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

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1. Theoretical background and justification of the topic

Traditional FDI theories are not sufficient to explain the OFDI activities from emerging markets. 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.. 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. 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.

2. Methodology

2.1 Scope of the study

The study aims to explore the investment environment of the CEE countries and the driving factors behind Chinese investment in this region. This paper tries to fill the gaps of current OFDI theories and find out the driving factors and location determinants of Chinese OFDI 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.

To this end, 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?

2.2 Data, Sources and Variables

The research uses panel datasets with 16 CEE countries from the year 2005 to 2019. The dependent variables, Chinese OFDI stock from 2005 to 2019 are collected from the MOFCOM publications. 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).

2.3 Methods

2.3.1 Quantitative analysis: Model specification

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

2.3.2 Qualitative analysis: Comparative Case Studies of Chinese OFDI in the CEE countries

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.

3. Findings & Research Contribution

3.1 Findings

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. 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, 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, 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.

3.2 Research Contribution

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.

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