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Different cases, different faces: Chinese investment in Central and Eastern Europe

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Abstract Chinese investment in Central and Eastern Europe (CEE) is booming. As China's investment pattern has emerged so far, it appears to have little to do with Chinese firms' preferences for liberal policy regimes, tolerance for corruption, or reliance on communist-era networks. This article documents the current size and shape of Chinese firms' efforts to internationalize in this economic space, demonstrating an important difference between Chinese investment behavior in CEE and in the EU-15, namely the region's much more active use of greenfield activity (and lighter use of M&A and strategic alliances). Case studies of each mode (greenfield, M&A, and strategic alliances) reveal little evidence of a "China, Inc." approach and much evidence that Chinese firms are more motivated by market access than by technology or management assistance.

How has the Chinese "Scramble for Europe" (Godement et al. 2011) played out in the eastern part of the continent? Do Chinese firms behave differently in Central and Eastern Europe (CEE) from those investing in the "old" 15-member states of the European Union (EU)? If so, do those behavioral differences have implications for politics in the region?

This article addresses these questions with case studies that reveal different "faces" of Chinese investment in CEE. While the surge in FDI in CEE is premised on the Chinese state's broad "going out" strategy discussed in the introduction to this special issue, the empirical patterns seen so far in CEE resist any easy summation under the various sensationalist forms of the "China, Inc." label (Meunier et al. 2014). The different high-profile cases reveal very different faces, undermining a number of plausible-sounding theoretical claims. In that sense, many of the article's most important findings are negative ones that cast doubt on several of the sophisticated rumors swirling around Chinese investment in Europe. Specifically, as China's investment pattern has emerged so far, it appears to have little to do with Chinese firms' preferences for liberal policy regimes, tolerance for corruption, or reliance on communist-era networks.

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The article documents the current size and shape of Chinese firms' efforts to internationalize in this economic space, demonstrating an important difference between Chinese investment behavior in CEE and in the EU-15, namely the region's much more active use of greenfield activity (and less use of M&A and strategic alliances). I restrict my analysis to the ten CEE states that have become members of the EU.[1] These states already exhibit tremendous diversity. This is true in terms of population (from 1.3 million people in Estonia to 38 million in Poland) and per capita GDP (from $27,400 in the Czech Republic to $12,600 in Romania).[2] Some states have had consistently liberal policy regimes—particularly the Baltics but also Slovakia—while others have been corporatist (e.g., Slovenia). They also vary in terms of corruption and ease of doing business (Bohle and Greskovits 2012; Bohle and Jacoby 2014).

This article's outcome of interest is the internationalization choices of Chinese firms, which include FDI, but are not limited to that choice alone. Aside from trade, Chinese firms have three basic options in the process of "going out," and only two of them involve FDI (Zhang and Filippov 2009). First, *strategic alliances with European firms* could allow Chinese firms to remain legally independent and also draw on the expertise or guidance of local firms for a particular range of transactions. Second, internationalizing Chinese firms could choose FDI through *mergers and acquisitions* of existing European companies.[3] M&A, of course, requires firms to "digest" another firm, a process that can be exceedingly tricky when foreign firms are absorbed in a foreign regulatory environment. Third, Chinese firms can turn to *greenfield FDI*, which allows them to maximize their autonomy within a given regulatory environment. Each choice has risks and benefits that are well-established in the theoretical literature (Cave 1996; Dunning 1993; Bandelj 2008).

In short, CEE is a varied region. Chinese firms, whose immense variation in legal status and financial resources is well known (Clegg and Voss 2012), have, beyond the current $50 billion annual trade in goods and services between China and CEE, three more principal options for internationalization or "going out." This article begins with a brief sketch of the broad empirical pattern of Chinese FDI and strategic alliances in CEE and then moves to three case studies that capture the political dynamics of some of the highest-profile cases from each form of internationalization. It concludes with broader lessons of the pattern of Chinese investment behavior in CEE to date.

Chinese FDI in CEE: basic patterns and initial theoretical intuitions

After an early bout of CEE skepticism about FDI in the first years after the collapse of communism (c.f., Bandelj 2008; Appel 2004), foreign investment generally has been welcome across the CEE region for well over a decade. The Chinese activity of recent years is no exception. Table 1, adapted from the Rhodium Group (Hanemann 2014, p.

[1] Chinese investment in the former Soviet Union and Turkey is a fundamentally different game in which about 70 % of investment is in the energy sector (Apoteker 2012).

[2] At PPP in 2011.

[3] For many firms, the least risky form of internationalism is to sell goods and services in another country. However, while trade is desirable, it is not always possible. Barriers of one kind or another often stimulate FDI, and an enormous international political economy literature pictures FDI as a common alternative to open trade (Choudhri and Marasco 2012).

Table 1 China's FDI in the CEE-10, 2000–2011

CEE country[a]	Investment value (USD million)[a]	Rank compared with FDI from ROW[a]	Number of greenfield projects[a]	Number of acquisitions[a]	Ease of doing business global rank[b]	Perceived Corruption Index 0–100[c]
Hungary	2,085	+14	14	4	54	55
Romania	299	+4	13	1	72	44
Poland	190	−3	15	1	55	58
Czech Republic	76	0	10	1	65	49
Bulgaria	47	+1	6	1	66	41
Latvia	3.8	+5	1	0	25	49
Estonia	0	–	0	0	21	64
Lithuania	0	–	0	0	27	48
Slovakia	0	–	0	0	46	46
Slovenia	0	–	0	0	35	61

[a] Source: Hanemann (2012); *ROW*=rest of the world
[b] Source: World Bank (2013)
[c] Source: Transparency International (2013)

42), shows FDI into the ten CEE EU members between 2000 and 2011. Four points stand out.

First, and consistent with the pattern for Europe as a whole reported elsewhere in this special issue, Chinese investment remains modest (Clegg and Voss 2012, Freeman 2012). Even the Rhodium data, which generally picks up higher figures for Chinese FDI than does MOFCOM and Eurostat, shows that only in the Hungarian case is aggregate Chinese investment above 1 % of GDP.[4] Second, Chinese investment is skewed towards weaker economies—especially the three CEE member states that had IMF programs (Hungary, Romania, and Latvia). As seen in column three, each of these countries received a higher amount of Chinese FDI than would be predicted simply by looking at its FDI from the rest of the world. Of these, Hungary's increase (+14 %) is again the largest. Meanwhile, CEE's largest economy (Poland) and its richest (Czech) each have some FDI but no more than what we would expect based on stocks from the rest of the world. Third, greenfield activity substantially outnumbers M&A in all cases where $n>1$. This trend runs directly counter to findings by Zhang and van den Bulcke (2014) for the EU-15, where M&A predominates. Finally, four CEE states—including relatively sizable and wealthy economies like Slovakia, as well as poor economies like Lithuania—show no Chinese FDI at all.

We can glean important negative findings from this data, as it suggests that several existing explanations for Chinese investment behavior do not hold much explanatory power across the region, at least at this early stage. First, while Zhang and van den Bulcke (2014) note some lingering legal barriers to FDI across Europe, the only CEE state they single out for its legal barriers—Latvia—is actually drawing *more* Chinese investment than we might predict from its global averages alone. This suggests that national legal barriers may not be decisive in shaping patterns of FDI in CEE.

[4] Hungary's 2011 GDP was \$130 billion, of which \$2.1 billion is 1.6 %.

Second, where Burgoon and Raess (2014) show that Chinese investment does not seem to be driven by variation in labor regulations, column 6 adds the implication that business regulations also seem incapable of explaining the variation so far. The World Bank's Ease of Doing Business ranks countries from 1 to 185 based on subrankings across ten regulatory domains.[5] The values for CEE states are in Column 6 of Table 1. We see there that Chinese FDI has, so far, generally avoided the CEE states with rankings "easier" than 50 (while Latvia has almost $4 million in Chinese FDI, the other states in this cluster have none). All the investment has flowed to places ranked worse than 50. This suggests that Chinese investors do not, so far, shy away from more complex regulatory environments.

A third hypothesis—essentially the opposite of the previous one—is that Chinese investors may actually *welcome* business environments with substantial levels of corruption. More generally, there *is* evidence Chinese firms have invested in locales with extreme levels of corruption in both Asia and Africa (Nyíri 2011). In CEE, however, the data do not support the hypothesis. Column 7 lists the CEE countries' aggregate 2012 rankings from Transparency International. "Perceived Corruption" scores run from 0 (highly corrupt) to 100 (very clean), with the global leaders currently at 90 (Denmark, Finland, and New Zealand). We see that the scores for CEE are somewhat lower than in the EU-15, whose states make up 8 of the top 20 scores globally (indeed, only Italy (42) is below any of the CEE states). Since Chinese FDI goes disproportionately to the old EU-15, this is already inconsistent with the notion that Chinese investors prefer an "ethically fluid" environment, at least in Europe. Moreover, within the CEE cases, Hungary has the second best score in the region and yet also the most FDI.[6] It is true that some countries with relatively high scores for the region also have little or no FDI (e.g., Estonia and Slovenia), but so also do states with less corruption (Lithuania and Slovakia). Romania is the one case that clearly fits the expectation that more corrupt countries may draw more Chinese FDI, as it has a low score (second worst in the region) and yet draws 4 % more Chinese FDI than anticipated by its global average). In general, however, corruption scores show no correlation with FDI choices.

Fourth, other research suggests little evidence for the intuition that ties from the communist era explain investment patterns since China and then-Eastern Europe had a relationship of "reciprocal indifference" during the Cold War (Bondiguel 2007, p. 2). As already shown, CEE states generally do not draw disproportionate shares of Chinese OFDI. Moreover, if there is a state in the region that is a clear outlier and that has drawn Chinese disproportionate shares of Chinese FDI, that state is Hungary. Yet Hungary was among the *least* orthodox communist societies in all of the Eastern Europe (and, partly for that reason, was more open to a substantial wave of Chinese immigration just before and after the end of Communism (Nyíri 2011, 2007)). Thus, at most, communist-era developments have a very indirect effect through migration policies, not through pre-existing "ties."

[5] One category, access to electricity, is not a regulatory issue.

[6] While Hungary's Fidesz government has drawn fierce criticism for its 2012 reforms, the confidence interval around its score (which is based on 10 surveys) is no larger than for many other states. Moreover, even if its corruption score should fall in coming years, Chinese investors cannot have known that trajectory in advance of their investment decisions that have long since made Hungary a favored location.

Of course, as this special issue consistently stresses the recent vintage of Chinese investment in Europe, it would be hasty to conclude from this survey alone that these four theoretical propositions will not matter in the long run. There are ample grounds from alternative theoretical paradigms to suspect they may (e.g., Dunning 1993; Bandelj 2008). To date, however, they seem not to be driving the broad patterns of investment in the region, at least not in any simple monotonic relationship.

Greenfield FDI, M&A, and strategic alliances: using case studies to map the internationalization choices of Chinese firms

The Cross Border Investment Monitor (CBIM) provides additional "bottom up" data on Chinese greenfield investment in CEE. To an extent, these data tell a similar story, suggesting an upward trajectory in investment deals.[7] Where Rhodium reports 59 greenfield projects between 2000 and 2011, Table 2 shows a total of 107 greenfield projects announced in the press between 2005 and 2013. In the first 5 years, the figures were in single digits, rising to 10 in 2010 and jumping noticeably to 22 in 2011 and 23 in 2012 before dropping a bit to 18 in 2013. In short, there is some evidence for a robust jump in the number of projects in recent years, consistent with other papers in this special issue and showing an even stronger trend than in the Rhodium data.[8]

At the same time, there are puzzling inconsistencies between these roughly stable 2011–2012 figures for greenfield investments and the sharp spike in M&A activity reported by the private equity firm A Capital. According to the *Wall Street Journal*, A Capital data show a 95 % jump in Chinese M&A activity in Europe over the 12 months between June 2011 and June 2012.[9] That spike is not reproduced in this greenfield data. Along with the trends reported from Hanemann, this would suggest we should not expect M&A and greenfield activity to move in tandem. This is also consistent with the theoretical expectations that see M&A and greenfield as alternative strategies towards internationalization (Dunning 1993). Greenfield FDI is generally selected for its location advantages (e.g., preferential tax or regulatory policies, market access, and labor conditions). Conversely, M&A may promise access to new technology, marketing ideas, logistical advantages, management techniques or a host of other possibilities.

At the same time, the internationalization of Chinese firms also has not been happening through strategic alliances with European firms in the CEE region. Strategic alliances occur when firms undertake a specific and mutually beneficial project while remaining legally autonomous. Unlike a joint venture, there is typically

[7] As it reports announced deals before they are closed, it may overreport to an extent. Of course, because many Chinese investors are exceedingly cautious and prefer to acquire small stakes or use other techniques to remain invisible, all data sets likely underreport some FDI positions as well (not to mention portfolio positions). Also, there does not seem to be much overreporting when we look at CBIM's data on the four countries where Rhodium showed no Chinese greenfield investment between 2000-2011. Both Estonia and Slovenia also show no projects in the CBIM data, while small projects are reported for Lithuania (1) and Slovakia (2).

[8] For comparison, adding Russia, Turkey, and Southeast Europe to the data still suggests caution about the size of Chinese ambitions in CEE. Over the same period, these figures show 222 projects (107 of which were, as shown in Table 2, in the ten EU member states in the region) with about euro 15.7 billion (Euro 4.5 billion of which was CEE) and 88,245 jobs (25,201 of which were in CEE).

[9] *Wall Street Journal*, 10 September 2012. http://online.wsj.com/article/BT-CO-20120910-713850.html

Table 2 Aggregate Chinese greenfield FDI in CEE EU member states

Year	Projects	Capex	Jobs
2013	18	851	3,016
2012	23	563	3,675
2011	22	474	5,351
2010	11	476	2,135
2009	6	259	2,372
2008	9	412	3,682
2007	7	167	2,647
2006	5	1,130	2,042
2005	8	139	1,291
Total	109	4,477	26,191

Capex figures are millions of Euros. Data accessed 13 December, 2013

no separate legal entity established, and unlike FDI, there is no change in ownership such that one firm acquires the other. The theoretical literature establishes and case studies below confirm the importance of including strategic alliances in studies of FDI (Cave 1996). Zhang and Filippov (2009) analyzed the Thomsen SDC database of over 9,500 strategic alliances recorded between Chinese and foreign firms between 1985 and 2008. Only 111 cases involved Chinese firms working with European firms in European markets, and only 11 were from the CEE region. Over the period, Europe had 23 % of China's total outbound strategic alliances. Only 2 % of this total, however, were in CEE locations—primarily alliances built around mid-technology and geared to "market access through low-cost competitive advantage" (2009, pp. 16–19), a claim consistent with the later findings of Clegg and Voss (2012, pp. 64–65) for the region.

This article next analyzes this broad pattern through case studies of each of these three modes of internationalization. As this special issue is focused on the politics of Chinese FDI, the article uses high-profile cases that are most likely to spark political interest—whether support, opposition, or both—of political actors in CEE. The first case—government procurement in Poland—establishes a worst-case baseline that comes from an internationalizing Chinese firm attempting to work in Europe without FDI and without local partners as part of a strategic alliance. The second case—from the Hungarian chemical sector—works through the largest example of the comparatively rare Chinese choice of M&A in CEE. Next, as going it alone is fraught with risk and M&A opportunities are rare, the third and longest case is devoted to the most important modality of Chinese internationalization in CEE, greenfield investment. Here, the focus is on the Bulgarian auto sector, but the article adds information on a number of smaller cases in light of the importance of this mode of entry.

Internationalism alone: public procurement and the Covec case in Poland

FDI decisions are not taken in a vacuum but represent distinctive firm choices over a strategy for internationalization (Dunning 1993), as well as prevailing political regimes (Bandelj 2008). In principle, firms might prefer trading or strategic alliances with firms already located in their target market over the more demanding greenfield or M&A activity, as noted above. The first case study helps establish the case for FDI motivations by looking at the disastrous outcomes that can result when large Chinese firms attempt to go it alone in Europe, replicating the rejection of strategic alliances and joint ventures that the same firm had preferred in earlier African cases (Centre for Chinese Studies 2006, pp. 83–84).

Chinese firms would love to capture lucrative international business in public procurement. European governments routinely spend up to 50 % of their national GDP, and a significant amount procures goods and services. The EU Single Market ensures public procurement is open to companies bidding from any member state, and increasingly non-EU members have submitted tenders. China has long bid on and executed such projects in the developing world, but European sensitivities here are keen, especially since China's own public procurement market is effectively closed to foreigners (Godement et al. 2011).

Selling goods and services to European governments may impact local political debates in ways similar to FDI—making procurement far less routine than trade in goods and making strategic alliances with local firms a potentially attractive option. As noted above, strategic alliances have been rare to this point for Chinese firms in CEE. However, this may be a risky omission. The foreign firms' very presence represents the arrival of a new competitor in local markets, and thus foreign firms generally do not engage in public procurement activities without national partners, knowing that using public funds on foreign contractors may well be politically sensitive for the government in question (Wellhausen 2012). Moreover, such firms also generally need access to local labor markets, and indeed creating employment for host-country workers may be an explicit (and is almost always an implicit) requirement for successful bidding (de la Porta and Jacobsson 2012). For all these reasons, there must inevitably be a delicate politics of procurement bidding and contract execution.

This politics is only complicated when Chinese business activity is accompanied by woefully inadequate understanding of European business practices and a conspicuous lack of strategic alliances with local firms. Certainly, that seems to have been the case in the high-profile bid won in Poland by the Chinese Overseas Engineering Company (Covec). In 2009, Covec won a tender to build two sections of a major highway in Poland. This was an important project since it was part of a series of major infrastructure tenders in advance of the 2012 European Cup soccer championships co-hosted by Poland. This was a novelty not only inside CEE but represented the first major public tender won by a Chinese company in the entire EU. Within about 18 months, however, Covec had abandoned the project. What happened?

In part, the Covec fiasco is attributable to misplaced Chinese confidence in their ability to renegotiate the contracts so long as their ties with the national government in Poland remained strong (Ni et al. 2011; CEED 2012, pp. 29–31). Such renegotiation is a relatively common feature of Chinese engineering projects in African and Middle Eastern states. It seems possible that Covec officials eschewed strategic alliances with local firms, in part, because they felt confident they had a more important alliance with the government. Local firms, however, organized against Covec, denying them access to necessary supplies and complicating their efforts to recruit on local labor markets (Millner 2012; Grzeszak 2011).

The Polish state had little scope to rescue Covec. The company had bid less than half the amount Poland had budgeted for the project, so the Polish government had asked Covec to double check the terms it was offering. However, when Covec then encountered difficulties, the state dug in its heels and insisted the firm deliver. When Covec complained of unforeseen costs, the Polish government pointed to EU regulations that forbade it from offering subsidies not part of the initial contract.

Covec made a number of disastrous public and private missteps, and though it is impossible to be sure, strategic alliances might have saved them from some of them. Alongside clumsy gestures such as trying to talk business at the funeral of the Polish President and others killed in the Smolensk crash or timing a business delegation to arrive in Warsaw on Good Friday, Covec officials refused to talk to the media. This may have contributed further to the overwhelming sentiment of Poles that the government was correct to break its contract with Covec.[10] Local and German construction firms used the media to paint Covec as an unfair competitor. The absence of strategic alliances hurt badly as local subcontractors banded together to deny Covec access to local machinery and materials (Grzeszak 2011).

Perhaps most striking, Covec officials appear not to have even translated many portions of the contract into Chinese (Ni et al. 2011). One might think this was an inexperienced company with more money than skill, yet Covec had already completed nearly 30 major projects in Africa, including many in which strategic alliances with local firms were central (Centre for Chinese Studies 2006). Their behavior in Poland rather lends credence to the claim that the consortium intended from the outset to renegotiate a better price as the contract progressed. This would certainly be consistent with their previous behavior in Africa. In the European context, however, it meant the Polish government held all the high cards. Covec's commercial ties with Polish subcontractors were far too weak to stimulate the Polish government to renegotiate the terms of the deal.

To be sure, Covec faced a combination of bad luck and tight environmental regulations. Harsh winter weather was followed by a "plague" of rare frogs, protected by EU environmental regulations. However, bad luck aside, all reports agree that Chinese business practices presupposed their partners would take a flexible approach to loose contracts and that Covec overestimated its own market power over clients and subcontractors even as it overestimated its ability to renegotiate the terms of the deal. Nevertheless, renegotiation of signed infrastructure deals is always complex, and even US construction giant Bechtel had Romania break a much better-written contract (Wellhausen 2012, Chapter 6).

Covec's behavior sparked strong political reactions by European actors. Covec's original bid was immediately castigated as price dumping by EU-based construction firms. This suspicion led the Polish negotiators to engage in extra meetings to ensure that Covec could deliver at the promised price (CEED 2012, p. 29). Poland-based suppliers were apparently surprised to field calls from people claiming Covec affiliation and offering to make private deals for supplies in exchange for kickbacks. Eventually, the Polish state banned Covec from further competitions for three years and put in claims for 741 million zloty against the company and the Bank of China (Ni et al. 2011). In short, such "internationalism alone" may feel less risky than taking on

[10] In the event, the A2 between Warsaw and Berlin opened one day before the Cup began, after Czech and French crews worked around the clock to complete the section left after Covec walked away. *Euronews*, 7 June 2012.

major corporate partners as strategic allies or subsidiaries. Yet when CEE states have many other options, Chinese firms may find their vulnerabilities are keen.

Internationalization through M&A: going after established firms in the Hungarian chemical sector

Like strategic alliances, Chinese M&A has been rare. Internationalizing Chinese firms often have gone after mature European firms, but far less often in CEE than in the EU-15. Between 2000-2010, Thompson Reuters data show 84 Chinese M&A deals in the EU-15. Only seven such deals were registered in CEE—five in Hungary and two in Bulgaria. Moreover, none of these were in industrial sectors (Clegg and Voss 2012, pp. 27, 32). The most obvious explanation for this is that while CEE has plenty of struggling industrial firms and many firms with excellent technology, twenty years of intense FDI interest from Western Europe has left it with few firms that fit *both* descriptions and thus make likely M&A targets.

European M&A more generally clearly is important for Chinese firms. Deloitte forecasts that Europe will be the site of about half of all Chinese M&A activity abroad by 2014 (up from only 15 % in 2007).[11] One potential motive for M&A lies in European firms' technology (Hanemann and Rosen 2012). Many of the splashy potential M&A deals have involved West European auto companies, and there has been an obvious reluctance of Western automaker to sell even highly distressed assets like Saab to Chinese firms (Harris 2012).

At the same time, technology is far from the only issue. Nicolas and Thomsen argue that, for some (e.g., Deng 2007, p. 71), "Chinese MNCs are motivated primarily by the quest for strategic resources and capabilities, and […] the underlying rationale for such asset-seeking FDI is strategic needs" (Nicolas and Thomsen 2008, p. 24). For others, by contrast, "only to a minor extent do MNCs go abroad to gain access to knowledge and technology" (e.g., Rugman and Li 2007, p. 341). Nicolas and Thomsen concur that Chinese FDI motives are primarily about gaining market share in host countries. von Keller and Zhou (2003) found that when asked about their motives for investing abroad, 56 % of internationalizing Chinese firms cited the "search for new markets" versus just 16 % who cited "obtaining technology and brands."[12]

A good illustration of this pattern can be seen in the takeover of a very large Hungarian chemical firm (BorsodChem) by a Chinese firm (Wanhua Industrial Group).[13] Valued at $1.7 billion, this investment was meant to provide Chinese engagement "up and down the value chain," in the words of Wanhua's CEO (Bryant 2011). The acquisition positions Wanhua as a major producer of raw materials for the foams deployed in the auto, insulation, construction and furniture sectors. The deal also obliges Wanhua to invest about 140 million Euros in a separate new greenfield plant in Eastern Hungary. When the UK-based investment group that owned BorsodChem initially resisted outside overtures, Wanhua, working with the Budapest-based branch

[11] Based on data from MergerMarket (Deloitte 2012). The North American share is projected to remain stable at about 25 % while Asia is projected to lose most of the FDI flowing to Europe over this period.

[12] These answers referred to all FDI and not just that in Europe. Respondents could name multiple motives.

[13] The firm also has plants in Poland and the Czech Republic.

of the Bank of China, moved secretly to acquire substantial interest in the firm. In the end, the Chinese interest was revealed, and the takeover was not hostile. Post-deal publicity stressed the expanded opportunity for BorsodChem in Asian markets, and the Fidesz Party government in Hungary backed the accord (BorsodChem 2011).

Chinese M&A activity is generally more risky for firms and for states than is greenfield. This is not primarily a matter of political fireworks—after all, virtually none of these takeovers (including BorsodChem) have been hostile. Instead, the risk is commercial and "cultural." On the one hand, internationalizing Chinese firms are essentially buying European brands whose values have declined but not disappeared entirely. To date, Chinese M&A in Europe has not been notably profitable, although this is a common pattern in M&A more generally (Nicolas and Thomsen 2008, p. 27). Still, win–win scenarios are possible. When only a single brand is sold, the Western firm essentially gives up some ownership of part of its product line for a partnership with a Chinese firm that is confident it can make the lower-end product profitable. Meanwhile, the European firms generally hope to gain access to Chinese home markets for another part of their production basket. In the best-case scenario, this helps Western firms overcome exit barriers from a sector (often linked to strict employment rules in traditional industries) while letting Chinese firms overcome entry barriers.

Chinese firms' emphasis on greenfield FDI: the Great Wall case in Bulgaria

As Table 2 demonstrated, Chinese firms have recently become active in greenfield investments in CEE states, especially since about 2011. CEE states, in turn, had made attracting greenfield FDI a central objective since well before Chinese investors arrived (Drahokoupil 2009; Bandelj 2008). Greenfield investment generally provides the investing firms greater control over their own environment than M&A, where a foreign firm must digest an established management team, workforce, technology, and physical plant—all while trying to make more money than the original firm in its own home market.[14] Greenfield investments start fresh, generally with new buildings, new workers, new products and, often, new relationships. This relative freedom for the internationalizing Chinese firms is especially relevant in the context of a host state that has promised a range of assistance and, in some cases, incentives to stimulate investment location.[15] All ten CEE states have investment promotion agencies (IPAs) that offer some range of both pre- and postinvestment decision support to Chinese investors. Of these, only Latvia has a Chinese language Website (several IPAs in the EU-15 have one). Hungary has three offices in China, and the Czech Republic and Estonia each have one office (Clegg and Voss 2012, p. 58).

An important motive for Chinese greenfield investment in Europe is the disappointing failure of Chinese automakers to benefit from their strategic alliances with Western auto firms in their own home market. Chinese automakers hope proximity to European consumers can spur Chinese firms to move up the quality ladder. Few car companies seem more in need of such innovation than China's Great Wall Motors—China's

[14] In the dominant OLI paradigm, Greenfield investments are typically seen to have lower transaction costs than do M&A. See e.g., Andersson 2004, p. 442

[15] Within the limits of fairly strict EU limits on "state aids."

largest private auto firm[16] and its second largest auto exporter (after Chery). While Chery is invested in major production facilities in Turkey, Russia, and Israel (but not CEE), Great Wall announced in 2011 its intention to build a major plant in Bulgaria. The plant opened in early 2012 and should increase production to 50,000 cars a year by 2014.[17]

Great Wall is betting on expanded exports in a period of general economic crisis in already-saturated low-end market segments. While Great Wall Motors' corporate motto is "Attack the consciousness like a wolf while sensing danger like a rabbit," its corporate strategy seems to have been to aggressively combine the technology of several different recent (and not-so-recent) Asian models into one pickup-like amalgamation called the Wingle (a combination of the words "wind" and "eagle"). Of course, there is a long tradition of deriding the lack of technological and marketing savvy in up and coming auto producing nations, some of which (e.g., Japan and Korea) later turn out to be highly competitive. In addition to the Wingle, Great Wall is producing an SUV and two-passenger cars in its new Bulgarian plant in partnership with the local firm Litex Motors.[18]

Moving up the quality ladder has often required such strategic alliances. The main domestic Chinese auto producers generally do have strategic alliances with Western producers in which the Western companies supply technology and designs. Indeed, just over half the cars sold in China (now the world's largest auto market) are made under Western brands.[19] However, though Great Wall was tenth among Chinese auto producers in 2011, producing about 2.6 % of cars sold in the country, it had no such relationship until the partnership with Litex (The Economist 2012).

Why the Chinese preference for greenfield investment when internationalizing to CEE? Much of the initial evidence points to market access. Here, the auto sector is exemplary. Chinese auto firms lag substantially behind the timeline envisioned by the Chinese government, which once expected them to have gained a solid foothold by now in lucrative Western markets using their own technology and marketing (Anderson 2012). Unlike the Korean and Japanese states, China has not offered domestic automakers protected home markets as a basis for later export success. Instead, China has allowed in European and American producers. However, while this approach might well have afforded Chinese producers a basis for successful indigenization, it largely failed. Anderson explains the failure with reference to high turnover of top auto officials. Tempted by the more lucrative prospect of employment in high party circles, they have failed to invest in longer term capacities, such as substantial R&D spending (Anderson 2012).

China thus faces lots of obstacles in its efforts to export and secure its own market. Western firms have modular designs based on the same platforms plus excellent systems integration and splashy technology options like fully integrated smart phone usage. Meanwhile, car prices are falling significantly. Thus, several Chinese auto firms have been active in recent markets for traditional European producers. SIAC—which

[16] "Private" firms sometimes get substantial state assistance for FDI projects, and it is widely suspected this happened in the Great Wall case.

[17] Great Wall has at least seven other such plants for assembling "knock-down kits" outside China.

[18] Great Wall has been developing a dealer network in the UK for at least a decade, but these cars were not built in Europe.

[19] The Chinese auto market matters greatly for the West. For example, 25 % of Skoda sales are now in China.

sells nine times as many cars in China as Great Wall—has bought Rover. Geely bought Volvo from Ford, BAIC bought technology from Saab, and Chery is hovering on the periphery of the EU (now in Kalinigrad, directly on the Polish and Lithuanian border) (The Economist 2012). However, none of these are in CEE, and all brought access to technology in ways that greenfield investment does not.

Great Wall is part of a larger phenomenon in which Chinese auto firms pursue markets abroad in no small part because their profit margins are so compressed and contested at home. For example, China's BYD Electronics, which manufactures electric cars, opened a new greenfield plant in Bulgaria in February 2013 on the basis of a 50–50 joint venture with Bulgaria's Bulmineral. The plant manufactures 40–60 electric buses per month, as well as supplying batteries and LED components for other sectors (China Auto Web 2012). Another Chinese auto firm, Norinco, announced plans in early 2013 for a greenfield project that will employ 500 in the Czech Republic making locks for automobiles (FDIMonintor.com).

Other sectors in CEE are also seeing new greenfield investments from China. For example, Chinese firms have been active in the business machines sector, which includes products like LCD television screens and computer monitors.[20] In 2006 Admiral Overseas announced plans for a $127 million investment in Gorzow, Poland, which was associated with about 1,500 jobs. A similar Admiral Overseas venture in Zyradow, Poland in 2007 brought an additional $97 million and about 1,000 jobs.[21] Both of these envisioned flat panel displays, rather than the cathode-ray tubs that doomed the TCL-Thomson deal earlier in the decade.

Chinese greenfield activity can also be seen in the CEE renewable energy sector. This is a very recent phenomenon, with a flurry of projects in 2012 after very little prior activity. While some of these projects are quite small (e.g., a $1 million solar park in Romania or a DP Clean Tech engineering hub in Poland), others appear substantial. In September 2012, a subsidiary of China's Hareon Solar technology put into operation an $80 million photovoltaic plant in Bulgaria, only three months after another Chinese company (Chint Solar) opened its own photovoltaic plant in (relatively sunny) Bulgaria. In May 2013, China's Lightway Solar announced plans for a $105 million photovoltaic park in Romania. These examples underscore the Chinese tendency to prefer greenfield investment over both M&A and strategic alliances in their internationalization choices in CEE.

Conclusions and outlook

This paper addressed two research questions. First, what is the empirical pattern of Chinese FDI in the ten Central and Eastern European EU member states in the first few years of its arrival in the region? Second, what clues does that pattern—however fluid it might be—hold for the broader debate about Chinese motives in the region?

[20] Much early M&A with mature firms in the EU-15 had ended badly in this sector. For example, the Chinese electronics firm TCL had, by 2006, admitted defeat in its acquisition of both Schneider Electronics (Germany) and Thomson Electronics (France), both of which it closed after heavy losses (Nicolas and Thomsen 2008, p. 29).

[21] Investment data from FDIMarkets.com; See also TPV 2009 *Annual Report*, p. 10. http://www.tpvholdings.com/attachment/2010042319320100980010_en.pdf

Empirically, this article showed that Chinese behavior in CEE is somewhat different from in the EU-15, whose own patterns are documented more fully in several other articles in this issue. Specifically, CEE has drawn less investment, to date, than have the EU-15 states (see Hanemann 2014), and what investment has come has been disproportionately greenfield FDI rather than M&A-oriented FDI. Strategic alliances have also been much more rare in CEE than in the EU-15. This pattern is consistent with the claim that the motives for Chinese firms' internationalization choices have more often been market access and less often access to technology and management practices, both of which are more available with M&A and/or strategic alliances with local firms. With the surge in greenfield less than three years old, however, this judgment must remain tentative.

In addition, the scarcity of Chinese M&A deals in CEE is also likely related to the relative paucity of the kind of technologically advanced but struggling mature firms that make common M&A targets. With 20 years of intense privatization immediately preceding the Chinese arrival, most such firms are gone from the CEE market. Again, this much greater relative reliance on greenfield strategies by Chinese investors seems primarily designed to tap into the EU market in manufacturing sectors with important consumer demand going forward. In some cases, these involved sectors where the EU has anti-dumping measures in place against China, including electronic equipment, textiles, and luggage (Clegg and Voss 2012, pp. 64–65).

This article's other central finding is that Chinese investment is spread quite unevenly across states in the region. Hungary has been a major host location for Chinese FDI, which has also favored Bulgaria and Romania. Meanwhile, other states like Estonia, Lithuania, and Slovenia remain virtually untouched by Chinese investment, and important commercial states like Slovakia and the Czech Republic are engaged by China very little. This avoidance remains hard to explain given evidence that neither corruption scores, nor policy liberalism, variations in labor law, nor communist-era networks can explain the overall pattern of variation in CEE. Neither can the most obvious macropolitical considerations. For example, the Czechs have traditionally been very warm to the Dalai Lama, which might seem to explain the lack of investment there. And yet so too have other CEE states that *have* drawn Chinese FDI, including Hungary, which the Dalai Lama has visited seven times, most recently in 2010. There is little evidence that Chinese investors systematically prefer "easy" liberal regulatory environments, nor "hard" environments with ample corruption. Rather, they seem (so far) more or less open to both environments.

Turning now to the second question, the sheer diversity of Chinese investors' motives and behaviors would seem to run strongly counter to propositions of a "China, Inc." approach to CEE. Although case selection was partly justified on grounds that the cases were different from one another and revealed different faces of Chinese behavior in the region, other surveys, including ones in the EU-15, have also stressed the broad diversity of Chinese approaches in Europe (Fichtner 2013).

This diversity of motives may have been reassuring to CEE states, who still appear quite open to Chinese investment. While there has been a steep learning curve for some internationalizing Chinese firms—especially in the Covec case—there have been no major political confrontations over Chinese investment in the region. Even when Chinese investors used a stealth approach—in the BorsodChem case—the takeover caused no stir with the Hungarian government or in public opinion. Meanwhile, the greenfield investments are politically unproblematic, as all CEE states have been aggressively seeking such investment through their IPAs for well over a decade now.

These developments clearly matter for Europe more broadly. Many West European governments fear CEE states will drive poor bargains in their dealings with Chinese investors. Some analysts note that the modest economies of the region might make states there more likely to defect from broader multilateral European efforts to manage the relationship with China (Godement 2012). Others still worry Chinese firms may avoid strict labor regulation in their locational choices, thus rewarding lax regulatory regimes (Burgoon and Raess 2014). In addition, where economic crisis has left hard-hit localities, sectors, and countries, more spectacular concessions may be in the offing. Hungary now offers permanent resident status—and a path to citizenship—to anyone who buys (or whose firms buys) at least 250,000 Euro in Hungarian government bonds. The offer clearly was aimed at Chinese investors, and hundreds have now begun the paperwork with immigration lawyers. The indignation this generated elsewhere in Europe epitomizes the fear of EU members that China's traditional developing world strategy of playing regional neighbors against one another might well pay dividends (Dunai 2012).

This political acceptance of Chinese investment may well be tested going forward. In April 2012, China announced a $10 billion "special credit line" for Chinese investment in CEE. It remains to be seen if this fund becomes a tool for "herding" Chinese investors into priority areas for Beijing. If so, this article's tentative conclusion against the "China, Inc." model may require revision. In the meantime, China intends to use the fund to develop one "economic and technological zone" in each CEE country.[22] This announcement also came with the establishment of a "Business Forum" to coordinate the growing interest in CEE, where Chinese Premier Wen Jiabao has listed 12 priorities for investment. A follow-up coordination meeting in Beijing was used to promote these objectives to representatives from 11 Chinese provinces, regions, and municipalities.

In September 2012, China then established a Secretariat for China-Central and Eastern Europe Cooperation. The Secretariat includes all ten CEE states in this article plus six others, mostly in the Western Balkans. It involves 18 units of the Chinese government and is led by the Ministry of Foreign Affairs (2012). Each CEE state is to appoint one lead official or agency to coordinate its interactions with the Secretariat. Given that the proposed investment figures are roughly three times the size of existing Chinese investment in CEE, the Secretariat is potentially a very large development. To date, there is little evidence of actual projects being funded, though *China Daily* has spoken of "many cooperation deals" having been signed (China Daily 2012). If these bear fruit, scholars would need to reconsider the proposition—not supported in the evidence so far—that CEE's more liberal policy regimes (as compared with the EU-15) may do better in attracting Chinese FDI.

In the meantime, rather than try to impose a new analytical narrative on the data, this article has developed three images or "faces" of Chinese investment in CEE alongside a presentation of the available aggregate data. If and when Chinese investment grows to very high levels in CEE, the cases in this article may begin to resolve into a pattern. Some of the cases grabbing attention today will, in retrospect, appear more as outliers,

[22] An additional $500 million has been designated as an "investment cooperation fund" for CEE.

and cases that today appear isolated may later come to look more like harbingers. The sheer range of CEE country cases makes the region an exciting place for analytically informed speculation, which is all that is possible given the modest current levels of investment in CEE.

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