



GERMAN, CHINESE & KOREAN INVESTMENTS IN THE BALTIC REGION

March 2022

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TABLE OF CONTENTS

INTRODUCTION	4
PART 1: GERMAN INVESTMENTS IN THE BALTIC REGION	5
Official data on the investments	5
Bilateral cooperation and national investment promotion	11
Case studies	13
<i>Schwenk's Baltic-Nordic expansion</i>	13
<i>Continental's plant in Kaunas FEZ</i>	14
Outlook for the German investments in the Baltic Region	15
PART 2: CHINESE INVESTMENTS IN THE BALTIC REGION	16
Official data on the investments	16
Bilateral cooperation and national investment promotion	21
Case studies	23
<i>Hangxin's expansion with Magnetic MRO</i>	23
<i>MGI's "win-win" investment in Latvia</i>	25
Outlook for the Chinese investments in the Baltic Region	26
PART 3: SOUTH KOREAN INVESTMENTS IN THE BALTIC REGION	27
Official data on the investments	27
Bilateral cooperation and national investment promotion	29
Case studies	31
<i>Samsung's quest for innovation in the Baltics</i>	31
Outlook for the Korean investments in the Baltic Region	32
CONCLUSION	33
ANNEX	34
<i>TABLE 1: Investment and business promotion ecosystem of the Baltic States</i>	34
<i>CHART 1: EU 27 FDI in the Baltic Region</i>	35
<i>TABLE 2: German investments in the Baltic Region</i>	36
<i>TABLE 3: German affiliates / German controlled enterprises in the Baltic Region</i>	37
<i>CHART 2: Asian FDI in the Baltic Region</i>	40
<i>CHART 3: Hong Kong FDI stocks</i>	40
<i>TABLE 4: Chinese, Hong Kong and Korean investments in Estonia</i>	41
<i>TABLE 5: Chinese, Hong Kong and Korean investments in Latvia</i>	42
<i>TABLE 6: Chinese, Hong Kong and Korean investments in Lithuania</i>	43
<i>TABLE 7: Chinese affiliates / Chinese controlled enterprises in the Baltic Region</i>	44
<i>TABLE 8: Hong Kong affiliates / Hong Kong controlled enterprises in the Baltic Region</i>	47
<i>TABLE 9: South Korean affiliates / South Korean controlled enterprises in the Baltic Region</i>	49

INTRODUCTION

Throughout history, seas and oceans have served as the highways for trade and exploration, enabling people and goods to travel and engage in cultural and commercial exchanges. Waterways have also attracted human settlements and allowed them to flourish. These were the places where early investors of diverse backgrounds would settle and conduct their business.

The region at the Baltic Sea is one such place. Geographically, it connects the North, East and West of Europe, making it one of the most important gateways on the continent. Historically, this strategic and commercial importance of the region manifested itself in the establishment of the Hanseatic League – a powerful confederation of traders and market towns with its own laws and privileges as well as military and political powers.

In this report, the Baltic Region, or simply the Baltics, refers to the three Baltic States: Estonia, Latvia and Lithuania. As will be evident from the analysis, the three modern states are much defined by the region's geographical and historical identity. Nevertheless, each of them presents a distinct profile, making none quite the same as the others. Thus, you need to exercise caution when engaging in generalisations.

This report specifically covers three investment sources: Germany, China and South Korea.

In the case of Germany, the analytical group consists of the European Union countries after Brexit (the EU 27). However, as the United Kingdom (UK) as well as the United States of America (USA) are important allies for the region as well as for Germany, their statistics are included for comparison. The same applies to Russia which, after all, is a major regional player, although sanctioned by the EU and kept at bay by the Baltic States due to national security issues.

China is quite a newcomer to the region and, due to the global political situation, faces some challenges with settling down. However, geopolitics is not the only reason for its unsure progress – there is also a certain supply-demand misfit. In the case of China, Hong Kong is included in the overviews since it more than often serves as the source of the Chinese investments abroad. The analytical group consists of other major Asian players, seen as such from the global or national perspective.

The analysis of the Korean investments in the Baltics poses a different challenge – they are even more novel to the region than Chinese ones. This means that there is still little or close to no material to work with, to say nothing of any base for generalisations. Regarding statistics, data confidentiality poses an issue because of the low number of reporters. Furthermore, due to the defence and security focused nature of the Baltic-Korean relations, some information might remain publicly unavailable. Although the analytical group is the same as in case of China, the overall approach is more country or even case specific.

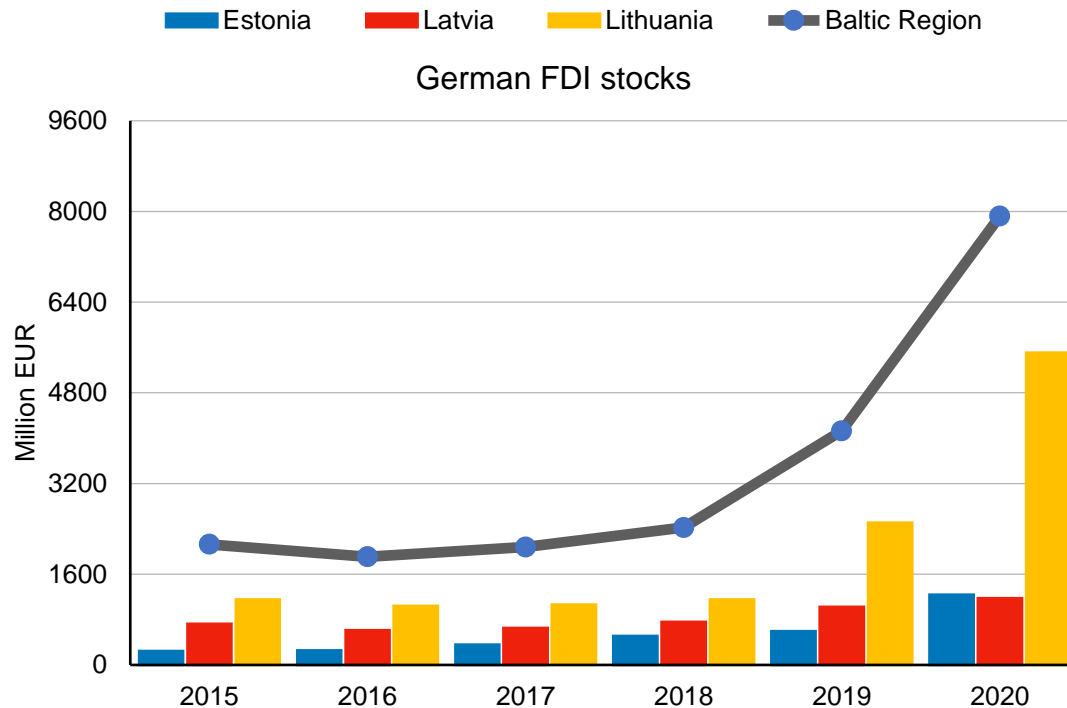
In addition to the statistical analysis of the investments, this report includes for each source country an overview of the recent bilateral cooperation and national investment promotion activities, relevant case studies as well an outlook for the investments. The report is based on the results from internet research, written communications and oral interviews with relevant stakeholders as well as the author's own expertise and experiences in the field.

Hopefully, this report will not only provide a good insight into the investments made by the three focus countries, but also inspires and motivates other businesses to look deeper into the opportunities offered by the Baltic States.

PART 1: GERMAN INVESTMENTS IN THE BALTIC REGION

Official data on the investments

German investments in the Baltic Region have skyrocketed in recent years. Among the three states, Lithuania is receiving the most investments, the total value jumping from 1.2 billion euros in 2018 to 2.5 billion euros in 2019 and reaching 5.5 billion euros in 2020.¹ Latvia has seen stable growth for several years, securing 1.2 billion euros of German investments in 2020.² Estonia's otherwise gradual growth accelerated in 2020, bringing the investment stocks to leap from 593 million euros in 2019 to 1.2 billion euros in 2020.³



Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania; calculations by the author

The reason for the sudden growth and the consequent decline in the Estonian statistics (2021Q1: 1.6 billion euros, 2021Q2: -972.7 million euros, 2021Q3: -766.4 million euros) is related to the investment decisions made by Volkswagen concerning its new CARIAD Estonia business.⁴ The rise in the Latvian statistics in 2019 was caused by Schwenk's investment in Latvia of around 288 million euros (out of 365.3 million euros total German investments in that period).⁵ The biggest increase in German investments has been in Lithuania, with large transactions taking place in 2019 (Q2: 1.14 billion euros) and 2020 (Q2: 2.96 billion euros)⁶. This caused the share of German investments in the Baltics (almost 8 billion euros in 2020) to grow rapidly – from 8.3% in 2019 to 14.1% as a share of the EU 27 FDI (56.4 billion euros in 2020) and from 6.7% to 11.5% as a share of the total FDI (68.8 billion euros in 2020).

¹ "Direct investments statistics," Bank of Lithuania, <https://www.lb.lt/en/direct-investments-statistics>.

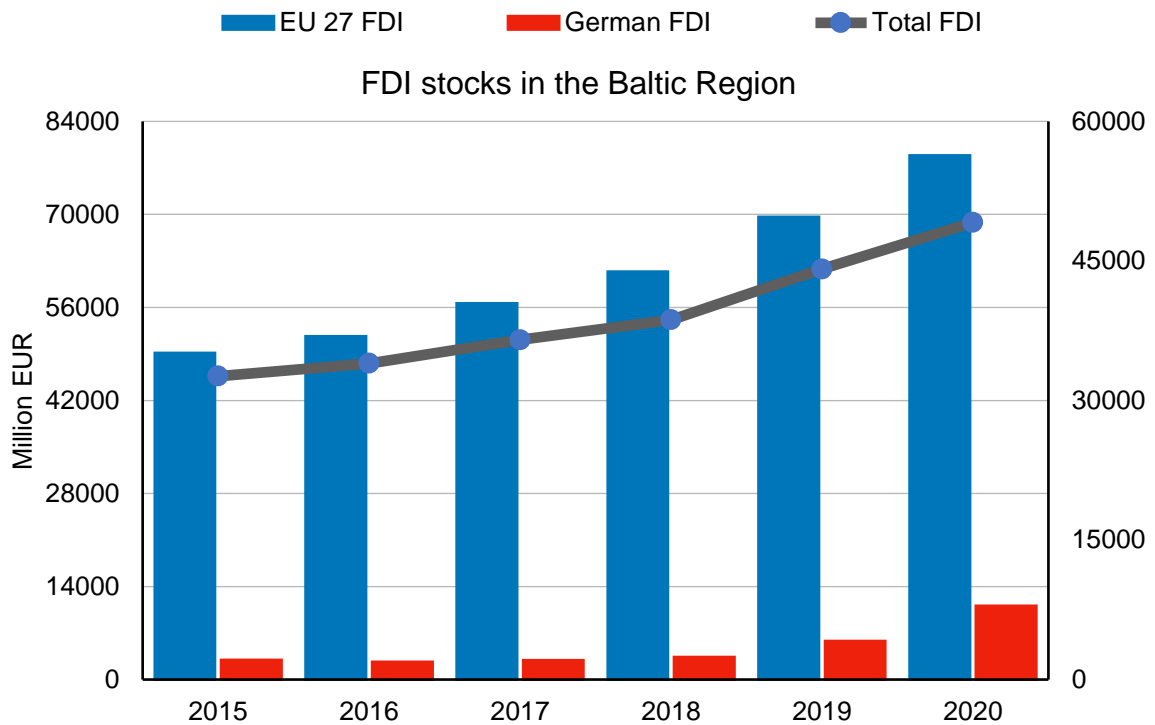
² "DI in Latvia," Bank of Latvia, accessed 23 February 2022, <https://statdb.bank.lv/lb/Data/128>.

³ "Direct investment position in Estonia and abroad by country," Bank of Estonia, <https://statistika.eestipank.ee/#/en/p/146/r/2293/2122>.

⁴ "Eestisse miljardeid investeerinud firma suunamuutus võib taas statistikat mõjutada (A change in the direction of a company that has invested billions in Estonia may again affect the statistics)," ERR News, 3 December 2021, <https://www.err.ee/1608423947/eestisse-miljardeid-investeerinud-firma-suunamuutus-voib-taas-statistikat-mojutada>. Changes occur in financial activities (NACE class K) and are related to Volkswagen International Estonia (NACE 64.20, see e-Business Register, <https://ariregister.rik.ee/est/company/16006499/Volkswagen-International-Estonia-AS>).

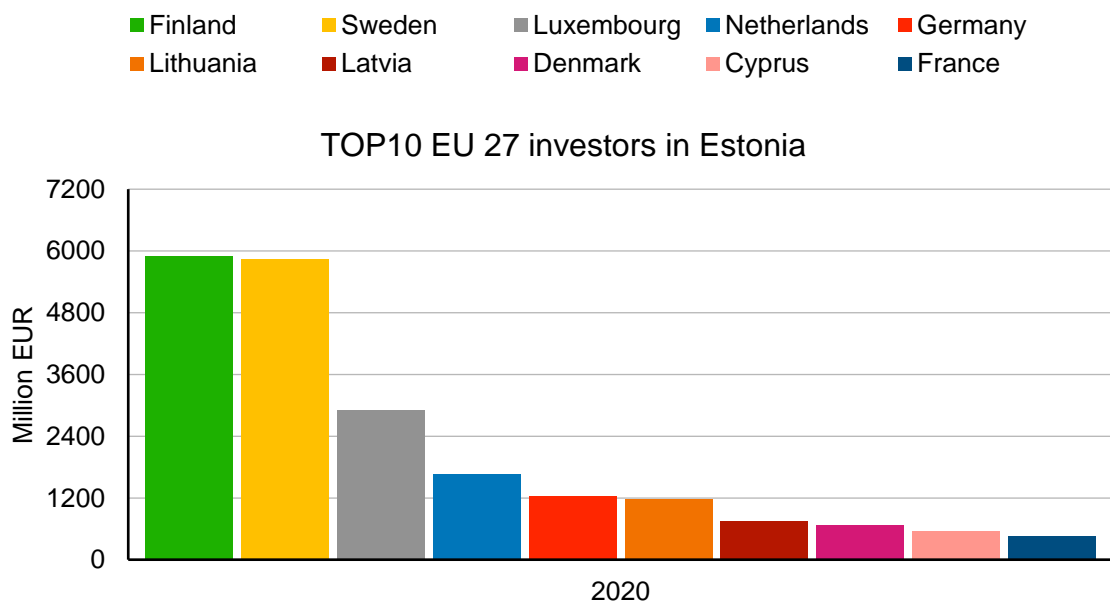
⁵ "Foreign investment volumes in Latvia reach EUR 7.03 billion in 2019," BNN, 15 January 2020, <https://bnn-news.com/foreign-investment-volumes-in-latvia-reach-eur-7-03-billion-in-2019-209411>.

⁶ "Inward foreign direct investment by country," Bank of Lithuania, <https://www.lb.lt/en/inward-foreign-direct-investment-by-country-2>.

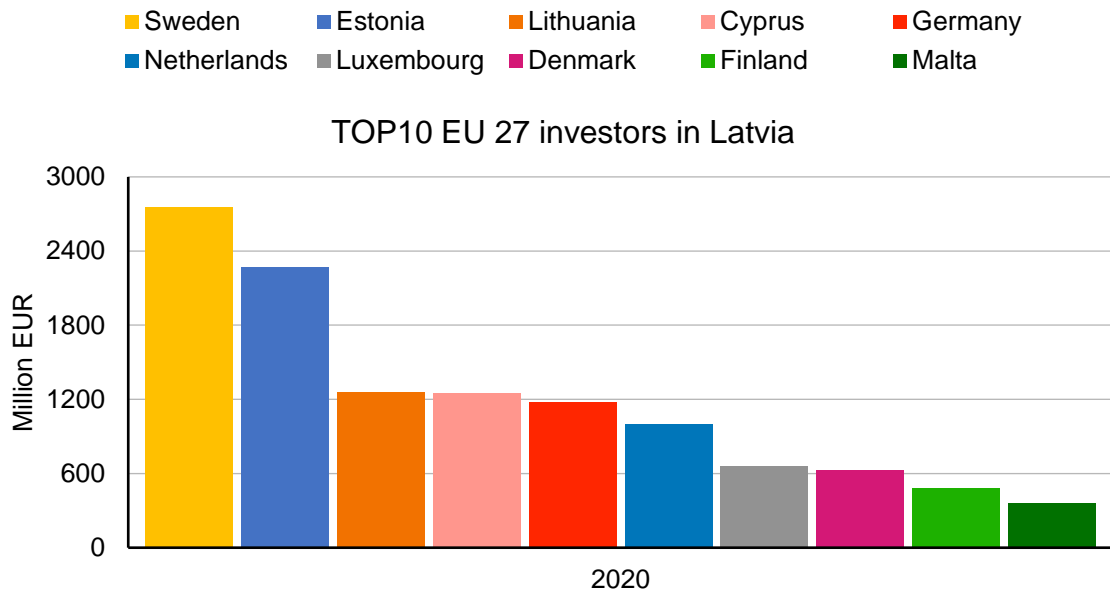


Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania;
calculations by the author

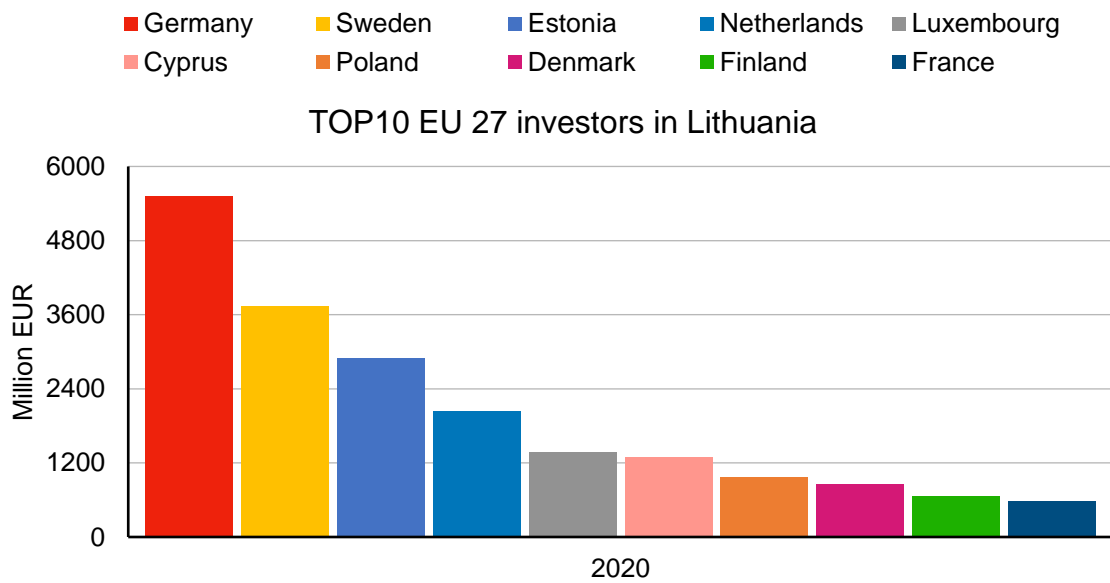
According to the data for 2020, in all three Baltic States, Germany is among the top 5 investor countries from the EU 27: in 5th place in both Estonia and Latvia, and in 1st place in Lithuania. Traditionally, Sweden has been one of the biggest investors in the region, but the recent large transactions in Lithuania have brought Germany up to the top.



Data source: Bank of Estonia

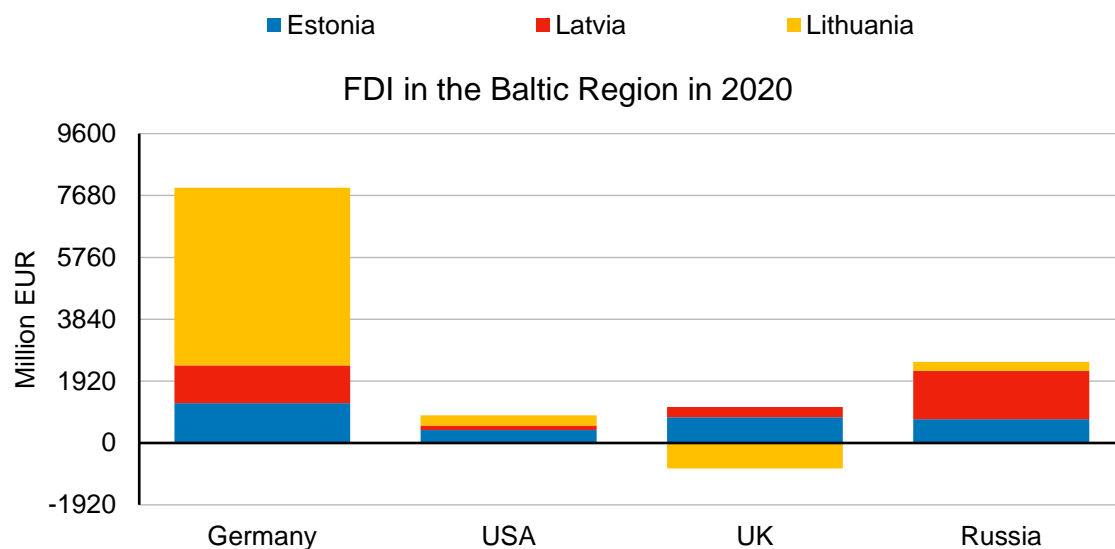


Data source: Bank of Latvia



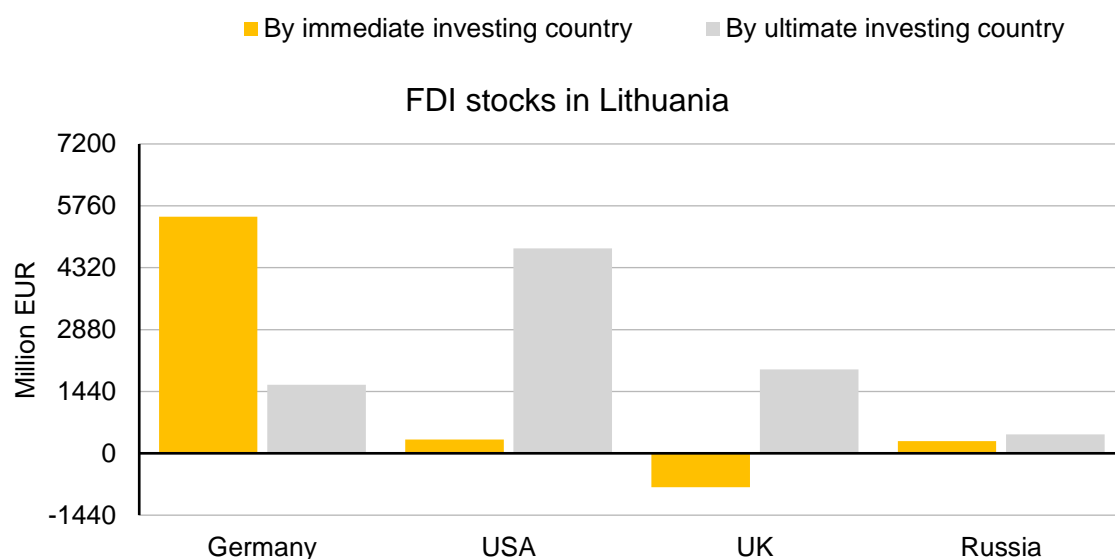
Data source: Bank of Lithuania

Compared to the USA, the UK and Russia, Germany's investments in the Baltic Region are quite unevenly distributed and surpass the other countries' several times, with the majority of it located in Lithuania.



Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania

However, if compared as FDI by ultimate investing country (UIC)⁷, the picture changes significantly: German investments in Lithuania outdo those of Russia, but do not reach the levels of the UK or foremost the USA.



Data source: Bank of Lithuania

Using the [NACE classification](#)⁸ of economic activities, the sectoral distribution of German investments in the Baltics in 2020 shows that Lithuania leads with investments in financial and insurance activities (K)⁹, followed by wholesale and retail trade; repair of motor vehicles and motorcycles (G)¹⁰. Latvia is more dominant in manufacturing (C) and

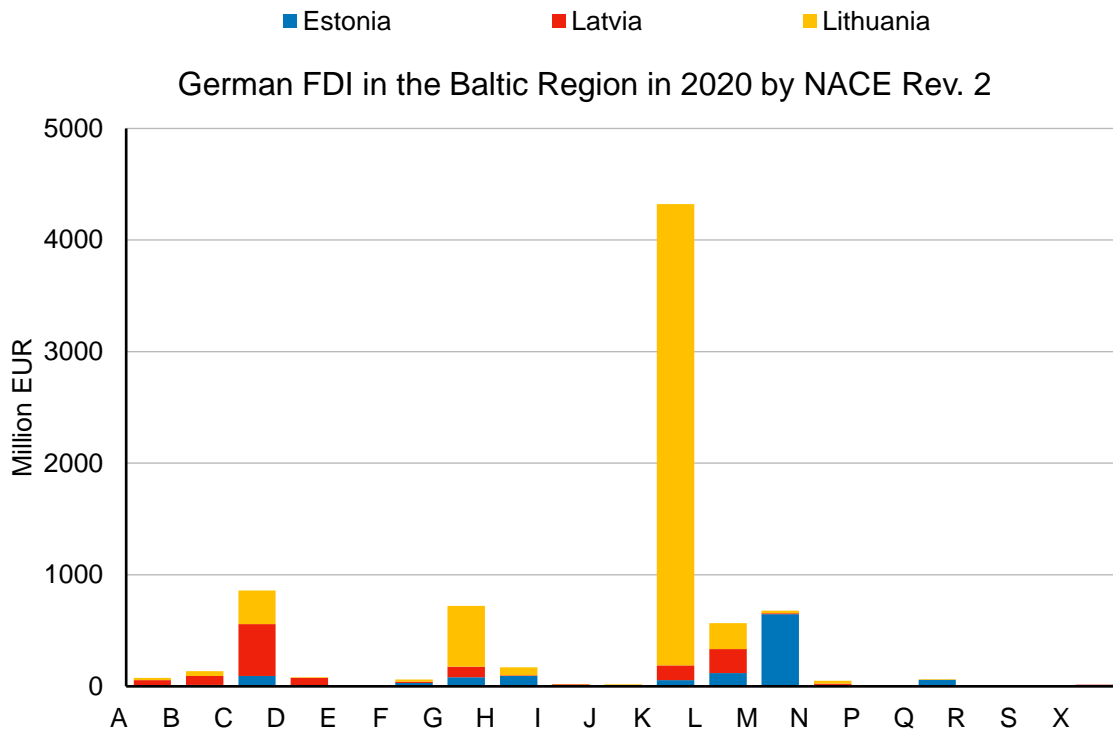
⁷ "Foreign direct investment by the ultimate investing country," Bank of Lithuania, 5 February 2021, <https://www.lb.lt/en/news/foreign-direct-investment-by-the-ultimate-investing-country>.

⁸ The Nomenclature of Economic Activities is the European statistical classification of economic activities, grouping organisations according to their business activities, <https://nacev2.com/en>.

⁹ Similarly to the case of Volkswagen in Estonia, a holding company registered in financial activities might be responsible for the investment into Lithuania, although the main business is conducted by another company in a different NACE class.

¹⁰ For example, Lidl entered Lithuanian market in 2016 and has been expanding significantly both within Lithuania and also in Latvia and Estonia (Linas Jegelevičius, "Lidl set to shake up Lithuanian grocery market," BNN, 2 June 2016, <https://bnn-news.com/lidl-set-to-shake-up-lithuanian-grocery-market-145470>, "NIB finances Lidl's expansion in Lithuania," NIB, 4 December 2018, <https://www.nib.int/releases/nib-finances-lidls-expansion-in-lithuania>, "Lidl stores open across Latvia," LSM.lv, 7 October 2021, <https://eng.lsm.lv/article/economy/business/lidl-stores-open>

trying to catch up with Lithuania in real estate activities (L). Estonia stands out with German investments into the professional, scientific and technical activities (M) and exceeds Lithuania in transporting and storage (H).



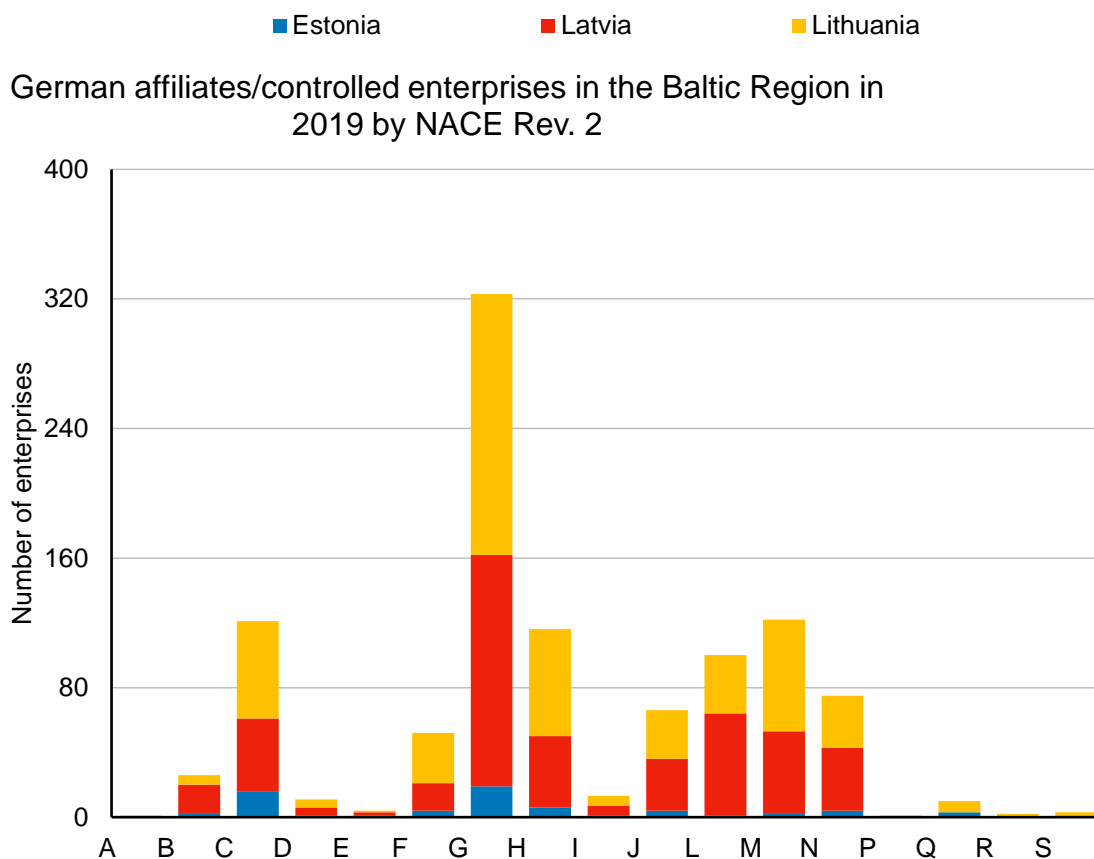
Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania

As demonstrated above, in the case of the Baltic States, a decision of one single investor can change the statistical picture of a country. In addition, some data remains confidential when only one or two reporting entities have declared their investments in the relevant NACE class. To ensure a more nuanced overview, the number of enterprises in each class also needs to be considered. The data on foreign enterprises and their economic activity, unfortunately, lacks strong representative value due to high number of missing NACE classifications.

According to the latest available data provided by the Baltic statistics offices (2019)¹¹, which does not include financial and insurance activities (K), most German-controlled enterprises were active in the wholesale and retail trade; repair of motor vehicles and motorcycles (G) category. On an equal level were professional, scientific and technical activities (M), manufacturing (C) and transporting and storage (H). Also, real estate activities (L), administrative and support service activities (N) and information and communication (J) stand out.

[across-latvia.a424419/](https://news.err.ee/1608514817/first-lidl-stores-opening-in-estonia-this-thursday) and “First Lidl stores opening in Estonia this Thursday,” ERR News, 28 February 2022, <https://news.err.ee/1608514817/first-lidl-stores-opening-in-estonia-this-thursday>).

¹¹ “Financial statistics of enterprises (with 20 or more persons employed) by economic activity and controlling country,” Statistics Estonia, https://andmed.stat.ee/en/stat/majandus_ettevetete-majandusnaitajad_valismaised-tutarettvotted/EM060, “Indicators of foreign affiliates in Latvia by kinds of activities and controlling countries,” Central Statistical Bureau of Latvia, <https://stat.gov.lv/en/statistics-themes/business/entrepreneurship-indicators-and-enterprise-finances/tables/ufa020> and “Number of foreign-controlled enterprises,” Statistics Lithuania, https://osp.stat.gov.lt/statistiniu-rodikliu-analize?indicator=S8R211#.



Data sources: Statistics Estonia, Central Statistical Bureau of Latvia, Statistics Lithuania

For more detailed overviews, with latest updates and yearly comparisons, see [table 2](#) and [table 3](#) in the annex.

Bilateral cooperation and national investment promotion

As Germany is part of the Baltic history as well as one of the leading countries in the EU, it plays an important role in the region. In all three Baltic States, Germany is one of the largest trading partners and belongs to the top investors, although, as demonstrated above, the profile differs from country to country. The difference is also caused because “there is no such thing as a Baltic region with a homogeneous cultural or economic area”, but rather “three small states on the eastern Baltic coast with their own characteristics and customs as well as different historical roots,” as Ralph M. Wrobel, professor of economics at the West Saxon University of Applied Sciences of Zwickau and an expert in economics, politics and history, put it.¹²

Especially in the case of Lithuania, German investments are crucial for the country’s economy because it has become its biggest investor from the EU and Lithuania is deeply embedded in the value chains of the German companies.¹³ As the President of Lithuania Dalia Grybauskaitė stated in 2018 before a meeting with Angela Merkel, Chancellor of the Federal Republic of Germany, the two countries have reached the most successful stage in the history of their bilateral relations, with German investments in Lithuania growing rapidly thanks to major investments by German automotive corporations such as Hella and Continental.¹⁴ This inspired Lithuania to aim for more: according to Aušrinė Armonaitė, Minister of the Economy and Innovation of Lithuania, the country wanted “to become an essential part of the supply chain and a manufacturer of automotive components.”¹⁵ To support this goal, Lithuania started the [Green Corridor](#) initiative to facilitate procedures for large-scale investment projects.¹⁶

Some analysts have pointed out that for long time Germany has been “present – but not visible” in the Baltic States, being “a rather dispassionate participant in regional cooperation”.¹⁷ In the light of Russia’s growing aggressiveness towards its neighbours, Germany has started to express more solidarity with the three countries.¹⁸ The Baltic States have proven that they can be valuable partners for Germany when it comes to areas of their superior competencies like digital transformation.¹⁹ However, tensions have also been growing as the conflicts with Russia and China have become more intense.²⁰ For Lithuania, the decision to open a Taiwanese representative office in Vilnius has brought along not only economic pressure from China but also from the German investors.²¹

In all three Baltic States, national level foreign investment promotion is conducted by the relevant agencies, owned by or subordinate to the ministry which is responsible for the economic development of the country (see [table 1](#) in the annex).

¹² Quote from the article “Small, but oh my!,” Logistics Pilot, <https://www.logistics-pilot.com/en/small-but-oh-my/>.

¹³ According to the WTO’s statistical profile, Germany is the number 1 export destination for domestic and foreign value-added content as well as the number 1 exporter of Lithuanian inputs through global value chains (see “Trade in value-added and global value chains: Lithuania”, WTO, https://www.wto.org/english/res_e/statis_e/miwi_e/LT_e.pdf).

¹⁴ “Cooperation between Lithuania and Germany – the most successful ever in the history of bilateral relations,” Office of the President of the Republic of Lithuania, 14 September 2018, <https://www.lrp.lt/en/press-centre/press-releases/cooperation-between-lithuania-and-germany-the-most-successful-ever-in-the-history-of-bilateral-relations/30861>. An overview of the largest German investors in Lithuania is available in the presentation “Lithuania – Germany: Cooperation and business opportunities” by Alenas Gumuliauskas, Chancellor of the Ministry of the Economy and Innovation of the Republic of Lithuania, https://linpra.lt/wp-content/uploads/2020/11/slides-A.-Gumuliauskas_Vokietija_20201117_005.pdf.

¹⁵ Alexander Welscher, “Setting Sights on the Global Automotive Sector,” AHK Baltikum, 30 November 2021, <https://www.ahk-balt.org/news/news-details/setting-sights-on-the-global-automotive-sector>.

¹⁶ “Opening the green corridor for large investment projects,” Ministry of the Economy and Innovation of the Republic of Lithuania, 30 June 2020, <https://eimin.lrv.lt/en/news/opening-the-green-corridor-for-large-investment-projects>.

¹⁷ Tobias Etzold, “Germany and the Baltic Sea region: political and security interests – Recommendations for the policy-makers,” BSR Policy Briefing series 6/2019 (Turku: Centrum Balticum Foundation, 2019), http://www.centrumbalticum.org/files/4357/BSR_Policy_Briefing_6_2019.pdf.

¹⁸ Frank-Walter Steinmeier, “German president: Baltic states, ‘you are not alone’,” ERR News, 17 September 2021, <https://news.err.ee/1608342497/german-president-baltic-states-you-are-not-alone>.

¹⁹ “Estonia and Germany sign a joint declaration on development cooperation,” Ministry of Foreign Affairs of the Republic of Estonia, 19 May 2021, <https://vm.ee/en/news/estonia-and-germany-sign-joint-declaration-development-cooperation>.

²⁰ Louis Westendarp, “Latvia blasts Germany’s ‘immoral and hypocritical’ relationship with Russia and China,” Politico, 28 January 2022, <https://www.politico.eu/article/latvia-germany-immoral-relationship-russia-china/>.

²¹ Andrius Sytas and John O’Donnell, “Analysis: German big business piles pressure on Lithuania in China row,” Reuters, 21 January 2022, <https://www.reuters.com/world/europe/german-big-business-piles-pressure-lithuania-china-row-2022-01-21/>.

Invest Estonia (part of Estonian Business and Innovation Agency, formerly Enterprise Estonia [EAS]) has a small team in Germany whose goal is “to bring capital, technology and knowledge to Estonia and create high-paying new jobs by advising German entrepreneurs.”²² They have been instrumental in attracting such German investors to Estonia as Volkswagen, Daimler, Heinzl Group, HHLA, Kuehne+Nagel, Messer, Siemens, Axinom, birkle IT, Danpower, FiconTec and Leonhard Weiss.²³ The Investment and Development Agency of Latvia (LIAA) is responsible for the foreign investment promotion and business support in Latvia. Among its success stories are German companies such as AKG, q.beyond, Chess24, Prime Force and QSC AG as well as soon-to-be investor Kärcher.²⁴ In Lithuania, which has been one of the most popular destinations for German investments, especially in manufacturing industry²⁵, the success stories of Invest Lithuania include German companies such as Hella, Continental, Festo, Rehau, Nokera and GOD.²⁶ According to its introduction, Invest Lithuania targets export-oriented investors who aim to relocate or expand their business in Lithuania.

The German-Baltic economic relations are supported also by a well-established business promotion organisation – [AHK Baltikum](#), the German-Baltic Chamber of Commerce in Estonia, Latvia, Lithuania. According to its membership database, the chamber has over 400 member companies and thus is the largest German-Baltic business network.²⁷

²² Liina Laks, “Riina Leminsky: Bringing billions to Estonia from Germany,” Invest in Estonia, August 2021, <https://investinestonia.com/riina-leminsky-bringing-billions-to-estonia-from-germany/>.

²³ Ibid. See also “TOP 5: välismaa raha voolas mullu Eestisse, kuhu läks 324 miljonit eurot? (TOP 5: Foreign money flowed to Estonia last year, where did 324 million euros go?),” Rahageenius, 22 May 2019, <https://raha.geenius.ee/rubriik/uudis/top-5-valismaa-raha-voolas-mullu-eestisse-kuhu-laks-324-miljonit-eurot/> and “EAS aitab mullu Eestisse tuua 160 miljonit eurot välisinvesteeringuid (Last year, Enterprise Estonia helped bring 160 million euros in foreign investments to Estonia),” Turundajate Liit, 11 February 2021, <https://turundajateleit.ee/eas-aitas-mullu-eestisse-tuua-160-miljonit-eurot-valisinvesteeringuid/>.

²⁴ “Success stories,” Magnetic Latvia Invest, <https://investinlatvia.org/en/success-stories>, “With 51 investment projects, LIAA attracts 252.5 million euros in 2020,” LIAA, 15 January 2021, <https://www.liaa.gov.lv/en/article/51-investment-projects-liaa-attracts-2525-million-euros-2020> and “The German group Kärcher plans to set up a new production facility in Latvia,” LIAA, 3 September 2021, <https://www.liaa.gov.lv/en/article/german-group-karcher-plans-set-new-production-facility-latvia>.

²⁵ “German Firms the Largest Foreign Investors in Lithuanian Manufacturing,” Invest Lithuania, 10 April 2015, <https://investlithuania.com/news/german-firms-the-largest-foreign-investors-in-lithuanian-manufacturing/> and “How Lithuania attracts German companies,” Invest Lithuania, 1 July 2016, <https://investlithuania.com/news/how-lithuania-attracts-german-companies/>.

²⁶ “Success stories,” Invest Lithuania, <https://investlithuania.com/success-stories/>, “German polymer specialist REHAU establishing microduct systems production unit in Klaipėda,” Invest Lithuania, 19 February 2020, <https://investlithuania.com/news/german-polymer-specialist-rehau-establishing-microduct-systems-production-unit-in-klaipeida/>, “German sustainable construction pioneer NOKERA to build manufacturing facility near Vilnius,” Invest Lithuania, 21 October 2021, <https://investlithuania.com/news/german-sustainable-construction-pioneer-nokera-to-build-manufacturing-facility-near-vilnius/> and “German IT services powerhouse GOD expands to Lithuania,” Invest Lithuania, 13 January 2022, <https://investlithuania.com/news/german-it-services-powerhouse-god-expands-to-lithuania/>.

²⁷ “Mitgliederdatenbank (Membership database),” AHK Baltikum, accessed February 2022, <https://www.ahk-balt.org/mitglieder/mitgliederdatenbank>. See its profiles on [LinkedIn](#), [Twitter](#), or [Instagram](#).

Case studies

Schwenk's Baltic-Nordic expansion

In 2019, Schwenk, the German building materials manufacturer, acquired the Baltic-Nordic assets of Cemex, the Mexican cement producer, for 340 million euros.²⁸

The acquired assets included the cement plant in Broceni, 6 ready-mix plants, 4 aggregate quarries, 2 cement quarries, 1 marine terminal and 1 land distribution terminal in Latvia as well as a share of c.38% in the cement production plant in Akmene in Lithuania, exports business to Estonia and 3 import terminals in Finland, 4 import terminals in Norway and 4 import terminals in Sweden.²⁹ According to Thomas Spannagl, CEO of Schwenk, the aim of the acquisition of one of the most modern cement plants in the region was the expansion of Schwenk's core business in the Baltic and Nordic countries but also organisational growth to benefit from cultural enrichment, joint know-how, expertise, and mutual learning.³⁰

After the acquisition, Schwenk continued with investments in a new cement mill and silo in Broceni plant, planning to commission the new equipment by the end of 2021. The aim of this project with an estimated cost of 34 million euros was to support the company's goals of reducing CO₂ emissions, introducing new cement types in Northern Europe and enter new export markets.³¹ In 2020, the main export markets for Latvian cement were Sweden, Estonia and Belarus, with export growth of 6.8% and a value increase of 10.6% compared to 2019.³² At the time of the acquisition, the Broceni plant produced more than 1 million tons of cement a year, of which 29% was used in the local market and 71% was exported to Estonia, Sweden, Finland and Belarus.³³

Schwenk has taken an active role in the local Latvian community and aims to contribute to the country's development through various engagements. As a board member of the [Foreign Investors' Council in Latvia \(FICIL\)](#), the company has raised such issues as workforce quality in Latvia and the need for effective retraining programmes as well as a clear action plan on achieving the EU's climate neutrality goals, but also quality and analysis of the available data in Latvia for making "more strategically correct decisions" on the administrative level.³⁴ At a company level, Schwenk has also contributed to the discussion of the benefits of an open business culture in Latvia.³⁵

²⁸ "Mexico's cement producer Cemex sells Baltic, Nordic assets to Germany's Schwenk," LSM, 20 February 2019, <https://eng.lsm.lv/article/economy/economy/mexicos-cement-producer-cemex-sells-baltic-nordic-assets-to-germanys-schwenk.a310252/>.

²⁹ "SCHWENK enters Latvian market," Schwenk, 5 April 2019, <https://www.schwenk.de/schwenk-enters-latvian-market/>.

³⁰ Ibid.

³¹ "SCHWENK Latvija Sustainability Report 2020," Schwenk, [2021], <https://schwenk.lv/wp-content/uploads/2021/08/SCHWENK-Latvija-Sustainability-report-2020.pdf> and "Schwenk Invests EUR 34 million in Cement Plant in Brocēni, Latvia," JCement.ru, 17 February 2021, <https://en.jcement.ru/content/news/schwenk-invests-eur-34-million-in-cement-plant-in-broc-ni-latvia/>.

³² "Latvia Increases Cement Exports in 2020," Jcement.ru, 17 February 2021, <https://en.jcement.ru/content/news/latvia-increases-cement-exports-in-2020/>.

³³ "SCHWENK enters Latvian market." Schwenk, 5 April 2019, <https://www.schwenk.de/schwenk-enters-latvian-market/>.

³⁴ "The Government and FICIL agree on goals and priorities for improving the investment environment in Latvia," FICIL, 17 September 2021, <https://www.ficil.lv/2021/09/17/the-government-and-ficil-agree-on-goals-and-priorities-for-improving-the-investment-environment-in-latvia/>.

³⁵ "Summary: Open business culture in Latvia," Delna, 28 September 2021, <https://delna.lv/en/2021/09/28/open-business-culture-in-latvia-disclosure-of-anti-corruption-measures-and-data/>.

Continental's plant in Kaunas FEZ

Continental's investment of 95 million euro for an initially 16,000m² plant in Kaunas Free Economic Zone (FEZ) has been the biggest in Lithuania's manufacturing sector in the last 20 years and, as stated by the former prime minister Saulius Skvernelis, was expected to have "a tremendously positive impact" on the industry.³⁶ With the investment launched in 2017 and construction starting in 2018, Continental aimed to realise the investment over five years and create a thousand jobs.³⁷

In addition to the plant for automotive components, the plan included the construction of a moulding facility as well as a gas cogeneration plant to generate heat and electricity for the company's use. The plant became operational in 2019 and the moulding facility in 2021.³⁸

According to Invest Lithuania, Continental was expected to double the scope of its activity in Lithuania, provided that the investment was successful and there would be enough engineers.³⁹ Indeed, Continental's decision to expand and increase its production capacity in Kaunas came after more than 3 years of operations in Lithuania, adding over 90 million euros to the existing investment and creating another 500 jobs.⁴⁰

To secure the relevant human resources and attract talent, Continental established close relationships with local educational institutions and signed a long-term cooperation agreement with Kaunas University of Technology. In addition, the company ensured the availability of necessary infrastructure like free public transport routes, bicycle lanes for communication with Kaunas City, childcare facilities and a gym to address the needs of employees as well as the local community.⁴¹

For Continental, the plant in Kaunas is something to be proud of. It is the "future smart factory" – fulfilling all Industry 4.0 requirements and considering employee comfort. Furthermore, it was the first Continental Automotive plant to receive the Gold category in LEED (Leadership in Energy and Environmental Design) Certification – a globally recognised symbol of sustainability achievement and leadership. In 2020, Continental's venture in Lithuania won second place in the "FDI Project of the Year" category at the Emerging Europe Awards.⁴²

Continental Automotive Lithuania started to show sales revenue from 2020.⁴³ The tensions between Lithuania and China and the consequent trade issues turned the outlook for the industry to grim – as stated in the press, Continental estimated that the overall damage would run to hundreds of millions of euros and beyond in case the conflict is not solved.⁴⁴ Nevertheless, Continental has decided to continue with its investments in Lithuania.⁴⁵

³⁶ BNS, "Germany's Continental plans biggest manufacturing investment in Lithuania in 20 years," LRT, 10 October 2019, <https://www.lrt.lt/en/news-in-english/19/1105399/germany-s-continental-plans-biggest-manufacturing-investment-in-lithuania-in-20-years> and "Kaunas," Continental, <https://www.continental.com/en/kaunas-lithuania/>.

³⁷ Craig Turp-Balazs, "Continental Launch Largest Ever Lithuanian Greenfield Investment," Emerging Europe, 13 November 2017, <https://emerging-europe.com/business/continental-launch-largest-ever-lithuanian-greenfield-investment/> and "Baltic Engineers to design EUR 95 mln Continental factory in Lithuania," The Baltic Course, 1 February 2018, http://www.baltic-course.com/eng/good_for_business/?doc=137307.

³⁸ "Continental designing new plastic molding facility in Lithuania," The Baltic Course, 2 October 2019, http://www.baltic-course.com/eng/good_for_business/?doc=151733.

³⁹ "Largest investment in 20 years: Continental launches plant construction in Lithuania," The Baltic Times, 21 July 2018, https://www.baltictimes.com/largest_investment_in_20_years_continental_launches_plant_construction_in_lithuania/.

⁴⁰ "Continental," Invest Lithuania, <https://investlithuania.com/success-stories/continental/>.

⁴¹ "The biggest newcomer of Kaunas FEZ starts production: Continental factory launched," Kaunas Free Economic Zone, 17 July 2020, <https://ftz.lt/en/media/news/the-biggest-newcomer-of-kaunas-fez-starts-production-continental-factory-launched/>.

⁴² Ibid.

⁴³ See "Continental Automotive Lithuania, UAB revenue, profit," Rekvizitai.lt, accessed 23 February 2022, https://rekvizitai.vz.lt/en/company/continental_automotive_lithuania/turnover/.

⁴⁴ "German firms pressure Lithuania to deescalate China tensions – media," LRT, 21 January 2022, <https://www.lrt.lt/en/news-in-english/19/1594168/german-firms-pressure-lithuania-to-deescalate-china-tensions-media>.

⁴⁵ "Continental to keep investing in Lithuania despite China pressure," Reuters, 18 February 2022, <https://www.reuters.com/business/autos-transportation/continental-keep-investing-lithuania-despite-china-pressure-2022-02-18/>.

Outlook for the German investments in the Baltic Region

Dr. Til Assmann, Honorary Consul of the Republic of Estonia in Bremen and Lower Saxony, has said the following: “For German entrepreneurs, conditions in the Baltic States are almost like being in paradise – either barely an hour and a half away by plane or in digital terms very close by. This is because what often used to be referred to as the ‘Baltic tigers’ have now become digital tiger states that make entrepreneurship incredibly easy compared to Germany.”⁴⁶

This statement seems to be valid enough. According to the annual business survey by the German-Baltic Chamber of Commerce (AHK Baltikum), the absolute majority of the companies surveyed would still choose Estonia, Latvia and Lithuania as an investment location.⁴⁷ Among 20 potential investment destinations in the survey, the Baltic countries were rated as the most attractive location, with Estonia being the most attractive investment destination (for the third year in a row), Latvia in 6th place (consistently so for 8 years) and Lithuania in 7th place.⁴⁸

Risk factors are broadly similar across the Baltic countries. The main concern of German investors in the Baltic States is the shortage of qualified workers, whereas other pronounced concerns are related to demand and relatively high costs of labour.⁴⁹

Although some chamber representatives considered the Lithuania-China conflict potentially harmful for German investments in the country,⁵⁰ the analysts in Lithuania find it less likely that existing investors would leave. However, new investors most probably take this political risk into account, especially if China is important for their business.⁵¹

In the light of Russia’s invasion of Ukraine and its threatening behaviour towards Western allies, including the Baltic States, a more comprehensive political risk assessment might apply to any Baltic-Nordic investment in the future.⁵²

⁴⁶ Quote from the article “Small, but oh my!,” Logistics Pilot, <https://www.logistics-pilot.com/en/small-but-oh-my/>.

⁴⁷ “Deutsche Investoren bekennen sich zum Baltikum (German investors are committed to the Baltic States),” AHK Baltikum, 2021, <https://www.ahk-balt.org/presse/konjunkturumfrage>.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ “German firms pressure Lithuania to deescalate China tensions – media,” LRT, 21 January 2022, <https://www.lrt.lt/en/news-in-english/19/1594168/german-firms-pressure-lithuania-to-deescalate-china-tensions-media>.

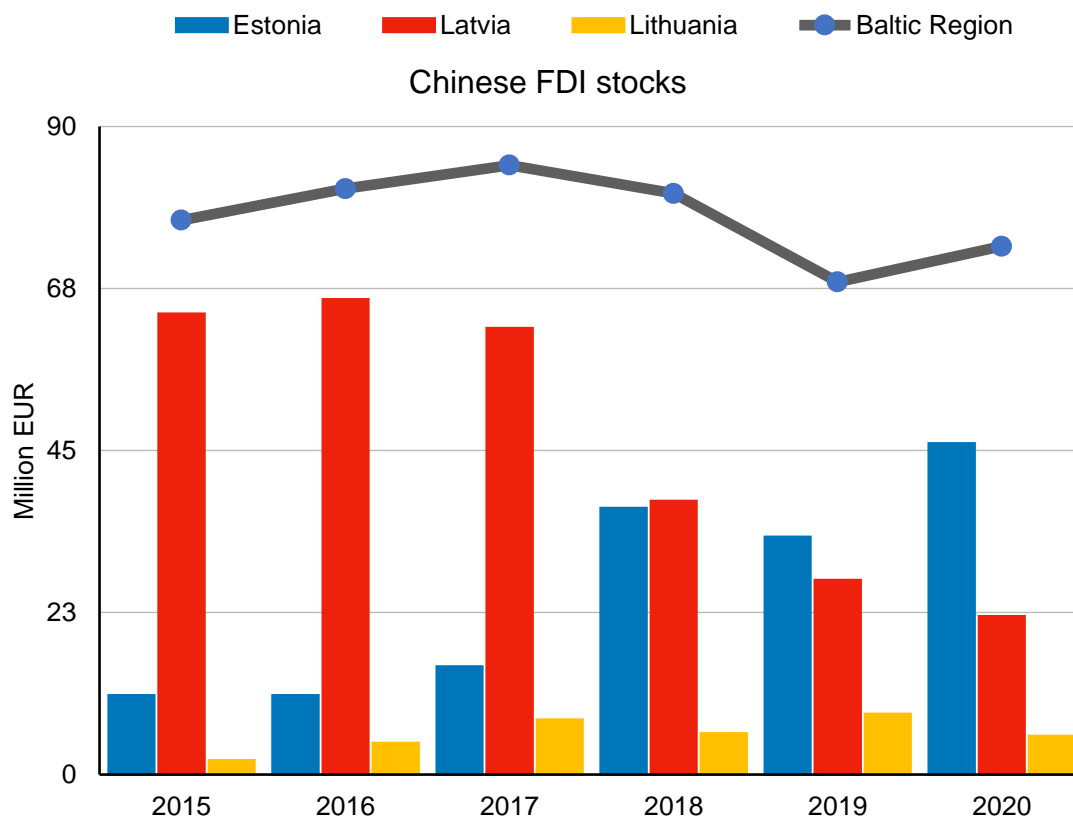
⁵¹ Valdemaras Šukšta, “Įtampa tarp Lietuvos ir Kinijos remia verslą prie sienos: įspėtos įmonės tyli, ekspertai atviri – tapome balta dėme žemėlapyje (Tensions between Lithuania and China support business at the border: warned companies are silent, experts open – we have become a white spot on the map),” LRT, 10 January 2022, <https://www.lrt.lt/naujienos/verslas/4/1582428/itampa-tarp-lietuvos-ir-kinijos-remia-versla-prie-sienos-ispetos-imones-tyli-ekspertai-atviri-tapome-balta-deme-zemelapyje>.

⁵² Astri Edvardsen, “Conflict Spillover from Ukraine to the Baltic Sea and the Arctic,” High North News, 1 February 2022, <https://www.highnorthnews.com/en/conflict-spillover-ukraine-baltic-sea-and-arctic>.

PART 2: CHINESE INVESTMENTS IN THE BALTIC REGION

Official data on the investments

According to the data provided by the national banks, Chinese investments in Latvia and Estonia reached relatively equal levels in 2018 (almost 40 million euros), whereas Latvia saw a decline from the levels of 2016 and 2017, whereas Estonia saw an increase. In 2019 and 2020, the decline continued for Latvia, whereas Estonia saw the level fall in 2019 with a rapid rise again in 2020. Compared to its neighbours, Chinese investments in Lithuania have remained very modest (except when looking at the UIC-based numbers which, for example, put Lithuania in 2018 on the same level with Latvia and Estonia⁵³).



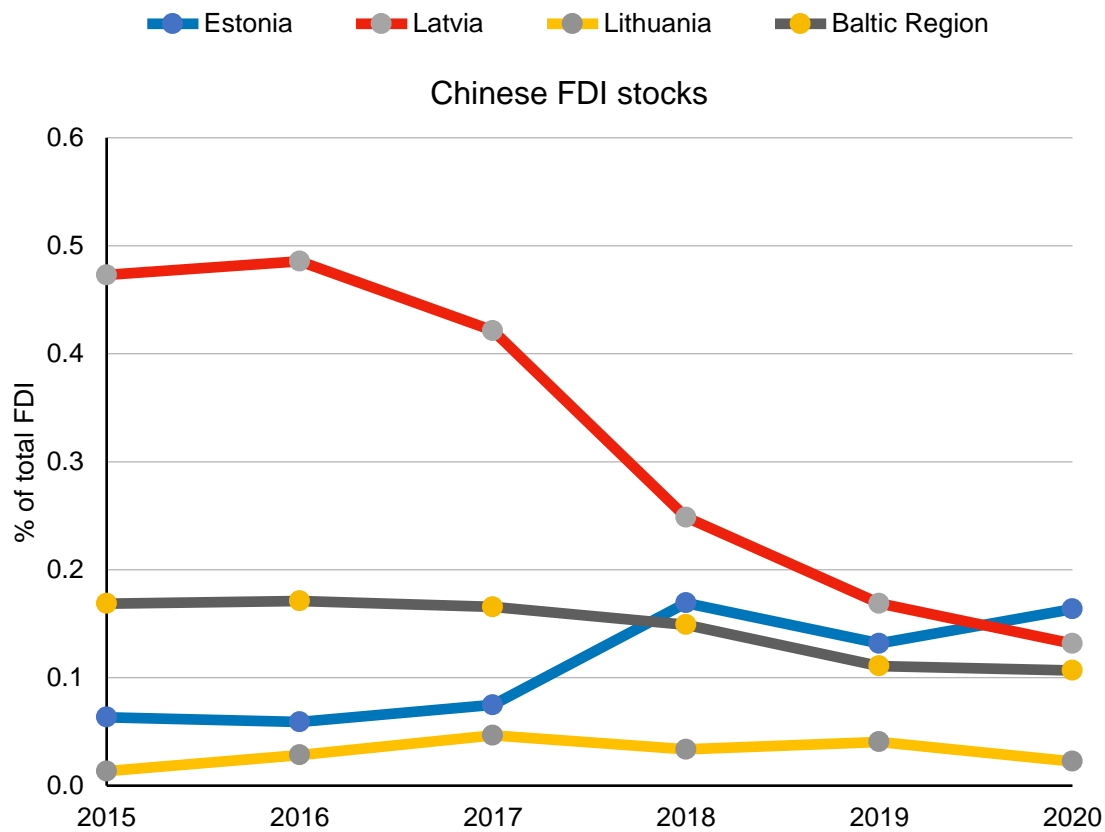
Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania; calculations by the author

The reason for Latvia's former attraction of Chinese investments can be partially found in the official "Golden Visa" programme which was gradually faded out after a change of law in 2017.⁵⁴

The overall impact of changes in the Chinese FDI in the Baltic Region is marginal as their share in the total FDI is miniscule. Even in 2016, when Latvia's level shows a small peak, the overall share was still less than 0.2%.

⁵³ Chinese FDI in Lithuania (by UIC): in 2015, 16.39 million euros, in 2016, 20.57 million euros, in 2017, 33.78 million euros, in 2018, 41.35 million euros, in 2019, 26.79 million euros, and in 2020, 28.30 million euros, "Inward foreign direct investment by the ultimate investing country and financial instrument," Bank of Lithuania, <https://www.lb.lt/en/foreign-direct-investment-by-the-ultimate-investing-country>.

⁵⁴ Sanita Jemberga and Xenia Kolesnikova, "Latvia's Once-Golden Visas Lose their Shine – But Why?," Organized Crime and Corruption Reporting project, 5 March 2018, <https://www.occrp.org/en/goldforvisas/latvias-once-golden-visas-lose-their-shine-but-why>.



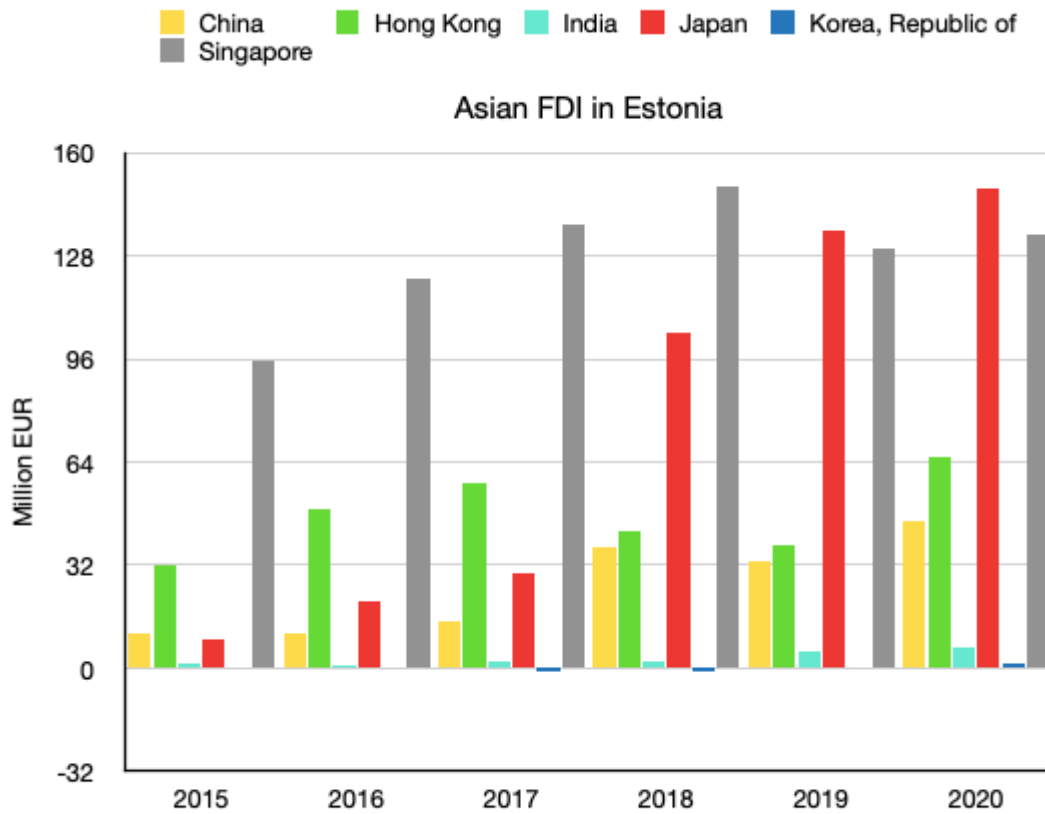
Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania; calculations by the author

Even more dramatic than in the case of Germany is the effect of a single investment on the statistical picture of a country, whilst the low number of investments make the sectoral overview of the Chinese FDI in the Baltics even less descriptive of a general trend. From the data provided by the national banks, some fields of activity can be identified. For example, in 2020, Estonia reported the largest (publishable) investment positions in manufacturing (24 million euros) and real estate activities (17 million euros). Taking into account that some Chinese investments might have arrived from Hong Kong, Lithuania received total investments of 1.2 billion euros in manufacturing.⁵⁵ The data provided by the Bank of Latvia⁵⁶ shows that larger investments are in professional, scientific and technical activities and in wholesale and retail trade; repair of motor vehicles and motorcycles. The numbers of companies controlled by China (and Hong Kong) in the three Baltic States suggest that most of them are active in wholesale and retail trade; repair of motor vehicles and motorcycles (see [table 7](#) and [table 8](#) in the annex).

When comparing China to other Asian investor countries in the Baltics, again the three states display very different profiles. In Estonia, China is a relatively minor investor compared to Singapore and more recently Japan. However, if we add Hong Kong's investments to those of China, the combined value becomes more competitive.

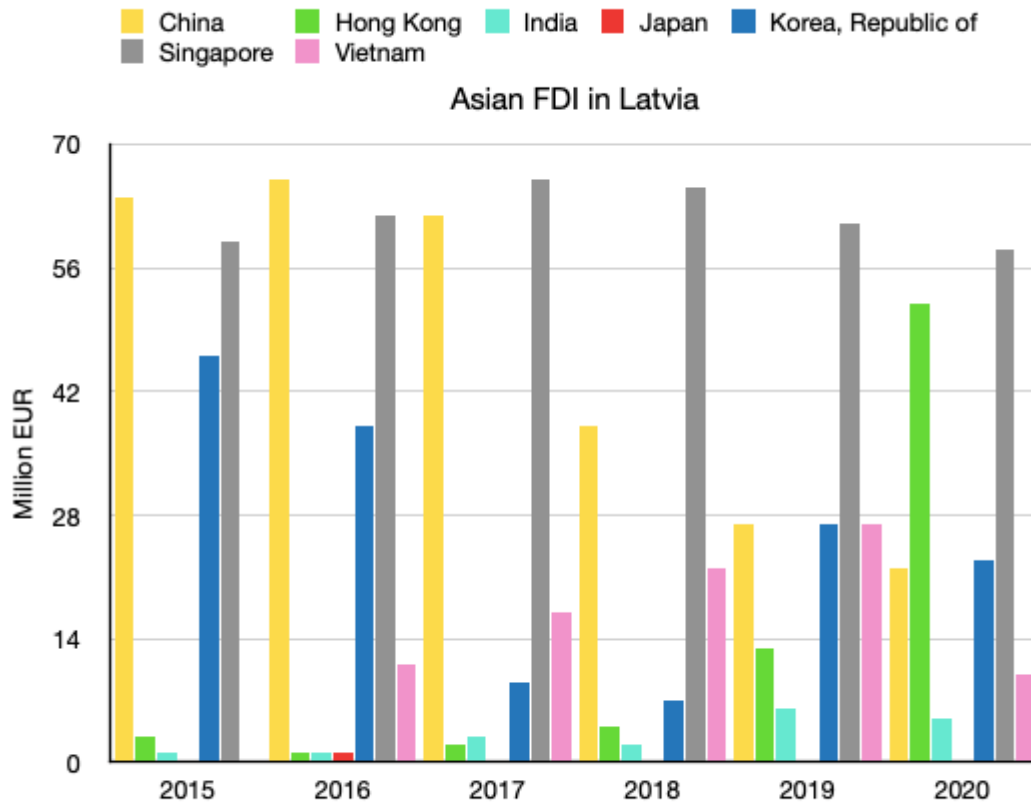
⁵⁵ Sub-classes with (non-publishable and confidential) data are: Manufacture of wood, paper, and their products; printing and reproduction of recorded media; Manufacture of petroleum, chemical and pharmaceutical products and pharmaceutical preparations; Manufacture of basic metals and fabricated metal products, excl. machinery and equipment; Manufacture of furniture; jewellery, musical instruments, toys, etc.; repair and installation of machinery and equipment.

⁵⁶ Due to confidentiality reasons the data for China, Hong Kong and South Korea was provided combined.



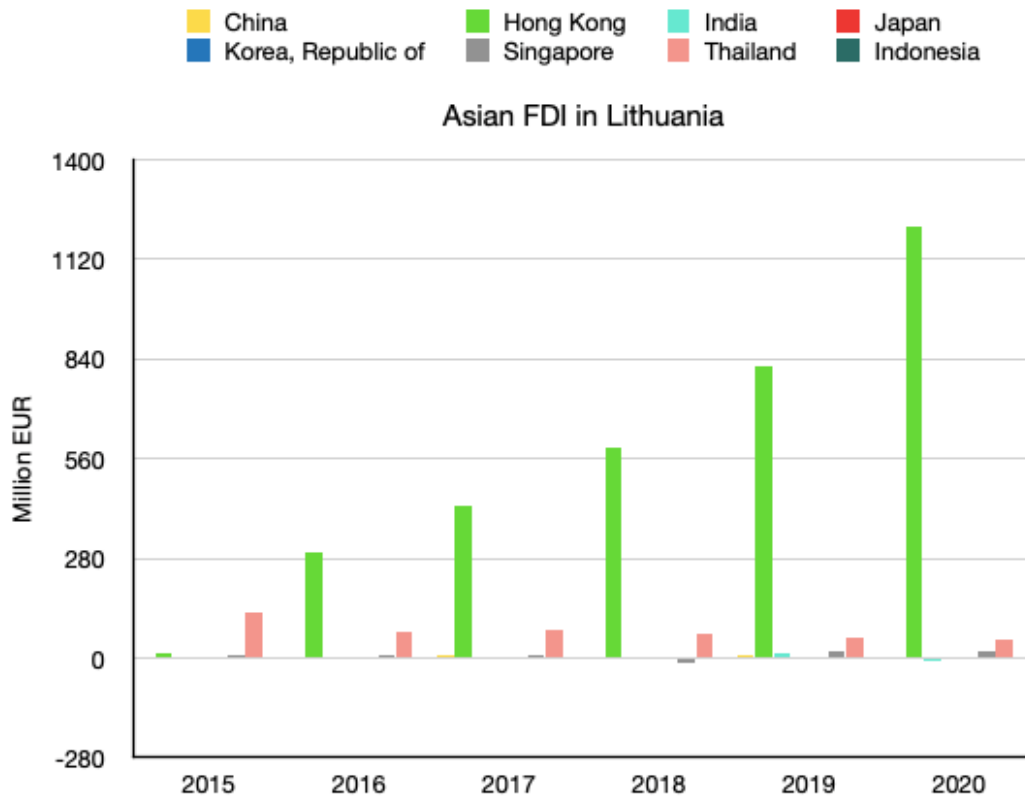
Data source: Bank of Estonia

In Latvia, China was quite a comparable investor to Singapore, but has lost its position. China's decline might be substituted by the growth of Hong Kong's investments. Also South Korea and Vietnam challenge China if Hong Kong's investments are discarded from the combination.

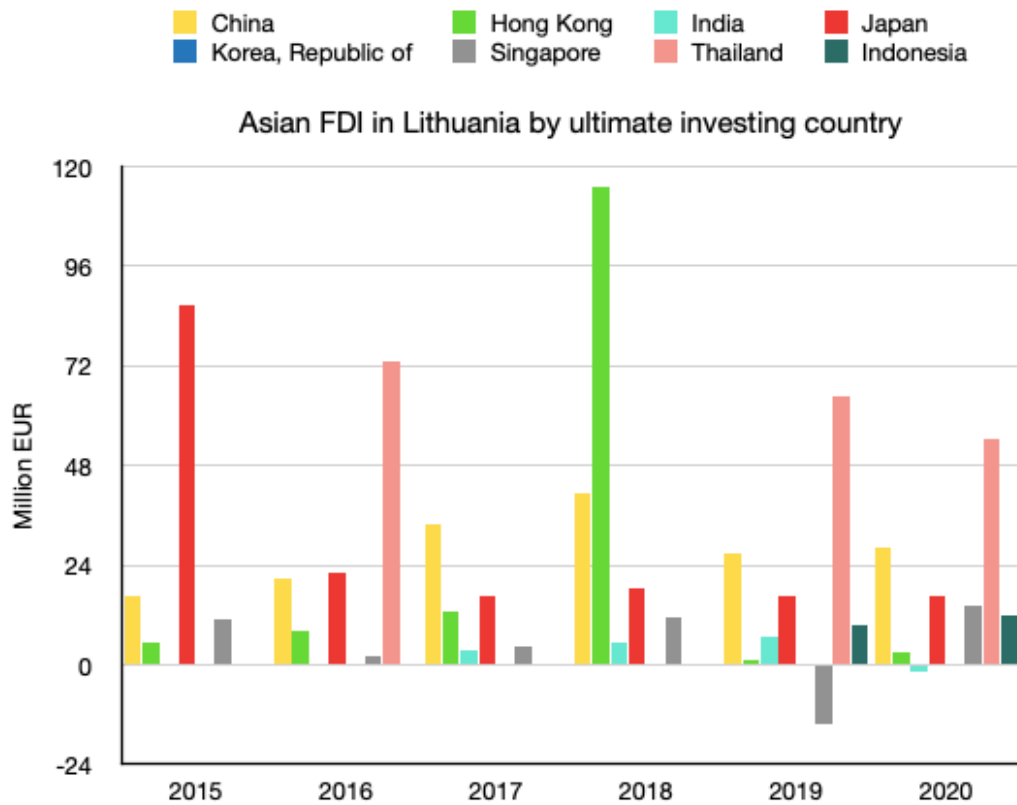


Data source: Bank of Latvia

In Lithuania, Hong Kong is the biggest investor, followed by Thailand. However, when looking again at the UIC-based statistics in case of Lithuania, the picture becomes more diverse, with Hong Kong turning into a marginal player (except in 2018), whereas Thailand and even Japan more dominantly enter the scene.



Data source: Bank of Lithuania



Data source: Bank of Lithuania

Bilateral cooperation and national investment promotion

China is a relatively new player to the Baltic Region, although diplomatic relations in case of all three states were (re)established in 1991, after regaining independence from the Soviet Union. Sino-Baltic cooperation became more active (both on the bilateral level as well as in the 16+1, later 17+1 format for the [China-Central and Eastern European Countries Cooperation](#)) after the global crisis of 2008, when countries were looking for new growth options and risk mitigation for existing structures. The possibilities offered by the Chinese market as well as China's growing investments abroad seemed to provide new opportunities which the Baltic States were equally eager to make use of.⁵⁷

Bilateral cooperation patterns of the Baltic states with China have become less homogeneous in recent years. While Estonia and Latvia have maintained a pragmatic approach⁵⁸, Lithuania has chosen a different path, considering the potential damages from a conflict with China less impactful and relying on the adaptability of Lithuanian businesses.⁵⁹ The tensions between Lithuania and China peaked in 2021 with the establishment of the Taiwanese representative office in Vilnius, which caused China to block Lithuanian trade. In the beginning of 2022, the European Commission referred the case to the World Trade Organisation (WTO) for dispute settlement.⁶⁰

Nevertheless, Lithuania's conflict with China, combined with the cross-Baltic alienation based on something much more fundamental – values – are not the only factors influencing Sino-Baltic cooperation. The EU has made efforts to implement an effective investment screening mechanism, which (among others) targets Chinese investments that could potentially threaten the national security of a country.⁶¹ In addition, national investment promotion in the Baltic Region in regards to China has also started to degrade due to increased political tensions between the USA, the NATO ally of the Baltic States, and China.⁶² Joint military exercises with Russia in 2017 in the Baltic Sea added to the scepticism about China's intentions in the region.⁶³ As a result, Baltic governments have turned away from promoting important infrastructure projects to Chinese investors, demonstrated well by the case of Klaipeda port.⁶⁴

However, such opportunities were most interesting for Chinese investors as they were looking for large-scale projects in the Baltics to invest in. In developed markets, the preferred entry route of a Chinese institutional investor has been the acquisition of some large manufacturing enterprise or long-term strategic partnership in real estate or infrastructure, whereas private investors tend to look for well-known brands with considerable market share in the EU.⁶⁵ Thus, greenfield investments are rare and Chinese investors have mostly been looking for merger and acquisition (M&A) deals.⁶⁶ The small Baltic countries have had not much to offer that would match these preferences – especially when national security concerns start to play a role as well.

⁵⁷ For example, in the field of transport and logistics, see "16+1 Summit has concluded," Ministry of Foreign Affairs of the Republic of Latvia, 22 February 2017, <https://www2.mfa.gov.lv/en/policy/multilateral-relations/cooperation-between-central-and-eastern-european-countries-and-china>.

⁵⁸ "Political consultations take place between the Foreign Ministries of Latvia and China," Ministry of Foreign Affairs of the Republic of Latvia, 14 January 2021, <https://www2.mfa.gov.lv/en/news/latest-news/67324-political-consultations-take-place-between-the-foreign-ministries-of-latvia-and-china> and "Liimets discussed cooperation and bilateral relations with her Chinese counterpart," Ministry of Foreign Affairs of the Republic of Estonia, 18 January 2022, <https://vm.ee/en/news/liimets-discussed-cooperation-and-bilateral-relations-her-chinese-counterpart>.

⁵⁹ BNS, "Lithuania's economy won't be significantly hit by China's boycott, says finance minister," LRT, 3 December 2021, <https://www.lrt.lt/en/news-in-english/19/1556532/lithuania-s-economy-won-t-be-significantly-hit-by-china-s-boycott-says-finance-minister>.

⁶⁰ "EU refers China to WTO following its trade restrictions on Lithuania," European Commission, 27 January 2022, <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2355> and "EU initiates WTO dispute complaint regarding Chinese restrictions on trade with Lithuania," WTO, 31 January 2022, https://www.wto.org/english/news_e/news22_e/ds610rfc_31jan22_e.htm.

⁶¹ Francesca Ghiretti, "Screening foreign investment in the EU – the first year," MERICS, 14 October 2021, <https://merics.org/en/short-analysis/screening-foreign-investment-eu-first-year> and "First Annual Report on the screening of foreign direct investments into the Union," COM(2021) 714 final, 23 November 2021, https://trade.ec.europa.eu/doclib/docs/2021/november/tradoc_159935.pdf.

⁶² Andris Banka, "Baltic states start to turn away from China," 7 May 2021, <https://www.aspistrategist.org.au/baltic-states-start-to-turn-away-from-china/>.

⁶³ Rodion Ebbighausen, "China and Russia combine naval forces in the Baltic Sea," DW, 24 July 2017, <https://www.dw.com/en/china-and-russia-combine-naval-forces-in-the-baltic-sea/a-39816926>.

⁶⁴ BNS, "Lithuania puts off deepwater port project eyed by China 'for at least a decade'," LRT, 2 April 2021, <https://www.lrt.lt/en/news-in-english/19/1380360/lithuania-puts-off-deepwater-port-project-eyed-by-china-for-at-least-a-decade>.

⁶⁵ The Economist Intelligence Unit, "Chinese investments in developed markets: An opportunity for both sides?," HSBC, <https://www.gbm.hsbc.com/-/media/gbm/reports/insights/chinese-investment-in-developed-markets>.

⁶⁶ Agatha Kratz, Max J. Zenglein, Gregor Sebastian, "Chinese FDI in Europe: 2020 Update," MERICS, 16 June 2021, <https://merics.org/en/report/chinese-fdi-europe-2020-update>.

Consequently, as various studies and the statistics show, China is not a big investor in the Baltic Region.⁶⁷ There are, however, some cases in the portfolio of the national investment promotion agencies that are worth mentioning. For example, Invest Estonia (EAS) facilitated the largest acquisition of an Estonian company by a Chinese trade buyer – Magnetic MRO’s takeover by Guangzhou Hangxin Aviation Technology.⁶⁸ Among the success stories of Invest Latvia (LIAA) is the attraction of BGI Group, one of the largest genomics organisations in the world, to establish a subsidiary for MGI Tech in Latvia.⁶⁹ Lithuania has been promoting itself to the Chinese companies as the fintech gateway to Europe and has granted licences for several Chinese companies in that field, such as Paytend Technology.⁷⁰

⁶⁷ Konstantinas Andrijauskas, Alicja Bachulska, Una Aleksandra Bērziņa-Čerenkova, Ivana Karásková, Liisi Karindi, Andreea Leonte, Nina Pejić, Ágnes Szunomár, Filip Šebok, Stefan Vladisavljev, “Empty Shell No More: China’s Growing Footprint in Central and Eastern Europe”, CHOICE, April 2020, <https://chinaobservers.eu/handbook-for-stakeholders-empty-shell-no-more-chinas-growing-footprint-in-central-and-eastern-europe/> and “Chinese Investment in Central and Eastern Europe”, Central and Eastern European Center for Asian Studies (CEECAS), April 2021, <https://www.china-cee-investment.org/>.

⁶⁸ Tanel Saarmann, “Company of the year Magnetic MRO sold to Guangzhou Hangxin Aviation Technology,” Invest in Estonia, 3 January 2018, <https://investinestonia.com/magnetic-mro-wants-to-conquer-the-world/> and “PE in CEE – Magnetic MRO,” Invest Europe, 11 February 2021, <https://www.investeurope.eu/about-private-equity/private-equity-in-action/pe-in-cee-magnetic-mro/>.

⁶⁹ “MGI Latvia,” Invest in Latvia, <https://investinlatvia.org/en/success-stories/stories/mgi-latvia> and “BGI: China meets Europe in the Baltics,” Labs of Latvia, 29 December 2019, <https://labsoflatvia.com/en/news/bgi-china-meets-europe-in-the-baltics>.

⁷⁰ “Lithuania seeks to become China’s fintech gateway to Europe,” Invest Lithuania, 9 July 2018, <https://investlithuania.com/news/lithuania-seeks-to-become-chinas-fintech-gateway-to-europe/> and “Chinese Fintech company Paytend opens European HQ in Lithuania,” Invest Lithuania, 29 November 2018, <https://investlithuania.com/news/chinese-fintech-company-paytend-opens-european-hq-in-lithuania/>.

Case studies

Hangxin's expansion with Magnetic MRO

In 2018, Guangzhou Hangxin Aviation Technology, a privately-owned company listed on the Shenzhen Stock Exchange, took over the Estonian aircraft maintenance company Magnetic MRO by acquiring 100% of its shares with 43 million euros of equity value.⁷¹

Hangxin had been looking for suitable targets in the USA, Europe and Middle East for many years. According to the revised draft of Hangxin's "Major Assets Purchase Report", the aim of the transaction was to improve the company's industrial scope and speed up international development as well as to utilise synergies and enhance the company's market competitiveness.⁷² The broader context also included Hangxin's contribution to China's Belt and Road Initiative and the establishment of the "Air Silk Road", benefiting from global fleet growth and supportive policies for the aviation maintenance industry as well as Magnetic MRO's comprehensive service capabilities and customer base.⁷³ Hangxin's strategic investment with the goal to expand its global MRO⁷⁴ presence was further supported by Estonia's favourable tax system for reinvestments.⁷⁵

Magnetic MRO, on its behalf, had been actively seeking opportunities to expand into Asia.⁷⁶ In January 2019, the company announced its entry into the Chinese aircraft cabin interiors market by launching MAC Sichuan, a Joint Venture between its commercial aircraft cabin interiors arm MAC Aero Interiors and Benniao Aviation.⁷⁷ Magnetic MRO's expansion in China continued with the establishment of a new hub in Guangzhou by its EngineStands24 subsidiary in cooperation with Hangxin Aviation Services to enlarge its geographical presence for its customers with world-wide operations.⁷⁸ In September 2019, the company announced a further expansion to South East Asia by launching a Representative Office in Kuala Lumpur, Malaysia.⁷⁹

However, as the outbreak of COVID-19 had a negative impact on the global aviation industry, Magnetic MRO's business suffered as well. Due to revenue decrease and problems with cash flow, the company had to implement some aggressive cost-cutting measures and laid off 23% of its staff.⁸⁰ As stated in its 2019 Annual Report, the company worked out a strategy to cope with the "new normal", with a focus on opportunities and customers' needs and accompanied by the relevant investments.⁸¹ As part of the restructuring, Magnetic MRO increased its share capital and issued new shares to Sapphire Investment Holding and Hong Kong Yongtai Trading Services, reducing the ownership of its main shareholder Hangxin Aviation Services to 84.96%.⁸² In 2020, the company also received a

⁷¹ "China – Estonia enhance cooperation in aviation industry," Magnetic MRO, 7 May 2018, <https://magneticmro.com/news/china-estonia-enhance-cooperation-aviation-industry/>.

⁷² 招商证券 (China Merchants Securities), "广州航新航空科技股份有限公司重大资产购买报告书(草案)(修订稿)" (Guangzhou Hangxin Aviation Technology Co., Ltd. Major Asset Purchase Report [Draft] [Revised]), 巨潮资讯网 (<http://www.cninfo.com.cn/>), 二〇一八年三月 (March 2018), <http://static.cninfo.com.cn/finalpage/2018-03-23/1204505761.PDF>. Summary available at <http://static.cninfo.com.cn/finalpage/2018-03-23/1204505762.PDF>.

⁷³ Ibid.

⁷⁴ Maintenance, Repair and Operations.

⁷⁵ No corporate income tax on retained and reinvested profits. For further information, see Invest in Estonia's website at <https://investinestonia.com/no-income-tax/>.

⁷⁶ BNS, "Baltcap selling Magnetic MRO to China's Hangxin for €43 million," ERR News, 3 January 2018, <https://news.err.ee/651992/baltcap-selling-magnetic-mro-to-china-s-hangxin-for-43-million>.

⁷⁷ "MAC Aero Interiors enters the Chinese aircraft cabin interiors market: launches a subsidiary MAC Sichuan," Magnetic MRO, 30 January 2019, <https://magneticmro.com/news/mac-aero-interiors-enters-chinese-aircraft-cabin-interiors-market-launches-subsidiary-mac-sichuan/>.

⁷⁸ "Magnetic MRO strengthens its position in Asia as EngineStands24 opens a hub in China," Magnetic MRO, 1 August 2019, <https://magneticmro.com/news/magnetic-mro-strengthens-position-asia-enginestands24-opens-hub-china/>.

⁷⁹ "Magnetic MRO expands to South East Asia, opens office in Kuala Lumpur," Magnetic MRO, 12 September 2019, <https://magneticmro.com/news/magnetic-mro-expands-south-east-asia-opens-office-kuala-lumpur/>.

⁸⁰ "Magnetic MRO loss increases 15-fold in Q2," The Baltic Course, 5 August 2020, <http://www.baltic-course.com/eng/transport/?doc=157978> and "Magnetic MRO looking for bright spots in coronavirus crisis," ERR News, 5 November 2020, <https://news.err.ee/1155277/magnetic-mro-looking-for-bright-spots-in-coronavirus-crisis>.

⁸¹ "Annual Report 2019," Magnetic MRO, 2020, https://magneticmro.com/wp-content/uploads/2020/12/Makett_MMRO_2019_F_Spreads.pdf.

⁸² Ibid. and "Magnetic MRO increased its share capital and issued new shares," Magnetic MRO, <https://magneticmro.com/investors/magnetic-mro-increased-share-capital-issued-new-shares/>.

working capital loan of 10 million euros from the Estonian government.⁸³ In addition, Magnetic MRO invested in various efficiency measures like improving its IT infrastructure to ensure lean operations and better decision-making in its global business as well as looking for new collaboration areas in the fields of innovation and sustainable development.⁸⁴

According to Risto Mäeots, the CEO of Magnetic MRO, the restructuring of its ownership continues with the aim of listing the company in Europe.⁸⁵ Hangxin has given Magnetic MRO's management its full trust and finds working with Estonians culturally "smooth" due to Magnetic MRO exceeding Hangxin's expectations.

⁸³ "Government endorses €10 million loan for Magnetic MRO," ERR News, 10 September 2020, <https://news.err.ee/1133131/government-endorses-10-million-loan-for-magnetic-mro>.

⁸⁴ "Annual Report 2020," Magnetic MRO, 2021, <https://magneticmro.com/wp-content/uploads/2021/08/Magnetic-MRO-2020-Annual-Report.pdf>.

⁸⁵ Information received in phone and WeChat interviews on 9, 17 and 21 February 2022.

MGI's "win-win" investment in Latvia

The official opening of MGI's new R&D and manufacturing facility in Riga, Latvia took place in 2019,⁸⁶ although the company Latvia MGI Tech had been registered since 2017 in the field of research and experimental development on biotechnology. The sole shareholder of the company is a Hong Kong entity – MGI Tech Hong Kong Co., Ltd., – with beneficial ownership in China.⁸⁷

The investment plan foresees a product manufacturing centre, high-throughput sequencing centre, a training centre and a logistics centre. As MGI aims to strengthen Chinese-European innovation-related cooperation in the areas of life sciences research, industrial applications and technical standards, the company collaborates on international genomics projects and exchanges experience and information between companies in China and Europe.⁸⁸

Taking this into account, Latvia is a good location for MGI's EU main branch thanks to its combination of geography, cost-efficiency and genetic sequencing background. Through its EU presence, MGI ensured access to a variety of European research programmes (e.g. ERDF and Horizon 2020). Latvia's geographic location facilitated frequent communication between Europe and Asia. Additional benefits were its highly qualified workforce and reasonable salary bases.⁸⁹

Although the investment size was only 15 million euros, LIAA hailed it as one of the biggest success stories because of the high profile of the investor as well as the added value it would provide to the Latvian economy.⁹⁰ MGI's investment confirmed and strengthened Latvia's base in biotechnology and, for the Chinese investor, opened the way to the European market. As the president of MGI Duncan Yu stated, "this will help high-end life science research equipment in China go global, building a complete technical service support system and product supply chain to efficiently meet the needs of customers and build deep experience in the European market."⁹¹ It was foreseen that MGI Latvia would produce high-level technology and export it to other EU countries, African countries, and the Near East.⁹²

The new laboratory facility of 8,000m² was built in Lidostas Park within one kilometre of Riga International Airport – a strategic choice to reduce transportation costs of the cold-chain sensitive shipments.⁹³ The lab sequences on average 2,000 full human genomes per week, which is 20 times more than an average lab would be able to do. Due to this capacity, MGI Latvia has become a strong local and international scientific and industrial research partner, collaborating with such partners as the Latvian Biomedical Research and Study Centre (BMC) as well as various universities.⁹⁴ For example, MGI's gene sequencing equipment served the BMC scientists for sequencing Coronavirus samples to determine the origins of the virus and identify new mutations.⁹⁵

⁸⁶ "Official Opening of MGI Latvia Builds Foundation for China-Europe Life Science Research and Industrial Cooperation," MGI, 27 November 2019, <https://en.mgi-tech.com/news/109/>.

⁸⁷ "Latvia MGI Tech SIA," Lursoft, data updated 10 September 2021, <https://company.lursoft.lv/en/latvia-mgi-tech/50203081351>.

⁸⁸ "Ķīnas uzņēmums "MGI" centrā Rīgā veidos globālu revolūciju medicīnā (The Chinese company 'MGI' in the center of Riga will create a global revolution in medicine)," Labs of Latvia, 28 November 2019, <https://labsoflatvia.com/aktuali/mgi-centrs-riga>.

⁸⁹ "Biomedicine companies reveal the benefits of building a business in Latvia," Labs of Latvia, 16 August 2021, <https://labsoflatvia.com/en/news/biomedicine-companies-reveal-the-benefits-of-building-a-business-in-latvia>.

⁹⁰ "China's genome research company BGI Group invests EUR 15 million in sequencing center in Riga," The Baltic Times, 22 November 2019, https://www.baltictimes.com/china_s_genome_research_company_bgi_group_invests_eur_15_million_in_sequencing_center_in_riga/.

⁹¹ Quote from the article "Official Opening of MGI Latvia Builds Foundation for China-Europe Life Science Research and Industrial Cooperation," MGI, 27 November 2019, <https://en.mgi-tech.com/news/109/>.

⁹² LTV Panorāma, eng.lsm.lv, "Rīga to produce genome sequencing technology," LSM.lv, 27 November 2019, <https://eng.lsm.lv/article/economy/business/riga-to-produce-genome-sequencing-technology.a339760/>.

⁹³ LIAA, "The biomedicine companies developing their businesses in Latvia – seeing 455% growth," Cision, 8 September 2021, <https://news.cision.com/investment-and-development-agency-of-latvia--liaa--r/the-biomedicine-companies-developing-their-businesses-in-latvia---seeing-455--growth.c3411072>.

⁹⁴ Ibid.

⁹⁵ Xinhua, "China's MGI Tech helps Latvia combat COVID-19 by providing testing equipment," MGI, 15 February 2021, <https://en.mgi-tech.com/news/219/>.

Outlook for the Chinese investments in the Baltic Region

The events in Ukraine at the end of February 2022 and their broader implications are still open for analysis as we see history in the making. However, the initial official statements concerning Russia's invasion of Ukraine and Beijing's dubious position⁹⁶ might only confirm the scepticism of the Baltic States towards cooperation with China. As a result, scrutiny of Chinese investments in certain sectors on the basis of national security concerns might become stricter and the hitherto (pro)active approach to cooperation with China might further diminish.

On the business level, private investors are probably able to carry on with their planned activities without much disruption, except for those that fall into the categories the EU deems to be sensitive (e.g. science, technology and innovation⁹⁷). As a joint report by Rhodium Group and MERICS on Chinese investments in Europe points out, small- and mid-size transactions have started to dominate the Chinese investments, although the top three target sectors in 2020 were still transportation, construction, and infrastructure, followed by ICT and electronics.⁹⁸ This trend *per se* offers a better fit for the opportunities in the Baltic States. Nevertheless, the global pandemic has taken its toll and forced, in particular, private Chinese investors to retreat as travel and movement restrictions challenge their possibilities the most. As a result, in 2020, private sector investment in Europe dropped by almost 50%.⁹⁹

Uncertainties caused by the pandemic and geopolitical events leave not much room for optimism regarding the developments of Chinese investments in the Baltic Region in the coming years. In the longer term, much depends on the final setup of the "new world order" and whether, and to which extent, the guiding values and principles as well as interests of China and Europe will overlap. This will not only affect the investments development in the Baltic States but all over Europe and the world.

⁹⁶ James Palmer, "China's Murky Position on Ukraine," FP, 23 February 2022, <https://foreignpolicy.com/2022/02/23/china-position-russia-ukraine-diplomacy-sanctions/>.

⁹⁷ Rebecca Arcesati, Irène Hors, Sylvia Schwaag Serger, "Recalibrating the EU's research and innovation engagement with China," MERICS, 22 December 2021, <https://merics.org/en/short-analysis/recalibrating-eus-research-and-innovation-engagement-china>.

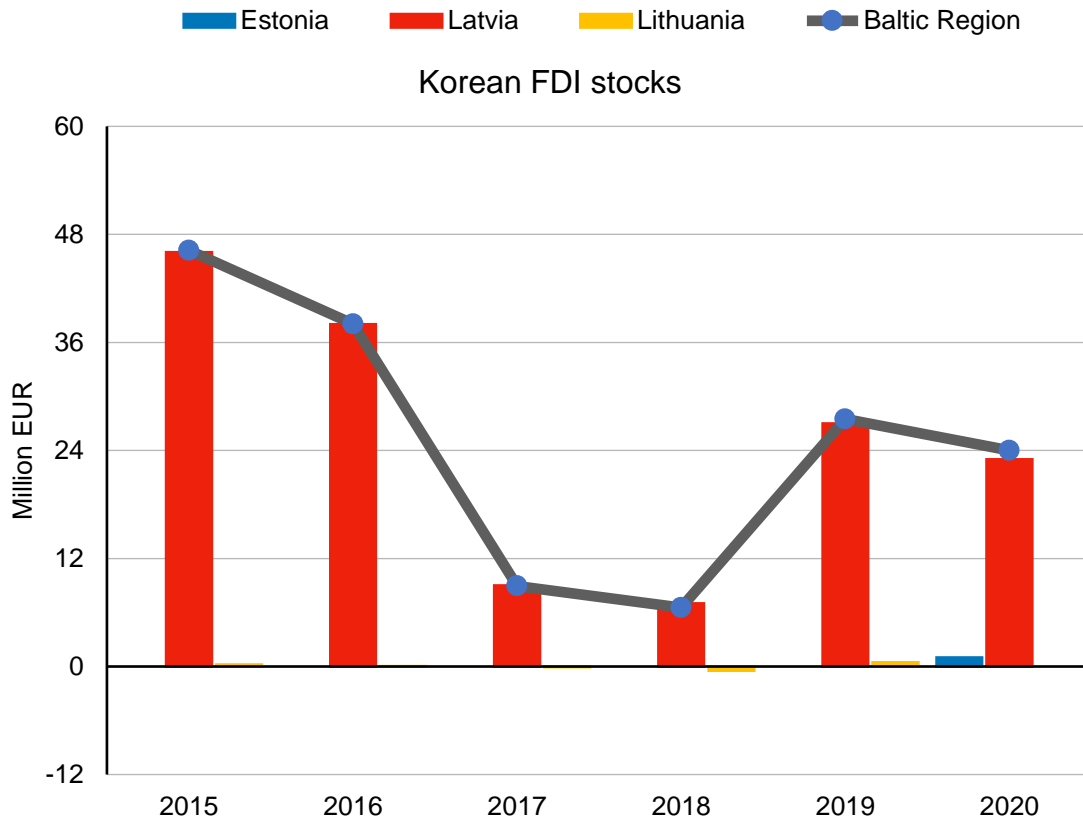
⁹⁸ Agatha Kratz, Max J. Zenglein, Gregor Sebastian, "Chinese FDI in Europe: 2020 Update," MERICS, 16 June 2021, <https://merics.org/en/report/chinese-fdi-europe-2020-update>.

⁹⁹ Ibid.

PART 3: SOUTH KOREAN INVESTMENTS IN THE BALTIC REGION

Official data on the investments

With the exception of Latvia, Korean investments in the Baltics are, statistically seen, almost non-existent. In 2020, Estonia reported Korean investments to the value of one million euros. Lithuania's 480,000 euros in 2019 became a zero in the statistical data tables in 2020. Only Latvia could boast of investments to the value of 23 million euros.



Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania; calculations by the author

According to data by the Bank of Estonia for 2020, Korean investments within that 1 million euros have been reported across the board: in manufacturing, wholesale and retail trade; repair of motor vehicles and motorcycles, transportation and storage, accommodation and food service activities, information and communication, financial and insurance activities, real estate activities, professional, scientific and technical activities, administrative and support service activities as well as education.

The Bank of Lithuania's data for that year shows that some investments (net inward FDI of 160,000 euros) were reported in manufacturing¹⁰⁰, wholesale and retail trade; repair of motor vehicles and motorcycles, transportation and storage, private real estate activities¹⁰¹ as well as human health and social work activities.

However, due to confidentiality requirements protecting the reporter(s), the Bank of Latvia was unable to provide detailed information solely on the Korean investments in Latvia.¹⁰² According to the combined overview received by the author, the larger investments were potentially done in agriculture, forestry and fishing, manufacturing, wholesale and retail trade; repair of motor vehicles and motorcycles and/or professional, scientific and technical activities (see [table 5](#) in the annex).

¹⁰⁰ Manufacture of petroleum, chemical and pharmaceutical products and pharmaceutical preparations.

¹⁰¹ Warehousing and support activities for transportation.

¹⁰² E-mail communication from 18 and 23 February 2022.

According to the open data of the Latvian Enterprise Register on beneficial owners,¹⁰³ there were six (active) companies with such Korean owners registered with various business activities.

Latvian enterprises with South Korean beneficial owners		
Name	Activity code (NACE)	Registration date
Sabiedrība ar ierobežotu atbildību “BOAS TRADE”	Agents involved in the sale of food, beverages and tobacco	2018-06-26
SIA KOLAT	<i>(In liquidation process)</i>	2019-02-26
SIA KOLA Holding	N/A	2019-07-22
SIA “Baltic Bio & Energy”	Regulation of and contribution to more efficient operation of businesses	2019-07-30
SIA Megagen Latvia	Wholesale of pharmaceutical goods	2019-09-18
SIA “Sun & Moon Pictures Intl”	Motion picture, video and television programme production activities	2019-07-11
Sabiedrība ar ierobežotu atbildību “Han Kook”	Restaurants and mobile food service activities	2020-11-06
Source: Enterprise Register of the Republic of Latvia, Lursoft		

¹⁰³ “Open data,” Register of Enterprises of the Republic of Latvia, <https://www.ur.gov.lv/en/get-information/free-of-charge-services/open-data/> and “Beneficial owners,” Latvian Open data portal, uploaded 31 October 2020, <http://dati.ur.gov.lv/>.

Bilateral cooperation and national investment promotion

In recent years, relations between the Baltic States and South Korea have become more intense. On the occasion of the 2018 PyeongChang Olympic Winter Games, the heads of the three Baltic States met separately with their South Korean counterpart to discuss bilateral relations. In their meetings with President Moon Jae-In, the President of Estonia, Kersti Kaljulaid, more specifically discussed cooperation in the field of cyber defence and e-residency¹⁰⁴, the President of Lithuania Dalia Grybauskaitė in high technologies and innovation¹⁰⁵ and the President of Latvia Raimonds Vējonis in research and innovative technologies¹⁰⁶.

During these summits, agreements were reached to establish a joint economic committee (1+3 format) which was officially launched in Seoul in 2019. According to the press release of the Korean Ministry of Foreign Affairs, the committee “served as an opportunity for the ROK to expand its diplomatic horizons to the Baltic Sea region.”¹⁰⁷ The general areas of the 1+3 cooperation include trade and investment, ICT and science & technology, start-ups and other industrial sectors, transportation, tourism and education as well as exporting and importing agri-food. In the case of Estonia, the focus was set on digital cooperation, targeting start-ups and innovative ICT companies. In Latvia’s case, a strengthening of the ICT and R&D cooperation was to be explored. With Lithuania, advancing cooperation in the blockchain and bioengineering sectors was agreed.¹⁰⁸

Following the summits, the Baltic States concluded various cooperation agreements with their Korean counterparts and conducted events to advance business level relations. The President of Estonia, Kersti Kaljulaid, signed an Economic Cooperation Memorandum of Understanding (MoU) between Estonia and the Gyeonggi Province with the aim to connect entrepreneurs with the use of e-residency, further develop blockchain technology, and promote opportunities for ICT specialists to work in Estonia.¹⁰⁹

At the first Latvian-South Korean Business Forum, the Investment and Development Agency of Latvia signed two MoUs: one with the South Korean Importers’ Association on the promotion of bilateral economic cooperation and another one with Gyeonggi Province on cooperation in technology transfer and start-up ecosystem development.¹¹⁰ In addition, the President of Latvia Raimonds Vējonis met the management of Samsung Corporation and agreed on the establishment of the Samsung Research and Development Centre in Riga.¹¹¹

In September 2018, the Minister of Finance of Lithuania, Vilius Šapoka, attended the Blockchain Seoul Summit 2018 and met with representatives of the Korean investors’ and fintech associations to introduce the development trends of Lithuanian fintech industry and investment opportunities in Lithuania.¹¹²

¹⁰⁴ “The first meeting between the heads of state of Estonia and South Korea,” Office of the President of the Republic of Estonia, 7 February 2018, <https://www.president.ee/en/media/press-releases/1504-first-meeting-between-heads-state-estonia-and-south-korea>.

¹⁰⁵ “Cooperation with South Korea is beneficial for Lithuania,” Office of the President of the Republic of Lithuania, 7 February 2018, <https://www.lrp.lt/en/media-center/news/cooperation-with-south-korea-is-beneficial-for-lithuania/29343>.

¹⁰⁶ “The President of Latvia: Latvia and South Korea have the potential for closer cooperation in research and innovative technologies,” Office of the President of the Republic of Latvia, 13 February 2018, <https://www.president.lv/en/article/president-latvia-latvia-and-south-korea-have-potential-closer-cooperation-research-and-innovative-technologies>.

¹⁰⁷ “1st Joint Economic Committee Meeting of ROK and Baltic States (1+3) Takes Place,” Ministry of Foreign Affairs of Republic of Korea, 26 April 2019, https://www.mofa.go.kr/eng/brd/m_5676/view.do?seq=320491&page=1.

¹⁰⁸ Ibid.

¹⁰⁹ “Estonia and Gyeonggi Province (South Korea) – now closer than ever in talent mobility!” EAS News, 7 February 2018, <https://www.workinestonia.com/estonia-gyeonggi-province-south-korea-now-closer-ever-talent-mobility/>.

¹¹⁰ “The President of Latvia opens the first Latvian-South Korean Business Forum in Seoul,” Office of the President of the Republic of Latvia, 14 February 2018, <https://www.president.lv/en/article/president-latvia-opens-first-latvian-south-korean-business-forum-seoul>.

¹¹¹ “The President of Latvia and the management of Samsung Corporation agreed to establish a research and development centre in Riga,” Office of the President of the Republic of Latvia, 14 February 2018, <https://www.president.lv/en/article/president-latvia-and-management-samsung-corporation-agreed-establish-research-and-development-centre-riga>.

¹¹² “Lietuva – tarp 7 galingiausių blockchain lyderių pasaulyje (Lithuania – among the 7 most powerful blockchain leaders in the world),” Ministry of Finance of the Republic of Lithuania, 14 September 2018, <https://finmin.lrv.lt/lt/naujienos/lietuva-tarp-7-galingiausiu-blockchain-lyderiu-pasaulyje>.

In October 2018, President Kaljulaid revisited South Korea, accompanied by an Estonian business delegation, to attend the World Knowledge Forum and meet with South Korean entrepreneurs.¹¹³ In 2019, the Ministry of Economic Affairs and Communications of Estonia signed an MOU with SK Telecom to promote mutually beneficial cooperation.¹¹⁴

The intensification of the Baltic-South Korean relations is also supported by the establishment of new embassies as well as by the upgrading of the existing representations. Korea had opened a diplomatic representation in Latvia in 2012, but upgraded it to a fully-fledged [embassy](#) in 2019, whereas Latvia opened its [embassy in Korea](#) in 2015. According to the Latvian ambassador to Korea, Aris Vigants, Latvia looks for cooperation in innovative fields and supports technologies related to water and the digital transformation, as well as plans to open up new support schemes for investment, especially in the priority sectors, such as ICT, smart mobility and smart cities.¹¹⁵

Estonia approved the plan to open an [embassy in Seoul](#) in January 2020.¹¹⁶ According to the Chargé d'Affaires ad interim of the embassy, Marti Mätas, Korean investors might find opportunities in Estonia's global business services, supply chain, IT or more traditional sectors, such as real estate, tourism and spa facilities as well as industrial production.¹¹⁷

Lithuania made a decision in June 2021 and opened its embassy in Seoul in October 2021.¹¹⁸ According to the statement by the Foreign Vice Minister Mantas Adomėnas, Lithuania's key economic interest includes the attraction of investment into infrastructure projects of strategic importance.¹¹⁹ The President of Lithuania Dalia Grybauskaitė had mentioned before that a "new impetus for bilateral collaboration" would be South Korean investments into high technology and manufacturing sectors.¹²⁰

From the national promotion agencies, Enterprise Estonia has recently welcomed a Korean member to its Estonia-Asia Trade Agency team in Tallinn¹²¹, but otherwise the local Invest Estonia team remains responsible for the facilitation of Korean investments. One of the newest projects is the just-announced planned investment of more than half a billion euros by the South Korean company Global Phillips which will start producing and assembling electric buses for the European market in Ida-Virumaa.¹²² Otherwise, also the Investment and Development Agency of Latvia (LIAA) has set up a [representative office in South Korea](#), although its focus is not specified.

¹¹³ "Kersti Kaljulaid in South Korea," ERR News, 9 October 2018, <https://news.err.ee/867631/kersti-kaljulaid-in-south-korea>.

¹¹⁴ Indrek Kald, "Lõuna-Korea telekomihid otsib koostööd Eestiga (South Korean telecoms are looking for cooperation with Estonia)", Ituudised.ee, 5 July 2019, <https://www.ituudised.ee/uudised/2019/07/05/louna-korea-telekomihid-otsib-koostood-eestiga>.

¹¹⁵ Kwon Mee-yoo, "Latvian ambassador to Korea reflects on 1st year of appointment and anticipates stronger ties," The Korea Times, 27 December 2021, https://www.koreatimes.co.kr/www/nation/2021/12/120_321156.html.

¹¹⁶ "Estonia opens embassies in South Korea and Singapore," Ministry of Foreign Affairs of the Republic of Estonia, 30 January 2020, <https://vm.ee/en/news/estonia-opens-embassies-south-korea-and-singapore>.

¹¹⁷ Lee Kyung-sik, Song Na-ra, Kevin Lee, Kim Ji-yun, "Korea and Estonia need to enhance cooperation in digital government and electronic service sectors," The Korea Post, 26 January 2021, <https://www.koreapost.com/news/articleView.html?idxno=22152>.

¹¹⁸ "Lithuania's Embassy in South Korea begins its work," Ministry of Foreign Affairs of the Republic of Lithuania, 26 October 2021, <https://urm.lt/default/en/news/lithuanias-embassy-in-south-korea-begins-its-work>.

¹¹⁹ BNS, "Lithuania to open embassy in South Korea," LRT, 7 June 2021, <https://www.lrt.lt/en/news-in-english/19/1426551/lithuania-to-open-embassy-in-south-korea>.

¹²⁰ "Lithuanian and Korean relations are growing stronger," Office of the President of the Republic of Lithuania, 3 June 2019, <https://www.lrp.lt/en/media-center/news/lithuanian-and-korean-relations-are-growing-stronger/32545>.

¹²¹ "EASil on alates jaanuarist ekspordinõunik Lõuna-Koreas (Enterprise Estonia has had an export advisor in South Korea since January)," EAS, 12 January 2022, <https://eas.ee/easil-on-alates-jaanuarist-valisesindaja-louna-koreas/>.

¹²² Rene Kundla, "Lõuna-Korea ettevõtte plaanib Eestis hakata tootma elektribusse," ERR News, 20 February 2022, <https://www.err.ee/1608506504/louna-korea-ettevote-plaanib-estis-hakata-tootma-elektribusse>.

Case studies

Samsung's quest for innovation in the Baltics

Samsung has been operating in Latvia since 1999 and is the largest South Korean investor in Latvia.¹²³ The company covers the Baltic Region through its Samsung Electronics Baltics entity based in Riga, Latvia, and is active in the wholesale of electrical household appliances business. Its sole shareholder is Samsung Electronics Benelux B.V. in the Netherlands.¹²⁴

Samsung has been contributing to the local communities in the Baltics through its corporate social responsibility (CSR) initiative Samsung School for the Future with the goal of enriching and developing the digital skills of students.¹²⁵ The announced establishment of the R&D Centre in Riga continues that initiative with the aim to “help expand the technological possibilities of each individual and the country.”¹²⁶

However, in recent years, Samsung has started to take a stronger interest in the innovation potential of the region, especially in its technology sector and start-ups. In 2019, the Russia office of [Samsung Research](#) organised a delegation to the Baltics and met with various local tech and start-up ecosystem players.¹²⁷ Among these was Prototron, an Estonia-based fund created in 2012 with the aim to “contribute to the birth of new start-ups and world-changing technologies through prototype financing”.¹²⁸

The parties signed a partnership agreement, providing Prototron with annual funding of 16,000 euros from Samsung for the period of three years (2019-2021) as well as granting Samsung's prize winners at Prototron direct access to the Samsung Startup Membership (SSM) programme.¹²⁹

The SSM programme was initiated to “develop partnerships between technology start-ups and Samsung Electronics divisions for the purpose of mutually beneficial cooperation.”¹³⁰ Thus, the winners of Samsung's prize money and SSM programme participation were chosen by the company itself according to their compatibility with the Samsung Electronics product ecosystem and included start-ups such as Smarts, Milo Appliances, and ParcelSea.¹³¹

After the funding period, Samsung has continued to provide its support to Prototron in the form of mentorship for the programme's participants and is looking for further ways to collaborate in the future.

¹²³ “The President of Latvia and the management of Samsung Corporation agreed to establish a research and development centre in Riga,” Office of the President of the Republic of Latvia, 14 February 2018, <https://www.president.lv/en/article/president-latvia-and-management-samsung-corporation-agreed-establish-research-and-development-centre-riga>.

¹²⁴ “Samsung Electronics Baltics, SIA,” Lursoft, data update 6 January 2021, <https://company.lursoft.lv/en/samsung-electronics-baltics/40003963909>. See also “Samsung Electronics Co., Ltd.,” Lursoft, data update 28 May 2008, <https://company.lursoft.lv/en/samsung-electronics-co-ltd/40006006454>.

¹²⁵ “Project Samsung School for the Future The Student's Digital IQ,” Riga Secondary School 34, 2017, <https://www.34vsk.lv/index.php/en/contests-and-projects/796-project-samsung-school-for-the-future-the-student-s-digital-iq>.

¹²⁶ “Vejonis and Samsung agree on creation of technological research and development center in Riga,” The Baltic Course, 15 February 2018, http://www.baltic-course.com/eng/good_for_business/?doc=137722. The continuation of the CSR initiative into the concept of an R&D Centre was confirmed by Liga Bite, Samsung's head of corporate communication & PR in the Baltics.

¹²⁷ Information received in an online interview with Jana Budkovskaja, CEO of Prototron fund, on 8 February 2022.

¹²⁸ Self-description from Prototron's website at <https://prototron.ee/en/>.

¹²⁹ “International tech-gigant Samsung will support Prototron,” Prototron, 10 October 2019, <https://prototron.ee/en/2019/10/10/eesti-rahvusvaheline-tehnoloogiahiid-asus-prototroni-toetama/>.

¹³⁰ “Samsung expands the geography of the Samsung Startup Membership program,” Samsung Newsroom, 9 October 2019, <https://news.samsung.com/ru/samsung-expands-geography-of-samsung-startup-membership-program>.

¹³¹ “ISA CHAMP Gets the Biggest Grant From Autumn Round,” Prototron, 2 December 2019, <https://prototron.ee/en/2019/12/02/sugisvooru-suurim-toetus-laks-alternatiivsele-rahastusplatvormile/>, “A total of 70,000 euros was distributed in the 2020 spring round of Prototron,” Prototron, 1 June 2020, <https://prototron.ee/en/2020/06/01/prototron-jagas-kevadroorus-70-000-eurot/> and “25th round: Prototron funded 8 teams with a record 120,000 euros,” Prototron, 1 February 2021, <https://prototron.ee/en/2021/02/01/25th-round-prototron-funded-8-teams-with-a-record-120000-euros-2/>.

Outlook for the Korean investments in the Baltic Region

In recent years, the Baltic States have engaged themselves extensively in getting closer with South Korea and committed themselves to this relationship in various ways, investing in both political as well as economic relations. With China more and more falling out of grace in the Baltics, the three states have been looking for other like-minded partners in Asia, which share strong ties based on common values, to develop relations and conduct business with. South Korea has proven to be a good match.¹³²

As research into the already existing exchange of people and knowledge between the Nordic/Baltic Region and South Korea has pointed out, there is not much awareness or knowledge of the region in Korea and a common belief is that Baltic States are influenced by Russia.¹³³ As a solution, the author suggests enhancing cooperation of university students, professors and researchers to produce “spill-over” effects into economic and cultural relations.¹³⁴ The Baltic governments have added talent and entrepreneur attraction to the people-focused collaboration approach.¹³⁵

However, developing human relationships and educating people about a country or a region is a long-term project, with no or only little tangible results in the initial phase. It definitely is an investment in the future and thus demonstrates a strong commitment and determination from the Baltic States. This should provide a favourable signal to the Korean investors who look for opportunities in Europe.

¹³² See, for example, Joel Lee, “‘Latvia, a Baltic jewel in tourism, culture and environment’,” The Korea Herald, 21 November 2016, <http://www.koreaherald.com/view.php?ud=20161121000571>.

¹³³ Emils Rode, “Annex 4 – Seoul Field Study Research Report,” December 2012, https://www.uudenmaanliitto.fi/files/12229/Annex_4_Seoul_Field_Study_Research_Report.pdf.

¹³⁴ Ibid.

¹³⁵ See, for example, “Estonia and Gyeonggi Province (South Korea) – now closer than ever in talent mobility!” EAS News, 7 February 2018, <https://www.workinestonia.com/estonia-gyeonggi-province-south-korea-now-closer-ever-talent-mobility/> and “Key to success of a state is growing and attracting highly qualified talents,” Ministry of the Economy and Innovation of the Republic of Lithuania, 13 January 2021, <https://eimin.lrv.lt/en/news/key-to-success-of-a-state-is-growing-and-attracting-highly-qualified-talents>. Estonia’s e-residency programme has attracted already over 1800 Korean e-residents who have established over 150 Estonia/EU-based companies (see e-Residency dashboard for update information: <https://www.e-resident.gov.ee/dashboard>).

CONCLUSION

At first glance, there seems to be no specific interrelationship between Germany, China and South Korea as investor countries in the Baltic Region. However, as this study has shown, they are more closely connected than expected. The global situation and individual agendas of the countries in focus of this report have helped this interrelatedness to emerge.

While the economic crisis in 2008 made the Baltic States look to China for new opportunities and solutions, the global pandemic has brought the business back home. As companies search for alternatives to better manage the crisis in their value chains, any disruptions in the China-reliant system is an opportunity for the Baltic States. Lithuania, for example, has demonstrated well how to attract German investments into its manufacturing sector and become part of the global value chain, with an outreach all the way to China.

China has been looking for opportunities to enter the European market and acquire know-how, technologies and marketing channels. Latvia and Estonia presented the proof that they have the European-level technology, skills and know-how to be a perfect match for their Chinese partners and expand together globally.

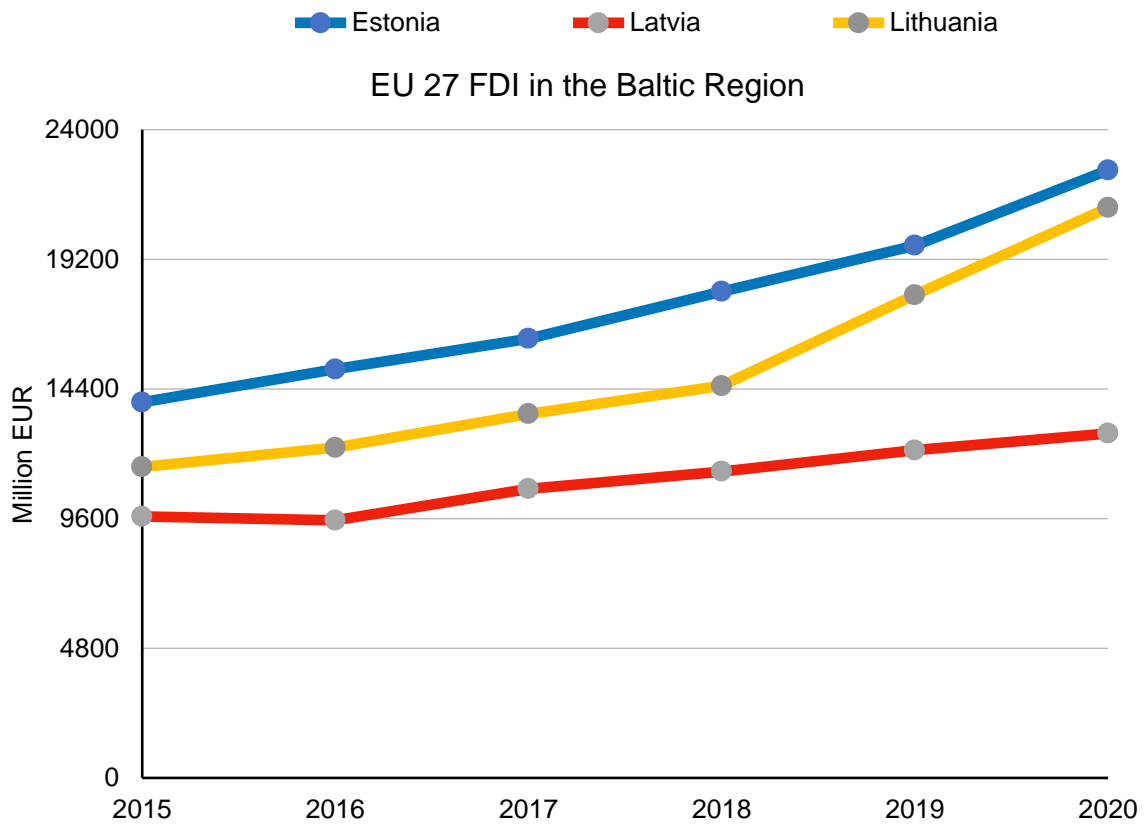
However, geopolitical developments have made the Baltic States search for like-minded partners in Asia. South Korea is one of them and the Baltic States have been eager to establish more tangible economic relations with their new partner. As a result, the first investments are already on their way.

ANNEX

TABLE 1: Investment and business promotion ecosystem of the Baltic States

	Estonia	Latvia	Lithuania
National investment promotion agencies	Invest Estonia https://investinestonia.com Estonian Business and Innovation Agency (formerly Enterprise Estonia [EAS] and KredEx) https://eas.ee/?lang=en https://kredex.ee/en	Invest Latvia https://investinlatvia.org Investment and Development Agency of Latvia (LIAA) https://www.liaa.gov.lv/en	Invest Lithuania https://investlithuania.com Enterprise Lithuania https://www.enterpriselithuania.com/en/
Relevant ministries	Ministry of Foreign Affairs of Estonia https://vm.ee/en Ministry of Economic Affairs and Communications of Estonia https://mkm.ee/en	Ministry of Foreign Affairs of Latvia https://www.mfa.gov.lv/en Ministry of Economics of Latvia https://www.em.gov.lv/en	Ministry of Foreign Affairs of Lithuania https://www.urm.lt/default/en/ Ministry of Economy and Innovation of Lithuania https://eimin.lrv.lt/en/
Chambers and associations of industry and commerce	Estonian Chamber of Commerce and Industry http://www.koda.ee/en Other professional associations and development centres of creative industries https://vm.ee/et/erialaliidud	Latvian Chamber of Commerce and Industry https://www.ltrk.lv/en Other business support organisations https://balticexport.com/associations/	Association of Lithuanian Chambers of Commerce, Industry and Crafts https://www.chambers.lt/en Other business support organisations https://balticexport.com/associations/
Startup agencies	Startup Estonia https://startupestonia.ee	Magnetic Latvia Startup https://startuplatvia.eu	Startup Lithuania https://www.startuplithuania.com/
Country and business promotional resources and programmes	Estonia https://estonia.ee e-Estonia https://e-estonia.com e-Residency of Estonia https://www.e-resident.gov.ee/ Work in Estonia https://www.workinestonia.com/ Startup Visa Estonia https://startupestonia.ee/visa Trade with Estonia https://tradewithestonia.com Visit Estonia https://www.visitestonia.com/en/	Latvia https://www.latvia.eu/ Digital Accelerator of Latvia http://www.digitallatvia.lv/home/ Startup Visa Latvia https://startuplatvia.eu/startup-visa Latvia Travel https://www.latvia.travel/	Lithuania https://lithuania.lt Digital Lithuania https://digital-lithuania.eu/ e-Residency of Lithuania https://www.migracija.lt/norciu-tapti-elektroniniu-rezidentu Work in Lithuania https://workinlithuania.lt/ Startup Visa Lithuania https://startupvisalithuania.com/ Lithuania Travel https://lithuania.travel/en/

CHART 1: EU 27 FDI in the Baltic Region



Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania; calculations by the author

TABLE 2: German investments in the Baltic Region

(positions/stocks, in million euro, Q3 2021)

	NACE Rev. 2	Estonia	Latvia	Lithuania
A	Agriculture, forestry and fishing	1	80	13
B	Mining and quarrying	13	93	57
C	Manufacturing	103	453	330
D	Electricity, gas, steam and air conditioning supply	X	82	•
E	Water supply; sewerage, waste management and remediation activities	41	0	-
F	Construction	26	15	19
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	610	284	569
H	Transportation and storage	106	14	84
I	Accommodation and food service activities	X	8	3
J	Information and communication	9	12	7
K	Financial and insurance activities	-2 482	125	4 100
L	Real estate activities	123	43	253
M	Professional, scientific and technical activities	555	16	22
N	Administrative and support service activities	14	16	24
P	Education	1		-
Q	Human health and social work activities	92		7
R	Arts, entertainment and recreation	1	0	•
S	Other service activities	0	0	•
-	Undefined	13	0	
Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania				
<i>x - confidential data with only one or two reporters</i> <i>• non-publishable and confidential</i> <i>- missing value; data cannot exist</i>				

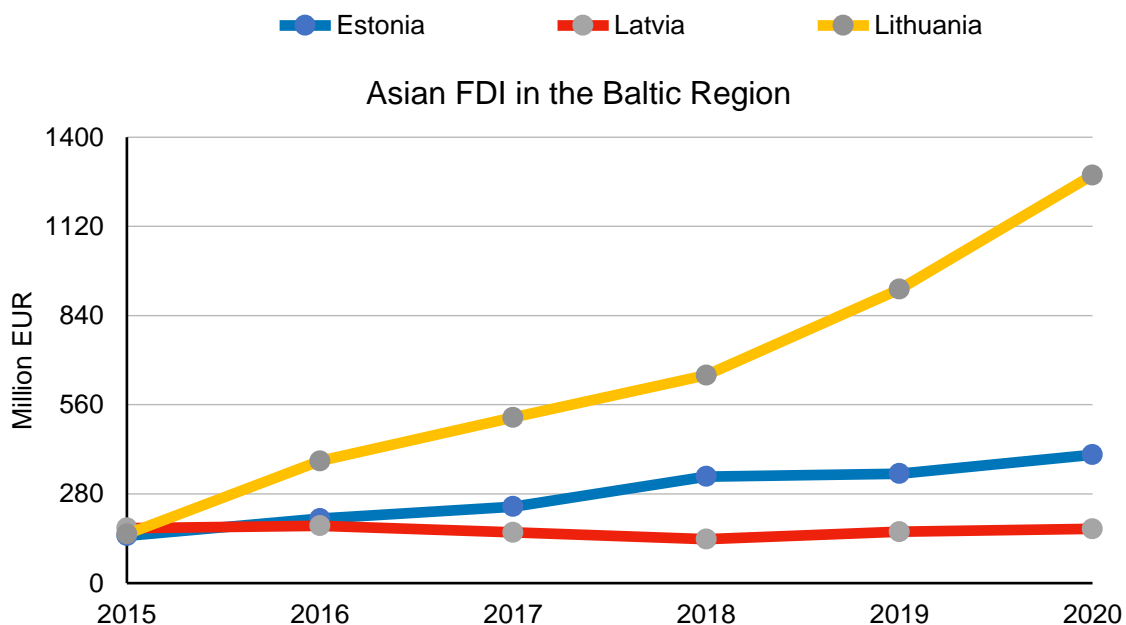
TABLE 3: German affiliates / German controlled enterprises in the Baltic Region

German affiliates in Estonia				
		2017	2018	2019
Total – all activities	Number of enterprises	60	62	64
	Average annual number of persons employed	6 077	6 350	6 192
	Turnover, thousand euros	995 495	1 053 558	1 118 097
Mining and quarrying	Number of enterprises	2	2	2
Manufacturing	Number of enterprises	14	15	16
Electricity, gas, steam and air conditioning supply	Number of enterprises	1	1	1
Water supply; sewerage, waste management and remediation activities	Number of enterprises	1	1	1
Construction	Number of enterprises	3	3	4
Wholesale and retail trade; repair of motor vehicles and motorcycles	Number of enterprises	21	19	19
Transportation and storage	Number of enterprises	4	5	6
Accommodation and food service activities	Number of enterprises	1	1	1
Information and communication	Number of enterprises	3	3	4
Real estate activities	Number of enterprises	0	0	1
Professional, scientific and technical activities	Number of enterprises	1	3	2
Administrative and support service activities	Number of enterprises	5	5	4
Human health and social work activities	Number of enterprises	4	4	3
Source: Statistics Estonia				
<i>Note: The table presents the data of enterprises with 20 or more persons employed. Economic activities total excluding agriculture, forestry, fishing and financial intermediation activities (NACE A and K).</i>				

German affiliates in Latvia				
		2017	2018	2019
Total – all activities	Number of enterprises	397	405	465
	Average annual number of persons employed	9 397	11 801	12 238
	Turnover, thousand euros	1 685 967	1 957 387	2 011 455
Mining and quarrying	Number of enterprises	16	17	18
Manufacturing	Number of enterprises	44	43	45
Electricity, gas, steam and air conditioning supply	Number of enterprises	5	7	5
Water supply; sewerage, waste management and remediation activities	Number of enterprises	1	1	2
Construction	Number of enterprises	15	11	17
Wholesale and retail trade; repair of motor vehicles and motorcycles	Number of enterprises	109	121	143
Transportation and storage	Number of enterprises	32	36	44
Accommodation and food service activities	Number of enterprises	4	5	6
Information and communication	Number of enterprises	30	29	32
Real estate activities	Number of enterprises	63	66	63
Professional, scientific and technical activities	Number of enterprises	55	43	51
Administrative and support service activities	Number of enterprises	23	26	39
Source: Central Statistics Bureau of Latvia				
<i>Note: NACE Rev. 2, sections B-N, excluding K, including S95</i>				

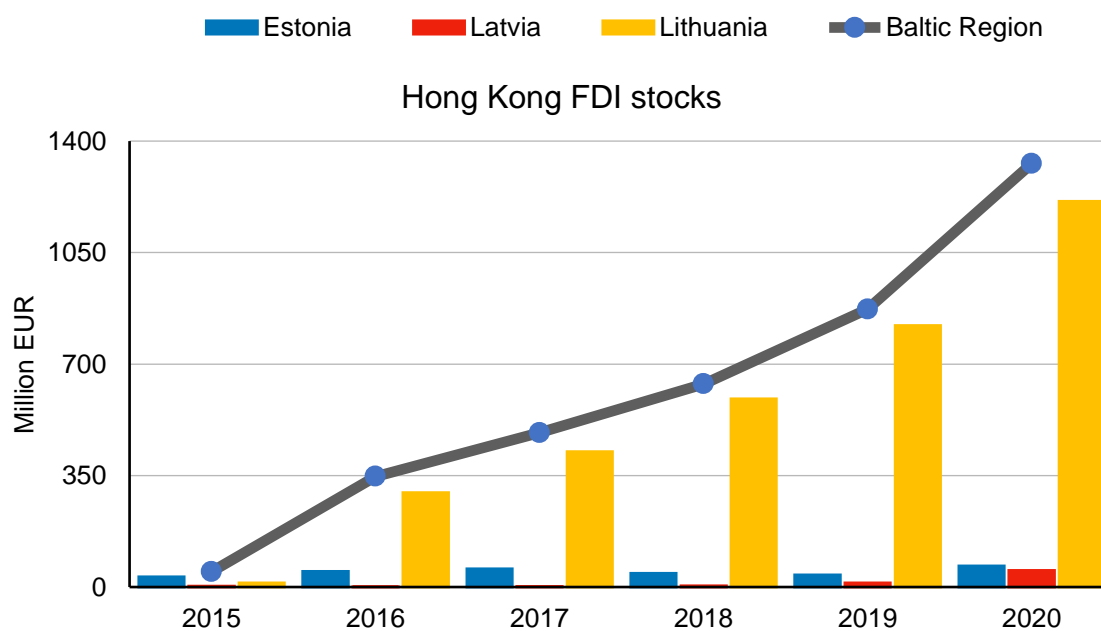
German controlled enterprises in Lithuania				
		2017	2018	2019
Total – all activities	Number of enterprises	417	463	517
	Average annual number of persons employed	20 665	22 094	23 723
	Turnover, thousand euros	2 769 574	3 132 574	3 614 128
Agriculture, forestry and fishing	Number of enterprises	2	1	1
Mining and quarrying	Number of enterprises	7	6	6
Manufacturing	Number of enterprises	56	57	60
Electricity, gas, steam and air conditioning supply	Number of enterprises	4	4	5
Water supply; sewerage, waste management and remediation activities	Number of enterprises	2	1	1
Construction	Number of enterprises	16	20	31
Wholesale and retail trade; repair of motor vehicles and motorcycles	Number of enterprises	150	155	161
Transportation and storage	Number of enterprises	38	57	66
Accommodation and food service activities	Number of enterprises	4	5	6
Information and communication	Number of enterprises	19	27	30
Real estate activities	Number of enterprises	30	32	36
Professional, scientific and technical activities	Number of enterprises	54	58	69
Administrative and support service activities	Number of enterprises	23	30	32
Education	Number of enterprises	0	0	1
Human health and social work activities	Number of enterprises	7	6	7
Arts, entertainment and recreation	Number of enterprises	3	2	2
Other service activities	Number of enterprises	2	2	3
Source: Statistics Lithuania				

CHART 2: Asian FDI in the Baltic Region



Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania; calculations by the author

CHART 3: Hong Kong FDI stocks



Data sources: Bank of Estonia, Bank of Latvia, Bank of Lithuania

TABLE 4: Chinese, Hong Kong and Korean investments in Estonia

(positions/stocks, in million euro, Q3 2021)

	NACE Rev. 2	China	Hong Kong	Korea
A	Agriculture, forestry and fishing		x	
B	Mining and quarrying			
C	Manufacturing	24	35	x
D	Electricity, gas, steam and air conditioning supply			
E	Water supply; sewerage, waste management and remediation activities			
F	Construction	0	0	
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	1	7	0
H	Transportation and storage	2	0	x
I	Accommodation and food service activities	-0	0	x
J	Information and communication	1	0	1
K	Financial and insurance activities	0	7	0
L	Real estate activities	17	11	x
M	Professional, scientific and technical activities	0	-1	0
N	Administrative and support service activities	1	0	0
P	Education	x	x	x
Q	Human health and social work activities			
R	Arts, entertainment and recreation	0	x	
S	Other service activities	x	x	
-	Undefined	3	5	
Data source: Bank of Estonia				
<i>x – confidential data with only one or two reporters</i>				

TABLE 5: Chinese, Hong Kong and Korean investments in Latvia

(positions/stocks, in million euro, Q3 2021)

	NACE Rev. 2	China + Hong Kong + Korea*
A	Agriculture, forestry and fishing	3
B	Mining and quarrying	
C	Manufacturing	21
D	Electricity, gas, steam and air conditioning supply	
E	Water supply; sewerage, waste management and remediation activities	
F	Construction	
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	19
H	Transportation and storage	0
I	Accommodation and food service activities	0
J	Information and communication	0
K	Financial and insurance activities	
L	Real estate activities	0
M	Professional, scientific and technical activities	103
N	Administrative and support service activities	
P	Education	
Q	Human health and social work activities	
R	Arts, entertainment and recreation	
S	Other service activities	
-	Undefined	7
	Data source: Bank of Latvia	
	* Due to confidentiality reasons countries are combined	

TABLE 6: Chinese, Hong Kong and Korean investments in Lithuania

(positions/stocks, in million euro, Q3 2021)

	NACE Rev. 2	China	Hong Kong	Korea
A	Agriculture, forestry and fishing	•	-	-
B	Mining and quarrying	-	-	-
C	Manufacturing	1	1 419	•
D	Electricity, gas, steam and air conditioning supply	-	-	-
E	Water supply; sewerage, waste management and remediation activities	-	-	-
F	Construction	•	•	-
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	5	10	•
H	Transportation and storage	•	•	-
I	Accommodation and food service activities	0	-	-
J	Information and communication	•	•	-
K	Financial and insurance activities	2	3	-
L	Real estate activities	0	-	-
M	Professional, scientific and technical activities	-	•	-
N	Administrative and support service activities	-	•	-
P	Education	-	-	-
Q	Human health and social work activities	-	-	-
R	Arts, entertainment and recreation	-	-	-
S	Other service activities	•	-	-
-	Undefined			
Data sources: Bank of Lithuania				
• non-publishable and confidential - missing value; data cannot exist				

TABLE 7: Chinese affiliates / Chinese controlled enterprises in the Baltic Region

Chinese affiliates in Estonia				
		2017	2018	2019
Total – all activities	Number of enterprises	1	2	3
	Average annual number of persons employed	N/A	N/A	650
	Turnover, thousand euros	N/A	N/A	116 437
Manufacturing: Repair and installation of machinery and equipment	Number of enterprises	0	1	1
Information and communication: Motion picture, video and television programme production, sound recording and music publishing activities	Number of enterprises	1	1	1
Professional, scientific and technical activities: Architectural and engineering activities; technical testing and analysis	Number of enterprises	0	0	1
Source: Statistics Estonia				
<i>Note: The table presents the data of enterprises with 20 or more persons employed. Economic activities total excluding agriculture, forestry, fishing and financial intermediation activities (NACE A and K).</i>				

Chinese affiliates in Latvia				
		2017	2018	2019
Total – all activities	Number of enterprises	26	33	31
	Average annual number of persons employed	211	194	314
	Turnover, thousand euros	35 066	43 153	18 052
Manufacturing	Number of enterprises	2	4	7
Wholesale and retail trade, repair of motor vehicles and motorcycles	Number of enterprises	12	15	11
Transportation and storage	Number of enterprises	1	1	1
Accommodation and food service activities	Number of enterprises	6	7	6
Information and communication	Number of enterprises	2	2	3
Real estate activities	Number of enterprises	3	3	3
Professional, scientific and technical activities	Number of enterprises	0	1	0
Source: Central Statistics Bureau of Latvia				
<i>Note: NACE Rev. 2, sections B-N, excluding K, including S95</i>				

Chinese controlled enterprises in Lithuania				
		2017	2018	2019
Total – all activities	Number of enterprises	44	50	35
	Average annual number of persons employed	389	539	418
	Turnover, thousand euros	110 901	144 419	142 604
Manufacturing	Number of enterprises	2	2	3
Construction	Number of enterprises	2	3	3
Wholesale and retail trade; repair of motor vehicles and motorcycles	Number of enterprises	17	19	13
Transportation and storage	Number of enterprises	0	3	1
Accommodation and food service activities	Number of enterprises	8	11	9
Information and communication	Number of enterprises	2	2	1
Real estate activities	Number of enterprises	5	3	1
Professional, scientific and technical activities	Number of enterprises	6	3	0
Administrative and support service activities	Number of enterprises	1	3	2
Other service activities	Number of enterprises	1	1	2
<i>Source: Statistics Lithuania</i>				

TABLE 8: Hong Kong affiliates / Hong Kong controlled enterprises in the Baltic Region

Hong Kong affiliates in Estonia				
		2017	2018	2019
Total – all activities	Number of enterprises	1	1	1
	Average annual number of persons employed	N/A	N/A	Confidential
	Turnover, thousand euros	N/A	N/A	Confidential
Manufacturing: Manufacture of furniture	Number of enterprises	1	1	1
Source: Statistics Estonia				
<i>Note: The table presents the data of enterprises with 20 or more persons employed. Economic activities total excluding agriculture, forestry, fishing and financial intermediation activities (NACE A and K).</i>				

Hong Kong affiliates in Latvia				
		2017	2018	2019
Total – all activities	Number of enterprises	5	6	8
	Average annual number of persons employed	941	30	69
	Turnover, thousand euros	Confidential	Confidential	4 085
Mining and quarrying	Number of enterprises	0	1	1
Wholesale and retail trade, repair of motor vehicles and motorcycles	Number of enterprises	4	3	4
Information and communication	Number of enterprises	0	0	1
Professional, scientific and technical activities	Number of enterprises	0	1	1
Administrative and support service activities	Number of enterprises	1	1	1
Source: Central Statistics Bureau of Latvia				
<i>Note: NACE Rev. 2, sections B-N, excluding K, including S95</i>				

Hong Kong controlled enterprises in Lithuania				
		2017	2018	2019
Total – all activities	Number of enterprises	9	11	6
	Average annual number of persons employed	770	353	203
	Turnover, thousand euros	72 900	54 638	12 540
Agriculture, forestry and fishing	Number of enterprises	1	1	0
Manufacturing	Number of enterprises	1	1	1
Wholesale and retail trade; repair of motor vehicles and motorcycles	Number of enterprises	7	6	3
Transportation and storage	Number of enterprises	0	1	1
Information and communication	Number of enterprises	0	1	1
Administrative and support service activities	Number of enterprises	0	1	0
<i>Source: Statistics Lithuania</i>				

TABLE 9: South Korean affiliates / South Korean controlled enterprises in the Baltic Region

South Korean affiliates in Estonia				
		2017	2018	2019
Total – all activities	Number of enterprises	0	0	1
	Average annual number of persons employed	N/A	N/A	Confidential
	Turnover, thousand euros	N/A	N/A	Confidential
Professional, scientific and technical activities: Architectural and engineering activities; technical testing and analysis	Number of enterprises	N/A	N/A	1
Source: Statistics Estonia				
<i>Note: The table presents the data of enterprises with 20 or more persons employed. Economic activities total excluding agriculture, forestry, fishing and financial intermediation activities (NACE A and K).</i>				

South Korean affiliates in Latvia				
		2017	2018	2019
Total – all activities	Number of enterprises	4	6	6
	Average annual number of persons employed	85	81	105
	Turnover, thousand euros	Confidential	Confidential	Confidential
Source: Central Statistics Bureau of Latvia				
<i>Note: NACE Rev. 2, sections B-N, excluding K, including S95</i>				

South Korean controlled enterprises in Lithuania				
		2017	2018	2019
Total – all activities	Number of enterprises	0	0	2
	Average annual number of persons employed	N/A	N/A	Confidential
	Turnover, thousand euros	N/A	N/A	Confidential
Wholesale and retail trade; repair of motor vehicles and motorcycles	Number of enterprises	0	0	2
Source: Statistics Lithuania				