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Contents

Executive summary

The annual FDI outflows from China were in 2005 already worth US$ 11 billion, up some 500 % from previous average level, and are expected to grow 2 to 5 times even in the near future. Most of the planned FDI outflows have earlier been found to be targeted in diverse sectors in Asia, Europe and North America. Earlier motives indicate that Chinese companies invest overseas to seek new markets, natural resources, technology or brands.

This is the first research, which aims at exploring the motives of Chinese foreign investments in the Baltic Sea region (BSR). In order to analyse Chinese companies from the perspective of their competitiveness, the research problem was further elaborated into two sub-questions:
1. What are the *existing* sources of competitive assets which the Chinese companies exploit when investing in the Baltic Sea region?
2. What are the *alternative* sources of competitive assets which the Chinese companies are seeking by investing in the Baltic Sea region?

The empirical part consists of five case studies. The case studies were conducted during the spring-summer 2006. The case studies rely mainly on the interviews. In addition, secondary data was collected from statistical resources, Internet and expert interviews as a background material for the research.

Chinese exports account already a significant share of imports of the region. As a trade partner, individual countries, such as Germany and Russia, are also important target markets for China. Despite of increasing trade and great potential, Chinese companies are not yet remarkably present in the Baltic Sea region. They have invested only some hundreds of millions, and where statistics are available, their share of total inward FDI stock remain a fraction of a percent.

However, some Chinese companies have already invested in the Baltic Sea region to improve their presence in the market. In the Baltic Sea region, Chinese companies are mainly interested in **local knowledge**, access to local and global **company networks**, **product-related know-how**, and a possibility to improve **image**. Thus, it seems like

the Baltic Sea region would not be that exceptional case as a target of Chinese foreign investments. The FDI in natural resources in the Baltic Sea region is however less emphasised and was not found in case studies, which can be partly explained by their industry.

It was found out in the research that **Chinese invest in region to improve their market position**. For many companies, they have earlier been relying on local partners to take care of the sales, but have later become interested in internalising the local knowledge about the market by buying or setting up joint ventures with their long-term partner (China Shipping Container Lines, COSCO), by buying new partners (Dalian Machine Tool Group), or by establishing an affiliate on greenfield basis (Air China, Hongfa). One of the main benefits of having a branch office is the outside appearance that people know that the company is in Europe to stay and that they are committed to their European business activities. It was also emphasised that local market knowledge was available only by investing in the market.

It was found out that **the investments were aimed at getting access to local network**. It was considered in many companies that the investment improves their possibility to co-operate with local companies more easily. This was stated also in Hongfa, which has before operated mainly on its own. Investments in the Baltic Sea region may also improve the company's position in the global networks. It was, for instance, mentioned that the outside appearance is very important for a Chinese company to show that it is a good and a solid company. Thus, investments in the Baltic Sea region may improve their image by internalising local branding and designing skills.

Thus, it can be seen that Chinese companies should not only raise concerns among local companies as they also provide opportunities for growth. Firstly, Chinese companies need partners and services abroad. Secondly, cooperation with them may provide a valuable linkage to the Chinese market. Thirdly, some Chinese companies have already become significant sources of information, and these companies can be important partners in research and development projects.

The existing competitive advantages of Chinese companies stem from established networks with other, mainly Chinese, companies, from low cost level, and from product-related know-how, which has accumulated from inward FDI in China and from other modes of cooperation with international companies. Especially, when Chinese companies are able to internalise the value adding activities of the Baltic Sea region to improve their products, their companies can soon be surprisingly more competitive. It has often been thought that this should wait for China's further development, but with massive foreign reserves they have all the money which is needed for the shortcut.

It is notable that access to local knowledge is a kind of an asset which benefits the investor only in the Baltic Sea region markets. Other sources of competitiveness which the Chinese companies were found to seek from the Baltic Sea region, namely access to networks, product-related know-how, and image, improve the investors position not only in the Baltic Sea region but can also be exploited in the home market and globally.

Spatially determined sources of competitiveness seem to have lost their relevance, and this seems also to be the case among Chinese investors in the region, which are interested in company networks. As the motives of Chinese companies to invest in the Baltic Sea Region are diverse and the investments are anticipated to increase in the future, this requires activities from the local business, policy-makers and the academia to better adapt to the changes caused by the emergence of Chinese companies in the future. Although the competitive pressure does not seem to be the most current issue, it should be one of the first things in mind when companies place themselves in the development of the global economy.

Chinese investments in the knowledge-intensive network economy raises new challenges for policy makers within the Baltic Sea region. One of the most important challenges is how to attract Chinese investments into the region. It is suggested in the paper that the idea on a common, regional investment promotion agency should be further elaborated, and to become a kind of a matchmaker which would enable the region to take the most of the available benefits of the new phenomenon.

1 INTRODUCTION

1.1 China's role in the global economy

China is the most populous country in the world, but to date, its role in the global economy has not been as significant as its size. However, during the past few years China's role has been emerging rapidly, especially due to its high economic growth figures for the last 10–20 years. Following the gradual economic reforms, China has reached average annual growth figures of some 10 %. China's emerging role in the global economy can be also seen at the soaring levels of Chinese exports. The economic growth is forecasted to continue in China at the level of 9.0 %[1] in 2007. At the same time, the rest of the world is estimated to grow at the level of 4.8 %. The difference is likely to remain in the future and thus it is possible that China's share in the world economy could double within the next ten or twenty years. (IMF 2006.)

Table 1 China in the global economy in 2005

	China	**Comparable share**
Population	1.3 billion	20 % of world total
Gross domestic product (GDP)	US$ 2,200 billion	5 % of world total
GDP (PPP adjusted)	US$ 8,900 billion	15 % of world total
GDP per capita (PPP adjusted)	US$ 6,800	25 % of EU-25 average
GDP real growth rate	9.9 %	4.8 % world average
Exports	US$ 752 billion	6 % of world trade
Imports	US$ 732 billion	6 % of world trade
Foreign exchange reserves	US$ 795 billion	Largest in the world
Inward FDI flows	US$ 72 billion	8 % of world total
Inward FDI stock	US$ 318 billion	3 % of world total
Outward FDI flows	US$ 11 billion	1 % of world total
Outward FDI stock	US$ 46 billion	0 % of world total

Sources: CIA World Factbook (2006), IMF (2006), NBS (2006), WTO (2006), author's calculations

[1] With an annual economic growth rate of 7,2 % China's economy would double again in 10 years.

The gradual reforms of Chinese economy can be seen in its opening up to foreign trade. As a result, China has become a main source of many commodities in the global marketplace. In turn, it is also a major recipient for many products, particularly in raw materials.

Due to China's emerging role in the global economy and her huge market potential, China has attracted massive inflows of foreign direct investment[2] (FDI). On an annual basis, the inward FDI flow has increased to over US$ 72 billion (UNCTAD 2006a). This has made China one of the most important targets of FDI on a global scale.

It is, however, not only FDI inflows to China but also Chinese FDI outflows which have started to attract attention in the media. The vivid discussion has, however, resembled the characteristics of sinophobia, as close relations between the investing companies and the Chinese government have raised concerns on the ultimate intentions of the investors (e.g. Schüller & Turner 2005).

There are already more than 10,000 Chinese companies which have operations outside China[3] (Hess 2006), and a small part of these companies[4] are already considered to be truly global companies which challenge Western companies in lucrative markets. The importance of the phenomenon is emphasised by Hemerling et al. (2006): "*the transformation of the global economy by a new generation of competitors from rapidly emerging economies… …is perhaps the most important of the trends that will shape the world economy in the years to come*".

[2] FDI represents an investment in an enterprise made by a foreign-investing firm, involving a long-term relationship and a certain degree of control over the company by the foreign equity owner (Frost 2004). In this paper the concepts of FDI and foreign investment are used interchangeably.

[3] It is however noted that a significant proportion of this total is probably made up of "as-yet-unfilled commitments", as contractual investment commitments were about 4 times the accumulated FDI in the beginning of 21st century (Hess 2006).

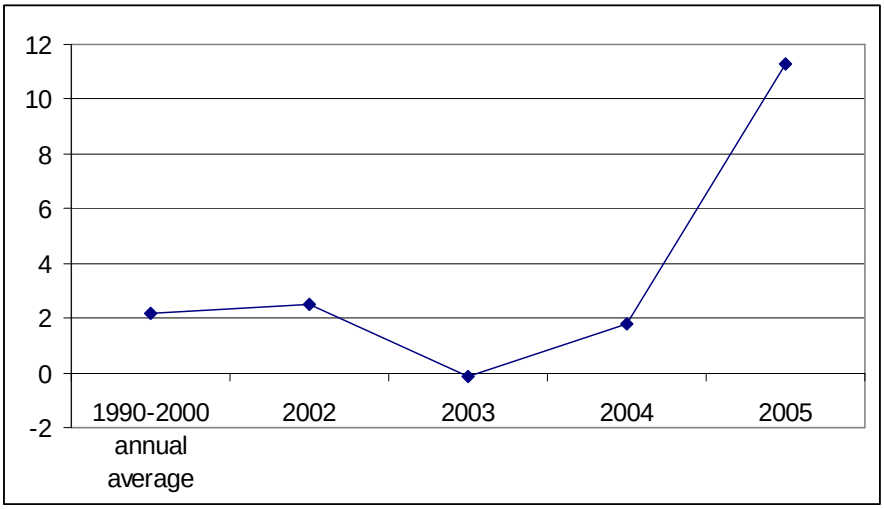
[4] IBM Institute for Business Value (2005) estimates that there are currently some 60 companies with global potential in China. Currently, already 20 Chinese companies are listed in the Fortune 500 list (2006) where companies are listed according to their revenue (see Appendix 7). In the Baltic Sea region, Denmark has 2, Finland 2, Germany 35, Norway 2, Russia 5, Sweden 6 and the Baltic States and Poland no companies in the list. Without German companies (35) the Baltic Sea region has altogether less (17) companies in the list than China alone. Moreover, China National Petroleum and State Grid are 2nd and 3rd largest employers in the world, respectively, which shows the significant size of some of Chinese companies. However, some of these companies are mainly domestic operators and are not listed by UNCTAD for instance.

Development of Chinese outward investments: The historical development of Chinese foreign investments has been reported by Wu and Chen (2001). They have analysed how the changes in the government's approach to the internationalisation of Chinese companies has affected China's outward FDI flows. Before China began its process of economic liberalisation in the late 1970s, the government had adopted an inward-looking economic policy with emphasis on self-reliance and economic independence. There were basically no outward FDI, as the government was strongly against FDI in any direction. As a result of economic liberalisation, China came to adopt a different attitude towards the importance of FDI, and it did not only start welcoming capital, technology and management experience from abroad, but it was also encouraging the expansion of foreign investment by Chinese enterprises. As a corollary, outward FDI has become a part of the strategy for China's economic development.

From 1979 to 1985, foreign investments could be undertaken only by state-owned import and export corporations under the approval of the Ministry of Foreign Economic Relations and Trade (MOFERT), and by provincial and municipal international economic and technological cooperation enterprises regulated by the Commission for Foreign Economic Relations and Trade (Tan 1999). China's foreign investment policy was initially intended to enhance China's international political and economic influence, rather than to maximise profits. The first investors were basically trade corporations, which tried to enter foreign business arrangements by taking advantage of their existing international business links and their higher autonomy in operation which had been granted by central and local governments. Later on, China began to place more emphasis not only on the political objectives but on the trade-related issues with the desire to develop new markets, increase exports, exploit local conditions and obtain new resources. Since the emergence of Chinese foreign investments, the motives have thus consequently experienced slow strategic shifts from political objective-centred to commercial interest-oriented motives. Simultaneously, the motives of Chinese investments have developed from resource-seeking to the combination of resource-, market-, and technology-seeking motives. (Wu & Chen 2001; Hong & Sun 2004.)

Prior to 1985, when all enterprises were given permission to establish subsidiaries in other countries[5], investments were mainly targeted in catering, engineering, finance and insurance, and consultancy. Few of the Chinese foreign subsidiaries were involved in manufacturing activities, but this changed in the latter part of the 1980s. The industries into which Chinese capital flowed became more diversified, including metallurgy and minerals, petro-chemicals and chemicals, electronic and light industry, transportation, finance, insurance, medicine and tourism. (Tan 1999.) As a result of this early boom, annual FDI outflows increased in China from US$ 134 million in 1984 to US$ 850 million in 1988[6]. Eventually, this boom was affected by the government's retightening of central control and suspension of the approval of trade-type overseas enterprises. In the early 1990s, the Chinese government, however, formulated the strategy of utilising both domestic and international resources and markets. As a result, China's outward FDI flows expanded to US$ 4,400 million in 1993, and kept the level of about US$ 2,000 million during the latter part of the 1990s. (Yang 2003.) The growth continued at the beginning of the 21st century, and in 2005, China's FDI outflows reached already US$ 11 billion[7] (UNCTAD 2006a).

Figure 1 Development of China's outward FDI flows in US$ billion



Source: UNCTAD (2006a)

[5] Given that the enterprise has sufficient capital and technical and operation know-how, and if a suitable partner can be found (Tan 1999).
[6] SAFE data

The emergence and development of China's foreign investments can be thus interpreted as following China's market-oriented reforms. These reforms have had two opposite effects on the development of Chinese FDI outflows. While firms have slowly gained more freedom to engage in foreign operations, the maturing of China's market mechanism has reduced the benefit of an international network to some extent, as being able to invest overseas has become "less privileged" in taking advantage of the barriers between domestic and international markets. The reduction of both domestic and international barriers has reduced the profit margins of undertaking roundabout investments and benefiting from the established commodity chains overseas. Nevertheless, the normal benefits of international networking still exist. (Yang 2005.)

Chinese government has been executing its "Go Out" policy, in practice, already since the early 1990s. It was considered by the former President Jiang Zemin that in order to open the country wider to the outside world, Chinese enterprises should expand their investments abroad. The State Council assembled a team of 120 state-owned companies which were to lead this internationalisation process. These companies were provided with high levels of protection, financial support, and special rights in management autonomy and profit retention by the state. (Wu 2005.)

However, it was only in 2003, when the Chinese government launched its notorious Go Out ("Zou Chu Qu")-programme to encourage country's companies to invest overseas, and to strengthen their competitiveness by further reducing foreign exchange-related obstacles. In fact, only after the launch of the programme, the global economy has witnessed the remarkable manoeuvres of Chinese multinational corporations (MNCs). Major outbound acquisitions by Chinese companies since the implementation of the Go Out-programme are listed in Table 2. The most notorious of these acquisitions is perhaps Lenovo's US$ 1.8 billion acquisition of IBM's PC hardware division in 2004. In addition, there has been other high-profile though unsuccessful bids. Haier offered US$ 1.3 billion for Maytag, China Minmetals offered US$ 7.5 billion for Canada's largest mining company Noranda, and China National Offshore Oil Corporation (CNOOC) attempted an acquisition of Unocal, California-based oil company, by US$ 18.5 billion.

[7] It is also noted in UNCTAD 2006a that as many international M&A deals by Chinese companies are financed outside China, their outward FDI performance may be significantly underestimated.

Table 2 Major foreign acquisitions by Chinese companies (May 2003-December 2005)

Chinese bidder	Announcement date	Deal status	Stake	Bid value EUR million	Target
CNOOC	May 2005	aborted	(100 %)	15,255	Unocal, USA
PetroChina	Aug 2005	completed	100 %	3,204	PetroKazakhstan, Canada
Lenovo	Dec 2004	completed	100 %	1,303	IBM (PC division), USA
Haier	Jun 2005	aborted	(100 %)	1,050	Maytag, USA
CNOOC	Oct 2003	pending	13 %	593	Repsol-YPF (Indonesian assets), Indonesia
TCL	Nov 2003	completed	67 %	450	Thomson SA (television division), France
Nanjing Auto	Jul 2004	completed	49 %	419	Ssangyong Motor, South Korea
CNPC, PetroChina	Jun 2005	pending	100 %	370	PetroChina International, Indonesia
Nanjing Auto	Jul 2005	completed	100 %	72	MG Rover, UK

Source: Lunding (2006)

In terms of the number and the deal value of M&A deals, Chinese investments in foreign companies grew from 1986 through 2005 at an average annual rate of 11 and 22 percent, respectively (Hemerling et al. 2006). This shows that M&A activity is not only becoming more popular among Chinese companies but they are also interested in bigger deals in the global company markets.

According to LOCOmonitor (2006), in 2005 Chinese companies contributed 1.4 % of global FDI projects with approximately 10,000 capital investment projects worldwide, a slight increase on the 1.1 % share in 2003. This ranks China equal 16th out of 97 countries, alongside Australia and Denmark.

Yang (2005) argues that the recent growth of Chinese outward FDI activity can be related to a number of factors. For instance, China's accession to the World Trade Organisation (WTO) in 2001 brought both pressure and impetus for the internationalisation of Chinese companies. The companies have also gradually become more competitive in certain production technologies in the global economy. Recently, the average size of Chinese FDI projects has been increasing, which has led to the more significant role of large companies undertaking foreign investments, and to the improvement of the investment ability of Chinese firms. Furthermore, mergers and acquisitions (M&A), and equity swap have gained popularity as investment modes, and a growing number of FDI projects are undertaken by non-state-owned enterprises.

In the global scale, the figures on the individual value of Chinese outward FDI projects are still small, and consequently the Chinese FDI outflows (2005: US$ 11 billion) and stock (2005: US$ 46 billion) remain comparatively low. For instance, on the "Outward FDI Performance Index" China is currently ranked 71st out of 141 economies covered in the survey. The Outward FDI Performance Index measures "*the world share of an economy's outward FDI as a ratio of its share in world GDP*". Thus, China's weak performance in the index suggests substantial potential for the future expansion of Chinese outward FDI. China's outward FDI stock has remained around 2 percent of its GDP, whereas for developing economies it has been around 13 percent and the world average is closer to 25 percent. (UNCTAD 2006a; 2006b.)

Table 3 Foreign direct investment flows and stocks in China, developing economies and the world

	US$ million			as a percentage of gross fixed capital formation		
FDI flows	***1990-2000***	***2004***	***2005***	***1990-2000***	***2004***	***2005***
China						
Inward	30,100	60,600	72,400	11.3	8.0	9.2
Outward	2,200	1,800	11,300	1.0	0.2	1.4
Developing economies						
Inward	134,700	275,000	334,300	8.9	10.7	12.8
Outward	56,600	112,800	117,500	3.3	4.8	5.1
World						
Inward	495,400	710,800	916,300	7.6	7.7	9.4
Outward	492,600	813,100	778,700	7.7	9.3	8.3
	US$ million			as a percentage of gross domestic product		
FDI stocks	***1990***	***2004***	***2005***	***1990***	***2004***	***2005***
China						
Inward	20,700	245,500	317,900	5.4	14.9	14.3
Outward	4,500	35,000	46,300	1.2	2.1	2.1
Developing economies						
Inward	370,300	2,349,400	2,756,900	26.3	27.9	27.0
Outward	148,700	1,120,000	1,273,600	13.0	13.3	12.5
World						
Inward	1,789,300	9,544,900	10,129,700	18.3	23.3	22.7
Outward	1,791,100	10,325,200	10,671,900	20.5	25.2	23.9

Source: UNCTAD (2006b)

Table 4 China's outward FDI flows and stock in a comparative prism

	Average annual FDI outflow (US$ billion)		Outward FDI stock (US$ billion)	
Country	**1990-2000**	**2002-2005**	**1990**	**2005**
The United States	92.0	118.5	430.5	2051.3
Hong Kong	20.4	25.3	11.9	470.5
Japan	25.4	34.5	201.4	386.6
Singapore	4.8	4.9	7.8	110.9
Taiwan	3.8	6.2	30.4	97.3
China	**2.2**	**3.9**	**4.5**	**46.3**
Malaysia	1.6	2.1	2.7	44.5
South Korea	3.1	3.8	2.3	36.5
Indonesia	0.6	1.7	0.1	13.7
India	0.1	1.6	0.1	9.6
Thailand	0.4	0.2	0.4	3.9

Source: UNCTAD (2006b)

In 2004, the 10 largest non-financial Chinese MNCs controlled foreign assets already worth over US$ 40 billion (Table 5). The foreign assets of these ten companies are not however that impressive in the global scale, which indicates that Chinese multinational companies remain relatively small in the global economy. For instance, the US-based multinational conglomerate General Electric has alone foreign assets worth US$ 450 billion, ten times more than these ten largest multinationals altogether. (UNCTAD 2006b.)

Table 5 The 10 largest non-financial Chinese MNCs in 2004

Rank	Corporation	Industry	Foreign assets (US$ million)
1	CITIC Group	Diversified	14,500
2	China Ocean Shipping Company	Transportation and storage	9,000
3	China State Construction Engineering Corporation	Construction	4,400
4	China National Petroleum Corporation	Petroleum exploration / refining / distribution	4,100
5	Sinochem Corporation	Wholesale trade	3,800
6	TCL Corporation	Electrical and electronics	2,700
7	China National Offshore Oil Corporation	Petroleum and natural gas	2,300
8	China Minmetals Corporation	Metals mining and processing	1,100
9	Cofco International Ltd.	Food and beverage	900
10	BOE Technology Group Company Limited	Computer and related activities	800
Total			**43,600**

Source: UNCTAD (2006a)

Distribution of China's outward FDI: China has undertaken FDI already in over 150 countries worldwide. Although Chinese FDI can be found in many countries, they are concentrated in a small number of destinations. The United States, Hong Kong, Canada and Australia have received some 40 % of the total investment outflows. The main reason why most of the investments are situated in the developed countries is that these nations have extensive resources, which attract large state-owned Chinese investors. In addition to resource-seeking motives, also transaction-enforcing and position-improving motives may explain the targets of Chinese investments. These kinds of investments are targeted in countries where export markets exist. Whereas in investments in developed countries FDI is mainly export-oriented, in developing countries it is mainly targeted in overseas manufacturing. (Yang 2005.)

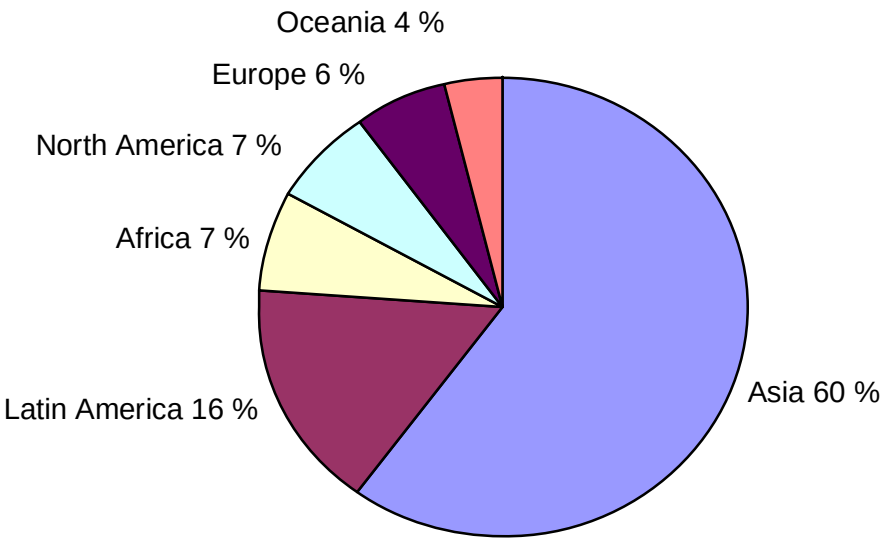
Yang (2005) argues that the reason why Chinese outward FDI has been concentrated in just a few developed countries is that other developed countries may lack the market conditions enjoyed by countries such as the United States. Moreover, the USA, Canada and Australia have all English as an official language and they all share the same Anglo-Saxon culture. These similarities benefit business operations, especially in terms of human resources and contract negotiations. Nevertheless, generally cultural proximity, in addition to that of geographical proximity, has played a limited role determining geographical targets of Chinese FDI.

Most of the recipient countries and regions offer favourable investment environments, including sound financial markets and consumer markets, highly developed technology, advanced management methods, superior infrastructure et cetera. China can thus use overseas investment to acquire the advanced technology it needs, and learn advanced management methods. (Wu & Chen 2001.)

During the past few years there has been a change in favour of Asia at the cost of North America in the regional distribution of Chinese FDI outflows. This is closely connected to the growing interest of Chinese companies in increasing market share in Asia. However, the large share of Latin America and Asia, especially the Cayman Islands, the Virgin Islands and Hong Kong, as the recipients of Chinese FDI may possibly indicate that almost half of the Chinese FDI outflows either return to China or are reinvested elsewhere. (Hong & Sun 2004, Schüller & Turner 2005, Hess 2006.)

Hong Kong is usually the first stop along the path of the internationalisation of these first-generation Chinese TNCs and it remains the major location for their "overseas" operations. In the mid-1990s, some provincial governments established so-called "window companies" in Hong Kong, such as Guangdong Investment Limited, Beijing Enterprises Holdings Ltd., Tianjin Development Holdings Limited and Shanghai Industrial Holdings. Today, these companies, as well as flagship subsidiaries of central government-owned China Resources and China Merchants, are considered MNCs from Hong Kong. (UNCTAD 2006a.)

Figure 2 Chinese FDI outflows by destination in 2005, based on the data by MOFCOM



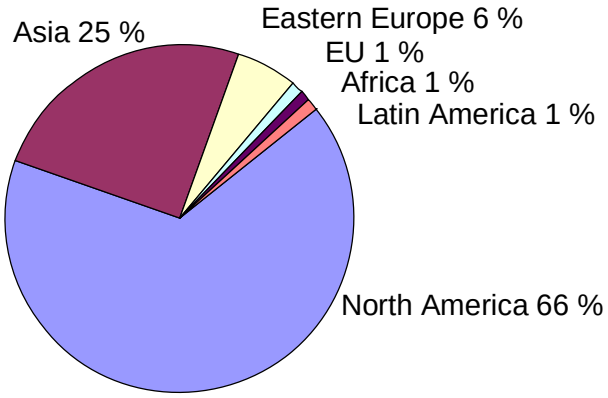
Source: Lunding (2006)

It is possible that some Chinese companies invest abroad also via Hong Kong[8], and partly the investments in Hong Kong are a practice of "round-tripping", where investments from China end up in China. The share of round-tripping investments out of all Chinese investments are estimated to range between 25 and 40 %. (Hess 2006.)

[8] Hong Kong and Macao are technically parts of China, but treated separately in FDI statistics. The FDI outflow figures have been in Hong Kong close to tenfold compared to the mainland China during the past 15 years. As a result Hong Kong has FDI outward stock of US$ 470 billion, which is more than ten times of China's outward FDI stock. In Macao, in turn, outward FDI stock is only a percent ($US 470 million) of mainland's figure. (UNCTAD 2006b.)

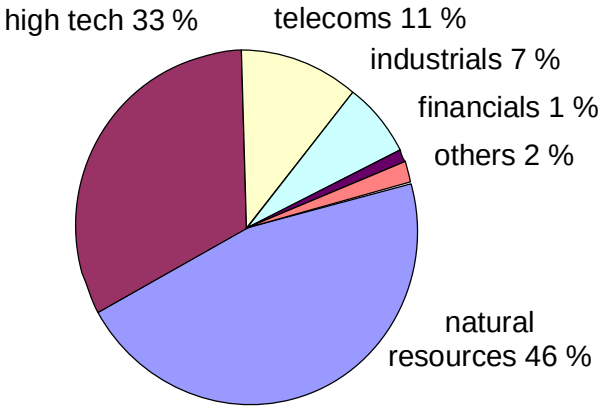
The huge share of Asia as a recipient of Chinese FDI can also be partly explained by the return of Hong Kong to China in the late 1990s, when mainland companies took control of strategically important assets in Hong Kong[9]. When China joined the WTO in late 2001, broader range of industries and countries were seen as targets for Chinese M&A activity. (Hemerling et al. 2006.) As a result, more recently, most of the outbound M&A transactions by Chinese companies have been targeted in North America.

Figure 3 Chinese outbound M&A investments in bid value by destination, January 1999 to June 2005



Source: Schüller & Turner (2006)

Figure 4 Chinese outbound M&As by sector, in 2005, based on the data by MOFCOM



Source: Lunding (2006)

[9] If investments into Hong Kong is taken out of China's regional total, the FDI outflows to Asia are comparable to North America and Europe (Hess 2006).

According to MOFCOM's rankings, Russia and Denmark are among top ten country target for Chinese outward FDI. Resource-rich Russia has emerged as the third most important country for that respect – a change which has been considered reflecting a change in a continuous thaw in the bilateral relations of the two countries (Wu 2005).

Table 6 Distribution of Chinese companies abroad by country and region in 200310

Region	Number	Percentage
Hong Kong and Macau	2,336	31.2 %
Central and Eastern Europe	865	11.6 %
ASEAN	857	11.5 %
USA	786	10.5 %
Middle East and Africa	769	10.3 %
EU-15	432	5.8 %
Latin America	384	5.1 %
Japan	250	3.3 %
Australia	225	3.0 %
Canada	155	2.1 %
Others	411	5.5 %
Total	**7,470**	**100 %**

Source: Wu (2005) based on the data by MOFCOM

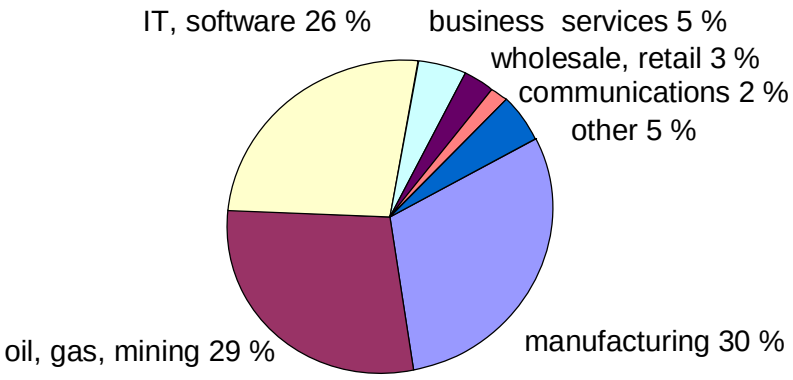
Although traditionally Chinese investments have been targeted in Asia and North America, Chinese companies have recently become interested in growth and profit potential in Europe, too (von Keller & Zhou 2003). However, according to the estimates by Eurostat (2006) China's FDI stock reached some US$ 750 million in EU-25 in 2004. The figure shows not only the severe statistical problems but also the low level of Chinese investments in Europe.

According to Yang (2005) the geographical distribution of Chinese FDI reflects the motives of Chinese firms in investing abroad. In general, investments in resource seeking are concentrated in natural resource rich and technologically advanced countries. In fact, estimates show that resource rich countries account for some 25–30 % of Chinese outward FDI stock. Market transaction enforcing and position improving investments are in turn targeted in countries with relatively large markets.

[10] Wu (2005) points out that MOFCOM's reported number of Chinese companies abroad is significantly underestimated. Therefore, it should be only considered as a reference to distribution of Chinese companies, instead of showing the actual volume of Chinese companies in a given region.

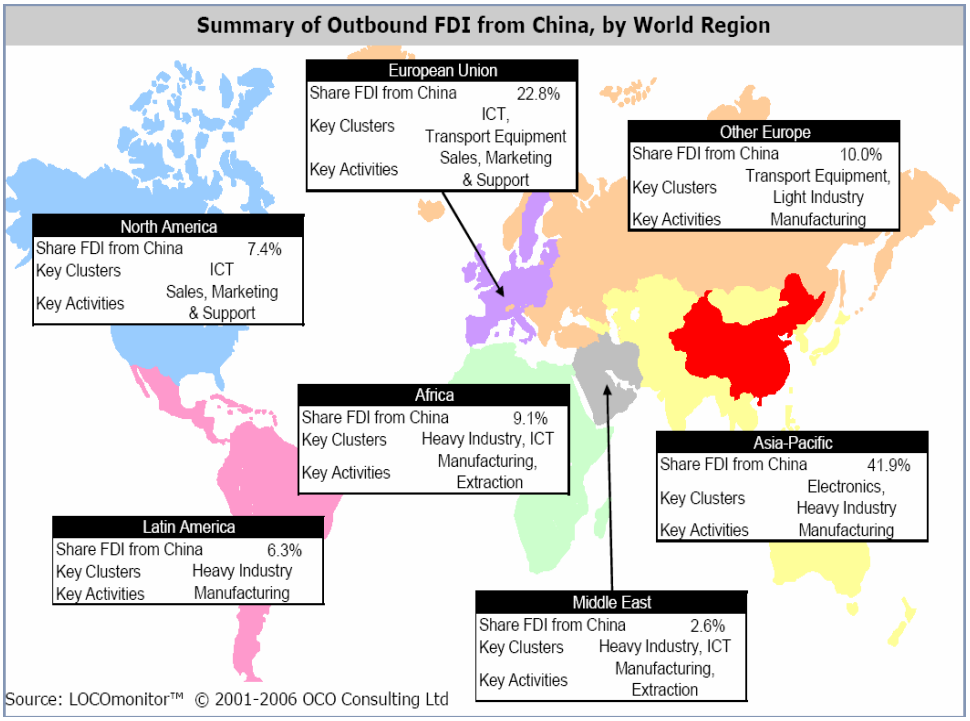
During the 1990s, the natural resource-seeking outward FDI continued its expansion, with an increasing emphasis on fuel and general raw materials. As a result, some 30 % of China's cumulative FDI outflows have been categorised as natural resource-seeking. (Hong & Sun 2004.) As a consequence, up until today, investments in resource-seeking activities have made up a considerable share of China's total overseas investment.

Figure 5 Chinese outward FDI flows by sector in 2005 based on the data by MOFCOM



Source: Lunding (2006)

Figure 6 Outward FDI from China, January 2003 to March 2006



Source: LOCOmonitor (2006)

The anticipated development of Chinese outward foreign investments: As economic growth, inward investments and exports are all booming in China, it is expected that outward FDI from China will grow in the near future. Nevertheless, Chinese FDI outflows are expected not only to grow but to become more diverse. Especially, the private enterprises are expected to play more significant role. However, as long as state-owned enterprises act as the dominant forces of FDI outflows, the international pattern of FDI remains more or less politically coloured. (Yang 2005.)

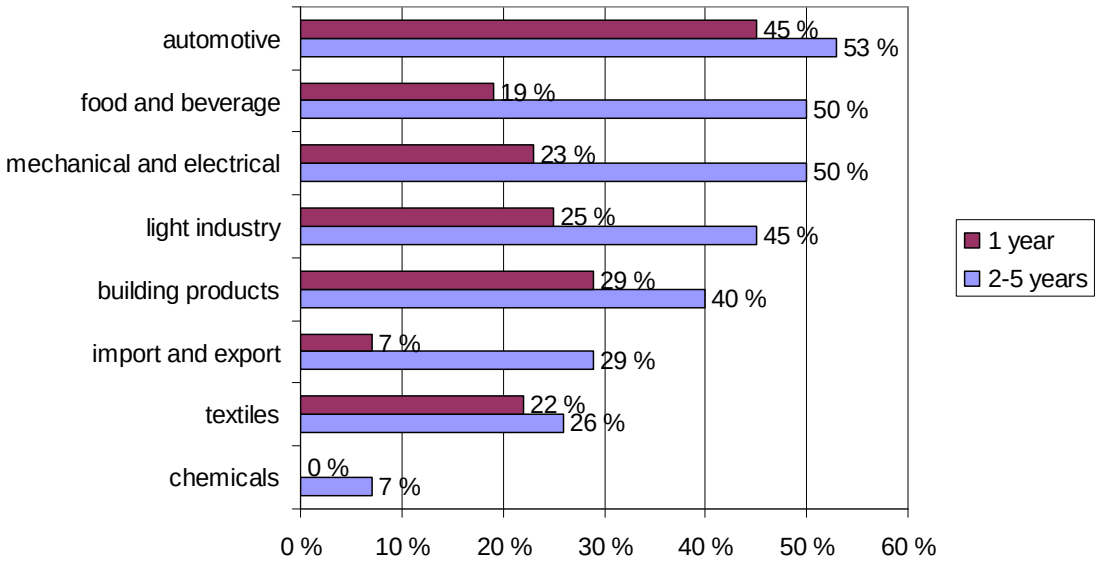
"*The recent flurry of M&A activity by Chinese companies is only the beginning of a powerful long-term trend*" (Hemerling et al. 2006)

With domestic competition increasing, the expansion of overseas market shares via M&As will become even more important for Chinese companies in the future, especially with strengthened governmental support. It is also expected that in the future resource-seeking motives, such as expected deals of CITIC with Canadian Nation's Energy (US$ 2.2 billion) and that of Sinopec with Russian Udinurtneft (US$ 3 billion) will remain an important driver for Chinese foreign investments together with access to markets and new technology. (Schüller & Turner 2005, UNCTAD 2006b.)

Although these high-profile acquisitions of foreign resources by Chinese state-owned companies are likely to steal headlines in the future, it is expected that also outward FDI by medium-sized privately-owned enterprises will increase steadily (Hess 2006). Especially with the yuan's expected appreciation[11], Chinese companies are expected to enhance their international acquisition portfolio (Wu 2005), when foreign assets become less expensive for them (Rosenbush 2005). Moreover, high domestic savings rate and the efforts to cool investment demand at home are likely to lead to increase in the FDI outflows of China (Hess 2006). In line with these expectations, MOFCOM has estimated that China's outward FDI is to total over US$ 60 billion between 2005 and 2010 (People's Daily Online 2005). In turn, estimates by Straszheim Global Advisors show that Chinese companies will invest some US$ 80 billion already in 2006–2007 (De Ramos 2005).

[11] Yuan is expected to reach level of RMB 6.8 / US$ 1.0 by 2010 (Wu 2005). Currently, it is valued at RMB 7.8 / US$ 1.0 (February 2007).

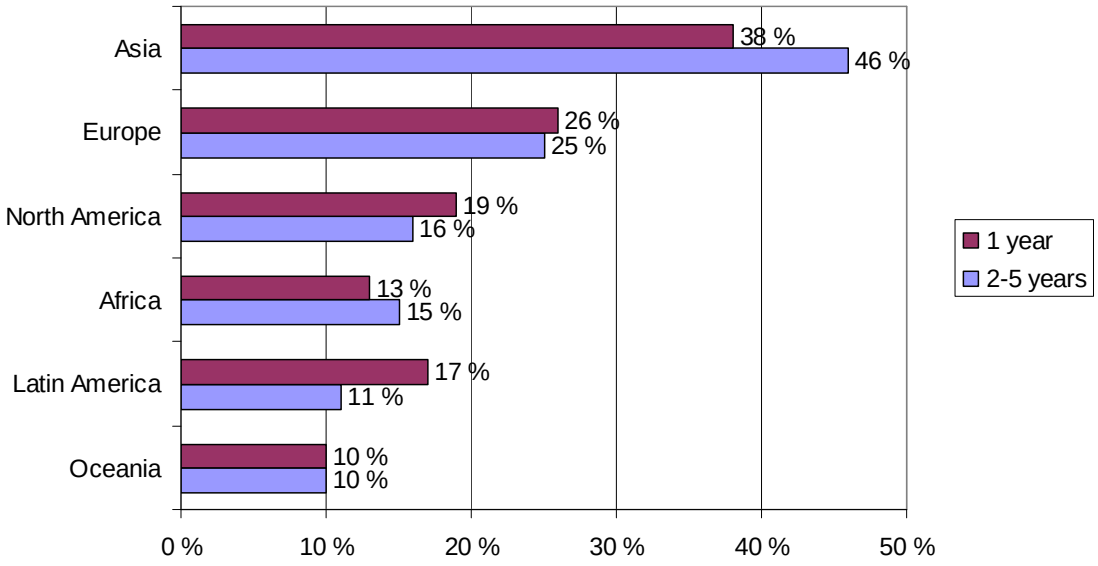
Figure 7 Planned Chinese outward FDI by sector within 1 year and 2-5 years



Source: Hess (2006)

According to Hess (2006) the FDI projects are going to be targeted in diverse industries. In the automotive sector, Chinese companies showed most interest towards outward foreign investments both in short and longer term. In his survey, it was found that companies are most interested in investing in Asia.

Figure 8 Planned Chinese outward FDI by region within 1 year and 2-5 years



Source: Hess (2006)

It must be noted that China's FDI is still in the early stages of growth and except for a small number of multinationals the investments are first steps in their expansion to the world market. This causes that they are related to relatively simple and rather specific functions. Therefore, the location choice involves fewer decision factors. When Chinese companies develop, their foreign investments will cover more locations. Consequently, the integration of geographically scattered affiliates becomes more important and then location choices for investments will involve more factors resulting in changes in the geographical distribution of Chinese FDI. (Yang 2005.)

Thus, in the future the FDI outflows from China are expected to be targeted mostly in industrialised countries, as Chinese MNCs are increasingly interested in acquiring strategic assets and knowledge from developed economies (Deng 2004). According to China Goes Global… (2005) survey, among others, the most likely investment target of Chinese outward FDI is going to be Asia followed by Europe and the United States.

In the survey by von Keller & Zhou (2003, 18) it is noted that declining number of Chinese companies (from 19% to 16%) rank Europe as a top priority target market for investment, whereas North America is becoming the priority target market instead of Hong Kong and Macao. They suggest that Europe's diminishing role is two-fold. Firstly, the European market is fragmented with widely differing legislation, languages and business customs. Secondly, the United States has more traditional ties with China due to a large Chinese community in the country.

In contrast to von Keller & Zhou's previous findings, Hess (2006) suggests that Hong Kong and the tax havens will continue to absorb a significant proportion of Chinese outward FDI flows. However, also he expects more direct investments into productive enterprises overseas. Rosenbush (2005) suggests that Chinese investments in M&A are likely to grow in the future, especially in the technology sector. Similarly, von Keller and Zhou (2003, 23) expect the number of foreign investments in developed markets projecting research and development (R&D) capabilities to increase with the growth of China's technology sector and the emergence of cash-abundant, listed technology companies with global ambitions.

1.2 A literature review of Chinese outward investments

It was only a couple of decades ago, when researchers first started to investigate why FDI occurs from less developed countries (LDCs). However, they mainly investigated why companies from LDCs invested in other LDCs or newly industrialised countries (NICs") and did not examine specific cases in which the investment was targeted in developed countries. Recently, researchers have started investigating LDC firms' investments in developed countries as well but, in general, the literature on the LDC internationalisers remains scarce relative to that of companies based in advanced countries. (Makino et al. 2002.)

Similarly, regardless of China's increasing role in foreign investment flows, Chinese outward investments have not been to a great extent in the interest of researchers. Only during the past few years more researches have been published about the given topic. Recently, the academia has become more interested in the Chinese foreign investments as well and there are already few studies available on the phenomenon. Research on Chinese FDI is still on a small scale, not only because the phenomenon is a relatively new phenomenon, but also due to severe statistical problems[12]. As a corollary to the lack of researches on the topic, it has often been noted that there is a need for more studies on Chinese internationalisers. The main research findings on the internationalisation of Chinese companies are listed in Appendix 1. The list introduces the previous findings and methodological approaches of researches on Chinese foreign investments. However, the author has only been able to use researches, which have been written in English and which are currently available in the most-cited journals or in the Internet. Hence, the list should not be considered complete, but to show the general outlook of what has earlier been found on the theme.

[12] The data in the World Investment Report made by the United Nations Conference on Trade and Development (UNCTAD) is based on a balance of payments accounting, include trade-related capital movement and has a broader coverage than official Chinese data from the Ministry of Commerce (MOFCOM) until the year 2002, which is why the two sources of information fail to tally. (Schüller – Turner 2005.) Additionally, official statistics may only reflect a part of total foreign investment outflows because some capital is invested through private channels and thus not included in the officially reported statistics on approved ODI (Frost 2004).

Previous empirical findings on the motives of Chinese outward investments: Deng (2004) suggests that there are some distinctive features in the motives of Chinese foreign investments compared with other sources of FDI. There may be ambiguous reasons and the motives are also subject to changes when Chinese companies get more experienced in global markets. Although for some companies China's push-factors have caused foreign investment, the outward FDI by Chinese MNCs has primarily been caused by international pull-factors. However, most of the Chinese MNCs have not been interested in cost or efficiency-seeking FDI, because China has relatively inexpensive domestic factors of production. Some companies are also interpreted as being motivated by domestic push factors. This is, for instance, when there is not enough demand for the products in the domestic market. As a result of trade barriers raised up for Chinese imports, Chinese companies have had to establish affiliates to ensure the presence in a local market. This may also be the case for Chinese investments in the so-called third-party countries, which have free trade agreements with the countries that Chinese companies are interested in.
Resource seeking, especially in natural resources, has been one of the main motives of FDI since the first Chinese foreign investments. In addition to natural resources, Chinese enterprises have invested overseas to obtain foreign technology, managerial know-how, distribution networks and brands (Hong & Sun 2004). Investments in technology in advanced countries aim at carrying out transaction and transfer activities, such as information collection, training and R&D (Yang 2005). Chinese companies can be thus considered making foreign investments in order to improve their competitiveness (Deng 2004) and to obtain market shares (BOFIT 2005) overseas.

It is considered that Chinese companies are motivated to internationalise as a consequence of various push and pull factors. Because WTO accession has put pressure on Chinese firms in their home market, they have been pushed to look for growth opportunities in global markets. (Wu 2005.) In fact, the impact or threat of foreign companies has been found to provide greater impetus for the expansion plans of China's top companies rather than the competitive impact of domestic companies (von Keller & Zhou 2003).

An examination of Chinese multinationals has shown that generally these companies still lack clear competitive advantages, and are affected by a shortage of raw materials, technicians, skilled workers and managers. Often, those who are losing competitiveness are interested in mergers with stronger ones. With the emergence of China's domestic market there are companies who have competitive advantage and want to expand their market power. There are, for instance, some conglomerates which are formed between competitive enterprises aiming at enhancing their competitiveness in relation to foreign MNCs by pooling their joint resources. (Yang 2003.)

Chinese global challengers benefit from distinctive competitive advantages, such as the enormous size of the domestic market which gives them scale advantages, low labour cost which provides them with cost advantage, flexible production model and innovation capability (in some sectors). Naturally, many of these local advantages disappear in time, when Western companies continue to create platforms for low-cost production in China and gain the benefits of serving China's fast growing market. (Hemerling et al. 2006.) On the other hand, Chinese firms cannot simultaneously obtain substantial labour cost savings with outward FDI (Yang 2003).

In fact, at the firm level, Chinese enterprises have their own strong interest to investment overseas and consequently some Chinese brands have already achieved success in the global market (Hong & Sun 2004). Rosenbush (2005) states that through international M&As, China can not only create economic growth but also boost employment growth and raise wages, which refers to the political motives of Chinese M&As. However, raising wages leads to Chinese companies losing their traditional source of competitive advantage – low cost of labour at the home market. Therefore, Fan (2006) suggests that Chinese companies must develop or acquire new sources of competitive advantage once they are in international markets. In fact, some Chinese companies have invested in foreign assets in order to protect their ownership advantages; counteracting foreign companies increasing their presence in China. As the competition becomes fiercer in the domestic market, foreign investments are seen important to maintain the competitiveness of Chinese companies. For instance, many

Chinese companies are seeking globally recognised brands[13], sales, marketing and technology to cover their weaknesses and improve their global position. (Deng 2004, De Ramos 2005.)

As Chinese companies get more competitive, they start to seek alternative ways of achieving corporate growth. The reasons why Chinese companies expand their business via FDI are basically the same as it is for Western companies. However, some factors play more crucial roles than others. For instance, low production costs[14] and the extension of product life cycle are less important in the strategies of Chinese companies willing to invest overseas. In contrast, due to their high dependency on exports, access to foreign markets, and market exploration are the key drivers of Chinese outward FDI. Acquisitions of international companies with relevant know-how, brand names and distribution networks are necessary steps for Chinese companies which aim at getting a larger market share. (Schüller & Turner 2005.)

In general, the motives of China's foreign direct investments outflows can be categorised into three groups (von Keller & Zhou 2003; Lunding 2006):

- acquisition of technology and brands
- access to natural resources
- need for new markets

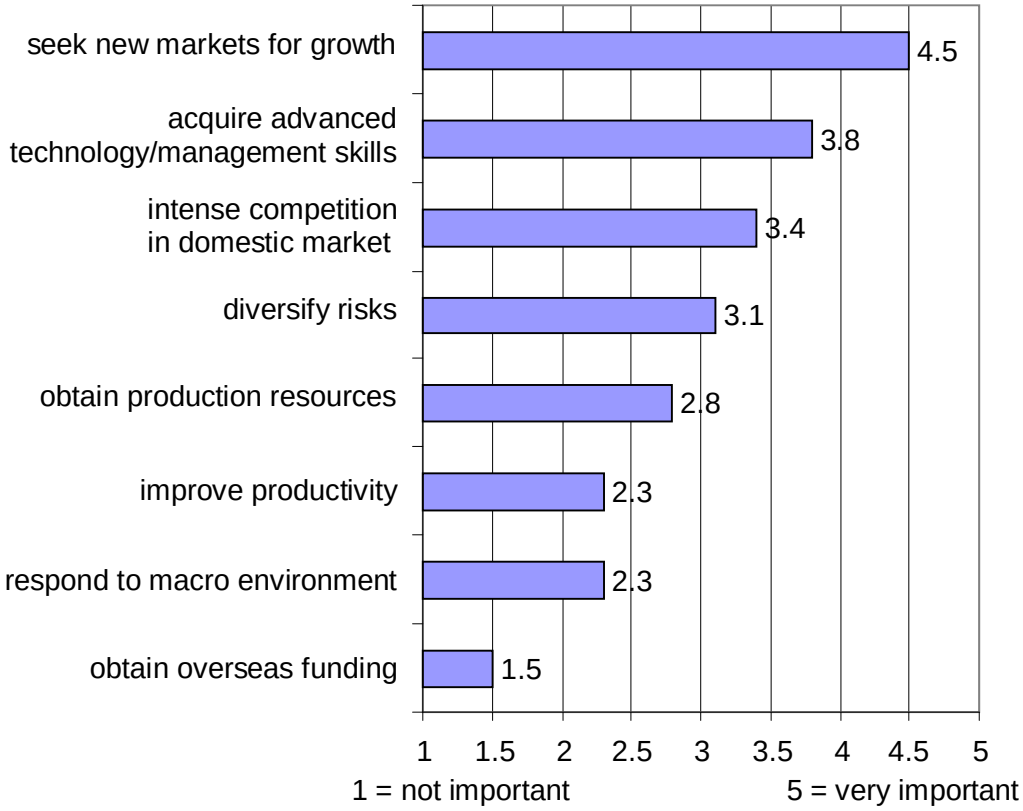
Yang (2005) notes that an important motive of China's outward FDI is to exploit host market overseas. Also research findings of Liu et al. (2005) indicate that Chinese investments are often being used as export-platforms. Foreign direct investment can establish a node in the place closest to firm's partners and customers, and can benefit the firm by obtaining information and improving investor's network position which enables better after-sales services and penetration of growing markets.

[13] "The Best Global Brands" list conducted by Interbrand and BusinessWeek states what the brand is worth overall and among competitors .In the list there are no Chinese brands (Interbrand 2006). However, it does not do favour for all Chinese MNCs as in their criteria companies behind the brands must be publicly traded to make it to the list.

[14] In the case of China's outward FDI, cost savings arise mainly from raw materials and transportation, instead of labour cost components. Thus, cost savings are possible for certain bulky goods in distant markets. (Tan 1999.)

Previously, Chinese M&A activity has mainly been focused on access to energy and raw materials, but according to the survey by IBM Institute for Business Value (2005) market-seeking motives and willingness to acquire advanced technology and management skills are becoming more important. Especially when Chinese companies are seeking new markets but lacking global brands and advanced technology, M&As in developed countries become a shortcut to obtain cutting-edge knowledge of host country companies (Wu 2005).

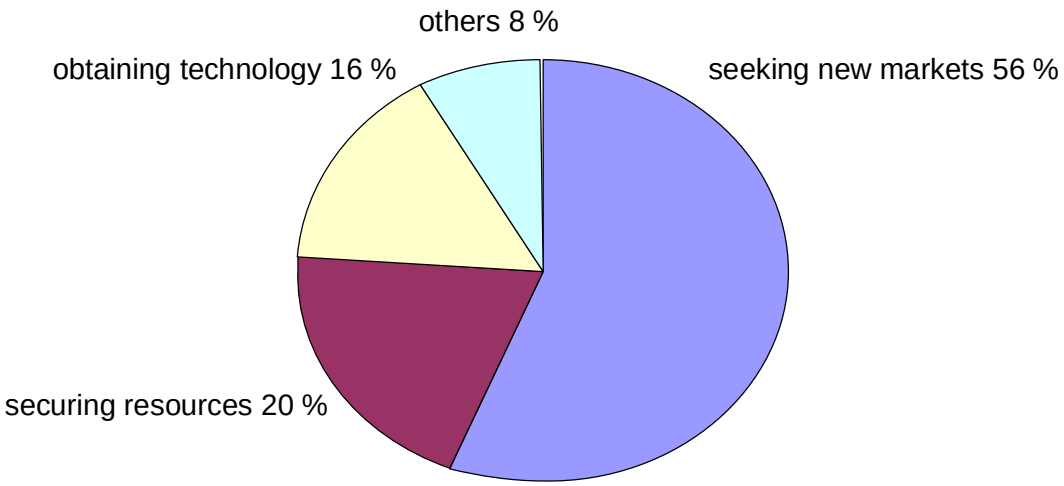
Figure 9 The motives of Chinese companies for outward foreign investments



Source: IBM Institute for Business Value (2005)

Similar findings have been put forward by von Keller and Zhou (2003), who have stated that seeking new markets, including sales expansion, jumping trade barriers and securing customer services, is the most prevalent intention for Chinese foreign investments throughout the economy.

Figure 10 Intentions for international expansion for Chinese companies

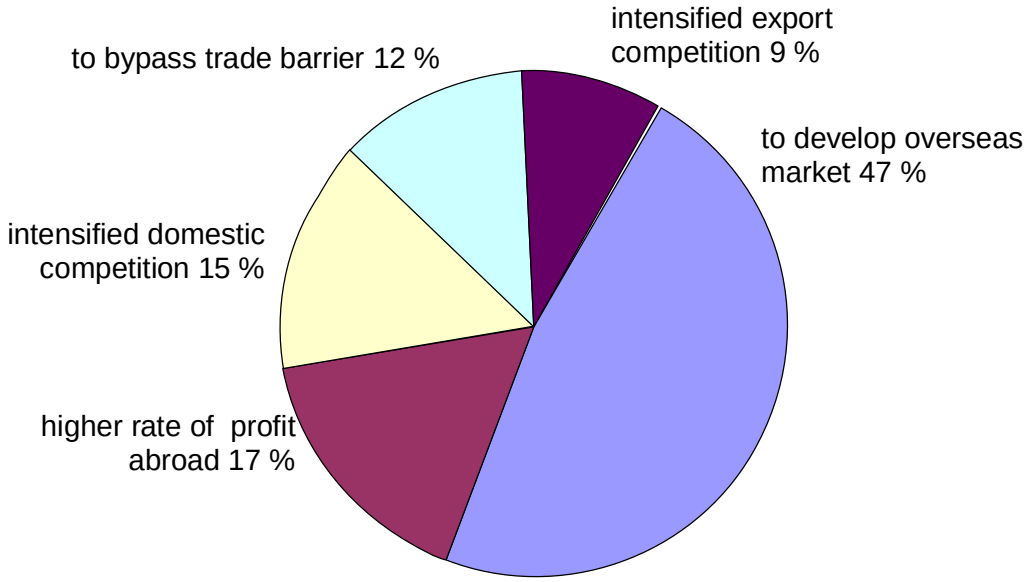


Source: von Keller & Zhou (2003)

It is interesting to notice that the intention to seek new markets was emphasised already in a survey carried out in 1993[15]. Chinese push to seek new markets is associated with their need to have local sales and distribution networks in host markets. This is especially valid when Chinese companies have to face fierce competition in advanced host markets and to distribute their goods to retailers. In addition, research findings show that FDI is important for the companies who wish to acquire technology and management skills, and Chinese firms are considering foreign technology and markets are very important, particularly in the product development and formulation of marketing strategy[16].

[15] The results of the survey carried out by Zhang and Bulcke [1996] *International management Strategies of Chinese Multinational Firms* are presented in Yang (2003) and can be read in Appendix 2.
[16] Survey results of Tseng and Mak [1996] *Strategy and Motivation for PRC Outward Direct Investments with Particular Reference to Enterprises from the Pearl River Delta* are referred in Yang (2003).

Figure 11 Motives for overseas manufacturing



Source: Li [2000] in Yang (2003)

Similar results were found also in a more recent survey about China's overseas manufacturing[17], where close to half (47.1 %) of the surveyed companies took the initiative "to develop the overseas market" as a main concern. Yang (2003) has found supporting evidence from the correlation between the number of FDI projects and trade, which indicates that China's outward FDI is aiming at securing overseas markets.

Considering host-country-variables, it has been found that market, profit variables (cost and price), and policy factors influence the targets of China's outward FDI. Market reasons are of various forms and degrees. A number of companies establish marketing and distributing companies in their export markets to have better control for their goods to increase their market shares. Moreover, companies are interested in the penetration of a regional market and thirdly the promotion of the exports of capital equipment is found to be a market-related pull factor for Chinese internationalisers. (Tan 1999.)

[17] Li [2000] has reported his research findings in Chinese but they are referred in Yang (2003).

In a survey by von Keller and Zhou (2003) Chinese companies were found to emphasise legal integrity, market size, political stability, currency stability, foreign exchange control, per capita income and government effectiveness on macro economy and distribution, competition and customers on micro level. In their research findings it was noted that “language and culture” is considered to be the least important factor in selecting expansion targets.

These results are quite controversial to the suggestions that the emergence of South-East Asian MNCs can be partially explained by the overall internationalisation of “ethnic Chinese” businesses in China (see Appendix 3). Also Buckley et al (2007) found that cultural proximity is a significant factor attracting Chinese investors even for state-owned companies.

Regionally, in South-East Asia, the overall internationalisation process of ethnic Chinese has been noted to be important in developing international networks of Chinese companies, which may then help them on their global expansion. A list of selected large “ethnic Chinese” companies in South-East Asia can be seen in the appendix.

As the obtaining of production resources, with no specific reference to securing natural resources, seems not to be the most significant motive for Chinese foreign investments in the survey by von Keller and Zhou (2003), it is considered that this more government directed motive may be confined only to a few of the largest state-owned natural resource enterprises (Lunding 2006). Yang (2003) has also noted that when only a limited number of firms have the financial ability to carry out natural resource exploitation investments, their weights in index calculations are generally reduced, and the actual motives for the natural resource seeking investments may be stronger.

Thus, the intentions to secure resources or to obtain technology are found to be more industry-specific, i.e. companies in resource-dependent industries must counteract the shortages, interruptions or price spikes of raw materials. This is particularly valid in China with the huge growth rates of many industries added to low natural resources on a per capita basis. (von Keller & Zhou 2003.) Although in the survey by von Keller and Zhou (2003) it is considered that organic growth is the preferred method of international

expansion, more recent trends show that strategic alliances, joint ventures and outright acquisitions are becoming more important methods for internationalising Chinese companies, particularly for commodity companies and white-goods manufacturers (Wu 2005).

In contrast, a research by Buckley et al. (2007) shows that Chinese FDI outflows have not been driven by the motive to acquire strategic resources. However, it must be noted that this may have changed since then, as the research uses data collected between 1984 and 2001. Private firms were legally prohibited to undertake foreign investments prior to 2003, and thus politically-coloured motives may well be exaggerated in their data.

A part of state-owned enterprises is considered acting on behalf of China's economic and political interests (Hess 2006). Especially, due to the background of state ownership in many of China's globalising companies, there has been growing concerns of their true intentions, and thus the development of rising outward FDI flows from China has not been solely considered as a positive one. The close relations of globalising companies with political decision-makers has raised many questions on their military links with some speculators even suggesting that Chinese companies could harbour military spies (e.g. Bacani 2005). Political and financial support for state-owned and state-affiliated companies also often provides them with an advantage over Western companies by reducing their cost of capital, as state-owned banks can offer cheap financing with Chinese foreign reserves close to $US 1 trillion (Lunding 2006, 7). Political interest in China's global champions is considered reflecting China's governments growing influence and interests in global scene as China is integrating itself into the new world order (World Economic Forum 2007).

Similarly, the most well-known Chinese investments are considered reflecting the general distribution of Chinese FDI, as outward M&A activity has been mainly targeted in the areas of information technology, resources and commercial services (Yang 2005). These bids also highlight Chinese companies' ambitions to expand globally by securing assets and capabilities that can enhance their competitiveness, not only in foreign markets, but also in China (IBM Institute for Business Value 2005).

According to China Goes Global… (2005) survey, the government's "Go Out" -strategy and related incentives were the second most important driving force of China's current outward direct investments just after their ambition to improve business potential and expansion, and before (3) transparent and fair regulatory environment, (4) safety and security, (5) tax system and (6) access to advanced technology and R&D.

Although the bureaucracy around Chinese outward investments has become easier for Chinese companies during the past few years, there is still a lot of red tape included in the process[18], and thus it can be considered that government's motives may still have influence on the Chinese FDI outflows. Hess (2006) has generalised (and partly oversimplified) the process as follows: SAFE grants access to the foreign exchange and gives approval to open financial accounts abroad; the National Reform and Development Commission (NRDC) approves the deal based on its consistency with economic policy priorities; MOFCOM approves the commercial merits of the transaction; finally the State-Owned Asset Supervision and Administration Commission (SASAC) gives final approval to go out[19]. SASAC's mission is to turn the companies under its shield into highly competitive industry leaders "national champions" (Hemerling et al. 2006).

Hong and Sun (2004) argue that the business strategies of state-owned companies investing overseas were at the beginning of the government's "Go Out" -strategy based on political intentions instead of commercial ones. The key decisions on overseas investments, such as choices of location and sector, were mainly determined by the consideration of enhancing China's political and economic influence and expanding China's international trade relationships rather than maximising market profit. However, it is argued that the motives of the government and the companies to pursue the "Go Out" -strategy are not necessarily homogeneous (Schüller & Turner 2005).

[18] According to LOCOmonitor (2006), it takes at least 2-3 months to go through the process and some enterprises suggest the application process can cost up to 5-10 % of the investment amount. As a result, some Chinese companies still circumvent regulations by setting up holding companies in Hong Kong or offshore financial centres.

[19] As an outcome SASAC has become the world's largest portfolio manager, overseeing some 170 companies with combined revenues in excess of US$500 billion (Hemerling et al. 2006).

Table 7 "Going out" motives of the Chinese government and companies

Government	Companies
-Access to natural resources	-Access to markets
-Geopolitical positioning	-Access to technology and brands
-National competitiveness	-Access to distribution networks

Source: Schüller & Turner (2005)

The difference between the motives of the government and those of Chinese companies is also noted in von Keller and Zhou (2003). They state that the Chinese companies are paying more attention to their own initial motives than before rather than looking to government officials for major decisions. However, they admit that in some industries this still remains the case. Yang (2003) agrees with them by stating that as the reforms have progressed, firm-level motives have started to play an important role in determining the outward FDI flows and their directions.

A summary of previous studies on Chinese outward investments: The list of previous studies on the internationalisation of Chinese companies can be seen in Appendix 3. The list shows that especially researches which indicate why Chinese companies invest overseas are needed.

It has been noted that Chinese companies are motivated to undertake FDI due to numerous push and pull factors. The reasons are basically the same as they are for Western MNCs, although low production costs, efficiency-seeking and product life cycle extension have not been as significant for Chinese internationalisers.

Domestic push factors are considered making Chinese MNCs unique. In general, Chinese companies need competitiveness due to heavy competition in the domestic market. Also, the governmental push may have impact on the motives of Chinese companies. On the other hand, Chinese companies are considered acting on behalf of the government's economic and political interests, but on the other hand it has been noted that the government's and the company's motives are not necessarily the same. It is however evident that low cost of capital affected by governmental backing may provide competitive edge for Chinese MNCs.

In addition to government's backing Chinese companies have found to create competitive advantage from scale advantages and low labour costs, which provides them cost advantage, flexible production model and innovation capability (in some sectors). It has been noted that Chinese companies rely heavily on the low cost and other sources are needed in order to maintain their competitiveness in the longer run when labour costs are going to rise and their global competitors are moving their production to locations with low labour costs. As a result of the urge of Chinese companies to pursue new competitive edges, the outward FDI flows from China have been mainly caused by international pull-factors.

Market-seeking motives have been emphasised in a number of previous studies on the motives of Chinese foreign investments. Thus, Chinese companies are, in their pursuit for higher profits, interested in finding new markets for their products and keen to improve their position in their current export markets by improving the investor's distribution networks, brands, local sales, customer services, marketing know-how and local market information in the host country. Market-seeking motives also refer to the willingness to avoid trade barriers and to use the foreign location as an export platform to other markets.

What then determines the target for market-seeking FDI? It has been found that Chinese companies put emphasis on the importance of legal integrity, market size with large per capita income, the effectiveness of the government with political stability and attractive regulatory environment, currency stability with a favourable tax system. In previous studies, the importance of language and culture is controversial varying from a significant factor to the least important factor in determining directions of Chinese FDI outflows.

The interest of Chinese companies to seek technology and R&D relates closely to the pressure of foreign competition in their domestic market. In most of the surveys conducted on Chinese companies, the respondents consider the acquisition of advanced technology resources as one their primary motives to undertake foreign investments, as M&As in developed countries are seen as a shortcut to obtain cutting-edge knowledge of host country companies.

Only a limited number of Chinese companies, which are mainly the largest state-owned enterprises, have financial capability to seek natural resources, and thus their number in FDI projects is low but larger in value. Thus the importance of natural resource-seeking motives of Chinese FDI depends greatly on the method. When the research plainly looks at FDI outflows and outward stocks, the importance of natural resource-seeking motives is exaggerated. On the other hand, surveys which have only a few large companies in the sample easily undermine the importance of natural resources, and suggest that it is losing its importance in the future FDI outflows originating from China.

Although more researches on Chinese multinationals have been recently published, the topic is not fully covered. Previous studies have mainly relied on the aggregate data of the United Nations Conference on Trade and Development (UNCTAD), MOFCOM and China's State Administration of Foreign Exchange (SAFE). Although these results have given some insight on the activity of Chinese multinationals, they have also explicitly noted the problem caused by the lack of company-specific information. Therefore, whereas these researches have been able to explain, what has happened in terms of Chinese FDI, they have to some extent failed in providing thorough explanations of their choices. However, as motives may differ between sources of FDI and even targets of FDI, motives are not homogeneous within a single investing country. Actually, it has been found that firm-level factors play nowadays more important role in determining China's FDI outflows and their directions, which suggests that more firm- and industry-specific researches are needed. Firm-specific research gives more thorough understanding about the motives of single companies at the expense of general understanding about the motives of Chinese multinationals.

1.3 An objective of the study

Developing economies account for only 15 % of world outward FDI flows, and the total foreign assets of top 100 MNCs from developing countries are worth less than the foreign assets of the US-based General Electrics alone (UNCTAD 2006a).

It is suggested (UNCTAD 2006a) that multinationals from developing economies may have some distinctive features compared with their counterparts from more advanced economies. Therefore, it is important to understand the distinctive motives of these multinationals, as it helps understanding the possible implications they have for home and host economies.

The question of whether China can become a global corporate powerhouse has remained unanswered. As stated by von Zedtwitz (2005) we may still be ten to twenty years from more extensive presence of global Chinese brands, but the rest of the world should already get prepared. The first Chinese companies have already started their foreign investments and have taken market shares in the global economy. Although it remains unclear whether these first Chinese companies will become global success stories, we can be fairly certain that some Chinese companies will eventually make it.
To better analyse, which companies will become true competitors to non-Chinese companies, the Chinese companies should be studied from the perspective of the competitive advantages they possess. Some Chinese companies have already gained competitive advantages that are applicable in the global markets. These are to some extent related to the international connections of these companies, which has been for a big part influenced by the massive inflows of foreign direct investment in China.

Many of the ideas about why firms invest abroad are according to Frost (2004) applicable to China, but he notes that China is to some extent a unique case. This uniqueness is partly related to the state involvement in the investing companies. The state involvement has also been the main reason, which has provoked prejudice against Chinese investments in developed economies. Consequently, some Chinese investments have been blocked, as the true intentions of the investors have remained unknown. Regardless of the demand for information about the intentions of Chinese companies, the amount of research on the topic has however remained scarce.

More information is therefore needed in order to fairly judge Chinese multinationals and their underlying intentions. This research takes part in the academic discussion and aims *at exploring the motives of Chinese foreign investments in the Baltic Sea region*[20] (BSR). The research is about to provide some insight whether people, companies and policymakers should be concerned on the rise of Chinese multinationals in the Baltic Sea region or whether the investments should be welcomed and even attracted by local investment promotion agencies.

As the intention of the go out –strategy is to improve their competitiveness, it is taken a look whether this plan has already facilitated in Chinese companies with competitive advantages. In order to analyse Chinese companies from the perspective of their competitiveness, the research problem is further divided into two sub-questions:

1) What are the existing sources of competitive assets which the Chinese companies exploit when investing in the Baltic Sea region?
2) What are the alternative sources of competitive assets which the Chinese companies are seeking by investing in the Baltic Sea region?

As it was found in the survey by von Keller and Zhou (2003) the internal corporate motives provide the greatest impetus for overseas expansion and therefore the main emphasis of this research is on the corporate-level motives instead of those related to political economy. The emphasis on core competence is considered a crucial prerequisite to the overseas expansion and thus the company's competitive advantage is considered being "the common lens" through which all major decisions are examined. However, due to the close relations of many Chinese MNCs with the government, not all aspects of government activity are neglected in the study.

The research thus demonstrates what kind of Chinese companies have invested in the Baltic Sea region and most importantly why they have invested in the region. As a preliminary study, it can thus develop knowledge on the features of the future investors and the impact of Chinese companies on the region. The research aims at providing

[20] The Baltic Sea region is defined for the purposes of this resesarch as a group of ten countries: Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia and Sweden.

broader understanding about the motives of foreign investments from transitional and developing economies in general, and from China in particular. Although these companies are traditionally considered lacking competitiveness in more advanced markets, the research concludes why there are still companies from developing countries who are interested in investing in more advanced economies.

In addition to theoretical contribution, the study gives insight to business leaders and policy makers why Chinese companies invest in the Baltic Sea region. This kind of study is needed, as Chinese investments are expected to gain momentum in the future. As a consequence Chinese investments are going to be more significant for their target regions and markets. Although this would facilitate only after some twenty years in a larger scale, both business leaders and policymakers must adjust their measures to the rise of Chinese multinationals.

2 RESEARCH FINDINGS

2.1 The role of Chinese companies in the Baltic Sea region

The massive foreign investment inflows to China have given momentum for ownership advantages of Chinese multinational companies (MNCs) and thus it has been thought that Chinese MNCs can be soon competitive threat in the developed economies, such as in the Baltic Sea region. Moreover, high level of Chinese goods by the countries of the Baltic Sea region indicates that China has increased her economic role within the region. The share of Chinese imports is around 3 % for most of the countries in the Baltic Sea region with the exception of Finland (6.2 %) and Russia (13.4 %) which show greater dependence on Chinese imports. Exports to China are, in turn, of less importance, as only German (3.1 %), Finnish (4.0 %) and Russian (6.6 %) exports to China exceed 3 % of their overall exports. According to NBS (2006) Russia and Germany are in turn among China's 10 most important trading partners. More information about China's trade with the region can be seen in Appendix 7-26.

Table 8 China's exports[21] to the Baltic Sea region in 2005

Country	Value 2005 in US$ million	Annual growth 2001-2005	Share of country's imports	Share of China's exports	Trade potential coefficient[22]
Denmark	2,789	35 %	3.7 %	0.4 %	20
Estonia	311	8 %	3.1 %	0.0 %	26
Finland	3,626	42 %	6.2 %	0.5 %	11
Germany	32,527	37 %	4.2 %	4.3 %	8
Latvia	282	58 %	3.2 %	0.0 %	27
Lithuania[23]	361	59 %	2.8 %	0.0 %	29
Norway[23]	1,322	35 %	2.9 %	0.2 %	26
Poland	2,595	26 %	2.6 %	0.3 %	27
Russia	13,211	51 %	13.4 %	1.7 %	4
Sweden	2,574	32 %	2.3 %	0.3 %	29

Source: ITC[24] (2007) based on COMTRADE statistics, author's calculations

[21] China's exports have been reported by China, partner country's imports have been reported by the partner country. In many cases the reported value of a country's exports of a particular product to a trading partner, may differ from the trading partner's reported imports of that same product from that same exporter.

[22] Trade potential coefficient indicates the difference between the current trade and potential trade. Potential trade is measured from the exporting and importing countries' share in world trade in different product groups. The trade potential coefficient shown hear is a sum of potential trade among all product groups.

[23] Lithuania's and Norway's imports from world represent mirror data from partner countries

Table 9 China's imports[25] from the Baltic Sea region in 2005

Country	Value 2005 in US$ million	Annual growth 2001-2005	Share of country's exports	Share of China's imports	Trade potential coefficient
Denmark	1,190	21 %	1.4 %	0.2 %	36
Estonia	58	32 %	0.7 %	0.0 %	97
Finland	2,628	9 %	4.0 %	0.4 %	14
Germany	30,723	25 %	3.1 %	4.7 %	8
Latvia	9	27 %	0.2 %	0.0 %	465
Lithuania[26]	11	23 %	0.1 %	0.0 %	568
Norway[26]	1,144	20 %	1.4 %	0.2 %	56
Poland	557	30 %	0.6 %	0.1 %	74
Russia	15,890	19 %	6.6 %	2.4 %	6
Sweden	3,122	14 %	2.4 %	0.5 %	23

Source: ITC calculations based on COMTRADE statistics, author's calculations

Table 10 Chinese FDI outflow and outward stock in the Baltic Sea region[27]

Country	Chinese FDI outflow ($US thousand)	Chinese outward FDI stock ($US thousand)	Share of total FDI stock
Denmark	500 (2004)	-13,000 (2002)	-
Estonia	675 (2005)	1,485 (2005)	0.0 %
Finland	-1,300 (2005)	14,300 (2005)	0.0 %
Germany	400,000 (2006)	210,000 (2004)	0.0 %
Latvia	N/A	0 (2005)	0.0 %
Lithuania	N/A	N/A	N/A
Norway	N/A	N/A	N/A
Poland	N/A	45,000 (2001)	0.1 %
Russia	N/A	N/A	N/A
Sweden	0 (2005)[28]	N/A	N/A

Trade potential coefficient[29], measured by ITC, shows that the greatest potential in trade is in exports of the Baltic States and Poland to China. In China's exports the trade potential less, but is still significant despite the fact that China's exports to the Baltic Sea region have grown some 40 to 50 % annually during the past few years. Regardless of soaring exports from China to the region, FDI outflows from China to the Baltic Sea region have remained low. Although the FDI stock figures are to some

[24] The International Trade Centre (ITC) is a joint subsidiary organ of the United Nations and the World Trade Organization.
[25] Partner country's exports have been reported by the partner country, China's imports have been reported by China.
[26] Lithuania's and Norway's exports to world represent mirror data from partner countries.
[27] Source: Danmarks Nationalbank (2007), Bank of Estonia (2007), Bank of Finland (2007), Deutsche Bundesbank (2007), Bank of Latvia (2007), Central Statistical Office of Poland (2007), Riksbank (2007), author's calculations
[28] There were less than three investments and therefore data is not given by the Riksbank.
[29] Although the trade potential coefficient is measured by ITC, it is the author's own concept showing the difference between the current value of trade and the potential trade as a real number.

extent rather old, according to the author's knowledge, remarkable changes have not yet occurred to any direction. In Germany, the last year showed remarkable increase relative to FDI stock, but still the Chinese FDI stock in Germany remains insignificant.

According to the AMADEUS[30] database, there are 477 Chinese companies[31] in the Baltic Sea region. Almost all of these companies are located in Germany (470), whereas according to AMADEUS there are no Chinese companies present in Russia, Estonia, Finland or Lithuania. In Denmark there are three companies, and in Norway, Poland, Sweden[32] and Latvia one in each.

According to AMADEUS, the business activities of Chinese companies are concentrated in the Baltic Sea region on wholesale trade, commission trade and retail trade, which cover some two thirds of all Chinese activities within the region.

Table 11 The industrial distribution of Chinese companies in the Baltic Sea region

Industry (NACE Rev. 1.1 Classification)	Number of companies
Wholesale trade and commission trade, except of motor vehicles and motorcycles	241
Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods	56
Other business activities	39
Supporting and auxiliary transport activities; activities of travel agencies	20
Hotels and restaurants	7
Other service activities	7
Real estate activities	6
Manufacture of machinery and equipment	5
Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel	5
Computer and related activities	5
Activities of business, employers and professional organisations	5
Others	45
Not specified	36
Total	**477**

Source: AMADEUS (2006)

[30] AMADEUS is a comprehensive, pan-European database containing financial information on approximately 8 million public and private companies in 38 European countries. It combines data from over 35 specialist regional information providers.

[31] Active companies, in which at least 10 % of the shares is owned by Chinese company or citizen.

[32] According to Runnbeck, there were 16 Chinese companies in Sweden already by the end of 2003. Runnbeck's presentation on October 8th 2005 at the Invest in Sweden Agency is referred in Jiang (2005).

The ten largest companies, except for two, are located in Germany. However, the top 10 list features companies that are not typically considered as Chinese companies. For instance, only two of the companies express explicitly their Chinese-origin on their website. AMADEUS database does not thus reveal the whole truth about the state of Chinese investments in the Baltic Sea region. Although it would cover also companies which are not of Chinese origin, the true amount of companies is estimated to be about two times more in Germany alone[33] (Interview von Wrede 2006).

In the following, case descriptions of Chinese investments in the Baltic Sea region are provided. The cases consist of the companies that were found from the AMADEUS database among the 80 largest companies by revenue, which means that the company had the last reported revenue of more than 1 million euros. Secondly, also the companies that were found through enquiries to Chinese Embassies were contacted. Among these are the two Chinese companies, which have already invested in Finland: China Ocean Shipping Company and Air China. In addition to these five case studies there are also several other examples, where the motives of foreign investment has been described in the media. In the Appendix 3, also information which became available from the interviews of local investment promotion agencies in Germany and Denmark is presented.

2.2 Case companies

An overview of the case companies: Although the case companies of this research are all of Chinese-origin, they are by background different from each others. They represent different industries and are of different size. Although there are differences in the case companies, they are also to some extent similar with each other. For instance, there are three examples of Chinese logistics/transportation companies of which two are shipping companies. The other two companies represent Chinese manufacturing industry. Thus, following case companies can be also investigated as cases of their

[33] The amount of Chinese companies in the Baltic Sea region is somewhat controversial to UNCTAD's (2005) estimation of altogether 2,000 Chinese MNCs around the world. To some extent this can be explained by different definitions for an MNC.

particular industries. Furthermore, they are all relatively large companies, which makes them special from most Chinese companies. However, relative to each others the size varies from a US$ 50 million company to a US$ 17,000 million company.

Table 12 A brief description of the case companies

Company	Industry	Operating revenue (US$ million)	Total assets (US$ million)
Dalian Machine Tool Group (DMTG)	Manufacturing of machine tools	400	n/a
Hongfa	Manufacturing of relays	n/a	50
Air China	Logistics/ transportation	500	8,500
China Ocean Shipping Company (COSCO)	Logistics/ transportation	n/a	17,000
China Shipping Container Lines	Logistics/ transportation	3,500	3,600

Source: Company websites (2006), author's calculations

Dalian Machine Tool Group[34]: Dalian Machine Tool Group Corporation (DMTG) is a rapidly growing Chinese machining tool company. The company was established in 1995 as a result of merger of several state-owned companies in the Dalian region. DMTG has since then become one of the top machine tool builders in China, and has annual revenues close to US$ 400 million.

DMTG's core business is machine tools manufacturing, but over recent years DMTG has broadened its manufacturing base by the inclusion of dedicated machines for the automotive and microelectronics industry with an increasing export share. DMTG has totally 22 effective subsidiaries and joint ventures. Furthermore, it has large scale cooperation with world famous companies in the advanced economies.

DMTG's five product lines consist of (1) special purpose machines with flexible manufacturing systems; (2) vertical and horizontal milling machines; (3) CNC lathes including turning milling centers; (4) high speed precision lathes and machine tool accessories; (5) auto power assembly and power transmission components.

[34] This section is based on the information from the interview with Mr. Rolf Röhm, Sales & Marketing Director of F-Zimmermann GmbH and the websites of Dalian Machine Tool Group and F-Zimmermann, unless otherwise cited.

By implementing its international strategy, DMTG has been able to improve its core competence. Company's products are being exported to over 90 countries and regions. Vast market and customer's requirements stand out as company's guide. DMTG participates in economic globalisation and international marketing by creating relationships of mutually rewarding opportunities. In recent years, DMTG has given utmost priority to working together with international partners as more businesses seek to have links with China. DMTG has invited partners to share capital, products, technology, management experience and human resources for establishing joint venture plants within China to increase its productivity and market share. The cooperation and joint ventures with their international partners have both strengthened DMTG's core competence and broadened their diversification of products and market opportunities. The company's goal is to continue building and growing its international presence by joint ventures, cooperation, and acquisition of and with the most respected and powerful companies in the world.

Main business scope of the company is related to exporting products of its own; importing fittings, accessories, raw materials and technology, which are used in its own products; dealing with co-production, compensation trade, and processing with supplied sample, material and design, as well as trade, overseas engineering project contracting and labour service cooperation.

DMTG will establish overseas branches throughout the world to develop the markets, coordinate international activities, and form a fully integrated strategic international organisation. The acquisition targets for DMTG are those companies whose products or services are technological superior and have good market channels, but are experiencing a decreased market share due to higher costs. The objective for DMTG is to revitalise these companies by providing lower cost components and manufacturing capability, thus increasing the competitiveness of the company's products and broadening its international market share.

After DMTG had successfully acquired two divisions from the US-based Ingersoll International[35], namely "Ingersoll Production Systems" and "Ingersoll CM Systems", in October 2002 and in July 2003 respectively, the group became the main shareholder of F. Zimmermann GmbH in October 2004 by acquiring 70 % of the company's shares. F-Zimmermann is recognised as a leading specialist for portal milling technology. The portal design is the leading technology for CNC milling machines in tool, mould and model shops. Its advantages were recognised early and have been continually improved.

DMTG's investment in Germany can be seen as a part of their multinational product development strategy, which is divided in line with the company's product range as follows:

- Special Machines including flexible transfer lines – company acquisitions – cooperation between Chinese American operations
- Vertical and Horizontal Machining Centers and machines – cooperation with Japan and Taiwan
- High Speed Precision Lathes and Machine Tool Accessories – Joint manufacture with English company
- Automotive Powertrain – cooperation with Japan and Korea
- CNC (Computer Numerical Control) Lathes, Turning and Milling Centers –joint ventures with German company

The headquarters of the F-Zimmermann are located in a small town of Denkendorf, around 20 km distant from Stuttgart the capital of the state of Baden-Württemberg. As an outstanding technology region within Germany, Baden-Württemberg is considered to offer decisive location advantages for the company. With optimal traffic connections to the motorway and the Stuttgart airport, the location is favourable logistically.

Over many years, F-Zimmermann has developed concepts, which the automobile and aerospace industries and their partners have come to depend on. The company has specialised consistently on their technology and enlarged the market position

[35] The acquisitions are also referred in von Keller and Zhou (2003) where these investments are considered to have delivered DMTG "technology pay-offs with brand equity dividends".

continuously. F-Zimmermann portal milling machines are operated worldwide in different fields of application in the automotive and aircraft industry, as well as in tool, mould and model shops.

The acquisition of F-Zimmermann can be seen as a continuum for DMTG's acquisitions of the two divisions of Ingersoll in North America. It was company's interest to own the company as its European hub, because Germany is one of the main markets in the machine tool business. Whereas the Ingersoll acquisitions can be regarded as making more sense considering the timing of the investment and the DMTG's product range of that time, in F-Zimmermann there was not however direct connection between the two companies' product ranges. Some 90–95 % of DMTG's products are lathes, where as F-Zimmermann produces large CNC milling machines.

DMTG's interest in the company can be thus viewed more strategic in nature. In the long-term their interest is to have more machines and technology within their existing product range. In the short-term F-Zimmermann could not help them much to improve their technology or to set up common new product line, as the product ranges are such heterogeneous. The company has however helped DMTG by conducting market research. They have found, for instance, a market for large three or four access portal milling machines, which are currently mainly imported from Korea and Japan. In this field also the know-how of the two companies can be combined, as heavy cutting is part of DMTG's expertise and portal technology is in turn, where the competence of F-Zimmermann lies.

Investment is however still seen in the long-term easier than solely exporting machines from China. It is difficult to send Chinese personnel over to Europe and try to establish business, because the Chinese do not generally have much knowledge about local business. Moreover, the European culture differs from the Chinese decision making so that local people and the understanding of European business culture is needed to obtain sales in the continent.

In longer-term the German hub is also wanted to be used to contact other companies in Germany and to have a place to check further investments what they are interested in the market. In addition to F-Zimmermann GmbH, DMTG already owns partly another

company in Germany, namely Rema Maschinenbau und Handels GmbH. The company acted before as an agent for DMTG's machines, but soon after the co-operation the Chinese invested in the company to have another German hub in the market for their lathes.

At least to date, two years from the investment, there have been no signs that the investment would have been caused by asset-exploration motives. For instance, there have been no transfer of technology, and DMTG has not yet shown any interest in the know-how of F-Zimmermann. To date F-Zimmermann GmbH has remained completely independent in its decision-making and the owners have acted as financial investors. Although common competitive advantages that would have stemmed from the two company's cooperation have not yet been noticed, in the future they are expected to arise. In F-Zimmermann they are still only starting to set up a business for DMTG machines sales in Germany and Europe. Thus, only later some common competitive advantages can be noticed. These can then show what may have triggered the investment decision in the first place.

Hongfa[36]: Hongfa specialises in developing, manufacturing and selling all kinds of relays. At present Hongfa has fixed assets worth US$ 50.8 million. The company mainly produces more than 15,000 specifications of relays, with an annual production capacity of 300 million pieces relays.

Hongfa has become the leading relay manufacturer in China after more than twenty years since its establishment in 1984. Since establishment, Hongfa has been focusing on technology innovation and introducing into the most advanced relay manufacturing technology and equipment abroad to upgrade the technology level and the products quality.

Lately the company has been characterised by high shares of export activities and rapid growth with an annual increase average rate more than 25 %. The strategy to set up group companies of Hongfa is carried out gradually, and Hongfa group companies

[36] This section is based on the information from the interview with Mr. Wenwei Li, the Marketing & Sales Director of Honfa Europe GmbH and the website of Hongfa, unless otherwise cited.

are springing up vigorously. Facing the new competitive conditions, in 1994, Hongfa began to carry out the group strategy. A batch of manufacturing and service correlative group companies have been set up to make Hongfa stronger and more competitive. The group companies have gotten great development and improved their competitiveness since their establishments. They will also set up branch companies abroad to start the whole process of transnational operation. The Hongfa group also settles the basis of making Hongfa a world-famous relay manufacturer before the year 2010 with sales income aimed at US$ 200 million.

Hongfa has a special production mode, i.e. they do the production design, mould design and tooling, parts manufacture and product assembly all by themselves. For many years, Hongfa has been focusing on importing the most advanced mould and parts manufacture technology and equipments abroad, such as from Germany and Japan. Hongfa has focused on the technology and equipment innovation of product assembly. The have not only imported sets of advanced automatic production lines from more advanced countries such as the United States, Germany and Japan, but also have set up own organisations specialising in improving the product assembly technology. With continuous efforts on the innovation of assembly technology, they have greatly improved production efficiency and consistency. As a result of product development, Hongfa has claimed to have achieved the product quality close to its most popular competitors such as Tyco and Omron. Depending on the progress and innovation of technology, Hongfa will improve the technology and management to the world first-class level. While keeping their existing advantages, they will set up new production bases of other classifications of relays.

Hongfa has always applied herself to exploit the overseas market. In South America and Europe, they have set up own marketing branches. With the worldwide marketing network, Hongfa relays are sold all over the world. Driven by the export market, they have also gained great progress in domestic market. Now, Hongfa relays have already become the first choice of most of the famous home appliance manufacturers in China. Depending on the reliable product quality, the best services, and the competitive price, Hongfa has been able to gain market shares in both national and global markets. At the same time, they are entering other markets such as automobile and telecom markets.

As a part of their transnational strategy, the company invested in Germany to set up their European headquarters in Maintal, Germany in 2003. The location decision was affected by the fact that Germany is the largest market for relays in Europe, followed by the UK and France. By investing in Germany and setting up sales headquarters there, the company can be much closer to their customers. It was also considered to be more convenient to cover whole European market from Germany instead of other countries in Europe. In addition, the company had already some experience of operating in Germany and they had some partners there. With lower cost level and competitive prices the company believes it can win market shares not only in Germany but in the whole European market. In addition they have a strong product range and are very flexible in the production.

The investment is considered to be especially very important strategically in terms of marketing promotion and the long-term development of Hongfa. Before the investment, the company sold their products to the European market by exporting and distributing their products through agents, but it was considered to be problematic, as the headquarters located so far from the European market. They were not sure what happened in the market, and they could not rely totally on the information and promotion of the agents. Because Hongfa's products are basic electronic components, it takes a long time to promote the products and win market shares. Therefore a lot of investments is required in order to enlarge the customer base by being near the market. As a result of the investment Hongfa has now gained more knowledge and growth in Europe.

The company has been also able to find new sources of competitive advantage. This has occurred not only in sales but also in new opportunities in product development, which are both improved by co-operating with the German enterprises. The co-operative perspective was in sight already at the time of investment, when Hongfa wanted to strengthen their opportunities to find new resources from co-operation with European enterprises.

Air China[37]: The new Air China -company was established in 2002 by a combination of the old Air China, China National Aviation Company and China Southwest Airlines. The new Air China has total assets of about US$ 8.5 billion and over 18,000 employees. Air China is continuously renewing their fleet and it is their aim to have one of the newest fleets in the world. Moreover, the company is aiming at purchasing or leasing more aircraft so that in next five years their aircraft would be doubled.

Air China is a state-owned air transport enterprise, but it is going to be gradually transformed into "diversified share-holding" limited company or joint-stock company. As a shareholder, it is thought that the state has its rights, according to the rules of corporate governance, to look after their own interest in the company. This is considered as normal and understandable behaviour of a shareholder in the company.

The company has following goals for the future: Air China will become a company with top-quality air route network and advanced aviation products and be approved by most of the passengers; and consequently by 2010, it can be compared with famous global airlines. It is striving to achieve the goals by efficient safety and security, innovative service, professional management and solid finance. The company has signed code share and exclusive seat sale agreements with more than 60 foreign airlines. On the basis of mutual benefit of airlines and other resources, Air China keeps enhancing the airline quality, and is determined to build the largest airline network in China.

Air China's most important strategic asset is considered to be company's Beijing hub, which they are building and enhancing by networking within the industry. In this way they do not view Air China so different from other aviation companies, as all networking airlines are at the moment building their own hubs. By networking, Air China tries to smooth the transit of passengers especially in Beijing airport so that people who arrive in Beijing can easily transit to other destinations in Asia. Air China has recently benefited of having their home base in Beijing. China has been the fastest growing market and both domestically and internationally the traffic growth has been projected in Air China's revenue.

[37] This section is based on the information from the interview with a manager of Air China, who wants to remain anonymous, and the website of Air China, unless otherwise cited.

Air China has branch offices in the Baltic Sea region in Germany, Denmark, Russia, Sweden and Finland. In addition, they are shortly opening a small office in Oslo, the capital of Norway. Compared to other markets in the Baltic Sea region, the three Baltic States and Poland are considered as being too small markets for Air China to have presence in these countries for the time being. However, if the Baltic States and Poland keep on growing and there will be more traffic to China, there is no particular reason why Air China would not open a branch office in these countries as well.

Helsinki branch office was opened in Finland at the time of Asian SARS epidemic, which did not provide the best start for their business. Since then, the business has however started to flourish. After the establishment of the office, the revenue has increased already almost ten times. Before, there were no regular sales of Air China in Finland. After the branch office the company has been able to attract not only some individual passengers but also some tour groups to China, and not only from Finland to China but also from Finland to Asia. Although Air China is always expecting some return for their investments, they too were surprised by ten-fold increase in revenue.

The initial motives for the investment were Air China's interest in the Finnish customer base and the co-operation with Finland's major airline company, Finnair. The branch office enabled Air China to co-operate more easily with Finnair with whom Air China has code sharing arrangement. The company also thought they could learn about electronic ticketing in Finland.

From the perspective of the company strategy, opening of Helsinki branch office was seen as a natural choice, because Air China aims at having presence in every market they serve. The company thinks it is worthwhile to have direct sales people locally, rather than sell flights only through agents. This is, as each airline is responsible for their own sales even though airlines would co-operate on flights through code sharing.
Finnish business magazine Talouselämä (2006) reported in April that Air China will start in 2007 direct flights from Shanghai to St. Petersburg. Currently, only Russian aviation companies Transaero and Pulkovo Aviation operate between China and Russia. Air China has already opened a branch office in St. Petersburg, but the final decision about the flights has not yet been made.

Talouselämä (2006) considers that Air China's manoeuvre is partly caused by Russian President Vladimir Putin's support to the relations between his former hometown of St. Petersburg and the Chinese Government. As a consequence of Putin's support, St. Petersburg has become the largest investment target for Chinese companies in Russia. As an example, the magazine also refers to the Baltic Pearl-project in St. Petersburg, which may increase the volume of air traffic between Russia and China.

China Ocean Shipping Company (COSCO)[38]: China Ocean Shipping Company (COSCO) is a $17 billion corporation focusing on the goal of enabling commerce around the globe. It is an international giant, specialising in shipping and modern logistics, serving as a shipping agency and providing with services also in freight forwarding, shipbuilding, ship repairing, terminal operation, trade, financing, real estate and IT industry; with an aim at taking one of the leading roles in all these sectors. Today, COSCO states that it has successfully moulded itself into a global company with one of the most recognised and admired brand names in the world.

As a global company, COSCO has formed a transnational operating network capable of reaching all major areas of the world. The company owns and operates a variety of merchant fleet of some 600 vessels, which achieve annual traffic volume of more than 300 million tons[39]. Ships and containers are shuttling among 1,300 ports in more than 160 countries around the world.

COSCO aims at being a world leader in shipping and logistics services by maintaining trustworthy relationships with customers, employees and partners, yielding best returns for shareholders, society and environment. This is done by providing best services to the clients and by maximising returns to company's shareholders. They also strive in building up an image of credibility and reliability.

COSCO has fully-owned subsidiaries and joint ventures in the Baltic Sea region in Germany, Russia, Poland, Finland and Denmark. COSCO operates in the Baltic Sea

[38] This section is based on the information from the interview with the Co-Managing Director Timo Honka, Cosfim Oy and the websites of Cosfim, COSCO and COSCO Germany, unless otherwise cited.
[39] The volume of global marine industry is 7 billion tonnes (Datamonitor 2006).

region through its European headquarters, which are located in Hamburg, Germany. In addition to its main office in Hamburg, the company has German offices in Bremen, Frankfurt and Düsseldorf. COSCO has been already for some 40 years in the European market and the first investments in Germany date back 20 years to 1986, when COSRIC Shipping Agency GmbH, a joint venture between COSCO/CUTC and Rickmers, was founded. Five years later COSCO became the sole owner of the company. Later, the company merged with COSCO's European headquarters and the company got its current name COSCO Container Lines Europe GmbH, Hamburg.

In Finland, the presence of COSCO dates also back to 1960s, but it was only in 1995, when Cosfim Oy was founded as a joint venture of COSCO Europe GmbH and the Finnish logistics company John Nurminen Group. Cosfim's business is to represent and market the services of COSCO to exporters and importers in Finland and the Baltic States.

COSCO has basically two principles how it internationalises: it either operates via wholly owned affiliates or then establishes 50-50 joint ventures with local logistics companies. Cosfim's business started in Finland basically as a part of Finnish John Nurminen Group, but later it got independent, as it was not the objective of the company to have its units competing against each others. When co-operation had been continuing already for some 30 years, the two companies had mutual will to get all the synergy benefits that were available through joint venture. These synergies consist of, for instance, cost reductions, as the new company experienced economies of scale through stronger negotiation power with stevedoring companies. Joint venture also enabled better possibility to exploit the local presence of John Nurminen and COSCO's international network. Joint venture thus enabled the company to take care of the whole international logistics chain by combining shipping with other logistics services. These operative synergies are considered as the primary reasons, why COSCO wanted to invest in the Finnish market.

COSCO has affiliates in all Nordic countries. It is a known fact that a shipping company must have local representative in order to make business overseas, as the customers are mainly local and they require localised service. From this perspective it is not that peculiar that COSCO Group has invested in Finland. In Finland, Cosfim has valuable

experience in transit business, which lacks in other Nordic affiliates. That is why Cosfim used to take care of business in St. Petersburg, Russia as well. Nowadays COSCO Russia controls the operations in whole Russia. Cosfim still operates business in the Baltic States in which Cosfim has own subagents. These companies take care of Cosfim's business in the Baltic States and they do not operate any competing business. They may, however, have some other business, as in general the volumes of the shipping business are yet so little that it is not profitable for COSCO to establish own affiliates or joint ventures there.

China Shipping Container Lines[40]: China Shipping Container Lines (CSCL) is a part of China Shipping (Group) Company (CSG), involved in container liner services and other related services. It provides services to customers, in storage, transhipment, customs clearance, and other related declaration. Besides its own logistics and trade enterprises, container terminals and companies within the fields of property and insurance, CSG operates 5 specialised fleets under the name China Shipping Group, which consist of more than 450 vessels, compared to 600 of COSCO, including oil tankers, bulk-vessels, passenger ships, container vessels and special cargo ships.

In 1997 various Chinese inland and a few overseas shipping lines, namely Shanghai Shipping, Dalian Shipping and Guangzhou Shipping, were united to form the China Shipping Group. In less than a decade CSCL has emerged as a major global player. In terms of operating capacity, it is already ranked among the top six container shipping companies.

CSCL operates in dozens of domestic coastal routes and international container liner services from China to Japan, Korea, Southeast Asia, Australia, Europe, Mediterranean, America, West Africa and Persian Gulf. The company's Far East-Europe line is now serving almost all China-based ports. The domestic coastal transportation is covering more than 30 ports from South China to North China. Compared with other carriers it is a dominant player in China with a share of over 50% in a significant number of domestic ports. Its domestic market share in certain ports is

[40] This section is based on the information from the interview with Armin Schoenig, Managing Director of China Shipping Agency (Germany) GmbH and the websites of China Shipping, unless otherwise cited.

as high as 80-90 %. Consequently, CSCL has become the second largest shipping company in China behind COSCO.

With fleet adjustment for nearly eight years, CSCL has gradually formed a modern fleet and is currently positioned within the first six global liners in respect of overall strength. Company's young fleet provides CSCL with additional competitive advantage to stay at the industry forefront.

The decision of starting the foreign operations was initiated by the central government of China, which decided to have a second shipping line to cover the future requirements of the Chinese trade. As Chinese exports were growing rapidly, it was considered that China needs at least two Chinese lines and yet a lot of traffic is taken care of by international carriers.

Just one year after its establishment, China Shipping Group signed a joint venture agreement with Peter W. Lampke GmbH in 1998, for the establishment of China Shipping Agency (Germany) GmbH as a representation of CSCL in Hamburg, Germany. Before the joint venture, the two companies had co-operation, when Peter W. Lampke acted as the agent of the companies belonging to the China Shipping Group. This agency presented the Peter W. Lampke GmbH with the challenge of raising awareness of a young Chinese shipping company which was, up until that point, unknown within the European container line market. When China Shipping Group was interested in building up the company into a container line, they wanted to be represented by themselves, but in order not to lose the benefits of the cooperation with the agency they formed the joint venture to take over the former agency's business activities.

The European business operations of CSCL have been since then concentrated in Shanghai's sister city Hamburg. Similarly before China Shipping Container Lines, other container lines such as COSCO operated between China and Hamburg. Consequently, Hamburg is nowadays seen as one of the main gateways between Europe and Far-East, and especially between Europe and China. In addition, in the context of the Baltic Sea region, Hamburg is conveniently located as a gateway to Scandinavia and the Baltics. China Shipping Agency is covering the whole continent including the UK and

the Mediterranean from their Hamburg office, which they see as an optimal location for a shipping company in Europe. Recently, China Shipping opened an office in St. Petersburg, Russia. Except for this new office, the company does not have subsidiaries in other Baltic Sea region countries, because the volume is so low that it is not considered worthwhile to have own representative there. Therefore, business activities are taken care of from Hamburg, whereas the actual operations are done by local agents.

When China Shipping started as a group company they were having rather low charter prices for the ships they chartered and similarly the prices for new ships were rather low. In addition, when big part of ships had been delivered the freights went up. Most of the even newest ships have been ordered long time ago so also those ships that are coming now are based on a rather competitive prices at the yards. This is how China Shipping has been able to save a lot of money whereas other shipping lines have had to pay higher prices. Thus, the competitive advantage of the company is partly based on chance. China Shipping was lucky with low prices for ships and had a good time to start their operations as far as the growing trade is concerned.

Another part of the competitive assets of the companies stems from their long experience of operating in China. They have advance knowledge of everything which is connected to China, because they have several hundred offices there. The company is familiar with the Chinese culture, and therefore they can cover the needs of the clients in China much better than other global companies.

Similarly, there are agents with local people in Europe, because the company believes that it is always good to have local people at site. Local people know the market much better than what the Chinese people know. Through joint venture the CSCL has however been able to learn, how business is handled in the European context.

The presence in Hamburg has also increased credibility of the company in the European continent. One of the main benefits of having a branch office is the outside appearance that people know that the company is in Europe to stay and that they are committed to their European business activities. It is also thought in general that the

outside appearance is very important especially for a Chinese company to show that it is a good and a solid company.

2.3 A summary of the main empirical findings

The empirical findings show that Chinese companies have invested in the Baltic Sea region not only to exploit their existing competitive advantages, but also to find new competitive advantages for their business operations. In the following, Table 13 describes firstly, what are the existing sources of competitive assets that the case companies exploit in the Baltic Sea region and secondly what are the alternative sources of competitive assets that they are seeking from the Baltic Sea region.

Table 13 A summary of main empirical findings

Company	Industry	Asset-exploitation motives	Asset-seeking motives
Dalian Machine Tool Group (DMTG)	Manufacturing of machine tools	Networks Low cost level	Networks Local knowledge Product-related know-how
Hongfa	Manufacturing of relays	Networks Low cost level Product-related know-how	Networks Local knowledge Product-related know-how
Air China	Logistics/ transportation	Networks	Networks Local knowledge Product-related know-how
China Ocean Shipping Company (COSCO)	Logistics/ transportation	Networks	Networks
China Shipping Container Lines	Logistics/ transportation	Networks Low cost level	Local knowledge Image

The empirical findings show that the sources of competitiveness, which the Chinese companies explore in the Baltic Sea region, improve their competitive position. Whereas these companies have traditionally relied on low cost level, and the know-how stemming from the inward FDI, *the investments in the Baltic Sea region enables better possibilities to compete against local companies*. In the Baltic Sea region it may be difficult to operate from China, and therefore local presence is needed. Through foreign investment Chinese companies can learn more about the local business culture, become part of crucial company networks, add value to their products, and thus increase sales in the host market. Through growth, the companies have in turn better possibility to make further investments, benefit from economies of scale, and also in other ways improve their competitiveness.

Domestically, Chinese companies may benefit of their China-related know-how, as the growth in their home market can provide them possibility to gain from economies of scale. Moreover, close co-operation with emerging Chinese multinationals can teach these companies about international standards and business in general. Close relationship with other Chinese multinationals may also provide growth. Only local awareness, local presence and local knowledge are geographically bound to the Baltic Sea scenery. Otherwise, also global competitiveness is improved as a result of the investment.

A closer look at the investments shows that Chinese are not only relying solely on their home country-specific advantages, but have already to some extent been able to create more long-term firm-specific assets. This appears, when Chinese are willing to move their production machines and know-how to the Baltic Sea region.

The case descriptions show that *Chinese companies are interested in the region's market and customer base*. Rarely does a Chinese company invest in the Baltic Sea region, if they are not interested in increasing their host market sales, at all. In general, the asset-exploitation motives of Chinese companies in the Baltic Sea region still rely very much on low cost-level of Chinese products. Through massive inflows of foreign direct investment they have gained product-related know-how, which now can be utilised in international setting. Also the linkages with other Chinese multinationals are surprisingly important for Chinese competitiveness, especially in logistics, where Chinese companies are getting more important globally as a consequence of China's rapid economic growth.

It is evident that the investments in one country in the Baltic Sea region are rarely targeted for that particular market only. This is especially valid when Chinese companies want to avoid still existing restrictions on world trade. Moreover, in Germany many companies invest in Germany and through their European headquarters operate in the Eastern European markets as well. As Chinese goods already make a large share of the imports in the Baltic Sea region, foreign investments may boost them even further.

Although majority of all Chinese companies in the Baltic Sea region are involved in trading, there are plenty of examples of Chinese companies who have invested in the region in order to seek new sources of competitive assets. Sites in the Baltic Sea region are intended *to develop products to better satisfy local demand* and are also expected to benefit whole company. Thus, these companies may become also more competitive in the host market. Thus, operations in the Baltic Sea region can be seen as a part of developing the investors' international network in which their competitive assets are considered to be based on.

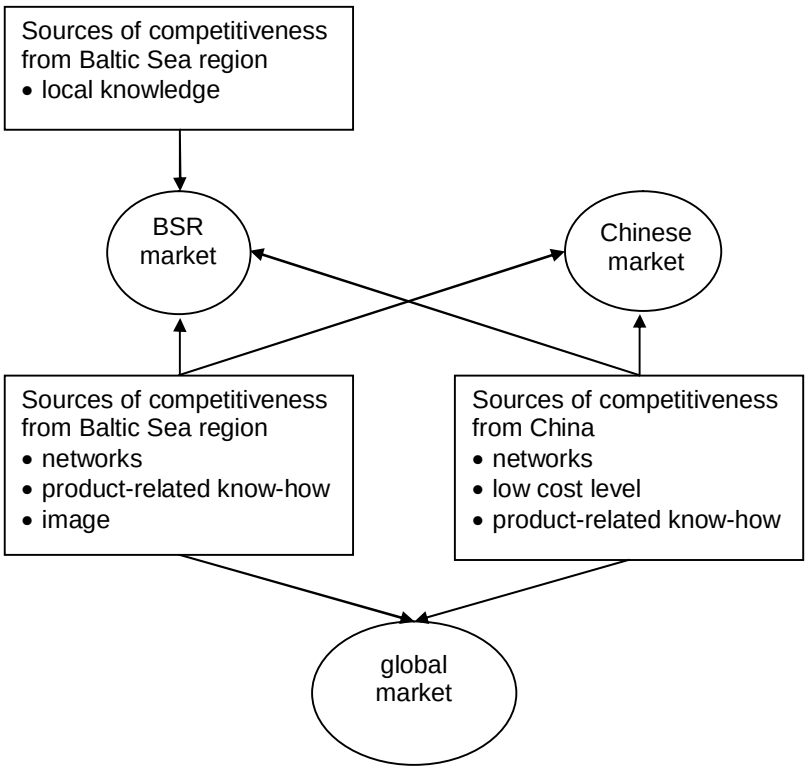
Investments in the Baltic Sea region enable Chinese companies also *to co-operate with local companies more easily*. Thus, the sources of competitiveness and their exploitation become more complex. As Chinese companies are part of global industry, they need international strategic approach for improving their overall competitiveness. From this perspective Dalian Machine Tool Group is a great example, how they improve their competitiveness through co-operation with companies all over the world. As innovations can be exploited horizontally across the group companies all over the world, the overall strength of the company can be remarkably improved. Especially, in the context of Chinese firms, the investments can be thus utilised in overcoming national level disadvantages.

3 CONCLUSIONS

3.1 Concluding remarks on the motives of Chinese foreign investments in the Baltic Sea region

Theoretical contribution: Chinese companies invest in the Baltic Sea region not only to exploit their current competitive advantages but also to seek new sources of competitiveness. Current competitive advantages of Chinese companies generally stem from their established networks, low cost level and product-related know-how. In the Baltic Sea region, they are mainly interested in local knowledge, local and global networks, product-related know-how and image-improving activities. The Figure 12 below indicates how these sources of competitiveness can be exploited in the Baltic Sea region, in China and globally. Except for local knowledge, they may improve the company's competitive position also in their home market and even globally.

Figure 12 The impact of Chinese investments on the competitiveness of the investor in the Baltic Sea region, in the Chinese market and globally



It is notable that only local knowledge is kind of an asset gained from the investment that benefits the investor only in the Baltic Sea region markets. Other sources of competitiveness which the Chinese companies were found to seek from the Baltic Sea region, namely networks, product-related know-how and image, improve the investors position not only in the Baltic Sea region but can also be exploited in the home market and globally.

Local knowledge is a common nominator for the benefits of local presence, local awareness and local market knowledge, which found to be important for Chinese companies. Networks do not stand only for local networks but the investment in the Baltic Sea region may also give Chinese companies an access to global networks, in addition to networks of Chinese companies stemming from their home country. Product-related know-how refers to the interest shown by the Chinese companies to technology and skilled labour force in the BSR, which is many parts more advanced in the Baltic Sea region than what it is in China. However, some Chinese companies have been able to develop competitive products also in China with the help of international connections resulting mainly from the inward foreign investments in China. The image component includes also the willingness of the case companies to have access to the Baltic Sea region brands, branding skills and design. Thus, these companies are seeking for value adding assets from the Baltic Sea region that can be combined to their low cost level.

Figure 12 should not be considered as a general framework how Chinese companies improve their global competitiveness by investing overseas. It must be noted that the figure shows only results from a research consisting of a limited number of case studies. In addition, in these case studies information was heavily restricted, which affected reliability of the research findings. However, the figure can provide a tool to understand how foreign direct investments and the interaction between foreign and local companies affect competitiveness in different markets. It also shows how spatially determined sources of competitiveness seem to have lost their relevance. Competitive advantages are more often a result of company networks, and this makes it possible for LDC multinationals to increase their competitiveness in global terms through outward foreign investments.

It is a known fact that in the era of globalisation, companies may not rely solely on their home country-based advantages but they need matching firm-specific assets from overseas in order to improve their global competitive position. Therefore, also market-seeking investments require supporting resources from the foreign location. In this respect the research findings support the previous researches which have indicated that the motives of Chinese companies have become diverse and are often a combination of resource-, market- and technology-seeking intentions. A clear division of the motives can be regarded as rather difficult, and the research supports the view that motives of foreign investment should be studied from both asset-exploitation and -seeking perspectives. Hence, compared to the conventional view on firm-specific asset related motives of FDI, the research indicates that Chinese companies invest in the Baltic Sea region not only to exploit their existing competitive assets but to seek assets for the sake of future competitiveness.

Unlike what has been found in the researches of Chinese investment motives elsewhere, Chinese companies do not seem to be interested in the Baltic Sea region's natural resources. Although the lack of case companies from different industries may trigger this view, it seems like Chinese companies would be more interested in creating trade and export platforms, and seeking created resources to improve their competitiveness, rather than exploring natural resources from the Baltic Sea region. For instance, some of the most notorious acquisitions of Chinese in the region have been made in order to internalise world-wide recognised brands. What comes to brands, it is interesting to see, how some Chinese companies try to develop their own brand in the market, whereas some of the companies rely on the acquired local brand.

Previously, developing economies have been considered of suffering from scarce capital. Chinese companies are interesting in the sense that they may take advantage of the state's substantial foreign reserves. This enables them to enter global markets without clear competitive advantage and improve competitiveness of these companies through FDI in advanced economies. As the companies are engaged in asset-exploration activities in the Baltic Sea region their future success is difficult to forecast precisely. However, some of these companies are likely to develop such assets and they can become real competitive threats for the indigenous companies of the region.

The research shows that in more developed regions, FDI is more export-oriented than in countries with less developed markets. Instead, in these countries they are more interested in overseas manufacturing. Similar results have been previously reported for instance by Yang (2005).

The reason why Chinese companies invest in the Baltic Sea region can be thus regarded as related to improving their long-term competitiveness. As their current competitive advantages, particularly low cost-level in home country, are rather short-run by nature, they need to generate new sources of competitive assets and erect barriers to entry in order to stay in business. This works both in home and host country markets, when stronger Chinese companies can also erect entry barriers in the Chinese market by branding and increasing their market power.

The general interest of companies to invest overseas in order not to lose their competitiveness is not a newly found phenomenon. Actually, it has been already noted by Hymer (1976) some 30 years ago. In this respect, Chinese companies cannot be regarded as being exceptional cases. What makes them exceptional relative to conventional theories on foreign investments is that before remarkable outflows of foreign capital from developing countries were not considered to be possible. The research findings also show that the motives of Chinese investments are mainly dependent on the industry in which companies operate rather than their country of origin. From that sense Chinese companies cannot be considered as unique cases among other investors in the Baltic Sea region.

Managerial implications: The research shows that some Chinese companies have already been able to improve their competitiveness, and they can be regarded to some extent as a threat for local companies in the Baltic Sea region. Especially, when Chinese investments are strategic in nature, they are likely to improve the position of the investing companies. Therefore, local companies should follow the manoeuvres of Chinese internationalisers and adjust their business operations accordingly.

Adjusting of business activities seems likely to lead to new allocation of resources in local companies. This means that the so-called China-phenomenon with the leakage of

manufacturing jobs to China is likely to be continued. In the era of globalisation it is not enough for companies to be the best locally or regionally but they must reflect themselves in the global scene. Therefore, companies must be able to make use of the most competitive resources available; be it cheap labour, inexpensive capital or innovation networks. As Chinese companies are already able to exploit cheap labour and inexpensive capital, their adjustment to the innovation network of Baltic Sea region makes them potentially serious competitors even to advanced economy MNCs.

One should also remember that Chinese companies are not only a threat, but provide also opportunities for cooperation. Many Chinese companies are interested in long-term cooperation agreements with local companies. This can provide not only business opportunities in the local market but an important linkage to the emerging Chinese markets. This could improve the lagging export levels of the region, and local firms could gain from growth of the emerging Chinese market. In addition, cooperation with the Chinese can help local companies to make their own cost structure more competitive. It is also evident that after huge investments in R&D, some Chinese companies have become important information sources, and this knowledge can be exploited by local companies. Thus, through networking and cooperation it is possible for companies to utilise the same potential advantages than Chinese multinationals are already utilising.

Policy recommendations: Although some parties are concerned of the ultimate intentions of Chinese investments, Chinese investments can be also beneficial to their target regions. For instance, Chinese companies can develop the industrial clusters even further, as more dynamic and challenging environment pushes companies to improve their performance and encourages them to be more innovative.

The research findings on the motives of Chinese investments support a new approach for promoting Chinese FDI in the Baltic Sea region. As Chinese companies can be interpreted to be interested in the local network of companies, investment promotion agencies should be positioned more as matchmakers. This means that instead of promoting intra-boundary locational advantages, they should find matching solutions for the needs of Chinese companies from the company network. Although promotion of clusters and even matchmaking has been implemented before, the investment

promotion agencies could be in the future better-off if they were more focused on the regional company networks rather than individual countries.

This would not only give IPAs more to match but would also divide the costs for promotion efforts between the region's countries. For instance, even after huge efforts of Sweden in promoting Chinese investors, the general awareness of Sweden and the investment opportunities of the country have remained limited in China (Jiang 2005).

From this respect the policy-makers should continue their talks on setting a common investment promotion agency in the region. Research findings also show how supporting activities must be available for attracting foreign investments in the region. From this respect regional perspective should be taken to improving the attractiveness of the Baltic Sea region in terms of local factor conditions, local demand conditions, supporting and related industries, and firms' strategy, structure and rivalry.

Network approach has been found to be especially important in the future, when Chinese companies develop their competence (e.g. Yang 2005). Therefore, co-operation is needed within the region in order to develop the Baltic Sea region as more attractive investment base for foreign businesses.

Nevertheless, it is not only in the field of investment promotion, where politicians should seek for common interest. For instance, both industries in Kaliningrad and Kouvola logistics cluster would clearly benefit for development of the Trans-Siberian railway. Therefore, cross-border cooperation is needed in the Baltic Sea region to make the railway connection from China to the region.

In many occasions regional view on competitiveness may enhance competitiveness of companies in national level as well. However, Chinese investments show that the Baltic Sea region's business environment is in constant flux, and more global approach has to be taken in order to maintain competitiveness of the companies within the region. When Chinese companies, together with India and Russia's national champions are entering the global markets, local companies need better and more flexible possibilities to conduct business. This requires measures for counteracting the new China-phenomenon. The research shows no reasons, why this should be taken care of by

protective measures. Instead, the research suggests better opportunities with cooperation, so that local companies can have access to the same advanced information and competitive (inexpensive) resources, as their Chinese counterparts have. This is where the final battle for market shares and competitiveness then starts.

3.2 Suggestions for future studies

Although this research increases understanding why Chinese invest in the Baltic Sea region, more research is needed in order to increase the reliability of the research findings. This means more case studies and statistical analyses on Chinese investments in the Baltic Sea region. Currently, the information on the motives of Chinese foreign investments is difficult to obtain but in the future they are likely to become more open when they get accustomed to Western business standards. Also the anticipated increase in the number of Chinese companies within the region makes it easier to conduct more thorough research.

An interesting perspective for future studies is the political background in many Chinese companies investing overseas. In the Baltic Sea region the role of politics is especially evident in the Baltic Pearl project, but like any other Chinese projects in the region, it can be explained from commercial point of view. It is still interesting how warm relations of, for instance, Gerhard Schroeder and Vladimir Putin with the Chinese government seem to have increased the activity of Chinese companies in the region. It would be valuable to know, how much politics affect the motives of Chinese investments in the region. In the company interviews the role of the government was not emphasised, unlike in some of the previous researches on the topic. By understanding the political background of the investing companies, internationalisers' access to inexpensive capital could be better understood.

Moreover, there is a need for monitoring of Chinese investments in Russia. The development of these two countries together with India and Brazil is considered having remarkable impact on the international business scene, and therefore it is important to follow the development and the investment flows between China and Russia in particular. The past few years has already shown development in the economic

relations of China and Russia, and with China's constant need for energy and Russia's need to find new markets for its energy, their economic dependence on each others is likely to be increased in the foreseeable future.

"*…as China's hunger for natural resources and markets increases, so too will the influence of its firms in host markets*" (Hess 2006)

In the future, it would be also important to have analysis on the impact of Chinese companies to the regions they invest in. This kind of study could lead to policy recommendations and could help local companies to better adjust to the influence of Chinese competitors entering their home market. This would be especially important, as the importance of Chinese investments is likely to increase within the region.

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APPENDICES

Appendix 1 Previous researches on internationalisation of Chinese companies[41]

Authors	Year	Title	Research method	Main empirical findings
Buckley et al.	2007	The Determinants of Chinese Outward Foreign Direct Investment	Investigates data from SAFE over the period 1984 to 2001 in order to find out which variables determine the geographical location of Chinese outward FDI flows	Chinese outward FDI is associated with high levels of political risk in, and cultural proximity to, host countries throughout, and with host market size and geographic proximity (1984-1991) and host natural resources endowments (1992-2001). Prior to 2001, outward FDI was not driven by the motive to acquire strategic assets.
Hess	2006	Going Outside, Round-Tripping and Dollar Diplomacy: An Introduction to Chinese Outward Direct Investments	Analysis on previous researches, macroeconomic indicators and the data provided by MOFCOM and UNCTAD.	China's outward FDI is likely to increase, as a consequence of high domestic savings rates, global financial imbalances and efforts to cool investment demand at home. The volume of outward FDI by medium-sized private domestic firms will increase steadily. FDI outflows into regions of Asia, North America and Europe will account for a combined two-thirds of Chinese investment overseas.

[41] The list is not comprehensive and is limited to articles written in English. Therefore, researches such as Gang Li's (2000) *"Go Abroad": Opening-Up Strategy and Case Study* is not presented in the list

Asia Pacific Foundation of Canada and China Council for the Promotion of International Trade	2005	China goes global	A questionnaire sent to the members of China Council for the Promotion of International Trade (CCPIT) to show, which Chinese companies intent to invest, where and why	The most important determinants of future Chinese ODI are business potential or expansion prospects, security of investment and a favourable tax system in the target market.
IBM Institute for Business Value	2005	Going global Prospects and challenges for Chinese companies on the world stage	The globalisation trends, aspirations, motivations and challenges of Chinese companies were assessed through over 40 interviews with Chinese companies, M&A specialists and global subject matter experts.	Primary motivations for Chinese companies considering global expansion are seeking new markets, and acquiring advanced technology and management skills. In addition, the research states that there are some 60 Chinese companies with true global potential.
Jiang	2005	Globalization strategies of Chinese companies	Analyses globalisation processes of Chinese companies, telecommunications companies in particular through a combination of focused interviews with professors and high-ranking executives of Huawei and ZTE and secondary data on global corporate strategies.	Huawei and ZTE have actively sought cooperation with renowned foreign companies offering them expertise in the globalisation process through experience and R&D, and providing legitimacy in developed markets. Both companies intend to compete on price, as well as product and service quality, in the global market Government influence has had both positive and negative impact on the companies.

Liu et al.	2005	Chinese economic development, the next stage: outward FDI?	Statistics analysed by GMM estimation methods to show relations between economic development and outward foreign direct investments	The results suggest that the level of economic development, proxied by GDP per capita plus refinements, is the main factor explaining China's rate of outward FDI.
Wu	2005	Globalization of Corporate China	Analysis on macro and firm-level development of Chinese outward FDI, based on macro data and previous researches and secondary sources.	"Fierce economic competition and declining domestic revenues, combined with government encouragement and financial support, are pushing Chinese firms to globalise in order to establish local sales and distribution networks in host countries, support exports and open up new markets, secure access to raw materials and natural resources, and acquire technology, cutting-edge manufacturing know-how, and global brands."
Schüller & Turner	2005	Global Ambitions: Chinese Companies Spread Their Wings	Studies the aggregate data of Chinese foreign investments, their international merger and acquisition activities.	Chinese companies use the opportunities offered to them in the process of globalisation.

Yang	2005	China's Offshore Investments a Network Approach	Chinese FDI is studied from network approach showing means of choosing appropriate mode of economic organisation from the aggregate data.	By investing abroad, Chinese companies become part of foreign network. Networks can play crucial role to obtain scarce resources.
Deng	2004	Outward investment by Chinese MNCs: Motivations and implications	Study of aggregate data, both macro and micro, from UNCTAD database to describe overall patterns and destinations of China's outward FDI. In addition, company-level data and cases were studied in the research.	Chinese companies can be pursuing multiple objectives from an investment project.
Yang	2003	Foreign Direct Investment from Developing Countries: A Case Study of China's Outward Investment	The method of approach is descriptive and mainly based on qualitative analysis on survey data and case study materials, as econometric analysis is not possible with the absence of comprehensive data on industrial composition and overseas subsidiaries' operations.	It is not evident that Chinese companies possess clear international competitive advantages. Instead, they are engaged in FDI for various network benefits, and the distribution of China's outward FDI reflects the distribution of network benefits and the relevant cost saving effects.

Hong & Sun	2004	Go Overseas via Direct Investment: Internationalization Strategy of Chinese Corporations in a Comparative Prism	The research compares the aggregate data of Chinese overseas investment relative to Japan and South Korea and presents case studies of two Chinese multinationals	At the aggregate level, China and Korea shared simultaneous growth trend during 1988-2002 and their trends resembled the one in Japan during 1968-1982. In addition to the resource-seeking investment, increasing number of Chinese enterprises have been interested in foreign technologies, managerial know-how, R&D establishments, distributional networks, and even brand names in developed economies.
von Keller & Zhou	2003	From Middle Kingdom to global market Expansion strategies and success factors for China's emerging multinationals	Survey on elite group of industry-leading Top 50 Chinese firms. Some follow-up interviews after the survey. The research aims at finding out motivations, strategies and business models employed in overseas expansion.	For 60 % of the companies surveyed, the strongest motivation lay in seeking new markets, for 20 % in obtaining natural resources and for 16 % in obtaining advanced technology and related brand equity. It is also found that the internal corporate motives provide the greatest impetus for overseas expansion.
Wu & Chen	2001	An Assessment of Outward Foreign Direct Investment from China's Transitional Economy	The research explores the progress of China's outward FDI, with special attention to its motivation, sector distribution, scale of operation and geographical distribution, its overall benefits and problems, and its future prospects	The scale of operation of China's overseas investment enterprises has expanded from small-scale trading companies and agricultural enterprises to medium-size and large resource development companies and industrial enterprises. As a result of economic liberalisation, the form of China's outward FDI has gradually shifted from government-directed investment to profit-oriented investment directed by the enterprises themselves.

Li42	2000	"Go Abroad": Opening-Up Strategy and Case Study	A questionnaire survey from June 1999 to April 2000 about China's overseas manufacturing. Structured questionnaire sheets were sent out to about 170 firms and more than 100 responded effectively.	According to the survey, 47.1 % of the surveyed firms have the motivation to develop overseas market as their primary concern. About 17 % are willing to obtain higher expected profit in foreign countries. The rest of the companies were motivated by intensified domestic competition (14.5 %), bypassing trade barriers (12.2 %) and intensified export competition (9.3 %).
Tan	1999	Foreign Direct Investments To and From China	Regression analysis to establish statistical significance of the determinants of foreign direct investments.	Both push and pull factors influence decisions of Chinese businesses to invest overseas, such as government's encouragement, huge profit opportunities, and information on foreign technology and markets.

[42] Li [2000] has reported his research methods and main empirical findings in Chinese but they are referred in Yang (2003).

Appendix 2 Motives of Chinese enterprises for investing abroad

Factors	Importance of the factor (1=very limited, 5=very important)
Expansion into new market	3.6
To advance exports of parent company	3.5
To be near export markets	3.4
Access to information abroad	3.3
Following home country's strategy	3.2
To build up international experience	3.1
Access to third country markets	3.1
Diversification of production	2.9
Higher rate of profit abroad	2.6
To use product innovation	2.6
Trade barriers in host country	2.4
Investment incentives in host country	2.4
Desire to be near source of supply	2.4
Defending existing markets	2.3
Lack of raw materials in home country	2.2
To follow competition	2.1
Home country's agreements with host country	1.9
Cultural and language proximity	1.9
Competitive pressure in home country	1.7
Lower labour cost in host country	1.7
Lower land cost in host country	1.7
To use labour-intensive technology	1.7
To exploit managerial skills	1.7
To follow customers	1.6
Lower capital cost in host country	1.4
Political instability in home country	1.2
diversification of financial risks	1.1
Market limitation in home country	1.0

Source: Zhang and Bulcke [1996] International Management Strategies of Chinese Multinational Firms (see Yang 2003)

Appendix 3 Selected large "ethnic Chinese" companies in South-East Asia

Company	Country	Industry	Market value (US$ million)	Sales (US$ million)	Geographic scope
United Overseas Bank Limited	Singapore	banking	13,000	1,900	global
Overseas-Chinese Banking Corporation	Singapore	banking	10,800	1,600	global
Public Bank Berhad	Malaysia	banking	6,000	1,300	regional
Bangkok Bank Public Company Limited	Thailand	banking	4,700	1,200	global
Great Eastern Holdings Limited	Singapore	life insurance	4,000	4,700	regional
Singapore Press Holding Limited	Singapore	publishing	4,000	600	regional
City Developments Limited	Singapore	hotels	3,900	1,400	global
Genting Berhad	Malaysia	hotels	3,500	1,200	regional
Kasikorn Bank Public Company Limited	Thailand	banking	3,200	900	global
IOI Corporation Berhad	Malaysia	agriculture & fisheries	3,000	1,300	global
Total			56,100	16,100	

Source: UNCTAD (2006a)

Appendix 4 Background information on the motives of Chinese foreign investments in the Baltic Sea region

China Center in Kouvola, Finland[43]: China Center is about to be established shortly in Kouvola, Finland. China Center is a wholesale centre meant for Chinese manufacturers interested in the Russian and Northern European markets. Three Chinese businessmen have bought an empty dairy building in Kouvola and they will start a China Center, which will eventually represent some 120 Chinese companies. In the first flow of companies some 11-12 companies will invest in their Finnish operations and more is expected to enter during the next three years. The items may vary from clothes to home appliances and perhaps later even to cars.

Some of the companies that will invest in Finland have their own production facilities in China, and distribute their products in Europe and Russia via China Center, whereas a part of the companies distribute another company's products. Although none of these companies is expected to have production in Finland, they are expected to use Finnish know-how for modifying their products to meet European standards.

According to Aimo Ahti, the City Mayor of Kouvola, China Center is a part of the larger Innorail-project, which aims at regular cargo traffic by rail from China to Kouvola and back. What is expected to bring Chinese companies to China Center is the city's proximity to North-western Russia. Kouvola is conveniently located in the Southeast part of Finland only some 120 kilometres from the Russian border and consequently close to the city of St. Petersburg. There is a direct train and road access between the two cities, and there is a huge consumer potential, which can be achieved in just a few days from Kouvola. (Eurometri 2006.)

Kouvola may provide more stable investment environment than Russia. And compared to the Baltic States, Finland is expected to be capable of providing more services for investing companies. For instance, these companies require transport and forwarding

[43] This section is based on the information from the interview with Sirkku Seila, CEO of Kouvolan Yritysmagneetti Oy, unless otherwise cited. Kouvolan Yritysmagneetti Oy is the Finnish organiser of China Center in Kouvola. The organisation does not act as an investor but it provides help for the Chinese companies that will establish their business in the city.

services. Altogether, there are already some 200 logistics companies present in Kouvola region (Eurometri 2006).

Furthermore, the direct train access from Kouvola reaches out all the way to China, which enables the utilisation of train traffic when exporting goods to the China Center. Nevertheless, at the moment the Russian tariff policy is claimed to cause problems for train transports and consequently most of the merchandise is assumed to arrive in China Center via harbours. In the cases, where the Chinese are to distribute goods that can fill a container or several containers, it is more reasonable to distribute those goods to the European market from the harbours of the Western Europe. Whereas less is exported, the goods are first shipped to Kotka harbour near Kouvola and are then stored in Kouvola for further distribution for the end-users in Europe and Russia. Later, it is wished in Kouvola that train transport could be used to a larger extent as it would be as a mode of transport faster than shipping and cheaper than air transport.

It is considered that it is not only the Russian market that can be served from Kouvola China Center, but also the European market. In Hungary's capital, Budapest, there is also a similar complex for Asian manufacturers, entitled as "Asia Center", but it is targeted to more of the regions in the Southern Europe. Kouvola's China Center will be the first one of a kind to be established in the Northern Europe.

Although large piles of Chinese merchandise are already exported from China to Russia, China Center is expected to add value to Chinese internationalisers. The operations may be more profitable, when one actor less is needed. China Center provides also a place for Chinese companies to exhibit their products close to the customer base.

The Baltic Pearl: In May 2005, the city government of St. Petersburg and the Shanghai Industrial Investment Company signed a deal for building the Baltic Pearl, a huge residential complex in St. Petersburg, Russia. The first stone was laid five months later in October 2005, and the construction is scheduled to take six to eight years. Several Shanghai-based companies are expected to invest over these 6-8 years US$ 1.3 billion into the project, which is referred as the largest in the Chinese foreign investment history. Among the Chinese investors are Shanghai Industrial Investment (Holdings) Co Ltd, Jin Jiang Group, Shanghai Brilliance (Group) Co Ltd and Greenland Group, which all operate through Shanghai Overseas Joint-Investment Company Ltd

(Shanghai Overseas Enterprises Corp). The project aims to build more than 1 million square meters of residential houses with well developed social infrastructure: kindergartens, schools, libraries, health centres et cetera. The business area includes also office spaces, hotels and shopping centres. (Petersburg City 2005a and 2005b, St. Petersburg 2006.)

In the public, the motives of the Baltic Pearl project have been mainly cited as political. The project has been seen as a symbol of Sino-Russian co-operation, and it is expected to boost further the trade between the two countries and the cities. (St. Petersburg Times 2005.) On their website Brilliance, one of the Baltic Pearl investors, explain that with the challenges of opening China's distribution, service and trade industries to global competition after the entry into WTO, with the establishment of Brilliance, Shanghai's distribution industry will actively participate in global competition and cooperation. Through State owned assets restructuring, enterprise equity conveyance, acquisition and merger, Brilliance, has formed its initial competition edge which targets at both domestic and global markets. However, the slow start of the project cites that it may be that the political intentions were the actual reasons, which triggered the project, whereas the project may be postponed with rather unclear commercial motives.

Chinese factory investments in Kaliningrad[44]: An interesting Chinese project is also an assembly factory of automaker Chery Automobile Corp, Chinese state-controlled company, in the Russian enclave of Kaliningrad.

Chery Automobile Co,.Ltd. was founded in 1997 in the city of Wuhu, in China's Anhui Province, specialising in the production and operation of automobiles and auto components. Chery exports already to more than 50 countries. It has developed complete product lines, and the company's own R&D projects have enabled the development and production of vehicles, engines, gearboxes and other core components. The present production capacity for whole vehicle and gear box is respectively at 400,000 and 300,000 units per year. In 2005, Chery achieved a sales volume of 189,100 cars with a total increase rate of 118 %, and exported 18,000 cars overseas, ranking No.1 in the export of domestically made cars. As a staged target,

[44] This section is partly based on the information from the website of Chery.

they expect to produce more than one million cars by 2010 and enhance their export share to 40 percent of Chery's total sales volume on overseas market.

The first Chery car was produced in a plant owned by Russian Avtotor in April 2006, and the two companies have also considered setting up a new plant in 2007, with a total investment of US$ 200 million, if only auto sales prove to be successful. The fittings and technology for the factory are provided by Chery and the assembly work is accomplished by Avtotor under the instruction of Chinese technicians. The Avtotor plant is capable of assembling 2,000 units of Chery vehicles per month, and plans to output 15,000 units this year. Chery's manager has admitted that Chery has been seeking overseas co-operation partners also elsewhere and plans to build production bases also in Poland and other countries in the Eastern Europe. He also said that Chery has already signed agreements with importers in the United States and Europe. Besides Chery's cars, Avtotor also assembles Chinese Yuejin and Zhongxing-branded trucks and SUVs, Guowei-branded motorcycles, as well as nine Chinese home appliance brands. (People's Daily Online 2006, Shanghai Daily 2006.) Chery Automobile has claimed to enjoy Beijing's financial backing for its plan to crack the US and European markets already by 2007 (Bacani 2005).

Pravda (2003a, 2003b) has reported that China has a special interest in selling Chinese products from Kaliningrad further to the Western markets. According to Vladimir Egorov, the regional Governor of Kaliningrad, there was a perspective project about utilising the Trans-Siberian railway and Kaliningrad seaports for bringing the Chinese products to Europe, and he saw great potential for creating joint ventures with the Chinese in the Kaliningrad Region. Later that year a protocol to this effect was signed in Kaliningrad. The protocol called for the realisation of seven projects, which included joint ventures for packaging tea, production and assembly of consumer electronics, shoemaking, foam-rubber and furniture construction, and the production of videocassettes and CDs. According to the regional vice Governor of Kaliningrad, Mikhail Tsikel, in 2003, there were altogether 30 companies having Chinese capital operating in the Kaliningrad Region.

In May 2006, Moscow Times (2006) reported that Kaliningrad-based Avtotor is also negotiating with China's largest television manufacturer, TCL, to produce up to 330,000 TV sets per year. Huizhou-based TCL started in 1980s producing cassette tapes, then telephones and eventually started television manufacturing in 1992. By the late 1990s,

TCL had become the largest TV set producer in China but its production was for international brands such as Philips and Toshiba, and even for the Danish company Bang & Olufsen. TCL started its international expansion under its own brand in 1999, when the company invested in Vietnam to test in neighbouring markets. When the Vietnamese found out that TCL was a Chinese brand, TCL struggled to reach a market share of only 10 percent. With the company's ambition to become a global brand such as Sony or Samsung, it did not want to use the expensive and time-consuming effort required to promote the TCL brand. The company decided instead to buy-in international brands through acquisitions and strategic alliances. As an outcome of this decision, they acquired in 2002 Schneider Electronics in Germany for US$ 8 million. (Wu 2005, Fan 2006.)

TCL's subsidiary TTE, the largest TV manufacturing company in the world, has had also R&D sites in Germany and had manufacturing facilities in Poland, which have been announced to be closed down. It has also established, together with its partners, a sales network in the Baltic Sea region to cover all of the Baltic Sea region, except for the three Baltic States. (websites of TCL and TTE.) To explain their activity in the region, Li Dongsheng, chairman of the board of TCL International, has said that the purchase of German TV maker Schneider Electronics AG for about 8.2 million euros was considered to help TCL expanding its business in Europe, and the Schneider brand would provide TCL with access to its worldwide distribution network (People's Daily Online 2002).

Chinese R&D investments in Sweden[45]: Unlike in Russia, where Chinese companies bring their own technology with them, in Sweden they are in turn willing to transfer knowledge from Sweden to the company. In Sweden the most notorious Chinese investments are research and development sites of two telecommunication giants Huawei Technologies and ZTE[46].

Huawei Technologies states to be a leader in providing next generation telecommunications networks, and it serves 31 of the world's top 50 operators, along

[45] This section is partly based on the information from the websites of Huawei and ZTE.
[46] According to LOCOmonitor (2006) ZTE and Huawei are the largest and the second largest Chinese investors, respectively. Together they have accounted for 90 % of Chinese FDI projects in telecom equipment sector.

with over one billion users worldwide. Huawei is a privately owned company[47], whose mission is aimed at becoming a world-class company. Initial success has been enabled through its competitive prices (some 30 % lower than other suppliers) are an outcome of relying on Chinese engineers with low labour cost, but in the future more emphasis is being put on stronger customer focus and cutting-edge technology. Better performance is being sought through partnering with foreign companies in a number of strategic areas, such as product development, human resource management, financial advice et cetera. (Jiang 2005.)

Huawei has invested more than 10 % of the annual revenue in R&D since the establishment of the company. At the end of 2006, the company had over 61,000 employees, of whom 48 % were dedicated to R&D. Huawei's global R&D centres are located in Bangalore in India, Silicon Valley and Dallas in the USA, Stockholm in Sweden and Moscow in Russia in addition to those in Beijing, Shanghai, Nanjing, Shenzhen, Hangzhou and Chengdu in China.

Huawei Technologies started their Swedish operations through their affiliate Atelier Telecom. Leagan Ling, Huawei's marketing manager, has stated that for them it was self-evident that Huawei opened an office in Kista, Sweden. They saw great potential there, because they consider Kista and the Stockholm Region as Europe's centre of telecommunications. Whereas they first started with research and development, they have later developed the office also as a base for sales covering the whole Nordic Region. With their competitive assets - low price, high quality and fast and flexible supply of technology - it is Huawei's ambition to become leading, global supplier in the telecom markets. Therefore they also invest a lot in Europe as well as rest of the world. According to Lars Bondelind, vice president of Huawei Technologies Sweden AB, Huawei started looking for a base in the West in order to get access to experience that was not available in China. He also considers that overall cost level is low in Sweden. He also refers to company strategy, stating: "the more we sell, the more we will grow – and growth is our aim". (IT Sweden 2004, Ny Teknik 2004.)

Another telecommunications company ZTE launched its first research laboratory in Europe in 2003, when company's subsidiary ZTE Wistron AB started its operations in

[47] However, the company's ownership, sources of funding and connections with the government-related institutions and particularly with the People's Liberation Army has raised concerns on the real intentions of the company in international

Kista, Sweden. Founded in 1985, with global headquarters in Shenzhen China, and operations in more than 100 countries, ZTE claims to be a leading global provider of fixed line and mobile telecommunications equipment and network solutions. ZTE commits around 10% of annual revenue to research and development. It has five R&D centres outside China – three in the USA, one in South Korea and one in Sweden. In 2005, ZTE had sales revenue of some US$ 2.5 billion and 27,000 employees worldwide.

The company is listed only partially and about 62 percent of its stocks remain unlisted. Some of the unlisted shares are owned by the employees whereas the rest is owned by holding companies with government ties. The government ties have created the company competitive advantage through financing. This is especially important in the capital-intensive industry where access to inexpensive capital can be vital in business negotiations. (Jiang 2005.)

According to ZTE's Sales Director for Northern Europe, Jeff Ji[48], ZTE aims at becoming:

- A truly global and local company by 2008, with 50 % of revenue generated from overseas market
- A leader in telecom industry through sustainable growth and continuous innovation
- A provider of superior information and entertainment services and solutions to global users

"*The simple purpose of ZTE's Swedish presence is to increase sales in the Nordic market. Naturally, in order to sell extensively within a reasonably short period of time, ZTE needs to form partnerships with local actors, ranging from business development, marketing aspects to engineering and after-sales services, as well as channel-partners. Regarding product research and development, ZTE Wistron is the development wing of the company's Swedish presence.*" Jeff Ji, ZTE Sales Director for Northern Europe, in Jiang (2005.)

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markets (e.g. Bacani 2005).

[48] The presentation of Jeff Ji at the Royal Institute of Technology (KTH) September 28th, 2005 is referred in Jiang (2005).

ZTE invested in Sweden in order to recruit experienced 3G-engineers to the company and to co-operate with local mobile phone companies. Partners are sought not only in the field of technology development but also in supply, service and distribution within the Nordic region. The Swedish firms' willingness to co-operate with ZTE has been stated to be one of the main reasons, why they made the decision to invest in the Stockholm Region instead of opening research laboratory elsewhere in Europe. As explained by Betty Cui, CEO of ZTE Wistron AB, the smaller market size of Sweden did not matter, as ZTE did not invest just to sell their products, but to find partners to new projects. Zhongsheng Lou, ZTE's development manager, has also explained the reasons for ZTE's overseas R&D investments by stating that mobile phone operators require telephones that satisfy local demand. Therefore ZTE needs help from local developers who know the local customers. The requirements of the Swedish customers are considered to be similar to other advanced markets, so ZTE considers Swedish market as a good place to develop itself. Each of its research centres concentrates on specific fields of interest, depending on the local talent resources, although the staff in R&D centres based outside have half of the employees dispatched from ZTE's China offices. (Dagens industri 2005a and 2005b, Ny Teknik 2003, Jiang 2005.)

"*The Swedish presence is a part of our globalization strategy; we perceive the country as very developed, especially within the telecommunications field. Even so, ZTE believes in its own particular competence in this advanced market, as well as in its ability to grab this big opportunity and achieve market share in Sweden. The Nordic region as a whole is an important market overall; not only for the purpose of building reference cases for ZTE, but also drive ZTE to further increase its professionalism and expertise by competing in the advanced Nordic market.*" Jeff Ji, ZTE Sales Director for Northern Europe, in Jiang (2005.)

The assistance of foreign companies, in terms of know-how and globalisation experience, has increased the pace of Huawei's and ZTE's globalisation process, and it is also considered that partnerships with foreign multinationals bring legitimacy to their product quality and international leverage (Jiang 2005). The two companies have been active also elsewhere in the Baltic Sea region. For instance, Huawei Technologies announced in 2005 that it would invest $3 million into the development of telecommunications infrastructure in St. Petersburg (St. Petersburg Times 2005).

Chinese investment projects in the Baltic States[49]: According to the Chinese Embassy of Latvia, Chinese telecommunication companies ZTE and Huawei are active also in Latvia. In addition to these two companies there are officially 48 Chinese companies (and joint ventures), which are for the most part either Chinese restaurants or trading companies. According to the Chinese Embassy of Estonia, also in Estonia there are Chinese businessmen who have registered their own companies and most of them are running small restaurants and trading companies. From China there is to date only one major investment.

In 2005, Invest in Estonia (2005) announced that Estonian Toom Tekstiil, one of the largest producers of home textile products in the Baltic Sea region, has set up a joint venture with a Chinese company. The aim of the joint venture between Toom Tekstiil and Hangzhou Sanxin Paper Co Ltd was to build a factory for production of polyester fibre. Andus Lõo, purchases director of Toom Tekstiil, has admitted that the agreement with the Chinese has been signed and the joint venture has been set up. The facility was expected to cost some 2.5–3.2 million euros, and it was supposed to reach annual production of 1,200 tons of polyester fibre. Technically, the joint venture, Eurofibre Ltd, is arranged between Estonian Fibertex Ltd and the Chinese company Hangzhou Sanxin Paper. Eurofibre is supposed to become one of the largest fibre producers in the Eastern Europe. The Chinese partner was asked to form a joint venture after long-lasting partnership with Fibertex. They were needed because of their special knowledge that is not available in the world except for China.

Toom Tekstiil was established in 1995 and for the present time it has become one of the largest producers of home textile products in the Baltic Sea region. The company produces in its four factories close to 1.5 million polyester and natural filling quilts, 3 million polyester filling pillows and 400,000 mattresses annually. About 90 % of its products are exported to Germany, Benelux countries and Scandinavia. As a result of successful international economic activities Toom Tekstiil has been awarded as the Best Estonian Exporter of 1998. The company offers large variety of inexpensive textile products to different client groups varying from retail companies to wholesale and mail-order companies. In addition to final consumer oriented products, they offer several semi-manufactured goods (such as inner pillows,

[49] This section is partly based on the information from the email responses from Chinese Embassies in Latvia and Estonia, websites of Toom Tekstiil and Fibertex, and a telephone interview with Mr. Andrus Lõo, General Management,

quilted pillowticks, lining materials etc.) and sub-contract services to textile, furniture and sewing companies. In competition the company relies on up-to-date high-productive equipment, qualified employees and cooperation with customers in the field of research and development.

Estonian business magazine Äripäev (2005) reported that the joint venture had problems to start, as the companies had misunderstandings about the budget. According to Andrus Lõo, the project remains postponed and the production waits to be started. Project was initially planned to employ some 80 people, which were to be recruited by Toom Tekstiil. In addition, the Estonian company was supposed to take care of the setup of the factory, whereas Hangzhou Sanxin Paper was supposed to bring its own machines and know-how to the new joint venture. However, in the website of Fibertex it is argued that Eurofibre will be "*using only the most modern German machinery*".

Motives of the Chinese investments in Germany50: For many Chinese companies the sole intention for investing in Germany is to have a base in Europe from where they can reach the rest of Europe relatively quickly. This is also the reason why Hamburg has been so popular investment target among the Chinese companies in Germany. A significant proportion of Chinese exports are shipped to Europe via Hamburg harbour. Although Chinese companies are also interested in tax holidays and other incentives and subsidies, they have other reasons for a long term commitment in the German market.

Many Chinese companies start their operations in Germany by exporting to the market. In long term, exporting is however very sensitive to market changes and currency fluctuations. By investing it is also possible to get a better knowledge about the local market. Furthermore, many Chinese companies are also using Germany as a springboard into the Russian and the Eastern European markets. These companies are cautious of going full armed into the unknown markets and invest in Germany instead.

Fibertex Ltd.

[50] This section is based on the information from the interview with Invest in Germany's Project Manager (China Desk) Mr. Patrick von Wrede, unless otherwise cited.

Companies who invest in Germany are interested in the German infrastructure. As Chinese investors want things happen quickly and they are physically far away from the German market, they need ready made solutions. Therefore they are not willing to start from the scratch with greenfield investments. Through acquisitions Chinese companies can enter German market and take over a functioning, working company with an existing brand, customer base, and knowledge base, which are all attractive for Chinese investors. Chinese companies want to get started straight away and with greenfield investment it can take two or three years until they astonish themselves on the market. Therefore they want to invest in Germany and obtain the know-how and the brand, and they want to start production right away.

There are increasing amount of Chinese companies which are investing in Germany as a base for research and innovation. These companies do not need Germany as a location for production, because they have the access to cheap labour in China and elsewhere, but Germany has innovation base and security for intellectual property to be provided. And as Chinese multinationals have nowadays the cash to buy this know-how, which German companies have been collecting over years, there is no point of using time for researching the things they can easily buy.

In addition to research base, the image of made-in-Germany is one of the most important reasons why Chinese invest in Germany. This is caused by good reputation of German engineering and industry in Asia. Although products would not be manufactured in Germany, they can be still marketed as German products, when the engineering work is done in Germany. Therefore many companies do research and all highly-qualified jobs in Germany, whereas production takes place mainly in China. However, the image of made-in-Germany is what is keeping at least part of the operations in Germany after the Chinese have got the brand and know-how.

For many investors the only information about Germany is what is talked about in China and what is written in the press, because in China the access to information is to some extent restricted. The good reputation is considered to be an outcome of the network of German companies in China, and the network of chambers of commerce. It is also thought that former Chancellor Gerhard Schroeder and his warm relations with the Chinese Government have improved Germany’s reputation in China.

Generally, the motives of Chinese investments are "*…combination of the three: the brand, the know-how and the made-in-Germany…*". From the perspective of these motives, Chinese companies are not in that sense considered as unique investors in Germany. All investors, regardless of their home country, have similar interests especially regarding to the made-in-Germany brand, logistics and the German know-how. Actually, it is seen that the motives of investments are generally more dependent on the companies and the industries in which they operate rather than their country of origin.

Chinese investments in Denmark[51]: Like Germany, also Denmark has already managed to attract some Chinese companies within their areas of business excellence. These business sectors are life sciences, information and communication technology (ICT) and renewable energy (Invest in Denmark 2006). In the field of ICT, ZTE has an R&D facility in Denmark and in life sciences there are companies which are concentrated on alternative natural medicine.

Some of the Chinese investors have been willing to utilise Danish competence within the areas they are considered to have good skills base such as design and development of wireless communication systems. In the field of alternative natural medicine, a Chinese company has utilised Denmark's agricultural expertise for developing plants. Moreover, the Chinese have cooperated with the Danes to develop this field within life sciences.

Generally, Chinese companies are willing to join these clusters. By joining these clusters within Denmark's business excellence they can gain from the brand equity of these clusters. This means that the companies gain credibility in the global markets, when they operate from Denmark.

The investment motives of the Chinese companies are considered to reflect their level of economic development and the stage of industrialisation. This can be also seen in the lack of existence of global brands emerging from China. Therefore, Chinese invest in Denmark to get help improving their design and brand so that they would be able to compete in the European market. This makes Chinese investors different from the

[51] This section is based on the information from the interview with Invest in Denmark's Business Development Manager Mr. Jørn Bang Andersen, unless otherwise cited.

Western investors, who have often established global brands already before investing in Denmark.

By investing in Denmark, Chinese companies are trying to combine their own competitive production base with competitive R&D and knowledge base of Denmark, which would improve their competitive position remarkably. Basically, the Chinese investments are thus considered to match the needs of the Chinese companies with Danish solutions. This reflects to the global division of labour, when the Chinese have not yet developed their design skills. From the sense of intellectual capital the Chinese are interested in these knowledge- and technology-intensive services, which Denmark can provide for them.

Appendix 5 A pool of questions for the interviews

Background information
Size of the company
Assets
Revenue
Foreign assets
Share of foreign operations of overall revenue?
How much is being spent on R&D in your company?
Do you conduct R&D activities somewhere else than in China
Have you cooperated for long in the BSR / with BSR companies?
Who owns the company?
How does the owner affect company's decisions?
Do you have any production in the Baltic Sea region?
Why do you have production in BSR?
Were you encouraged by lower transportation costs?
Have you got any investment incentives to move or have production in the Baltic Sea region?
How flexible is your production compared to your competitors?
Why is it more flexible?
Has the investment improved quality of your products?
What have been the main factors improving the quality?
How do you see the cost level in BSR compared to operations in China?
Did the cost level have impact on your investment decision?
What is your company's strategic mission?
How does the investment support your strategic objectives?
How does the investment affect your global competitiveness?

Firm-specific advantages
Have you been able to develop differentiated products or do you rely solely on price?
What makes it possible for you to have lower costs than your competitors?
Do you consider your company good at small-scale manufacturing - better than your competitors?
Where does this skill com from?
Do you consider that before the investment your products were competitive at an international level?
What made them competitive?
Have you benefited of following Chinese companies to international markets?
Have you been able to benefit from knowledge or control of more efficient factors of production than your competitors?
Have you benefited from better distribution facilities than your competitors?
Have you used any innovations in China to improve your competitiveness?
What were the most remarkable innovations you generated before the investment?
Have you been able to create brand loyalty?
Was the investment likely to improve your company's position in the host country markets?
How did the investment environment affect your decision on the location of the investment? (bureaucracy, infrastructure)
Did the logistical location affect your investment decision?
How much do you dfferentiate your good to suit better local markets?

Asset-seeking motives

Have you invested in BSR to obtain technology?
Have you invested in BSR to obtain marketing experience?
Have you invested in BSR to obtain management experience?
Have you invested in BSR to obtain natural resources?
Have you invested in BSR to obtain human resources other than management experience?
Have you invested in BSR to obtain access to foreign capital?
Was the investment intended to achieve more cost cuts through cheaper factors of production / economies of scale?
Was the investment targeted into improving your ability to innovate and adapt to future competitive changes
How was this considered to be affected?
How important is networking to your company?
Has the investment helped you to expand your relationship within the host country's company network?
Were you interested in new market channels when investing in BSR?
Do you consider the location as a springboard for further investments?
Was the investment likely to improve your company's position in the Chinese market?
Was it considered to improve your trade name?
How was this considered to be affected?
Were you interested in any new brand names?
How does investment in the country help to get information about market and to localise goods
Is there any other ways you benefit of having local presence?
Has the investment improved your company's image in anyway - in BSR and in China?
How has it improved in China?
How has it improved in BSR?

Appendix 6 Chinese companies in the Fortune 500 list

Country rank	Company	Global rank	Revenues in US$ billion
1	Sinopec	23	98.8
2	State Grid	32	87.0
3	China National Petroleum	39	83.6
4	Industrial & Commercial Bank of China	199	29.2
5	China Mobile Communications	202	28.8
6	China Life Insurance	217	27.4
7	Bank Of China	255	23.9
8	Hutchison Whampoa	259	23.5
9	China Southern Power Grid	266	23.1
10	China Construction Bank	277	22.8
11	China Telecommunications	279	22.7
12	Baosteel Group	296	21.5
13	Sinochem	304	21.1
14	Agricultural Bank of China	377	17.2
15	China Railway Engineering	441	15.3
16	COFCO	463	14.7
17	China First Automotive Works	470	14.5
18	Shanghai Automotive	475	14.4
19	China Railway Construction	485	14.1
20	China State Construction	486	14.1

Source: Fortune 500 list (2006)

Appendix 7 China's exports to Denmark

Product label	China's exports to Denmark in US$ thousand			Annual growth	Share of Denmark's imports from world[52]			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	trade potential coefficient
All products	**2 788 884**	**1 945 952**	**1 494 316**	**35 %**	**3.7 %**	**2.9 %**	**2.7 %**	**0.4 %**	**0.3 %**	**0.3 %**	**54 990 770**	**19.7**
Railway, tramway, locomotives, rolling stock, equipment	453 541	426 639	280 465	37 %	124.1 %	117.3 %	97.9 %	7.1 %	7.8 %	7.0 %	158 885	0.4
Nuclear reactors, boilers, machinery etc	318 978	168 221	104 099	62 %	3.1 %	1.8 %	1.3 %	0.2 %	0.1 %	0.1 %	9 334 710	29.3
Articles of apparel, accessories, not knit or crochet	312 560	168 823	149 230	35 %	18.6 %	10.6 %	10.6 %	0.9 %	0.6 %	0.6 %	1 375 841	4.4
Electrical electronic equipment	242 722	216 191	187 674	37 %	2.6 %	3.1 %	3.0 %	0.1 %	0.2 %	0.2 %	8 988 606	37.0
Ships, boats and other floating structures	205 162	106 308	118 839	25 %	24.5 %	8.2 %	9.8 %	4.4 %	3.4 %	3.9 %	553 053	2.7
Furniture, lighting, signs, prefabricated buildings	186 005	131 550	84 846	59 %	12.3 %	9.9 %	7.1 %	0.8 %	0.8 %	0.7 %	1 322 087	7.1
Articles of apparel accessories, knit or crochet	175 140	98 070	90 299	28 %	12.9 %	7.4 %	7.9 %	0.6 %	0.4 %	0.4 %	1 180 942	6.7
Articles of iron or steel	85 259	68 289	49 128	39 %	4.3 %	4.0 %	3.6 %	0.4 %	0.5 %	0.5 %	1 836 249	21.5
Toys, games, sports requisites	68 646	58 171	45 667	29 %	9.7 %	9.6 %	8.6 %	0.4 %	0.4 %	0.3 %	512 327	7.5
Vehicles other than railway, tramway	60 742	39 940	18 754	72 %	0.9 %	0.7 %	0.5 %	0.4 %	0.3 %	0.2 %	2 498 273	41.1

Source: ITC (2007) based on COMTRADE statistics, author's calculations

[52] The percentage values over 100 indicate clearly the differences in the customs reports by China and its trading partners. This has to be noted in all products and countries.

Appendix 8 China's imports from Denmark

Product label	China's imports from Denmark in US$ thousand			Annual growth	Share of Denmark's exports to world			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	trade potential coefficient
All products	**1 190 358**	**1 205 724**	**964 096**	**21 %**	**1.4 %**	**1.6 %**	**1.5 %**	**0.2 %**	**0.2 %**	**0.2 %**	**43 126 525**	**36.2**
Nuclear reactors, boilers, machinery, etc	419 172	448 056	362 452	22 %	4.0 %	4.4 %	4.1 %	0.4 %	0.5 %	0.5 %	8 187 435	19.5
Furskins and artificial fur, manufactures thereof	147 899	148 389	96 041	13 %	20.7 %	23.8 %	18.9 %	43.0 %	44.0 %	42.1 %	67 882	0.5
Electrical, electronic equipment	145 099	162 384	102 629	23 %	1.6 %	2.3 %	1.6 %	0.1 %	0.1 %	0.1 %	6 868 140	47.3
Optical, photo, technical, medical, etc apparatus	93 649	83 728	78 293	8 %	3.0 %	2.9 %	3.3 %	0.2 %	0.2 %	0.3 %	1 988 397	21.2
Pharmaceutical products	71 072	81 277	56 160	47 %	1.3 %	1.7 %	1.3 %	3.6 %	5.2 %	4.0 %	1 517 563	21.4
Meat and edible meat offal	41 770	56 899	48 676	43 %	1.0 %	1.3 %	1.4 %	7.1 %	12.0 %	6.4 %	307 761	7.4
Albuminoids, modified starches, glues, enzymes	32 887	21 034	14 661	26 %	3.9 %	2.6 %	2.0 %	3.7 %	2.7 %	2.4 %	173 578	5.3
Fish, crustaceans, molluscs, aquatic invertebrates nes	31 304	20 511	25 109	23 %	1.5 %	1.1 %	1.4 %	1.1 %	0.9 %	1.3 %	387 740	12.4
Plastics and articles thereof	30 523	25 709	16 792	79 %	1.3 %	1.2 %	0.8 %	0.1 %	0.1 %	0.1 %	2 097 794	68.7
Cereal, flour, starch, milk preparations and products	18 446	13 412	18 302	37 %	2.9 %	2.0 %	3.0 %	7.7 %	6.9 %	12.4 %	164 793	8.9

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 9 China's exports to Estonia

Product label	China's exports to Estonia in US$ thousand			Annual growth	Share of Estonia's imports from world			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	trade potential coefficient
All products	**311 426**	**202 002**	**139 655**	**8**	**3.1 %**	**2.6 %**	**1.8 %**	**0.0 %**	**0.0 %**	**0.0 %**	**8 189 492**	**26.3**
Electrical, electronic equipment	127 975	92 144	66 696	-12 %	6.1 %	6.1 %	4.9 %	0.1 %	0.1 %	0.1 %	1 919 205	15.0
Nuclear reactors, boilers, machinery, etc	32 203	17 219	9 492	88 %	3.1 %	2.3 %	1.2 %	0.0 %	0.0 %	0.0 %	840 120	26.1
Other base metals, cermets, articles thereof	16 345	10 189	10 451	80 %	320.2 %	440.3 %	135.0 %	0.7 %	0.5 %	1.1 %	3 888	0.2
Furniture, lighting, signs, prefabricated buildings	15 362	3 203	2 122	132 %	10.2 %	2.7 %	2.0 %	0.1 %	0.0 %	0.0 %	114 167	7.4
Vegetable, fruit, nut, etc food preparations	13 852	11 804	10 632	52 %	34.5 %	36.9 %	25.9 %	0.4 %	0.5 %	0.5 %	27 527	2.0
Articles of iron or steel	10 037	3 860	2 124	112 %	3.2 %	1.6 %	0.7 %	0.1 %	0.0 %	0.0 %	272 715	27.2
Plastics and articles thereof	8 345	4 886	2 973	99 %	2.0 %	1.6 %	1.0 %	0.0 %	0.0 %	0.0 %	340 932	40.9
Vehicles other than railway, tramway	6 121	3 320	2 071	79 %	0.6 %	0.4 %	0.3 %	0.0 %	0.0 %	0.0 %	563 139	92.0
Albuminoids, modified starches, glues, enzymes	5 490	6 686	1 486	896 %	33.4 %	49.0 %	6.9 %	0.9 %	1.5 %	0.5 %	12 851	2.3
Footwear, gaiters and the like parts there of	4 735	2 549	2 239	34 %	6.2 %	4.2 %	3.8 %	0.0 %	0.0 %	0.0 %	62 256	13.1

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 10 China's imports from Estonia

Product label	China's imports from Estonia in US$ thousand			Annual growth	Share of Estonia's exports to world			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	trade potential coefficient
All products	**57 669**	**20 634**	**30 327**	**32 %**	**0.7 %**	**0.4 %**	**0.5 %**	**0.0 %**	**0.0 %**	**0.0 %**	**5 620 390**	**97.5**
Electrical, electronic equipment	20 693	5 131	7 725	62 %	1.2 %	0.4 %	0.7 %	0.0 %	0.0 %	0.0 %	1 702 457	82.3
Optical, photo, technical, medical, etc apparatus	18 057	750	2 581	29 %	12.8 %	0.7 %	2.6 %	0.0 %	0.0 %	0.0 %	122 475	6.8
Wood and articles of wood, wood charcoal	3 860	4 975	2 872	124 %	0.4 %	0.7 %	0.4 %	0.1 %	0.1 %	0.1 %	493 788	127.9
Nuclear reactors, boilers, machinery, etc	2 628	2 226	327	176 %	0.7 %	1.0 %	0.1 %	0.0 %	0.0 %	0.0 %	325 338	123.8
Copper and articles thereof	2 079	1 155	243	55 %	8.1 %	7.0 %	1.7 %	0.0 %	0.0 %	0.0 %	21 997	10.6
Iron and steel	1 639	80	7 680	N/A	0.5 %	0.0 %	4.1 %	0.0 %	0.0 %	0.0 %	299 289	182.6
Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	1 439	501	423	N/A	9.9 %	6.4 %	5.9 %	0.0 %	0.0 %	0.0 %	14 287	9.9
Plastics and articles thereof	1 367	717	413	54 %	0.7 %	0.6 %	0.4 %	0.0 %	0.0 %	0.0 %	133 350	97.5
Fish, crustaceans, molluscs, aquatic invertebrates nes	1 294	1 285	2 967	-12 %	1.5 %	1.7 %	3.6 %	0.0 %	0.1 %	0.2 %	46 203	35.7
Articles of iron or steel	951	32	145	167 %	0.4 %	0.0 %	0.1 %	0.0 %	0.0 %	0.0 %	193 046	203.0

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 11 China's exports to Finland

Product label	China's exports to Finland in US$ thousand			Annual growth	Share of Finland's imports from world			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	trade potential coefficient
All products	**3 625 937**	**2 493 605**	**1 673 491**	**42 %**	**6.2 %**	**4.9 %**	**4.0 %**	**0.5 %**	**0.4 %**	**0.4 %**	**39 958 323**	**11.0**
Electrical. electronic equipment	1 539 404	1 112 866	907 494	30 %	15.8 %	14.5 %	13.8 %	0.9 %	0.8 %	1.0 %	8 135 479	5.3
Nuclear reactors, boilers, machinery, etc	1 068 158	712 368	283 200	91 %	14.6 %	11.5 %	5.4 %	0.7 %	0.6 %	0.3 %	5 831 423	5.5
Articles of apparel. accessories, not knit or crochet	85 650	48 956	39 119	30 %	12.0 %	7.4 %	6.7 %	0.2 %	0.2 %	0.2 %	631 402	7.4
Articles of iron or steel	74 581	45 309	29 749	49 %	6.5 %	5.2 %	4.1 %	0.4 %	0.3 %	0.3 %	1 047 711	14.1
Plastics and articles thereof	74 483	50 277	37 868	38 %	3.9 %	2.9 %	2.7 %	0.4 %	0.4 %	0.4 %	1 498 618	20.1
Optical, photo. technical, medical, etc apparatus	65 813	23 512	12 708	47 %	4.8 %	1.9 %	1.2 %	0.3 %	0.1 %	0.1 %	1 188 067	18.1
Furniture, lighting, signs, prefabricated buildings	64 518	45 600	30 948	38 %	8.5 %	6.9 %	5.5 %	0.3 %	0.3 %	0.2 %	698 124	10.8
Articles of apparel, accessories, knit or crochet	54 038	26 844	19 094	30 %	10.1 %	5.1 %	4.3 %	0.2 %	0.1 %	0.1 %	487 150	9.0
Tools, implements, cutlery, etc of base metal	43 335	27 880	19 841	28 %	16.9 %	12.1 %	10.0 %	0.8 %	0.7 %	0.6 %	209 918	4.8
Footwear, gaiters and the like, parts thereof	41 926	38 084	49 746	18 %	15.4 %	15.3 %	23.1 %	0.2 %	0.3 %	0.4 %	233 693	5.6

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 12 China's imports from Finland

Product label	China's imports from Finland in US$ thousand			Annual growth	Share of Finland's exports to world			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**2 628 129**	**3 021 390**	**1 788 405**	**9 %**	**4.0 %**	**5.0 %**	**3.4 %**	**0.4 %**	**0.5 %**	**0.4 %**	**37 375 607**	**14.2**
Electrical, electronic equipment	1 085 225	1 143 782	490 877	0 %	6.8 %	8.7 %	4.0 %	0.6 %	0.8 %	0.5 %	7 532 062	6.9
Nuclear reactors, boilers, machinery, etc	601 753	1 108 859	610 965	18 %	7.0 %	15.3 %	10.6 %	0.6 %	1.2 %	0.9 %	6 085 553	10.1
Iron and steel	296 884	149 577	186 112	45 %	6.8 %	3.6 %	7.0 %	1.1 %	0.6 %	0.8 %	2 975 480	10.0
Paper & paperboard, articles of pulp, paper and board	133 241	148 031	120 618	7 %	1.5 %	1.4 %	1.3 %	3.0 %	3.2 %	2.7 %	2 314 381	17.3
Optical, photo, technical, medical, etc apparatus	73 319	82 610	53 988	0 %	4.0 %	5.0 %	3.7 %	0.1 %	0.2 %	0.2 %	1 454 103	19.8
Furskins and artificial fur, manufactures thereof	65 811	70 466	41 991	21 %	16.7 %	18.2 %	13.5 %	19.1 %	20.9 %	18.4 %	118 581	1.8
Pulp of wood, fibrous cellulosic material, waste etc	47 993	58 904	47 672	25 %	4.5 %	4.9 %	4.3 %	0.8 %	1.1 %	1.2 %	1 007 107	21.0
Nickel and articles thereof	42 819	4 872	4 320	83 %	9.5 %	1.0 %	1.2 %	2.0 %	0.4 %	0.5 %	411 706	9.6
Salt, sulphur, earth, stone, plaster, lime and cement	27 294	21 856	14 614	24 %	21.0 %	19.2 %	13.9 %	1.3 %	1.2 %	1.1 %	39 184	1.4
Articles of iron or steel	24 305	35 300	25 275	71 %	1.9 %	3.1 %	2.8 %	0.4 %	0.8 %	0.7 %	822 993	33.9

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 13 China's exports to Germany

Product label	China's exports to Germany in US$ thousand			Annual Growth	Share of Germany's imports from world			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**32 527 131**	**23 755 705**	**17 442 087**	**37 %**	**4.2 %**	**3.3 %**	**2.9 %**	**4.3 %**	**4.0 %**	**4.0 %**	**274 873 236**	**8.5**
Electrical, electronic equipment	8 790 941	6 966 209	4 999 277	38 %	10.0 %	7.8 %	7.3 %	5.1 %	5.3 %	5.5 %	61 827 315	7.0
Nuclear reactors, boilers, machinery, etc	8 429 734	5 934 010	3 837 150	68 %	8.4 %	6.0 %	4.7 %	5.6 %	5.1 %	4.7 %	49 402 370	5.9
Articles of apparel, accessories, not knit or crochet	1 732 118	1 017 223	816 139	41 %	13.8 %	7.9 %	7.1 %	4.9 %	3.5 %	3.3 %	10 772 116	6.2
Toys, games, sports requisites	1 190 498	753 169	521 444	29 %	24.6 %	17.0 %	12.5 %	6.2 %	5.0 %	3.9 %	3 096 253	2.6
Articles of apparel, accessories, knit or crochet	1 009 803	430 867	350 064	44 %	9.7 %	4.0 %	3.7 %	3.3 %	1.7 %	1.7 %	9 063 354	9.0
Optical, photo, technical, medical, etc apparatus	912 790	744 417	481 853	22 %	4.4 %	3.5 %	2.8 %	3.6 %	4.6 %	4.6 %	7 103 695	7.8
Furniture, lighting, signs, prefabricated buildings	910 180	668 391	495 593	34 %	8.2 %	5.7 %	4.9 %	4.1 %	3.9 %	3.8 %	8 073 002	8.9
Articles of iron or steel	778 354	611 090	440 718	29 %	6.5 %	5.2 %	4.9 %	4.1 %	4.4 %	4.7 %	8 668 806	11.1
Organic chemicals	752 621	602 135	492 910	21 %	3.7 %	3.1 %	3.3 %	6.2 %	6.6 %	6.9 %	6 748 861	9.0
Ships, boats and other floating structures	597 071	627 533	633 812	18 %	54.2 %	20.6 %	33.3 %	12.8 %	19.9 %	21.0 %	368 419	0.6

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 14 China's imports from Germany

Product label	China's imports from Germany in US$ thousand			Annual growth	Share of Germany's exports to world			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**30 722 928**	**30 355 972**	**24 291 843**	**25 %**	**3.1 %**	**3.3 %**	**3.2 %**	**4.7 %**	**5.4 %**	**5.9 %**	**239 480 338**	**7.8**
Nuclear reactors, boilers, machinery, etc	12 079 292	12 283 417	9 161 716	29 %	6.7 %	7.0 %	6.8 %	12.5 %	13.4 %	12.8 %	56 588 146	4.7
Electrical, electronic equipment	4 439 863	4 432 264	3 668 048	16 %	4.2 %	4.2 %	4.5 %	2.5 %	3.1 %	3.5 %	51 987 741	11.7
Vehicles other than railway, tramway	2 923 994	4 166 393	4 251 294	19 %	1.8 %	2.6 %	3.1 %	23.8 %	31.8 %	36.1 %	9 311 996	3.2
Optical, photo, technical, medical, etc apparatus	2 038 147	1 921 627	1 512 498	28 %	5.1 %	5.2 %	5.2 %	4.1 %	4.8 %	6.0 %	12 451 816	6.1
Plastics and articles thereof	1 246 661	945 512	642 650	37 %	2.9 %	2.3 %	2.0 %	3.7 %	3.4 %	3.1 %	15 169 284	12.2
Aircraft, spacecraft, and parts thereof	1 118 852	580 471	366 915	46 %	5.8 %	3.2 %	2.2 %	17.1 %	11.6 %	8.2 %	5 393 132	4.8
Articles of iron or steel	912 314	660 328	415 795	37 %	4.4 %	3.5 %	3.0 %	16.0 %	14.2 %	12.3 %	4 408 510	4.8
Organic chemicals	770 206	621 301	438 275	32 %	3.4 %	2.9 %	2.5 %	2.7 %	2.6 %	2.7 %	6 908 710	9.0
Iron and steel	764 268	647 298	587 130	26 %	3.4 %	3.0 %	4.1 %	2.9 %	2.7 %	2.6 %	11 466 518	15.0
Miscellaneous chemical products	589 622	493 317	336 210	32 %	4.6 %	3.9 %	3.2 %	9.7 %	10.2 %	6.8 %	5 078 999	8.6

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 15 China's exports to Latvia

Product label	China's exports to Latvia in US$ thousand			Annual growth	Share of Latvia's imports from world			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**281 699**	**178 979**	**110 606**	**58 %**	**3.2 %**	**2.4 %**	**2.1 %**	**0.0 %**	**0.0 %**	**0.0 %**	**7 621 811**	**27.1**
Nuclear reactors, boilers, machinery, etc	60 924	24 659	16 409	93 %	5.9 %	3.3 %	2.5 %	0.0 %	0.0 %	0.0 %	874 687	14.4
Electrical, electronic equipment	28 941	28 754	10 067	68 %	4.2 %	4.7 %	2.3 %	0.0 %	0.0 %	0.0 %	626 795	21.7
Tools, implements, cutlery, etc of base metal	15 701	10 961	5 300	91 %	40.2 %	37.9 %	21.4 %	0.3 %	0.3 %	0.2 %	26 057	1.7
Footwear, gaiters and the like, parts thereof	15 038	16 338	7 493	58 %	23.0 %	32.1 %	20.7 %	0.1 %	0.1 %	0.1 %	47 436	3.2
Plastics and articles thereof	13 449	9 732	6 529	78 %	3.9 %	3.3 %	3.0 %	0.1 %	0.1 %	0.1 %	317 912	23.7
Articles of iron or steel	12 053	5 348	2 805	110 %	4.4 %	2.3 %	1.6 %	0.1 %	0.0 %	0.0 %	252 490	20.9
Toys, games, sports requisites	11 654	5 928	5 380	55 %	15.4 %	11.5 %	11.4 %	0.1 %	0.0 %	0.0 %	59 706	5.1
Furniture, lighting, signs, prefabricated buildings	10 185	5 835	2 058	78 %	6.7 %	5.2 %	1.9 %	0.0 %	0.0 %	0.0 %	130 780	12.8
Articles of apparel, accessories, not knit or crochet	8 852	4 191	3 153	62 %	8.8 %	5.1 %	5.5 %	0.0 %	0.0 %	0.0 %	87 352	9.9
Vehicles other than railway, tramway	8 590	5 314	3 919	77 %	1.0 %	0.8 %	0.8 %	0.1 %	0.0 %	0.0 %	548 177	63.8

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 16 China's imports from Latvia

Product label	China's imports from Latvia in US$ thousand			Annual growth	Share of Latvia's exports to world			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**8 555**	**19 807**	**19 203**	**27 %**	**0.2 %**	**0.5 %**	**0.7 %**	**0.0 %**	**0.0 %**	**0.0 %**	**3 976 990**	**464.9**
Electrical, electronic equipment	1 514	5 495	13 160	261 %	0.6 %	2.9 %	11.2 %	0.0 %	0.0 %	0.0 %	231 968	153.2
Copper and articles thereof	1 513	1 021	239	135 %	5.1 %	6.0 %	1.9 %	0.0 %	0.0 %	0.0 %	27 138	17.9
Wood and articles of wood, wood charcoal	1 142	1 504	1 360	39 %	0.1 %	0.1 %	0.1 %	0.0 %	0.0 %	0.0 %	718 093	628.8
Manmade staple fibres	1 109	38	0	N/A	4.9 %	0.3 %	0.0 %	0.0 %	0.0 %	0.0 %	21 784	19.6
Manmade filaments	652	2	0	N/A	1.5 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	42 124	64.6
Cotton	506	0	0	N/A	1.5 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	27 731	54.8
Articles of iron or steel	429	0	41	N/A	0.3 %	0.0 %	0.1 %	0.0 %	0.0 %	0.0 %	119 124	277.7
Mineral fuels, oils, distillation products, etc	329	180	22	274 %	0.1 %	0.1 %	0.1 %	0.0 %	0.0 %	0.0 %	422 397	1283.9
Edible fruit, nuts, peel of citrus fruit, melons	237	338	0	N/A	2.2 %	8.7 %	0.0 %	0.0 %	0.1 %	0.0 %	8 751	36.9
Articles of apparel, accessories, not knit or crochet	219	8	16	N/A	0.1 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	144 008	657.6

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 17 China's exports to Lithuania

Product label	China's exports to Lithuania in US$ thousand			Annual growth	Share of Lithuania's imports from world[23]			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**360 709**	**272 341**	**170 497**	**59 %**	**2.8 %**	**2.2 %**	**1.7 %**	**0.0 %**	**0.0 %**	**0.0 %**	**10 597 712**	**29.4**
Electrical, electronic equipment	102 734	96 937	48 475	96 %	10.3 %	9.6 %	6.5 %	0.1 %	0.1 %	0.1 %	890 992	8.7
Nuclear reactors, boilers, machinery, etc	48 748	25 667	17 813	72 %	3.9 %	1.9 %	1.6 %	0.0 %	0.0 %	0.0 %	1 062 964	21.8
Vehicles other than railway, tramway	33 701	19 821	11 935	63 %	3.0 %	1.6 %	1.2 %	0.2 %	0.2 %	0.1 %	761 020	22.6
Footwear, gaiters and the like, parts thereof	14 025	13 824	13 992	14 %	21.6 %	19.2 %	28.2 %	0.1 %	0.1 %	0.1 %	46 957	3.3
Articles of iron or steel	12 570	7 737	7 313	67 %	3.9 %	2.6 %	3.3 %	0.1 %	0.1 %	0.1 %	293 609	23.4
Plastics and articles thereof	10 852	6 460	4 069	54 %	1.9 %	1.2 %	1.0 %	0.1 %	0.0 %	0.0 %	494 847	45.6
Furniture, lighting, signs, prefabricated buildings	8 556	6 256	2 450	64 %	5.7 %	4.5 %	2.3 %	0.0 %	0.0 %	0.0 %	129 280	15.1
Optical, photo, technical, medical, etc apparatus	7 648	2 426	1 375	58 %	4.8 %	1.4 %	0.9 %	0.0 %	0.0 %	0.0 %	143 568	18.8
Miscellaneous articles of base metal	7 288	5 336	4 749	89 %	8.0 %	5.6 %	7.0 %	0.1 %	0.1 %	0.2 %	76 935	10.6
Organic chemicals	6 921	7 598	5 402	56 %	8.9 %	16.3 %	16.4 %	0.1 %	0.1 %	0.1 %	53 414	7.7

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 18 China's imports from Lithuania

Product label	China's imports from Lithuania in US$ thousand			Annual growth	Share of Lithuania's exports to world26			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**11 478**	**13 518**	**17 255**	**23 %**	**0.1 %**	**0.1 %**	**0.2 %**	**0.0 %**	**0.0 %**	**0.0 %**	**6 524 404**	**568.4**
Fish, crustaceans, molluscs, aquatic invertebrates nes	2 818	5 081	11 110	-5 %	4.4 %	8.1 %	17.8 %	0.1 %	0.2 %	0.6 %	46 587	16.5
Furniture, lighting, signs, prefabricated buildings	2 131	2 027	1 004	98 %	0.4 %	0.4 %	0.2 %	0.3 %	0.2 %	0.2 %	191 604	89.9
Mineral fuels, oils, distillation products, etc	902	255	822	N/A	0.0 %	0.0 %	0.1 %	0.0 %	0.0 %	0.0 %	2 736 307	3033.6
Organic chemicals	882	45	0	267 %	9.2 %	0.3 %	0.0 %	0.0 %	0.0 %	0.0 %	7 829	8.9
Optical, photo, technical, medical, etc apparatus	873	994	196	113 %	1.3 %	1.0 %	0.3 %	0.0 %	0.0 %	0.0 %	62 388	71.5
Copper and articles thereof	812	297	556	71 %	9.5 %	2.2 %	5.3 %	0.0 %	0.0 %	0.0 %	7 526	9.3
Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	424	15	718	N/A	0.7 %	0.0 %	2.0 %	0.0 %	0.0 %	0.0 %	54 662	128.9
Vegetable textile fibres nes, paper yarn, woven fabric	303	1 612	374	N/A	0.7 %	2.4 %	0.8 %	0.1 %	0.3 %	0.1 %	22 648	74.7
Aluminium and articles thereof	241	0	0	N/A	1.1 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	20 740	86.1
Albuminoids, modified starches, glues, enzymes	234	406	341	16	1.3 %	2.3 %	3.0 %	0.0 %	0.1 %	0.1 %	16 762	71.6

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 19 China's exports to Norway

Product label	China's exports to Norway in US$ thousand			Annual growth	Share of Norway's imports from world[23]			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**1 321 906**	**1 028 497**	**899 252**	**35 %**	**2.9 %**	**2.2 %**	**2.3 %**	**0.2 %**	**0.2 %**	**0.2 %**	**33 826 855**	**25.6**
Articles of apparel, accessories, not knit or crochet	190 983	244 657	150 973	31 %	23.8 %	28.6 %	19.2 %	0.5 %	0.8 %	0.6 %	610 469	3.2
Articles of apparel, accessories, knit or crochet	183 582	198 125	125 166	30 %	29.6 %	28.6 %	19.3 %	0.6 %	0.8 %	0.6 %	434 514	2.4
Ships, boats and other floating structures	121 316	508	204 945	-23 %	5.5 %	0.0 %	17.5 %	2.6 %	0.0 %	6.8 %	1 507 251	12.4
Electrical, electronic equipment	120 412	58 210	41 352	60 %	2.9 %	1.2 %	1.1 %	0.1 %	0.0 %	0.0 %	3 879 472	32.2
Nuclear reactors, boilers, machinery, etc	102 621	40 994	34 360	69, %	1.4 %	0.6 %	0.6 %	0.1 %	0.0 %	0.0 %	6 310 615	61.5
Articles of iron or steel	67 465	51 826	44 569	45 %	2.8 %	2.3 %	3.0 %	0.4 %	0.4 %	0.5 %	1 825 931	27.1
Furniture, lighting, signs, prefabricated buildings	61 123	46 160	29 914	44 %	3.9 %	2.9 %	2.3 %	0.3 %	0.3 %	0.2 %	1 490 607	24.4
Footwear, gaiters and the like, parts thereof	58 101	41 631	14 262	51 %	19.4 %	10.6 %	4.2 %	0.3 %	0.3 %	0.1 %	241 264	4.2
Other made textile articles, sets, worn clothing etc	56 268	58 116	37 723	34 %	23.5 %	24.1 %	18.1 %	0.5 %	0.7 %	0.6 %	181 459	3.2
Toys, games, sports requisites	32 702	21 782	21 797	19 %	9.5 %	5.6 %	5.4 %	0.2 %	0.1 %	0.2 %	294 910	9.0

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 20 China's imports from Norway

Product label	China's imports from Norway in US$ thousand			Annual growth	Share of Norway's exports to world[26]			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**1 143 960**	**1 397 771**	**865 353**	**20 %**	**1.4 %**	**1.7 %**	**1.3 %**	**0.2 %**	**0.2 %**	**0.2 %**	**64 018 101**	**56.0**
Mineral fuels, oils, distillation products, etc	231 317	576 348	241 666	7 %	0.4 %	1.1 %	0.6 %	0.4 %	1.2 %	0.8 %	48 531 660	209.8
Nuclear reactors, boilers, machinery, etc	190 999	179 260	137 171	15 %	6.5 %	6.1 %	4.8 %	0.2 %	0.2 %	0.2 %	2 525 649	13.2
Fish, crustaceans, molluscs, aquatic invertebrates nes	154 814	129 029	91 477	28 %	3.5 %	3.4 %	2.7 %	5.4 %	5.5 %	4.9 %	419 772	2.7
Electrical, electronic equipment	103 896	94 383	55 951	34 %	5.7 %	5.0 %	3.5 %	0.1 %	0.1 %	0.1 %	1 658 239	16.0
Fertilizers	87 702	98 341	87 674	10 %	18.6 %	1674.5 %	1266.2 %	2.9 %	4.3 %	5.0 %	302 694	3.5
Nickel and articles thereof	83 244	59 030	41 803	67 %	7.9 %	5.9 %	5.7 %	3.8 %	4.5 %	4.7 %	962 636	11.6
Optical, photo, technical, medical, etc apparatus	45 481	36 051	27 267	25 %	5.4 %	4.0 %	3.6 %	0.1 %	0.1 %	0.1 %	730 441	16.1
Organic chemicals	36 173	46 774	32 827	33 %	3.4 %	7.5 %	6.6 %	0.1 %	0.2 %	0.2 %	480 525	13.3
Aluminium and articles thereof	30 629	15 063	8 270	102 %	1.4 %	0.4 %	0.3 %	0.6 %	0.3 %	0.2 %	1 062 853	34.7
Salt, sulphur, earth, stone, plaster, lime and cement	28 964	26 383	13 896	42 %	4.5 %	8.0 %	4.9 %	1.3 %	1.5 %	1.1 %	200 734	6.9

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 21 China's exports to Poland

Product label	China's exports to Poland in US$ thousand			Annual growth	Share of Poland's imports from world			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**2 595 437**	**1 843 703**	**1 620 238**	**26 %**	**2.6 %**	**2.1 %**	**2.4 %**	**0.3 %**	**0.3 %**	**0.4 %**	**68 936 878**	**26.6**
Electrical, electronic equipment	597 604	289 982	166 051	47 %	5.5 %	3.2 %	2.4 %	0.3 %	0.2 %	0.2 %	10 029 411	16.8
Nuclear reactors, boilers, machinery, etc	365 915	183 625	126 246	56 %	2.5 %	1.4 %	1.3 %	0.2 %	0.2 %	0.2 %	11 164 595	30.5
Footwear, gaiters and the like, parts thereof	155 733	137 787	150 506	4 %	34.6 %	35.6 %	46.7 %	0.8 %	0.9 %	1.2 %	290 546	1.9
Articles of apparel, accessories, not knit or crochet	136 858	145 376	249 805	-4 %	22.8 %	27.4 %	62.1 %	0.4 %	0.5 %	1.0 %	443 929	3.2
Articles of apparel, accessories, knit or crochet	107 042	132 847	195 275	-9 %	20.1 %	28.0 %	51.3 %	0.3 %	0.5 %	0.9 %	415 518	3.9
Furniture, lighting, signs, prefabricated buildings	97 641	53 963	34 968	47 %	8.1 %	5.5 %	4.4 %	0.4 %	0.3 %	0.3 %	1 053 703	10.8
Vehicles other than railway, tramway	84 604	69 001	38 175	49 %	1.0 %	0.8 %	0.6 %	0.5 %	0.6 %	0.5 %	4 265 996	50.4
Articles of iron or steel	75 058	50 547	29 451	53 %	2.5 %	2.0 %	1.6 %	0.4 %	0.4 %	0.3 %	2 677 361	35.7
Tools, implements, cutlery, etc of base metal	70 752	61 270	30 038	44 %	13.0 %	12.9 %	7.1 %	1.4 %	1.4 %	0.9 %	408 809	5.8
Plastics and articles thereof	69 012	46 551	28 696	52 %	1.1 %	0.9 %	0.7 %	0.4 %	0.4 %	0.3 %	3 909 629	56.7

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 22 China's imports from Poland

Product label	China's imports from Poland in US$ thousand			Annual growth	Share of Poland's exports to world			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**557 320**	**487 245**	**359 138**	**30 %**	**0.6 %**	**0.7 %**	**0.7 %**	**0.1 %**	**0.1 %**	**0.1 %**	**41 343 993**	**74.2**
Copper and articles thereof	160 713	134 744	103 059	23 %	8.4 %	9.3 %	11.6 %	1.2 %	1.3 %	1.4 %	1 729 494	10.8
Organic chemicals	153 856	97 966	77 410	66 %	17.6 %	12.9 %	14.1 %	0.5 %	0.4 %	0.5 %	638 656	4.2
Electrical, electronic equipment	66 528	62 007	32 523	66 %	0.7 %	0.8 %	0.5 %	0.0 %	0.0 %	0.0 %	5 363 905	80.6
Nuclear reactors, boilers, machinery, etc	53 264	35 619	19 963	28 %	0.5 %	0.4 %	0.3 %	0.1 %	0.0 %	0.0 %	5 847 226	109.8
Paper & paperboard, articles of pulp, paper and board	14 784	16 630	12 112	49 %	0.6 %	0.8 %	0.7 %	0.3 %	0.4 %	0.3 %	1 179 536	79.8
Plastics and articles thereof	14 155	8 052	4 638	47 %	0.5 %	0.3 %	0.3 %	0.0 %	0.0 %	0.0 %	2 025 605	143.1
Furniture, lighting, signs, prefabricated buildings	13 578	13 253	11 222	73 %	0.2 %	0.3 %	0.3 %	1.7 %	1.6 %	1.7 %	653 286	48.1
Iron and steel	11 994	44 101	28 212	22 %	0.5 %	1.6 %	2.1 %	0.0 %	0.2 %	0.1 %	1 639 316	136.7
Optical, photo, technical, medical, etc apparatus	11 881	6 552	1 919	139 %	1.5 %	1.0 %	0.4 %	0.0 %	0.0 %	0.0 %	734 831	61.8
Ores, slag and ash	5 774	416	4 309	19 %	7.0 %	0.6 %	9.2 %	0.0 %	0.0 %	0.1 %	72 530	12.6

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 23 China's exports to Russia

Product label	China's exports to Russia in US$ thousand			Annual growth	Share of Russia's imports from world			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**13 211 283**	**9 098 098**	**6 029 897**	**51 %**	**13.4 %**	**12.0 %**	**10.5 %**	**1.7 %**	**1.5 %**	**1.4 %**	**49 524 892**	**3.7**
Furskins and artificial fur, manufactures thereof	1 659 918	1 189 508	351 080	150 %	2641.6 %	3824.4 %	1440.0 %	63.5 %	59.3 %	38.5 %	11 583	0.0
Articles of apparel, accessories, not knit or crochet	1 587 451	1 025 475	791 092	40 %	354.0 %	277.2 %	307.8 %	4.5 %	3.5 %	3.2 %	96 040	0.1
Electrical, electronic equipment	1 421 747	860 699	527 705	72 %	14.3 %	12.8 %	11.9 %	0.8 %	0.7 %	0.6 %	8 359 431	5.9
Articles of leather, animal gut, harness, travel goods	1 178 108	1 122 305	954 187	28 %	805.4 %	793.1 %	695.7 %	10.3 %	10.9 %	10.0 %	66 720	0.1
Footwear, gaiters and the like, parts thereof	1 128 884	802 707	544 724	31 %	196.6 %	261.2 %	180.2 %	5.9 %	5.3 %	4.2 %	229 252	0.2
Articles of apparel, accessories, knit or crochet	1 043 121	777 399	499 192	58 %	295.0 %	295.8 %	221.6 %	3.4 %	3.0 %	2.4 %	60 330	0.1
Nuclear reactors, boilers, machinery, etc	839 780	512 195	417 370	69 %	5.3 %	4.6 %	5.0 %	0.6 %	0.4 %	0.5 %	10 333 770	12.3
Other made textile articles, sets, worn clothing etc	556 245	290 023	195 907	74 %	221.8 %	126.5 %	104.6 %	5.4 %	3.7 %	3.2 %	84 485	0.2
Plastics and articles thereof	354 020	212 038	120 249	67 %	10.0 %	9.1 %	6.5 %	2.0 %	1.6 %	1.2 %	2 624 294	7.4
Vehicles other than railway, tramway	245 148	96 928	56 625	116 %	2.2 %	1.3 %	1.4 %	1.5 %	0.8 %	0.7 %	2 927 430	11.9

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 24 China's imports from Russia

Product label	China's imports from Russia in US$ thousand			Annual growth	Share of Russia's exports to world			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**15 889 943**	**12 127 383**	**9 728 047**	**19 %**	**6.6 %**	**6.7 %**	**7.3 %**	**2.4 %**	**2.2 %**	**2.4 %**	**88 912 453**	**5.617**
Mineral fuels, oils, distillation products, etc	6 554 998	4 187 525	2 096 434	71 %	5.5 %	4.6 %	3.0 %	10.2 %	8.7 %	7.2 %	53 597 093	8.2
Wood and articles of wood, wood charcoal	1 793 785	1 437 285	1 054 600	28 %	31.5 %	31.8 %	30.4 %	31.4 %	27.6 %	22.7 %	936 076	0.5
Iron and steel	1 740 190	1 416 687	1 799 246	11 %	9.7 %	8.9 %	21.5 %	6.6 %	6.0 %	8.1 %	7 309 561	4.2
Fertilizers	1 300 563	972 401	674 394	18 %	33.5 %	34.2 %	34.3 %	42.6 %	42.5 %	38.3 %	807 963	0.6
Fish, crustaceans, molluscs, aquatic invertebrates nes	1 092 859	779 012	661 869	20 %	239.3 %	238.7 %	162.1 %	38.0 %	33.3 %	35.5 %	113 741	0.2
Organic chemicals	610 390	607 583	394 948	20 %	22.8 %	27.6 %	26.2 %	2.2 %	2.5 %	2.5 %	1 837 546	3.0
Ores, slag and ash	545 457	256 804	38 537	122 %	50.8 %	40.7 %	11.4 %	2.1 %	1.5 %	0.5 %	544 341	1.0
Pulp of wood, fibrous cellulosic material, waste etc	466 107	435 732	373 263	8 %	61.1 %	62.7 %	59.9 %	7.5 %	8.2 %	9.6 %	270 422	0.7
Nickel and articles thereof	402 308	240 054	236 200	48 %	11.1 %	7.4 %	10.4 %	18.5 %	18.1 %	26.4 %	1 029 913	2.6
Rubber and articles thereof	227 495	167 753	177 072	31 %	15.1 %	14.5 %	20.2 %	4.1 %	3.5 %	4.8 %	681 992	3.0

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 25 China's exports to Sweden

Product label	China's exports to Sweden in US$ thousand			Annual growth	Share of Sweden's imports from world			Share of China's exports to world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**2 576 501**	**1 858 566**	**1 452 912**	**32 %**	**2.3 %**	**1.9 %**	**1.7 %**	**0.3 %**	**0.3 %**	**0.3 %**	**75 993 907**	**29.5**
Electrical, electronic equipment	719 411	520 934	321 106	32 %	5.3 %	3.9 %	3.1 %	0.4 %	0.4 %	0.4 %	12 436 897	17.3
Nuclear reactors, boilers, machinery, etc	215 454	129 449	86 785	52 %	1.3 %	0.9 %	0.7 %	0.1 %	0.1 %	0.1 %	13 237 464	61.4
Furniture, lighting, signs, prefabricated buildings	208 102	139 209	98 677	39 %	9.9 %	6.9 %	5.7 %	0.9 %	0.8 %	0.8 %	1 896 255	9.1
Articles of apparel, accessories, not knit or crochet	191 014	128 333	110 127	33 %	13.2 %	9.3 %	8.7 %	0.5 %	0.4 %	0.4 %	1 259 990	6.6
Articles of apparel, accessories, knit or crochet	136 968	83 681	77 292	27 %	11.6 %	7.3 %	7.4 %	0.4 %	0.3 %	0.4 %	1 047 559	7.6
Articles of iron or steel	98 066	71 869	51 291	32 %	4.5 %	3.8 %	3.2 %	0.5 %	0.5 %	0.5 %	2 049 651	20.9
Ships, boats and other floating structures	93 890	106 744	216 483	38 %	11.7 %	19.2 %	27.7 %	2.0 %	3.4 %	7.2 %	540 945	5.8
Articles of leather, animal gut, harness, travel goods	78 262	64 324	57 120	14 %	25.1 %	23.6 %	24.6 %	0.7 %	0.6 %	0.6 %	233 292	3.0
Vehicles other than railway, tramway	71 682	33 375	14 672	84 %	0.6 %	0.3 %	0.2 %	0.4 %	0.3 %	0.2 %	5 870 865	81.9
Footwear, gaiters and the like, parts thereof	70 733	40 091	31 149	37 %	12.3 %	7.5 %	6.7 %	0.4 %	0.3 %	0.2 %	503 908	7.1

Source: ITC (2007) based on COMTRADE statistics, author's calculations

Appendix 26 China's imports from Sweden

Product label	China's imports from Sweden in US$ thousand			Annual growth	Share of Sweden's exports to world			Share of China's imports from world			Trade potential	
	2005	2004	2003	2001-2005	2005	2004	2003	2005	2004	2003	in US$ thousand	Trade potential coefficient
All products	**3 122 198**	**3 339 524**	**2 715 856**	**14 %**	**2.4 %**	**2.7 %**	**2.7 %**	**0.5 %**	**0.6 %**	**0.7 %**	**71 255 819**	**22.8**
Electrical, electronic equipment	865 769	997 600	812 531	0 %	4.6 %	5.6 %	5.9 %	0.5 %	0.7 %	0.8 %	12 922 003	14.9
Nuclear reactors, boilers, machinery, etc	809 698	961 184	725 170	24 %	3.9 %	5.3 %	4.6 %	0.8 %	1.0 %	1.0 %	12 374 048	15.3
Iron and steel	275 735	179 056	204 155	47 %	3.9 %	3.0 %	4.9 %	1.1 %	0.8 %	0.9 %	4 072 124	14.8
Vehicles other than railway, tramway	266 697	260 765	233 086	28 %	1.5 %	1.6 %	1.8 %	2.2 %	2.0 %	2.0 %	6 665 208	25.0
Paper & paperboard, articles of pulp, paper and board	262 853	218 576	169 346	25 %	2.8 %	2.4 %	2.1 %	6.0 %	4.7 %	3.9 %	2 308 183	8.8
Optical, photo, technical, medical, etc apparatus	137 602	165 193	117 860	20 %	3.8 %	4.6 %	3.7 %	0.3 %	0.4 %	0.5 %	2 809 396	20.4
Pulp of wood, fibrous cellulosic material, waste etc	86 809	79 904	60 613	40 %	4.5 %	3.9 %	3.6 %	1.4 %	1.5 %	1.6 %	1 763 973	20.3
Organic chemicals	84 463	69 954	51 034	26 %	5.7 %	5.8 %	7.5 %	0.3 %	0.3 %	0.3 %	527 939	6.3
Plastics and articles thereof	58 847	51 458	43 918	12 %	1.4 %	1.4 %	1.4 %	0.2 %	0.2 %	0.2 %	3 250 800	55.2
Articles of iron or steel	48 134	67 050	27 340	36 %	2.0 %	3.0 %	1.5 %	0.8 %	1.4 %	0.8 %	1 749 631	36.3

Source: ITC (2007) based on COMTRADE statistics, author's calculations

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