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Motives and Determinants of Chinese Foreign Direct Investment in the CEE countries

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Declaration:

I hereby declare that I am the sole author of the thesis entitled 'Motives and Determinants of Chinese Foreign Direct Investment in the CEE countries. I duly marked out all quotations. The used literature and sources are stated in the attached list of the references.

In Budapest, August 2023 *Signature of the student*

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Motives and Determinants of Chinese Foreign Direct Investment in the CEE countries

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Abstract

Foreign direct investment has played a significant role in facilitating the CEE countries to improve their domestic competitiveness and integrate into the international economy during the transition from a centrally planned economy to a market economy. The traditional sources of FDI in the CEE region are mainly Western European investors, and non-European investors such as the US, Japan South Korea, etc.. Chinese investors started to enter the CEE market as newcomers after the Euro crisis, and recent years have seen a rapid growth of Chinese FDI, especially in Hungary under the established institution "16+1" platform in 2012. The CEE region plays an important role as a bridgehead of the European market. Chinese and the CEE countries share a similar development stage in terms of income level and complementary economic structure, which facilitates economic cooperation between the two parties. With the constantly increasing Chinese economic engagement in the CEE countries and disputes about Chinese investments, this paper aims to study what motives and main determinants have influenced the existing Chinese investment. The thesis adopts both quantitative and qualitative analysis to study the motives and determinants of Chinese investments in the CEE-16 region based on existing FDI theories. The econometric analysis from the macro-level is conducted with panel datasets including macroeconomic and institutional variables

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from 16 CEE countries from 2005 to 2019. Due to the heterogeneity of the countries in the region, the thesis also employs qualitative analysis with case studies of three representative countries in V4, Baltic, and Balkan countries, and several company interviews by giving an in-depth understanding of real-life experience to address the limitation of macro-level data analysis. Meanwhile, this research provides an opportunity to review and re-examine current FDI theories through the mixed methods of quantitative and qualitative analysis within the theoretical framework established based on the recently developed FDI theories and current literature review. The preliminary results of the paper demonstrate strong market-seeking, strategic-seeking, and efficiency-seeking motives of Chinese FDI in the CEE region which partially align with Dunning's FDI theories. Findings also prove that having access to the EU market is an important motive. The institutional variables such as bilateral intergovernmental linkage and EU institutions are also proved to be important determinants in investing in the CEE region. However, Chinese OFDI seems less likely associated with the domestic institutional quality of host countries. Therefore, this research explores the drivers of Chinese OFDI in the CEE derived from literature reviews and also enriches the conventional assumptions on the motives of Chinese OFDI.

Keywords: China, FDI, the CEE, quantatitive analysis, qualitative analysis, investment motives and determinants,

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List of Abbreviations

CEE - Central and Eastern European countries

FDI - Foreign Direct Investment

OFDI - Outward Foreign Direct Investment

V4 - The Visegrad 4

BRI - The Belt and Road Initiative

MOFCOM - Ministry of Commerce

UNCTAD - United Nations Conference on Trade and Development

UNECE - United Nations Economic Commission for Europe

OECD - Organisation for Economic Co-operation and Development

MNCs - Multinational corporations

NDRC - National Development and Reform Commission

SAFE - State Administration of Foreign Exchange

GDP - Gross Domestic Product

M&A - Mergers and Acquisitions

IPR - InterLlectual Property Right

FTA - Free Trade Agreement

R&D - Research and Development

SOEs - State of enterprises

OEMs - Original Equipment Manufacturer

HCSO - Hungarian Central Statistical Office

HIPA - Hungarian Investment Promotion Agency

SME - small and medium enterprises

AIIB - Asian Infrastructure Investment Bank

CRRC- China Railway Rolling stock Company

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Motives and Determinants of Chinese Foreign Direct Investment in the CEE countries

1. Introduction

1.1 Research background

The phenomenon of outward foreign direct investment (OFDI) from emerging markets has been a challenge for the mainstream schools of FDI theories and attracted the attention from the academic fields. China's outward foreign direct investment OFDI activities started later than most of the developed economies. However, its OFDI has increased rapidly in last few decades thanks to the gradual relaxation and promotion of government policy since reform and opening up policy. By the end of 2019, Chinese outward direct investment flow reaches USD 136.9 billion, ranking the 2nd place at the global level and FDI stock USD 220 billion, which took up 6.4% of global FDI stock. Due to geographical and cultural factors, the main destination of Chinese OFDI is Asia, where the OFDI stock accounts for 66.4% of its total. And most of Chinese OFDI flew into tax avoidance areas such as Hong Kong (China) and the Cayman Islands (MOFCOM, 2019). However, Chinese OFDI in other areas is still limited, especially in developed countries due to the lack of advantages of technology and management skills. Nevertheless, the recent years have seen a rapid increase of Chinese OFDI in developed countries which increased by 94% in 2016 (MOFCOM, 2016), especially in Europe. Due to transformation of Chinese economic structure, the motivations of Chinese OFDI also gradually shifted from the natural-resource seeking to strategic-asset seeking. Chinese OFDI flows increased by 59.6% in Europe and 5.1% in Asia by the end of 2019 but experiences a drop in other continents (MOFCOM, 2019). Chinese FDI in the EU have a significant change during the period from 2004 to 2014, and especially since the European debt crisis in 2009, Chinese investors took the window opportunity to

enter the EU market. In 2016, it became the second largest destination for Chinese investors due to factors such as huge market size, technology, favorable institutional environments.. Historically, the majority of Chinese OFDI is concentrated on “core European economy” such as the UK, Germany and France. In comparison, the CEE countries, such as Poland, Romania, Czechia, Hungary, receive relatively little amount of Chinese direct investment. However, China has accelerated the investment in the emerging members of the EU in recent years and the CEE region can be perfect entrance into the EU markets for Chinese investors. In 2008, Chinese FDI in the CEE reached 351.75 million US dollars, and in 2019 it had increased to 2606 million US dollars (MOFCOM, 2020). China’s increasing FDI activities in this region has provoked huge debates all over the Europe. With the constantly increasing trade and investment operations between China and the CEE, more and more scholars started to pay attention to this topic. Hungarian government has increased the political support and public promotion for Chinese FDI under the framework of China’s “16+1” platform and Belt and Road Initiative. Therefore it is significant to conduct a research on the patterns, motives and determinants of Chinese Chinese investment in the the CEE countries.

There are a considerable literature review about motivations and political impacts of Chinese investment in the EU. 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 in western EU countries. However, the CEE region, as the emerging market, is a new player in cooperation with China, and there are fewer researches about the motivations and determinants on Chinese OFDI in the CEE. Based on the above, the following research questions are put forward：

1. Why do Chinese investors choose to invest in the Central and Eastern European region?
2. To what extent do macroeconomic and institutional factors of the CEE countries influence the Chinese foreign direct investment?
3. Are there any other factors beyond the traditional macroeconomic and institutional

factors attracting Chinese FDI to the CEE countries?

This paper is going to focus on the Chinese investment in Central and Eastern European (the CEE) countries as a whole. the CEE countries consists of 16 European countries, including 11 EU member states Poland, Czech Republic, Hungary, Slovakia, Slovenia, Croatia, Estonia, Latvia, Romania, Bulgaria and 5 non-EU member states Albania, Montenegro, Bosnia-Herzegovina, Macedonia and Serbia.

1.2 Research Objective

1.2.1 Theoretical objective

Over the years, studies on OFDI theories have been systematic and mature with the rapid development of global cross-border investment. The mainstream FDI theories were built upon the experience of FDI from developed economies. The FDI phenomenon from emerging market has challenged the classical FDI theories, among which China's OFDI especially has been focused on the later FDI studies with its significantly rapid growth and the special features even compared with the emerging markets. Increasing studies have identified the limitations of general grand theories and the problems in explaining the OFDI behavior from developing countries. Although Chinese OFDI has been growing faster in the CEE since financial crisis, the investment volume still accounts a small share in proportion of China's total amount of OFDI in the EU or in countries along"Belt and Road Initiative". In view of this, there are not many studies on Chinese OFDI in the CEE countries, especially on the factors influencing China's investment and even fewer studies and plans on the overall layout of investment in the region. In this paper, I will explore the investment environment of the CEE countries and the driving factors behind Chinese investment in this region. The research theoretical objective is to enrich the current FDI theories by researching Chinese OFDI since China's economic and political influence has been growing in the international community.

Besides, this paper will help to establish and improve a investment cooperation theory based on the current development status of both China and the CEE and fill the gaps of current OFDI theories.

1.2.2 Practical objective

The BRI is an open and inclusive economic and trade cooperation initiative firstly proposed by China, and the CEE countries play a significant role along the "Belt and Road Initiative" in developing China's overseas markets with the advantageous location. The BRI of China happens to be compatible with the "opening up to the east" policy of some the CEE countries. However, the amount of Chinese FDI in this region is still low and Chinese investment has been constrained and affected by plenty of unfavorable factors such as their diverse business environments, different needs and strong fierce competition of foreign investment. According to the current situation, this paper will aim to find out the driving factors and location determinants of Chinese OFDI by using a combination of qualitative and quantitative research methods. The study will also explore China's investment strategy in the CEE regions and their investment environment in order to provide a scientific and reasonable reference for both Chinese outbound investment and local governments regarding to their decision and policy making how to promote the efficiency of investment cooperation.

1.3 Research methodology and thesis structure

1.3.1 Research methodology

The research adopts a mixed method which combines quantitative and qualitative analysis to have a comprehensive picture about why Chinese investors choose to invest in the specific location from both macro and micro-level perspectives. The paper starts with a general overview of FDI theories and literature review related to Chinese OFDI to draw out the location determinants and motives of Chinese MNCs.

Then I use the selected variables to test in the quantitative analysis and compare the empirical result with the ones from qualitative analysis based on the case studies and some interviews.

Qualitative versus quantitative method in the research

Although most of studies on the motives and location determinants of OFDI have employed a quantitative econometric analysis (Liu&Deng, 2014; Chen, 2015; Omer & Sufian. 2015; Galan & Gonzalez-Benito 2001;Maniam & Chatterjee, 1998; Buckle et al, 2007) Campos & Kinoshita, 2003; Naude & Krugell, 2007), this research will apply a mixed method which combines quantitative and qualitative analysis for the following reasons: first, the quantitative analysis tends to use numerical data and model to explain an observed phenomenon in a subjective manner, while it lacks contextual details. Thus qualitative method tends to be used to explain one single phenomenon by giving in-depth understanding of real-life experience. Second of all, in order to address the limitation of macro data in the quantitative analysis such as small size of FDI, round tripping effect, data availability, qualitative method prevails over quantitative one when it aims to address the questions which are exploratory and provide a better understanding of a contemporary phenomenon (Silverman, 2000, Yin, 2003), and it better serves the purposes of in-depth analysis of the motives and determinants of FDI in main the CEE countries. Third, the quantitative analysis gives us a generalized results and picture related to the study, while I also try to find out whether there is more variables outside the model need to be considered in the investigation about motives and determinants from different levels and perspectives which is hardly handled by quantitative method. According to the previous study, Chinese investments in Eastern Central EU countries are greatly influenced by political ties and institutional factors (Szunomar, 2015) and some important data and information can hardly be transformed into numerical analysis. Last but not least, there can possibly exist an inaccuracy and bias in the result of quantitative method which can be very misleading in the analysis. The qualitative method has been adopted in many existing studies to explain the motives and determinants of FDI from the literature

(Williams and Deslandes et al, 2008).

Data source and case selection

In terms of quantitative method, fixed-effect model was used to explore the factors that influencing Chinese investment in the CEE. Chinese OFDI data was collected from 2005 to 2019 from MOFCOM data source, while other independent variables are collected from World bank, Eurostat and UNCTAD, UNECE Statistics and ,UNCOMRADE at macro level. Several panel regressions were run to examine those factors based on the theories and literature review. Besides, quantitative data from macro-level are needed to have an overview of the foreign direct investments in this region in terms of volume, trend and sectoral distribution.

Regarding to the qualitative analysis, this research will also conduct qualitative case studies. The method of case study enables to provide a comprehensive and in-depth analysis of the phenomenon from three levels: country level, industrial level and firm-level by using multiple sources of data collections such as documentation, interviews and archival records which called triangulation (Yin 2003). A case study method allows the researcher to conduct real-life research based on understanding personal experiences and views. Instead of focusing on the whole the CEE-11 countries, I will choose Hungary, Serbia and Estonia as my target countries to conduct my research based on several reasons: First of all, this research divides the region into three groups based on the geographical location and different economic development stages. They are respectively are: The Baltic States (Lithuania, Estonia, and Latvia),the Balkan countries(Albania, Croatia, Bulgaria, Romania, Bosnia and Herzegovina, Montenegro, Serbia, and Macedonia) and the Visegrad countries ((Hungary, Czech Republic, Poland, Slovakia) plus Slovenia. Second, Hungary receives the highest FDI volumes from China among V4 countries, and Serbia can be representative countries from Balkan countries as well as a non-EU member, Estonia is chosen as the representative one of Baltic countries due to the data availability. Third, in order to reach the feasibility of my research, I choose Hungary

to easily have access to the resources and information at my disposal for the implementation of interviews.

1.3.2 Thesis structure

The thesis consists chapters, starts with introduction. This part clarifies the research background based on which the research questions are formulated, research objectives including theoretical and practical purpose of this studies, and research methodology employed to answer the research questions.

The second part of the study focuses on clarifying the factors influencing outward investment from developing countries, summarizing and organizing the stage of investment development, investment inducing factor combination theory, technological innovation industrial upgrading theory, and other theories affecting outward FDI from developing countries, and further exploring the relevance of these theories to outward investment from developing countries.

The second chapter presents the theoretical foundation and literature review including historical evolution of the FDI theories: Classic FDI theories (Dunning OLI paradigm, International development path), FDI theories(mainstream FDI theories based on the FDI from advanced markets, the extending FDI theories (institutional theory, Japanese school of FDI theories) based on the MNCs mainly from later comers, the special features of Chinese FDI, the theories relevant to motives and location determinants of FDI and the literature review which focuses on the determinants of foreign direct investment in the CEE region. In the end of this part, the preliminary theoretical framework will be built for the research project based on the relevant theories discussed and literature review.

The third chapter describes the characteristics of Chinese investments in the CEE by elaborating and analyzing the dynamic situation of the investment in terms of scale, regional distribution and industrial structure.

The fourth chapter conducts a quantitative empirical analysis on the motives and determinants of Chinese FDI in the CEE region by using panel regression with the datasets from 2005 to 2019 to answer the research questions of the significant

motives and determinants influencing Chinese investment in this region as well as to test the hypotheses.

The fifth chapter makes complementary case studies to address the limitations in quantitative analysis. Hungary, Serbia and Estonia are selected as case studies to analyze the motives and determinants of some major Chinese investment deals from corporate level. Due to data and resources availability. Some interviews from Chinese companies are conducted to provide real life information.

The sixth chapter draws a conclusion of the entire research and provides reasonable policy recommendations for both Chinese investors and host governments based on the research outcomes. The results of quantitative and qualitative analysis are used to provide a theoretical reference and scientific foundation for future investment cooperation between China and the CEE regarding investment fields, optimization of Chinese investment layout etc..

1.4 The contribution and innovation of the thesis

This research combines the quantitative method with econometric analysis and qualitative method with country case studies and semi-structured interviews to provide a more comprehensive picture about both conventional and idiosyncratic characteristics of China's OFDI. The research makes an attempt to incorporate bilateral cooperation "16+1" platform into the quantitative analysis and use the CEE's export to the EU as proxy to prove the significance of the EU market in influencing Chinese investment which is the innovation of the research. Besides, the research conduct a quantitative analysis on the whole region and qualitative analysis classifies them differently based on individual characteristics of 16 the CEE countries and make group level analysis by dividing the whole region into three parts according to the development level as well as geographical distribution: Visegrad countries plus Slovenia, Baltic countries and Balkan countries. The individual differences among the region are considered in exploring Chinese investments in this region based on the geographical distribution of Chinese FDI in the CEE countries.

The data and resources from multilevel perspective are collected such as macroeconomic data, Meso level of industrial analysis and the micro level data of interviews from enterprise level analysis, which enriches the information and findings of the research, though the micro level date is very limited.

From theoretical perspective, the research provided a useful addition to the current FDI theories especially related to Chinese overseas investment by investigating the motivation of Chinese investments in the CEE countries. It also helps to establish a theoretical framework and prove the significance of the intergovernmental linkage and political relation in the investment cooperation based on the current investment development status of China and the CEE.

One of the major limitations lies in the data quality. Chinese OFDI data is usually not well tracked and underestimated due to the problem of offshoring. OECD data manage to publish the ultimate OFDI data in 2014 and intermediate OFDI in 2003, However, it only covers OECD countries and the limited period. Therefore, the research uses data from MOFCOM due to the consistency and availability from the time period 2005 to 2019 which is suitable for econometric regression analysis.

Another limitation is variable selection for the intergovernmental relation or linkage. Since it is hard to find proxy which relates to intergovernmental relation. This research adopts “16+1” cooperation as dummy to test whether it is significantly affects Chinese OFDI flows in this region which is very general and can’t grab the difference of individual countries.

The limitation of the author’s language ability makes it more difficult to collect some data such as variables such as Chinese population in the CEE countries, and some micro-data are not available such as sectoral distribution and the number of projects in both M&A deals and Greenfield investments from perspectives if investment types.

Further research needs to be conducted based on the firm-level micro data about Chinese OFDI rather than macroeconomic database to provide a more precise information about Chinese OFDI in this region including industrial distribution and entry mode such as Orbis data source. From the perspectives of panel regression

analysis, the thesis just focused on full factors such as determinant factors in host countries and motives of MNCs and doesn't consider the push factors from Chinese domestic environment which are also important determinants for Chinese investments in the CEE countries according to the previous study (Szunomar, 2015).

2. Literature review

2.1 Theoretical foundation

This chapter provides a brief overview of the existing FDI theories to present a theoretical background. In particular, this part will review the relevant theories to the motives and location determinants of FDI since it is the core question in the research. I divide the literature into four parts following historical evolution of the FDI theories: mainstream FDI theories based on the FDI from advanced markets, the extending FDI theories based on the MNCs mainly from emerging markets, the special features of Chinese FDI, the theories relevant to motives and location determinants of FDI and the literature review which focuses on the determinants of foreign direct investment in the CEE region. In the end of this part, the preliminary theoretical framework will be built for the research project based on the relevant theories discussed.

2.1.1 Mainstream FDI theories

There are quite a lot of research that explain the internationalization of MNCs from both macro-level and micro-level. Comparative advantages (Ricardo, 1817) and Heckscher-Ohlin theories (Heckscher & Ohlin 1991) tried to explain the earliest investment phenomenon at the general level which believed that capital flows where the return of the investment is higher. With the emergence of MNCs, scholars attempted to explain the investment behaviors through firm-level. Internalization theory initially built by Coase (1937) transaction costs. Hymer (1976) pointed out two major factors that drive OFDI which are firm-specific advantages and market

imperfection. MNCs need certain internal advantages such as innovation, finance technology, and products differentiation etc. to overcome the costs of internationalization process. This theory was developed by Buckley and Casson by studying why companies choose to conduct FDI for the intermediate production (Buckley & Casson, 1976), and they believe that companies will internalize the market for the intermediate products productions when the benefits exceed the ones received through market transaction such as external supply relationships(Buckley and Casson 2009).

The latter scholars combine the market imperfections, transaction costs and internalization as FDI determinants, Buckley & Casson 1976; Dunning 1980; Rugman 1981). What is more, the internalization theory also contributed to part of the Dunning's work in his eclectic paradigm who believes that internalization theory can partially explain FDI flows and more general theory should be developed to explain the MNCs and FDI phenomena. Dunning (1977) combined the internalization theory with another two elements which configures the central propositions of its Eclectic Paradigm (OLI Paradigm):

Ownership advantages (O-advantages) refers to that the companies owns firm-specific advantages over others in certain markets that can't be transferred to their competitors so as to reap greater profit or lower the marginal costs (Dunning, 1988).

Location advantages (L-advantages) refers to the competitive advantages that certain location possesses for the firms to exploit such as cheap labor, natural resources and favorable institutional qualities etc.. And this is the key factors to determine where to invest when the companies own the first advantages.

Internalization advantages (I-advantages) means the ability of the companies to internalize its firm-specific advantage in the foreign markets to gain more profits than any other ways such as exports or licensing if they perceive the other two advantages are met.

Internationalization development path (IDP), was proposed by Dunning as an complementary approach of the eclectic paradigm to explain the evolution of FDI inflow and outflow based on the domestic development stages (Dunning, 1988). According to IDP, there is a long-term relation between the development level of a country and its net investment position. In stage 1, due to the underdevelopment, either FDI inflows or FDI outflows are weak. In second stage, the country will increasingly attract FDI inflows due to the location advantage such as natural resources and cheap labor but there still lacks for FDI outflows. In the third stage, knowledge transfer from inward FDI helps to improve the competitiveness of domestic firms. Therefore, outward OFDI starts to increase with the accelerating industrialization. In the fourth stage, the net FDI position changes when the FDI outflow exceeds the OFDI inflow. The last stage will be the change of status from developing to developed countries as there is balance between outward FDI and inward FDI (Stoian and Filippaios, 2008a).

2.1.2 Extension of Classic FDI theories

The acceleration of globalization and development of information and communication technology, facilitates the internationalization process of companies, and the OLI paradigm has failed to address the dynamic and evolving of international business (Li, 2003). Johanson and Vahlne (1977) proposed the gradual internationalization approach and developed the Uppsala model which believed that companies take a slow step to relocate their production network due to lack of the knowledge and experience regarding to geographical and psychic distance. The firms start their international business through direct and indirect export, licensing to accumulate the knowledge and experiences so as to increase their resource commitment and limit their risks. Besides, the companies tend to internalize their international market from the host countries with cultural and geographical proximity, then to more distant countries with more international business experience and knowledge. However, this incremental internationalization approach was criticized because it cannot explain the resource-seeking FDI and doesn’t consider

how institutional factors such as home and host institutions, personal experience and networks affect the internationalization decision (Andersen, 1997, Johanson & Vahlne, 2003). Furthermore, some empirical studies have disproved the Uppsala model based on the finding that companies could overcome the difficulties of psychic distance and internationalize their business very fast after their establishment.

"International new ventures", was proposed by Oviatt and McDougall (1994), also called "born-global". This approach argued that the international entrepreneurs enable the companies to acquire the resources and markets in many countries to improve their competitive advantage. Those companies internalize their markets at very beginning of their establishment and further expand their international business with their knowledge and experience (Zahra, 2005).

However, the acceleration of internationalization process either through gradual process or born-global can be partially explained by the international entrepreneurship network theories. According to Casson (1997), networks refer to "*a set of high-trust relationship which either directly or indirectly link together everyone in a social group*" in order to share and exchange information. Transaction costs of the internationalization process can be reduced through the transmission of information among both business and social networks during the internationalization process (Standifird & Marshall, 2000). Networks can help the companies with weak ownership advantage in their internationalization process, which have been used to explain the MNCs from developing countries.

The FDI from later comers also reveals the inadequacy and deficiency of the mainstream FDI theories. Compared with the traditional FDI research which mainly focused on advanced economy, the recent decades have seen increasing studies on FDI in emerging markets which marks the extension and revise of traditional FDI theories (Mathews, 2002). Matthews puts forward a model especially for the MNCs from the emerging markets to complement the Dunning's eclectic theory and network theories: LLL (linkage, leverage and learning) paradigm. Although the MNCs from emerging markets lack for the firm-specific advantage equivalent to the

ownership-advantage in OLI paradigm, they can learn and adsorb the knowledge from advanced economy through FDI to catch up based on the knowledge absorbed theories (Humphrey and Schmitz, 2002). According to LLL model, the latecomers take advantage of the existing network in global value chains to have access to the new knowledge and innovation. Then they learn this knowledge to upgrade their internal product portfolio and integrate the new resources into their own knowledge to improve their capabilities and ownership advantages (Mathews, 2006).

2.1.3 Institutional Theory of FDI

Another problem of the classic FDI theories is that it fails to address the role of the institutional framework of OFDI both from host institutions and home institutions. The concept of institution is unclear with broad elements. According to North (1990), institutions are defined as *"the humanly devised constraints that structure human interaction and represents the rules of the game established by societies through long social practice, and they have constraining power towards every entity operating in such societies"*. Later, institutions are categorized into formal ones including rules, regulation and procedures etc. and informal ones such as customs, beliefs and norms (Cui et al, 2008). The institutional settings allow the governments to promote and constrain the local and foreign firms in their development stages (North, 1990), which was neglected in the IDP model. Dunning also include the institutional factors of MNCs in the location advantage OLI paradigm later to explain the importance of the host institutions (Dunning & Lundan 2008). However, the process of internationalization of MNCs from newly industrialized countries or emerging markets draws attention from the academia about the role of the state in OFDI. The institutional theory of firm strategies points out that the decision-making of the MNCs is constrained by conditions set by home countries, host countries or supranational institutional environment (Buckley et al, 2006, Meyer, 2004).

2.1.4 Idiosyncracy of Chinese OFDI

The mainstream FDI theories were built upon the experience of FDI from developed

economies. The FDI phenomenon from emerging market has challenged the classical FDI theories, among which China's OFDI especially has been focused on the later FDI studies with its significantly rapid growth and the special features even compared with the emerging markets. More and more studies have identified the limitations of general grand theories and explained the Chinese MNCs from institutional and resource based-views (Cui & Jiang 2012, Cui et al, 2011, Buckley et al, 2007).

Chinese firms lack for the ownership advantages unlike the MNCs from developed markets, but Chinese MNCs invest abroad in order to mitigate their competitive disadvantages including the domestic institutional constraints and react towards the government policies (Child & Rodrigues, 2005). However, this asset-seeking motivation is quite popular in emerging markets but the same goes for firms from developed markets. Therefore, Dunning argued that Chinese OFDI is not totally different from the western FDI since it can be asset-augmenting and asset exploiting from the resource perspective (Dunning, 2006). However, the special features of Chinese OFDI, without the competitive advantage, lie in the ownership advantages which are related to the home county and the way they seek the assets (Rugman&Li, 2007).

Based on the institutional point of view, several studies have suggested that the quality of host institutions is positively associated with FDI inflows. The low institutional quality of host countries tends to incur high transaction costs and uncertainty due to the poor governance (Henisz 2000; Meyer 2001), while good institutions attract more FDI and positively influence the MNCs (Ngobo & Fouda 2012). However, abundance of Chinese OFDI flows in Africa where the institutional quality is quite weak. Several arguments have been made to explain the phenomenon(Kolstad and Wiig, 2009; Cheung and Qian, 2008; Du, 2012). First, Chinese FDI in Africa mainly focuses on the resource-seeking conducted by state-owned companies. Second, the influence of Chinese government in facilitating Chinese firms to invest abroad with direct financial support to the SOEs, which means the capital provided for those companies is below the market rate (Buckley et

al, 2007). Besides, the role of Chinese government in OFDI lies in the approval procedures and annual reporting of overseas operational activities. In addition, liberalization policies such as reform and opening up policy, go out strategies have made a great difference on Chinese OFDI (Buckley et al. 2007). The established institutions examine and approve the company investments including National Development and Reform Commission (NDRC), State Administration of Foreign Exchange (SAFE), Ministry of Commerce (MOFCOM) which enable the government to direct the OFDI activities based on the national economic development strategies (Liu et al, 2005).

However, the home institutional factors can be either home-country based ownership advantage of Chinese MNCs or disadvantages from the perspective of internal capabilities of the firms and liabilities of foreignness. The reliance of the support and the Chinese network leaves the Chinese companies vulnerable in the new competing fields due to lack of knowledge-based advantages (Rugman, 2008). And the unfamiliarity of local and supranational regulations and the government policy becomes one of biggest challenges for Chinese MNCs to operate in developed markets (Taylor, 2002).

All in all, Buckley et al (2007) combined all of the theoretical accounts about Chinese OFDI and provided the most comprehensive explanation from three points of views: capital market imperfection, special ownership advantage and institutional factors.

2.1.5 The motives and location determinants of FDI

Based on the eclectic paradigm, Dunning's taxonomy of FDI motives systematically categorizes the motives of international expansions for companies into four types: resource-seeking, market-seeking, efficient-seeking and strategic-seeking.

Resource seeking means that companies usually the manufacturers or primary producers aims to acquire the natural resources or intangible ones which are inadequate in the home countries in order to lower the production costs.

Market-seeking motive is very common for most of the MNCs to expand or maintain their international market share where those companies have already had export operations. They either aims to replace exporting activities bypassing the trade barriers or replacing the franchising and licensing if they attempt to keep their ownership advantage or their core patents which are easily imitated. Besides, it is important to mention market-seeking doesn't necessarily mean the domestic markets given that the location advantages of a certain country can be used as an export-platform to other markets such as custom unions and the single market such as the EU market(Franco et al, 2010). The acquisition of the EU membership for some the CEE countries greatly increased the FDI inflows.

Efficient-seeking "*taking advantage of differences in the availability and relative cost of traditional factor endowments in different countries" and "taking advantage of the economies of scale and scope, and of differences in consumer tastes and supply capabilities*" (Dunning & Lundan 2008). Companies from high labor cost countries usually invest in lower labor cost countries in order to reduce the production cost.

The last motive is strategic-seeking, which aims to acquire technology and other key assets such as managerial skills and brands etc. to enhance the competitiveness of the firms through M&A (merger and Acquisition) or Joint ventures (Dunning & Lundan 2008, 72). This type of investments usually targets at developed markets and it can be used to explain the FDI from emerging markets.

It is worth mentioning that these motivations are vaguely delineated in most of cases. For example efficiency-seeking and resource-seeking are quite close since the investments in developing countries focus on production cost reduction such as cheap labor and division (Franco et al, 2010). Most of foreign investments tend to engage into more than one motive type, and FDI can be proactive in order to enhance strategic aim by strategic-seeking or defensive to maintain its market position by efficiency-seeking and market-seeking (Dunning & Lundan, 2008). MNCs from developed markets which usually possess ownership advantage tend to

be driven by market, resources and efficient-seeking. The motive of strategic-seeking type means that the MNCs aim to acquire the assets such as tangible or intangible assets (technology, brand and managerial skills etc.), and it can be used to explain the increasing FDI flows from newly industrialized countries to developed markets such as Japanese FDI in the early times and Chinese FDI. However, without the firm-specific advantage, the MNCs from emerging markets are supported by government financial resources which are called country-specific advantages.

Except for the four types of motivations, Dunning adds the supportive investments for already existing investment activities in the host economy or neighboring region such as financial investment and sales unit to promote the exporting activities or purchasing the units for the MNCs (Dunning & Lundan, 2008). Besides, not all internationalization activities seek for profits and growth. Markowitz's (1959) classic theory of portfolio diversification and Rugman (1976) point out the foreign investment can be a way to manage the risk of investments through diversification.

Table 1 . Summary of FDI theories in the literature review

	Micro-level	Development	Macro-level	Multi-level
Classical FDI theories	Firm-specific (Hymer) Internationalization theory (Buckley &Casson)	International development path(Dunning) Production life cyle(Vernon)	Capital market theories gravity approach (Isard, 1954) Exchange rate theory	OLI paradigm (Dunning)
Extension of FDI theories	LLL(Mattew) Network theories Uppsala model(Johanson & Wiedersheim-Paul) International New venture Imbalanced theory (Moon &Roehl,1993)	Japanese school of FDI theories (Kojima & Ozawa)	Institutional theory (North, Buckley & Cui) Cluster theory (Porter, 1990)	Firm-specific advantage and country-specific advantage (Rugman)
Idiosyncrasy of Chinese OFDI	The major role of SOEs in OFDI	Industrial policies Catch up strategy	Institutional factors Political relation (Lin. Z& Xiaoqiong .H）	Imperfect capital market (Buckely)

Source: Made by the author based on literature review

2.1.5.1 Location determinants of OFDI

Porter (1990) proposed the most comprehensive and systematic accounts about the location factors which are National competitive advantage "Porter's Diamond", which has been applied in the field of FDI location choice. It consists of four factors: factor conditions, demand conditions, related and supporting industries and firm strategy, structure and rivalry. For the CEE-11 countries, they lack for the advantage of the natural resources and big size markets. However, as small-size open economy, they have already had the existing agglomeration effects based on the long-history manufacturing production bases, which means related and supported industries are attractive factors for the foreign direct investment. The favorable geographical location provides a hub for foreign investors to export to other neighboring markets.

Porter proposed cluster theory to include cluster in one of potential competitive advantages which refers to *'a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities'* (Porter, 2008). It consists of some important actors and institutions such as suppliers, financial services, R&D, government, education etc. from which companies can improve their productivity, innovation capacity and further stimulate new opportunities for business formation.

2.1.5.2 Network theories for Location determinants

Another important factor can be explained for the investment decision from MNCs in certain location beyond the traditional factors such as firm-specific advantage or institutional and macroeconomic factors in the host countries is the connectivity to the existing partners such as suppliers or clients in the production network to coordinate their network supply chains (Schoeneman et al, 2019). The level of interconnectedness of global production network in a country is also very important in attracting investment inflows. For example, the acquisition of Skoda Auto

company by Volkswagen in Czech Republic brought about international car parts makers as well as other car makers such as Peugeot and Toyota (Kaminski & Javorcik, 2005).

Except for agglomeration and cluster effects, the institutional network factors are less focused including network linkage among private sectors, public organizations, governments and individuals (Chen, 1998). As the rapid development of technology and innovation, the production life cycle is becoming shorter than before and the transaction cost of organizing the international economic activities for MNCs is increasing. The network approach enables companies to reduce the cost which becomes important for the investors nowadays (Yang 2006).

2.2 Literature on the empirical studies of Chinese OFDI

As the FDI theories have been discussed in some detail in the previous section, this section will present the existing empirical literature concerning the motives and determinants of Chinese FDI based on which the hypotheses in this research could be formulated.

2.2.1 The literature on Chinese OFDI

At present, current literature from both Chinese and foreign scholars on the economic factors influencing OFDI has covered a wide range of factors including market size, bilateral trade scale, natural resources, strategic asset level and human capital ect.. The four motivations of OFDI such as market seeking, efficiency seeking, resource seeking, and strategic asset seeking are widely used in current literature to study the determinants of Chinese OFDI (Amighini, Rabellotti, and Sanfilippo 2011; Cheung and Qian 2009; I. Kolstad and A. Wiig 2012; Zhang and Daly 2011). Buckley et al. (2007) found that Chinese OFDI is positively related to host market size and geographic proximity with a random effects model on panel data of Chinese FDI to 49 countries for the period of 1984–2001. Bevan and Estrin (2004) argue that the size of the market in the host country is a major motivation for

OFDI. The larger the market size, the more the direct investor is able to expand production and reduce production costs, thus realizing returns to scale. Cheng and Ma (2007) used the empirical analysis of the gravity model with FDI flows and stocks of Chinese firms in 90 host countries from 2003 to 2006 finding that host countries or regions with rich resources, larger market size and lower wage levels are more attractive for Chinese OFDI. Chueng and Qian (2009) point out that rich natural resources, larger market size and lower wage levels are the main reasons why host countries attract more Chinese OFDI by analyzing data on investment flows of Chinese firms to 31 host countries or regions from 1991 to 2005.

Chang (2014) proves that the market size and natural resources positively affect Chinese OFDI significantly and Chinese MNCs tend to invest in high-tech industries in developed countries and focus on natural resources all over the world by adopting gravity model to investigate the features and determinants of China's OFDI in 138 countries during 2003 to 2009. Yao et al(2017) use a large panel dataset including 132

countries over the period 1991–2009 and the Tobit as well as the Heckman models. The empirical results suggest that although China's OFDI has been driven by the country's desire for a secure supply of natural resources and to attain advanced technology from the developed world,

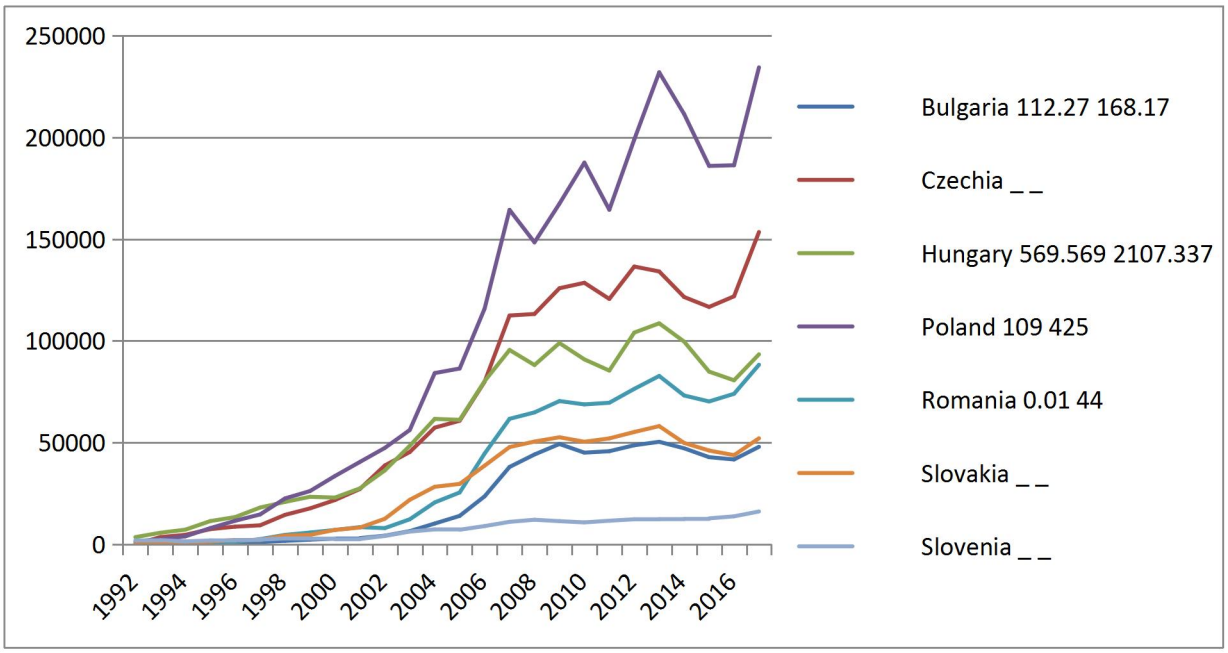
Chinese OFDI in the European countries is still lower compared with other regions of the world. However, it has constantly increased since financial crisis. In 2011, EU received the most Chinese OFDI in the world (Meunier, 2014). Although there are some literature on the motives and determinants of Chinese OFDI in Europe, some more related research is needed to provide a regional difference as well detailed picture about Chinese investments. Blomkvist & Drogendijk (2016) find that the main motives for Chinese investment in Europe are market seeking and strategic asset seeking based on the empirical studies with the data from the 2012 statistical bulletin of Chinese OFDI from 2003 to 2012, and there are large differences among European countries in attracting Chinese investment. Dreger et al. (2017) have identified the market size and bilateral trade are the main factors for Chinese foreign

direct investment (FDI) activities in the European Union (EU). Two types of investment between Greenfield investments(GI) and M&A are distinguished related to unit labor cost. The host countries with high cost are less attractive for GIs, but do not affect the acquisition of existing firms. Therefore, Zhang & Filippov (2009) argue that the motives of Chinese MNCs in Northern and Western Europe is asset-seeking while the aim of their investments in Eastern Europe is to have access to the entire EU market with relatively lower cost advantage. Li & Fabus (2019) find that the market size, technology level and investment freedom of the host country have positive effects on the location selection of China's OFDI in EU with the spatial panel analysis method to test the determinants influencing the location choice of Chinese OFDI in EU. .

2.2.2 Literature on the determinants of OFDI in the CEE and Chinese OFDI in the CEE

FDI inflow has been of outstanding importance in rebuilding and improving the economic development in the the CEE region throughout the transition period. Many efforts have been made by most of these former socialist countries to attract foreign direct investments such as regulations, tax releases and so on since 70s (Bamber & Kicinski, 1990). During 80s and 90s, the transformation process from centrally planned to market economy including privatization program and opening of domestic markets, led to the increase of FDI inflow in this region especially from western European countries. These small transition countries with open economy vary in attracting the amount of FDI due to macroeconomic and institutional heterogeneity. Poland, Czech and Hungary received the most FDI stock during the entire process, and 2004 has seen a triple increase of FDI inflows in this region due to acquisition of EU membership as the graph 5 shows. However, the western EU investors are dominant in this region due to the market, cheap labor and geographical proximity. Among the EU 15, Germany is an important investor for both the CEE-11 especially Visegrad 4 and plays an important role in innovating the manufacturing production bases especially for automobile industries in this region(Gross, 2013).

Figure 1 . The inward FDI stock in the CEE-6 countries (million dollars)



Source: UNCTAD, (2018)

When discussing the location determinant of FDI inflow in the CEE region, the factors have been changing as the domestic economic and political transformation evolved. The literature review will focus on the time period from 1990s to now following the research time series. The transition process had positively affected FDI inflows in the CEE region. Therefore, a lot of empirical studies categorized the factors influencing FDI inflows in two parts: traditional economic factors and privatization factors related to transition (Carstensen and Toubal, 2004; Vasyechko, 2012).

Beside the traditional economic factors that drive the FDI inflow in the region, some studies stressed the agglomeration effects which become more and more significant based on the theoretical framework of economic geography (Disdier & Mayer, 2004). Central Europe can attract FDI flows thanks to agglomeration forces (inter and intra-industrial linkage) especially in the manufacturing sectors such as transportation equipments, electronics. Lefilleur &Maurel (2010) found out the

foreign companies invest in this region to develop backward linkages with local firms and forward linkages with firms located in the EU-15. And it has been proved that privatization method was a very important factor attracting FDI inflows (Carstensen & Toubal, 2004, Johnson, 2006,). Some other studies refer to other important factors attracting the FDI inflows from western EU countries: the institutional quality, gaining local markets and proximity to the western EU (Bevan & Estrin, 2004) or the low labor costs (Altomonte, 2007), tax allowance and so on.

Later study focuses on the period 2000-2012 of FDI inflow from the EU-15 in the V4 countries identifies the main factors attracting investors are host market size and geographical proximity, but efficiency-seeking is no longer important (Wach & Wojciechowski, 2016). The political factors are included in the location determinants of FDI inflows in the CEE countries such as political risks, economic liberalization and ideology (Avioutskii & Tensaout, 2016).

Besides, scholars also made research about the location determinants from the industrial level. One study analyzed the location factors for the manufacturing sector in the CEE countries before the integration into the EU and it showed that transition process, agglomeration and openness were significant factors, and labor costs were significant in scale intensive sectors (Resmini, 2000).

Békés (2005) adopt econometric analysis based on the discrete choice and count data to prove the importance of input-output linkages and industrial clustering effect in determining the location choice of foreign investors in Hungary which supports the new economic geographical model. The research focuses on the case studies of the automotive sector in the manufacturing sector. The automotive industry has led the FDI inflows in the CEE region since the early 1990s and has been studied quite a lot. The leading assembly companies triggered the investment decisions from their related suppliers. the CEE countries have been competing for the automotive investment projects by providing the incentives, tax reduction and other promotion policies since the late 1990s (Pavlínek 2016; Kolesár 2006). The number of automobile investment projects have increased significantly till 2004 and tended to

decline, especially after financial crisis. Some countries in Central Europe have lost the competitive advantage of labor-intensive automotive assembly due to the rising wages which led the relocation of assembly activities in other areas with low cost of labor such as Romania (Pavlínek 2015). The factor of labor cost might be less important than before for attracting the foreign investments. Those countries in this the CEE-11 especially V4 share some location factors attracting FDI inflows such as EU single market, low labor costs and trade openness. However, individual member states also possessed some differentiated factors to attract more investment than their neighboring members such as domestic institutional factors, the human capital resources and other macro-economic factors (Demekas, Horvath, Ribakova, & Wu, 2005). Another article focuses on the determinants of FDI in V4 countries with the variables such as macroeconomic, institutional and socioeconomic factors and the results show that the corruption factor doesn't affect FDI in Hungary as it does in Czech and Slovakia given that macroeconomic factors are more significant (Su et al, 2018).

2.2.3 Chinese OFDI in the CEE

Despite of the fact that compared with western Europe, the amount of Chinese investment is still very limited, Chinese OFDI has increased rapidly in the CEE region since the financial crisis. According to MOFCOM, the amount of Chinese OFDI in V4 countries takes up more than half of Chinese OFDI in the region (MOFCOM,2019). with the increasing political and economic connections between China and the the CEE, there are more and more studies about Chinese OFDI in the CEE countries in recent years.

There are fewer scholars who focus on Chinese OFDI in the CEE countries in terms of motives and location determinants. Except for those common factors which generally influence Chinese OFDI such as market size, natural sources, labor cost, strategic asset-seeking, and other institutional factors such as political stability in the previous section of literature review on Chinese OFDI. Other political and economic

factors related to this region could also influence the investment choice. Among which, entry to the EU market has been a significant factor in the existing literature on Chinese FDI in the CEE countries. 11 the CEE countries are already the EU members, among which V4 countries are the most popular destinations for Chinese OFDI. These countries have the highest Chinese OFDI due to their relative huge market size, favorable economic environment, institutional stability as well as deep integration in the supply chain of EU market (Szunomár, 2014). Matura (2012) also insists that Chinese investment in the CEE countries mainly results from the EU market and several countries such as Hungary, Romania, Slovakia and Czech Republic serve as hubs between China and the EU market. Szunomar and McCaleb (2015) believe that the motives of Chinese companies in the CEE countries are no different from Japanese and Korean companies when they firstly made investments in this region such as Suzuki's early investment in Hungary, Daewoo's acquisition of the FSO automobile factory in Poland, Hyundai's investments in the Czech Republic and Kia's operations in Slovakia since they were all designed to avoid tariff barriers and access the EU market. Besides, the acceleration of the investment in the region could be explained by the Chinese government initiative "BRI" and "16+1" platform which stress the the CEE countries as a bridge to connect China with Western Europe (Pepp, 2017). This means that not only the traditional economic factors such as market size but also the access to the whole EU market could be the motive and determinants for Chinese MNCs.

A few other papers have a general discussion about the political and economic relations between the CEE and China (Éltető & Szunomár, 2016; Turcsányi, 2014), and the scholars also mention quantified economic factors are not enough to explain the motivation of Chinese MNCs in this region. Take Hungary for an example, without largest market and cheapest labor cost, it attracts the most Chinese OFDI among the whole region. Some other institutional factors such as political relations could also explain the Chinese investment in the the CEE countries.

Fasshauer (2012) claims that Chinese investors focus on market size and high technologies in western EU countries, while they are attracted to the cheap labor and

relatively low institutional barriers such as low standards for entry to both domestic market and EU market and less institutional transparency (Kirsten Fasshauer, 2012). Compared with western EU counties, a large share of China companies invests in manufacturing sector, construction sectors and telecommunication networks but fewer conducted R&D activities in the CEE countries (Zhang & Xu, 2019). Other researchers also explained the motives of Chinese OFDI in the CEE from the perspectives of institutional factors and found those factors play an significant role including the number of Chinese ethnic minority, investment incentives and subsidies, privatization and political relations. (Szunomar & McCaleb, 2017). Zhang and Ebbers (2010) analyzed from the points of institutional pull factors that the EU countries including the the CEE members have carried out favorable policies in order to attract foreign investment since financial crisis. With Chinese "going out" strategies, some the CEE countries, especially Hungary, Poland and Czech Republic started to look to the east and signed Bilateral Tax Agreements with China to attract more Chinese investments. The reason why Chinese investments in the EU are still limited is political concerns from Chinese acquisition for technology and brand especially for state-owned companies. Therefore, recent years have seen great increase of private enterprises in the EU (Zhang& Ebbers, 2010). Szunomar (2018) provides a comprehensive analysis about the motives and determinants of Chinese investment in the CEE countries (selective 5 countries) with special focus on macroeconomic and institutional perspectives and she found out except for the macroeconomic factors such as skilled labor and relatively lower labor cost and EU market which matters, some institutional factors such as institutional stability, Free Trade Agreements between the EU and third countries, and political relations especially in case of Hungary attract most of Chinese MNCs.

Most of these studies above are qualitative and descriptive analysis in nature, and they don't usually focus on the entire region but the main countries which received most Chinese OFDI such as V4 countries plus Romania and Bulgaria. Szunomar (2018) provides the in-depth and detailed analysis based on firm-level study and interviews which enriches the existing traditional approach of determinants and

motives of Chinese OFDI. However, it is hard to see generalized whole picture and results concerning the issue which reveals the limitation of qualitative research. Meanwhile, the number of quantitative empirical studies that analyze the motives of Chinese OFDI in the CEE region is even rare, and they only focus on the whole the CEE region but part of the region such as EU members or addition of other European countries which don't belong to the member of China and the CEE "16+1" platform. Dayeh &Janicko (2021) investigate the determinants of Chinese ODI in ten the CEE countries with panel data analysis in the time span of 2005 and 2018 which covers the traditional macroeconomic variables as well as selected institutional variables and the regression model results reveals the market-seeking motivation of Chinese MNCs in the the CEE in not entirely confirmed but access to the EU as a dummy variable is statistically significant. In this case, the EU factor can also be shown important both in the quantitative as well as qualitative analysis in the literature mentioned above.

The low number of empirical research papers on Chinese FDI in the CEE region as well as the limitations of the current literature review leave this topic much under researched. Therefore, more studies are needed to address the limitations and fill the research gap regarding to this topic.

The limitations of existing empirical research include the data quality, suitability of variable selection to be a better proxy of the influencing factors and difficulties to find a proxy for some possible factors such as social network and political relations. Therefore, this research uses mix methods to provide a more comprehensive study from which the results can be both generalized and might also reveal some specific idiosyncratic factors beyond the general ones in current literature review of FDI theories.

However, in the empirical analysis, accession to the EU as a dummy variable might have several interpretation such as the EU market, the institutional factors (institutional stability) or both. Therefore, in my research, I make a clear division between these two possible mixed factors. I use the export of individual the CEE

members to the EU-27 as the variable to explain the motives of market-seeking and political stability rank index to explain institutional factors.

2.3 The theoretical framework for the research

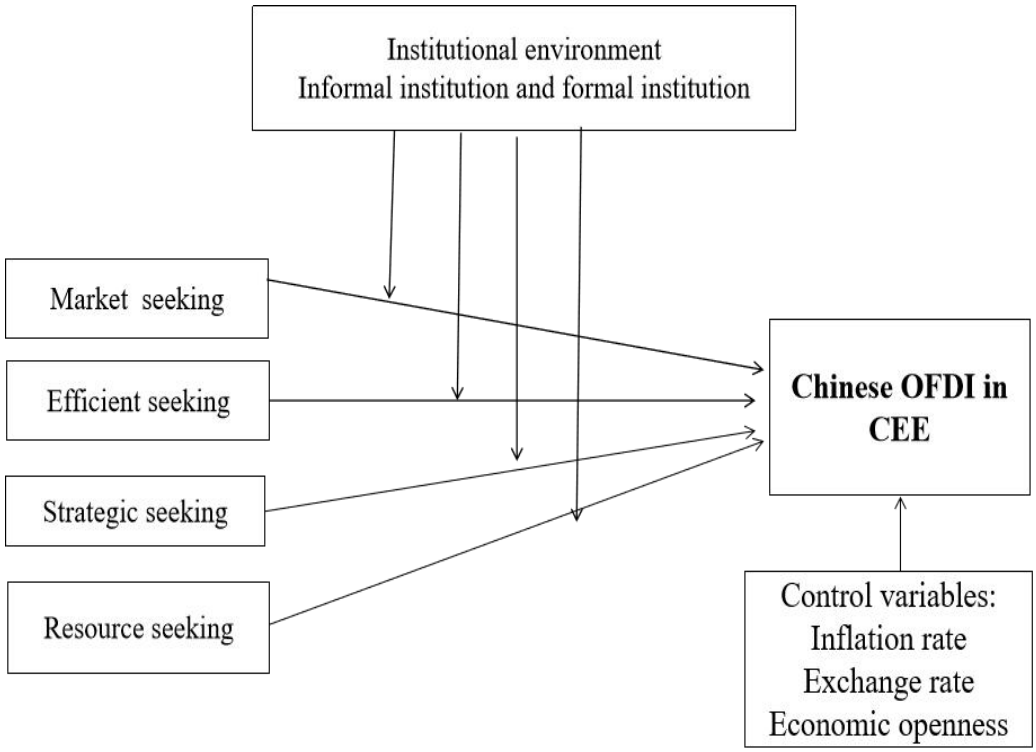
Based on the literature review, the current FDI theories explain the motives and determinants of MNCs. However, this research aims to answer the questions why the certain types of FDI from specific source countries decide to invest in a certain location. According to the literature, Dunning provides a systematic account of the motives behind the internationalization decision of a company and the factors influencing its decision from the perspective of macroeconomic environment such as market-seeking, natural resource-seeking, asset seeking and efficiency seeking. This approach can also be used to study the motivation and determinants of MNCs in developing and developed economies.

However, Dunning's OLI theory is not sufficient to explain the OFDI activities from emerging markets as has been mentioned in the theoretical part. In the case of Chinese FDI, other factors such as the institutional, political and social factors are neglected in Dunning's work will be added in the framework to analyze Chinese OFDI in the CEE countries based on the internationalization experience of Chinese MNCs. These factors are included in the institutional theory which will be revised or extended in the current research.

From the perspectives of host countries, the location determinants cover various factors which are categorized into different levels and dimensions: macro-economic factors such as market size (domestic and regional market), labor cost and access to skilled labor, infrastructure, economic openness etc.. Most of studies about the institutional determinants of OFDI focus on the host institutions such as rule of law, political stability, taxation, government incentives and policy such as favorable government policy, taxation and subsidies; and informal institutions (cultural proximity). Besides, it is believed that intergovernmental linkage plays an important role especially in attracting Chinese investment in Hungary given that the investment

growth comes along with the increasing political ties. However, intergovernmental relations are less focused in the institution theory. Based on the literature review, the social and business network proposed in the international entrepreneurship network theories will be considered as well at the micro-level. Therefore, those potential social factors mentioned above are covered in the institutional theories.

Figure 2. Theoretical framework



Note: Integrative approach of Dunning's OLI framework and Institutional theory, created by the author.

3.The Historical development of Chinese OFDI in the CEE countries

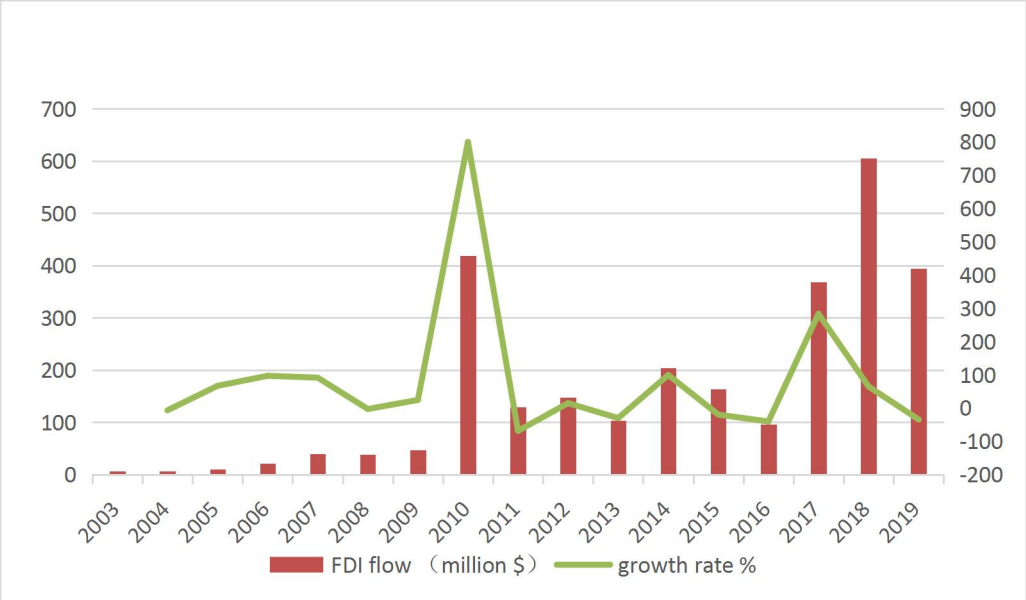
The the CEE region has always played an important role in connecting Eurasia and promoting regional political and economic cooperation. Under the framework of

"16+1" cooperation and the BRI (Belt and Road Initiative), China has accelerated the economic and trade cooperation with the CEE countries due to its strategic location and favorable domestic environment.

3.1 The scale and size of Chinese FDI in the CEE

Recent years have seen a steady increase of Chinese FDI in the the CEE region since 2003 when the amount of Chinese FDI flows only stayed at a low level of 6.7million dollars according to the MOFCOM database. Although with the influence of global financial crisis and the Euro debt crisis, the FDI flows has presented a slight drop in 2008. After the financial crisis, the value of FDI flows leaped to almost 420 with a huge growth rate of 800%. The Euro debt crisis has made some the CEE countries to seek economic cooperation with the East. On the other hand, China has seized the window opportunities and promoted investment cooperation in this region. After 2010, the value remains at a stable level with the volume of more than 100 million dollars, However, the FDI flows started to bounce back to a high value again after 2016. As the graph below shows:

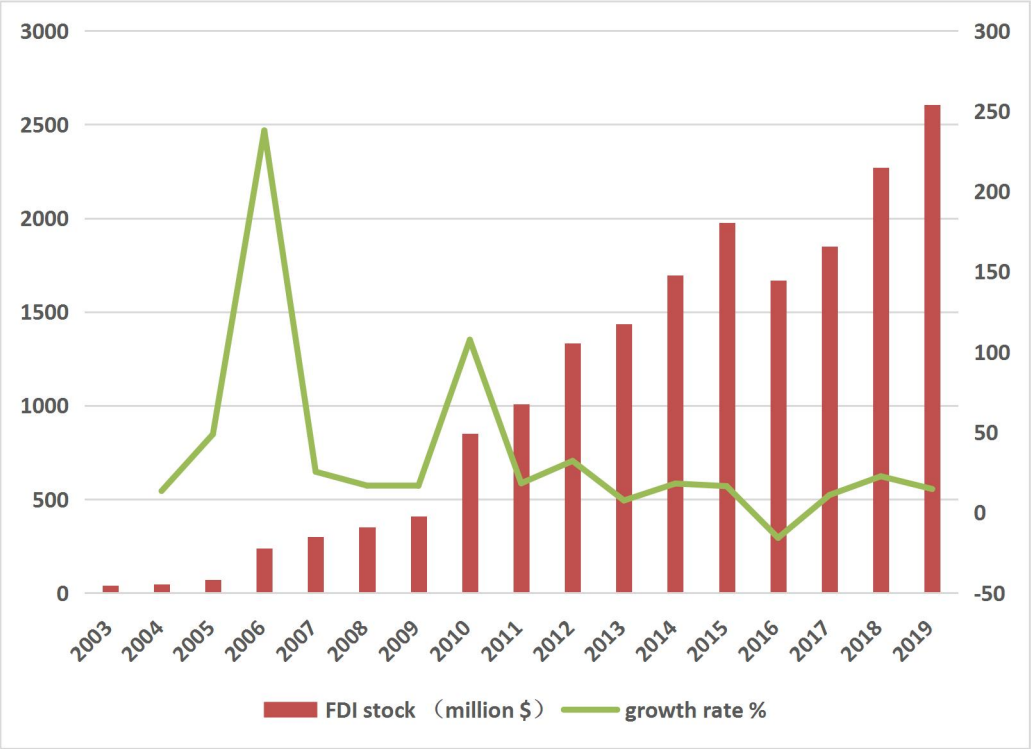
Figure 3 . Chinese OFDI flows in the CEE-16 countries and annual growth rate (million dollars)



Source： Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2004-2020

From the perspective of FDI stock value, China's OFDI stock in the CEE region has increased constantly since 2003, and the amount of Chinese FDI stock in this region maintains a fast growth momentum even after the financial crisis. China's OFDI stock in the CEE countries started at 42 million dollars in 2003 and reached to the highest level of 2.6 billion dollars in 2019. The graph below shows China's OFDI stock in the CEE countries from 2003 to 2019.

Figure 4. Chinese OFDI stock in the CEE-16 countries and annual growth rate (USD million)

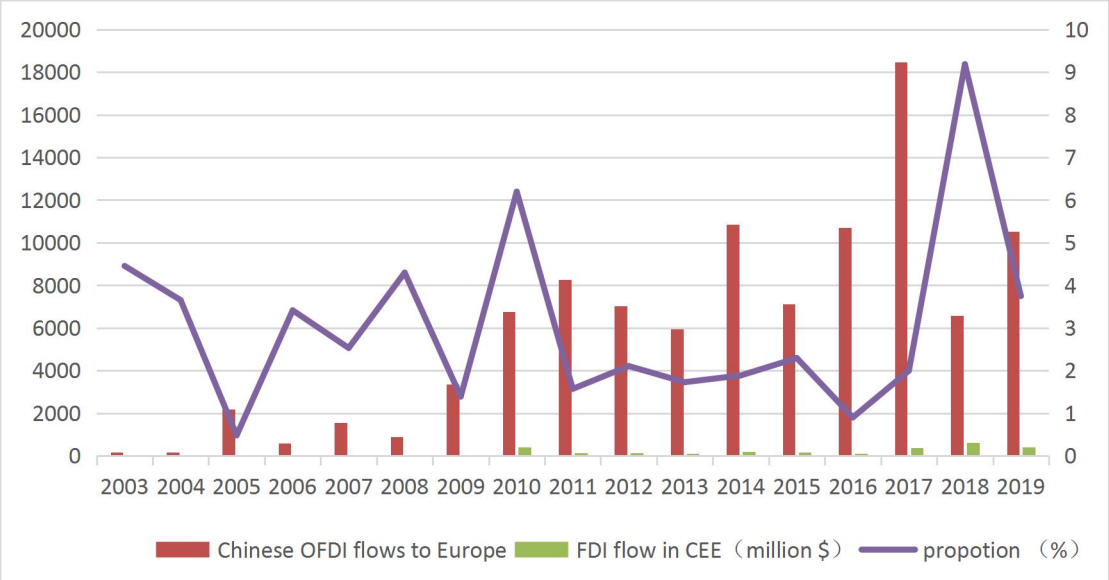


Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2004-2020

Despite the significant growth of Chinese FDI in the CEE in recent years, the low historical investment base doesn't match the strategic position and market size of the CEE. Under the context of global Chinese OFDI, in 2005, China's direct investment flow in the CEE accounted for 0.24% of China's total outward FDI flow, and this

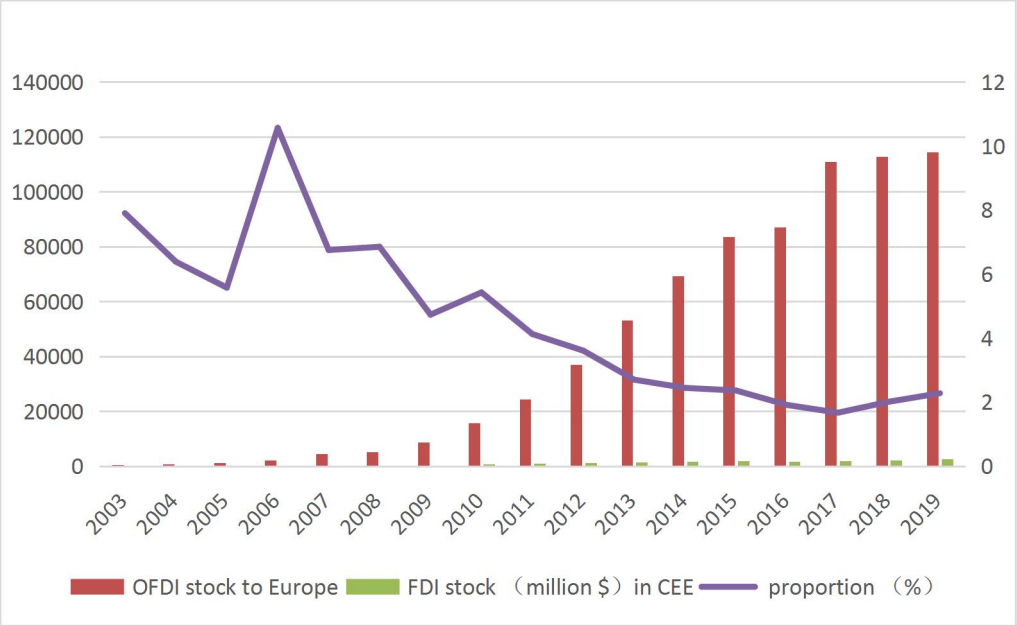
ratio dropped to 0.05% in 2016 and rose to 0.12% in 2019. In terms of stock, the stock of China's direct investment in the CEE accounted for more than 0.1% of China's total FDI in both 2005 and 2016 which remains at the same level, and the share increased to 0.29% in 2019. It can be seen that the CEE countries are receiving an insignificant amount of Chinese FDI. Compared with Chinese OFDI in Europe, the whole the CEE region still receives very limited proportion, and the ratio of Chinese FDI flow reached a high peak of 6% and 9% in 2010 and 2018. As for the stock, since 2006, the share of investments remained a constant decline. Chinese investment flows in the CEE accounted for 5.57% of Chinese FDI stock in Europe in 2005 but it decreased to 2.28 % in 2019. Therefore, this investment cooperation between China and the the CEE region still remains at an immature stage. the CEE is still the "shallow area" for Chinese investors. Chinese investors still regard the western EU as a more important investment destination.

Figure 5. Comparison of Chinese OFDI flows in Europe and in the CEE-166



Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2004-2020

Figure 6. Comparison of Chinese OFDI stock in Europe and in the CEE-166



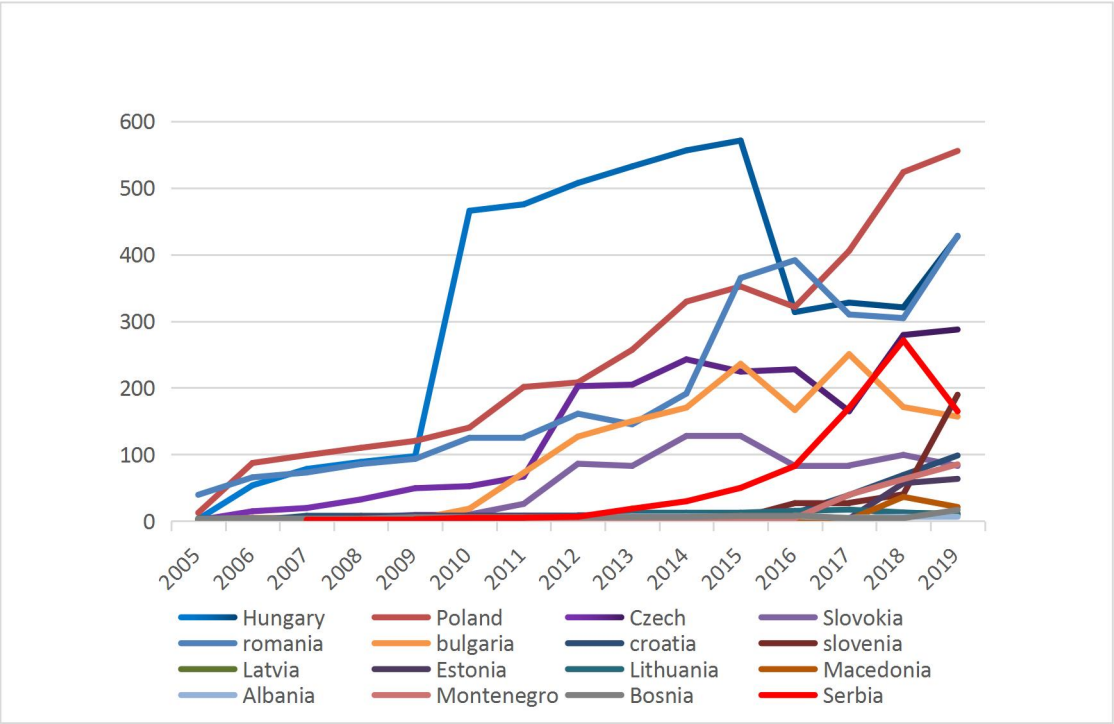
Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2004-2020

3.2 Country distribution

Regarding the regional distribution of Chinese OFDI, Chinese outward investment only focused on countries such as Hungary, Poland, Latvia, Romania, Bulgaria and Bosnia before 2004. Since 2004, Chinese investment has started to cover wider and wider distribution all over the the CEE region. Despite that, the graph shows that Hungary Poland, Romania, and the Czech Republic, have been the top four destinations among all other countries for China's outward investment. Hungary had been attracting the most Chinese FDI for several years. Chinese investments increased significantly in Hungary since financial crisis, which reached the peak in 2015 with 571 million dollars. Chinese investment has flowed to a relatively

concentrated area over the years. However, the data also shows some positive change for Bulgaria, Slovakia and Serbia which presents constant increase since 2011. The rest of countries such as the Balkan area started receiving more Chinese investments later.

Figure 7. The trend of Chinese OFDI stock in the CEE by country

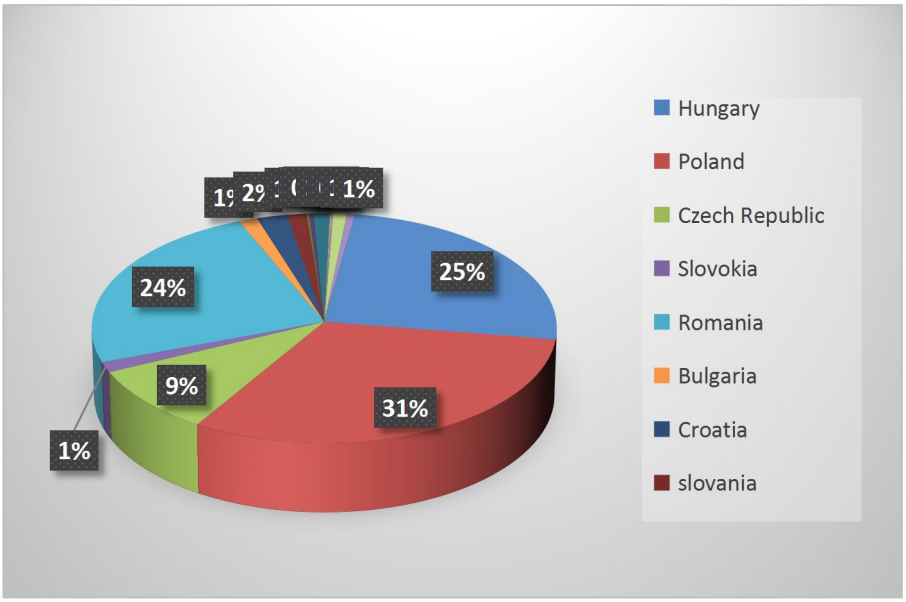


Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2004-2020

In order to present the distribution of Chinese FDI among the CEE region, data were collected from 2008 and 2019 to see a dynamic shift of Chinese OFDI in terms of share in those countries. In 2008, the top three countries received more than 80% of Chinese FDI with 31% in Poland, 25% in Hungary and 24% in Romania. Czech Republic received 7% of Chinese FDI. The rest of the countries received a small share of Chinese OFDI. In contrast, Romania, Hungary and Poland still remain the top three countries in 2019, though the share decreased to 16%, 16% and 21%. Instead, the share of Chinese investments in Bulgaria, Slovenia, Czech Republic,

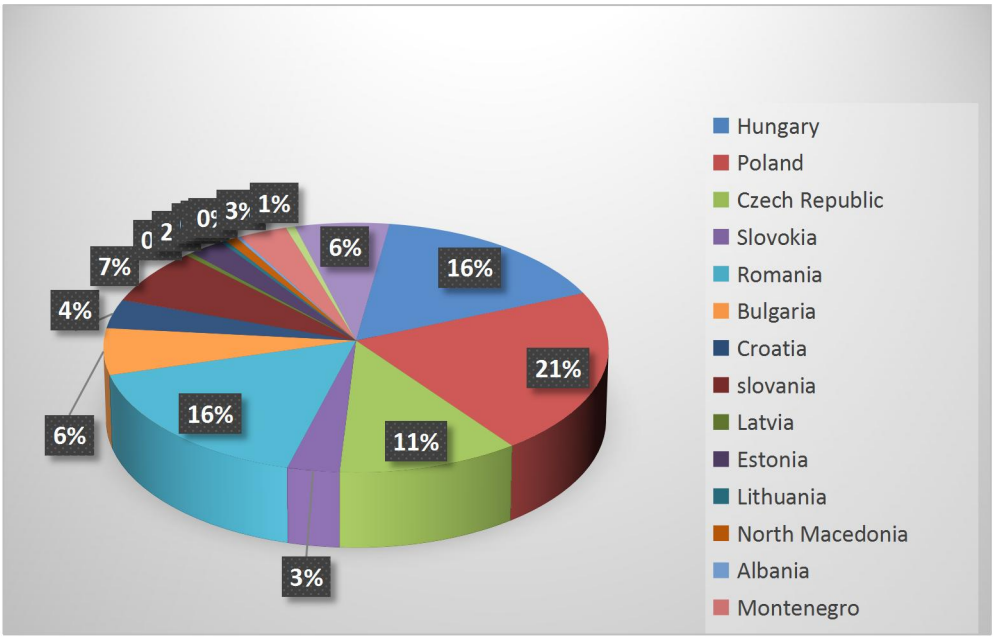
Slovakia and Serbia increased in 2019. For example, Bulgaria takes up 6%, Slovenia 7%, Serbia 6% of total Chinese investment in the CEE countries.

Figure 8. The distribution of Chinese OFDI stock in the CEE by country (2008)



Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2009

Figure 9. The distribution of Chinese OFDI stock in the CEE by country (2019)



Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2020

Hungary, Poland, the Czech Republic, and Romania always remain the top four destinations for Chinese OFDI. In 2008 Chinese investments in these four countries all together accounted for 89% of total Chinese investments in the CEE region. After 2013, the Prime Ministers of China and the CEE countries held meetings and signed the "China-the CEE Cooperation Bucharest Platform" which is also called “16+1”platform. The two sides recognized the importance of establishing deeper and closer cooperation in the investment field, which could also deepen the rapid increase of Chinese investment in other the CEE countries such as Serbia, Bulgaria and Slovenia etc.. In addition to the steady increase in Chinese investment in Croatia and Serbia, which is aimed at the above five projects, there has been a significant increase in Chinese investment in machinery, equipment, and other industries. Chinese direct investment in the CEE countries expanded to the whole region.

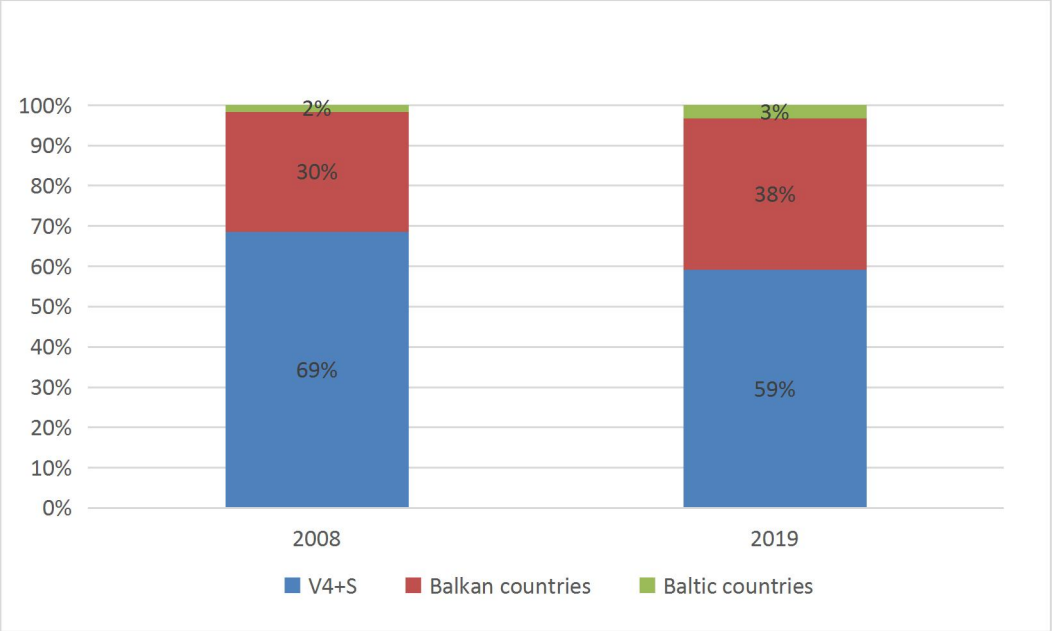
In order to conduct a deep analysis of the CEE countries to examine the current characteristics and dynamics of Chinese investments in the region, this research divides the region into three groups based on the geographical location and different economic development stages. They are respectively are : The Baltic States

(Lithuania, Estonia, and Latvia),the Balkan countries (Albania, Croatia, Bulgaria,Romania, Bosnia and Herzegovina, Montenegro, Serbia, and Macedonia) and the V4 (Hungary, Czech Republic, Poland, Slovakia) plus Slovenia. Since V4 countries and Slovenia joined the EU in 2004, they have maintained stable and rapid economic growth. As the leading position among the the CEE countries in terms of manufacturing development and GDP, this sub-region attracts most of Chinese investments. Besides, the “Opening to the East” policy in Hungary and “Go Poland Investment Program” in Poland provide a favorable environment for Chinese investors. China's direct investment in these region has made significant progress. In 2008, China's direct investments in this sub-region accounted for 69% of the total direct investments in the CEE. In 2019, this ration decreased to 59%. Despite the drop, it still absorbed more than 50% of the total among the three groups all the time. As emerging and developing economies in Europe, the Balkan countries are located in the Southeastern part of Europe, and they played a strategic location connecting Asia and Europe in line with the BRI initiative. However, as the emerging economies in Europe, only three countries (Romania, Bulgaria and Croatia) joined the EU, while other five countries are still in the process of accession and these countries are still lagging behind in terms of infrastructure with small size of economy. The value of Chinese FDI is very much limited to a extent, and it is worth mentioning that most of Chinese investment goes to infrastructure construction sectors which cannot be counted into FDI categories. A larger share of Chinese investment flows into Romania, Bulgaria and Serbia. Therefore, in 2008, the amount of Chinese investment in Balkan accounted for 30% of total Chinese investment in the CEE region, and the share increase to 38% in 2019. However, it is undeniable that the region has a more positive attitude toward investors from outside the EU to meet the strong need for infrastructure development in the region.

Regarding to three Baltic states, they present a weak performance in attracting Chinese FDI. Only 2% of total Chinese investments in 2008 didn’t show a great change after 11 years, which only 1 percent growth in 2019. Small domestic markets and strong policy orientation toward the EU made them less attractive for Chinese

investors as well as further economic cooperation between the two parties despite their EU membership and high economic development.

Figure 10. Chinese investment in the CEE by subregion



Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2009 and 2020

3.3 Industrial distribution

the CEE countries and China has respectively been regarded as the "factory of Europe" and the "factory of the world" for a long time. Due to the competitive roles, Chinese investments in the the CEE had been focused on limited industrial sectors. With the increasing cooperation between China and the CEE, China's direct investment in the CEE has become more diversified. Chinese companies invested mainly in the secondary sector which is manufacturing including electronic and telecommunication equipment, machinery, chemicals, energy etc.. It is difficult to acquire data related to the sectoral distribution of Chinese OFDI. Therefore, this research provides some major investment projects in recent years.

In the manufacturing sector, China's FDI concentrates on machinery, automotive as well as appliance etc.. For example, Wanhua Industrial Group acquired the Hungarian Chemical Company with an investment amount of 1.263 billion euros in 2011 (Bryant, 2011). LiuGong Machinery Corp., a global construction equipment manufacturer based in Liuzhou, Guangxi, acquired HSW (Huta Stalowa Wola) and its distribution subsidiary, Dressta Co, Ltd. in 2012(Lineberry, 2011). Tri-ring Xiangyang Automobile Bearing company acquired 89.15 percent in Poland-based bearing supplier FLT in 2013,the biggest manufacturer in Poland[2]. Huawei has invested in most the CEE countries and it built many factories and sales business to support sales to not only domestic market but also the whole EU market. Besides, ZTE, TCL, Great Wall Motors Company Limited invested in Bulgaria in 2009 through greenfield (Lukacs & Volgy,2018). Hisense, Qingdao, Shandong made a M&A deal in Slovenia in 2017 with 147 million Euro of investment amount (Milenkovic, 2011). Yanfeng International Automotive Technology made an investment in Czech in 2011, then built another production factory in Slovakia in 2018 and in Serbia in 2019 (2021).

The Chinese FDI in the CEE has gradually expanded from manufacturing to the tertiary sector such as financial sectors, real estate as well tourism and so on. Bank of China, China Construction Bank, Industrial and Commercial Bank of China and other investment funds were built since 2012 when the"16+1" cooperation platform was established (Szunomar, 2018).

Besides, the cooperation between China and the CEE countries in the infrastructure construction and energy sector has been increasing in recent years, and most investment projects are initiated by Chinese state-owned enterprise. Furthermore, most infrastructure projects[3] focus on Balkan countries such as Bosnia and Herzegovina, Macedonia, Montenegro and so on (Matura, 2021).

All in all, although Chinese investments in the CEE countries have gradually expanded from manufacturing sectors to tertiary sector and infrastructure

[2] Company website http://www.zxy.com.cn/en/about.aspx?id=8870

[3] It is noted that the infrastructure investments don't belong to FDI. However, the Chinese construction companies which carried out the infrastructure belong to the FDI.

construction[4], which resulted from the Chinese government's investment strategy of BRI, the investments in manufacturing still take up a large share. It is believed that the relatively lower labor costs than the EU lead to more investments in this sector. All in all, Chinese FDI in the top five countries concentrates on secondary and tertiary industries starting with manufacturing and slowly shifting into tertiary sectors such as financial area, housing estate, logistics and ICT. Main manufacturing activities include electronics, chemicals, automotive and so on.

From the perspective of entry modes, Chinese FDI in the CEE countries chooses more M&A than greenfield investment projects (Misutova, 2018). Since the economic and political transition of the CEE countries, part of the industrial chain has been transferred to these countries. Chinese enterprises can carry out acquisitions in the CEE countries and can more easily integrate into local markets and European industrial chains. Today, Chinese acquisitions in Central and Eastern European countries have already covered transportation, energy, automobile vehicles, home appliances, environmental protection and other fields. For example, in 2016, China Everbright Holdings Co.Ltd. acquired the operating rights of Tirana International Airport in Albania (2020); Everbright International Ltd. acquired NOVAGO, a leading waste treatment company in Poland; China Intercontinental Oil & Gas acquired the Albanian Banks oil field in 2016 (Mejdini, 2016). In the manufacturing sector, China Hengtian Group and its international partners jointly acquired the Slovenian company TAM-DuraBus Bus in 2013. DuraBus bus company; Hisense Group acquired in 2018 the holding of Slovenian home appliance manufacturer Gorenje. Of course, Chinese Chinese companies have also made greenfield investments in the CEE countries, but the number and scale are relatively limited. For example, BYD invested in an electric bus factory in Hungary in 2017(Ya, 2017) . According to the literature, companies in the field of the advanced technology with more capabilities and resources, tend to choose GI, while companies which need to acquire more opportunities and assets tend to choose M&A (Svensson, 1998; Caves, 1996; Davies, Desbordes, & Ray, 2015). From this point of view, because Chinese

companies in the CEE countries lack knowledge of the host market, the investors use M&A to enter the market in order to acquire a strategic asset and reduce the liability of foreignness. However, the GI projects increased in recent years in the CEE countries possibly because the preferential treatment from the host country and the policy support based on BRI as well as “16+1” platform greatly help these companies overcome the challenges and encourage them to investment in the CEE regions.

3.4 Summary of the characteristics of Chinese OFDI in the CEE

With the continuous improvement of the investment environment in the CEE countries and the deepening of economic and trade relations with China under “16+1” platform, recent years have seen increasing Chinese FDI in the CEE countries since the financial crisis, though the amount is still limited. Chinese investments mainly flow to the top 4 countries such as Poland, Hungary, Czech Republic, and Romania but the country distribution of China's FDI in the CEE has become increasingly extensive and cover the whole region in recent years. The investment sectors of Chinese FDI concentrated on a few sectors but also became more and more diversified and covered transportation, energy, automobile vehicles, home appliances, environmental protection and other fields. Compared with western EU counties, a large share of China companies invest in the manufacturing sector, construction sectors and telecommunication networks but fewer conducted R&D activities in the CEE countries. From the perspective of entry modes, Chinese companies choose more M&A than greenfield investment projects in the CEE countries, though more greenfield projects are delivered in this region such as BYD, ZTE, Dahua, and Yanfeng automotive. However, it is worth noting that the data can be underestimated since the investments from Chinese small and medium enterprises are not included in the data and the data collection is usually delayed for one year as mentioned in the research limitation.

4. Empirical studies of Chinese OFDI in the CEE countries

This chapter will conduct an econometric quantitative analysis on the motive and determinants of Chinese investment in the CEE countries based on the existing FDI theories and literature review with the panel data of Chinese OFDI from 2005 to 2019 in 16 the CEE countries Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia. North Macedonia, Montenegro, Albania, Serbia, Bosnia and Herzegovina. While examining each investment motive and determinants in influencing Chinese FDI based on the literature review, the research attempts to explore and quantify the significant impact of different motives on the scale of investment.

4.1 Research hypotheses

In this part, several hypotheses on the motives and determinants regarding to the Chinese investment in the CEE will be put forward based on the theoretical framework built upon previous FDI theories and literature review related to Chinese OFDI. As is mentioned in the theoretical part, Dunning (1993) provides a systematic account of the motives influencing its decision from the perspective of macroeconomic environment such as market-seeking, natural resource-seeking, asset seeking and efficiency seeking. This approach can also be used in this research. Considered the large market size of the CEE and integration in EU market of 11 countries, this paper selects the market size of host countries as an important variable to examine Chinese direct investment in the CEE countries. Since trade between China and the 16 the CEE countries has developed rapidly in recent years, the level of China's exports to the host country is also one of the factors to be considered. According to World Bank, the 16 the CEE countries are classified as high income countries and middle high income countries, whose labor costs are higher than in developing countries. However, compared with EU countries, the labor cost in the CEE is relatively lower with skilled labor. Regarding to resource-seeking, China

imported the natural resources which mainly concentrated in fuel resources such as oil. the CEE countries don't have the advantages in this field to attract Chinese investment. Last but not the least, although the CEE countries are not developed enough in high technological area to attract strategic asset-seeking investments compared with western countries, many multinational companies from western countries made investments in the CEE region which led an technological spillover. The type of strategic asset-seeking for Chinese FDI started late but has presented a rapid increase in recent years. Therefore, it is also included in the model.

However, Dunning's OLI theory is not sufficient to explain the OFDI activities from emerging markets. Based on the literature on Chinese OFDI, especially Chinese OFDI in the CEE countries (Szunomar,2018; Szunomar&McCaleb, 2013; Dayeh & Janíčko, 2021; Matura, 2014), some other factors such as the institutional, political and social factors are also significant. Theoretical framework is built upon the current situation of China's investment in the CEE countries, combined with previous studies on the factors influencing China's outbound investment based on which the hypotheses and the rationale behind are as follows:

Market seeking FDI

The ultimate goal of MNCs activities is to maintain and expand the market share, and the economic size of the host country is a key factor of FDI activity. And the larger economic size will attract more foreign investment inflow. The widely used indicator for the economic size is GDP which can be used as a proxy of market-seeking to measure the market purchasing power. And most of research papers have proved that market size is positively associated with inward FDI, and the similar outcome has also reached for Chinese OFDI. The main type of Chinese FDI in the CEE countries is market-seeking investment (Szunomar, 2014 ; Szunomar and McCaleb 2015; Matura, 2014).

The idiosyncrasy of the CEE countries regarding market-seeking lies in that not only the domestic market matters for Chinese OFDI but also the whole EU market since

there are 11 EU members and 5 non-EU countries in the CEE region, even the markets of CIS, Mediterranean and the possibility of accessing North American markets (Szunomar, 2018). Therefore, in order to verify this argument, the export from individual the CEE countries to the EU is used to as a proxy of the EU market and hypothesis 1c is proposed. Besides, "16+1" platform was built to connect East and the Western Europe. the CEE is a gateway for Chinese investors to enter Western Europe (Pepp, 2017).

H1a: Chinese OFDI stock is positively related to the GDP per capita in host countries.

H1b: Chinese OFDI stock is positively related to the GDP in host countries.

H1c: Chinese OFDI stock is positively related to export from the CEE countries to the EU market.

Trade effect

There are abundant empirical researches related to the interaction between trade and FDI. Some scholars believe that export and FDI are substitute to each other. The theory of product life cycle believes that FDI takes place after loss of competitive advantage through export process (Vernon, 1966). Based on the studies about the relationship between US exports and FDI, it has been discovered that there is complementary effect (Lipsey and Weiss,1981, Clausing, 2009). Besides, export can help investors have a better understanding of the domestic market thus leading to the promoting the investment and bypass the tariffs and quotas. Therefore, the trade has been proved positively affected on its OFDI (Buckley et al,2007). In recent years, Chinese has increased its export in the CEE countries especially in manufactured goods as the graph showed.

Figure 11. Chinese export to the CEE from 2005-2019

Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2009 and 2020

Hypothesis 2: The trade volumes between China and the the CEE region have a significant effect on the development China's OFDI in the the CEE.

Efficiency seeking

The internationalization of MNCs tends to focus on the location with low cost of labor to increase their profits. It seems that China's OFDI is irrelevant to the labor cost since it has competitive advantage to attract more FDI. However, due to economic transformation and it has seen the wage increase in domestic labor markets. Therefore, Chinese big companies start to shift their production bases to other places. According to World Bank, the 16 the CEE countries are classified as high income countries and middle high income countries, whose labor costs are higher. However, compared with EU countries, the labor cost in the CEE is relatively lower with skilled labor. Some scholars believed that Chinese invests in the CEE due to the lower cost and skilled labor (Szunomar, 2018; Fasshauer, 2012) . Therefore, the hypothesis is formulated below:

Hypothesis 3a: China's outward FDI is negatively associated with labor costs based on the efficiency-seeking.

Skilled labor is also one of locational advantage in Dunning's OLI framework, and Sattinger (1991) believed that skilled labor helped to improve the productivity and efficiency by reducing the cost of foreign cultural and institutional differences. Du (2009) argued that availability of skilled labor can facilitate the management process and communication since people with high education can adapt the international working environment and different culture and have high proficiency of English skills, based on which the hypothesis is put forward:

Hypothesis 3b: China's outward FDI is positively associated with skilled labor of host countries.

Besides, as discussed in the OLI framework, locational factors also made the host countries attractive for FDI by providing sound infrastructure to reduce the production cost and improve the efficiency (Bouchoucha & Ammou, 2015) . Wheeler & Mody (1992) has proved that countries with efficient infrastructure can attract more FDI. The infrastructure facilities are generally backward in some the CEE countries which has seriously affected the investment decisions of Chinese enterprises in these regions. And the hypothesis is as below:

Hypothesis 3c: China's outward FDI is positively associated with infrastructure based on the efficiency-seeking.

Natural resource seeking

China's industrialization and economic growth can hardly be fulfilled without securing the natural resource supply. Many empirical studies conducted about Chinese OFDI has shown that Chinese investors attached great importance on the natural resources (Morck et al. 2008, Tan, 1999). And Chinese investment in Africa is another example to have access to the resource supply. However, in this research, natural resource seeking is not considered since there is no resource abundance in the

CEE region and Chinese investments in the CEE region concentrate on the manufacturing, ICTs, infrastructure sectors, so the resource-seeking motivation is getting less important.

Strategic asset-seeking

Dunning improved the eclectic theory by adding the strategic-seeking due to the emergence of large M&A activities and the OFDI from emerging markets from developed markets. Chinese big companies, especially state-owned companies conduct significant M&A activities in the EU after the crisis to support China's economic transformation and upgrading the core technology and knowledge-based economy (Zhang & Filippov, 2009) . Although Western Europe is the more important target for Chinese strategic-seeking investments, the CEE countries, especially V4 countries have absorbed many investments from other advanced economies with technology and put an emphasize on the R&D investment (Dreger et al., 2017). Other scholars have revealed that strategic asset-seeking is one of the main motives for Chinese investment, especially for State owned enterprises (SOEs) (Xie et al., 2017). Therefore, hypothesis 5 is proposed as below:

Hypothesis 4: China's outward FDI is positively associated with abundance of strategic assets in host country.

Institutional factors

According to North (1990), Institutions can be classified into two kinds: formal institutions (regulations and laws etc.) and informal institutions(culture, social norms and values etc.). There is still a large difference in terms of good institutional quality between developing and developed countries. Institution plays an important role in attracting FDI flow. However, there are disputes about how institutional quality affects FDI flow according to the literature review.

The empirical studies have proved that sound institutional quality can promote inflows of FDI by mitigating the transaction cost and improving the productivity

(Daude. D.&E. Stain, 2007). On the contrary, the poor institutional quality in developing countries hinders the foreign investors. Some researchers believed that international companies are prone to uncertainties and risk due to the bad institutions such as corruption and poor regulations of intellectual property right (IPR) (Wang et al, 2012; Lipsey, 1999). Besides, the political risk negatively influences the investment environment for FDI according to Simon (1984). Wu (2019) proved that there is no significant correlation between corruption in host countries and Chinese FDI.

However, some empirical studies about the impact of institutions on Chinese OFDI suggest different results. Chinese investments tend to flow into developing countries with less sound institution such as Asian and African countries with the resource-seeking and efficiency-seeking FDI based on the empirical studies (Szunomár and Biedermann, 2014, Buckley et al, 2007, Kolstag &Wiig, 2009), and Cheung & Qian (2008) proved that institutional quality didn't influence Chinese OFDI which means institutions didn't affect or positively affect Chinese OFDI.

Last but not least, the cultural factors under the informal institutional framework are proved to significantly affect FDI (Rihab & Lofti, 2011) and based on their research, this paper uses control of corruption, political stability as the formal institutional factors, and put EU institution and intergovernmental linkage in to policy area, cultural distance as an informal institutional factor.

Formal institutional factors

Political stability

Political risk is often the biggest obstacle to foreign investment, political instability of the country, companies face not only the reduction of profits, but also the possibility of having to close down and withdraw to the country due to the external environment. Generally speaking, companies In their study, Wang Juan and Fang Liangjing (2012) explore the level of political performance of the host country through "political stability" and concluded that domestic companies mostly choose

regions with good relations and low political risk when making external investments.

Hypothesis 5: Political stability in host countries positively affects Chinese FDI in the CEE region.

Control of corruption

Good institutional quality will attract more FDI. However, Chinese OFDI flows to the countries with poor institutional quality. Chinese investors focus on market size and high technologies in western EU countries, while they are attracted to the cheap labor and relatively low institutional barriers such as low standards for entry to both domestic market and EU market and less institutional transparency(Fasshauer, 2012).

Hypothesis 6: Control of corruption in host countries positively associate with Chinese FDI in less developed the CEE region.

Policy factors

EU institutions

Many scholars have confirmed that China regards the CEE as a "back door" to the EU in terms of trade and investment cooperation (Éltető & Szunomár, 2016; Turcsányi, 2014; Zhang and Ebbers 2010;Szunomar & McCaleb, 2017). EU membership refers to dual implication: first, it means accession to the EU common market which can attract Chinese investments; second, be a part of EU meaning following the EU institutional regulations such as common competition policy, institutional stability and transparency, IPR protection and accession to EU fund. In addition, FTA (free trade agreements) are signed between EU and other third nations such as the USA, Canada, where Chinese investors can have access to even larger market(Szunomar, 2016). However, it is controversial whether the second meaning of EU institutions actually positively affect Chinese investment since it possibly poses challenges to Chinese companies since Chinese investments with M&A and infrastructure investments usually violate EU bidding laws or environmental

protections, labor standards etc.especially when Chinese investors are not familiar with the regulation at EU level. Nevertheless, based on the literature review, the hypothesis is put forward:

Hypothesis 7: EU membership of the CEE countries can promote Chinese FDI.

Intergovernmental cooperation under "16+1" framework

Due to the information asymmetry between host and home countries, cross-border investments face greater risks than domestic investments, strengthening bilateral relationships with the host countries often one of the important means to hedge investment risks, Brewer 01993) and Buckley et al. (2007) found that OFDI is usually sensitive to changes in host country policies are more sensitive to changes in host country policies. Zhang Jianhong and Jiang Jiang et al. (2012) find that bilateral political and diplomatic relations have a significant contribution to Chinese OFDI.

The study finds that bilateral political and diplomatic relations have a significant role in promoting Chinese OFDI. This paper captures the impact of government policies on ODI through the closeness of bilateral partnerships degree to reflect the influence of government policies on OFD workers. With the development of China's economy development, the demand for resources is increasing and resource seeking is also an important OFDI motivation. resource abundance may affect China's investment. Buckley et al. (2007) and Aizenman et al. (2018) find that FDI from China are more inclined to flow to resource-intensive countries. And Some scholars also proved that China's foreign policy and state level cooperation with host countries can positively affect Chinese OFDI. And they proved that BRI promote Chinese overseas direct investment significantly in the participant countries especially in host countries with a positive and friendly response towards Chinese investor especially state owned companies (Zhang &Du , 2018; Yu, S; Qian, X; Liu, T. 2019) .

Hypothesis 8: The established "16+1"platform positively influenced Chinese OFDI in the CEE region.

Informal institutional factors

Cultural distance

From the perspective of the informal institution, Chinese investors must also take into account the social culture of the host country including norms, values, and beliefs. The level of pressure is influenced by social norms varies with the cultural distance between the investor's home country and the host country which can affect cooperation. There are different perceptions from developed and developing countries towards the sharp rising of Chinese companies. Developed countries held concern and bias on the products and services of these latecomers. "Made in China" often seen as inferior products, which often exposes Chinese companies to discrimination from competitors, consumers and even governments in developed countries. Unlike developing countries, most of them welcome the rise of China and strongly attract FDI from Chinese companies due to cultural proximity and development level. As a result, many Chinese companies are more successful in developing countries, while in developed countries they encounter more difficulties. Based on the literature review, the hypothesis is put forward:

Hypothesis 9: Cultural distance negatively affects Chinese FDI in the CEE region.

Control variables

Economic openness

Market openness is another important factor in attracting foreign FDI due to the economic liberalization. The high market openness of host country tends to attract more FDI because it provides favorable government policies such as preferential treatment and tax environment.

Hypothesis 10: The openness of the the CEE countries to FDI has a significant influence on Chinese OFDI.

Inflation rate

Economic stability in host countries is a very crucial determinant for foreign

investments. High inflation is likely to increase the risks such as depreciation of the local currency so as to reduce the incomes of foreign investors (Buckley et al,2007). Besides high inflation rate in the host countries reduce the international export due to its devaluation of currency so as to negatively affect FDI. Chinese OFDI tends to be discouraged by the high inflation rate according to the existing literature reviews.

Hypothesis 11: Chinese OFDI in the CEE is negatively related to the inflation rate in the host country.

Exchange rate

The high exchange rate of host countries will encourage inward FDI, since the currency of host countries depreciate, the investment from home country can buy the asset with cheaper price. Therefore, an undervalued currency in host countries versus home countries can increase FDI inflows ((Scott-Green & Clegg, 1999). In case of Chinese currency against the ones in the CEE, the depreciation of the currency in the CEE countries will promote Chinese OFD in these countries. Thus:

Hypothesis 12: The relative undervaluation of currency in the CEE results in increase of Chinese FDI.

4.2 Variable selection and data source

The research uses panel datasets with 16 the CEE countries from the year 2005 to 2019. The mechanism was originally named "16+1 Cooperation", and was upgraded to "17+1" with the accession of Greece in 2019. However, the Lithuanian, Latvian and Estonian governments consecutively announced their withdrawal from the mechanism in 2021 and 2022, leaving only “14+1” cooperation. However, the research studies the phenomenon before this change and excludes Greece from the sample. Besides, the research focuses on the time period before outbreak of COVID-19 to avoid the impact of external factors.

The dependent variables, Chinese OFDI stock from 2005 to 2019 are collected from

the MOFCOM publications: "*The Statistical Bulletin of China's Outward Foreign Direct Investment for the years 2006 to 2019*", and the most of data are available from 2005 and latest publication available is in 2019. And Chinese investment in this region started to increase since financial crisis. Since the Chinese OFDI in this region is still limited and the flow indicator is missing and unstable (Ma, 2016), I will use outward of OFDI stock in 16 the CEE as dependent variables.

There are more than ten independent variables in the model. The explanatory variables include the market size of the host country, export of the CEE to the EU, the level of China's exports to the host country, the cost of labor in the host country, the resource endowment of the host country, the availability of skilled labor, the infrastructure level, formal institution such as (political stability, corruption), EU institutions governmental linkage ("16+1" platform) and informal institutions (cultural distance).

The market size in the host countries will be represented by GDP (gross domestic product) at the constant US dollars and GDP per capita, and the data is collected from World development indicator (2022) from World Bank database. GDP is commonly used measurement as an indicator for the entire economic size (Wheeler et al, 1992; Frankel & Wei, 1996) while GDP per capita is another proxy to represent the relative market size and the purchasing power of the domestic residents which has been used in the literature review as well (Cheung and Qian 2009; Zhang & Daly, 2011; Ramasamy, Yeung, and Laforet 2012).Therefore, two proxies are used to test hypothsis 1a and the variables is the natural logarithm of host country's GDP in US dollars.

Regarding to the CEE countries, Chinese firms may not only be attracted by the domestic market but also the access to the large European common market. Thus, the research incorporates this variable into the model by using the CEE countries' exports to the EU. The data is taken from Eurastat.

The trade effect is going to be tested through the proxy of Chinese exports in the CEE countries which is proved to be an important factors in previous studies (Buckley et al., 2007; Blomkvist & Drogendijk, 2016). The data was collected from

UNCOMRADE from 2005 to 2019. The dependent variable OFDI and independent variables GDP, GDP per capita, the CEE's export to the EU and Chinese export to the CEE countries are transformed into natural logarithms.

The average monthly wage from host countries are used to represent the labor costs as a proxy of efficiency-seeking of Chinese OFDI and the data are collected from UNECE Statistical Database (2020). The research uses fixed broadband subscription[5] per 100 people to be a measurement for infrastructure as an another proxy for efficiency seeking and the data is taken from World Bank. The third proxy for efficiency seeking is the level of tertiary enrollment proxied by the level of tertiary enrollment[6] of which the data extracted from World Bank.

In addition, the proxy of assert-seeking is the percentage of R&D expenditure[7] in total GDP whose data is collected from World development Indicator (2020).

This formal institution can include four variables: political stability, control of corruption, EU membership and bilateral institutional cooperation. Political stability and control of corruption are both collected from World government indicators. Political stability and absence of violence/terrorism index[8] ranges from approximately -2.5 (weak) to +2.5 (strong) to represent the governance performance

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[5] Fixed broadband subscriptions is a measure of the amount of subscriptions to the high-speed internet, which consists of "cable modem, DSL, fiber-to-the home/building, other fixed (wired)-broadband subscriptions, satellite broadband and terrestrial fixed wireless broadband

[6] The level of tertiary enrollment measured as the "gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Tertiary education, whether to an advanced research qualification, normally requires, as a minimum condition of admission, the successful completion of education at the secondary level." World Bank, gross enrollment ratio, tertiary, both sexes, % (WorldBank, 2017a).)

[7] Expenditures for research and development are current and capital expenditures (both public and private) on creative work undertaken systematically to increase knowledge, including knowledge of humanity, culture, and society, and the use of knowledge for new applications. R&D covers basic research, applied research, and experimental development.

[8] Political stability and absence of violence/terrorism refers to "the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism (Kaufmann & Mastruzzi, 2010). .

which positively correlated to the amount of Chinese OFDI inflow. Similarly, Control of corruption[9] also ranges from approximately -2.5 (weak) to +2.5 (strong) which is assumed not correlated to Chinese FDI.

The countries who join the EU not only have access to the EU common market but also are entitled to the EU fund and sound EU institutions. To separate the access to the EU market and EU institutions, the paper uses export to the EU from the CEE countries to proxy the EU market seeking but uses EU dummy to proxy EU institutions. 1 is used to indicate EU member states and 0 represents non-EU members, which is believed to positively affect Chinese FDI.

Regarding the bilateral institutional cooperation, "16+1" cooperation is used to test whether this institutional cooperation positively affects Chinese FDI in this region. These countries join "16+1"platform in 2012. Therefore, 0 indicates the CEE countries before 2012 and 1 indicates them after 2012.

The informal institution is represented by cultural distance between two countries. The cultural distance measure is proxied by Kogut and Singh index (1988) calculated with the following formula based on Hofstede's dimension which consists six sub dimensions: power distance, individualism vs collectivism, uncertainty avoidance, masculinity vs femininity, long term vs short term orientation and indulgence vs restraint (Hofstede Insights, 2017).

$$KS_{ij} = \frac{1}{n}\sum_{d=1}^{n}\frac{(I_i^d - I_j^d)^2}{V^d}$$

However, the Kogut and Singh index is fixed number since the cultural difference changed slowly. All in all, institutional variables that are either in the form of index or dummy variables,

Control variables includes market openness, inflation rate and exchange rate. As for the level of market openness for the FDI in the host countries, I will use the ratio of

[9] Control of corruption captures "the perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption as well as 'capture' of the state by elites and private interests."(Kaufmann & Mastruzzi, 2010). .

inward FDI stock of the CEE countries to represent the openness of their openness. And the macroeconomic stability is also an important factor in attracting the inward FDI and the inflation rate is used as a proxy of economic stability. The exchange rate represents the international economic stability and currency in host countries against Chinese RMB and the data about these three control variables are collected from the UNCTAD (2020). The general information about the variables is listed in the following table:

Table 2. The general information of the variables

Variables	**Description**	**Unit**	**Argument**	**Expected sign**	**Data source**
lOFDI	Annual FDI stock from China	Natural logarithm of USD millions			MOFCOM
lgdp	Annual GDP of host countries(constant 2015)	Natural logarithm of USD millions	Market-seeking	+	World Bank
lgdpp	GDP per Capita of host countries(constant 2015)	Natural logarithm of USD millions	Market-seeking	+	World Bank
lexpceu	Exports from host coutries to EU market	Natural logarithm of USD millions	Market-seeking	+	Eurastata
Lchexp	Chinese export to the host countries	Natural logarithm of USD millions	Market-seeking	+	UNCOMRADE
wage	gross average monthly wage of host country	unit	Efficiency -seeking	-	UNECE Statistics
edu	School enrollment, tertiary (% gross)	ratio	Efficiency -seeking	+	World Bank

infras	Fixed broadband internet subscribers per 100 people	ratio	Efficiency -seeking	+	World Bank
r&d	ratio of host country expenditures of research and development to total expenditures	ratio	Strategic-seeking	+	World Bank
Pol	Index of Political stability and Absence of Violence	index	Institution	+	World Bank
Cor	Contol of corruption	index	Institution	+	World Bank
cdist	Cultural distance Kogut and Singh index	index	Institution	-	Hofstede Insights
V16+1	joining the 16+1 platform	Takes value of 1 if joinging and 0 ifnot.	Institution	+	China-the CEE institute
EU dummy	EU: member state of the EU (dummy variable)	Takes value of 1 if EU member and 0 ifnot.	Institution	+	EU Commission
Infla	Inflation rate of host countries	ratio	Control variables	-	UNCTAD Database
Exch	Exchange rate(host country to Chinese rmb)	ratio	Control variables	+	UNCTAD Database
Ecopen	ratio of OFDI stock of GDP in host country	ratio	Control variables	+	UNCTAD Database

4.3 Model specification

Based on the theoretical framework and research from other scholars and considering the actual situation of Chinese FDI in the CEE, this paper adopts the model specification as follows:

$$\begin{aligned}\log(FDI_{ij}) = {} & \beta_0 + \beta_1 \log PCGDP_{i,t} + \beta_1 \log PCGDPP_{i,t} + \beta_3 log(EXPCEUe_{i,t}) \\ & + \beta_4 log(Chexport_{i,t}) + \beta_5(Wage_{i,t}) + \beta_6(Infras_{i,t}) + \beta_7(Edu_{i,t}) \\ & + \beta_8 log(R\&D_{i,t}) + \beta_9(Political\ Stability_{i,t}) + \beta_{10}(Cor_{i,t}) \\ & + \beta_{11}(EUdummy_{i,t}) + \beta_{12}(16+1_{i,t}) + \beta_{13}(INF_{i,t}) + \beta_{14}(Exch_{i,t}) \\ & + \beta_{15}(Ecopen_{i,t}) + \varepsilon_{i,\ t}\end{aligned}$$

From the model, the subscript i denotes the host country, t denotes the year; FDI is the Chinese outward FDI stock to the host country; GDP and GDPP are respectively gross domestic product and the GDP per capita; Expceu denotes the export from the CEE countries to the EU; Chexport denotes Chinese exports to each the CEE country; Wage, Infra, and Edu respectively represents average monthly wage in different the CEE country, infrastructure (subscription of the fix broadband per 100 persons) and the school enrollment, tertiary (%); R&D denotes the ratio of host country expenditures of research and development to total expenditure; Cor refers to control of corruption index; dummy variables are EU dummy (whether the host country is EU a member state and whether they join the“16+1” platform; Control variables are INF (inflation rate), Exch (exchange rate of host countries versus Chinese RMB); Ecopen (Economic openness which is indicated by the ratio of OFDI stock of GDP in host country; ε denotes the stochastic disturbance term

4.4 Model selection and regression analysis

4.4.1 Variable correlation analysis

Multicollinearity can occur when there are too many independent variables in the model which will cause standard error and inaccuracy in the model. The VIF (variance inflator factor can be calculated to examine whether there is collinearity among the independent variables or not. When VIF value of each variable is less than 10, it can be considered that there is no serious co-linearity among the variables. (Berenson et al., 2012). In order to avoid mutual influence and co-linearity among variables, this paper conducts multicolinearity tests on variables, and Table 3 is the presentation of collinearity results of all the independent variables used in the regression.

Table 3. Variable collinearity analysis table

Variable	VIF	1/VIF
lnGDP	25.51	0.039196
lnexpceu	16.12	0.062017
lnChexp	14.59	0.068557
lnGDPP	13.49	0.074127
Pol	5.71	0.175154
Infra	5.21	0.192089
lnwage	4.27	0.233947
Cor	4.26	0.234776
RD	3.71	0.269705
edu	2.75	0.363868
Ecopen	2.19	0.456476
cdist	2.08	0.48065
Exch	1.77	0.564874
Infla	1.41	0.708448
Mean VIF	7.36	

As is shown in the table 3, it can be seen that there is a certain degree of correlation among each independent variable. It can be seen that some of important independent variables in this model are highly correlated . In order to avoid the influence on the

regression results, we split the explanatory variables of the model in the subsequent regressions to study their effects on FDI separately. Based on Dunning's FDI theory, The variables for Market seeking such as GDP, GDP per capita, the CEE's export to the EU, and Chinese export to the CEE countries are separated individually to run regression since the variables are highly correlated to each other. The variables for efficiency seeking are grouped to run regression both individually and together. The dummy variables such as "EU membership" ,"16+1" platform and cultural distance (the fixed index) are grouped and run regressions individually. The variables for strategic asset-seeking (R&D), and institutional quality (political stability and control of corruption) are incorporated into other control variables together to run a regression since these base variables[10] are not correlated.

4.4.2 Model selection and regression analysis

In terms of estimation method for panel data, the commonly used methods are random effect and fixed effect. Linear estimation methods are used for the econometric analysis including the ordinary least squares, fixed effects and random effects for the base variables. However, The F-test and Hausman test were performed to determine which model should be adopted. The F value for fixed effects is 23.74, corresponding to a p-value of 0.0000, indicating that the original hypothesis of no individual differences is significantly rejected and that fixed effects model are preferred over OLS model. the Hausman test statistic is 26.5, corresponding to a p-value of 0.0000, which is less than 0.1, and the original hypothesis of consistent estimates is significantly rejected at the 10% significance level indicating that the fixed effects model should be used.

Table 4. Hausman test and F-test

Model	F-test	Hausman test

[10] Base variables referred to the non-correlated variables which are grouped together to run a regression such as R&D, Political stability, control of corruption, and control variables such as economic openness, exchange rate and inflation rate.

Statistical value	23.74	26.54
P-value	0.0000	0.0000

Table presents the regression results of these base variables based on OLS model, fixed effect and random effects. As is mentioned above, fixed effect should be adopted due to the Hausman test and F-test. It can be seen there is no significant different between coefficients estimated by random effect and fixed effect. Nevertheless, only the results by fixed effect model is discussed for other groups of regression. However, due to the fixed cultural distance index, fixed effect cannot be adopted. Instead, OLS model is used for only this variable in the econometric analysis. Column 2 shows the estimation results of the fixed effects model by using the base variables.

Table 5. Regression results on Base variables

	(1)	**(2)**	**(3)**
	ols	**fe**	**re**
VARIABLES	**lnFDI**	**lnFDI**	**lnFDI**
RD	135.621***	301.768***	273.877***
	(3.486)	(6.869)	(6.785)
Pol	1.861***	0.560	0.481
	(4.908)	(1.084)	(1.005)
Cor	-2.378***	0.057	-0.623
	(-5.062)	(0.080)	(-1.017)
Ecopen	0.724	3.014**	2.742**
	(0.856)	(2.483)	(2.546)
Exch	0.047***	0.071	0.050
	(4.313)	(1.457)	(1.345)
Infla	-0.112***	-0.096**	-0.112***
	(-2.763)	(-2.499)	(-3.056)
Constant	14.700***	11.945***	12.573***
	(26.386)	(14.713)	(14.749)
Observations	215	215	215
R-squared	0.284	0.375	0.371
F/WALD	30.77	19.29	113.59
Number of id		16	16

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Strategic asset-seeking.

Based on the regression result by fixed effect model, the ratio of host country expenditures of research and development was found to be strongly significant at the 99% level with the positive sign within three model, thus the hypothesis 4 is accepted for the the CEE which means the effect of the R&D expenditure as percentage of GDP have a significant impact on the Chinese investments, which is corresponding with previous studies which believe that the strategic assets is primarily important for Chinese Multinational companies in their acquisition and joint venture in certain sectors such as manufacturing in Hungary, automotive in Czech, and aviation in Estonia and Poland and so on to gain competitive advantage. Besides, huge percentage of FDI inflows from Western countries especially Germany enables Chinese multinational companies to absorb the knowledge and technology spillover (Ramasamy&Yeung,2020). However, the institutional factors such as control of corruption and political stability don't affect Chinese investment from investing in certain location, which are not significant in the regression results. The reasons behind could be that Chinese overseas investments flow to the countries with high level corruption and less political stability such as Africa, Middle Asia etc.. with good political relations or political motivation. This findings are not supporting the mainstream FDI theories that overseas investments are attracted to good institutional quality with low corruption and high political stability.

Market-seeking motives and Chinese export.

Table 6. Independent variable of market-seeking

	(1)	(2)	(3)	(4)
VARIABLES	**lnFDI**	**lnFDI**	**lnFDI**	**lnFDI**
lnGDP	7.890***			

	(9.909)			
lnGDPP		6.190***		
		(8.504)		
lnexpceu			2.614***	
			(8.922)	
lnChexp				1.285***
				(6.097)
RD	156.722***	187.082***	127.789***	130.229***
	(4.049)	(4.690)	(3.031)	(2.649)
Pol	0.193	0.280	-0.283	0.119
	(0.457)	(0.631)	(-0.630)	(0.248)
Cor	-1.676***	-1.534**	-0.901	-0.270
	(-2.758)	(-2.406)	(-1.459)	(-0.411)
Ecopen	0.918	0.945	0.606	0.961
	(0.906)	(0.887)	(0.551)	(0.825)
Exch	-0.012	-0.001	0.014	0.081*
	(-0.284)	(-0.023)	(0.326)	(1.802)
Infla	-0.118***	-0.094***	-0.044	-0.116***
	(-3.752)	(-2.869)	(-1.337)	(-3.286)
Constant	-179.029***	-42.283***	-45.286***	-11.896***
	(-9.284)	(-6.592)	(-7.036)	(-2.989)
Observations	215	215	212	215
R-squared	0.586	0.546	0.560	0.476
Number of id	16	16	16	16
F	38.88	32.97	34.42	24.94

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

According to the regression results, Chinese investments in the CEE have significant market-seeking motives. As it has been mentioned, the paper uses three proxies to indicate market which are domestic GDP, GDP per capita, as well their export to the EU to present EU market-seeking. It was found that all the proxies are highly significant with 1% level in the regression. lnGDP and In GDPP is significant and has a positive coefficient, indicating that the level of economic development can significantly affect FDI. Therefore, the hypotheses 1a, 1b and 1c are accepted and the results are in line with the previous studies (Buckley et al. 2007; Bevan & Estrin, 2004; Ramasamy, Yeung, & Laforet, 2012; X. Zhang & Daly, 2011; Asmussen, &

Weatherall 2017) which have found that the determinant of market size (proxied by GDP/capita or GDP) is positively correlated with Chinese FDI.

It is worth mentioning that the high significance of host countries' export to the EU in influencing Chinese FDI which proves the previous qualitative studies (Éltetö & Szunomár, 2016; Zhang & Filippov,2009; Szunomar and McCaleb, 2015; Pepp, 2017, Bevan & Estrin, 2004) and empirical analysis (Dayeh &Janicko,2021). Chinese investments in the CEE are not only significantly affected by domestic market but the whole EU market is more attractive for Chinese investors. However, in the case studies, the regional market integration also attracts Chinese companies to exports the goods to other regions such as CIS, Mediterranean and Northern America (Szunomár, 2016).

Chinese export to host country is a positively related to Chinese FDI in this region with a strong significance if 99% level. Therefore, the hypothesis 2 was accepted and the results are also supported by other studies (Buckley et al, 2007; Zhang & Daly, 2011; Quer et al, 2012; Y. W. Cheung & Qian, 2009). According to the previous studies (Lipsey &Weiss,1981;Clausing, 2009), the FDI deals are conducted when the companies have experience and market knowledge in host countries to reduce the transaction cost via exports. By investing in the the CEE region instead of just exporting to these countries, Chinese investors can bypass the trade barriers to enter the whole EU market or transfer their production to the the CEE EU member states and the products will be made in EU for a better profile. Last but not least, the volume of Chinese export also can reflect the economic relation between the home country and the host country, and it can be explained that the more Chinese export to the host countries, the closer their economic relations are and Chinese investors are willing to invest in the countries which have good business relation.

Table 7. Efficiency-seeking regression.

	(1)	(2)	(3)	(4)
VARIABLES	**lnFDI**	**lnFDI**	**lnFDI**	**lnFDI**

lnwage	2.026***			-0.505
	(4.454)			(-1.069)
edu		6.278***		3.603***
		(4.639)		(3.053)
Infra			7.644***	7.776***
			(9.862)	(7.651)
RD	235.529***	262.858***	124.022***	124.090***
	(5.290)	(6.666)	(3.084)	(3.433)
Pol	0.524	0.208	0.054	0.044
	(1.048)	(0.410)	(0.126)	(0.102)
Cor	-0.256	-0.047	-0.816	-1.148**
	(-0.373)	(-0.073)	(-1.378)	(-2.064)
Ecopen	1.608	2.501**	-1.497	-0.429
	(1.337)	(2.123)	(-1.363)	(-0.413)
Exch	0.098**	0.124***	-0.009	-0.001
	(2.084)	(2.708)	(-0.214)	(-0.032)
Infla	-0.100***	-0.082**	-0.021	-0.006
	(-2.731)	(-2.430)	(-0.651)	(-0.189)
Constant	-0.602	8.617***	11.740***	12.360***
	(-0.206)	(9.084)	(17.630)	(4.183)
Observations	214	203	214	201
R-squared	0.433	0.493	0.582	0.653
Number of id	16	16	16	16
F	20.87	25.04	38.06	36.86

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

For efficiency-seeking motivation, the research incorporate three indicators (labor cost, skilled labor, infrastructure) to proxy efficiency seeking unlike the traditional way. The regression results demonstrate Chinese investments are partially highly significantly motivated by efficiency seeking in the individual regression. In terms of labor cost, the regression results Chinese outward FDI is significant but positively associated to the labor cost of host countries which rejects the hypothesis 3a and the FDI mainstream theories regarding to efficiency seeking. Therefore, it can be explained that Chinese outward investment in the CEE isn't affected by the traditional low labor cost since the labor cost in China is also low but Chinese investors are attracted by other factors in higher wages among the CEE countries

such as good infrastructure, closer to the EU market and high economic development and so on. Besides, Chinese investors in the CEE tend to hire domestic workers for easier management and communication. Chinese multinational companies have a preference for Chinese expatriated worker for the key technology intensive and management position. They also are willing to hire the Chinese who have permanent residence in the host countries in the intermediate level. Therefore, it seems the lower labor cost in host countries is not a critical factor for Chinese investors. However, one reason cannot be analyzed in the model is the fact that the labor costs in the CEE countries are lower than Western European countries which is discussed in the case studies. Since there is no col-linearity among these three independent variables, the combined regression was run to test stability of the results. It shows that labor cost is not significant but other two factors (skilled labor and infrastructure) positively affect Chinese investments in the CEE region. Therefore, the labor cost can be ignored and hypothesis can be rejected.

Regarding the infrastructure, the result shows that Chinese investment are positively affected by the infrastructure in host countries and the indicator (the number of fixed broadband subscriber per 100 people) is quite significant. Since Chinese investments in manufacturing, automotive and telecommunication sectors require the infrastructure to facilitate the business and trade. Therefore the good infrastructure was found important for Chinese outward FDI in the CEE countries, where the results correspond with the previous studies (Stack et al., 2017; Koyuncu & Unver, 2016). The hypothesis 3b is accepted. However, some of Balkan countries are still lacking behind in the infrastructure construction such as Serbia, Albania, Montenegro etc. and most of Chinese infrastructure investments in this region are regarded as the loans instead of FDI, therefore, the infrastructure investments are not mainly included in the research field.

In terms of the skilled labor, the results show the Chinese OFDI is positively associated to the level of tertiary enrollment in the the CEE countries and the it is strongly significant at 99% level. Therefore, the hypothesis 3c is accepted. Several reasons can account for this result. the CEE countries are the manufacturing core of

Western developed countries. The manufacturing, financial activities and logistics of multinational companies are transferred in the CEE regions for lower labor cost and availability of skilled labor. Another possible reason is that the more people received the higher education, the more internationalized and adaptive to the international working environments(Delia Ionascu et al., 2004). And it is also much easier for the management and communication if there are more people who can speak English with high level of tertiary enrollment. Therefore, the Multinational companies are more attracted by the host countries which have higher skilled labor.

Last but not least related to the Dunning's FDI theory, the resource-seeking needs also to be taken into consideration. However, it has been tested that resource-seeking indicator is not significant so the proxy is deleted from the econometric model. The reason is that Chinese investments in the CEE region concentrate on the manufacturing, ICTs, infrastructure sectors, so the resource-seeking motivation is getting less important.

Table 8. Regression for Policy level

	(1)	**(2)**	**(3)**
VARIABLES	**lnFDI**	**lnFDI**	**lnFDI**
EUdummy	0.920*		
	(1.958)		
16+1		1.298***	
		(5.306)	
cdist			0.112
			(0.599)
RD	298.595***	172.017***	129.497***
	(6.842)	(3.595)	(3.369)
Pol	0.505	0.434	1.852***
	(0.983)	(0.895)	(4.866)
Cor	0.089	-0.838	-2.299***
	(0.126)	(-1.217)	(-4.646)
Ecopen	2.583**	0.891	0.618
	(2.108)	(0.739)	(0.675)
Exch	0.079	0.010	0.050***
	(1.624)	(0.211)	(4.040)

Infla	-0.085**	-0.032	-0.115***
	(-2.211)	(-0.831)	(-2.777)
Constant	11.509***	13.827***	14.759***
	(13.764)	(16.484)	(25.339)
Observations	215	215	215
R-squared	0.387	0.455	0.285
Number of id	16	16	
F	17.32	22.88	26.13

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In order to see how the policy influence the Chinese OFDI in the CEE countries, the two proxies of independent variables are used: EU dummy and "16+1"platform(which also represented BRI), and the results shows that the EU membership is significant only at 90% level for attracting Chinese OFDI, while the cooperation with China under "16+1" platform is strongly significant at 99% level. As is mentioned in hypotheses, EU dummy represent that EU membership with good quality of EU institutions and the EU common market, which reveals the positive significant factor in attracting Chinese FDI with easy access to the common market and it has been proved in the market seeking motivations regression result demonstration with the independent variables "the CEE's export to the EU". However regarding to the EU institutional factors, this research employs the EU dummy variable to verify the institutional part, and it shows that it is significant at a 90% level which is not strongly significant. Being a part of common market is crucial for Chinese investors but the economic policy and competition law under EU institutions is a double sword for Chinese business activities. It can positively influence Chinese investment but also probably could cause challenges for Chinese investments in the CEE if they are not familiar with the EU institutional regulations which will be discussed in the conclusion part.

Second, "16+1" cooperation dummy variable presents a positively significant impact on Chinese investments in the CEE region, which reveals "16+1" platform, later embedded in BRI strategy actually promote Chinese investment in this region. The

trade and investment cooperation is facilitated under this intergovernmental linkage. Some major overseas investments from China are directly or indirectly influenced by China's BRI and "16+1" platform which is incorporated in China's industrial policy too. Those investments in the CEE are in line with Chinese industrial policy and "go global" strategy. BRI strategy and "16+1" emphasize the connectivity which is infrastructure construction and high technology sector. For example, the infrastructure investments, telecommunication investments such as Huawei, ZTE and other automotive sector such as BYD have expanded their business activities in the CEE countries.

Third, the cultural distance does not significantly affect Chinese OFDI in the CEE region, which mean cultural factors play a more important role in Asian countries than Western countries. Besides, the number of Chinese diaspora can be a better proxy for this point, but the data is not fully collected.

4.4 Adjusted model with different variables

To evaluate the robustness of the econometric model, we can omit four key variables: GDP and cultural distance as well as two dummy variables in order to re-test the model to see if it still holds validity. GDPP is indeed a more accurate measure than GDP when evaluating the economic size and consumption at the individual level. Similarly, removing cultural distance since it is not significant in the first model. Two dummy variables can somehow affect the model somehow. This approach will allow us to examine whether the remaining variables still significantly influence the outcomes. This process tests whether the core findings of the original model remain intact or if GDP and cultural distance were crucial for its predictive strength. If the results remain consistent, it suggests the model's explanatory power is robust even without these factors.

Table 9. Regression for adjusted model with new variables

	(1)	(2)	(3)	(4)
VARIABLES	**lnFDIstock**	**lnFDIstock**	**lnFDIstock**	**lnFDIstock**
lnGDPPC	3.594***			
	(1.206)			
lnEXPtoEU	1.189***	2.053***		
	(0.411)	(0.316)		
lnChexp	0.466**		1.051***	
	(0.216)		(0.209)	
lnGAMW	-0.520	0.425	0.844*	1.945***
	(0.458)	(0.429)	(0.433)	(0.396)
edu	0.0268***	0.0258***	0.0265***	0.0254***
	(0.00611)	(0.00636)	(0.00649)	(0.00687)
lntransp	-0.352	0.0125	0.326	0.539**
	(0.260)	(0.248)	(0.245)	(0.256)
RD	1.021***	1.078***	1.019**	1.911***
	(0.389)	(0.359)	(0.392)	(0.370)
pol	-0.215	-0.202	-0.0814	0.332
	(0.396)	(0.398)	(0.413)	(0.429)
cor	-1.491***	-0.960*	-0.786	-0.732
	(0.568)	(0.554)	(0.575)	(0.609)
ecopen	0.00742	0.0169***	0.00746	0.0132**
	(0.00573)	(0.00510)	(0.00540)	(0.00559)
excha	0.0198	0.0409	0.0927**	0.0944**
	(0.0383)	(0.0357)	(0.0363)	(0.0384)
inf	-0.0757**	-0.0470	-0.101***	-0.0864***
	(0.0294)	(0.0290)	(0.0297)	(0.0313)
Constant	-49.28***	-37.15***	-16.95***	-5.892*
	(6.298)	(5.536)	(3.697)	(3.145)
Observations	221	223	224	224
Number of id	16	16	16	16
R-squared	0.646	0.611	0.576	0.522

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

From the result analysis, it can be seen Chinese investments in the CEE countries are primarily driven by market-seeking objectives. These investments allow Chinese companies to tap into not just the domestic markets of individual the CEE countries

but also the larger European Union (EU) market, given the region's strategic location and access to the EU's integrated market. Trade relationships between China and the CEE countries significantly influence Chinese Foreign Direct Investment (FDI). The established trade routes and agreements between these regions facilitate Chinese companies' decision to invest, particularly in sectors that benefit from existing trade flows, such as manufacturing, logistics, and infrastructure. In addition to market access, Chinese FDI in the CEE is often driven by strategic considerations. China views the region as a critical hub in its Belt and Road Initiative (BRI), aiming to strengthen geopolitical ties, secure trade routes, and enhance its influence in Europe by investing in infrastructure and key industries. Besides, unlike some other investors, Chinese companies are less deterred by the institutional quality or governance standards in the CEE countries. They tend to invest regardless of institutional factors like regulatory transparency or rule of law, focusing more on the strategic and economic opportunities available. While institutional factors may have less impact, the economic stability of the host countries is a crucial determinant for Chinese investors. the CEE countries that demonstrate macroeconomic stability, including stable growth rates and controlled inflation, attract more Chinese investment as they provide a safer and more predictable environment for long-term projects. In contrast to traditional FDI motives, such as seeking low-cost labor, Chinese outward foreign direct investment (OFDI) in Central and Eastern European (the CEE) countries is less influenced by labor cost considerations. Instead, Chinese firms are more focused on strategic factors like market access, trade opportunities, and infrastructure development. This aligns with the results of Model 1, which also found that labor costs were not a significant determinant of Chinese investment in the the CEE region. Their investments are driven by broader economic and geopolitical goals rather than cost efficiency in labor.

4.5 Summary

Based on the empirical analysis, it can be seen that Chinese investments in the CEE

are motivated by market-seeking, efficient-seeking and strategic-seeking motives from the economic perspective. Not only the domestic market but the whole EU market is attractive to Chinese investors. Chinese exports also promote the FDI which reveals a complementary effect between export and FDI. Labor cost in the CEE countries is not an important factor due to the similar labor cost level as the Chinese one. Infrastructure and skilled labor are positively correlated to Chinese FDI at a significant level. While infrastructure is a significant driver of Chinese outward foreign direct investment (OFDI) in Central and Eastern European (the CEE) countries, its impact is less consistent in the second model. Despite the diminished robustness, infrastructure remains an important factor for Chinese investors, particularly for projects tied to logistics, transport, and connectivity, which are central to China's Belt and Road Initiative (BRI). Therefore, this factor should still be carefully considered, as its influence may vary depending on the specific context of the investment.Resource seeking is not important in Chinese investments in the CEE countries. The natural resources in the CEE countries are primarily concentrated in agriculture, while China is heavily dependent on oil imports. Compared to the oil in the Middle East, it is clear that the CEE cannot effectively attract Chinese enterprises.

From the institutional perspective, the political stability and control of corruption of the host countries have no impact on Chinese investments. However, the bilateral cooperation relation at the state level under the "16+1" platform and BRI significantly attract Chinese investors based on the results, the same goes for the EU institutions.

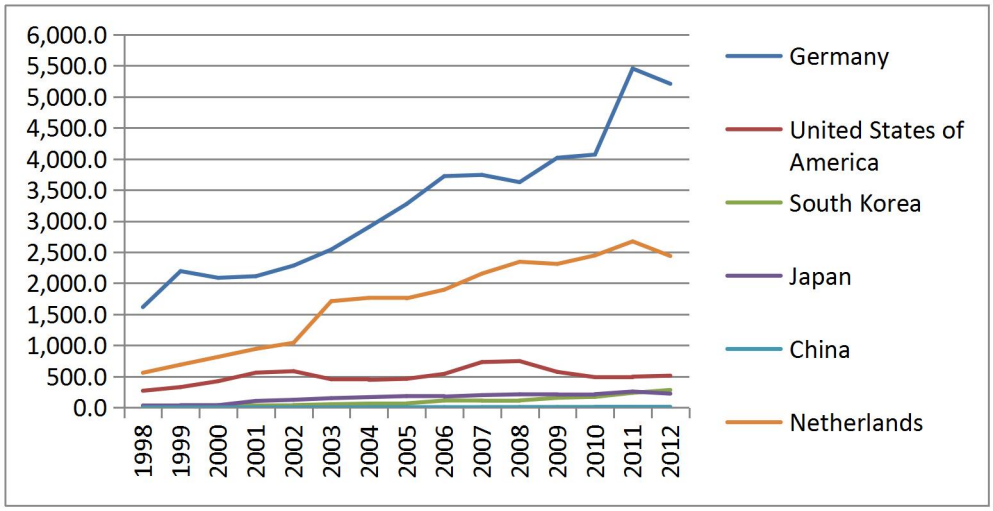
5. Qualitative analysis of Chinese OFDI in the CEE countries

5.1 Chinese investment in Hungary

Hungary has been highly dependent on foreign direct investment since 1990s as a

small and open economy. The traditional sources of FDI in Hungary are mainly the western European investors, and non-European investors such as the US, Japan and South Korea etc.. Domestic economic industries in Hungary have been mainly controlled by western EU members. In general, the whole the CEE region has been invested heavily by the western members with 80% total FDI since the transformation into market economy in order to meet the EU criteria for structural fund. And the rest of foreign investments have originated from the USA, Japan and South Korea (Richet, 2018). Germany has been the top foreign investment partner for Hungary for quite a long time (Kőrösi, 2009). Graph 2 presents a historical trend of inward FDI stock in Hungary by partner countries. It can be seen Chinese investment in Hunagry has remained minimum.

Figure 12. FDI in Hungary from 1998 to 2012 by countries (billion HUF)

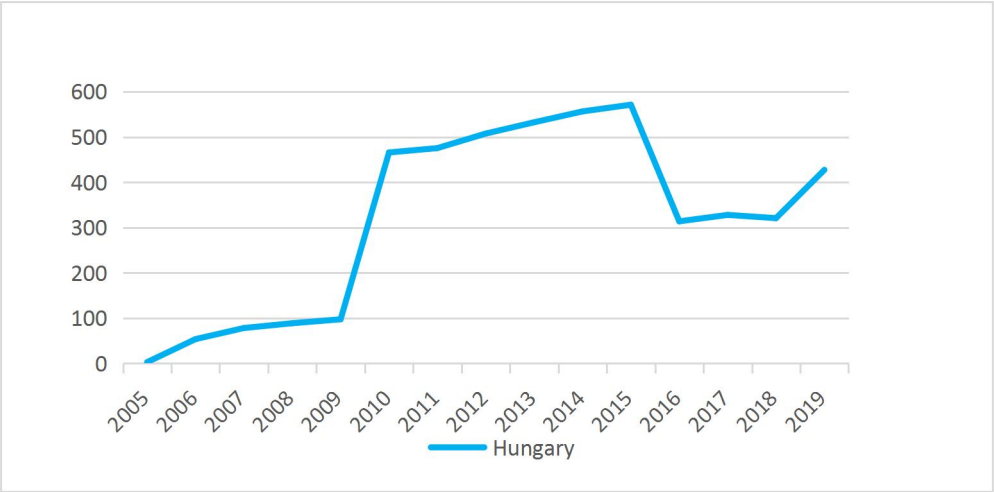


Source: *Hungarian National Bank Statistics*, (2018)

Germany has strengthened its leading position in Hungary as well as other V4 countries since the transition period and conducted huge investment in the manufacturing sector including automotive and electronics etc., and other major non-EU investors are the US, Japan, and South Korea with a similar investment pattern targeting at the automotive and electronic industries.

As is shown in the graph in the previous, the CEE region attracts a small percentage of Chinese FDI in the EU. Chinese FDI only took up a tiny part of Hungarian total inward FDI stock shown in the graph above. Despite that, since Hungary joined the EU in 2004, Chinese enterprises started to make investments and especially after the financial crisis and Euro crisis, Chinese investors took the "window opportunity" to accelerate their presence in this country (Liu, 2012).

Figure 13. The trend of Chinese OFDI stock in the CEE countries (USD million)



Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin 2009 and* 2020

As the graph above shows, Hungary had been the top destination of Chinese OFDI stock since 2009 and investment decreased in 2016 based on the Chinese statistics. In 2017, Chinese investment took up 2.4% of Hungarian total FDI inflow which made China the third largest Asian investors behind Japan and India (Csaba Moldicz, 2019). Among all the CEE countries, Hungarian government is the most active supporter for Chinese investment. The Hungarian government expressed a warm welcome towards Chinese investments to diversify the international cooperation partner and avoid over reliance on the western European partners. Hungary carried out the "Eastern Opening" Policy which is in accordance with China "BRI" and frequent high level meetings under the framework of the"16+1" platform were held to negotiate about the bilateral investments and trade (Rozsas, 2017).. The

intergovernmental relations play an important role in promoting Chinese investments in Hungary. Hungary was one of the first countries to recognize the newly founded People's Republic of China in 1949. Since the establishment of China-the CEE Cooperation in Budapest in 2012, Hungary increased the political support and public promotion for Chinese FDI and became the first European country join "One Belt, One Road" with China (Blanchard & Carsten, 2015).

The list of globally renowned Chinese companies, including Huawei, Bank of China, BYD, ZTE and others, has recently been expanded, with a number of Chinese high-tech manufacturing companies such as Lenovo, Nanjing Quanfeng Automotive, Sembcorp and Shenzhen Kodaly choosing Hungary as an investment destination (Szunomár et al, 2021), which further strengthens and deepens the economic partnership between our two countries.

The aim of these Chinese high-tech companies in Hungary is to serve the entire European continent and even other markets beyond. Huawei, for example, has chosen Hungary as its largest logistics center outside of China to supply products to Europe, the Middle East and North Africa. Take BYD as another example, it has established its first bus factory in Europe in Hungary to supply electric buses throughout the continent which has made Hungary a major entry point for large Chinese companies into the continent, enabling them to best meet the needs of their local customers.

In this section, some key companies in some electronics/ICT, automotive, Chemical sector will be researched based on both interviews with managers and literature in these academic fields.

Market-seeking FDI

There are several investors in electronics and ICT sectors including Huawei, Dahua,ZTE, Lenovo, Sevenstars ect. before 2019. And more investors arrived in Hungary in 2020 inlcuding Semcorps with 182 million Euro investment amount

(Szunomár et al, 2021). Those companies expand their business activities and made Hungary as a hub to distribute their products and services to the rest of European markets and have obvious market seeking motives. Huawei, for example, made the first step in Hungary in 2009 by establishing the European supply center from which the center engaged the manufacturing and delivery of the mobile device and communication. The center distributes the products to the whole European market, North Africa, even Russian and the near East. In total, Huawei exports the products to 55 countries. In 2013, Huawei set up a expanded logistics center in Biatorbagy and signed a strategic cooperation agreement with the government (2015). Huawei has become a major investor in the Hungarian economy with a total investment amount of $1.5 billion over the past decades, creating about 2,400 jobs directly or indirectly in Hungary and contributing 45.5 million Euro tax revenue for Hungary directly. It has built a business partnership with more than 600 suppliers including Flextronics, Foxconn and DHL in Hungary (Huawei, 2019).

Some companies invested in Hungary in order to get close to their business partners and the existing business network enables those investors have the courage to make a presence in a new market. For example, Comlink, the electronic company chose to invest in Hungary because Huawei invited it to settle the production activities in Hungary in 2013[11] which is in line with the previous study about the impact of agglomeration forces on FDI (inter and intra-industrial linkage) especially in the manufacturing sectors such as electronic and automotive sector (Disdier & Mayer, 2004). .

Another reason is that Huawei has been blacklisted by the United State, the companies shift the production, R&D activities to Europe. And Hungary is the top hub for European operations. According to the interview, Huawei planned to build another factories in Hungary for the production and assembly activities. Besides, Hungarian government announced R&D center is being set up in Budapest.

Beijing Shenan Group purchased real estate in Dunnakeszi in 2015 and established

an European distribution center for the LED light and Lumiaries. BYD made the early presence in Hungary by acquiring the Hungarian factory of the Mirae molder electronics, a South Korean company in Komárom in 2008 and became a supplier for Nokia. However, after the shutdown of the Nokia, BYD established the first European factory in Hungary in 2017 and manufactures the electronic buses to supply not only the domestic market but also Netherland, the UK, and Italy ect.,which has market seeking motives. The previous investment experience also helped to integrate the existing resources into the new business based on the interview.

ZTE opened a representative office in Budapest in 2005 and established a subsidiary five years later. In 2012, ZTE's new European regional network operations and call center opened in Budapest (2015). Huawei and ZTE are major players in the Hungarian information and communication technology (ICT) sector. Nowadays, Huawei and ZTE are jointly participating in the 5G network construction in Hungary.

Last but not the least, Zhejiang Dahua Technology, a world-leading solution provider in the global video surveillance industry, opened an assembling factory and its European supply centre in south-western Hungary in 2016 (2018). And the company signed an agreement with Wanhan BorsodChem to provide the security equipment and services to expand not only local market but also the greater EU market.

Strategic asset-seeking

Strategic seeking investments occurred more frequently with Chinese FDI in developed countries in the form of M&A recently. Although compared with Western Europe, there are not many Chinese M&A deals in Hungary. However, there was one famous M&A deal in 2011 when Wanhua Chemical Group acquired BorsodChem which has become the world's third largest isocyanate producer and increased its European presence through BorsodChem subsidiaries (Bryant, 2011). In 2009, GreenSolar has acquire brand, knowledge and skilled labor by acquiring Energosolar. Beside the electronic and chemical sectors, Chinese companies also bought the

subsidiaries from developed countries in the automotive sectors since Hungary has become the manufacturing core for the automotive companies for western Europe, the USA, Japan and South Korean. Shanghai Baolong , KUKA Hungária (Midea Group), SEGA Hungary (SEG Autmotive GmbH (Zhengzhou Coal Mining Machinery Group, China Renaissance Capital Investment)) and KACO Hungary (Anhui Zhongding Sealing Parts (Zhongding Group) in 2018 are strategic asset-seeking investments (Völgyi &Lukács, 2021). Besides, in 2018, Chinese company CRRC build an alliance partnership with Hungary's Ikarus, an old bus producer in Hungary with 157 years history, creating Electrobus in order to developed electric bus in Europe. Compared with the Greenfield investment mode of BYD in Hungary, CRRC (China Railway Rolling stock Company) chose M&A mode and one of the two former Ikarus plants including the brand name. This company produce Ikarus electric buses with the name of the traditional brand but the electric motor is produced by CRRC (Marquordt, 2021).

Last but not the least, recently Chinese companies started to invest in food sector in Hungary given that the food safety issue in China, and the label "made in Europe" provides a better advantage than "made in China" for the consumers, which means Chinese investment in Hungary also focus on the brand(McCaleb &Szunomár 2017).

Those Chinese investors mentioned choose Hungary for both market-seeking and strategic asset-seeking motives.

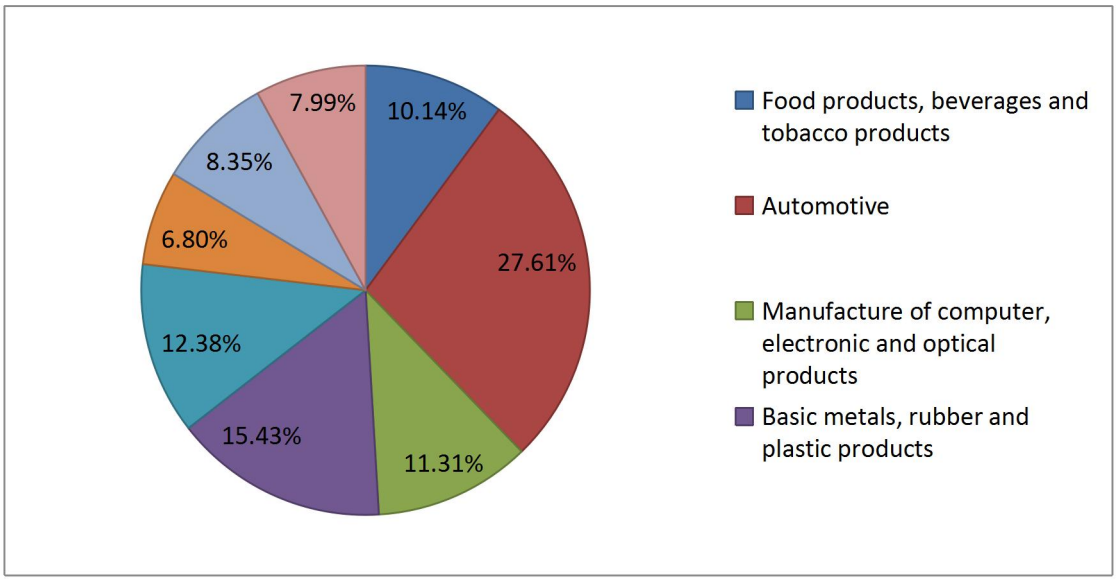
Efficiency seeking FDI

The interviewee mentioned that advantageous geographical location, as a hub for European transportation network helps the companies distribute the goods. The availability of high skilled labor, relatively lower cost production compared with western Europe as well as close to their purchasers are also important motivations for some of Chinese companies. For efficiency-seeking investment, it is an important motive for manufacturing sectors such as electronics and automotive sectors. Most of Chinese investors in the automotive sector such as Yanfeng automotive focus on

the production of car components such as mirrors, tyres, tyre moulds, door panels, floor and overhead consoles, metal components) have been integrated into the automotive global supply chains which have a strong presence in the Hungarian economy. There are only two automotive companies, Electrobus Europe and BYD Electric Bus & Truck Hungary, which do not produce automotive components, but electric buses.

The automotive industry has been one of the key sectors in driving Hungarian economic growth which mainly benefits from heavy foreign direct investment. Currently, there are four major OEMs: Opel, Audi, Suzuki, Mercedes Benz with more than 700 automotive suppliers. The automotive sector took up 27.61 % of the total manufacturing (HCSO, 2018), and it made the production value of this sector worth 25.3 billion Euro in 2016 and around 175.8 thousand people were employed. Around 92% of the total automotive output is exported and the exports of the automotive industry account for 20% of total exports (HIPA, 2018). According to this, the Hungarian government put automotive industry as the priority development sector. The development of the automotive sector has driven the rising of electronics in Hungary which has formed a close output and input linkage between each other. The investment of car companies has attracted a lot of suppliers in this region. For example, Japanese Suzuki brought forth many Japanese electronics companies as their suppliers, the same goes for the German counterparts.

Figure 14. Sub-segments Of The Hungarian Manufacturing Sector (2017)



Source: HCSO,2019

the CEE EU member states are more popular in attracting FDI flows since they are more developed with a strong and growing demand. The less saturated market in the CEE region provides a chance for Chinese investors. Besides, the availability of skilled labor but relatively lower labor cost than western EU countries make this area attractive for the investment in manufacturing sector. Another factor of the agglomeration can also used to explain the highest amount of FDI in Hungary (McCaleb-Szunomár 2017).

For example, according to the interview, availability of skilled labor and relatively lower cost is an important determinant for BYD and Huawei to make an investment in Hungary. Besides, Chinese investors expand their business activities in Hungary to connect their already existing business in Western Europe such as Huawei. There are also the case that Chinese investors intended to follow their purchasers such as Comlink and Yanfeng automotive. In 2015, Yanfeng Automotive Interiors build a joint venture with Johnson Control in Papa to provide components for premium category car interiors, such as instrument panels, door panels and floor consoles, completely for export purposes[12]. Other greenfield investments such as Huawei Technologies Hungary, ZTE Hungary, Himile Europe, etc. more or less have a

[12] https://hipa.hu/hungarian-government-and-yanfeng-entered-into-a-strategic-partnership

efficiency-seeking motives.

Institutional factors

As is mentioned in the hypothesis 7, EU institution implies dual meaning. One of the important factors is that the institutional change of Hungary that it joins the EU in 2004, which is very important driver for Chinese investments. And the investment started to slowly increase since then. China's exports to Europe are strictly controlled by quotas and tariffs. Therefore, the economic integration of Hungary into EU allow China to resort to FDI in this country so as to enter the common market and bypass the trade barriers(Inotai, 2013). Besides, the FTA signed between EU and the third nations like North America surely applied for Hungary. Another factor is the institutional perspective of being a part of the EU, which allows Hungary to enjoy the common competition policy, strict protection of IPR and stable institutional quality. However, it is still questionable whether the institutional factor of EU membership is as important as accession to EU common market for Chinese investors.

Intergovernmental linkage

Bilateral political relations and Chinese foreign policy "16+1"platform as well as BRI played a critical role in FDI decision too. Hungarian "Eastern opening policy" strongly accords with Chinese "16+1" platform and the later established BRI. The case to support this argument is that China-Central and Eastern Europe Investment Cooperation Fund acquired Hungarian telecom company Invitel in 2017 and the fund is set up under the framework of BRI. Another example is Budapest-Belgrade railway, the pilot projects under 16+1 platform which connects between Budapest and Belgrade with the distance of around 350km long. This infrastructure construction is part of China's BRI by linking the Macedonia and ultimately to Piraeus port in Greece. The project is financed by Chinese Export-Import bank with 3 billion US dollars loans with low interest rate (Ferchen et al, 2018). The Serbian section has already been completed but Hungarian part is constructed by

Chinese-Hungarian Railway Non-profit Ltd., a joint venture of China International Railway Corporation and China Railway International Group (85%) and Hungarian Railways (MÁV) (15%), which was established in 2015. This Chinese state owned railway company obviously invested in Hungary, resulting from the bilateral cooperation of governmental level. Hungarian government expressed a strong support for this infrastructure project despite it has provoked great concerns among the EU because it implied China's political leverage via this economic means (Vasovic, 2017).

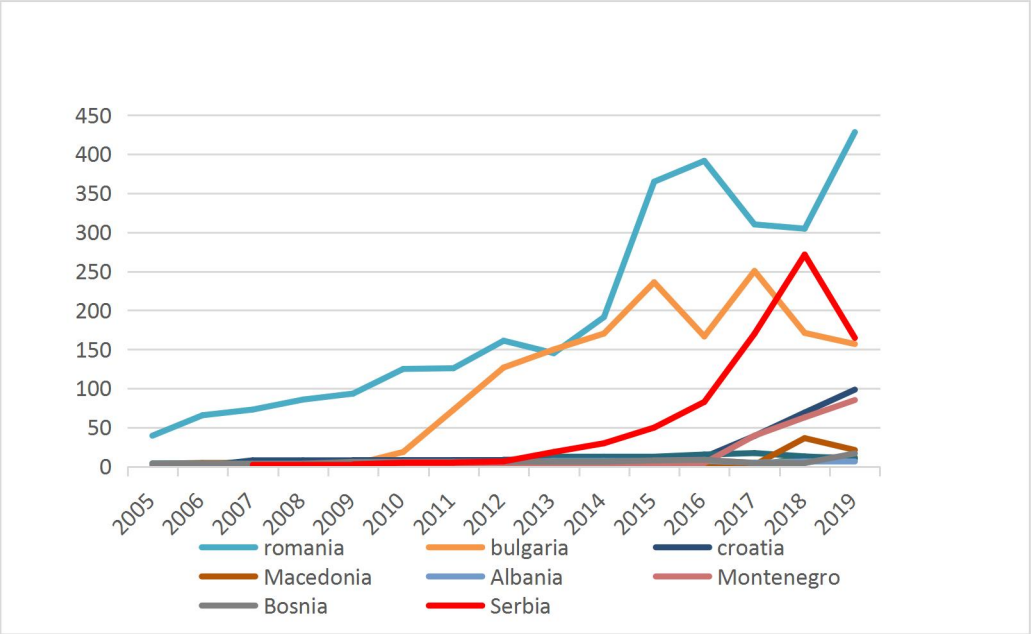
Wanhua's acquisition of BorsodeChem was motivated by the proposal of Hungarian Prime Minister Viktor Orban when he visited Shanghai in 2010 and had a discussion with Chinese government officials about the economic issues. In the following year, the acquisition was completed. The company signed a strategic cooperation agreement with Hungarian government in Beijing in 2014 and acquire government grants and tax allowance for the investors in the industrial park where Wanhua established Sino-Hungarian BorsodChem Economic and Trade Cooperation Zone to attract more investors in cluster. The interview from an automotive firm reveals Chinese Foreign policy of "16+1" cooperation with Hungary and bilateral political relation played a critical role in FDI decision. Besides, Hungarian government policy agencies have a direct impact on the company's decision to invest in Hungary, such as tax incentives, government investment promotion, preferential loans etc.. In addition, political relations especially play a significant role in directing Chinese FDI in the literature review and documentary analysis. Hungarian government is the only EU member who strongly support Chinese investment regarding to political issues regardless of EU sides. The strong political ties between China and Hungary provide great confidence in Chinese investors to further invest in Hungarian market.

5.2 Chinese investments in Serbia

Serbia is chosen to be a representative case study for Balkan countries based on the following reasons: Although Romania and Bulgaria received much more Chinese

FDI than other countries among the Balkan counties, the research attempts to make a in-depth analysis on a non-EU country to present the comprehensive picture about the issue. China's FDI in Serbia is the highest among other non-EU the CEE countries, especially since 2012, the investment stock grows rapidly and constantly as the following graph shows. Chinese FDI in Macedonia, Croatia and Montenegro has become active after 2016. Chinese direct investment in Bosnia-Herzegovina, North Macedonia and Albania has been the least active since 2016.

Figure 15. The trend of Chinese OFDI stock in Balkan states



Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2009 and 2020

Nevertheless, Chinese investment flows in Serbia still remains low compared with V4 countries and it started to increase after 2012. In 2008, the share of Chinese FDI stock in Serbia only takes up 1%, and the shared peaked at 12% in 2018, ranking the fifth place among other the CEE since the share of Chinese investment flows into Serbia was the highest in the CEE that year. In 2019 it fell back to 6% in 2019.

As mentioned in the previous chapter, Chinese investment in the CEE countries

cover diversified industries. Manufacturing investments mainly concentrate in major EU members such as Poland, Hungary, Slovakia and Romania etc.. The investment areas mainly focus on energy and infrastructure sectors in less developed Balkan countries such as Serbia, Macedonia, Montenegro, and Bosnia (Zhao, 2018). The company cases analyzed in this chapter are from energy and infrastructure sectors, and automotive sector.

Yanfeng, one of the largest automotive suppliers in China, focusing on automotive interior components, officially opened its new plant in Serbia in 2019. Yanfeng officials said the motives of investment in Serbia is to further expand its overseas market, increase its competitiveness and improve its overseas production capacity. The new plant, Yanfeng's first in Serbia, covers an area of about 18,500 square meters and produces automotive interior components and has already created about 180 new jobs in the region.

The good infrastructure and skilled workers in the Kragjevac region were important factor for Yanfeng's choice of this location. In addition, Yanfeng has also opened overseas plants in the Czech Republic, Slovakia to supply interior parts for brands such as BMW and Volkswagen and so on. Therefore, the existing business network in other part of the Europe also play an important role in attracting Yanfeng to investment in Serbia (Li, 2019). According to Tony Elenbaas, Vice President and General Manager of Yanfeng Europe and South Africa, said, *"With the new plant in Serbia, we can expand our manufacturing capacity in the Eastern European market to respond to the growing demand of our customers.*Therefore, Yanfeng's investment in Serbia reveals market-seeking and efficiency seeking.

The driving force of Linglong Tire, Chinese manufacturing company's invest in Serbia is the market-seeking, efficiency seeking and institutional factors. The company conducted a comparative analysis on V4 countries and decided eventually to invest in Serbia in 2018 due to the cost advantage, host government policy and intergovernmental linkage (2018). In 2008, the Serbian government again made the automotive industry a priority for the economy, introducing the Italian Fiat Group to

take control of the formerly state-owned ZASTAVA plant in Kragujevac. In 2001, a total of 60 foreign-owned companies have been established in Serbia, which provide an agglomeration zone.The production base in Serbia is close to the target customers, such as Volkswagon, Fiat, Renault and other potential suppliers and customers in Europe. The production base in Serbia can significantly improve the delivery time of European auto factories, and also promote the construction and improvement of overseas marketing channel network, which facilitates the development of the company's overseas supporting business. On the other hand, Europe has a well-developed automobile industry with a high demand for tires and third largest tire market in the world. Despite Serbia is not an EU membership, it signed FTA (free-trade agreement) with with countries and regions that levy high tariffs on tires made in China such as Russia, the EU, the CEE, Turkey etc., and enjoy GSP[13] (Generalized System of Preferences) with the USA by the United States (2018).

Therefore Linglong tires' export from Serbia to those countries and regions can enjoy tariff and quota-free preferential treatment. The investment in Serbia not only effectively avoids the high tariffs, but also expands the markets of neighboring countries (RAS, 2022). From the institutional perspectives, Serbia is the first country in the CEE to establish a strategic partnership with China and has built a good political relation with China, The economic policy of Serbian government is to attract foreign investment with focus on investment in infrastructure construction and labor-intensive industries (Xinhua, 2013). Eastern European countries learn from China's practice of setting up economic development zones and building industrial zones such as Zrenjanin Free Trade Zone[14] which encouraged foreign enterprises to invest, helping to increase local employment opportunities and achieving double profitability, while facilitating them to exploit the lower labor cost in Eastern European countries to develop new markets and enhance brand value. At the same

[13] GSP is the largest and oldest U.S. trade preference program. Established by the Trade Act of 1974, GSP promotes economic development by eliminating duties on thousands of products when imported from one of 119 designated beneficiary countries and territories.

[14] Free Zone Zrenjanin, which was founded in 2005 by the City of Zrenjanin

time, Serbia's export tariff preferences can also help Linglong reduce international trade barriers, realize the global layout of auto parts enterprises, and realize the new pattern of Chinese tire enterprises "going global" (2020).

As a former socialist state, Serbia still has a number of state-owned enterprises in the infrastructure and energy sectors with poor performance and huge loss as the country has been through war and political and economic sanction. Therefore, Serbian government is willing to sell these national asset to foreign investors. Meanwhile, with the advancement of China's BRI and 16+1 platform, more and more large Chinese SOE or private enterprises conduct the investment in these areas. At present, the major Chinese state-owned companies in Serbia including China Road and Bridge Engineering Co., Ltd., China Machinery Engineering Corporation, Shandong Expressway Group, China Hydropower Construction Group International Engineering Co., Ltd., China Water Resources and Hydropower Foreign Corporation, China Gezhouba Group International Engineering Co., Ltd. , China Civil Engineering Group Co., Ltd., The Serbian government attempts to improve the infrastructure construction ((Dimitrijević, 2017). Chinese investors expressed an interest and enthusiasm to invest in Serbia to participate the infrastructure construction. For example, Serbia and China have signed a MOU for construction of Serbia's Corridor 11[15] after Serbian Prime Minister Aleksandar Vucic's visit to the Chinese capital Beijing (Finance & Funding, 2015). Huawei Belgrade subsidiary, ZTE Serbia branch and China YTO Group, etc. have taken an initiative in participating in the infrastructure construction cooperation.

Political ties

Serbia has signed a comprehensive strategic partnership with Beijing and political relations between the two countries have strengthened since 2009. China provides the support to Serbia concerning the issue of Kosova, and Serbia becomes Chinese

[15] Corridor 11 runs from the Serbian capital Belgrade southwest to the border with Montenegro

reliable and close partners. Serbia has shown great interest to further promote both multilateral and bilateral cooperation concept BRI and “16+1” platform. In 2016, The Smederevo Steel Plant, Serbian state owned company was acquired by China's HSC Group with 46 million Euro under the framework of BRI, saving more than 5 thousand jobs. In 2016, HISCO Serbia Steel's exports totaled 370 million euros, making it the second largest exporter in the country. In 2018, it reached total sales revenue of 1.04 billion US dollars and became the largest exporter in Serbia (China-the CEE, 2020). This is an important acquisition deal from Chinese companies in 2016. Founded in 1913, the Serbian state-owned steel mill produced hot rolled sheets, pickled coils, cold rolled coils and tin-plated sheets. It was acquired by US steel in 2003 due to poor operation. However, In 2012, US-Steel sold the steel mill back to the Serbian government due to the financial crisis in 2008. In 2016, Chinese company Hebei Iron and Steel Group signed an agreement and acquired Smederevo Steel Plant after the state level negotiation (CRA, 2020).

This investment deal has become a model project of international capacity cooperation between China and Central and Eastern Europe during the construction of "BRI". In 2016 Chinese president Xi Jinping visited the local steel plant acquired by China. Therefore, this acquisition was greatly influenced by governmental policy and political relation as well as market-seeking.

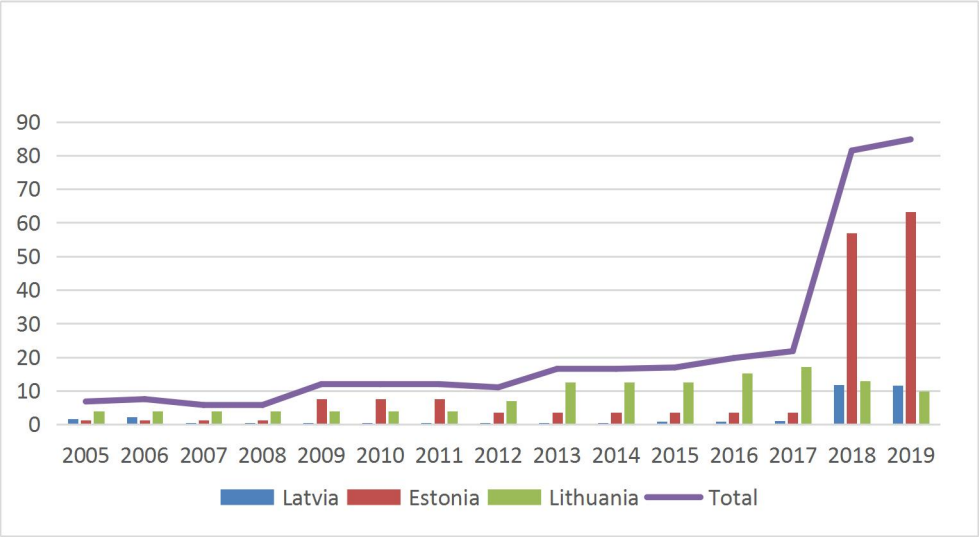
The mutual visa waiver agreement between China and Serbia took effect in 2017. It made Serbia the the first European country a visa free state for China (2017) which became a driving force for further Chinese investments.

5.3 Chinese investments in Estonia

Chinese investments in these three Baltic states present more recent under the China and the CEE “16+1”platform and BRI, and the amount is insignificant due to these states are small in terms of economic size and population. In 2019, Baltic states together received only 3 percent of total Chinese investment in the CEE countries

according to the Mofcom statistics.

Figure 16. The trend of Chinese OFDI stock in Baltic states

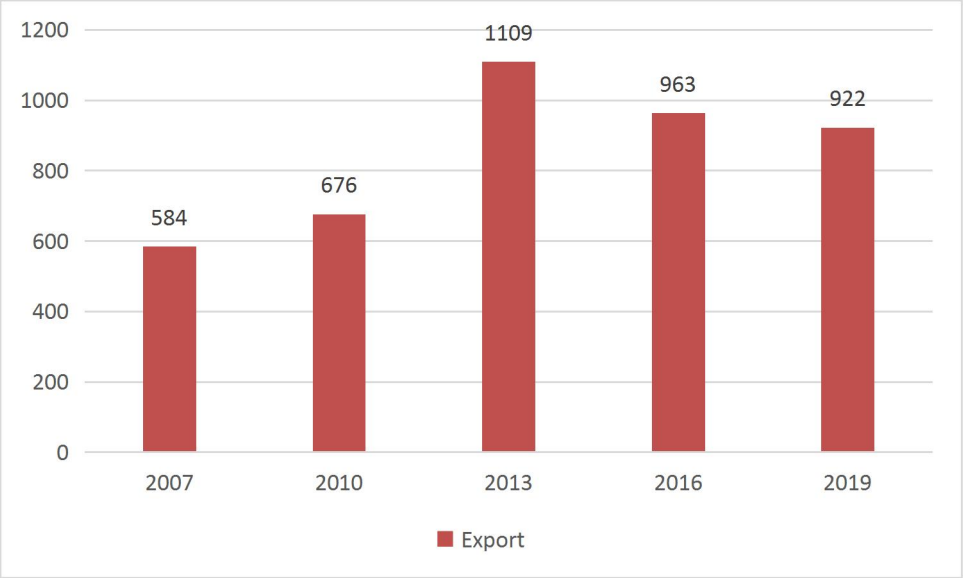


Source: Compiled and calculated from *China Outbound Direct Investment Statistical Bulletin* 2009 and 2020

However, Chinese investor still regard them as a springboard for market expansion given that they connect not only Western, central Europe and Scandinavian markets but also Russia, Ukraine and Belarus.

Chinese firms demonstrate a growing interest in opportunities for investment in the BSR region, especially in the fields of logistic, energy, and technology and services. As the graph shows, The largest recipient of China's OFDI was Lithuania from 2005 to 2017, although the Estonia took over during 2009 and 2011.China's FDI stock in Latvia and Estonia remains at a low and stable level by the year of 2017. Since 2017, it can be seen a significant increase of Chinese investments in Estonia which was caused by a big M&A deal from Guangzhou Hangxin Aviation Technology (Hankewitz, 2018) .

Figure 17.Chinese export to Estonia (million dollars)



Source: UNCOMRADE (2020)

The investment in Baltic countries from China are mostly coming from private enterprise instead of state-owned enterprises such as Acquisition of Dalian Wanda Group,Guangzhou Hangxin Aviation Technology, the joint venture of Didi Chuxing and Chinese S.F express (Xie et al, 2021). Recent years have seen a rise of Chinese Private Enterprises in foreign direct investment and it started to play a more and more important role in Chinese OFDI, especially when the western developed countries tend to be concerned with the overseas expansion of Chinese state-owned companies.

Compared with Balkan states and V4, Chinese investments in Baltic state are very much limited. And according Chinese data sources, the overall scale of China's investment in Estonia is modest, with 2018 investment flows to Estonia reaching a peak of USD 53.22 million in 2018 and declining in 2019 to USD 2.02 million. The stock of Chinese direct investments in Estonia was about USD 63.33 million at the end of 2019 (Mofcom, 2010), ranking 12th among Chinese investments in 17 the CEE countries. There are fewer than 10 big Chinese companies which invested in Estonia. And most of them are private companies which invest in the service industry including telecommunication, entertainment, E-commerce and technology

etc (Xie,et,al,2021).

In 2017, Didi Chuxing, the largest ride-sharing company with more than 400 million users in China, announced an investment and signed a strategic partnership with Taxify, a leading ride-sharing company in Estonia in order to meet the rapidly growing consumer demand and increase the market share against Uber (Techcrunch,2017). The strategic cooperation with Taxify will enable Didi provide capital and share the resources in the areas of technology, operation, products with Taxify to develop the huge potential European, African and West Asian markets based on the fact that Taxify's strengths in technological innovation and fast growing markets in Europe and Africa (Zhuang & Zhao, 2017) . Cheng Wei (2017), CEO of Didi, pointed out that the innovation and high quality service lead to the connection of mobile mobility of consumer demand in many diverse markets across Europe,Asia and Africa. He also mentioned that under the background of the "Belt and Road" initiative, Chinese high-tech companies like Didi have started to explore overseas together with their brothers in the manufacturing and infrastructure industries. According to Taxify, the users expanded to twenty countries in Europe, African and Middle East after the cooperation with Didi.

According to the official website of DiDi, it made the earliest attempts in internationalization through investment in 2015 and it has successfully invested and established the collaborations with several leading ride-sharing companies across the world in 2017, they are respectively Lyft in the USA, Grab in Singapore, Ola in India, Uber, 99 in Brazil and Taxify in Estonia (2021).

In recent years, Estonia has been vigorously developing logistics and international trade, and gradually making logistics and trade into new pillar industries. Estonia relies on technical talents from higher education institutions to vigorously develop the information technology industry, trying to turn Estonia into the "Silicon Valley of the Baltic Sea". In terms of logistics, Chinese express company SF Express, the largest private Chinese logistic company,the formed a joint venture and set up "Post 11" with Omniva Logistics, a subsidiary of the Estonian National Post in September 2015 to quickly ship Chinese goods purchased online by consumers in Northeast

Europe to Estonia, Latvia, Lithuania, Finland, Russia and several other countries in the region(2023). According to the Estonian Ambassador in China, he said Estonia are becoming a hub for Chinese E-commerce to the European market especially for Northern European countries such as Finland, and Central European countries like Poland and so on. The chairman of Omniva Aavo Kärmas also pointed that the Post 11 will provide the efficient and fast delivery service for Chinese goods travelling to Estonia (Omniva, 2021). The motivation for this investment is market-seeking which delivers Chinese goods not only in the Baltic states but also in Northern European countries, Russia, Ukriane and even the whole Europe.

The council member of Post11, Charlie Viikberg, Oselein mentioned that the motivation of joint venture is to gain the strong market positions for both parties and through joint venture, Omniva and S.F. Express, are able to use their network for their its continuous global expansion in the constantly growing global e-commerce market (Kalendiene et al., 2017). The transportation sector becomes very attractive for the foreign investments under the BRI.

There are some M&A deal from China in Estonia. AMC Theaters (was at the time of the deal largely owned by Dalian Wanda Group, Dalian, Liaoning, but the company was forced to sell some of its shares later in order to reduce its debt in China Forum Cinemas (as part of the Nordic Cinema Group, Sweden was forced to sell some of its shares to the Chinese company Wanda Group in 2017 (Aadamsoo, 2017).

Guangzhou Hangxin Aviation Technology, the Chinese engineering company, has acquired 100% of Estonian aircraft maintenance and repair company, Magnetic MRO located in Tallinn with 15 subsidiaries around the world which made the largest investment deal in Estonia in 2018 . According to the Chinese news agency, the acquisition deal was announced in January and finalized in May of 2018. As a privately owned company, this M&A deal amounts to about 43 million Euro, aiming to actively participate in the government policy of BRI and promote its international expansion according to the company(Hankewitz, 2018). Hangxin Aviation Technology also aimed to acquire the technology in the field of aviation industry since Magnetic MRO offers technical support and launch of new airlines, selection

of aircrafts, overhaul, development of salons design projects and production of the necessary parts (Saarmann, 2018). Besides, this company have business networks with several important customers in the avian field such as AirBaltic, FinnAir, EasyJet, Vueling ect.(Nguyen, 2018). Therefore, acquisition of Magnetic MRO not only allow Chinese aviation companies expand new European Market but also transfer the technology and management skills. In the end, it will help Chinese aviation integrate into the global industry chain, expand its aviation maintenance business and aviation asset management business, grow stronger through M&A, and actively participate in international market competition (2018). Meanwhile, from macro-level, this transaction is the strategic guidance of Air New Technology to follow the national B&R, investment and merger of high-quality Estonian enterprises, for the aviation industry as the main area of the "New Silk Road" for China's industrial restructuring and transformation and upgrading (2018).

Regarding to the motivation of these companies investing in Estonia, the joint venture and acquisition reveal a strategic decision since they lack for local market knowledge, Besides, these companies were inspired by BRI, even though the empirical study doesn't show correlation between Chinese OFDI in Baltic states and the determinants of the host countries and the "16+1"policies and they received some support from Chinese Embassy in Estonia. Therefore, Chinese foreign policies need to be taken into account in influencing Chinese OFDI. However, it is worthy to mention that private state-owned companies seems to take up a majority share of total investment in the Baltic states which complement the academic field related to Chinese OFDI that most FDI is dominant by SOEs(Buckley et al, 2007).

The empirical findings also find that market-seeking and strategic seeking are regarded as an important motivations of Chinese investment in Estonia. Despite the fact these companies themselves have ownership advantage, they also intend to enhance their competitive advantage by building up the business network and exploiting their know how and market knowledge. The findings also prove the

current theories that determinants and factors of Chinese OFDI have been shifting from traditional market-seeking and resource-seeking in the less developed market into strategic-seeking in the developed market (Yao et al, 2017; Blomkvist & Drogendijk, 2016), and Baltic countries belong to developed categories according to World Bank.

5.4 Summary

Based on the qualitative case study with the limited number of interviews, and information from online sources and document, this chapter explored the investment motives and determinants of Chinese companies from different sectors in three representative countries: Hungary, Serbia and Estonia, and found out the results more or less consist with the quantitative analysis parts. Macroeconomic factors such as market-seeking especially EU market is very significant for Chinese investments, and this is more obvious in the case of Hungary and Estonia since they are EU member states with the advantageous location, the same goes for efficiency-seeking and strategic-seeking, since the R&D level and knowledge spillover due to more MNCs in EU members, good infrastructure and availability of skilled labors are more existing in Baltic countries and V4 countries. For Serbia representing Balkan countries, Chinese investments concentrate on the infrastructure construction area[16], and the small share of investments in other sectors also focus on the market-seeking and efficiency-seeking. The qualitative case studies enable the research capture the individual differences among this region. For example, most of investments in Estonia are conducted by private owned Chinese company but more state owned construction and energy companies in Serbia. As for the strategic-seeking, it is interesting to find that there is technology spillover from Chinese companies to Serbian ones instead of opposite direction. Therefore, the asset seeking motive is not obvious for Chinese investors in Serbia. Some discrepancy is also discovered regarding to institutional factors. The institutional factors “EU membership” is

[16] The FDI refers to the Chinese construction companies in the CEE which focus on the infrastructure construction

significant for Hungary and Estonia. The intergovernmental linkage such as “16+1”platform and BRI play an important role in leading Chinese FDI inflow in this entire region. However, political relations are more significant concerning Chinese investments in Hungary and Serbia than in Estonia based on the case studies. Political relation between China and Baltic countries has been unstable due to Taiwan issue and these three countries has withdrawn from “16+1” platform consecutively since 2019 (Wright, 2021). Last but not least, the findings from qualitative analysis outside the theoretical framework are that the establishment of business network for Chinese investors to enhance their competitive advantage in Europe and agglomeration force (be close to the buyers) from meso level can be the new pattern of Chinese OFDI which enriches the current theories of motivations and determinants of Chinese FDI.

6. The pull factors of Chinese OFDI in the CEE countries

The econometric models in this thesis mainly focus on specific pull factors, such as macroeconomic factors and institutional factors. However, they frequently overlook critical push factors that also shape investment decisions. The motivations behind this phenomenon can largely be classified into push factors originating from China. These factors delineate the internal economic, political, and strategic conditions that compel Chinese firms to invest abroad. Here are several key push factors influencing Chinese OFDI in the the CEE region.

6.1 China’s Macroeconomic Factors

China's rapid economic growth has led to significant capital accumulation, creating a surplus that is increasingly directed towards foreign markets, including the CEE countries. The country's transition from an investment-driven growth model to a more consumption-oriented one has resulted in overcapacity in various sectors,

particularly in manufacturing (Shen, 2019). This overcapacity pushes Chinese firms to seek new markets where they can utilize their production capabilities, therefore reducing domestic excess and achieving higher returns on their investments. Additionally, fluctuations in China's economic environment, such as shifts in labor costs and environmental regulations, necessitate diversification into more stable investment climates (Deng, 2020).

6.2 Chinese Globalization and Outbound FDI Policies

The Chinese government's strategic initiatives aimed at promoting globalization play a fundamental role in shaping OFDI patterns. Policies such as the “Go Global” strategy have been introduced to encourage Chinese companies to invest abroad, particularly in value-added sectors where they can gain access to advanced technologies and resources (Wu, 2019). Furthermore, the establishment of a supportive legal framework and financial incentives through governmental agencies facilitates international expansion. This proactive stance by the government has seen increased state support for firms looking to invest in the CEE countries, where policy environments may be more conducive to foreign investments compared to other regions (Zhang et al., 2021).

6.3 The Belt and Road Initiative (BRI)

Initiated in 2013, the Belt and Road Initiative (BRI) represents a pivotal push factor for Chinese OFDI, aiming to enhance trade routes and infrastructure connections across Asia, Europe, and beyond. the CEE countries are essential players within this framework due to their strategic location as a bridge between Asia and Western Europe. Through investments in infrastructure—such as railways, highways, and ports—Chinese firms leverage these projects not only for regional economic development but also for creating a more integrated supply chain that can support China's broader trade objectives (Wang, 2019). The BRI has significantly impacted investment flows, with many Chinese companies being motivated to establish a

presence in the CEE to capitalize on these developmental projects.

6.4. Access to European and Global Markets

One of the primary push factors for Chinese OFDI is the desire for access to European and global markets. the CEE countries serve as valuable gateways to the larger European Union market, offering Chinese companies the opportunity to circumvent trade barriers and establish direct routes for their products (Ma, 2018). The attractiveness of the CEE countries lies not only in their increasing market potential but also in their relatively lower production costs compared to Western Europe, making them an appealing destination for Chinese manufacturers seeking to tap into consumer markets while managing expenses (Zhou, 2020). Furthermore, the geopolitical alignment of the CEE countries with China facilitates smoother trade relations, further encouraging investment.

6.5 Other Factors

In addition to the primary economic and policy-driven push factors, various other factors are also significant in influencing Chinese OFDI decisions. These include the need for technology acquisition, market diversification, and risk mitigation through geographic spread. Chinese firms are increasingly motivated to acquire advanced technologies through mergers and acquisitions in the CEE markets, aiming to bolster their competitive advantage in both domestic and overseas markets (Chen, 2021). Additionally, economic ties established through cultural exchanges and shared historical experiences enhance mutual understanding, making the CEE nations appealing locations for investment.

7. Comparison of motives and determinants of Chinese OFDI from other East Asian states such as South Korean and Japan

Although Chinese companies are now prominent investors in the CEE countries, they were not the first East Asian firms to enter this market. Japanese and South Korean foreign direct investment (FDI) began flowing into the region as early as the 1990s. For instance, among East Asian investors, South Korea has established a strong presence in the Czech Republic and Slovakia, while Japan has focused significantly on Poland and the Czech Republic. In contrast, Chinese FDI began to rise following the accession of the CEE countries to the European Union in 2004 and 2007, with Hungary and Poland becoming preferred destinations.(Szunomár, 2015). This chapter will demonstrate the specialty of Chinese OFDI by exploring and contrasting the motivations and location determinants of Chinese, Japanese, and South Korean FDI in key the CEE countries in terms of the host countries' macroeconomic conditions and institutional frameworks on these investment decisions.

China's rise is often compared to the post-war economic boom of Japan and South Korea. While there are similarities and differences in how companies from these countries have expanded internationally, a key shared trait is the development of "national champions." These are domestic companies that have grown to compete globally, thanks in part to strong government support. Japan and South Korea historically provided significant financial backing to their firms to help them thrive in international markets (Irwin-Gallagher, 2014). China has similarly followed this path, offering subsidies and funding to boost the global reach of its industries, particularly through OFDI.

7.1 Similarities in OFDI from China, Japan, and South Korea

All three countries view the CEE as a strategic region within the broader European

market. The the CEE countries offer access to the European Union, providing a gateway for goods and services into the broader European market. Additionally, these nations see the relatively lower labor costs and the growing economic dynamism of the region as opportunities for investment. However, the labor cost doesn't play an important role in Chinese investment in the CEE countries.

Chinese, Japanese, and South Korean investments in the CEE have often been directed toward infrastructure projects, manufacturing, and the automotive sector. These investments are often part of broader strategies to enhance global supply chains and improve logistics networks, particularly within Europe. For China, Japan, and South Korea, the quality of labor in Central and Eastern European (the CEE) countries plays a key role in shaping their investment strategies.(Szunomár, 2015). High-skilled labor is essential, especially in sectors like manufacturing, technology, and automotive, where Japan and South Korea have significant investments. Similarly, Chinese companies, while less concerned with labor costs, prioritize skilled labor for advanced industries and to ensure the efficient operation of their investments. Access to a skilled and educated workforce in the CEE countries enhances productivity, innovation, and the overall competitiveness of these East Asian companies in the European market.(Kawai 2006; Buckley et al., 2007).

The governments of China, Japan, and South Korea play significant roles in encouraging OFDI into the CEE through various support mechanisms. For instance, China’s Belt and Road Initiative (BRI) includes significant investments in the CEE infrastructure as part of its broader geopolitical strategy. Similarly, Japan and South Korea, though less explicitly than China, have supported their corporations' international expansions through diplomatic and economic agreements aimed at securing market access and investment opportunities in the CEE.

7.2 Differences in OFDI from China, Japan, and South Korea

Chinese OFDI is often driven by strategic and political motives, such as the BRI, which aims to increase China's global influence through infrastructure investments. Chinese companies are also motivated by the need to secure market access, acquire technology, and enter new markets within the EU. Japanese investments are typically more commercially driven, focusing on leveraging advanced manufacturing capabilities and expanding automotive and electronics sectors. Japan seeks to establish production bases in the CEE to serve the European market efficiently while benefiting from lower production costs. South Korean OFDI is driven by similar motives to Japan, with a focus on expanding manufacturing, especially in the automotive and electronics sectors. However, South Korea places a stronger emphasis on technology transfer and establishing research and development centers within the CEE countries .

From macroeconomic perspectives, Chinese investments are influenced by the macroeconomic objectives of diversifying foreign reserves and securing long-term strategic assets. the CEE is seen as a region that can offer long-term stability and a strategic foothold in Europe amid fluctuating global trade dynamics. Japan’s investments are largely driven by economic factors such as exchange rate stability, access to skilled labor, and the proximity to key markets in Western Europe. Japanese firms also seek to mitigate risks associated with aging demographics and slow growth in their home market by investing in growing markets abroad. South Korean OFDI is influenced by a mix of economic and strategic factors, including the need to internationalize its economy, access new markets, and counteract domestic market saturation. Additionally, South Korean companies are motivated by the desire to be part of global value chains and to enhance their competitive position globally .

From the institutional framework for Chinese OFDI is heavily state-influenced, with investments often aligned with national strategic objectives. The Chinese government actively facilitates investment through state-owned enterprises (SOEs) and provides financial support through policy banks like the China Development Bank. (Buckley et al., 2007) .

Japanese OFDI is more private-sector driven, with institutional support primarily

coming in the form of trade agreements, bilateral investment treaties, and governmental economic diplomacy. Japanese firms also benefit from a stable and predictable legal environment, both domestically and within the CEE .

South Korean OFDI is characterized by a hybrid model where the government provides strategic guidance, but the private sector has significant autonomy. The institutional support from the South Korean government includes diplomatic initiatives, free trade agreements, and investment in overseas economic cooperation offices to support South Korean businesses abroad.(Szunomár, 2015) .

While China, Japan, and South Korea share certain similarities in their investment strategies in Central and Eastern Europe, such as a focus on infrastructure and manufacturing, their motives and the determinants of their OFDI differ significantly due to the distinct macroeconomic and institutional contexts of each country. China's investments are more state-driven and strategically oriented, often aligned with broader geopolitical objectives. In contrast, Japan and South Korea's investments are more commercially driven, with a strong emphasis on leveraging technological expertise and integrating into global supply chains. The institutional support mechanisms also vary, reflecting each country’s unique approach to international investment. However, their investment all focus on the market-seeking for the whole EU market and strategic asset-seeking for skilled labor.

8. Conclusion and policy recommendation

8.1 Research conclusion

The thesis studies the motives and determinants of Chinese FDI in the CEE-16 countries using both quantitative and qualitative case studies based on the theoretical framework. Starting with a comprehensive overview of the dynamic change and current situation of Chinese OFDI in the CEE region, this paper summarized the characteristics of the investments in terms of scale, sectoral distribution, country distribution, and entry mode. Then the paper theoretically analyzed the factors

influencing Chinese investment in the the CEE region and empirically tested those factors with macro-level data. Besides, qualitative case studies from meso and micro-level were conducted to reveal the in-depth phenomenon of Chinese investment as a complementary part for the empirical analysis. The conclusions are as following:

First, the scale of Chinese FDI is still limited in the the CEE region compared with Western EU countries but constantly increasing as the economic and trade cooperation fields are deepening; Chinese investment sectors in the the CEE has expanded from limited industrial sectors to more sectors with the increasing cooperation between China and the CEE. Nevertheless, Chinese companies invested mostly in the secondary sector of manufacturing including electronic and telecommunication equipment, machinery, chemicals, energy ect.. According to the geographical distribution of Chinese FDI, Hungary, Poland, the Czech Republic, Romania remain the four key investment destinations with advantageous location for Chinese investments which accounted more than 80% of total Chinese investment in the CEE region, and recent years have seen constant rise in other countries such as Slovakia, Bulgaria and non -EU member, Serbia.

Secondly, the empirical part examined the factors influencing Chinese investment in this region with 16 countries as a whole sample, the regression results suggest that Chinese investments show market-seeking, especially the EU market, efficiency seeking with skilled labor and infrastructure instead of cheap domestic labor cost due to the data limitation, and strategic asset seeking following the acquisition and purchasing the brand. The we can show that Chinese enterprises have a strong interest in the region. From the perspective of institutional factors, the EU institution is relatively significant instead of domestic institutions based on the quantitative analysis. Besides, the institutional framework of China's relations with the the CEE countries “16+1” platform was proved to significantly affect Chinese FDI.

Third, based on the qualitative case studies, the individual differences are exposed from three countries studies to complement the generalization of quantitative analysis.

Macroeconomic factors such as market-seeking especially the EU market is very significant for Chinese investments, and this is more obvious in the case of Hungary and Estonia since they are EU member states with the advantageous location. However, for strategic-asset seeking motive is more significant for Chinese investment in Hungary and Estonia, the relatively developed areas with more technology spillover, while the Balkan countries such as Serbia are less developed, which even absorbed the technology from Chinese companies. As for institutional factors, the intergovernmental linkage such as “16+1”platform and BRI play an important role in leading Chinese FDI inflow in this entire region. However, political relations are more significant concerning Chinese investments in Hungary and Serbia than in Estonia based on the case studies. Last but not least, the findings from qualitative analysis that the establishment of business network for Chinese investors to enhance their competitive advantage in Europe and agglomeration force (be close to buyer) from meso level can be the new pattern of Chinese OFDI. This qualitative findings enriches the current theories of motivations and determinants of Chinese FDI.

8.2 Policy recommendations

Although China's FDI in the CEE countries has grown significantly in recent years with the gradual deepening of the "16+1" cooperation, the amount of foreign investment still remains at a low level. It is undeniable that the low investment base demonstrate that the bilateral relations between China and the CEE are still at a preliminary stage. The different needs, the diversified domestic environment and the fierce competition from foreign powers in the the CEE countries posed considerable challenges to the further expansion and optimization of China's investment layout in the region. The factors that hinder the process of mutually beneficial cooperation

between China and the CEE also inhibit the overall willingness of Chinese investors to cooperate. The sustainable and stable development of economic and trade cooperation between China and Central and Eastern Europe is facing a great threat. In view of this, in order to further strengthen the foundation of investment cooperation between China and the CEE countries and to comprehensively optimize the strategic location of China's capital in the CEE, the following policy recommendations for both Chinese investors and government level are put forward based on the research outcomes:

First, the “16+1” platform is established between China and the CEE as a whole region. However, based on the qualitative case studies, the geographical differences still exist regarding to investment fields and scale. The cooperation should consider both regional and individual country level. Therefore, the geographical and industrial layout of Chinese investments should be optimized. And the investment areas should be more in line with the actual needs of the CEE countries. So far, under the “16+1” platform and BRI, Chinese investments usually focus on important large-scale projects. In fact, each the CEE country has its own economic development strategy and prioritized different industries rather than only focus on Chinese industrial development strategy. For example, the Czech Republic hopes to accelerate the optimization of its economic structure by attracting foreign investment in the sector biopharmaceutical products, aerospace, and software development as its priority areas. Bulgaria emphasizes the need to enhance the competitiveness of information technology, agriculture and food processing, pharmaceutical and chemical industries. Besides, Chinese investors should consider the different characteristics of industrial sector. The Baltic countries have the most developed tertiary industry; V4 have the well developed manufacturing sector; The Balkans have developed agriculture sector and infrastructure gap.

Second, Chinese government should engage SMEs in the investment in the CEE countries considering its small scale economic size and SMEs are main economic participants in the market. Therefore, supporting SMEs should be one of the key

directions for Chinese investment. So far, most of investment deals are conducted by large and medium-sized companies. China's investment cooperation fund can promote foreign investments from Chinese SMEs.

Third, for Chinese investors, one of the motives is market-seeking, especially EU market-seeking, so Chinese enterprises should improve their technology and management level in terms of the high quality of products to meet their consumers' need. Besides, the investors should integrate themselves into local business network to improve the international recognition of Chinese products. For efficiency seeking investments, Chinese investors should cooperate with each other to improve the local infrastructure. For example, Huawei signed an agreement with Dahua technology to build the security equipment and infrastructure in the industrial park. The local investors can introduce more Chinese companies to get closer to its suppliers and customers such as Comlink. Chinese investors can focus on the high developed areas in the CEE region with geographical location in Europe, skilled labor and good infrastructure For strategic-seeking, Chinese companies can built joint ventures and acquire the subsidiaries of western European companies and focus on those countries which put the high technological sectors on the priority such as Baltic countries and V4 countries.

Fourth, Chinese enterprises should improve their overseas operation capabilities by having a good knowledge of market environment, local laws and EU institutions, even the local culture. Instead of acquisition, more greenfield investment projects should be carried out to contribute to local employment and tax revenue. The awareness of corporate social responsibility should also be increased among Chinese investors to improve the image of Chinese MNCs regarding to environmental protection, labor standards and social welfare of host countries.

Fifth, Since the establishment of the "16+1" cooperation framework promoted Chinese investment in this region based on the empirical analysis, bilateral governmental level should strengthen the further cooperation and BRI in term of investment fields. Besides, Chinese government can involve the CEE members in

multilateral mechanism such as Silk Road Fund, BRI and AIIB etc.. The cooperation should be considered both on the regional level and individual country level. In addition, Western EU core countries and other foreign power are quite concerned about China's presence and its implication toward EU integration, which might cause obstacles and challenges for Chinese investment. For example, China's large M&A investment deals provoked concerns and worry among European countries.In response to the Chinese enterprises (especially the state-owned enterprises) in the CEE countries, the European Parliament approved the *EU foreign investment screening mechanism* for the acquisition from third countries in the key industries though it is still decided by national level. Therefore, China's cooperation with the CEE should follow the principles of transparency and trust and involve the whole EU into the cooperation on the multilateral basis.

8.3 limitation and future research

8.3.1 Research limitation

This research attempts to make a theoretical contribution by developing new theoretical framework either to confirm the current FDI theories or extend more elements based on the findings from both quantitative and qualitative studies. The mixed methods allow the author to provide a multilevel analysis on Chinese FDI in the CEE countries such as macro, industrial level and micro (company level) to draw better and comprehensive insights about the phenomenon. However, the limitations of the research are as followed:

First, the one of the major limitations lies in the data quality and availability. From macro level, Chinese OFDI data is usually not well tracked and underestimated due to the problem of offshoring. OECD data manage to publish the ultimate OFDI data in 2014 and intermediate OFDI in 2003, However, it only cover OECD countries and the limited period. Therefore, the research uses data from MOFCOM due to the consistency and availability from the time period 2005 to 2019 which is suitable for

econometric regression analysis. From industrial and micro level, the data and information are inadequate and not available. Some micro-data are not available such as industrial distribution and the number of projects in M&A and GI. Therefore, regarding to this part, only qualitative description is provided.

Second, regarding to the quantitative analysis, the proxies of variable selection need to be improved. Since it is hard to find the proxy which relates to intergovernmental relation. This research adopts "16+1" cooperation as dummy to test whether it is significantly affects Chinese OFDI flows in this region which is very general and can't grab the difference of individual countries. For the institutional factors, the limitation of the author's language ability makes it more difficult to collect some data such as variables such as Chinese population in the CEE countries.

Third, due to the limited number of samples in the empirical part, the quantitative analysis can't accurately present the motives and determinants of Chinese OFDI, and the model building is a little simplified, that is why qualitative research part is conducted to reduce the errors.

8.3.2 Future research

According to the research limitations, several research ideas can be proposed for the future research concerning this topic.

First, further research needs to be conducted based on the firm-level micro data about Chinese OFDI rather than macroeconomic database to provide more precise information about Chinese OFDI in this region including scale, ownership, industrial distribution and entry mode such as Orbis datasource to address the discrepancy of macro data source.

Second, the limitation of the paper is that it fails to consider political relation and other social factors as independent variables which also influence Chinese investment according to literature review because of difficulty of data measurement and data collections. In the future, the research should incorporate the proxy of

political relation and other social factors such as the number of state level visit and population of Chinese diaspora in host countries into the quantitative analysis for examination.

Third, multidimensional analysis is recommended in literature review to have better and comprehensive insights about the Chinese FDI activities. From the perspectives of panel regression analysis, the quantitative analysis part of this research focuses on the motivation and determinants of Chinese FDI in the CEE countries mainly in terms of pull factors of host countries to attract Chinese FDI. However, the push factors were slightly researched in the interviews and the descriptive analysis. Further studies can make an econometric research on the push factors regarding to macroeconomic and institutional factors of home countries and consider multidimensional Chinese investments in the CEE country.

Finally, the further deep analysis should also focus on the company case studies with more interviews instead of only country cases studies to have a real life experience and insights about Chinese FDI in this region. The company case studies can focus on one single industry to study the motives and determinants of Chinese investment in the CEE region in specific economic sector such as automotive, electronics and so on.

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Appendix

Table 10. Qualitative result based on primary data

Interview	Business description	Investment in CEE	Motivation	Determinants
Firm 1	Wholesale of electronic and telecommunications equipment and parts/logstic center/R&D ICT	Own a representative office, European logistic center and manufacturing OEM	mainly EU market even regional market Bypass trade barrier/technological barriers from Western EU &USA Network	EU membership skilled labor Location advantage The role of government(Political relations/Government policies(tax, grants)
Firm 2	An automotive copmanies producing electric buses and coaches, followed by electric forklifts and other light commercial vehicles will be produced,also producing electronics	Manufacuting base in Hungarian Komarom,	Business network with other European subsidiary European market leverage its core techonology to expand the markert position	Political relation Location advantage Close to EU market Government policies(tax, grants and subsidies) skilled labor infrastructure relatively cheaper labot cost
Firm 3	Manufacturing chemical products and sales,R&D, a SOE with 10 subsidiaries global	Manufacturing base in Hunagry and Czech republic	Market-seeking strategic seeking strategic integration International competition Market Competition	Location advantage EU membership Close to Northern Europe/Russian market The role of governemnt BRI
Firm 4	an automotive companies producing seat interier components for cars	Manufacturing in Serbia,Czech,Hun,slovakia	meet the regional market demands business network, closer to customers trade effect	Location advantage low cost labor and energy Free trade zone The role of government political relation
Firm 5	a logistic supply chain soluton and service for international companies	Joint venture with Estonian Post	Market seeking strategic seeking trade effect	regional market, geographic location, skilled labor innovative business environemnt BRI
Interviewee	Chinese Business association in Hungary	Established in 2004	Migration EU markets trade effect bypass the trade barriers	Business contact Good political relations Reputation of Hungary under BRI geographical location