

Redefining global entrepreneurship: shifting focus from China to Central and Eastern Europe

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Abstract

Purpose – The purpose of this paper is to explore the viability of shifting foreign direct investment (FDI) from China to Central and Eastern European (CEE) countries in light of recent geopolitical and economic challenges. By analyzing case studies, it argues that CEE nations offer a compelling alternative for Western European businesses, with stronger intellectual property protection, political stability and alignment with European Union (EU) sustainability goals. The paper provides insights for firms and policymakers on mitigating risks and enhancing business operations by pivoting toward the CEE region, offering practical recommendations for adapting to shifting global trade dynamics.

Design/methodology/approach – The design methodology uses the case study approach to analyze the shift of FDI from China to CEE. This method examines the geopolitical, economic and legal contexts influencing business decisions, using real-world examples of Western European companies that have made this transition. The case studies highlight key factors in decision-making and the benefits of relocating investments to the CEE region.

Findings – The study identifies several advantages of the CEE region over China for Western European firms. These include geographic proximity, similarities in business values and purposes, environmental accountability, trustworthiness in business, enforceable noncompetition rules, lower risks of counterfeiting, reduced political and administrative risks, lower risks of intellectual property theft and reduced risks of negative publicity.

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Practical implications – The findings suggest that Western European firms should consider redirecting their FDI to the CEE region to mitigate risks associated with investing in China. This move could offer long-term benefits despite short-term complications.

Originality/value – This paper contributes to the FDI theoretical framework by enhancing the cultural, administrative, geographic and economic (CAGE) distance framework. It provides a unique perspective on the shifting dynamics between Europe and China and highlights the potential of the CEE region as a viable alternative for FDI.

Keywords China, European Union, CEE, Businesses, FDI

Paper type Research paper

1. Introduction

Europe is undergoing an economic predicament. Starting with the Brexit of 2016, the COVID crisis of 2020 and the Russian invasion of Ukraine in 2022, the European economy is severely tested. High inflation along with increased energy prices are just some of the challenges Western European firms are facing. Furthermore, the European Union (EU) seems to be caught in the middle of a US–China economic conflict which is triggering a restructuring of the global economy. Within this context, we are proposing that Western European firms should reexamine their historical business relationships with China and consider the Central and Eastern European (CEE) economies as an alternative for their foreign direct investment (FDI). Other Asian economies such as Vietnam, Indonesia and India should be considered as an alternative to China, however, as our paper will suggest, there are significant advantages to investing in the CEE nations.

China's economic record over the past four decades has been remarkable. Considering its low wage and relatively well-educated workforce among other advantages, it attracted significant FDI. It became the world second largest economy while maintaining a communist political ideology and outlawing political competition. EU officials, theoretician and practitioners alike, downplayed the differences between Chinese and European culture, business practices and approach to the rule of law and human rights. The rationalization was that over time, through engagement, China would converge with EU business practices, public policies and social norms. However, following the COVID crisis and the reappointment of president Xi Jinping to an unprecedented third term and possible lifetime appointment, the EU–China business relationship merits reexamination. This is not a new idea; in 2019, the Federation of German Industries (BDI) concluded that convergence between Western and Chinese business practices is unlikely to happen. The Mechanical Engineering Industry Association in Germany, an association of German machinery manufacturing, stated that the “imbalance” when doing business in China was no longer sustainable.

This is a substantial shift. Chinese manufacturing was perceived as a “practical compromise,” given its low cost/high-quality production. This allowed EU manufacturers to reap profits and provide a high standard of living for EU consumers. The misconception was reinforced by the belief that there are no viable alternatives to China. In this paper, we offer evidence that Western European firms should consider the CEE region as an alternative to China because of its geographic proximity, similarities of business values, similarities of business purpose, environmental accountability, trustworthiness in business, enforceable noncompetition rules, lower risks of counterfeiting, political and administrative interference and lower risks of intellectual property theft (IPT) and negative publicity. We considered the Organisation for Economic Co-operation and Development classification of CEE nations, to

include Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Our considerations for this region stems from the fact that CEE countries have developed robust frameworks for intellectual property rights (IPR) protection, which are an additional benefit for FDI. Nations such as Poland, Hungary and Czechia have implemented stringent patent laws and offer substantial incentives for research and development (European Commission, 2023a, 2023b). This contrasts with China, where despite improvements, IPR enforcement remains inconsistent, posing challenges like counterfeiting and unauthorized use of patents (Brander *et al.*, 2017; EUIPO, 2023; Muehlfeld and Wang, 2022). Furthermore, CEE countries align with EU environmental standards, investing heavily in renewable energy and eco-friendly infrastructure. This commitment to sustainability, coupled with green incentives, enhances their appeal (CMS, 2022; PricewaterhouseCoopers, 2022). In comparison, China faces substantial environmental challenges, with inconsistent enforcement of pollution controls despite efforts to transition to a green economy (Xinhua, 2021; Zhao *et al.*, 2024). These differences underscore the advantages of CEE countries in offering a stable, sustainable and secure investment climate.

To argue this perspective, we chose the case study research method, as it provides a unique perspective into “a system of interest with its structure, dynamics, pathologies, and promise” (Aligica and Tarko, 2014). It can enhance and contextualize the theory by combining theoretical knowledge with practical observations (Gummesson, 2005). Case studies are typically used for the identification and mapping of relationships, theory evaluation (Gummesson, 2005), theory illustration (Siggelkow, 2007), hypothesis explanation (Tellis, 1997), forecast (Woodside and Wilson, 2003) and the identification of further research (Siggelkow, 2007). The case study method can discover contributory correlations (Rodgers and Jensen, 2001), explain the “how’s” and the “why’s” (Yin, 1994), and provide an easy-to-follow narrative (Pauceanu, 2016). For this paper, the phenomenon is the shift in FDI from China to CEE, and the context is the geopolitical, economic and legal environment shaping business decisions in Europe. By using the case study approach, we analyze real-world examples of Western European companies that have shifted their investments from China to the CEE region. These case studies can highlight key factors influencing the decision-making process and the benefits of such a shift.

Our paper aims to fill in the literature gap and offer a modest, but important contribution to the FDI theoretical framework within the Europe–China dynamic. Within the larger and more mature FDI theoretical apparatus, we propose to contribute to the “cultural, administrative, geographic and economic distance framework (CAGE distance framework),” a subsection of the FDI theoretical framework.

The rest of this paper is structured as follows. In Section 2, we shall undertake the literature review regarding FDI, FDI in China and FDI in the CEE region. In Section 3, based upon various case studies, we shall outline ten considerations why Western European firms should consider moving part of their FDI away from China and toward the CEE region. We shall conclude with Section 4, where we outline the applications of our research for firms and policymakers along with the limitations of our study and recommendations for future research.

2. Materials and methods: theoretical background

2.1 General theories on foreign direct investment (FDI)

We define FDI as the outflow of private capital from a parent company toward a firm located in a foreign country (Bretas *et al.*, 2022). FDI is considered paramount for economic growth and development since it provides capital, jobs, managerial know how and technology

transfer (Villaverde and Maza, 2015). Multinational corporations (MNCs) are the main drivers of FDI, as they involve the movement of people, information and product across the globe. Starting with the late 1980s and into the early 1990s, global FDI has been increasing (Villaverde and Maza, 2015). Nevertheless, as depicted in Figure 1, the 2008 global financial crisis caused a sharp decline in global FDI from \$1,979bn in 2007 to \$1,697bn in 2008 (U.N. C.T.A.D., 2022).

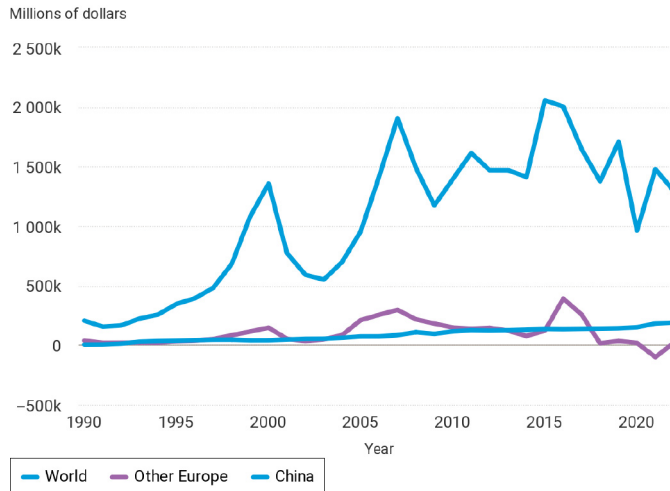
In 2020, due to the COVID-19 pandemic, global FDI further decreased by 42% (U.N.C.T. A.D., 2022). Several works underline the attractiveness factors for FDI in advanced economies, developing nations and specific countries (Alpenidze et al., 2019; Villaverde and Maza, 2015). Attracting FDI is a priority for regions as they are looking to weather possible economic crisis. The FDI theoretical framework is comprised of several theories which we shall briefly outline next (Feliciano-Cestero et al., 2023).

The internationalization theory, first outlined by Hymer (Hymer, 1960) and later by Rugman (Rugman, 1980) combined the logic of internalizing activities within an MNC and expanding them across various geographical locations. Hennart (Hennart, 1986) developed the model further by analyzing both vertical and horizontal activities of MNC. In the recent context of supply chain disintegration, this has encouraged significant interest in finding alternatives to traditional FDI models (Verbeke and Kano, 2016). Dunning’s “OLI” paradigm (Dunning, 2001, 2000, 1988), is the preferred method of evaluating FDI activities. The OLI paradigm is comprised of ownership (O), location (L) and internationalization (I) considerations (Dunning, 2001). The flexibility of the OLI paradigm has stimulated other



Foreign direct investment flows

By selected region or economy in selected time period



Source: UNCTAD World Investment Report (2022)

Figure 1. FDI situation over time

economic theories explaining the FDI–multinational enterprise (MNE) relationship, such as transactional cost economics, the resource-based view (RBV) and economic geography.

The product life cycle (PLC) delineated by Vernon (Vernon, 1966) is another FDI theory used in the field of international business. It was built primarily on the experience of US manufacturers after Second World War and it entails four stages of production:

- (1) innovation;
- (2) growth;
- (3) maturity; and
- (4) decline.

According to the PLC theory, firms typically export in the first two stages and engage in FDI activity in the maturity and decline stage. Institutional theory along with the dynamic capability's theory emphasizes the importance of organizational structures, predictability and legitimacy (Child, 1997). These theories have most often been used when determining the choice of entry (Roy and Oliver, 2009) and the management or integration of foreign subsidiaries (Cui *et al.*, 2018). The RBV gained popularity in the late 1980s and early 1990s through the publications of Barney (1991), Ghoshal (1987) and Wernerfelt (1984). It has been primarily used in evaluating developing economies and the resources they could provide for MNE. The firm's objective was to achieve sustainable competitive advantage and resources are categorized into tangible and intangible. The linkage, leverage and learning model (LLL) is a recent development in the intellectual toolkit of FDI studies. Recently, the LLL model along with the springboard framework have surged in popularity since they explain specific determinants, rational and processes of FDI (Mathews, 2002). Being built on the behavior of Asian MNE, this model makes the distinction between existing capabilities and the development of new ones required by firms who want to globalize (Hobdari *et al.*, 2017). The last FDI evaluation theory is the CAGE distance framework first developed by Ghemawat (2003) and which is the intellectual space of this paper. The four principal areas of the CAGE distance framework are cultural (C), administrative (A), geographic (G) and economic (E).

Cultural distance refers to the differences in language, religion, social norms and values between countries. CEE countries have several advantages in this area. Many of them share a historical background with Western Europe, leading to cultural similarities. For instance, Poland's strong Catholic heritage aligns closely with that of many Western European countries. In addition, CEE countries often share linguistic roots with Western Europe; for example, Czech, Slovak and Polish languages have notable similarities to German. This cultural affinity fosters smoother business interactions and understanding, which is crucial for FDI.

Administrative distance refers to differences in legal systems, regulations and bureaucracy. CEE countries benefit significantly from their membership in the EU, which harmonizes legal frameworks and simplifies cross-border business operations (MAE and Andersen, 2019). Many CEE governments also offer investment incentives such as tax breaks, grants and streamlined administrative processes to attract foreign investment. Hungary's Investment Promotion Act is a prime example of such incentives (Schimmelfennig and Sedelmeier, 2019). Furthermore, the political environments in CEE countries are generally stable, reducing administrative uncertainty and providing a secure environment for investors (Auditors, 2021; Duan *et al.*, 2021; Rudy, 2024; Wieser *et al.*, 2024).

Geographic distance considers physical proximity, transportation costs and accessibility. CEE countries are geographically closer to major Western European markets, which offers a logistical advantage. For instance, Slovakia's location allows for efficient distribution networks to Germany and Austria (McKinsey Global Institute, 2024). Moreover, CEE has invested heavily in modern infrastructure, including highways, railways and ports. Poland's Baltic Sea ports are a testament to this development and play a significant role in facilitating trade (Belderbos *et al.*, 2024). In addition, CEE's time zones overlap with those of Western Europe, enabling real-time communication and coordination with Western business partners (Cieslik, 2022).

Economic distance involves differences in income levels, market size and economic development. CEE countries offer several economic advantages. Labor costs in CEE countries are generally lower than in China, making them cost-competitive. For instance, Bulgaria provides competitive wages for skilled workers (Davies, 2022). The growing middle class in CEE countries is expanding, creating a rising demand for goods and services. Countries like the Czech Republic and Hungary boast robust consumer markets (realFDI, 2024). Furthermore, CEE governments actively promote FDI through various incentives and liberalized policies, enhancing their attractiveness as investment destinations (GLOBSEC – A Global Think Tank: Ideas Shaping the World, 2023).

This framework seems especially useful in evaluating FDI activity between Western and Eastern Europe in the new global realignment. It has been used to analyze cultural, administrative, geographic and economic factors and our article proposes to further this knowledge and apply it to the CEE region.

2.2 Foreign direct investment (FDI) in China

China has attracted massive investment from the EU, partly due to the lower wages and the potential market for goods and services (Dadush *et al.*, 2019). China's attitude toward FDI has been prohibitive before 1979, tolerating in the early 1980s, encouraging in the 1990s and inviting since 2001 (Tang *et al.*, 2020). In 1993, China became the largest recipient of FDI among developing nations, and in 2009 it became the second overall recipient of FDI after the USA. From 1980 to 2000s, China relied on policies of taxation, land-use rights, foreign exchange provisions and licensing along with its low wages and relaxed environmental standards to attract FDI (Basu *et al.*, 2003). Once joining the World Trade Organization (WTO), China upgraded its FDI attraction strategy (Morrissey and Udomkerdmongkol, 2012). Foreign investors were expecting and encouraging institutional improvement in China (Wang *et al.*, 2020). The 2008 global financial crisis was a turning point in China's approach to FDI and its relationship with the western world (Liang, 2010). Given the limited integration of the Chinese economy within the global financial system, the effects of the crisis were less severe (Lardy, 2012). When the crisis struck, China was also enjoying a net surplus of payments and a significant financial reserves (Liu *et al.*, 2019). Given the declining sales in their home markets, west multinationals (MNE) came to rely on China as an alternative consumer market for their goods and services (Pauceanu, 2022; Yu and Hu, 2020). In this context, FDI destined for China was no longer looking exclusively for production advantages, but rather for long-term partnerships in both production and sales. Emboldened by this new reality, China launched the "Belt and Road" initiative in 2013, transforming itself from a traditional FDI recipient into an FDI patron itself (Johnston, 2019). By 2018, China was at odds with the USA, the world's largest economy and military superpower, causing the USA to enact restrictive trade policies (Zhao, 2019). During the COVID-19 crisis, the movement of goods and people came to a halt, leading to a reorganization of global supply chain. Geopolitically, there are limitations in doing business with China, but it is still an important hub in the global supply chain (Bahoo *et al.*, 2020). Neighboring countries such as Vietnam,

India, Thailand and Indonesia are becoming viable alternatives to Chinese manufacturing, but China will most likely continue to be a major player in the 21st century.

2.3 Foreign direct investment (FDI) in the CEE region

Considering the communist political ideology and the centralized economic systems in the CEE before 1989, private economic activity was severely limited (Baumohl and Kočenda, 2022). With the disintegration of the Soviet Union in the early 1990s, the CEE nations adopted a free-market economy and were integrating into the global economy. FDI inflows, concentrated primarily in the banking and manufacturing sectors, received considerable attention from theoretical studies (Bevan and Estrin, 2004) and were instrumental in transforming the economies. The Visegrad nations were well positioned to receive western FDI given their openness, economic fundamentals and a decisive departure from communism (Zoltán and Gábor, 2022). Romania and Bulgaria (Redep, 2021) were slower to renounce their planned economies (Ahrens and Zweynert, 2012), while the Baltic nations were contending with rebuilding their national identities. Considering the political instability of the CEE region, the war raging in Yugoslavia and the opening of China as a manufacturing alternative, private western FDI did not rush into the region. Rebuilding the CEE region was considered the responsibility of international agencies such as the World Bank (WB), the International Monetary Fund (IMF) and the EU (Surubaru, 2021).

By the late 1990s, the CEE nations were decisively embracing the free-market economy and preparing for European integration, so private FDI started moving into the region (Stiblarova and Dicharry, 2021). Privatization of state-owned enterprises (SOE) by western MNE was the preferred method adopted by the Western European business community (Berger and Fetzer, 2019). This was encouraged by the “Washington consensus” and the New Public Management (NPM) ideology which dominated the thinking of international agencies (O’Shea, 2021). With the help of “creative destruction,” the newly privatized SOE’s were supposed to become champions of efficiency and productivity while allowing new competitors to emerge. In reality, private firms were slow to emerge, and SOE’s reforms focused primarily on the discharge of excess personnel (Thirkell *et al.*, 2018). The global financial crisis of 2008 coincided with the integration of most CEE nations within the EU. Benefiting from the free movement of labor, many unemployed or underemployed people in the CEE region, relocate to Western Europe in search of higher wages. Benefiting from an inflow of immigrants, western European manufacturers were further incentivized to locate their manufacturing activities within the CEE region (White and Grabowska, 2019). Nevertheless, there were instances of Western European FDI in the banking and consumer goods sectors, capitalizing on the remittance of CEE emigrants (White and Grabowska, 2019). The COVID-19 crisis revealed the vulnerabilities of the globalized supply chain, and there are significant efforts in reorganizing it (Dünhaupt *et al.*, 2022). “Nearshoring” and “regionalizing” are entering the FDI lexicon, and the CEE region is becoming a genuine alternative not only to China but also to Russia and even to Turkey given their political and human rights orientation. As Table 1 outlines below, over the past three decades, FDI flowing to the CEE nations has been three times lower than FDI flowing to China. Therefore, in the next section we shall outline ten considerations why Western European multinationals and policymakers should relocate their FDI to the CEE region.

3. Results

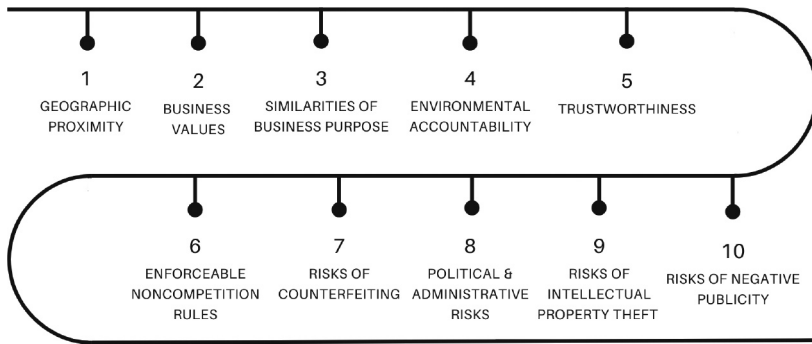
Using the case study method, we propose that Western European firms should consider the CEE region as an alternative to China because of its (1) geographic proximity (belongs in the geographic distance dimension), (2) similarities of business values (in the CAGE model falls

Table 1. Global FDI investments in USD (\$) China vs CEE region 1990–2021

Year	Total Global FDI (mill)	FDI to China	% o global FDI	FDI to CEE	% of global FDI
1990	204,887	3,487	1.70	815	0.40
1991	153,959	4,366	2.84	2,594	1.69
1992	164,684	11,008	6.68	3,624	2.20
1993	222,237	27,515	12.38	5,592	2.52
1994	255,894	33,767	13.20	5,274	2.06
1995	345,143	37,521	10.87	15,121	4.38
1996	392,779	41,726	10.62	11,311	2.88
1997	480,628	45,257	9.42	14,530	3.02
1998	681,509	45,463	6.67	20,107	2.95
1999	1,078,286	40,319	3.74	22,156	2.05
2000	1,356,685	40,715	3.00	24,214	1.78
2001	773,131	46,878	6.06	21,883	2.83
2002	590,311	52,743	8.93	27,212	4.61
2003	549,629	53,505	9.73	18,955	3.45
2004	698,480	60,630	8.68	39,618	5.67
2005	953,220	72,406	7.60	47,759	5.01
2006	1,415,252	72,715	5.14	60,184	4.25
2007	1,905,473	83,521	4.38	72,721	3.82
2008	1,486,234	108,312	7.29	64,865	4.36
2009	1,237,834	94,065	7.60	27,024	2.18
2010	1,390,942	114,734	8.25	31,831	2.29
2011	1,610,398	123,985	7.70	39,639	2.46
2012	1,468,753	121,073	8.24	4,021	3.27
2013	1,459,043	123,911	8.49	18,700	1.28
2014	1,402,523	128,502	9.16	36,291	2.59
2015	2,063,638	135,577	6.57	10,951	0.53
2016	2,045,424	133,711	6.54	30,048	1.47
2017	1,632,639	136,315	8.35	38,578	2.36
2018	1,448,276	138,305	9.55	48,549	3.35
2019	1,480,626	141,225	9.54	47,050	3.18
2020	963,139	149,342	15.51	43,211	4.49
2021	1,582,310	180,957	11.44	56,699	3.58

Source: U.N.C.T.A.D. (2022)

under the cultural distance dimension), (3) similarities of business purpose (cultural distance dimension), (4) environmental accountability (would primarily belong to the *administrative and political distance* dimension but also to partially connect to *cultural distance*), (5) trustworthiness in business (cultural distance dimension), (6) enforceable noncompetition rules, (belong to the administrative and political distance dimension of the CAGE model) (7) the risks of counterfeiting (belong to the administrative and political distance dimension), (8) political and administrative risks (fall under the administrative and political distance dimension), (9) risks of IPT (administrative and political distance dimension) and (10) the risks of negative publicity (fall under the *cultural distance* dimension of the CAGE model, although it can also intersect with the *administrative and political distance* dimension). These considerations are summarized in Figure 2, highlighting the distinct advantages the CEE region offers for FDI (Source: Authors). We propose that this contribution to the “CAGE distance framework” will enhance the FDI discussion in other regions of the world



Source: Created by authors

Figure 2. Factors for considering CEE region for FDI

and enable practitioners and policymakers to make better decisions. This is because it sheds light on the distinct advantages offered by the CEE region, aligning with the evolving needs and preferences of MNCs seeking secure and sustainable investment opportunities amidst global economic shifts.

3.1 Geographic proximity

The first consideration for redirecting FDI to the CEE region is geographic proximity. This is a recognized advantage in global trade (Bajgar and Javorcik, 2020). Most items manufactured in China travel thousands of kilometers, pass through several customs and are deposited in several warehouses before reaching the final customer. As a result trade costs are on average, twice as much as manufacturing costs (GUO *et al.*, 2022). The distance between China and Europe also increases the odds of disruptions and limits agile manufacturing. The value of geographic proximity was vividly displayed during the COVID-19 crisis when nations realized that their far-flung supply chains had unexpected consequences (Guarascio, 2020; World Health Organization, 2020). Economic factors take the lead in determining the nature of global supply chains, followed by technological and geographical factors. National regulations, development agendas, political objectives and strategic choices also have an impact. Initially, western manufacturers built their factories in China for high-volume, low value-added activities using low labor costs, inexpensive land and relaxed environmental standards (Liao and Yu, 2012). As costs increased in China, manufacturers were forced to innovate to maintain efficiencies. Western consumers' changing expectations placed additional pressures on EU manufacturers, forcing them to adopt just-in-time manufacturing techniques. This depleted safety stocks, proving inadequate during the COVID-19 crisis (Fernandes, 2020). Even before the crisis, there was evidence that trade with distant nations was not as efficient as trade with regional neighbors (Pauceanu, 2023). Medtronic, an Irish medical device company, provides an illustrative example. Medtronic initially went to China for manufacturing reasons, but it increasingly also saw the Chinese market as an opportunity for its products and services. Due to lower costs, it manufactures many of its medical components in China and sources them through the globe. During the crisis of 2020, given the global lockdown in China, Medtronic and its distributors ran out of vital medical supplies and personal protective equipment (PPE) with disastrous results for its customers. In contrast, Pelion, a Polish pharmaceutical and medical

equipment manufacturer, quickly expanded outside its home market to supply neighboring countries' medical needs. Pelion is a smaller and inexperienced medical equipment producer, but its geographic proximity proved vital during the 2020 crisis. It was capable of delivering products anywhere within the EU in 48 h by road or rail, bypassing air travel limitations. In addition, it has recognizable brands such as DOZ Apteki dbam o zdrowie, DOZ Drogerie and Natura Beauty Stores making it an acceptable producer by European consumers.

3.2 Similarity in business values

The second consideration for redirecting FDI to the CEE region is the similarity of business values such as property rights, political competition, the rule of law, freedom of expression and the impartiality of the judiciary (Spijkman and Jong, 2020). European business values can be traced to the "Age of Enlightenment" which promoted the value of human life, equality before the law, individual freedom, representative democracy, political competition, private property and checks and balances on political and administrative power (European Commission, 2023c). Most CEE nations are members of the EU, share common borders, history, religion, culture and economic values. With the arguable exception of Hungary and Poland, most CEE nations favor democracy, a free-market economy, the rule of law, human rights, property rights, western culture and western business structures (Todorova, 2018). Since EU integration, millions of CEE citizens migrated to Western Europe, most of them settling there permanently and peacefully. CEE business practices are not yet on par with their western counterparts, however, for the most part, their trajectory seems to indicate an eventual convergence. There is a general agreement that western values such as integrity and transparency are positive, while bribery and cronyism are harmful (Haynes and Rašković, 2021). Similarities of business values were among the reasons B. Braun, the giant German medical device company, opened a regional center in Romania (Banila, 2020). According to their executives, this was enhanced by an educated workforce, a business-friendly government, similar and predictive policies and compliance to EU standards. Young CEE democracies have communist legacies, and as painfully illustrated by Hungary and Poland, convergence with western business values is not guaranteed (Drinóczi and Bień-Kacała, 2020). However, given the geographic proximity, common history, free movement of people and EU political and financial leverage, there is a strong possibility that business values will eventually converge (Krzysztof, 2021). In contrast, Chinese business culture differs from its western counterpart (Xie and Paik, 2019). Bribery and gift-giving are long-standing business practices in China (Michelman *et al.*, 2011). Most Chinese see it as an integral part of "Guanxi" (relationship building), which is essential to operating in China (Ketchen and Giunipero, 2004). Western firms in China are assured this is how Chinese business is conducted. However, bribery can be recorded and later used for blackmail purposes (Poncet, 2005). High profile cases can be used as public spectacles when the Chinese government wants to punish someone (Harding, 2014); property rights and the rule of law are significantly different in China (Zhang, 2008). As with the recent examples of Chinese tech firms, the Chinese government can arbitrarily interfere in private business without clear recourses or rationality (Yang *et al.*, 2022).

3.3 Similarities in the purpose of business

The third consideration for redirecting FDI to the CEE region is the similarities of business purpose. Although the European business climate allows for state involvement and labor participation, it is distinct from governmental activity. The majority of European economic activity is distinct from the governmental, and free to pursue profit-maximization with light regulatory interference from the government (Schaffer *et al.*, 2019). Crucially, they are

allowed to freely engage in the political process either by running for office, financially supporting a candidate or starting a new political party. EU regulators are primarily concerned about firms paying taxes, treating their employees lawfully, selling safe products, refraining from monopolistic behavior and respecting environmental laws (European Commission, 2023c). China's concepts of private property, profit, individual freedoms, media independence and political competition are different (Lin, 2011; Naughton, 2018). Communist China has a tradition of nondemocratic values, and the ruling party does not tolerate criticism or competition. The Chinese government and communist party views business activities as subservient to its long-term political goals (He *et al.*, 2020). China remains a communistic economy with a command economy and a culture that supports this business approach (Nazarko *et al.*, 2017). The Belt and Road initiative launched in 2013 seems to suggest that the Chinese business community is an integral part of the government's foreign policies objectives (Chan and Song, 2020). In contrast, the CEE nations seem to have an intrinsic aversion toward state interventions (Achim *et al.*, 2019).

3.4 Environmental accountability and transparency

The fourth consideration for redirecting FDI to the CEE region is the approach to environmental accountability and transparency. The state of the environment is paramount to the global economy (Setzer and Higham, 2021). However, there seems to be a distinction between the European and the Chinese approach to the environment (Chen *et al.*, 2018). The EU is interested in creating a sustainable "Energy Union" to accomplish its long-term climate and energy objectives (Commission, 2020). This includes lowering its dependence on fossil fuels, diversifying its energy supply and creating start-ups to service the global market (European Environmental Agency, 2020). Member nations have implemented environmental policies such as the 2005 "EU Emissions Trading System" designed to reduce carbon emissions. Other initiatives stimulate the green industry, such as loans, grants and subsidies for R&D, feed-in tariffs, quotas and green certificates (Costantini *et al.*, 2015). After the invasion of Ukraine by Russia and the energy embargo which followed, fossil fuel independence seems to be an existential quest for Europe (Osička and Černoch, 2022).

The CEE nations are slowly adopting EU ecological attitudes (Georgescu *et al.*, 2022). They have a robust civic society educating the public (Noutcheva, 2020). An illustrative example is the Maritsa Iztok Complex of Bulgaria, the largest energy complex in Southeastern Europe. Before entering the European Union in 2007, it was considered European's largest polluter. However, with investment from RWE, a German utility company, and ENEL, an Italian energy giant, it built a new coal-burning plant that meets EU standards (Balkan Energy NEWS issue, 2006). This reflects both the European-wide ecological values of accountability and transparency and the European principals of cooperation and collaboration. China's rapid economic expansion over the past four decades was fueled by fossil energy and lax environmental standards (Xing and Kolstad, 2002). Environmental concerns took second place to developmental policies (Xing and Kolstad, 2002). In recent years, China joined the global community in recognizing the environmental threat and made encouraging commitments to curbing its emissions (Yang *et al.*, 2022). However, given China's history of alterations and opaqueness, it is difficult to hold it accountable and trust its reporting. A suggestive example is Fosimpe, a Spanish recycling manufacturer and consultant who was invited to China with promises of government contract and generous subsidies (Staub, 2020). Initially, the Chinese government delivered on its promises, but soon after, it changed its operations standards creating unpredictability (Staub, 2020). Some local producers were considered "off-limits," while others had to adhere to newly invented and more stringent rules. Officials continuously changed their positions and

priorities imposing ever-changing rules on Fosimpe and its network. This caused ecologically responsible firms to shut down, while polluters thrived (Cyranoski, 2019).

3.5 *Trustworthiness in business*

The fifth consideration for redirecting FDI in the CEE region is trustworthiness in business. CEE partners tend to be much safer due to similar cultural values and a shared understanding of communication, reporting and private property (Rusu and Roman, 2018). EU laws and regulations govern CEE behavior and all EU Court rulings automatically applying to CEE nations. This ensures proper grievance processes and gives EU firms the necessary security to operate in CEE. One example is the British–Romanian firm Endava. Starting in the early 2000s, it offered software services to finance, insurance, telecom and retail industries in the EU and the USA. It grew primarily through mergers and acquisitions of smaller local firms, creating an impressive conglomerate of close to 10,000 software engineers operating in 15 nations in Europe and North America (Endava, 2020). Western clients in sensitive areas trust Endava with their most valuable information, and in the past 20 years, there have been no charges of improprieties. In 2018, Endava was listed on the New York Stock Exchange, adding an extra layer of transparency and security (Bloomberg, 2018).

In contrast, “socialism with Chinese characteristics” political ideology entailed a flexible interpretation of rigid communist rules and laws (Boer, 2021). China insisted that it is not necessary to change written laws, as long as the practice was in the spirit of development and mutually beneficial. Over time western MNEs in China realized that there were major problems related to cultural differences concerning private property rights, confrontations, transparent communications, accurate reporting and agreements (Li and Alon, 2019). When China joined the WTO in 2001, western MNEs believed that China would be forced to follow the law, but, as their local markets grew in size and sophistication, this was not the case. Some Chinese partners engage in fraud and theft of intellectual property (Burgess and Power, 2011). While physical theft was vastly reduced by not allowing Chinese majority ownership or control of financial assets, IPT continued (Brander *et al.*, 2017). Some charges of intellectual theft go unreported for fear of retaliation, lost business or reputation (Crowley and Johnstone, 2016). A suggestive example is the Dutch computer chip manufacturer ASML. According to the THE BUSINESS TIMES (2022), a high-ranking Chinese employee working in the R&D department allegedly appropriated valuable intellectual property. The allegations were even more inflammatory when it was alleged that the employee was doubly employed by XTAL, a Chinese partner turned competitor, and did it, with the knowledge of the Chinese Ministry of Science and Technology.

3.6 *Enforceable noncompeting rules*

The sixth consideration for redirecting FDI in the CEE region is enforceable noncompete rules. Most CEE nations have vigorous and enforceable noncompete rules that protect foreign investors (Piszc and CEE? Summary, 2017). Although “copycatting” instincts exist in CEE nations, they are not condoned by CEE governments (Dabija *et al.*, 2014). Being EU members, CEE governments protect intellectual property and prosecute “copycat” producers (Wyzycka and Hasmath, 2017). CEE adopted a long-term perspective on business sustainability, where collaboration rather than disloyal competition is the preferred method of operation (Trapczyński, 2016). An example of this practice is the automaker Volkswagen, who began producing vehicles and parts in Slovakia in 1991. Other EU firms such as PSA Peugeot and Jaguar-Land Rover, soon followed it making the automobiles industry the largest manufacturing sector in Slovakia (Pavlínek, 2016). No Slovakian “free rider” stealing expertise, models or brands has yet emerged. In China, local partners were deemed crucial to

facilitate development (Yue *et al.*, 2022). However, some, allegedly with the blessing of the Chinese government, established “mirror competition” (Brander *et al.*, 2017). In some instances, there were charges of long-term plans to transfer western know-how to Chinese operators (Oswald and Pagnattaro, 2015). Global ambitions such as “Made in China 2025” seems to support this notion as Chinese pride themselves with home-grown champions (Lan, 2019). Jiangling Motors Corporations of China (JMC) is one such example. Partially owned by the SOE Changan, it benefits from preferential legal treatment, inexpensive land and almost limitless access to capital. JMC used various partnerships and collaborations with EU automotive firms to illegally acquire technology (Zhang, 2020). In 2019, under international pressure, a Beijing court ruled in favor of Land Rover and ordered JMC to discontinue its Landwind X7 model since it too closely resembled the Land Rover Evoque model (Reuters, 2019).

3.7 *Reduced risks of counterfeiting*

The seventh consideration for redirecting FDI toward CEE nations is the reduced risk of counterfeiting. Copying in China dates back thousands of years and is deeply rooted in its history and culture (Keupp *et al.*, 2009). Traditional Chinese education entails pupils faithfully copying their teachers’ works, and the wisdom of the ancients is revered, and emulate as much as possible (Lee, 2019). Chinese culture perceives copying as flattery (Fish, 2020) and inadequate resources often provide the justifications for Chinese firms to counterfeit western brands. The Chinese practice of “frugal innovation” encourages well-known brand/product “knockoffs” at affordable prices for less-affluent consumers. Chinese counterfeiters’ justifications include even performing charitable acts for underprivileged consumers (Kuek *et al.*, 2021). This is particularly detrimental for EU firms who are deriving profitability from knowledge-based goods underpinned by valuable brands. In international law copycatting is stealing, and intellectual property has to be protected by the government (Halbert, 2016). In 2013 LEGO, the Danish toy manufacturer, opened a factory in China to service the growing East Asian markets. However, LEGO’s products were quickly counterfeited by Chinese firms, endangering LEGO’s reputation. In 2019, the police raided the Chinese toymaker Lepin and confiscated close to \$30m worth of counterfeit Lego products (Clemens, 2019). The counterfeit toys were inferior in quality and safety and were sold at a 90% discount. Lepin operated ten assembly lines with over 90 different molds giving it a capacity to produce 630,000 counterfeit Lego pieces per year. In contrast, CEE nations respect IPR (Hartwell, 2017). EU law prohibits counterfeit goods’ wholesale production and governments’ courts ensure IPR. As an example: in 2012 LEGO established a wholly owned subsidiary in Hungary, manufacturing toys for the entire CEE region and there have been no reports of “copycats” firms.

3.8 *Reduced political and administrative risks*

The eight considerations for redirecting FDI in the CEE region is reduced political and administrative risks. CEE nations are safer than China because of limited exposure to political and administrative risk. Firms assume additional risks when operating in a nonrule of law nation (Fadil and St-Pierre, 2016). China was allowed into the WTO in the early 2000s based on promises to adopt western laws and practices. However, the 2008 financial crisis gave China the excuse and the impetus to assert itself as a viable ideological alternative to free-market economies and renege on its free-market commitments. China began to pursue a new global strategy attempting to replace the USA as a world power (Xu and Liu, 2021). This has been noted by the European Union Chamber of Commerce in China (EUCCC). In a 2018-member survey, China was described as “one of the world’s most

restrictive economies.” According to the EUCCC president, significant challenges cited by European firms operating in China include: “ambiguous rules and discretionary enforcement, ever-changing permits, government-induced hassles, and discriminatory access to public procurement bids” (Harbom, 2018, pg. 2). Smaller firms that lack dedicated departments of regulations and compliance are especially vulnerable. In contrast, EURO Chambers, the largest chamber of commerce in Europe, consistently praises the improvements made by CEE nations on economic stability and the adoption of EU rules (Gorzela, 2019). With a few exceptions, CEE nations have improved their business environments, while adopting and enforcing EU regulations and practices. Some CEE nations even have leapfrogged ahead of their EU counterparts in areas such as digital government and transparent political and administrative decision-making (Puceanu et al., 2021).

3.9 *Reduced risks of intellectual property theft*

The ninth consideration for redirecting FDI in the CEE region is the reduced risk of IPT. Early on, EU firms considered Chinese joint venture members as junior partners and made significant efforts to integrate them into existing organizational culture (Caetano et al., 2023). Trade secrets and intellectual property were not of primary concern as the focus was on manufacturing quality products quickly and inexpensively (Schönsleben, 2019). Neglect of intellectual property protection persisted, with firms concentrating on selling to the growing Chinese market (Brander et al., 2017). By the mid 2000’s however, EU firms became concerned about IPT because wealth was being increasingly generated by intangible services instead of tangible goods (Schönsleben, 2019). Physical assets were easier to protect and recover (Halbert, 2016), unlike IPT which is much harder to detect and measure. Estimates of China’s total IPT theft ranged between \$225 and \$600bn annually (Glaser, 2020). An illustrative example of IPT in China is Sinovel, the world’s second largest wind turbine manufacturer. In 2005, Sinovel established a strategic partnership with AMSC, an innovative western software producer for the energy industry, with an agreement of upfront investment and revenue sharing. Without AMSC knowledge and permission, Sinovel copied the entire software code, stealing the algorithm from its partner. In 2011, AMSC sued Sinovel for \$1.2bn in a Chinese court. Sinovel retaliated by canceling contracts worth \$800m and refused to pay the agreed-upon fee and revenues (Ferry, 2020). Chinese IPT remains common, but few firms are willing to confront it for fear of retaliation or exclusion from the lucrative Chinese market (Reilly, 2012). In contrast, CEE nations have the legal and the cultural framework which protects intellectual property (Lazariuc and Lozovanu, 2021). As an example, the CEE software industry is built on proper IP protection and has thrived in recent years. Household names such as Prezi, Skype, UiPath and Bit-Defender originated in Eastern Europe and were possible because of proper IP protection laws. Intellectual property protection in CEE remains a priority, as it is recognized as an essential ingredient of future economic development (Roosaar et al., 2022).

3.10 *Reduced risks of negative publicity*

The tenth consideration for redirecting FDI toward CEE nations is reduced risk of negative publicity. There is an increasing cost of negative publicity against products made in China (Albulescu and Goyeau, 2019). Recent decisions by Hugo Boss of Germany and Burberry of Great Britain illustrate these trends as both European apparel brands decided to stop manufacturing in China. Industry insiders claim that negative publicity concerning China was a contributing factor. The apparel industry is susceptible to charges of unfair labor practices and human rights violations, such as substandard wages, unsafe working conditions and forced labor (Cerchia and Piccolo, 2019). In the past, EU firms protected their brands by

diversifying suppliers and distancing themselves from front-line producers. This approach has become more difficult to pursue due to investigative and citizen journalism. The CEE nations have a robust tradition of labor unions and consumer protectionism, ensuring that offenses seen in China, cannot occur in CEE (Toshkov, 2012). Memories of the 1989 revolutions which swept the region and overthrew communist regimes are fresh in people's minds. They foster pro-democracy and pro-human rights beliefs, ensuring social and political dissent (Motyl, 2001, p. 202). The apparel industry in Eastern Europe, has negative publicity largely from Turkey and the Balkans, who, being outside EU justice, still claim to be European. However, the CEE has developed a good reputation for fair labor practices and adherence to EU laws and regulations. An illustrative example is the French socially conscious clothing brand of BonneGueule, who decided to manufacture its products in Poland due to its high ethical standards, high work ethic and lower wages.

4. Conclusions

The EU economy experienced at least two major transformations over the past three decades. First, China joined the World Trade Organization in 2001 and by doing so became a magnet for FDI. Second, the CEE nations joined the EU. There were two clear responses to these events. EU manufacturers invested heavily in China, while EU technocrats turned their attention toward integrating the CEE nations. Considering the rearrangement of the global economy in a post-Covid world, we argue for the EU to reevaluate its twin responses. We argue that EU manufacturers assume major risks and can potentially experience substantial losses by relying disproportionately on China. As we point out in this paper, EU firms have a valid alternative to Chinese investment in CEE nations. Although China reminds an attractive market for EU goods, relocating substantial FDI to CEE can provide EU manufacturers with a sound risk reduction strategy. Highlighting examples both from China and the CEE region we offered evidence supporting this perspective, which we trust will be a contribution to the CAGE distance framework within the FDI theoretical framework.

First, we showed that CEE nations are much closer to Western Europe than China. CEE nations are geographically closer to Western Europe and hold similar values. CEE has a comparable understanding of the purpose of business and share similar ecological values. In contrast, China is geographically distant, has a different value system and its understanding of business is at substantial variance with the EU. Second, the CEE nations are substantially safer than China. EU firms relocating to CEE find similar legal systems and protection from partners and employees who could become competitors. CEE nations do not encourage counterfeiting, or government meddling in internal business dealings. This is in stark contrast to China where counterfeiting is common, partners and former employees often become competitors, and the Chinese government tends to interfere in internal corporate practices. Third, there are several dimensions where the CEE region can be less expensive than China. EU firms choosing to establish themselves in CEE nations do not have to contend with the cost of IPT and the cost of negative publicity.

4.1 Practical implications

Based on our analyses, we recommend that EU firms consider relocating some of their production activity into the CEE region. While this may prove to be complicated in the short run, we suggest it will yield long-term benefits. This could have practical benefits for Western European firms who are contending with higher input costs, higher inflation and deteriorating business conditions. We propose that the next wave of investment into CEE nations come from private EU firms, integrating EU values and practices into Eastern Europe. CEE officials, business leaders and theoreticians need to attract EU private

investment and articulate the benefits of the region. This includes EU quality standards, values, ideology and practices. CEE firms need to actively seek EU partnerships and investment, making the most of this opportunity. CEE governments also have to embolden their private firms to actively engage with EU manufacturers. This will facilitate the increase in EU investment.

4.2 Limitation and further research

Our research provides an initial look at this issue. Future efforts could gauge costs associated with the reallocation of activities away from China and toward CEE nations. It could also help to define the scope and range of such activities noting that the principles outlined above likely may not equally apply to all industries and all nations in equal measure. Nevertheless, the EU needs to learn from its experience and bolster its relationships with its allies in CEE region. To do otherwise may jeopardizes Europe's rightful place as a world economic and ideological leader.

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