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# Chinese Foreign Investments and Economic Relations with the Baltic Sea Region Countries

Electronic Publications of Pan-European Institute 6/2009

ISSN 1795 - 5076

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**6/2009**

**Electronic Publications of**
**Pan-European Institute**

**www.tse.fi/pei**



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# 1 Introduction

Nowadays China is one of the fastest growing countries in the world and especially for this reason it demands more studies and various researches than ever before. In addition, investments to and from the country are growing as well, for instance at these days China is known as one of the leading foreign direct investment (FDI) recipients in the world and as country with growing interest for other countries' markets. This is also due to China's economic, trade and investment climate, which have changed dramatically after 1978 when its reform and opening-up began and also after 2001 when the country joined the World Trade Organization. In addition, while talking about Chinese interest in other countries it could be said that the aim of this research is *to explore the main Chinese investments and economic relations with the Baltic Sea Region (BSR)*.

Before going in detail in describing Chinese and the Baltic Sea Region investments and economic relations, it is worth to discuss shortly the definition of FDI, its calculations and influence for a country's economy. This literature review could be found in the second part of report.

As it was mentioned before, during the recent years China has been one of the fastest growing countries in the world and if one compares the growth in the world economy versus China's economy, it's quite remarkable how much China's share has increased. Due to this it is worth to compare China's main economic indicators with those of the world and this is done in the third part of report.

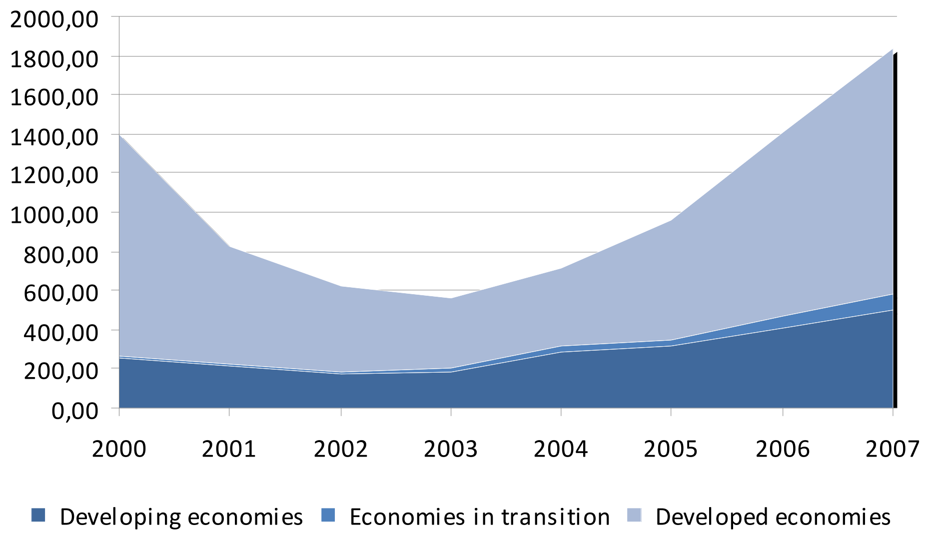
China plays an important role in the world economy and the country's outward FDI has recently started to attract more attention and various discussions. For these reasons China's outward FDI in the Baltic Sea Region should be analyzed as well. The Baltic Sea Region consists of ten countries: Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia and Sweden. On the fourth part of this report at first the focus will be placed on main economic indicators of the Baltic Sea Region countries and then on China's trade with these countries. This should help to improve knowledge about all the BSR countries as well as about their trade relations with China. Finally, the fifth part of report will consist of description of Chinese FDI and economic relations with each of the BSR countries separately.

# 2 A Literature Review of FDI Definition

## *2.1 FDI in the Global Economy*

Foreign direct investment (FDI) is the name given to the process where a firm from country provides capital to an existing or newly-created firm in another country. For instance, a foreign firm may decide to set-up production in Finland and by so doing will be engaging in the process known as FDI. One of the main characteristic to FDI is that in addition of transferring capital, control is gained[2]. (Jones and Wren, 2006) Over the last years the level of FDI in the world has risen rapidly and this could be seen from the Figure 1.

**Figure 1** Global FDI flow (billion USD)




Sources: UNCTAD

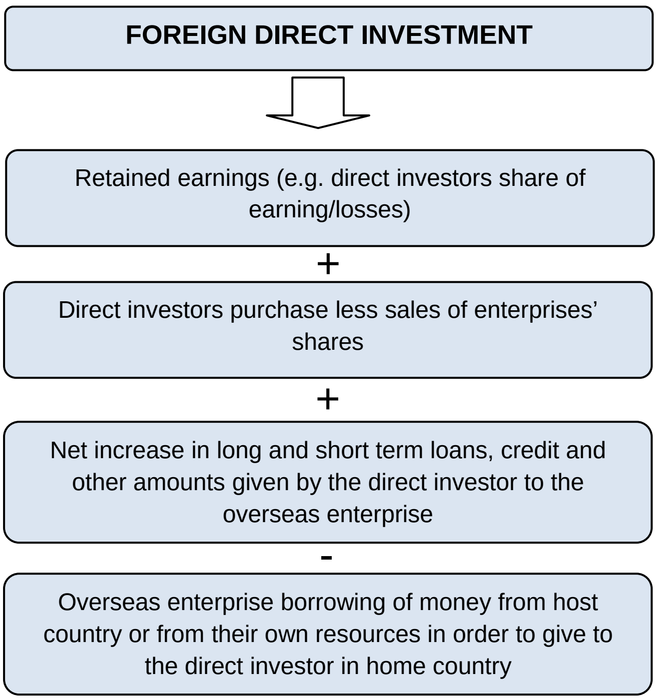
[2]According to the BD3 of the OECD, a direct investment enterprise is an incorporated or unincorporated enterprise in which a single foreign investor either owns 10% or more of the ordinary shares or voting power of an enterprise (unless it can be proven that the 10% ownership does not allow the investor an effective voice in the management) or owns less than 10% of the ordinary shares or voting power of an enterprise, yet still maintains an effective voice in management. An effective voice in management only implies that direct investors are able to influence the management of an enterprise and does not imply that they have absolute control. The most important characteristic of FDI, which distinguishes it from foreign portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise. It could be found in other sources that FDI is an international transfer of capital where a company sets up a subsidiary to a foreign country or make an acquisition getting authority over a foreign company. Thus, firms locating production in more than one country are often referred to as multinational enterprises. (Karjanlahti, 2005)

During the period from 2000 to 2007 total FDI flow in the world increased around 22%, that means from 1,4 trillion US dollars in 2000 to more than 1,8 trillion US dollars in 2007. In addition, from 2000 to 2003 it was significant decrease in global FDI flow, which dropped more than two times - from 1,4 trillion in 2000 to around 0,6 trillion in 2003. Nevertheless, from 2003 to 2007 it rose and reached, as it was mentioned before, more than 1,8 trillion US dollars. This significant increase shows the importance of FDI in the whole world as well as in developing economies and economies in transition, which also had a huge increase of FDI flows during the period mentioned above. That means that flows of foreign investments should be usually taken into consideration by making financial analyses of the world economy.

### *2.2 Calculation and Main Determinants of FDI*

The OECD recommended procedure for calculating FDI flows is given in Figure 2. It is calculated as the sum of four components: retained earnings, equity capital, intra-company loans and intra-company borrowing. Retained earnings are profits generated and kept by the overseas enterprise. These are classified as FDI, despite there is no cross-border transfer of capital, as the investor has the choice of either taking the retained earnings made by the overseas enterprise to their home country or by the reinvesting them back into the enterprise.

**Figure 2** Procedure for calculating FDI flows




Sources: OECD

Jones and Wren (2006) in their book provide following local determinants of FDI: market size and growth, labor market, macroeconomic policy, inward investment policy, infrastructure, industrialization, pre-existing FDI and information.

To be more precise, the *size of market* is argued to have a positive effect on FDI location, this means that a large market attracts firms more that smaller ones. The same is with the *growth of market* – the bigger growth of market is declared the more attractive it is for the FDI. *Labor market* also has significant impact on FDI – the bigger availability of labor is expected in the market, the bigger rage of choice has investor for its labor force. Moreover, when having analyses of labor market it also necessary take into consideration such factors as the *cost of labor* and *productivity*. Talking about macroeconomics determinants it is usually are described such factors as taxes, various tariffs and exchange rate. *Taxes and tariffs* have negative influence of FDI that means that higher taxes and wider rage of various tariffs decrease the FDI in the market. Aside from general macroeconomic policies and labor market regulation, the government and its agencies can use explicit inducements in order to attract FDI, of either a financial or non-financial nature. (Jones and Wren, 2006) Moreover, a key inducement is grants, which seems to play a substantial role in the international competition for FDI.

*Infrastructure* includes such indicators as transport and communication networks in area or region, which improves the distribution of goods and services and the ability to recruit labor and to communicate with supplier and purchasers. The level of industrialization is expected to be associated with a high level of FDI, since country or region that is highly industrialized will have a large number of firms, potentially increasing the possibility of beneficial spillovers. Pre-existing FDI is understood as if an area that has attracted imports may be susceptible to FDI, as foreign firms will have gained a foothold in this economy and have information on its customs and potential. Finally, the last determinant mentioned above was *information*, which has positive effect on FDI, this means that more information about area is available the more attractive for foreign investor it is. (Jones and Wren, 2006)

### 2.3 Advantages and Disadvantages of FDI

Various advantages and disadvantage could be found of FDI, thus it is worth to discuss both. One of the main advantages could be kept technology, knowledge and additional funding source, which are placed to the host country. Given this, it is not surprising that

FDI is highly valued, and that the economic development agencies spend substantial sums in attracting them. The benefits are not only the direct investment, employment and output of these plants, with resulting income flows, but MNEs are thought to have other benefits that are transferred to indigenous companies, known as ‘spillovers’. The spillovers are of two types; either a productivity or a market-access spillover. To be more precise, when MNE enters a local economy it also increases the productivity of domestic firms. A market-access spillover is when domestic firms are able to gain knowledge about markets that the MNE is active in, such as distribution networks or exports markets, and to use this information to their own advantage. (Jones and Wren, 2006)

On the other hand there are also negative effects of FDI for the host economy. The disadvantages of FDI occur mostly in case of matters related to operation, distribution of the profits made on the investment and the personnel. One of the most indirect disadvantages of FDI is that the economically backward section of the host country is always inconvenienced when the stream of FDI is negatively affected. Moreover, the various disadvantages of FDI are understood where the host country has some sort of national secret – something that is not meant to be disclosed to the rest of the world. It has been observed that the defense of a country has faced risks as a result of the FDI in the country. At times it has been observed that certain foreign policies are adopted that are not appreciated by the workers of the recipient country. The differences of language and culture that exist between the country of the investor and the host country could also pose problems in case of FDI. Yet another major disadvantage of FDI is that there is a chance that a company may lose out on its ownership to an overseas company. This has often caused many companies to approach FDI with a certain amount of caution. At times it has been observed that there is considerable instability in a particular geographical region. This causes a lot of inconvenience to the investor. (Economic Watch, 2009)

## 3 Chinese Role in the Global Economy

China's increasing prominence in the world economy has caught a lot of attention as well as its global trade. Nevertheless, if you compare the growth in the world trade versus China's trade, it's quite remarkable how much China's share has increased. Thus for these reasons it is worth to pay attention to this country more than before. This part of report will focus on the main China's demographic and economic indicators in comparison with the world ones.

**Table 1** China's demographic and economic indicators (2007)

| | China (billion USD) | Share in the world, % |
|---|---|---|
| **Population (bln, units)** | 1,31 | 19,57 |
| **Labour force (bln, units)** | 0,80 | 25,33 |
| **Gros domestic product (GDP)** | 3287 | 6,06 |
| **GDP growth rate (%)** | 11,40 | 3,80 |
| **Exports** | 1218,00 | 8,81 |
| **Imports** | 955,80 | 6,80 |
| **Inward FDI flows** | 83,52 | 4,56 |
| **Inward FDI stock** | 327,09 | 2,15 |
| **Outward FDI flows** | 22,47 | 1,13 |
| **Outward FDI stock** | 95,80 | 0,61 |

Sources: UNCTAD

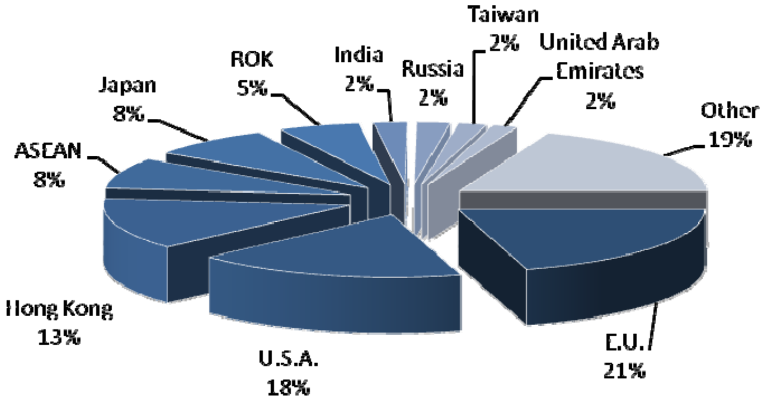
As it could be seen from Table 1 China plays really very important role in the world's economy. In 2007 China had around 20% of the world population and stays first in the world according to this number. Labor force percentage is high as well which means that this country has a quarter of the world's total labor force.

Further, China's share of the world's GDP rose to 6% at the end of 2007 (Table 1), compared with just 1,8% in 1978 when its reform and opening-up began (NBS). This fast economic growth over the last 30 years had lifted China's GDP ranking in the world from tenth in 1978 to fourth in 2007 after the United States, Japan and Germany. Further, China's GDP was more than 3 trillion US dollars in 2007, what is about 24% of USA's, 75% of Japan's and 99,5% of Germany's GDP (China Daily, 2008). According to the Statistical office of China, the past 30 years witnessed a significant change in the country's national strength and its international influence, thanks to the reform and opening-up policy. China's GDP grew at the rate of 9,8% from 1979 to 2007, higher than the rate of 6,1% from 1953 to 1978. The economic growth rate in the past three decades was also much higher than the world average, and slightly higher than Japan's (9,2%) and South Korea's (8,5%) during their economic takeoff periods.

Added to information mentioned above, GDP growth rate in 2007 was 11,4% comparing with the world GDP growth rate which was 3,8%. Nevertheless, in 2008 the global economic crisis began to reduce China's growth rate as well, thus especially for this reason China’s GDP growth rate in 2008 reached 9%. According to official China’s news, 9% rate was the lowest since 2001, when an annual rate of 8,3% was recorded, and it was the first time China's GDP growth fell into the single-digit range since 2003. Talking about 2009, it was reported recently that the Organization for Economic Cooperation and Development (OECD) will cut its 2009 economic growth projection for China to below 6,5%. The OECD's previous forecast, made in November of 2008, was 8%, but the organization's chief economist, said it was unlikely China will achieve this goal. Moreover, the World Bank revised its projection for China’s GDP growth to 6,5% from 7,5%. According to the OECD, China is likely to see 6,3% growth in the first quarter, down from 6,8% in the fourth quarter of 2008. Growth may reach 8% in the fourth quarter of 2009. (China Economic Review, 2009)

The fifth row of Table 1 shows China's export, which share in world's exports reached almost 9% by 2007, making it the world's second largest exporter, trailing only Germany. According to a statement released on NBS, China's foreign trade has been growing at an average annual rate of 17% to 2174 billion US dollars from 21 billion US dollars since 1978 when its reform and opening-up began. With persistent government efforts to boost foreign trade and encourage investment, China's exports rose from almost 10 to 1217 billion US dollars during the period, and imports gained from 11 to 956 billion US dollars. Moreover, China tried to accelerate its participation of the globalization process, especially after it joined the World Trade Organization (WTO) in 2001. Thus, this move had opened China into one of the most rapid development in history. It is also necessary to say that in 1978 China was a country burdened by trade deficit with scarcely any foreign reserves. Now it has became the largest foreign reserves holder in the world. (Xinhua, 2008)

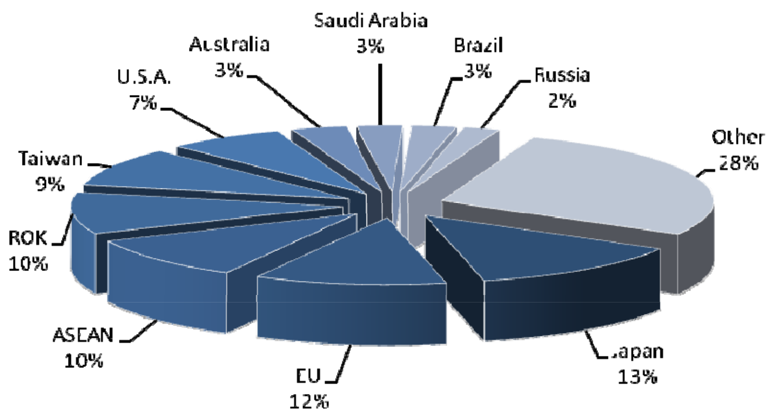
**Figure 3** Top ten export countries of China, 2008 Jan-Oct.




Sources: MOFCOM

It could be seen in Figure 3 that among top ten export countries first place takes European Union countries and the second one – USA, where China exports respectively about 21% and 18% of all its products and services. In this top ten the last part takes India, Russia and Taiwan which get respectively about 2% of all China's export. It is also worth to add that the spectrum of exported products moved from primary products to manufactured finished products, and from labor-intensive products to mechanical and electronic products and high-tech ones. The mechanical and electronic products accounted for 58% by 2007, while high-tech products took up 29%. (Xinhua, 2008)

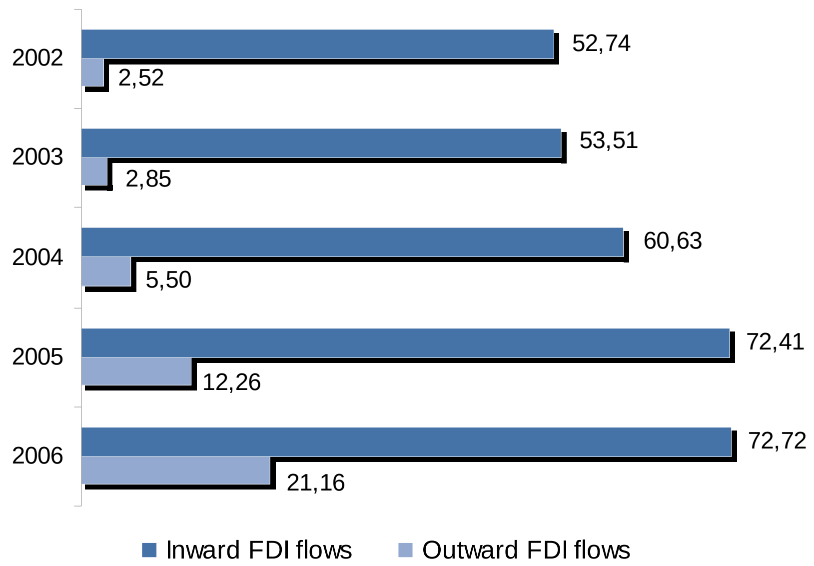
**Figure 4** Top ten import countries of China, 2008 Jan-Oct.




Sources: MOFCOM

Figure 4 represents data with top ten countries from which China imported products and services in 2008 (January-October). In the first place it could be found Japan with 13% of all its imports and in the second place EU countries with the 12%. The last place in this top ten import countries to China takes Russia, from which China import about 2% of all its imported products and services. Added to this, “with the third phase of construction to finish this autumn, the 51-year-China Import and Export Fair, also called the Canton Fair, will become the "number one show in the world," resisting Germany's Hanover Fair” , said Chairman of the China Foreign Trade Centre Zhang Zhigang. Zhang also said that after the expansion, the fair will have the largest net exhibition space in the world. The China Import and Export Fair have been held twice a year in the spring and autumn since the spring of 1957. It is China's largest high-profile trade fair, with the most variety, and largest attendance and business turnover (People's Daily, 2008)

**Figure 5** China’s FDI flows, billion US dollars




Sources: UNCTAD

While talking about China’s trade it is also necessary to mention its FDI flows, which is showed in Figure 5. Thus, China’s outward FDI flows during the period from 2002 to 2006 rose from almost 3 billion US dollars to 21 billion US dollars, that means about seven times. Moreover, inward FDI rose during this period as well. Furthermore, according to the newest data on China’s daily news, FDI in China jumped 24% annually to 92 billion US dollars in 2008. In addition to this, last year (2008), foreign companies invested more money in western and central China, instead of the comparatively-developed eastern region. FDI surged nearly 80% last year from 2007 in western China, while that in central China rose 36%. Outbound investment of Chinese companies, excluding investment in the financial sector, surged 64% in 2008 to almost 41 billion US dollars. (Yao Jian, 2009, China Daily)

Nevertheless, China's outward FDI is still relatively small. Its flow and stock are tiny relative to its GDP, even compared to those of other developing countries. Moreover, China's outward FDI is mostly acquisitions in neighboring Asian countries and resource-rich parts of Africa. As China develops rapidly, the scope and scale of Chinese outward FDI merits on-going analysis by international business scholars, for it is a manifestation of the economic, organizational and managerial transformation in the country, and of its relation with the rest of the world as well as with The Baltic Sea Region countries. (Randall Morck atc, 2007)

# 4 The Baltic Sea Region and China

## *4.1 Basic Economic Indicators of the Baltic Sea Region*

As it could be found in the previous section of report, China plays an important role in the world economy, thus it is clear that this country's outward FDI has impact on the Baltic Sea Region countries as well. Before describing China's FDI and relation with all the BSR countries separately it would be worth, to review the main economic indicators of the BSR country by country. Further, these indicators usually help to describe influence and attractiveness of FDI in country.

**Table 2** Main indicators of the Baltic Sea Region countries

| Country | Population, mln (2007) | Unemployment rate, % (2008) | GDP | | Index of Economic Freedom (country's rank 2009) | Inward FDI Performance Index (country's rank 2005-2007) | Inward FDI Potential Index (country's rank 2004-2006) |
|---|---|---|---|---|---|---|---|
| | | | USD, bln (2007) | Growth rate, % (2008) | | | |
| Denmark | 5,44 | 3,1 | 314,50 | 0,4 | 8 | 79 | 23 |
| Estonia | 1,34 | 5,5 | 20,66 | -2,0 | 13 | 8 | 34 |
| Finland | 5,28 | 6,4 | 244,50 | 2,1 | 17 | 86 | 14 |
| Germany | 82,60 | 7,3 | 3.302,25 | 1,6 | 25 | 108 | 6 |
| Latvia | 2,28 | 5,8 | 27,36 | -0,6 | 45 | 31 | 42 |
| Lithuania | 3,39 | 4,6 | 37,74 | 4,5 | 30 | 53 | 38 |
| Norway | 4,69 | 2,8 | 386,92 | 1,6 | 28 | 119 | 9 |
| Poland | 38,08 | 9,6 | 418,05 | 5,5 | 82 | 60 | 43 |
| Russia | 142,49 | 5,8 | 1.284,69 | 7,1 | 146 | 81 | 20 |
| Sweden | 9,12 | 6,0 | 447,43 | 1,5 | 26 | 58 | 8 |

Sources: UNCTAD, The Heritage Foundation

Table 2 shows that the biggest population in the BSR has Russia, in the second place is Germany with a 82,6 millions people and the third one is Poland – with 38,08 millions people. The lowest unemployment rates were found in Norway – 2,8%, Denmark - 3,1% and Lithuania – 4,6%. It is also worth to mention that the highest unemployment rate was found in Poland – 9,6%. Nevertheless, Poland is among three countries which have the highest GDP growth rate in the BSR in 2008. To be more precise, the highest GDP growth rate in 2008 was in Russia – 7,1%, the second country in this region is Poland with a 5,5% growth and third one is Lithuania – 4,5% growth.

The fifth graph of Table 2 shows the Index of Economic Freedom, which also should be taken into consideration while dealing with the investing decisions. According to the Heritage Foundation research institute, Index of Economic Freedom is built upon analysis of ten specific components of economic freedom, some of which are themselves composites of additional quantifiable measures. The ten component scores are equally weighted and averaged to get an overall economic freedom score for each country. These components are following: business, trade, fiscal freedom, government size, monetary, investment, financial freedom, property rights, freedom from corruption and labor freedom. According to this list in the highest position among all the BSR countries in 2009 was found Denmark, which among 179 others world countries was ranked 8th, after Denmark it could be found Estonia which was ranked as 13th and third one in this region is Finland, which was ranked in 17th position. Russia among all the BSR counties has the lowest value of this index what means, according to the definition of this Index, that Russia's economy is mostly unfree.

There is the BSR's Index of Inward FDI Performance in Table 2 as well. This Index is calculated and provided by UNCTAD, according which the Inward FDI Performance Index ranks countries by the FDI they receive relative to their economic size. It is the ratio of a country´s share in global FDI inflows to its share in global GDP. Further, a value greater than one indicates that country receives more FDI than its relative economic size is, a value below one means that country receives less and a negative value means that foreign investors disinvest in that period. From table above it could be seen that no one country has negative Index, nevertheless the majority of countries has value greater than one. For instance, three Baltic States – Estonia (4,9), Latvia (2,6) and Lithuania (1,8) have the heights value of this index what means that these countries receive much more FDI than they relative economic size is. By the way, these countries are ranked among 141 other world's countries as following: Estonia – 8th, Latvia – 31st and Lithuania – 53rd. The values below zero have just two countries – Germany (0,589) and Norway (0,438) and they are respectively rank as 108 and 119, this means that these countries receive less FDI than they relative economic size is.

Finally, the last column of the table above shows the Index of Inward FDI Potential of the BSR at the period of 2004-2006. According to UNCTAD, the Inward FDI Potential Index captures several factors (apart from market size) expected to affect an economy's attractiveness to foreign investors. It is an average of the values (normalized to yield a score between zero, for the lowest scoring country, to one, for the highest) of 12 variables. The highest FDI Potential Index in the BSR has Germany – 0,43, after which are Sweden (0,418) and Norway (0,415) and these countries are ranked as following: Germany – 6th, Sweden – 8th and Norway – 9th. The lowest FDI

Potential Index was found in Poland – 0,264 and this country is ranked 43rd among all 141 countries which are provided by UNCTAD.

### *4.2 China's Trade with the Baltic Sea Region*

Furthermore, when the main indicators of all countries are known it is also worth to examine the trade between China and the BSR. It could be found in Table 3 that in the BSR the share of Chinese goods' imports is from 0,11 to 1,36%. Germany is exception because the share of this country's import from China is almost 8%. Further, the share of Chinese exports to the BSR for most of the countries is less than one percent with big exception of Germany, where China exports about 4% of all its goods and services. Nevertheless, the growth of China's exports during the period of 2003-2007 is significantly big and reaches around 40% at almost all the BSR countries.

**Table 3** China's exports to the Baltic Sea Region in 2007

| Country | Value 2007 (USD million) | Growth 2003-2007 (%) | Share of country's imports (%) | Share of China's exports (%) |
|---|---|---|---|---|
| **Denmark** | 4,59 | 33,00 | 0,71 | 0,38 |
| **Estonia** | 0,58 | 44,00 | 0,11 | 0,05 |
| **Finland** | 6,56 | 41,00 | 0,58 | 0,54 |
| **Germany** | 48,71 | 29,00 | 7,57 | 4,00 |
| **Latvia** | 0,68 | 58,00 | 0,11 | 0.06 |
| **Lithuania** | 0,80 | 46,00 | 0,17 | 0,07 |
| **Norway** | 2,20 | 26,00 | 0,57 | 0,18 |
| **Poland** | 6,55 | 43,00 | 1,17 | 0,54 |
| **Russia** | 28,47 | 44,00 | 1,36 | 2,34 |
| **Sweden** | 4,55 | 33,00 | 1,08 | 0,37 |

Sources: ITC (2009) based on COMTRADE statistics

Table 4 presents China's imports from the BSR in 2007 with the main imports indicators. As it could be seen, the share of countries' export to China is around 1% of all the BSR countries export with the big exception of Germany, where export to China is more than 9% of all this country's exports. The share of China's imports from the BSR is quite small and at the most part of countries is less than 1%. In addition, Germany has the biggest share of China's imports, which in 2007 was more than 4%. Further, according to the International Trade Centre data, the share of China's imports from Latvia and Lithuania was around zero, what means that China had no imports from these countries at all or they were significant small comparing with other Chinese imports partners. Moreover, it was also found that China's import from Estonia in the period of 2003-2007 rose 62%, while from other countries China's imports rose 9-29% (with the exception of Latvia with the negative growth).

**Table 4** China's imports from the Baltic Sea Region in 2007

| Country | Value 2007 (USD million) | Growth 2003-2007 (%) | Share of country's exports (%) | Share of China's imports (%) |
|---|---|---|---|---|
| **Denmark** | 1,82 | 15,00 | 0,74 | 0,19 |
| **Estonia** | 0,09 | 62,00 | 0,08 | 0,01 |
| **Finland** | 3,79 | 17,00 | 0,65 | 0,40 |
| **Germany** | 45,38 | 16,00 | 9,66 | 4,75 |
| **Latvia** | 0,02 | -1,00 | 0,06 | 0,00 |
| **Lithuania** | 0,02 | 4,00 | 0,12 | 0,00 |
| **Norway** | 1,61 | 12,00 | 0,99 | 0,17 |
| **Poland** | 1,11 | 29,00 | 1,01 | 0,12 |
| **Russia** | 19,69 | 19,00 | 2,56 | 2,06 |
| **Sweden** | 4,14 | 9,00 | 1,23 | 0,43 |

Sources: ITC (2009) based on COMTRADE statistics

Finally, according to the information mentioned above it is clear that China's trade in the BSR is still growing and it is believed that it will reach bigger amounts in the following centuries. Basic Chinese and the BSR trade aspects are shortly described in the following part of report as well as its economic and investments relations with all the BSR countries separately.

# 5 Chinese FDI and Economic Relations in the Baltic Sea Region by Countries Group

Before describing every country group separately it is needed to say, that volumes of Chinese investments in every country vary between each other. This is due to information scarcity related with China's investments to one or another BSR country. Moreover, there is an apparent lack of comparability of FDI data reported by different countries. The methodology for compiling these data also varies between countries. For a given transaction, host country and home country often do not register it in exactly the same way. For instance, country A may include re-invested earnings in its outflow statistics while country B receiving this FDI may not include the earnings in its inflow statistics. Furthermore, corporate accounting practices and valuation methods differ between countries and all these factors lead to discrepancies in FDI data. (UCTAD, 2009) For this reason data from all the BSR countries are provided in appendices as well as total FDI inflow in these countries. In addition, it is needed to say that in this part of report all ten BSR countries are divided into three groups: Baltic States (Estonia, Latvia, Lithuania), Nordic countries (Denmark, Finland, Norway, Sweden) and a group of the biggest countries in all the BSR - Germany, Poland, Russia.

## *5.1 Small Countries – Baltic States*

First of all it could be said that Baltic States, which are known as Estonia, Latvia and Lithuania are the smallest countries in all the BSR. At this part of report will be described Chinese FDI and economic relations with all these three Baltic States separately.

**China's economic interest in Estonia.** To begin with, Estonia and China have good and stable economic relations. China's interest towards Estonia is foremost due to Estonia's favorable geographic position, its good transport infrastructure and strong scientific and technical potential (Bank of Estonia, 2008). Nevertheless, it is also worth to mention, that now most of the main economic agreements have been signed and the emphasis is being placed on expanding co-operation at local level and on the creation of business contacts. Areas of co-operation include transit sector, oil shale processing, textiles, customs technology, timber and food processing and information technology. Further, as it was mentioned above Estonia plays an important role with its transport infrastructure in relations with China, thus the Port of Tallinn boasts today is one of the largest cargo volumes and acts as a good base for developing distribution and logistics. According to the latest news, Estonia welcomes China to make investment in the construction of its Tallinn Port. Estonia also is very interested in the proposal by authorities of China's Ningbo Port to invest in Tallinn Port project, and views them as reliable partners. This is because the investment will enhance Tallinn Port's handling capacity and transport ability. Moreover, Estonia's government will provide practical supports to the cooperation between the ports and logistic enterprises of the two countries so that both sides can turn their resolve for cooperation into reality at an early date. During one of the latest meeting of two countries, it was visited Ningbo and several other coastal cities in China in late October (2008) to discuss with Chinese officials about cooperation on port construction. (ChinaView, 2008)

In addition, Estonia and China are located on opposite coasts of the Eurasian continent. During the state visit of President Rüütel to China in 2005 the presidents of the two countries shared ideas about using the possibilities of Estonian harbors as a logistical center and transit point on the way of Chinese goods towards other European destinations. Groups of Chinese experts have recently visited Estonia and regional partners in order to investigate fully the feasibility of this idea. Positive findings have been encouraging Chinese business people to further explore these opportunities. Talking about importance of two countries' economic relations it is also needed to mention that in today's world it has become very important to develop sustainable technologies for creating energy. Estonia and China are among a few countries in the world that have oil shale resources. Advancing technologies for processing them for energy production and chemical industry should serve well both countries needs and strengthen economic relations. (People Daily, 2009)

**Chinese bilateral relations with Latvia.** China and Latvia established their diplomatic relations in 1991. (Ministry of Foreign Affairs of Latvia) and during this period these two countries are trying to find as much as possible opportunities in their markets in focus on economic collaboration, trade and investment.

The main investors in Latvia, according to the Bank of Latvia, are Germany, Denmark and Sweden. Investments from these countries to Latvia during the period from 2003 to 2007 and at the first quarter of 2008 were around 30% of all FDI in the country. Chinese FDI to Latvia is significant small thus for this reason, according to the Balance of Payment's data compiled by the Bank of Latvia, Chinese FDI have not been registered during the last years (Deputy Head of International Department, Bank of Latvia).

Nevertheless, according to MOFCOM (2004), the scale of two-way investment between China and Latvia is at a higher level during the last years comparing with 2004 and earlier. Over 50 Chinese enterprises were registered in Latvia till 2004 with total investment of more than 55 thousand US dollars. Investment fields mostly are focused in tertiary industry like trade, catering and service in form of private and family enterprises.

Furthermore, China and Latvia bilateral trade kept a good trend of development. According to statistics from China's Customs, main exports of China to Latvia during the last years were machinery, textile and garments, footwear and caps and main imports from Latvia were IT, aeronautical material, timber and metal and mineral products. Moreover, China's imports from Latvia accounted for 51%, metal and metal products for almost 25% and timber and timber products for more than 9%. (Latvian Embassy in China, 2009)

**Chinese investments and bilateral relations with Lithuania**. China's and Lithuanian bilateral economic relations have started in 1992. During this period two countries have developed their relations in trade and investment. The number of China's investors in Lithuania from 2003 to 2008 is provided in Table 5.

**Table 5** Number of China's Investors in Lithuania

| | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
|---|---|---|---|---|---|---|
| **From China** | 22 | 24 | 33 | 37 | 28 | 34 |
| **Total** | 2444 | 2652 | 2901 | 3150 | 3151 | 3396 |
| **Comparable Share, %** | **0,90** | **0,91** | **1,14** | **1,18** | **0,89** | **1,00** |

Sources: Department of Lithuanian Statistics, 2009

According to Department of Lithuanian Statistics (2009), Chinese investments in Lithuania are growing but remain at the low range compared to the total investments in the country. As it could be seen in the table above, during the period of 2003-2008 the biggest number of Chinese investors was in 2006 and the smaller one in 2003. In addition, there were thirty-four investors from China in 2008 and twenty-eight in 2007. The most part of Chinese investments in 2007 was in various electronic devices (Lithuania Ministry of Foreign Affairs, 2009) In addition to this, according to Lithuania Ministry of Foreign Affairs, smaller investors usually are facing the problem of information scarcity related with investment projects in Lithuania. This is usually due to language differences, because most of projects are presented and provided in native Lithuanian language and there are not enough literature related with investment climate in Lithuania in Chinese.

Furthermore, trade between China and Lithuania has been growing during the years. For instance, in 2007 China's export to Lithuania was around 0,8 billion US dollars and it grew 46% comparing with 2003 (Table 3), while China's import from Lithuania, according to Lithuania Ministry of Foreign Affairs (2009) grew almost 4% and it was around 20 million US dollars. These numbers show that Lithuania exports to China less than get from this country. Moreover, the main export from China to Lithuania in 2007 was cars, mechanic and electronic machinery (Lithuania Ministry of Foreign Affairs, 2009).

Nevertheless, during the last official visit of Lithuania's president Valdas Adamkus in China in 2006, Premier of China Wen Jiaabao stated that China will expand its range of imports from Lithuania and provide convenience for Lithuanian entrepreneurs to invest in China. Further, during this meeting it was also stressed the importance of developing economic relations between these two countries. Lithuanian president, V.Adamkus said that China and Lithuania have complementary economies, so there is big potential in strengthening the bilateral economic and trade relations, especially in the field of investment. (MOFCOM)

### *5.2 Medium Sized – Nordic Countries*

There has been a strong increase in Chinese investments within more knowledge-intensive areas such as electronics, telecommunications, IT, life sciences and energy during the last century and this offers ideal opportunities for Nordic countries' enterprises. In this part of report will be discussed about Chinese investments and economic relations with four Nordic countries – Denmark, Finland, Norway and Sweden separately.

**China's interest in Denmark knowledge**. In 2008-2010 Denmark will step up investment promotion efforts in China in order to gain a share of the rising (knowledge-intensive) Chinese investments abroad. The investment promotion efforts will primarily focus on investments within IT, life sciences and energy. The outreach work will be conducted by the Ministry of Foreign Affairs' diplomatic missions in China, with Invest in Denmark (IDK) as the driving force. IDK, which is a department within the Trade Council of Denmark, has an extensive regional network among enterprises, universities and research parks in Denmark. In September 2007, the Trade Council of Denmark signed a letter of intent regarding investment promotion cooperation with the Investment Promotion Agency of the Chinese Ministry of Commerce. (The Danish Government, 2008) Moreover, according to Kaartemo (2007), Chinese companies by investing in Denmark are trying to combine their own competitive production base with competitive R&D and knowledge base of Denmark. Thus, Chinese investors are interested in these knowledge and technology intensive services, which Denmark can provide for them.

Furthermore, it is very important for Denmark that Danish enterprises have a strong footing in China within all links of the value chain. At the same time, the Chinese market is huge and fragmented, which demands indepth knowledge. For instance, the Danish export to China doubled from 2003 to 2007, and in 2008 alone it has grown by 40%, making China Denmark's fourteenth largest export market today. If Hong Kong and the sales of services (primarily shipping) are also included, this already makes China Denmark's sixth most important export market. On top of this is the improved ability to compete that Danish enterprises achieve by producing in China (which to a certain extent is visible from the considerable export that totaled around 5 billion US dollars in 2007), as well as the value of Danish enterprises' production in China, the output of which is sold directly in the market or exported to third countries. (The Danish Government, 2008)

It is also worth to mention, according to the Government of Denmark, that within the EU domain, Denmark works to ensure that the conditions for trade with China would be liberalized as much as possible. EU trade policy must at the same time contribute to promoting social, economic and environmentally sustainable development. Denmark will work actively to promote dialogue in order to guide the cooperation between Danish enterprises and their Chinese business partners in the direction of increased social and environmental responsibility. In addition to this, a key priority in relation to China is to strengthen the capacity for protecting intellectual property rights.

**Chinese economic cooperation with Finland.** At first it is necessary to say that Finland and China has longstanding and traditional friendship. These two countries established diplomatic relations in 1950. In 1953, the intergovernmental trade agreement was signed between two sides and this agreement was the first of its kind in Europe. (Embassy of People's Republic of China in Finland, 2009) Over the years, the two nations have witnessed a continuously consolidated political relationship, developing investment, trade and economic cooperation.

Chinese investment in Finland is still rather small, yet Chinese companies are displaying stronger interest in Finland. (Bank of Finland, 2009) According to Chinese Ambassador to Finland, the famous Chinese telecommunication equipments provider Huawei Technologies signed a cooperation agreement with Finnish telecom operator Teliasonera at the end of 2007, and is planning to establish a subsidiary in Finland. At the same time, the Chinese IT and electronic parts manufacturer BYD, one of the biggest subcontractors of Nokia worldwide, has opened its subsidiary in Finland. Technology cooperation between two countries is also growing. In 2007, the contractual value of technology export from Finland to China reached almost 634 million US dollars. (Keqing, 2008)

Moreover, apart from investment, trade has also continuous between these two countries. According to Keqing (2008), Finland has been China's largest trade partner in Nordic region for the last four consecutive years, and Finland is also an important source of FDI and technology in North Europe, while China has been Finland's largest trade partner in Asia. According to Chinese statistics, bilateral trade in 2007 reached 10 billion US dollars that means 28% increase year on year. Chinese export to Finland during the same 2007 reached almost 7 billion US dollars, and import near 4 billion US dollars. China is Finland's most important export market in Asia and the biggest import origin outside Europe. (Keqing, 2008)

Finally, it is needed to say that in terms of average value per project, Finland ranks the first one among all the European countries. In August 2007, China Finland CleanTech Conference was held in Lahti, which attracted more than 400 participants and boosted bilateral cooperation. ICT and Nanotech cooperation has also been enhanced. Moreover, China is now the largest market for Nokia, an important player in the Finnish economy. (Keqing, 2008)

**Norwegian and Chinese financial collaboration**. While talking about China and Norway relations it is needed to say that the economies of China and Norway are complementary to each other to a certain extent. In 1980, the two countries signed the Agreement on Economic, Industrial and Technological Cooperation and set up the Sino-Norwegian Mixed Committee of Economy and Trade.

According to the Norway Statistic Agency (2009), EU countries are the main investors in Norway. Norway, does not provide data about China's FDI in its' reports. For this reason it could be said that China's investments to Norway stays at a low level and are included into calculation among other countries. For instance, it is presented in Norway's report about FDI inflow in the country that other countries' FDI in Norway is 9% of all FDI in 2002, 10% in 2003, 6% in 2004, more than 5% in 2006 and around 7% in 2007. Thus it could be said that Chinese investments in this country are smaller than numbers mentioned above. Moreover, it should not be forgotten the fact that probably during these years were no Chinese investments in Norway at all. At this moment data provided by various Norwegian institutions let us just make various assumptions.

Nevertheless, according to the latest news, China would like to collaborate with Norway in developing CO2 emisions' technology. The rounding-up and storage of CO2 is very interesting to China. Norway and the Middle Kingdom have already initiated negotiations, but so far no concrete projects have been agreed upon. A slight cause for concern among Norwegians as the Asian juggernaut holds similar talks with both Japan and Australia. The Chinese market holds enormous potential for environmentally sound technology, as the country's 90% coal-fuelled economy continues to break both growth and pollution records year after year. (The China-Europe Business Connection, 2008)

In addition, the latest big Chinese investment in Norway was found China Oilfield Services Ltd. It is a unit of the nation's third-biggest crude oil producer, which has agreed to buy Norway's Awilco Offshore ASA for 2,49 billion US dollars to increase its rig fleet by 47%. The Chinese purchase of Awilco's fleet comes after average rental rates for jack-up rigs, the most common type for shallow- water drilling, increased four times during four years to about 0,2 millions US dollars a day. The Norwegian company's equipment and technology for offshore drilling are "a good strategic fit for China Oilfield Services" the companies declared in a joint statement. Awilco operates in areas including Norway, Australia, Vietnam, Saudi Arabia, the United Kingdom and Libya, and has secured contracts with companies including BP and Repsol. (The China-Europe Business Connection, 2008)

Further, up to the end of year 2003, the two sides have signed contracts on 166 projects for technological transfer and imports of equipment with a total amount of 424 million US dollars of contractual investment. The main fields of investment are post and telecommunications, electronics, machinery, transportation, light industry, agriculture and environmental protection. Up to the end of 2003, China and Norway had established 172 joint ventures, with contracted Norwegian capital amounting to 320 million US dollars and the capital actually invested totaling 230 million US dollars. The main jointly-funded enterprises were Haidelu Suzhou Huasu Plastic Co., Ltd., Baolige Taican Chemical Industrial Co., Ltd., Guangzhou Zuodun Yuanyang Lacquer Co., Ltd., Shanghai Naikeming Pharmaceutical Co., Ltd., Ningbo Huagang High-speed Passenger Ship Co., Ltd., and Luoshan Scana Machine Manufacturing Co., Ltd. (Embassy of the People's Republic of China in Norway, 2009)

Finally, since the establishment of diplomatic relations between the two countries more than 50 years ago, the bilateral economic cooperation has developed from simple exchanges of commodities to multi-fields cooperation in economy, trade, industry and technology. China's main exports to Norway, according to Embassy of the People's Republic of China in Norway, were ships, textiles and garments, mechanical and electrical products, shoes, suitcases and bags as well as coke, and its main imports from Norway were crude oil, mechanical and electrical products, fertilizer, building and mining machines, loading and unloading equipment as well as iron ore.

**China's investments in Sweden.** The principal objective of Sweden's cooperation with China is to accelerate the reform process and promote sustainable development, human rights, legal development and democratization, gender equality and reinforcement of the social safety net. (Embassy of People's Republic of China in Sweden, 2009)

Chinese investments in Sweden are limited but the number is growing. With regard to export promotion, Sweden has initiated cooperation with China on the 'Sustainable City' theme. The aim is to demonstrate innovative Swedish solutions for achieving sustainable urban environments. Further, Swedish exports to China in 2004 were worth more than 2 billion US dollars and imports almost 3 billion US dollars. Swedish companies have substantial presence in China and increasing numbers of setting up production and R&D in the country. (Embassy of People's Republic of China in Sweden, 2009)

Added to information mentioned above and according to the newest data, Swedish automobile manufacturer Volvo's passenger car division could end up being sold to a Chinese company. Volvo's current owner, US motor giant Ford, is currently involved in negotiations with an interested party. Also according to several media, Volvo executives are expected to reveal a rationalization plan to be negotiated with the appropriate unions. The plan is expected to lead to labour cutbacks in Gothenburg, Sweden and Gent, Belgium. CEO of Ford, initiated in 2007 a strategic supervision of Volvo that has since been widely regarded as the initial steps of an actual sell-off. In November of 2007 Mullaly announced that Volvo wasn't for sale "just now" but at the same time ordered a down writing of Volvo stocks, possibly in order to secure a sensible sales price for Volvo. The current rumours of a Volvo sale coincide with recent revelations that Ford's finances are being badly squeezed due to failing sales on the economically weakened US home market. (The China-Europe Business Connection, 2008)

Nevertheless, according to Kaartemo (2007) in Sweden the most known Chinese investments are research and development sites of two telecommunication companies Huawei Technologies and ZTE. Huawei Technologies could be called as a leader in providing next generation telecommunications networks and it serves 31 of the world's top 50 operators, along with over one billion users worldwide. This company started its operations in Sweden through their affiliate Atelier Telecom. The main competitiveness of this company tends to be low price, high quality and fast and flexible supply of technology. It is also mentioned in the same authors' research report ("The motives of Chinese Foreign investments in the Baltic Sea Region") that Huawei started looking for a base in the West in order to get access to experience that was not available in China. (Kaartemo, 2007)

Further, company ZTE launched its first research laboratory in Europe in 2003, when company's subsidiary ZTE Wistron AB started its operations in Sweden. ZTE invested in Sweden because it was interested in experienced 3G-engineers and at the same time it wanted to cooperate with local mobile phone companies. According to Kaartemo, the Swedish firms' willingness to cooperate with ZTE was one of the main reasons, why this company made the decision to invest in the Stockholm Region instead of opening research laboratory somewhere else in Europe. In addition, Swedish customers' requirements are thought to be similar to other advanced markets, thus ZTE considers that Swedish market is a good place to develop itself. (Kaartemo, 2007)

### *5.3 Big Three – Germany, Poland, Russia*

“Big Three” countries in the BSR are Germany, Poland, Russia and this is because of the territory and population sizes (Table 2). Chinese FDI in the “Big Three” countries plays an important role as well as economic and trade relations. In this part of report is provided information about China’s investments and economic relations with all these three countries separately.

**China finds many advantages on the German markets.** Germany’s central position at the heart of the European continent allows investors to reach the entire EU market and those of central and Eastern Europe. It has the highest GNP and the largest population of all EU countries, making it very important marketplace in the union. Mostly for these reasons Germany is attractive for China’s investors as well. Economic relations between Germany and China are often described as being one way: German companies relocate production to China to take advantage of lower labour costs. However, Chinese companies are expanding into Germany also, because they are looking for experts, R&D specialists, and the chance to penetrate the European market. By doing so they are adding value to the German economy as well as providing work for German people. (Invest in Germany, 2008)

It could be also said that total investment volume remains miniscule compared to a major economic power like the United States which invested over 60 billion US dollars in Germany in 2006. Yet with the diversity of new Chinese companies entering the German market, there is little doubt that the presence of Chinese businesses in Germany will be more pronounced over time. Indeed, the Ministry of Commerce in China (MOFCOM), predicts that Chinese investments in foreign countries as well in Germany will increase annually by 22% until 2010.

According to the Invest in Germany, Chinese companies are seeking opportunities to use specialized knowledge of German employees and institutes. This is taking the form of creating new companies and taking over existing ones that have talented employees but are experiencing financial difficulties. Examples can easily be found in sectors as diverse as IT, machine building, medical technologies, and renewable energies. Moreover, China and Germany are both major players in the renewable energies market, and this industry offers an excellent example of Chinese companies investing in Germany. Chinese firms particularly look to this sector for the country’s expertise and infrastructure to increase sales and develop new markets in Europe. A good example is China National Building Material Group Corporation (CNBM), a China-based manufacturer of technologies for wind energy such as rotor blades required for windmills. This company in 2006 was looking to expand into the European market. It found its opportunity in NOI Rotortechnik GmbH, a German company with headquarters in the Eastern German state of Thuringia. The German company had fallen on financially hard times, but still enjoyed a reputation throughout Europe for making top-notch products for windmills. CNBM also saw the company's strength in R&D and Germany's position as the world's largest market for wind energy as major attractions. Moreover, 37% of worldwide wind turbine and component production comes from Germany.

Further, CNBM purchased a 100 percent stake in NOI the following year, renaming and relaunching the company as SINOI GmbH. Thanks to the excellent efforts of its German managers who had previously been NOI employees, the new Chinese-controlled company was able to recover lost profits and regain its customer network. The company is currently planning to expand and increase its workforce from 130 to 200.

The practice of retaining local talent in positions is a major part of the Chinese investment strategy in Germany. This "localization" policy allows the Chinese owners to utilize the expertise of long-serving German workers for optimal results. These examples illustrate that Germany is increasingly becoming a place where Chinese investors are looking to expand into strong and wealthy markets, use the expertise of experienced employees, and earn the trust of a "made in Germany" label. (Invest in Germany, 2008)

According to the latest news, Chinese business delegation, led by Commerce Minister Chen Deming, signed a total of 37 procurement deals worth around 14 billion US dollars on 25th of February (2009) with German companies. These 37 deals are composed of two parts – purchasing contracts, and cooperation agreements which need further negotiations. Moreover, the deals focus on engineering equipment, electronics and auto vehicles like Mercedes and BMW. A draft deal obtained by Xinhua showed that the Chinese side agreed to buy around 37 000 BMW cars and Mini worth around 2 billion US dollars, as well as 27 000 units of Mercedes cars. Chen revealed that apart from the current 200-member delegation, China would send more entrepreneurs to Germany to discuss further investment in both countries.

**Polish and Chinese collaboration.** In 1949 Poland announced its recognition of the People's Republic of China and at the same year, the diplomatic relations at ambassadorial level between two countries were established. During this period investments, trade and other economic relations have been developed from both sides. Recently Polish Information and Foreign Investment Agency has organized two conferences, the theme of which was Polish-Chinese economic cooperation. Chinese expressed an interest in creating an industrial park geared towards drawing in Chinese businesses to Poland.

During the period from 2003 to 2007 more than half of investors in Poland were from countries beyond the EU, mainly from the USA and Japan. (Polish Information and Foreign Investment Agency, 2009) Nevertheless, end of 2006 there were 75 firms with shares of Chinese capital in Poland, with 133 different shareholders. The basic foreign capital of these firms was almost 9 million US dollars, which formed a 0,02% share of the total foreign capital. Further, Poland's obligations regarding China's direct investments at the end of 2007 were 182 million US dollars. Among the most important investment projects included in 2007 from China is listed company TPV Technoogy, which invested 55 million US dollars and created 1200 additional job places. In 2007 the most was invested by firms from the United States (524 million US dollars), Japan (379 million US dollars) and the United Kingdom (104 million US dollars). In addition, the main investor from China in 2008 was Lenovo company. This company invested around 5 million US dollars and created 1276 additional job places in Poland. (Invest in Poland, 2009)

In 2000, China's trade surplus with Poland was 0,76 billion US dollars. Up to the end of 1999, China's total investment in Poland was about 45 million US dollars, ranking the 26th among the countries which had investment in Poland, and Poland's total investment under the agreements was 39 million US dollars and the actual amount invested was 35 million US dollars, ranking the 42nd among the countries having investment in China. Poland had 69 investment projects in China. In terms of actual investment Poland ranked the first among the countries in central and east Europe. In 2001, investment was around one billion US dollars, up 29,5% than in 2000, including China's export of 1,02 billion US dollars, up 18,1%, and import of 0,23 billion US dollars, up 127,3%. By the end of 2001, Poland's investment in China amounted more than 48 million US dollars in contractual capital and around 43 million US dollars in used capital. (MOFCOM)

**China's interest in Russia's region near the Baltic Sea.** Russia is a part of the BSR as well, however there are just three regions, which have coasts with the Baltic Sea, they are St.Peterburg, Leningrad and Kaliningrad. Nevertheless, talking about Russia and China it is worth to say that these two countries have developed their economic relations a lot especially in oil and gas, which is one of the most important part of China-Russia investments, trade and economic cooperation. (Xinhua, 2008)

Krkoska and Korniyenko (2008) in their article stated that Chinese companies in Russia have been successful in winning outsourcing contracts, involving the use of Chinese labor, in construction sector, energy, forestry, agriculture, and textile industry. For instance, one of recently signed contracts in 2006 exceeded one billion US dollars. Such contracts have been growing by over 40% per year and are concentrated mainly in the Far East and Siberia, which suffer from labor shortages. Added to this, during the period of 2004-2007, 54 investment projects have been signed between Russia and China totaling five billion US dollars. According to data from the Ministry of Economic Development and Trade of the Russian Federation this figure will more than double by the end of 2020. The stock of Chinese FDI in Russia is estimated at up to 3 billion US dollars that means less than 5% of total FDI stock in Russia, with the focus on energy, natural resources, building materials, wood processing, manufacturing, the car industry, major appliances, and telecommunications. (Krkoska and Korniyenko,2008) In addition, Prime Minister Vladimir Putin stated recently that Russia would welcome Chinese investment in construction, timber, machine-building and aviation. (Herald Tribune, The Global edition of New York Times, 2009)

In addition, the biggest China's investment project in St.Peterburg as well as in the whole Russia is The Baltic Pearl project. This project started in April of 2002, on the initiative of the heads of governments of China and Russia, companies led by Shanghai Industrial and investment company set up in St. Petersburg. The Baltic Pearl project occupies an entire district to the southwest of St. Petersburg and includes space for commercial activity, residential use, and social services. The whole project is being financed and planned by a consortium of companies from Shanghai, China. The main investor is the Shanghai Industrial Investment Company (SIIC), which is primarily capitalized by the Shanghai municipal government. (Woodrow Wilson International Center of Scholars, 2009) The Baltic Pearl constitutes the largest single investment project that Chinese firms have initiated outside the borders of China and it reaches almost 1,3 billion US dollars. (China International, Electronic Commerce Network, 2009)

Talking about other Russia’s region located near the Baltic Sea it is necessary to say that trade between China and Kaliningrad has increased rapidly during the last period. For instance, during the period of 2002-2006, trade has increased fourteen times and was amounted to 713 million US dollars in 2006. This placed Chinese imports firmly in second place out of all imports to Kaliningrad, trailing only Germany. The main imports from China were parts for the production of TVs and home appliances. (Helsinki School of Economics, Kaliningrad Province in 2006, Biannual Monitoring Review)

Furthermore, trade volumes between China and Russia reached approximately 50 billion US dollars in 2007 and this number is growing every year. China is now Russia's third largest trade partner, importing mostly energy and timber. Russia at this moment is China's eighth largest trade partner, importing a wide range of mostly finished industrial goods. More than 20% of trade between China and Russia is accounted for the shuttle trade, with important implications for investments by Chinese small and medium-sized enterprises. (L.Krkoska, Y.Korniyenko, 2008) In addition, according to Chinese Premier Wen Jiabao, the target of 60-80 billion US dollars in bilateral trade by 2010 set by both sides can be met. (People Daily, 2009)

## 6 Conclusions

China is increasingly investing abroad. Until 2009, China has primarily been known as a recipient of foreign investment, but within the last few years China's investments abroad have risen substantially. Nevertheless, having in mind that China's economy is still growing and it just recently started to search for new opportunities in the BSR markets, it is very important to say that not every country of this region can be proved of having big amounts of foreign investments from China.

During this research it was found that Chinese foreign investment flows to the BSR countries are still at a very low range. For instance, Latvia and Norway do not provide any data related with Chinese investments in these countries, which is due to very small amounts of China's investments in them. It was also found that Chinese smaller investors usually face the problem of information scarcity related with investment projects in the BSR. This is usually due to language differences, because most of projects are presented and provided in native countries languages and there are not enough literature related with investment climate and opportunities in Chinese. This problem could be solved by creating one organization inside the China, which could help to collect and provide all needed information for Chinese investors.

Moreover, it should be also mentioned that Chinese investments in the BSR as well as in other countries will decrease in 2009, due to global economic crises. Because of the crises most of the China's biggest investors prefer to invest in their country instead of looking for investments opportunities abroad. In addition, at the end of 2008 it was strictly recommended by China's Government not to invest in foreign countries, but choose domestic companies. The exception was made for projects, which are mostly related with energy, various materials mining or development of infrastructure, to be more precise, projects which are usually funded by foreign Governments. This was done because of the wish to raise China's economy as well as to create additional value for its investors.

Furthermore, going briefly through all the countries groups to which the BSR countries were divided, it was found that in Baltic States Estonia is described as having China's interest mostly due to this country's favorable geographic position, its good transport infrastructure and strong scientific and technical potential. While talking about China and Latvia it could be stressed that the two-way investments between China and Latvia are at a quite low level and investments which have been made between these two countries are mostly focused in tertiary industry like trade, catering and service in form of private and family enterprises. The last country in the smallest BSR countries group is Lithuania, where the most part of Chinese investments in 2007 was in various electronic devices.

The second group is made from medium sized countries, Nordic countries, which are Denmark, Finland, Norway and Sweden. It was found that Chinese investments promotion efforts in Denmark primarily focus on investments within IT, life sciences and energy. Further, Chinese companies by investing in Denmark are trying to combine their own competitive production base with competitive R&D and knowledge base of Denmark. Talking about Finland, it was found that the biggest China's interest in Finland is related to telecommunication equipment, IT and other technological cooperation due to strong Finland's knowledge and experience in these markets. Almost the same situation is in Norway, where the main fields of Chinese investment are post and telecommunications, electronics, machinery, transportation, light industry, agriculture and environmental protection. And about Swedish economic and investments relations with China it could be said, that Chinese investments in Sweden are limited but the number is growing. The most known Chinese investments in Sweden are research and development sites of two telecommunication companies Huawei Technologies and ZTE.

Finally, due to their sizes the "Big Three" countries in the BSR are defined as Germany, Poland and Russia, where China can find quite many opportunities and advantages. For instance, during the research it was found that Chinese companies in Germany usually seek for opportunities to use specialized German employees' and institutes' knowledge and they usually do this by creating new companies or taking over existing ones that have talented employees but are experiencing financial difficulties. These examples can easily be found in sectors as diverse IT, machine building, medical technologies, and renewable energies. Moreover, Chinese firms particularly are looking for renewable energies market in Germany as well as for the country's expertise and infrastructure to increase sales and develop new markets in Europe. Another country is Poland, where in 2007 and 2008 among the most important projects were also technology orientated companies such as TPV Technology and Lenovo. The last biggest country in the BSR is Russia, where Chinese companies have been successful in winning outsourcing contracts, involving the use of Chinese labor, in construction sector, energy, forestry, agriculture, and textile industries. It was also found that St.Petersburg is one of the most important destinations of Chinese investments due to availability of natural resources, particularly timber, oil and gas. In addition, the biggest China's investment project in St.Peterburg as well as in a whole Russia is The Baltic Pearl project, which constitutes the largest single investment project that Chinese firms have initiated outside the borders of China and it reaches almost 1,3 billion US dollars.

At the end it could be said that the BSR as well as other countries have a strong potential for attracting Chinese investments. In this report basic investments were described recently made by Chinese investors and it is strongly believed that the number of these investments will grew substantially in the near future. In words of one of the greatest man in the world:

*"Let China sleep*
*for when she awakes,*
*she will shake the world"*

(Napoleon Bonaparte)

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## Appendices

### China's FDI in Baltic States, (million US dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Estonia** | 0,0 | 0,0 | 0,7 | -3,7[3] | -1,2[3] |
| **Latvia** | N/A | N/A | N/A | N/A | N/A |
| **Lithuania** | 10,5 | 8,2 | 3,8 | 4,0 | 3,8 |

Sources: National Banks; Department of Lithuanian Statistics 2009

### China's FDI in Nordic Countries, (million US dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Denmark** | 0,0 | 0,0 | 17,6 | 0,0 | 0,0 |
| **Finland** | 28,1 | 11,5 | -1,3[3] | -10,2[3] | -26,8[3] |
| **Norway** | N/A | N/A | N/A | N/A | N/A |
| **Sweden** | 0,0 | 0,0 | 0,0 | -21,1 | -44,7 |

Sources: National Banks; Statistics Norway, 2009

### China's FDI Germany, Poland, Russia, (million US dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Germany** | 389,9 | 139,9 | 208,2 | 395,8 | -35,0[3] |
| **Poland** | 0,6 | 2,7 | 46,3 | 25,3 | 78,4 |
| **Russia** | N/A | N/A | N/A | N/A | 112,0 |

Sources: National Banks, 2009

### Inward FDI flows in the BSR (million US dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Denmark** | 2611 | -10716[3] | 12890 | 3615 | 11224 |
| **Estonia** | 919 | 971 | 2879 | 1674 | 2482 |
| **Finland** | 3319 | 2826 | 4750 | 5481 | 8476 |
| **Germany** | 32369 | -10188[3] | 41969 | 55171 | 50925 |
| **Latvia** | 304 | 637 | 713 | 1664 | 2173 |
| **Lithuania** | 179 | 773 | 1032 | 1840 | 1934 |
| **Norway** | 3471 | 2544 | 5413 | 6475 | 602 |
| **Poland** | 4589 | 13091 | 10363 | 19198 | 17580 |
| **Russia** | 7958 | 15444 | 12886 | 32387 | 52475 |
| **Sweden** | 4985 | 11463 | 10169 | 23162 | 20952 |

Sources: UNCTAD

[3] A negative sign denotes a net inflow - foreign investments in country X exceed foreign disinvestments in country X (Bank of Sweden, 2009).

**List of Major Investors in Poland (2007 December)**

| Investor name | Country of Registration | Country of Origin | Activities |
|---|---|---|---|
| Digital View | China | China | Manufacture of electrical machinery and apparatus |
| Dong Yun | China | China | Manufacture of metals and metal products |
| Min Hoong Development Co. | China | China | Hotels and restaurants |
| Sino Frontier Properties Ltd. | China | China | Construction |
| Suzhou Victory Precision Manufacture Co. | China | China | Manufacture of rubber and plastics |
| TPV Technology Ltd. | China | China | Manufacture of electrical machinery and apparatus |

Sources: Polish Information and Foreign Investment Agency, 2009

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