surplus of China with all the CEE countries as shown in Table 2. The highest trade deficit on a bilateral level is between China and the V4 countries and Romania. Tianping (2014, p. 9) notes, that trade imbalance between China and CEEC is a long-lasting phenomenon, especially the bilateral trade between China and individual V4 countries. The only exception was bilateral trade with Slovakia, where China ran trade deficit in 2011 and 2012. According to Tianping (2014, p. 9), this situation rarely happened in trade with the CEEC in the last two decades (however, according to the data provided by EUROSTAT COMEXT 2018, there was a continuous deficit in mutual trade between two partners on Slovak side since 1999 until 2017). Concerning the trade relations, V4 countries contribute significantly to the volume of exports and imports from China with the share of 80% on total exports to China and 82% of total imports from China constituting 83% of the trade deficit of the CEEC region with China. Looking at individual countries, Hungary ranks number one in exports to China with the share on total CEEC exports of 24%. On the other hand, Poland's share on total imports from China to CEEC region is 37% with 45% share on imports to V4 countries. Slovakia ranks fourth after the other V4 countries in share on exports to China with 14%, but third in imports from China after Poland and Czech Republic with 10%. The same goes for trade balance, Slovakia ranks third with a share of 9.3% on total trade deficit between China and the CEEC region.

The aim of this article is to analyze the trade relations between Slovakia and China during the period 1999-2017 with a focus on the trade in goods and changes in the commodity structure in the observed period for exports and imports of Slovakia.

Literature review

Trade and investment relations constitute significant part of mutual relations between China and third countries in Europe, especially the CEEC region and V4 region. Detailed overview of Chinese trade relations with the V4 countries in the first decade of the 21st century was conducted by Tianping (2014). Tianping analyses the cooperation between China and the V4 countries in the global economic landscape with providing the analysis of changes in the trade structure in 2000-2012 while giving recommendations for improvement of these mutual trade relations. Tianping analyzes composition of exports and imports between China and the V4 countries and the change of commodities structure. Tianping concludes that trade volume between China and the V4 countries increased at rapid pace in mentioned period and both regions should make full use of this window of opportunity for cooperation (Tianping, 2014, p. 21). V4 countries should reduce trade deficit by promoting their products with competitive advantage to China's market (Tianping, 2014, p. 22). Detailed academic papers dealing with the perspective of individual V4 countries on the trade and investment relations with China are provided by various authors from the V4 region. De Castro and Stuchlikova (2014) focus on the Czech perspective of China-V4 trade relations. They note that China is among 12 priority markets for the Czech Republic as outlined in the Export strategy of the Czech Republic 2012-2020. De Castro and Stuchlikova emphasize that efforts should be focusing on maintaining existing export position while further developing this position. Fábián et al. (2014) analyze trade and investment relations between China and Hungary. As they note, Hungarian deficit in bilateral trade with China continuously increased in previous years and was not offset even by the production and exports of agricultural products. They also point out that even though Hungary is the leading country in incoming foreign direct investment in the V4 region, it is still negligible from the point of view of China. Jurczyk and Mierzejewski (2014) focus on trade and investment relations from a Polish perspective. They note that Poland has established a long history of bilateral relations with China since 1949 with deepening of the economic relations since the 1980s with a cooling period in the 1990s. They also analyze possible future trends in mutual trade with the emphasis on the exports of agricultural product that play an increasingly important role for Polish economy. As they note (Jurczyk and Mierzejewski, 2014, p. 110), this is a relatively new phenomenon with Chinese market opening for Polish dairy product companies in 2007, poultry product companies in 2011, and pork product companies in 2012. From a Slovak perspective, Grančay (2014) analyzes trade relations, historical developments of bilateral trade between China and Slovakia between 1995-2012 with identifying comparative advantages in both countries and providing a prediction of possible future trends in mutual trade. Grančay concludes that the bilateral trade underwent some radical changes in the past two decades with the value increasing almost 100-fold and complete change of its structure. Grančay also estimates that mutual trade of China and Slovakia should rise 5 to 45-fold by 2030. Grančay concludes that China has become Slovakia's second most important non-EU trade partner after Russia and that impact of Chinese economy on economic development in Slovakia will increase in the future. Cinar, E. M. et al. (2016) in their research paper discuss the extent to which countries in the former Silk Road regions are reaching their trade potential with China. They conclude that trade performance against potential improved for most of the countries over 1990-2013. We note that this research may be used also to estimate the trade potential of the CEEC region and especially Slovakia with China. Tian, X. et al. (2016) provide a comprehensive analysis of the reasons for large number of trade barriers taken against China. They note that macroeconomic situation of China's partners has a great influence on the probability of trade frictions arising with China. They also conclude that the more powerful the industry is, the more likely it is to take trade remedy actions against China and that the use of foreign lobbies' power, integration into the international trading system, and participation in regional trade agreements may be effective ways for China to deal with these trade barriers.

Methodology

Table 3: SITC Revision 4 classification scheme

Section	**Description**	**Number of groups**	**Number of subgroups**	**Number of basic headings**
0	Food and live animals	36	132	335
1	Beverages and tobacco	4	11	21
2	Crude materials, inedible, except fuels	36	115	239
3	Mineral fuels, lubricants and related materials	11	22	32
4	Animal and vegetable oils, fats and waxes	4	21	41
5	Chemicals and related products, n.e.s.	34	132	467
6	Manufactured goods classified chiefly by material	52	229	767
7	Machinery and transport equipment	50	217	642
8	Miscellaneous manufactured articles	31	140	420
9	Commodities and transactions not classified elsewhere in the SITC	4	4	6
	$\sum$	**262**	**1023**	**2970**

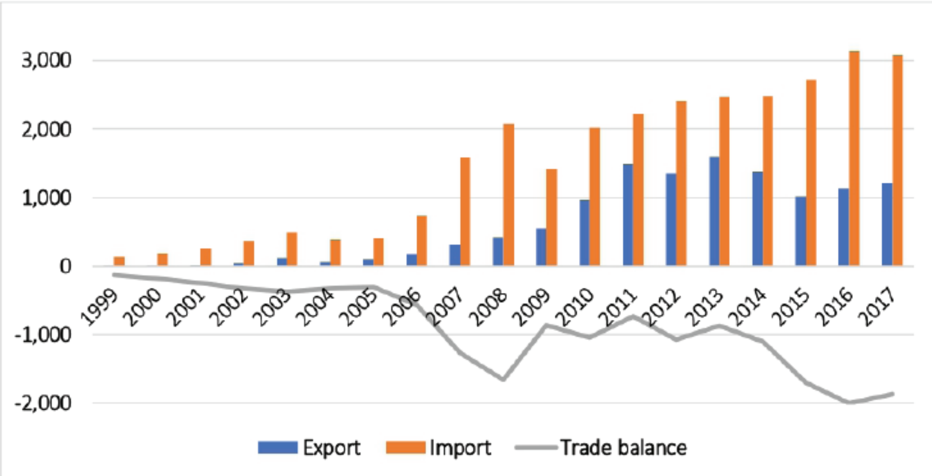
Source: SITC (2006).

We use the data provided by the Eurostat database available on-line at EUROSTAT COMEXT (2018). Trade relations between Slovakia and China include trade in goods and services. This article focuses on the trade in goods in 1999-2017. The database did not provide any data prior to 1999. We use the data on the imports from China to Slovakia and vice versa, exports from Slovakia to China in terms of value in EUR. Concerning the product category, we use the Standard International Trade Classification Revision 4 (SITC, 2006). Table 3 provides main sections of the SITC classification scheme for internationally traded goods. The complete list of all the commodities is provided in SITC (2006) and on-line at SITC (2018). Firstly, we analyze both trade flows (exports and imports) at the section level (1-digit level) and secondly, we decompose the trade flows further to groups and, when relevant, to subgroups to identify the goods that were traded the most in the observed period.

Results

Figure 1 shows overall value of exports and imports and trade balance between Slovakia and China in 1999-2017. Even though Tianping (2014) suggests there was a rare situation in trade relations with Slovakia, when China ran trade deficit in 2011 and 2012, data obtained from the EUROSTAT COMEXT (2018) database clearly show that Slovakia ran trade deficit with China through the whole observed period. Figure 1 shows rather asymmetrical trade relations between Slovakia and China with latter exporting much more value than the former and thus the trade deficit. In the beginning of the century, imports from China were much higher than exports to China. In 1999, Slovakia exported goods with total value of 5.51 million EUR, but imported total value of 135.9 million EUR from China. Imports were 25 times higher than exports. However, in 2000, the exports almost doubled in value to 10.2 million EUR. Even more impressive increase was recorded in the following years. In 2002 there was a 200% increase in Slovak exports to 42.3 million EUR and the same increase was recorded also in 2003 (with a total value of exports at 123.6 million EUR). Figure 1 shows continuous increase in the exports from Slovakia, even though there were years with a slight slowdown in exports like 2004 (50% decline in exports), when Slovakia with other Central and Eastern European countries joined the European Union with Germany and Czech republic as the most important trading partners. Another decline was recorded in 2014 and 2015, when the exports fell by 14% and 25.8% respectively. On the other hand, Chinese imports to Slovakia grew more or less consistently in the observed period with the exception of global crisis year 2009 when the imports from China fell by 32% over the previous year.

Figure 1: Slovakia – trade developments with China, million EUR

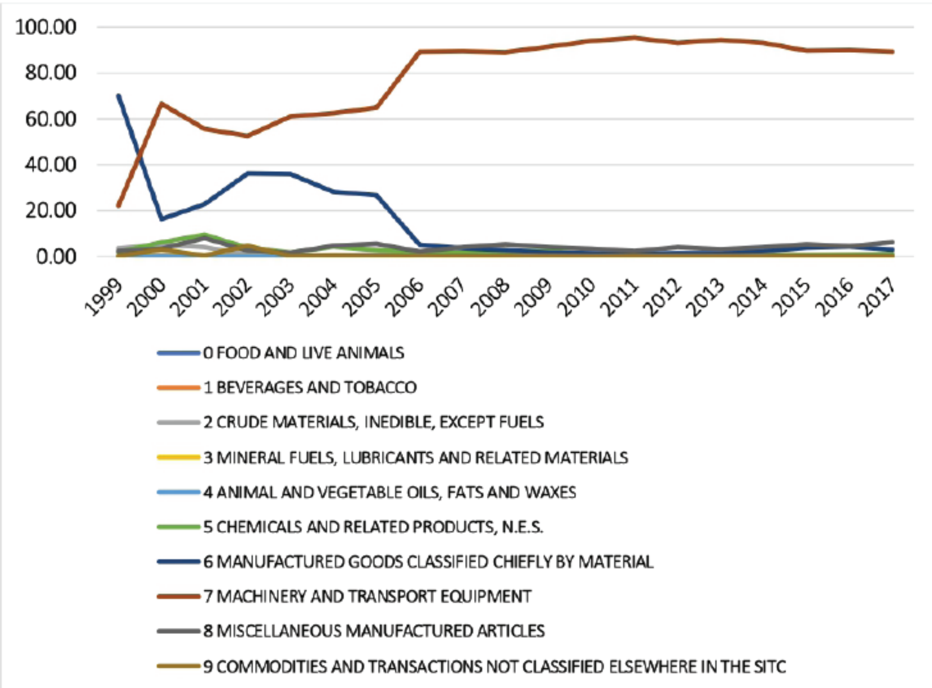


Source: EUROSTAT COMEXT (2018).

Overall trade balance is rising meaning China exports more value to Slovakia than it imports from Slovakia. In the beginning of this century, trade deficit totaled 130.4 million EUR, in 2017 it reached 1.87 billion EUR with Slovak exports of goods to China at 1.2 billion EUR and Chinese exports of goods to Slovakia at 3.1 billion EUR. Significant increase in the deficit was recorded in years prior to the crisis when the imports from China increased rapidly over the previous years. Annual increase of imports in 2007 and 2008 was 73% with deficit getting to a new high at 1.66 billion EUR. In the years of a new decade, the deficit decreased to less than 1 billion EUR, however, since 2015 it increased again and fluctuated between 1 and 2 billion EUR. This increase in the deficit was caused mainly by increasing imports from China since 2014 and decreasing exports to China in 2014 and 2015. Even though the exports recovered in 2016 and 2017 with a rise of 11.6% and 6.6.% respectively, they could not off set the imports and the trade deficit is thus at 1.86 billion EUR in 2017. Grančay (2014) suggests the trade between Slovakia and China increased quite rapidly between 1995-2012. He estimates the increase to be almost 100-fold. Based on our observation (and slightly different time period), we can conclude that, based on the data from

EUROSTAT COMEXT (2018), total trade (including exports and imports of goods) increased 30-fold between 1999 and 2017, with imports to Slovakia increasing 22-fold and exports from Slovakia rising 220-fold. Interesting fact is, that despite the drastic increase in the value of exports, Slovakia was unable to reach balanced trade or even trade surplus in mutual trade relations with China.

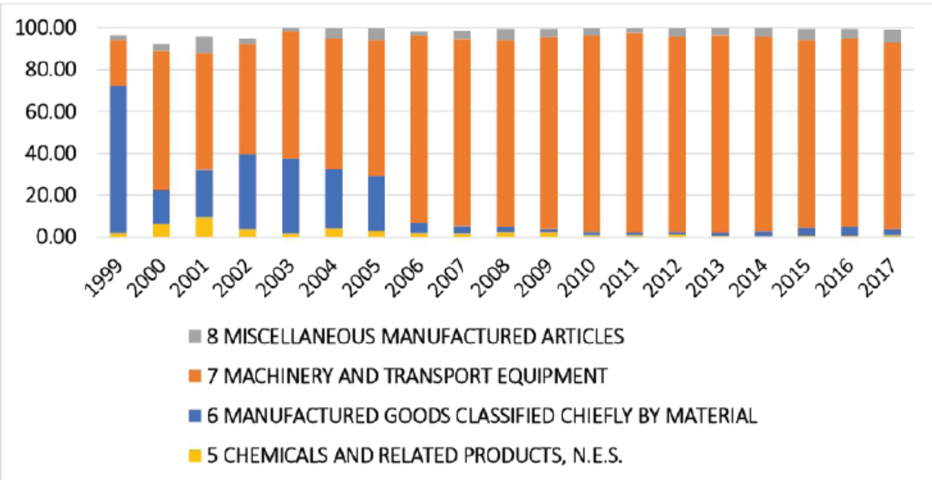
Figure 2 Exports from Slovakia, SITC 1-digit, share on total exported value in %



Source: EUROSTAT COMEXT (2018).

We analyzed overall trade relations above. Further decomposition of exports and imports follows the Standard International Trade Classification Revision 4 coding (SITC, 2006). We start at the section level (1-digit) and then proceed to groups and subgroups to identify the relevant goods that are the most important in mutual trade relations between Slovakia and China. Firstly we analyze exports from Slovakia to China and in the second step we proceed with analysis of imports of Chinese goods to Slovakia. Concerning total exports, Figure 2 shows the development in the observed period for main sections under SITC Rev. 4. It is clear that the pattern of Slovak exports to China did not change since the beginning of the 21st century with goods from Section 7 – Machinery and transport equipment being the most exported articles to China. At the turn of the centuries a significant change in exports occurred when goods from Section 6 – Manufactured goods classified chiefly by material which ranked number 1 in 1999 were overtaken by goods from Section 7 in 2000. Since 2001 the share of this section increased from 55.6% in 2001 to 89.2% in 2017 while the share of section 6 decreased to 2.89% in 2017 (in 1999 this section comprised 70.1% of total export value to China).

Figure 3 Exports from Slovakia, SITC Sections 5-8, share on total exported value in %

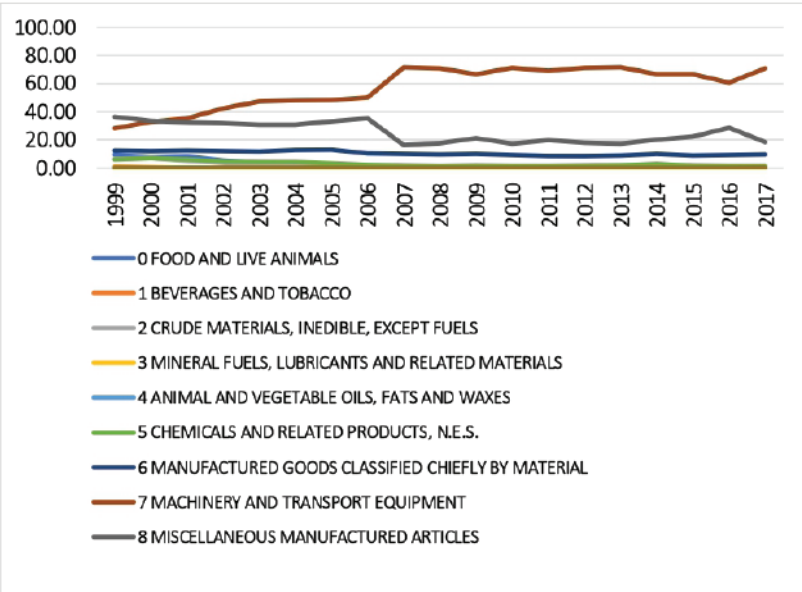


Source: EUROSTAT COMEXT (2018).

Overall, goods included in sections 6-8, comprised 98.3% of total export value in 2017 (figure 3). These three sections comprised more than 90% of total export value since 2002. In the beginning of this century, also Section 5 – Chemicals and related products, n.e.s., formed a significant part of Slovak exports, especially in 2000 and 2001 with a share of 6.2% and 9.4% respectively. However, since 2006, goods from section 7 dominate in the total export value from Slovakia constituting approximately 90% of the total value.

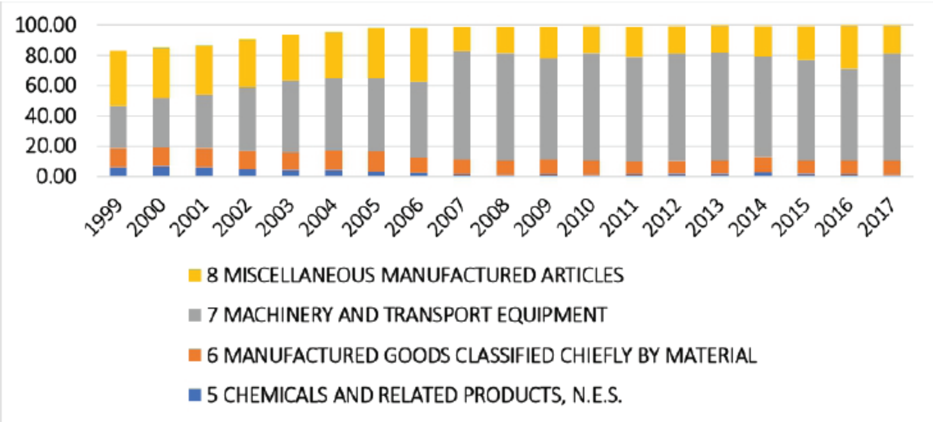
Similar situation can be observed in imports from China, even though we note a different pattern concerning the goods included in individual sections. Similar to exports, goods from section 7 constitute a major part of the value imported from China (figure 4). However, unlike in exports, imports of goods from Section 7 comprise only 70% of total value imported to Slovakia. Thus, Chinese imports to Slovakia are more diversified based on SITC 1-digit level than the exports from Slovakia to China. Section 8 goods represent approximately 18% of total value imported and section 6 goods about 9%.

Figure 4 Imports to Slovakia, SITC 1-digit, share on total imported value in %



Source: EUROSTAT COMEXT (2018).

Figure 5 Imports to Slovakia, SITC Sections 5-8, share on total imported value in %



Source: EUROSTAT COMEXT (2018).

Further decomposition of individual sections to groups and subgroups help us to identify the products representing the biggest share in total exported and imported value. We compare the changes in the commodity structure by observing years 1999 and 2017. Grančay (2014) proposed a significant change in the commodity structure of trade relations between Slovakia and China. We confirm his thesis, tables 4 and 5 present exports and imports in 1999 and 2017. Table 4 clearly shows the change in the commodity structure of Slovak exports to China in these two observed years. While in the end of the 20th century, products with low value-added were exported (group 674 – Flat-rolled products of iron or non-alloy steel, clad, plated or coated), two decades later products with high value-added were exported (group 781 – Motor cars and other motor vehicles for the transport of persons). Semi-finished products composed almost 60% of the total value exported in 1999, while finished products composed almost 66% of total value exported in 2017. Overall, ten most exported products in both observed years composed 87.6% and 86.6% of total exports respectively. We observe, that in 1999 most of the exports were composed of flat-rolled products of iron and steel (674), textile and leather machinery (724), leather (611) and parts of the motor vehicles (784). During the next two decades, however, the composition of exports changed mainly due to the fact that important automobile companies invested in Slovakia and started to produce cars. In 2017, the main export items (781, 784, 713) were associated with the car industry in Slovakia and composed 75.3% of total exported value.

Table 4 : Slovak exports to China, million EUR, % of total exports

Product group	EUR	%	Product group	EUR	%
1999			**2017**		
674	**3,21**	**58,33**	**781**	**792,70**	**65,37**
724	0,24	4,41	784	77,58	6,40
611	0,24	4,38	713	43,03	3,55
784	0,22	3,96	743	42,25	3,48
718	0,20	3,55	821	25,95	2,14
653	0,17	3,17	773	17,93	1,48
746	0,16	2,90	748	15,64	1,29
621	0,13	2,39	699	12,77	1,05
713	0,13	2,29	778	11,13	0,92
722	0,12	2,18	893	10,54	0,87
Total:	**4,82**	**87,57**	**Total:**	**1049,53**	**86,56**

Source: EUROSTAT COMEXT (2018).

Further decomposition to subgroups and basic headings shows that the most exported item in 1999 were flat-rolled products of iron or non-alloy steel, plated or coated with zinc otherwise plated or coated, of a width of 600 mm or more (basic heading 674.13) comprising 58% of total value exported. In 2017, the most exported products were road vehicles designed for the transport of less than ten persons including station-wagons and racing cars (basic heading 781.20) comprising 65% of total exported value. Table 4 also shows relatively concentrated commodity structure of Slovak exports to China in both observed years. Ten most exported items comprised in both years almost all the value of the exports with shares of 87.6% and 86.6% respectively.

Different situation is seen in the commodity structure of Chinese imports to Slovakia. While exports were in both years relatively concentrated to only a few items, imports were much more diversified. Table 5 shows the imports in both observed years. One of the differences comparing to exports, is the total value imported of ten most imported products to Slovakia in both years. While in 1999, they composed 40% of total value imported (compared to 87.6% of total value exported), in 2017 ten most imported items composed 65.7% of total value imported (compared to 86.6% of total value exported). We observe different pattern in imports compared to exports. China, as the world manufacturer number one, exported to Slovakia mainly finished manufactured products ranging from toys and baby carriages (894) to articles of apparel (845) in 1999 and telecommunications equipment (764) to toys and baby carriages (894) in 2017. However, Chinese exports were much more diversified within each group. In 1999, baby carriages, toys, games and sporting goods comprised most of the Chinese exports to Slovakia (8.4% of total imported value) which is much less compared to number one Slovak export item to China (flat-rolled products of iron and steel – 58.3%). During the observed period, however, the Chinese export structure change quite significantly and became more concentrated similar to Slovak exports to China. In 2017, ten most imported items from China composed 65.7% of the total value imported (compared to only 40% in 1999).

Table 5 Slovak imports from China, million EUR, % of total imports

Product group	**EUR**	**%**	**Product group**	**EUR**	**%**
1999			**2017**		
894	**11,40**	**8,40**	**764**	**1016,90**	**33,04**
851	9,12	6,71	871	232,17	7,54

762	6,05	4,46	771	141,38	4,59
775	4,72	3,47	751	113,22	3,68
752	4,47	3,29	699	105,79	3,44
899	3,89	2,86	772	102,97	3,35
716	3,82	2,81	784	94,67	3,08
831	3,73	2,75	778	76,93	2,50
845	3,63	2,67	761	70,73	2,30
759	3,37	2,48	894	67,35	2,19
Total:	**54,21**	**39,92**	**Total:**	**2022,10**	**65,69**

Source: EUROSTAT COMEXT (2018).

Another striking difference is the commodity structure of these items. While in 1999, China imported finished manufactured goods with low value-added (like apparel or toys), in 2017 China imported much more manufactured goods considered high value-added like telecommunication equipment (764) and optical instruments (871). Another fact pointing to more diversified Chinese imports to Slovakia can be seen in further decomposition of groups to subgroups and basic headings based on SITC (2006). Even though the most imported group of products was group 894 – Baby carriages, toys, games and sporting goods, the most imported product in 1999 were electric motors of an output not exceeding 37.5W (716.10) with a total value of 3.81 million EUR (comprising 2.8% of total value imported). The most imported products from group 894 were toys, n.e.s. (basic heading 894.29) with value of 2.7 million EUR and a share of 2%. As we already mentioned, during the two decades of mutual trade relations we observed, there was a tendency to higher concentration of Chinese imports to Slovakia leading to 33% of telecommunications equipment on total value imported to Slovakia in 2017. The most imported items with a share in total value imported 27.4% were parts and accessories suitable for use solely or principally with monitors and projectors, radio-broadcast receivers, transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, television cameras, digital cameras and video camera recorders (basic heading 764.93).

Conclusion

This article analyzes the trade relations between Slovakia and China during the period 1999-2017. We come to conclusion of rather asymmetrical trade relations between Slovakia and China with latter exporting much more value than the former and thus the trade deficit for Slovakia. Based on our observation, we can conclude that total trade (including exports and imports of goods) increased 30-fold between 1999 and 2017, with imports to Slovakia increasing 22-fold and exports from Slovakia rising 220-fold. Despite the drastic increase in the value of exports, Slovakia was unable to reach balanced trade or even trade surplus in mutual trade relations with China. At the turn of the centuries a significant change in exports of Slovakia occurred when goods from Section 6 – Manufactured goods classified chiefly by material which ranked number 1 in 1999 were overtaken by goods from Section 7 in 2000. Since 2001 the share of this section increased from 55.6% in 2001 to 89.2% in 2017. Unlike in exports, imports of goods from Section 7 comprise only 70% of total value imported to Slovakia, thus Chinese imports to Slovakia are more diversified based on SITC 1-digit level than the exports from Slovakia to China. We may conclude that the change in the commodity structure of exports of Slovakia from unfinished products and machinery for industrial and power sector to finished products and car parts and accessories may be associated with the rapid development in Chinese economy which became a world manufacturer number one and started exporting finished manufactured goods (as seen in imports to Slovakia) with a rise in national income both overall and per capita leading to increased spending in China for manufactured goods from abroad and not only semi- or unfinished products. Different situation is seen in the commodity structure of Chinese imports to Slovakia. While exports were relatively concentrated to only a few items, imports were much more diversified in 1999. During the observed period, however, the Chinese export structure change quite significantly and became more concentrated similar to Slovak exports to China.

Since we focused on the analysis of international trade in goods between Slovakia and China, we propose further research concerning the trade relations between these two countries in services which will be a valuable complement to our research.

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Belt and Road Initiative – new challenges in trade and finance of China and Slovakia

By Eva Jančíková

Associate Professor

Faculty of International Relations, University of Economics in Bratislava

Abstract

The Belt and Road Initiative is an economic project of the global economy in 21^{st} century and should not just be about huge investments in transport infrastructure, land and sea, but also about the importance of industrial, energy and agricultural projects, new scientific knowledge, information technology, building joint ventures and significant strengthening of electronic data transmission. All these projects will be reflected in international trade and finance. The financial industry has an important role to play in realising the full potential of the Belt and Road Initiative, from building and maintaining effective infrastructures and processes to support capital flows; to working towards common standards and mitigating risks. This paper discusses potential impact of this large investment on improvement of mutual trade between People's Republic of China (hereinafter: China) and Slovak Republic (hereinafter: Slovakia) by using traditional and new trade finance products and analysis the internationalisation of RMB in recent years.

Keywords: trade finance, development financial institutions, RMB internationalisation, SWIFT gpi

Introduction

More than 2,000 years ago, the trade roads of major civilizations of Europe, Asia and Africa helped to facilitate the exchange of goods, knowledge and ideas, and then promoted economic, cultural and social progress in different countries, facilitating dialogue and integration of different cultures. For large and small countries near the Silk Road, it was a great economic benefit. The Belt and Road Initiative (BRI) is based on the past, but it also allows other countries to engage in this project. The priority of the project is Central Asia, Russia, South Asia and Southeast Asia, the Middle East and East Africa. In the long term, the incorporation of European countries, CIS and Africa is envisaged. It is to be expected that other countries will join the project as part of the growing openness and a whole host of new initiatives and projects will emerge. The BRI is an economic project of the 21st century global economy and should not only be a huge investment in transport infrastructure, land and maritime, but also important industrial, energy and agricultural projects.

The SR is interested in strengthening the investment activities of Slovak investors in China, especially in Central and Eastern China, which has not yet been occupied by large multinationals. The rapid growth of the Chinese economy strengthens the middle class, which currently accounts for about 300 million people, who are making more and more money, increasing their purchasing power and creating new opportunities for Slovak entrepreneurs. On the other side there are a lot of investment possibilities in SR where Chinese investors could participate.

China is the second largest economy in the world, the largest exporter and the second largest importer. The biggest challenge for the Chinese government is to ensure growth sustainability by 7.5%. China is a member of major international organizations such as the United Nations, the WTO, the International Monetary Fund, the World Bank, China's accession to the WTO in 2001 was one of the most important steps in its modern history. China's trade integration with the WTO has helped to increase its share of world trade and has negatively affected the position of major EU exporters. (Fojtíková, 2012). China participates in integration processes in the region, is a member of the APEC (Asia-Pacific Economic Cooperation) regional association, deepens cooperation with ASEAN (Association of Southeast Asian Nations) and is actively involved in ASEM (Asia-Europe Meeting). Free Trade Agreements concluded with Singapore, Pakistan, Chile, Peru, Costa Rica, Australia, New Zealand, South Korea and ASEAN countries. The first European countries with which they signed free trade agreements were Switzerland and Iceland. Negotiations on Free Trade Agreements are ongoing with Israel, Japan, and Norway. Although some EU countries are considering the benefits of such an agreement, there is currently no realistic conclusion with of any of them.

China’s banking system has surpassed that of the eurozone to become the world’s largest by assets, a sign both of the country’s increased influence in world finance and its reliance on debt to drive growth since the global financial crisis. Chinese bank assets hit 33tn USD at the end of 2016, versus 31tn USD for the eurozone, 16tn USD for the US and 7tn USD for Japan. The value of China’s banking system is more than 3.1 times the size of the country’s annual economic output, compared with 2.8 times for the eurozone and its banks. World leaders and economists lauded China’s stimulus at the time for helping to stabilise global growth at a time when developed countries were deep in recession. (Wildau, 2017).

The four largest banks by assets across the world all came from China, which reported under International Financial Reporting Standards, with a combined 13.64tn USD in assets, up 1.73tn USD from 2017 figure, according to the latest global bank ranking by data and research provider S&P Global Market Intelligence. Industrial & Commercial Bank of China Ltd, China Construction Bank Corp, Agricultural Bank of China Ltd and Bank of China Ltd got the first four spots, though a report about the ranking on the website of S&P Global Market Intelligence attributed half of the growth to the yuan strengthening against the US dollar during that time frame. (ChinaDaily.com.cn, 2018).

We can agree with Professor Fabian (2014) that China will be one of the most important trading partners for Central and Eastern Europe. There are many factors that can affect the future volume and value of trade: the world economy, the domestic economy and domestic politics. This is evidenced by the active co-operation on the project of BRI in the form of cooperation between China and the 16 Central and Eastern European countries. These 16 countries include the 11 EU Member States (Bulgaria, the Czech Republic, Estonia, Croatia, Lithuania, Latvia, Hungary, Poland, Romania, Slovakia, Slovenia) and 5 non-EU countries (Albania, Bosnia and Herzegovina, Serbia).

The start of co-operation between the PRC and 16 CEECs was announced at the Budapest Summit in 2011 with the participation of the Prime Ministers of Hungary and the PRC and representatives of 15 other countries. This format can be seen as an instrument for promoting bilateral co-operation and complementing co-operation at EU-China level. The co-operation is gradually expanding and institutionalized by the establishment of regional centres of sectoral co-operation. While the 2012 summit in Warsaw adopted a 12-point proposal, the co-operation guidelines adopted at the Bucharest Summit in 2013 already included 50 co-operation initiatives on financial mechanisms, trade, connectivity, green energy, civilian exchange and exchange at local government level, and these were further expanded during the Belgrade Summit in 2014. (Baláž, 2015).

China plans to invest around 124bn USD for the project of Belt and Road in five years. This initiative should bring together 65 countries where 4.4 billion people make up to 40 percent of the global economy. Since 2013, China has invested around 60 billion dollars in the construction of the aforementioned. (Buchláková, 2017).

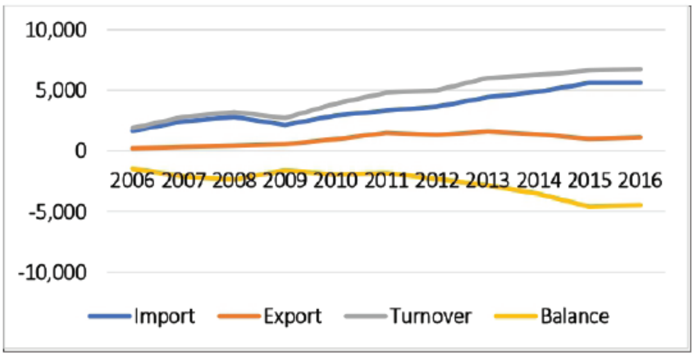
The aim of this paper is to discusses potential impact of this large investment on improvement of mutual trade between China a Slovakia by using traditional and new trade finance products and analysis of the internationalisation of RMB in recent years. In order to meet this goal, we analysed the current state of co-operation between Slovakia and China, evaluated primary and secondary data, using qualitative methods of scientific co-operation such as analysis, synthesis, induction, deduction, comparison methods and statistical methods. Due to the timeliness of the topic, we used mainly electronic resources and obtained data from the databases of the Statistical Office of the Slovak Republic and the National Bank of Slovakia.

1. Analysis of economic co-operation of SR and China

The Slovak Ministry of Foreign Affairs worked out a paper entitled "State and Opportunities for Economic Cooperation of the Slovak Republic and the People's Republic of China", which aimed to address the main features of Slovakia's economic relations with China and to create an information base for finding answers to current challenges in their development. China is an important business partner for Slovakia, a potential source of foreign direct investment (FDI) and a prospective partner for co-operation in science, research, technology and innovation, in the field of tourism. The further strengthening of China's economic impact on the global scale will increase its importance for both Slovakia and the EU. This development brings new opportunities as well as certain risks. We are currently facing issues of self-preparedness to optimally exploit opportunities while eliminating negative impacts and risks. Economic co-operation takes place in a complex political environment of the 21st century and is naturally influenced by factors such as seamless bilateral political relations, EU-China relations, our ability to effectively use our capacity to promote our economic interests in the EU framework, Visegrad 4 Group and last, but not least, the new formats initiated by China "China + the countries of Central and Eastern Europe", the New Silk Road project and the related "Belt and Road" initiative announced by Chinese President Xi Jinping in March 2015. It is important objectively to reflect the perceptions and needs of the business community in relation to the promotion of its intentions towards China by the Slovak government and administration. (Ministry of foreign affairs of the Slovak Republic, 2015).

The PRC is an important trading partner for Slovakia and Slovakia is interested in increasing its exports to Chinaand inflows of foreign direct investment (FDI), mainly into transport infrastructure and higher added value production. Trade between Slovakia and China exceeds the long-term value of 6 billion EUR, this is limited by the commodity structure on both sides. The China is the 12th most important Slovak business partner. Trade is characterized by an increasing volume of imports and a fluctuating level of exports, leading to an increasing passive trade balance. The change in the negative trade balance can only be achieved by a gradual decrease of imports into the SR or by a larger activity of its entities, especially small and medium-sized enterprises. Chart 1 gives an overview of foreign trade at current prices from 2006 until 2016. From the data in Chart 1, we can see that foreign trade in the last 10 years has an increasing trend in all indicators. Export compared 2006 and 2016 increased 5-fold and imports tripled. We are also witnessing a steadily growing balance of trade balance. These trends can be clearly seen in Chart 1.

Chart 1: Foreign Trade of Slovakia and China in mil. EUR in current prices (FOB/FOB) in 2006-2016



Source: Own processing on the base of data of Statistical Office of SR. Foreign trade of SR, http://datacube.statistics.sk

Commodity structure of foreign trade between the Slovakia and China has not changed for a long time. Exports to China are dominated by cars and their components (75.6%). Other categories are boilers, machinery and mechanical equipment (14.8%), electrical machinery and equipment (3.2%) and furniture and fittings (1.4%). Other nearly 100 items are represented individually with a share of less than 1%. In total, there were almost 300 Slovak exporters registered in 2013 in China. We must emphasize the high concentration of exports in the hands of foreign companies operating in Slovakia - Volkswagen (automobiles), Secop / Danfoss (compressors), Embraco (compressors), Ikea / Swedwood (furniture, wood). Transnational entities usually do not need and do not use specific Slovak export support tools. Slovak exporters are among medium and small businesses. Among the largest exporters to China are ZTS Sabinov (gears), Kinex Bearings (bearings), SPINEA (precision gears), RONA (utility glass), TOMARK (small airplanes), MICROSTEP (CNC machines for material separation), UNITED INDUSTRIES, ANTIK Technology Košice (telecommunication technology), GEOMODEL SOLAR (software tools for solar power engineering), KONŠTRUKTA (equipment for the pneumatic and automotive industry). Despite the large market and demand for food imports to the PRC, exports to the agri-food sector are low (about € 1 million). In particular, beverages, wine, live animals and confectionery are exported. (Ministry of foreign affairs of the Slovak Republic, 2015).

According to the Slovak Ministry of Economy, the share of Chinese investments in the Slovak economy in cumulative terms is EUR 47 million, representing 0.01 percent of the total volume of foreign direct investment in the Slovak economy (EUR 42.3 billion). For example, the construction of a new nuclear power plant in Jaslovské Bohunice is also offered to the Chinese investors. However, the project is still shrinking. In connection with Chinese investments, Bratislava Airport and Spa in Piešťany are also mentioned. The biggest opportunities for investing Chinese investors can be seen in transport and tourism. (Ministry of foreign affairs of the Slovak Republic, 2015).

Table 1 gives an overview of foreign direct investment in the Slovak Republic in thousands in 2007-2016 according to National Bank of Slovakia (NBS) data. The amount of these investments is relatively low and there is certainly room for increasing the engagement of Chinese entities in the Slovak Republic.

Table 1: Direct Foreign Investments in SR in ths. EUR in years 2007-2016

Rok	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Suma	3 966	25 523	15 224	20 483	46 288	38 772	25 190	31 332	13 816	32 853

Source: Own processing on the base of data of NBS.

The effort to attract the Chinese capital to Slovakia is long-lasting and undoubtedly intensified after the introduction of sanctions against the Russian Federation, which has deterred potential Russian investors. China and Slovakia signed the Memorandum of Understanding on Joint Support for Economic Stream Road and the 21st Century Maritime Route Initiative in 2015 and the Memorandum of Understanding between the China, General Administration and the Slovak Financial Administration on co-operation in the Silk Road Initiative initiative. One of the most significant Chinese investments in Slovakia could be the entry of the Chinese investor Hesteel Group into U.S Steel. With this investment, the company would enter the European steel market, where it is currently penalized with high import tariffs.

Investment relations between Slovakia and China began to develop later as business relations. Slovakia is among the countries with the smallest volume of Chinese investment in the European context, and we are in last place compared to all our neighbors. In Slovakia there are only few examples of medium-sized investments from China. Examples include, for example, the smaller centers of Huawei and Lenovo, but mainly companies in the automotive industry. These include, for example, production lines of SaarGummi, ZVL Auto, Heiland Sinoc Automotive, Inalfa Roof Systems and IEEE Sensing Slovakia. An example of the research center in the automotive industry is the Mesnac European Research and Technical Center. (Turcsányi, 2016).

2. Importance of the BRI for the Slovak economy

In assessing Chinese investments in Slovakia, it is important to focus on the possibility of increased investments. New possibilities are brought by the BRI, in which China is interested in establishing itself in the area of termination of intermodal transport terminals in Bratislava and Košice. Certain possibilities for co-operation can also be expected in addressing major infrastructure investment projects in the region, the first to build a train link between Budapest and Belgrade. The possibilities of co-operation are also in the construction of new railway corridors with the most advanced technologies so that they can also drive high-speed trains.

Maritime transport of goods from China to Europe takes 40 days. In January, 2017 China launched the first direct rail link with London. Freight trains can ship goods from the Iwu shopping center in East China's Ce-t'iang Province to the UK in 18 days. The route is about 12,000 km long and runs from China, via Kazakhstan, Russia, Belarus, Poland, Germany, Belgium and France to Great Britain. The disadvantage is the need for translation due to different track gauges in individual countries. China's railways are already operating freight traffic between China and some other European cities, such as Hamburg and Madrid. London is becoming the 15^{th} European City to join BRI. (Pravda, 2017).

In 2018, the Chinese Communications and Transport Association is planning to transport approximately 500 integrated trains from China to Europe. In 2020 China wants to send 5,000 such trains yearly, about 2,000 of which could pass through Slovakia. In the East of Slovakia, projects for the construction of a logistical and commercial backbone for freight trains are also being prepared, which would, besides increased employment, also bring development of trade and the associated revenues for Slovakia. From the next year, the train from Dalian will start to travel to the terminal in the port of Bratislava once a week, and in the second half of 2018 it will go twice a week. Savings on rail transport time, compared with maritime transport, are approximately 16 days. In addition to the port of Dalian, other Chinese cities are interested in redirecting some of their trains to Europe - via Slovakia. (Ministry of transport and construction of SR, 2017).

The BRI involves not only infrastructure but also new scientific knowledge, information technology, or joint venture. Part of this project is also a strong enhancement of electronic data transmission.

An interesting opportunity for Slovak producers and entrepreneurs could be the E-silk road project, which would offer companies from different provinces and regions in China with ideas.

There should be a project pool where all proposals would be published. Whether it is a project looking for an investor outside of China or a proposal from a Chinese company that wants to push beyond the borders of the country. If an idea is born in Slovakia that needs the right investor, it can be found right through the E-Silk Road.

We certainly do not have to forget to develop mutual tourism, nor to co-operate in the production of hi-tech technologies and products. Whether Chinese companies want to invest in Slovakia or vice versa the BRI is a great platform for both sides.

3. Traditional trade finance and payments instruments in Slovakia and China

The availability of finance is essential for a healthy trading system. Today, up to 80 per cent of global trade is supported by some sort of financing or credit insurance. However, there are significant gaps in provision and therefore many companies cannot access the financial tools that they need. Without adequate trade finance, opportunities for growth and development are missed; businesses are deprived of the fuel they need to trade and expand. (WTO, 2016)

In international trade we have three basic options for trade financing. The most popular form is an open account; a form of financing by exporters, less popular is the advance payment, a form of financing by importer. In the middle of the scale we can find documentary payments – documentary collections and letters of credit. An open account payment method is used the most, because in recent years a large part of international trade is carried out within supply chains in the regions, i.e. between partners who know and trust each other. However, there are regions within Asia, Africa and South America, where the use of letters of credit is still popular. China is on of the countries where the share of letters of credit is still quite high. For a Chinese exporters letters of credit are really very favourable means of payment. They get the payment for exported goods usually immediately after loading the goods and presentation of documents to the bank. To the disadvantages of the letter of credit, in addition to rather complicated conditions, we can include also the price, but this high price should always be considered in conjunction with the risk and speed of payment. In these regions documentary collection are also quite often used. The reason for their use is the covering of risk that the importer gets the goods without payment. It is a cheaper method of payment as letter credit, but on the other hand, the payment is made after approval by the importer, which takes time, and this form is also linked to the risk that the buyer decides not to take the goods and not to pay for them. So, documentary collection should be used only where there is no doubt about the willingness and ability of the importer to pay.

Letters of credit and documentary collections are used also in other countries in region especially in India, Pakistan, Indonesia, but also in the Middle East countries. Specific position of letters of credit in Arab countries is underlined by applying of Islamic banking. We can mention also South American and African countries where letters of credit are also popular. In some Asian and African countries suffering from lack of freely convertible currencies and applying centrally managed foreign exchange economy, foreign trade legislations impose the obligation to use letters of credit in foreign trade transaction.

The main reason is that governing bodies want to have these transactions under control and release foreign exchange after approval of the transaction. This is evidenced by the ICC report (2011) which states that the largest increase in letters of credit was recorded in Algeria, where they implemented the obligation to make payments to abroad under letter of credit only. In recent years there has been a lot of discussion about the future of letters of credit, documentary form based on paper documents, seems at present time to be very complicated and lengthy, in international trade in certain regions will continue to be an indispensable means of trade finance. Moreover, reducing the number of letter of credit transactions must take into account the initial and final level. If the letter of credit transaction volume represents approx. 10% of exports, and this percentage is reduced year by year, it still does not mean that these letters will no longer be used.

The situation in the Slovakia is comparable with other Central European countries, mainly with the Czech Republic, Hungary and Poland, but from all of these countries Slovakia has the smallest share of letters of credit in international trade finance, especially for export payments.

The reasons for this situation can be found in the monopoly of foreign trade, which was applied until 1989 and which was mainly centralized in Prague until 1968. Even though this year there was certain decentralization given to Bratislava, the know-how was transferred only gradually and not always in full. The other mentioned countries have had much more of know-how and practical training of professionals with greater opportunities and experience. As far as the territorial structure of payment transactions is concerned, this has not in the past had any significant impact on the volume of letter of credit transactions. Untill 1989, our foreign trade was concentrated on the CEE countries (75%) and after 1989 gradually moved towards the EU member states (85%). In both cases, letters of credit were used to a limited extent.

Another factor that prevents greater use of letters of credit by Slovak exporters is the pricing. Letters of credit are considered to be a fairly expensive means of payment. In developed countries, 80-90% of them are confirmed by the domestic bank. This means that the bank assumes the obligation to pay the exporter the appropriate amount upon presentation of the documents. For this commitment, the bank charges a risk margin based on the risk exposure of the bank. This risk margin takes account of the transaction risk and may sometimes be high. Advising charges are usually flat with rate of EUR 75-100 euros. In Slovakia, banks calculate 0.2 - 0.3%, min. EUR 100, which, in case of confirmation, still adds margins in the same amount as in the developed countries. Most of the banks in Slovakiaare subsidiaries of large Western European banks, and bank limits and margins are usually set by their head offices. The exporter is paying 0.5% of the transaction value for the bank's help to collect the claim. Despite this price level, which could be termed "deformation," the exporter should receive qualified information and consider the use of the letter of credit, as the issuer's obligation to provide reimbursement still plays a significant role. This undertaking is not formal and is based on an assessment of the importer's credibility. The issuing bank actually confirms that the importer has funds to pay for the delivery, or if not, the bank will borrow it for reimbursement. It also undertakes to make a payment, if it is submitted in letters of credit. This means that the exporter is reasonably confident that the importer has serious interest in the goods and also funds to pay for them.

Another problem is reluctance of some banks to take risks of these transactions. In addition to the risk posed by the bank, which would be taken by the creditors, the main obstacle may be, in particular, the fear of documentary risk, especially in the case of a confirmed letter of credit.

Letters of credit are also included into programs to support trade finance, which have been adopted by international and regional financial institutions, such as the European Bank for Reconstruction and Development, the World Bank, the Arab Development Bank, African Development Bank, and the Inter-American Development Bank. The aim of these programs is, to some extent, to eliminate risks in international trade mainly between developing and developed countries. In practice, this means that, if the bank decides to confirm the letter of credit, the counterparty is an institution which has a rating of AAA. Some shortcomings of these programs are relatively in high intensity of the awareness and experience of all participants. Often it happens that a certain trade transaction is not realized because the exporter or his bank does not know about this possibility, or they find it too complicated.

The historical and economic development of Slovakia, as well as the economic and financial crisis, have again shown the great vulnerability of our foreign trade and its financing. This is characterized by a high concentration on EU countries: in the pro-export policy of Slovakia, in countries with high growth potential (Russia, Ukraine, Balkan countries, South-East Asia) and also in countries with high export growth potential (USA, Japan, Canada, Australia, other countries of the Commonwealth of Independent States, Turkey, Vietnam, Indonesia, the countries of North Africa and South Africa). The practical implications of this policy call for the attention and the creation of qualifying conditions for the realization of the opportunities provided by the sovereignty of the state in international trade and its financing to be increasingly drawn.

For payments Chinese supplier normally use: Western Union as their orders are too small; PayPal; 30% deposit by bank wire transfer, balance 70% against the shipment; Letter of Credit; Escrow payment and Document against acceptance.

Chinese suppliers are generally reluctant to accept payment by letter of credit. They would try to offer a general 30% advance and 70% upon shipment payment terms. This method of payment is unsafe because the supplier may produce poor quality goods or, worse, even he may simply disappear with the deposit. An importer, naturally, to protect his interest should offer L/C payment. Work with suppliers that accept a letter of credit as a payment method is widely recomended. Usually, small supplier or those looking forward to a one-off transaction would not agree, whereas a large, reputed supplier will accept documentary LC. Work with large Chinese companies as they have dedicated export sales departments which are familiar with the documentary letter of credit.(Mohta, 2018).

Many small manufacturers in China function as survival businesses and they are far from willing, or even able, to accept one. It basically comes down to two factors: the order volume, and the manufacturers size.

The letter of credit cost varies from bank to bank. It also depends on the credit rating of the importer, country where the beneficiary is located, and several other factors. On a conservative estimate, an L/C should cost between 0.75% to 1.5%. Please, remember that these costs are shared between importer (the buyer) and beneficiary (Chinese factory or supplier). As per common trade practices, all charges originating in the country where the importer resides is borne by the L/C opener whereas charges incurred in the destination country will be shared by the exporter. (Mohta, 2018).

4. Inovations in trade finance and payments instruments

For decades letter of credit was one of the most important trade finance instrument in world trade. This position is changing by implementation of new electronic tools which can use the benefits of letter of credit and open account like bank payment obligation. Very important is also the increasing speed in realisation of cross border paments. In EU this process is represented by Single European Payment Area (SEPA) project which is very important for Slovakia having almost 90% of foreign trade realized in Europe and in euro. On the other hand China plays an important role in implementation of new international payments instruments on the platform of SWIFT global payment inovation (SWIFT gpi).

4.1 Single Euro Payment Area

One of the most important payment project of the new century is the SEPA project, an initiative of the European banking industry managed by the European Payments Council (EPC). The aim of SEPA was to eliminate the differences in the ways of realization of domestic and cross-border bulk payment transactions within the Automated Clearing House (ACH), in order to increase efficiency and to reduce costs for all parties involved. The greatest benefit of this european project is the implementation of a new payments landscape to be able to realize cross border retail payments at the same time and price conditions as domestic ones and even more important is the standardisation possibilities.

SEPA also introduced some changes in the banking systems: banks had to change their national codes and account numbers for new standards - IBAN (International Bank Account Number) and BIC (Bank Identification Codes). This change represented the biggest challenge for banks within SEPA, as they were using previously different codes for bank accounts in member states.

First discussions on the introduction of SEPA mainly focused on the benefits that SEPA would bring in retail payments to consumers, retailers and banks. In recent years, the globalization reached such an importance that currently multinational and transnational companies are able to benefit from SEPA the most. Before implementing the SEPA instruments most corporations had to maintain multiply bank accounts, often one for each country of operations. After the introduction of SEPA every business can theoretically be able to run one treasure operation with one bank for the whole of Europe. Eradicating the need for multiply resources, currencies, languages, banks and financial managers generate significant savings. Billions of euros can be saved through improvements to treasury operations through the automation of account payables and receivables. This focus corporations and their banks on releasing much greater efficiencies through "supply chain automations". (Skinner, 2008).

This brings additional strategic opportunities in the segment of large companies that enhance the current trends of centralization, standardization and automation resulting in cost reduction on the one hand and in improving risk control on the other. In particular, centralization goes about creating a centralized financial management (treasury), payment factory and in-house bank, which also brings billions of savings. Automation is associated with the introduction of new interfaces in information technology, with further dematerialization of paper and direct treatment. In the area of standardization SWIFT continues to play an important role - offering large companies new ways to communicate. To advance the goals of centralization helps SEPA payments that the company is able to reduce the number of accounts needed within the EU and to facilitate the centralization of liquidity. The automation simplifies data reconciliation and uses the new data elements. There is also simpler system configurations, thanks to the elimination of domestic formats. Corporates are able to harmonize and use one database format (XML) for the whole of Europe.

The next step in SEPA was identified by European Central Bank (ECB) in November 2016 – the need for a pan-European euro instant payment solution. The most relevant features of the SEPA Instant Credit Transfer Scheme, launched one year later in November 2017, is the immediacy – the funds will be available in less than ten seconds safter the transfer has been initiated. Another important feature is the fact that the scheme will be open and accessible to users and service providers 24 hours a day, 7 days a week. These two main features, immediacy and accessibility, are the ones that best describe the scheme. Any bank or PSP (Payment Service Provider) can adhere to this scheme. Initially, the SEPA Instant Credit Transfer scheme was implemented in eight European countries: Austria, Estonia, Germany, Italy, Latvia, Netherlands and Spain. PSPs from Finland, Belgium, Malta, Portugal and Sweden will also be ready in 2018. (Santamaria, 2017).

In terms of payments functionalities and reach, corporates have probably more requirements than individuals, and their demand for instant payments may be lower because they have alternatives. For a purely B2B environment, the limitation of EUR 15,000 could become an obstacle and that is why they are watching it very closely and, if necessary, they will increase that amount. However, for many purposes, having an instant payments functionality, is something valuable and beneficial, and corporates and businesses will benefit from it as well. (Santamaria, 2017).

Banks and Payment Service Providers in Slovakia haven´t decide yet when they join this platform.

4.2 Trade Service Utility

Further development of electronic commerce and electronic banking results in the need for a new service that would provide comfort especially for supply chain to finance their business. Such service is called Trade Service Utility (TSU) and comes with SWIFT and several of the world's largest banks.

Summary of characteristic components of TSU (Jančíkova, 2011):

TSU deals with data elements which are extracted from commercial documents, mostly from the order, commercial invoice and several transport documents, such as notification of the carrier or freight forwarders confirmation of receipt of goods.

Automated reconciliation of data from the document is designed to provide in good time and reliable sources of information which can be used to promote an efficient approval process, including financing before and after delivery.

TSU was designed for banks and built by banks, which are both customers and shareholders, and SWIFT. TSU competes with banks and does not interfere with the competitive space. Providing data and the reconciliation of the SWIFT message enables banks to develop their own business solutions.

TSU management infrastructure reduces the cost of investments in banks. TSU standards support interoperability among the participating banks. The rules that were included in the description of services specify the obligations of banks and SWIFT to each other.

TSU was officially launched on 2 April 2007. The exchange of the first "live" transactions occurred between JPMorgan Chase in London and BNP Paribas in Hong Kong. The transaction included an order acceptance, then the invoice and transport data corresponding to the order.

TSU is an important step that allows banks to fill the gap in the product range and introduce more holistic approach to supply chain solutions. This is an important step in the new stage of development to provide customer service that can quickly respond to rapidly developing market. The implementation of TSU is connected with a new trade finance product – Bank payment obligation.

4.3 Bank Payment Obligation

Bank Payment Obligation means an irrevocable and independent undertaking of an Obligor Bank to pay or incurr a deferred payment obligation and to pay at maturity a specified amount to a Recipient Bank following Submission of all Data Sets required by an Established Baseline resulting in a Data Match or an acceptance of a Data Mismatch pursuant to sub-article 10 (c) Uniform Rules for BPO (URBPO) Article 3. (ICC, 2013).

The BPO addresses the key four elements of Trade Finance, identified earlier (SWIFT, 2013):

Payment. The BPO is a payment assurance. On one hand, sellers get the assurance to be paid on time as per the payment terms, while buyers can control the payment execution and optimize their banking credit lines. Compared to documentary instrument, BPO is expected to improve the cash conversion cycle for exporter.

Financing. The BPO is positioned, and has been accepted by banks, as possible collateral for financing. It has been recommended that the BPO be granted similar accounting and capital treatment as an L/C. Sellers can benefit from pre/post-shipment financing from their own bank based on approved purchase order or approved invoice under a BPO, while buyers can negotiate extended payment terms with their respective bankers under a BPO. The use of a Bank Payment Obligation allows for the provision of financing to either the importer or the exporter.

Information. The Electronic information flow related to a BPO transaction is based on ISO 20022 standards: For exporters, the available data will help to improve liquidity forecasts and discrepancy/amendment management. The ISO 20022 structure will facilitate the integration with e-invoice services.

Risk Mitigation. The BPO transfers risk from the buyer to one or several banks. Sellers can mitigate the financial, commercial and some transport and economic risks as described in the table below.

The main intention of the BPO was to find a new, safer solution for open account business and not to replace the letter of credits. In spite of this primary intention some of corporates find out that the BPO can materially reduce the documentary risk, costs and frustration associated with transactions under L/Cs.

The BPO allows for effective risk mitigation, and is technology agnostic, as relates to the matching engine that is used to determine compliance or non-compliance of the data transmitted in the course of a BPO transaction. The ISO 20022 XML structure, compatible with the BPO, supports any type of character set and is not limited in the size of the documents, which have been commonly reported as important issues when dealing with official legal documentation in some key emerging countries. By virtue of its electronic nature, the BPO will facilitate secure, efficient and objective transactions, eliminating some of the complexity, inefficiency and uncertainty involved in L/C-based trade.(SWIFT, 2013).

4.4 Supply Chain Finance and the Bank payment obligation

Supply Chain Finance (SCF) is a collaboration of trade-related participants provided by a financial institution, a third-party, or an internal corporate treasure using a technology platform. SCF connects the supplier, the buyer and the funding servicer electronically to provide financing based on supply chain events. (Chin 2013).

Financial Supply Chain Management allows companies to manage and optimize cash flows across the value chain. Cash flows are often very inefficient and for financing of goods the best solution are to use the strongest credit rating available within the supply chain. For optimisation of these inefficiencies across chain various instruments and solutions can be used. In the past few years some new solutions have been developed. We can mention invoice matching, e-invoicing, open account payments and reverse factoring and one of the most revolutionary trade finance product – BPO.

We can summarize the key benefits for buyers in supply chain finance by extending payment terms, negotiating commercial terms and reducing supply default risk and in cash flow optimization by controlling payment time execution, paying key supplier on time, syndicating payment risk, reducing administrative costs, reducing investigations and disputes and by outsourcing payables processing. For sellers the key benefits in supply chain finance are in pre-/post-finance, alternative to factoring and in reduce interest costs. In cash flow optimisation we can mention these benefits – getting paid on time, optimising risk-reward transactions, improving liquidity forecasts, improving discrepancy management, syndicate payment risk, simplifying integration with e-invoices and reducing the processing effort. Key benefits for banks are based on one hand on market needs mainly on open door to new business opportunities, in strengthening core relationships, in meeting market requirement for banks to collaborate more on risk and client on-boarding. On the other hand they are based on business especially on low risk business, prudent use of capital, steady source of commission and fee income, automated solution, and on lower operating costs. (SWIFT, 2012).

The BPO, as an electronic instrument and an interbank undertaking, can assist banks in extending their SCF proposition across the transaction, on the buying side and the selling side, as well as in reaching larger proportion of the supply chain ecosystem – ideally, positioning an offering that can provide near-full coverage of the liquidity requirements of the global supply chain.

The electronic data-driven nature of the BPO instrument gives trade bankers the opportunity to provide supply chain financing services earlier in the transaction lifecycle, in pre- and post-shipment finance, at a more advantageous rate.

At the same time, the open and multi-bank nature of the BPO instrument gives trade banks the reach and scalability to extend financing based on interbank relationships to any counterparty around the globe, including in the context of approved payables and discounted receivables.

The BPO combines the assurances and security of a L/C and the speed and efficiency of the open account transaction. An L/C relies on a strict compliance verification of paper documents under the UCP 600 rules that enables a payment to be released by a bank. On the other hand, the open account model means buyers pay according to the payment terms, usually, upon the receipt of the goods, with no involvement from a bank to cover any shortfall, if problems arise.

According to ICC and SWIFT the bank payment obligation could play a vital role in the development of global trade. The BPO enables faster and cheaper payments and as result of that also better working capital management. To some extent it can be also used to cover the underlying risk or finance the amount owed. Some banks are looking to make it more accessible and they are offering their clients the chance to try it before buying. Banks also try to educate their customers on the benefits. The main problem is that from a technology perspective, the required investment can be expensive. BPO processing means both banks and corporates have to make a number of changes in their systems to be able to share information electronically through SWIFT´s Trade Service Utility (TSU). The number of counterparty banks currently using the TSU is limited. If an exporter wants a BPO, it is not enough to simply have the importer´s consent – they have to ensure that the importer´s bank can access the TSU.

The BPO market is still in its infancy and requires further investments, particularly on the banking side. What is particularly interesting for emerging markets like China, however, are the unified BPO rules, issued by the International Chamber of Commerce (ICC), which should avoid potential discussions and disputes between different legal jurisdictions. While modern trade finance solutions are developing in China, it is still a country mainly based on traditional trade finance, relying on letters of credit for trade financing. This is understandable, as traditional trade finance products have proven to be reliable financing vehicles over the last century. However, international banks have started offering supply chain finance services to Chinese companies, closely followed by their Chinese counterparties. Meanwhile, the latter are making significant progress developing and offering supply chain finance products and BPO. With local and multinational banks on the move, it will surely not take too long for the "modern" trade finance products to become standardised, reliable products in China and all over the world too. (Doser, 2013).

4.5 The SWIFT global payments innovation (SWIFT gpi)

The SWIFT global payments innovation (SWIFT gpi) is the largest change in cross-border payments over the last 30 years and is the new standard. SWIFT gpi dramatically improves the customer experience in cross-border payments by increasing their speed, transparency and end-to-end tracking. Hundreds of thousands of cross-border payments are today being sent, using the new gpi standard, and payments are made quickly, typically within minutes, even seconds.

SWIFT gpi allows corporates to receive an enhanced payments service, with the following key features: Faster, same day use of funds within the time zone of the receiving gpi member; Transparency of fees; End-to-end payments tracking and Remittance information transferred unaltered. Launched in 2017, gpi one year later already accounts for 25% of SWIFT cross-border payment traffic. More than 165 banks, representing 80% of SWIFT's cross-border payments traffic, and including 49 of the world's top 50 banks, have signed up to the service. To date, 50 million gpi payments have been processed, with hundreds of thousands of payments sent daily across 350 country corridors, in more than 100 currencies. In major corridors, such as USA-China, gpi already accounts for more than 40% of payment traffic.

SWIFT gpi is seen as a key player in China's Belt and Road Initiative (BRI). It is designed to improve the customer experience in correspondent banking by increasing the speed, transparency and predictability of cross-border payments. The service offers Chinese banks faster transactions, and also improves the overall banking experience by creating predictable settlement times, transparent bank fees and FX rates, and clear statuses. This is turn leads to shorter supply cycles and faster shipping of goods on the customer end. The discrepancy in standards and regulation across the BRI introduces a number of challenges, such as the absence of unified communications framework and compliance issues. Strengthening financial connectivity on the

BRI routes is vital in ensuring its success in driving trade and stimulating economic growth across Asia. (Lee, 2018).

As a next phase, SWIFT has created a work group comprised of banks from China, Australia, Singapore and Thailand to explore, if these payments can be further sped up. The work group will define a set of business rules to look into how business process frictions can be overcome to facilitate faster (or close to real-time) payments. The working group will also identify domestic real-time payment systems that will carry the gpi information and unique end-to-end transaction references (UETRs), to allow the reach of the gpi service to extend into domestic payment system environments.

5. Internationalization of RMB

In terms of international co-operation, China applies principles stemming from the so-called "Five Principles of Peaceful Co-Existence". Those include the following (Erbenová 2014):

Mutual respect for each other's sovereignty and territorial integrity

Mutual non-aggression

Non-interference in each other's internal affairs

Equality and mutual benefit

Peaceful co-existence.

The use of the Chinese currency Renminbi for many years lagged behind China's economic development. It was caused by the restrictions applied in China. The situation began to change fundamentally after China's accession to the WTO. China was committed to the gradual release of such restrictions.

Renminbi is the official name of the Chinese currency, which means "people´s currency" and Juan is a unit of currency. Chinese currency has several sub variants:

CNY - Chinese Yuan (onshore) - the currency used within the mainland of China (the onshore variant), while only official ISO code of the Chinese currency, CNH - Chinese Yuan (offshore) - the currency used outside the mainland of China (the offshore variant), has its own rate, which is currently very close to the Renminbi exchange rate, but in the future may be different.

Renminbi was established in 1949 and for several decades was bound to USD exchange rate of approximately two Yuan per US Dollar (USD). Currently, the USD is about 7 Yuän, and this rate is subject to criticism, especially from the U.S., which along with other developed countries exert some pressure on China to make this course real. In addition to scientists and experts, it is often discussed by politicians. Start of internationalization of Renmimbi can be connected with China's accession to the WTO, which was the culmination of 15 years effort that started after signing up for membership in 1986. China became the 143rd WTO member on 11th of December 2001. The results of regression analysis carried out by Fojtíková, Kovářová (2014) confirmed that China’s accession to the WTO had a positive and significant influence on China’s foreign direct investments inflows. WTO membership helped to further economic growth, but mainly helped to reforms in governance and legislation. The Chinese government has launched a campaign to clarify and unify government regulations, to meet the demands of the WTO. In the first half of 2002, the State Council of China canceled or amended 2300 regulations of 30 ministries. This process continues until now.

SWIFT (Society for Worldwide Interbank Financial Communication) deals with the issue of Renminbi internationalization. They are following development the transactions in RMB for several years and work with global banks on the analysis concerning the use of RMB in trade finance, international payments or financial markets. In 2011, in the first document called White paper (SWIFT 2011) titled "RMB internationalization: Implication for the global financial industry", where it is pointed out that the Chinese currency in international relations is underutilized compared with achievements made by the Chinese economy. Main cause can be that the domestic capital market in China was relatively closed to foreign investors till 2002. The situation fundamentally changed in June 2010 when it was possible anywhere in the world to realize settlements of payment in RMB. And we can consider that as the beginning of the internationalization of the RMB. Chinese and non-Chinese banks involved in global trade with China could in their business reap the benefits provided by the internationalization of RMB. Chinese banks see it as a strategic opportunity to follow their clients abroad and develop the clearing of their international payments. Non-Chinese bank see a great possibility for the foreign companies to trade, pay and invest in RMB.

More and more financial institutions have on the agenda the question of the impact of the RMB internationalization in their business. Option "RMBfication" has become a part of the strategy of most global banks. RMB internationalization path can be divided into three stages:

1. use of RMB in trade finance,

2. use of RMB in investment and

3. use RMB as a reserve currency.

Decline in deposits in Hong Kong indicates moving to RMB investment products. Although Hong Kong is still the largest offshore center for client deposits, large increase occurred in other financial centers such as Singapore, United Kingdom, as well as Germany, France and other countries. According to SWIFT report the RMB business is affected in the 1050 financial institutions from 90 countries.

Banks in the Slovakia joined banks worldwide and already offer to their corporate clients account and payments in RMB. Payments in Chinese currency can be sent only to recipients in China who are entitled to receive payments in Chinese currency from abroad. It is necessary to verify that with the business partner. Chinese currency is still, to some extent, controlled currency that is not freely convertible. Banks therefore require their clients, if necessary, to provide the business records of the payment transactions, for example, contract of sale, transport documents.

The world's currency, however, still binds the third dimension. It works as a reference point for other currencies. Such reference currency shows a large degree of common movement with the rates of other currencies. View of the Asian currencies shows that in the years 2005 - 2008 six out of ten these currencies responded to movement in the dollar more than the RMB. After July 2010, however, this relationship turned and now there are seven currencies of ten more connected with RMB (Indonesia, Korea, Malaysia, Philippines, Taiwan, Singapore and Thailand). (Subramanian, Kessler (2013).

In this sense we can say that East Asia is now essentially a new currency bloc. The rest of the world is still dominated by the dollar, but the growing influence of RMB is evident. RMB begins to move like the currency of India, Chile and South Africa. Countries with significant business ties to China will naturally try to stabilize the exchange rate of its currency into RMB. There are also signs that higher tying the RMB exchange rate reflects the level of competition between country and China.

The development of growth importance of the RMB is different from the Japanese Yean (JPY). JPY was never considered as a reference currency; that was in Eastern Asia always dollar. We can expect that trade ties with China will continue to strengthen. If we consider the lower growth of the Chinese economy, the RMB will become dominant reference currency in about 25 years. This process can be significantly accelerated by realization of the necessary reforms.

The current trend in RMB payments is the ability of foreign banks to connect directly to the domestic clearing network. People´s Bank of China announced in 2011 the establishment of international payment system CIPS: China International Payment System. This allows about 100 Chinese and largest international banks become members of this scheme and to clear RMB payments directly through CIPS. Other financial institutions in the world can develop correspondent relationships with members of CIPS and so clear and pay RMB payments through CIPS.

According to records of SWIFT RMB reached in October 2013 a share of 8.66 % in trade finance activities - the letter of credit and documentary collections transactions. RMB overtook the Euro and got to the second place behind USD with a market share of 81.08 %. In January 2012, the RMB was still in fourth place with a share of 1.88%. For 22 months it increased its share by 6.77 %. The first position of the USD cannot be threatened, but in the coming years we can expect that the share of RMB will grow rapidly.

The position of RMB in trade finance is given by significant share of trade finance products in China's foreign trade. A letter of credit is still one of the most used means of payment, although in recent time due to the increase of open account payment condition in the supply chain financing we can see the decrease of the volume of traditional trade finance instruments. We can therefore expect the increase of the share of RMB as payment currency.

RMB remains stable at the 8th most widely used currency in international payments with a share of 1,10%. (in January 2012 RMB was on 20^{th} position and in October 2013 on 12^{th} position). (SWIFT, 2018).

The internationalization of RMB is one of the most significant financial events of this decade. It offers enormous opportunities for companies active in China to improve risk management and the efficiency of their treasury operations. However, as an evolving situation – and one driven by government rather than market forces – it is essential for corporate treasurers to keep a close eye on the latest developments, and to choose partners that combine local knowledge with global capabilities. Liao (2013).

The use of RMB for settlement offers to international and Chinese corporations certain gain. For international corporations beyond the plus of access to more Chinese buyers and suppliers, the switch to RMB offers them the opportunity to concentrate foreign exchange management. They have also opportunities to review contract and renegotiate pricing and payment. For Chinese corporations, dealing with RMB removes the burden of managing foreign exchange risk and allow them to price more effectively and to access more buyers form abroad.

The role of RMB in international trade has been growing in recent years; non-Chinese entities outside China tend to convert their RMB, which utilized only for trade with their Chinese counterparts, into USD or their home currency. In order to induce non-resident entities and individuals outside China to hold funds denominated in RMB, these parties need access to a wide range of RMB-denominated investment options. The stimulus to create and further develop a wider variety of RMB financial products is greater than ever.

According to the economists of Standard Chartered Bank (2014), one of the major global banks, in year 2020:

28 % of China's international trade will be denominated in RMB,

USD, EUR and CNY will dominate the global forex and interest financial markets, with increased daily turnover from the current 120 billion to over 500 billion USD.

Chinese capital market will be opened but with some Chinese characteristics. Direct investments will flow more easily than at present; the approval will be only required at high volumes.

Onshore capital market will be more accessible to offshore investors and offshore capital market will expand. Offshore RMB debt markets will grow 30% per annum and will represent 500 billion USD.

By leading the cross-border Belt and Road infrastructure initiative, China will expand the use of the RMB in connected countries, thanks to improved international payment and settlement facilities. (SWIFT, 2018).

The final step in the evolution of the RMB's role as a global currency is its global acceptance as a reserve currency. While there are clear indications that the RMB is on the way to being a "de facto" reserve currency – with a number of Central Banks already holding at least some RMB as reserves – the fact remains that the RMB still accounts for less than 1% of global reserves and moreover is not formally recognized as a reserve currency by the IMF.

This rapid development affects all regions of the world. Today banks in Slovakia offer their clients the opportunity to enjoy the benefits of using RMB. We expect that in the coming years, the Chinese economy will become the strongest economy in the world and it will correspond to the position of its currency. RMB internationalization is on the one hand the result of the reform process in China, but at the same time we can also say that the RMB internationalization greatly helps this process.

Conclusion

China's economy is the second largest economy in the world. China is the largest exporter and the second largest importer in the world. For Slovakia, it represents an important business partner, a potential source of foreign direct investment (FDI) and a prospective partner for co-operation in science, research, technology and innovation, in the field of tourism. The further strengthening of China's economic impact on a global scale will increase its importance for both the SR and the EU. Trade relations with China are based on the membership of Slovakia in the European Union and the membership of both countries in the WTO.

The foreign trade of Slovakia Republic and China reaches over 6 billion. And is characterized by an increasing volume of imports and a fluctuating level of exports. This leads to an increasing passive balance of trade balance, which amounted to almost 4.5 billion in 2016, EUR. The change in the passive balance of the trade balance can be achieved mainly by the increased activity of Slovak entities, especially small and medium-sized enterprises, in the search for export opportunities. The Chinese domestic market has been developing rapidly in recent years, and the new medium of export is creating new export opportunities for Slovak products.

Commodity structure of foreign trade between the Slovakia and China has not changed for a long time. Exports to China are dominated by cars and various machinery and equipment. Exports of food from Slovakia Republic to China are very low, and in spite of the large market and in the agri-food sector it is necessary to improve co-operation by adopting measures to reduce the administrative burden on imports of food products into China.

Investment relations between Slovakia and China began to develop later as business relations. Slovakia is among the countries with the smallest volume of Chinese investment in the European context, and we are in last place compared to all our neighbors. The effort to attract Chinese capital to Slovakia is long-lasting and undoubtedly intensified following the introduction of sanctions against the Russian Federation that have discouraged potential Russian investors.

The BRI brings great potential in the development of cooperation especially in the area of investment in transport infrastructure, which is currently being implemented by building multimodal transport terminals in Bratislava and Košice. These two nodes are considered to be very important as long as the wide-track track continues. A major success in the project of the new silk route is the construction of a railway link between Slovakia and selected regions of the PRC and the Slovak Republic. The first freight train arrived at the port in Bratislava in November 2017. The journey already exists and now we have to look for ways to use it in both directions most effectively. This is one of the biggest challenges of Slovakia in the near future.

In addition to co-operating in securing international transport and improving export opportunities in food commodities, it is also necessary to draw attention to the development of tourism. As in other areas and in tourism, Slovakia lags behind in the region and does not use its potential. An active engagement in the new silk route project could also bring about improvements in tourism.

The availability of finance is essential for a healthy trading system and trade finance is the lifeblood of most cross-border business transactions. For decades letter of credit was one of the most important trade finance instrument in world trade. Their use depends on many factors. in Slovakia the number of letters of credit is very limited for many reasons, we can mention the general ones – complexity and price; and special ones – teritorial and commodity structure of foreign trade and the general know how. On the other side in China the use of letters of credit is adequate to the position of Chine in the world trade.

The position of letters of credit is changing by implementation of new electronic tools which can use the benefits of letter of credit and open account like bank payment obligation. Very important is also the increasing speed in realisation of cross border paments. In EU this process is represented by Single European Payment Area (SEPA) project which is very important for Slovakia having almost 90% of foreign trade realized in Europe and in euro. In 2017 new scheme was launched – the SEPA Instant Credit Transfer Scheme with the most relevant feature: immediacy – the funds will be available in less than ten seconds safter the transfer has been initiated. Another important feature is the fact that the scheme will be open and accessible to users and service providers 24 hours a day, 7 days a week. Despite the innovativeness of this product, the banks and payment service providers in Slovakia are still considering its implementation. On the other hand China plays an important role in implementation of new international payments instruments on the platform of SWIFT global payment inovation (SWIFT gpi).

The BPO market is still in its infancy and requires further investments, particularly on the banking side. What is particularly interesting for emerging markets like China, however, are the unified BPO rules, issued by the International Chamber of Commerce (ICC), which should avoid potential discussions and disputes between different legal jurisdictions. While modern trade finance solutions are developing in China, it is still a country mainly based on traditional trade finance, relying on letters of credit for trade financing. This is understandable, as traditional trade finance products have proven to be reliable financing vehicles over the last century. However, international banks have started offering supply chain finance services to Chinese companies, closely followed by their Chinese counterparties. Meanwhile, the latter are making significant progress developing and offering supply chain finance products and BPO. With local and multinational banks on the move, it will surely not take too long for the "modern" trade finance products to become standardised, reliable products in China and all over the world too.

The financial industry has an important role to play in realising the full potential of the Belt and Road Initiative, from building and maintaining effective infrastructures and processes to support capital flows; to working towards common standards and mitigating risks.

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29.SWIFT, (2013): OPUS Advisory Services. (2013). Observations on the Evolution of Trade Finance and Introduction to the Bank Payment Obligation. Available online: http://www.swift.com/assets/corporates/documents/business_areas/trade_opus_swift_observations_2013.pdf

30.SWIFT, (2018): SWIFT July 2018 RMB Tracker Monthly reporting and statistics on renminbi (RMB) progress towards becoming an international currency. Available online: https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/document-centre

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Chinese cooperation with Slovakia in investment

By Adam Cibuľa

PhD Candidate

Faculty of International Relations, University of Economics in Bratislava

Abstract

The article analyzes one area of cooperation between China and Slovak economies. The first part of the article includes the analysis of mutual investment relations between China and the Slovak economies since the introduction of the 1978 reforms until now. The second part of the article will analyze the motives of the Chinese investment in Slovak economy. The last part of the article will compare the motives of Chinese investment in western European countries and Central and Eastern European countries.

Keywords: Slovak-China relations, Slovak economy, investment, CEE countries

Introduction

China's economy has experienced incredible growth over the last three decades that has allowed the country to become major global partner in the world economy. Since the introduction of economic reforms in 1978, China has become the world's largest production hub, with the secondary sector (industry and construction) accounting for the largest share of GDP. Economic success has brought a fundamental shift from a centrally managed economy to a market-oriented economy.[1] Globalization has introduced China's international market, technology, capital and

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[1] WEI, Y. (2001): Decentralization, marketization and globalization: The triple processes underlying regional development in China. Asian Geographer 20(1): 7–23.

management to the world and allowed to participate in international competition which has triggerred the growth of Chinese cities and regions.[2]

Before 1978, FDI in China was banned. This restriction was lifted after the adoption of the open door policy in 1978, when the new Foreign Investment Act was adopted. In the initial stages, FDI focused on four separate economic zones in China and was limited to joint ventures with shares.

Since the late 1990s, there has been a new phenomenon, that China has become an important source of FDI. Until that time China was primarily known as a country with large amount of FDI inflows. One of the milestones initiated by the Chinese goverment in 1999 was *Going Global Strategy* which aimed at supporting Chinese investments abroad. Since the launch of the *Going Out Strategy*, interest in overseas investment by Chinese companies has increased significantly especially among state-owned enterprises. One of the key motivation behind *Go Out* was a currency stability. The Chinese government actively encouraged its citizens and companies to engage in business operations across the globe in order to keep its companies competitive against the ever-growing number of foreign firms in China.[3] These measures made it easier for the country to enter the WTO in 2001 and increased the competitiveness of its companies in global markets, which was also reflected reflected in the sharp rise of overseas direct investment (ODI). This extraordinarily rapid growth in investment outflows has made China one of the three biggest countries in the world for ODI and, for the first time in its history, a net outbound foreign investor.[4]

In 2013, Chinese President Xi Jinping proposed a modern equivalent of a network of business routes named after an important export article-silk. The Belt and Road Initiative (BRI) has so far been the most ambitious project that China has ever launched. According to the PwC consulting agency, 66 countries are currently involved.[5]

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[2] LI, S., S. LI, and ZHANG, W. (2000): The road to capitalism: Competition and institutional change in *China. Journal of Comparative Economics* 28(2): 269–292.

[3] http://www.maxxelli-consulting.com/china-go-out-policy/

[4] WANG H., MIAO L. (2016): "Going Global Strategy" and Global Talent. In: *China Goes Global*. Palgrave Macmillan Asian Business Series. Palgrave Macmillan, London

[5] WONG, G.; BOOKER, S.; DEJEAN, B. G. (2017): 'China and Belt & Road infrastructure: 2016 review and outlook', PwC B&R Watch, February 2017.

In the next chapter, we will look at the development of Sino-Slovak investment relations, taking into account the participation of Slovakia in the Belt and Road Initiative (BRI).

1. Overview of Sino-Slovak Investment Relations

The economic (trade and investment) interests of Slovakia are largely influenced by the asymmetry of mutual Sino-Chinese relations, which is reflected, for example, in Slovakia's considerable trade deficit with China.[6] The total foreign trade balance of Slovakia in 2017 was active in the volume of 2.9 billion euros. On the other hand, the largest passive balance reached Slovakia in 2017 with China at the level of 3.9 billion euros.[7]

The asymmetric position of China and Slovakia also translates into the mutual FDI flows between these countries. These flows are furthermore decelerated by the vast geographical distance between the two countries and the huge linguistic, social and cultural differences. Slovakia is an economy clearly focused on the EU and China has strong economic ties with other countries in East and Southeast Asia.[8]

Slovak government policy currently identifies these areas as the most important interests for the further development of relations with China:[9]

- attract high added value investments to Slovakia;
- support Slovak entrepreneurs with the potential to succeed in the Chinese market;

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[6] TURCSÁNYI, R. Q.; ŠIMALČÍK, M. (2018): Čína na Slovensku: Sme pripravení na budúcnosť? [Policy paper] In *Asociace pro mezinárodní otázky* <https://www.amo.cz/wp-content/uploads/2018/05/AMO_cina-na-slovensku-sme-pripraveni-na-budućnost.pdf>

[7] Statistical office of the Slovak Republic (2018): Zahraničný obchod Slovenskej republiky 12/2017.

[8] DUDÁŠ, T. (2014): China - V4 FDI Relations - a Slovak Perspective. *Current Trends And Perspectives In Development Of China - V4 Trade And Investment: Conference Proceedings: International Scientific Conference, Bratislava, March 12 -14, 2014*, 128-137.

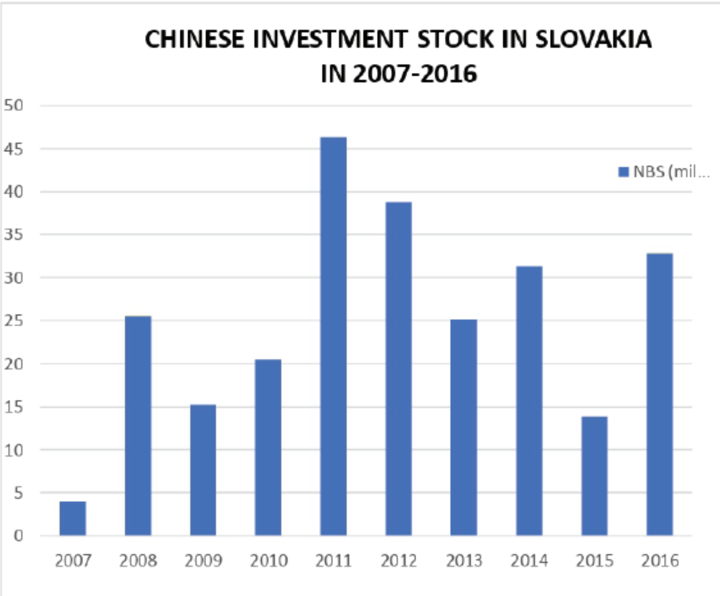
[9] TURCSÁNYI, R. Q.; ŠIMALČÍK, M. (2018): Čína na Slovensku: Sme pripravení na budúcnosť? [Policy paper] In *Asociace pro mezinárodní otázky* <https://www.amo.cz/wp-content/uploads/2018/05/AMO_cina-na-slovensku-sme-pripraveni-na-budućnost.pdf>

• promote tourism (attracting Chinese tourists to Slovakia);

• develop hitherto often neglected political relations.

Investment relations between Slovakia and China began to develop later as trade relations and their development depended practically exclusively on investments of Chinese businesses and citizens in Slovakia. To date, however, it is possible to talk about a relatively small volume. Slovakia belongs in the European context among the countries with the smallest volume of Chinese investments and compared to all our neighboring countries it resides in the last place.[10]

Figure 1: Chinese investment stock in Slovakia



Source: National Bank of Slovakia

[10] TURCSÁNYI, R. Q. (2016): Postavenie a možnosti spolupráce Slovenska s Čínou v rámci platformy 16+1. In *Institute of Asian Studies* <http://www.asian.sk/wp-content/uploads/2016/04/Postavenie-a-moznosti-SR-voci-Cine.pdf>

Figure 1 shows us value of stock FDI in Slovakia in period 2007-2016. We can observe a significant increase in Chinese FDI in Slovakia during this period as well as the intensification of the Chinese presence in CEE region, in accordance with the increase in investment opportunities NBS data shows large fluctuations in positive and negative direction. The latest NBS data for 2016 point to a FDI stock worth of 32.8 million euros, of which 11.2 million euros are part of equity and reinvested earnings, and the remaining 21.6 million euros are other capital.[11]

Table 1: Chinese investment in V4 countries (in mil. USD, tranctions higher than 100 mil. USD)

Country	**Total value** (mil. USD)
Poland	1600
Hungary	4600
Czech Republic	100
Slovakia	0

Source: Heritage Foundation China Global Investment Tracker

Based on the data provided by Heritage Foundation China Global Investment Tracker[12], which lists bigger Chinese investments worldwide (of more than 100 million USD), there is no single enlisted Chinese investment in Slovakia.[13]

Slovakia has the least Chinese investment compared to the neighboring countries. The most investments from China in Slovakia are the acquisition of firms.[14] Typical example of such investment which has attempted to change this unfavorable situation has been the planned

[11] National Bank of Slovakia: Status of FDI in the Slovak Republic, 2016

[12] http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map/china-global-investment-tracker-interactive-map

[13] TURCSÁNYI R. Q. (2014): Chinese financial presence in Slovakia and Slovak China-policy. <http://www.asian.sk/wp-content/uploads/2014/09/chinese-investments-in-slovakia_ivf_policy-paper.pdf>

[14] FILLOVÁ, N. (2018): Belt and Road Initiative: the Czech and the Slovak Approaches. In *The Skeptik*, 2018, Vol. 4, No. 1, pgs. 10-20 <http://www.spolocnostskeptikov.sk/sk/node/834>

acquisition of US Steel Košice. There have been speculations for several years about the interest of the Chinese company Hesteel, one of the three largest steel groups in the world, owned by the Chinese province of Hebei, itself a center of world steel production. The Chinese company, inter alia, bought the U.S. Steel company in Serbia few years ago, which, according to experts with Košice plant, works in a complementary way.[15] In the past, US and Chinese companies signed a memorandum on the basis of which the Chinese had an exclusive right of purchase, and the transaction was expected to run after April 1, 2018, Steel has committed not to leave Basin under threat of financial sanctions in agreement with the Government of the Slovak Republic. However, according to the latest information, the parties did not agree and the Americans remain in Eastern Slovakia.[16] Other Chinese projects such as the Ipeľ water power plant, the purchase or long-term lease of Bratislava airport, the introduction of the China-Slovak Airlines routes, the opening of a Chinese bank branch, the Chinese Center for Chinese Tourism or the Chinese Center nearby Senec ended unsuccessfuly. Even the latest plans for the development of costly train lines between Slovakia and China have not yet produced any results, and in addition to one test train from China to Slovakia at the end of 2017, the project has not yet broken.[17]

On the other hand, Slovakia recorded an interesting transaction with a Chinese company after CNIC Corporation Limited purchased a 240,000-square-foot warehouse that uses Samsung and Tesco to supply not only the European market. The amount of this transaction was not disclosed, but the companies involved claim to be the largest Chinese logistics investment in the Central and Eastern European region.[18]

It could be said that Slovakia became more advanced in relations with China of all four Visegrad countries when in April 2017 it adopted the Concept of Development Economic

[15] TURCSÁNYI, R. Q.; ŠIMALČÍK, M. (2018): Čína na Slovensku: Sme pripravení na budúcnosť? [Policy paper] In *Asociace pro mezinárodní otázky* <https://www.amo.cz/wp-content/uploads/2018/05/AMO_cina-na-slovensku-sme-pripraveni-na-buducnost.pdf>

[16] https://hnonline.sk/hnbiznis/1739235-potvrdene-u-s-steel-ostane-u-nas-na-neurcito.

[17] https://ekonomika.sme.sk/c/20800499/vlaky-z-ciny-do-bratislavy-uz-mali-jazdit-zatial-prisieljediny.html#ixzz5Gck8nxvY

[18] https://ekonomika.sme.sk/c/20660744/cinania-kupili-sklady-tesca-aj-haly-samsungu-prigalante.html#ixzz5GcPg5Hl5

Relations with China for 2017-2020.[19] Currently, it has been extended to the Action plan, which is now under negotiation. The two documents suggest that Slovakia enjoys good political relations with China, but it has not managed to use them for enhancing the economic relations – primarily regarding exports, investments, but also tourism. The central chapters of these documents dealwith various issues, such as strengthening the political dialogue between the two countries, planning investment strategies, supporting Slovak exports (particularly those of small and medium-sized companies), planning transport cooperation, supporting tourism, and collaborating in the innovation sectors.[20]

The situation about Chinese investments in Slovakia (but also in Central and Eastern Europe as a whole) has been around for almost ten years (since the world crisis) within the boundaries of future expectations, but they are often not fulfilled.[21]

2. Chinese corporations in Slovakia

The list of corporations that invested in Slovakia is not so extensive and it mostly consist of small not well-known companies. The obvious exception is Lenovo, which launched a shared services center (SSC) in 2006 for EMEA region (Eastern Europe, Middle East and Africa) in Bratislava. It currently employs 755 people. Its tasks include providing a service for both internal and external customers and business partners from the EMEA region.[22]

SaarGummi Slovakia is the second largest Chinese owned corporation in Slovakia. This industrial corporation is located in Dolné Vestenice and is a subcontractor for the automotive industry. SaarGummi Slovakia was originally a German investment in Slovakia in 1994 and later

[19] TURCSÁNYI R. Q. (2017):"Growing Tensions Between China and the EU Over 16+1 Platform," In *Chinfluence*, November 2017, <http://www.chinfluence.eu/growing-tensions-between-china-and-the-eu-over-161-platform/>

[20] KIRONSKÁ, K.; TURCSÁNYI, R. Q. (2017): Slovak policy towards China in the age of Belt and Road Initiative and 16+1 Format. [Working paper] <https://china-cee.eu/working_papers/slovak-policy-towards-china-in-the-age-of-belt-and-road-initiative-and-161-format/>

[21] TURCSÁNYI, R. Q.; ŠIMALČÍK, M. (2018): Čína na Slovensku: Sme pripravení na budúcnosť? [Policy paper] In *Asociace pro mezinárodní otázky* <https://www.amo.cz/wp-content/uploads/2018/05/AMO_cina-na-slovensku-sme-pripraveni-na-buducnost.pdf>

[22] https://www.etrend.sk/trend-archiv/rok-2018/cislo-18/servisne-centra-3.html

became part of the German SaarGummi Group. This corporation specializes on complex automotive body sealing systems and had factories in Germany, Spain, Czech Republic, Slovakia, Brazil, USA and India. Unfortunately, the company started to have financial problems and eventually it became insolvent. The management of the corporation was looking for a new investor and ultimately the whole group was purchased by Chongqing Light Industry & Textile Holding from China. It is a corporation in the ownership of Chonqing, a city in southwest China and it has activities mostly in the automotive industry as a supplier of various automobile parts.[23]

ZVL Auto is a stable partner of world manufacturers of transmissions, axles, retarders, tractors, harvesters and other agricultural machinery, The production of bearings in the ZVL Auto in Prešov has almost 60 years of tradition. In 1959 the production of bearings started after its delimitation from ZKL Brno - Líšeň in Czechoslovakia. At the end of 2007, the chinese company TSB Bearings Group became a majority owner with a 55% stake in ZVL Auto.[24]

Mesnac European Research and Technical Center, one of the largest manufacturers of rubber machines opened new development and assembly facilities in Trenčianska Teplá in 2016. Mesnac European Research and Technical Center founded a branch in Slovakia after the Conti Machinery Púchov was canceled in 2009. The branch in Slovakia is the first research-manufacturing branch outside of China and employs around 30 workers.[25]

Inalfa Roof Systems is one of the world's biggest providers of vehicle roof systems. Inalfa designs, develops and manufactures sunroofs and open roof systems for the major OEM's in the automotive industry.[26] In 2012 the company officially started expanding its production facilities in the village of Krakovany in western Slovakia. Inalfa Roof Systems Slovakia is part of Inalfa Roof Systems Group, which was founded in the Dutch town of Venray in 1946. The group has 12 production plants and three technological and development centres in Europe, Asia and America.

[23] DUDÁŠ, T. (2014): China - V4 FDI Relations - a Slovak Perspective. *Current Trends And Perspectives In Development Of China - V4 Trade And Investment: Conference Proceedings: International Scientific Conference, Bratislava, March 12 -14, 2014*, 128-137.

[24] https://www.zvlauto.sk/historia

[25] http://www.teraz.sk/ekonomika/priemyselcinsky-vyrobca-gumarensky/221551-clanok.html

[26] https://www.inalfa-roofsystems.com/en/company/

It supplies automotive components for carmakers such as Chrysler, General Motors, Ford, BMW, Daimler, Renault and PSA.[27]

IEE Sensing Slovakia is chinese company acquired the Luxembourg based company with its production facility in Slovakia. Chinese investor was chosen for its best business and strategic plan. Locals were very supportive and there are no signs of aversion towards the Chinese investor, quite the opposite. Yet, Chinese presence is in fact very limited still and no steps have been taken by the ownership.[28]

3. Motives of Chinese investment in western European and CEE countries

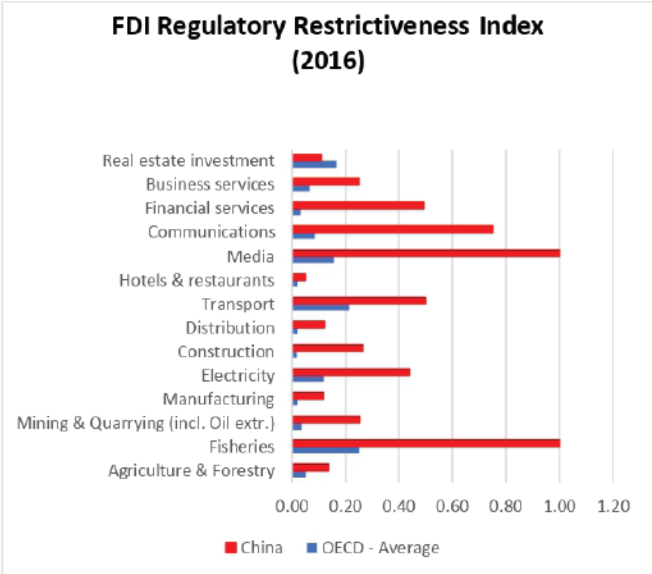
The European Union (EU) has become one of the favorite destinations for Chinese outbound foreign direct investment (OFDI). Annual Chinese OFDI in the 28 EU economies has grown from EUR 700 million in 2008 to EUR 35 billion in 2016.[29]

[27] https://spectator.sme.sk/c/20043900/inalfa-roof-systems-expands.html

[28] TURCSÁNYI R. Q. (2014): Chinese financial presence in Slovakia and Slovak China-policy. <http://www.asian.sk/wp-content/uploads/2014/09/chinese-investments-in-slovakia_ivf_policy-paper.pdf>

[29] https://rhg.com/research/eu-china-fdi-working-towards-more-reciprocity-in-investment-relations/

Figure 1: FDI Regulatory Restrictiveness Index (2016)



Source: OECD

This sector-by-sector comparison reveals that Chinese investments into the EU surpassed investments by EU companies in China in 10 out of 15 industries in 2017. It also finds that the majority of large Chinese acquisitions in the EU would not have been possible for EU companies in China, as Chinese government regulations prevent foreign companies from doing business in the respective sectors. The imbalance is most visible in the transport and infrastructure sectors.[30]

European economies have a wide range of assets and features that Chinese investors seek. There should be no doubt that China needs Europe (maybe even more than vice-versa). Patterns

[30] https://rhg.com/research/eu-china-fdi-working-towards-more-reciprocity-in-investment-relations/

of Chinese investment highlight sources of European attractiveness that need to be better appreciated and leveraged. Among the things that Chinese investors seek in Europe are:[31]

Technology, to include established high-tech assets, emerging technologies and know-how;

Access to the European market, for Chinese goods and services;

Access to third markets via European corporate networks, especially in Latin America and Africa;

Brand names to improve the marketability of Chinese products both abroad and for the Chinese market;

Integrated regional and global value chains in production, knowledge and transport;

A stable legal, regulatory and political environment, particularly in a context of global disruption and political uncertainty;

Political/diplomatic influence in a region that in aggregate terms remains the second largest economy after the US.

The role of Chinese capital in Central and Eastern Europe, compared with all the invested capital is still very small. When searching for possible factors that make the region a favourable investment destination for China, the cost and quality of labour is to be considered first: a skilled labour force is available in sectors for which Chinese interest is growing, while labour costs are lower in the CEE region than the EU average.[32]

However, there are differences within the region as well; unit labour costs are cheaper in Bulgaria and Romania than in Hungary, Czech Republic, Slovakia and Poland. These differences don't seem to really influence Chinese investors as there is more investment in Hungary and

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[31] SEAMAN, J.; HOUTARI, M. and OTERO-IGLESIAS, M. (2017): Sizing up Chinese Investments in Europe. In *Chinese Investment in Europe A Country-Level Approach* ETNC Report, December 2017 <https://www.ifri.org/sites/default/files/atoms/files/etnc_reports_2017_final_20dec2017.pdf>

[32] ÉLTETŐ, A.; SZUNOMÁR, Á. (2016). Chinese investment and trade – strengthening ties with Central and Eastern Europe. *International Journal of Business and Management*, Vol. IV(1), pp. 24-48., 10.20472/BM.2016.4.1.002 <https://iises.net/international-journal-of-business-management/publication-detail-434>

Poland than in Romania and Bulgaria, however, an explanation for that can be the theory of agglomeration effect as generally OFDI in these countries is the highest in the region.[33]

Considering the motivation of Chinese investments in CEE, the change of the institutional setting of CEE countries due to their economic integration into the EU has been the most important driver that has spurred Chinese FDI in the region, especially in the manufacturing sector. EU membership of the V4 countries allowed Chinese investors to avoid trade barriers and the countries served as an assembly base due to the relatively low labour costs.[34]

Conclusion

In the article we discussed the development of Slovak-Chinese investment relations. While it may seem at first glance that Slovakia is not China's premier strategic partner, the Central and Eastern Europe region itself is becoming more attractive to Chinese investors, given the low cost and sufficient skilled labour force. For China, this region has also become key in the geopolitical strategy of BRI and Platform 16 + 1 as a so-called "*gateway*" to Europe.

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[33] MCCALEB A., SZUNOMÁR Á. (2014): Chinese foreign direct investment in Central and Eastern Europe: an institutional perspective. Unpublished manuscript

[34] MCCALEB A., SZUNOMÁR Á. (2014): Chinese foreign direct investment in Central and Eastern Europe: an institutional perspective. Unpublished manuscript

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5.MCCALEB A.; SZUNOMÁR Á. (2014): Chinese foreign direct investment in Central and Eastern Europe: an institutional perspective. Unpublished manuscript

6.SEAMAN, J.; HOUTARI, M. and OTERO-IGLESIAS, M. (2017): Sizing up Chinese Investments in Europe. In *Chinese Investment in Europe A Country-Level Approach* ETNC Report, December 2017 <https://www.ifri.org/sites/default/files/atoms/files/etnc_reports_2017_final_20dec2017.pdf>

7.TURCSÁNYI, R. Q. (2014): Chinese financial presence in Slovakia and Slovak China-policy. <http://www.asian.sk/wp-content/uploads/2014/09/chinese-investments-in-slovakia_ivf_policy-paper.pdf>

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Slovakia, China and Investment Arbitration in the context of the Belt and Road Initiative

By Martin Karas

PhD Candidate

Faculty of International Relations, University of Economics in Bratislava

Abstract

The recent debate over the conflict between investment protection and national sovereignty creates potential for differences between capital exporting countries which seek to protect their investors abroad and capital importing countries, which seek to protect their regulatory sovereignty towards foreign investors. This raises questions about the respective positions of China and Slovakia towards investment protection in the context of the negotiations of the new EU-China investment treaty. This article aims to first identify the main issues of the conflict between investment protection and national sovereignty by analysing a sample of investment arbitration cases. Then, I will analyse the latest trends in Chinese investment treaty making in terms of standards sovereignty protection and compare these trends to the standards present in CETA, in order to make inferences about the harmony between Chinese and Slovak positions of the issue within the negotiations of the new EU-China investment treaty.

Keywords: investment arbitration, investment treaties, China, investment protection, sovereignty

1.Introduction

Since the announcement of the Belt and Road Initiative, there has been no doubt about the potential benefits of the project for countries such as Slovakia in terms of incoming investment. However investment also brings with it a potential for disputes between the investor and the state in the form of investment arbitration. While Chinese investors are not considered litigious in general, with the recent growth of the outgoing Chinese investment, we have also quite naturally seen the emergence of first Investor-State Dispute Settlement (ISDS) cases with Chinese investors as the plaintiff.[35] As a capital importing country, Slovakia has extensive experience with ISDS, with 13 cases having been filed against the Slovak Republic so far. ISDS cases are mostly a result of a tension between the efforts of a home state to regulate investment environment and the efforts of the investors to avoid such regulations. In order to avoid future ISDS cases in relation with Chinese investors, Slovakia will be keen to implement high standard of protection of sovereignty into the investment agreement that is currently being negotiated between EU and China. The level of protection of national sovereignty and right to regulate in public interest that would be in line with Slovak interests can be represented by the standards already present in the Comprehensive Economic and Trade Agreement (CETA), which can be seen a sort of benchmark for investment agreements in terms of the balance between the right to regulate and investment protection.

A different challenge arises for China as a nation state with $102 billion outbound FDI and $168 billion inbound FDI in 2017[36]. The challenge for a big importer and exporter of capital is to find a balance between protection of their investors abroad through strong investment protection provisions of their investment agreements and retain their sovereign regulatory powers at home in relation to foreign investors at the same time. These differences between China and Slovakia raise questions about the harmony between their positions on investment protection and investment arbitration.With the prospects of a significant increase in incoming investment from China, it is necessary to look at how do the positions of Slovakia and China towards investment protection and national sovereignty align. This article aims to fill this gap by first identifying the main issues in the debate between investment protection and national sovereignty, and then analysing latest trends in investment treaty making of China to see whether the issue of national sovereignty in relation to investment protection presents a potential stumbling block in the investment relationship between Slovakia and China, or represents an area of synergy. The question that the article aims to answer is whether the latest trends in Chinese investment treaty making indicate the possibility of introducing CETA-level of sovereignty protection in the future investment

[35] See for example Sanum Investments v. Laos (II), Beijing Urban Construction v. Yemen, Ping An v. Belgium, Tza Yap Shum v. Peru, Beijing Shougang and others v. Mongolia.

[36] World Bank, available at *https://data.worldbank.org/,* retrieved 15.7.2018.

agreement between China and the EU, which would be in line with the interest of the Slovak Republic as a net capital importer. This question will be answered by comparing the trends in Chinese investment treaty making in terms of the balance between protection of sovereignty and investment protection with the standards present in the most important recent EU investment treaty, CETA.

2.Competing Concepts of Investment Protection and National Sovereignty

Since the beginning of the millennium, nation states have become increasingly aware of the tension between the neoliberal concept of investment protection and the concept of national sovereignty. This has been the result of several high-profile cases of investment arbitration that resulted in massive compensations paid out by governments to foreign investors, combined with the nature of these cases, and their continuous increase in number.

Investment protection is a concept that come out of the neoliberal theory. It emphasises the positive effects of foreign investment on the economy. In order to stimulate foreign investment, the investors need to be protected from arbitrary exercise of state power against their investment. Hence, a dense network of investment treaties has been created, which contain provisions stipulating the right of foreign investors. Furthermore, the system entails a transnational mechanism for settlement of disputes arising out of differences in interpretation of these investment treaties. While the treaties represent the theory of investment protection, investment arbitration can be regarded as the implementation of the theory in practice.

The concept of national sovereignty is older and refers to legitimate exercise of power within a territory, which is generally attributed to states. For the purposes of this paper, we will only focus on a single aspect of national sovereignty, namely sovereignty over investment regulation. We will therefore regard national sovereignty as the ability of a legitimate government to regulate investment environment within its borders. Such definition can be derived from the Westphalian conception of sovereignty as defined by Krasner, which assumes that full sovereignty means a "distinct lack of other authority over the state than the domestic authority"[37].

[37] Krasner, S. (Ed.) (2001), *Problematic Sovereignty: Contested Rules and Political Possibilities,* p. 11-12.

It is obvious from these definitions how the two concepts clash, since a system that defines the extent (and therefore limits) of regulatory sovereignty of a nation states is inconsistent with the idea of full sovereignty of a nation states in the domain of investment. The nation states are therefore caught between their desire to attract foreign investment and protect their investors abroad on the one side, and their desire to retain their sovereignty at home on the other. Both protection of investors and retention of sovereignty are assured through provisions of international investment treaties. Protection of investors is incorporated through the concept of "standards of protection"[38], and sovereignty is protected through incorporation of the concept of the "right to regulate"[39]. Standards of protection generally refer to particular provisions in investment treaties, such as fair and equitable treatment, national treatment, most-favoured nation and other. These provisions codify the right of foreign investors and aims to protect them from arbitrary use of state power. Right to regulate generally refers to provisions that ensure exceptions from standards of protection, for example in matters of legitimate public interest, or in security interest. The analytical framework for this paper can therefore be seen as a continuum with the full national sovereignty of the state protected through the "right to regulate" provisions of international investment treaties on one end, and the full investment protection guaranteed by the "standards of protection" in these treaties on the other end of the spectrum.

3.Regulatory Sovereignty in the Practice of Investment Arbitration

The practice of investment arbitration further determines the ways in which the conflicts between the states and investors play out outside the theoretical framework set up by the investment treaties. In essence, there are two ways in which the practice of international investment arbitration limits the full sovereignty of the state, apart from the fact of removing the arbitration from the domestic court system into the international arena. The direct way consists of the investor using the arbitration as a leverage to roll back or delay stop a regulatory measure either by threatening litigation, or by going through with the arbitration and achieving to roll back regulation as part of the settlement. The indirect way consists of the investor using arbitration to extract

[38] See for example Reinisch, A. (2008), *Standards of Investment Protection.*

[39] See for example OECD (2004), *„Indirect Expropriation" and the "Right to Regulate" in International Investment Law*, OECD WorkingPapers on International Investment, 2004/04, OECD Publishing. http://dx.doi.org/10.1787/780155872321

compensation from the state for the breach of an investment treaty, thus putting a heavy price on a regulatory measure. This infringement on the sovereignty of the state is indirect and consists of deterring the state from enacting a regulatory measure that could potentially result in significant damages. Dolzer and Stephens also recognize the issue by pointing out that: "For the host State, the definition (of the line of demarcation between measures for which no compensation is due and actions qualifying as indirect expropriations) determines the scope of the State's power to enact legislation that regulates the rights and obligations of owners in instances where compensation may fall due. It may be argued that the State is prevented from taking any such measures where these cannot be covered by public financial resources"[40]. This formulation captures the essence of how the sovereignty is impacted by investment arbitration based on standards of protection.

Based on this framework, I will analyse 5 cases of investment arbitration in order to show how does the concept of standards of protection as applied by the investment arbitration tribunals impacts the ability of governments to effectively regulate their investment environment.

Vattenfall v. Germany (I)

In 2009, a Swedish corporation Vattenfall launched a $1,9 billion claim against Germany under the Energy Charter Treaty over permits for their coal-powered power plant in the city of Hamburg. The delay in awarding the permits were to a large extent due to the public opposition to the power plant based on the concerns over environmental impact of the coal power plants. These concerns received political backing from the Green Party, which was a part of the coalition on the state level since 2008. The permits were finally awarded after Vattenfall appeal to domestic courts, however, additional requirements were introduced to protect the river Elbe from environmental damage. This prompted Vattenfall to file an investor-state dispute case against Germany, claiming indirect expropriation and breach of fair and equitable treatment, both part of the standards of treatment in the Energy Charter. The case did not reach award phase, since it was resolved through a settlement, in which Germany agreed to roll back the environmental requirements and issue the contested permits[41]. Any potential financial settlement was not disclosed, which is often the case

40 Dolzer and Stevens, (1995) *Bilateral Investment Treaties*, pp. 98.

41 Vattenfall v. Germany (I), (March 2011), Award.

in disputes that do not reach the award phase. This case shows how the threat of investment arbitration can be used to reverse sovereign regulatory measures, in cases where the state decides that the potential costs of the dispute are too high.

Some other cases relate to a similar pattern, where a regulatory measure in question is either delayed or not taken under threat of arbitration[42]. Examples of these cases, which are in fact more common include Novartis v. Colombia, Achmea B.V. v. The Slovak Republic (II), and Newcrest v. Indonesia. It has also been suggested that in several cases, an ISDS litigation has been used to get out of criminal prosecution by the host state[43], which would represent further infringement on the national sovereignty.

Ethyl vs. Canada

In April 1997, Canadian parliament passed a new environmental law, which banned the import and interprovincial transport of the gasoline additive MMT. MMT represented the most substantive part of the business that the Ethyl Corporation based in the USA conducted in Canada. Canadian environmental authorities have sought to eliminate the use of MMT to protect the public health, endangered by the MMT emissions. Many countries, including the US had already banned the use of MMT as a gasoline additive, and Ethyl had remained the only manufacturer of the compound. The ban resulted in a $251 million ISDS claim by Ethyl under NAFTA, claiming expropriation among other breaches. The case did not reach an awards phase, as the Canadian government decide to settle the case by paying a compensation of $13 million[44]. In an ISDS case, a settlement can generally be viewed as a victory for the claimant (the investor). What this case shows is that a treaty such as NAFTA does not protect sovereign measure in the domain of environmental protection from being challenged in investment arbitration. The potential costs can dissuade governments from enacting similar measures in the future, thus representing a negative impact on their sovereignty. This issue is being addressed in the most recent investment treaties

[42] It is not always clear that the litigation is the primary cause for the government decision regarging the regulatory measure in question.

[43] Hamby, Ch. (2016), *Inside The Global "Club" That Helps Executives Escape Their Crimes*

[44] Ethyl v. Canada, (1998), Award on Jurisdiction.

by including provisions that exclude environmentally motivated measures from the system of investor-state dispute settlement.

Suez vs. Argentine

The Argentinian crisis from the turn of the century has been a catalyst for a large number of ISDS disputes brought on by measures resulting from Argentina´s efforts at managing the crippling depression. These cases highlight the inability of governments to take measures to combat an economic crisis without being attacked in ISDS tribunals. Perhaps the most significant case has been the protracted dispute of foreign water and water services providers against the Argentinian state. Suez, Sociedad General de Aguas de Barcelona, Vivendi and AWG Group have invested heavily in development of a 30-year concession for providing water and water waste services in Buenos Aires. The dispute stemmed from the unwillingness of the Argentinian authorities to renegotiate tariffs (as required by the investment contract) for the services in light of the massive depreciation of the currency, which left the whole enterprise inviable. The government argued that the tariffs could not be raised because the citizens were simply unable to pay for the services. The tribunal turned down the expropriation claim of the investors, however, it ruled that Argentina breached the fair and equitable treatment provision of the relevant BITs by breaching the legitimate expectations of the investors (created by the contract). The final award ordered Argentina to pay $400 million plus interest to the claimants[45]. The case highlights the fact that the argumentation based on legitimate public interest measures does not hold under the "older" investment treaties even in a case of a severe economic crisis. Therefore, the concept of legitimate expectations includes stable investment environment even in such hard-to-predict events as economic crisis.

Vattenfall and others v. Germany (II)

Under the older treaties, which do not offer significant exceptions aimed specifically at protecting the sovereignty of the state, even laws based on broad consensus and manifestly aimed at protecting public safety and public health are not outside the scope of investment tribunals. An

[45] Suez v. Argentina (2015), Award.

ongoing example of such a law being the target of arbitration is Vattenfall and others v. Germany (II) (ICSID Case No. ARB/12/12). The energy company takes on German decision to phase-out production of nuclear energy on its territory. The main argument of energy producers is based on the concept of legitimate expectation under the fair and equitable treatment. The perceived U turn of the German government after first postponing the nuclear shutdown in 2010 and then proceeding with amendment of the Atomic Energy Act to speed up the phasing-out of nuclear energy after the Fukushima disaster has already been deemed a breach of legitimate expectations of investment environment by the German Constitutional Court[46]. The ongoing ISDS case could therefore result in massive compensation for the investors. The case illustrates how the system of investment arbitration gives precedence to investment protection when it clashes with regulatory measure in public interest. The governments need to be very careful when changing their regulatory framework, since any change can by definition be seen as a breach of expectation on the part of the investor.

Occidental vs. Ecuador

Finally, in one of the most famous ISDS cases, Occidental Petroleum, an American oil company has been awarded damages of $2.3 billion from Ecuador for breaching the US-Ecuador BIT[47]. Occidental was in partnership with Ecuadorian government to exploit hydrocarbons in the Block 15 of the Ecuadorian Amazon region. The conflict between the parties stemmed from the breach of the Participation Agreement on the part of Occidental, which entered into a Farmout Agreement with Alberta Energy Corporation without seeking the required ministerial approval. Ecuadorian government, which came under heavy pressure from the public to end their partnership with Occidental, then passed the "Caducidad Decree", effectively terminating the Participation Agreement and seizing the property of the investor. This was swiftly followed by Occidental filing an ISDS case against Ecuador in 2006. The case represents one of the main examples of implementation of the concept of proportionality in investment law. The response of the Ecuadorian government was deemed to be disproportionate to the breach of investment contract

[46] Zielinski, L., Y., (2017), "*Legitimate Expectations" in the Vattenfall Case: At the Heart of the Debate over ISDS*.

[47] The amount of compensation has been successfully challenged by Ecuador, and the final amount has been reduced to just under $1 billion.

by Occidental[48]. The case shows that investment protection provisions limit the sovereignty of the state in determining a punishment for a breach of an investment contract. Although the government is not prevented from taking any measure, including expropriation, the penalty for such an action is in the hands in the investment tribunals, often making such regulatory measures impossible because of the high cost. The governments therefore lose their sovereignty in the domain of determining what the proportionate response to a breach of investment contract is.

This analysis highlights the main issues of the relationship between investment protection and national sovereignty in the domain of investment arbitration. The cases show that the existing framework of investment treaties and their interpretation by the investment tribunals limit the sovereignty of states in several ways. First, Vattenfall vs. Germany (I) shows how a regulation can be reversed directly through the process of ISDS by reaching a settlement with the state. Second, Ethyl vs. Canada highlights how the investment protection limits environmental regulation by putting a price on measures harming a foreign investor. Ethyl vs. Canada and Suez vs. Argentina show that even measures manifestly related to environmental and consumer protection can be deemed breaches of standards of protection. Vattenfall vs. Germany (II) demonstrates that a change in the regulatory framework, even one based on broad public support, can be attacked as a breach of legitimate expectations, which raises questions as to whether the government can change its environmental policies without massive compensations for foreign investors. Finally, Occidental vs. Ecuador shows that the governments do not have the sovereign power to determine the treatment of investors in case the investor breaches an investment contract and must submit to an interpretation of proportionality of their response provided by the ISDS tribunal. The issues highlighted in this part of the article can be seen as the main issues for any capital importing country with respect to investment protection, Slovakia notwithstanding. In the next part of the article, we will see whether the latest trends in Chinese investment treaty making suggest a possibility of allaying these fears in the future investment agreement between the EU and China.

[48] Occidental v. Ecuador, (2004), Award, London Court of International Arbitration, Case No. UN 3467.

4.Trends in China´s Treaty Making: Protecting Sovereignty and Protecting Investment

In this part of the article, I will be focusing on the ways in which the Chinese authorities address the issues presented in the previous chapter through their investment treaty-making and what does this mean for the prospects of implementing the CETA standards of sovereignty protection into the future EU-China investment agreement. More specifically, I will concentrate on the most relevant recent investment treaties signed by China and analyse these treaties to see how they address the issue national sovereignty in relation to investment protection. What I will be looking for in these treaties are provisions that refer either to investment protection, or the right to regulate respectively in order to see the extent to which either treaty protects investment or protects sovereignty. The treaties that will be analyses here are: 1. Agreement Between the Government of Canada and the Government of the People's Republic of China for the Promotion and Reciprocal Protection of Investments, 2. China–Australia Free Trade Agreement (ChAFTA), 3. China–Korea Free Trade Agreement. The treaties with Korea and Australia were signed in 2015 and the treaty with Canada in 2012. They can therefore be regarded as representative of the most recent approach of the Chinese government towards issues related to investment, including the relationship between the national sovereignty and investment protection.

What these treaties show is a significant degree of flexibility of Chinese authorities when it comes to Chinese position towards investment protection and protection of national sovereignty. All the treaties contain all the traditional provisions related to investment protection, more specifically the national treatment, most favoured nation treatment and minimum standards of treatment (most importantly fair and equitable treatment). The differences lie in the way the sovereignty is explicitly protected in these treaties by provisions specifically addressing the issues presented in the previous chapters.

The treaty that provides the least protection for the sovereign regulatory measures of the respective governments is the China-Korea FTA. That being said, it still mostly follows the trends of the so-called “third generation” treaties with investment provisions. When it comes to protecting sovereign measures of the government, the treaty provides exceptions from standards of protection, such as the security exception that allows for measures “...which it (the disputing party) considers necessary for the protection of its essential security interests,…"[49], and the exception in relation to prudential measures, which states that "a Party shall not be prevented from adopting or maintaining measures for prudential reasons,…"[50]. However, the provision with the highest relevance for this paper concerns the definition of indirect expropriation. The pertinent passage reads: "…a non-discriminatory measure or series of measures of a Contracting Party that is designed and applied to protect the legitimate public objectives for the well-being of citizens, such as health, safety and the environment, does not constitute indirect expropriation."[51] While this provision is important and forces the arbitral tribunals to consider the measure in the light of the public purpose for determining whether indirect expropriation occurred, it does not pertain to determination of whether fair and equitable treatment has been breached. Indirect expropriation and FET are usually claimed together.

Canada-China BIT is similar in the sense that it contains the relevant investment protection provisions, the same definition of indirect expropriation and the security and prudential exceptions[52]. However, as an additional protection for national sovereignty, it contains a provision which states that nothing in the agreement shall be construed to prevent a Party from "adopting or maintaining measures: …b) necessary to protect human, animal or plant life or health; or c) relating to the conservation of living or non-living exhaustible natural resources…"[53]. This provision strengthens the ability of states to regulate in cases where they can demonstrate that the measure in question has been necessary for the aforementioned purposes.

Finally, the ChAFTA is a treaty that has a potential to go the furthest when it comes to explicitly protecting the sovereignty of the government to regulate their investment environment. In the domain of investment protection, it keeps most of the traditional investment protection provision, such as national treatment, most favoured nation[54]. It includes standards of treatment,

[49] Free Trade Agreement between the Government of the People´s Republic of China and the Government of the Republic of Korea, (2015), art. 12.14(1)

[50] Ibid, art. 9.5(1)

[51] Ibid, Annex 12.B(3b)

[52] Agreement Between the Government of Canada and the Government of the People's Republic of China for the Promotion and Reciprocal Protection of Investments, (2012), Annex B.10(3), art. 33

[53] Ibid, art. 33(2)

[54] Free Trade Agreement between the Government of Australia and the Government of the People´s Republic of China, (2015), art. 9.3, 9.4

as well as definition of expropriation into the future work program[55]. It can be expected that these two concepts will follow the latest trends as seen in the Canada-China BIT. Similarly, to the Canada-China BIT, it contains the security and prudential exceptions, and the exception for measures to protect human, animal or plant life and conservation of natural resources[56]. However, ChAFTA goes even further than the Canada-China BIT with a provision in the chapter on investment dispute settlement, which states that "Measures of a Party that are non-discriminatory and for the legitimate public welfare objectives of public health, safety, the environment, public morals or public order shall not be the subject of a claim under this Section"[57]. This provision excludes not only claims of indirect expropriation in the case where the measure is demonstrably in public interest, but any claims whatsoever, including those based on alleged breach of fair and equitable treatment. This provision represents the strongest protection for sovereignty in relation to regulatory measures of government in the current international investment law.

This analysis shows that Chinese approach to investment treaty-making is flexible, allowing for diverse levels of investment and sovereignty protection in different cases. This is widely consistent with the assumption that countries with high outgoing and inflowing investment will try to both preserve their sovereignty and protect their investors abroad. In order to answer the question set out in the introduction, we now have to look at how do these trends align with the standards present in CETA. If we look at the provisions of CETA related to protection of sovereignty of the state, we find the following provisions: "the Parties reaffirm their right to regulate within their territories to achieve legitimate policy objectives, such as the protection of public health, safety, the environment or public morals, social or consumer protection or the promotion and protection of cultural diversity"[58]. "…The mere fact that a Party regulates, including through a modification to its laws, in a manner which negatively affects an investment or interferes with an investor's expectations, including its expectations of profits, does not amount

[55] Ibid, art. 9.9

[56] ChAFTA adds to these exceptions the measures „imposed for the protection of national treasures of artistic, historic or archaeological value". Ibid, art. 9.8

[57] Ibid, art. 9.11(4)

[58] Comprehensive Economic and Trade Agreement (CETA) between Canada, of the one part, and the European Union and its Member States, of the other part, Official Journal of the European Union, L 11/23., art 8.12(1)

to a breach of an obligation under this Section"[59]. "… For greater certainty, except in the rare circumstance when the impact of a measure or series of measures is so severe in light of its purpose that it appears manifestly excessive, non-discriminatory measures of a Party that are designed and applied to protect legitimate public welfare objectives, such as health, safety and the environment, do not constitute indirect expropriations"[60].

What the analysis of the latest trends in Chinese investment treaty making shows is that the latest trends in Chinese investment treaty making and their flexibility can inspire a good deal of confidence regarding implementation of CETA-level protection of national sovereignty in the future investment agreement between EU and China, which would be satisfactory in terms of Slovak interest in the area of the conflict between national sovereignty and investment protection. This can be inferred from the support of Slovak authorities for CETA.

5.Conclusion

The complex network of existing investment treaties, which is getting bigger and more complex by the year, together with the practice of investment arbitration have created a conflict of interest between capital exporting and capital importing countries in the area of investment treaty making. The practice of investment arbitration helps us better understand the challenges involved in protecting a government´s sovereignty in face of expensive litigation. My analysis shows that investment arbitration can be used to roll back regulation. Furthermore, it can extoll a heavy price on measures aimed at environmental regulation and consumer protection. The governments also have to be careful when adopting their regulatory framework to new realities, as this can be seen as a breach of legitimate expectations of foreign investors. And finally, the governments are forced to cede their sovereignty in determining the proportionality of their response to a breach of contract on the part of the investor.

These issues create different position towards investment arbitration between capital exporting and capital importing countries. This article analysed these differences from the point of view of Slovakia as a capital importer in the context of the negotiations that are taking place on a

59 CETA, (2016), art. 8.9(1).

60 CETA, (2016), Annex 8-A(3)

new investment treaty between EU and China. I have inferred the Slovak position from the support of Slovak authorities for the CETA. The analysis of the latest trends in Chinese investment treaty-making shows that the positions of Chinese authorities are flexible towards implementation of provisions protecting national sovereignty. This flexibility inspires a good deal of confidence that the future EU-China investment treaty will contain a balance between protection of national sovereignty and protection of investors, which will be satisfactory for both China and the Slovak Republic.

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The New Era of China-EU Investment Protection – a Slovak Perspective

By Katarina Brockova

Associate Professor

Faculty of International Relations, University of Economics in Bratislava

Abstract

The Belt and Road Initiative has provided a promise of new opportunities for enhanced investment flow between China and the Slovak Republic. Although China has concluded a bilateral investment treaty with the Czech and Slovak Federal Republic in the beginning of the 1990s as well as it did with nearly all current EU member states, most of these investment treaties are the first or second generation investment treaties and the actual level of investment protection guaranteed by most of these treaties falls short of the general international standard. Thus, the issue of reshaping the landscape of mutual investment protection has come to the forefront in recent years. In 2013, EU and China have launched negotiations on the new EU-China Comprehensive Agreement on Investment, which provides an opportunity to set forth new rules addressing the most pressing issues of mutual investment relations between China and all EU Member States. So far, the parties addressed many important issues especially relating to the post-establishment investment phase. The contentious issue of market access is yet to be addressed in a comprehensive way. The fact that it is far from settled is also supported by the recent EU initiative on introducing an FDI screening mechanism which is currently being discussed at national level. If CETA was to serve as an example of recent EU investment treaty practice, the new investment treaty to be concluded between China and the EU could significantly contribute to shaping a new generation of modern balanced investment treaties and also resolve several pressing issues in the China-EU trade and investment agenda.

Keywords: FDI-investment protection-China-EU Investment Treaty- international investment arbitration

Introduction

The anticipated increase in mutual investment between China and countries along the Belt and Road Initiative brings to the forefront not only the positive prospects of enhanced economic cooperation but also the need to address issues concerning the legal protection of mutual investment and the terms of resolution of potential investment disputes.

For several decades, bilateral investment treaties concluded between states have been – although far from perfect – the preferred instrument of setting forth general terms and standards of protection of investment from one signatory in the territory of another signatory of such treaty. These treaties include an extensive list of categories of investment that they consider protected by such a treaty. Further, they usually address the issues of non-discrimination in the form of national treatment and/or most favoured nation treatment commitment, unlawful expropriation and other standards of treatment such as the fair and equitable treatment, full protection and security etc. Some treaties also address the issue of unrestricted transfer of funds back to the investor's home country. Most standard investment treaties also include arbitration clauses that provide not only for the possibility of resolving disputes between the signatory states, but also offer this possiblity directly to the investors if they suffer damage due to the host state's breach of obligations under the BIT.

Current PRC-SR Investment Regime

The history of China-Slovakia investment regime in terms of its international legal protection dates back to the early 1990s, when the government of the former Czech and Slovak Federal Republic concluded a number of bilateral investment treaties with their trading and investment partners. The Agreement on Promotion and Mutual Protection of Investment between the PRC and CSFR was signed in 1991 and came into effect in 1992[61] (PRC-SK BIT). This treaty has

[61] Agreement on Promotion and Mutual Protection of Investment between PRC and SR, 37/2000 Collection of Laws of the Slovak Republic, available at: https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2000/37/20070525

formed the legal framework for the mutual investment protection between these countries for the last quarter of century. After the dissolution of CSFR in 1993, the Slovak Republic as a successor state became a party to this agreement. The underlying legal framework for the mutual protection of investment has been - from an international investment law standards perspective – long considered insufficient. The applicable bilateral investment treaty belongs to the first, or at most second generation of investment treaties concluded between China and its counterparts. It only provides for a limited scope of the now widely accepted standards of international investment protection. It has been updated slightly in 2007, when the Slovak Republic and PRC agreed on an Additional Protocol amending the provision of Article 3 (Treatment of Investment) and Article 6 (Treansfer of Funds) connected to investment. However, despite this cosmetic change, the BIT still only provides for a partial coverage of widely accepted standards of international investment protection and does not provide for an open access to international investment arbitration in case of violation of investors' rights under this investment treaty. The possibility of foreign investors to seek protection against the host state's violation of their obligations under the BIT directly through the venue of international investment arbitraiton has been perceived as one of the major achievements of practical application of international investment treaties. In the current PRC-SK BIT, the recourse to international arbitration for investors is only limited to issues of compensation amount in the rare case of expropriation or to disputes specifically agreed upon between the parties to the dispute, i.e.investor and the host state. Since the investor and the host state need to make a new agreement on the arbitral resolution of any disputes other than dispuztes concerning the amount of compensation for expropriation, the international investment protection standards included in this bilateral investment treaty are currently practically unenforceable.

Thus, it comes as little surprise that up to date, there are no known investment arbitration proceedings involving Chinese investors against the Slovak Republic as the host state and Slovak investors against PRC as the host state. Of course, this can also be explained as the lack of underlying disputes to engage in such a dispute resolution in the first place or also the limited amount of actual realized Chinese investments in the territory of the Slovak Republic. However, in view of the recent planned but not realized Chinese investments in the largest Slovak steel producer U.S.Steel Kosice or private TV station Markiza, it might become an issue of a significant importance especially for Chinese investors to have their investment protected according to the full international standards. Interestingly, up to date, there are altogether (globally) only a handful of investment arbitrations involving Chinese investors or China as the host state even despite the fact that since the late 1900s, China has been concluding investment treaties with unhindered access to international investment arbitration (so called ´third generation´ investment treaties).[62]

However, with the potential increase in Chinese investment in the CEE region (and possibly also Slovakia), anticipated in connection with the development of the Belt and Road Initiative, it is only natural that the current legal framework for the protection of mutual investment has been considered insufficient.

With the proclaimed intensification of mutual investment activities, both countries need to address not only the issues concerning the protection of realized investment in the territory of both countries, but also the conditions of market access necessary for the inflow of foreign investment in the first place.

In this respect, Chinese investors have enjoyed a relatively barrier-free entry into almost all European countries – with Slovakia being no exception - as the EU has been known for its largely liberalized markets. The situation is not reciprocal, however, and it remains to be seen to which extent the China-EU Comprehensive Agreement on Investment (China-EU Investment Treaty) that is currently being negotiated will change this situation.

Another issue that is currently under debate among EU member states is the proposed FDI screening mechanism. The European Commission has put forward this proposal in order to align the EU protection from security risks connected with inward FDIs with the level of protection already applied by most EU trading and investment partners.

China-EU Comprehensive Investment Treaty and Other Latest Developments in Formulating New EU Investment Policy Towards China

Following the effectiveness of the Lisbon Treaty, as of December 2009 the EU has acquired exclusive competence to negotiate and conclude international agreements concerning FDIs (as part

[62] Pathirana D.: A Look Into China's Slowly Increasing Appearance in ISDS Cases, 26 September 2017, Investment Treaty News, available at: the https://www.iisd.org/itn/2017/09/26/a-look-into-chinas-slowly-increasing-appearance-in-isds-cases-dilini-pathirana/#_ednref3.

of the common commercial policy)[63]. Ever since, the EU has taken up this task very actively and has been negotiating numerous new and renegotiating old trade and investment agreements with a number of partners aiming especially to replace the currently fragmented system of bilateral investment treaties concluded to date between individual EU member states and third countries.

At the 15th EU-China Summit in February 2012 a decision was taken to kick off negotiations aiming to conclude a comprehensive investment agreement between China and EU (China-EU Investment Treaty). After acquiring the respective mandate for the start of negotiations from the Council, in November 2013 at the 16th EU-China Summit the Commission announced the commencement of negotiations. In January 2014, the EU entered into negotiations with PRC on the new comprehensive investment agreement with the aim of creating a legal framework for the current acute practical problems related to mutual investment activity.

The situation with the EU negotiating agenda in the realm of trade and investment has changed slightly after the May 2017 CJEU Opinion 2/15 on the FTA with Singapore[64]. In this judicial decision the CJEU stated that certain investment provisions of the FTA were ‘mixed competences’. Following this decision, the EU started dividing the currently negotiated economic and trade agreements into separate FTAs and investment protection treaties. The progress on the ongoing negotiations with the PRC has not been affected so far, as the parties have only been negotiating an investment agreement from the start. It might, however, become an issue due to the broad range of investment covered by this agreement that not only includes FDIs but also other types of investment. As the EU exclusive competence only includes FDIs, it is to be expected that the negotiated China-EU Investment Treaty will also have to be concluded as a ´mixed agreement´. Thus, all EU member states will have to ratifiy the treaty which brings about the opportunity for many to turn this agenda into a political issue.

However, in the meantime, by July 2018, 18 rounds of negotiations have been completed reaching a framework agreement on numerous cardinal issues of mutual promotion and protection of investment. In the past four years, however, many contentious issues have crystallized

63 EU’s exclusive competence in the area of commercial policy under Article 207 TFEU only covers FDI and not portfolio investment

64 Opinion 2/15 of 16 May 2017, ECLI:EU:C:2017:376

pertaining especially to terms of mutual market access as well as the standing of investors owned or subsidised by the home state. These and many other issues have not been settled yet between China and the EU. It is reasonable to expect that the negotiations on these and other unresolved issues will be affected by the currently debated new EU legislation introducing the framework for FDI screening and preliminary approval due to potential security threats to individual EU member states as well as the EU as a whole. In addition, an important development may also be the newly elected approach to protection of foreign investment in terms of defining the regulatory power of the host state in cases when issues of public interest along the lines of the Comprehensive Economic and Trade Agreement already provisionally applied between Canada and the EU.

This development will be especially important for Slovakia as one of the countries affected by the new China-EU Investment Treaty. In the last 20 years the Slovak Republic faced numerous international investment arbitrations brought about under the applicable BITs by various foreign investors claiming largely the state´s regulatory interference resulting in damage caused to their business. Without engaging in detailed analysis of the underlying cases, it can be concluded that clear rules regarding the host state´s exercise of regulatory power in public interest and its potential impact on the foreign investor´s economic interests would be a very important step towards creating a reasonable and mutually beneficial legal certainty for both the investor and the host state. In this regard, the Slovak Republic can only benefit from an EU-wide regulation of these issues with respect to investment from and to China.

The first round of negotiations on the China-EU Investment Treaty in 2018 took place from 22 to 24 May covering expropriation, national treatment and related issues such as general exceptions, special formalities and information requirements, fair and equitable treatment, dispute settlement, and sustainable development. The second round on 12 and 13 July 2018 focused on expropriation, sustainable development, national treatment as well as fair and equitable treatment. At the 20th EU-China Summit on 16 July 2018, the parties exchanged market access offers for the first time.[65]

[65] European Commission: Report from the 18th Round of negotiations for the EU-China Investment Agreement, Note to File, Brussels 24 July 2018, available at: http://trade.ec.europa.eu/doclib/press/index.cfm?id=1896

The issue of reciprocal market access is one of the most pressing tasks of the negotiating teams. National treatment granted to foreign investors in the so-called pre-entry phase in a commitment that has not been widely seen in neither standard European nor standard Chinese existing investment treaties. With the new EU approach to investment treaty making, this issue is likely to become one of the core negotiating issues also in this agreement due to the especially high level barriers China applies to incoming foreign investment.[66] The restrictions to foreign investment are applied both in the pre-entry and the post-entry phase. The pre-entry barriers rely mostly on the exclusion or restrictions to foreign capital participation (condition on including a local partner or foreign capital restrictions), various mandatory licencing or other approval procedures, investment pre-conditioned through mandatory transfer of technology especially in selected sectors such as financial and telecommunication services, automobile, extraction and oil industry etc. Other restrictions include the limits to employing foreign nationals, restricted access for foreign companies to the Shanghai or Shenzen stock exchange[67], which precludes foreign investor´s access to local capital.

Thus, the issues of clear fair conditions for the access of investment of one contractual party to the market of the other party, resolution of the issue of concrete scope of protection of mutual investment, the issue of state-owned or subsidized enterprises and the creation of an effective system of settlement of potential investment disputes are core issues which – once resolved – should give both parties a very good start into a trasparent and mutually beneficial framework of reciprocal investment promotion and protection.

In addition, in terms of the „EU-China 2020 Strategic Agenda for Cooperation“[68] signed by both parties in 2013, the conclusion of a comprehensive investment agreement between China and the EU is the key pillar of a long term bilateral coooperation. In accordance with this document, the aim of the investment treaty shall be the protection of investment and facilitating market access. These goals are to be achieved through progressive liberalization of investment, removal of market

[66] Measures and Practices Restraining Foreign Investment in China, August 2014, available at: http://trade.ec.europa.eu/doclib/docs/2014/august/tradoc_152739.08.10.pdf

[67] Ibid.

[68] EU-China 2020 Strategic Agenda for Cooperation, available at: http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf

access barriers to foreign investment.[69] Quite importantly, accoding to the cited document, the successful negotiation and conclusion of such a comprehensive investment agreement between China and the EU shall – in the long term perspective - be viewed as the expression of mutual interest of both parties to take on an even more challenging goal of a comprehensive trade agreement.

Another important document in terms of broader European aims with respect to international investment treaty making is the EC Communication of October 2015 titled „Trade for All“[70], which formulates the basic principles upon which the future EU trade and investment policy shall rest. According to EU Trade Commissioner Cecilia Malmström, equally important as the real economic benefit of trade for consumers, workers and small businesses, is that the open market will not mean compromising EU´s fundamental principles in terms of sustainable development and human rights across the world or a high level of security and environmental regulation and public services. Equally important is also the transparency in the process of negotiating new commitments of the EU in this area. In accordance herewith, EU´s new trade and investment policy should be more effective, more transparent and should bring about not only the protection of European economic interests but also European values.[71]

In connection herewith, if CETA was to serve as a benchmark for the ongoing EU investment treaty practice, and the new investment treaty to be concluded between China and the EU would go along the lines of the commitments negotiated with Canada, it could significantly contribute to shaping a new generation of modern balanced investment treaties and also resolve several pressing issues in the China-EU trade and investment agenda.

Parallel to the China-EU Investment Treaty negotiations, another important issue in the process of negotiating this agreement is that there has been a sharp increase in Chinese investment in the EU member states especially in sectors in which the Chinese market is not equally open to foreign investment. In recent years, the Chinese investors acquired shares or full ownership of

[69] Ibid. at p. 5

[70] „Trade For All – Towards a more responsible trade and investment policy“, 14 October 2015, available at: http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf

[71] Ibid.

some key European companies in the high-tech sector (the notorious example of Kuka Germany), financial sector, automobile sector and also in infrastructure.[72]

Subsequently, possibly as a response to this development, in September 2017 the European Commission announced a new Regulation proposal introducing a new mechanism for the screening of foreign FDIs realized through enterprises owned, subsidized or in another way related to the state apparatus of the home country of the investor.[73] The target of the said screening should be foreign investment in strategic sectors that could potentially have a negative effect on the EU security.[74] It needs to be stressed that this development is aimed only at bringing the investment screening procedures in EU to the same level as that of most of EU´s major economic partners which already have such procedures in place (e.g. CFIUS in the USA). This newest initiative is currently being debated within the EU on national level.

In addition, 12 of current EU member states already have their national screening legislation in place examining FDIs on grounds of security and public order. However, these mechanisms vary in terms of scope and procedure.[75] Recently, the German government intervened in the case of Cotesa, an innovative company producing components for the Airbus and Boeing producers, which acqusition was eyed by the subsidiary of the Chinese state-owned China Iron&Steel Research Institute Group.[76]

Slovakia, in fact, is not one of the EU member states that already have such a foreign investment screening mechanism in place. Thus, it can be expected that the national legislation that will follow the introduction of this new EU Regulation will be shaped along the lines of the adopted EU level screening mechanism.

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[72] EU-China FDI Monitor, Rhodium Group, 2Q 2017 Update: Public Version, available at: http://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156032.pdf

[73] European Commission: Proposal for a Regulation establishing a framework for screening of foreign direct investments into the European UZnion, COM(2017)487, 13 September 2017

[74] EC Proposal introducing the FDI screening mechanism, available at: http://europa.eu/rapid/press-release_IP-17-3183_en.htm

[75] Legislative Train Schedule: A balanced and progressive gtrade policy to harness globalotiona, available at: globhttp://www.europarl.europa.eu/legislative-train/theme-a-balanced-and-progressive-trade-policy-to-harness-globalisation/file-screening-of-foreign-direct-investment-in-strategic-sectors

[76] Berlin to probe Chinese deal for German Aerospace Group Cotesa, Financial Times, January 4, 2018, available at: https://www.ft.com/content/21bb3e4a-f133-11e7-ac08-07c3086a2625

Conclusion

It has been established in the presented paper that with the prospective growth in the flow of foreign investment from the People's Republic of China into the Slovak Republic and vice versa, the current legal framework for the protection of Chinese investment in the Slovak Republic and vice-versa has been - from an international law perspective - insufficient. The applicable bilateral PRC-SR investment treaty concluded in 1991 belongs to the outdated generation of investment treaties as it only provides for a limited scope of the now widely accepted standards of international investment protection and does not provide for an open access to international investment arbitration in case of violation of investors' rights under this investment treaty. Therefore, the international investment protection standards included in this bilateral investment treaty are currently practically unenforceable. With the start of the EU - level negotiations of the new China-EU Investment Treaty, the European Union has started the process of negotiating a new comprehensive legal investment framework which, once concluded, would also be applicable to Chinese investment to Slovakia and vice-versa. There has been a significant progress in negotiating particular terms of the future investment agreement, such as the core definitions of 'investment', 'covered investment', 'investor', performance requirements, standards of investment protection such as fair and equitable treatment, minimum standard of protection, expropriation as well as dispute settlement, procedural fairness in competition related procedures and standard setting. With respect to future potential dispute settlement, the negotiators have taken on the task of defining a modern comprehensive system that would avoid the infamous challenges of the current international investment arbitration system, such as lack of transparency, the risk of contradictory decisions in international investment arbitration and the resulting lack of legitimacy of the current system perceived by the public. In addition, through the new FDI screening mechanism, the conditions on the potential resitrictions on market access due to security from the EU's side will be clarified. If successfully completed, the China-EU Investment Treaty shall be another step in forming a modern responsible comprehensive and mutually beneficial legal investment framework that – together with CETA – could form a benchmark treaty addressing the most pressing contentios issues of international legal protection of investment.

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Building new paths in China – CEEC academic & research cooperation: Initiatives in the educational cooperation of the University of Economics in Bratislava with the Zhejiang Province

By Boris Mattoš

Vice-Rector for International Relationship

University of Economics in Bratislava

Abstract

Relations between the People´s Republic of China (PRC) and Central and Eastern European Countries (CEEC) have experienced different phases in the last decades. The initiation of the China – CEEC cooperation (so called ´16+1´ platform) and also the Belt & Road Initiative (BRI) focused the attention to this part of European continent. Platforms has been improving, the field of cooperation has been widening which lead China and CEEC closer. What is the state and ongoing results of this cooperation more than 5 years after launching the ´16+1´ cooperation format in educational cooperation? The focus of the article is given to the implementation of academic cooperation between China and the Slovakia with special attention to the University of Economics in Bratislava and Zhejiang Province. Methodology comes from the personal observations on China – European Union and China – CEEC relations of the author during his academic service.

Keywords: P.R. of. China, Central and Eastern European Countries, '16+1' platform, Belt&Road Initiative, academia, research cooperation

Introduction

China's Belt & Road Initiative (BRI) is trying to reimagine the ancient Silk Road trading routes by connecting East and West over land and sea. For over the centuries the Silk Road promoted the exchange of Western and Eastern civilizations. Beside the BRI - over the five years of its existence, the ´16+1´ cooperation platform noticeably raised its visibility and became seen as a valuable economic and political instrument, which is furthering China's Belt & Road initiative.

The idea to establish the ´16+1´ platform had on one hand its origins in the 2004 European Union`s enlargement and 2008 EU`s financial crisis. Both factors changed the perspective of China`s foreign policy towards Europe and fastened the decision to put more focus on relations with the Central and Eastern European Countries. Official establishment of the initiative took place in April 2012 during the visit of Wen Jiabao, China`s Prime Minister to Poland. During the visit he announced China`s 12 Measures for Promoting Friendly Cooperation with Central and Eastern European Countries - a document describing China`s plans of engagement with the regional countries. They included (among others): setting up a secretariat of cooperation between China and CEEC in the structure of China`s Ministry of Foreign Affairs European Department, establishment of a special credit line, setting up an investment fund, academia and cultural cooperation. It was a clear sign of growing China`s involvement in the CEE region, as well as its will to actively strengthen relations with the CEE countries[77].

Following countries are included in the ´16+1´ cooperation: 5 Central European countries (Czech Republic, Hungary, Poland, Slovakia and Slovenia), 3 Baltic countries (Estonia, Latvia and Lithuania) and 8 Southeastern European countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania and Serbia). In total 11 EU members and 5 non-EU countries. As Pendrakowska states[78], considering the geostrategic location of CEE countries between three sea basins – Baltic, Adriatic and Black Sea – is creating real various possibilities of exerting influence by those 16 countries for a shape of future decisions.

The ´16+1´ initiative was a relatively new form of China`s multilateral diplomacy[79]. The ´16+1´ cooperation framework is multidimensional and all its components are subsumed into the Chinese public diplomacy. The new dimension of diplomacy strengthens the ties with the Central and Eastern European countries. Main decisions happens at the annual leaders` summits gathering

[77] Szczudlik-Tatar, J. 2013. China`s Charm of ensive in Central and Eastern Europe: The implementation of its "12 measures strategy", p. 1.

[78] Pendrakowska, P. 2017. Belt and Road Initiative and "16+1" Challenges for Poland and CEEC, p. 498.

79 Przychodniak, M. 2018. The "EU effect": How European Union influences state's involvement in the "16+1" China - Central and Eastern European Countries (China-CEEC) Initiative, p. 3

China`s prime minister and CEEC heads of government. Since 2012 there were summits organized in Warsaw (2012), Bucharest (2013), Belgrade (2014), Suzhou (2015), Riga (2016), Budapest (2017) and Sofia (2018). The next ´16+1´ summit will take place in 2019 in Croatia. The meeting in 2020 will be hosted by China.[80]

Zhang – Grešš – Brocková state[81], even though most of the investment flowed to Western European countries; the CEEC region also attracted Chinese attention starting the cooperation of ´16+1´. Even though economic performance in the CEEC region based on the GDP p.c. in PPP is lower than the EU average, there is potential for economic growth in the region that may exceed the growth in Western European countries. Also, the region represent a total population of 120 million. Hence, both the market potential of the region and serving as the entrance to the EU market are significant.

Cooperation between the People´s Republic of China and Central and Eastern Europe is strengthened, in addition to the ´16+1´ mechanism, within the framework of the Chinese initiative "21st Century Maritime Silk Route Economic Belt", known as "Belt & Road". The Maritime Agreement was signed in 2002 and its main task is to improve the conditions for maritime transport provided by both countries or in cooperation with third countries. In 2004, the agreement was extended to ten more countries and guarantees freedom and unrestricted access to ports for both partners. Gradually, the agreement should also extend to inland waterway transport. The Belt & Road Initiative is the development strategy and framework proposed by President Xi Jinping, which focuses on interconnection and cooperation between countries first and foremost between the People's Republic of China and the rest of Eurasia, consisting of two major components, the "Silk Road Economic Belt" (SREB) and the ocean "Maritime Silk Road" (MSR).

The initiative was enshrined, as Pardo points out, into the Chinese Constitution during the 19th Chinese Communist Party Congress in October 2017, during which Xi was re-elected for a further 5 years in power. Thus BRI is very likely to remain central to China´s foreign and economic

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80 Coordinating Secretariat for Maritime Issues 16+1. Online: http://ceec-china-maritime.org/blog/7th-central-and-eastern-europe-china-summit-16-1-in-sofia/

81 Zhang, L. – Grešš, M. – Brocková, K. 2017. Current and Potential Chinese Foreign Direct Investment in the Slovak Republic, p. 85.

policy until at least 2022. It has become an essential component of Beijing´s economic statecraft, as it seeks to gain influence with the use of economic inducements and coercive measures.[82]

The BRI has different ramifications in the domestic Chinese context than in the context of international cooperation and partnership, as Li states[83]. First, in the domestic Chinese context, the BRI serves as a development strategy and marks China's entry into a new stage of the great cause of promoting reform and political openness. The stimulation of social and economic development calls for new approaches and measures and the coordination of economic, political, cultural, social, and eco-civilizational development. The BRI strategy perfectly embodies this more open approach to the socio-economic development of China and its regions, and the approach for resolving socio-economic issues connected with the world economy that arise at the state and local levels. Second, as a result of pursuing a policy for reform and greater openness, the Chinese economy has largely connected already to the global economy and kept pace with the development of the regional economy. Such coordinated development should continue to serve as its fundamental principle.

In the context of the international community, according Li, the BRI is an initiative for international cooperation. It focuses primarily on stimulating regional economic development. It creates opportunities and conditions for China and its business partners to develop by strengthening cooperation on the construction of infrastructure in contiguous countries and regions, cooperation on energy, and the simplification of trade procedures. Mutual benefit, joint development, and mutual prosperity serve as the main principles of cooperation. The main principles for implementing that cooperation are joint consultation, construction, and use. To achieve that, the governments involved must align their political approaches and deepen the close contacts between the peoples of their respective countries. It is worth noting that, in proposing the BRI, the Chinese government did not set out to simply maximize its own profits, but gave serious thought to the question of how China's business partners would also gain and promoted the idea of mutual benefit. China does not intend to use the BRI unilaterally by imposing its goods and manufacturing might on its partners. The win-win approach put forward by Xi Jinping is the only way to develop the BRI since it requires increasing connectivity and the synergy of participating

82 Pardo, R. P. 2018. Europe’s financial security and Chinese economic statecraft: the case of the Belt and Road Initiative, p. 238.
83 Li Y. 2018. The greater Eurasian partnership and the Belt and Road Initiative: Can the two be linked? P. 2.

countries' development strategies. No, China is proposing a two-way road – namely, it is promoting Chinese goods, technologies, and investment abroad while also welcoming foreign investment, technologies, goods, and services, and is creating conditions to attract them. At the Belt & Road International Forum held in Beijing in May 2017, Chinese President Xi Jinping announced to the many senior officials of other countries present that China would hold a permanent international exposition of import goods starting in 2018.[84]

Academic and research cooperation

International partnerships between universities can illustrate the changing political, social, and cultural terrain of global higher education. The European Union and China are facing the common global challenges; innovation and sustainable growth are essential in the 21st century. Their solution requires constant cooperation in all areas, especially in science, technology and innovation. In this respect, the involvement of the scientific community, in particular universities and research institutions, is crucial.

The establishment of a research network of scientific institutions as a platform for dialogue and collaboration on global issues from CEEC and China is the result of long-term efforts and the work of researchers from the partner institutions. It provides opportunities for scientific and joint research cooperation, interdisciplinary projects, exchanges of scientists and students. Since 2012, the interconnectivity and people-to-people exchange between the People´s Republic of China and Central and Eastern European Countries developed into a growing networking platform incorporating think-tanks and educational institutions.

In the following, the focus will be on the academic and research cooperation of Ningbo, Zhejiang province with the CEEC region within the BRI and ´16+1´ Initiative. Ningbo, a 7.5 million coastal city in East China's Zhejiang province, has made remarkable progress in supporting the cooperation between China and 16 Central and Eastern European Countries. Ningbo was once a significant port on the ancient Maritime Silk Road and has been an important hub for China's foreign trade down the ages. In recent times, it has once again become a port of high significance.

84 Li Y. 2018. The greater Eurasian partnership and the Belt and Road Initiative: Can the two be linked? P. 2.

Ningbo is bordered by the ocean to the east, the city of Hangzhou to the west and Shanghai to the north. First Chinese Nobel prize winner Tu Youyou [85] was born in Ningbo.

Ningbo is running several leading projects with focus on Belt & Road and ´16+1´ initiative with the Central and Eastern European Countries: as the Ningbo Belt and Road Construction Comprehensive Pilot Zone; ´16+1´ Trade Cooperation Demonstration Zone or China – CEEC Inspection and Quarantine Pilot Zone of Trade Facilitation etc. The Zhejiang provincial government has approved the Ningbo Belt and Road Construction Comprehensive Pilot Zone in September 2017. The zone, principally located in Ningbo's Meishan New Area, will be built into a Belt & Road logistics center for shipping and air transport, pioneering area for investment and trade facilitation, leading zone of industrial science and technology cooperation, demonstration area of financial and insurance services, and a portal area for cultural exchanges. Ningbo used to be one of the departure ports on the ancient maritime Silk Road. Nowadays, the city, located at the intersection of the 21st Century Maritime Silk Road and the Yangtze River Economic Belt, boasts boundless economic vitality as an important manufacturing base and the first pilot city for "Made in China 2025".

Activities of Ningbo, Zhejiang province within the ´16+1´and Belt & Road initiative

When it comes to opening the higher education to global perspectives, we speak about internationalization of higher education all too often. This became a very frequent and popular word. We try to create a community of students and teachers in which cross-cultural and international knowledge and experiences are part of the present and a heritage for the future.

Globalization as a worldwide flow of ideas, resources, people, technology, services, culture — has, no doubt, made the world small. But in this small world the Higher Education Institutions, especially in Slovakia and the Central and Eastern Europe, have yet to absorb in the best possible way the best this universal worldwide integration has to offer.

[85] Nobel Prize in Physiology or Medicine in 2015 jointly with William C. Campbell and Satoshi Ōmura.

The question is how to incorporate the international, intercultural and global dimension into our objectives, into our goals and what these goals and objectives are supposed to be. There is no magic formula, no 'one size fits all' model. We should always look for individual approach. Every country, every institution and every program come into play with its own capital, but also with its own set of goals and individual needs.

In the 55-million Zhejiang province, over 40 universities are located, mainly in Hangzhou (the capital city and the largest city) and also in Ningbo. Among the most important universities in Ningbo itself belong Zhejiang Wanli University, Ningbo University of Technology, Ningbo University and China Maritime Policy Academy.

The city of Ningbo has hosted several important multilateral meetings for the past three years as the annual China-CEEC Investment and Trade EXPO, the Ministerial Conference of China and CEEC on Promoting Trade and Economic Cooperation in 2014, 2016 and 2018. Ningbo has reported expanding trade volume with CEEC - a crucial region in China's Belt & Road and ´16+1´Initiative - over the past few years. In 2017, trade volume between the city and 16 CEEC increased 23.5 % year-on-year to $2.92 billion, which accounted for 4.3 % of the overall trade volume between China and CEEC, according to the Ningbo Commission of Commerce. The number of investment projects between the two regions is 125.[86]

Ningbo Municipal People's Government in close cooperation with the Ningbo Educational Bureau and several local partner universities with focus on the ´16+1´ and Belt & Road initiatives has organized several important educational events in recent years, including the China (Ningbo) - CEEC Education EXPO, China - CEEC Business School Summit, Alliance of Silk Road Business Schools, **„Belt & Road" Countries Education Cooperation Summit, "Belt & Road Countries Forum on International Business Education etc.** University representatives, academic management professionals from China and Central and Eastern European countries met in Ningbo to strengthen international academic cooperation.

In June 2018, the third China (Ningbo) - CEEC Education EXPO was held in Ningbo. Representatives of 17 universities from 11 countries including Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Slovakia and other countries attended the exhibition. This event becomes an

1 [86] Shenggao, Y. 2018. Ningbo prospers from CEEC's continuing, dynamic cooperation, p. 14.

important part in promoting the education cooperation within the Belt & Road and ´16+1´ initiative; it is to be focused on deepening educational cooperation with countries along the Central and Eastern Europe. Efforts will be made to promote educational cooperation and exchange activities into a exchange mechanism and a BRI and ´16+1´ educational cooperation platform. 42 education projects and institutions run by China and other countries have been established. University institutions in Ningbo have developed cooperation with over 1,100 partners abroad. 78 universities from all 16 Central and Eastern European countries, in particular, have signed cooperation agreements with universities in Ningbo.[87]

Cooperation of the University of Economics in Bratislava with Ningbo, Zhejiang province

The representatives of the University of Economics in Bratislava participated in several educational events in Ningbo in past three years as the 3rd, 4th, 5th China (Ningbo) - Central and Eastern European Countries Education Conference; China – CEEC Education EXPO.[88]

The University of Economics in Bratislava is since June 2017 a founding member of the Alliance of Silk Road Business Schools (ASR), which has 76 universities from China and 19 countries (University of Economics in Prague, Tallinn University of Technology, University of Latvia, Warsaw School of Economics, University of Novi Sad, Solbridge School of Business, Woosong University etc.). The Alliance's main mission is to cooperate in education, science and research among Alliance members. Under the Belt & Road Initiative and based on the role of Ningbo as an essential port of the Maritime Silk Road the Alliance aims at uniting the distinguished business schools around the globe and building a cross-border communication platform for students, scholars and entrepreneurs, in order to promote the sharing and dissemination of commercial, economic and educational information, and to facilitate the establishment of a global

[87] People´s Government of Ningbo Municipality 2018.

[88] At the China (Ningbo) - CEEC Education EXPO attended the following public universities from the Slovak Republic: University of Economics in Bratislava (2016 – 2018); Slovak University of Technology (2016, 2017); Slovak University of Agriculture in Nitra (2016); University of Ss. Cyril and Methodius in Trnava (2016, 2017); University of Veterinary Medicine and Pharmacy in Košice (2016), University of Matej Bel in Banská Bystrica (2018), Alexander Dubček University in Trenčín (2018) and University of Žilina (2016 - 2018).

club for business schools. Service scope of the ASR is focused on the establishing a cross-border and cross-region mechanism of talent education exchange, faculty exchange etc. ASR is proposing international cooperation projects for talent cultivation (student exchange learning program, International Students Training Program, employment and entrepreneurship project) and for teaching and research training projects (online course construction, teacher research and academic exchange, teacher training program).

The cooperation between the University of Economics in Bratislava[89] and universities in the People´s Republic of China in the past couple of years has proved significant growth potential of a very effective cooperation which can be further developed.

In 2016 the Memorandum of Understanding between the University of Economics in Bratislava and the Ningbo University has been signed and an Agreement on the Student Exchange came to see the light of the day a year after, in 2017. Last year, this meeting also lead to signing of a Double Degree Agreement with the Business School of the Ningbo University and Faculty of Business Management of the University of Economics in Bratislava at both levels Bachelor's and Master's in Economics and Management and General Management.

These agreements have materialized when we welcomed in Slovakia´s capital Bratislava two delegations from the Ningbo University: delegation headed by the University's Vice-Chancellor and delegation from the University's Business School led by the Dean. In the last academic year we hosted 2 students and in this academic year we are hosting 4 students from Ningbo University in the framework of the European Union's program Erasmus+.

Ningbo University was established in 1986, it has been developed into one of the key institution of higher learning of Zhejiang Province with focus on scientific research trying to build a high level scientific research platform for innovation. Ningbo University with 47.000 students (1000 exchange students) has been attaching great attention to the development of international

[89] The University of Economics in Bratislava (UEBA), established in 1940, is nowadays considered to be one of the most important educational and scientific-research institutions in the Slovak Republic. The UEBA is a public Higher Education Institution focusing on Economics, Business, and Management. Medium-sized university (8000 students) provides higher education in more than 60 Bachelor's, Master's and Doctoral study programs, including several double or joint degree programs in Europe and Asia. The UEBA is located in Bratislava, capital city of the Slovak Republic. The international cooperation is based on more than 300 bilateral agreements with university institutions established in almost 100 countries of the world across 5 continents.

cooperation and exchanges. Ningbo University provides a wide range of disciplines: economics, law, education, liberal arts, history, science, engineering, agronomy, medicine and management. The university consisting of 19 faculties and colleges offers 72 bachelor programs and 154 master programs, and 12 PhD programs. Up to now, the university has maintained close links and intercollegiate cooperation with almost 80 well-known institutions of higher education in more than 30 countries.

Collaboration between China and the CEE countries not only leads to deepening of bilateral cooperation between Chinese universities and universities from Central and Eastern Europe, but also to closer interactions between Central and Eastern European universities themselves. The University of Economics in Bratislava has, thanks to the ´16+1´ initiative, established closer cooperation with the Charles University in Prague, Czech Republic, Eötvös Loránd University (ELTE) in Budapest, Hungary, University of Novi Sad, Serbia or Riga Stradiņš University, Latvia etc.

The University of Economics in Bratislava has concluded in the People´s Republic of China bilateral agreements also with the Tianjin University, Southwestern University of Finance and Economics (SWUFE) in Chengdu and Shanghai University of International Business and Economics (SUIBE). In cooperation with the Tianjin Confucius Institute based at the Slovak University of Technology in Bratislava offers the UEBA standard Chinese for students.

Conclusion

Academic cooperation is a crucial pillar of the relations between the People´s Republic of China and the Central and Eastern European Countries in the context of the Belt & Road and ´16+1´Initiatives. There is no better way to build trust and understanding than people-to-people contact. Besides, closer cooperation at the academic level should enable the exchange of ideas and innovative thoughts to benefit from synergies, build mutual understanding between nations and to bring world regions closer.

People-to-people exchanges between China and CEEC have achieved great developments in the past five years: the scale, level and effect of people-to-people exchange have been unprecedentedly promoted, the mutual understanding between China and CEEC went deeper. Cooperation in the fields of education, research and science has achieved remarkable results. In the field of ´16+1´ cooperation has become a hot topic in the research area of international studies, which greatly promoted the development of CEEC as a research field in China and CEEC.

Different countries' views, people exchange and learn to each other. This relationship is promoted via public diplomacy, which could achieve greater results than other diplomacy tools. The culture and educational cooperation and exchange could promote the development of bilateral relations and people to people connection, such as better awareness of other counties' policies, strengthening further cooperation between the countries, reducing the possibility of conflicts between two countries.

A lot has been done among the ´16+1´ and Belt & Road initiative in the past - but there is still a lot to be done. We have to make a concerted effort to develop our cooperation within ´16+1´ format in the most diverse ways. Diverse not only in the form but also in the content. This is a great opportunity for mutual enrichment and for enhancing the academic excellence we all strive for.

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Perception of China and its Economic Initiatives by the Students of the University of Economics in Bratislava

By Rudolf Kucharčík

Dean, Faculty of International Relations

University of Economics in Bratislava

Abstract

This paper deals with the perception of China and its economic initiatives by the students of Slovak universities (perspective country leaders in the middle-term future). This text is the result of the questionnaire and its assessment. Questions included knowledge about Chinese investments in Central Europe (especially in Slovakia), knowledge about the '16+1' Initiative, its content and goals, perception of the effectiveness of the '16+1' initiative, perception of the EU position within this initiative. The above-mentioned questions give us a survey on knowledgeability about all these issues. This information is important to fill the gap in informedness in the future.

Keywords: Survey, Perception of China, Students, Slovakia

Introduction

Our survey was held at the University of Economics in Bratislava, Slovakia in September 2018. The sample consisted of 442 respondents, mostly young women: 334 women and 124 men. Four respondents did not identify their gender in the questionnaire. The students were from both degrees of the study – bachelor and master. The structure of the questions was clear. The students were asked about the New Silk Road[90] and its goals, about ´16+1´ Initiative and its goals, about the source of their information about both projects. There were also some general questions

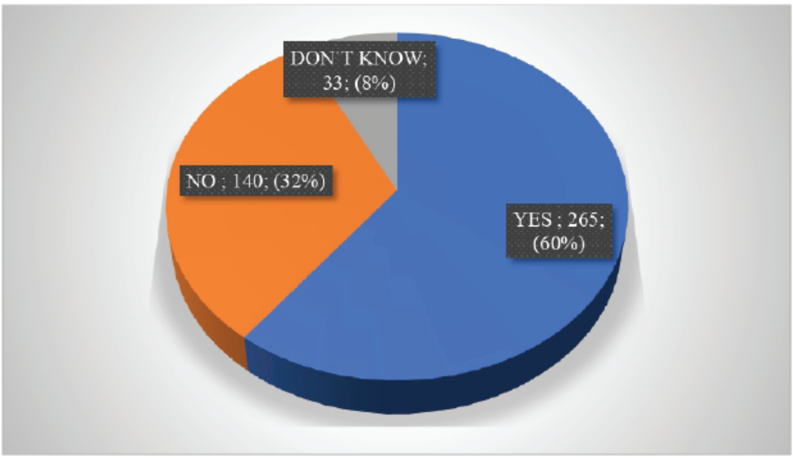
[90] We decided to use this term instead of the official „Belt and Road Initiative" as in the Slovak press, the term „New Silk Road" is still the predominant description of the initiative

(support of investments in the country). The total number of questions was 14. Thirteen of them were directly connected with the content of the survey (New Silk Road, ´16+1´ initiative, investment). Twelve questions were closed. Two of them were open – questions number 7 and 8 contained questions about the risks and benefits of Chinese investments in Slovakia. It would be interesting to compare this kind of survey with similar ones dealing with other decisive world players – EU, US, Russia etc.

Results

Majority of the students (Figure 1) heard about the New Silk Road (60%). On the other hand, about one third of them (32%) – 140 of 438 have never heard about it. It means that there is still a remarkable information gap (8% of students were not sure about the New Silk Road – it means about 40% of them still need additional or initial information to form their opinion on this topic).

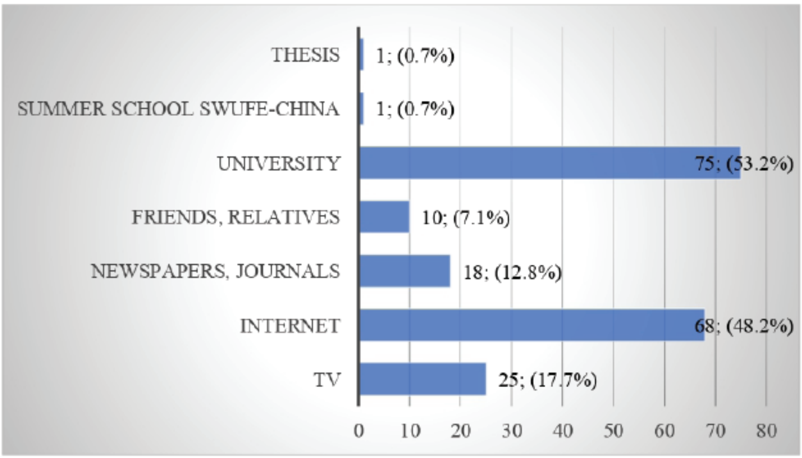
Figure 1 Have you ever heard about New Silk Road cooperation?



The second question (Figure 2 – source of information) was answered by 141 students. Some of them marked more options. Looking at the results, it is clear that the main source of information about the New Silk Road Project are the internet and university (about half of them). TV, newspapers and journals still have a minor importance in the process of information. Other sources play a negligible role – friends and relatives 7.1%, summer school in China and diploma/bachelor thesis even less than 1% as only one student checked this option in both answers.

Here, it is important to point out that the majority of the master degree students in their final year were the group generally most informed about the initiative and the source of their information was the university.

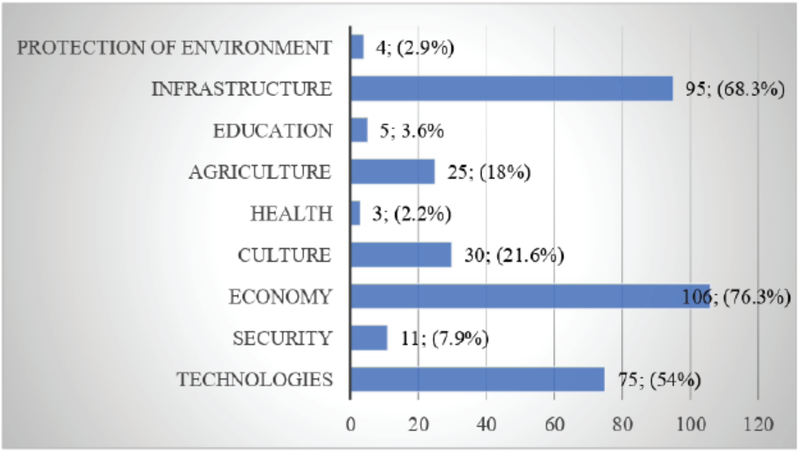
Figure 2 Where this data came from?



The third question (Figure 3) was answered by 139 students (some students identified more than one option). Majority of the students think that the New Silk Road concentrates mainly on the economic activities (infrastructure, economy in general, technologies). About one fifth of the answers links the New Silk Road also with culture (21.6%) and agriculture (18%). Less than 10%

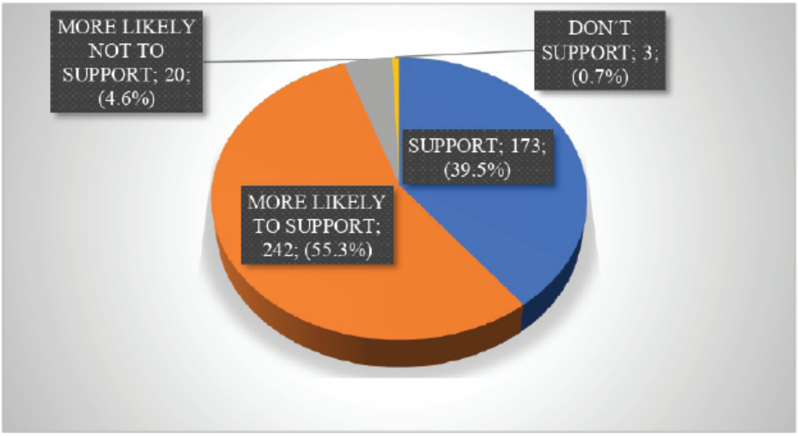
of answers links the New Silk Road with such fields as security (7.9%), protection of environment (2.9%), education (3.6%) and health (2.2%).

Figure 3 According to your information, the New Silk Road project is an initiative in the area of...?



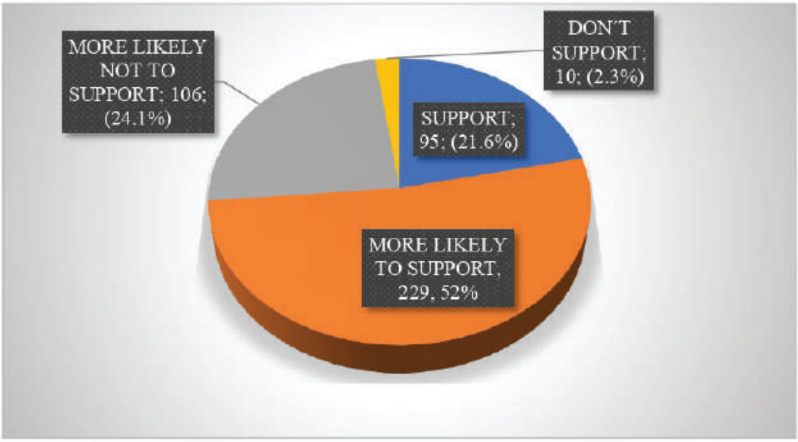
It is clear that most of the students support foreign investment in Slovakia and are pro-market oriented as they are convinced that the Slovak economy is an open economy. Question number 4 concerning foreign investment was answered by 438 students. About 40% of them are evident supporters of foreign investment in the country. More than half is more likely to support it (55.3%). Only about 5% of the supports are not favorable to foreign investments (0.7% don´t support investments and 4.6% is more likely not to support foreign investments).

Figure 4 Do you support foreign investments in Slovakia?



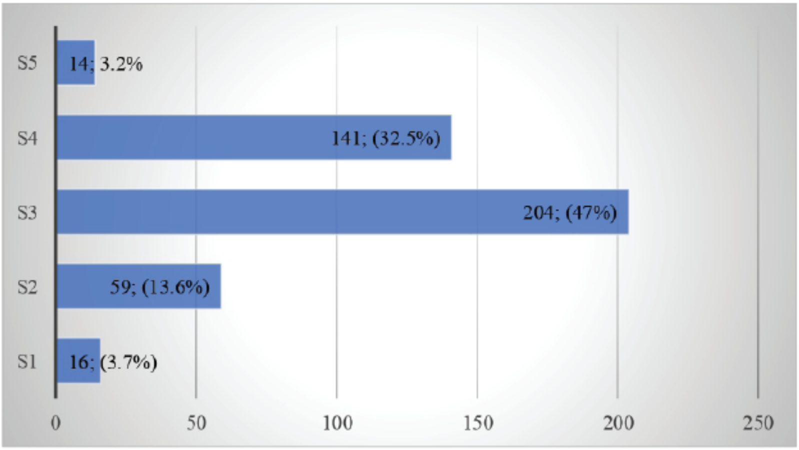
Comparing question number 4 with question about Chinese investment (question number 5 answered by 440 students), students are more skeptical in the case of Chine investment. Almost three fourths of the students do not reject Chinese investment in the country (21.6% of them are clear supporters and 52% are more likely to support the flow of the Chinese investment in the country). But if the survey was asking only about the Chinese investment, there is a more skeptical part of the students than it is in the case of the flow of investment in general (Figure 4). About one fourth (26.3%) of the students do not support Chinese investments in Slovakia (2.3%) at all.

Figure 5 Do you support Chinese investments in Slovakia?



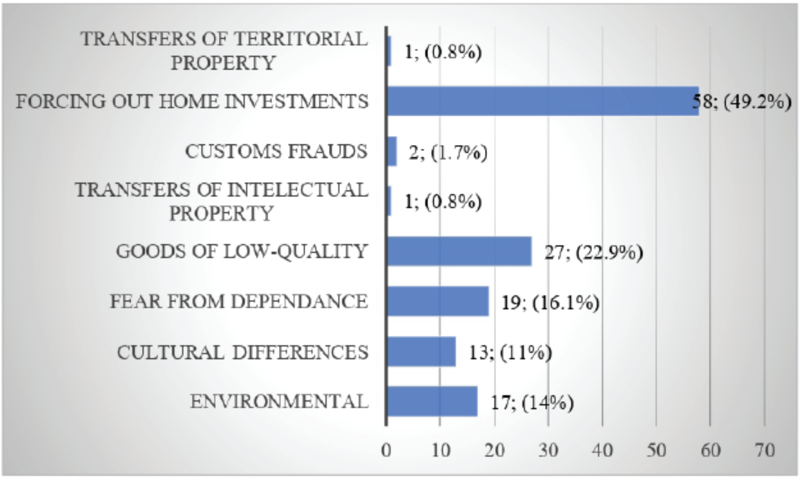
Questions number 6, 7 and 8 are dealing with the attitudes on risks and benefits of Chinese investment in Slovakia. The measure of benefits of Chinese investment is the object of interest of question number 6. S1 means not beneficial and S5 means really beneficial. We can see that most of the students see Chinese investment as beneficial (S4, S5) or at least do not doubt the benefits of Chinese investment (S3). About one fifth of the students is skeptical (S1, S2).

Figure 6	To what measure is support of Chinese investments beneficial? (Scale 1 - 5)



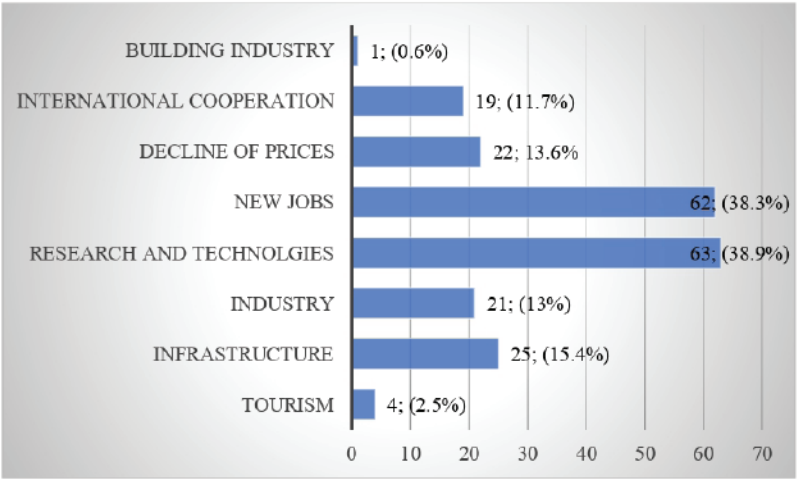
The question number seven and question number eight were open questions. There were eight fixed answers but students could add additional reasons. As we can see the risks of Chinese investment is connected with forcing out of home investors, low-quality goods, dependence, cultural and environmental issues. Among those listed by students, there are security and political threats, relations with the US, agriculture, low wages in China, possible low wages in Slovakia, decrease of investment from developed western countries, immigration from China, but also no risk at all.

Figure 7 If investment from China represents risk according to your opinion, what kind of risk is it?



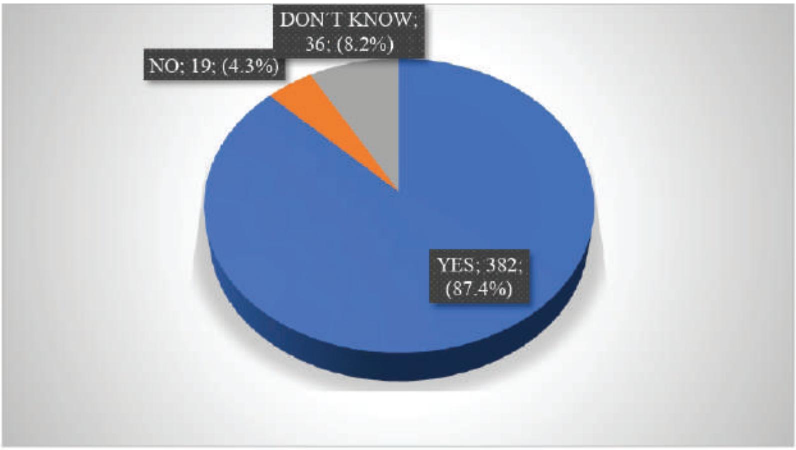
According to our university students, the benefits from Chinese investment are connected with the creation of new jobs (38.3%), research and technology development (38.9%), development of infrastructure (15.4%), decline of prices and development of industry (both more than 13%) but also with international cooperation (almost 12%). Students chose also stronger economy, possibility to strengthen relations with China, better living standard, possibility of cooperation in cultural policy.

Figure 8	If investment from China represent benefit according to your opinion, what kind of benefit is it?



The second set of the questions in our survey dealt with the ´16+1´ cooperation. More than 87% of students (382 from 437) already heard about the ´16+1´ initiative. Only 4.3% had not and about 8% were not sure about it. If we compare it with question number 1, students are better informed about the ´16+1´ than about the New Silk Road (87.4% to 60% of positive answers and 4.3% to 32% of negative answers).

Figure 9 Have you ever heard about 16+1 cooperation?



The students have their information (Figure 10) mainly from university lectures (55%) and from internet (45%).

They also think that it is an initiative focused on economic area (Figure 11) – economy (76.2%), technologies (52.4%), and infrastructure (38.1%). About 38% think that among main goals of ´16+1´ is also development of cultural cooperation between China and countries from East and central Europe.

Figure 10 Where that data came from?

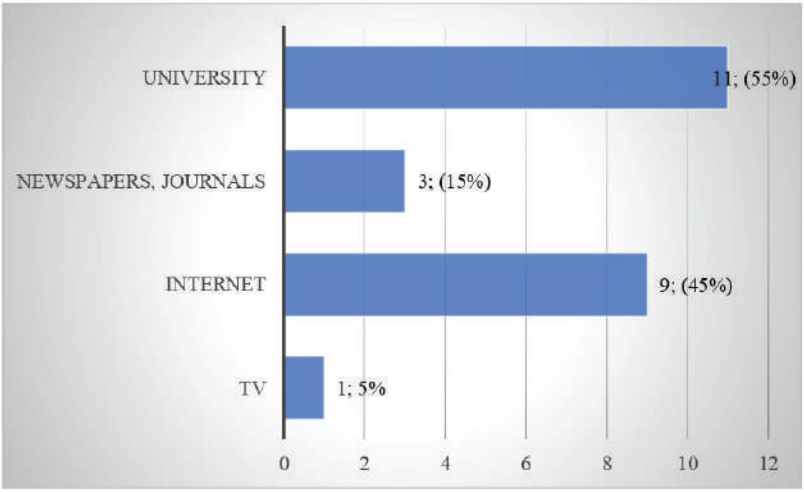
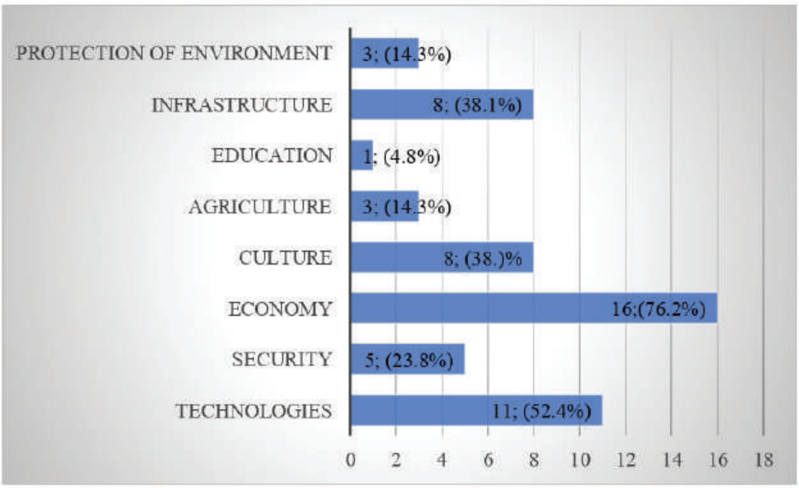
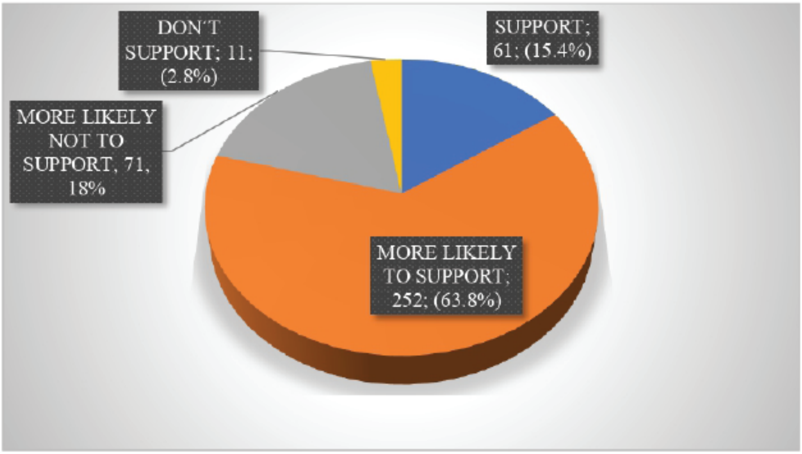


Figure 11 According to your information ´16+1´ is an initiative in the area of..?



Majority of the students (395 answers on the question number 12) support ´16+1´ initiative even if it is not coordinated by the European Union (Figure 12). 15.4% of them are clear supporters of this attitude and almost 64% of them are more likely to support this attitude. Only about one fifth of the students do not support development of the ´16+1´ initiative if it is not coordinated by the European Union (2.8% at all and 18% is more likely not to support that kind of policy).

Figure 12 What is your opinion on the development of cooperation between the Slovak Republic and other countries of the Central and East Europe with China within the platform 16+1 (if it is not coordinated by the EU).



The aim of our survey was also to enhance the interest for Chinese investment in Central and Eastern Europe. According to the answers on the question number 13 (Figure 13) this questionnaire roused the interest of the majority of the students (225 from 432) on the issue of Chinese investment in the region of Central and Eastern Europe.

As it is visible from answers on the question number 14, only few of the students could have been influenced during this survey by their stay in China as only 4% of them (17 from 438) have visited China before. However, as it can be derived from the results of the survey, opposite to our expectations, the students who have previously visited China, have not shown a substantially more positive attitude with respect to the issue of possible risks and benefits connected with Chinese investment in our region.

Figure 13 Does this questionnaire rouse your interest about the project of support of investments between China and countries of Central and Eastern Europe within the ´16+1´ initiative?

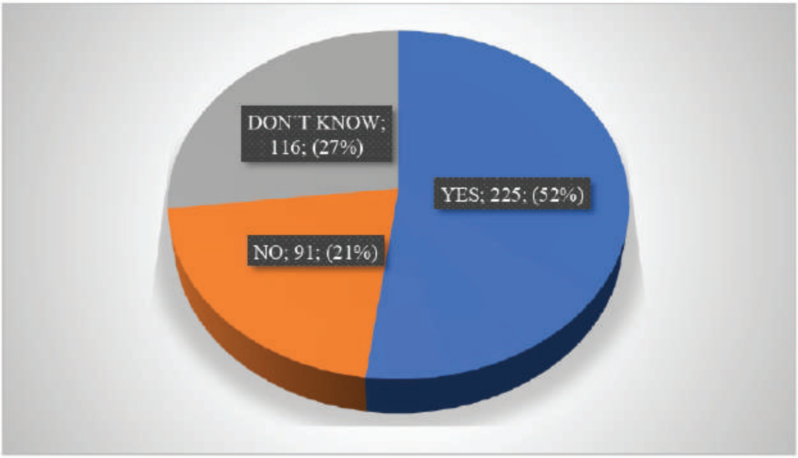
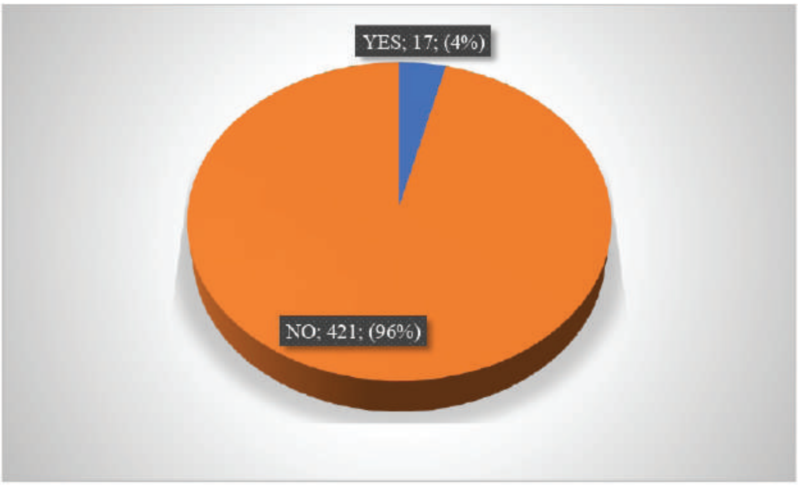


Figure 14 Have you ever visited China?



Conclusions

The aim of our paper was to interpret the results of the survey held among the students of the University of Economics in Bratislava in September 2018. Majority of the students have sufficient knowledge about both of the projects – New Silk Road and ´16+1´initiative. Majority of the students also have correct information about the aims of both initiatives. As regards the Chinese investment in Slovakia, majority of the students support it. The biggest risk – as viewed by the students - is connected with forcing out home investors from the Slovak market. The benefits are connected with the creation of new job opportunities but also development of research and technology in the country.

As we discovered in this survey, the more senior the students, the more important the University appears as the source of relevant information about these initiatives. Thus, more stress on the relevant analysis of both of these initiatives in the academic process would be a beneficial and effective way of enhancing students´ understanding of the complexities of the surveyed topic.

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The CEEC -Slovak - Chinese cooperation in 21st century in the field of natural resources and environmental management

By Mikuláš Černota

Assistant Professor

Faculty of International Relations, Economic University in Bratislava

Abstract:

The times of climate change, new priorities in societal views of natural resources benefits, shortage of some basic life supporting natural services and increasing global trade pose significant challenges to international cooperation on natural resources globally. The CEEC region may offer extensive experiences to the common agenda with China. The core issues have been identified such as the prevention and control of animal diseases, water resources management, forests and forestry, waste management and environmental conservation. The mechanisms to be applied are the establishment of the centers of expertise e.g. veterinarian cooperation, mutual improving of the market access for agricultural products, circular economy development, low carbon energy transition mechanisms, high level conferences with academic participation on forestry, afforestation projects etc. Technical exchanges, scientific cooperation and business sector networking are to be intensified with the common aim to jointly combat the effects of climate change as its impacts knows no borders and have transboundary character and need innovative solutions. All these activities are to be framed in the sustainable resource development notion and the diversity of natural conditions within the region of CEEC allows to cover the multitude of ecosystems parallel to those relevant in China.

Keywords: natural resources, ecosystems, sustainable development, encironment, resource management

"Blue rivers and green forest are the new gold," Erik Solheim, executive director of the United Nations Environment Program (UNEP)**,** quoting the earlier words of President Xi Jinping at the BRI forum. [91]

Multilateral nature of environmental resource management with the application to Slovak-Chinese cooperation

Natural resources know no borders, so the solutions and decision making should be always based on the multilateral international dialogue and common approaches. 21st century provides us with the opportunity to do mosaic of policies based on different approaches tested all over the world. The geographical position of Slovakia is very unique because the state area consists of the Carpathian mountains of various heights from mountain forests to alpine meadows and rocky terrain to lowlands along big rivers such as Danube with typical fauna and flora of flood plains. All of these landscapes types are also present within the territory of China. Both countries have hundreds of years of experiences in managing such resources. This provides an opportunity for strenghtening the cooperation because the resources are subjects of rapid changes, especially in the times of prevailing climate change. This all makes the environment an effective area for collaboration on variety of issues. In following, we try to explain the nature of those themes and current and future modes of cooperation based either bilateral or the multilateral exchnage of views and practices. The topics we are about to discuss are agriculture, forestry, biodiversity conservation, climate change mitigation and adaptation as well as the environmental issues of Belt and Road Initiative. Beside these „physical" objects, there is a lot to discuss on overall concepts of resource management such as the idea of sustainable development and newly presented idea of ecological civilisation which provides a commom place from local to global solutions.

When taking the frame of 16 plus 1 members, the majority of countries have long traditions of natural resource management, the natural sciences has been supported very well over the years. This makes an ideal opportunity for cooperation starting from the field of science, through the

91 Yiming, G (2017).: Beijing charts a green footprint along the Belt and Road, China.org.cn, available at: www.china.org.cn/world/2017 05/15/content_4081826

certification, regulation and standards creation to production, processing, trade and legislation. This field is really the one, which makes suitable ground for common solutions, because of the similarity of geographical landscape types and respective resources.

Climate change

The area of climate change became one of the most discussed in diplomacy as well as other sectors in last years. As the impacts of changing climate are affecting all around the globe, solutions for its mitigation or adaptation should be processed by multilateral cooperation. China stated several targets in Paris Agreement for adaptation and mitigation. Slovakia as part of the EU takes the cooperation as priority because of the urgency of the topic and international priority. During the latest EU-China summit, leaders highlighted the importance of tackling climate change and called other nations to step up climate action. This effort has become more urgent than ever because of the disastrous effects of climate change. The leaders expressed their commitment to advance cooperation on the implementation of the Paris Agreement and fully support the upcoming UN Climate Change Conference (COP24), which will take place in December 2018 in Katowice, Poland. Among other important points related to tackling climate change, the statement talked about the promotion of a global clean and low-carbon energy transition, especially towards sustainable, affordable, reliable and modern energy services.[92] The EU and China both reaffirmed the high consideration of the Paris Agreement as an historic achievement further accelerating the irreversible global low greenhouse gas emission and climate resilient development. The EU and China underline their highest political commitment to the effective implementation of the Paris Agreement in all its aspects, including, inter alia, mitigation, adaptation, finance, technology development and transfer, capacitybuilding and transparency of actions and support. Stepping up action will provide both sides with significant opportunities for modernising their economies, enhancing competitiveness, and ensuring socio-economic benefits of increased clean energy

92 UNFCCC (2018): China, EU Reaffirm Strong Commitment to Paris Agreement, available at: https://unfccc.int/news/china-eu-reaffirm-strong-commitment-to-paris-agreement

access.[93] Slovakia due to its unique geography which contains so many different land types may offer a good position for the knowledge transfer, exchange of technologies as well as scientific data and education promotion. Both countries are giving a lot of attention to climate change, so any regional or international cooperation may contribute to common goal of limiting the temperature rise as well as adaptation to impacts of changing climate to people, living environment and infrastructure. Climate change as overall theme covers partial subjects mostly on energy transformation, new transport modes, biodiversity conservation, inasive species, pollution controll or health issues.

Natural resources

Natural resources and biodiversity provides commnon ground for cooperation regardless of geography or culture. The challenges of 21st century is to maintain the living environment in state that future generations may are able to satisfy their needs for sustainable living.

The cooperation was welcomed by the leaders of the EU and China on the area environmental protection and natural resource conservation, in particular on issues such as pollution prevention and control, biodiversity conservation, CITES implementation and enforcement and wildlife trafficking, and elimination of illegally harvested timber from the markets, as well as desertification and land degradation. The EU and China will work together actively with a view to achieving the preservation of biodiversity. The EU welcomes China's commitment to organise COP 15 of the Convention on Biological Diversity in 2020, which should mark the adoption of the post2020 global biodiversity framework.[94] As similar to climate change, Slovakia – China cooperation and countires of 16 plus one may have several bases for further cooperation. The existence of nature protected areas, pollution prevention, fight against desertification as well as the implementation of multilateral environmental agreements such as CITES, UNCBD or deveoping

93 EU COMMISSION (2018): EU-CHINA LEADERS’ STATEMENT ON CLIMATE CHANGE AND CLEAN ENERGY, Availabe at: https://ec.europa.eu/clima/sites/clima/files/news/20180713_statement_en.pdf

94 European Council (2018): Joint statement of the 20th EU-China Summit, available at: http://www.consilium.europa.eu/media/36165/final-eu-cn-joint-statement-consolidated-text-with-climate-change-clean-energy-annex.pdf

post 2020 regime presents challenge to the years to come. Other topics include cooperation in shale gas, where allowed, as well as geology, mining, spatial planning and urbanization in a sustainable way, reducing the environmental and climate impact of these activities. The Participants will increase practical cooperation in the energy-saving and environment-friendly sectors and explore the possibility of exchanges and cooperation on energy-saving and environmental policy dialogue, nature and biodiversity protection and tackling climate change while also promoting public awareness and participation.[95] Public participation is activity of particular importance as the change needs to come from the grassroots level in order to be effective in daily lives of ecosystems and people.

Agriculture

According to the The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries, the participants of 16+1 cooperation will bring into full play the role of the Sofia-based China-CEEC Association on Promoting Agricultural Cooperation. The China-CEEC Agrotrade and Economic Cooperation Forum will be held alternately in China and one of the CEECs on an annual basis. Nutrition security, soil protection, ecological agriculture, irrigation, animal production are between the topic to challenge the joint platfrom. Both sides encourage and support a joint effort to step up quality inspection and quarantine cooperation based on the principle of mutual benefit and compliance with the relevant regulations and standards, in order to promote fast growth and safe development of trade of agro-products and food between China and CEECs. The Chinese side welcomes the import of CEEC agro-products and food that meet the relevant inspection and quarantine laws and regulations of China and is committed to accelerating the examination of the relevant applications from CEECs. Regarding the countries of 16+1 cooperation will strengthen cooperation in agro-trade, sustainable agricultural production, deep processing of agro-products, development of rural areas, scientific research and technologies in the agricultural sector, as well as in the farming and animal husbandry industry. The Participants

95 Ministry of foreign affairs of the Republic of Latvia (2016): The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries, available at: www.mfa.gov.lv/en/policy/multilateral-relations/cooperation-between-central-and-eastern-european-countries-and-china/the-medium-term-agenda-for-cooperation-between-china-and-central-and-eastern-european-countries

encourage the establishment of agricultural production bases.[96] The topic of utmost importance is the cooperation on irrigation facilities and other agricultural infrastructure, as well as water-saving irrigation techniques and equipment. In the times climate change, this topic is directly related to future food security. Enhancement of the communication on legislation and policies in the field of flood control and water management is also planned.

Forestry

Forest cover of the cooperating countries varied along the centuries of human development. The trend now is to increase the forest cover in every region, so exchange of experiences is especially welcome in this subject. The forestry development was chosen as one of the priority for the years to come. The members of 16+1 will identify new channels of cooperation and encourage all-round exchanges in the forestry sector. They support the establishment of a coordination mechanism for forestry cooperation, and the China-CEEC High-level Meeting on Cooperation in Forestry will be organized alternately in China and one of the CEECs on a regular basis.[97]

As agreed in the The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries the issue of climate change was chosen as one of the topics to confirm the importance of forests and forestry in the fight against climate change. The cooperation in the field of forestry is recognized as one of the priority areas in the process of cooperation between China and the countries of Central and Eastern Europe. It should use the momentum to support the science and academia, practical application in the forests of all types from mountanious, temperate to lowland ecosystems. Deputy Director of the National Forest Administration of China Liu Dungsheng said that it is necessary to deepen cooperation in the field of forestry between 16

96 Ministry of foreign affairs of the Republic of Latvia (2016): The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries, available at: www.mfa.gov.lv/en/policy/multilateral-relations/cooperation-between-central-and-eastern-european-countries-and-china/the-medium-term-agenda-for-cooperation-between-china-and-central-and-eastern-european-countries

97 Ministry of foreign affairs of the Republic of Latvia (2016): The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries, available at: www.mfa.gov.lv/en/policy/multilateral-relations/cooperation-between-central-and-eastern-european-countries-and-china/the-medium-term-agenda-for-cooperation-between-china-and-central-and-eastern-european-countries

countries of Central and Eastern Europe and China and to initiate bilateral cooperation between scientific institutions and enterprises of these countries. Minister of Environmental Protection Goran Trivan said that forestry is a possible solution to all solutions when it comes to preventing the effects of climate change, and urged participants to set up a joint afforestation plan for all countries.

At the end of the meeting, ministers and members of the Chinese delegation put into operation a joint project - Climate Change and Forestry Portal, which contains all information on past and future joint projects of the 16+ 1 countries.[98] Such a portal could serve as a knowledge base for futher innovation, cooperation and hub for networking of the forestry subjects across the cooperating regions.

As China championed the share of newly afforested lands globally in the last years, has a lot of experience to offer with countries of 16+1 through cooperation mechanism and vice-versa the countries of European region may offer their historic experiences from afforesting degraded lands and 300 years of application the scientific forestry concepts. Deputy Director Liu mentioned forest tourism and medicinal forest tourism as some promising industrial branches that require joint cooperation to secure progress, and he concluded that China supports the establishment of "smart forests" across the world aiming to achieve better efficiency in managing forests as well as protection of animals and plants. [99]

The cooperation at the level of universities and research institutes is planned also to encourage exchange of scholars and research. It provides very effective way of exchanges of information as well as networking for further cooperation. The problems such as forest dieback due to new climate factors, afforestation of degraded soils, wildlife management, water amelioration, biodiversity conservation, national parks governance, all of these areas of expertise Slovak as well as other regional CEEC experts are prepared to exchange views. For example Slovakia has one of the

98 B92.net (2018): China and CEE countries in forestry cooperation meetingavailable at: https://www.b92.net/eng/news/politics.php?yyyy=2018&mm=05&dd=15&nav_id=104157

99 XINHUA (2018): China, CEE countries to deepen cooperation in forestry, available at: www.chinadaily.com.cn/a/201805/15/WS5afa4274a3103f6866ee869e_1.html

highest percentage of protected areas within the country, so there are experiences from consolidating the various interest over nature from tourism, environmental protection, local interests, international commitments, etc. The experiences are mutually beneficial for example on how to deal with the increasing crowds of visitors in national parks, which is the topic of gradually increasing importance for every region. The increase share of the city population over the rural one makes the issue more urgent nowadays.

The other important topic is the forest dieback of beetle infestations and wild fires. This provides common ground as China as well as Slovakia and other countries in the region contains of the vast forests threatened by the excessive heat in summers and the beetle overpopulation attacking the green vegetation. The fight against as well as the prevention is based on the newest science results because the phenomenom is very new and one single country cannot cope with such a challenge which affects us globally. The forest scientists agreed common summits to be held every two years are beneficial because of the changing nature of the ecosystems.

For completing the circle of natural resources management the wood processing industry is to be taken into account. The plan is to perform study tours from CEECs to China and vice versa for wood processing industry. If the country has forest cover of 30% it is said to be enough to have developed wood processing and paper making industry. In the 21st century the situation is different because of the global trade and easier logistics of wood transport. Wood processing contains a variety of business opportunities from furniture to loghouses, from hygiene products to high quality glossy paper. The study tours will enable technology transfer, new designs of product cycle, business models studies as well as econonomic cooperation.

Ecological culture, traditional use of space and cultural characteristics of society. These are very important elements in the overall understanding of resource management. In the Chinese history the human was understood as part of a nature whereas in the European history this was not always the case, as humans were taken as masters of nature and the activities of mastery overy nature using technology were defended as the proper ones. There is a space of mutual learning especially on the role of an individual in relation to nature as well as the system of governance and ecodesign.

Green economy as the new paradigm in desing of infrastructure and processes is considered as efficient context to be explored conceptually for every industry. Forestry, wood, pulp and paper sector is considered as a leading area in all the green initiatives as its raw material is supplied directly by sustainable natural resource of forests. New ways of growing wood such as fast growing plantations or GMO are to be carefully considered by all parties taken into account local specificities of the environment.

Circular Economy

The trend of moving towards a more circular economy is essential to deliver the resource efficiency agenda established under the Europe 2020 Strategy for smart, sustainable and inclusive growth as well as other documents encouraging transition to low carbon economy. Higher and sustained improvements of resource efficiency performance are within reach and can bring major economic benefits. Circular economy systems keep the added value in products for as long as possible and eliminate waste. They keep resources within the economy when a product has reached the end of its life, so that they can be productively used again and again and hence create further value. Transition to a more circular economy requires changes throughout value chains, from product design to new business and market models, from new ways of turning waste into a resource to new modes of consumer behaviour. Existing infrastructure, business models and technology, together with established behaviour keep economies 'locked-in' to the linear model. Companies may lack the information, confidence and capacity to move to circular economy solutions.[100] China and the European Union (EU) have signed a memorandum of understanding (MOU) on the circular economy at the 20th EU-China Summit, held in Beijing 16-17 July, 2018. The agreement, signed by European Commission Vice-President Jyrki Katainen and the Chairman of the Chinese National Development and Reform Commission He Lifeng, focuses to align the world's two largest economies along key circular economy mechanisms and pave the way for the development of product standards and policies, which could create the conditions for a 'system shift' on a global

100 EU COMMISSION (2014): COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Towards a circular economy: A zero waste programme for Europe, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52014DC0398R%2801%29

scale towards a low carbon, regenerative economy.[101] As several countries of the 16 plus 1 are EU member countries, their policies are in line with the EU strategies and policies. Circular economy represents a model where the focus is to the reduction of waste and re-use, repair and recyclation of the products and materials already in use.

The cooperation will cover will cover strategies, legislation, policies and research in areas of mutual interest. It will address management systems and policy tools such as eco-design, eco-labelling, extended producer responsibility and green supply chains as well as financing of the circular economy. Both sides will exchange best practice in key fields such as industrial parks, chemicals, plastics and waste. The challenge is to transfrom the systemic processes in all the sectors to circular models, so they may provide a lot of benefits such as the traffic, air pollution, affordability of goods and services, lowering impacts to environment.

Both sides are introducing modern measures as China launched ‘Blue Sky 2018’, a customs crackdown on the illegal smuggling of foreign waste, running until December, which follow in the same vein as similar campaigns including 2013’s Operation Green Fence and 2017’s National Sword Campaign. The legislation in the EU includes key recycling targets; EU member states have to reach a 55 per cent municipal recycling rate by 2025, 60 per cent by 2030, and 65 per cent by 2035. There are also numerous material-specific targets, and member states have until 1 January 2025 to establish separate collections for textile waste and hazardous waste from households. [102]

Other activities from the field of circular economy include transport, which is of the the most important sector in fighting climate change, air pollution reduction as well as lowcarbon transition element. The cooperation is based on the EU-China Connectivity Platform, held in the margins of the Summit where the two parties reaffirmed their commitment to transport connectivity on the basis of respective policy priorities, sustainability, market rules and

101 GETHIN, R. (2018): China and EU sign memorandum of understanding on circular economy , available at: https://resource.co/article/china-and-eu-sign-memorandum-understanding-circular-economy-12744

102 GETHIN, R. (2018): China and EU sign memorandum of understanding on circular economy , available at: https://resource.co/article/china-and-eu-sign-memorandum-understanding-circular-economy-12744

international coordination. The exchanges focused on the policy cooperation based on the Trans-European Transport Network (TEN-T) framework and the Belt and Road initiative, involving relevant third countries between EU and China; cooperation on Transport decarbonisation and digitalisation, including in international fora such as the International Civil Aviation Organisation (ICAO) and the International Maritime Organisation (IMO), cooperation on investment projects based on sustainability criteria, transparency and level-playing field to foster investment in transport between EU and China.[103] This has further application to the Belt and Road Initiative, as the transportation means are at the core of the whole project to increase the reach out of trading hubs.

Innovative mechamisms of sustainable resource management

Modern resource management requires innovative approaches to align economic development with the societal needs. November 2017 the Delegation of the European Union and Chinese authorities launched the new project "Natural Capital Accounting and Valuation of Ecosystem Services" in Beijing. It covers other partners as well including Brazil, South Africa, Mexiko, India with the assistance of the United Nations Statistics Division (UNSD), UN Environment and the Secretariat of the Convention on Biological Diversity The EU and China's economic prosperity are underpinned by their natural capital, i.e. its biodiversity, including ecosystems that provide essential goods and services, from fertile soil and multi-functional forests to productive land and seas, from good quality fresh water and clean air to pollination and climate regulation and protection against natural disasters. This action will deepen bilateral collaboration on environmental policies. Its main objective is to mainstream natural capital accounting and valuation of ecosystem services in data driven decision and policy making, in order to influence policy-makers at national, regional and local level. The monetary valuation of the ecosystems goods and services are especially important in order to be internalized to economic decision making processes and „have a price“ during production phase of goods and services while their

103 European Commission (2018): EU-China Summit: deepening the strategic global partnership, available at: http://europa.eu/rapid/press-release_IP-18-4521_en.htm

quality is lowered by other economic activities.[104] Valuation initiatives do have long history and the application elsewhere is very weak, so this exercise has paramount importance to the future modes of natural resources governance. Several approaches applied in the recent past such as precautionary principle or polluter pays principle have been applied mostly at the policy level only. Mainstreaming of natural capital accounts into the evironmental policies will help to protect and utilize the resources such as forests nearby big cities, river basins, coastal areas or parks. These schemes are the most advanced in current decision making on natural resources. Slovakia and China may contribute to this development mostly by academic exchange of experiences as well as case studies promotion such as national parks, lakes or disaster risk natural buffer zones.

Belt and Road environmental aspects

Slovakia as an ordinary member of the United Nations Food and Agriculture Organization (FAO) participates in various projects of agriculture, forestry, food and nutrition worldwide. The cooperation is based on participation of national experts in destination countries, consultants in various topical commissions or financial contribution to work agenda of the organization. In April 2018 Director-general José Graziano da Silva has said the China-proposed Belt and Road Initiative and FAO share common goals and there exist many opportunities for the UN organization to cooperate with China under the framework.

Four specific technical areas have been identified for common working, namely inclusive and sustainable food system development; bringing innovation to the field through digital-agriculture; enhancing the control of transboundary animal and plant diseases; as well as protecting biodiversity and improving resilience to climate change. The increased international trade in agricultural products that the Belt and Road Initiative will bring about, comes with increased risks of spreading animal and plant diseases between countries. FAO has extensive global experience in the area, ensuring that expanded trade is carried out in a safe way and does not pose a threat to vulnerable farmers, nor a health threat to consumers, he said. As for climate change, he said many

104 Delegation of the EU to China (2017): EU and China deepen collaboration on environmental policies and Natural Capital Accounting, available at: https://eeas.europa.eu/delegations/china/35110/eu-and-china-deepen-collaboration-environmental-policies-and-natural-capital-accounting_en

of the countries engaged in the Belt and Road Initiative and particularly those in Southeast Asia and Central Asia, are among the most vulnerable to the impacts of climate change, and the poor are generally the most vulnerable. Accoding to Director General, there is a high degree of complementarity between climate change and the other sectors proposed for action under the program of FAO/China collaboration.[105] Such a cooperation means more opportunities for multilateral as well as bilateral projects because of common regions of intervention of Belt and Road Initiative and climate change adaptation or transboundary monitoring of diseases sites.

Belt and Road Initiative will influence the economic as well as environmental development of the regions on the way. The advantage of intersectoral nature of the interventions should be used to influence the state of resources and update the technologies in agriculture, biodiversity conservation, adaptation to climate change or water basin mamagement. 16 plus one framework may open new gates of cooperation either within the area of CEEC or in the developing countries as part of „mixed model of developing assistance and economic investment and consultation". Different status of member countries provides the space for discussion and mutual development.[106] The challenge remains in the application of green technologies, low carbon transition, moving from high pollution coal plants by the means of cooperation with private sector, NGOs, academia in line with the concept of sustainable development and ecological civilisation.

By the words of prof. Jeffrey Sachs the BRI countries together are three times the size of China, with income and emissions per capita roughly half of China's, but in 20 years' time, their income and emissions would be like China's today. He noted also that the massive project would be remembered for whether or not it was done with environmental sustainability in mind. "If it is more of the same, building more of fossil fuel-based economy and building more of a materials-based economy, it will go down in history as a disaster," he said. However, if it is a progenitor of 21st century infrastructure, of clean transport, zero-carbon energy and smart, interconnected networks, "then it will not only make history but also secure a sustainable development future",

105 XINHUA, Zhang Yongxing (2018): Interview: Belt and Road Initiative provides opportunities for FAO to collaborate with China, says FAO chief , available at: http://www.xinhuanet.com/english/2018-04/15/c_137112893.htm

106 FENG HAO (2017): Interview: Europe and China to raise global climate ambitions, available at: https://www.chinadialogue.net/article/show/single/en/10196-Interview-Europe-and-China-to-raise-global-climate-ambitions

added Prof. Sachs.[107] According to Erik Solheim, executive director of the United Nations Environment Program (UNEP), “Economic prosperity and environmental well-being can be achieved at the same time,” highlighting the China-promoted Mombasa-Nairobi Railway that has created a number of bypasses to ensure a good habitat for wildlife in the Nairobi National Park.[108] These examples are replicable elsewhere, so good practices are to be promoted further on in similar infrastructure investment of railways, airports, highways, etc.

Conclusions

Like sustainable development, ecological civilisation is a flexible, evolving concept[109]. The diversity of nature challenges the economic development and expectations of the society from ecosystem services. The idea of sustainable development comprises ecology, economy and society into one functioning system. Seeking the green investment all over the Belt and Road trajectory may change traditional patterns of behaviour and forward the production or consumption processes into higher level of sustainability different level meeting the standards of circular economy and low carbon intake. Regional approach will be crucial and grass roots initiatives will play a key role in identifying opportunities. That is why cooperation of the regions of China and Slovakia within 16 plus one may bring immediate results in the state of health, wellbeing of the society and local solutions to natural resources and product living cycles.

As seen from the mosaic of the areas of intervention and cooperation, the character of natural resources is special in relation to the long period of production (forests), transboundary extent (rivers), high degree of vulnerability (fauna and flora in the mountains), cultural importance

107 GOH SUI NOI (2018): Belt and Road plan could ease climate change: experts, available at: https://www.straitstimes.com/asia/east-asia/belt-and-road-plan-could-ease-climate-change-experts

108 Yiming, G (2017).: Beijing charts a green footprint along the Belt and Road, China.org.cn, available at: www.china.org.cn/world/2017 05/15/content_40818267.htm

109 17 LOH Ch., (2018): Green policies in focus as China’s rise to an ecological civilisation continues apace, available at: https://www.scmp.com/comment/insight-opinion/article/2114748/green-policies-focus-chinas-rise-ecological-civilisation

(literature, paintings), strategic life supporting functions (pollinators, oxygen production) and economic utilities (medicinal materials, recreation, tourism, timber). The solutions on goods and services with so many functions are usually the complex ones, so there is a need for deep scientific support, international collaboration and instant monitoring as the life is always an object of change. Slovakia approaches this field as a traditional area of cooperation. Slovak-Chinese cooperation within the 16 plus one frame may bring benefits for the management of national resources and by that contribute to the global adaptation to critical environmental changes. As previously mentioned, the transboundary character of natural resources cannot be solved independently but applying joint responsible approach. as the richness of water, air and living creatures flows freely through territories of states everywhere, what differs is the socioeconomic expectation and cultural traditions of local societies.

Sustainability, as the „terminus technicus“ and paradigm extensively used after the 1992 Rio Earth Summit is being tested as current environmental crisis poses big challenge for the future generations. In China, the newly proposed the term of ecological civilization is about to be discussed in Europe first by academic community in order to understand the concept and later on the applications for variability of cases within the society and resource management. In such a way, the cooperation may enrich both the intelectual pool as well as practical solutions to natural resources.

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Socrates & Confucius: a Cross-Cultural Paradigm of Ancient Sages

——The Common Cultural Heritage of China and Europe

By František Škvrnda

Assistant Professor, Faculty of International Relations, Economic University in Bratislava

Juraj Ondriaš

Assistant Professor, Faculty of International Relations, Economic University in Bratislava

Abstract

The following paper analyses and compares two ancient cultural icons and founding fathers of philosophic thought, Socrates (469-399 B.C.) and Confucius (5th century B.C.). The study defines common features of these two philosophers and explains their most important ideas on human life and society. Our main goal is comparative, mainly, to find out whether there exists a mutual platform for a historical dialogue between Chinese and European culture and their social values.

The study is divided into five parts. In the first part we scrutinize the earliest literary evidence for Socrates' and Confucius' thought. The second part compares Socrates' and Confucius' religious thought and practices. The next part examines their attitudes on human knowledge and metaphysical pressupositions about the basic structure of the world. The fourth and fifth parts are comparative analyses of their political and ethical views.

Keywords: Philosophy, Socrates, Confucius, Virtue, Wisdom

Introduction

Every culture and civilization in the world is defined by its artistic manifestations. On the one side, there are more craft-like artifacts, which are objects for the science of archaeology, on the other side we can explore written literature or oral tradition of myths and knowledge of the society. This is the traditional domain of humanities, among which philosophy and history stand out as most distinguished subjects.

In recent years, in the Slovak academic sphere, a solid foundation for comparative studies on Chinese philosophy and its European counterparts (mainly from the standpoint of social and political philosophy and ontology) has been developed, both by Slovak[110] as well as Chinese[111] authors. The present paper attempts to follow this tradition as well as introduce new approach, based on a comparative historical-philosophical approach. We chose to compare two founding figures of our European philosophical tradition (Socrates) and Chinese philosophical tradition (Confucius).

Europe and China have a very complex history of their cultural relations and today in 21st century, begins a new era of the so-called *Belt and Road* iniciative, symbolically reminding us the ancient cultural phenomenon known as the Silk Road.[112]

Therefore, the choice of our topic was motivated to further develop this symbolism of merging "old" and "new", "domestic" and "foreign". Moreover, it seems that from all artistic manifestations of our cultures, which we are able to ascertain, philosophy presents a basic and crucial point of departure for intercultural dialogue between our countries, because it embodies the whole structure of society, its values and politics. We believe that comparison of ancient Greek and Chinese sages serves as suitable a introductory platform for this intercultural dialogue, mutual

[110] See e. g. Čarnogurská 2004, 2006, 2009 and 2012; Dunaj 2016, 2017.

[111] Xiaoping 2006, 2012.

[112] For detailed analysis of Slovak-China economic relations, which are part of the new "Silky Way" see Zhang – Grešš – Brocková 2017.

respect and charitable acceptance of trading partners, which are necessary for building peaceful multipolar globalised world policies.

Socrates (469-399 BC) and Confucius (551-479 BC) – authors without texts?

Our comparative study starts out with a history of the literature, particularly with textual criticism. Socrates and Confucius allegedly wrote short treatises – the former composed hymn on Apollo and versified Aesop's fables, while the latter compiled and edited traditional confucian "Five Classics" (*Book of Odes, Book of Documents, Book of Rites, Book of Changes, Spring and Autumn Annals*). However, none of Socrates' fables or hymns survived into the modern era and it is very probable that they never existed. On the other hand, the whole confucian corpus was rewritten during its long existence so many times[113] that it is practically impossible to identify original passages written by Confucius himself, if such original passages ever existed.

What we have at our disposal is second or third hand evidence about the ideas of these great sages, written down by their students. For Socrates, we have still extant texts of Plato and Xenophon, as well as myriad fragments from other less famous pupils.[114] Confucius teaching is recorded in the *Analects*, edited conversations of Confucius. They are a collective work of anonymous students of Confucius, which comprises hundreds if not thousands of people. Other texts – except one chapter from the *Book of Rites* called *Great Learning*, which is traditionaly attributed to Confucius alone – were only compiled and amended by Confucius and their core may originated in the ancient dynasties of Shang (1198-1086 BC) and Zhou (1045-857 BC).

Socrates and Confucius are therefore authors without texts, important figures representing broader tradition of thought and even the whole intellectual culture of their nations. Due to practical reasons we will delineate our comparative analysis mainly on the texts of Plato and confucian *Analects*.

[113] Most authors agree that confucian texts were written down before the innovations of Mencius and Xun Zi (Slingerland 2009, 108-109).

[114] See Gianamntoni 1990.

The Humane and the Divine

It is a striking coincidence that both sages dabbled in traditional religion. Socrates and Confucius are both great religious reformers, promoting old ways of conduct and therefore cultural conservativism. Socrates acts on the behalf of Delphic oracle and Apollo, Confucius adheres to religious customs of the Zhou dynasty.

Socrates and Confucius were percieved by their own peers as sages, because they realized their inner divine potential and became saintlike figures. Apollo bestowed Socrates' with true wisdom and he is not fearing the upcoming death, because he is in god's hands and he knows it (Plato, *Apology* 35d, 40c). The same pattern is visible also in Confucius attitude, in an anecdote where he is facing a dangerous tyrant: "Heaven has implanted this virtue in me. Huan Tui – what can he do to me?" (*Analects,* 7: 22).

The reason for such a high self-estimation lies in their epistemological and metaphysical assumptions about the true nature of humanity and its place in the universe. Socrates, while at his famous trial, believes in traditional gods and "children of the gods" too, one being his personal demon (*daimonion*) that communicates with him on regular basis.[115] However, Socrates never discusses the nature of gods (cf. Plato, *Apology* 19c), he simply presupposes their existence and benevolence. Compare this to Confucius, who expresses faith in "gods of the mountains and rivers" (*Analects*, 6: 6), but indicates that one ought to keep gods and spirits "at a distance" (*Analects,* 6: 22). Confucius never discussed gods or the Way of Heaven (*Analects,* 6: 13; 7: 20).

Socrates' famous knowledge is that he knows that he knows nothing; Apollo comanded him to live a life of common service – in restless questioning of others (Plato, *Apology* 20d-23b). But Confucius is just the same. When Confucius entered the Grand Temple, he asked questions about everything. His questioning was so awkward, that people in the Grand Temple started to doubt his understanding of the rituals generally, but he simply answered: "Asking is part of the ritual" (*Analects*, 3: 15). Confucius denies he has some special knowledge (*Analects,* 9: 8), he is only a sincere lover of learning who engages in examination and seeking for what is virtue with his comrades. Intellectual modesty emerges from other passages in the *Analects* too: Confucius does

[115] See closer Droge 2007.

not dare to say, if someone, including himself, has ever attained the highest virtue of humanity (*Analects,* 5: 19; 7: 33).

This peculiar feature of the *Heilige Schwiegen* follows from belief in dualistic epistemology that distinguishes between human and divine. The divine is always a source of benefaction and help, flawless and perfect, while the humane is the source of all that is base, evil and imperfect. Humane is to ask questions, divine is to give answers. Both our sages are perfect examples of human beings, who are fully aware of their real humane nature. This trait is mostly visible in the manner in which Socrates allegorizes Homer and archaic poets – they are divinely inspired and their works contain divine truths, which it is necessary to uncover. Allegorization of the *Book of Odes* is also Confucius' method employed in *Analects.*

Ethics and Politics

Ultimately, such religious attitudes are not expressions of some idol-worshipping, but rather of the order of Nature and all its life-forms, including human culture, which is considered as a part of this order. This faith does not require any established church, because it is ultimately care of the self.[116] Homer or Five Classics are not Bible or Quran. They do not contain explicit commands for prayers or manifestations of orthodoxy. They are full of enigmatic symbolism and common folktales, containing numerous references for positive and negative social values.

In Confucianism we find the body of the so-called "Five Constants" (knowledge, proper rite, integrity, benevolence, justice), which are also pertinent to socratic philosophy. The sage has knowledge from the gods, either by some extra-rational signs or by allegorization of sacred texts. This knowledge enables him to care about the gods in a pious manner and thus functions as a sort of supernatural protection against all forms of disasters or misfortunes. The mind of a sage is always balanced, he never succumbs to anger or is prone to all bodily desires, meaning he has integrity.

We will take a closer look at the notion of integrity. We find only one occurence in the *Analects*: "Cui Zi assassinated the ruler of Qi. Chen Wen Zi, who for his carriages owned ten four-

[116] Suvák 2018.

horse teams, abandoned them and left the state. When he arrived in another state, he said, The people here are no better than our high official Cui Zi! and he left that state. Arriving in another state, he said, More like our high official Cui Zi! and he left that state, too. What would you say of him? The Master said, A man of integrity" (*Analects*, 5: 19). The integrity is connected here with an unwavering attitude towards justice – Chen Wen Zi flees from everywhere, where injustice and violence rules. The important detail lies in his willingness to leave behind all his material possessions. On a closer look at *Analects*, we find out that Confucius and his disciples were outward ascetics. Hui endured "one container of rice, one dipperful of drink, living in a back alley" and it never affected his happiness (*Analects,* 6: 11; cf. also 8: 21). Virtue of a devoted Confucian disciple is: "wearing a shoddy floss-wadded jacket, standing beside someone clad in fox and badger furs, and feeling no shame" (*Analects,* 9: 27).

Ostentative poverty is one of the basic features of Socrates' lifestyle – Socrates and his disciples are walking always barefoot, clad in shabby robes (Plato, *Symp.* 173b). They live in modest houses, enduring bad weather and eating only a little, avoiding all forms of gluttony. The virtue of integrity is very similar in Socratic tradition of thought and Confucianism – it is unity of someone's words and actions, known in greek as unity between *logos* and *ergos*.[117] In Confucius' words – to see what is right and not do it is cowardly; virtue does not need many words (*Analects,* 2: 24; cf. also 2: 9; 4: 22 and 15: 6). Behind ascetism thus lies a specific political education, of which the utmost end is appropriation of virtuous social conduct.

From integrity sprungs the virtue of benevolence or humaneness, which is explicitly defined as "the beauty of the community" (*Analects,* 4: 1). The wise men praises it as the utmost value that man can aqcuire. One of its manifestations is the ability to truly love others and hate them as well (*Analects,* 4: 3). At first sight, this paradox might seem strange to us, but a comparison with Socrates can help us to understand this ambivalent definition of humaneness. One of the cardinal virues of Socrates was philanthropy – Socrates loved his fellow citizens although he always reprimanded them and even considered them to have a slavish nature (Xenophon, *Memorabilia* I. 2. 30). This was the most important role of the philosopher-teacher: leading other people to become conscious of their wrongdoing so they can wipe it out and became virtuous. Love for the

[117] Lifestyle of an ascetic sage presupposes ethical conception of labour, which is a typical socratic feature of ancient greek cynicism (see Flachbartová 2018).

people is manifested in the teacher's constant interest about their mental and moral wellbeing. Hate is centered towards their vices and ignorance. In words of one contemporary scholar, to provide humaneness in confucianism "might sometimes mean – depending on the situation – that one has to be very hard on people and restrict their rights".[118] Unrestrained liberalism is thus alien not only to oldest European intellectual tradition, but also to its Chinese counterpart. Philanthropy in this philosophical sense seems to be more like a relationship based on hierarchy and authority, like between parents and children. This skepticism of an absolute form of liberalism was preserved in Chinese thought throughout the ages, and is beginning to manifest itself today in the West again. This follows from the failure of the neoliberal policies of the last thirty years to solve the economic and social policies of the West, and of humanity in general. The tipping point came with the global financial crisis in 2008, which was transformed into a long-lasting economic recession and debt crisis in the EU. One of the consequences of these crises was the rise of governments, especially in the Central and Eastern European (CEE) region, which rejected the liberalism ethos of the past decades in favor of a more communitarian approach to governing. Hungary, Poland and Serbia are usually cited as bellonging to this new wave. This trend is causing worry in the liberal elites in the West, who label these governments as illberal democracies based on populist politics.

The last of the compared virtues is justice. Confucius and Socrates had a similar fate also in real-world politics. When being asked by someone why he is not in government, Confucius replied: "filial, only be filial, a friend to elder and younger brothers – this contributes to government" (*Analects,* 2: 21). To be filial simply means "never break the rules" of ritualistic behaviour" (*Analects,* 2: 5). It is important to note, that if Confucius exhorts others to follow ritual prescriptions and codes of behaviour, he is actually exhorting others to respect the whole order of society and its hierarchical system. The parallels with Socrates are again striking – Socrates was not an active politician either, but contributed to government by his care of the souls of his fellow citizens (Plato, *Gorgias* 521d). He adhered to the laws of the state so firmly, that even when he was unjustly sentenced to death he refused to break the laws and flee from the city (Plato, *Crito* 54b-d). In the light of their religiosity, it is nothing surprising – the first and most important manifestation of god's will is law as a bond that holds society together and thus prevents anarchy.

[118] Dunaj 2016, 142.

The political role of the sage is to give advice to kings or politicians, to awake in them the love for virtue. This is achieved by dialogical activity described above – politicians must understood that egotistic and individualistic behaviour leads only to criminal forms of behaviour. The first and foremost knowledge is an old saying attributed both to Diogenes of Sinope and to Socrates: he is nearest to the gods, who has the fewest wants (Diogenes Laertius, *Vitae* VI. 37). The principle of ruling is filial piety.

For Socrates, the idea of the perfect ruler is basically same as for Confucius: it is ruling throught inaction. In the *Republic*, Plato's Socrates maintains that nobody of the wise men wants to rule upon others (Plato, *Respublica* 488a-489d) and if is somehow forced to do so, he is ruling with constant attention to astronomy, e. g. he is ruling from the reclusive place far away from the people. Confucius is saying about king Shun that he ruled "faced directly south, that was all" (*Analects,* 15: 5). No directives, no need for physical power, just letting things go with the Way.

Decline and Reemergence of Convergent Philosophical Tenets

A key difference between the development of the philosophies of the China and the West is that the tradition in China has much more continuity. The single greatest new philosphical-regligious tradition to take root in China is Buddhism, which has coexisted with the native traditions instead of supplanting them. In contrast, in Europe (and from there exported futher into the modern Western world), the tradition of ancient Greek philosophy was greatly modified, and to an extent entirely supplanted, by Christianity, which brought a new vision of the world to the Western conciousness.

One of the main issues brought to the fore by the Judeo-Christian outlook was a certain universalism in its values. This universalist view continues to this day and is a major source of difference from the Chinese view of the world. The Western version of universalism is seen in the belief of the supremacy of the Western concept of rights, which are supposed to be universally applicable to all cultures. This is seen in the areas of politics and the economy. In the political sphere, the West insists that its concept of human rights and democracy are the only correct basis of political organization and politics for all countries of the world. In the sphere of the economy, Western countries advocate the Washington Consensus, a set of perscrition on how to structure the economy, i. e. through privatization, cutting government spending and minimizing government interventions in economic life in favor of the free market (Rodrik, 2011). This is most visible in the conditionality of developmenta aid to developing countries of the global South. Under this conditionality, the target countries lose access to aid if their vision of rights or political organization deviates from the Western model.

In contrast, China has a more particularist approach to rights, based on the opinion that every society or state has its own history, traiditions and culture, and therefore its own vision of rights and political orgnization that is uniquely suited to it. In its foreign relations, China professes to respect the national specifities of other countries and claims that there are multiple ways to development apart from the Western one. As an example it presents its own development. Thge Chinese focus on respecting diverse systems of values and political organization is often termed as the Beijing Consensus, in contrast to the Washington Consensus (Ramo, 2004). In 2008, around the same time as the breakout of the global financial and economic crisis, as well as the Beijing Olymic Games, China began focusing on the Confucian aspect of its heritage (Brown, 2014). This also seeped into its message on development, stressing Confucian values of hierarchy, community, hard work, and discipline.

Critics of China claim that these are only political slogans made to justify Chinese support for illiberal or outright authoriarian regimes. However, with the growth of China's economic power, followed by its political power, the Chinese particularist view is gaining more attention in the world, even in the West. Expecially in the CEE region, there are countries, including those mentioned above, that are beginning to reject the universalist vision as advocated by the EU and its older, Western member states (Vangeli, 2018). Ironically, some of the CEECs rejecting the universalism of the EU and turning toward the particularism of China are doing so from the standpoint of their Christian identity in contrast to the dominant liberal or neoliberal worldview that has appropriated the universalism of the Abrahamic religions. However, we can recognize the rejection of an unrestrained form of liberalism which includes universalism and which follows from the Socratic tradition, as was described above. Central and Eastern Europe might therefore become a region where the two great philosophical traditions of East and West start converging again.

Conclusion

The aforementioned affinities between traditions of thought represented by Socrates and Confucius are in fact so visible and tangible, that our article is by no means complete or exhaustive. In fact, there exist numerous scholars, that reflected these affinities from different perspectives than ours.[119]

Our purpose was to show that European and Chinese cultures sprung from what was once a common cultural background. There is no way for some diffusionist approach, maintaining that ancient Greece and China were somehow in physical contact and that the resemblances between their paradigms of sages were the outcome of intercultural dialogue. The intercultural dialogue started on the brink of the modern era and, as is now generally admitted, was full of atrocities and exploitations on the part of the Europeans.

Today, in the 21st century, western civilization cannot look upon China as its economic servant anymore. Although the Confucian character of contemporary China's culture, economy and politics is rather debatable, there are many traditional confucian virtues underlying success stories of contemporary Chinese enterprises, that its confucian background can not be ignored.[120] In the ongoing economic and cultural crisis of European values and integrity, reflection of the paradigms of sages and founding fathers that Socrates and Confucius represent might spark a distinctive way out of many problems connected to this crisis. It creates a possible new platform for dialogue between China and Europe – a dialogue that leaves behind dogmatic neoliberalistic ideology and opens space for a new multipolar world order based on humaneness and justice, stemming from our history that is not mutual, but convergent in many ideas on humanity and culture. Due to the succesful rise of China in the past several decades and the problems faced by the West, especially since the great recession beginning in 2008, there seems to be a new convergence towards the common aspects of Socratic and Confucian philosophies. These trends are also growing in Central and Eastern Europe, which may lead to this region becoming a bridge

[119] E. g. Mahood 1971, Cohen 1976.

[120] See Shanruo Ning Zang 2015.

between Europe and China not just in the economic sense, but also in the sense of bridging the gap between philosophical outlooks of East and West.

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