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Chinese and Other East Asian Foreign Direct Investment in Central and Eastern Europe: Motives, Location Choices and Employment Approaches¹

INTRODUCTION

Since the launch of China's 'Go Global Policy' in 2001 the world has observed a dynamic rise in China's outward foreign direct investment (FDI) in both developing as well as developed countries. Western Europe became a favoured destination for Chinese multinational corporations (MNCs) seeking strategic assets such as brands, technology, know-how or distribution channels. Central Eastern European (CEE) countries like Hungary and Poland, which joined the EU shortly after this time, attracted mainly Chinese greenfield investments aimed at obtaining access to the whole EU market, which has changed since 2012 with Chinese MNCs showing interest in acquisitions. In recent years growing concerns and regulatory restrictions relating to Chinese investors have been seen across the globe, especially among developed economies, based on both national security and economic grounds.² We would like to investigate the changing motives, location choices as well as employment generation and human resources management approaches of Chinese MNCs in selected host economies of CEE, namely Hungary and Poland, which have attracted the lion share of China's investment in CEE. We also compare Chinese MNCs with Japanese and South Korean MNCs that arrived in CEE much earlier as of the early 1990s.

CHINESE, JAPANESE AND SOUTH KOREAN FDI IN HUNGARY AND POLAND – HISTORICAL BACKGROUND

Undoubtedly, the change in the institutional setting of CEE countries due to European integration has been the most important driver of Asian FDI in the CEE region. In the manufacturing sector in particular,

however, Asian investors entered the region earlier, with some of them even before the fall of the iron curtain.

The first phase of inward Asian FDI came parallel with the CEE countries' democratic shift in the late 1980s: some Japanese and Korean companies (like Samsung, Suzuki, Matsushita Electric and Hyundai) indicated their willingness to invest in CEE back in the early 1980s, while their investments took place during the first years of the democratic transition, in the late 1980s or at the beginning of the 1990s. The second impetus was given by the CEE region's accession process to the European Union. EU membership of Hungary and Poland (as well as other CEE countries joining the EU) allowed Asian investors to avoid trade barriers, while the countries also served them as an assembly base. Not only membership, but also the prospect of their EU accession attracted new Asian investors to Hungary and Poland. Some Chinese companies like Hisense, for example, made their first investments in Hungary before the country officially became an EU member state. New investments also arrived in the year of accession. The third phase dates back to the global economic and financial crisis, when financially distressed companies all over Europe were often acquired by non-European companies, including Chinese firms. Besides the Chinese, some new South Korean, South African and Indian MNEs started to strengthen their global – as well as CEE – presence in these years too.

According to the Amadeus database, as of 2017 Hungary hosted 83 firms with 51 percent of shares held by Japanese owners, 12 firms with their ultimate owners in South Korea and 15 firms with their ultimate owners in China (there are currently 19 in total due to recent investments not yet recorded in the Amadeus database). During that time in Poland there were 211 Japanese firms, 113 Chinese and 75 Korean companies. Approximately one third of Chinese firms in CEE are state-owned enterprises (SOEs), 31 percent in Hungary and 28 percent in Poland (see Tables 1 and 2). Major Japanese investors are Suzuki Motor Corp., Sumitomo Group, Toyota, Denso, Matsushita Electronic Components, Panasonic, Sanyo, Ajinomoto, and Mitsui. The majority of Japanese FDI is concentrated in the electronics and automotive industries. Japanese investors only recently expanded their interests towards other industries like food (Lotte's acquisition of Wedel and Pijalnie Czekolady, Ajinomoto and Nissin – producer of instant soups), financial services (Meiji Yasuda's interest in Europa Group and Warta Group), fleet management (Hitachi Capital's acquisition of Corpo Flota) and cosmetics (Rohto's interest in Dax Cosmetics). Korean investments are also focused in the electronic and automotive industries as well as the chemical industry. Samsung, Hankook, LG Chem, Daewoo and Nexen are among the major investors. When entering the CEE markets, Japanese and Korean MNCs most



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² See <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe>.

often choose the greenfield entry mode. Korean MNCs initially only engaged in productive investment, but recently also carried out research and development activities.

Chinese investors typically target the secondary and tertiary sectors of CEE countries, including Hungary and Poland. Initially, Chinese investment flowed mostly into manufacturing (assembly), but over time services attracted a growing amount of investment too. In Hungary and Poland, for example, there are branches of Bank of China, and Industrial and Commercial Bank of China, as well as offices of some of the largest law offices in China, Yingke Law Firm (in Hungary in 2010, in Poland in 2012) and Dacheng Law Offices (in Poland in 2011, in Hungary in 2012). Main Chinese investors targeting these countries are primarily interested in telecommunications, electronics, chemical industry and transportation. In addition to the largest investor, Wanhua, major investors include Huawei, ZTE Corporation, Lenovo, BYD and Comlink.

As far as the Chinese MNCs' entry modes are concerned, greenfield investments dominate and were especially common among the first Chinese investors in CEE focusing on assembly after 2005 (Huawei, ZTE, Lenovo, TCL). Mergers and acquisitions (M&As) gained importance as of 2011 (Wanhua, Liu Gong Machinery), while joint ventures were less common (Orient Solar, BBKA, Shanghai Shenda).

CHINESE, JAPANESE AND SOUTH KOREAN FDI IN HUNGARY AND POLAND – MOTIVATION

The main driver behind Asian FDI in CEE is market-seeking investment: by entering CEE market Asian companies gain access not only to the whole of the EU (and domestic) market, but also to the markets of CIS, the Mediterranean countries and the EFTA. During company interviews, almost all participants emphasised their desire to have operations in CEE, which can either be linked to their existing businesses in Western Europe, or can help strengthen their presence in the wider European market. Another aspect of EU membership that has induced Asian investment in Hungary is institutional stability (exemplified by the protection of property rights, for instance). It was important for early investors from Japan or Korea, but was also one of the drivers of Chinese FDI due to the unstable institutional, economic and political environment of their home country (Morck *et al.* 2007). It is also in line with the findings of Clegg and Voss (2012), who argue that Chinese FDI in the EU shows 'an institutional arbitrage strategy'.

While the market-seeking motivation is clearly dominant, the efficiency-seeking motive is also present, and can be explained by the fact that a skilled labour force is available in Hungary and Poland in sectors and industries for which Asian interest is

growing, while labour costs are lower than the EU average. However, there are also differences within the CEE region; unit labour costs are usually cheaper in Bulgaria and Romania than in Hungary and Poland. Corporate taxes also play a role in Asian companies' decision to invest in Hungary or Poland, although these two countries do not have the most favourable tax regime in the CEE region. Nevertheless, these labour cost and tax differences within the CEE region do not really seem to influence Asian investors, as there is more investment from Asian countries in Visegrad countries (especially in Hungary and Poland) – where labour costs and taxes are comparatively higher – than in Romania or Bulgaria. One explanation for this may be the theory of agglomeration, as OFDI in these countries is generally the highest in the region (McCaleb and Szunomár 2017).

Recently, certain Asian investments have also been motivated by the search for brands, new technologies or market niches that they can fill in on European markets, i.e. by strategic asset seeking. Examples include the acquisition of Hungarian BorsodChem, a chemicals producer by Wanhua, Dongren Investment Co. Ltd. The Bonded Zone has also purchased a 33-percent-stake in the Polish Bioton, biotechnology company, which produces insulin among other products (Ningbo.gov.cn 2016). Another interesting feature is that personal contacts were also important when choosing a host country for Asian FDI in the CEE region. For example, one of the Japanese investors chose Hungary because the owner's child studied in the country for several years, while a South Korean investment in Hungary was initiated through a former Hungarian Olympic champion. Besides, Asian companies also appreciate it when a business agreement is supported by the host country's government. Strategic agreements with foreign companies investing in Hungary offered by the Hungarian government may also have spurred Asian investment in Hungary as a result.

McCaleb and Szunomár (2017) also found that, in the case of Chinese MNEs' motives in CEE, institutional factors and other less-quantifiable aspects play a significant role. Besides EU membership, market opportunities and qualified, but cheaper labour, key factors include the size and feedback of Chinese ethnic minority in the host country, investment incentives and subsidies, opportunities to acquire visa and permanent residence permits, privatisation opportunities, as well as the quality of political relations and the government's willingness to cooperate.

CHINESE, JAPANESE AND SOUTH KOREAN FDI IN HUNGARY AND POLAND – INDUSTRIES, LOCATIONS, LINKING WITH GLOBAL VALUE CHAINS

As of 2018, the Chinese MNCs in CEE mainly represent electronics, automotive, industrial machinery,

chemicals and rubber products manufacturing (Tables 1 and 2). The industrial characteristic of Chinese FDI is similar to its Japanese and South Korean counterparts, which are dominated by firms from electronics and automotive industries. Since 2012 Chinese investors have been entering the CEE markets more frequently through acquisitions, with the latter also resulting from M&As carried out in third countries like the United States and Germany, which included the targeted firm's foreign subsidiaries. These acquisitions in industries like the automotive sector, with its highly fragmented production networks, imply China's

accelerated entry into global value chains. In 2018, a share of 23 percent and 17 percent of the Chinese firms analysed were in automotive sector in Poland and Hungary respectively (Amadeus database). This not only means that Chinese firms have acquired the manufacturing technology and skills necessary for China's automotive industry to build a competitive advantage in domestic and global markets, but may also signal the arrival of Chinese cars in the EU market in near future. This, in turn, would imply more Asian competitors in the European car market. In this respect Japanese and South Korean MNCs differ, as they bring their own brands, products, and manufacturing methods, which constitute the basis of competitive advantage. The lead firms like Toyota, Samsung, LG also bring with them suppliers from their home country, which means that they make a limited contribution to the development of host country firms.

The location choice of Chinese MNCs in CEE follows the pattern of total FDI. In Poland, for example, the voivodships (provinces) that have attracted most of the foreign direct investment are mazowieckie, slaskie, dolnoslaskie and wielkopolskie (Kacperska 2014). The largest number of Chinese firms is registered in mazowieckie, wielkopolskie, malopolskie and pomorskie, in that order. Slaskie, dolnoslaskie, mazowieckie, malopolskie and wielkopolskie are the leading voivodships hosting the automotive industry in Poland. Chinese firms from the automotive sector, which are usually result from acquisitions in third countries, are located mainly in malopolskie, wielkopolskie and mazowieckie (Table 2). Japanese and Korean firms in Poland are driven by incentives offered by the special economic zones in their location choice. In Hungary, the capital city of

Table 1
Location of Chinese MNCs in Hungary

Voivodship/province	Total 19 firms	Company type	Main industries	Entry modes
Budapest, central Hungary	12	3 SOEs	Telecommunications; wholesale of computers, computer peripheral equipment and software, motor vehicle and motor vehicle parts, farm product raw material, chemical products, industrial machinery and equipment; transport, consulting services; Industrial machinery manufacturing; education	Greenfield, M&A
Pest	3	1 SOE	Telecommunication and information communication; electric lighting equipment manufacturing; Industrial machinery manufacturing	M&A
Northern Hungary	3	2 SOEs	Wholesale of chemicals; motor vehicle parts manufacturing	M&A, greenfield
Western Transdanubia	1		Rubber product manufacturing	

Source: Own compilation based on Amadeus database and news articles.

Budapest is an important hub for foreign investments with concentration of firms from telecommunications, electronics, motor vehicles and their parts, industrial machinery manufacturing, chemicals and education. However, central as well as Northern Hungary and Western Transdanubia are also favoured by Chinese MNCs (Table 1). Korean and Japanese MNCs in Hungary choose slightly different locations to Chinese MNCs. In addition to Budapest, they are also located in Central Transdanubia, the latter hosts firms manufacturing electronics and tyres like Harman Becker, Hankook and Lotte.

CHINESE, JAPANESE AND SOUTH KOREAN FDI IN HUNGARY AND POLAND - GENERATING EMPLOYMENT

Chinese firms contribute to the generation of employment, but mainly preserve jobs through acquisitions. The largest Chinese employers in Hungary are local firms purchased by Chinese MNCs, although some Chinese greenfield investors also became significant employers in recent years. Based on the employment data for Chinese firms in Hungary (Amadeus database),³ 47 percent of them increased their employment rate since the year of their establishment until 2017, 10 percent maintained their number of employees, while 5 percent decreased the number of employees. The Chinese firm Wanhua that acquired Borsodchem is the biggest Chinese employer in Hungary with 3,000 workers, followed by the Zhengzhou Coal Mining Machinery Group, which purchased Bosch's SEG Automotive Germany GmbH

³ For Poland no data on employment in recent years is available as reporting number of employees is not required by law thus no information in Amadeus database.

Table 2

Location Choice of Chinese MNCs in Poland

Voivodship/province	90 ^a , number of firms in automotive industry	Company type	Main industries	Entry modes
mazowieckie	43, 3 automotive	12 are SOEs	Telecommunications, chemical products, computers, motor vehicles and motor parts wholesalers, semi-conductors and other electronics, industrial machinery, fruit and vegetable juice manufacturing, residential building construction, hotels, services	M&As carried out abroad, greenfield
wielkopolskie	10, 4 automotive	3 SOE	Motor vehicle parts manufacturing; automotive equipment rental and leasing; automotive repair and maintenance; agricultural chemical manufacturing; machinery and equipment wholesalers; services	Greenfield, JV, M&A carried out abroad
malopolskie	8, 6 automotive	4 SOEs	Manufacture of electric motors, generators, and transformers, motor vehicle parts, rubber products, sports goods, fruit and vegetable juice; services	M&A directly in Poland and carried out abroad
pomorskie	8, 2 automotive	2 SOEs	Transportation and real estate services; manufacturing of motor vehicle parts, industrial trucks and tractors, iron and steel mills.	Mostly greenfield
slaskie	6, 2 automotive	1 SOE, 2 state related	Motor vehicle parts manufacturing; wholesale of waste and scrap; construction; wholesale	M&A
dolnoslaskie	4, 1 automotive	1 SOE	Manufacture of pesticides and other agrochemical products, motor vehicle parts, steel pipes, tubes; electronic and precision equipment repair	M&As carried out abroad, greenfield
lodzkie	3, 1 automotive	0 SOE	Casting of light metals; machinery, equipment and motor vehicle and motor vehicle parts and supplies wholesalers	Greenfield
podkarpackie	2, 1 automotive	1 SOE	Agriculture, construction and mining machinery manufacturing; treatment and coating of metals	M&As
kujawsko-pomorskie	2	1 SOE	Waste management services; hardware, plumbing and heating equipment wholesalers and metal product manufacturing	M&A through Germany
lubuskie	2, 1 automotive	0 SOE	Packaging and labelling services; plastics product manufacturing	M&A, greenfield
lubelskie	1	1 SOE	Manufacture of bearings, gears, gearing and driving elements	M&As
opolskie	1	private	Food services	Greenfield

^a Chinese firms were analysed out of total 113. These are the top 90 Chinese firms in Poland in terms of revenue.

Source: Own compilation based on Amadeus database.

at the end of 2017, the former Robert Bosch Starter Motors Generators Holding GmbH, which employs 1,700 workers, and Midea that acquired German KUKA with its foreign subsidiaries in late 2016 with 1,576 employees followed by BYD with 191 employees and Lexmark International Technology acquired by Apex Technology and PAG Asia Capital from China in 2016 with 372 employees. Huawei in Hungary outsources assembly activities to the Hungarian branch of Foxconn, therefore directly they employ around 300 people but indirectly – through Foxconn – they are responsible for the employment of more than 2,500.

Unlike Chinese investors, Japanese and Korean firms in Hungary contribute to generating employment as they enter the Hungarian market through greenfield investments aimed at assembly, which implies training the company's workforce from the scratch. Japanese MNCs in Hungary generally increased employment over the last 10 years. The leaders are Denso (producer of parts and accessories for motor vehicles) with 4,716 employees in 2018,

Suzuki with 2,744 employees in 2017 and Ibiden with 2,464 employees in 2018. The majority of South Korean MNCs have also increased employment in the last decade, with the largest Korean employers being Hankook (3,071 workers in 2017), Harman Becker, a subsidiary of Samsung Electronics (2,454 workers) and Samsung Electronics (1,598 workers) – see Amadeus database.

CHINESE, JAPANESE AND SOUTH KOREAN FDI IN HUNGARY AND POLAND – HUMAN RESOURCE MANAGEMENT

When analysing East Asian investors' activities in Hungary and Poland, we have to examine the impact of cultural differences and cross-cultural business encounters. The most important factors in such encounters are the level of individualism *versus* collectivism, the degree of respect for hierarchy, the role of networks and work ethics (Hall and Wailes 2010). To map out whether – and if so, how – the East Asian multinational companies reproduce or

adapt their management methods and practices across their subsidiaries, we shall focus on human resource management (HRM), which is perhaps the most important issue when analysing the interaction between home and host country culture and institutions (Ozsvald *et al.* 2018).

Although there are several differences between East Asian investors' HRM activity in the CEE region, there are also some similarities too. In general, we can say that East Asian firms in Poland and Hungary try – at least to some extent – to apply their own HR system and use the host country system only if it is absolutely necessary. For example, what is fairly typical for Japanese, Korean and Chinese companies is a low level of organisation among workers and low union density. The majority of their CEE-based companies/branches have so-called works councils, but their role is rather limited. In some cases, factory activity is outsourced to another company, therefore there is not even any need to establish such a body. East Asian companies respect their host country's labour law, but if possible, they use the opportunities provided by it to minimise labour-related costs. For example, they tend to pay relatively low wages to workers who they recruit, although subsidiary-level coordination in wages exists in almost all cases. Working conditions are similar to those of other companies operating in the same sector, but differences do exist. East Asian companies in CEE, for example, use the open office system, and not only for lower-level managers, but in several cases for their top management too. New employees' certificates, diplomas or experience are often not appreciated enough in the view of workers. The main basis for promotion and pay rises is seniority – or loyalty demonstrated by the number of years spent working for a firm – in almost all cases, while relationships (*guanxi*) also play a role, especially in Chinese companies. East Asian firms expect their own working style, which is characterised by dedication to work, working overtime, or being available by telephone in case of emergency. Individualism and bottom-up initiatives are not typical in these companies. Decisions are taken mostly by headquarters, meaning that CEE subsidiaries tend to have an executive function with little space for host-country initiatives.

Employing a large share of expatriates also seems to be characteristic for East Asian companies, as the number of expats is rather high in both the Polish and Hungarian subsidiaries, especially in the first few years following investment in the acquisition of a company. In a Chinese company that arrived in the region over 10 years ago, for example, almost half of the managerial staff are still Chinese expatriates. In the case of a Japanese automotive factory that arrived over 25 years ago, by contrast, the number of expatriates is declining, although still high. Similar characteristics emerge in the case of Korean companies: a company in electronics that arrived in

the late 1980s now has a few Korean expats at the top management levels, while another company in automotive that arrived a few years ago in the region, employs a far higher number of Korean expatriates. Expatriates are not always solely responsible for a certain task or field, and in some cases they have co-managers from the host country.

As host country and home country employees from different cultural backgrounds have to work together and cooperate in these companies, this makes cultural training inevitable. East Asian expatriates are usually given training in European cultural competences before taking up an expat position. Host country employees also learn about the investor's country, culture and habits, although usually not *via* deep and detailed courses, but rather through general presentations. Cross-cultural training courses are, however, not very common in these companies, although several HR managers have indicated that there is a clear need for such courses. Polish employees at a Poland-based Japanese company reported that the communication between Japanese employees and their local counterparts is very poor. This can be explained to some extent by Japanese workers' poor command of English and their lack of familiarity with the local culture. In order to remedy this situation, the Japanese Embassy in Poland organised Sakura Business Seminars for firms with Japanese stakeholders to give Polish employees a better understanding of the Japanese business style. To respond to similar problems, Chinese and Korean companies also try to organise, for example, social events for their colleagues, so as they can get to know each other better.

CONCLUSION

Chinese MNCs emerged as a new third important player in terms of investment from East Asia in Central and Eastern Europe. Chinese MNCs are similar to Japanese and South Korean counterparts in market-seeking motivation related to the establishment of greenfield investments for assembly. These Chinese firms are mostly from the electronics industry, while Japanese and South Koreans are from both the electronics and the automotive sector. The differences between Chinese, Japanese and South Korean FDI lie in Chinese firms' search of strategic assets (technology, brands, distribution channels) and their entry into global production networks, which is especially visible in automotive industry. It is related to their growing entry into CEE through M&As, while Japanese and Korean MNCs choose the greenfield entry mode as they are already part of those value chains – thanks to their earlier maturity and ownership of technologies, and globally recognised brands that their Chinese counterparts are about to join. Chinese MNCs seem to exhibit a different strategy to that pursued by Japanese and South Korean MNCs,

whereby the leading firm is followed into foreign markets by home country suppliers as through M&As of producers of automotive parts and components, Chinese MNCs establish suppliers first and their lead firms are expected to arrive in Europe in near future. Japanese and South Korean MNCs thus benefit more than the host economies in CEE, as they create more jobs than Chinese investors. These three East Asian MNCs, however, use similar techniques and strategies in human resources management in terms of the level of individualism *versus* collectivism, the degree of respect for hierarchy, the role of networks, as well as work ethics. The increasing number of Chinese firms entering the automotive industry through M&As implies the possible emergence of a third Asian car player in Europe in near future. Like Japanese and South Korean MNCs that are followed by their suppliers and service companies – which does not contribute to the development of host country firms – Chinese firms prefer to cooperate with companies from their home country. As a result, there are very little or limited opportunities for local enterprise development *via* linkages with suppliers, for example.

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