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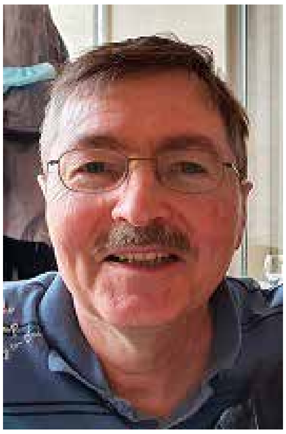

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Abstract

This report analyses the dynamics and main features of Chinese investment, especially foreign direct investment (FDI), in the Baltic Sea region, as well as the policy challenges that such investment raises in the early 2020s. It reviews the main demographic, economic, institutional and geopolitical factors shaping Chinese investment in the region. The Chinese approach towards such investment is far from being unified since Chinese firms follow different motives and strategies when entering different countries of the region. As for overall FDI trends in the region as a whole, flows are rather volatile and, though there has been an increase of flows since 2018, China is not (yet) a major source of FDI for the Baltic Sea region, and these countries, perhaps with the exception of Germany, are not key targets for Chinese investment. As for the importance of China and its investment, Russia has become the country most relying on it. The report also looks at Chinese policies promoting investment to the region and the response of the countries in the Baltic Sea region both in terms of attracting and screening such FDI. The report notes the increasingly close strategic investment ties of Russia with China, which have been further strengthened since the onset of the war in Ukraine.

Key words: China, Baltic Sea region, foreign direct investment, Belt and Road Initiative, greenfield investment, mergers and acquisitions, global value chains, and investment policy.

1. Introduction and context

This report analyses the dynamics and main features of Chinese investment, especially foreign direct investment (FDI), in the 11 countries of the Baltic Sea region broadly defined[1], as well as the policy challenges that such investment raises in the early 2020s. It complements and updates the findings of an earlier report on China's economic links with the region (Larçon, 2017) but can also be read independently. In some cases, the report includes references to FDI from the Hong Kong Special Administrative Region of China (subsequently called Hong Kong) as it is a territory through which a large amount of Chinese capital is 'transhipped' to third countries (Szunomár, 2020).[2]

2. Main factors shaping Chinese investment in the Baltic Sea region

Chinese investment in the Baltic Sea region, including FDI, is shaped by demographic, economic, institutional and geopolitical factors, summed up below briefly. It is to be kept in mind that, due to data limitations, this study uses statistics covering the whole national territory of all countries in the Baltic Sea region even though in some of the large ones (Germany, Poland, Russia), it is rather subnational entities on the seashore that are the most active stakeholders of Baltic Sea cooperation.[3]

Even if we take into consideration the full national territories of the countries in the Baltic Sea region, we can observe in almost all indicators a salient asymmetry in favour of the giant Chinese economy, with the exception of per capita gross domestic product (GDP). China is almost five times more populous (over 1.4 billion inhabitants in 2020) than the 11 countries of the Baltic Sea region combined (310 million). Almost one-fifth of humanity lives in China, compared with a 4% share for the Baltic Sea region. The size difference with the smallest country, Estonia, is over 1000 to 1. This is a key factor determining the preferred location for labour-intensive activities between the two partners, and also for a large part of market-seeking FDI.

As for total GDP, with almost $15,000 billion in 2020, China's production was the second largest in the world, only behind the United States. However, the combined GDP of the Baltic Sea region was non-negligible either: almost half of the Chinese value ($7,700 billion). Of the GDP of countries in the Baltic Sea region, Germany alone accounted for over 50%. These data, taken together with the population statistics, point at large variations in GDP per capita, too. The 2020 average GDP per capita of the 11 countries in the Baltic Sea region (about $25,000) was two and a half times higher than that of China (about $10,000). In the former group, only the GDP per capita of Belarus ($6,000) remained under the Chinese level, and that of Russia was on par with the Chinese indicator.[4] At the other edge stood the four high-income countries of the Baltic Sea region, whose GDP per capita fluctuated between $46,000 (Germany) and $67,000 (Norway). These four countries are the most obvious targets of strategic-asset and technology-seeking Chinese FDI, as well as market seeking FDI targeting high-income consumers.

China's trade links with the countries of the region, another major indicator for business opportunities and the ways of linking together in global value chains (GVCs), are highly uneven by size and structure. In 2020, Chinese imports from Germany exceeded $100 billion, from Russia and Sweden $50 billion, from Norway, Poland and Finland, in that order, $1 billion, and remained marginal in the rest of the region. The product structure and skills and technology intensity also differed largely. Germany was the leading exporter of technology-intensive products, especially in the areas of machinery and transport equipment, followed by Sweden; Finland also provided agricultural raw materials such as wood and pulp, Poland also exported ores and metals, while Russia and Norway were suppliers of fuels. The share of technology-intensive products in Russia's exports was extremely low (Table 1).

1 Belarus, Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia, and Sweden.

2 Such 'indirect' FDI (Kalotay, 2012) is not a unique strategy used by Chinese investors only. In the Baltic Sea region, Russian multinationals equally often use transhipment centres such as Cyprus.

3 Such as Mecklenburg–Vorpommern and Schleswig–Holstein in Germany, Pomerania, Warmia–Masuria and West Pomerania in Poland, and the Kaliningrad and Leningrad Oblasts and St. Petersburg city in Russia.

4 This may change in the aftermath of the war in Ukraine.

Table 1. Typical products and shares of medium and high skill- and technology-intensive manufactures in China's imports from major Baltic Sea region partners, 2020

Partner country	Typical products	Share of medium skill- and technology-intensive manufactures	Share of high skill- and technology-intensive manufactures
Germany	Machinery & transport equipment (59%), Chemicals (17%)	54 %	33 %
Russia	Fuels (57%), Ores & metals (16%)	0 %	4 %
Sweden	Machinery & transport equipment (57%), Textile (15%)	34 %	30 %
Norway	Fuels (59%), Chemicals (8%)	7 %	18 %
Poland	Machinery & transport equipment (57%), Ores & metals (15%)	47%	14 %
Finland	Agricultural raw materials (31%), Machinery and transport equipment (28%)	25 %	24 %

Source: The authors' calculations, based on UNCTADStat data.

While the pull factors of Chinese investment in the region can be varied according to the level of development and resource-endowments of individual countries, the push factors of the same investment are often linked with the ambitions and priorities of the Chinese Government in terms of increasing economic influence around the globe, but also economic gains. Thus, it is important to look at the institutional-political setting through which Chinese authorities are accompanying the country's outward FDI and the countries in the Baltic Sea region are responding via either promotion or screening.

At the most fundamental level, China and all countries in the Baltic Sea region have embassies in each other's countries, except with Lithuania, where relations are at a 'embassy office' level with chargés d'affaires. In large countries China has also consulate generals in key cities, two of which are located in Baltic Sea ports: Gdańsk (Poland) and St. Petersburg (Russia). It has bilateral investment treaties (BITs) with all the 11 countries in the Baltic Sea region in force, with the oldest one, with Sweden, ratified in 1982.

China's bilateral relations with the European Union (EU) are also relevant for this analysis, as eight countries in the Baltic Sea region are members of the group, and a ninth one, Norway, is linked to it via the European Economic Area Agreement. China's first agreement with the EU [5] has been in force since 1985. Currently, the EU–China Comprehensive Agreement on Investment (CAI) is in the stage of an 'agreement in principle'. [6] However, its application has been frozen since 2020. At the moment of writing this report, its application has been blocked due to various factors, the most recent being the contentions between the two parties concerning the attitude to be adopted to the war in Ukraine.

Concerning the Eurasian Economic Union (EAEU) of which Belarus and Russia are full members, it signed in 2018 an economic and trade cooperation agreement with China.[7] However, it has not yet entered fully into force; therefore, relations with China are guided by national legislations and bilateral treaties established with China. Russia, together with China, is also party to the Shanghai Cooperation Organisation (SCO) – and Belarus has an observer status. SCO is not a primarily economic organization; it has political, security and military and cultural functions, too. Its interbanking cooperation plans may be quite relevant for Chinese–Russian investment links.

5 Called 'Agreement on Trade and Economic Cooperation between the European Economic Community and the People's Republic of China'.

6 https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china/eu-china-agreement/milestones-and-documents_en

7 See https://docs.eaeunion.org/docs/en-us/01417817/iatc_21052018

With the exception of the four highest-income countries, seven countries in the Baltic Sea region are parties to the Belt and Road Initiative (BRI), launched in 2013 to promote the global expansion of

Chinese business, typically via memoranda of understanding (MoUs). BRI has become over time the most extensive undertaking of Chinese Government and firms, covering all continents, with a heavy focus on infrastructure development. Recent studies have found that MoUs within the framework of the BRI indeed stimulate Chinese investment, especially by State-owned firms (De Beule and Zhang, 2022).

Within the framework of BRI, Cooperation between China and Central and Eastern European Countries (also called 16+1), launched in 2012 to promote infrastructure, transportation and logistics, trade and investment, covers both new EU members and South-East European countries, and includes Estonia, Latvia and Poland from the Baltic Sea region (Lithuania withdrew in 2021). Chinese firms carry out the bulk of their activities in its Southern wing, in the Balkans and its neighbouring countries.

The Sino–Nordic cooperation has a 5+1 format for China on one side and Denmark, Finland, Iceland, Norway and Sweden on the other, which has been initiated with similar aims as the 16+1 cooperation with Central and Eastern Europe. In addition, the Polar Silk Road, launched in 2018 aims to link the eight members of the Arctic Council (including, inter alia, Finland, Norway, Russia and Sweden) with the BRI [8]. The multiplication of these initiatives suggest a major ambition from the part of Chinese authorities to increase economic influence in all parts of the world, and the Baltic Sea region is part of that global game.

The geopolitical context is another key to understanding Chinese investment in the Baltic Sea region. The ambition of the Chinese Government is to leverage its economic power – the world second largest GDP – to gain political and economic influence. This ambition has encountered two major challenges recently. Starting in 2020, the COVID crisis disturbed the transportation links, disrupted the movement of goods and services along the GVCs, and halted or at least slowed down most of the infrastructure development plans. While China was still struggling with COVID at home, resulting in lockdowns and continued slowdown in production, Russia started a war in Russia, which obliged China to engage in a delicate balancing act. While the country has not joined the sanctions against Russia, it has also made it clear that it did not wish to break its economic links in the West (cf. Bradsher and Swanson, 2022; Kalotay, 2022). This is a particularly sensitive issue in the Baltic Sea region that includes on one side Russia and its ally Belarus, and the rest of the region on the other side, applying sanctions and cooperating with Ukraine closely in military matters. At the moment of writing this report, Finland and Sweden submitted their application for membership in the North Atlantic Treaty Organization (NATO). If and when they join, all remaining nine countries would be full members of the same alliance. It remains to be confirmed if China can preserve its stance of neutrality as the conflict continues. It also may need to adjust to the potentially major changes in the geopolitical landscape of the Baltic Sea region with the economic links of the largest city, St. Petersburg in Russia, being seriously reduced with the rest of the region as a result of sanctions and countersanctions.

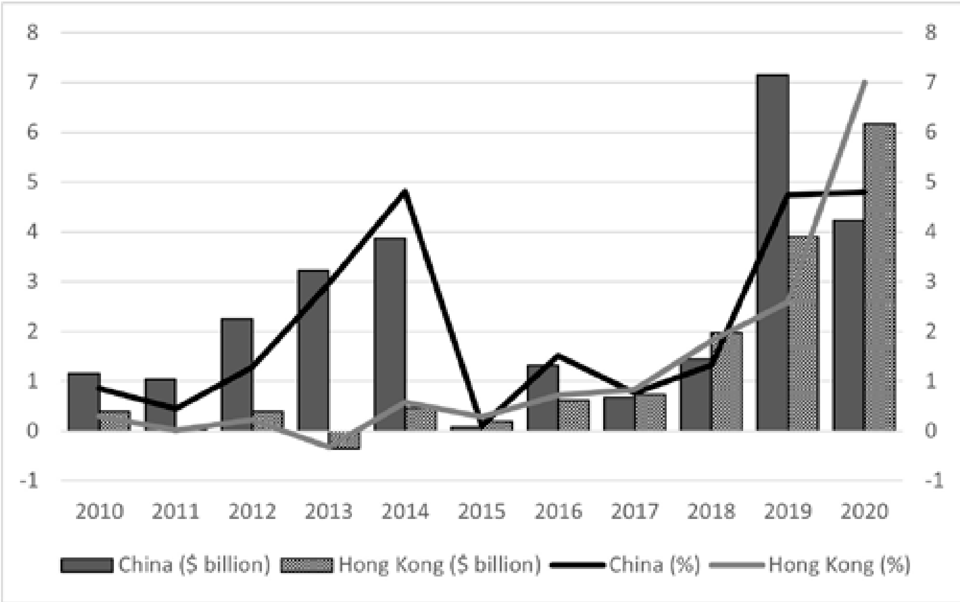
3. The state of Chinese investment in the Baltic Sea region

The Chinese approach towards investing in the Baltic Sea region is far from being unified since Chinese firms follow different motives and strategies when entering different countries of the region: the access to successful brands, high-technology and know-how motivates them when entering the more developed markets of the EU, such as Germany or Sweden, while natural resources, greenfield investment (manufacturing), and also construction projects pull them to the less developed countries, such as Poland, Russia and Belarus.

As for overall FDI trends in the region as a whole, flows from both China and Hong Kong are rather volatile – 'lumpy' – which probably means that fluctuations are connected to a few business deals per year (Figure 1). Though there has been an increase of flows from both home countries since 2018, they are not (yet) major sources of FDI for the Baltic Sea region. In 2019 and 2020, China's share came close to 5%, while that of Hong Kong reached an exceptional 7% in 2020, due to large flows to Germany.

8 China is an observer in the Arctic Council; so is Germany and Poland. Denmark also sits in the Council in its capacity of representative of Greenland's interests.

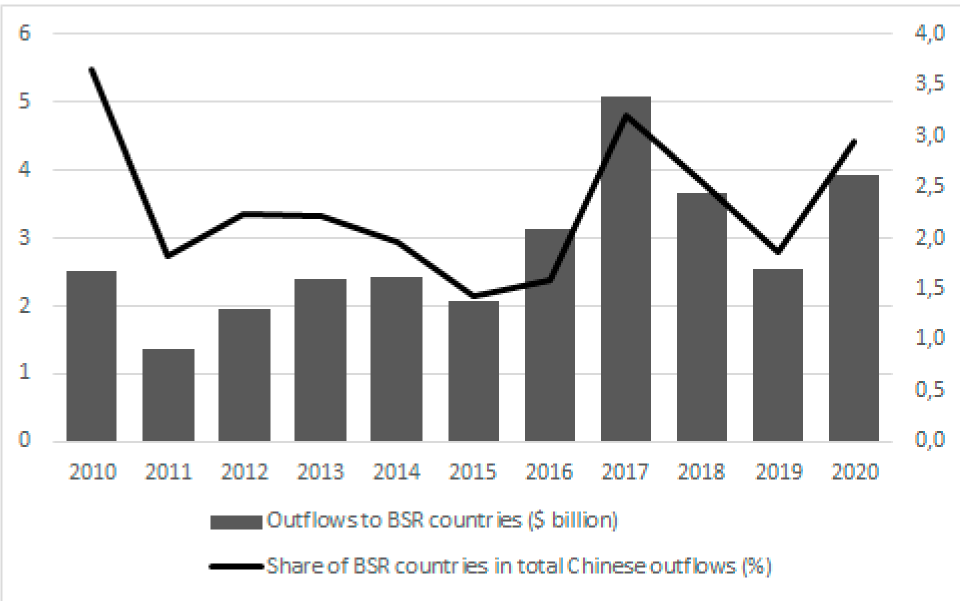
Figure 1. Estimated FDI inflows of Baltic Sea region from China and Hong Kong, 2010–2020 (billion dollars and per cent of total)



Source: The authors' calculations, based on data from the UNCTAD FDI/MNE database (www.unctad.org/fdistatistics).

As for the share of the Baltic Sea region economies in Chinese FDI outflows, Germany and Russia are relatively important investment destinations in Europe, though the region as a whole does not rank among the primary targets for Chinese FDI globally (Figure 2). Between 2010 and 2020, the region's share in Chinese outflows fluctuated between 1.4% (in 2014) and 3.7% (2010). In 2020, it reached 2.9% (Figure 2). These data confirm the findings of previous studies, which found a moderate importance of the Baltic Sea region in Chinese outflows (see for example Liuhto, 2000, for the case of Sino–Russian links).

Figure 2. Estimated importance of the Baltic Sea region in the FDI outflows of China, 2010–2020 (billion dollars and per cent of total outflows)



Source: The authors' calculations, based on data from the UNCTAD FDI/MNE database (www.unctad.org/fdistatistics).

There are also significant differences between host countries in the Baltic Sea region in terms of size of the stock of Chinese FDI (see table 2): Germany is the most attractive investment destination, followed by Russia and Sweden. The fourth most popular investment destination, Norway, hosts only 7% of the amount invested in Russia. The overall picture is slightly different if FDI from Hong Kong is added, which is, to recall, China's Special Administrative Region, often used as a platform for making further investments in other countries, especially in developed ones (Szunomár, 2020). Hong Kong companies have invested mainly in Germany, Russia, Lithuania and Denmark in the region.

Table 2. Chinese FDI stock in the Baltic Sea region by geographical destination, 2020 (a) (millions of dollars and per cent)

Host country	China	Hong Kong	Sum	Share in regional total (%)
Belarus	607	7	614	1.1
Denmark	354	1,045	1,398	2.6
Estonia	6	80	86	0.2
Finland	307	130	437	0.8
Germany	14,550	7,305	21,855	40.4
Latvia	17	64	81	0.1
Lithuania	12	1,486	1,499	2.8
Norway	1,043	473	1,516	2.8
Poland	682	507	1,189	2.2
Russia	12,071	2,471	14,542	26.9
Sweden	10,601	215	10,817	20.0
All region	40,250	13,783	54,034	100.0

Source: The authors' compilation, based on data from the UNCTAD FDI/MNE database (www.unctad.org/fdistatistics).
(a) 2020 data were not available for Denmark and Sweden; therefore, 2019 data were used for these two cases

There is also a clear-cut difference between the patterns of greenfield investment projects and mergers and acquisitions (M&As) targeting the Baltic Sea region. The vast majority of Chinese greenfield investment projects go to Russia (mainly in manufacturing), followed in a distance by Germany (mainly in sales and marketing) and Finland (mainly in manufacturing and headquarters). Germany is the most attractive destination for Chinese M&As, followed by Sweden. The two largest acquisition deals [9] were made by the same Chinese company (Geely) and targeted the same sector (automotive), involving the acquisition of shares in Daimler (2018) and Volvo (Volvo Cars in 2010, Volvo Trucks in 2017). Chinese technology companies (such as Huawei, ZTE, Tencent, etc.) have been targeting almost all countries in the region with rather smaller projects. Larger projects constituted rather an exception, and often raised concerns in the host countries (Box 1).

The above-mentioned greenfield projects and acquisitions were typically not located physically on the Baltic littoral, suggesting an untapped potential for Chinese investors to locate more activities in the region. In principle, the strategic importance of coastal areas has increased since the BRI was announced as the Baltic Sea region is one of the end points for the initiative's main routes. Moreover, these countries can also play a role in the Polar Silk Road, which connects BRI with China's Arctic aspirations (Sharma, 2021).

Despite the existence of cooperation mechanisms between Chinese and Baltic Sea region seaports (Larçon and Barré, 2017), neither FDI nor constructions projects are numerous along the coast. It seems that the more developed countries in the Baltic Sea region do not really need to involve Chinese companies in infrastructure development, and even if they do, projects are not related with ports or the coastal areas. In the case of less developed countries, there are considerably more construction projects, but they are

9 According to the UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

typically far from the Baltic coast. [10] And in the case of Russia, with the war in Ukraine, the strategic importance of the Far East in bilateral links with China has been further accentuated at the expense of other parts of the country, such as the Baltic coast.

Box 1. A troubled acquisition in Germany: Midea's bid for Kuka in 2016

A salient example for a troubled Chinese acquisition is Midea's 2016 bid for the German robotics manufacturer Kuka provoking a backlash in the host country. Back in 2015, Midea had become a 13.5% shareholder of the company through a market transaction. In 2016, it launched an offer of $4.7 billion for the bulk of the remaining shares of the company (Pandaily, 2021), sparking a national debate in Germany serving as a catalyst for the adoption of the EU mechanism of FDI screening (Froese et al., 2019). The acquisition seemed to be particularly important for the Chinese partner: China is the largest and fastest-growing market globally for industrial robotics, while Midea is one of China's largest home-appliances makers, seeking to enlarge its global reach and product scope. However, the bid triggered a high degree of unease in the host country. The takeover was perceived not only as a loss of European competitiveness and a reinforcement of China's edge over the EU, but also the technology that Kuka produced was thought to be used potentially for military applications, too (Froese et al., 2019). Finally, at the end of 2016, the transaction was cleared by the United States Directorate of Defense Trade Controls from the military point of view and the bid could be completed. At the end of 2021, Midea started planning the acquisition of the remaining 5.4% shares of the company.

Source: The author's collection of information.

In the Baltic Sea region, Russia hosts the vast majority of construction projects, while the second most popular host is Belarus, with real estate and energy being among the most important sectors in both cases (Table 3).

Table 3. Chinese construction projects in the Baltic Sea region, 2007–2021

Country	Total value in $ million	Main sectors
Belarus	5,940	Energy, Real estate, Transport
Denmark	700	Technology
Estonia	0	-
Finland	850	Energy
Germany	440	Logistics
Latvia	110	Transport
Lithuania	0	-
Norway	310	Technology, Transport
Poland	1,720	Energy, Transport
Russian Federation	23,630	Real estate, Chemicals, Energy, Metals, Transport
Sweden	0	-

Source: The authors' compilation, based on data from the China Global Investment Tracker.

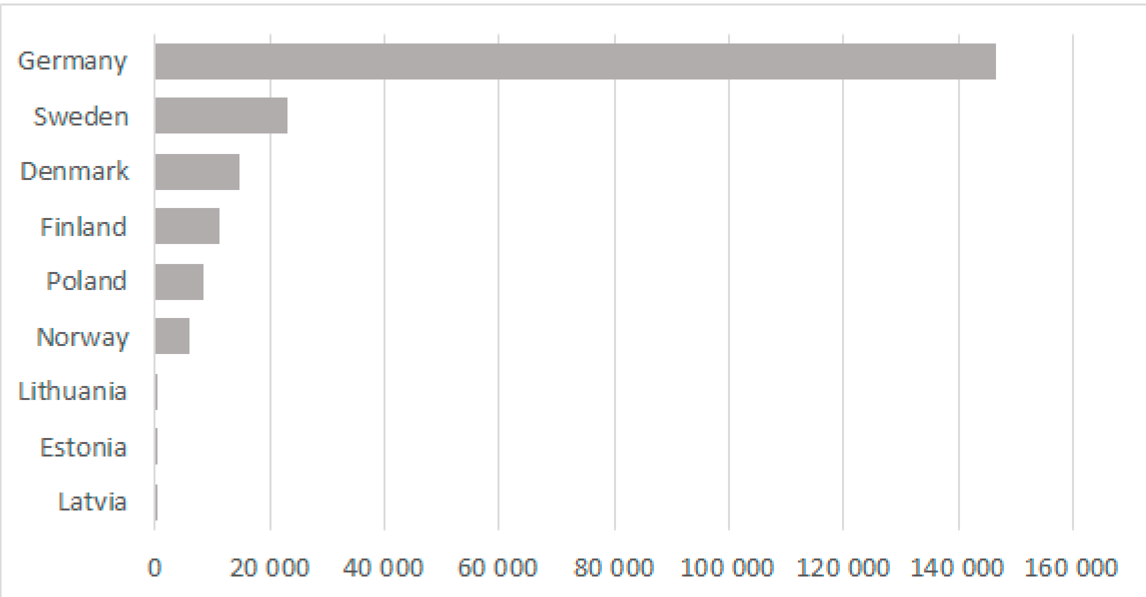
The main features of Chinese FDI and other types of investment such as construction projects have to be understood in the context of China's current central role in GVCs (cf. Zenglein et al., 2020). The recent COVID-19 crisis has demonstrated how essential the supply of Chinese inputs is for all countries of the world. Those economies that are linked with it usually benefit largely from those links, but at a price: dependence in the Asian partner and its economic and sometimes political interest. In a longer perspective, the ambition of the Chinese Government is to become even more essential, as a global superpower in the field of industrial manufacturing and innovative research and development (R&D). The challenge in the Baltic Sea region is to find a balance between economic benefits and relative economic independence (see also in the conclusions).

10 The most recent example is the bridge linking the Russian city of Blagoveshchensk to the Chinese city of Heihe across the Amur (Heilong Jiang) River, constructed between 2016 and June 2022. It cost about $369 million (McCarthy, 2022). The distance between Blagoveshchensk and St. Petersburg is about 5,700 km.

As regards pull factors for Chinese companies' investment other than geography, raw materials, strategic assets or efficiency, additional factors can be considered as equally important. For instance, some countries in the Baltic Sea region, such as Belarus or Poland created 'special economic zones' (SEZs) to attract foreign investors and to tackle increasing regional unemployment through significant corporate tax incentives. While most of these SEZs are not specifically designed for China, at least one of the Belorussian cases is even more 'special': the China–Belarus Industrial Park Great Stone, located near the capital city Minsk, has been established in 2012 and a designated SEZ since 2018 (UNCTAD, 2019). The website of the Belorussian Ministry of Economy refers to the project as a model of cooperation between the two countries, designated for high-tech industrial and business activities.

On a global scale, the role of Chinese diaspora in attracting Chinese investments to certain host countries is also a widely acknowledged factor of FDI attraction (see Buckley et al., 2007). This, however, does not seem to be the case for the Baltic Sea region: the ethnic Chinese population in most of the countries of the region is very small, though national statistics may seriously underestimate the real numbers. Germany and Russia seem to be hosting a significant diaspora. In Germany, at the end of 2021, 146,000 Chinese citizens were officially residing in the country. [11] In Russia, there is a high level of uncertainty about the numbers because of the large difference between those who arrive to the country for temporary reasons (hundreds of thousands per year) and those who officially reside in the country (28,000 in the 2010 census; 40,000 having Russian work permits in 2019; Lapteva, 2019). While it is reasonable to assume that some of the temporary visitors stay in the country, it is impossible to come up with a good number. Whichever the size of the Chinese diaspora in these countries is, these people are not concentrated along the Baltic coast. In Russia, the main centres for Chinese citizens are Moscow city, Siberia and the Russian Far East. In Germany, Berlin, Frankfurt am Main, the Ruhr Area, Munich and Hamburg concentrate most of the Chinese population. In the rest of the region, the number of official Chinese residents is very small, especially in the three Baltic States (Figure 3). However, the note that the real figures may be much higher applies to all these countries, too.

Figure 3. Number of official Chinese residents in selected Baltic Sea region countries, 2021 (a)



Source: The authors' calculations, based on national data. (a) For Latvia, Lithuania and Poland, data refer to 2019.

In sum, the investment relationship between China and the Baltic Sea region does not exhibit special characteristics, neither in a global nor in a European context. China is far from being a privileged investor in the region. China's relationship with the Baltic Sea region seems to be more sensitive or riskier compared with other inbound FDI only when it comes to investment into technology-related industries. However,

11 https://www.destatis.de/EN/Themes/Society-Environment/Population/Migration-Integration/Tables/foreigner-place-of-birth.html

this is not primarily a reflection of actual bad experiences with Chinese technology companies investing here, but rather of the current heightened atmosphere in EU–China relations.

Compared with the ambitious aims of the BRI and the Polar Silk Road, China's relations with the Baltic Sea region do not yet live up to their potential. However, the geopolitical situation improved and tensions were reduced, these investment relations could develop further, towards more diversified activities, connected with both FDI and construction projects. Nevertheless, even if it happens, patterns are expected to be fairly similar to the ones described above: infrastructure projects may be concentrated in less developed countries in the Baltic Sea region, while more developed countries may attract more FDI. The technology content of Chinese supplies to these projects may increase over time as the country continues climbing up the technology ladder. Developed countries in the Baltic Sea region may remain mostly open towards the bulk of Chinese FDI projects; however, they can also adopt an increasingly cautious stance, especially when it comes to Chinese acquisitions in strategic industries.

4. Policy issues

As China does not have a single dedicated foreign policy stance towards the Baltic Sea region, it does not have a specific investment policy for the region either. Chinese capital outflows are strictly regulated regardless of the relationship, that is, investment into countries in the Baltic Sea region is also subject to a uniform screening. Through this uniform approval process for outward FDI projects and access to foreign exchange and preferential loans, the Chinese Government can exert direct influence on the growth and patterns of outward investment (Szunomár, 2020). The desired geographical and industry direction of Chinese companies' investment has been governed by the 'Catalogue of Investment Projects that Require Government Verification'. Initially, the Catalogue has included recommended countries and industries for Chinese outward FDI but the latest version (2014) provides that only investments that involve sensitive countries or industries require approval by certain Chinese government bodies. Sensitive countries are those with which ″China has no diplomatic relations, countries subject to international sanctions, and countries affected by war or civil strife", while sensitive industries include ″basic telecommunication, cross-border water resources development and utilization, large-scale land development, main electrical grids and news media" (Lau and Zhao, 2014).

Although the number of diplomatic visits has fallen sharply since the Covid pandemic, a look at the period before that the outbreak also reveals the Chinese leadership's strategic ambitions in the Baltic Sea region. In line with (geo)political and investment preferences, high-level diplomatic visits took place, though unevenly distributed across the region. Based on Chinese Ministry of Foreign Affairs' website, between 2013 and 2020, the most visited country – not only in the Baltic Sea region but also globally – was Russia, with President Xi and Premier Li visiting eight times and four times, respectively. During the same period, President Xi visited Germany only twice, while Premier Li four times. The other nine countries of the Baltic Sea region were typically visited only once or not at all by Chinese top leaders. In the case of the countries participating in the 16+1 cooperation, however, instead of bilateral diplomatic visits, it was senior officials who met at the annual 16+1 summits.

The policy framework of the countries of the Baltic Sea region is also far from being uniform, with the main differences to be observed between a strategic acceptance by Belarus and China and more distance kept by the rest of the region. Within that overall, picture, to use a terminology that has become of common usage in policy analysis, the 11 countries in the Baltic Sea region include both 'panda huggers' and 'dragon slayers' (cf. Gifford, 2010), as well as countries in between. Indeed, the Baltic Sea region presents a variety of stances. With the onset of the war in Ukraine, Belarus and Russia need good political and economic links with China as a lifeline for many activities, and can be hence considered fully as panda huggers. On the other end of the spectrum stands dragon slayer Lithuania with very cool relations with China as a 'Taiwanese Representative Office' has been allowed to be opened in Vilnius, the national capital. Norway and Sweden, with recent closures of their Confucius Institutes (see below), also have relatively cool relations with China. Stance towards China has also become more critical recently in countries that in the Russia–Ukraine conflict have sided strongly with the victim country and have found Chinese 'neutrality' unacceptable, such as the remaining two Baltic States (Estonia and Lithuania, cf. Brînză, 2020). The more in-between stance of Germany in turn reflects the deep economic links between the two countries (Figure 4). In evaluating these stances, one should also take into consideration that attitudes towards links with China are in permanent evolution, and the positions of countries could change significantly, usually towards a friendlier stance, after key state visits or other events of trust building.

Figure 4. 'Panda huggers', 'dragon slayers' and countries in between in the Baltic Sea region, 2022

'Panda huggers'	Close to China	Middle ground	Increasingly critical	Distant from China	'Dragon slayers'
Belarus	-	Denmark	Estonia	Norway	Lithuania
Russia		Germany	Finland	Sweden	
		Poland	Latvia		

Source: Authors' evaluations.

Despite the differences in attitudes towards Chinese investment, eight countries of the Baltic Sea region, members of the EU, follow the common stance of the group on Chinese FDI, and a ninth one, Norway, adjusts to it due to its EEA links. Among common policies, the most important guidance comes from the EU–China Comprehensive Agreement on Investment (CAI), which could be ratified and implemented if the geopolitical situation allows it. The Agreement contains important provisions that could move bilateral investment links to a higher level. On the Chinese side, it contains more market access and new market openings, as well as rules prohibiting forced technology transfer. On the EU side, it contains disciplines on state-owned enterprises and transparency of subsidies. The Agreement also contains provisions on sustainable development. As for investor protection, the EU's aim is to replace member States' BITs with this Agreement or its further developed version. The Agreement would also provide for a State-to-State dispute resolution mechanism.[12]

Countries in the Baltic Sea region do not only restrict inward FDI. In the area of investment promotion, with the exception of Lithuania, each Baltic Sea region country has public agencies that focus on some elements of targeting Chinese investors, such as having representatives in key Chinese cities, Chinese language information sites, cooperation agreements and meetings with Chinese business representatives (Table 4). The financial aspects of investment promotion in the EU member countries of the Baltic Sea region targeting Chinese investors is limited by the common rules on State aid.

12 https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china/eu-china-agreement/agreement-explained_en

Table 4. Public investment promotion agencies in the Baltic Sea region and their activities targeting Chinese investors, 2022

Country	Public investment promotion agency	Reference to targeting China
Belarus	National Agency of Investment and Privatization (NAIP)	Yes, but not specified
Denmark	Invest in Denmark	Representatives in Shanghai and Taipei (a); Chinese language site
Estonia	Estonian Investment Agency (EIA), a part of Enterprise Estonia	Beijing rep office
Finland	Business Finland	Offices in Beijing, Shanghai, Guangzhou and Hong Kong (b) via Team Finland
Germany	Germany Trade & Invest	Shanghai Office; Chinese language site
Germany	Invest in Mecklenburg-Vorpommern	Meeting with the China International Investment Promotion Agency (Germany) in 2022
Latvia	Investment and Development Agency of Latvia (LIAA)	Rep offices in China
Lithuania	Invest Lithuania	No mention
Norway	Invest in Norway	Representative in China
Poland	Polish Investment and Trade Agency (PAIH)	Rep office in China
Russia	RC-Investments Foundation	Chinese language site; cooperation agreement with the Russian–Chinese Business Council
Russia	Economic Development Agency of the Leningrad Region	Via the Chinese Embassy in Russia
Russia	Kaliningrad Region Development Corporation	Cooperation with the Union of Foreign Investors of China
Sweden	Invest in Sweden	Beijing, Shanghai, Hong Kong (b) offices

Source: Authors' collection.

(a) Taipei is the administrative centre of Taiwan Province of China that the People's Republic of China considers to be an integral part of its territory. (b) Hong Kong is a Special Administrative Region of China under Chinese sovereignty.

The main policy instruments used by the countries of the Baltic Sea region in all situations cover a range of measures from attraction to 'dissuasion'. They include also soft elements of investment promotion, such as Confucius Institutes, which are public educational and cultural promotion programmes funded and arranged currently by the Chinese International Education Foundation. With the exception of Norway and Sweden, which have recently closed those institutions citing national security concerns, the remaining nine countries all have at least one, in the majority of cases, linked to universities. In 2022, the highest number (19 each) was to be found in Germany and Russia. In Germany, the list included the Stralsund University of Applied Sciences on the Baltic seashore, and in Russia, the St. Petersburg State University. Belarus and Poland had each six Confucius Institutes; the Polish list included the University of Gdańsk. Denmark had two Confucius Institutes attached to 'academies', one of which at the International Business Academy in Copenhagen. Estonia, Finland, Latvia and Lithuania had each one Institute (at the Tallinn University, the University of Helsinki,[13] the University of Latvia and the University of Vilnius, respectively). Chinese schools teaching more than the language are less common. One of them is the Huayin Chinese School in Frankfurt am Main, Germany.

Most countries in the Baltic Sea region have a joint Chinese–local Chambers of Commerce to promote business links with China, plus the EU has its community-wide 'China Chamber of Commerce to the

EU' (Table 5). Initiated as business associations, they deal with the practical aspects of economic links between the partners, such as exchange of information, and fostering communication. However, the

13 In June 2022, the University of Helsinki terminated its contract with its Confucius Institute, effective in January 2023. See the news from the University: https://yle.fi/news/3-12500430.

bulk of their operations are rather formal, and they have in the majority of cases limited influence on the investment processes. The only exception is their discreet policy advocacy activities when meeting with relevant public authorities.

Table 5. Selected joint Chinese–local chambers of commerce operating in the Baltic Sea region, 2022

Host country/countries	Chinese chamber of commerce
EU member countries	China Chamber of Commerce to the EU (http://en.ccceu.eu/)
Germany	Chinesische Handelskammer in Deutschland e. V. (https://chk-de.org/de/)
Norway	Norwegian–Chinese Chamber of Commerce (https://www.nccc.no/)
Poland	Chinese–Polish Chamber of Commerce (https://cigpl.org/en/)
Russia	Russian–Chinese Business Council (https://rcbc.ru/en/about/
Russia	Chinese–Russian Chamber of Commerce (http://krtp.net/english)
Sweden	Sweden Chinese Chamber of Commerce (https://www.sccc-se.com/)

Source: Authors' collection.

It is an undecided question which countries in the Baltic Sea region may benefit most from the CAI and in economic links with China in general. Larger countries with more diversified economies, especially Germany, may have developed disproportionately more channels with their large Asian partner than smaller and less developed economies. They can also better manage problems arising from that relationship, especially asymmetries in power relations between partners.

In addition to national regulations, the eight EU member countries of the region also have a common framework for screening of foreign direct investment (FDI) via regulations that entered into force in October 2020.[14] Through its institutional agreement, Norway also applies the same regulation. As a result of these efforts for coordination and transparency initiated in 2019, an updating of national screening regulations has taken place in all nine countries concerned. They include both general rules, covering all non-EU and non-EFTA investors (which encompasses China) and mandatory authorization in sensitive sectors whose list in most countries includes sensitive infrastructure such as ports, telecoms and electricity, activities that are of special interest for Chinese investors. Screening focuses in particular on acquisitions, and this way is linked with merger control and Council Regulation (EC) No. 139/2004, the EU Merger Regulation.[15] Special rules apply to FDI from countries that are categorized as 'hostile' by the European Commission. So far, only Belarus and Russia are on the list; China figures in the ordinary third country category.

The members of the EAEU do not yet apply a common economic or investment regime towards China (Tsareva, 2021). Links are governed by national instruments and bilateral agreements, including the 2006 China–Russia BIT and the 1993 Belarus–China BIT. Russia has a screening regime that applies to all countries of the world including China and has a very broad definition of foreign investors including Russian citizens with foreign citizenship as well as a Russian company controlled by foreign investors. Belarus has in principle a more 'liberal' approach to FDI screening; however, it has a largely state-controlled economy in which government intervention is possible in almost all activities.

The main mechanisms regulating Chinese–Russian investment links are in a domain different from screening or merger control. It has been reported that, since 2000, Russia has been by far the largest recipient of state-state financing from China among the countries of the world (see Qiu et al., 2022).

14 https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1867
15 https://ec.europa.eu/competition-policy/index_en

This situation suggests that the Russian FDI strategy attempting to de-link from the West and build alternatives in China was not dated 24 February 2022, or 2014, when Russia had to react to the first sanctions responding to the annexation of the Crimea. The question remains open if it was just an ordinary attempt to diversify sources of FDI at that time or already part of long-term preparation for all the consequences of an overall conflict, materialized in 2022 (cf. Bradsher and Swanson, 2022).

5. Conclusions and policy recommendations

Between its opening up to the world in the late 1970s and the late 2010s, China displayed consistently the fastest growth among the major economies of the world. Those countries that developed economic cooperation with China, mostly in trade and investment, usually benefitted from those links, though those benefits were far from uniform or automatic. It is difficult to forecast if the expansion of the Chinese economy keeps similar dynamics in the future when the country faces major secular challenges such as a demographic decline and concerns about the environment, as well as seemingly shorter-term problems such as the approach to be taken vis-à-vis the COVID-19 pandemic and the war in Ukraine. However, China will remain under any scenario a major global economic player to count with.

It is also important to recall for partners, including the ones in the Baltic Sea region, the structural transformation of China over that past decades, which were just as important as the fast expansion of the GDP, making China an industrial hub and a technology centre. China is indeed offering wide range of products and technologies in increasingly higher quality globally, including the Baltic Sea countries. The development of innovative enterprises is also reflected by the increase in the number and importance of Chinese brands on the world market. This is confirmed by the 2021 Fortune Global 500, that lists 143 Chinese companies (3 companies in the top 10), including own local brand industries such as computers, telecommunications equipment, industrial equipment, textiles and vehicles, as well as technology and pharmaceutical companies. In short, it is difficult to imagine future economic development without China.

More Chinese investment may also be interesting for the countries of the Baltic Sea region because cooperation deeper than trade in the GVCs could potentially increase somewhat the dependence on products and supplies 'made in China', which can be interrupted by natural or political causes. Logically, the economies of the region cannot compete with the Chinese manufacturing base except in niche activities in which considerations of security of supplies dictate some reshoring or nearshoring, even for Chinese investors looking for resilience via redundancy of production facilities. The scope for local activities is larger in services, especially in the distribution and sales of products and services, as well as in infrastructure, where proximity to customers and buyers is inevitable.

However, as China moves forward as a global economic player, there are growing concerns as regards the possible effects on, and consequences for the rest of the world. This challenge has at least three dimensions, especially for the more developed countries, including that of the Baltic Sea region: economically, countries can fear of the loss of industrial competitiveness; politically, Chinese control over Baltic Sea infrastructure may generate anxiety, while in the security field, countries are threatened by the loss of control over technology.

Chinese economic presence in Europe – on an unstoppably growth path in the past two decades – indeed presents a heightened challenge for the EU members of the Baltic Sea region, with China increasingly referred to as a systemic rival to the EU itself. China, like any other actor, creates both challenges and opportunities for EU countries in the Baltic Sea region. Whether these host countries can benefit from Chinese investment very much depends on how the region is able to respond to the challenges that such investment brings about. To respond efficiently, a unified approach could be useful, since individual countries – especially the smaller countries in the Baltic Sea region – on their own do not have the strength and competence to respond. However, the efficiency of the response also depends on how they manage to define jointly what they want from China, where they want to involve Chinese companies, and the sectors where their participation should be limited or blocked.

After agreeing on a strategy, based on common ground, certain safeguard measures can be adopted. The expansion of the investment screening regulations has been such a potential tool; similarly, information (and practice) sharing could be vital in the future in order to secure standards, avoid debt traps, and promote transparency. On the other hand, the private sector's needs (i.e., to have the best but still financially affordable solutions) and political interests (i.e., not to give China more leverage) have to be more coherent. If European – including Baltic Sea region – companies wish to work together with their Chinese peers, politicians need to create and use the necessary institutions and conditions so that both parties' interests are granted, monitored, and secured.

The stakes are somewhat different in China's investment relations with Belarus and Russia. These two countries are seeking an alternative for the Western economic and technological links that they have lost or are losing due to the sanctions applied since the onset of the war in Ukraine. These sanctions seem to stay for a long time, and the value of links with China as a partial 'replacement' is increasing. However, Chinese investment and technology is unlikely to fill the void completely. Moreover, this situation increases the dependence of these two countries on China, with inevitable consequences for the distribution of gains from joint projects. In this sense, Belarus and Russia also need to develop additional measures to ensure a balanced relationship with their giant partner, perhaps through high-level negotiations.

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