



Chinese outward foreign  
direct investment to the  
Central and Eastern  
European countries in  
the pandemic and post-  
pandemic world

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Dmitry Erokhin

International Institute for Applied  
Systems Analysis



# CEE and China

- China is successfully rediscovering the region through the 16 + 1 framework and the Belt and Road Initiative (BRI). On the one hand, the CEE region as a gateway offers an access to the rest of the European market, in particular, the European Union (EU) countries, and, on the other hand, it is a highly prospective market itself.
- Chinese FDI to the CEE countries remain low in comparison to the rest of Europe, which signals a potential for growth. Chinese investors are still behind investors from Germany, Japan, South Korea, and the United States in many of the CEE countries.
- Chinese FDI in the region is not spread evenly with some countries receiving the largest FDI share, whereas other countries are underrepresented as host countries, which again indicates a growth potential.
- Chinese FDI to the CEE countries is both efficiency-seeking, market-seeking, and strategic-asset-seeking.
- The global financial crisis accelerated economic relationships between China and the CEE countries given the CEE interest in new sources for the recovery.
- Trade between China and the CEE countries proved to be resilient to the pandemic, and the post-pandemic recovery opens new cooperation opportunities for China and the CEE.

# Pandemic and FDI

- On average a 35% decline of FDI flows to the CEE countries in the first six months of 2020, which is less than the global decline of 49%.
- FDI inflows play an important role in the recovery after the pandemic and measures should be taken by the governments to attract investors.
- Positive development of Chinese outward FDI in the BRI countries. China is expected to increase its outward FDI to the BRI countries following the pandemic.
- The pandemic had a temporary limited negative effect with Chinese investors being further attracted to the German market.
- A short and limited effect of the pandemic on Chinese outward FDI.
- The effect may differ across varying types of FDI, sectors, and the particular COVID-19 situation in each of the countries.

# Research question

How did the COVID-19 pandemic impact Chinese outward FDI to the CEE countries?

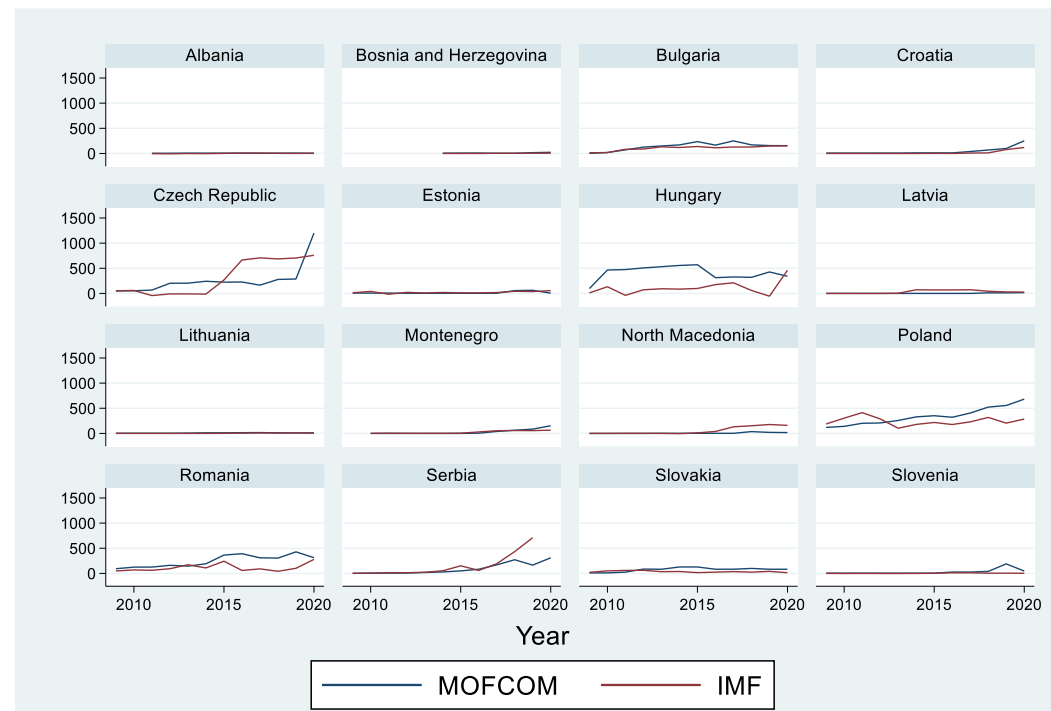
# Data and Methods

- Central and Eastern European countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia, and Slovenia.
- Coordinated Direct Investment Survey by the International Monetary Fund (further: IMF data)
- Statistical Bulletins of China's Outward Foreign Direct Investment published by the Ministry of Commerce of the People's Republic of China, the National Bureau of Statistics, and the State Administration of Foreign Exchange (further: MOFCOM data)
- OECD data on ultimate and immediate FDI (further: OECD data)
- China Global Investment Tracker by the American Enterprise Institute and the Heritage Foundation
- Ordinary least squares (OLS) with country and year fixed effects

# Results (IMF and MOFCOM data)

	IMF	Logged IMF	MOFCOM	Logged MOFCOM
<b>Pandemic dummy</b>	157.02*** (43.24)	2.26*** (0.39)	220.42*** (70.94)	2.69*** (0.42)
<b>Constant</b>	-77.42** (30.13)	-0.62 (0.46)	-108.34*** (35.53)	0.11 (0.38)
<b>Year fixed effects</b>	Yes	Yes	Yes	Yes
<b>Host country fixed effects</b>	Yes	Yes	Yes	Yes
<b>Number of observations</b>	180	157	183	183
<b>R-squared</b>	0.51	0.94	0.71	0.91

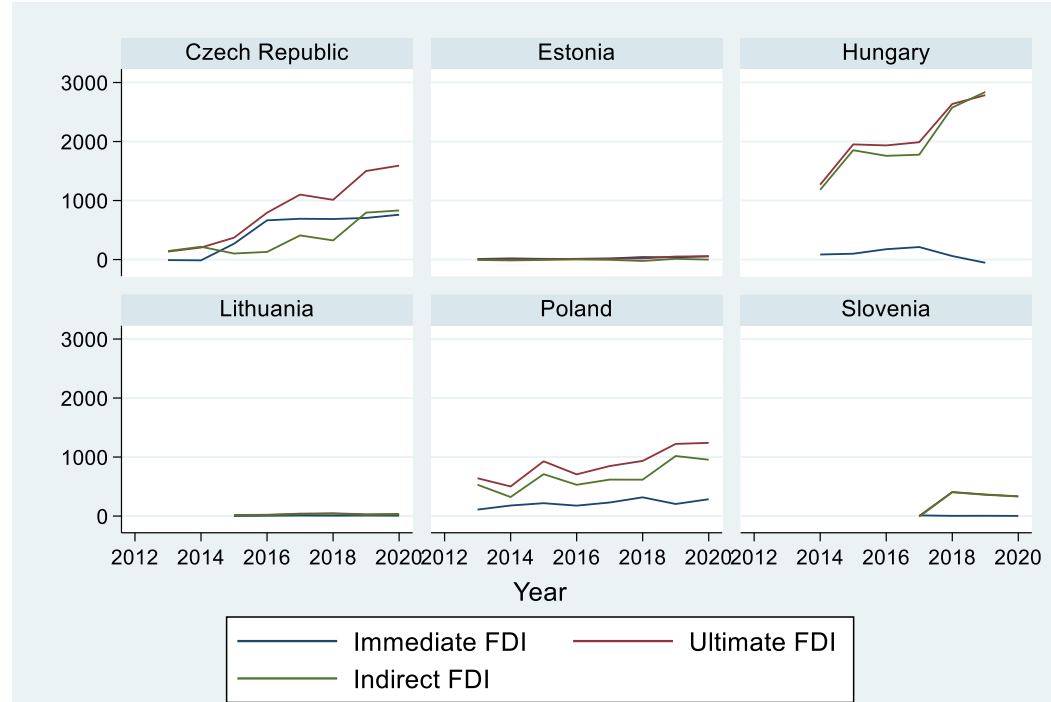
Note: Levels of significance: \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . Robust standard errors.



# Results (OECD data)

	Ultimate FDI	Logged Ultimate FDI	Immediate FDI	Logged Immediate FDI	Indirect FDI	Logged Indirect FDI
<b>Pandemic dummy</b>	633.39** (251.62)	1.98*** (0.51)	303.40* (152.19)	1.05*** (0.25)	329.98* (118.98)	0.96*** (0.33)
<b>Constant</b>	519.74** (238.36)	5.42*** (0.40)	269.59 (168.52)	5.56*** (0.17)	250.15*** (87.55)	5.22*** (0.25)
<b>Year fixed effects</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Host country fixed effects</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Number of observations</b>	40	40	40	37	40	33
<b>R-squared</b>	0.92	0.89	0.73	0.96	0.93	0.97

Note: Levels of significance: \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . Robust standard errors.



# Outlook

- Positive effects from FDI on host economies like additional financial resources, employment growth, innovations, etc. make it desirable for host economies to attract more FDI.
- For China, for its part, investment is a direct tool to increase its influence in the world. By investing huge amounts of money in key industries and infrastructure worldwide, China gains pivotal importance in these countries. This helps China more actively and firmly embed itself in the changing multipolar world and claim its right to participate in it.
- This cannot but cause concern for the West, especially the U.S. and the EU, which are constantly expressing worries about China's growing influence in the world and in the CEE region in particular. As a response, they adopt their programs and reforms and a number of countries become an apple of discord in geopolitics.
- According to various observations, the modern world is moving towards a system of competing coalitions – so-called blocks or fortresses, which will unite around geopolitically and geo-economically strong countries. China's investment policy is one important step toward creating such a fortress around itself. Participation in it is a win-win strategy. It is beneficial not only for China itself, but also for participating countries.
- The CEE countries, on their part, are interested in additional funds for the recovery process, as also the post-financial crisis recovery has shown, and thus are highly likely to further welcome Chinese investors.



# Conclusion

- The paper looks at four different datasets for Chinese FDI to the CEE countries – Chinese outward FDI statistics, CEE inward FDI statistics, OECD data on immediate and ultimate FDI, and data on specific Chinese investment projects.
- The paper finds that the pandemic did not have a negative effect on Chinese outward FDI to the CEE countries in 2020. On the contrary, Chinese outward FDI to the CEE countries increased in 2020. The paper finds that Chinese investors chose more indirect routes in 2020.
- The paper expects that the CEE will remain an attractive and important region for Chinese FDI in the future, though the competition with other geopolitical centers is likely to increase.
- The paper identifies that there are still huge discrepancies between Chinese outward statistics and the statistics of the host countries on inward FDI they receive from China. This signals that future efforts are necessary to harmonize the statistics to a common international standard to understand who is really investing where, to compare countries in terms of their investment attractiveness, and to design efficient investment policies.
- A limitation of the study is data availability until 2020, and future research is necessary to analyze how Chinese FDI to the CEE countries developed in 2021 and 2022 when the data becomes available. However, the lack of a negative effect of the COVID-19 pandemic in 2020 when the pandemic hit the most suggests that there might not be any effect in the subsequent periods either.

Thank you!

