

## China's New Grand Strategy for Europe

*David A. Jones*

**Abstract:** China has constructed and publicly announced a new grand strategy for Europe that focuses on foreign direct investment (FDI) specifically earmarked for Central and Eastern Europe. It has internal strengths and weaknesses plus external opportunities and threats. Foremost among the tasks that China and Europe must do together will be to prepare the Chinese and the European team members to work together, to understand each other's cultures, and to internalize the laws of the European Community and of member states that pertain to the management of China's investment. The bottom line here is that the image of China is at stake.

**Keywords:** China, Europe, FDI, Grand Strategy

---

### 1. Introduction

In December 2011, Polish President Bronislaw Komorowski returned to Poland from a state visit to China with news that China had promised to invest billions of Euros into Poland. This was reinforced in much more detail on 26 April 2012 when Chinese premier Wen Jiabao visited Warsaw as the featured guest at a business conference hosted by the Polish Information and Investment Agency (PAIZ), attended by the author. At this event, Premier Wen Jiabao announced that China has determined to set up a US\$ 10 billion special credit line earmarked to support cooperation projects between China and the Central and Eastern European countries, the particular focus of which will be to support the development of new infrastructure, new technologies, high technologies, and green economies. To implement this strategy, Premier Wen announced that China will embark upon an effort in the first stage to establish a China-Central and Eastern Europe Fund for Investment Cooperation in the amount of US\$ 500 million, the objective of which will be to launch an economic and technological zone inside of each Central and Eastern European country within the next five years. In the same time, China will award 5,000 scholarships to students in this region, invite 1,000 students to study the Chinese language in China, and send 1,000 Chinese scholars and students to Central and Eastern Europe, funding this effort with RenMinBi (RMB) two million each year (RMB 10,000,000 over the next five years).

What does this mean for the countries of Central and Eastern Europe, those that already have joined the European Union, and those that aspire to do so? What does this mean for China itself, already a major player in global Foreign Direct Investment (FDI),<sup>1</sup> as it stands to become an even larger player? This paper will attempt to discuss the benefits China as well as Central and Eastern European nations will

---

<sup>1</sup> See Sauvart, Karl P. 2011. "China: Inward and Outward Foreign Direct Investment," *Transnational Corporations Review*, Vol. 3, No. 1. Mar.

expect to realise from this grand strategy. Is this a model for what we might term Government Social Responsibility (GSR), akin to the more traditional Corporate Social Responsibility (CSR)? Does it contain weaknesses for China, for Central and Eastern Europe, or both? Perhaps of ultimate importance, what will be the perception of this new Chinese strategy in Western Europe, in the Russian Federation, in India, and in the United States? Will the rest of the world consider this to be formidable business competition, or a geographical expansion of China's ability to produce quality products for European consumers at lower transportation cost structure for both supply chain and finished product distribution?

## 2. Some precipitating factors

Two questions are likely to arise in the minds of many in the immediate wake of Premier Wen Jiabao's recent announcement: Why Central and Eastern Europe, and why in 2012 to 2022? Likely answers turn on China's analysis of its own traditional foreign policies, particularly those involving Africa and Europe,, but also Latin America, and China's domestic economy in the wake of a downslide in export of goods to the European Union and United States during and following the economic recession that began in 2008 and appears to have continued ever since, with some minor fluctuation. This downslide in the export of goods made in China to Europe and North America appears derivatively to have precipitated a withdrawal of FDI into China from Chinese Taiwan,<sup>2</sup> and it has been significantly due to this FDI that Mainland China has become innovative at the level of Small and Medium Size Enterprises (SMEs). It may well be that China is seeking European counterparts to replace the non-financial FDI it stands to lose with this Taiwanese withdrawal.

At the beginning of Premier Wen Jiabao's address in Warsaw, he remarked: "[h]aving successfully countered the international financial crisis, Poland enjoys steady economic growth, financial stability and rising international standing and influence. As Poland's strategic partner, we are truly glad to see what you have achieved."<sup>3</sup> Clearly, China envisions Poland as a strategic partner based on Poland's stable and steadily growing economy. To this, the deputy director of the economic information department at PAIZ, Andrzej Szewczyk, added that PAIZ believes China is attracted to Poland because Poland refused to join the Eurozone and instead has maintained its own strong national currency, the Polish Zloty.<sup>4</sup> Although the terms of the Treaty of Accession, 2003, require Poland and all new European Union member states to join the Economic and Monetary Union once they meet five criteria,<sup>5</sup> thus far Poland has met only two criteria.

---

<sup>2</sup> Interview with Wu, Hongming (Freeman Wu), Taipei, Chinese Taiwan, on 29 August 2012. Mr. Wu, a prominent Kuomintang business executive, is chief executive of Active Sports Co., Ltd., Taipei, Chinese Taiwan, introduced the author to Taiwan's president Ma Ying-jeou on 21 December 2011, and reports that increases in the cost of Chinese labor and materials, together with "red tape" and local taxation, have driven some of the most prominent Taiwanese investors away from Mainland China, and more will leave very soon when their leased space agreements end. See also McDonald, Joe. 2012. "Chinese Industrial Profits Fall in July." *Miami Herald*. 27 Aug. <http://www.miamiherald.com/2012/08/27/v-print/2970261/chinese-industrial-profits-fall.html>. Chinese industrial profits tumbled by 5.4% in June 2012 compared to June 2011.

<sup>3</sup> Wen, Jiabao. 2012. "Working Together for a Promising Future." Address by the Premier of the State Council of the People's Republic of China at the Second China-Central and Eastern European Countries Economic and Trade Forum, Hilton Hotel, Warsaw, Poland, 26 April 2012, 1 (official tr.).

<sup>4</sup> Meeting with PAIZ vice president and management board member for economic information, finance and logistics Anna Polak-Kocińska, and deputy director of the PAIZ economic information department, Andrzej Szewczyk, at PAIZ on 15 May 2012.

<sup>5</sup> The five criteria include: inflation rate, ratio of government deficit to gross domestic product (GDP), membership in the European Exchange Rate Mechanism (ERM II) which Poland does not yet meet, plus two criteria that Poland does meet: ratio of gross government debt to GDP and long term interest rate.

Only 12% of Poles favor joining the Eurozone and 60% of Polish citizens oppose Poland joining the Eurozone.<sup>6</sup> It is interesting to note that China easily could draw comparisons between the Polish Zloty and its own currency, the RMB: each of which currency is under-valued, and this under-valuation of each currency has boosted the purchase of products by foreign countries from each nation, the attraction of major trading partners such as the United States and Japan to both China and Poland, and thus far at least the ability of both China and Poland to recover from the 2008 global financial crisis.

Also, Premier Wen noted that “[e]conomic cooperation and trade is the most dynamic and promising area in China’s relations with Central and Eastern European countries” where two-way trade rose from US\$ 4.3 billion in 2001 to US\$ 52.9 billion in 2011, rising steadily at an average annual growth rate of 27.6%, with China’s imports from Central and Eastern Europe rising at an even higher average annual growth rate of 30%.<sup>7</sup> Clearly, the past decade has reflected a mutual dependability between China and the countries of Central and Eastern Europe.

China appears to have tired of the reception it feels it has received at the hands of many African nations within which China has made relatively heavy FDI in the years since 1959 when Chinese Premier Zhou Enlai and Foreign Minister Chen Yi embarked on their celebrated tour of many African nations. Public criticism among Africans of Chinese motives for its FDI in Africa have grown louder in recent years, along with even more widespread criticism by African workers who contend China favors Chinese expatriate workers instead of host country nationals (HCNs) as Chinese companies, many being State Owned Enterprises (SOEs), have given the impression the skilled labor jobs required to construct major infrastructure cannot be performed well enough by HCNs. Among Chinese responsible for FDI outward bound to Africa, growing concern has emerged over the bribery, direct or indirect (such as in the form of taxation<sup>8</sup>), that appears to have increased in recent years as China has moved primary commodities from African nations where they were harvested back to China for use in the production of goods to be consumed by the world population.

More recently, China has acquired significant stakes in Latin American corporations, but its Return On Investment (ROI) sometimes has failed to meet China’s expectations.<sup>9</sup> In Brazil, for example, China encountered a supply chain management fiasco that dwarfed the failure of COVEC in Poland. Undoubtedly, the Chinese want ideally to increase their FDI within the United States, but the prevailing

---

<sup>6</sup> Sobczyk, Marcin. 2012. “Euro’s Popularity Hits Record Low in Poland,” *The Wall Street Journal*. 05 Jun. <http://blogs.wsj.com/emerging europe/2012/06/05/euro%E2%80%99s-popularity-hits-record-low-in-poland/>

<sup>7</sup> Wen, Jiabao. 2012. “Working Together for a Promising Future.” Address by the Premier of the State Council of the People’s Republic of China at the Second China-Central and Eastern European Countries Economic and Trade Forum, Hilton Hotel, Warsaw, Poland, 26 April 2012, 2 (official tr.).

<sup>8</sup> Interview with Tang Hua, director of outward Foreign Direct Investment (FDI) and Chen Juan, Director of inward FDI from Central and Eastern Europe, Department of Commerce, Hubei Province, at Wuhan on 13 August 2012 (tr. by Liu Hanzhen, fourth year doctoral student in international relations, University of Warsaw). Mr. Tang emphasized that African countries into which China has poured billions of U.S. dollars in FDI over the decades have turned to increased export taxation as another step beyond overt bribery that acts as an exit barrier to the free movement of primary commodities out of Africa.

<sup>9</sup> Hughes, Krista, and Anthony Esposito. 2012. “Analysis: Latin America’s Love Affair with China May Sour,” *Reuters*. 11 Jul [http://uk.reuters.com/article/2012/07/11/uk-latam-economy-china-idUKBRE86A18I20120711?feedType=RSS&feedName=GCA-GoogleNewsUK&google\\_editors\\_picks=true](http://uk.reuters.com/article/2012/07/11/uk-latam-economy-china-idUKBRE86A18I20120711?feedType=RSS&feedName=GCA-GoogleNewsUK&google_editors_picks=true).

viewpoint is that Americans may not be ready for this big step.<sup>10</sup> If China accumulates a successful track record within the European Union, this is likely to earn favour in the United States, and reduce resistance to future FDI within the United States.

In addition, China is confronting greater visibility of cracks in the foundation of its Gross Domestic Product (GDP) statistics upon which it relies to maintain overall domestic stability. In fact, it appears that real GDP is falling or at least fluctuating, as China's two great trading partners, the European Union and the United States, experience their own economic recession that precludes an increase in their willingness to purchase goods made in China, and possibly marks a decrease in their willingness or even their ability to purchase products within some economic sectors. China's GDP growth rate fell off from 11.4% in 2007 to as low as seven percent in 2008, then rebounded to 10.4% in 2010 following the central government's infusion of a US\$ 4 trillion stimulus, only to apparently level off at 9.2% by the close of 2011.<sup>11</sup> Although some Western economists dispute China's GDP statistics, deputy premier Li Keqiang has countered with his satisfaction that the interface of three indicators are incontrovertible evidence of both GDP growth and fall: variation in electricity consumption, rail cargo volume, and bank lending.<sup>12</sup> As Li Keqiang is scheduled to become China's premier in Spring 2013, his indicators have become all the more worthy of notice. They tend to show that China's GDP is down but not alarmingly so at all, yet.<sup>13</sup> These indicators in 2012 tend to obviate a need for a planned economy to consider outward FDI, which China appears to be doing according to premier Wen Jiabao.

### 3. The initial experiment

---

<sup>10</sup> Sauvart, Karl, ed. 2010. *Investing in the United States: Is the US Ready for FDI from China?* Cheltenham: Edward Elgar.

<sup>11</sup> National Bureau of Statistics, *China Statistical Yearbooks; National Bureau of Statistics plan report*; National Bureau of Statistics communiqués. "Chinability: GDP Growth in China, 1952-2011." 05 Nov. <http://www.chinability.com/GDP.htm>.

<sup>12</sup> Rabinovitch, Simon. 2010. "China's GDP is 'man-made,' unreliable: top leader." *Reuters*. 06 Dec. <http://www.reuters.com/article/2010/12/06/us-china-economy-wikileaks-idUSTRE6B527D20101206>. This report is based on an interview Li Keqiang gave as general secretary for Laoning Province to former U.S. Ambassador Clark Randt on 12 March 2007, revealed by Wikileaks on 30 August 2011. See Chan, John. 2010. "WikiLeaks cable highlights fears in Beijing over social fragility." *World Socialist Website*. 10 Dec. <http://www.wsws.org/articles/2010/dec2010/chin-d10.shtml>. For the text of Ambassador Randt's cable to the U.S. Department of State in Washington, see Randt, Clark T. 2007. "Fifth Generation Star Li Keqiang Discusses Domestic Challenges, Trade Relations, with Ambassador." Confidential diplomatic cable to the U.S. Department of State, Washington, Par. 4. 15 Mar. Released by Wikileaks on 30 August 2011. <http://wikileaks.org/cable/2007/03/07BEIJING1760.html#>.

<sup>13</sup> China's industrial consumption of electricity reached zero growth in June 2012 compared to June 2011, then rose by 2.1% in July 2012, reflecting a June 2012 bottom out. See "China July power consumption, output growth higher." *MarketWatch*. 14 Aug. 2012, citing China's National Bureau of Statistics. <http://www.marketwatch.com/story/china-july-power-consumption-output-growth-higher-2012-08-14>. China's rail cargo volume fell by 3.1% in June 2012 compared to June 2011, as did overall freight volume (air, rail, road, water). See "China's rail cargo volume growth just turned negative in June." *Also Sprach Analyst*. 28 Aug. 2012, citing China's National Bureau of Statistics. <http://www.alsosprachanalyst.com/economy/chinas-rail-cargo-volume-growth-just-turned-negative-in-june.html>. Bank lending is a more subjective indicator of GDP because, of course, it is discretionary. A significant part of any country's bank lending may form the core of a "stimulus" package and consequently distort GDP that is predicated on this factor. One indicator that may confirm what Li Keqiang told Clark Randt is the shortfall in demand for bank credit China's four major state-owned banks reported for 2012: the central government had targeted RMB 8 trillion to RMB 8.5 trillion in loans, but demand for credit in 2012 is only about RMB 7 trillion (US\$ 1.1 trillion), or 12% less than the central government's goal. See Luo Jun. 2012. "China Banks May Miss Loan Target for 2012, Officials Say." *Bloomberg News*. 25 May. <http://www.bloomberg.com/news/2012-05-24/china-banks-may-miss-loan-target-for-2012-officials-say.html>.

China's initial major recent experiment with outward FDI into Central and Eastern Europe involved the successful bidding by the China Overseas Engineering Group (COVEC) to construct two sections (49 km) of the "A2" highway between Warsaw, the capital of Poland, and Gdansk, Poland's major Baltic Sea port. This contract consisted of COVEC's bid of US\$ 447 million, which soon encountered cost overruns of 76%, making the actual projected cost of project completion US\$ 786 million, or at least US\$ 339 million higher than COVEC's bid. COVEC has explained this unfortunate outcome as being occasioned by two factors: an unforeseen increase in the cost structure of building materials, particularly concrete and steel, and Poland's unilateral escalation of the standard of road construction, especially of bridge construction.<sup>14</sup> When COVEC cancelled its contract, Poland responded by doing the same thing, then announced its intention to sue COVEC for damages in the amount of PLN 741 million, at that time converted to US\$ 271.1 million, which is over and above the US\$ 140 million COVEC invested in this project during the course of its year on the job that began in July 2010.<sup>15</sup> Part of the damages the Polish government claims against COVEC include US\$ 200 million in estimated incidental and consequential damages occasioned from lost toll revenues.<sup>16</sup>

This paper does not intend to analyze the "A2" highway project scientifically, because much of the necessary evidence is not publicly available yet. Suffice it to say here that from all evidence that is available the fault lies in the communication gap between the Polish and the Chinese actors. What this paper does propose to do is to explore the lack of communication between China and Poland, on the one hand, and on the other hand the need for much greater understanding of laws governing international projects. As Zhang Xiang, spokeswoman for the Chinese International Contractors' Association, noted, "Chinese enterprises should try to become familiar with international law and the market environment in foreign countries when expanding abroad."<sup>17</sup> One might easily argue they should do this *before* expanding abroad, or at the latest in the very earliest stages of going international. That Zhang Xiang had to remind Chinese contractors of this obvious fact is strong evidence they have not undertaken such preparation. In fact, COVEC neither did so before bidding or even after becoming a successful bidder to construct what will become one of Poland's busiest highways. This is all the less excusable and all the more troubling because COVEC is a State Owned Enterprise (SOE) and was the "ice breaker" for Chinese opportunity to win a large construction contract inside the European Union. COVEC established a negative track record for China in Poland and in Europe.

The millions of dollars China lost are minor for China that has become cash rich, although to be sure millions of Chinese, especially in Western China, are impoverished and this money could have improved their quality of life considerably. The COVEC failure cannot be allowed to confound Premier Wen Jiabao's 10 year plan for Chinese FDI into Central and Eastern Europe. Even now, Chinese provincial

---

<sup>14</sup> Chang, Bao. 2011. "COVEC Stops Polish Highway Construction." *China Daily*. 18 Jun. [http://www.chinadaily.com.cn/bizchina/2011-06/18/content\\_12728120.htm](http://www.chinadaily.com.cn/bizchina/2011-06/18/content_12728120.htm)

<sup>15</sup> *Ibid.*

<sup>16</sup> Ni, Weifeng and Yongqiang Gu. 2011. "Covec to Face 200 Mln Euro Claim for Violating Polish Highway Contracts." *Caixin Online*. 19 Sep. <http://english.caixin.com/2011-09-19/100306906.html>.

<sup>17</sup> Chang, Bao. 2011. "COVEC Stops Polish Highway Construction." *China Daily*. 18 Jun. [www.chinadaily.com.cn/bizchina/2011-06/18/content\\_12728120.htm](http://www.chinadaily.com.cn/bizchina/2011-06/18/content_12728120.htm)

## China's New Grand Strategy for Europe

government officials admit they are “terrified” of venturing into Europe and of risking a repeat performance of COVEC’s failure.<sup>18</sup> So what went wrong, and how to prevent its recurrence?

COVEC is correct that the cost structure of road and bridge building materials has escalated wildly since July 2010, but all this should have been foreseen, and the successful bid should have contained a cost of materials escalation clause. Had it contained such, of course, the possibility exists that COVEC would not have received the contract in the first place. It may well be that Poland “used” this Chinese company in an effort to get something for nothing. Alternatively, Poland may not have realized the supply chain management hurdles that awaited COVEC. Either way, on these facts alone, perhaps COVEC should have swallowed its losses, mostly absorbed by Chinese government funding, and considered the “A2” highway project as a “lost leader.” It decided against taking this course, and arguably wisely so, for other reasons. One reason is that, as COVEC contends, Poland does seem to have changed the rules of the game after the project began, possibly under some pressure from the European Union (EU), by unilaterally raising the performance standards of construction.

COVEC should have included in their bidding some recitation of the standard of construction, with a proportional cost escalation clause to take effect in the event Poland or the EU were to impose an escalation of the performance standard. Quality is expensive in almost any context. Another reason is more important to address here. The Polish posture is that COVEC insisted upon using as much Chinese labor and Chinese materials as possible, and almost all of the project management was Chinese. Poland argues that this degraded the project because the Chinese actors and some Chinese supplies did not meet EU standards for road construction and bridge construction project management. Poland has argued also that, even if COVEC management did meet EU standards on paper, they did not qualify in practice because they really did not know or seem to care about detailed EU requirements, including some requirements to purchase building materials from within Europe, and an overall requirement to meet a minimum cost of labor. Most of the money Poland earmarked for this project came from EU funding, requiring Poland to strictly comply with EU regulations. Under these conditions, and the contract never should have been awarded to COVEC in the first place without first carefully evaluating COVEC’s qualifications, which apparently Poland failed to do effectively, if at all.

The implication for the future is that in its plan to enter the EU market in all industries, including but not limited to construction, Chinese companies never should consider becoming “low cost” providers. Chinese SOEs are not poor by any standard, and the short-term purpose of China’s desire to enter the EU marketplace does not appear at all to be to improve the profit margins of Chinese companies. What is does involve is China’s effort to improve its image globally and in Europe: the image of China. On this score COVEC has failed abysmally to make China shine but, on the contrary, it has reinforced the image of some Europeans that products are “poorly made in China.” A book with this title,<sup>19</sup> unfortunately, made the “best book of 2009” rating by *The Economist* and the “best business book” rating by *Inc. Magazine*.<sup>20</sup>

---

<sup>18</sup> Interview with Tang Hua, director of outward Foreign Direct Investment (FDI) and Chen Juan, Director of inward FDI from Central and Eastern Europe, Department of Commerce, Hubei Province, at Wuhan on 13 August 2012 (tr. by Liu Hanzhen, fourth year doctoral student in international relations, University of Warsaw).

<sup>19</sup> Midler, Paul. 2008. *Poorly Made in China: An Insider's Account of the China Production Game*. New York and Singapore: John Wiley.

<sup>20</sup> Editorial Reviews, *Amazon.com*. See [www.amazon.com/Poorly-Made-China-Insiders-Production/dp/0470928077](http://www.amazon.com/Poorly-Made-China-Insiders-Production/dp/0470928077).

This hypothesis must be refuted, not confirmed as COVEC appears to have done in Poland. The harm done already can be corrected, but only by careful planning ahead, which in turn does not include avoidance or hiding China's face in the sand as if it were an ostrich.

Probably, also, the next projects China will undertake to complete in Poland or elsewhere in Central or Eastern Europe should not be highway construction projects, because in China and Poland as elsewhere almost universally, highway construction attracts corruption, which is one reason why highways and especially highway bridges must be monitored and regulated punctiliously by government authorities. This has been done inadequately in some regions of China recently and, as *The Beijing News* and *BBC World* have reported, the 24 August 2012 collapse of a ramp on the RMB 1.88 billion (US\$ 286 million) Yangmingtang Bridge across the Songhua River in Harbin City, Heilongjiang Province, opened in November 2011, is at least the seventh example of Chinese domestic infrastructure failure within the past year.<sup>21</sup> The next major projects China endeavors to do in Poland and in any other country within Central and Eastern Europe must be straight out of W. Edward Deming's "Fourteen Points" that will lead to what Deming referred to as "Total Quality Management" (TQM).<sup>22</sup>

#### 4. Preparations for "going international"

Textbooks are replete with advice and even requirements for preparing expatriate managers and other workers for deployment abroad.<sup>23</sup> The literature is much less voluminous related to what international firms, particularly Chinese companies, should do to prepare themselves as organizations as well as their managerial staff for doing business abroad generally and especially within the European Union. This will be another focus of the present paper.

In undertaking to display a shining face in Central and Eastern Europe, which means also in making the same effort for all of Europe and even for the world at large, China must concentrate on its core competencies. It should be axiomatic that road and bridge construction are not among its current core competencies. What industries are and what industries will be among China's core competencies in the foreseeable future? To answer this question without speculation, one must turn to China's inward FDI. One striking example of apparently successful inward FDI is the recently increased financial commitment by the Goodman Group and the Canada Pension Plan Investment Group (CPPIG) to their Goodman China Logistics Holding (GCLH), where its capital was increased from US\$ 500 million to US\$ 1 billion (doubling of their investment) since 30 June 2012.<sup>24</sup> The GCLH invests in business (office) and industrial (factory) space, and as this has been successful in China, presumably it can be successful in Europe. The

---

<sup>21</sup> 通车不足 10 个月 哈市一大桥坍塌 . *The Beijing News*. 25 August 2012. [http://epaper.bjnews.com.cn/html/2012-08/25/content\\_367195.htm?div=-1](http://epaper.bjnews.com.cn/html/2012-08/25/content_367195.htm?div=-1). See also "Three dead in newly-built Chinese bridge collapse. *BBC World*. 24 August 2012. <http://www.bbc.co.uk/news/world-asia-china-19365154>.

<sup>22</sup> Deming, W. Edwards. 2000. *The New Economics for Industry, Government, Education*. 2d ed. Cambridge: MIT Press.

<sup>23</sup> See Deresky, Helen. 2010. *Helen. International Management: Managing Across Borders and Cultures*. Upper Saddle River: 7<sup>th</sup> ed. Pearson Prentice Hall. See also Connerley, Mary L. and Paul B. Pedersen. 2005. *Leadership in a Diverse and Multicultural Environment: Developing Awareness, Knowledge, and Skills*. Thousand Oaks: Sage Publications.

<sup>24</sup> Goodman and CPPIB Increase Commitment to China Partnership to US\$1 Billion." *Yahoo Finance*. 30 August 2012. <http://finance.yahoo.com/news/goodman-cppib-increase-commitment-china-185903356.html>.

## China's New Grand Strategy for Europe

one drawback is that in China and in Poland too many new buildings remain unoccupied. A counter-drawback is that in China the percentage of new commercial property that remains unoccupied is likely to rise because of plans by Taiwanese investors to withdraw from China in favor of FDI in Southeast Asia such as Burma (Myanmar) and Thailand,<sup>25</sup> whereas in Poland it is more likely to fall, especially if China's commitment to directing large FDI into Central and Eastern Europe materializes as planned and focuses on manufacturing, especially on "new tech" and "high tech" manufacturing that requires new infrastructure. The point to be made here is that the 12 logistics complexes GCLH has constructed in six locations across China, paralleling Chinese factory space in other locations, is solid. Virtually all were constructed by a Chinese work force, inasmuch as GCLH employs about 350 Parent Country Nationals (PCNs) in China. This is not to say at all that in China or Poland residential flat construction is good. The opposite is the case in China,<sup>26</sup> and the opposite is true in Poland as well.

Besides construction, what type of manufacturing should China invest in within Central and Eastern Europe? The answer to this question is dependent upon China's long-term strategy for its European FDI. Presumably, one major objective China has for entering the EU marketplace is to label Chinese products as having been "made in Europe." This will diminish controversies over "dumping," state "subsidies," the amount of "countervailing duties," and allegations of European "protectionism" that have burgeoned into trade wars and consume time and money to litigate in the World Trade Organisation (WTO). So for China to earmark a significant portion of its FDI heading to Europe for this kind of manufacturing appears to be a valuable strategy. The objective must be to make the final point of assembly some location inside the EU, regardless of where or in how many other places value has been added to each product beforehand.

Another objective China should have in resolving to make substantial FDI in Central and Eastern Europe is the manufacture of vehicles. Sadly to people such as the author who love China, the Chinese automobile manufacturing industry has not thusfar managed to keep pace with China's arch rival in Asia, Japan. Most Chinese automobiles are sold and used within China itself, and even in China domestic sales of automobiles face stiff competition in popularity with European (Audi, BMW, Citroen, Mercedes-Benz, Peugeot), American (Buick, Chevrolet), and Japanese brands. One might wonder why China should compete in Europe with European automobiles that have the world's finest engineering, and the answer is very simple from the viewpoint of Central and Eastern Europe where the standard of living is lower than in Western Europe where Europe's automobiles are made: if manufactured in Europe, Chinese cars will be much less expensive than their European counterparts. The target will have to be to make the Price : Performance Ratio (PPR) higher for Chinese cars than it is for cars made with European brands. For several years already, Jiangling Motors Corporation (JMC) has made some trucks in Poland, and in 2008 it announced it plans also to make cars there under JMC's overseas name, Landwind Motors.<sup>27</sup> There is ample room for several other Chinese automakers to enter the European marketplace through Poland.

---

<sup>25</sup> Interview with Wu Hongming (Freeman Wu), Taipei, Chinese Taiwan, on 29 August 2012. See also McDonald, Joe. 2012. "Chinese Industrial Profits Fall in July." *Miami Herald*. 27 Aug. [www.miamiherald.com/2012/08/27/v-print/2970261/chinese-industrial-profits-fall.html](http://www.miamiherald.com/2012/08/27/v-print/2970261/chinese-industrial-profits-fall.html). Chinese industrial profits tumbled by 5.4% in June 2012 compared to June 2011.

<sup>26</sup> Russell-Clough, Jemilla. 2011. "China's Skyscraper Boom." *DesignBuildSource*. 25 Jul. <http://designbuildsource.com.au/china-skyscraper-city-list-reflects-building-bubble>.

<sup>27</sup> Kujawska, Joanna. 2008. "Chinese Cars Will Leave Polish Factories." *AutoChiny*. 28 Aug. [http://autochiny.pl/en/Chinese\\_cars\\_will\\_leave\\_Polish\\_factories](http://autochiny.pl/en/Chinese_cars_will_leave_Polish_factories).



Poland is a country that manufactured and exported cars prior to 1989, and the prospect of a new line of automobiles made in Poland is bright.

Chinese commercial web offset printing operations are state-of-the-art in the 21<sup>st</sup> century, and Poland is in a position to print many glossy magazines and catalogues. Currently, companies such as PrintedInChinaOnline.com<sup>28</sup> in Ningbo, Zhejiang Province, and Shanghai ADD Print Co., Ltd. compete for European catalogue printing contracts.<sup>29</sup> It will be less expensive for Chinese concerns that print glossy magazines and catalogues intended for distribution in Europe within Europe itself. The giant American commercial printing conglomerate R.R. Donnelley purchased 100% of Poland's third largest commercial printing firm, Poligrafia, S.A., in 2005 for the same reason, having been impressed by "the availability of a highly skilled and educated work force, opportunities for growth, and Poland's central location in Europe" and that "The acquisition of Poligrafia substantially strengthens RR Donnelley's capabilities and scope, and reinforces our position as a leading supplier of print and print-related services in Europe."<sup>30</sup> China must compete aggressively with Western acquisitions in Central and Eastern Europe in order both to establish and reinforce its own competitive strength as a leading manufacturer of diversified products in Europe as well as in Asia.

Undoubtedly, one objective that China will consider in earmarking its FDI planned for Central and Eastern Europe is the harvesting of primary commodities, if as has been reported quietly China aims to withdraw from Africa. Poland is rich in coal reserves and shale oil, but ample supplies of many other minerals have been identified and listed by the U.S. Geological Survey.<sup>31</sup> Also, Poland has been exploring Libya and other areas of Africa for conventional oil and gas reserves. As China has grown tired of dealing with what China apparently feels to be an ungrateful Africa, it stands to reason that China will scope the global environment for sources of energy and of primary commodities elsewhere. Poland and other regions of Central and Eastern Europe offer such an opportunity, not for the rarest of materials necessarily, but for many minerals coveted by China for use in its role as "factory to the world."

Besides manufacturing, what other industries can become a part of China's 10 year plan for FDI in Central and Eastern Europe? One example is education, strongly highlighted in Premier Wen Jiabao's remarks at Warsaw, together with tourism and "tourism products."<sup>32</sup> By education, Premier Wen appeared to mean the exchange of faculty and students, the primary objective of hosting students in China being to enable them to learn the Chinese language.<sup>33</sup> Much more appears to be necessary. China's major universities

---

<sup>28</sup> See [www.printedinchinaonline.com/](http://www.printedinchinaonline.com/)

<sup>29</sup> See [www.chinacatalogprinting.com/product.html](http://www.chinacatalogprinting.com/product.html)

<sup>30</sup> "RR Donnelley Acquires Polish Magazine and Book Printer: Acquisition Expands RR Donnelley's Long-Run Commercial Printing Capabilities in Central and Eastern Europe." *Publishing Executive*. 11 August 2005. [www.pubexec.com/article/rr-donnelley-acquires-polish-magazine-book-printer-18537/1](http://www.pubexec.com/article/rr-donnelley-acquires-polish-magazine-book-printer-18537/1).

<sup>31</sup> See Brininstool, Mark. 2010. *The Mineral Industry of Poland*. Washington: U.S. Department of the Interior, U.S. Geological Survey, 2008 Minerals Yearbook, Poland. Dec. <http://minerals.usgs.gov/minerals/pubs/country/2008/myb3-2008-pl.pdf>. See particularly Table 1, "Poland Production of Mineral Commodities, 2004 – 2008," 6-15.

<sup>32</sup> Wen, Jiabao. 2012. "Working Together for a Promising Future." Address by the Premier of the State Council of the People's Republic of China at the Second China-Central and Eastern European Countries Economic and Trade Forum, Hilton Hotel, Warsaw, Poland, 26 April 2012), 3 (official tr.).

<sup>33</sup> *Ibid.*, 4.

should immediately open branch campuses in major educational communities within Central and Eastern Europe, including Warsaw and Krakow in Poland and cities such as Budapest (Hungary), Kaunas (Lithuania), Kiev (Ukraine), Prague (Czech Republic), and invite major European universities to open branch campuses in China. Poland is saturated with inferior private colleges, similar to the private colleges China has expelled in the past. The time has come for major Sino-European state universities to cooperate in ways that go well beyond mere exchange programs. This means Chinese universities such as Tsinghua University, University of Beijing (already a partner with University of Warsaw), Fudan University, and Wuhan University, among others, should launch European campuses soon and include responsibility centers in international law and management. The foundation must be laid before the structure is erected over it.

### 5. Government social responsibility

Corporate Social Responsibility (CSR) is rather widely known in the 21<sup>st</sup> century, and major companies vie to at least appear to have a social conscience, evidenced by financial and related social contributions to society, especially to Host Country Nationals (HCNs) in countries within which they do business. Government Social Responsibility (GSR) is a newer concept, but the substantial equivalent of CSR. If China is to succeed with its intended FDI in Central or Eastern Europe, it should consider programs of GSR.

One example China might consider would be the creation of a medical hub in Poland on a par with Asia's leading medical hub in Singapore. A medical hub will provide advanced medical care ranging "from basic health screening and wellness services to high-end specialist care and surgical procedures such as cardiology, neurology, obstetrics and gynaecology, oncology, ophthalmology, organ transplantation, orthopaedics, and paediatrics" as the Singapore Medicine website promises.<sup>34</sup> It does this by recruiting medical staff at all levels who have the world's best education and training, then interfacing this with opportunities for clinical research together with a biomedical industry.<sup>35</sup> This sort of a program will create added value for the Central and Eastern European communities and for China itself. By nurturing a medical hub (perhaps more than one) and interfacing this with a burgeoning biomedical industry, China can plan ahead to establish these benefits for itself at home and elsewhere around the world. China needs to evaluate medical treatments grounded on evidence-based medicine, relative to the economic benefits a given treatment yields in terms of tangible outcomes relative to its cost. The advanced infrastructure development could parallel that of the "Corporate Medical Centre and Hub @ Thomson Road," Singapore, just listed on the real estate market for leasing on 29 August 2012.<sup>36</sup>

In addition, China needs to attract a cadre of medical and paramedical professionals who can accomplish several interfacing objectives almost at the same time. These objectives must include training and developing both Chinese and European medical students and physicians, the human capital of the future for China, for Europe. Also, these objectives must include building advanced biomedical industries, just one example of the "new technologies" to which Premier Wen Jiabao referred in Warsaw on 26 April

---

<sup>34</sup> Singapore Medicine. [www.singaporemedicine.com/leadingmedhub/leadingmedhub1.asp](http://www.singaporemedicine.com/leadingmedhub/leadingmedhub1.asp).

<sup>35</sup> *Ibid.*

<sup>36</sup> See <http://singapore.gumtree.sg/c-Apartment-House-Real-Estate-office-space-commercial-properties-Corporate-Medical-Centre-and-Hub-Thomson-Road-W0QQAdIdZ408850882>.

2012. Construction of “medical hubs” will promote what is known as “medical tourism,” meaning high quality state-of-the-art care for people who come from all corners of the earth, and this will serve as a vital example of China’s commitment to Government Social Responsibility (GSR), important to its national image abroad. All this should attract fully qualified professionals trained in Europe to relocate to China, temporarily at least, by means of which the Chinese people will achieve a return on investment (ROI) from the billions of dollars China will have expended in Europe.

## 6. Conclusion

China’s ambitious target of US\$ 10 billion for FDI within Central and Eastern Europe over the next decade requires careful planning, indeed a blueprint laid out much more cautiously than appears to have been done so far. It should begin with education and training, of the Europeans as well as the Chinese who will become the actors in this process: training in how to cooperate in terms of international organizational behavior and international laws, and in terms of how to communicate effectively. Although Central and Eastern Europe are rich in raw materials and will be capable of supplying China with many primary commodities, China must be careful not to do in Europe what it has been accused (accurately or perhaps falsely) of doing in Africa and Latin America: “looting” the Host Countries. Nor should China, Poland or the other nations of Central and Eastern Europe settle for “rust belt” or “low tech” manufacturing. Premier Wen Jiabao’s focus on “high tech” and particularly on “new tech” manufacturing is crucially important. Said succinctly, China must deliver in Europe what the Europeans want, which is a higher quality of life, and both Chinese and European leaders must take stock of the fact that the Chinese people will fund this FDI into Europe, expecting their own ROI in terms of a higher quality of life for themselves and their progeny. The Chinese who emigrate to Europe should be prepared to behave as good Europeans, and the Europeans who participate as HCNs should recognize their responsibility to behave as good Chinese. This interaction has to be much more than the mere spending of money, and more than merely lip service.

## References

- Brininstool, Mark (2010), *The Mineral Industry of Poland*. Washington: U.S. Department of the Interior, U.S. Geological Survey, December 2010. <http://minerals.usgs.gov/minerals/pubs/country/2008/myb3-2008-pl.pdf>.
- Chan, John (2010), “WikiLeaks cable highlights fears in Beijing over social fragility.” World Socialist Website, 10 December 2010. <http://www.wsws.org/articles/2010/dec2010/chin-d10.shtml>.
- “China July power consumption, output grows higher (2012), MarketWatch. 14 Aug. 2012, citing China’s National Bureau of Statistics. <http://www.marketwatch.com/story/china-july-power-consumption-output-growth-higher-2012-08-14>.
- “China’s rail cargo volume growth just turned negative in June” (2012), AlsoSprachAnalyst. 28 Aug. 2012, citing China’s National Bureau of Statistics.
- <http://www.alsosprachanalyst.com/economy/chinas-rail-cargo-volume-growth-just-turned-negative-in-june.html>.
- Connerley, Mary L. and Paul B. Pedersen (2005), *Leadership in a Diverse and Multicultural Environment: Developing Awareness, Knowledge, and Skills* (Thousand Oaks: Sage Publications, 2005).
- Chang, Bao (2011), “COVEC Stops Polish Highway Construction.” China Daily, 18 June 2011. [http://www.chinadaily.com.cn/bizchina/2011-06/18/content\\_12728120.htm](http://www.chinadaily.com.cn/bizchina/2011-06/18/content_12728120.htm)

## China's New Grand Strategy for Europe

- Cohen, Paul A. (2010), *Discovering History in China: American Historical Writing on the Recent Chinese Past* (New York: Columbia University Press, 2010).
- Craig, Paul, and Grainne de Burca (2008), *EU Law: Text, Cases and Materials* (Oxford: Oxford University Press, Fourth Edition, 2008).
- Deming, W. Edwards (2000), *The New Economics for Industry, Government, Education* (Cambridge, MA: M.I.T. Press, Second Edition, 2000).
- Deresky, Helen (2010), *International Management: Managing Across Borders and Cultures*. Upper Saddle River, NJ: Pearson Prentice Hall, Seventh Edition (2010).
- Editorial Reviews (2012), Amazon.com. [www.amazon.com/Poorly-Made-China-Insiders-Production/dp/0470928077](http://www.amazon.com/Poorly-Made-China-Insiders-Production/dp/0470928077).
- 通车不足 10 个月 哈市一大桥坍塌 . The Beijing News. 25 August 2012. [http://epaper.bjnews.com.cn/html/2012-08/25/content\\_367195.htm?div=-1](http://epaper.bjnews.com.cn/html/2012-08/25/content_367195.htm?div=-1)
- “Goodman and CPPIB increase commitment to China partnership to US\$1 Billion.” Yahoo Finance. 30 August 2012. <http://finance.yahoo.com/news/goodman-cppib-increase-commitment-china-185903356.html>.
- Hughes, Krista, and Anthony Esposito (2012), “Analysis: Latin America’s Love Affair with China May Sour,” Reuters, 11 July 2012. [http://uk.reuters.com/article/2012/07/11/uk-latam-economy-china-idUKBRE86A18I20120711?feedType=RSS&feedName=GCA-GoogleNewsUK&google\\_editors\\_picks=true](http://uk.reuters.com/article/2012/07/11/uk-latam-economy-china-idUKBRE86A18I20120711?feedType=RSS&feedName=GCA-GoogleNewsUK&google_editors_picks=true).
- Kujawska, Joanna (2008), “Chinese Cars Will Leave Polish Factories.” AutoChiny, 28 August 2008. [http://autochiny.pl/en/Chinese\\_cars\\_will\\_leave\\_Polish\\_factories](http://autochiny.pl/en/Chinese_cars_will_leave_Polish_factories).
- Luo, Jun (2012), “China Banks May Miss Loan Target for 2012, Officials Say.” Bloomberg News, 25 May 2012. <http://www.bloomberg.com/news/2012-05-24/china-banks-may-miss-loan-target-for-2012-officials-say.html>.
- National Bureau of Statistics (2011), “Chinability: GDP Growth in China, 1952-2011,” China Statistical Yearbooks, National Bureau of Statistics plan report; National Bureau of Statistics communiqués, 05 November 2011. <http://www.chinability.com/GDP.htm>.
- McDonald, Frank, and Stephen Dearden (2005), *European Economic Integration* (New York: Pearson Prentice Hall Financial Times, Fourth Edition, 2005).
- McDonald, Joe (2012), “Chinese Industrial Profits Fall in July.” Miami Herald, 27 August 2012. <http://www.miamiherald.com/2012/08/27/v-print/2970261/chinese-industrial-profits-fall.html>.
- Midler, Paul (2008), *Poorly Made in China: An Insider's Account of the China Production Game* (Singapore: John Wiley Asia).
- Ni, Weifeng, and Yongqiang Gu (2011), “Covec to Face 200 Mln Euro Claim for Violating Polish Highway Contracts.” Caixin Online, 19 September 2011. <http://english.caixin.com/2011-09-19/100306906.html>.
- Rabinovitch, Simon (2010), “China’s GDP is ‘man-made,’ unreliable: top leader.” Reuters, 06 December 2010. <http://www.reuters.com/article/2010/12/06/us-china-economy-wikileaks-idUSTRE6B527D20101206>. T
- Randt, Clark T. (2007), “Fifth Generation Star Li Keqiang Discusses Domestic Challenges, Trade Relations, with Ambassador.” Confidential diplomatic cable to the U.S. Department of State, Washington, Paragraph 4, 15 March 2007, Released by Wikileaks on 30 August 2011. <http://wikileaks.org/cable/2007/03/07BEIJING1760.html#>.
- Siegel, Scott N. (2011), *The Political Economy of Noncompliance: Adjusting to the Single European Market* (London: Routledge, 2011).

“RR Donnelley Acquires Polish Magazine and Book Printer: Acquisition Expands RR Donnelley's Long-Run Commercial Printing Capabilities in Central and Eastern Europe.” *Publishing Executive*. 11 August 2005. [www.pubexec.com/article/rr-donnelley-acquires-polish-magazine-book-printer-18537/1](http://www.pubexec.com/article/rr-donnelley-acquires-polish-magazine-book-printer-18537/1).

Russell-Clough, Jemilla (2011), “China’s Skyscraper Boom.” *DesignBuildSource*, 25 July 2011. <http://designbuildsource.com.au/china-skyscraper-city-list-reflects-building-bubble>.

“Three dead in newly-built Chinese bridge collapse. *BBC World*. 24 August 2012. <http://www.bbc.co.uk/news/world-asia-china-19365154>.

*Singapore Medicine*. [www.singaporemedicine.com/leadingmedhub/leadingmedhub1.asp](http://www.singaporemedicine.com/leadingmedhub/leadingmedhub1.asp).

Sauvant, Karl P. (2011), “China: Inward and Outward Foreign Direct Investment,” *Transnational Corporations Review*, Volume 3, Number 1, March 2011.

Sauvant, Karl P., ed. (2010), *Investing in the United States: Is the US Ready for FDI from China?* Cheltenham: Edward Elgar, 2010.

Sobczyk, Marcin (2011), “Euro’s Popularity Hits Record Low in Poland,” *The Wall Street Journal*, 05 June 2011. <http://blogs.wsj.com/emerging europe/2012/06/05/euro%E2%80%99s-popularity-hits-record-low-in-poland/>

Wen, Jiabao (2012), “Working Together for a Promising Future.” Address by the Premier of the State Council of the People’s Republic of China at the Second China-Central and Eastern European Countries Economic and Trade Forum, Hilton Hotel, Warsaw, Poland, 26 Apr. 2012 (official tr.).

## About the Author

DAVID A. JONES, Ph.D., D.Jur. is professor of International Law, International Management, and Foreign Policy at the University of Warsaw, Poland, and lectures in the M.B.A. and D.B.A. programs at the Institute of Economic Science, Polish Academy of Sciences Warsaw. He leads a scientific community at the Polish Information and Foreign Investment Agency (PAIZ), the Polish government organization primarily responsible for attracting inward FDI to Poland. He is a senior lecturer at Norwich University, Northfield, Vermont, where he offers a seminar on Cross-Cultural Management in the International System, and its capstone course for the commerce track, Master of Diplomacy (MDY) Program, entitled Global Corporate Diplomacy.

## Contact Information

David A. Jones, Professor of Law, Management, and Foreign Policy, University of Warsaw, Niepodleglosci 22, Warsaw, Poland 02-653. Tel: (48) 22 55 333 29, Fax: (48) 22 55 333 22, E-mail: [david.jones@uw.edu.pl](mailto:david.jones@uw.edu.pl).