

Abstract

Since the inception of the "Belt and Road" initiative, there has been a discernible uptick in China's Outward Foreign Direct Investments (OFDI) within Central and Eastern European (CEE) countries. As Chinese investors evince burgeoning interest in the CEE region, comprehending the modalities and underlying impetuses of Chinese investment in these nations assumes paramount importance. Consequently, this study endeavors to delineate the determinants governing Chinese OFDI in CEE countries.

Using panel data analysis covering the period from 2005 to 2021, the study examines the factors influencing Chinese FDI in 16 CEE countries. Through Two-way fixed effects models incorporating both traditional macroeconomic variables and selected formal and informal institutional variables, the study seeks to determine which factors best explain Chinese investment activities. The results consistently indicate that Chinese multinational corporations primarily invest in CEE countries for market-seeking, strategic asset-seeking, and efficiency-seeking motives. At the level of formal institutions, China tends to invest in countries with deteriorating economic and political institutions, aligning with previous research findings. Moreover, at the informal institutional level, the study revealed China's inclination towards investing in countries characterized by diversity and the presence of diverse ethnic and social groups, indirectly reflecting on the accessibility of visas and residence permits. Moreover, considering the heterogeneity among the 16 CEE countries, the study conducts two additional heterogeneous analyses based on EU membership and geographical location after the full-sample analysis. Lastly, by synthesizing findings from descriptive analyses, regression analyses, and subsample regressions, the study concluded with recommendations, thus furnishing valuable insights for policymakers and investors seeking to promote and attract Chinese investment for the purposes of economic development and cooperation.