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Master's Thesis

Motivations for Chinese investment in the region of Central and Eastern Europe

中國在中東歐地區的投資動機

Student: Ondrej Machacek

Advisor: Prof. Tsai, Chung-Min

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研究生： Student: Ondrej Machacek

指導教授： Advisor: Prof. Tsai, Chung-Min

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業經本委員會審議通過

Oral Examination Committee
論文考試委員會委員

Tsoyu Calvin Liu 林左裕

Advisor/指導教授

IMAS Director/主任

Dean/院長

Min-Hsiu Chiang 江明修

中 華 民 國 1 0 5 年 0 6 月 1 4 日

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Abstract

Chinese economic presence in the region of Central and Eastern Europe has attracted a lot of attention recently. The establishment of the so called 16+1 initiative four years ago, calling on increase of mutual economic exchange is often believed to be a Chinese bid to increase its political power in Europe by economic means. Media coverage, certain EU representatives and researchers became rather aware of Chinese investment projects in this region. However, what are the real aims this OFDI? Does the rationale to invest in CEE differ from motivations to invest elsewhere? Or are Chinese motivations different from investors from other countries?

This work will try to analyze the most important determinants of Chinese decision to invest in this region by correlation analysis and while interpreting the results, those will also be investigated along with other peer studies to dis/prove current theories on China's FDI; and to compare China's rationale to invest in CEE with motivations to invest elsewhere.

Keywords: Foreign Direct Investment; China; Central and Eastern Europe; 16+1; Motivation analysis

摘要

中國經濟現形於中歐與東歐近期備受關注。16+1 合作機制在四年前開始發起，號召增進雙方經濟交流往往被視為中國藉由經濟管道，嘗試提升其在歐洲的政治力量。媒體報導，特定歐盟代表以及研究學者有意識到中國在此地區的投資計畫。然而，OFDI 真正的目的是什麼? 抑或中國的動機和其他國家的投資者有所不同?

這篇研究會透過相關分析，試著分析中國決定在這個地區投資的最重要決定因素，同時解讀結果。這些結果也會和其他同行研究做深入探討，來駁斥或是證明現今中國 FDI 的理論；還有比較中國的投資 CEE 的基本原則和其投資其他地區的動機。

關鍵字: 外商直接投資；中國；中歐以及東歐；16+1 合作機制；動機分析

List of Abbreviations and Acronyms

CEE	Central and Eastern Europe
CEFC	China Energy Company Limited
CIS	Commonwealth of Independent States
EFTA	European Free Trade Association
EU	European Union
EUR	Euro (currency)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
M&A	Mergers and Acquisitions
MNC	Multinational Corporations
MOFCOM	Ministry of Commerce, People's Republic of China
OBOR	One Belt One Road
OFDI	Official Foreign Direct Investment
PRC	People's Republic of China
R&D	Research and Development
RMB	Chinese Yuan (currency)
SME	Small and Medium Enterprises
SOE	State-owned Enterprises
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
USD	American Dollar (currency)
V4	Visegrad 4 (Czech Republic, Hungary, Poland, Slovakia)
WB	World Bank
WGI	World Governance Indicators

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1. Introduction

Purpose of this research is to shed light on the motivations of Chinese investment in the region of Central and Eastern Europe (CEE). Although to some this may be a very vague definition of a geographic area, China made sure on its own over what 16 countries are in the game by introducing the China-CEE 16+1 Cooperation platform. While some argue that Chinese investment is linked to political support of Beijing, others claim that economic factors are the main rationale for Chinese enterprises growing out of China. Other possible reasons tackled in this study may play equally important role. The way China has perceived the region of CEE was in the terms of great potential gains. It is has become a new market with great economic perspectives on its own but it could, more importantly, assume the strategically important role of a gate and an export platform to the rest of EU. Indeed, its special position stems from its nature of politically stable environment, where economic development has not reached its Western neighbors and hence offers a great comparative advantage.

The literature on Chinese investment abroad and its special nature has recently grown into the state of abundance. Various studies have been following China's path to become a net capital exporter which China did last year. Since the People's Republic of China (PRC) is still considered to be a developing country, theoretical perspectives lag beyond the current state of affairs. Indeed, researchers have been eager to understand, explain and predict China's investment models. These tries, however, were only partially successful. The most important reason seems to be the fact, that sectoral distribution of China's official foreign direct investment (OFDI) differs both spatially and temporally. Indeed, the thesis of gradual partial reorientation from natural resources through market-seeking behavior to high-tech asset-seeking is now generally well accepted.[1] While China was seen to be investing in resource-rich – and developing – countries ten years back, now tertiary sector in developed countries has become an equally important target.

[1] Korniyenko, Y. and Sakatsume, T., "Chinese Investment in the Transition Countries," *European Bank for Reconstruction and Development*, Working paper no. 107, January, 2009.

The most common approach of papers to determine China's OFDI rationale has become the correlation and regression models of Beijing's motives. This is a field of study this paper is not only sourcing on, but into which it has the potential to contribute with its own findings. Indeed, while some studies are general, some focus on regional and case studies and some on systemic factors, few such analyses have been carried out in the instance of China's engagement in the CEE.

Historically speaking, China paid little attention to this region after the end of the Cold War. Although the China-CEE 16+1 cooperation platform has been established some 4 years ago, it still keeps a rather low profile and did not receive as much coverage as Chinese moves elsewhere. These political moves and growing economic engagement, nevertheless, attract a lot of attention especially within the target region itself. Beijing's hope to engage in CEE is clearly perceivable. And with that, growing importance of Chinese foreign direct investment (FDI) in this region is getting more obvious in response.

Naturally, many local researchers paid close attention to this phenomenon, trying to describe the process, find possible impacts on regional economies, etc. Their approaches have been, nevertheless mostly descriptive and qualitative in their nature. Studies on this issue may be considered only preliminary as these do not always go for in-depth analysis as they rather opt for simple description of the phenomenon. Although some studies do tackle related connotations, few of them have yet paid attention to the motivation analysis.

Views on Chinese OFDI in this region generally differ. Some welcome the opportunity to tap Chinese money, some remain wary of Chinese political interests. Some argue that this new Chinese initiative means an unprecedented growth of investment, some stress that the actual amount is still less than negligible.

The purpose of this paper is indeed to fill in the research gap in the field by clarifying the quantitative determinants of China's OFDI in this region, while explaining and interpreting the results in qualitative terms. Such an approach should cast away misconceptions and misunderstandings in this field that would often lead to distorted views of reality, so often brought about by media coverage.

By the same token, this research will also help to dis/prove contemporary views on this issue, as it will apply the discussed theories and approaches onto a region that has not yet been previously studied in this way.

Explaining what is the real motivation of Chinese investment in CEE and why these motivations prevail may not only fill the gap in the academic research, but may also serve as a good guiding tool for further political decisions, as it will either show what the Chinese investors are interested in the most, or that rather than economic logic, political interests lead the Chinese course.

Eventually, this work hopes to reach these three ultimate goals: 1) To find what are the most important Chinese motives to invest in CEE and to offer explanation why these motivations play this role; 2) To compare CEE as a target of Chinese OFDI with other regions; and 3) To provide another piece to the academic discussion on China's foreign OFDI; especially by dis/proving some of the suggested motives

2. Research Methods

2. 1. Framework

The logical framework of this paper is as follows: 1) current state of affairs will be analyzed, and then 2) theories will be discussed; 3) these will provide for variables to carry out quantitative analysis; 4) results of these correlation and models will be interpreted with regard to the current state of affairs and theoretical implications; 5) these results will be also compared with other studies to further check the validity of existing theoretical frameworks. Research framework does not, for better coherence, fully correspond with the content of this thesis.

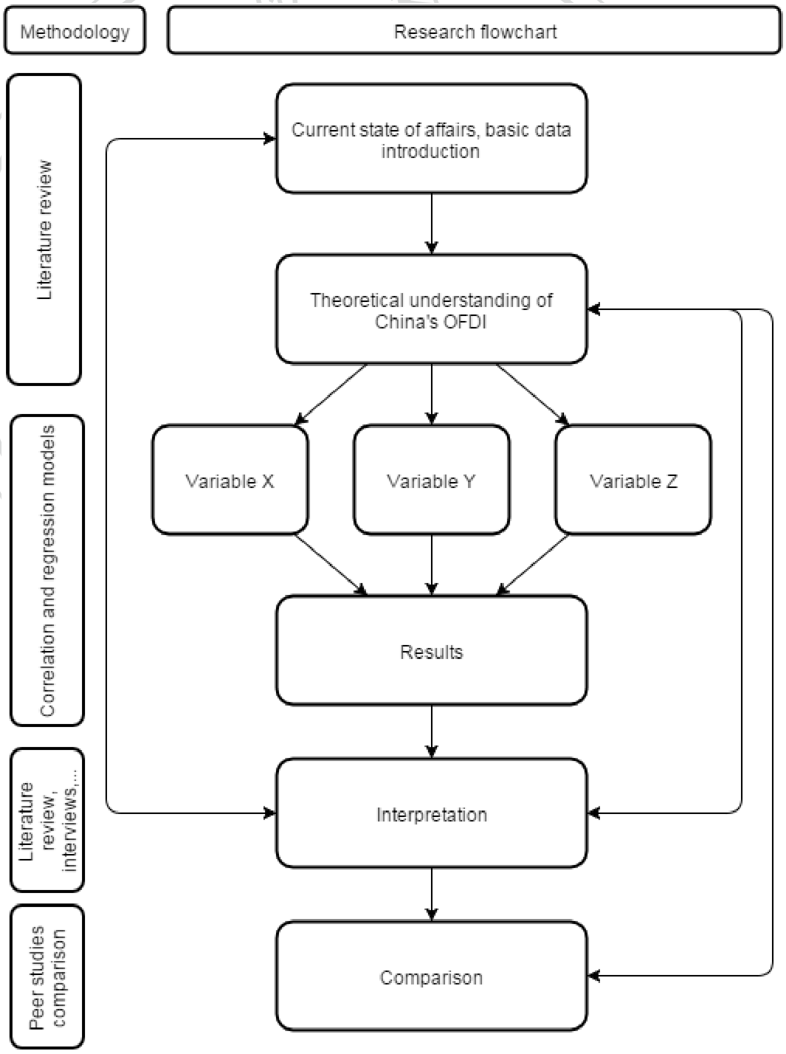

Figure 1: Research flow-chart

2. 2. Hypotheses

Following section will provide an overview and basic interpretation of the factors that will be studied to find rationale for Chinese investment in the region of CEE. These are numerous and hence each one will be represented by the most suitable and best measurable proxy in the way suggested in respective sections.

While there are theoretically already well-established sets for OFDI investment motivations, these either stem from grounded theories (such as Heckscher and Olin Model; General ODI Theory by Buckley and Casson, etc.), or have been drawn to be used in casual type of investment relations. While the former approach would limit this study to only given variables and would not allow for their variation better reflecting our case, the latter is struggling with shortage of theoretical understanding of developing countries' investments abroad. Hence, in the case of Chinese investment in CEE, while a number of motivations have been previously studied in different cases, this research will omit (such as natural resources-seeking behavior). On the other hand it will include the consideration of Chinese goals in this region and will thus extend the set of possibly plausible motivations taking into account region's own nature.

The hypotheses part as well as the methodological approach in most cases follow the studies that will be briefly analyzed and compared to in one of the following sections. There are two main reasons for such a decision. First, these works, although with mixed results have already brought an extensive palette of possible rationale for Chinese investment abroad; and second, only similar academic approach will allow for comparison with their findings.

This section will first introduce the motivations that are going to be analyzed and later on will explain why some of the traditional variables were left out. For better orientation these have been ordered according to the results of statistical correlation with Chinese FDI.

Culture closeness

A number of studies have convincingly proved that better cultural knowledge and people-to-people relations do facilitate trade and investment. The same applies to studies conducted on China, working with population of ethnic Chinese in respective countries. Although these numbers of Chinese residents in the region are almost negligible, they still may pose a strong correlation with the inflow of FDI. While in certain countries the Chinese population is very low, no official data were found. This study will hence only work with the data found available, omitting a few countries from the list.[2]

- *Hypothesis 1: Chinese OFDI is positively associated with the high number of ethnic Chinese living in respective countries*

Openness to FDI

While there is a discussion whether political support or Chinese cost-benefit analysis is the driving force behind investment in this region, it is important to have a look at host countries general openness to FDI inflow.[3] Hence overall ratio of inward FDI stock to country's gross domestics product (GDP) will suggest if the general policy attitude have an effect on the investment from China.[4] In this model I simply argue that the more FDI any given country has received, the bigger amount of investment will naturally also come from China.

- *Hypothesis 2: Chinese OFDI is positively associated with absolute net stock of inward FDI*

Technology acquisition

Many students of Chinese of investments are wary of the true Chinese interest, suggesting that Chinese motives are not only to increase revenue and diversify

[2] Latham, K. and Wu, B., *Chinese Immigration into the EU: New Trends, Dynamics and Implications,* Europe China Research and Advice Network, London, 2013 and National Statistical Offices.
[3] *The World Bank*, "Foreign direct investment, net inflows (BoP, current US$)," 2016, (accessible from: http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD)
[4] Buckley, P. et al, "The Determinant of Chinese Outward Foreign Direct Investment," *Journal of International Business Studies*, Vol. 38, Issue 4, pp 499-518, July 2007.

markets, but also to gain access to high-tech industries, advanced manufacturing techniques and new inventions. After acquisition of such knowledge and related know-how, these are believed to either transfer the production or create similar business in China. Whereas these are speculations fueled mainly by the lack of transparency of Chinese investments abroad, or by unclear links between Chinese corporations and its government, we should bear in mind, that such behavior is not limited to Chinese (state-owned) enterprises.

Technology, distribution channels, managerial skills and other added-value know-how is a great asset that firms from developing countries lack. Such an investment is hence a way to obtain strategic factors of production rather than to obtain immediate business opportunities.[5] While this motivation is hard to measure, researchers follow in Ramasamy's footsteps.[6] He suggested two proxies to measure such technological and know-how advantages that could become targets of investment; one of which I will use as well. It is the "ratio of technology exports to total exports of the host country".[7] This approach may, however, bring undesired distortion. As technology exports may fall into production chains with finalizing activities often based in third countries such as Germany. Hence subsidiary proxies were measured as well.[8]

- *Hypothesis 3: Chinese OFDI is positively associated with host country's advanced technology and know-how*

Trade with China

Another "gravity model" assumption is the relative importance of mutual trade these countries enjoy with China. Here I suggest that the higher economic exchange the better connections both sides share, facilitating the snow-ball effect by triggering

[5] Yin, W., "Motivations of Chinese outward foreign direct investment: an organizing framework and empirical investigation," *Journal of International Business and Economy*, Vol. 16, Issue 1, pp 82-106, 2015.
[6] Ramasamy, B., et al, "China's outward foreign direct investment: Location choice and firm ownership," *Journal of World Business*, Vol. 47, Issue 1, pp 17-25, January 2012.
[7] *The World Bank*, "High-Technology exports (current US$)," 2016 (accessible from: http://data.worldbank.org/indicator/TX.VAL.TECH.CD).
[8] *The World Bank*, "ICT goods exports (% of total goods exports)," 2016 (accessible from: http://data.worldbank.org/indicator/TX.VAL.ICTG.ZS.UN).

further cooperation. This motivation may hence be embodied in the sum of export and import with China.[9]

- *Hypothesis 4: Chinese OFDI is positively associated to the amount of mutual trade*

Export of given country

Since many researchers suggest that the main reason for Chinese economic presence in the region of CEE is to build a production base in the comparably less developed (read *cheaper*) part of Europe while being at the same time at close distance from potential big markets further West, international trade in absolute terms should be a good guiding tool for Chinese investors. Higher reliance on exports as a part of economic growth suggests better connection to the world economy and potential markets. Such supply chains may be just the reasons for decision to invest in related countries. The sum of export and import divided by GDP will serve as proxy.[10]

- *Hypothesis 5: Chinese OFDI is positively associated with the total amount of host country export*

Political proximity

Commentators widely suggest that rather than economic calculations, it is politics that prevails when cooperating with China. Or – more clearly – Chinese economic presence is correlated with international support of China. This would suggest that countries criticizing China in the terms of human rights, territorial disputes and other issues could be found on the bottom of the list. Since there have been studies that have looked into respective countries' political stances on China, we can prove whether this assumption is true. Proxies measured will be results of previous studies on this topic.[11]

[9] *Michigan State University,* "globalEDGE," 2016 (accessible from: http://globaledge.msu.edu/).
[10] *Michigan State University,* 2016.
[11] Liu, Z., "The Analysis of China's Investment in V4," pp 24-37 in Mráz. S. and Brocková, K. (eds), *Current Trends and Perspectives in Development of China – V4 Trade and Investment,* Visegrad Fund, Bratislava, 2014; Fox, J. and Godement, F., "A Power Audit of EU-China Relations," *European Council on Foreign Relations*, April 2009.

Liu Zuokui, from the Chinese Academy of Social Sciences was able to come up with a set of bilateral relationship indicators suggesting differences in the quality and depth in China's relations with respective countries. Taking into account Bilateral strategic level (treaties), Top-leaders mutual visits, Mutual perceptions between public, Signing the investment or trade agreement and The Degree of mutual dependence with each other in individual regions, he came up with a scale this paper tries to correlate to the actual amount of investment stock.[12]

Another proxy for political proximity would traditionally be the number of high-level bilateral visits that has been proved to have positive relationship with investment flows. The problem, however, is that China somewhat lumped up all of the 16 countries together and is ever since the establishment of the China+CEE cooperation group meeting with all of their representatives and this proxy is hence difficult to measure.[13]

- *Hypothesis 6: Chinese OFDI is positively associated with better political bilateral ties*

Host market size

While the general assumption suggests that markets with higher gravity would be, due to better economic and trade opportunities more appealed to each other, such gravity theory may be also explained as a drive to find bigger markets that would raise the demand for produced goods and services. Hence investment abroad would be done in the expectation of revenues growth simply because of higher number of potential customers. Diversification of markets as a safety measure could be understood as another potential reason for such a decision. Previous studies[14] have used mainly GDP

[12] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 28. It should be, nevertheless, taken into account that this piece of work was done back in 2014 and hence does not need to be reflecting current state of relations perfectly. The case of Czech Republic may serve as a good example.
[13] Nitsch, V., "State Visits and International Trade," *World Economy*, Vol 30, pp 1797-1816, 2007 as in Matura, T., "China-CEE Trade, Investments and Politics," *UACES 45th Annual Conference Paper*, Bilbao, Spain, September 2015, p. 22.
[14] Yin, W., 2015.

and GDP per capita as proxies to measure this rationale, this work will follow their suit with the former one.[15]

- *Hypothesis 7: Chinese OFDI is positively associated with the host market size.*

Logistics

Development theories generally put a huge emphasis on the building of infrastructure that would facilitate all-around economic activity in the region by restrains that could foreign investors seen as limiting their potential gains. The logic hence goes that the better infrastructure, the more appealing as an investment destination because of transaction costs, better reach to sources and markets etc. While this may still be a problem within China itself today, it is a rationale difficult to measure in more developed areas. Since infrastructure is not measured only in physical terms, we may use access to knowledge facilitation as a suitable proxy. Use of internet, for example, boosts not only the exchange of information, but also the efficiency of the trade itself with a number of reasons.[16] The proxy to measure the logistics is the WB Logistics Performance Index.[17]

- *Hypothesis 8: Chinese OFDI is positively associated with high infrastructure development level in the host country*

Education

Supposing a transnational company wants to invest abroad setting up a new research and development center or is just in a need of well-educated staff. Education Index will serve as the basic proxy.[18]

- *Hypothesis 9: Chinese OFDI is positively associated with high education*

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[15] *The World Bank*, “GDP at market prices,” 2016 (accessible from: http://data.worldbank.org/indicator/NY.GDP.MKTP.CD).
[16] Yin, W., 2015., it should be noted, however, that other studies do use different proxies, such as percentage of internet users, etc.
[17] *The World Bank,* “Logistics performance index,” 2016 (accessible from: http://data.worldbank.org/indicator/LP.LPI.OVRL.XQ/countries/1W?display=default).
[18] *UNDP*, “Education Index,” Human Development Reports, 2015.

Governmental Stability

Stable political environment implies that invested money will not come in vain in the long-term. Risk assessment would suggest that no sensible investment could be made in country undergoing political turmoil. There has been an academic discussion whether Chinese investments are flowing into countries with strong rule of law that would protect this allocation of money or rather into countries where governmental control is lacking in vigor. Whereas some scientists argued that there is no such a correlation, others suggested a division between Chinese investment in developing and developed countries.[19] While countries like Hungary were under the Orbán's leadership able to attract considerable amount of Chinese money, the notion that weaker political stability is more appealing for Chinese investment may be correct. Proxy measured will be *World Governance Indicator's* Stability Index.[20] Subsidiary measures such as *Corruption Perception Index* and *Rule of Law Index* will be used as well.[21]

- *Hypothesis 10: Chinese OFDI is positively associated with stable political environment*

Market Development

Market development measured by GDP per capita could suggest that more developed countries might be bigger consumers of China's goods.[22] Indeed as Huawei, ZTE and other Chinese corporations are investing abroad they are likely to look for rich markets. Although such development might also imply higher labor costs, it is worth checking.

- *Hypothesis 11: Chinese OFDI is positively associated with high GDP per capita*

[19] Ramasamy, B. et al, 2012.
[20] *The World Bank*, "Worldwide Governance Indicators," 2015 (accessible from: http://data.worldbank.org/data-catalog/worldwide-governance-indicators)
[21] *Transparency International*, "Corruption Perception Index," 2016; *World Justice Project*, "Rule of Law Index," 2015.
[22] *The World Bank*, "GDP per capita," 2016 (accessible from: http://data.worldbank.org/indicator/NY.GDP.PCAP.CD)

Labor cost

Although it may seem ridiculous that developing countries would go international – and especially into developed regions in order to save money on production costs, its relative differences within the region itself are not completely negligible and may still be an important factor when deciding where to invest. I hence suggest that the labor cost does have an influence on the inflow of OFDI.[23]

- *Hypothesis 12: Chinese OFDI is positively associated with lower labor costs*

Ease of doing business

Business background is another important factor. From the red tape when setting up business to the taxation, these are all very important when deciding where to invest. This work will take into account the comprehensive "Ease of Doing Business" Index, and a subsidiary proxy of Taxation as well.[24]

- *Hypothesis 13: Chinese OFDI is positively associated with Easy to Do Business environment*

2. 3. Methodology and data

Methodology of this paper will be multi-fold, reflecting the research purpose of each section of the paper.

The initial introductory chapters discussing current theories of China's OFDI, and China's presence in the region of CEE will resort to complementary literature and its review as a main source of information.

The analytical part of this study will, however, use quantitative data to carry out Pearson's correlation analysis to find out which of the suggested hypotheses play a significant role when deciding on the target country for Chinese investment.

[23] Data of each National Statistical Office as collected by *Wikipedia* (accessible from: https://en.wikipedia.org/wiki/List_of_European_countries_by_average_wage).
[24] *World Bank Group,* " Doing Business 2016: Measuring Regulatory Quality and Efficiency," Washington, 2016.

Although this quantitative analysis may be a good way to obtain numerical results, these do not have to be necessarily explanatory enough to draw up the reasons for such results. Their interpretation will provide for the qualitative part of this thesis.

Last but not least, it will compare these findings with other peer studies and discuss mutual similarities and differences; and finally the conclusion will turn back to dis/proving contemporary theories on China's FDI.

The data collection plan plays a very important role which would prevent the paper resulting in "rubbish in rubbish out" study. Firstly, this study will analyze thirteen possible motivations for Chinese investment in the region of CEE. To increase validity of the finding, some of these motivations had to be measured by more variables. There are hence all together 13 motivations this study is going to tackle, but where considered necessary, more proxies are mentioned in the footnotes.

Also, while there is a plethora of ways to measure China's OFDI, each of the data sets has been challenged by more or less serious imperfections and distortions.[25] This study will make use of the most common data sets from Chinese Ministry of Commerce (MOFCOM). The stock of China's OFDI in respective countries will hence serve as <u>*the dependent variable*</u>. The list of <u>*independent variables*</u> is as follows:

Motivation	**Proxy**	**Sources**
Culture Closeness	Number of Chinese residents	National Statistical Offices; other
Openness to FDI	Absolute FDI stock	World Bank Development Indicators
Technology Acquisition	Amount of high-technology exports Amount of ICT goods export	World Bank Development Indicators
Mutual Trade	Amount of trade with China Chinese imports	globalEDGE, University of Michigan
Export	Amount of exports	globalEDGE, University of Michigan

[25] By FDI, this work will refer to OECD definition: "FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise". *OECD Factbook 2013: Economic, Environmental and Social Statistics*, OECD, 2013 (accessible from: http://www.oecd-ilibrary.org/sites/factbook-2013-en/04/02/01/index.html?itemId=/content/chapter/factbook-2013-34-en).

Political Proximity	Bilateral Political Proximity Index	Liu Zuokui (2014)[26]
Market Size	Gross domestic product	World Bank Development Indicators
Logistics	Logistics Performance Index	World Bank Development Indicators
Education	Educational Index	Human Development Reports, United Nations Development Programme (UNDP)
Governmental Stability	World Governance Indicator's (WGI) Stability Index	World Bank Development Indicators
	WGI Rule of Law Index	
	Corruption Perception Index	Transparency International
Market Development	GDP per capita	World Bank Development Indicators
Labor Cost	Monthly average wage	National Statistical Offices
Ease of Doing Business	Ease of Doing Business Index	World Bank Development Indicators
	Total Tax Rate	

Figure 2: List of Motivations, Proxies and Sources

2. 4. Research problems

There are numerous problems this study had to face. The most important one is that it seems that infrastructure projects are not included in China's official statistical FDI data, leaving a huge lump of money out of sight. Indeed, such argument is supported other projects tracking China's OFDI. *China Global Investment Tracker* by the American Enterprise Institute finds out – to take Serbia for example, that China has invested in this country as much as U.S. Dollars (USD) 4,42 billion. Furthermore, this amount of money is not spread in the whole national economy, but is amassed only in the sectors of energy and transport.[27] Drawing on this example, readers should be aware about what data they actually read. Other high-budget infrastructure projects were probably left out of this data as well.[28]

[26] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 28.
[27] *China Global Investment Tracker*, The Heritage Foundation, Washington, 2016, (accessible from: https://www.aei.org/china-global-investment-tracker/).
[28] Further problem is that China often requires, mainly in the terms of infrastructure to make use of their domestic companies. This hence cannot really be understood as investment *per se*, as eventually Chinese firms are profiting. By the same token, ever since 2011 when China's COVEC did not stand to its deal with Polish government and was unable to finish motor highway from Warsaw to German borders, Chinese bids in infrastructure projects are viewed with a decent dose of misgivings. See for example: Ciensky, J., "China group sees collapse of Poland ambitions," *Financial Times*, Warsaw, June 14th, 2011.

Another issue is that the investments also come through intermediary countries.[29] Hungarian national data for example claim to have obtained as much as 3 billion USD of Chinese FDI.[30] The methodology and approach of statistical offices in this case plays a significant role: While Chinese chemical company Wanhua acquired as much as 96 % of Hungarian BorsodChem, it was done via Chinese subsidiary in Netherlands. As the initial amount was 1,5 billion USD and other investments followed, it is the single biggest investment project that could be traced backed to China in the region. The problem of measuring data – in this case the outward/inward FDI flows/stock plays a huge role.[31] For this reason, while methodology of this paper relies only on the Chinese official sources from MOFCOM, it provides explanatory notes where deemed necessary.

Another limiting factor is the use of proxies for given motivation – they are not always the only possible way of measurement and what is more, they are nothing but indicators of such possible logic. As all of my findings cannot be considered to be more than mere suggestions.

The causality phenomenon is also a factor I did not take into account. While we do not know whether the variables served as a catalyst or as a response, it is still important to bear in mind that both phenomena are intertwined and do not possess too much of a challenge to this methodology.

The last problem is that the actual total amounts of Chinese FDI in this region is still somewhat too marginal to draw the full picture of what is driving Chinese FDI. Since China's engagement is still a very recent phenomenon, this cannot be understood as more than a preliminary study that could serve as a good guiding tool for further academic inquiry.

[29] Garcia-Herrero, A., Xia, L., and Casanova, C., "Chinese outbound foreign direct investment: How much goes where after roundtripping and offshoring?," *BBVA Research*, Working Paper No. 15/17, June 2015.

[30] Szunomár, Á., McCaleb, A., "Comparing Chinese, Japanese and South Korean FDI in Central and Eastern Europe: macroeconomic versus institutional factors," (preliminary research version), 2015, (accessible from: https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=WCCE2015&paper_id=205).

[31] Élteto, A., Szunumár, Á., "Chinese Investment and Trade – Strengthening Ties with Central and Eastern Europe," *International Journal of Business and Management*, Vol. IV, No. 1, 2016, p. 13-14.

3. Theoretical Perspectives

FDI as an enterprennial option arose with the very first steps of globalization. As different countries were rich in different resources those scarce and hence expensive in one place might have been cheaper elsewhere. Indeed, the very basis of investment abroad is linked to comparative advantage as suggested by David Ricardo and then developed in the terms of international trade and factor endowments by Heckscher and Olin. Later on, Kindleberge and Hymer found out that such innate differences were not the only driver of foreign investment. With the emergence of multinational corporations, these felt limited by other problems such as market imperfections, economies of scale, governmental interference, etc. and hence new incentives arose.[32] By the same token, as more developed products were growing in dependence on primary materials, parts of the final product often came from subsidiary suppliers with growing intensity. Buckley and Casson suggested that internalization is yet another important motivation to pump capital abroad. Their classical FDI theory suggested that *"firms internalize missing or imperfect external markets until the costs of further internalization outweigh the benefits"* and that *"firms choose locations for their investment activities that minimize the overall costs of their business operations."*[33] Following these studies, others followed suit trying to dis/prove certain motivations, but with no theoretically rigid and sound framework.[34]

Regardless of this multitude of theoretical perspectives, the dictate of the market would normally suggest that firms need to have motives to put their capital abroad instead of in their countries of origin. Indeed, as perceived opportunities abroad objectively differ in time and space, so do the goals of potential investors. While there are naturally certain innate differences between potential recipients of inward FDI, these do not play any role until the goals, aspirations and motivations are analyzed. The Dunning's motivation analysis of FDI is hence a groundbreaking

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[32] Nayak, D. and Choudhury R. N., "A selective review of foreign direct investment theories," *Asia-Pacific Research and Training Network on Trade*, Working paper No. 143, March 2014.

[33] Buckley, P. J. and Casson, M., "The optimal timing of a foreign direct investment," *Economic Journal*, 91(361), 1985, pp. 75–87 as in Franco, C. et al, "Why Do Firms Invest Abroad? An Analysis of the Motives Underlying Foreign Direct Investments," *The IUP Journal of International Business Law*, Vol. 9, Nos. 1 & 2, pp. 42-65, January & April 2010.

[34] Wadhwa, K., "Foreign Direct Investment into Developing Asian Countries: The Role of Market Seeking, Resource Seeking and Efficiency Seeking Factors," *International Journal of Business and Management,* Vol. 6, No. 11; November 2011.

approach applicable in case by case. While there were numerous frameworks for such academic inquiry, Dunning's work proved to be replicable enough to be used as a standard.[35]

While the theory of FDI motivations was never studied separately, its academic diversity was helpful when discovering multiple different nuances.[36] As mentioned above, the most imposing work of FDI investigation is the one by Dunning. His initial work, the OLI Model (or Eclectic Paradigm) is sourcing on the internalization theory and looks at three other different factors: Ownership advantage; Location Advantage and Internationalization advantage.[37] While these would discuss what kind of foreign market entry is the most suitable (Licensing, Export or FDI), Dunning later on further elaborated on this theory to provide four main motivations to invest abroad:[38]

1) *Resource seeking* struggles to acquire (natural) resources that are either unavailable at home or available only at higher costs

2) *Market seeking* strives to reach new (and bigger) markets including suppliers and consumers while saving on export

3) *Efficiency seeking* is defined twofold as to "take advantage of differences in the availability and costs of traditional factor endowments in different countries" and to "take advantage of the economies of scale and scope and of differences in consumer tastes and supply capabilities"[39]

4) *Strategic asset seeking* describes investment that hopes to acquire and complement a new technological base

It is important to note that this differentiation relies heavily on interpretation. For this reason it is easy to come across works that consider cheap labor as an efficiency seeking motivation, rather than a resource seeking one; at the same time, while

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35 Franco, C. et al, 2010, p. 6.
36 Check for example Chapter two from Castro, F.B., "Foreign Direct Investment in the European Periphery," PhD. Thesis, *The University of Leeds*, July 2010.
37 Stoian, C. and Filippaios, F., "Dunning's eclectic paradigm: A holistic, yet context specific framework for analysing the determinants of outward FDI: Evidence from international Greek investments," *International Business Review*, Vol 17, Issue 3, June 2008.
38 Dunning, J.H. 1993, *Multinational enterprises and the global economy*, 1993, Workingham.: AddisonWesley as in Franco, C. et al, 2010.
39 Ibid.

exports may be often considered a market seeking motivation, in the case of CEE they are also an efficiency seeking move because of tariff jumping advantages to reach other European Union (EU) markets. Further, for example, although Whadhwa et al. think of infrastructure as resource seeking factor, this may be reasonable for their study – it is not nevertheless for this one.[40] In the view of other markets, the calculations of Chinese investors would probably ponder "if it is cheaper to export to Germany from CEE or North Africa, rather than around the lines if they can reach all the potential customers within the countries themselves". For these reasons, we cannot delineate clearly what proxy stands for what motivation cluster as suggested by Dunning. Analytical qualitative interpretation is what helps us better unearth the meaning of the results rather than just simply putting different variables under these four – or any other – labels.

While this Dunning's theory is the theoretical cornerstone of this work, there is a plethora of other theories – either general or focused on the case of China – that deserve to be taken into consideration.

Ekholm, for example, came up with the idea that market seeking investment does not need to be based only on the assessment of recipient economy. This economy may only serve as an "export platform" and investment is hence done in the view of other markets as well.[41] Also institutions were rightfully acknowledged their importance as these set the rules of the game. Institutions are what guards uncertainties, prevents risks, but also what dictates transaction costs and thus these are both domestically and internationally (meant in each perspective recipient state) very important.[42]

The abovementioned theories were initially meant to explain the *natural* FDI flows from developed to developing countries. Since the 1980's, however, developing countries – mainly on the South-South axis, started to play a more important role that dramatically graduated after the global financial crisis in 2008.[43] This did not mean that the traditional viewpoints and frameworks were rendered useless, but they had to

[40] Wadhwa, K., 2011.
[41] Ekholm, K. et al., "Export-platform foreign direct investment," *NBER*, Working Paper 9517, 2003.
[42] Bénassy-Quéré et al., "Institutional Determinants of Foreign Direct Investement," *CEPII*, Working Paper No 2005-05, April 2005.
[43] Aykut, D., "Outward FDI from developing countries are up, notably South-South flows," *The World Bank Blog*, June 2011.

be, at least partially, reconsidered. They firstly touched upon this new growing tendency in general and later on tackled the single most important capital exporter, China, on their own.

Bano and Tabbada analyzed numerous reasons why developing countries tend to go abroad, with results suggesting that high domestic savings rate, an export oriented economy, rapidly growing GDP and substantial international reserves correlate with FDI outflow.[44] The suggested logic is very simple. Developing countries receive foreign capital, get slowly developed on certain level, accumulate savings and reserves, and then they have the option to reinvest the money either domestically or abroad. There is hence a "systematic relationship between inward and outward [FDI] flows."[45]

In the region of Asia-Pacific, this has been greatly extended by J. Mathews with his "linking, leverage, learning" framework. From his perspective, latecomers enjoy the advantage of having links to global value chains and may hence easily enter the foreign market in collaboration with native companies. The struggle to overcome further "barriers of diffusion" by imitation or substitution of resources is, on the other hand, the leverage. Repeating this process will eventually lead to learning and emulation of this know-how elsewhere.[46]

This is indicating not only that the very basics of Heckscher-Olin's theory are universally applicable (as savings rate and international reserves mean cheap capital), but also that FDI theories such as internalization and efficiency seeking is also at place.

Rugman, on the other hand, argues that theories applied to multinational corporations (MNC) from developed countries cannot work with those enterprises from developing regions. He makes a conclusion that regional expansion of MNCs from developing countries will play a more important role than a search for cheap labor force from developed economies. Institutional setup, role of the government and

[44] Bano, S. and Tabbada, J., "Foreign Direct Investment Outflows: Asian Developing Countries," *Journal of Economic Integration*, Vol. 30, No. 2, June 2015.
[45] Bano, S. and Tabbada, J., "Foreign Direct Investment from Developing Countries: Evidence, Trends and Determinants," *NZAE*, Conference Paper, June 2012, p. 21.
[46] Mathews, J.A., "Dragon multinationals: New players in 21st century globalization," *Asia Pacific Journal of Management*, Vol. 23, Issue 1, March 2006 as in Thite, M. et al., "Internationalization of emerging Indian multinationals: Linkage, leverage and learning (LLL) perspective," *International Business Review*, 2015.

other factors need to be taken into account as well.[47] Indeed, many studies suggest that a general or at least a middle-range theory applicable to OFDI from emerging markets is hard to find.[48]

What is, however, the position of China, and (the eternal question): “is China different”? The “Middle Kingdom” is not only different from the developmental perspective, but also from political point of view. One party system and market dominated by State-Owned-Enterprises (SOE) may naturally not respond to economic logic only and may take into account more than the enterprise survival. While this institutional specificity may be appealed to its own sort and may conduct business on its own terms, there are also other deviating factors. These include party survival and domestic (national) development,[49] or promotion of foreign policy goals and policies abroad.[50] Let’s, however, have a more detailed look into previous studies that tried to understand China’s investment motivations.

Filippov and Saebi identified three very broad motives that drive capital out of China: First, it is the macroeconomic flow of capital from places where it is cheap to places where it is scarce. The amount of money in the “Middle Kingdom” simply begs to be invested elsewhere. The need to internationalize, gain further know-how, experience, survive competition etc. is a second motivation shared by Chinese enterprises. Third motive is, however, according their study not economic but bows to political logic as Beijing simply wants to extend influence abroad. As Chinese companies are often state-owned, their ownership of firms abroad may be also linked to Zhongnanhai’s decision-making.[51] Such potential leverage over EU’s decision-making is, however, too hard to measure at this point as its potentiality is even more elusive than a simple motivation analysis.

[47] Sauvant, K., Maschek, W., McAllister, G. (eds), *Foreign Direct Investment from Emerging Markets: Challenges ahead*, Palgrave Macmillan US, 2010.
[48] Gill and Singh, for example, carried out a comparative study of China and India, finding that their investment target countries differ both sectorally and regionally . For more info see: Gill, A. and Singh, L., “Internationalization of Firms from Emerging Economies: Theory, Evidence and Policy,” *Punjabi University*, March 2012.
[49] Deng, P., “Outward investment by Chinese MNCs: Motivations and implications,” Business Horizons, 47(3), 2004.
[50] Yeung, H. W. C., & Liu, W. (2008). Globalizing China: the rise of mainland firms in the global economy. Eurasian Geography and Economics, 49(1), 57-86.
[51] Filippov, S. and Saebi, T., 2008.

Berning and Holtbrugge in their quantitative research found out that the majority of studies on China's OFDI do not conform to traditional internationalization theories of FDI. In conclusion, they suggest that these theories – in order to let us better understand the nature of Chinese OFDI – need to undergo at least a certain degree of extensions and modifications.[52] Other researchers agree.

Morck et al. suggest that, although economic-wide logic plays an important role, a number of distortions occur mainly because majority of Chinese investors abroad are SOEs. For various reasons, their rationale to invest in certain countries and/or sectors may differ from general theories driven by liberal and capitalist worldviews. Three key findings may help us understand Chinese behavior better – since these SOEs have deep knowledge of elaborate bureaucratic systems, institutional closeness of recipient state may play an important role. Second, certain maturing industries in China have been due to their growing capabilities able to reverse the traditional developmental roles as they may know their needs better than other investors, hence they take initiative. And third, "*China's outward FDI may be justified economically to SOE insiders who overvalue control due to their distrust of markets and sense of national pride*".[53]

Interestingly enough, Child and Rodrigues do support this thesis in similar terms. They present the idea that China's OFDI is not driven by hopes to gain better competitive advantage but to address their competitive disadvantages. They suggest that catch-up strategies, role of the government, institutional background and liability of the foreigners should be taken into account as well.[54]

Further, Buckley et al. found that special explanation of Chinese OFDI did bring fruitful outcomes. Their study incorporated such non-traditional variables as capital market imperfections, special ownership advantages and institutional factors into the general theory of MNCs investment incentives. With this study, they

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[52] Berning, S.C. and Holtbrugge, D., "Chinese Outward Foreign Direct Investment – a Challenge for Traditional Internationalization Theories?," *Journal für Betriebswirtschaft*, Vol. 62, Issue 3, pp 169-224, December 2012.
[53] Morck, R. et al, "Perspectives on China's Outward Foreign Direct Investment," *Journal of International Business Studies*, 2008.
[54] Child, J. and Rodrigues, S., "The Internationalization of Chinese Firms: A Case for Theoretical Extension?," *Management and Organization Review*, Vol. 1, Issue 3, pp 381-410, November 2005.

successfully identified positive correlations with host country political risk, cultural proximity, market size and natural resources endowments.[55]

While some studies argue whether well- or badly-governed countries attract more investment, Li and Liang, regardless of these measures, had a look at bilateral relations of respective countries with China. They did find out that the better political relations, the higher flows of China's FDI. Their logic suggests that better political ties would serve as protective measures for China's money.[56]

While these theoretical works served as the background understanding of FDI motivations, the selection of respective FDI has been made not only in the view of these, but other peer studies were taken into account as well. This was done in order to make mutual comparison possible.

[55] Buckley, P. et al, 2007.
[56] Li, Q. and Liang, Q., "Political Relations and Chinese Outbound Direct Investment: Evidence from Firm- and Dyadic-Level Tests," *Research Center for Chinese Politics and Business*, Working Paper #19, Indiana University, 2012 as in Matura, T., 2015.

4. Chinese Investment in Central and Eastern Europe

This chapter will briefly introduce the recent history of China's investment engagement in the region of CEE. It will first touch upon the general development, then it will discuss the new China-CEE 16+1 cooperation platform and in the end it will tackle the position of the European Union. This basic understanding will allow readers to proceed to the core section of Chinese motivations to invest in this region which follows this chapter.

The way China has perceived the region of CEE was in the terms of great potential gains. It is has become a new market with great economic perspectives on its own but it could, more importantly, assume the strategically important role of a gate to the rest of EU. Indeed, its special position stems from its nature of politically stable environment, where economic development has not reached its Western neighbors. In the view of a number of comparative advantages (such as cheaper labor costs, tradition of manufacturing, good access to the rest of EU,...) it is seen as a great export platform to reach and tap other potential markets. The special nature of CEE with all its benefits hence dwells both in its economic and political development levels. Although in both it is considered developed, in the terms of economic comparative advantages, it assumes the position of less developed and thus cheaper production base.

4. 1. The investment development

Economic development of CEE is closely linked to the political development of Europe. After the end of the Cold War and subsequent dissolution of Soviet Union, privatization reforms, transformation of the markets and opening up of the economies provided great potential for successful investment projects. Opportunities of 90's, however, with the development of given economies and accession to the EU faded away without China's notice. Since the PRC was keeping a low profile in this decade, the region as far as CEE was completely out of China's sight and interest.[57]

[57] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 24.

Although Beijing's strategy changed with the turn of the millennium to more pro-active "go abroad strategy," the region of Central and Eastern Europe remained considerably neglected. It was as late as 2005 with the 11th Five-Year Plan released for the period between 2006-2010, that Chinese documents specifically mentioned diversification of investment targets – and one of the regions suggested truly was CEE. However, elaborate legal provisions of the EU slowed down China's engagement in this area. Although some claim that the most important trigger was the accession of some of the countries into the EU in 2004,[58] mutual benefits started to be seen mainly in the aftermath of the Greek sovereign debt crisis, putting the whole of EU into dire economic perspectives.

After 2008, countries of CEE felt financially neglected by Brussels and hence started to fish for money elsewhere. It was at this moment, when China's engagement in this region took off. Indeed, while China was looking for profitable markets to pour its investments in, the region of CEE, aware of this opportunity, made steps to become more conducive for Chinese projects (see later in the political proximity section). Indeed, such cooperation was seen as mutually beneficial. Even so, from China's point of view, CEE's importance still cannot match other regions.

Nevertheless, in order to create institutional platform for China's cooperation with this region, Beijing came up with the so called 16+1 initiative. It has been introduced in 2012 as a push in all fields of mutual cooperation. Ever since, top-leaders summits take place every year, discussing ways and fields of enhancing such cooperation further.

While it was China who came up with the sixteen countries that define the scope of this study, it seems to have done so on purpose. CEE countries are the ultimate hub of China's "One Road One Belt" strategy aiming to reach developed western European markets. With the lack of homogeneity and inability to create coherent foreign policy towards China, Beijing was able to lump these sixteen countries into one herd, while at the same time preferring bilateral cooperation over the multilateral one.[59]

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58 Szunomár, Á., McCaleb, A., 2015.

59 Jaroch, E., "China's Foreign Policy Towards CEE Countries: Determinants, Development And Problems," *People's Square*, March 2016.

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014
Albania	0,51	0,51	0,51	4,35	4,43	4,43	4,43	7,03	7,03
Bosnia and Hercegovina	3,51	3,51	3,51	5,92	5,98	6,01	6,07	6,13	6,13
Bulgaria	4,74	4,74	4,74	2,31	18,6	72,56	126,74	149,85	170,27
Croatia	0,75	7,84	7,84	8,1	8,13	8,18	8,63	8,31	11,87
Czech Republic	14,67	19,64	32,43	49,34	52,33	66,83	202,45	204,68	242,69
Estonia	1,26	1,26	1,26	7,5	7,5	7,5	3,5	3,5	3,5
Hungary	53,65	78,17	88,75	97,41	465,7	475,35	507,41	532,35	556,35
Latvia	2,31	0,57	0,57	0,54	0,54	0,54	0,54	0,54	0,54
Lithuania	3,93	3,93	3,93	3,93	3,93	3,93	6,97	12,48	12,48
Macedonia	0,2	0,2	0,2	0,2	0,2	0,2	0,26	2,09	2,11
Montenegro	0	0,32	0,32	0,32	0,32	0,32	0,32	0,32	0,32
Poland	87,18	98,93	109,93	120,3	140,31	201,26	208,11	257,04	329,35
Romania	65,63	72,88	85,66	93,34	124,95	125,83	161,09	145,13	191,37
Serbia	0	2	2	2,68	4,84	5,05	6,47	18,54	29,71
Slovakia	0,1	5,1	5,1	9,36	9,82	25,87	86,01	82,77	127,79
Slovenia	1,4	1,4	1,4	5	5	5	5	5	5
TOTAL	**239,84**	**301**	**348,15**	**410,6**	**852,58**	**1008,86**	**1334**	**1435,76**	**1696,51**

Figure 3: The Stock of China's investment in CEE 2006-2014 in millions of USD[60]

China's cooperation with the CEE countries is in the way of capital engagement undoubtedly going to continue. The new plan for the period 2015-2020 has agreed to provide almost USD 3 billion as a part of investment fund (and currency swaps).[61]

[60] *2014 Statistical Bulletin of China's Outward Foreign Direct Investment*, Ministry of Commerce of the People's Republic of China, 2015.
[61] *Europost*, "China woos Eastern Europe," November 2015.

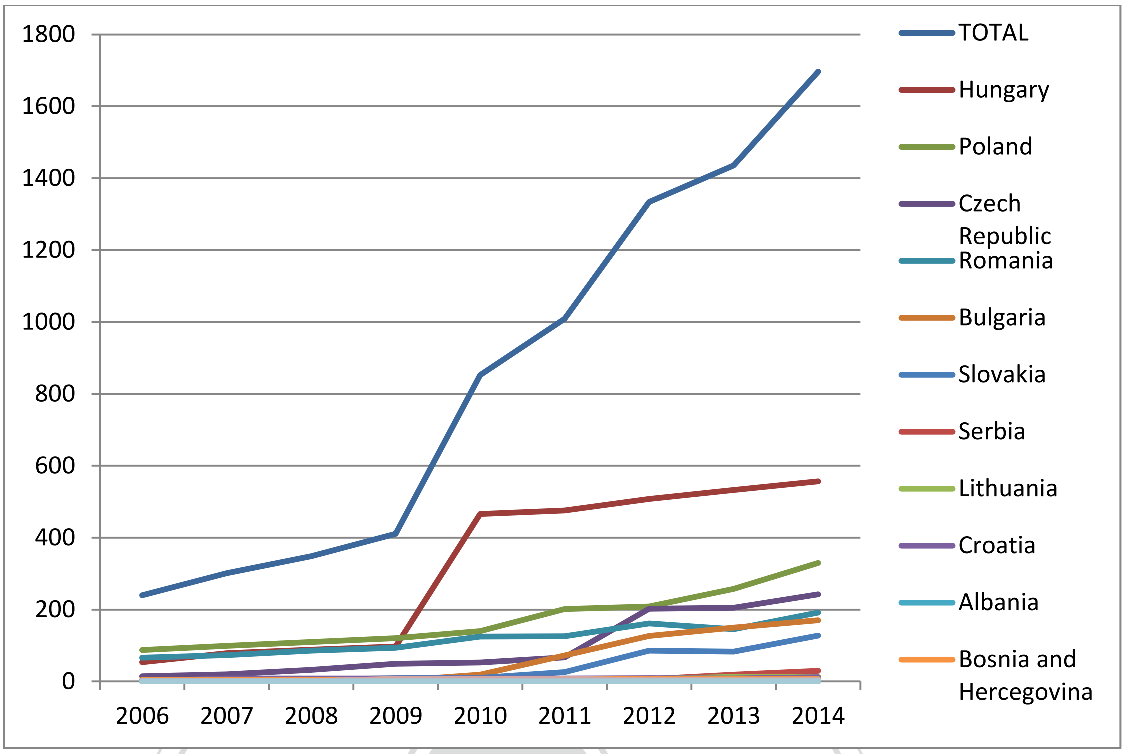

Chart: Linear graph of China's investment stock in CEE 2006-2014 in millions of USD[62]

Although Chinese OFDI grew globally sevenfold in the period 2004-2010 on average, it grew more than seventeen times in CEE, marking an unprecedented boom.[63] This rapid development continued. The total amount of investment between 2006 – 2014 has grown more than sevenfold as well.[64] The rapid boom in importance is clearly perceivable. Regardless of these numbers, however, this region still plays only a marginal role in China's OFDI.

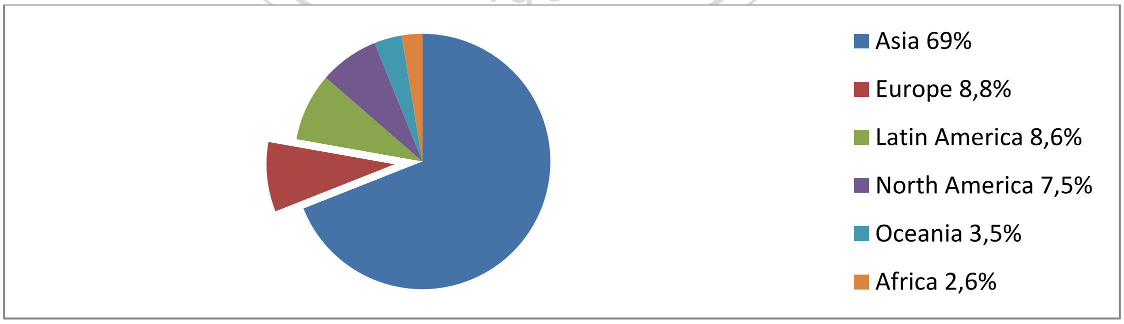

Chart 1: Geographical Distribution of China Investment Stock, total amount 123, 1 Billions of USD

[62] *2014 Statistical Bulletin of China's Outward Foreign Direct Investment*, 2015.
[63] Golonka, M., "Partners or Rivals? Chinese Investments in Central and Eastern Europe," *Central and Eastern Development Institute*, Warsaw, Poland, 2012.
[64] Ibid. and Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 25.

While China's OFDI has grown even faster ever since the global financial crisis and China became a net capital exporter in 2014, other regions attracted Chinese money comparably more than CEE.[65] When comparing Chinese investment in the region of CEE with total amount of China's FDI into EU (which amounts to 54, 210 Billions of USD), the official Chinese data would suggest that CEE accounted for only about 3% of the total amount. Also, despite critical voices about the speed of Beijing's investment in this region, the growth still lacks behind the amounts received by the whole of EU.[66] Although Europe as a whole received, according to *World Resources Institute* (and according to China's official sources also) only about 8% of China's total FDI in 2013, the region of CEE obtained only a small fraction of that.[67] The comparative under-development of relations with Eastern part of Europe thus still remains visible.[68] So while Europe plays only a marginal role among other recipients of Chinese capital, CEE plays the same role within Europe.

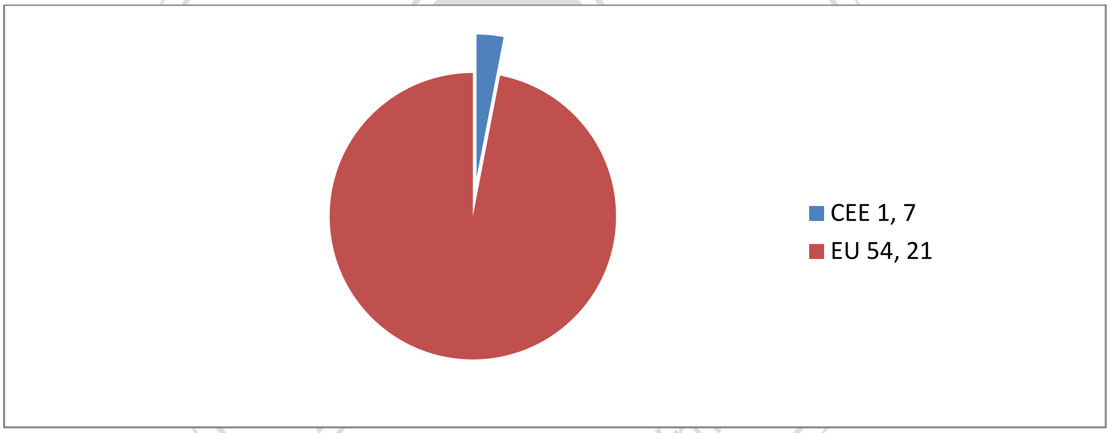

Chart 2: Chinese Investment in Europe (Billions of USD)[69]

From the total amount of China's FDI in the region, it is clearly perceivable that Hungary, Poland, Czech Republic, Romania, Bulgaria and Slovakia are the most important players. These are at the same time the strongest in the terms of total economic output and population. McCaleb and Szunomar point out that these countries, although nowadays quite different in many aspects of their respective

[65] *Asia Times*, "China becomes world's top net capital exporter," February 2016.
[66] *2014 Statistical Bulletin of China's Outward Foreign Direct Investment*, 2015.
[67] Zhou, L. and Leung, D., "China's Overseas Investments, Explained in 10 Graphics," *World Resources Institute*, January 2015.
[68] Simurina, J., "China's Approach to the CEE-16," Europe China Research and Advice Network, Short Term Policy Brief, No. 85, January 2014.
[69] *2014 Statistical Bulletin of China's Outward Foreign Direct Investment*, 2015.

economies, have enjoyed very similar development in the last decades, including transformation, catching up with wealthier Western Europe (while at the same time being more and more dependent on this region) while relying on FDI when restructuring domestic economies. Although China’s growth and related possibilities could not have undergone unnoticed even in this region, CEE countries’ interests grew rapidly especially after the Euro financial crisis in 2008, when traditional vectors of their economies stopped working as needed.[70]

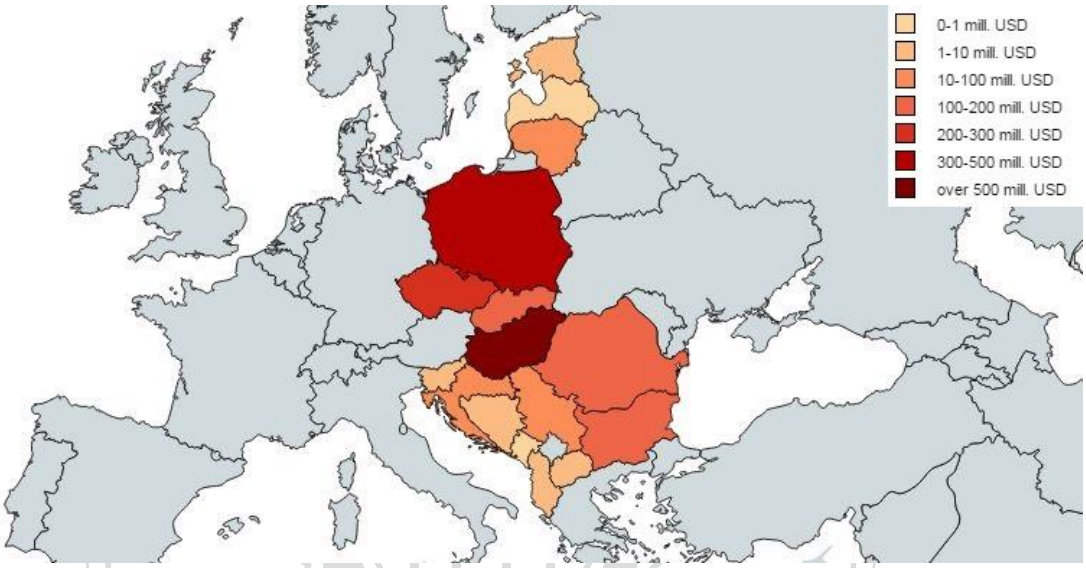

Chart 3: Geographical distribution of China's investment in CEE - colored map of CEE

It has been suggested that CEE, especially its core part of Visegrad Four (V4, countries of Poland, Czech Republic, Slovakia and Hungary) will serve as the factory of Europe and hence the very same role as China for the world. V4 may eventually also be the growth engine of Europe as the catch-up process and comparative advantages for FDI projects may help these countries grow faster than Western Europe. Indeed the growth dynamic, lower wages, skillful labor force, healthy

[70] Élteto, A., Szunumár, Á., 2016, p. 11. The situation with Slovakia was somewhat different as first significant increases occurred already prior the Euro crisis. First significant increases took place already in 2007, however ever since this stock fluctuated and it is difficult to establish well-reasoned explanation as reasons for this development may vary and may be dependent not only on European and global economic development but also on the domestic circumstances in both countries. Although Slovakia remains among one of the main beneficiaries in this regions, the amount of FDI obtained is still relatively modest. Turcsányi further suggest that even if we take into account investment of Chinese origin but carried out by subsidiaries from third countries, the total would add up to only to 100 – 200 million Euros (EUR). Turcsányi R. Q., "Chinese financial presence in Slovakia and Slovak ‘China policy’," in: Szunomár Á. (eds), *Chinese investments and financial engagement in Visegrad countries: myth or reality?*, Budapest: Institute of World Economics, Centre for Economic and Regional Studies, Hungarian Academy of Sciences, 2014, pp 89-107.

banking sector and lower debts may be attractive for numerous investors. The countries of V4 are thought to be the most appealing destination for any kind of FDI.[71] Szunomar and Caleb are citing on Ikemoto, providing even more comprehensive framework for assessing the advantages the region of CEE may offer to foreign investors:

> *"(1) the country's tradition of manufacturing; (2) many qualified and skilled workers; (3) qualified production managers; (5) advantageous geographical location for the EU market; (6) relatively well established infrastructure (roads, railways, electric power, etc.); (7) lower labor costs than EU-15 countries; and (8) FDI incentive programs (several years' tax holidays, duty free import of equipment, job creation grants, site development support, etc.)."*[72]

Indeed, many business reviews confirm that the quick post-crisis recovery of CEE makes it a very promising investment area, with attractiveness nearly equal to North America. Especially manufacturing sector is favored due to skillful and comparably cheap labor costs; good infrastructure, political stability and countries belonging into the EU Customs Union.[73] Turcsányi further supports this importance of favorable business opportunities, closeness to the Western European markets and stable economic growth.[74] A growth that has been in the post-crisis recovery much faster than the one in "old Europe".[75]

By the same token, these countries have turned fairly active when trying to attract more Chinese FDI. Regardless of the broader political relations (see given chapter), there have been numerous more concrete policy actions. Elteto and Szunomar draw the picture of Poland who stands out as the brightest example: Polish exhibition at the EXPO in Shanghai in 2010 was promoting Poland through Chinese firms; Poland's Information and Foreign Investment Agency began to be also very active in setting up their offices in China or when translating official information into

[71] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 29.
[72] Szunomár, Á., McCaleb, A., 2015, p. 12 according to Ikemoto, S., "Globalization and Japanese Investment in the Czech Republic," *Bulletin of Research Institute of Economic Science,* Vol. 37, 2007.
[73] Klauberg, T., "Foreign Investments in Central and Eastern Europe," *Union Internationale des Avocats*, November 2013.
[74] Turcsányi, R., "Central and Eastern Europe's courtship with China: Trojan Horse within EU?," *European Institute for Asian Studies,* January 2014.
[75] Klauberg, T., 2013.

Chinese, etc. Apart from Hungarian policies (again see bilateral relations section), however, all of these incentives are regarded as somewhat haphazard and not having yet been developed into a comprehensive strategy towards China.[76] Hungarian approach is believed to be, on the other hand, more than fruitful – not only the total amounts of received Chinese FDI surpasses all its peers, but China's FDI has been acclaimed to help Hungarian economy in the difficult times after 2008.[77]

While there are many factors indigenous to the region itself, China feels the same need to invest their money abroad. Many would suggest that domestic support and external demand would play a crucial role.[78] But there are also commentaries suggesting that pouring money outside of China is simply a safer way of capital allocation as Chinese economy may not be as stable to provide long-term guarantees.[79] Survival of Chinese enterprises is another important reason to "go global". Either way, the Chinese has realized the possibility to reach their goals abroad and, indeed, CEE turned to be – for the time being – a great target as many of the abovementioned reasons offer a great "window of opportunity," even though perhaps only of temporary character:[80]

> *"Currently, investing in CEE would allow China to upgrade its exports and extend the investment value chain. But choosing inaction would result in a missed opportunity to occupy the market. [...] China cannot expect, or wait, for the recovery of the EU economy to compensate the losses incurred. On the contrary, China should focus on enhancing the competitiveness of its export products in the EU market and promote the products so that they move upstream on the value chain. With CEE's foundation of solid investment in labour, capital, and industry, including its integration into the EU technology sector, it is a place that presents good investment opportunities which can produce lots of added values."*[81]

[76] Élteto, A., Szunumár, Á., 2016, p. 12.
[77] Ibid. p. 14.
[78] *Global Markets – EY Knowledge,* "Riding the Silk Road: China sees outbound investment boom Outlook for China's outward foreign direct investment," March 2015.
[79] *South China Morning Post*, "Chinese investment overseas soars as the domestic economy loses steam," June 2015.
[80] Liu, Z., "All Aboard the China-Europe Express," *Visegrad Insight,* November 2015.
[81] Ibid.

Although attention is paid mostly to what is going on in the region of CEE and in China, it is advisable not to neglect the structural and global perspective. It was not only endogenous processes in these two regions that sparked China's interest in CEE, but it was the state of global economy and politics that drew these two regions together.[82] There are also voices taking into account Russian economic regression rather than EU's influence, suggesting that Beijing is trying to take over Moscow's traditional sphere of (now somewhat lessened) influence.[83]

So in what sectors, after all, does China invest? Sectoral distribution suggests that the "Middle Kingdom" is interested in secondary and lately also tertiary sectors. While manufacturing served as an initial backbone, services including law, banking and finance are spreading all around the Visegrad 4. IT, telecommunications, electronics, machinery, chemical industry and transportation sectors are among the most prominent ones as well.[84] Indeed companies such as Wanhua, Huawei, ZTE, Lenovo, Sevenstar Electronics Co., BYD Electronics and Comlink are topping the list.[85] On the whole, we may see that this sectoral distribution follows Chinese FDI strategy hoping to diversify in all possible dimensions.[86] Other sources also claim that manufacturing, financial service, information and communication technologies, infrastructure, chemical industries and other sectors are the most important ones, partially proving the import, high technology and export motivation.[87]

Prior to any motivation analysis, there already seems to be a consensus that Chinese investment in developing and developed economies is inherently different and thus strives for different goals. While countries in Asia, Latin America and Africa are seen as potential markets and sources of natural resources, Western Europe and Northern America turned into an investment areas due to their advanced technologies, managerial knowledge and distribution networks.[88] Although official numbers suggest that PRC still prefers to invest in developing markets, studies lately also claim that if

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82 Golonka, M., 2012. P. 9.
83 Goh, B., "China proposes joint financing firm with central and east Europe," *Reuters,* November 2015. Further, some researches understand this Chinese initiative in slightly geopolitical terms, where China is trying to gain ground in an area between old Europe (EU-15) and Russia, mainly by providing "unconditional loans". See: Giusti, S., "China: an emerging stakeholder in Eastern Europe," *Instituto Per Gli Studi di Politica Internazionale*, ISPI Analysis No. 153, January 2013.
84 Ibid. p. 36
85 Szunomár, Á., McCaleb, A., 2015.
86 Élteto, A., Szunumár, Á., 2016, p. 22.
87 Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 26.
88 Szunomár, Á., McCaleb, A., 2015.

round-tripping investments are taken into the total amount of Chinese investments abroad, developed countries (most notably Australia, Hong Kong, the United States and Germany) make up to 60% of total China's OFDI.[89] As this paper is about to prove, Chinese investors deem CEE to be somewhere in between those two.

4. 2. The position of EU

The position of EU is rather peculiar. While it is often pointed out that EU neglected the countries of CEE after the financial crisis, when these countries turned to China, Brussels' point of view was rather negative. As most of the countries from CEE are also members of the EU, Brussels worries that China could exert pressure via these countries on European politics. As, for example, the Visegrad 4 has bigger amount of seats than Germany and France in the EU parliament, this is an important point.

Estonia	Latvia	Lithuania	Slovakia	EU	NATO	CEE countries ("16+1")
Hungary	Poland	Romania	Bulgaria			
Slovenia	Croatia	Czech Republic				
Albania						
Serbia	Macedonia	Montenegro				
Bosnia-Herzegovina						

Figure 4: CEE countries of the "16+1" formula and their affiliations with the EU and NATO[90]

EU institutions and Western Europeans states proved to be quite voiceful against CEE's drive to cooperate with China, stating that Beijing is likely to get political leverage on domestic as well as EU-wide level of politics. These politicians did not hesitate to go so far as to say that "China and the sixteen CEE countries are building a new Berlin Wall".[91] Regardless of the official circles and certain horror-like media commentaries, the academic world agrees that such EU's attitude is of divisive character on its own as the rest of the Union is actually still receiving more of China's

[89] Élteto, A., Szunumár, Á., 2016, p. 8.
[90] Jaroch, E., 2016.
[91] Matura, T., 2015.

FDI anyway. Indeed, support and reconciliatory position are often suggested policies that EU should adapt.[92]

Awareness of possible defection from multilateral – that is EU-wide – policies remains strong as modesty of CEE economies might see easy money when fostering pro-China policies.[93] Such development is indeed not unlikely – see the chapter on political proximity. Even though 16+1 has been created as a multilateral platform, it has been agreed that China still pursues mainly bilateral kind of connections. As the power of CEE countries cannot be equaled to the one of China, there are misgivings about the power gap between China and these countries and China's economic pressure to navigate European politics. In other words, some are afraid that China is simply buying political support.

Further, while the investment environment is not equal on both sides, China's acquisition of companies in CEE is a logical prevention from letting them reach China's market. Hence, foreign companies stand in an unequal position when facing their Chinese rivals.[94] This is after all another of the problems EU and the United States (US) is dealing with. China is bound to gain the status of market economy, which means that the EU-28 will have more difficult time to impose anti-dumping measures on Chinese goods.[95] While there is a great debate on that among EU countries, those receiving larger share of China capital might swing the pendulum in favor of the Middle Kingdom.[96] Similar debates were also, by FDI beneficiaries, initiated about reconsidering the arms trade embargo on China. Hence, the EU worries.

There are, however, potentially more comprehensive reasons to worry. Czech *Association for International Affairs* presents four in the case of the Czech Republic. These, however, may be also applied to the region as a whole. First, different attitudes towards China in the CEE and the EU as a whole hinder the ability of mutually beneficial decision making. Second, Chinese investment in strategic sectors such as energy might give too much leverage and access to vital parts of national economies. Third and fourth, the value system of foreign policies (such as support of human

[92] Turcsányi, R., 2014.
[93] Godement, F., "China Goes for the New Europe in Warsaw," *E!Sharp*, April 2012.
[94] Kopecký, V. et al., "Nová Hedvábná cesta: výzvy a příležitosti," *Asociace pro Mezinárodní Otázky,* Research Paper 1/2016, March 2016, p. 25.
[95] Zalan, E., "Divided EU debates China market economy status," *EU Observer,* January 2016.
[96] Further on this issue for example: Puccio, L., "Granting Market Economy Status to China," *European Parliamentary Research Service,* November 2015.

rights) and cooperation with Western partners may both come under inquiry when trying to engage with China at the cost major concessions.[97]

Others put forward a different point. China does not hope to disintegrate Europe – quite to the contrary it hopes to make use of the investment to push the holistic nature of its relations with Europe forward. Keeping Europe strong would help China to follow its multilateral world order is nowadays sees desirable. Interestingly, this attitude may be seen in both Western and Chinese discourses.[98] CEE – in this strategy – only happens to be "on the way". Indeed, the CEE might only be a corridor, hub or a logistical center to deepen connections with the West.[99]

Liu Zuokui puts further importance on the European debt crisis factor, stating that the effectiveness with which EU will be able to deal with its own financial problems will be indicatory of further China's engagement in the region. While he expects amelioration of the current situation, he suggests that the position of China as an important OFDI player will correspondingly fade away.[100]

This introductory chapter showed us that reasons for such cooperation and China's investment in the region of CEE are indigenously linked to political and economic development in both of these regions. Further, they are also influenced by the regional and even global processes that constructed such an option to arise in the last couple of years.[101] While China and CEE may see this cooperation as beneficial, there are also misgivings about China's true aims. These are echoed mainly on the part of European Union worried about China's influence on its decision making process. This political influence is nevertheless hard to measure. The following chapter could, however, shed more light on what drives China's investment in the region the most.

[97] Kopecký, V. et al., 2016, p. 20-25.
[98] Liu, Z., 2015.
[99] Tiezzi, S., "China's 'Belt and Road' Reaches Europe, *The Diplomat*, November 2015.
[100] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 26-7.
[101] Golonka, M., 2013, p. 9.

5. Motivation Analysis

Herein follow the results of my motivation analysis. While following the methodology outlined above, all motivations in this section have proved to be sufficiently correlated with China's FDI. They are arranged from the one with highest correlation coefficient to the one with the smallest (but again still moderate enough to have been proven). While the numeral results are outlined in the box bellow and in each respective section, their graphical outcomes may be found in Appendix one. Although there are no generally accepted guidelines on what correlation coefficient may be regarded as strong, moderate, etc., the weight of my numerical results will not be assessed purely arbitrarily, and will follow the most common approach.[102]

Motivation	Correlation coefficient	Remark
Culture Closeness	0. 8536	Very strong positive correlation
Openness to FDI	0. 8189	
Technology Acquisition	0. 7887	Strong positive correlation
Mutual Trade	0. 7878	
Export	0. 7689	
Political Proximity	0. 6592	
Market Size	0. 6380	
Logistics	0. 5564	Moderate positive correlation

Figure 5: Results of proved motivations with their correlation coefficients

5. 1. Culture closeness

Correlation coefficient of China's OFDI stock with number of Chinese residents in given countries is R = 0. 8536, suggesting very strong positive correlation. Although this research had to look into several different data sets (that were still not exhaustive

[102] The generally accepted benchmarks are as follow: R = 0 – 0.19 is a very weak correlation; R = 0.2 – 0.39 is a weak correlation; R = 0.4 – 0.59 is a moderate correlation; R = 0.6 – 0.79 is a strong correlation and R = 0.8 – 1.0 is a very strong correlation

enough) it still proves to offer almost ideal results with correlation even higher than in other studies.

While the number of Chinese residents in any given country suggesting higher FDI is a common phenomenon, it proves it is right also in this region. Indeed, lack of cultural and local knowledge stopped to be the problem only for Western businessmen in China. It has now also turned the other way round. With overrated expectations about the ease of doing business in Europe, many problems occur regularly. The number of Chinese residents knowledgeable about local law, social peculiarities, bureaucratic demands, etc., is an important factor, when starting business.[103] *Eurodialogue* lays a great emphasis on this factor:

> *"The role of culture and common perceptions in Sino-CEE relations is enormous! The main obstacle to increasing investment links between CEE and China lies in misunderstanding of the other's cultural and business ethics. China's policies tend to be driven by both political and economic motives. In fact, rarely do the Chinese separate business form politics, a crucial cultural difference when it comes to investment strategies. There is a strong need for strengthening the effectiveness of CEE economic diplomacy. Simultaneously, setting up CEE-Chinese joint ventures to allow both sides to complement each other's strengths in the global supply chain and market is also a case. Examining the case of Covec in Poland shows how miscommunication and misunderstanding of cultural differences can lead to economic and business failures. The importance of interpersonal relations for strengthening Chinese-CEE partnerships is evident in the case of both large Chinese ventures into CEE, as well as smaller scale business activities characteristic of the way the local Chinese communities work. In addition to large Chinese conglomerates, the role of the Chinese community or Diaspora is significant in CEE. The Diaspora forms Chinese networks throughout CEE, on which small and medium size Chinese firms rely to conduct their business activities."*[104]

[103] Kopecký, V. et al., p. 19.
[104] Golonka, M., 2012.

Indeed, while it has been said that the Chinese seldom separate politics from business, this phenomenon should not be understood only in the terms of political proximity, but also as a cultural difference limiting possible cooperation.[105] Hence knowing what is legally and socially proper is very important. Many big deals were hindered by lack of cultural and mainly local knowledge, leading to disappointment and frustration, further limiting cooperation – this is after all, the abovementioned case of *Covec*.

Naturally, it is difficult to argue that big multi-billion dollar investment projects rely only on Chinese diaspora. However, it is this very diaspora that has been thought of as a cornerstone for small and medium enterprises in the region.[106] Although there has already been too much hustle about the term *guanxi* and its actual use in business, even the top standing political and corporate leaders ascribe it with importance the West has not yet understood: *"For Chinese, interpersonal relationships and cultural ties come before building professional alliances. The exact opposite is true in European corporate culture, where transactions in business precede personal relationships. To work with the Chinese, we have to at least partially understand this."*[107]

Let's discuss the case of Hungary. Official sources claim there is a confirmed Chinese diaspora in Hungary – by far the largest in the region – of about 11 000. Other figures give, however, an estimate revolving about 20 000 – 30 000 of Chinese citizens. While some sources suggest that Chinese communities are under-assimilated into the society and do not speak the local language, Hungary, having by far the biggest Chinese diaspora enjoyed the highest investment so far.[108]

This logic may have two explanations: theoretically speaking, firm's ownership advantage looks beyond Dunning's motivations and bilateral relations, putting emphasis also on big expats population. This population would suggest broader trade and commercial networks and innately existing relations. To give an example, PRC's *Hisense* company investing in Hungary included this factor among the most important ones.[109] The other explanation, while having problems with

[105] Ibid. p. 9.
[106] Ibid. p. 9.
[107] Ibid. p. 11.
[108] Du Bois, G. and Birtha, M., "Hungary: the flagship of China in Europe?," *Nouvelle Europe*, June 2015.
[109] Szunomár, Á., McCaleb, A., 2015.

causality, is similar to immigration policies adopted by other countries. Chinese citizens have been allowed to obtain resident visa under the condition of considerable investment in the country, suggesting even more open relations.[110]

Although it could be argued that culture closeness may be brought about also by other means, these do not seem to have had the desired effect (and can be also hardly measurable). Studies suggest that China's Confucius Institutes and China Radio International did not achieve much in this region.[111]

5. 2. Openness to FDI

Correlation coefficient of China's OFDI stock with absolute net inflows of FDI (stock in USD) equals to R = 0. 8189, suggesting very strong positive correlation. While there are number of sources of FDI, *World Bank*'s data were also compared with data from United Nations Conference on Trade and Development (UNCTAD), reaching similar results.

Given proxy clearly suggests that the more FDI each respective country attracts, the more it will also obtain from China. Nevertheless, as the respective amounts revolve around about 1% of the total inward FDI, China's significance in this field is still somewhat negligible. The only difference in this region is constituted by Hungary and Romania where Chinese share is around 3% and 2% respectively.[112] This is mainly due to their relatively exceptional numbers of total amount obtained.

Indeed, in the words of Tintin: *"Openness variable has a statistically significant and economically important role in all models and across different sectors. Even in the traditionally less open to trade sectors, such as the primary and the services sector, it stays as an important determinant of FDI inflows in the CEE."*[113] Hence the similar conclusion of my study to his: pro-growth strategies (build on foreign capital) do attract more money and China's position fits perfectly into this strategy and hence it is not China, but the very countries that serve as a catalyst.

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110 The investment amount should be at least 250, 000 EUR, Szunomár, Á., McCaleb, A., 2015, p. 17 .
111 Simurina, J., 2014, p. 9.
112 Matura, T., 2015, p. 17.
113 Tintin, C., "Do Institutions Matter for FDI? Evidence from Central and Eastern European Countries," *European Trade Study Group,* 2011, p. 22.

While openness to FDI is naturally a matter of governmental policies, these may be embodied by two related but not identical approaches. The first is easing up of the restrictions of to do business, that is creating an unrestricted doing-business environment; the other is offering subsidies to attract foreign investors. While the first motivation found no correlation in my study, the other seems to be explaining my results. As CEE countries traditionally depended on foreign investment to stimulate their economic growth, this is a clear indication of my outcomes.[114]

The issue of state subsidies is very closely related to the FDI openness. CEE countries are in this field quite initiative and apart from general subsidies programs, they are also willing to cooperate with potential investors to find out mutually acceptable solutions. Hungarian "custom free zones", tax allowances in Poland and Slovakia and other measures may be found all around the region. Subsidies in the form of building subsidiary infrastructure are commonplace.[115]

Indeed it is said that subsidies and policies offering investment incentives work great when attracting foreign investment – on the other hand such incentives as simple tax holiday may not be necessarily enough nowadays.[116] Investment cash grants, employment grant, training grant, selling properties at reduced costs and other incentives may play an equally significant role. Sector-wise, however, different investors may prefer different incentives and other easing-difficulty-to-do-business factors.[117] For stimulation of inward FDI it is hence important to know what sectors of economy need to be developed and how to attract foreign investment by suitable policies.

Again, while Poland is profiting the most from FDI flows into the country, Wroclaw did not manage to perform equally well with China. Despite a significant growth during which Chinese FDI recently skyrocketed as much as sixteen times, the total amount in Poland equals only to 0, 1% of all the FDI it receives. Hence the Chinese share remains insignificant regardless the Polish initiatives to fish for more

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114 Popescu, G., "FDI and Economic Growth in Central and Eastern Europe," *Sustainability,* 2014, 1(11).
115 Szunomár, Á., McCaleb, A., 2015, p. 17- 18.
116 Sedmihradsky, M. and Klazar, S., "Tax Competition for FDI in Central-European Countries," *CESifo Working Paper Series,* No. 647, January 2002.
117 Grzegorczyk, M., "Poland fails to improve its investment incentives," *Central European Financial Observer*, September 2015.

Chinese money.[118] The problem of behind this Polish fail may be hidden in the FDI incentives as those offered by Poland lag behind incentives offered in Bulgaria, the Czech Republic, Slovakia and Romania.[119]

As for the Czech Republic, it created special industrial zones in high unemployment areas. Investment into these will be supported by employment grants reaching around 12 000 USD per one vacancy. While similar investment grants are also introduced in other countries, they differ in sectoral distribution. As the *Financial Observer* mentions, only Hungary supports projects in logistics. As logistics is yet another of the important motivations, we find an explanation for Hungary's exceptional position.[120]

Although the Czech Republic is one of the most successful countries to attract investment from abroad, Chinese position was in this sense almost absent up until 2012. It was only then when Beijing's involvement started to gather momentum. The results of these policies has not been materialized and hence are yet to be seen.

5. 3. Technology acquisition

Correlation coefficient of China's OFDI stock with nominal amount of high-technology exports of each country (in USD) is R = 0. 7887, suggesting strong positive correlation.[121]

The drive for new and advanced technology is symptomatic for all catching-up economies. While China has economically progressed by leaps and bounds in the last decades, it is still lagging behind in the fields of research and development and – from enteupreunial perspective – also in management know-how etc. Chinese hunger for new know-how and managerial experience is naturally driven by enterprise strategy to survive, expand and grow. The hope to access new technology is, however, a problem

[118] Élteto, A., Szunumár, Á., 2016, p. 14.
[119] The European Commission makes sure that any of its member states offer a higher state aid than others. The levels of state aid are thoroughly evaluated and depend on the GDP in all EU regions. Bigger projects supported by state or local governments must have the EC approval. For more see: Grzegorczyk, M., 2015.
[120] Grzegorczyk, M., 2015.
[121] Further, such correlation was also proved using other proxies, such as ICT goods export as a percentage of total goods exports (R = 0, 5789).

of their gaps in research and development and design.[122] Mergers and acquisitions are naturally a way to go. Although China is still perceived more as an imitator, rather than an innovator, with this strategy, Beijing is bound to climb up the value chain.[123]

Previously, it has been suggested that such moves occur only in rich and developed Western markets, with the U.S. topping the list. Beijing, however, set their eyes on Europe as well, with the EU financial crisis serving (again) as a catalyst.[124] The study of the *CEED Institute* sums it up as follows:

> *"The Chinese are now at a stage where they are starting to look at penetration of overseas markets as part of their own growth strategies. Chinese companies, often large conglomerates are expanding into European markets for the first time. As well as strategic deals to acquire resources, energy assets, advanced industrial processes, know-how and consumer brands to bring back into China. The Chinese are emerging as serious bidders in snapping up well know European brands for a fraction of their pre-crisis prices and getting bargains in acquiring cutting edge technological skills."*[125]

The natural question, however, is: are there such technologies in CEE? As many argue that for acquisition of world class technology one needs to invest in U.S. or the "Old Europe", it would seem to be wiser for China to go further westward. Could this truly be *the* Chinese motivation to invest in the region of Central Europe?

First, it seems that this motivation has emerged only recently; second that Chinese investment differs sectorally in different countries; and third that technology acquisition does not have to be limited to indigenous companies.

The sectoral distribution of Chinese FDI in CEE gradually transformed and with the new decade more importance was paid to secondary and tertiary sectors, supporting this motive.[126] Indeed, it seems that Chinese investment projects abroad gradually matured. While the "go abroad" strategy called for competitiveness of

[122] Zhang, H., "Chinese Outward Foreign Direct Investment in the EU," *EUSME Centre*, Beijing, July, 2014, p. 9.
[123] *Stratfor*, "China's Outward Push in High-Tech Investment and Innovation,", June 2015.
[124] *Baker and Mackenzie*, "Chinese Investment into Europe hits record high in 2014," February 2015.
[125] Golonka, M., 2012, p. 16.
[126] Turcsányi, R., et al., "The Visegrad countries' Political Relations with China: Goals, Results and Prospects," p. 135 in Szunomár Á. (eds), 2014.

Chinese firms, it has been only recently that Chinese companies took a look into distribution channels, management skills and technology acquisition, all making part of the strategic-asset seeking.[127]

There are already known cases of China's investment seeking for new technologies as one of their primary objective. Privatization of *Huta Stalowa Wola* (HSW) in Poland offered not only access to brands, manufacturing capacities and distribution networks, but also to technology and patents.[128] This example of Polish SOE that produces heavy construction machinery and equipment (cranes, bulldozers,...) is an interesting case, taking into account more motivations at once: *"Purpose of the investment is transfer of technology and better access to European markets. Production of HSW's current production line will continue in Poland and will be supplemented by production of some LiuGong products."*[129]

In this way there are clearly also differences among the levels of development in the region of CEE. Following this theory, while in Slovakia, Bulgaria and Romania most of the investment projects were greenfield investments, mergers and acquisitions played a more important role in Czech Republic, Hungary and Poland.[130]

Further, it is important to realize that technology acquisition via M&A should not be limited only to locally indigenous companies, but also to those with foreign owners only operating in CEE environment and making part of the CEE export abroad.

And finally, yet another problem often cited – and especially with connection to such companies as Huawei and ZTE – is technology acquisition via clandestine means. Industrial espionage is a field in which China is deemed to be deeply involved.[131] After all, such fears have already emerged in the case of CEE as well.[132] Both indigenous companies and foreign enterprises in CEE might have to face this problem.

[127] Szunomár, Á. and Biedermann, Z., "Chinese OFDI in Europe and the Central and Eastern European Region in a Global Context," p. 11- 12 in Szunomár Á. (eds), 2014.
[128] Heiduk, G. and McCaleb, A., "Chinese FDI and financial engagement in Poland," p. 67 in Szunomár Á. (eds), 2014.
[129] Klauberg, T., 2013, p. 5.
[130] Élteto, A., Szunumár, Á., 2016, p. 36.
[131] Engleman, E., "Huawei, ZTE Provide Opening for China Spying, Report Says," *Bloomberg,* October 2012.
[132] *Technet*, "Na kradení technologií ma čínská vláda obří systém. Říká tomu 'přesun'," March 2016.

5. 4. Mutual Trade

Correlation coefficient of China's OFDI stock with absolute amount of trade with respective countries is R = 0. 7878, suggesting strong positive correlation. Mutual trade is made of both import and exports. Chinese imports from respective countries seems to be, however, much more important as correlation coefficient of China's OFDI stock with imports from respective countries is R = 0. 8422, suggesting even stronger positive correlation. While all of the countries in the region are characterized by huge trade deficits with China, the only considerable level of export to China may be found only amongst the Visegrad 4. Although this might explain the stronger correlation of China's import and received FDI, these exports, as a matter of fact, were growing simultaneously with Chinese investment engagement in the region.[133]

This could possibly have two explanations. First, acquisition of foreign companies that have problems reaching Chinese market and only then subsequently export their products to China might be a matter of simple corporate strategy. Second, China sought to swallow up companies that make products China is technologically unable to produce and hence has to import – a drive for technology asset could explain this motivation. Since other important factors such as price of labor may be omitted, these two may stay as the two most logical explanations. By the same token, although these two understandings are closely linked, the causality is in these two cases reversed.

If we look at the composition of mutual trade, we may find more details. Although machinery and transport equipment is important in trade both ways, these two commodities recently dominated China's imports from Czech Republic, Hungary and Slovakia. Although these are also among those that have so far obtained the most of China's OFDI, if we look at the main sectors in which China invested so far (with growing importance of the tertiary sector), these two match only partially, suggesting that fields of trade and investment differ.

As both trade and investment follow the improved relations between these two regions and China's initiative to further engage in CEE, there does not have to be any deep conspiracy at all. Simple gravity of interaction seems to be the simplest and most logical explanation.

[133] Élteto, A., Szunumár, Á., 2016.

5. 5. Export of given country

Correlation coefficient of China's OFDI stock with country's total exports in 2014 in USD is R = 0. 7689 suggesting strong positive correlation.

When talking about export of CEE countries, it is vital to understand two things: First, it is important to note that international trade of these economies depends highly on merchandised goods rather than service.[134] Second, export dependency on Western European markets is indeed very important, with most of the export heading to Germany and other EU countries.

While Germany accounts for 20-30% of Visegrad exports, China has a considerable experience of doing business in Germany as well – Germany is, after all, China's 4th largest export market. Clearly then, acquisition of producers in CEE innately means having a large market just behind the door. As China's economy is slowing down and Beijing is fishing for new markets, the region of CEE has quite instinctively turned into a very important part of China's "One Road One Belt" strategy. Further, another reason why is China investing in EU member countries is to avoid is the regulatory framework imposed on import of foreign with products. As those coming from China often do not have necessary certifications, swallowing companies that export the same products but have been already recognized elsewhere is a possible way to go. Hence FDI may serve as a substitution for export.[135]

The Western markets do not have to be the only stimulus though. Some suggest that countries in Southern Europe, Mediterranean, Commonwealth of Independent States (CIS) and European Free Trade Association (EFTA) are also a stone's through from CEE and hence wider market seeking is also an important factor.[136] This proves the fact that many Chinese companies open up their branches in CEE viewing it as an operational base for wider regions. Technology companies such as Huawei, ZTE Lenovo has claimed their investments to create bases for wider regions reaching from Western Europe to Russia or as far as Northern Africa.[137]

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[134] Although when broken down by sector there is always a considerable correlation with Chinese OFDI.

[135] Lina, L. and Ma, H., "Overview of Outward FDI Flows of China," *International Business Research*, Vol. 4, No. 3, July 2011, p. 105.

[136] Élteto, A., Szunumár, Á., 2016, p. 11.

[137] *GBTimes*, "Huawei opens logistics base in Hungary," December 2014.

Some researchers also argue that EU deals with third countries are an important factor standing behind the decision to invest as Chinese investors could enjoy the free trade deals as well as the quality certificates – these are getting more and more into the view of Chinese consumers. Since there have been lately many food safety scandals in China, producing certified goods and shipping it back to China might be another reason to invest.[138]

CEE dependence on EU markets, however, implies another reason to acquire local producers. There exists a great competitiveness between the producers from China and CEE. The perspective of overtaking this producers and making use of their already established regional trade connection is a seductive corporate strategy. Interestingly enough, we can also find similarities in major export items between China and V4, suggesting even further competitiveness.[139]

There is evidence that China has been aware of this situation for far longer than the last couple of years. Research suggests that Central European countries have been connecting Asia with Europe increasingly for the past 15 years. Ando and Kimura[140] analyzing trade and production connections came up with three patterns that are already more than characteristic for these three actors: Eastern dominance in the electronic industry led European companies to import electronic parts and components for their own production in the region of CEE; second, the developed automotive industry in CEE was also importing machinery parts from Asia; and third, seeing this, certain Asian firms hence invested in this region while the sourcing from Asia even intensified. Expansion and acquisition of production links thus explains both correlation of mutual trade, export of these countries and Chinese investment into an organic development. Hence what some may see as market-seeking behavior or efficiency-seeking one, may only be an internationalization and internalization strategy of Chinese producers.

Indeed, given the structure of the imports from China and exports to EU markets that has emerged during the last decades, this phenomenon is by now well established and does not reflect only the recent investment trends:

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138 Szunomár, Á., McCaleb, A., 2015, p. 16.
139 Kong, T., "China-V4 Trade Relations 2000-2012 – An Overview," in Mráz, S. and Brocková, K. (eds), 2014, p. 19.
140 Élteto, A., Szunumár, Á., 2016, p. 6.

"Given the fact that the trade dependence of CEE countries on EU markets is between 60 to 90 percent, it was a natural reaction to seek for alternate trade routes amid the European crisis. Although most CEE countries have to face a major trade imbalance with China, the deficit itself is not a real problem, since the majority of imports from the PRC represents spare parts, accessories and other inputs for CEE industrial production. Therefore, not surprisingly, the overwhelming majority of imported Chinese products are re-exported to Western EU members as parts of high-tech products manufactured in CEE countries."[141]

The fact that this region will serve as a suitable entry point into the rich Western European markets is after all a goal also officially declared by former Chinese prime minister Wen Jiabao. *"Significantly cut[ting] their business costs and get integrated into the industrial system within the EU"* is also officially the major concern.[142]

Chinese acquisition of Polish *Huta Stalowa Wola* is a great example of all of Chinese goals. It lies somewhere in between the goal to acquire technology and make use of current exports and expand them rapidly. Three main reasons lay behind. The first is a corporate strategy – while HSW had not been yet able to dip into the Chinese market on its own, it got acquired by a Chinese company itself. Second reason is, however, close to its already developed foreign markets – while having a base in Europe Chinese investor hopes to increase production many times and play a significant role in the European market, with a CEE country proving to play the role of an "entry gate".[143] Third, Chinese investor will after the acquisition naturally get access to company's intellectual property and technology, in this case a tracked equipment.[144]

5. 6. Political proximity

Correlation coefficient of China's OFDI stock with political proximity is R = 0. 6592, suggesting a strong positive correlation.

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[141] Matura, T., 2015, p. 6.
[142] Hsiao, R. and Czekaj, M., "Is Hungary Becoming China's Hub in Central Europe?," *The Jamestown Foundation*, China Brief Volume, No. 11, Issue 13, 2011.
[143] Ciensky, J., "China buys into Polish bulldozers," *Financial Times,* May 2011.
[144] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 31.

Many observers support the simple theory staying that the better common bilateral relations, the more activity in economic domain would follow. Although such thesis may be technically right – as only public actors set the legal background for economic cooperation, this change may also occur only after a pressure from private sector seeing the potential opportunities in mutual trade. Hence, although both ways may be deemed logical, the motivation to invest in a certain country comes against the problem of reversed causality. To find out which way was more applicable to the Chinese investment in the region of CEE, one would have to inquire deeper into legal background and numerical development of this relationship.

The very same problem occurs also on international level. While we do not know the causality of correlation between political proximity and higher levels of economic cooperation, this paper proves such correlation exists. However, is this a spontaneous process, or is China making use of its power position? The carrot and stick strategy between political subordination and economic gains is a topic many elaborate on. Simurina (drawing on the "Dalai-lama effect"[145]) gives following examples:

> *"Investment and trade relations with Chinese consortiums are politically sensitive, and can involve political influence, where countries may be punished if rules are not followed or taboos are broken. This issue is demonstrated through the visit of the Dalai Lama to Poland in 2008, which resulted in all Chinese business delegations were canceled the following year. Conversely, the Hungarian Prime Minister's refusal to meet with the Dalai Lama in 2010 resulted in Chinese authorities pushing Chinese enterprises to invest in Hungary."*[146]

The fact that China pays attention to political relations more than other countries has been proved also within the region of CEE.[147] High level visits are getting more and more common and public relations are rejoicing at a time of great restoration. And more investment projects correlate.

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[145] Fuchs, A. and Klann, N.-H., "Paying a visit: The Dalai Lama effect on international trade," *Journal of International Economics*, No. 91, 2013, p. 164-177.
[146] Simurina, J., 2014, p. 9.
[147] Szunomár, Á., McCaleb, A., 2015.

The problem, however, is that not everyone can tap into the same amount of money. Supposing the political proximity was the only correlation, everyone would be supportive of China. While this creates tensions on the EU level as mentioned above, many now talk about this artificially created environment of competitiveness within the region itself as all 16 countries will fight for Chinese investment and hence push the potential gains to the bottom. Indeed, most of the countries seem to be struggling for the status of "Gateway to Europe" that would bring the most of the so desired Chinese cash. This Chinese strategy is not related only to the region of CEE, but with its "One Road One Belt" plan, potentially to the whole of Europe.[148] Such a scenario would not be eventually very profitable for any of these countries nor for the EU, turning China into the take-it-all winner. Naturally such competitiveness is a point of criticism from many observers stating that coherent and common approach to China would be more beneficial.[149]

Since the change in nature of bilateral relations occurred only recently (with exception of Serbia and Hungary), respective countries are yet to find their regime and items of cooperation.[150] Such statement also proves Simurina's paper claiming that China perceives "Central and Eastern Europe as a block of 16 countries" and hence does not distinguish between them and waits for their initiative.[151] What is worse, another interesting teller is that this "restart" of relations with China is supposed to be somewhat self-initiative. Beijing's "One Road One Belt" strategy with the 16+1 cooperation platform, serving as a hub of this strategy in Europe is very vague. Indeed, it has been argued that the countries of CEE are supposed to find their own position within this initiative and work in certain fields that would only afterwards gain China's interest and support. China hence wants these countries to fight for China's attention.

While most of the results revolve around the left bottom corner suggesting that limited bilateral relations equals to only limited amount of China's OFDI, the two most deviating results are the one of Serbia and Czech Republic. Hungary, on the other hand, is a great example of political proximity resulting in a huge inflow of China's FDI. This chapter will look more deeply in respective cases.

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[148] Kopecký, V. et al., p. 19-20.
[149] Ibid., p. 26.
[150] Ibid., p. 20.
[151] Simurina, J., 2014.

5. 6. 1. Serbia

The extraordinary nature of relations between China and Serbia is given mainly by two reasons: Firstly, the issue of Serbian territorial integrity regarding Kosovo (and Xinjiang and Tibet on the other hand) is naturally an issue where Belgrade and Beijing find common ground;[152] secondly, Serbia has not been stigmatized with such strong anti-communist sentiments as, for example, the Czech Republic was. The reason why such political promises did not (yet) materialize into economic gains are also twofold:

The first problem is the abovementioned problem with Chinese data not covering infrastructure and energy investment projects. For this reason, we may now find out why despite providing credit to build railways, bridges[153] and thermal power plants, the total amount of FDI stock is so low and does not correspond to the expectations. Politically speaking, support of Chinese investment into this sector comes also from the domestic scene. Heavy dependence on Russia in the energy sector is politically very expensive and diversification of partners is a natural strategic move.[154] The other reason is that the main set of agreements on investing into various sectors of Serbian economy came only in 2014 and hence their outcomes were not included in China's 2014 official OFDI data.[155] Mainly for the former reason, however, we may conclude that if the sources did not omit certain sectors as targets of Chinese investment, the correlation coefficient of political proximity would not be in the case of Serbia this deviated and would hence suggest even better correlation.

So despite Serbia not being a very big market, not being close to the markets of EU and not even being an EU member itself, the special nature of its partnership with China may be considered one of the main factors for China's investment, with strategic location and other factors revolving around the same level of importance.[156]

152 Ramani, S., "China's Growing Ties With Serbia," *The Diplomat*, February 2016.
153 The now famous Pupin Bridge opened in 2014 and while the construction costs were as high as EUR 170 million, the Exim Bank of China provided 85% of the total amount. For further info see: *InSerbia Network Foundation,* "Zemun-Borca bridge to be completed by December 2014," January 2014. Yet another interesting thing is that many of these infrastructure projects are being built by Chinese companies and China is hence not *investing* abroad, but rather creating business deals for its own companies.
154 Ramani, S., 2016.
155 Ibid.
156 Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 29.

5. 6. 2. Czech Republic

The story of Czech Republic is completely different. Despite the distance in bilateral relations, Prague has been able to attract a considerable amount of investment. Indeed, residual antagonism towards communist parties, support of democratic Taiwan, free Tibet and liberalism as such did not allow for any close ties with China. Such situation, however, in the view of possible economic gains changed. Although human rights used to be predominant issue in foreign policy during the Havel's era and in the region until around 2008 in general, pragmatism surfaced in the view of possible economic gains when cooperating with the Middle Kingdom.

Although in the correlation index the Czech Republic is not presented as having a harmonious relationship with China, the new leadership with president Zeman and its proactive approach towards China is deemed to play a great role.[157] Top-level meetings and invitations seems to pay off. Although some five or six years earlier the Czech Republic was deemed to be one of the most ferocious critiques of China's regime,[158] commentators nowadays accepted Czech China policy as a U-turn of this approach.[159]

The great fuzz about China's president Xi Jinping visit to Czech Republic in late March serves as a great example. Following in British footsteps of treating China with kid gloves, Prague's decision caused a great halo internationally and considerable uproar also on the domestic scene.[160] This "best-student-in-the-class" behavior, however, seems to pay off. While a number of mergers and acquisition (M&A) was carried out in all sectors country-wide, new direct flights were introduced, Bank of China got hold of the Czech banking scene and controversial CEFC (China Energy Company Limited), an investment company turned Prague into its European seat. Among others, its share in one of the biggest Czech media groups Empresa Media and Media Group sparked a discussion of its aims.[161] The latest round of high

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157 Ibid. p. 26.
158 Fox, J. and Godement, F., 2009.
159 Turcsányi, R. Q., "Is the Czech Republic China's New 'Bridge to Europe',?" *The Diplomat,* September, 2015.
160 Safarikova, K., "Chinese hangover in Prague," *EU Observer,* April, 2016.
161 Turcsányi, R. Q., 2015.

level bilateral talks promised investment topping 10 billion USD in the next four years.[162] Whether this comes true, only future development will tell.

5. 6. 3. Hungary

It has been suggested that all of the Visegrad 4 countries made political and structural adjustments right in the beginning to attract Chinese investment. Hungary, however, with “eastern dimension” of its foreign policy and “China policy unit” in the Cabinet – that was specifically created to attract China’s OFDI – comes as the brightest example.

Historically sound relations with this early initiative to attract investment from outside of the EU allowed Hungary to be ahead of all of its peers.[163] Populist Orbán’s government was clear when declaring China to be a model in today’s competitive world, surpassing capabilities of liberal democracies.[164] More recent initiatives discussed also include issuance of government bonds denominated in Chinese Yuan (RMB) with the Bank of China, again being the first one in the region doing so.[165] Such currency swaps are recently used both to increase investment on the issuing side but also to help Chinese currency to slowly gain international status. On the other hand since the shock jump in the last decade, the total stock did not rise in any significant manner, either disproving this theory or suggesting that relations with other countries in the region ameliorated enough to recalibrate OFDI targets.[166]

5. 6. 4. Poland

Poland has recently also attached considerable importance to Asia with China naturally receiving the most attention. While even prior to China’s 16+1 initiative both countries signed Joint Statement of Strategic Partnership and bilateral relations seemed to be set on a greatly converging course, security turn of events around Europe (mainly in Ukraine) meant another recalibration of Polish politics back to Europe. Despite growing institutional background of bilateral relations, the relative importance of economic opportunities slowly faded away in the light of regional

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[162] Safarikova, K., 2016.
[163] Szunomár, Á., McCaleb, A., 2015.
[164] Burnay, M. et al., “China’s foreign policy and external relations,” DGFP Study, *European Parliament*, July, 2015, p. 41.
[165] Zhen, L. and Wu, W., “China puts links with central and eastern Europe on the fast track,” *South China Morning Post*, November, 2015.
[166] Matura, T., 2015, p. 18.

development.[167] While the amount of inward FDI could have been higher, this case also clearly shows the limits of cooperation with partners so distanced from each other.[168]

What we can see in the case of Poland is that these relations may make use of "windows of opportunities" but can only hardly constitute a backbone of foreign or economic policies. Hence it is arguably much more important what is happening within the EU and around its neighborhood, rather than imagining that China would be powerful enough to gain influence over EU *per se*. Cautiousness is, however, more than advisable.

Yet another problem with 16+1 on which most of the commentators agree is that rhetoric and actual deals do not match. So while there is a lot of hot fuzz about high-level meetings, growing institutional framework, number of business delegation etc., the number of deals that actually does materialize is only a fraction of what some might have expected. This is also connected to the Polish case. It was not only Warsaw that grew out of initial expectations that better political ties do necessarily mean more money. The very problem with Chinese engagement is twofold: first it does not really know how to put its 16+1 cooperation platform as the part of "One Belt One Road" strategy into practice (and thus creating this let-down atmosphere); and two, although great amount of finance and capital was promised to flow into the CEE, this has created somewhat over-competitive environment actually leading to too many players fighting for not enough money.[169]

Let's get back to the big picture and strike a comparison with other studies. Matura did a very similar research with the reversed causality asking whether higher volumes of trade and investment may gain more political support in this region. While his correlation results are negligible for the former, his findings about the later do support my research. Although he claims that as much as 60% of all the Chinese capital in the region is of private origin, the pressure (or rather self-motivation) of these governments to attract more Chinese investment cannot be ruled out.[170] In the

[167] Tuszynski, R., "Polish Perspectives on CEE-China 16+1 Cooperation: the unexpected Ukrainian factor," *Europolity*, Vol. 9, No. 1, 2015.
[168] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 26.
[169] Tuszynski, R., 2015.
[170] Matura, T., 2015, p. 3.

end, we both agree with Liu's finding suggesting that better political ties, the more investment.

My results thus not only confirm previous findings suggested by Liu[171] and Matura,[172] but also prove the theoretical perspectives that China does truly invest in countries with whom it has better bilateral ties. Presumable reason for this may be a better protection of this allocation of capital and/or preferential treatment as suggested by Li and Liang.[173] Hence, the potential to provide more political leverage for China's political aims does exist. The examples where China might need backing are numerous: more attention to reopening of the EU-China arms trade embargo was already paid by Hungary and Romania.[174] The matter of China gaining the status of market economy by the end of the year will certainly be watched by CEE countries as well. Why EU leaders are so voiceful against CEE's cooperation with China is the voting weight within the EU, where countries of V4 combined has the same powers as France and Germany.[175]

On the other hand, it may not be only a problem of China's initiative to gain ground in the region, as many populist politicians (Orbán, Fico, Zeman) may play the "China card" against problems superimposed by European institutions. The question where to get money in the light of "European Commission's dictatorship" is easy. While Russia does not have much (and this would be politically too risky) and deeper cooperation with wealthy oil producing countries cannot withhold the different ideologies, China is the only choice.[176] China hence, as seen in the case of Poland only has so much power, how much the local politicians find useful.

On the other hand, it is claimed that while political relations have progressed extensively, economic outcomes somewhat lag behind. Although it was mainly Poland that sobered up, the general enthusiasm about the easy China money got watered away.[177] Further, support and disapproval of China are, with the exception of

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[171] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014.
[172] Matura, T., 2015 happened to carry out a very similar correlation to mine, however, with data from *China Global Investment Tracker,* 2016 and also found strong positive correlation R = 0, 83.
[173] Li, Q. and Liang, Q., 2012.
[174] Hsiao, R. and Czekaj, M., 2016.
[175] Ibid.
[176] Du Bois, G. and Birtha, M., 2015.
[177] *World Politics Review*, "Limited Payoff for China's Investment in Central and Eastern Europe," April 2016.

a few countries, always somewhat temporal and depend greatly on electoral decisions. The U-turns in regard of national China policies may pop up every four or so many years.[178]

5. 7. Market size

Correlation coefficient of China's OFDI stock with GDP at market prices (current USD) is R = 0. 6380, suggesting a strong positive correlation.

If we broke the region down we can perceive that in 2012 more than 75% of China's FDI was located in the Visegrad 4, which could suggest better market size orientation.[179] After all V4 on its own is 15th largest economy in the world.[180] In general the market size motivation has so far sparked the most discussion in academic circles. Back in 2012 *Eurodialogue* saw the situation as follows:

> *"China's outward FDI are concentrated in unexpected places. Hungary which is, in term of GDP the fourth country in the region, received in 2010 more investments from the Middle Kingdom than all other CEE countries together. At the European level, Hungary was only surpassed by Germany and Luxemburg. The case of Romania is also interesting. In 2010, its total inward foreign investments were almost 75% less important than the Polish ones, but when it comes to the Chinese investments, the gap is only of 35%. Now it seems, that China acting in the long time perspective selected Poland as its future strategic partner."*[181]

Market access initially seemed to be the main reason for surge of Chinese investment over any other motivations such as technology and management assistance. These conclusions, however, viewed the Western markets as well, because the geographical distribution of China's OFDI in CEE remains the most controversial matter.[182]

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178 Turcsányi, R. Q., 2015.
179 Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 25.
180 Kong, T., "China-V4 Trade Relations 2000-2012 – An Overview," in Mráz, S. and Brocková, K. (eds), 2014, p. 19.
181 Golonka, M., 2012, Executive Summary.
182 Jacoby, W., "Different cases, different faces: Chinese investment in Central and Eastern Europe," *Asia Europe Journal*, Vol. 12, Issue 1, pp 199-214, March 2014. 210- 212.

While certain correlation has been proved, market size is not the most decisive factor, with Poland being the most deviating case. Although the Polish market is the biggest both in the terms of total GDP and population, the amount of obtained FDI does not correlate with the suggested amount. While Poland thought it would play the central position in the 16+1 platform and in the China's One Road One Belt (OBOR) strategy precisely because of the leading role it has in the region in most of the quantifiable terms including the market size, this did not happen. Quite to the contrary, it is comparatively lagging behind other countries and Warsaw's expectations somewhat faded away.[183] Matura negates the market size theory to be the main motivation especially drawing on the importance of other factors such as political proximity. Its comparative weight is hence not as strong.[184]

The answer to the question when market size is and when it is not important seems to be sector-dependent. While Tintin previously studied the motivations to invest in CEE in general, his primary conclusion was that GDP Size is the foremost important factor driving the investment into the region. Such result would suggest higher correlation in my study. This is not the case, however. Tintin, nevertheless, at the same time answers this discrepancy: he suggests that there are considerable differences among sectors. While investors in the primary sector do attach great importance to the size of the market, those investing in advanced sectors do not pay the same attention to this motivation. Naturally, the latter is the case of China that is investing into secondary and lately mainly tertiary sectors of these countries.[185]

The most important reasons for somewhat not as significant role of the market size is the general agreement that China is not viewing only CEE as its market, but rather the whole of Europe to substitute this role. Indeed, although CEE is export-wise heavily dependent on the EU, China might be also viewing other adjacent areas either to the East or to the South. China hence does not care if CEE is a market big enough on its own – for the abovementioned reasons other factors such as strategic location may play a more important role.

[183] Turcsányi, R. Q., 2015.
[184] Matura, T., 2015.
[185] Tintin, C., 2011, p. 22.

5. 8. Logistics

Correlation coefficient of China's OFDI stock with Logistic Performance Index is R = 0. 5564, suggesting moderate positive correlation. Regardless of Chinese massive infrastructure projects including bridges, bullet trains, highways, operation control over harbors and airports that could all facilitate its "One Belt One Road" road to Europe, Beijing is looking at indigenous quality of logistics as well. Logistics and developed infrastructure is essential when doing business.

While both countries themselves and China are further viewing to ameliorate the situation (also by promotion of new direct flights, etc.[186]) and Chinese heavy investment in infrastructure in this area suggests its drive to control the logistical network, it naturally cannot start building everything from a scratch. Quite to the contrary – projects that has not yet found proper funding or those that were waiting for certain financial boost found their source of money in China (part of the Polish highway to Germany, bullet train between Serbia and Hungary, or developing underdeveloped airports with aims to serve as major cargo bases for the region).[187] One of the Chinese groups was awarded the license to operate the Debrecen International airport in Hungary with goal *"to develop the infrastructure and the services of the airport so that it can become one of the most prominent and the most competitive regional international airport (both with regard to passenger and cargo traffic) within the Schengen Zone in the European Union"*.[188]

Indeed, already good logistics network may be a good clue when assessing China's motivations. At the same time, China's own projects suggest the goal of integration of the whole production chain ranging not only from acquisitions and development but also to construction, local assembly and distribution networks to logistic facilities:

> *"They regard V4 as a center to upgrade, sell and distribute products to realize the localization and even "Europeanization" of the production, circulation, sales and branding of Chinese products. They can also use V4 as a springboard to enter the vast markets in the EU, Russia and Turkey.*

[186] Du Bois, G. and Davidova, M., "China and the Czech Republic, a recent political shift," *Nouvelle Europe*, June, 2015.
[187] Hsiao, R. and Czekaj, M., 2011.
[188] Du Bois, G. and Birtha, M., 2015.

This is one of the main characteristics of Chinese investment in V4 at present, and it will remain so in the foreseeable future."[189]

This has two reasons. First, China is naturally trying to create better ground for their future operations in the region that would facilitate production-market transport, but second, they are also trying to find work for their domestic infrastructure building companies that often bid for the public tender.

The logistics play a great role in China's "One Belt One Road strategy" that seems to reach Western markets by creating a logistical transit corridor all the way from the Greek port of Piraeus (that is also in operational control of Chinese company).[190] Naturally, most of the countries are on the way, but only few of them may serve as more than a transit corridor. Exploring which country in the region could serve as the most important hub for China's OBOR is a commonly recurring discussion topic both during bilateral negotiations and on the domestic scenes.[191]

Indeed, logistics and export to other countries as motivations to invest would clearly suggest the incorporation of the adjacent markets as well. Who is going to become the "hub" of Chinese activities and through where will the main value chains lead is what matters to these countries now. Indeed, it seems that "it is all about being a hub" for Chinese engagement in the region. Hungary, Czech Republic, Poland and others all want to become China's "gateway" to Europe.[192] And they are trying all means to catch China's attention. Related to the "Openness to FDI" section, Hungary, for example, offers subsidies for investments into logistical projects. Knowing what China wants may hence attract more Chinese money.

To give an example, the very importance of logistics is greatly illustrated on one of the biggest investments in the region so far. Back in 2012, Huawei set up its own logistic center in Hungary. Investing into such a distribution center was big enough to be Huawei's second biggest supply platform in the world.[193] In agreement with local government, it provides as much as 7 000 vacancies and some estimate the

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[189] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 30.
[190] Du Bois, G. and Birtha, M., 2015.
[191] Zhen, L. and Wu, W., 2015.
[192] Turcsányi, R. Q., 2015.
[193] Hsiao, R. and Czekaj, M., 2011.

total amount invested to as much as 1, 5 billion USD. Also, other companies such ZTE, however, understand Hungary as their European “hub”.[194]

5. 9. Unproved motivations

Following section will discuss those motivations that have been suggested in the Hypotheses section, but that did not prove to be in any way valid. The benchmark for these was weak positive correlation of R = smaller than 0. 4. The following chapter presents motivations below this coefficient and hence deems them unproved to be important for China’s OFDI decision making.

Motivation	Correlation coefficient	Remark
Education	0. 2560	Weak positive correlation
Governmental Stability	0. 1670	Very weak positive correlation
Market Development	0. 1508	
Labor Cost	0. 0938	
Ease of Doing Business	-0. 0920	Very weak negative correlation

Figure 6: Results of disproved motivations with their correlation coefficients

5. 9. 1. Education

Correlation coefficient of China’s OFDI stock with Education Index results in given countries is R = 0. 2560, suggesting weak positive correlation. Although most of the China’s FDI in the region are aimed the secondary and tertiary sectors suggesting that educated labor force would be of considerable importance, this motivation did not prove to be significantly correlated. While there may be a small rift between the education levels in Visegrad 4 countries and the Balkan states, there are still countries such as Slovenia, Estonia and Latvia that are topping this index and yet did not reeive as much capital as, for example Romania.

[194] Klauberg, T., 2013, p. 5.

5. 9. 2. Governmental Stability

Correlation coefficient of China's OFDI stock with *Governmental Stability Index* in given countries is R = 0. 1670, suggesting very weak positive correlation. Subsidiary proxies prove equal lack of such relationship as well.[195]

These governmental stability indicators are suggested to make difference between developing and developed countries. Hence cross-regional comparison as suggested in the next chapter makes more sense and brings positive correlation coefficients. In the case of CEE, however, integration into EU brings somewhat innate stability that foreign investors count on. Further, EU boosted these countries with institutional and economic stability (including such assurances as protection of property rights). As it has been suggested that weak institutional, economic and political environment in China is actually a driver for China's FDI abroad, this stability is an important factor when compared with other regions.[196]

The correlation analysis of CEE on its own, however, may only hardly prove valid, since the six largest recipients are part of EU – but so are the smaller states such as Estonia and Slovenia who enjoyed so far only limited Chinese interest.

Although it has been proven that better institutions in the CEE, mainly in the form of economic freedoms (political stability and fragility index correlation was only somewhat moderate) do directly and positively stimulate inward investment, this is not applicable to Chinese investment.[197] The notion of political environment having an influence over China's investment in CEE has been disproved not only by my results, but also by other studies.[198] Perhaps the investment protected by political proximity as has been suggested in respective section is regarded as more important, rather than by plain rule of law.

5. 9. 3. Market development

Correlation coefficient of China's OFDI stock with GDP per capita in given countries is R = 0. 1508, suggesting very weak positive correlation. In other words, China is not looking for more developed market within this region. This is also what Matura's

[195] These results are also proved by correlation with Corruption Perception Index with coefficient R = 0, 1336. Correlation coefficient with Rule of Law Index is also negligible as R = -0, 0039.
[196] Élteto, A., Szunumár, Á., 2016, p. 11.
[197] Tintin, C., 2011.
[198] Matura, T., 2015, p. 20.

study suggests: that there is almost no correlation between economic development and China's OFDI stock.[199] Positive correlation of this motivation would be against the logic of competitiveness of this region against the rest of EU cross-region wise. The most important reason why this motivation does not apply intra-regionally is the fact that comparably developed economies (per capita-wise) such as Slovenia and Baltics states are totally neglected by Chinese investors. While only the Czech Republic is both among the top recipients and comparatively most developed countries, the rest of the most important recipients dwells in the middle of the market development index.

5. 9. 4. Labor cost

Correlation coefficient of China's OFDI stock with labor costs in given countries is R = 0. 0938, suggesting very weak positive correlation. Labor cost tends to be very important decision making factor for FDI and it takes a great importance also in the case of Central and Eastern Europe, despite only very negligible correlation. Indeed, it has been suggested that labor cost is the single most important factor for Chinese investment. However, this should be taken into account mainly in comparison with the same costs in Western Europe. Indeed, there is a gaping difference between these two European regions and with other important factors being much more comparable, CEE is clearly the region of choice.[200] Such reasoning is provided by most of the reports, stating that the skillful and cheap labor in sectors China seeks is one of the most important motivations.[201]

However, the reason why there is no correlation is not because there would be no gap between salaries within the region itself, but rather, because the amount of FDI in countries like Czech Republic, Hungary and Poland is simply higher than in Romania and Bulgaria.[202] In this sense we have to explain the lack of correlation by putting emphasis on different motivation to differentiate between the countries in this region, such as proximity to Western markets, or labor skills. Szunomar and McCaleb lay emphasis on the "agglomeration effect", as the amount of received FDI in also highest in total.[203] Other motivations thus substitute this logic.

[199] Ibid., p. 20.
[200] Szunomár, Á., McCaleb, A., 2015.
[201] Élteto, A., Szunumár, Á., 2016, p. 11.
[202] Szunomár, Á., McCaleb, A., 2015.
[203] Ibid.

By the same token, differences among labor related regulation also did not prove any significant. As other researchers carried out a quantitative analysis of this topic, Burgoon and Raess found out that there is “no evidence that Chinese investors reward lax regulatory settings more than other investors.”[204]

5. 9. 5. Ease of Doing Business

Correlation coefficient of China’s OFDI stock with Ease of Doing Business Index is R = - 0. 0920, suggesting very weak negative correlation.[205] Ease of doing business is a self-explanatory measurement of regulatory environment that facilitates a more conducive environment for doing business. As such, for foreign investors it is very important that the amount of red tape and hindering factors remains as low as possible (starting a business, construction permits, registration,...), making it easier to carry out their projects.[206] While such easy regulatory environment is important, Chinese investment seem to strive for more support in the terms of subsidies (see the Openness to FDI section), or they rely on better political ties, nowadays often facilitating access to and support with procedures needed. Also, countries that are opened the most in this way, such as the Baltic states, are somewhat out of the scope of Chinese investors. Another factor may be the superimposed legislation of EU, making only little differences among the EU countries.

5. 10. Motivations omitted

As mentioned in the introductory chapters, my analysis is by no means exhaustive as there can be a plethora of other motivations taken into consideration. While some of these reasons would logically not make any sense in this region, some were considered too marginal to be effectively measured. Natural resources (and related energy sector), distance from China, growth factors, social environment nor privatization were taken into account.

Whereas media coverage was voiceful about Chinese investments in natural resources-rich countries, the region of this study focuses on has comparably limited

[204] Burgoon, B. and Raess, D., “Chinese investment and European labor: should and do workers fear Chinese FDI?,” *Asia Europe Journal*, 12(1-2), 2014.
[205] The correlation coefficient with Total tax rate proved to be only negligibly correlated with coefficient R = 0, 477.
[206] *World Bank Group*, 2016.

potential in this sector. Although numerous data proves that such sectors as mining previously played a significant role in Chinese OFDI, more recent studies suggest its declining importance, notably in comparison with more advance sectors of economic output.[207] Chinese hunger for natural resources might have been a good rationale for studies focusing on other regions, such as central Asia and Africa, but its engagement in post-communist region seems to – as suggested previously – have goals different from control and supply of such resources. For these three reasons, I will further consider this motivation as too marginal to play any significant role.

This motivation is, however, further interesting as it overlaps with the sector of energy. Balkan states are rich in hydropower resources and while Albania, Montenegro, and Bosnia and Herzegovina were by Western investors deemed too risky to put money in, China is conveniently stepping in. Very similar circumstances, only this time with the case of wind energy potentially also occurs in Macedonia, Serbia and Croatia. Further academic engagement in this field could be considerably enlightening.

Another seemingly important variable would make little logic in our analysis. The gravity factor is usually measured by economic weight of the country (market size, GDP output, etc.) and its distance from China. Logically since our study is limited to one region with respective countries sharing similar geographical distance from China, this factor would make little sense. Quite to the contrary, as suggested by those motivations that have been proven, geographical proximity to Western markets is by far more important.

Some works also operate with safety and future revenues expectations with motivations such as inflation rate, host market growth and market learning. It is, however, beyond the scope of this work to analyze all possible determinants. Some have also taken into account social environment as a proxy, but results were not reliable enough.[208]

Although privatization is largely done in the area, they may be some bits and pieces waiting to be yet privatized. One of the cases is the acquisition of Polish *Huta*

[207] Amighini, A. et al, “Investigating Chinese Outward Foreign Direct Investments: How Can Firm-level Data Help?,” *China and World Economy*, Vol. 22, Issue 6, pp 44-63, November-December 2014.
[208] Matura, T., 2015, p. 20.

Stalowa Wola, described above with other motivations playing a considerably more important role (see section Motivation 3: Technology Acquisition).

5. 11. Discussion of the results

To conclude my hypotheses, this thesis proved that first eight motivations, as ordered in this paper, do correlate with Chinese OFDI in this region, other motivations, however, proved to be futile.

Both culture closeness and political proximity proved to be highly correlated with Chinese FDI. The ratio of private firms to SOEs investments is 60% to 40%. Although both factors are important, this may explain why the number of Chinese residents enjoys higher significance. Reliance on expat community, navigating the course of doing business smoother suggests that economic interests are slightly more important than political proximity.[209] These are, however, both very significant and in the view of culture of business and politics in China where these are often linked, both need to be taken into account simultaneously.

My results suggest that Openness to FDI and Export of given countries are both highly correlated. Regardless of Chinese aims, the perspective from within the CEE is that transformation of local economies and their export restructuralization previously came around due to a significant contribution of foreign investment in this region.[210] Hence if China wants to reach other markets via CEE, there is nothing extraordinary about this kind of behavior when compared with other foreign investors.

Emphasis on Export and Logistics would clearly suggest the aim to reach other markets, rather than only those of CEE. Szunomar and McCaleb lay most emphasis on Chinese aims to reach Western European markets and integration of business into the whole EU. These recipient countries are considered only secondary.[211] Also, their paper suggests that intra-regionally, asset-seeking and efficiency-seeking FDI reached the higher correlations. The increasing number of mergers and acquisitions recently is what suggest the tariff jumping FDI.[212] *Eurodialogue* sums up as follows:

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[209] Matura, T., 2015, p. 19.
[210] Élteto, A., Szunumár, Á., 2016, p. 5.
[211] Szunomár, Á., McCaleb, A., 2015, p. 15.
[212] Ibid.

"China has a strategic interest in acquiring European Assets thus Europe is witnessing impressive rates of growth in inward investment from China. It is attempting to build up chains of influence in Europe extending from transport (ports, airports, roads) to local assembly (designated Chinese industrial parks) and logistics (China's sea, air, and container companies, telecom networks) eventually to distribution, from small scale traders who form a sizeable portion of Chinese immigrants to large distribution firms working up the value chain."[213]

Such efficiency-seeking FDI into this region is by no means extraordinary. And this pattern resembles rest of the inward FDI. Many foreign investors made use of CEE's countries accession to EU that lifted up the trade barriers while leaving the labor costs respond to economic growth only slowly. Related institutional stability may serve as yet another factor when planning long term investment strategies. This hence denies the suggestions that China invests in politically unstable environment.

Prague's *Association for International Affairs* mentions three main Chinese interests as follows: Firstly, it is infrastructure development. Secondly, however, it is the acquisition of strategic companies in key sectors such as energy and hi-tech, allowing to gain new technology and know-how to increase their competitiveness. Thirdly, to access new markets, mostly in tertiary sector such as banking, tourism, consumer business, etc. More concretely, in the case of the Czech Republic, Beijing's interest is cooperation in the field of aviation, smart technologies, environmentally advanced technologies, services, automotive industry, engineering and others.[214] Integration into global value chains is probably one of the main reasons as well. Indeed, it is argued that such integrated chains of production may serve more as chains of influence or to allow China reach acquisition of know-how and new technologies. This is what many, including EU, are worried about (see below).

The most recent understanding of China's view of CEE makes a distinction within the region as well. It is interestingly a distinction similar to the one China makes between developed and developing countries. While investment into

[213] Golonka, M., 2012, Executive Summary.
[214] Kopecký, V. et al., p. 19-23.

manufacturing takes place in most of the CEE countries, the Visegrad 4 as a target of Chinese FDI is more similar to Western Europe:

> *"The Central and Eastern European countries are heterogenous, and so are the Chinese strategies for investing in them. In the Visegrad countries—the Czech Republic, Hungary, Poland and Slovakia—they follow a similar strategy as that for the European Union: trying to acquire technology and establish market presence, mostly through acquisitions of well-established companies, with the focus most recently being on financial groups."*[215]

There are several reasons why some of the motivations proved to be less correlated than expected: First, with some proxies, there were only little differences among the countries somewhat watering down the difference in final results; Second, substitution of a certain motivations is a very common phenomenon. While Ease of Doing Business and Governmental Stability may not be considered important, Chinese investors may believe that Political proximity will guarantee safe allocation of capital better; and Third, many of the results were deviated by political, social and economic development of the Baltic states and Slovenia. These tend to be topping the list in these fields, yet they did not attract any significant amount of Chinese FDI.

To sum up, asset-seeking FDI may play a role intra-regionally, efficiency-seeking both intra-regionally and cross-regionally and while market-seeking does suggest certain correlation in the CEE, it is probably the single most important motivation as much bigger potential markets are just next door. On the other hand a gravity of mutual economic and political relations comes hand in hand with investments. Different countries, however, may serve different purposes and these results should not be taken as omni-explanatory.

This paper hence supports the suggestions that China is not investing indiscriminately and looks for a number of different motivations and potential advantages.[216] All of those I proved, however, may be taken into account when seeking a gate to enter this region as well as its neighboring areas. Another thing is, however, that different countries may play different roles. While Serbia, Hungary and

[215] *World Politics Review*, 2016.
[216] Liu, Z., in Mráz. S. and Brocková, K. (eds), 2014, p. 31.

Poland are important logistically and hence important for China's OBOR, Czech market assumes the most central position – along with its comparable advanced economy it may hence serve different goals.[217] Also it should be noted that these motivations may change temporally. Since up until 2013 main investments were aimed at chemical, transport and energy sectors,[218] or those that could have been characterized as labor-intensive (especially manufacturing and automotive industry)[219] we may see a continuous development also within the region. Indeed, focus on tertiary sector is also suggested by the recent opening of Bank of China in Poland, Hungary and Czech Republic. CEFC group's investment in Czech Republic and other activities suggest the same.

Also, results of this analysis suggest that China's motives neither activity is different from other foreign investors in the region. While there may be misgivings about China's way of doing business, influence over local politics etc., this is not what my correlation analysis may prove. The nature of Chinese political regime, the tempo of engagement and correlated political development is what sparks most of the misgivings about Chinese OFDI.

5. 11. 1. The Role of EU

Even though we may clearly see that countries that received most of the FDI are EU members, if we take into account the cases of Slovenia or the Baltic states both lagging behind, there is no clear link between EU membership and China's FDI or at least not with other proxies.

While some suggest that investing into EU member states makes it easier to reach Western European markets, we should also bear in mind that non-EU members also have FTA agreements with EU, including Albania, Bosnia and Herzegovina and other Balkan states.[220] From this point of view, investing in these regions could also lead to export to the European Union. I thus suggest that *only* being an EU member state will not guarantee high FDI inflows and other factors must be taken into account as well. On the other hand, despite Beijing's promises to keep to EU's standards, the

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217 Turcsányi, R. Q., 2015.
218 Simurina, J., 2014, p. 8.
219 Klauberg, T., 2013.
220 Zeneli, V., "Why is China So Interested in Central and Eastern Europe?," *The Globalist*, June 2014.

Union members may simply offer a more regulatory environment that does not have to be that beneficial to Chinese aims.[221]

On the other hand, since the six countries that have obtained the biggest amount of China's OFDI are all member states of EU, this may serve as a clear indicator of attempts to reach other EU markets as this may be done more easily from within the EU than from the outside. Investment into potential niches is EU markets is recently another clearly perceivable phenomenon.[222]

Elteto and Szunomar hence suggest that while country's membership in the EU may be perceived as a market-seeking (and efficiency-seeking) behavior, the nature of China's investment recently in the form of both mergers and acquisitions and joint venture projects suggest more strategic asset- and efficiency-seeking behavior. Hence China's behavior may be understood via Dunning's eclectic paradigm, but special attention needs to be paid to the role of the state.[223]

China's hope to cooperate with EU in the research and development and to lay hands on new technology stems from Chinese comparative backwardness in innovation. So far mostly relying on the USA and EU, Beijing would love to develop further networks. While China still spends less on (research and development) R&D then its Western counterparts, this could be a way to make up for that. Since still more than 90% of China's high-tech exports are produced by foreign holders, Beijing feels a great pressure in this field.[224]

[221] Matura, T., 2015, p. 11.
[222] Szunomár, Á., McCaleb, A., 2015, p. 15.
[223] Élteto, A., Szunumár, Á., 2016, p. 22.
[224] Zeneli, V., 2014.

6. Comparison with other regions

Interest in Chinese OFDI has initiated along with the growing intensity of such Chinese moves. Although initial attempts were mostly of descriptive character, a number of studies set on Chinese motivations to invest abroad slowly emerged. Firstly, they were naturally of rather global character and only later on narrowed their scope. Secondly, while some of their findings match each other, they sometimes appear to be contradictory. Naturally, after a more thorough look, these contradictories may be explained by either different recipients or by different data and methodology. Although it is not possible to emulate one methodology strictly on all of the regions of the world, correlation and regression models have been used in most of the studies presented below. As my approach does not deviate from theirs, I have reached results that may be considered comparable. Although the number of works compared is by no means exhausting, the most important pieces were taken into consideration and hence this comparison may be considered extensive enough.

Back in 2007, the abovementioned Buckley et al. work was one of the first studies of Chinese OFDI determinants. While their analysis brought in the theoretical discussion over the nature of Chinese OFDI, they also systematically analyzed the rationale for such Chinese behavior. First, they did prove that assessments need to look not only at traditional theories but also at other explanations such as capital market imperfections, special ownership advantages and institutional factors.[225]

While results of their findings differ in different time frames they found that Chinese OFDI is positively associated with traditional motivations such as market size. Natural resource endowments played a similarly significant role. The less conventional findings suggest that policy liberalization in the target countries is very appealing to Chinese multinationals as it may weight out domestic market imperfections. Such their findings may, however, only hardly be compared to mine as the scope of their study is global. While policy liberalization and market size are both

[225] Buckley, P. et al, 2007, p. 513-514.

important for Buckley, my research suggest regional diversification with CEE playing a different role than the rest of the world.[226]

However, in another indicator both of our theses match greatly: the cultural proximity. Not only this represents a strong correlation suggesting that network effects, reduced transaction costs and other motivations are important, but this is also a motivation that endures the lapse of time, being important both omni-temporally and omnigeographically. Hence this is the point both of our studies agree on.[227] The cultural proximity was, however, named as one of the main driver of China's outward FDI by a huge number of studies including Cheng and Ma and others.[228] Since difficulties to invest abroad include lack of familiarity with the region, studying the cultural proximity (by the number of Chinese living abroad) is suggested to be one of the main determinants.[229] Also, similar to my understanding of cultural proximity, it is suggested that a common language greatly enhances the prospects of higher inflow of FDI.[230]

At the same time, other studies suggest that strategic-asset FDI of Chinese companies is only a recent activity – while prior to 2001 it was marginal, its importance boosted up only recently. As Buckley's study is somewhat out of date, we may theoretize that importance of each motivation slowly followed this development.[231] That could also explain why up to some 2011-2012, CEE was not seen as strategic-asset seeking region.

Chang further proved what had previously suggested Kolstad and Wigg[232] and Cheung with Qian[233], which is that China discerns developed and developing economies and motivations to invest in each differ. While developed economies attract Chinese investment in high-tech and high technology intensive fields,

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226 Ibid.
227 Ibid.
228 Cheng, L. K. & Ma, Z., "China's outward foreign direct investment," Paper presented at the *Indian Statistical Institute*, December, 2008.
229 Fontagné, L, and Py, L, "Determinants of Foreign Direct Investment by Chinese Enterprises in the European Union," *CEPII Research Report*, No. 01, July 2010.
230 Chang, S., "The Determinants and Motivations of China's Outward Foreign Direct Investment: A Spatial Gravity Model Approach," *Global Economic Review*, Vol. 43, Issue 3, 2014., p. 260.
231 Buckley, P. et al, 2007.
232 Kolstad, I. and Wiig, A., "What determines Chinese outward FDI?," *CMI Working Paper*, WP 2009:3.
233 Cheung, Y. W. and Qian X. W., "The Empirics of China's Outward Direct Investment," Conference Paper, *Macro, Money and International Finance*, Munich, March, 2008.

developing economies are from the Chinese point of view perceived as sources of natural resources. His gravity model analysis of Chinese OFDI in 138 countries clearly further proved that size of the economy study does serve as a matter of primary importance. [234] Indeed, the size of the market tends to be quite an important factor globally – hence another difference from my study.

The role of developed economies as targets would further prove Lian's findings that mergers and acquisitions are primary mover of China's OFDI in given countries, accounting to as much as 70% of the total sum. [235] M&A may suggest different goals and enterprise strategies, but acquisition of know-how, patents etc., that goes hand in hand with M&A is an undisputable fact.

The abovementioned study of Cheung and Qian that examined over thirty countries at the turn of the millennia, however, found more information than the development difference. Interestingly enough, while having difficulties to explain their finding, they prove my conclusion that whereas total market size may suggest where China is about to invest, the GDP per capita actually serves as a deterring factor. Low wages are also very important motivation in their study, but not in mine.[236]

Kolstad and Wiig in 2009 further found that not only China invests in nature resources-rich countries and in the countries with poor institutions, but these two factors actually do interactively correlate with each other. Further, although Wiig's and Kolstad's study proved that weak institutional environment has a positive impact on Chinese OFDI,[237] their approach cannot be taken as omni-explanatory since they focused only on natural resources-seeking investment. Indeed, other papers show great differences as for sector-country investment clustering. Dreger et al. clearly suggest that while investments into manufacturing sector is generally placed into low income countries; investment into business, sales, marketing and other services in general takes place in high income countries with, presumably, also more powerful institutions and rule of law.[238] This is what Buckley's study agrees on as well. While

[234] Chang, S., 2014.
[235] Lina, L. and Ma, H., 2011, p. 106.
[236] Cheung, Y. W. and Qian X. W., 2008.
[237] Kolstad, I. and Wiig, A., 2009.
[238] Dreger, C. et al, "Determinants of Chinese Direct Investments in the European Union," *Deutsches Institut für Wirtschaftsforschung*, Discussion paper 1480, 2015. Dreger, C. et al, 2015.

natural resources-seeking is important in third world countries, developed markets stand for a multitude of different reasons to be invested in.[239] In this point, their study is not bringing any new discoveries and only further proves the difference between developed and developing recipients. What is more interesting, however, is that they suggested that Chinese activities seems to be more risk-averse and tend to pick less competitive markets – this finding could well explain the recent growth of CEE's importance.[240]

Another difference comes with the rapid demand for food in China. While the economic development from agriculture society into a modern one was unprecedentedly fast, it did not happen without problems. China, having to import food is also discerning the means of its acquisition. Beyond any doubt, international trade plays the central role, but acquisition of means of production does not lag behind. While investment in Latin-American and African agriculture sparked the doubts about China's land-grabbing, in the region of CEE, China has been investing in processed food facilities. Yet again, here comes the difference between developed and developing countries.[241]

The motivation of investment into politically stable and institutionally sound countries or to their counterparts is a matter that many researchers tried to deal with. While some suggest that instability is what China is looking for, some argue that quite to the contrary, to keep investment safe, stability is important.[242] There can be two explanations: first this depend on the type and target of the investment; and second that there are is another, intervening variable behind such results. Either way, however, my study does not prove inclination towards political stability nor the opposite, rending this debate somewhat pointless.

It has been found out that China's rising interest in FDI in the form of mergers and acquisition has been symptomatic to all developed countries. The main reason behind most likely is to strengthen their own to get better position in the international

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239 Rosen, D.H. and Hanemann, T., "China's direct investment in advanced economies: the cases of Europe and the United States," *China Economist*, Volume 8, 2013, Number 5, pp 65-79 as in Szunomár, Á., McCaleb, A., 2015.
240 Dreger, C. et al, 2015.
241 Zhang, H., 2014.
242 De Beule, F. and Van Den Bulcke, D., "Locational determinants of outward foreign direct investment: an analysis of Chinese and Indian greenfield investment," *Transnational Corporations*, Vol. 21/1, Issue 1, April 2013, p. 24.

arena.[243] In early 2014 Jacoby still claimed that there are differences between Chinese investment in CEE and the old EU-15. While the investment in CEE tended to be more greenfield-oriented (with the number of greenfield projects from 2005-2013 reaching 107[244]), the one in the West was dominated by mergers and acquisitions and by strategic alliances among companies. This suggests that initially Chinese aims in CEE were to reach for new markets, rather than to gain new technologies.[245] This, however, seems to change.

Milelli and Sindzingre suggest that whereas the motives in developed and developing countries differed in the past, the goals now are set on a converging course. While developed countries were initially correlated mainly with market- and asset-seeking motives and developing countries with resource-seeking ones, the differences in the mode of entry has gradually narrowed. The need to raise efficiency turned developing countries into important markets as well.[246]

De Beule and Den Bulcke also interpreted a reason why Chinese outward FDI is deemed to be fishing for high technology and new assets. It is an aggressive behavior (with possession of cheap capital?) that targets developed countries in a very disproportionate manner with focus on certain industries. Indeed, the proxy of high-tech export as a percentage of total export is variable that correlates with Chinese activities much more precisely than number of patents in given countries.[247]

Further De Beule and Den Bulcke also do confirm the following: large markets, both in the terms of income and population are important. So is for them the trade openness: *"Host country trade openness is also shown to be of significant importance because the subsidiaries owned by these Chinese and Indian groups need to be able to export as well as import goods and services"*.[248] This is an important finding proving what I have suggested: growing FDI and bilateral trade grow hand in hand are inseparable not only in CEE, but also elsewhere. The importance of the

[243] Élteto, A., Szunumár, Á., 2016, p. 9.
[244] Jacoby, W., "Chinese Investment in the Balkans," *Council for European Studies*, Critical Commentary, December 2015.
[245] Jacoby, W., 2014, p. 211.
[246] Milelli, C. and Sindzingre, A., "Chinese Outward Foreign Direct Investment in Developed and Developing Countries: Converging Characteristics?," *EconomiX Working Papers* no. 34, University of Paris West - Nanterre la Défense, 2013.
[247] De Beule, F. and Van Den Bulcke, D., 2013, p. 25.
[248] Ibid. 25.

market size as a major driver of investment has been with – mutual trade – also proved all around the world including Europe.[249]

In the terms of the relation between liberal FDI policies and higher FDI growth, Pradhan found a great discovery that whereas bilateral investment agreement do not play any significant role (are inversely related to China's companies locational patterns of FDI), the general FDI openness does affect China's investment greatly. Hence, no matter if bilateral closeness reached such agreements, unilateral steps offering good incentives are much more important. This is hence what I also conclude with my findings.[250]

W. Yin, pointing out that most of the China investment studies so far have been only case-based, has recently tried to come up with more comprehensive framework for assessing Chinese investment abroad. While suggesting that the theories to explain OFDI so far are insufficient because they can only explain conventional motivations such as resource access, his study also put emphasis on non-conventional motivations like market-learning. Results suggest that both types of motivations play a significant role for China's OFDI.[251] As some of the motivations he suggested were taken into account also by this study, both types do seem to be significant in CEE as well.

Last but not least. K. You, investigated domestic determinants of Chinese OFDI with focus on regional level. Although the results confirmed the importance of the extended investment development theory, home locational constraints and governmental policies while assessing rationale for China's outward FDI, none of these factors had full explanatory power. The analysis stresses that there is probably no single reason for such behavior and that more approaches need to be taken into account.[252] Ramasamy et al. on the other hand, looked at the distinction between state-run enterprises and private firms. Interestingly, the study suggests great differences based on the ownership. While the contemporary theories are able to interpret the motivation of private firms, investments made by SOEs may not be fully explained by

249 Kolstad, I. and Wiig, A., 2009.
250 Pradhan, J. P., "Emerging Multinationals: A Comparison of Chinese and Indian Outward Foreign Direct Investment," *International Journal of Institutions and Economies*, Vol. 3, No. 1, April, 2011.
251 Yin, W., 2015.
252 You, K., "What drives China's outward FDI? A regional analysis," *BOFIT Discussion Papers*, No. 16, 2015.

existing theories. This finding may suggest either theoretical immaturity in the field or different, perhaps that political motives of these investments that may differ from case to case.[253]

To conclude this chapter, a comparison of similar points and differences is necessary. The importance of cultural proximity seems to be important everywhere. The higher number of Chinese diaspora tend to suggest the higher amount of capital invested. Mutual trade also seem to generally go hand in hand. While bilateral trade is important so is the connection to international markets – the fact that more export and import attracts more Chinese FDI is another stable proposition. Other studies also suggest that the general FDI openness is also a great indicator, often better than the number of treaties and other bilateral provisions. While this legal background does not pose any significance, the holistic nature of political proximity seems to be important everywhere. This is indeed also the case of CEE.

As some studies previously suggested, CEE does seem to be a hybrid region between developing and developed markets from China's point of view. While economic clustering – as mentioned above – would suggest that China hopes to put production centers into developing markets and investment in tertiary sector would take place among developed nations, in CEE both of these take place, with rising importance of high-tech fields. Hence, the motivation of technology acquisition is highly correlated with investment into developed economies. Although CEE was not previously deemed to serve this goal, my results suggest a considerable importance of this factor, putting countries of this region among the developed ones – at least from the China perspective.

Market size-wise, again, China seems to differentiate between big markets with cheaper labor force where production would turn into immediate consumption and more developed markets, where such investment would not make sense. CEE is on the fence again. While market size is somewhat correlated to China's FDI it cannot be seen as the best guiding tool. The existence of neighboring markets could explain this phenomenon better. Hence, the use of other variables. Although export of target countries and their logistics were not previously studied in depth, they logically offered one of the explanations for the region of CEE and proved to be important.

[253] Ramasamy, B., et al, 2012.

More academic inquiry needs to be, however, made in other regions to offer useful comparison.

Further, while development of the market seems to be generally deterring Chinese investment, as no significant correlation was found by this study, this is for obvious reasons correct also in CEE.

While other studies found out that political instability tends to be correlated with natural resources-seeking investment, and political stability with investment into more developed sectors, my study did not suggest nor positive nor negative correlation, putting CEE again somewhere in the middle between developed and developing economies.

To conclude, CEE is in some respects similar to both rich and poor targets of Chinese FDI. Its special nature, however, is most likely a reflection of a comparative advantage to invest in this area rather than in Western Europe, since most of the results suggest that the Chinese capital inflow is due to China's view of the bigger European picture.

7. Conclusion

Previous chapters have substantially proved what are the most important drivers for Chinese investment in the region of CEE. These, however, do vary as different countries within the region are likely to play different roles and hence are preferred in the view of different motivations. These discrepancies are similar to those China makes between the developed and developing countries. Yet at the same time it is important to stress, that the role of CEE lies, due its special nature of being and adjacent area to Western European markets, somewhere in middle of these. A number of theoretical perspectives offer decently developed explanations for this behavior. Let's sum up this paper in a bit more detailed manner.

Since China lumped up 16 different countries together in a rather haphazard manner, it is irrational to suggest that all of the countries assume the same position. Although all of them were studied as a unitary region and certain coherence is from the Beijing's point of view clearly perceivable, there are huge differences within the region itself. Since there are great discrepancies among the level of corresponding proxies, it is clear that different states may serve different purposes. Correspondingly, the Chinese FDI in each of these countries differs in the terms of sectoral distribution. Although hard to prove, these differences in preferences of each motivation may also explain diverse attitudes of Chinese SOEs – often inking the major deals – from the behavior of SMEs.

While some of the motivations discussed are greatly significant, some are less and some were disproved, as suggested earlier. There is, nevertheless, one core fact that should be carried in mind. Drawing on the results, readers should not understand them as singularities – quite to the contrary, most of them are closely linked with each other. Political proximity and Culture closeness would highly likely correlate with each other regardless of the inward FDI. The mutual relation between Logistics, Export and Openness to FDI is greatly pictured on the case of Hungary. Having a decent infrastructure already, Budapest realized the nature of Chinese aims to connect the Greek ports with Western Europe and hence initiated subsidies into infrastructure projects that soon started to take place. By such behavior it only boosted its abilities to serve as a hub and export center for Chinese companies that opened their distribution centers in Hungary in response. Other cases may be found and discussed in response.

It has been suggested that as much as 60% of Chinese invested capital is of private origin. Although the actual nature of the capital invested as well as its distance from the Communist Party of China is hard to check, and most of non-state business would arguably follow the logic of the market, the biggest deals concluded often tend to incorporate certain political background. This has two explanations. First, the biggest projects are often carried out by Chinese SOEs and hence naturally receive their governmental backing; and second, these big projects have usually impact of such importance that political discussion is necessary. From this perspective I argue that it is vital to make differences between capital of private and public origin as they may respond to different motivations. Yet at the same time, due to governmental peculiarities on the Chinese side, it is important to stay aware that the former may also be the latter.

Indeed, one of the most controversial question is whether Chinese SOEs follow a political agenda and help promote the goals of China's foreign policy. Since political proximity is one of the motivations I proved, regardless of the causality, it seems right. On the other hand many of the investment projects go along well-established value chains and do not deviate from a regular strategy of corporational survival, to which the actual notion of being linked to the Communist government may serve as a hindrance. Jie Yu in this case offers a brilliant explanation:

> *In the light of their increasing overseas activities, there is no doubt that Chinese firms play a significant role in China's foreign-economic policy. On the one hand, most Chinese firms benefit from both monetary and political support from the government. They are encouraged to act aggressively across the world to acquire natural resources and cutting-edge technologies. On the other hand, as firms, their close links with the government have hindered their business plans, as they have made economic and political compromises both at home and abroad in order to fi t with Beijing's priorities.*[254]

[254] Yu, J., "China's geoeconomic strategy: firms with Chinese characteristics: the role of companies in Chinese foreign policy," in Kitchen, N. (eds), *IDEAS reports – special reports*, LSE Ideas No. 12, The London School of Economics and Political Science, London, UK, 2012, p. 37.

It has been proved that China's sectoral clustering of FDI into developed and developing countries differs greatly. While developed countries are sources of potential know-how and new technology, developing countries are seen as new big markets for Chinese products or as sources of raw material.[255] The sectoral distribution of Chinese FDI in CEE and my motivation analysis prove that this region is somewhere in the middle.[256] The comparison of CEE as a whole with other studies shows that from the Chinese point of view of potential FDI targets, CEE does play a role different from other regions. It is thought that this very nature of their "hybrid economies" between emerging markets and developed economies is what China sees as a both promise and challenge. This new dimension of investment opportunities and business ventures is what Beijing sees as most appealing.[257] The idea of hybrid economies is indeed a common one and may play an important role. While institutionally and governmentally these countries show promise; they are politically and economically are also considered stable at the same time. Yet their level of development has not yet been reflected in the state of their economies., offering an appealing comparative advantage in the terms of labor costs, etc.[258] In sum, CEE's special nature stems from two important characteristics: the first is its level of development and the second one is its closeness to other (and bigger and wealthier) EU markets.

While the sectoral distribution of Chinese investment in the 16 countries studied suggests a difference similar to China's perception of developed and developing world, the existence of a great market right next to CEE's borders indicates goals stretching beyond the region itself. Indeed, it would be somewhat irrational to look at the region of CEE without seeing its strategic location right next to the big and wealthy Western European markets. Along with the special nature of CEE's economies with all of their potential comparable advantages, its role of a gate into Europe is the one China hopes it will play. Ekholm's "export-platform" foreign direct investment theory is hence a great explanation of what China hopes to do.

This is not, however, the only theoretical approach that may help explain what is going on. Interestingly enough, from the theoretical point of view, the whole array

[255] Élteto, A., Szunumár, Á., 2016.
[256] Ibid.
[257] Golonka, M., 2012.
[258] Ibid., p. 9.

of theories, from the most basic concepts of cost of capital in different regions all the way to those tailor-made on the China's case seem to have partial explanatory power.

To assess the theoretical perspectives on China's FDI in this region and follow the Dunning perspective, we may agree that market-seeking, efficiency seeking as well as strategic-assets seeking behavior are all taking place. The only one that is missing is natural resource seeking motivation. This, however, was not for obvious reason even studied. Dunning's basic theory on FDI is a great explanation tool, but other more specific points of views prove to possess similar explanatory power.

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Appendix One: Correlation analysis in graphs

All of the charts in this section represent the graphical outcomes of the correlation analysis as described. The X axis represents the amount of FDI (stock, 2014) received from China and the Y axis represents given proxies.

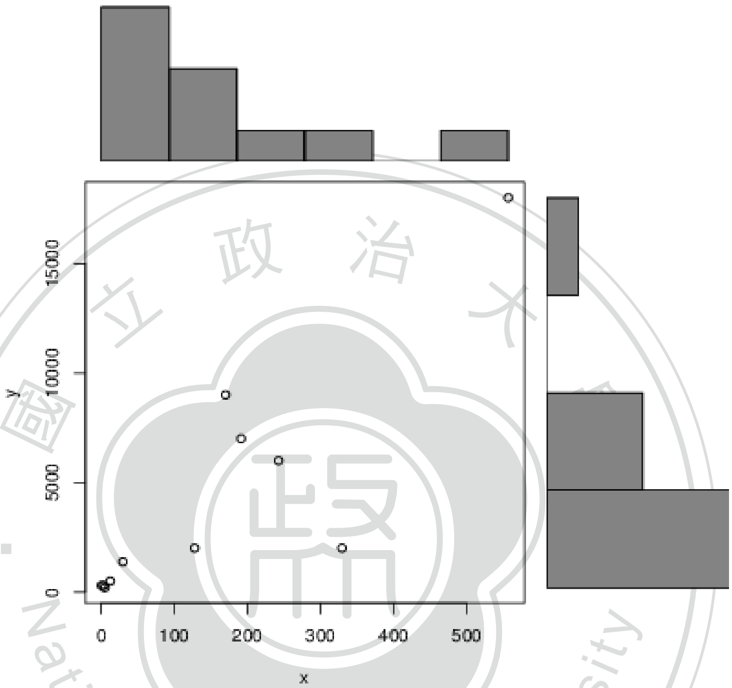

Chart 4: Correlation coefficient of China's OFDI stock with number of Chinese residents

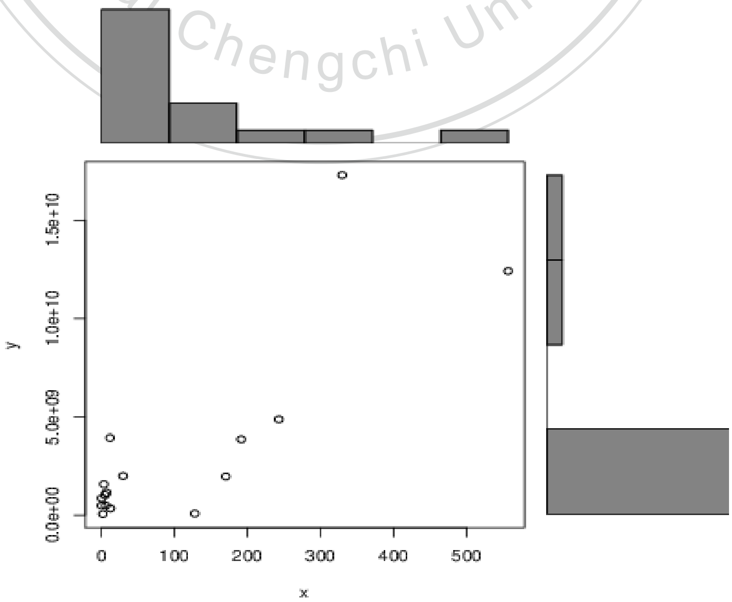

Chart 5: Correlation coefficient of China's OFDI stock with absolute net inflows of FDI

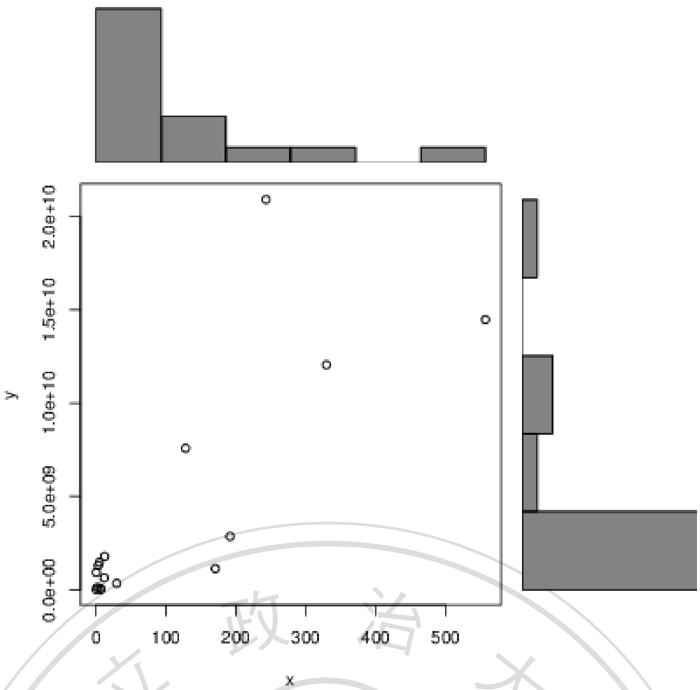

Chart 6: Correlation coefficient of China’s OFDI stock with nominal amount of high-technology exports

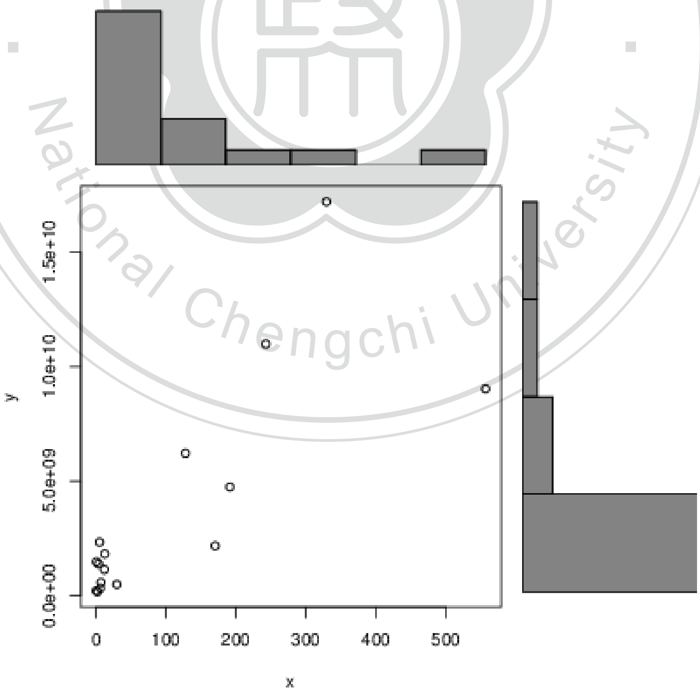

Chart 7: Correlation coefficient of China’s OFDI stock with absolute amount of mutual trade

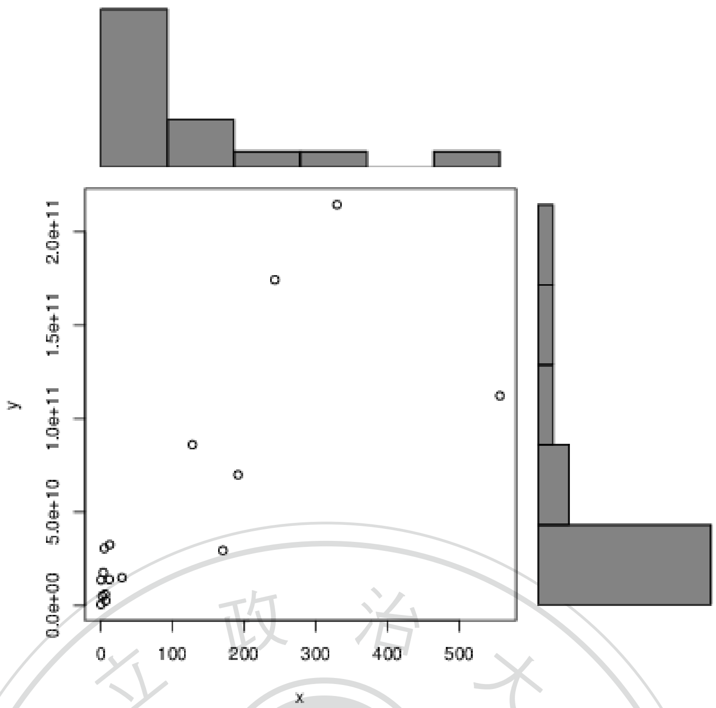

Chart 8: Correlation coefficient of China's OFDI stock with country's total exports

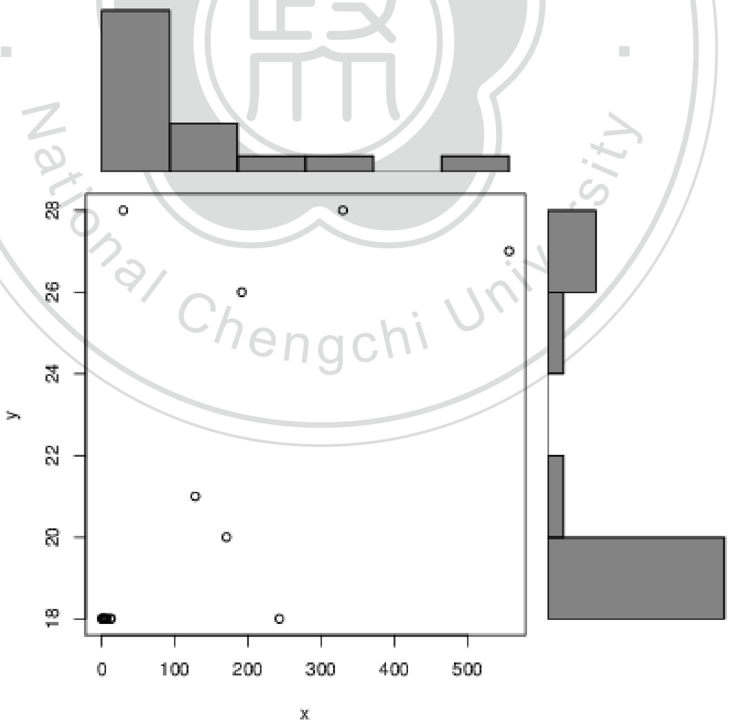

Chart 9: Correlation coefficient of China's OFDI stock with political proximity

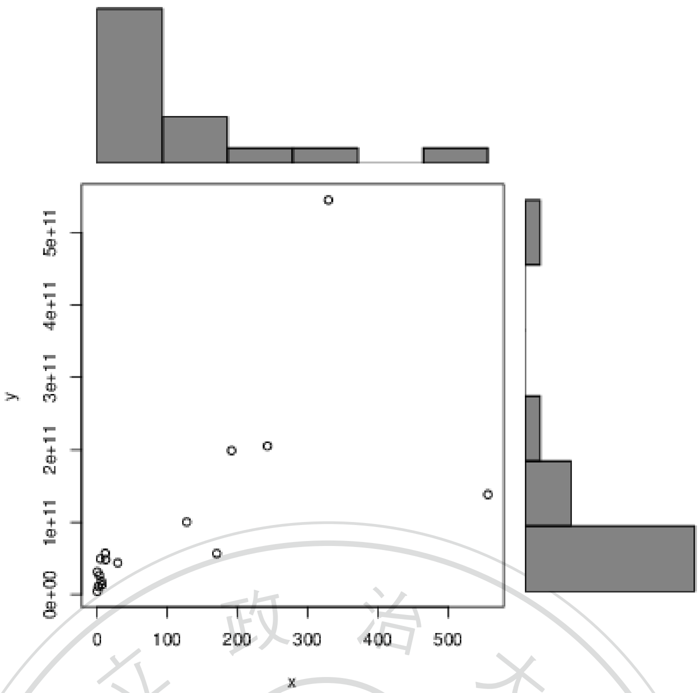

Chart 10: Correlation coefficient of China's OFDI stock with GDP size

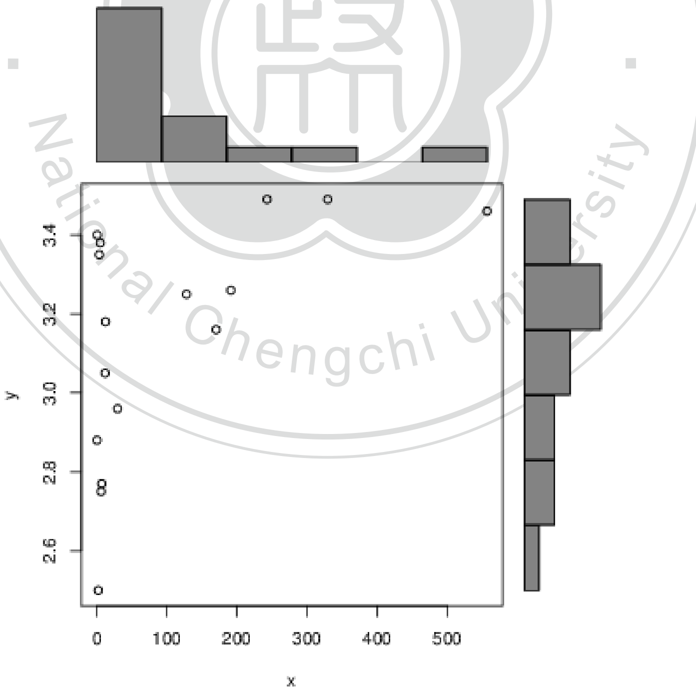

Chart 11: Correlation coefficient of China's OFDI stock with Logistic Performance Index

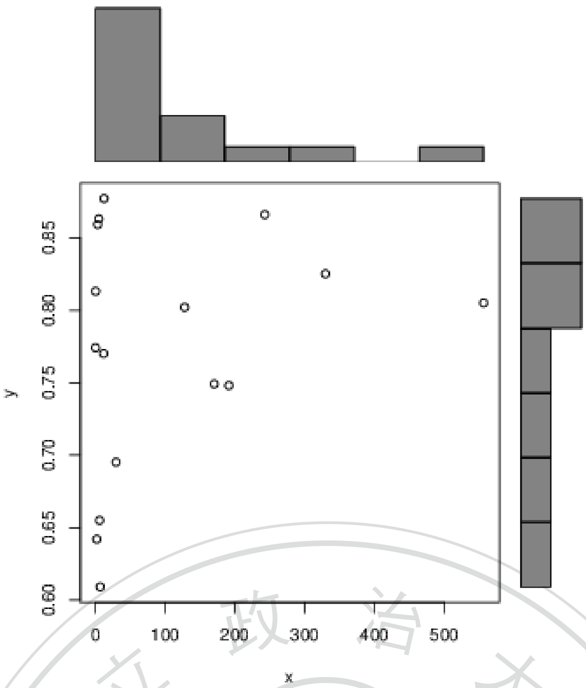

Chart 12: Correlation coefficient of China’s OFDI stock with Education Index

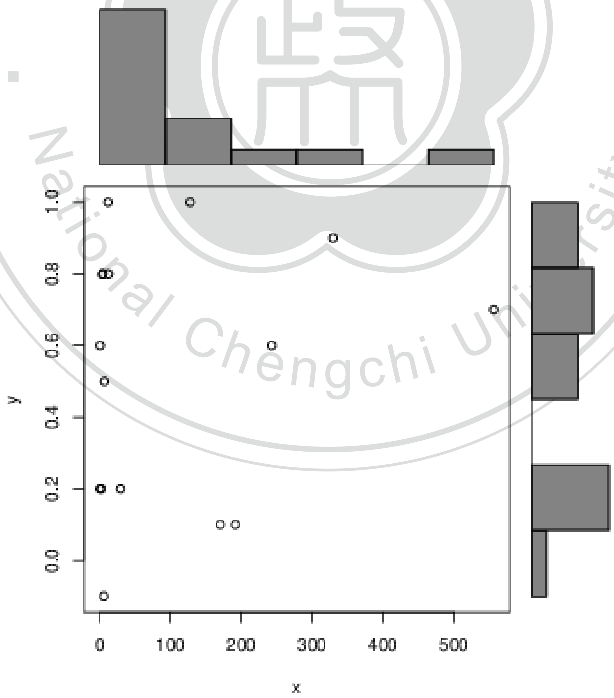

Chart 13: Correlation coefficient of China’s OFDI stock with Governmental Stability Index

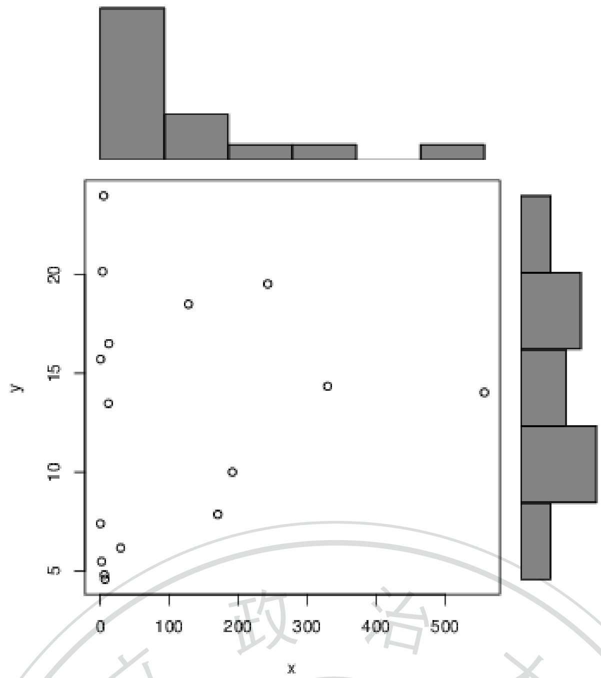

Chart 14: Correlation coefficient of China's OFDI stock with GDP per capita

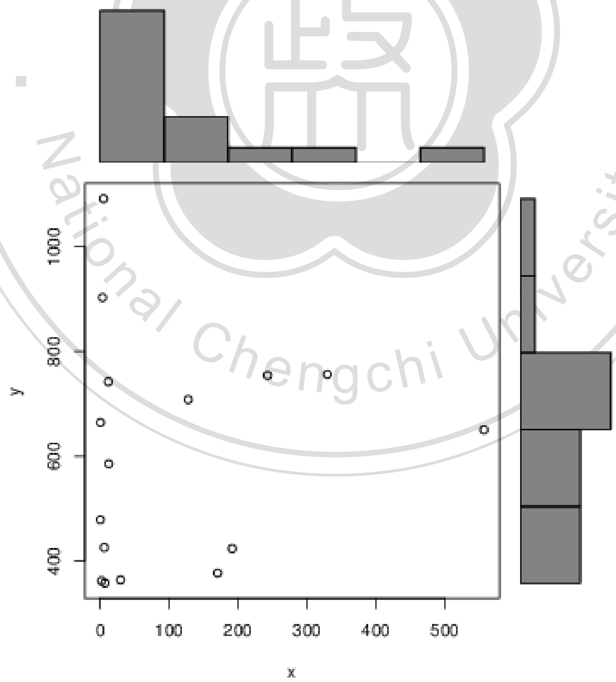

Chart 15: Correlation coefficient of China's OFDI stock with labor costs

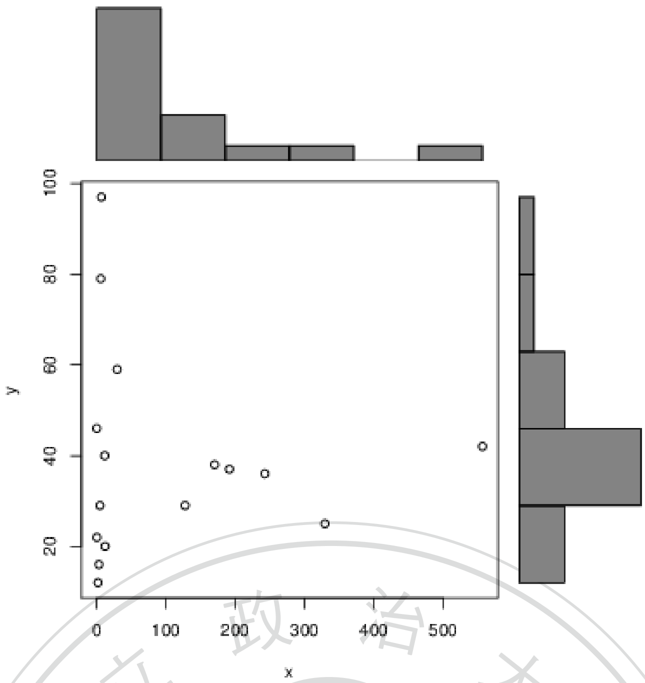

Chart 16: Correlation coefficient of China's OFDI stock with Ease of Doing Business Index