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Pull factors for Chinese FDI in East Central Europe

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Pull factors for Chinese FDI in East Central Europe¹

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Abstract

Chinese companies have increasingly targeted East Central European (ECE) countries in the past one and a half decades. This development is quite a new phenomenon but not an unexpected one. On one hand, the transformation of the global economy and the restructuring of China's economy are responsible for growing Chinese interest in the developed world, including the European Union. On the other hand, ECE countries have also become more open to Chinese business opportunities, especially after the global economic and financial crisis with the intention of decreasing their economic dependency on Western (European) markets. In ECE, China can benefit a lot from the EU's core and peripheral type of division. For China, the region represents dynamic, largely developed, less saturated markets, new frontiers for export expansion, new entry points to Europe and cheap but qualified labour. This adds up to less political expectations, less economic complaints, less protectionist barriers and less national security concerns in the ECE region compared to the Western European neighbours.

JEL: F21, F23, O53, P33

Keywords: FDI, internationalisation, Chinese MNEs

Introduction

Emerging-country multinational companies are increasingly integrating into the world economy through foreign direct investment (FDI), with Chinese outward FDI being the most spectacular case in terms of rapid growth, geographical diversity and takeovers of established Western brands. Chinese firms invest mainly in Asia, Latin

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America and Africa, where they seek markets and natural resources. However, developed economies have recently also become important targets, offering markets for Chinese products and assets Chinese firms lack.

Europe, for example, has emerged as one of the top destinations for Chinese investments. According to Rhodium Group's statistics, annual foreign direct investment flows in the 28 EU economies has grown from EUR 700 million in 2008 to EUR 30 billion in 2017, that represents the quarter of total Chinese FDI outflows last year. However, Chinese approach towards Europe is far from being unified since China follows different motives and uses different approaches when dealing with different countries or regions of Europe (Szunomár 2017): the access to successful brands, high-technology and know-how motivates China when entering Western European markets, investments in the green energy industry and sustainability brings Chinese companies to Nordic countries, while greenfield investments (manufacturing), acquisitions and recently also infrastructural projects pulls them to Central and Eastern Europe (CEE), including also the non-EU member Western Balkan countries.

In recent years Chinese companies have increasingly targeted CEE countries, with East Central Europe³ (ECE) - the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia - among the most popular destinations. Although compared with the Chinese economic presence in the developed world or even in Europe, China's economic impact on ECE countries is still small but it has accelerated significantly in the past decade. This development is quite a new phenomenon but not an unexpected one. On one hand, the transformation of the global economy and the restructuring of China's economy are responsible for growing Chinese interest in the developed world, including Europe. On the other hand, ECE countries have also become more open to Chinese business opportunities, especially after the global economic and financial crisis of 2008,

³ Throughout the research ECE is referred to as the five new EU member states which are members of the OECD as well, namely: the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia. The Central and Eastern European (CEE) region is a broader term – comprising Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania. Therefore, the paper does not focus on the whole CEE region, however in some cases the examples of the ECE countries will be supplemented with some of the CEE countries.

with the intention of decreasing their economic dependency on Western (European) markets.

In line with the above, the aim of this paper is to map out the main characteristics of Chinese investment flows, types of involvement, and to identify the host country determinants of Chinese FDI within the ECE region, with a focus on structural/macroeconomic, institutional and also political pull factors. According to our hypothesis, pull determinants of Chinese investments in ECE region differ from that of Western companies in terms of specific institutional and political factors that seem important for Chinese companies. This hypothesis echoes the call to combine macroeconomic and institutional factors for a better understanding of internationalization of companies (Dunning and Lundan 2008). The novelty of this research is that - besides macroeconomic and institutional factors - it incorporates political factors that may also have an important role to play in attracting emerging, especially Chinese companies to a certain region.

As the topic of Chinese FDI in European peripheries is new, started to draw academic attention only recently and the available literature is rather limited and based mostly on secondary sources, the author conducted several personal as well as online interviews with representatives of various Chinese companies in the ECE region⁴.

After the introductory section, we briefly summarize the existing theories and literature on the topic. The next chapter describes the changing patterns of Chinese outward FDI in the ECE region, while the following chapter contains the author's findings on characteristics and motivations behind Chinese FDI in the ECE countries. The final chapter presents the author's conclusions⁵.

⁴ At major Chinese investors in the region the interviews were conducted anonymously. The author conducted semi-structured interviews at 4 companies, i.e. she drawn up a questionnaire and structured the interview based on some basic questions concerning the background of investment, motivations before the investment and the significance of the same factors later, a few years after the investment took place. Several further questions arose based on the original questions and responses to them, therefore the structure of each interviews was unique. Where interviews were not applicable (3 companies), the author used other sources, such as business professionals, experts and academics from ECE countries.

⁵ The author will usually take into account foreign direct investment by mainland Chinese firms (where the ultimate parent company is Chinese),⁵ unless marked explicitly that due to data shortage or for other purposes they deviate from this definition. Since data in FDI recipient countries and Chinese data show

This paper is a part of a broader research that focuses on non-European emerging market multinationals' (EMNEs) strategies, operation and challenges in East Central Europe. In order to better understand the rise of EMNEs in ECE and to provide a good basis for decision makers to develop policy options for EMNEs' adaptation and/or integration in the ECE region, the research team covers the largest recipient countries of the region by mapping out motivations, operational practices and challenges of EMNEs. In the first phase of the research we analysed the transnationalization process of non-European EMNEs, with regard to their investments in ECE, including home country push factors and state support (on China, see Szunomár 2017). In the current phase we turned towards the main host country determinants - also known as pull factors - of EMNEs in ECE. The upcoming research phase will focus on challenges and opportunities through a case-study approach on the major emerging market actors present in the ECE region by conducting in-depth interviews on the firm-level.

Theory and literature review⁶

Majority of research papers and journal articles on motivations for FDI apply the eclectic or OLI paradigm of Dunning (1992, 1998), which states that firms will venture abroad when they possess firm-specific advantages – namely ownership and internalisation advantages – and when they can utilise location advantages to benefit from the attractions particular locations provide. Different types of investment incentives attract different types of FDI, which Dunning (1992) divided into four categories: (i) market-seeking (tariff-jumping or export-substituting FDI is a variant of market-seeking FDI; Kinoshita and Campos, 2003); (ii) resource-seeking; (iii) efficiency-seeking; (iv) and asset-seeking. The factors attracting market-seeking multinationals usually include market size, as reflected in GDP per capita and market growth (GDP growth). Investments aimed at seeking improved efficiency are determined by - for example - low labour costs, tax incentives (Resmini, 2005: 3). Finally, the companies

significant differences, the two data sets will usually be compared to point out the potential source of discrepancies in order to get a more complex and nuanced view of the stock and flow of investments. For Chinese global outflows statistics from Chinese Ministry of Commerce (MOFCOM) and UNCTAD will be considered and compared.

⁶ This section is based on McCaleb-Szunomár (2017)

interested in acquiring foreign assets might be motivated by a common culture and language, as well as trade costs (Blonigen and Piger, 2014; Hijzen et al., 2008).

It should be emphasised that some FDI decisions may be based on a complex mix of factors (Resmini, 2005, 3; Blonigen and Piger, 2014). Much of the extant research and theoretical discussion is based on FDI outflows from developed countries, for which market-seeking and efficiency-seeking FDI is most prominent (Buckley et al., 2007; Leitao and Faustino, 2010). Chinese outward FDI is characterised by natural resource-seeking, market-seeking (Buckley et al., 2007) and recently also by strategic asset-seeking (Di Minin et al., 2012; Zhang et al., 2012) motives.

The rapid growth of outward FDI from emerging and developing countries has been subject to numerous studies trying to account for special features of emerging-country multinationals' behaviour that is not captured by mainstream theories. For example, Mathews extended the OLI paradigm with the 'linking, leverage, learning framework' (LLL) that explains the rapid international expansion of companies from Asia Pacific (Mathews, 2006). Linking means partnerships or joint ventures that latecomers form with foreign companies in order to minimise the risks of internationalisation, as well as to acquire 'resources that are otherwise not available' (Mathews, 2006: 19). Latecomers when forming links with incumbents also analyse how the resources can be leveraged. They look for resources that can be easily imitated, transferred or substituted. Finally, repeated processes of linking and leveraging allow latecomers to learn and conduct international operations more effectively (Mathews, 2006: 20).

Nevertheless, traditional economic factors seem to be insufficient in explaining MNEs' FDI decisions, especially when it comes to emerging MNEs. In the past decade international economics and business research has acknowledged the importance of institutional factors in influencing the behaviour of multinationals (for example, Tihanyi et al., 2012). According to North, institutions are the 'rules of the game', 'the humanly devised constraints that shape human interactions' (North, 1990: 3). Institutions serve to reduce uncertainties related with transactions and minimise transaction costs (North, 1990). As a result, Dunning and Lundan extended the OLI model with institution-based location advantages, which explains that institutions developed at home and host

economies shape multinationals' geographical scope and organisational effectiveness (Dunning and Lundan, 2008).

The transformation of CEE countries from centrally planned to market economies has also generated significant research on FDI flows to these transition countries. However, most studies focus on the period before 2004, which is the year of accession of eight CEE countries into the EU (Carstensen and Toubal, 2004; Janicki and Wunnawa, 2004; Kawai, 2006). Investors, mainly from EU15 countries, were attracted by relatively low unit labour costs, market size, openness to trade and proximity (Bevan and Estrin, 2004; Clausing and Dorobantu, 2005; Janicki and Wunnawa, 2004). Diverse institutional factors influenced inward FDI but the prospects of their economic integration with the EU increased FDI inflows in almost all countries (Bevan and Estrin, 2004).

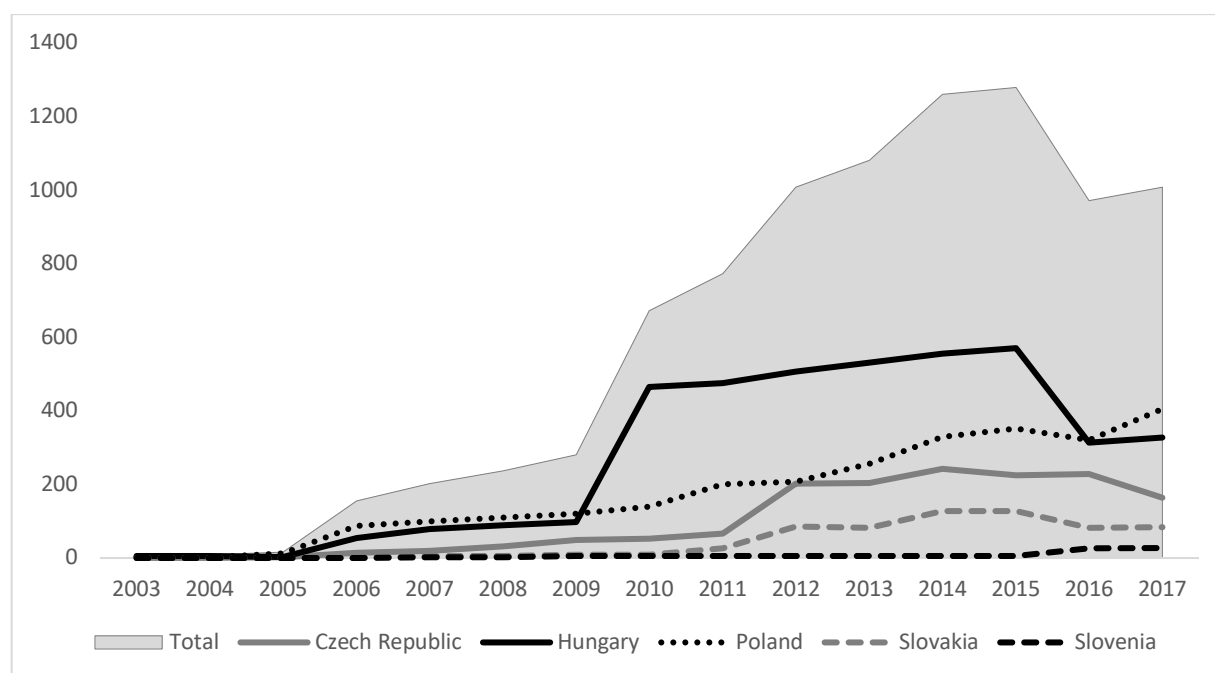
When analysing the impact of the institutional characteristics of CEE - including ECE - countries, such as forms of privatisation, capital market development, state of laws and country risk, the studies show varying results. According to Bevan and Estrin (2004: 777) institutional aspects were not a significant factor in the investment decisions of foreign firms. Carstensen and Toubal (2004) argue that they could explain uneven distribution of FDI across CEE countries. Fabry and Zeghni (2010) point out that in transition countries institutional weaknesses – such as poor infrastructure, lack of developed subcontractor network and an unfavourable business environment – may explain FDI agglomeration more than positive externalities that are effects of linkages, such as spillovers, clusters and networks. Campos and Kinoshita (2008), based on a study of 19 Latin American and 25 East European countries in the period 1989–2004, found that structural reforms, especially financial reform and privatisation, had a strong impact on FDI inflows.

Szunomár and McCaleb (2017) also found that in the case of Chinese MNEs' motives in CEE significant role is devoted to institutional factors and other less-quantifiable aspects: besides EU membership, market opportunities and qualified but cheaper labour important factors are the size and feedback of Chinese ethnic minority, investment incentives and subsidies, possibilities of acquiring visa and permanent residence permit, as well as privatization opportunities.

Changing patterns of Chinese outward FDI in the ECE region

The change of Central and Eastern European - including ECE - countries from centrally planned to market economy resulted in increasing inflows of foreign direct investment to these transition countries. During the transition, the region went through radical economic changes which had been largely induced by foreign capital. Foreign multinationals realised significant investment projects in this region and established their own production networks. Although the majority of investors arrived from Western Europe, the first phase of inward Asian FDI came also right after the transition: Japanese and Korean companies indicated their willingness of investing in the ECE region already before the fall of the iron curtain. Their investments took place during the first years of the democratic transition. The second phase came after the New Millennium, when the Chinese government initiated the go global policy, which was aimed at encouraging domestic companies to become globally competitive. Therefore Europe - including European peripheries - also became a target region for Chinese FDI (see Szunomár 2017).

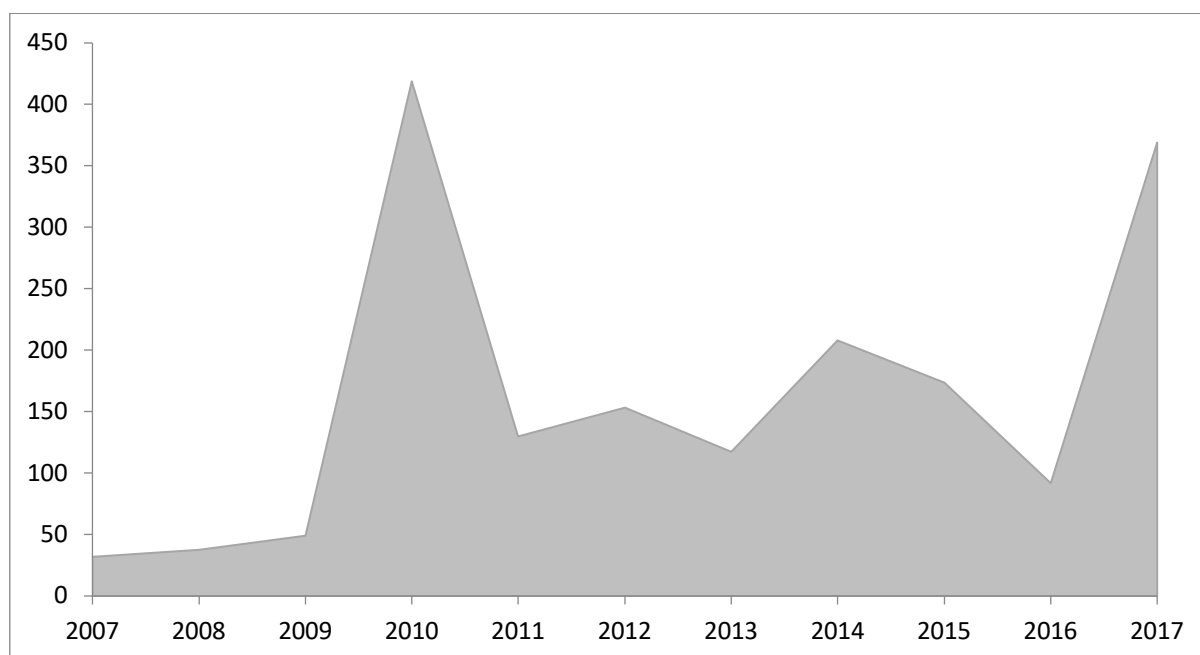
Figure 1. Chinese FDI stock in ECE countries, million USD, 2003-2017



Data source: MOFCOM / NBS, PRC

As Figure 1. shows, Chinese outward investment stock in the five ECE countries has steadily increased in the last one and a half decades, particularly after 2004 and 2008, the accession date to the EU and the economic and financial crisis, respectively. According to Chinese statistics, it means a real rapid increase from 9,6 million US dollars in 2004 to 673 million US dollars in 2010. By 2017, the amount of Chinese investments has further increased and reached 1009 million USD according to MOFCOM (Ministry of Commerce of the People's Republic of China) data. It is, however, also true that FDI flows are rather hectic (see Figure 2) and are connected to one or two big business deals per year.

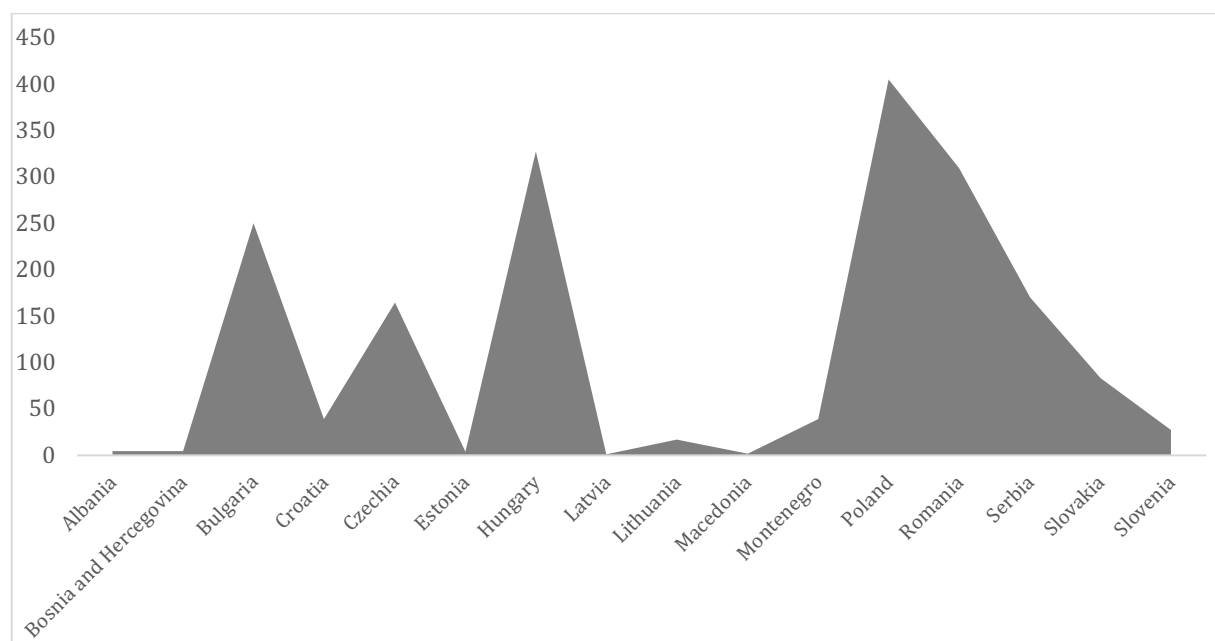
Figure 2. Chinese FDI flow to ECE countries, million USD, 2007-2017



Data source: MOFCOM / NBS, PRC

Although China considers the Central and Eastern European region as a bloc (this is one of the reasons for creating the 16+1 initiative, that is a joint platform for the 16 CEE countries and China), some countries seem to be more popular investment destinations than others: the selected five ECE countries, for example, host almost 55 per cent of total Chinese FDI stock in the 16 CEE countries (see Figure 3.). Among them, Hungary, Poland and Czechia have received the bulk of Chinese investment in recent years. In contrast, there are countries, such as the Baltic states or Albania and Macedonia, where the stock of Chinese FDI is still negligible.

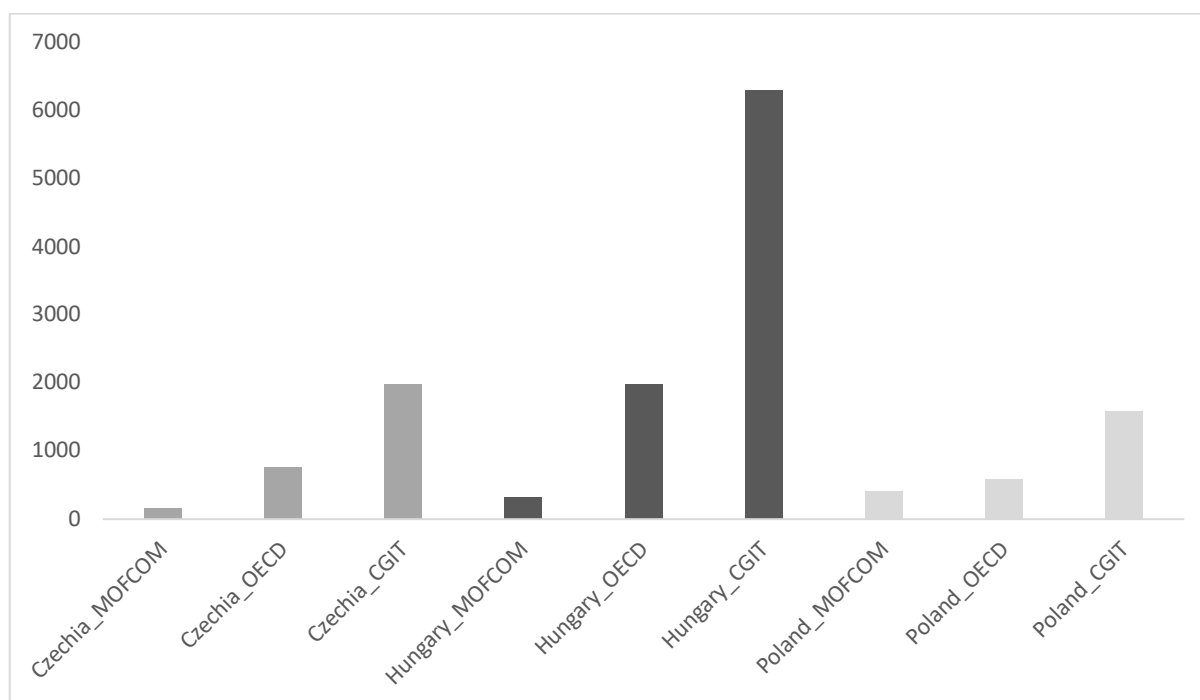
Figure 3. Chinese FDI stock in CEE countries, million USD, 2017



Data source: MOFCOM / NBS, PRC

At this point, it is important to note that Chinese MOFCOM' statistics are adequate to show the main trends of Chinese outward FDI stocks and flows, however, apart from this, it proved to be a less reliable data source as it doesn't show those Chinese investments that has flowed to a country through a foreign country, company or subsidiary. In order to identify the home country of the foreign investor that ultimately controls the investments in the host country, the new IMF guidelines recommend compiling inward investment positions according to the Ultimate Investing Country (UIC) principle. For example, if we compare Chinese MOFCOM database with two other databases - in our case, the China Global Investment Tracker (CGIT) and OECD - that tracks back data to the ultimate parent companies (see Figure 3.), we find major differences in the case of the main recipients of Chinese outward FDI in ECE (Czechia, Hungary and Poland). In most cases, the difference between the lowest (MOFCOM) and the highest (CGIT) dataset is more than tenfold. On one hand, this discrepancy justifies the assumption that Chinese companies are indeed using intermediary companies when investing in Europe, including ECE countries, while, on the other hand, it also confirms that Chinese FDI is much more significant in the ECE region - especially in the case of Czechia, Hungary and Poland - than previously thought.

Figure 4. Comparing MOFCOM, CGIT and OECD data on China's outward FDI stock in Czechia, Hungary and Poland, 2016/2017⁷, million USD



Data source: MOFCOM / NBS, PRC, CGIT, OECD

Based on the Ultimate Investing Country principle we can also calculate the percentage share of Chinese FDI stocks of total inward FDI stocks in ECE countries. As CGIT statistics often contains various infrastructure projects - such as for example the planned costs of the Budapest-Belgrade railway - that should be considered separately as those are rather credit agreements, we decided to use OECD data for our calculations. As expected, shares were definitely higher when calculating with ultimate data (OECD) than calculating with direct investment amounts (MOFCOM), however, China's share of total FDI in ECE is still far from being decisive: it is below 1 per cent for the Czech Republic and Poland (0,7 and 0,3, respectively) and below 3 per cent (2,4) for Hungary. It is even less - below 0,3 per cent - in the case of Slovakia and Slovenia. In these countries, (Western) European investors are still responsible for more than 70 per cent of total FDI stocks, while among non-European investors, companies from the United States, Japan and South Korea are more important players than China.

⁷ MOFCOM and CGIT data are from 2017, while OECD data shows 2016 stock of Chinese FDI.

Table 1. Major characteristics of Chinese investment in ECE region

	Hungary	Poland	Czechia	Slovakia	Slovenia
Main form of investment	Greenfield / brownfield, M&A, joint ventures	Greenfield and M&A	Greenfield and M&A	Greenfield and M&A	M&A and Greenfield
Main sectors	Chemical, IT / ICT, electronics, wholesale and retail, automotive, banking, hotels and catering, logistics, real estate	IT / ICT, electronics, heavy machinery, publishing and printing, real estate, municipal waste processing	Electronics, IT / ICT, transport equipment, automotive, shipping, engineering, food, media, plate-making	automotive industry, IT / ICT	Chemical, automotive, airport construction/ airplane production industry, electronics/ high technology, IT / ICT
Most important Chinese companies	Wanhua, Huawei, ZTE, Lenovo, Sevenstar Electronics, BYD Electronics, ZMJ, Comlink, Yanfeng, China-CEE Fund	Liu Gong Machinery, Huawei, ZTE, Haoneng Packaging, Shanxi Yuncheng Plate-making Group, Sino Frontier Properties Ltd., China Everbright International Ltd.	Shanxi Yuncheng, Changhong, SaarGummi, Noark, Huawei, ZTE, Shanghai Maling, COSCO, YAPP, CEFC, Buzuluk Komarov, China CNR	SaarGummi, ZVL Auto, Inalfa Roof Systems, Mesnac, Lenovo, Huawei	Zhejiang Jinke Culture Industry, Elaphe, Sino-Pipistrel Asia Pacific, TAM Durabus, Fotona, Arctur, Acies Bio, Chiho Tiande Group, China-CEE Fund, Huawei

Source: own compilation

As presented in *Table 1.*, Chinese investors typically target secondary and tertiary sectors of the selected five countries. Initially, Chinese investment has flowed mostly into manufacturing (assembly), but over time services attracted more and more investment as well. For example, in Hungary and Poland there are branches of Bank of China and Industrial and Commercial Bank of China as well as offices of some of the largest law offices in China, Yingke Law Firm (in Hungary in 2010, in Poland in 2012), Dacheng Law Offices (in Poland in 2011, in Hungary in 2012). Main Chinese investors targeting these five countries are interested primarily in telecommunication, electronics, chemical industry and transportation. Although the main form of investment used to be greenfield in the first years after Chinese companies discovered the ECE region, later on - especially after the global financial crisis of 2008 - mergers and acquisitions became more frequent. The main reason behind this shift is that Chinese companies' investments are increasingly motivated by seeking of brands, new technologies or market niches that they can fill in on European markets.

The selected five ECE countries account for a major share of the population (around 66 million) and economic output (more than 1000 billion USD, according to World Bank) of Central and Eastern Europe and all of them have strengthened their relations with China in recent years. Hungary still receives the majority of Chinese investment in the region, followed by Poland and Czechia, while Slovakia and Slovenia lag a little behind due to their small size and lack of efficient transport infrastructure. The main forms and sectors of Chinese investment are similar in all countries, although it is more diverse in the more popular target countries (Hungary and Poland), while there are certain sectors – for example, tourism – in which Chinese companies have preferred to target Slovenia.

Host-country determinants of Chinese OFDI in the ECE region

Host country determinants - or pull factors - are those characteristics of the host country markets that attract FDI towards them. Pull factors - just like push factors - can be grouped into institutional and structural factors. "While international and regional investment and trade agreements, as well as institutions such as banks or IPAs involved

in OFDI, are counted as institutional pull factors, structural pull factors include low factor costs, markets, and opportunities for asset-seeking companies" (Schüler-Zhou Y., Schüller M., Brod M. 2012: 163).

Based on the literature (mentioned in our theory and literature review section) as well as on interviews conducted with company representatives and experts, in the case of Chinese MNEs, the main structural/macroeconomic pull factors - i.e. host country determinants that can "pull" them to developed markets - are:

- market access,
- low factor costs (such as the relatively low cost of labour force),
- qualification of labour force,
- various opportunities for asset-seeking companies (such as brands, know-how, knowledge, networks, distribution channels, access to global value chains,...)
- company-level relations and
- the high level of technology.

The most important institutional pull factors are:

- international and regional investment and trade agreements, free trade agreements of the host country (or that of the EU),
- host government policies (including strategic partnership agreements between the government and certain companies),
- tax incentives, special economic zones
- 'golden visa' programs (residence visa for a certain amount of investment)
- institutions such as banks, government-related investment promotion agencies (IPAs),
- institutional stability (such as IPR protection, product safety standards),
- possibility for more acquisitions through privatization opportunities,
- chance for participation at public procurement processes,
- home country diaspora in the host country.

When searching for possible pull factors that could make ECE countries a favourable investment destination for Chinese investors, the labour market is to be considered as one of the most important factors: a skilled labour force is available in sectors for which Chinese interest is growing, while labour costs are lower here than the EU average.

However, there are differences within the broader Central and Eastern European region as well; unit labour costs are usually cheaper in Bulgaria and Romania than in the five ECE countries. Corporate taxes can also play a role in Chinese companies' decision to invest in the region. Nevertheless, these labour cost and tax differences within the broader Central and Eastern European region don't seem to really influence Chinese investors as there is more investment from China in ECE countries (especially in Czechia, Hungary and Poland) - where labour costs and taxes are relatively higher compared to Romania and Bulgaria - than in Romania or Bulgaria. An explanation for that can be the theory of agglomeration as generally OFDI in these countries is the highest in the region (McCaleb-Szunomár 2017).

Although the above-mentioned efficiency-seeking motives play a role, the main type of Chinese FDI in ECE countries is definitely market-seeking investment: by entering these markets Chinese companies have access not only to the whole EU market but might also be attracted by Free Trade Agreements between the EU and third countries such as Canada, and the EU neighbouring country policies etc. as they claim that their ECE subsidiaries are to sell products in the host ECE countries, EU, Northern American or even global markets (Wiśniewski, 2012: 121). For example, Nucotech (Poland), a security scanning equipment manufacturer, sells also to Turkey; Liugong Machinery subsidiary in Poland targets the EU, North American and CIS markets, while Huawei's logistic centre in Hungary supplies over 50 countries from Europe to North Africa.

Based on the interviews, Chinese companies wanted to have operations in ECE which can either be linked to their already existing businesses in Western Europe or can help strengthen their presence on the wider European market. In addition, there are also cases of Chinese companies following their customers to the ECE region countries, as in the case of Victory Technology (supplier to Philips, LG and TPV) or Dalian Talent Poland (supplier of candles to IKEA) (McCaleb-Szunomár 2017: 125). Moreover, Chinese firms' ECE subsidiaries allow them to participate in public procurements or to access EU funds. Example is Nucotech company that established its subsidiary in Poland in 2004 and initially targeted mainly Western European markets but focused later more on ECE (CEE) region which benefits from different EU funds. Recently Chinese firms also became interested in investing in food industry as a result of growing awareness about

food safety standards and certificates. These companies would be interested in exporting agricultural products with EU safety certificates to China where food safety causes problems. These factors, however, lead us already to the institutional host-country determinants of the ECE region.

Table 2. Major characteristics of analysed Chinese companies in ECE region⁸

Location	Year of investment	Company type	Industry	Entry mode	Employees direct (indirect)	Pull factors
Central Hungary	2004/2008	private	telecommunications	greenfield	330 (over2500)	macroeconomic, institutional (supranational, national)
Mazovian (north-eastern) region of Poland	2007	private	telecommunications	greenfield	425	macroeconomic, institutional (supranational, national)
Northern Hungary	2011	state-owned enterprise (SOE)	chemical	M&A	over 2500	macroeconomic, institutional (supranational)
Central Hungary	2010	private	printer manufacturing, imaging technology	M&A (acquisition of a company that had a Hungarian subsidiary)	372	macroeconomic, institutional (supranational)
Northern Hungary	2017	SOE	automotive	greenfield	n.a.	macroeconomic, institutional (supranational, national)
Mazovian (north-eastern) region of Poland	2010	SOE	industrial machinery	greenfield	77	macroeconomic, institutional (supranational, national)
Malopolska (southern) region of Poland	2009	private	other miscellaneous manufacturing	greenfield	n.a.	macroeconomic, institutional (supranational, national)

Source: own compilation based on data from Amadeus Database

We can further specify institutional factors by dividing them into two levels: supranational and national levels. Both levels are important elements in the location decisions of Chinese companies in the five ECE countries (McCaleb-Szunomár 2017). As for supranational institutional factors, we can state that the change of the institutional

⁸ This table contains the list of those companies where we either managed to conduct interviews on investment motivations or collected information on it from secondary sources.

setting of ECE countries due to their economic integration into the EU has been the most important driver of Chinese outward FDI in the region, especially in the manufacturing sector. EU membership of ECE countries allowed Chinese investors to avoid trade barriers and ECE countries could also serve as an assembly base for Chinese companies. Moreover, not only the membership but the prospect of their accession attracted new Chinese investors to the region: some companies made their first investments already in the early 2000's, before 2004. New investments arrived in the year of accession, too. The second 'wave' of Chinese FDI in CEE dates back to the global economic and financial crisis, when financially distressed companies all over Europe, incl. ECE, had often been acquired by Chinese companies.

Another aspect of EU membership that has induced Chinese investment in the five ECE countries is institutional stability (for example the protection of property rights). It was important for early investors from Japan or Korea but was also one of the drivers of Chinese FDI due to the unstable institutional, economic and political environment of their home country. It is in line with the findings of Clegg and Voss (2012, 101) who argue that Chinese OFDI 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 includes, for example, strategic agreements, tax incentives and privatisation opportunities. The significance of such factors began to increase only recently, as majority of ECE countries - with the exception of Hungary - neglected relations with China in the early 2000's and started to focus on the potentials of this relationship only since the aftermath of the global financial crisis of 2008. Based on our observations as well as responses from interviewees, Chinese companies indeed appreciate when a business agreement is supported by the host country government, therefore those high-level strategic agreements with foreign companies investing in Hungary offered by the Hungarian government could also spurred Chinese investment into the region. Moreover, personal (political) contacts - between the representatives of

host country governments and Chinese companies - also proved to be important when choosing a host country in ECE region.

We also found that in the case of Chinese MNEs' motives in ECE region, significant role is devoted to other less-quantifiable aspects, such as the size and feedback of Chinese ethnic minority in the host country, investment incentives and subsidies, possibilities of acquiring visa and permanent residence permit, as well as the quality of political relations and government's willingness to cooperate. A clear example for that is the stock of Chinese investment in Hungary that is the highest in the ECE region (as well as in the broader Central and Eastern European region).

Hungary is a country where the combination of traditional economic factors with institutional ones seems to play an important role in attracting Chinese investors. Hungary has had historically good political relations with China and earlier than other ECE countries. The Hungarian government has intensified bilateral relations in order to attract Chinese FDI already from 2003 onwards. Hungary is the only country in the region that introduced special incentive for foreign investors from outside the EU, a 'golden visa' program, which is a possibility to receive a residence visa when fulfilling the requirement of a certain level of investment in Hungary. Moreover, Hungary has the largest Chinese diaspora in the region which is an acknowledged attracting factor of Chinese FDI in the extant literature, that is a relational asset constituting a firm's ownership advantage (Buckley et al., 2007). An example for this is Hisense's explanation of the decision to invest in Hungary that besides traditional economic factors was motivated by "good diplomatic, economic, trade and educational relations with China; big Chinese population; Chinese trade and commercial networks, associations already formed" (CIEGA, 2007).

In addition to the above-mentioned pull factors, Hungary also seems to be committed towards China politically. Hungary was among the first to establish diplomatic relations with China (3rd October 1949), diplomatic gestures and confidence-building measures are taken from time to time since then. For example, Hungary was the first European country to sign a memorandum of understanding with China on promoting the Silk Road Economic Belt and Maritime Silk Road, during Chinese Foreign Minister Wang Yi's visit to Budapest in June, 2015. The Hungarian government was also very keen on the

Budapest-Belgrade railway project and when it signed the construction agreement in 2014, Prime Minister Orbán called it the most important moment in cooperation between the European Union and China (Keszthelyi 2014). In 2016, Hungary (and Greece) prevented the EU from backing a court ruling against China's expansive territorial claims in the South China Sea (Economist 2018), while Hungary's ambassador to the EU was alone not signing a report in 2018, criticising this Chinese One Belt, One Road (OBOR) initiative 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 Czech Republic began with a rather cold and critical relationship towards China but moved to a more specific relationship recently. Since then, we can find similar political factors in Czech-Chinese relations, too: since Czech 'political sympathy' is on the rise, can we experience increasing inflows of Chinese FDI in the Czech Republic. An example of this rising 'political sympathy' is that the Czech president, Milos Zeman - who was the only high-level European politician visiting Chinese celebrations of the end of the II. World War in 2015 - now declaredly wants his country to be China's "unsinkable aircraft-carrier" in Europe (Economist 2018). Mr. Zeman also has a Chinese advisor on China coming directly from a Chinese company with a controversial background. As a potential result of this politically improving relation, a Chinese company (CEFC) has invested sizeable amounts - 1,5 billion euros - in Czechia recently. It has to be added, however, that this company is now under investigation by Chinese authorities for "suspicion of violation of laws" (Lopatka-Aizhu 2018).

Contrary to Hungary and Czechia, Poland used to be more enthusiastic about the potentials of its economic relationship with China but takes a more critical stance - or even cautious approach - recently. For Poland, huge high trade deficit represents the biggest problem in its bilateral ties with China: Poland imports 12 times more from China than exports, while the deficit reaches 20 billion EUR according to Eurostat. Potential security risks of Chinese investments also made the Polish government to reconsider its rather positive approach towards China and use firm rhetoric about trade deficit as a serious political problem. This reconsideration was signalled by the cancellation of a tender in February 2018 for a land in Łódź where a transshipment hub

was to be built and a Polish-Chinese company was interested in this property. Another example was a government advisor's statement in connection with the Central Communication Port, a current flagship project of the Polish government on the rejection of the Chinese (party) financing in return for control over the investment (Szczudlik 2017).

Conclusions

Chinese investment in ECE countries constitutes a relatively small share in China's total FDI stock in Europe and is quite a new phenomenon. Nevertheless, Chinese FDI in the ECE region is on the rise and may increase further due to recent political developments between China and certain countries of the region, especially Hungary, Czechia and - to a lesser extent - Poland. The investigation of the motivations of Chinese OFDI in ECE shows that Chinese MNEs mostly search for markets. ECE countries' EU membership allows them to treat the region as a 'back door' to the affluent EU markets and Chinese investors are attracted by the relatively low labour costs, skilled workforce, and market potential. It is characteristic that their investment patterns in terms of country location resemble that of the world total FDI in the region.

As we have detailed in our analysis above, macroeconomic or structural factors do not fully explain the decisions behind Chinese FDI in the broader Central and Eastern European region, including ECE countries. For example, Hungary, Czechia and Poland, the three largest recipients of Chinese investment in CEE, are not the most attractive locations in terms of either cutting costs or the search for potential markets in the broader CEE region. This indicates that institutions may be crucial when searching for locations for Chinese companies.

To map out the real significance of institutional factors, we divided them into two levels: supranational and national. Supranational factors that pulls Chinese companies to the ECE region are connected to the EU membership (economic integration) of ECE countries, especially to the institutional stability provided by the EU. Country or national-level institutional factors that impact location choice within ECE countries

seem to be privatization opportunities, investment incentives such as tax incentives or special economic zones, 'golden visas' or resident permits in exchange for given amount of investment, as well as the size of Chinese ethnic population in the host country.

Although we couldn't find a clear evidence yet for casual links between the level of political relations and the amount of Chinese investment in ECE countries, good political relations between host country and China seems to play an important role in attracting investment from Chinese state-owned as well as private companies. Examples are (1) Hungary's good political relations and strong political commitment towards China, while hosting the biggest stock of Chinese FDI in the ECE as well as the broader CEE region; and (2) the positive political shift in Czech-Chinese relations that induced increasing amounts of Chinese FDI in the Czech Republic.

In order to find clear evidence to the existence of a political factor - or "friendship factor" - among pull factors for Chinese FDI in the ECE region, we will use a case-study approach in the next phase of the research: we will conduct firm-level in-depth interviews with the most important Chinese companies that have invested in the ECE region, try to make personal interviews with government officials and involve further experts from academia as well as business organizations.

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