12. Chinese multinationals in East Central Europe: structural, institutional or political considerations?[1]

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Europe has emerged as one of the top destinations for Chinese investments. According to Rhodium Group's statistics, annual foreign direct investment (FDI) flows in the 28 EU economies have grown from €700 million in 2008 to €30 billion in 2017, representing one-quarter of total Chinese FDI outflows in 2017. In 2018, partly as a result of capital controls in China, FDI outflows to the EU fell to €17.3 billion. However, China's approach toward Europe is far from being unified since China pursues different motives and uses different approaches when dealing with different countries or regions in Europe (see Szunomár 2017): having access to successful brands, high technology and know-how motivates China when entering Western European markets, investments in the green energy industry and sustainability bring Chinese companies to Nordic countries, while greenfield investments (manufacturing), acquisitions and recently also infrastructural projects attract them to Central and Eastern Europe (CEE), including the non-EU member Western Balkan countries.

In recent years, Chinese multinational enterprises (MNEs) have increasingly targeted CEE countries, with East Central Europe[2] (ECE) – that is, Czechia, Hungary, Poland, the Slovak Republic and Slovenia – being 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, it has accelerated significantly in the past decade. This development is quite a new phenomenon but not an unexpected one. On the 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 become more open to Chinese business opportunities, especially after the global economic and financial crisis of 2008, with the intention of decreasing their economic dependency on Western (European) markets.

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

To gather the corresponding data, we conducted face-to-face as well as online interviews with representatives of various Chinese companies in the ECE region.[3] This approach was chosen as the topic of Chinese FDI in European peripheries is new and has sparked academic interest only recently. Moreover, the available literature is rather limited and mostly based on secondary sources.

After the introductory section, we briefly summarize the existing theories and literature on the topic. The next section describes the changing patterns of Chinese outward FDI in the ECE

region, while the following section contains the author's findings on the characteristics and motivations behind Chinese FDI in the ECE countries. The final section presents the author's conclusions.

12.1 THEORY AND LITERATURE REVIEW

The majority of research papers and journal articles on motivations behind FDI apply the eclectic paradigm, also known as the OLI model (OLI stands for ownership, location and internalization) by Dunning (1992, 1998). This paradigm states that firms will venture abroad when they possess firm-specific advantages, namely ownership and internalization advantages, and when they can benefit from the advantages 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; see Campos and Kinoshita 2008); (ii) resource-seeking; (iii) efficiency-seeking; and (iv) asset-seeking. The factors attracting market-seeking MNEs usually include market size, as reflected in GDP per capita and market growth (GDP growth). MNEs often acquire particular types of resources – for example, natural resources or raw materials – that are not available in their home country or that are offered at a lower cost, such as unskilled labour. Investments aimed at seeking improved efficiency are, for example, determined by tax incentives (see Resmini 2005, p. 3). Finally, the companies interested in acquiring foreign assets might be motivated by a common culture and language as well as trade costs (see Blonigen and Piger 2014; Hijzen et al. 2008).

It should be emphasized that some FDI decisions may be based on a complex mix of factors (see Resmini 2005, p. 3; Blonigen and Piger 2014). Much of the existing research and theoretical discussion is based on FDI outflows from developed countries, for which market-

seeking and efficiency-seeking FDI is most prominent (see Buckley et al. 2007; Leitão and Faustino 2010). Chinese outward FDI is characterized by natural resource-seeking, market-seeking (see Buckley et al. 2007) and recently also by strategic asset-seeking motives (see Di Minin et al. 2012; Zhang et al. 2012). 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 MNEs' behaviour which is not captured by mainstream theories. For example, Mathews (2006) extended the OLI paradigm with the 'linking, leverage, learning framework' (LLL) that explains the rapid international expansion of companies from the Asia-Pacific region.

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 MNEs (see, for example, Tihanyi et al. 2012). According to North (1990, p. 3), institutions are the 'rules of the game', 'the humanly devised constraints that shape human interactions' as they serve to reduce uncertainties related to transactions and minimize transaction costs. As a result, Dunning and Lundan (2008) extended the OLI model with institution-based location advantages, explaining that institutions developed in home countries and that host economies shaped the MNEs' geographical scope and organizational effectiveness.

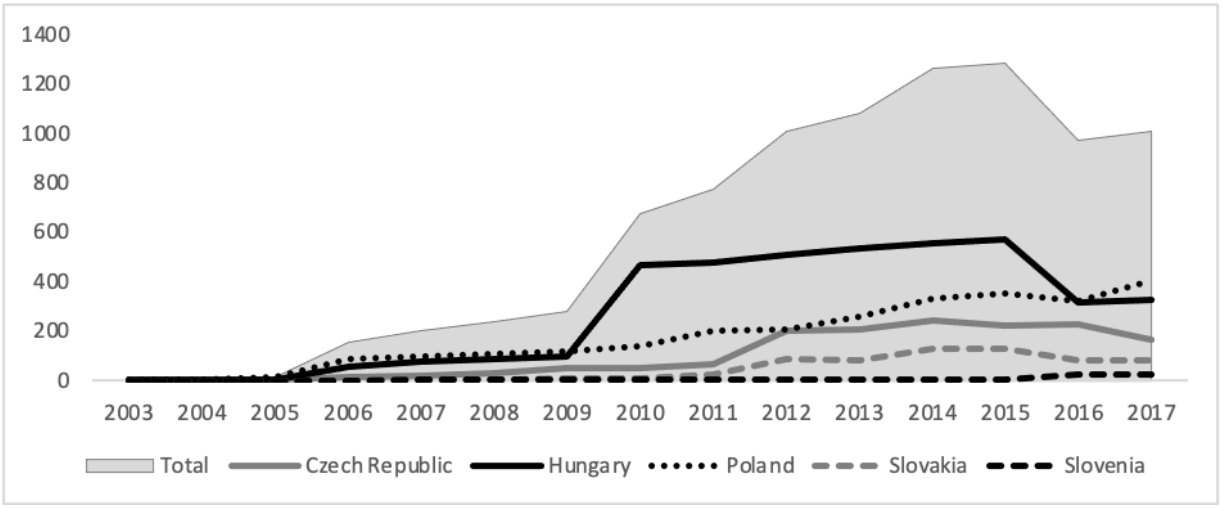
When analysing the impact of institutional characteristics – such as forms of privatization, capital market development, state of laws and country risk – on CEE (including ECE) countries, the studies show varying results. According to Bevan and Estrin (2004, p. 777), institutional aspects were not a significant factor in investment decisions of foreign firms.

Carstensen and Toubal (2004) argue that these aspects could explain uneven distribution of FDI across CEE countries. Fabry and Zeghni (2010) point out that in transition countries, FDI agglomeration may rather be explained by institutional weaknesses – such as poor infrastructure, the lack of developed subcontractor networks and an unfavourable business environment – than by positive externalities resulting from linkages, such as spillovers, clusters and networks. Based on a study of 19 Latin American and 25 Eastern European countries in the period 1989–2004, Campos and Kinoshita (2008) found that structural reforms, especially financial reforms and privatization, had a strong impact on FDI inflows.

12.2 CHANGING PATTERNS OF CHINESE OUTWARD FDI IN THE ECE REGION

The transition of CEE – including ECE – countries from centrally planned to market economies resulted in increasing inflows of FDI to these countries. During the transition, the region went through radical economic changes which had been largely induced by foreign capital. Foreign MNEs realized 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 also occurred right after the transition: Japanese and Korean companies indicated their willingness to invest 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).

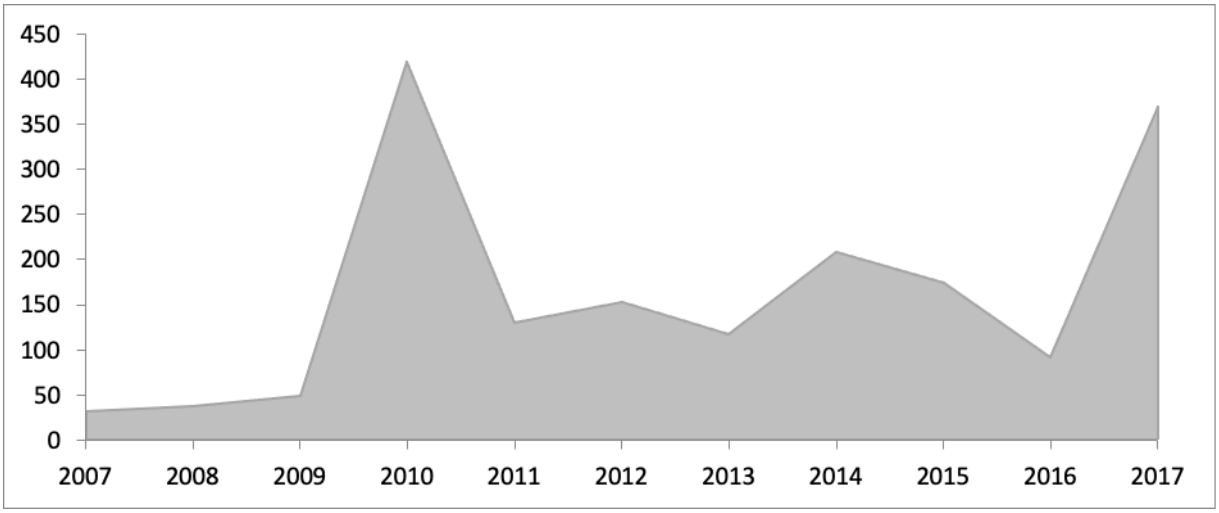
Figure 12.1: Chinese FDI stock in ECE countries, 2003–2017



Sources: MOFCOM / NBS, PRC.

As Figure 12.1 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, as well as after the countries' accession to the EU and the economic and financial crisis, respectively. According to Chinese statistics, there was a real rapid increase from US$9.6 million in 2004 to US$673 million in 2010. By 2017, the amount of Chinese investments had further increased and reached US$1009 million according to data published by the Ministry of Commerce of the People's Republic of China (MOFCOM). It is, however, also true that FDI flows are rather hectic (see Figure 12.2) and are connected to one or two big business deals per year.

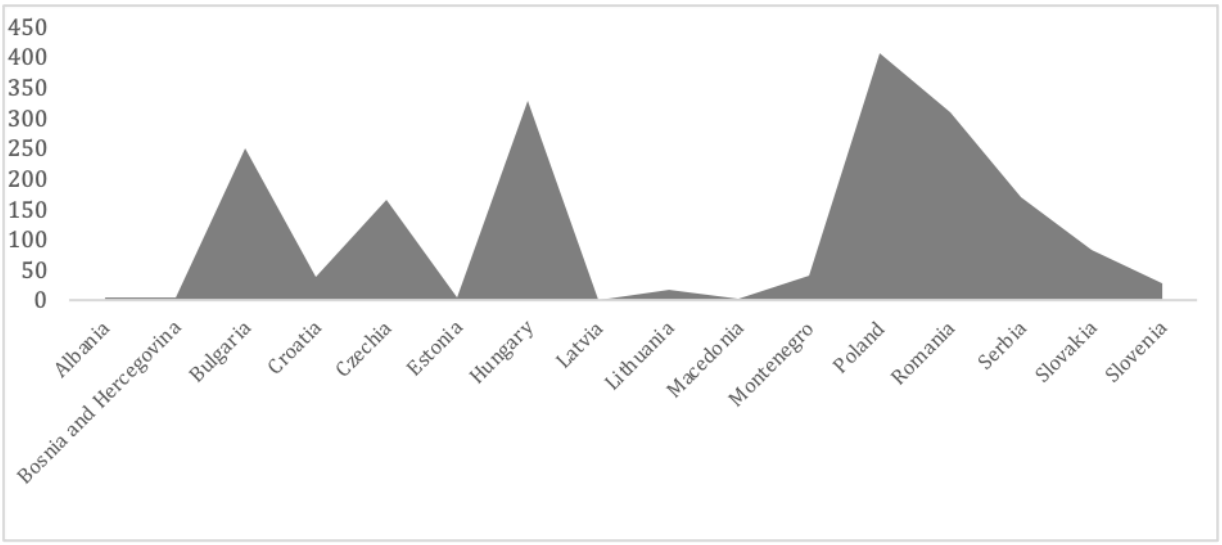
Figure 12.2: Chinese FDI flow to ECE countries, 2007–2017



Sources: MOFCOM / NBS, PRC.

Although China considers the CEE 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 12.3). Among them, Czechia, Hungary and Poland have received the bulk of Chinese investment in recent years. In contrast, there are countries, such as Albania, the Baltic states or Macedonia, where the stock of Chinese FDI is still negligible.

Figure 12.3: Chinese FDI stock in CEE countries, 2017

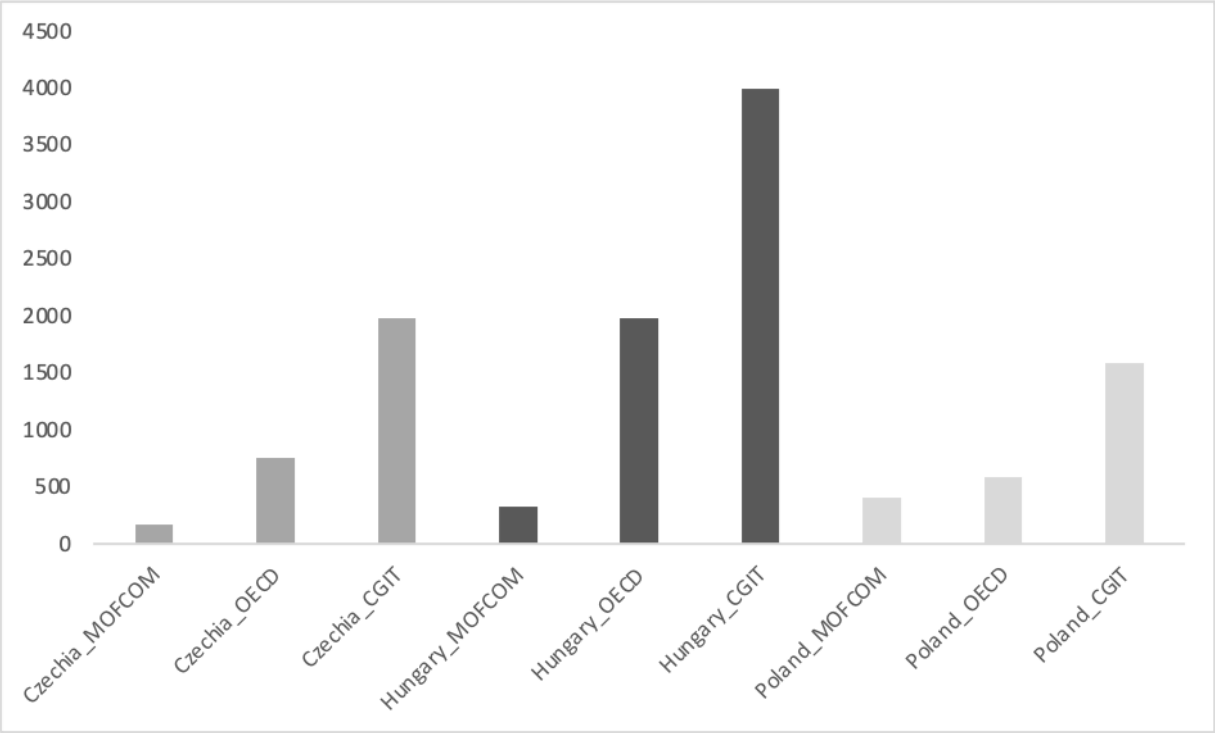


Sources: MOFCOM / NBS, PRC.

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, they proved to be a less reliable data source as they do not show the Chinese investments that have flowed to a country through a foreign country, company or subsidiary. To identify the home country of the foreign investor who ultimately controls the investments in the host country, the new International Monetary Fund (IMF) guidelines recommend compiling inward investment positions according to the Ultimate Investing Country (UIC) principle. For example, if we compare the Chinese MOFCOM database with two other databases (in our

case, the China Global Investment Tracker (CGIT) and the Organisation for Economic Co-operation and Development (OECD) databases) that track back data to the ultimate parent companies (see Figure 12.3), we find major differences regarding 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 the one hand, this discrepancy justifies the assumption that Chinese companies are indeed using intermediary companies when investing in Europe, including in ECE countries. On the other hand, it also confirms that Chinese FDI is much more significant in the ECE region – especially in Czechia, Hungary and Poland – than previously thought.

Figure 12.4: Comparing MOFCOM, CGIT and OECD data on China's outward FDI stock in Czechia, Hungary and Poland, 2016/2017[4]



Sources: MOFCOM / NBS, PRC, CGIT, OECD.

Based on the UIC principle, we can also calculate the percentage share of Chinese FDI stocks of total inward FDI stocks in ECE countries. We decided to use OECD data for our calculations as CGIT statistics often contain various infrastructure projects, such as the

planned costs for the Budapest-Belgrade railway, which should be considered separately as these projects are rather credit agreements. As expected, the percentage shares were definitely higher when calculated using ultimate data (OECD) instead of 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 Czechia 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 those from China.

Table 12.1: Major characteristics of Chinese investment in the 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 12.1, Chinese investors typically target secondary and tertiary sectors of the selected five ECE countries. Initially, Chinese investment flowed mostly into manufacturing (assembly), but over time, services have attracted more and more investment as well. For example, in Hungary and Poland there are branches of the Bank of China and the Industrial and Commercial Bank of China as well as offices of some of the largest law firms in China, such as Yingke Law Firm (established in Hungary in 2010 and in Poland in 2012) and Dacheng Law Offices (established in Poland in 2011 and in Hungary in 2012). The main Chinese investors targeting these five countries are primarily interested in telecommunication, electronics, the chemical industry and transportation. Although the main form of investment used to be greenfield in the first years after Chinese companies had discovered the ECE region, mergers and acquisitions (M&A) became more frequent later on – especially after the global financial crisis of 2008. The main reason behind this shift is that investments by Chinese companies are increasingly motivated by gaining access to brands and new technologies and by discovering market niches that they can fill on European markets.

The selected five ECE countries account for a major share of the population (around 66 million) and economic output (more than US$1000 billion according to the World Bank) of

CEE. Moreover, all of the five countries 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 of and sectors targeted by Chinese investment are similar in all countries, despite being more diverse in the more popular target countries (Hungary and Poland). With regard to certain sectors, such as tourism, Chinese companies have preferred to target Slovenia.

12.3 HOST COUNTRY DETERMINANTS OF CHINESE OUTWARD FDI IN THE ECE REGION

Host country determinants – or pull factors – are those characteristics of the host country markets that attract FDI. 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 investment promotion agencies (IPAs) involved in outward FDI, are counted as institutional pull factors, structural pull factors include low factor costs, markets, and opportunities for asset-seeking companies' (see Schüler-Zhou et al. 2012, p. 163).

Based on the literature mentioned in our theory and literature review section as well as on the interviews conducted with company representatives and experts, the main structural and macroeconomic pull factors for Chinese MNEs (that is host country determinants that '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 access to brands, know-how, networks, distribution channels and 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' programmes (residence visa in exchange for a certain amount of investment)
- institutions (such as banks and government-related IPAs),
- institutional stability (such as intellectual property rights (IPR) protection and product safety standards),
- possibilities for more acquisitions through privatization opportunities,
- opportunities to participate in public procurement processes, and
- 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 elements: a skilled labour force is available in sectors for which Chinese interest is growing, with labour costs being lower than the EU average. However, there are

differences within the broader CEE 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 the decision of Chinese companies to invest in the region. Nevertheless, the differences in labour costs and corporate taxes within the broader CEE region do not really seem to influence Chinese investors. After all, there is more investment from China in ECE countries (especially in Czechia, Hungary and Poland) than in Romania or Bulgaria where labour costs and taxes are lower. This can be explained by the theory of agglomeration as outward FDI in ECE countries is the highest in the region (see McCaleb and 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 to the whole EU market; moreover, they might also be attracted by Free Trade Agreements between the EU and third countries, such as Canada, and the EU neighbouring country policies as they claim that their ECE subsidiaries are to sell products in the ECE host countries, the EU and Northern American or even global markets (see Wiśniewski 2012, p. 121). For example, the subsidiary of Nuctech (a security scanning equipment manufacturer) in Poland also sells to Turkey; the subsidiary of Guangxi LiuGong Machinery in Poland targets the EU, North American and Commonwealth of Independent States (CIS) markets, while Huawei's logistic centre in Hungary supplies over 50 countries located in Europe and North Africa.

Based on the interview results (see Table 12.2), Chinese companies wanted to operate in ECE due to their already existing businesses in Western Europe and to strengthen their presence in the wider European market. In addition, there are also cases of Chinese companies following their customers to the ECE region, as in the case of Victory Technology (supplier to Philips,

LG and TPV) or Dalian Talent Poland (supplier of candles to IKEA) (see McCaleb and Szunomár 2017, p. 125). Moreover, through their ECE subsidiaries, Chinese firms can participate in public procurements and access EU funds. As a case in point, Nuctech established its subsidiary in Poland in 2004, initially targeting mainly Western European markets, before focusing more on the ECE (CEE) region which benefits from different EU funds. Recently, Chinese firms have also become interested in investing in the food industry as a result of the growing awareness about food safety standards and certificates. They are interested in exporting agricultural products which meet EU safety certificates to China where food safety causes problems. These factors lead us to the institutional host country determinants of the ECE region.

Table 12.2: Major characteristics of Chinese companies in the ECE region[5]

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 the Amadeus Database.

We can further specify institutional factors by dividing them into two levels: the supranational level and the national level. Both levels are important elements in the location decisions of Chinese companies investing in the five ECE countries (see McCaleb and Szunomár 2017). As for supranational institutional factors, we can state that the change in the ECE countries' institutional setting 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 serve as an assembly base for Chinese companies. Moreover, not only actual EU membership but also the prospects of EU membership attracted Chinese investors to the region: thus, some companies made their first investments already before 2004, that is in the early 2000s. 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 destressed companies all over Europe, including ECE, were often acquired by Chinese companies.

Another aspect of EU membership that has induced Chinese investment in the five ECE countries was institutional stability (including, for example, the protection of property rights). This was important for early investors from Japan and Korea, and was one of the drivers of FDI by Chinese firms, given the unstable institutional, economic and political environment in their home country. These findings are in line with those of Clegg and Voss (2012, p. 101) 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'.

Institutional factors at the national level include, for example, strategic agreements, tax incentives and privatization opportunities. The significance of such factors has begun to increase only recently as the majority of ECE countries – with the exception of Hungary – neglected relations with China in the early 2000s, starting 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 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 could have also 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 ECE region.

We also found that less quantifiable aspects play a significant role in the decision of Chinese MNEs' to invest in the ECE region. These aspects include the size and feedback of Chinese ethnic minorities in the host country, investment incentives and subsidies, possibilities of acquiring visas and permanent residence permits as well as the quality of political relations and the respective government's willingness to cooperate. These aspects are exemplified by the stock of Chinese investment in Hungary which is the highest in the ECE region (as well as in the broader CEE region).

Hungary is a country where the combination of traditional economic factors and institutional factors seems to play an important role in attracting Chinese investors. The country has historically had good political relations with China, established earlier than by other ECE countries. Already from 2003 onward, the Hungarian government has intensified bilateral relations to attract Chinese FDI. Moreover, Hungary is the only country in the region that has introduced special incentives for foreign investors from outside the EU, that is a 'golden visa' programme which enables investors to acquire a residence visa in exchange for investing a certain amount of money. What is more, Hungary has the largest Chinese diaspora in the region, which is an acknowledged attracting factor for Chinese FDI in the extant literature – in other words, a relational asset that constitutes an ownership advantage for Chinese firms when they invest in countries with a significant Chinese population (see Buckley et al. 2007). An example for this is Hisense's explanation of the decision to invest in Hungary which, 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' (see CIEGA 2007).

In addition to the above-mentioned pull factors, Hungary also seems to be politically committed to China. In fact, Hungary was among the first countries to establish diplomatic relations with China (3 October 1949); since then, diplomatic gestures have been made and confidence-building measures taken from time to time. For example, Hungary was the first European country to sign a memorandum of understanding with China on promoting the Silk Road Economic Belt and the Maritime Silk Road during the visit of China's Foreign Minister Wang Yi to Budapest in June 2015. The Hungarian government was also very keen on promoting the Budapest-Belgrade railway project. When signing the construction agreement in 2014, Prime Minister Viktor Orbán called it the most important moment for the cooperation between the EU and China (see 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 (see Economist 2018), while in 2018, Hungary's ambassador to the EU was alone in not signing a report criticizing 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 (see Sweet 2018).

Starting from a rather cold and critical stance, Czechia's relationship with China changed a few years ago. Since then, similar political factors – compared to the Hungarian case – have been observed in Czech-Chinese relations: after Czech 'political sympathy' has emerged, inflows of Chinese FDI to Czechia started to increase. As a case in point, the Czech President, Milos Zeman – who was the only high-level European politician visiting Chinese celebrations of the end of World War II in 2015 – now wants his country to be China's 'unsinkable aircraft-carrier' in Europe (see The Economist 2018). Zeman also has a Chinese adviser on China coming directly from a Chinese company with a controversial background. Moreover, as a potential result of the improving political relations, the Chinese company CEFC recently

invested sizeable amounts – €1.5 billion – in Czechia. It has to be added, however, that this company is now under investigation by Chinese authorities for 'suspicion of violation of laws' (see Lopatka and Aizhu 2018). Since then, Czech-Chinese relations have been cooling off again.

Contrary to Hungary and Czechia, Poland used to be more enthusiastic about the potentials of its economic relationship with China. Recently, however, the country has taken a more critical – or even cautious – stance. For Poland, high trade deficits represent the biggest problem with regard to the country's bilateral ties with China: Poland imports from China goods to a value of some 12 times that of Poland's exports to China, with the deficit reaching €20 billion according to Eurostat. Potential security risks of Chinese investments caused the Polish government to reconsider its rather positive approach toward China and to use firm rhetoric about trade deficits 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 transhipment hub was to be built and in which a Polish-Chinese company expressed interest. Another example was a government adviser's statement in connection with the Central Communication Port, a current flagship project of the Polish government, saying that Chinese (party) financing in return for control over the investment would be rejected (see Szczudlik 2017).

12.4 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 – albeit to a lesser extent – Poland. The analysis of the motivations behind Chinese outward FDI 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; moreover, 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's total FDI in the region.

As we have demonstrated in our analysis above, macroeconomic or structural factors do not fully explain the decisions behind Chinese FDI in the broader CEE 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 neither in terms of cutting costs nor when searching for potential markets in the broader CEE region. This indicates that institutions may be crucial for Chinese companies when deciding on investment locations.

To map out the real significance of institutional factors, we divided them into two levels: the supranational level and the national level. Supranational institutional factors that attract Chinese companies to the ECE region are linked 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 seem to be privatization opportunities, investment incentives, such as tax incentives, special economic zones, 'golden visas' or resident permits in exchange for a given amount of investment, as well as the size of the Chinese ethnic population in the host country.

Although we could not find clear evidence for causal links between the level of political relations and the amount of Chinese investment in ECE countries, good political relations between the respective host country and China seem 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 with and strong political commitment to China, while hosting the biggest stock of Chinese FDI in the ECE and the broader CEE region; and (2) the positive political shift in Czech-Chinese relations that induced increasing amounts of Chinese FDI in Czechia.

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[2] Throughout the literature, ECE is referred to as a term encompassing the five new EU Member States which are also members of the Organisation for Economic Co-operation and Development (OECD), namely: Czechia, Hungary, Poland, the Slovak Republic and Slovenia. The term Central and Eastern Europe (CEE) is broader – comprising Albania, Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, the Slovak Republic, Slovenia and the three Baltic states: Estonia, Latvia and Lithuania. Therefore, the chapter does not focus on the entire CEE region; however, in some cases, examples of the ECE countries will be supplemented with some of the CEE countries.

[3] Interviews with major Chinese investors in the region were conducted anonymously. The author conducted semi-structured interviews with four companies, i.e. she drew up a questionnaire and structured the interview based on questions concerning the reasons behind investments, motivations prior to investment decisions being made and their significance a few years after the investments had taken place. Several further questions arose based on the original questions and answers, which is why the structure of each interview was unique. In cases where interviews were not applicable (three companies in addition to the already mentioned four companies), the author relied on other sources, such as business professionals, experts and academics from ECE countries.

[4] MOFCOM and CGIT data are from 2017, while OECD data shows the 2016 stock of Chinese FDI.

[5] This table contains a list of those companies which we either managed to interview on investment motivations or for which we collected information from secondary sources.

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