Chapter 6
Chinese foreign direct investment in central and eastern Europe: an institutional perspective

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1. 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 America and Africa, where they seek markets and natural resources. However, the developed economies of Western Europe and the United States have recently also become important targets, offering markets for Chinese products and assets Chinese firms lack, such as advanced technologies, managerial knowledge and distribution networks.

In recent years Chinese companies have increasingly targeted central and eastern European countries, with the Visegrad countries (Czechia, Hungary, Poland and Slovakia), together with Romania and Bulgaria, among the most popular destinations.[1] Although compared with the Chinese economic presence globally or even in the developed world, China's economic impact on the central and eastern European countries is fairly small it has accelerated significantly in the past decade: trade volume is growing constantly, while we can observe rising inflows of Chinese investments in the region, which are expected to increase due to recent political developments: strengthening Chinese–Hungarian relations, Poland becoming China's strategic partner (at the end of 2011), the establishment of the China-Central and Eastern Europe Cooperation Secretariat in September 2012, the 16 + 1 initiative and the One Belt One Road. This process is quite a new phenomenon but not unsurprising: on one hand, the transformation of the global economy, as well as China's economic restructuring are responsible for growing Chinese interest in central and eastern Europe, while on the other hand, central and eastern Europe represents new challenges and new opportunities for China, too. As an additional impetus, the European 'sovereign debt crisis' has made central and eastern European governments more open to non-European, including Chinese business opportunities in order to recover from the period of recession.

The aim of this chapter is to map Chinese investment flows and types of involvement, and to analyse differences between countries, as well as to identify the determinants of Chinese FDI in the largest recipient countries within the region (Hungary, Poland,

1. China sees central and eastern Europe as a block of 16 countries. Among the 16 CEE countries which are involved in the so-called Chinese 16+1 initiative there are 11 EU countries (Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) and five EU candidate countries (Albania, Bosnia and Herzegovina, FYROM (Macedonia), Montenegro, and Serbia).

Czechia, Slovakia, Romania and Bulgaria), with a special focus on the role of host-country institutions, such as the impact of institutional change resulting from integration with the EU, Chinese diaspora, promotion policies, privatisation and so on. According to our hypothesis, Chinese investments in central and eastern European countries differ from that of Western companies in terms of specific institutional factors that seem important for Chinese companies: based on Chinese diaspora in the host country and the quality of political relations Hungary has attracted the largest Chinese FDI in central and eastern Europe, outperforming also Poland, the regional leader in attracting FDI. The decisive role seems to be played by the Hungarian Chinese diaspora and the country's long (since 2003), friendly relations with China. Poland only started nurturing relations with China around 2009. Czechia, the third largest recipient of Chinese FDI in central and eastern Europe, recorded an increase in Chinese FDI inflows only in 2012, which was caused by significant change in its diplomacy, from being very critical about human rights and the independence of Tibet to being very friendly and open to Chinese investment. This hypothesis is in response to the recent call to combine macroeconomic and institutional factors for a better understanding of internationalization of companies (Dunning and Lundan 2008).

As the topic of Chinese FDI in central and eastern European countries is a rather unploughed furrow, the authors conducted several personal and online interviews with representatives of various Chinese companies in central and eastern Europe (at major Chinese investors in the region the interviews were conducted anonymously). In order to place Chinese-central and eastern Europe investment relations within the framework of China's global investment strategy, the authors studied existing theories and literature on Chinese investments in general, as well as on Chinese FDI in the developed world.

After the introductory section, the chapter describes the changing patterns and motivations of Chinese outward FDI in the transition economies and contains the authors' findings on characteristics and motivations behind Chinese FDI in central and eastern European countries. The chapter provides a detailed description of the impact of both macroeconomic and institutional factors.

2. Chinese outward FDI in central and eastern European countries

Most research 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 low labour costs, tax incentives and so on

(Resmini 2005: 3). Finally the companies 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; Leitão 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).

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 multinationals' FDI decisions. 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 central and eastern European countries from centrally planned to market economies has resulted in 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 central and eastern European countries[2] into the EU (Carstensen and Toubal 2004; Janicki and Wunnawa 2004; Kawai 2006). Investors, mainly from EU15 countries, were attracted by relatively low unit labor costs, market size, openness to trade and proximity (Bevan and Estrin 2004; Clausing and Dorobantu 2005; Janicki and Wunnawa 2004; UNCTAD 2007). Diverse institutional factors influenced inward FDI: in the case of central and eastern European countries, the prospects of their economic integration with the EU increased FDI inflows, while in the central and eastern European countries that lagged behind in terms of their

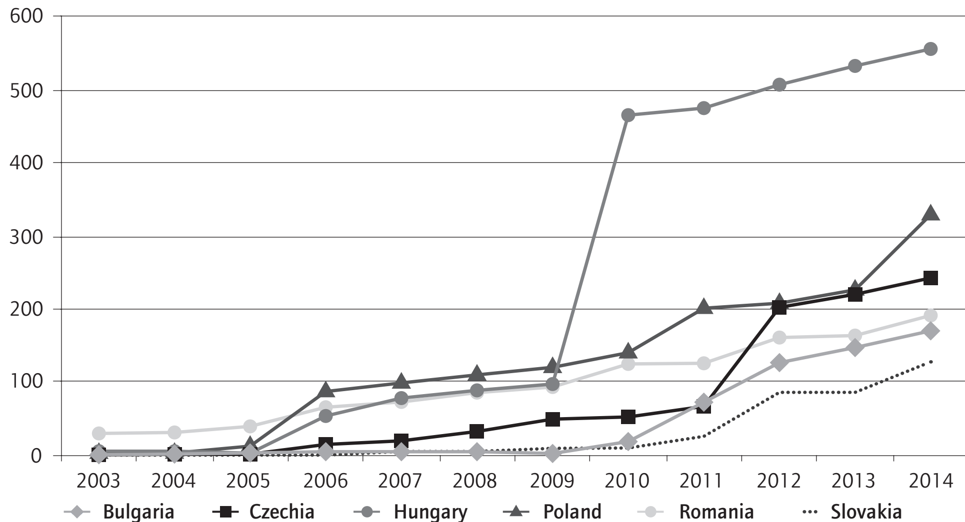
2. Estonia, Latvia, Lithuania, Poland, Czechia, Slovakia, Hungary and Slovenia.

implementation of transition policies – which postponed their EU accession – FDI inflows were discouraged (Bevan and Estrin 2004).

When analysing the impact of the institutional characteristics of central and eastern European 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 central and eastern European countries. Fabry and Zeghni (2010: 80) 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. Kinoshita and Campos (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.

Although the countries examined here – Hungary, Poland, Romania, Bulgaria, Slovakia and Czechia – differ in many respects, they have some common features as well. They have been in the process of economic catching up over recent decades; their development paths are defined mainly by the global and European powers, rules and trends; and FDI has a key role in restructuring their economies. Most of the abovementioned countries have started to get more interested in Chinese relations – more properly in attracting Chinese investments and boosting trade relations – since the new millennium, although the economic and financial crisis of 2008 drew their attention more than ever to the potential of Chinese economic relations.

Figure 1 **China's outward FDI stock in central and eastern Europe countries, 2003–2014, selected countries (million USD)**



Source: CEIC China Premium Database, based on Chinese statistics.

As Figure 1 shows, Chinese companies started to make their first investments in central and eastern Europe already in the early 2000s when the countries of the region became members of the European Union (2004 in the case of the Visegrad countries and 2007 in the case of Romania and Bulgaria), but the economic and financial crisis of 2008 resulted in a major upsurge in this regard. As a result, central and eastern European economies account for 8 per cent of total Chinese investment in Europe.

Although China considers the region as a bloc, some countries seem to be more popular investment destinations than others: the selected six countries are the main recipients of Chinese outward FDI among EU member states. Among them, Hungary and Poland have received the bulk of Chinese investment in recent years.

2.1 Macroeconomic factors

As mentioned earlier, Chinese capital in central and eastern Europe, as a share of total invested capital, is still very small – only in Hungary is Chinese FDI stock above 1 per cent of GDP[3] – but in the past few years this capital inflow has accelerated significantly and has also played an important role in the region's recovery from the crisis. In the case of the selected countries – with the exception of Hungary – attempts have been growing to attract Chinese companies in the past two to five years. In Hungary this process began after 2003.

Chinese investors typically target the secondary and tertiary sectors of the selected six countries. Initially, Chinese investment flowed mainly into manufacturing (assembly). The main Chinese investors targeting these six countries are interested primarily in telecommunications, electronics, chemicals, transportation and energy. Their investments in these six countries are motivated mainly by market-seeking, but they also seek brands and new technologies (for example, acquisition of the Polish Huta Stalowa Wola by Chinese Liu Gong Machinery or the Polish Novago by China Everbright International Ltd.) or market niches that they can fill in European markets. Over time, services have attracted more and more investment, 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 Chinese law offices, such as Yingke (in Hungary since 2010, in Poland since 2012) and Dacheng (in Poland since 2011, in Hungary since 2012).

As already mentioned, the main type of Chinese FDI in the selected countries is market-seeking investment: by entering central and eastern European markets Chinese companies gain access not only to the EU, but also to the CIS, Mediterranean countries and EFTA (Wisniewski 2012: 121), and in interviews Chinese investors also speak about the possibility of accessing North American markets. In addition, there are cases of Chinese companies following their customers to central and eastern European countries, as in the case of Victory Technology (supplier to Philips, LG and TPV) or Dalian Talent Poland (supplier of candles to IKEA).

3. When using Hungarian cumulative data (see the country-level analysis below).

When seeking for factors that may make the region a favourable investment destination for China, the quality and the cost of labour is to be considered first (company interviews). A skilled labour force is available in sectors in which Chinese interest is growing, while labour costs are lower in central and eastern Europe than the EU average. However, there are differences within the region – and the selected six countries – as well; unit labour costs are cheaper in Bulgaria and Romania than in Hungary, Czechia, Slovakia and Poland. These differences do not seem to really influence Chinese investors as there is more investment in Hungary, Poland and Czechia than in Romania and Bulgaria. One explanation for this may be agglomeration, as generally outward FDI in these countries is the highest in the region. With a corporate income tax rate of 10 per cent, Bulgaria has the most favourable tax regime in the region. Nevertheless, it has been the least popular investment destination for Chinese companies in the selected countries so far.

According to Eurostat's 'Demography Report 2010', Poland and Romania are the biggest markets in terms of the size of population (38.1 and 21.5 million), while the others are medium-sized (10.6 million in Czechia, 10 million in Hungary and 7.6 million people in Bulgaria), although from the Chinese point of view all of them are considered to be rather small. Czechia, Poland and Hungary are relatively affluent markets as well: based on the IMF WEO database, GDP per capita is highest in Czechia (17,569 USD in 2015) and Slovakia (15,979 USD in 2015), somewhat lower in Poland (12,492 USD in 2015) and Hungary (12,239 USD in 2015), but considerably lower in Romania (8,955 USD in 2015) and especially Bulgaria (6,842 USD in 2015).

The macroeconomic factors do not fully explain the decisions behind Chinese FDI in central and eastern Europe. Hungary, the largest recipient of Chinese investment, is not the most attractive location in terms of either cutting costs or the search for potential markets. This indicates that institutions may be crucial when choosing location for Chinese companies.

2.2 Institutional factors

Institutional factors can be divided into two levels, supranational and national, both of which are important elements in the location decisions of Chinese companies in central and eastern Europe. As for supranational institutional factors, we can state that the change of the institutional setting of central and eastern European countries due to their economic integration into the EU (in 2004 and 2007) has been the most important driver of Chinese outward FDI in the region, especially in the manufacturing sector. The Chinese statistics on OFDI for the period 2003–2011 show that all major recipients of Chinese investments from the old EU (Germany, France, Italy and also the United Kingdom) recorded significant increases in inflows in the years 2004–2005 (MOFCOM 2012: 32–33). It must be noted, however, that the Chinese government's 'Go Global' policy gained momentum in 2004, with growth of Chinese FDI all over the world (MOFCOM 2012: 6). The difference between Chinese FDI in the old EU and in the new member states is that in the former it mostly involved mergers and acquisitions (Hanemann and Rosen 2012: 44). Chinese FDI in the new member states in 2005–2007

was motivated mainly by the opportunity to access EU15 markets; central and eastern European markets were of secondary importance. Central and eastern European countries' EU membership allowed Chinese investors to avoid trade barriers and the countries served as an assembly base due to their relatively low labour costs.

Chinese investment in Central and eastern European countries in 2004–2006 were dominated by firms from the electronics sector, especially LCD TVs producers, as their exports to the EU were restricted by quotas. Although the recent EU anti-subsidy investigation on solar panels from China resulted in a temporary delay in imposing anti-subsidy tariffs, it may encourage Chinese solar panel manufacturers to invest in central and eastern European countries. There are already cases of company takeovers in the renewable energy sector, such as Orient Solar in Hungary, and according to the media some companies from the solar sector are considering investing in Poland. The motive of overcoming trade barriers is similar to that of Japanese investments in central and eastern European countries in the second half of the 1990s. Japanese multinationals established assembly plants there, but sold their products mainly in the affluent Western European markets (Woon 2003).

Another aspect of EU membership that is inducing Chinese investment in central and eastern European countries is institutional stability (for example, protection of property rights), as one of the drivers of Chinese outward FDI is the unstable institutional, economic and political environment of their home country (for example, Morck *et al.* 2007). This is in line with the findings of Clegg and Voss (2011: 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.' (Witt and Lewin 2007; Wu 2011)

In their investment decisions in central and eastern European countries Chinese firms might also be attracted by free trade agreements between the EU and third countries, such as Canada and the USA (still under negotiation), as well as EU policies towards neighbouring countries, as they claim that their central and eastern European subsidiaries are to sell products in the host, EU, Northern American or even global markets. This driver might also explain some Chinese investment in Bulgaria and Romania before their EU accession, such as SVA Group in Bulgaria. However this type of institutional factor requires further research.

Moreover, Chinese firms' central and eastern European subsidiaries enable them to participate in public procurement. In the case of government procurement, however, one of the conditions is 'Made in the EU' and EU-located subsidiaries make it possible to meet this requirement.

Recently, Chinese firms interested in investing in central and eastern European countries have become more inquisitive about food safety standards and certificates.

They would be interested in exporting agricultural products with EU safety certificates back to China where food safety has been a problem.

Regarding national-level institutional factors – such as strategic agreements and privatisation opportunities – their significance began to increase only recently. Before their integration in the EU central and eastern European countries focused mainly on fulfilling the EU entry criteria and generally neglected relations with countries from other regions, except for Hungary. Only since the aftermath of the global financial crisis of 2008 have we observed increased interest on the part of central and eastern European governments in attracting Chinese investors. In the case of Poland only recently have Chinese firms also been attracted by the privatisation of state enterprises, which provide access to technology (patents), brands, distribution networks and manufacturing capacity for European markets.

To sum up, national-level institutional factors that impact location choice within CEE countries seem to be the size and feedback of the Chinese ethnic minority, investment incentives and subsidies such as special economic zones, possibilities of acquiring visas and permanent residence permits (in exchange for investment), privatisation opportunities, the quality of political relations and the government's willingness to cooperate. A clear example of this is Hungary's good relations and very high level of Chinese FDI compared with other central and eastern European countries, while it is said that Liu Gong's acquisition of HSW in Poland might have been delayed because of China Overseas Engineering Group (COVEC)'s problems with building part of the Polish highway.

2.3 Country-level analysis

As already mentioned, the selected six countries account for the majority of the population and economic output of central and eastern Europe and all of them have strengthened their relations with China in recent years. Now they have several Chinese companies investing in various sectors with a growing number of mergers and acquisitions in recent years (see Table 1). Hungary still receives the majority of Chinese investment in the region, followed by Poland and Czechia. Romania and Bulgaria have been pushing forward in recent years, attracting increasing amounts of Chinese FDI, while Slovakia lags a little behind due to its 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, agriculture and food – in which Chinese companies have preferred to target Bulgaria and Romania.

Table 1 **China's outward FDI stock in central and eastern European countries: main forms, sectors and companies**

	Hungary	Poland	Czechia	Slovakia	Bulgaria	Romania
FDI stock, 2013, USD	533 million	226 million	220 million	90 million	147 million	164 million
Main form of investment	Greenfield / brownfield, M&A, joint ventures	Greenfield, (M&A)	Greenfield, (M&A)	Greenfield	Greenfield	Greenfield
Main sectors	Chemical, IT / ICT, electronics, wholesale and retail, 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, food, media, aviation	automotive industry, IT / ICT	IT / ICT, television, agriculture, food, machinery	ICT / IT, tobacco, agriculture, food, machinery, transportation
Most important Chinese companies	Wanhua, Huawei, ZTE, Lenovo, Sevenstar Electronics, BYD Electronics, Comlink	Liu Gong Machinery, Huawei, ZTE, Haoneng Packaging, Shanxi Yuncheng Plate-making Group, Sino Frontier Properties Ltd., China Everbright International Ltd.	Shanxi Yuncheng, Changhong, Noark, Huawei, ZTE, Shanghai Maling	SaarGummi, ZVL Auto, Inalfa Roof Systems, Mesnac, Lenovo, Huawei	Huawei, ZTE, Shanghai Video and Audio Electronics, Great Wall Motors, Tianjin State Farms, Insigma Tech.	Huawei, ZTE, Shantuo Agricultural Machinery Equipment, China Tobacco, China Shipping, COSCO, Shanxi Yuncheng,

Source: Authors' investigation. FDI stock data based on Chinese statistics (CEIC database).

Hungary

Chinese investment in Hungary started to increase significantly after the country joined the EU in 2004, which points to the supra-national institutional factor of EU membership in attracting Chinese companies. According to Chinese statistics, there was a rapid increase from USD 0.65 million in 2005 to USD 370.1 million in 2010. In 2010, Hungary took 89 per cent of total Chinese capital flows into the region (Chen 2012). By 2012, the amount of Chinese investments had further increased, reaching USD 507 million according to MOFCOM data, by far the highest in the region. The amount is far greater when taking into account cumulative Hungarian data, because a significant portion of Chinese investment is received via intermediary countries or companies and therefore appears elsewhere in Chinese statistics. According to Hungarian reports, Chinese investment in Hungary by 2015 was about USD 3–3.5 billion or more, which represents around 2–2.5 per cent of Hungary's total FDI stock. More than USD 1.5 billion of that is the investment of the Chinese chemical company Wanhua, which acquired a 96 per cent stake in the Hungarian chemical company BorsodChem through its Dutch subsidiary in 2010 and 2011. This subsidiary also subsequently invested in the development of BorsodChem. It is the largest Chinese investment in central and eastern Europe so far.

In Hungary, most significant Chinese multinationals operate in the manufacturing sector and have started to increase their investments in Hungary in the past few years. Chinese multinationals' investments in Hungary are usually not greenfield: Chinese multinationals have bought the plants of other companies or replaced former partners of EMS providers. Although Chinese multinationals represent a relatively small share of total FDI stock in Hungary, they have saved and/or created jobs and contributed to economic growth with their investments and exports during the global economic and financial crisis. Furthermore, many of them (for example, Lenovo, ZTE, Huawei, Bank of China) have turned their Hungarian businesses into the European regional hub of their activities (Szunomár *et al.* 2014).

Hungary's importance as a regional distribution centre can be observed in the field of trade, too. Some big retail and wholesale, as well as business matching centres in Budapest – for example, Asia Center, China Brand Trade Center, Budapest Fashion Center, Budapest China Mart[4] – support the distribution of different Chinese (or other Asian) products[5] in central and eastern Europe and also supply Hungarian customers. Retail shops run by the Chinese community can be found not only in these centres, but also throughout Budapest and other Hungarian cities and towns. Besides retail, Chinese immigrants often choose to operate restaurants in Hungary.

In addition to manufacturing, the investment of Chinese companies in Hungary covers industries such as chemicals, telecommunications, trade, wholesale or retail, banking, hotels and catering, logistics, real estate and consultancy. According to the data of the Hungarian Investment and Trade Agency (HITA) more than 5,000 Chinese companies operate in Hungary, including several multinationals, but most are small businesses operating in the service or retail sector: restaurants, perfumeries and so-called 'Chinese shops', selling everything from shoes and clothes to plastic toys. According to the Hungarian Central Statistical Office, the number of Chinese-controlled foreign affiliates increased steadily between 2008 and 2010 and then decreased slightly in 2011.

In addition to Wanhua, the major investors are Huawei, ZTE Corporation, Lenovo, Sevenstar Electronics Co., BYD Electronics and Comlink. Regarding entry mode, there are examples of quasi-greenfield[6] investments (Huawei, ZTE, Lenovo), as well as mergers and acquisitions (Wanhua) and joint ventures (Orient Solar, BBCA). Another significant investment is the China Brand Trade Center (an investment by the Chinese company Genertec), which is a market platform for branded and competitive Chinese products and their suppliers. Typically, while Hungary would prefer greenfield investments (as they create jobs), Chinese investors tend to choose the forms of mergers and acquisitions and joint ventures when investing in Hungary.

The national-level institutional factors are the most prominent in case of Hungary. In Hungary the combination of traditional economic factors with institutional ones seems

4. Asia Center and China Brand Trade Center are owned by Strabag SE. Budapest Fashion Center and Budapest China Mart are owned by Chinese investors.
5. For example, entertainment electronics, household electronics, IT products, bags, gifts, crafts, accessories, jewellery, shoes, footwear, textile, home textile and garments.
6. The parent companies Huawei, ZTE or Lenovo have not built new operational facilities (as they chose the form of contract manufacturing) but created new long-term jobs by hiring new employees.

to play an important role in attracting Chinese investors. Hungary has had historically good political relations and earlier than other central and eastern European countries, from 2003, intensified bilateral relations in order to attract Chinese FDI. Hungary is the only country in the region that introduced special incentives for foreign investors from outside the EU, which is a possibility to receive a residence visa when fulfilling the requirement of a certain level of investment in Hungary.[7] Furthermore, Hungary has the largest Chinese population (diaspora) in the region, which is an acknowledged attracting factor of Chinese FDI. Based on the extant literature the diaspora is a relational asset in terms of ownership advantage (for example, Buckley *et al.* 2007). An example is Hisense's explanation of the decision to invest in Hungary as motivated, besides traditional economic factors, by 'good diplomatic, economic, trade and educational relations with China; big Chinese population; Chinese trade and commercial networks, associations already formed' (CIEGA 2007).

Poland

Although Poland is the leading recipient of FDI in central and eastern Europe it has attracted little Chinese FDI. This may be partially explained by the rather cool political relations between the two countries since the early 1990s, when Polish politicians often criticised Beijing for violating human rights and supported the case of Tibet (Palonka and Szczypa 2009). Only from around 2009 did the Polish government start to make efforts aimed at improving relations between Warsaw and Beijing, referred to by some as 'making up for lost time' (Heiduk and McCaleb 2014). Before Poland's entry into the EU Chinese investments were almost insignificant; in 2000 they amounted to USD 10 million and by 2003 had increased only slightly to USD 17.8 million (National Bank of Poland website). According to Polish data, by the end of 2012 Chinese FDI stock in Poland had increased more than sixteen times to USD 288.1 million. However, their importance is still low, representing only 0.1 per cent of Poland's total FDI stock.

According to MOFCOM, at the end of 2012 China's FDI stock in Poland amounted to USD 208 million. However, as already mentioned, statistics on China's outward FDI differ between MOFCOM's and host countries' national sources (for example, Apoteker 2012; Clegg and Voss 2012). In addition to intermediaries or subsidiaries these differences may result from the limitations of Chinese data.[8]

There are about 700 firms with Chinese capital in Poland but the majority of them (574 firms in 2011) are small companies employing fewer than nine persons. Most investors are private companies; state-owned companies include ZTE, LiuGong Machinery and Nuctech. By 2004 Chinese investors were mainly small companies in wholesale and retail trade. The years since the global financial crisis have seen the emergence

7. Third-country nationals are allowed to acquire Hungarian permanent residency status through investing in Special Hungarian Government Bonds that have a minimum five-year maturity. The minimum initial investment by each subscriber is 250,000 EUR.

8. MOFCOM data are underreported as they include investments approved by MOFCOM. Thus, in practice investment projects (especially small projects) that do not require approval or unauthorized projects are not included. The recent administrative reforms decentralized the approval system of smaller investment projects, which may enhance under-reporting (Apoteker 2012: 14; Korniyenko and Sakatsume 2009).

of mergers and acquisitions and a wider representation of sectors in Chinese FDI in Poland. By 2016 the major investors from China were China Everbright International, Liu Gong Machinery, Haoneng Packaging, Shanxi Yuncheng Plate-making Group, Sino Frontier Properties Ltd., Suzhou Victory Precision Manufacture Co. and TPV Technology Ltd (Heiduk and McCaleb 2014; Forsal 2016).

Chinese investment in Poland is mainly in electronics, production of TV sets and LCD monitors (TCL Corporation, Victory Technology Polska, Chung Hong Electronics Poland, Digital View), electro-machinery (Nuctech), heavy machinery (LiuGong Machinery), ecology, such as municipal waste processing and alternative gas production (China Everbright International), publishing and printing (Haoneng Packaging), manufacturing of metals and metal products (Shanxi Yuncheng Plate-making Group), hospitality and real estate (Min Hoong Development Co., Sino Frontier Properties Ltd.), distribution of goods (GD Poland Investments Sp. z o.o.) and IT (Huawei, ZTE) (Heiduk *et al.* 2012).

In recent years Chinese FDI in services has increased with the establishment of branches of Bank of China (2012) and Industrial and Commercial Bank of China (2012), as well as offices of the largest law firms in China, Yingke (2012) and Dacheng.

Most of the Chinese firms investing in Poland engage in greenfield investments. According to Hanemann and Rosen (2012) at the end of 2011 there were 15 greenfield projects. However, recently there were four cases of mergers and acquisitions in construction machinery (Liu Gong), aviation (Lantian Aerospace Industrial Park), ecology in the form of municipal waste processing and alternative fuel production (Everbright International, the biggest Chinese investment in Poland by the end of 2016) and automotive parts (Tri Ring) (PAIZ interview; Forsal 2016). The latter is said to be the result of Wen Jiabao's visit in 2012.

Chinese FDI enters the Polish market also through their mergers and acquisitions in third countries. For example, Beijing West Industry (BWI) Group (a joint-venture of Shougang Corp., Bao'an Investment Corp. and Fangshan State-Owned Asset Management Corp.) in November 2009 acquired the Chassis Division of former Delphi Corporation (USA), together with its subsidiaries, which included Polish production plant in Krosno and an R&D centre in Cracow that employs 200 engineers (AutomotiveSuppliers.pl, 24.11.2009; Deloitte 2012). In 2013, Chinese Shuanghui International acquired the American Smithfoods along with its Polish subsidiary, which is one of the most recognised meat producing companies in Poland, Animex.

A further factor playing a role in the case of Chinese FDI in Poland is EU membership, which makes it possible to avoid tariff barriers. Besides electronics companies such as TCL, Victory Technology and Digital View, another example is Dalian Talent. Dalian Talent Polska was established in 2009 in response to anti-dumping sanctions imposed by the EU. Dalian Talent is among the top three candle producers in China, with portfolio customers such as IKEA, Wal-Mart and Metro AG (Zhang 2016). Nuctech sells large-scale cargo-scanning equipment used for inspections at seaports, border crossings, airports and railways. The company established its subsidiary in Poland in

2004 (with EU membership as a supra-national factor) with the aim of targeting mainly the western European market. In the period 2004–2008 Nuctech increased its market share in the EU by 140 per cent (Castle 2010). In 2011 the company stated that the old EU market had become saturated and that it would now focus more on central and eastern European countries, which benefit from EU aid for infrastructure. Due to the nature of the products it sells (mainly to public entities) Nuctech needed a subsidiary located within the EU to be eligible to take part in public procurement in EU member states. Nuctech's Warsaw subsidiary also benefitted from the EU's neighbouring country policy as it also sells to Turkey. Another example of a company using the EU's free trade agreements and neighbouring country policies is Liugong Machinery's subsidiary in Poland, which targets the EU and CIS, as well as North American markets.

As for the national-level factors, Poland started actively promoting itself with Chinese firms from the EXPO 2010 in Shanghai. Since 2010 the Polish Information and Foreign Investment Agency (PAIZ) has made its website available in Chinese and in 2011 it set up an overseas office in Shanghai. In 2013, PAIZ launched the website GoPoland.gov.pl in Chinese with the goal of attracting Chinese investors to Poland. Recently, the Polish Ministry of Foreign Affairs established a working group for economic cooperation between Poland and China. Moreover, in Poland there are two special economic zones with support services dedicated to Chinese investors (in Kielce and Koszalin). However, in most of the analysed countries there are voices complaining about their government's lack of a unified strategy towards Chinese investors.

Poland also offers a possibility to acquire state-owned enterprises, as the privatisation process there has not been completed. Poland still has about 400 state companies to be privatised that might be attractive to Chinese investors. For example, in early 2012 Liugong Machinery bought Huta Stalowa Wola's construction equipment division and its distribution subsidiary, Dressta. Until 2005, Dressta was a joint venture between Komatsu America and Huta Stalowa Wola and has sales offices around the world. Secondly, in 2013 China's Tri Ring Group Corporation acquired Polish Fabryka Łożysk Tocznych, producer of bearings for automotive sector.

Czechia

Czechia is one of the most successful central and eastern European countries in attracting foreign direct investment, although Chinese investments were negligible till 2012. According to Chinese statistics Chinese FDI in Czechia started to increase from 2006 (in 2005 it was USD 1.38 million, compared with USD 14.67 million in 2006) and reached USD 66.83 million in 2011, which was still the lowest amount of the six selected countries. The turning point was 2012 when Chinese statistics showed USD 202.45 million investment in Czechia.[9] However, there is an inverse discrepancy here as, according to data from the Czech National Bank, Chinese FDI in Czechia was USD 76.6 million in 2012.[10]

9. Total FDI to Czechia was 10.6 billion USD according to UNCTAD.
10. The official statistics explain this huge increase with the recalculation of stock for 2012 after adjustment of historical data. Experts in Czechia had no information on the components of this growth.

The main companies include electronics production facilities (Shanxi Yuncheng Plating Group, Changhong, Noark), IT (Huawei, ZTE Corp) and a manufacturer of transport equipment (CITIC Marmes Bicycles), as well as a food producer (Shanghai Maling). But there are planned FDI projects in Czechia in the textile, food, automotive and machinery sectors. With the exception of CITIC Marmes Bicycles, which is a joint venture founded in 2007, all of these are greenfield investments.

So far the biggest Chinese investment project in Czechia, before the launching of the Warsaw Initiative, is Changhong Europe Electric, the LCD and LED TV manufacturer (approximately USD 330 million) in the Nymburk Industrial Zone (central Czechia). The other important Chinese investor is Shanghai Maling Aquarius, food producer, which established a factory nearby Teplice (northern Czechia) with assets of USD 22.5 million in 2007; 90 per cent of its production is exported to the EU and the United States. The IT giants Huawei and ZTE also opened offices in Czechia; so far they employ about 350 local staff and their annual turnover in the Czech market exceeded USD 80 million in 2010. Huawei and ZTE cooperate with local mobile phone operators in Czechia and established their own sales outlets for mobile phones and smartphones. Besides, numerous small Chinese companies sell consumer electronics in Czechia (Fürst 2014).

Although Chinese investments in Czechia are associated mainly with manufacturing, in the long term Czech officials are planning to attract larger and more long-term investments through cooperation in higher value-added projects, such as technology and development centres in cooperation with universities. Negotiations are being held on establishing the first Czech-Chinese industrial zone in northern Moravia, and also on establishing direct flights between Prague and Beijing. Some new investment plans were announced recently as a result of the diplomatic rapprochement of the Czech government. China's sixth largest private company CEFC would buy a majority stake in a top brewery group (Pivovary Lobkowicz Group) and a share in an airline company (Travel Service, operator of airline Smartwings), two buildings in central Prague and double its stake in J&T Finance Group to 9.99 per cent, aiming to increase that to 30 per cent. Acquiring minority stakes in communications firm Medea Group and media company Empresa Media (which owns television channel TV Barrandov and publishes the weekly magazine *Tyden*) is also among Chinese plans.

Slovakia

The amount of Chinese investments was insignificant in Slovakia prior to 2007. Since 2007 we can observe varying levels of Chinese investments in the country. According to Turcsányi (2014: 97) 'while little can be asserted due to large fluctuations, we can note the start of investment even before the crisis. Subsequently, investments increased, but it is difficult to establish whether this was the result of the crisis or some other factors, which may include the natural development of Chinese investors' increasingly available sources and willingness to penetrate new destinations.'

According to Chinese statistics Chinese outward FDI stock in Slovakia was below USD 100 million in 2014. The number of Chinese investments is hard to tell, but according

to available sources it can be established that it is relatively modest – compared with both neighbouring countries and other investors in Slovakia, including other Asian companies. According to Turcsányi's estimates (2014: 98), 'if also companies owned by a non-China based but Chinese-owned subsidiary are counted, we can estimate current Chinese investments in Slovakia to be up to EUR 100–200 million.'

The main companies operate in the automotive industry, including SaarGummi (production of sealants for the automotive industry), ZVL Auto (production of controlling stakes), Inalfa Roof Systems (special roof windows for cars) and Mesnac (research and development centre focused on development of the tyre machinery). IT companies such as Lenovo and Huawei are also present in the country. There are planned FDI projects in Slovakia in shoe production (Flame Shoes) and the automotive sector (Zhuzhou).

Romania and Bulgaria[11]

Chinese FDI in Romania was the highest among all central and eastern European countries until 2005;[12] now – according to Chinese statistics – Romania is only the fourth largest recipient after Hungary, Poland and Czechia, with Chinese FDI worth USD 161.09 million.[13]

Investment is basically greenfield, covering mainly manufacturing in industries such as IT, tobacco, machinery, motorcycles and transportation. The main Chinese investors are Huawei, ZTE Corp., Shantuo Agricultural Machinery Equipment, China Tobacco International Europe Company SRL, DHS (motorcycles), China Shipping, COSCO, Yuncheng Plate-Making and F&J Group, an international investment company, which helps Chinese companies to invest and carry out mergers in Europe. The number of firms with Chinese capital is around 10,000,[14] the highest in the region, although most are small firms operating in the service or retail sectors.

An example of a Chinese company benefitting from Romania's EU membership is machinery producer Shantuo Agricultural Machinery Equipment, whose main export markets are Canada, Russia and the United States.

Chinese FDI in Bulgaria started to become noticeable from 2007 when Bulgaria joined the EU. According to Chinese data, it increased sevenfold from USD 18.6 million in 2010 to USD 126.74 million in 2012.[15]

The investments are mainly greenfield with some mergers and acquisitions, mainly in agriculture and energy. The targeted industries – telecommunication, television, IT, agriculture, machinery – are similar to those of Romania, with two exceptions: car

11. In the case of Romania and Bulgaria the discrepancy between Chinese and national data is negligible.
12. In 2005, Chinese investment was 39.43 million USD in Romania, according to Chinese statistics, which further increased in the coming years, but to a lesser extent compared with Hungary and Poland.
13. Chinese FDI in Romania constitutes 0.83 per cent of total FDI.
14. Their share in the total number of commercial companies with foreign capital is 5.58 per cent.
15. It is 0.214 per cent of all foreign investment to Bulgaria.

assembly (Great Wall Motors) and desulfurisation (Insigma Tech.). Chinese investors are also planning further investments in agriculture (production of tobacco and yoghurt). In addition, they are about to invest in Bulgarian firms active in the processing and preservation of foods, which will be then exported to the Asian market, which may be related to EU food and agricultural product standards and certification.

The main investors are Huawei, ZTE Corporation (telecommunication), Shanghai Video and Audio Electronics Group, Great Wall Motors, Tianjin State Farms Agribusiness Group and Insigma Technology, which operates desulfurisation facilities.

3. Conclusion

While the majority of investors in central and eastern Europe have usually been motivated by relatively low labor and land costs, the well educated labor force necessary in manufacturing and access to rich EU markets, the authors of this chapter found that in the case of Chinese multinationals' motives in central and eastern Europe – besides the aforementioned macroeconomic factors – a significant role is played by institutional factors and other less-quantifiable aspects, such as good political relations and diplomatic gestures.

Chinese investments started to flow to central and eastern Europe after the countries of the region became EU member states. A significant increase in Chinese outward FDI occurred after the global financial crisis for two reasons: on one hand, the crisis adversely affected central and eastern European countries and most of them (not only the selected ones) started to seek new opportunities for recovery from the recession. For example, Hungary's 'Opening to the East' policy was initiated after (and partly as a result of) the crisis, but the crisis also made other central and eastern European countries look eastward. On the other hand, despite the crisis China's outward FDI continued to expand, not only to gain access to the necessary natural resources, but even more so for market seeking reasons in developed countries, not only in the core EU member states but also on the periphery. Another reason for this higher representation may be China's diversification strategy; recent Chinese global investment strategy places great emphasis on diversification in all respects.

Investigation of the motivations of Chinese outward FDI in central and eastern Europe shows that they mostly seek markets in the region and CEE countries' EU membership allows them to treat the region as a 'back door' or assembly base of products (greenfield) to be sold on the affluent EU markets (tariff-jumping FDI). Chinese investors are attracted by the relatively low labour costs, skilled workforce and market potential. It is characteristic that their investment pattern in terms of country location resembles that of total global FDI in the region. Chinese companies in central and eastern Europe are mainly private entities establishing greenfield production. However, there are also Chinese investors actively seeking technologies and distribution channels owned by local companies, which are cheaper than their EU15 or North American counterparts.

Besides macroeconomic factors, when choosing a location in central and eastern Europe Chinese companies seem to be motivated by a number of institutional factors, such as the size and feedback of the Chinese ethnic minority, investment incentives and subsidies such as special economic zones, possibilities of acquiring visas and permanent residence permits (in exchange for a given level of investment), privatisation opportunities, the quality of political relations and the government's willingness to cooperate. A clear example of this is Hungary's good relations and very high level of Chinese FDI compared with other CEE countries, while it is said that Liu Gong's acquisition of HSW in Poland might have been delayed because of China Overseas Engineering Group (COVEC)'s problems with building part of the Polish highway.

The study does not touch upon the push factors of home country institutions that emerged recently and may enhance Chinese investments in the region. This is especially the case with regard to Poland becoming China's strategic partner (at the end of 2011) and the establishment of the China-Central and Eastern Europe Cooperation Secretariat in September 2012. Also significant is that in 2010 the China Investment Promotion Agency (CIPA) opened its European office in Budapest.

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