CHAPTER 7 : ECONOMIC VERSUS POLITICAL ENGAGEMENT WITH CHINA AND TAIWAN IN CENTRAL AND EASTERN EUROPE

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The chapter focuses on economic relations and their possible effects on relations between China/Taiwan and three Central and Eastern European (CEE) countries: Poland, the Czech Republic and Hungary. Since there have been no switches in diplomatic relations in this region, we examine whether stronger economic links lead to better perceptions of China and Taiwan in the region, and whether diplomatic gestures by the CEE3 generate more economic engagement with either. Based on interviews with researchers, diplomats and businesspeople, we found little evidence that economic interactions affect diplomatic relations. However, Taiwanese investments will have a better chance of enhancing political ties in the future if they focus on high tech sectors rather than manufacturing and assembly. As regards political ties affecting economic engagement, we found a clear link between the level of Chinese investment stock in CEE countries and the depth of political relationships with Beijing. Recent developments that have seen friendly gestures from some CEE countries towards Taipei suggest they may too have an impact on economic links with Taiwan.

7.1 Introduction

The transition of Central and Eastern European (CEE)[1] countries from centrally planned to market economies in the late 20th century transformed the region's external economic relations. During this transition period, CEE went through radical economic restructuring, largely induced by foreign capital. Multinational enterprises (MNEs) realized significant investment projects and established their own production networks in the region. Investors, mainly from core European countries, were attracted by macroeconomic factors, including relatively low unit labor costs, market size, openness to trade and proximity. Institutional factors, such as the prospects for CEE countries' economic integration with the European Union (EU) also increased FDI inflows.

Compared with investments from Western Europe and the US, non-Euro-Atlantic FDI remained modest in CEE, although the first wave of such investment did start directly after the transition and picked up again from the early 2000s. Both Chinese and Taiwanese companies have targeted the CEE region: some smaller companies first arrived in the 1990s, while medium sized and bigger companies made their first investments after the millennium, with the Czech Republic, Hungary and Poland (CEE3) among the most popular destinations.

Historically, geographically and politically bound to Europe and highly dependent on the European Union for trade and investment, the CEE region as a whole has not managed to reach a common position on China. Some countries have more reservations about the growing Chinese presence, while others are more welcoming in the hope of greater economic opportunities. CEE countries are also aware that even lower levels of cooperation with Taiwan may provoke a backlash from China, although some of them are willing to take the risk. This diversity of approaches is also reflected in their attitude towards Taiwan.

In line with the above, the aim of the chapter is to analyze economic relations - and their possible effects on the political terrain - between China and Taiwan and the CEE3 region. Besides presenting the evolution of diplomatic relations, trade, and investment volumes since 2000, we outline how important the CEE region is in Chinese/Taiwanese companies' expansion strategies and the main factors that make it attractive. The study will also examine the effects of China/Taiwan-CEE economic relations on their image in CEE3 countries. The chapter intends to analyze whether China and Taiwan are perceived better as a result of greater economic activities and whether diplomatic gestures from the CEE3 can generate more trade and investment.

7.2 Methodology

We focus on the Czech Republic, Hungary and Poland because they have received the most Chinese and Taiwanese FDI in the region and have significant trade links, while adopting different political stances towards Beijing and Taipei. Other CEE countries - such as Lithuania or Slovakia – would also have been interesting to analyze politically due to their recent slight but tangible shifts in foreign policy towards Taiwan. However, economic ties are far from being significant between either the Baltic country or Slovakia and China or Taiwan, and as a result there is not much at stake and little scope for retaliation.

Our methodological approach comprises a mix of qualitative interpretative methods such as interviews and qualitative document analysis, complemented by secondary literature and news sources. Interviews were conducted either in person or online with company officials, representatives of chambers of commerce, diplomats and government officials. Where personal interviews were not possible, the authors used other sources, such as former employees, business professionals, experts, and academics from the CEE3. The interviews were conducted anonymously, and all interviewees were guaranteed confidentiality. The interviews were semi-structured and analyzed based on extensive notetaking during and after the interviews. To complement our arguments and to dig deeper into the institutional and societal contexts of the host countries, we also relied on qualitative document analysis of governmental policy reports, news reports, corporate publications (e.g., annual reports) and corporate databases (such as Orbis).

7.3 An area of contest between Beijing and Taipei?

Even though all CEE3 countries have diplomatic relations with China and have accepted the “One China Principle”, during their transition these countries - as Turcsanyi (2020a) puts it - "became some of the most active substantive partners of Taiwan". That is, these new democracies genuinely sympathized with anti-communist Taiwan and saw opportunities in its dynamic economic performance. Almost all CEE countries opened representative offices in Taiwan, and Taipei representative offices were established in CEE capitals (Turcsanyi, 2020a). However, they were aware that even lower levels of cooperation with Taiwan could provoke China and as a result they decided not to engage further. In 2012[2] China decided to take its CEE relations to a higher level and initiated the 16+1 cooperation, that is a framework of cooperation between China and 16 CEE countries in political, economic and social arenas, with big yearly summits that serve as an opportunity to develop multilateral and bilateral relations.

The relationships have distinct characteristics. China is a relative newcomer to the CEE region, often building its relations with political and economic elites from scratch, and it therefore lacks understanding of the local environment (Turcsanyi 2020b). China entered the region with more vigor with the global economic and financial crisis in 2008, after which Beijing began to consider CEE as a geographical gateway to the rest of the EU market (Szunomár 2018). CEE countries were also affected by the crisis and began reconsidering their predominantly west-bound orientation and exploring possibilities elsewhere, including China. In some countries (such as Hungary, the Czech Republic, Poland and Serbia) the process was further accelerated by the ascendence to power of politicians with skeptical views of the EU (Karásková et al. 2020).

Although almost all CEE countries toyed with the idea of strengthening economic relations with China in order to enhance their economic development, this commitment was rather cautious and hasn't proved lasting in most cases. In the CEE3, two countries – the Czech Republic and Poland - can be considered as more cautious towards China, while Hungary seems to be China's most trusted partner in the CEE region.

The Czech Republic has adopted the most critical approach towards China, challenging China over many human rights, Tibet and other issues. Starting from this rather cold and critical stance, Prague’s relationship with China changed for a few years as the Chinese leadership found common ground with President Milos Zeman. As our expert interviews confirmed, after Czech ‘political sympathy’ developed, inflows of Chinese FDI began to increase. As a case in point Zeman - who was the only high-level European politician to participate in China’s celebrations to mark the anniversary of the end of World War II in 2015 - declared that he wanted his country to be China’s ‘unsinkable aircraft-carrier’ in Europe (The Economist, 2018). He also employed a Chinese adviser directly from a Chinese company with a controversial background. However, as soon as the biggest Chinese investor in the country, CEFC came under investigation by Chinese authorities for 'suspicion of violation of laws' (Lopatka & Aizhu, 2018), critical voices intensified in the Czech Republic. As a result, Czech-Chinese relations have been cooling off again, no significant Chinese FDI flows have arrived since then and disinvestment took place in 2017 (see Table 7.1 later).

Based on our interviews conducted with experts in China-Poland relations, Poland used to be more enthusiastic about the potential of its relationship with China but has taken a more critical stance recently, mainly for three reasons. First, the high trade deficit with China is seen as a problem: Polish imports from China have been eight to twelve times higher than Poland's exports to China over recent years, with the deficit reaching €20 billion according to Eurostat. Second, potential security risks associated with Chinese investments caused the Polish government to reconsider its positive approach. This reconsideration was signaled by the cancellation of tenders and a number of political statements (Szczudlik, 2017). As a probable result of this, investment flows have begun to stagnate. Third, as confirmed by one of our interviewees, since Russia presents a potential threat to Poland, the country has been the US's closest regional ally and as a result it often follows the US stance on China.

Hungarian governments – regardless of political orientation – have been working on developing relations with China for over two decades. Hungary launched a new foreign economic policy in the spring of 2012 aiming to diversify foreign economic relations: the "Eastern opening policy". Although the Orbán government has emphasized that it would like to maintain Hungary's strong and important economic relations with its traditional Western (European) partners, the main objective of this policy has been to reduce Hungary's economic dependence on trade and investment with the West. This has meant an opening to the east, particularly China. Besides promoting economic relations with China, Orbán's government has backed China on sensitive issues. Hungary was the first EU member country to sign a memorandum of understanding with China on the Belt and Road Initiative (BRI). This came during the visit of Foreign Minister Wang Yi to Budapest in June 2015. The Hungarian government was also very keen on promoting the Budapest-Belgrade railway, a long negotiated soon to be started construction project under the BRI umbrella. When signing the construction agreement in 2014, Orbán called it the most important moment for cooperation between the EU and China (Keszthelyi, 2014).

Supporting China's infrastructural endeavors is, however, not the only field where Hungary has been distinctive. In 2016, Hungary (and Greece) prevented the EU from backing a court ruling against China's expansive territorial claims in the South China Sea (The Economist, 2018). In 2018, Hungary's ambassador to the EU was alone in not signing a report that criticized the BRI for benefitting Chinese companies and Chinese interests, and for undermining principles of free trade through its lack of transparency in procurement (Sweet, 2018). Although the background rationale behind the strong Hungarian commitments toward China used to be economic in the early 2000s, recently Hungary has used the 'China card' for political reasons (Turcsányi, 2020b) to demand better treatment from Western partners.

As described above, when it comes to China-CEE3 relations, the Czech Republic remained rather cautious and critical from the beginning, Poland used to be more enthusiastic but has taken a more critical stance recently, while Hungary and China have their own 'special relationship'. Understandably, the countries anxious about China tend to have a friendlier attitude towards Taiwan. While Lithuania, the Czech Republic and Poland seem to be open for more intense economic, cultural and scientific relationships with Taiwan, they always add that this does not imply any conflict or disagreement with the One China Principle. Thus, they try to avoid political commitments. However, recent developments may indicate some change in this area: a few CEE countries, including the Czech Republic sent coronavirus vaccines to Taiwan in 2021. The gesture was well received in Taipei and has been followed by a Taiwanese business mission to three of the countries and the prospect of further trade and investment (McEnchroe, 2021).

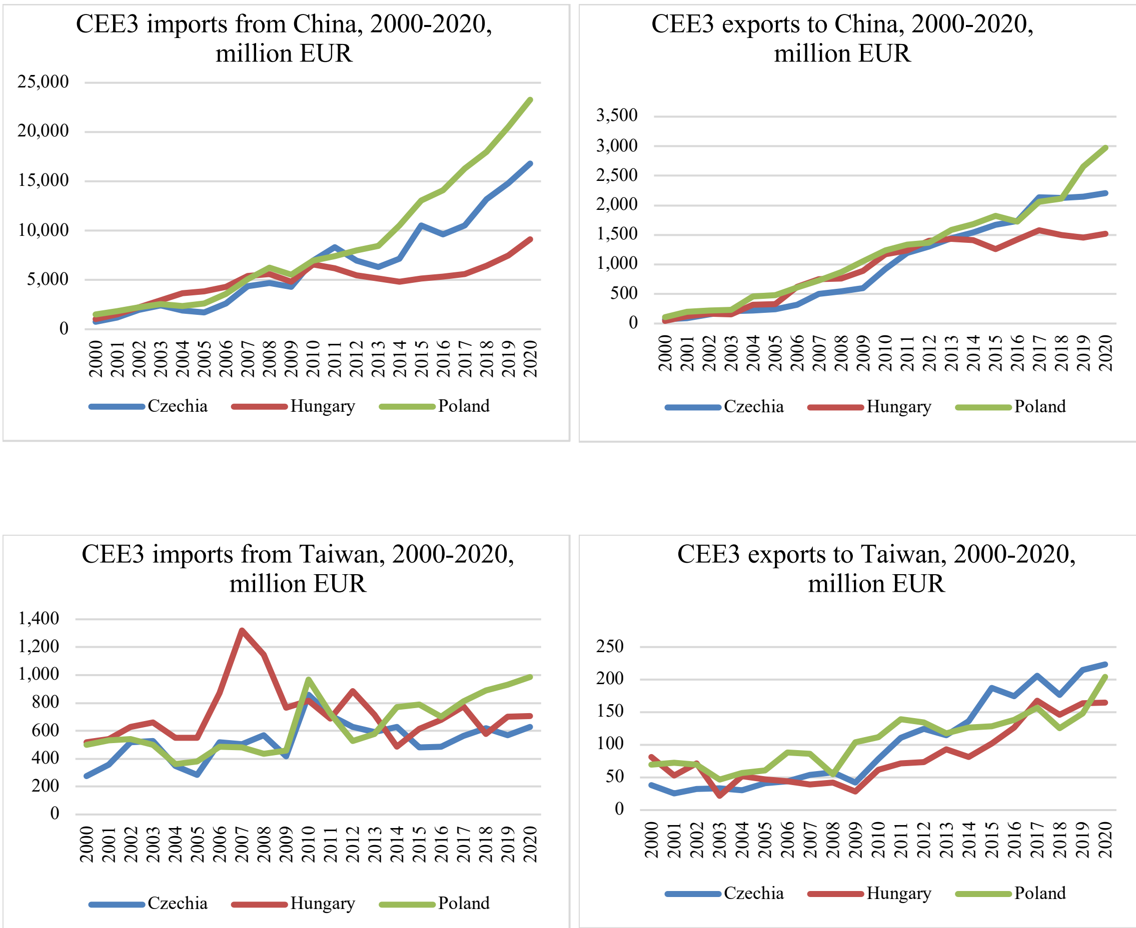
7.4 The growing Chinese footprint and moderately increasing Taiwanese presence in CEE3

In the past two decades, both the Taiwanese and Chinese economic presence in CEE3 has been characterized by developing trade relations and growing inflows of FDI.[3]

7.4.1 *Trade*

A comparative analysis of CEE countries' trade with China (Karáskova et al., 2020) revealed that the majority of the countries (especially in the Baltic and the Balkans) have relatively low trade volumes with China. Within the whole CEE region, the Czech Republic, Hungary, Poland and Slovakia show the highest trade flows, followed by Romania, Slovenia, Serbia and Bulgaria. As regards trade between the CEE3 and China, it indeed increased substantially in the past twenty years (see Figure 7.1). In the case of imports from China, both the CEE3's EU membership (2004) and the launch of the 16+1 initiative (2012) gave new impetus to relations. However, while the CEE3's imports from China increased substantially, the growth of their exports to China remained rather modest after 2012 and even decreased slightly for a few years after 2014. As a result, trade deficits increased rapidly as well. Besides, despite the growth of trade between the two sides, the relative significance of China has barely increased as the total trade of CEE countries has been growing almost as fast as their trade with China. Likewise, the share of CEE countries in total EU-China trade has not grown extensively as EU-China trade itself has increased rapidly. That is, China's relative significance as a trade partner has not changed much as a result of the 16+1 cooperation, especially not in the case of exports.

FIGURE 7.1 CEE3 TRADE WITH CHINA AND TAIWAN, 2000-2020

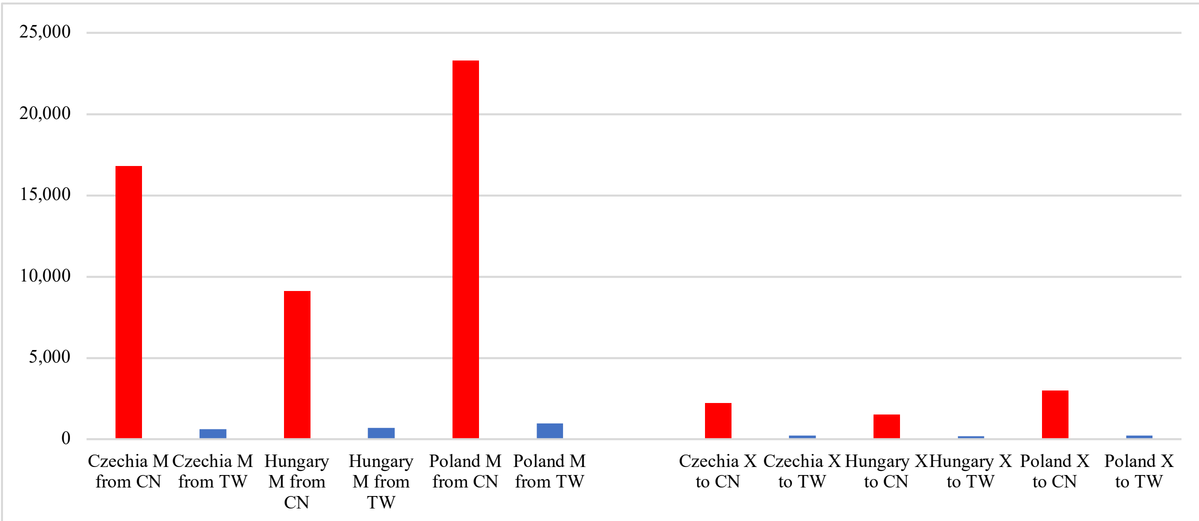


Source: own compilation based on Eurostat data

In the case of Taiwan-CEE3 trade relations - as Figure 7.1 shows - trade flows are more volatile, especially imports which are characterized by many ups and downs. Still, there has been a modest increase (compared with China) in the past two decades. Between 2000 and 2020, imports nearly doubled while exports tripled.

Based on Eurostat figures, the main import products from both China and Taiwan are machinery and electronics. CEE3 countries' exports are dominated by vehicles, machinery and electronics, while Poland also exports a significant amount of metal (including refined copper and copper alloys) to China.

FIGURE 7.2 CEE3 TRADE WITH CHINA AND TAIWAN, 2020, MILLION EUR



Source: own compilation based on Eurostat data

When comparing the CEE3's trade with China and Taiwan (see Figure 7.2), we can conclude that Poland, the biggest country in the region, is the largest recipient of both Chinese and Taiwanese imports, followed by the Czech Republic and Hungary. On the export side, it is again Poland - followed by the Czech Republic and Hungary - that exports the most to China. The Czech Republic exports the most to Taiwan, followed by Poland and Hungary. It should be stressed that the vast majority of the exports are generated by local subsidiaries of MNEs rather than CEE3-owned companies.

7.4.2 *Investments*

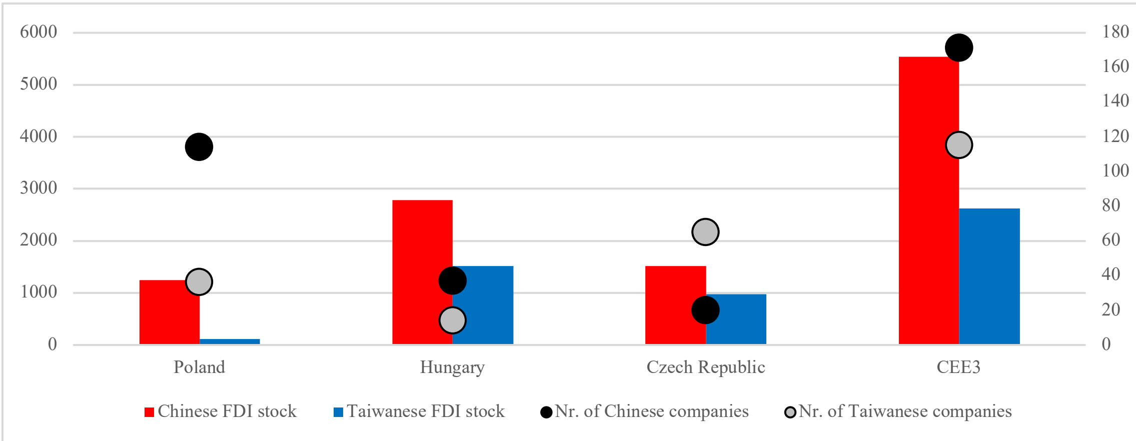
Although most investors in the CEE3 initially arrived from Western Europe, the first phase of inward East Asian FDI also came soon after the democratic transition of 1989. Japanese and Korean companies indicated their willingness to invest in the CEE3 even before the fall of the Iron Curtain in the late 1980s. But most of their investments took place during the first years of the democratic transition, in the 1990s. Taiwanese businesses made their first steps into CEE3 markets in this phase. The second impetus was given by the CEE3's accession process to the European Union (EU), which coincided with China's increasing global engagement, hallmarked by its "going global" policy. The CEE3's EU membership allowed East Asian investors to avoid trade barriers by using them as assembly bases. The third phase dates back to the global economic and financial crisis, when financially destressed companies all over Europe were often acquired by non-European companies. Regardless of this, the CEE3 have become increasingly open to investors from outside Europe.

As follows from the above, the CEE3 presence of Chinese and Taiwanese companies dates back to almost the same period. While smaller Taiwanese companies established their CEE3 presence in the 1990s, bigger companies, especially Taiwanese MNEs gained their foothold after the millennium. Smaller Chinese companies first became established during the 1990s, mainly by Chinese nationals living in Hungary, whose numbers had started to increase.[4]

China's economic impact on CEE countries is still relatively small despite a significant increase over the past two decades (Garlick, 2019; Szunomár, 2020b; Turcsanyi, 2020b; Matura, 2021). Similarly, although to a relatively modest degree when compared to China, Taiwanese companies' investments have also increased during the same period (Turcsanyi, 2020a). The transformation of the global economy and the restructuring of China's economy fueled its interest in the CEE3, which presented new challenges and opportunities for East Asian companies (Jakóbowski, 2018; Szunomár, 2018; 2020b, Karásková et al., 2020). For China, after 2012 and 2013, this process has been amplified by 16+1 cooperation and the launch of the BRI.

By 2020 (see Figure 7.3) CEE3 countries had accumulated more than $5.5 billion in Chinese FDI and more than $2.6 billion from Taiwan, with Hungary receiving the most, followed by the Czech Republic and Poland. Interestingly, the numbers of companies show a somewhat opposite trend: Poland has the highest number of Chinese companies, followed by Hungary and the Czech Republic, while the number of Taiwanese companies is the highest in the Czech Republic, followed by Poland and Hungary. That is, Hungary has the highest stock of FDI from both China and Taiwan, while it hosts only a third as many Chinese companies as Poland and a quarter as many Taiwanese companies as the Czech Republic. The explanation is relatively simple: Hungary hosts mainly big MNEs from both China and Taiwan, with each of these investments having a relatively high value, while Poland and the Czech Republic host mainly smaller companies.

FIGURE 7.3 CHINESE AND TAIWANESE FDI STOCK AND NUMBER OF COMPANIES IN CEE3, MILLION USD (LEFT AXIS) AND NUMBER (RIGHT AXIS), 2020



Source: own compilation based on OECD (FDI stock) and Orbis database (Nr. of companies)

Based on OECD statistics, Chinese and Taiwanese yearly FDI flows are relatively inconsistent in the whole CEE region, which probably means that FDI flows are connected to one or two big business deals per year. Disinvestments are less characteristic for the majority of the analyzed CEE3 countries; however, one big disinvestment did take place in the Czech Republic in 2018, probably as a result of financial problems in one particular Chinese company, CEFC China Energy, the major Chinese investor in the country.

Chinese investments are still dwarfed by, for example, German MNEs' investments in these countries. When calculating percentage shares, we found that Chinese FDI stock is around or below one per cent of total inward FDI stock in the CEE3 countries (see ANNEX 7.1). It is above one per cent only in the case of Hungary. Western European investors are still responsible for more than 70 per cent of total FDI stock in CEE, while companies from the United States or Japan and South Korea are typically more important players than those from China. Taiwanese FDI stock is less significant than Chinese but has also been increasing (see ANNEX 7.2). Taiwan's share of total FDI in the CEE3 is above 0.5 per cent only in the case of Hungary.

One notable phenomenon is that most East Asian companies tend to invest in the CEE3 via intermediary countries or companies instead of directly. Consequently, East Asian FDI in all CEE3 countries is considerably more substantial according to the data on the ultimate owners' country than on the immediate owners' one.

The main entry modes of and sectors targeted by Chinese and Taiwanese investment are similar in all CEE countries, although they are more diverse in the most popular target countries. Both Chinese and Taiwanese investors typically target secondary and tertiary sectors in the CEE3. Initially, their investment flowed mostly into manufacturing, but over time, services have also attracted investment. The main Chinese investors targeting the CEE3 countries are primarily interested in telecommunications, electronics, chemicals and transportation, while Taiwanese companies operate mainly in electronics manufacturing or assembly of machinery and transport equipment. Regarding their entry modes, Chinese companies have carried out greenfield projects, but mergers and acquisitions (M&A) became more frequent later on, especially after the global economic and financial crisis of 2008. Greenfield projects are even more typical for Taiwanese companies. It has to be added, though, that CEE countries – unlike countries in Western Europe – do not offer too many M&A opportunities since the number of successful, globally competitive companies is much lower.[5] Among investing Chinese companies, we can find both privately-owned and state-owned enterprises, while Taiwanese companies are all privately-owned.

7.5 Differences and similarities: What makes the CEE3 attractive for Chinese and Taiwanese companies?

Host-country determinants or pull factors are the characteristics that attract FDI. Pull factors can be grouped into macroeconomic and institutional factors. Macroeconomic pull factors usually include access to markets, low factor costs and new opportunities for asset-seeking companies. Institutional factors usually include international and regional investment and trade agreements, host government policies and the role of different institutions (Makino et al., 2002; Buckley et al., 2007; Schüler-Zhou et al., 2012). We can further specify institutional factors by dividing them into two levels: the supranational level and the national level (McCaleb & Szunomár, 2017). Among possible pull factors that make CEE3 a favorable investment destination for Chinese and Taiwanese investors, we can find several similarities and a few differences (see Table 7.1).

Among similarities, the labor market is to be considered first, since a skilled labor force is available in sectors (mainly manufacturing) in which Chinese as well as Taiwanese interest is growing, with labor costs being lower in the CEE3 than the EU average. Similarly, corporate taxes can also play a role in the decision of East Asian companies to invest in the region. Nevertheless, the differences in labor costs and corporate taxes within the broader CEE region do not really seem to influence Chinese or Taiwanese investors. After all, there is more investment from China or Taiwan in the CEE3 than in Romania or Bulgaria where factor costs are lower. This can be explained by the theory of agglomeration (the more FDI a country hosts already, the more it will be able to attract), as inward FDI in CEE countries is highest in the CEE3 (McCaleb & Szunomár, 2017).

Although the above-mentioned efficiency-seeking motives play a role, the main type of both Chinese and Taiwanese FDI in the CEE3 seems to be market-seeking investment: by entering these markets, companies have access to the whole EU market. Moreover, they might also be attracted by free trade agreements (FTAs) between the EU and third countries and the EU's neighboring country policies. Their CEE3 subsidiaries aim to sell products in the CEE3 host countries, the EU and Northern American or even global markets (Wiśniewski, 2012, p. 121). Based on the interviews, Chinese as well as Taiwanese companies wanted to operate in the CEE3 due to their already existing businesses in Western Europe and to strengthen their presence in the wider European market. There are cases of both Chinese and Taiwanese companies following their customers or global partners to the CEE region. In addition, there are cases of Taiwanese companies following their Chinese partners to the CEE region.

TABLE 7.1 MAJOR PULL FACTORS OF ANALYZED CHINESE AND TAIWANESE COMPANIES IN CEE3

Macroeconomic pull factors	Institutional pull factors	
	supranational	national
market access	international and regional investment and trade agreements, free trade agreements	host government policies (including strategic partnership agreements between the government and certain companies); political relations
low factor costs (resources, materials, labor)	advanced institutional setting; institutional stability (such as IPR protection)	tax incentives, special economic zones
qualification of labor force	European production and services standards (such as product safety standards)	'golden visa' programs (residence visa for a certain amount of investment)
various opportunities for asset-seeking companies: brands, know-how, knowledge, networks, distribution channels, access to global value chains, etc.	chance for participation at EU level public procurement processes	institutions such as banks, government-related investment promotion agencies (IPAs)
company-level relations		possibility for more acquisitions through privatization opportunities
the high level of technology		home country diaspora in the host country

grey colored factors refer only to Chinese companies, black colored factors characterize both

Source: own compilation based on the reviewed literature and company interviews

As for supranational institutional factors (see Table 7.1), the change in the CEE3 countries' institutional settings due to their economic integration into the EU has been an important driver of Chinese outward FDI in the region, especially in the manufacturing sector.

Another aspect of EU membership that has induced Chinese investment in the CEE3 is institutional stability, given unstable institutional, economic and political environments at home. These findings are in line with those of Clegg and Voss (2012) who argue that Chinese outward FDI in the EU shows 'an institutional arbitrage strategy' as 'Chinese firms invest in localities that offer clearer, more transparent and stable institutional environments. Such environments, like the EU, might lack the rapid economic growth recorded in China, but they offer greater planning and property rights security, as well as dedicated professional services that can support business development'.

National-level institutional factors include strategic agreements, tax incentives and privatization opportunities. Based on our observations as well as responses from interviewees, Chinese companies appreciate business agreements that are supported by the respective host country government. Thus, the high-level strategic agreements with foreign companies investing in Hungary offered by the Hungarian government, or the special economic zones created by the Polish state could also have spurred Chinese investment in the region. Moreover, personal political contacts between representatives of the respective host country government and Chinese companies also proved to be important when choosing a host country in the CEE3.

Based on interviews, we also found that in the case of Chinese MNEs' motives in the CEE3, a significant role is attributed to other less-quantifiable aspects, such as the size and response of the Chinese ethnic minority in the host country and the possibilities of acquiring visas and permanent residence permits. That is in line with Blonigen and Piger (2014) and Hijzen et al. (2008) who state that companies interested in acquiring foreign assets might be motivated by a common culture and language as well as trade costs. A clear example for that is the stock of Chinese investment in Hungary, which is the highest in the CEE3: Hungary has the largest Chinese diaspora population in the region, moreover, it is the only country that has introduced a special 'golden visa' program that enables foreign investors to acquire a residence visa in exchange for investing a certain amount of money.

In addition to the above-mentioned supranational and national-level institutional pull factors, political relations between China and respective CEE3 countries also seem to have influenced Chinese MNEs' investment decisions. Those countries that have acted in favor of China, supported Chinese global and regional initiatives and/or welcomed and fostered Chinese MNE's investments (see section 7.3 of this chapter) typically host – or have hosted during the period of rather friendly ties – more Chinese FDI stock than those countries that have a neutral or rather negative stance on China (see Graph 7.3 above).

While for Chinese companies political relations between the home and the host country are of utmost importance, Taiwanese companies are less concerned about the level of political cooperation. During our interviews almost all sources stressed that Taiwanese companies, especially the big ones, act in a highly pragmatic manner. This means that they do not really care about political relations but focus purely on business interests. In Hungary, for example, compared to the previous Socialist government, Fidesz has doubled subsidies to multinational companies and has been particularly keen to entice electronics and automotive manufacturers, where each job created received over 20,000 euro in public subsidies (Várhegyi, 2018). Fidesz, however, also strengthened relations with China further and as a result relations with Taiwan are considerably less developed than in other CEE3 countries. As confirmed by one of the Taiwanese companies' representatives based in Hungary, at first glance it may seem that Taiwanese MNEs are not receiving the same subsidies as the Chinese (i.e., the Hungarian government hasn't signed strategic cooperation agreements with them, the Hungarian Minister of Foreign Affairs and Trade did not attend the opening ceremonies of their companies), but in fact Taiwanese MNEs seem to be receiving the same or very similar incentives as their Chinese, German or US counterparts. Given the pragmatic strategy of Taiwanese MNEs, such incentives could indeed explain why Hungary is a relatively popular destination in Europe for Taiwanese companies, despite its political indifference - or even unfriendliness – towards Taiwan.

Of course, political relations do matter but only up to a certain point. Due to the relatively positive stance the Czech Republic has adopted towards Taiwan, the country is quite popular among Taiwanese people. Taiwanese media, for example, reports on events in the Czech Republic much more often than any other CEE country. And, this positive perception of the Czechs has influenced the location decisions of some Taiwanese companies, although this tendency is more typical of smaller companies. Big MNEs seem to follow different logic.

Although the Czech Republic hosts more Taiwanese companies than Hungary, when it comes to the stock of investment, Hungary is the most popular destination for Taiwanese companies in the CEE. And indeed: those few big Taiwanese MNEs with a presence in CEE seem to choose Hungary rather than Poland or the Czech Republic even if political relations are coldest there. One of our interviewees explained this by pointing out connections between Chinese and Taiwanese companies both globally and locally. That is, the majority of those big Taiwanese MNEs in the CEE3 - such as Foxconn, Giant, Sinbon, and Yageo - have a connection to China: either a production facility or a subsidy is located in the mainland, or they have some kind of cooperation with a Chinese company globally.

As a result, as one of the expert interviewees confirmed, these Taiwanese companies often follow the 'Chinese way', that is they behave in a similar way to their Chinese counterparts, make similar decisions when it comes to location choice, or even follow Chinese companies to a specific - in our case CEE3 - location. These companies are learning from their Chinese partners' experience, leveraging these contacts and taking advantage of the results their Chinese partners have already achieved there. One of the Czech interviewees emphasized that sometimes even Chinese money is involved in Taiwanese companies' investment in a certain CEE3 location.

7.6 Conclusion: Are economic interactions affecting diplomatic relations or vice versa?

Both Chinese and Taiwanese companies have targeted the CEE region: smaller companies arrived in the 1990s, while medium sized and bigger companies made their first investments after the millennium, with the CEE3 being among the most popular destinations within the CEE region.

When it comes to factors that attract companies to a certain region, we differentiated between three types of pull factors: macroeconomic, institutional, and political. Based on interviews, we showed that Chinese and Taiwanese companies are attracted mainly by macroeconomic factors to CEE3 countries. These factors are, among others, market access (to the whole EU), relatively low factor (mainly labor) costs, and the qualifications of the labor force as well as company-level relations. Nevertheless, institutional factors, such as free trade agreements, institutional stability, tax, and other incentives, and the activities of investment promotion agencies are also important for both Chinese and Taiwanese companies when locating in the CEE3. Political factors, such as the level of political relations between the home and the respective host country, political gestures, and confidence-building measures, seem to play an important role only for Chinese companies.

In CEE Chinese companies tend to invest more in politically friendly countries, such as Hungary or Serbia, while investing less in countries that make critical statements about China from time to time. Economic relations don't really have an impact on political ties, that is, more Chinese investment doesn't necessarily result in better political relations between China and respective CEE3 countries. Political (or diplomatic) relations seem to be much more influenced by international trends, mainly by EU-level processes and decisions and the US stance. Hungary seems to be an exception here, at least in the sense that it goes against EU trends and unlike the other countries does not see engagement with China as risky. Still, even in the Hungarian case we do not see evidence that the economic relationship is positively affecting the political relationship, since Hungarian-Chinese political relations have been consistently good over the past two decades, while China's economic presence there is still not significant compared to, for instance, that of Western Europe.

While in the case of Chinese companies political ties tend to affect economic relations, rather than vice versa, we couldn't really find evidence of political factors affecting the location decisions of Taiwanese companies in the CEE3. In fact, Taiwanese companies seem to make such decisions based on other criteria. Big Taiwanese multinational companies in particular act in a highly pragmatic manner in the CEE3: they do not really take account of political relations but focus purely on business interests. That is, if they receive more investment incentives in Hungary, they choose that over the Czech Republic, even if the latter is politically more friendly than the former.

Another important observation is that the majority of big Taiwanese multinational companies with a presence in the CEE3 have a connection with China: either a subsidy on the mainland or cooperation at the global level. These Taiwanese companies are leveraging these contacts and tend to locate where other Chinese companies are located. Similarly, since Taiwanese multinationals do not want to risk their already existing relations with Chinese multinationals. It seems they are "keeping a low profile" in CEE and do not emphasize their 'Taiwaneseness'. Consequently, we couldn't really find evidence of economic interactions affecting diplomatic relations between Taiwan and the CEE3.

Although it seems that neither political nor economic relations have an impact on one another in the Taiwan-CEE3 case, recent developments have shown that diplomatic gestures may affect economic interactions: Lithuania, the Czech Republic, Poland and Slovakia sent coronavirus vaccines to Taiwan amidst the COVID pandemic in 2021. "In return", Taipei sent a delegation to three of the countries that could lead to more investment or business deals. (McEnchroe, 2021).

Based on interview results, there may be a chance for Taiwanese investments to contribute to better political relations with the CEE3 countries in the future. Interviewees believed that if Taiwanese investment was introduced in sectors other than manufacturing and assembly - i.e., in high-technology, innovation, R&D - that could have a positive spill-over effect on political relations.

NOTES

[1] CEE is a broader term encompassing the countries in Central Europe, the Baltics, Eastern Europe, and Southeast Europe (the Balkans). When using the term CEE, we refer to Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia. In this paper we mainly focus on three CEE countries (CEE3), the Czech Republic, Hungary and Poland.

[2] Although the 16+1 cooperation was formally launched in 2012, in Warsaw, China had initiated its new approach towards CEE countries in 2011, when the first China-CEE meeting took place in Budapest.
[3] Recently, in the case of China-CEE relations, we can also observe infrastructure projects carried out by Chinese companies, financed from Chinese loans, however, in the analysed CEE3 countries major infrastructure projects carried out by Chinese companies are less typical. One striking example for such a project is the Budapest-Belgrade railway, but even in this case construction work haven't yet started.
[4] In 1988 a Hungarian-Chinese consular agreement included the lifting of visa requirements between the two countries. In 1990, 11,000 Chinese immigrants arrived in Hungary, while in 1992 the number of immigrants was 27 000. Overall, in the 90s Hungary had a Chinese minority of approximately 40 000, up from just a few hundred in the previous decade.
[5] During the first waves of privatization after the CEE3's democratization process in the 1990s, the most valuable companies had already been sold to Western companies. According to expert interviews, Chinese partners tend to complain that almost nothing has been left for them.

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ANNEX 7.1 Chinese FDI in CEE3 - stock and as a percentage of total FDI, OECD statistics, 2013–2020, million USD

		2013		**2014**		**2015**		**2016**		**2017**		**2018**		**2019**		**2020**	
		I	U	I	U	I	U	I	U	I	U	I	U	I	U	I	U
CZ	M USD	-9	136	-13	204	268	371	665	794	691	1 101	687	1 012	705	1 501	759	1512
	%	-	*0.1*	-	*0.2*	*0.2*	*0.3*	*0.5*	*0.6*	*0.4*	*0.6*	*0.4*	*0.6*	*0.4*	*0.9*	*0.4*	*0.8*
HU	M USD	93	..	86	1 268	99	1 952	176	1 934	212	1 989	62	2 564	-54	2786	461	..
	%	*0.04*	-	*0.04*	*0.6*	*0.05*	*1.0*	*0.1*	*0.8*	*0.1*	*0.8*	*0.03*	*1.4*	-	*1.2*	*0.1*	-
PL	M USD	110	641	179	502	218	928	177	707	230	848	318	935	205	1 223	286	1241
	%	*0.05*	*0.3*	*0.1*	*0.2*	*0.1*	*0.5*	*0.1*	*0.4*	*0.1*	*0.4*	*0.1*	*0.4*	*0.1*	*0.5*	*0.1*	*0.5*

M USD - in million USD; % - percentage share; I - immediate; U - ultimate; not available; - not applicable

Source: own compilation based on data from OECD

ANNEX 7.2 Taiwanese FDI in CEE3 - stock and as a percentage of total FDI, OECD statistics, 2013–2020, million USD

		2013		2014		2015		2016		2017		2018		2019		2020	
		I	U	I	U	I	U	I	U	I	U	I	U	I	U	I	U
CZ	M USD	89	385	38	456	5	421	214	555	279	834	75	798	20	918	80	980
	%	*0.07*	*0.3*	*0.03*	*0.4*	*0.004*	*0.4*	*0.2*	*0.4*	*0.2*	*0.5*	*0.05*	*0.5*	*0.01*	*0.5*	*0.04*	*0.5*
HU	M USD	73	..	92	295	58	208	96	300	48	979	-147	1196	60	1521	49	..
	%	*0.03*	-	*0.04*	*0.1*	*0.03*	*0.1*	*0.04*	*0.1*	*0.02*	*0.4*	-	*0.7*	*0.02*	*0.6*	*0.01*	-
PL	M USD	24	263	15	288	30	296	35	234	31	268	54	282	57	268	60	119
	%	*0.01*	*0,1*	*0.01*	*0.1*	*0.01*	*0.2*	*0.02*	*0.1*	*0.01*	*0.1*	*0.02*	*0.1*	*0.02*	*0.1*	*0.02*	*0.05*

M USD - in million USD; % - percentage share; I - immediate; U - ultimate; not available; - not applicable

Source: own compilation based on data from OECD