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CHINESE INVESTMENT IN CENTRAL AND EASTERN EUROPEAN COUNTRIES – A STUDY OF MOTIVATIONS

China has started to engage in the overseas investment to obtain maximized profit and improve the competitiveness from 1990s since the government supported and encouraged enterprises to 'go out'. Moreover, the financial crisis and EU sovereign debt crisis as a windows opportunity attract more and more Chinese investment. Therefore, it becomes a hot debate in accordance with the motivations in which factors drive the Chinese investment in central and eastern Europe. The different opinions between western and eastern Europeans are mainly collected and analysed. The paper is going to answer the question that the motivations of Chinese investment in CEE countries from both the perspective of China and CEE countries to test the political and economic implications.

1. INTRODUCTION

Putting forward the policy of “going global” in 2000, Chinese government encouraged domestic companies to engage in the investment opportunities outside of China. It aims at improving the competitiveness of Chinese companies by investing in foreign countries with specific industrial sectors. (Agnes, 2016) During the last 2 decades, China put a lot of efforts on the liberalization of Chinese economy. Chinese companies entered foreign regions and countries to pursue the profit maximization and competitiveness, including US, Asian countries and European countries. By creating such a strategy, China facilitated both state-owned and private-owned companies to engage in investment opportunities outside of China, making China a major capital exporter

The starting aim was the investment in natural resources and infrastructure projects in developing countries. Recently, China pays much more attention to invest in countries of European Union. Figure 1 shows that the outward foreign direct investment of China in the EU has been increasing dramatically after the global financial crisis.² (see figure 1)

Initially, investing in Europe is to obtain the advanced technologies and know-hows. According to the data showing in figure 2, EU is a very attractive region for Chinese companies so that EU member states account for 41.9% investment of Chinese OFDI in developed countries.³ However, investing in Central and Eastern Europe is more about establishing a presence in the EU common market and expanding infrastructure—which also fits into the framework of the New Silk Road Initiative. (Christian, Yun & Margot, 2017)

This paper is going to focus on the Chinese investment in Central and Eastern European (CEE) countries. CEE countries consists of 16 European countries, including 5 EU member states Poland, Czech Republic, Hungary, Slovakia, Slovenia, and 11 non-EU member states Croatia, Albania, Serbia,

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² 2013 Statistical Bulletin of China's Outward Foreign Direct Investment, China Statistics Press.

³ 2015 Statistical Bulletin of China's Outward Foreign Direct Investment, China Statistics Press.

Montenegro, Estonia, Latvia, Lithuania, Bosnia-Herzegovina, Macedonia, Romania, Bulgaria. Basically, Chinese investment is characterized market-efficiency and strategic assets-seeking motives, pursuing the new distribution channels, high technology, knowledge, know-how and successful brands.

The main driver of this changing focus from developed EU countries to CEE countries is the Eurozone crisis and growth performance of CEE countries. In the meantime, the global financial crisis and Euro debt crisis, as well as the economic downturn of Europe created opportunities for Chinese investors. After the European sovereign debt crisis, many countries were not supported by the bailout of western European countries, so they need other foreign investment to create jobs and save the local companies, even lessened the political resistance. On the one hand, the dependence of CEE countries on western European countries has been changed into diversification with external countries. Meanwhile, the Chinese economy becomes stronger and stronger and many powerful companies can bring new life for European companies which are on the edge of bankrupt. After Euro debt crisis, the EU is not very stable but fragmented. It is a good opportunity for China to establish further diplomatic relationship with CEE countries as an increasing global power.

The Chinese investment in Central and Eastern European countries mainly focuses on Poland, Hungary, Czech republic, Romania and Bulgaria, which accounts for more than 90% of the total investment. (see figure 3)⁴

The central research question of this paper is the motivations of China to invest in CEE countries in terms of economic factors, political factors and other factors.

2. LITERATURE REVIEW

A Chinese scholar, Fan Ying (2014), points out that the fast growing economy and large foreign exchange reserve are supporting China to invest in the EU. The overall scale of Chinese OFDI in EU is limited even though it is increasing. Meanwhile, Chinese OFDI is mainly by M&A due to the low costs and risks. It focuses on the different sectors and countries that Chinese OFDI engages in that mainly are manufacturing industry, financing industry and business service sector in Hungary, Slovakia, Poland and Czech Republic. Chinese OFDI is different between Central and Eastern Europe and Western Europe. The total investment volume in CEE countries is still small, and the low labor cost, high quality labor force and the friendly investment environment are the main reasons for China to engage in overseas investment in this region. I totally agree with this idea that pull Chinese investment here to develop their new economic diplomacy tie. The challenge for Europe is that the panic of European people because there is voice that China is purchasing Europe by OFDI. People and companies misunderstand the reason of Chinese OFDI. As far as I'm concerned, it is easy for Europeans to say that China has not only targeting in the economic interests, but also more about political penetration. There must be some political diplomacy pushing the Chinese government pursuing economic profit in CEE countries. However, it doesn't mean that China is a threat to spread the political thoughts.

However, the volume of Chinese investment is increasing in an upward trajectory not only because it is a business decision but also the policy support by government. Wade Jacoby (2014) reveals the commercial motivations of China, including acquiring technology, learning know-

⁴ Ministry of Commerce and the National Statistics Bureau

how, building brands, servicing Chinese companies abroad and circumventing trade barriers. In addition, skepticism of Chinese investment in CEE countries occurs that they are afraid of the political influence because of the coca-colonization by American multinationals in 1960s. Besides, another reason that western Europeans are suspicious is the developing countries investing in developed countries and communist regime investing in democratic countries.

What's more, Haico Ebberts and Jianhong Zhang (2010) mention the 6 phases of China OFDI policy from tight control to active encouragement to growing political support for TNCs from 1979 till now, instructing that China is changing and opening the economic policy. From the perspective of CEE countries, they provide incentives for FDI via tax-concession, tariffs-abolition, the settlement of free economic zones, and the avoidance of double taxation.

Some of scholars argue that Chinese government does not help lazy and wealthy European people with the blood and sweat of the Chinese people, especially during the period when social inequality is rampant in China. The starting point of Chinese government is to develop economic and diplomatic relationship with Europe by economic activities.

A very critical French scholar, Sophie Meunier (2014), analysis the political implication of Chinese foreign direct investment and politics in Europe, proposes the question if it is a Faustian bargain or just a good bargain and points out that it is a positive-sum game for both investors and investees from the perspective of China, because China saved a lot of companies from bankruptcy and even put additional investment in order to improve the operation. However, different opinions appear in Europe which is worried about that it seems like a zero-sum game in a long run. What's more, other opinions are that China is transferring their politics and values via economic cooperation, meanwhile, obtaining the high technology and know-how back to China to enhance their own companies against European companies. More than two third of Chinese outward FDI in Europe is state-owned enterprises, which links to political goals instead of economic interests. [Davis, et al. 2012] All of the foreign companies that are doing business abroad are facing a problem of cost, which is called "liability of foreignness". There are many factors affecting the abroad investment to be a disadvantage because of different business environment, long distance and so on. Here, the liability of foreignness is bigger for Chinese companies who are not familiar with the foreign culture or lack of international experience. [Sauvant, 2011]

COSCO chairman Wei Jiafu declared that *"by going global, we are also transferring our culture to the rest of the world."* [Lim, 2011] Firstly, it is inevitable to spread Chinese culture and business concepts to other countries via investment and cooperation. In addition, cultural communication is necessary for every country to exchange and achieve cultural harmony. However, French sovereignist politician Nicolas Dupont-Aignan suggests that *"we are going to put ourselves into wolf's mouth, once we've taken this money that i call dirty money. It is like 'prostituting' Europe"*. [Lauter, 2011] The concept *"Scramble for Europe"* is used by Godement and Parello-Plesner (2011).

There are many doubts because it is very rare that developing countries invest in developed countries. Chinese companies should move up and integrate into the global value chain in order to invest in developed countries. In addition, Chinese economy is a particular case since it is an emerging market economy with the background of socialism and communism. [Xu & Wang, 2012] So it is not easy for European leaders to accept Chinese investment.

The chairman of European Parliament International Trade Commission Lange (2017) claims that China pays much attention to the CEE markets. Beijing engages in large volume investment in CEE countries, meaning there are some implications. On the one hand, it can gain the influ-

ence of politics in Europe indirectly. On the other hand, the economic activities have impact on the values and principles of Europe.

All in all, the Chinese investment in CEE countries still stay in the early stage and it is continuing to go forward cooperating with each other with many pull and push factors. Whether Chinese investment is a savior or predator is becoming a very hot debate. Due to the special political regime and economic system, a lot of Western scholars portrait that it is maybe risky to accept the investment and lose their security, values and cultures.

3. MOTIVATIONS OF CHINESE INVESTMENT IN CEE COUNTRIES

Regarding to the motivations, there are many different domestic factors that push China to invest in CEE countries, including macroeconomic factors, institutional and political factors and government policies. On the other hand, many external factors from CEE countries that pull Chinese investment are also displayed in the following part.

3.1 PUSH FACTORS

Macroeconomic factors

As the highly rapid development of Chinese economy, it has already reached the second largest economic entity in the world. During the last two decades, China's economy is incrementally experiencing the transformation from command/planned economy to Chinese special market economy. In 2001, China joined the WTO which required open economy to integrate economic activities into the world economy. What's more, China's massive and rich foreign exchange reserves also push them to invest overseas. China foreign exchange reserves is increasing from USD 3000,000 million in 2008 to USD 4000,000 million in 2014. (see figure 4)⁵

In addition, the problem of overcapacity in domestic market appears. It has become increasingly saturated in the domestic market for manufacturing products such as machinery and electronic products and household appliances. It is estimated that overcapacity in the manufacturing sector in China has reached 40%.⁶

On the other hand, the national economies has been integrated with the global economy, which has led to fierce competitive pressures in the country. Especially for private manufacturing companies in China, they are facing fierce competition from foreign-invested enterprises, and they cannot fully enjoy the support that the state-owned enterprises received from the government. It has caused private companies to have strong incentives to invest directly overseas, and to acquire strategic assets such as R&D facilities, technology, brands, distribution channels, and management experience, and to engage in asset-correction type of outward FDI rather than traditional asset utilization. [Agnes, 2016] Many Chinese companies invest abroad to avoid competing in the domestic market. These disadvantages include local protectionism, less access to funds, lack of intellectual property protection, and inadequate supply of high-tech and intellectual talent.

⁵ People's Bank of China, Tradingeconomics.com.

⁶ Overcapacity in China-An Impediment to the Party's Reform Agenda, European Chamber

Government policies

Historically, the most important government policy is the “Going global” policy that Bank of China and the China Development Bank gave strong fiscal backing, like a favourable financing in the form of credit lines and low-interest loans. [Hagiwara, 2006]

Currently, many priorities are established based on the new initiatives of “Belt and Road” and the cooperation of “16+1”, which brings more investment funds to further support the Chinese investment in CEE countries. With the held of 6th summit of head of government of CEE countries and China, the SMEs matchmaking event also had held in Budapest, Hungary, meaning that more and more investment influx to CEE countries. In 2007, China established China Investment Corporation (CIC), Chinese Sovereign Wealth Fund (SWF). As a new source, Sovereign Wealth Fund is one of the important factors for outward investment, generally consisted by two types: financial investors and strategic investors who are looking for management control. As a matter of fact, the fast growth of SWF raised the attention of media and political sensitivity. [Ebberts & Zhang, 2010]

3.2 PULL FACTORS

Macroeconomic factors

First of all, CEE countries stay stable and positive in the sector of economy, political, ideologies and cultures. Stable economic growth shows that in 2015, the GDP growth in CEE was nearly double than the Euro area. GDP per capita is highest in Czech (17000 USD) and Slovakia (16000 USD), then lower in Poland and Hungary.⁷ CEE countries that within EU are more affluent than those who are outside of EU that they benefit from EU fund, a strong and growing domestic demand, so there are more investment going to CEE countries that are EU member states. What’s more, developed but less saturated economy in CEE countries is a good opportunity for Chinese companies to cooperate.

In addition, the comparative advantage is the comparatively high skilled labor force but lower cost, and labor cost is lower than the EU average. CEE is an agglomeration as general OFDI in these countries is the highest in the region. What’s more, Poland⁸ and Romania⁹ have the biggest population (38.5M and 25.2 M), others are medium-sized, which provides consumer market for China.

Corporate income tax rate is quite low, especially Bulgaria has the most favourable tax regime within the region, only 10%.¹⁰ But it is not the most popular destination that attract the Chinese investment. So the macroeconomic factors cannot fully explain the decision behind Chinese FDI in CEE.

Institutional factors

One of the very important factors is the institutional change of CEE that CEE countries join in EU: economic integration into EU in 2004 and 2007, which is the most important driver for

⁷ Trading Economies. Retrieved June 2, 2018 from <https://tradingeconomics.com/slovakia/gdp-per-capita>.

⁸ Worldometers (2018) <http://www.worldometers.info/world-population/poland-population/> Accessed: 2018. 07. 02.

⁹ Worldometers (2018) <http://www.worldometers.info/world-population/romania-population/> Accessed: 2018. 07. 02.

¹⁰ Trading Economies (2018) <https://tradingeconomics.com/bulgaria/corporate-tax-rate>. Accessed: 2018. 07. 02.

China. In 2005-2007, they are mainly motivated by the opportunity to access to EU 15 markets. However, Chinese exports to the EU were restricted by quotas that they set anti-subsidy tariffs to China. So China turned to invest in CEE because CEE countries' EU membership allows China avoid the trade barriers. [Andras, 2013] Another aspect of EU membership is institutional stability: more transparent and stable institutional environment, protection of property rights. What's more, there are free trade agreements between EU and the third countries, like Canada and USA, that China can get involved into larger markets.

Another factor is the political relations between China and CEE countries which represents whether government is willing to cooperate with each other or not. Hungarian government is willing to cooperate with Chinese government as Hungary always holds meeting and accepts Chinese investment which attracts more investment than any others with CEE. However, Poland officials blamed the violence of human right of China in 1990s; Czech president met with Dalai Lama. But now the relationship is changing into a good direction. [Kamm, 2004]

In addition, factor like privatization of state-owned enterprise also attracts Chinese investment to obtain technology, brands, distribution networks and manufacturing capability from CEE countries. Poland was using this way to attract Chinese companies, especially after the global financial crisis. What's more, there is a special case in Hungary, which provided visa and permanent residence permits by investing €250,000. [Agnes, 2016].

The Bilateral Tax Agreement (BTA) has been signed between China and many CEE countries, including Czech Republic, Hungary, Poland, Romania, Russia, and Ukraine. Investments in selected sectors, such as the agricultural-related products and the businesses that implement new technologies, are given preferential incentives like investment allowance or tax credits. [Ebberts & Zhang, 2010]

What's more, safety business environment is also attractive for the Chinese investors. [Anonymous, 2016] Migrate crisis won't be a threat because CEE countries are not the main destinations for asylum seekers. Meanwhile, the predictable and stable policy regime are another advantages. Business environment is also one of the important factors to attract investment from China. The investment climate is supportive and also full of incentives and they continuously improve their transparency.

4. CONCLUSION

The paper was answering the question that the motivations of Chinese investment in CEE countries from both the perspective of China and CEE countries to test the political and economic implications. Chinese investment is characterized by market-seeking, efficiency and asset-seeking motives, targeting the consumer market which refers to the whole EU market. In addition, they also pursue the resource of technology, know-how, established and reputable brands and the skilled labor force. The entry mode is basically greenfield and M&A mainly by state-owned companies, even privately-owned companies need to obtain the authorization of the Chinese government to invest abroad. While some scholars argue that Chinese FDI has potential motivations to affect and reshape politics in CEE countries and even the whole Europe. In addition, China is trying to build good relationship with CEE countries by OFDI to improve their influence in Europe and the world, helping them be easily accepted by Western European countries.

It is very difficult to evaluate the motivation and implication of Chinese investment upon the CEE countries. On the one hand, Chinese investment provides job opportunities and the influx of fresh capital which benefits for both investors and investees. On the other hand, a lot of voice of “fear of China” says Chinese “scamble for Europe” affects the European norms and policies, from human rights to labor laws, leading to a deterioration in labor rights. [Klein, 1999] It may put pressure on European institutional processes and lead to further European fragmentation. [Meunier, 2014] By studying and doing further research, I would like to focus on the costs and benefits between investors and investees to evaluate whether it is mutual benefit.

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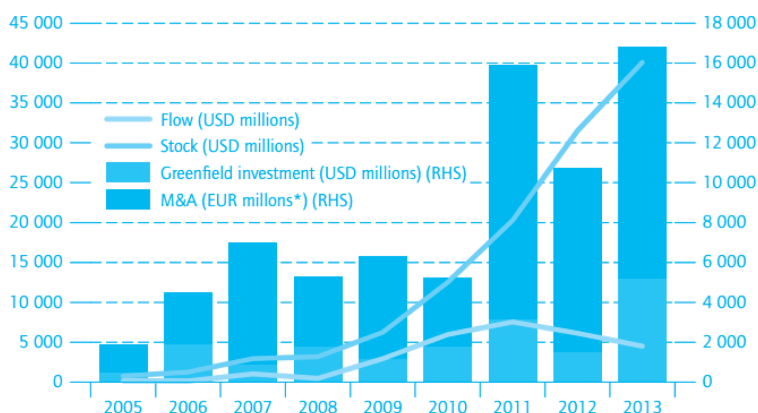
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APPENDIX

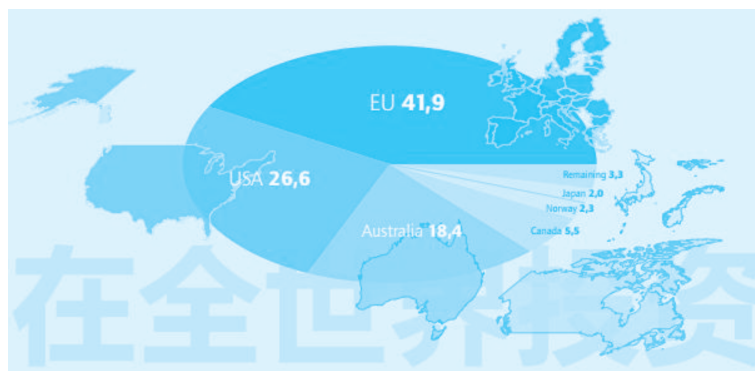
Figure1. Chinese foreign direct investment in the EU

In USD/EUR millions



Sources: 2013 Statistical Bulletin of China’s Outward Foreign Direct Investment, China Statistics Press

Figure 2. Volume of Chinese OFDI in industrialized nations at the end of 2015
(In percent)



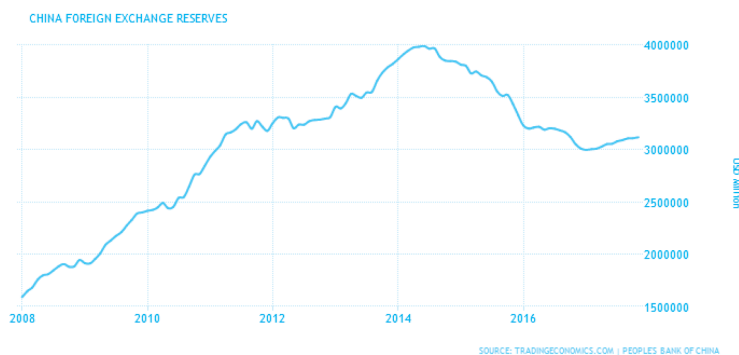
Sources: :2015 Statistical Bulletin of China’s Outward Foreign Direct Investment, China Statistics Press.

Figure 3. Chinese investment in 16 CEE countries from 2009 to 2014 (stock/USD m)

	2009	2010	2011	2012	2013	2014	2009-2014 growth	Share of total Chinese investment in CEE (2014)
Hungary	97.41	465.70	475.35	507.41	532.35	556.35	471.14%	32.79%
Poland	120.30	140.31	201.26	208.11	257.04	329.35	173.77%	19.41%
Czech Republic	49.34	52.33	66.83	202.45	204.68	242.69	391.87%	14.31%
Romania	93.34	124.95	125.83	161.09	145.13	191.37	105.02%	11.28%
Bulgaria	2.31	18.60	72.56	126.74	149.85	170.27	7271.00%	10.04%
Slovakia	9.36	9.82	25.78	86.01	82.77	127.79	1265.28%	7.53%
Serbia	2.68	4.84	5.05	6.57	18.54	29.71	1008.58%	1.75%
Lithuania	3.93	3.93	3.93	6.97	12.48	12.48	217.56%	0.74%
Croatia	8.10	8.13	8.18	8.63	8.31	11.87	46.54%	0.70%
Albania	4.35	4.43	4.43	4.43	7.03	7.03	61.67%	0.41%
Bosnia-Herzegovina	5.92	5.98	6.01	6.07	6.13	6.13	3.55%	0.36%
Slovenia	5.00	5.00	5.00	5.00	5.00	5.00	0.00%	0.29%
Estonia	7.50	7.50	7.50	3.50	3.50	3.50	-53.33%	0.21%
Macedonia	0.20	0.20	0.20	0.26	2.09	2.11	955.00%	0.12%
Latvia	0.54	0.54	0.54	0.54	0.54	0.54	0.00%	0.03%
Montenegro	0.32	0.32	0.32	0.32	0.32	0.32	0.00%	0.02%
Total	410.60	852.58	1008.77	1334.00	1435.76	1696.51	3.13	100%

Sources: Ministry of Commerce and the National Statistics Bureau

Figure 4. China foreign exchange reserves



Sources: People's Bank of China, Tradingeconomics.com.