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# Comparison of the Bilateral Trade Flows of the Visegrad Countries with China

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Additional information is available at the end of the chapter

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## Abstract

China's economic miracle resulted in the fact that it is currently one of the largest economy and exporter in the world. Other states try to develop trade and investment relations with China because they see a big potential for their products in the Chinese market with an increasing middle-income group. This chapter is focused on the trade relations that are carried out among some Member States of the European Union and China. The object of the chapter is to show the main facts and trends in the foreign trade of the Visegrad countries with China and to compare their trade structure in the period 1995–2014. The description of the institutional framework of the trade relations among the listed countries and the analysis of the data about their bilateral trade showed that the V4 countries achieved a negative trade balance with China in the previous period, and the possibility to change it is practically very low because of the low level of their trade complementarity. From this aspect, another form of trade relations will apparently have to be developed, although the economic structure and other factors can play an important role in this case.

**Keywords:** merchandise trade, commercial services trade, Visegrad countries, trade structure, trade balance, trade complementarity, trade openness

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## 1. Introduction

The economies of many countries in the world, developed as well as developing countries, are currently highly dependent on foreign trade. The liberalisation of global trade and a free movement of capital in the previous decades enabled to move production from one part of the world to other parts with the objective of decreasing the production costs of firms and

increasing their market share and gains. From this aspect, China has been the favourite destination for many producers from the USA, Germany, Japan, etc., especially because of cheap labour force. On the one hand, a positive situation in the world economy represented by the economic growth of developed countries existed and simultaneously with this, the world trade liberalisation through the GATT proceeded in the 1980s. At the same time, China developed a strategy based on the policy of an 'open door' that has been applied since the end of the 1970s. Both facts mainly contributed to the current situation in the world, in which China is the largest world economy and also the largest producer and exporter of merchandise in the world. Although China has already changed its development strategy since 2010 from an export-led growth strategy to a strategy focused on the domestic consumption of more than 1.3 billion people living in China, its trade and investment activities in the world are growing all the time. Together with this, in another part of the world, the European Union (EU) tries to support its economic activity by following a new investment plan for Europe and investing 315 billion euros during three consecutive years in infrastructure, research and innovation and other productive sectors of economy in order to stimulate growth and employment. The Chinese government confirmed its interest to participate in this plan and to invest in Europe. Thus, China's foreign direct investment can also influence the structure of trade of the member states of the EU with China in the future. The main aim of this chapter is to show the main facts and trends in the foreign trade of the Visegrad countries with China and to compare their trade structure in the period 1995–2014. The structure of the chapter is as follows: first, the authors describe the theoretical environment of international trade with focus on trade policy. Consequently, the empirical part of the chapter includes an analysis of the Visegrad countries' foreign trade with China and compares it in the long-term perspective. In the chapter, the research methods of description, data analysis and comparison were utilised. The official documents, research papers and statistics of the UNCTAD and the World Trade Organization (WTO) were used as the main sources of information.

## **2. Trade policy as the background for the development of trade relations among countries**

The level and scope of foreign trade of the individual countries is influenced by many factors. However, one of the most important factors is trade policy. Trade policy is a part of the general economic policy of a state. Fojtíková [1] (pp. 4–5) defines trade policy as a complex of rules and measures that the state carries out in the area of foreign trade using trade policy instruments. Lipková [2] states that the trade policy of a state is strongly influenced by the external policy of that state and its membership in different international political or military organisations, such as NATO, etc. This fact is also the reason for conflicts for achieving the internal/economic and external/political objectives of a state, especially at the time of economic crises and recessions. Besides the political objectives of a state, trade policy is also influenced by the entire economic policy of that state, its economic development and geographical size.

States use different trade policy instruments in order to achieve their economic and political objectives. The amount and type of the used instruments determine the character of the trade policy of a state. On the whole, if a state prefers to use more autonomous trade policy instruments, such as tariffs and different non-tariff barriers to trade, to conventional instruments,

i.e. different international agreements or conventions, the character of the trade policy will be more protectionist than liberal. In practice, all states use both these trade policy instruments, but on a different scale.

Foreign trade has a micro as well as macroeconomic foundation. The motivation of most companies is to expand to foreign markets for the purpose of increasing their market share and economic gains. From the point of view of macroeconomy, a state tries to support its exports in order to increase the economic growth, employment and, on the whole, the economic welfare of the country. Sometimes, the state support of some industries can take the form of unfair trade practices, which the other countries can protect themselves from by trade defence instruments.

## **2.1. Trade policy of the Visegrad countries as members of the European Union**

The Visegrad countries is the name for the four post-communist states of Eastern Europe, that is the Czech Republic, Hungary, Poland and the Slovak Republic that created a regional integration group (the Visegrad group or 'V4') at the beginning of the 1990s in order to develop new forms of political, economic and cultural cooperation after the dissolution of the communist regime in Eastern Europe. The Czech Republic, Hungary, Poland and Slovakia have always been part of a single civilisation sharing cultural and intellectual values and common roots in diverse religious traditions<sup>1</sup> [4]. They significantly increased their external policy activities after their entrance into the European Union (EU) in May 2004 and the V4 group focuses on spreading stability in the wider region of Central Europe. However, the entrance of the Visegrad countries into the EU meant that the national competencies in the area of international trade were delegated from the national level to the EU institutions,<sup>2</sup> especially the European Commission, the Council of the EU and the European Parliament, in the frame of the EU exclusive competencies [6]. In practice, this means that the EU with its 28 member states functions as one body in the trade negotiations with third countries. The main aims and principles of the Common Commercial Policy of the EU are included in Title II, Article 206-207 of the Lisbon Treaty. The common principles are applied in the area of tariff rates (by creating the Common Customs Tariff), the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade, such as using trade defence instruments in the case of unfair trade practices [7].

The Common Commercial Policy (CCP) of the EU has a long history and is connected with the beginning of the European integration process. First, the Treaty of Rome (1958) formulated the procedure of harmonisation of the member states of the European Communities in the trade area and set the main aims and common principles for carrying out the common policy in the area of external trade. Later, the Maastricht Treaty of the European Union (1993) and the Amsterdam Treaty (1999) newly defined the Common Commercial Policy with a larger number of areas in which the common principles were carried out and the Treaty of Nice

<sup>1</sup> However, this does not mean that economic, social and other disparities among the V4 countries do not exist. More about this issue was written for example by Melecký and Poledníková [3].

<sup>2</sup> The character and development of the trade policy of the individual V4 countries before their entrance into the EU was described for example by Fojtíková [5].

(2003) defined the procedural issues and the main decision method in the Council of the EU in negotiations on trade issues was set to be the qualified majority of votes (QMV). So far the last EU treaty, called the Lisbon Treaty (2009), brought other changes in the CCP of the EU. Namely, the Common Commercial Policy was placed under the External Action of the EU, part V of the Lisbon Treaty, which means that the CCP is carried out in the frame of the principles and aims external action of the EU. This means that the external political objects of the Union are determining for carrying out its trade policy objectives, although these political priorities could bring some economic losses.<sup>3</sup> The uniform principles are currently applied in all parts of the CCP, i.e. relating to trade in goods and services, the commercial aspects of intellectual property and also newly to foreign direct investment (FDI). The European Parliament also obtained more decision competencies than earlier and together with the Council of the EU acted *“in accordance with the ordinary legislative procedure, adopting the measures defining the framework for implementing the common commercial policy”*, according to Article 207 of the Lisbon Treaty [6]. However, the Council of the EU also acts unanimously in some cases, such as (1) trade in cultural and audiovisual services, where these agreements risk prejudicing the Union's cultural and linguistic diversity and (2) in the field of trade in social, education and health services, where these agreements risk seriously disturbing the national organisation of such services and prejudicing the responsibility of member states to deliver them [6] and other areas that belong to the shared competencies of the EU institutions with the national governments and their parliaments.

This means that the number of votes in the Council of the EU of the individual member states is important for the ability to influence the final decision when the Council of the EU decides by QMV. Together, the Visegrad group has 58 votes from the total of 352 votes in this structure: Poland 27, the Czech Republic and Hungary individually 12 and the Slovak Republic 7 votes [9]. However, the economic structure of the Visegrad countries is different (see **Figure 1**) and thus their trade priorities and interests can be also different.<sup>4</sup> In addition, the governments of the EU member countries try to support their exporters by different measures in the frame of their own export policy and strategies.

Although the main aim of the Union, according to Article 206 of the Lisbon Treaty, is *“to contribute in the common interest to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers”* [6], the EU develops its trade relations with non-EU member states in the frame of two different regimes. The preferential regime represents a more favourable treatment in the access to the EU internal market, while the non-preferential regime is based on the most

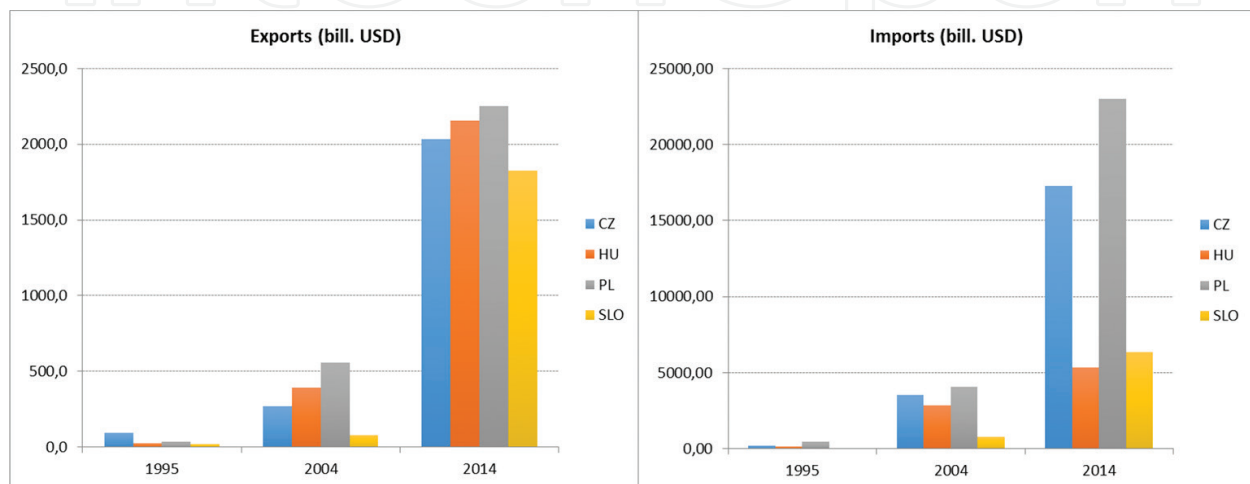
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<sup>3</sup> The practical case of this situation is the economic sanctions that the EU has been applying against Russia since 2014 due to the Russian annexation of Crimea in Ukraine in 2014. Although Russia belonged to the three main trade partners of the EU with a share in the total EU trade of 9.5% in 2013 and some EU member countries had up to a 100-percent dependence on the Russian imports of oil and gas, the political decision of the EU was determining. The EU implemented the sanctions gradually in the frame of three waves and Russia also accepted retaliation measures and imposed embargo on the imports of some products from the EU [8]. The economic sanctions between the EU and Russia have been applied by both sides until now..

<sup>4</sup> For example, Poland inhibited the EU negotiation with Russia about the renewal of the Partnership and Cooperation Agreement in 2006. The negotiations could not be officially started until the time when the European Commission obtained mandate from all EU member states[11].



favoured nation clause for all members of the World Trade Organization (WTO).<sup>5</sup> Differences between these two trade regimes are obvious from the level of applied tariffs (preferential and conventional tariffs, i.e. the MFN tariff) as well as non-tariff protection. The simple average applied MFN tariff rate, including the *ad valorem* equivalents (AVEs) of non-*ad valorem* tariff rates, was 6.4% in 2014. Based on the relevant WTO definition, the average applied rate for agriculture was 14.4% and for non-agricultural products 4.3% [13]. The level of the preferential tariff is usually lower than the level of the MFN tariff. It is also possible to export almost a quarter of all tariff lines to the EU duty-free. On the other hand, the MFN tariff can reach the value in the range of 0–635.4%, most of them in the area of agricultural products [13].



**Figure 1.** Value of the V4 countries trade with China in 1994, 2004 and 2014 (billion USD). Source: UNCTAD [10]; own processing.

Preferential agreements include the provision about reciprocal preferences or unilateral preferential treatment. Reciprocal preferences are included in regional and preferential agreements, on whose background free trade areas or customs unions are created. By the end of 2014, the EU notified the WTO of 37 regional trade agreements in force in the WTO, among which 23 agreements covered goods and 14 covered goods and services [13]. Countries with which the EU has preferential trade agreements include different parts of the world, for example Mexico, Chile and Peru in Latin America; Algeria, Egypt, South Africa, Tunisia, etc. in Africa; Albania, Montenegro, Switzerland, etc. in Europe, but also South Korea in Asia and many others. The level of preferential treatment is different in dependence on the type of agreement. The Association Agreements including 'deep and comprehensive free trade agreements' currently represent a modern form of trade agreements that comprehensively cover all areas of trade. This means that except for the removal of import and export duties and the removal of obstacles to trade in services, it also includes trade-related policies such as public procurement, competition, intellectual property; and approximates the trade and trade-related policies of these partners in line with the EU *acquis*, in areas such as sanitary

<sup>5</sup> Currently, trade relations based on the MFN clause are developed among 162 countries from the whole world that are the members of the WTO [12].

and phyto-sanitary measures, technical requirements and standards, customs procedures and trade facilitation. There are also tens of countries with which the EU negotiates or has a preferential agreement that is not yet applied, such as the negotiations for a Comprehensive Economic and Trade Agreement (CETA) with Canada, the negotiations about the Transatlantic Trade and Investment Partnership (TTIP) with the USA and many others [14].

The EU also grants unilateral preferences via the Generalised Scheme of Preferences (GSP),<sup>6</sup> but only to a selected number of countries. The EU currently grants more favourable treatment to 92 countries that are classified by the World Bank as low-income countries, such as Botswana, Cameroon, Colombia, Honduras, Vietnam, etc. Namely, the GSP includes three types of arrangements with a different level of preferences: (1) standard GSP, which provides tariff preferences to beneficiary countries; (2) the GSP+, which offers additional tariff reductions to 'vulnerable'<sup>7</sup> countries that ratify and implement core international conventions in the fields of human rights, labour standards, environmental protection and good governance and (3) Everything But Arms, which offers duty-free and quota-free access for all products except arms and ammunitions from the 49 least developed countries (LDC)<sup>8</sup> [15]. Regarding other unilateral measures outside the GSP, tariff preferences were granted as the autonomous trade measures to six countries in the Western Balkans in 2000 and subsequently renewed in 2005 and 2011 until the end of 2016.<sup>9</sup> The main intention of unilateral preferences is to allow developing countries, i.e. countries most in need, easy exports to the EU and to contribute to their economic growth.

## 2.2. Trade policy of China

China has been the leading exporter and importer in the world. In 2014, China shared by more than 12% in the world merchandise exports and by about 6% in commercial services exports. China's position is dominant especially in manufactures, in which China's share in world manufactures exports reached 18%. On the import side, fuels and mining are significant lines, in which China achieved a share of 13% in world imports. China's share in the world commercial services trade is less significant than in the area of merchandise trade, but its position is also significant; it takes the third position among the leading exporters and importers in the world [16].<sup>10</sup> China reached this position after a long-term process of domestic reforms that started by the end of the 1980s. The economic reforms included the policy of 'open door' and trade liberalisation. This strategy brought China the expansion of production and employment, which has been showing in double-digit economic growth for more than two decades, and a positive

<sup>6</sup>The current scheme was established by Regulation (EU) No 978/2012 under which preferences started to be applied on 1 January 2014 and will be effective for 10 years.

<sup>7</sup>A vulnerable country means a country: (1) which is not classified by the World Bank as a high-income or upper-middle income country during three consecutive years; (2) whose imports into the EU are heavily concentrated in a few products; and (3) with a low level of imports into the EU [15].

<sup>8</sup>Most of these countries are from Africa (34) and Asia (9), the rest are from Australia and the Pacific (5) and Caribbean (1).

<sup>9</sup>Specific unilateral preferences were also granted to Moldova and Ukraine; these preferences were applied until the end of 2015.

<sup>10</sup>When we consider the EU-28 as one unit, then China is in the third position among the world exporters and importers of commercial services. However, when we consider the EU member states individually, then China takes the fifth position on the export side and the second position on the import side [16].

trade balance. Because of this fact, China has the largest reserves of foreign exchange and gold in the world, amounting to more than 3 trillion USD in 2015. Nowadays, China is not only the leading exporter in the world, but also an investor's country. Overall, China became the largest FDI recipient in the world in 2014 with 129 billion USD, mainly because of an increase in FDI in the services sector. On the other hand, China's FDI outflows reached 116 billion USD at the same time [17].<sup>11</sup> As Baláž et al. [18] states, looking for new markets is a natural result of the Chinese growth model oriented to export. The huge economic expansion of China that has been caused especially by a very high share of investment in the GDP since 2000, accompanied by export growth to the world markets, significantly increased the incomes of companies and also their workers, which positively contributed to the total domestic consumption.

The entrance of China into the WTO in 2001 also contributed to the positive economic development of China. The results of the empirical analysis carried out by [19] confirmed that the entrance of China into the WTO had a positive influence on FDI inflows (including into the financial market) regardless of the fact that many state regulators and structural obstacles to foreign banks existed in China for the whole time. However, the benefits from China joining the WTO are on both sides. This means that China obtained access to the MFN clause that enables it to trade with more than 160 members of the WTO on a non-discrimination base, and it can also participate in forming multilateral trade liberalisation. On the other hand, trade with China is more transparent than before, because China accepted multilateral trade commitments on removing barriers to trade, the liberalisation of some economic sectors and general rules of the WTO. As Fojtíková [20] states, China has been progressively lowering its MFN tariff and reduced non-tariff barriers to trade since 2001. In 2013, the average MFN tariff was 9.4%. There is a higher tariff for agricultural products at 14.8% than for non-agricultural products (8.6%). A duty-free tariff is applied to about 10% of tariff lines. However, the preferential tariff applied to 37 LDC was 5% in 2013 and to the ASEAN countries it is even lower [21]. However, non-tariff barriers currently represent a more significant problem than tariffs in general. It is also influenced by the different economic system of China (called the 'socialist market economy') than the pure market economy. The significant share of China in world trade and a different economic system also contribute to the fact that China is very often a participant of trade disputes in the WTO.

China also develops its trade relations through bilateral and regional trade agreements. China has concluded 12 free trade areas with over 20 states and regions, such as Pakistan, Chile, New Zealand, Singapore, Peru and Costa Rica. China's trade relations with Hong Kong and Macao are developed through the Closer Economic Partnership Arrangements (CEPA) that was signed in 2003. China has also signed free trade agreements with Switzerland and Iceland, but they are yet to enter into force. China has been a member of the Asia-Pacific Economic Cooperation (APEC) forum since 1991 and a member of the Asia-Europe Meeting (ASEM) since its inception, in 1996. It acceded to the Asia-Pacific Trade Agreement in 2001. China's free trade agreement with the Association of Southeast Asian Nations (ASEAN) came into effect in 2005. China is currently negotiating free trade areas with the Gulf Cooperation Council (GCC) countries, Australia, Norway, Korea and Japan. Negotiations for a Regional

<sup>11</sup> The data cover only Mainland China, i.e. without Hong Kong and Taiwan.



Comprehensive Economic Partnership (RCEP) between ASEAN members, Australia, China, India, Korea, the Republic of, Japan, and New Zealand were launched in 2012. All of these agreements and negotiations are based on reciprocal arrangement. The unilateral preferential treatment is applied by China to the 40 least developed countries. Except for trade agreements, China had concluded 131 bilateral investment protection and promotion agreements, for example with Japan, Korea, etc. [21].

China's trade policy is managed by the National People's Congress of the People's Republic of China (NPC) that is the main body of state power in China. The president promulgates legislation adopted by the NPC or its Standing Committee, but does not have the power to veto it. He is responsible for ratifying or abrogating bilateral, regional or international treaties and agreements. The National Development and Reform Commission (NDRC) is in charge of devising the overall national economic and social development policy. The Ministry of Commerce (MOFCOM) has the main responsibility for policy coordination and the implementation of all trade-related issues. MOFCOM is in charge of, *inter alia*: formulating strategies, guidelines and policies related to foreign trade and international economic cooperation; drafting laws and regulations governing foreign trade and investment; studying and putting forward proposals on harmonising the domestic legislation on trade and economic affairs; and bringing domestic laws into conformity with multilateral and bilateral treaties and agreements. Other ministers also cooperate in trade policy formulation and implementation. China's overall main trade policy objective is to accelerate its opening up to the outside world [21].

### 3. Trade relations of the EU with China: institutional framework

China is the second trading partner of the EU behind the USA and the EU is China's biggest trading partner. China and the EU currently trade well over 1 billion USD a day. However, bilateral trade in services only amounts to 1/10 of the total trade in goods. Investment flows are also a vast untapped potential; China accounts for just 2–3% of overall European investments abroad, whereas Chinese investments in Europe are rising, but from an even lower base [14]. From this point of view, the international agreement constitutes the essential institutional framework for the development of trade and investment relations between both sides. The EU currently develops economic relations with China on the basis of the EU-China trade and cooperation agreement that was signed in 1985. However, the EU and China are global players, who develop their strategic partnership in order to increase cooperation with each other on key international and regional issues, such as foreign affairs, security matters and international challenges such as climate change and global economic governance. The cooperation is developed in the frame of the EU-China 2020 Strategic Agenda for Cooperation that was agreed on at the EU-China summit in 2013 [22]. The 17th EU-China summit was held in June 2015. Bilateral cooperation between the EU and China proceeds at a three-level dialogue, namely a High-Level Strategic Dialogue, High-Level Economic and Trade Dialogue and High-Level People-to-People Dialogue. The results of this work are discussed during annual summits. In the frame of trade dialogue, China announced its intention to contribute

to the Investment Plan for Europe that the European Commission published in 2014 in order to increase the GDP of the EU and create up to 1.3 million new jobs by 2017.

Although a new trade agreement between the EU and China is not recently negotiated, the idea about a comprehensive EU-China Investment Agreement was launched at the 16th EU-China summit in 2012. The agreement should provide for the progressive liberalisation of investment and the elimination of restrictions for investors to each other's market. The object of this agreement is provide a simpler and more secure legal framework to investors on both sides by securing predictable long-term access to EU and Chinese markets respectively and providing strong protection to investors and their investments [14]. The first round of negotiations for an EU-China investment agreement took place in Beijing on 21–23 January 2014. In January 2016, the EU and China negotiators reached clear conclusions on an ambitious and comprehensive scope of the upcoming EU-China investment agreement and moved into a phase of specific text-based negotiations. The negotiators will continue working intensively during 2016 in order to hammer out the details of the agreement.

Although the trade and investment relations of the EU member states with the third countries are first given by the institutional framework of the EU agreements, the EU member states have created their own export strategies and signed inter-governmental agreements with non-EU states about economic cooperation. This means that an eligible institutional framework on the EU level as well as good political relations among countries and their representatives are both important for developing trade relations. Historical relations among the V4 countries and China started in 1949 when the former Czechoslovakia (the Czech Republic and Slovak Republic are individual states since 1993), Poland and Hungary as part of the Eastern Bloc recognised the establishment of the People's Republic of China. Relationships between China and these countries cooled down after the deterioration of the USSR and China relations during 1950s and especially 1960s, because the countries in Eastern Europe were Moscow satellites. A new era in the development of political and economic cooperation among China and the Czech Republic, the Slovak Republic, Hungary and Poland started after the fall of communism in Eastern Europe. However, the external trade policy of these post-communist states was oriented especially on Western Europe, which also had an impact on changes in the territorial structure of the foreign trade of these countries.

The entrance of the Visegrad countries into the EU in 2004 signified another milestone in the development of China's bilateral relations with the Czech Republic, Hungary, Poland and Slovakia. The current economic cooperation of China with the V4 countries is based on the '16+1' cooperation platform that was introduced by Chinese Prime Minister Wen Jiabao during his visit to Poland in 2012. This platform has an economic dimension and serves as a mutual framework of cooperation between 16 Central and Eastern European (CEE) states and China. The priorities of China's strategy include twelve areas, including setting up a special credit line of 10 billion USD to facilitate the bilateral cooperation in IT industry, infrastructure, construction and green economy, creating a special fund for investment cooperation in the value of 500 billion USD to support bilateral trade, setting up special economic zones in each of the CEE countries within the next 5 years, setting up an association to promote tourism in China and the CEE countries, setting up a research fund to promote the studies

of bilateral relations between China and the CEE countries and many others [23]. The leaders of the CEE countries and China have already met four times since 2012. After the summit in Warsaw, summits in Bucharest, Belgrade and the Chinese city of Suzhou took place until 2015. During these summits, the leaders of the CEE countries and China reached a wide number of agreements in the area of energy, infrastructure, trade and tourism and scientific and technical cooperation [24]. The Visegrad countries find a big export opportunity in China's market, but also the source of FDI for increasing their domestic production and employment. For this reason, developing relations with China is one of the main objectives of the external relation strategies of these countries. On the other hand, deepening the economic cooperation between China and the CEE countries is one of the steps to be achieved by the Chinese national strategy of building the 'New Silk Road Economic Belt' announced by president Xi Jinping in 2013.

#### 4. Comparison of foreign trade of the V4 countries with China

Before we start to compare the foreign trade of the V4 countries with China, it is important to show the basic presumptions of these countries for trade. From this point of view, the number of the population and geographical size of a country, as well as the economic level, play the most important role, although the intensive factors of productivity, such as innovation and new technology, can currently substitute these extensive factors. **Table 1** shows the basic data from 2014. The highest population is in Poland and the lowest population is in Slovakia. The Czech Republic and Hungary are the most similar from this aspect. The characteristics of the V4 countries in the area of geographical size are similar to population. On the whole, the share of the total V4 population accounts for less than 5% in the total Chinese population and less than 6% in the Chinese area. However, the economic level measured at constant prices is the highest in the Czech Republic and China achieves only about a quarter of this value (see **Table 1**). In the nominal expression of GDP, the highest economy is still China and the V4 countries achieved only 14.5% of its level in 2014.

	Population (in thousands)	Area (in km <sup>2</sup> )	GDP/cap. (in USD)	GDP (in USD)	Trade openness <sup>1</sup> (in %)
China	1,369,435.7	9,596,960	3799.4	5,295,557.6	46.4
Czech Republic	10,542.7	78,867	14,625.8	157,088.2	160.7
Hungary	9889.5	93,028	11,803.0	117,241.8	173.6
Poland	38,620.0	312,685	11,238.8	429,551.2	91.8
Slovakia	5422.9	49,035	12,196.1	66,519.3	179.5

<sup>1</sup>Trade openness expresses the share of the total trade in goods and services in GDP. UNCTAD [10]; own processing.

**Table 1.** The main characteristics of China and the V4 countries, 2014.

Slovakia recorded the highest level of trade openness among the monitored economies, achieving almost 180% of GDP in 2014. However, the other small economies, i.e. the Czech Republic and Hungary, are also open economies. The basic characteristics of the V4 countries and China

confirm the fact that the higher the country is (from the point of view of population and land), the lower is the openness of its economy recorded. The structure of trade openness is also different in the individual countries (see **Table 2**). It is given by the structure of their economies. Although services take the largest share in the GDP and employment in all considered countries, excluding China, the main area of trade is good for all of them. There are also some differences among the countries, for example Slovakia recorded only a 1.8% share of services in its total trade in 2014, but Poland and Hungary recorded a more than 16% share of services in their total trade at the same time. Because merchandise trade plays the most important role for the V4 countries and China, the analysis of the V4 trade with China will be focused only on this area.

	Structure of economy (% of GDP)			Trade (mil. USD)		Share of services in the total trade (%)
	Agriculture	Industry	Services	Merchandise trade	Commercial services trade	
China	8.9	42.7	48.4	4,301,662	614,038	12.5
Czech Republic	2.7	38.2	59.2	326,335	48,380	12.9
Hungary	4.4	30.9	64.8	215,713	41,460	16.1
Poland	3.3	41.1	55.6	436,513	83,569	16.1
Slovakia	3.4	30.4	66.2	948,710	17,128	1.8

UNCTAD [10]; own processing.

**Table 2.** Trade characteristics of China and the V4 countries, 2014.

Although the intra-EU trade, i.e. trade among the individual member states of the EU, plays the most important role for most countries in the EU, China ranks among the main non-EU trade partners, such as the USA, Russia, etc. However, more than export, it is import from China that is dominant in these countries from the long-term perspective. The results of this fact are recorded in **Table 3**. While the share of China in the V4 countries exports increased in the range of 0.7 –1.7 percentage points (pp) between 1995 and 2014, the share of China in the V4 countries imports increased more significantly. The Czech Republic recorded the highest increase of the Chinese share in its total imports, i.e. by 10.5 pp. between 1995 and 2014. In contrast to this, Hungary recorded only 4.4 pp. increase of the share of China in its imports

	Export to China (%)			Import from China (%)		
	1995	2004	2014	1995	2004	2014
Czech Republic	0.44	0.41	1.17	0.83	5.26	11.35
Hungary	0.18	0.70	1.92	0.83	4.77	5.20
Poland	0.15	0.75	1.05	1.60	4.61	10.61
Slovakia	0.20	0.28	2.12	0.71	2.71	8.18

UNCTAD [10]; own processing.

**Table 3.** Share of China in the V4 countries trade in 1995, 2004 and 2014 (%).



at the same time. On the whole, exports and imports among the V4 countries and China increased significantly, especially in 2014, which is graphically shown in **Figure 1**.

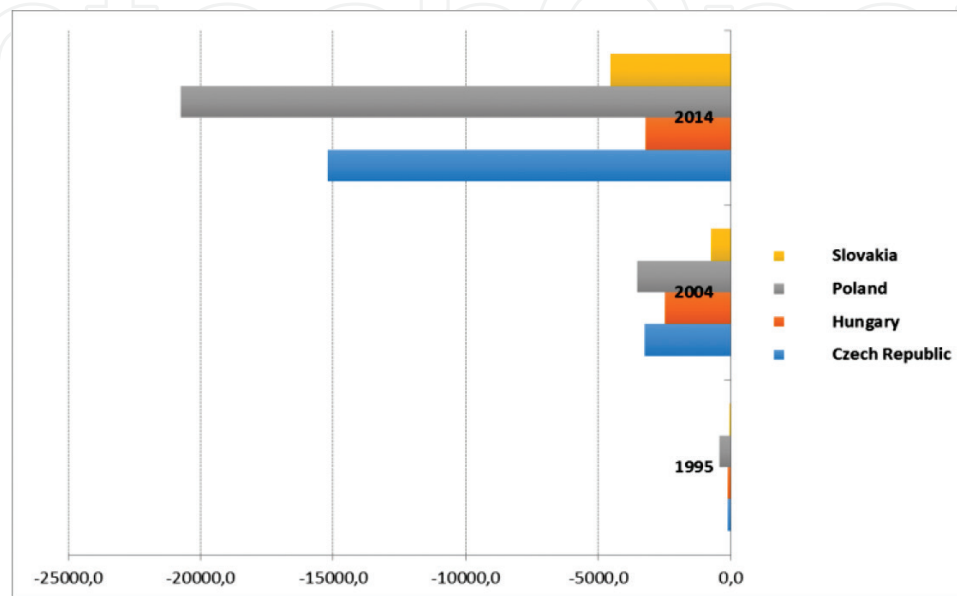
In nominal expression, the development of the value exports and imports among the V4 countries and China is shown in **Figure 1**. Impressive results were achieved especially by Slovakia. The Slovak exports to China increased more than 107 times (from the value of 16.7 million USD in 1995 to 1.8 billion USD in 2014) and the imports 110 times between 1995 and 2014. On the export side, Hungary also recorded a positive result when its export to China increased almost 99 times between 1995 and 2014, while the value of imports increased only 42 times. However, the value of Hungarian imports remained higher than the value of exports. The significant increase of bilateral trade of the V4 countries with China occurred especially after the entrance of the V4 countries into the EU in 2004. At this time, the Czech Republic, Hungary, Poland and Slovakia became politically and economically stable markets for Chinese goods and investments. During a 10-year period (2004–2014) the trade volume of the V4 countries with China increased almost five times. Although Szikorová [25] states that the Central European region has become a Chinese bridge to the EU market, the four Visegrad countries have also increased their export to China; with the exception of direct exports to China, exports from the V4 countries to China have been strengthened via multinational companies, which in general proved to be more successful on the Chinese market.

However, the result of this development is a trade deficit that the V4 countries recorded in merchandise trade with China in the monitored period. The reasons for trade deficit can be different, from higher price competitiveness of the Chinese products on the world market, the existence of state owned firms, a good marketing of sale, to an imbalanced trade policy. While the Visegrad countries opened the way for cheap imports from China and carried out a liberal trade policy as a part of their transformation process in the 1990s, China did not grant them reciprocal market access. The large protective measures, including bureaucracy, violations of property rights, unclear legislation and the lack of transparency in tax laws started to be improved after China's entrance into the World Trade Organization in 2001. However, the trade deficit of the Visegrad countries with China was higher in 2014 than 2004. The highest trade deficit with China, amounting to about 20.7 billion USD, was recorded by Poland in 2014 (see **Figure 2**). Poland is also China's biggest trade partner in Central and Eastern Europe and is followed by the Czech Republic and Hungary [26]. The trade deficit of the Czech Republic reached 15.2 billion USD at the same time. The trade deficit of Slovakia was 4.5 billion USD in 2014 but was more than six times higher than in 2004. Hungary reached the lowest trade deficit with China during the whole monitored period in the value of about 3 billion USD [10].

From the sectorial point of view, no significant changes occurred in the structure of the V4 countries trade with China between 1995 and 2014. On the export side, the prevailing part of the V4 countries exports was carried out in the frame of the group of machinery and transports equipment (SITC 7), with the exception of Poland, in which the commodity structure of its exports to China was more variable (see **Table 4**). On the import side, the situation in all V4 countries was the same, but small changes occurred between 1995 and 2014. While manufacture goods (SITC 8) were a dominant group in the V4 countries imports in 1995, the group SITC 7 has been the main import group since 2004. After the entrance of the V4 countries



into the EU in 2004, the Chinese investments to this region were also recorded. Between 2005 and 2013, the total Chinese outward foreign direct investments reached 100 million USD in the Czech Republic, 4590 million USD in Hungary and 1600 million USD in Poland. In these countries, China invested especially in the transportation/automotive and energetic sector [26], i.e. in sectors that are, according to trade statistics, predominantly included in the SITC 7 commodity group.



**Figure 2.** Trade balance of the V4 countries with China in 1995, 2004 and 2014 (million USD). Source: UNCTAD [10]; own processing.

	Exports			Imports		
	1995	2004	2014	1995	2004	2014
Czech Republic	SITC7	SITC7	SITC7	SITC8	SITC7	SITC7
Hungary	SITC7	SITC7	SITC7	SITC8	SITC7	SITC7
Poland	SITC5	SITC7	SITC6	SITC8	SITC7	SITC7
Slovakia	SITC7	SITC7	SITC7	SITC8	SITC7	SITC7
UNCTAD [10]; own processing.						

**Table 4.** Main commodity groups in the V4 exports and imports with China in 1995, 2004 and 2014.

On the whole, trade complementarity among the V4 countries with China is very low with a tendency to decline as is shown in **Table 5**. The results of trade complementarity between the individual V4 countries and China were obtained from UNCTAD [10] and were calculated at a 3-digit level SITC, revision 3. On the whole, the value of the index of complementarity was nearer zero than one. For this reason, there is a very small probability of increasing mutual trade among the individual V4 countries and China and from this point of view a change in the development of the trade balance of Czechia, Hungary, Poland and Slovakia with

China will be very hard to achieve. However, it could be the subject of another analysis if the V4 countries achieve a revealed comparative advantage in the sector SITC 7 and if China's bilateral trade with the Visegrad countries has an intra-industry or inter-industry character. However, it is necessary to see the future of the V4 countries trade relations with China not only from the merchandise trade point of view but also from the point of view of trade in commercial services. In 2014, the Chinese government issued a number of policies to facilitate foreign direct investment in a broad range of services, including financial services, tourism, entertainment and healthcare. Services also currently take up a greater share of China's FDI than the manufacturing sector [27].

	1995	2004	2013
Czech Republic	0.50	0.44	0.40
Hungary	0.43	0.42	0.41
Poland	0.35	0.33	0.38
Slovakia	0.42	0.36	0.35

UNCTAD [10]; own processing.

**Table 5.** Trade complementarity of the V4 countries with China in 1995, 2004 and 2013.

**5. Conclusion**

The main aim of the chapter is to show the main facts and trends in the foreign trade of the Visegrad countries with China and to compare their trade structure in the period 1995–2014. The results of trade analysis showed that the V4 countries have a different level of trade openness, but for all of them China represents a very important trade partner. All V4 countries recorded, in nominal expression, an increase of their merchandise trade with China on the export, but also import side. It followed from the fact that China significantly increased its position on the V4 markets during the monitored period and became one of the V4 main trade partners from non-EU Member States (China ranks among the five main partners of all of them). However, the V4 countries trade balance with China was negative for the whole time. The highest deficits were achieved by Poland. The sectorial structure of the bilateral trade of the V4 countries with China did not record significant changes and the machinery and transport equipment represent the main tradable items on the export, but also import side. From this aspect, the trade complementarity of the V4 countries with China had a declining trend and is generally on a very low level. In the future, it will be necessary to complement the foreign trade of the V4 countries with China with foreign direct investments flows.

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