

REPORT

FINANCING THE FUTURE

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How to attract more foreign investors to the Three Seas Region



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Preface: Financing the Future

Julita Wilczek

The Three Seas region, located between the Adriatic, Baltic and Black seas, is a region with significant infrastructural needs, but inadequate financial resources to address them. Therefore it needs to bring in the funds from elsewhere, ideally as an investment. However, despite the three decades of accelerated economic growth it still attracts only a portion of direct foreign investment poured into richer Western Europe.

Individual countries of the Three Seas region have seen varying levels of success when it comes to bringing in foreign investors, with more prominent economies significantly outpacing smaller ones. Still, most of that capital so far was not dedicated to infrastructural investment, which is of key importance for the region. This failure combined with a shared interest in developing more connections within the region has led to the creation of the Three Seas Initiative in 2015.

The Three Seas Initiative is based on a premise that infrastructural investment should be approached from the regional perspective and that we need more connections within the region to increase the economic prospects, competitiveness, and investment appeal of the individual countries.

As an extension of political and economic cooperation with the initiative, Polish Development Bank (BGK) came up with the idea of the Three Seas Initiative Investment Fund in 2017. Through the 3SIIF, an investor gains access to the entirety of the region's potential and has the investment process and risk management taken care of by a professional team. This lowers the entry barrier to investing in the region, which can result in new investors coming into the region.

The Fund invests in commercially viable projects in the Three Seas Region. In particular, it focuses on critical infrastructure in the energy, transport, and digital sector that have an impact on more than one country in the region. The Fund increases the chances for more private investment in the area. However, since it is the first financial vehicle of this type that was created by the region and for the region, it is important to keep realistic expectations on its potential impact on investment in the region.

That is why we also need other instruments to encourage existing and prospective investors. In this report, we focus on investors from the United States, the United Kingdom, Germany, China, Japan, Korea, and the Nordics. This list includes countries with existing significant investment presence in the Three Seas, as well as those that are yet to seriously invest in the region but have been considering it in recent years.

By combining characteristics of emerging and developed markets, the Three Seas region offers investors relatively high yet safe rates of return from their assets. Other attractive qualities include a highly skilled labor force, lower (compared to Western Europe) costs of labor, geographic and cultural proximity as well as membership in the European Union. The region is located at the crossroads of key global logistic routes,

which is particularly important now due to redrawing of the existing transport corridors due to Covid and the Russian invasion of Ukraine.

Among the key barriers that stand in the way of attracting more funds for investments, especially those in infrastructure, the authors point out: lack of information on available opportunities (underfunded PR, limited investor outreach), lack of or limited (language-wise) reporting on environmental, social, and corporate governance (ESG), insufficiently competitive investment incentives (comparing with Western Europe), scarce and uncoordinated promotion of the regional potential as a whole, inadequate effort to tailor the existing offers and services to specific countries and their values.

The war in Ukraine, and earlier the COVID pandemic, is also indicated as a temporary challenge from the investors' perspective. At the same time, however, for some countries, especially the US and UK, the war may incentivize more investment, in a way to "payback" for the help they have given their neighbor. In a similar, not-strictly-financial, sentiment, some countries analyzed in the report, are determined to invest in the Three Seas region for the sake of counterbalancing China.

The Three Seas Initiative Investment Fund can be an answer to some of the challenges and barriers described above. To address others authors proposed a set of recommendations to be implemented either on the regional level or individually by each country.

First of all, they recommended intensified promotion of the Three Seas Region as a brand. This includes promoting existing opportunities and focusing on attracting well-known large private investors from key infrastructure sectors. However, it is essential to undertake these activities at the regional level, or at least in subregional groups as it offers a bigger picture of the Three Seas' investment potential, which increases the chances of attracting investors.

One example of such activities on a regional level would be the creation of the Three Seas Chamber of Commerce, which could serve as the first point of contact for foreign investors interested in the region, as well as help identify synergies between the 3SI countries. Investors could further be incentivized to invest in more than one country by offering additional bonuses like lower interest rates on preferential loans or additional tax breaks.

From other recommendations, it is also worth mentioning the need to focus more on green investments. To meet climate goals, many countries introduced restrictions that prevent private and public investors from funding projects that are not sustainable. Meanwhile, in the Three Seas region, too little emphasis is still placed on reporting ESG data. In the opinion of many foreign investors, sustainable investments in the region are few and far between or being developed on a too small scale. This belief might result from the fact that not enough information, particularly in English, is available for prospective investors. This change is easy and relatively inexpensive to implement and combined with adequate PR efforts, can significantly increase the investment prospects of the Three Seas.

This report is part of the project Poland as a leader and promoter of economic cooperation within the Three Seas Initiative, realized by the Institute of New Europe (INE) on behalf of the Polish Ministry of Foreign Affairs. In addition to this report, INE conducted interviews on economic cooperation with experts from all 3SI countries and organized the conference The Three Seas Initiative - key opportunities and challenges for economic cooperation. You can find the recordings and event coverage on our website (ine.org.pl) and YouTube channel.



The United Kingdom and the United States



George Byczynski
Marta Kakol

As a rapidly growing region, with an increasing international presence, Central and Eastern Europe (CEE) has become more appealing for foreign investment. The Three Seas Initiative (3SI) has recently gained new significance in light of the COVID-19 pandemic and the Russian invasion of Ukraine, particularly for the United States and the United Kingdom. To become a competitive partner in the global and European arena, the Initiative requires new sources of funding for infrastructure investment. The United States has positioned itself as one of the most significant partners for the Three Seas Initiative, with the world's largest GDP of almost 23 trillion USD. Notably, the United States has demonstrated an interest in contributing to the Initiative on multiple occasions, both with individual investments into particular countries, as well as a recent financial contribution to the Three Seas Initiative Investment Fund. However, cooperation with the US has been hindered as a result of geopolitical and political factors affecting the region. Central and Eastern Europe might also profit from investments by some of its most powerful neighbours, such as the United Kingdom. With a current GDP of 2.93 trillion GBP, the United Kingdom is the second largest economy in Europe and the fifth largest in the world, after the US, China, Japan and Germany. The country's post-Brexit position necessitated the formation of new relationships and the pursuit of new investment possibilities.

The following analysis discusses the most important investments made by the United States and the United Kingdom so far. Both existing challenges and potential future ones, in addition to investment incentives, are taken into account. The likelihood of crucial long-term private investment is also investigated. After considering public and private funding, a sector-based analysis will be outlined based on the three most important sectors of the Initiative, namely infrastructure, energy, and digitalisation. The analysis will conclude with suggested incentives for investors and other recommendations.

1.1

British investment so far

The United Kingdom's investors have historically not paid much attention to Central and Eastern Europe, as their focus has mostly been on countries of the Commonwealth (due to common law and language compatibility) and the emerging Asian markets. In recent years, however, the United Kingdom's interest in investing in the expanding Three Seas region has increased. As the United Kingdom attempts to navigate the post-Brexit world by seeking out new alliances and investment opportunities, the Three Seas countries are natural partners for London, due to shared security interests and a substantial amount of untapped investment potential.

The United Kingdom is currently one of the leading investors and trading partners in Slovenia and Poland, two of the 12 countries that are a part of the Three Seas initiative. UK public and private investors could benefit further from the investment in the region by contributing to the Three Seas Initiative Investment Fund, which would enable them to access new opportunities in countries with a proven track record and rapid growth.

According to OECD data, the United Kingdom had the fifth most significant foreign direct investment (FDI) outflows in 2021, totalling USD **107.75 billion**.

Energy, commerce, infrastructure, metallurgy and machinery, finance, administration, and services are currently the most desirable sectors for British investment.

According to OECD data¹, the United Kingdom had the fifth most significant foreign direct investment (FDI) outflows in 2021, totalling USD 107.75 billion, after the United States (USD 433.61 billion), Germany (USD 151.6 billion), Japan (USD 146.77 billion), and China (USD 128,04 billion). The United Kingdom provides a robust legal support system and seeks to safeguard business interests, reduce bureaucracy, and facilitate investment. The proximity of the United Kingdom to Central and Eastern Europe and its global leadership in innovation make its FDI highly desirable. However, Western European nations such as the Netherlands, Luxembourg, France, and Germany have received significantly more FDI than

Central and Eastern European nations to date. Energy, commerce, infrastructure, metallurgy and machinery, finance, administration, and services are currently the most desirable sectors for British investment².

1.2

Key British investment opportunities (funds and programmes)

UK Export Finance (UKEF), the official export credit agency of the United Kingdom, is a strong supporter of the investment in the Three Seas Initiative region. The organisation aims to ensure that no viable UK export “fails for lack of financing or insurance.” According to Ilaria Regondi, Deputy Trade Commissioner for Europe at the United Kingdom’s Department of International Trade, “its risk appetite of over GBP 50 billion for Three Seas countries can unlock finance for major infrastructure and clean energy projects.” Specifically, the organisation intends to support green exports and contribute to net-zero initiatives in an effort to reach the 2050 target.

HM Trade Commissioner for Europe, Chris Barton CMG, from the UK Department of International Trade, stated that the UK government is willing to facilitate opportunities in the 3SI region for UK firms operating in the digital, infrastructure, and green energy industries. The UK Government’s Department for International Trade also supports the **DIT Europe’s supercharged Clean Growth campaign**³ with a substantial financial investment. Concerning sustainable business opportunities, the programme seeks to “maximise trade, collaboration and knowledge-sharing between the UK and European countries.” Current projects include constructing offshore wind farms, decarbonising transportation, illuminating cities with smart streetlights and developing new infrastructure.

The Three Seas Initiative Investment Fund utilises British expertise through its appointed investment advisor, Amber Fund Management Limited, a fund manager based in the United Kingdom. The British company specialises in infrastructure investment management, particularly in the

1. OECD International Direct Investment Statistics – United Kingdom, OECD, 2021, https://read.oecd-ilibrary.org/finance-and-investment/oecd-international-direct-investment-statistics-2021_981db434-en#page319.
 2. Zjednoczone Królestwo Wielkiej Brytanii i Irlandii Północnej. Informacja o sytuacji gospodarczej i stosunkach gospodarczych z Polską, Ministerstwo Rozwoju, Pracy i Technologii, 03.2021, <https://www.gov.pl/attachment/eba1f957-cc78-4a1d-90b1-118bc712cfa5>.
 3. Richard Burn. UK’s Minister for Exports launches DIT Europe’s Clean Growth campaign, APCO Worldwide, 16.09.2020, <https://www.linkedin.com/pulse/uks-minister-exports-launches-dit-europes-clean-growth-richard-burn>.

energy, transportation, and digital technology industries. According to a recent report titled “Barometer: The Three Seas Initiative Investment Fund. Towards Institutionalisation of the Initiative?”⁴, the role of Amber Fund Management Ltd. extends beyond that of an advisor. It is accountable for the whole investment process, meaning selecting projects, evaluating their viability, making investment decisions, and managing projects throughout their duration.

During the London investment conference on the Three Seas region in May 2022, Susannah Simon, director for Europe at the Foreign Commonwealth and Development Office, affirmed that “the United Kingdom continues to explore options for a deeper engagement with the Initiative and its fund, including the sharing of expertise [in] areas of UK excellence on digital, infrastructure, and clean energy.”⁵

1.3

Public and private British investment

On 12 May 2022, the Polish and Latvian Embassies and the Polish Development Bank hosted a conference entitled “Three Seas Initiative: Business Opportunities in Filling the North-South Connectivity Gap” in London. A significant number of representatives from financial institutions based in the City of London and beyond attended the event. Lord Gerry Grimstone, the UK Minister for Investment at the Department for International Trade and the Department for Business, Energy, and Industrial Strategy, stated, via a video message, that the UK Government will continue to inform British investors about investment opportunities in the Three Seas Initiative. Additionally, the head of the Department of International Trade expressed intensifying enthusiasm for the Initiative. The event, despite taking place in the Guildhall, lacked the attendance of the Lord Mayor, a key person in the City of London. There was also no British press coverage of the event, signifying the limited PR effort of the organisers.

During the Presidential Summit and Business Forum in Bulgaria on 8-9th of July 2021, former UK Foreign Secretary

Dominic Raab and Minister Graham Stuart expressed interest in the Three Seas Initiative, particularly in terms of green investment. At the event, there were hundreds of businesses present, including the leading British firms Bechtel, Mott MacDonald, DWF, Shell, and Linklater.

In a recent report⁶ published by the Polish government, an increase in British investor interest in the 3SI region, particularly among mid-sized businesses, was noted. Large corporations are also interested in investing in the CEE region. They have typically outsourced their support functions, such as accounting, human resource management, and R&D, to other nations (Business Process Offshoring). The report suggests that while countries such as India have a cost-related advantage when it comes to offshoring, Poland and other Eastern European nations may be more attractive due to their geographical proximity (“nearshoring”). This proximity results in the smaller time difference due, lower transportation costs, the cheaper labour force in comparison to the UK, as well as cultural compatibility.

According to the British Polish Chamber of Commerce, British investors are most interested in energy (including nuclear), transportation and infrastructure (railway), and healthcare and biomedical science projects.

1.4

Investment barriers and challenges from the UK perspective

1

British investors have previously sought EU funding when investing in Central and Eastern Europe. As a result of the United Kingdom’s exit from the European Union, the 3SI countries must now negotiate their own agreements with the United Kingdom. Strong partnerships exist between the United Kingdom and Western European nations such as Germany and France. To forge new partnerships in the Central and Eastern part of Europe, additional incentives, reassurances, and an investor-friendly structure are required.

4. Andrzej Rudowski, Julita Wilczek. Fundusz Trójmorza. W stronę instytucjonalizacji Inicjatywy?, Collegium Interethnicum, 2021, https://interethnicum.pl/wp-content/uploads/2022/01/BAROMETER_3_final.pdf.

5. Adam Starzyński. Will the War in Ukraine Strengthen British-3 Seas Relations?, “3Seas Europe”, 16.06.2022, <https://3seaseurope.com/british-3-seas-relations-war-ukraine/>.

6. Zjednoczone Królestwo Wielkiej Brytanii i Irlandii Północnej..., op. cit.

2

When investing abroad, businesses in the United Kingdom seek grants, business support, capital allowances, and tax relief. The 3SI competes with Western European nations that provide a welcoming environment for foreign investors and represent a challenge to less-experienced Central and Eastern European nations.

3

Some British investors have shared their worries, that the proximity of the war in Ukraine is making a negative impact on their investments and opportunities in the region. They are concerned that a potential war may spread to other CEE nations.

4

Neither the Three Seas Initiative, nor the Three Seas Initiative Investment Funds has pursued any visible PR or Public Affairs to promote itself in British politics and media, thus limiting its brand recognition. A survey of thirty randomly selected MPs in the House of Commons has revealed that only four of them recognised what the Three Seas Initiative was. A British minister, when publicly asked about the Three Seas Initiative, believed it to be a project focused on the Mediterranean. The two largest London PR and Public Affairs companies had not heard of the 3SI but were keen to promote it. They were surprised to find out that such an ambitious and promising project has not had any visibility in the political and journalistic spheres.

1.5

Factors that could contribute to increased British investment in the Three Seas Region

1

In 2020, the UK Minister for European Neighbourhood and the Americas, Wendy Morton, claimed that the Three Seas Initiative closely aligns with the UK's objectives, which include "building back better, addressing the drivers of climate change, and addressing our shared geopolitical challenges." Through the 3SI Investment Fund, the United Kingdom could have the opportunity to invest in energy, infrastructure, and digital projects in "12 capitals that

share London's vision for a stronger Transatlantic alliance, economic cooperation and development, and multilaterally shaping the international order of the future".⁷

2

According to the *Three Seas Initiative and the Opportunities for Global Britain Report (2021)* written by Conservative MP Daniel Kawczynski, Dominic Lissak and George Byczynski, the 3SI presents the United Kingdom with an opportunity to establish closer ties with new potential European partners outside of Western Europe and enter more favourable trade agreements as a result.⁸ This would be consistent with the British post-Brexit strategy and Boris Johnson's 2016 "Global Britain" foreign policy. A stronger Central and Eastern Europe can improve the overall functioning of the European market, resulting in additional financial benefits for the United Kingdom.

3

The countries of the Three Seas Initiative have achieved greater economic growth than developed markets, which is not often known. At the same time, they are also more stable and secure than other emerging markets. The countries have over 112 million inhabitants, which is more than a quarter of the EU. As all 3SI countries are members of the European Union, there is a higher guarantee of safety and protection from corruption, as well as a skilled, multilingual workforce and a growing middle class.

4

The largest groups of Central-Eastern Europeans (CEE) residing in the United Kingdom are Poles, Romanians, and Lithuanians. The CEE diasporas, which engage in business activities with their home countries, serve as a gateway for British companies and nationals to CEE markets, thereby enhancing the United Kingdom's position in the Three Seas Initiative.

7. Daniel Kawczyński. Report: Three Seas Initiative and the Opportunities for Global Britain, APPG on Poland, 07.2021, <https://emerging-europe.com/wp-content/uploads/2021/09/Report-on-the-Three-Seas-Initiative.pdf>.

8. Ibidem.

1.6

Overall potential for increased British investment in the region

The British government and businesses have recognised the advantages of engaging more closely with the rapidly expanding and growing Three Seas markets. In addition to pursuing its post-Brexit strategy, strengthening the Transatlantic alliance on its eastern flank, and ensuring geopolitical and economic stability, the United Kingdom can benefit from the business incentives provided by the Three Seas Initiative. In the coming years, it is anticipated that the United Kingdom will invest more in the projects within the 3SI counties, as doing so is in its best interest.

1.7

American investment so far

The United States has been a firm supporter of the Three Seas Initiative since its inception, and as a strategic partner, it provides financial support and promotes the Initiative's projects. The United States is able to benefit from a growing CEE market and has numerous declared as one of its goals to protect its geopolitical position against Chinese and Russian influence by investing in the region.

The 3SI received bipartisan support in the United States, having received great enthusiasm from former US President Donald Trump⁹ and the current Biden Administration. Although there have been concerns regarding President Joe Biden's priorities, US Secretary of State Antony Blinken explained in February 2021 that the US government will remain committed to the Initiative and hopes it will contribute to strengthening EU integration, increasing energy security in the region, and combating the climate crisis.¹⁰ In October 2020, the US House of Representatives Committee on Foreign Affairs passed a resolution in support of the Three Seas Initiative, which seeks to "boost the resiliency of European infrastructure, energy, and digital security in the face of growing Russian and Chinese threats to democracy."¹¹

The United States is a global superpower, especially considering its **IT expertise, emphasis on innovation, and financial capabilities.**

The United States had the world's highest foreign direct investment (FDI) in 2021, totalling USD **433,61 billion**, according to OECD data.¹²

In terms of market dominance, the United States is a global superpower, especially considering its IT expertise, emphasis on innovation, and financial capabilities. The United States had the world's highest foreign direct investment (FDI) in 2021, totalling USD 433,61 billion, according to OECD data.¹² It is a crucial ally for the 3SI region due to its strong and developed market, flexible and financially efficient investment opportunities, and a wide variety of funding sources. In 2020, at the Three Seas Initiative summit in Tallinn, the United States announced up to USD 1 billion in long-term support for the 3SI Fund, in addition to the USD 300 million previously invested in energy projects. However, Western European nations attract more foreign direct investment than the CEE nations. The European countries that attracted the most investment in 2020 were the United Kingdom (USD 39.64 billion), Ireland (USD 21.99 billion), the Netherlands (USD 27.91 billion), Luxembourg (USD 17.55 billion), Switzerland (USD 16.69 billion), and Germany (USD 10.84 billion).

9. Madeline Farber. Read Donald Trump's Remarks at the Three Seas Initiative Summit in Poland, Time, 06.07.2017, <https://time.com/4846780/read-donald-trump-speech-warsaw-poland-transcript/>.

10. Secretary Blinken remarks on the Three Seas Initiative, U.S. Department of State, 17.02.2021, <https://www.youtube.com/watch?v=0eLEHM-fAoU&t=157s>.

11. Kaptur, Kinzinger Resolution Supporting Three Seas Initiative Passes Committee, U.S. Congresswoman Marcy Kaptur, 01.20.2020, <https://kaptur.house.gov/media-center/press-releases/kaptur-kinzinger-resolution-supporting-three-seas-initiative-passes>.

12. OECD International Direct Investment Statistics – United States, OECD, 2021, https://read.oecd-ilibrary.org/finance-and-investment/oecd-international-direct-investment-statistics-2021_981db434-en#page328.

In 2021, US investors made significant global investments in manufacturing, finance, and insurance companies.¹³ To date, the United States has offered preferential contracts for high-tech weapons and equipment in the CEE military sector. In addition, the United States expanded its influence in the region by investing in telecommunication and energy projects, such as nuclear energy in Poland and Romania, gas contracts, and by encouraging the use of technology similar to the American 5G network to displace the Chinese company Huawei.

1.8 Key American investment opportunities (funds and programmes)

Former US Secretary of Energy Rick Perry announced the **Partnership for Transatlantic Energy and Climate Cooperation** (P-TECC) at the 2018 Bucharest Summit.¹⁴ The partnership helps “to provide policymakers and civil-society stakeholders within Eastern and Central Europe with the resources and technical tools to build secure, resilient, climate-conscious energy systems”. Collaboration between US businesses and the Three Seas Initiative is a key component of the programme.

The *Europe Technical Expert Advisory Mission (E-TEAM)* programme of the US Department of Energy assists the P-TECC programme members in “developing resilient and secure energy systems. Under the E-TEAM program, DOE through the *Argonne National Laboratory (ANL)* deploys specialised teams on short notice to conduct assessments and provide advice on a range of climate and energy security topics.¹⁵ Regarding cybersecurity, the U.S. Department of Energy has provided support to P-TECC partner countries in cybersecurity of electricity and gas grid infrastructure through *Idaho National Laboratory (INL)*, a world leader in securing industrial control systems from cyber threats.¹⁶

The US International Development Finance Corporation (DFC) and the Three Seas Initiative Investment Fund have agreed to a term sheet that will serve as the basis for an agreement under which the DFC will provide USD 300 million in financing to the 3SI Fund (representing one-third of the promised US funds).¹⁷ The DFC collaborated with investors from the private sector to “support energy and infrastructure investments that enhance energy security, facilitate energy diversification, and improve connectivity in the Three Seas region.” The 3SI Fund aims to finalise the agreement with the DFC in 2022. During the last 3SI Business Forum in Riga, Latvia, DFC CEO Scott Nathan said that “the strong U.S. relationship with the Three Seas countries provides an enormous opportunity for value-based, high-standard investment alongside the private sector. The collaboration between DFC and 3SIIF will facilitate inclusive economic growth and development throughout the region.”¹⁸ It has been noted by some experts that there is lobbying in the US Congress and other institutions, to limit the funding of the Three Seas by the DFC, and instead focus on Asian and African markets. The reason for that could be the fact that these markets should be prioritised in order to compete with China.

1.9 Public and private American investment

The United States actively pursues investment opportunities in the region of the Three Seas. In 2019, the United States enacted the European Energy Security and Diversification Act, which authorises the nation to finance infrastructure projects in Europe that advance energy security.¹⁹ In 2020, representatives from Poland, Estonia, Latvia, and Romania travelled to Washington to discuss partnerships with the US government and international financial institutions.²⁰

13. Direct Investment by Country and Industry, 2021, Bureau of Economic Analysis U.S. Department of Commerce, 21.07.2022, <https://www.bea.gov/news/2022/direct-investment-country-and-industry-2021>.

14. The Partnership for Transatlantic Energy and Climate Cooperation (P-TECC), Office of International Affairs U.S. Department of Energy, <https://www.energy.gov/ia/partnership-transatlantic-energy-and-climate-cooperation-p-tecc>.

15. E-TEAM: Europe Technical Expert Advisory Mission, Argonne National Laboratory, <https://www.anl.gov/dis/reference/eteam-europe-technical-expert-advisory-mission>.

16. The Partnership for Transatlantic Energy and Climate Cooperation (P-TECC), op. cit.

17. U.S. International DFC and 3SIIF agree to term sheet for up to USD 300 million in financing, Amber Infrastructure Group, 20.06.2022, <https://www.amberinfrastructure.com/news/press-releases/2021/us-international-dfc-and-3siif-agree-to-term-sheet-for-up-to-us-300-million-in-financing/>.

18. Ibidem.

19. H.R.1453 - European Energy Security and Diversification Act of 2019, US Congress, 02.28.2019, <https://www.congress.gov/bill/116th-congress/house-bill/1453>

20. Sprawozdanie Zarządu z działalności grupy kapitałowej Banku Gospodarstwa Krajowego w 2020 r., Bank Gospodarstwa Krajowego, 15.04.2021, s. 41, https://www.bgk.pl/files/public/Pliki/Sprawozdanie_finansowe/2020-skonsolidowane/SSD_BGK_2020_pl.pdf.

In September 2021, the Partnership for Transatlantic Energy and Climate Cooperation (P-TECC) Business Forum was hosted in Warsaw by the United States Department of Energy, the Polish Ministry of Climate and Environment, and the Atlantic Council Global Energy Center. Private American companies represented at the event included Sempra, a Californian energy infrastructure company, Cheniere Energy, the first US exporter of liquefied natural gas, Westinghouse Electric Company LLC, a nuclear power company, Plug Power, a developer of hydrogen fuel cell systems for electric vehicle batteries, and NuScale Power, a designer of small nuclear reactors. The 2022 Three Seas Summit and Business Forum in Riga attracted, amongst others, the attention of the Bechtel Corporation, the largest American construction company. In a special announcement to the Three Seas region, a Google representative confirmed the company's commitment to bolstering the region's cyber security, enhancing local populations' digital skills, funding innovative non-profits, and providing humanitarian aid to Ukraine.²¹ Since 2018, Google has contributed USD 12 million to the region. By the end of 2023, an additional USD 5 million will be allocated to "support non-profit projects that advance digital inclusion in the 3SI countries and lead to a more resilient connected civil society across the region."

1.10

Investment barriers and challenges from the US perspective

1

Central and Eastern Europe is a geopolitically distant region with a distinct culture, legal system, and time zone, which may discourage private investors in particular. In addition, the size, priorities, and needs of the various nations comprising the region vary significantly. The absence of digital infrastructure and the scarcity of established investment channels for private investors may also impede the formation of new economic partnerships.

2

As stated previously, the United States is willing to invest more if the 3SI nations also contribute more,

particularly to the Three Seas Initiative Investment Fund. Divergent perspectives and priorities, distinct regional policies, and a lack of commitment on the part of some participating states may cause the United States to lose interest in the Initiative. As one of the Initiative's primary proponents, Poland has been viewed with suspicion by some representatives of a few CEE nations, who believe it intends to dominate the project. According to the Polish Institute of International Affairs (PISM), some nations, such as Austria, have been passive from the start, while others have significantly reduced their participation over time (e.g. Slovakia).²² Moreover, Hungary's leniency towards Russia following the invasion of Ukraine sparked significant controversy and sent out mixed signals about the 3SI's unity. Enhanced engagement and a unified stance on the part of the 3SI nations could increase external interest. George Friedman, a political forecaster, stated that one reason holding America back from the full support of the 3SI is the lack of unity amongst its participating states. According to Paul Massaro, senior policy advisor for the US Helsinki Commission, it may simply be easier for the US to build bilateral relations with the twelve 3SI countries, or create coalitions of the willing, in which everyone agrees on key goals and objectives.

3

The invasion of Ukraine has not only increased interest in the region but also placed the spotlight firmly on Ukraine. The US Ambassador to Poland stated that the United States is primarily concerned with how the 3SI collaborates with Ukraine and progresses toward the potential participation of Ukraine in its initiative.²³ While Poland is supportive of Ukraine's partnership with the Three Seas initiative and the Initiative has included Ukraine as a partner nation, some participating states remain sceptical. If the United States made Ukraine's increased participation a condition for funding, there could be additional disagreements among the participating states.

4

Although Biden's administration remains committed to the 3SI, its support seems less enthusiastic than Donald Trump's. President Biden intends to prioritise green energy initiatives over oil and gas projects. Furthermore, there was an opposition within the DFC to supporting "the commitment made by the previous administration."²⁴ Dr Karen Donfried, former president of the German Marshall

21. Google org Announcement for the Three Seas Region, 3seaseu, 08.07.2022, <https://www.youtube.com/watch?v=w0sUE2SPQCo>.

22. Tomasz Żornaczuk et al. Promocja Inicjatywy Trójmorza w krajach członkowskich i wśród państw-obszerników, 10.12.2021, <https://www.pism.pl/publikacje/promocja-inicjatywy-trójmorza-w-krajach-członkowskich-i-wśród-panstw-obszerników>.

23. Ambasador USA w Polsce: Wspieramy Inicjatywę Trójmorza, Radio Opole, 06.06.2022, <https://radio.opole.pl/104,586167,ambasador-usa-w-polsce-wspieramy-inicjatywe-troj>.

24. James Jay Carafano. The untapped potential of the Three Seas Initiative, Geopolitical Intelligence Services, 10.08.2022, <https://www.gisreportsonline.com/r/three-seas-initiative-2/>.

Fund of the US and current Assistant Secretary of State for European and Eurasian Affairs in the Biden Administration, stated her concerns about the lack of strategic partnership between Berlin and the 3SI, which according to her, should be pivotal for the 3SI to succeed. Her stance may have changed since the outbreak of the invasion of Ukraine, but it possibly has indicated slightly differing approaches between the Republicans and Democrats towards the 3SI. It may be argued that Republicans wanted the 3SI to be a strong Transatlantic entity focusing on curbing Russian and Chinese influence, while the Democrats prioritise European unity.

5

There is a lack of a transparent lobbying system in most Central and Eastern European countries. Lobbying in the States has extensive disclosure, and it is clear how to hire lobbyists who transparently attempt to influence legislation, which may lead to increased investments and business opportunities. In most Central and Eastern European nations, the word “lobbying” often has a negative connotation. This leads to a misunderstanding for American companies on how to promote their own business interests effectively. These companies often use US embassies or chambers of commerce, but these may have limited resources to champion every case. There is also limited knowledge about the effectiveness of trade agencies or public affairs companies, and which one of them could positively impact the US investments in the 3SI region. This often leads to confusion amongst investors.

6

There is a degree of uncertainty about which sectors in the 3SI are considered “national treasure” and are therefore protected. For example, in some 3SI countries, there have been almost no foreign investments in the energy and mining sector for minerals such as coal, copper or nickel. The national champions often monopolise the mining sector, and therefore foreign entities, even American, have had hurdles in investing potentially billions of dollars. This has sent signals to other markets and companies that the 3SI region has invisible barriers for investors in certain sectors.

7

American investors often describe the tax system in numerous countries as overcomplicated and too prone to immediate changes that are not consulted with business and trade institutions. There are known examples when a tax was changed overnight in Central and Eastern Europe, without any prior warnings.

1.11

Factors that could contribute to increased American investment in the Three Seas Region

1

From a geopolitical standpoint, the 3SI region is essential for strengthening the United States’ and Europe’s position against eastern powers. China intends to increase its influence in the CEE region through investment and the development of new forms of cooperation, such as the Belt and Road initiative and the 14+1 (formerly 17+1) initiative. One of China’s most important goals is to implement its 5G network in the CEE region. The United States must strengthen its geopolitical position in the region in order to diminish Chinese influence and establish new ties with Central Europe and the European Union. It may be time for the United States to become more involved, as Chinese initiatives in Europe appear to be held back by certain resistance caused by the Russian invasion.

2

The invasion of Ukraine has also highlighted the significance of European energy security. The United States, as a Transatlantic leader, should be committed to ensuring security and peace in the region. Increased energy independence in the region would not only be beneficial for bolstering NATO capabilities on its Eastern Flank and reducing Russian influence, but it would also present the United States with new investment opportunities.

3

A portion of the capital invested will be returned to American firms operating in the region’s energy, digitalisation, and infrastructure sectors. As the largest producer of liquified natural gas (LNG), the United States could increase its influence in the region by contributing to the construction of new specialised import terminals, thereby ensuring future revenue from gas exports. Investing in LNG infrastructure in CEE would yield direct returns for the United States. According to a 2018 report commissioned by the US Department of Energy, the middle class in the United States would particularly benefit from increased LNG exports.²⁵

25. NERA Economic Consulting. Macroeconomic Outcomes of Market Determined Levels of U.S. LNG Exports, U.S. Department of Energy, 07.06.2018, <https://www.energy.gov/sites/prod/files/2018/06/f52/Macroeconomic%20LNG%20Export%20Study%202018.pdf>.

4

Providing assistance to Ukraine is currently one of the United States' top regional priorities.²⁶ Increased engagement with the 3SI would enable the United States to develop new channels for providing Ukraine with self-defence capabilities and establishing faster supply lines.

1.12

Overall potential for increased US investment in the region

Although the Biden Administration has expressed support for the Three Seas initiative, the United States has taken only a few concrete steps to increase its financial involvement. Inflation, the war in Ukraine, and conflicts among 3SI member states have altered the Initiative's standing. Despite the fact that the United States has modified some of its objectives, enhancing regional security and achieving a sustainable energy transition appear to remain two of its primary objectives for the CEE region. Although the partnership may be usable at present, a sustained and concerted effort from the 3SI countries could persuade the United States to take advantage of trade and investment opportunities that were previously unutilised.

1.13

Overview of the potential UK and US investment in the 3SI key infrastructural sectors

Transportation

The United Kingdom has previously expressed an interest in promoting transportation projects in Central and Eastern Europe.²⁷ Specifically, the United Kingdom hopes to participate in infrastructure projects that employ sustainable solutions. However, little has materialised

thus far from these promises. As the United Kingdom is an expert in the development of complex airport systems, floating offshore wind farms, ports, and railway projects, it would be advantageous to pursue UK-CEE cooperation in these areas.

The "Via Carpatia" project proposed by Hungary, Poland, and Romania could be an attractive transportation investment for both the United Kingdom and the United States. By constructing roads through Lithuania, Poland, Slovakia, Hungary, Romania, Bulgaria, and Greece, the United States and the United Kingdom could increase their export capacity and lead to the recruitment of American and British construction firms in the project. Long-term, the 3SI nations could also seek investment from the Partnership for Global Infrastructure and Investment in order to play a leading role in the rebuilding and reconstruction of Ukraine.

Energy

As global leaders, the United States and the United Kingdom are at the forefront of the green revolution and are increasingly interested in investing in sustainable solutions and green energy sources.

Despite the Biden administration's commitment to renewable energy projects, the United States has been particularly interested in the LNG terminals in Świnoujście, Poland, Klaipėda, Lithuania, and the new terminal in Krk, Croatia, as well as additional infrastructure that would support these terminals and create new opportunities for LNG imports. According to the Atlantic Council, "connecting these new sources of LNG south from Poland and Lithuania, and north from Croatia could substantially lessen the need for Russian gas imports in the region."²⁸

Poland has already engaged in energy security partnerships with the United States and the United Kingdom. The Polish-American civil nuclear energy cooperation utilises US technology to add nuclear energy to Poland's energy mix,²⁹ and the cooperation with Westinghouse to build Poland's first nuclear plant has been announced in October.³⁰

26. Anthony B. Kim. 3 Seas Initiative Deserves Greater Attention, America's Increased Strategic Support, Heritage Foundation, 21.06.2022, <https://www.heritage.org/europe/commentary/3-seas-initiative-deserves-greater-attention-americas-increased-strategic-support>.

27. Ilaria Regodni. The Three Seas Initiative: a world of opportunities in Tech, Infrastructure and Energy, UK Department for International Trade, 27.07.2021, <https://www.linkedin.com/pulse/three-seas-initiative-creating-opportunities-uk-cee-trade-regondi/>.

28. David A. Wemer. The Three Seas Initiative explained, Atlantic Council, 11.02.2019, <https://www.atlanticcouncil.org/blogs/new-atlanticist/the-three-seas-initiative-explained-2/>.

29. Alexandra Brzozowski. Three Seas Initiative inches forward as US ramps up support, Euractiv, 20.10.2020, <https://www.euractiv.com/section/economy-jobs/news/three-seas-initiative-inches-forward-as-us-ramps-up-support/>.

30. Jones Hayden. Poland picks Westinghouse to build its first nuclear plant, Politico, 29.10.2022, <https://www.politico.eu/article/poland-picks-westinghouse-to-build-its-first-nuclear-power-plant/>.

In July 2022, British and Polish policymakers and business representatives met to discuss energy security. According to a Polish government press release, “discussions included cooperation on offshore wind [in the Baltic Sea] and nuclear power, Polish plans for hydrogen, the development of abandoned mines, and the conversion of gas-fired power and CHP plants.”

Cybersecurity and connectivity

Both the United Kingdom and the United States would be interested in investing in digital and communications projects. Some of the most appealing projects would allow the 3SI region to increase digital trade and connect the region via a secure digital communications infrastructure, namely the “Three Seas Digital Highway.”³¹ The region could utilise American and British fibre optics and 5G technology in lieu of the Chinese-supplied technology.

For the past two years, the UK has collaborated with 45 cities in ten countries to deliver the Smart Cities programme, also in Central and Eastern Europe.³² By innovating core infrastructure, the Initiative helps cities become more sustainable and inclusive. Recently, the British company Milton Keynes agreed to collaborate with the Hungarian company Paks on this initiative.

31. The 3 Seas Digital Highway, 3seas.eu, <https://projects.3seas.eu/projects/the-3-seas-digital-highway>,

32. Smart Cities. Background paper, Department for Business, Innovation and Skills, 10.2013, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/246019/bis-13-1209-smart-cities-background-paper-digital.pdf

1.14

Areas for improvement

01. The United States wields considerable leverage over private and public funds. It has thus far provided debt financing to the Three Seas Initiative Investment Fund. In order to persuade the US and other investors to increase their investment, the investors need reassurance of stability and security of their investment as well as demonstration of commitment by all 3SI participating states. Internal disagreements among member states must be resolved in order to present a united front.
02. Both the United States and the United Kingdom have created opportunities or programmes to invest in sustainable projects. In fact, both countries have identified sustainability as a key goal. As a result, the 3SI countries should concentrate on demonstrating the ESG compatibility and benefits of the prospective investments, especially through regularly published reports in English.
03. A clear and secure investment process for private investors is required. The use of secure digital infrastructure is especially important in this case. The 3SI must also demonstrate to investors that its investments opportunities are not just competitive, but they are up to Western European standards. The 3SI countries must thus create attractive incentives for investors. Grants and business support, as well as certain allowances, R&D and other subsidies, management and technical trainings, and tax benefits, may entice more companies from the UK and the US.
04. The Three Seas region countries could use their European Union membership to attract non-EU investors. Being a member of the European Union generally provides stability and security in the eyes of numerous investors. On the other hand, some British investors have raised concerns that with a further federalisation of the EU, the individual members will have diminished freedom in trade and business, as more key decisions on tariffs will be taken in Brussels, and not in European capitals. Additionally, non-European investors, such as the United States, should be reminded that engagement with the CEE strengthens collaboration with the European Union. 3SI actions should clearly indicate that they are not intended to weaken Germany or divide the EU.
05. In addition to the US and the UK, the 3SI countries could focus on developing partnerships with their immediate neighbours, such as Germany, possibly through a trilateral agreement with the US or the UK. Germany has a large stake in the CEE region's economic success and may benefit financially from closer cooperation rather than single deals with China or Russia.
06. Currently, the 3SI lacks a unified body that could lobby governments to invest in the initiatives, enforce favourable trade agreements, and promote free trade on behalf of the whole region. It would benefit from the establishment of an external organisation, secretariat, representative offices or an internal bureau to seek out partnership opportunities and lobby individual governments for the best trade deals. The Latin American Chamber of Commerce is one such organisation that attracts significant American investment. This non-profit organisation has 23 regional offices and over 20,000 member companies. It is a "matchmaking platform that represents the common interests of Latin American businesses in promoting bilateral trade, investments and collaboration".³³ It provides information on regional trade and investment opportunities, as well as publishes investment profiles for investors.
07. Greater Ukrainian involvement in the Initiative may help spark the interest of the US and the UK. In the long run, the 3SI countries may seek contracts and funding to rebuild Ukraine.
08. The Three Seas Initiative needs more explicit branding that will be promoted in the UK and the US. It is often not clear to investors whether 3SI is a political project, an economic one, or both.

33. About Us, Association of American Chambers of Commerce in Latin America and the Caribbean, <https://www.aaccla.org/about/>.

2

Germany



Piotr Sosnowski

2.1

Why is Germany a sought-after investor in the region?

Since the fall of communistic regimes in this region, Germany has a significant history as a major investor in countries of Central and Eastern Europe³⁴. This continues to be true following the creation of the Three Seas Initiative (3SI). In addition, Germany has also been providing the current 3SI countries with financial assistance during the economic transformation. They include Poland, Czech Republic and Slovakia (then Czechoslovakia), Hungary, Romania, and Bulgaria. Moreover, Germany has been the largest contributor in terms of financial help to the countries of Central and Eastern Europe in the period from 1990 to 1995 with higher value of financial assistance to these countries at those times assistance provided by France, the United Kingdom, Italy, the Netherlands, Italy and Spain combined³⁵.

It has been noted that the cooperation between 3SI members could potentially lead to the creation of a separate political entity within the European Union (EU). Considering Central and Eastern Europe is within the German sphere of influence, Germany might see 3SI as a threat to its economic supremacy in the region³⁶.

However, Germany has the status of a strategic partner of the 3SI, along with the European Commission and the USA³⁷. It may result in a relatively greater interest in investments related to this initiative. Apart from that, Germany is the only EU country involved in the EU Danube Strategy, and one of two countries (along with Denmark) involved in the EU Strategy for the Baltic Sea Region which are not 3SI members³⁸. This may indicate stronger relationships between the 3SI countries and Germany than between the 3SI and other countries of Western Europe.

Germany is a country in Central Europe, the fifth largest economy in the world, and the largest economy in both Europe and the EU. It is the most populous country in Europe, with a population of more than 84 million people, mostly Germans (86.3%). It is also one of the world's largest and most technologically advanced producers of iron, steel, coal, cement, chemicals, machinery,

34. Keith D. Brouthers, Lance E. Brouthers, George Nakos. Central and Eastern Europe Investments: A Comparison of US, Dutch and German Firm Activities, [in:] Internationalization. Process. Context and Markets, Palgrave Macmillan, 1998, p. 220–237.

35. András Hettyey. A Multilateralized Civilian Power Approach: The German Foreign Policy and Central Eastern Europe, 2018, https://www.researchgate.net/publication/329041216_A_Multilateralized_Civilian_Power_Approach_German_Foreign_Policy_and_Central_Eastern_Europe

36. Monika Brzezińska. The Three Seas Initiative in the German perception of politics and influence-building strategy, Collegium Interethnicum, 2020, https://interethnicum.pl/wp-content/uploads/2021/10/Alert_Niemcy_2020_ENG.pdf.

37. Samorządowy Kongres Gospodarczy II Forum Regionów, Narodowy Instytut Samorządu Terytorialnego, 2021, <https://www.nist.gov.pl/wydarzenia/samorzadowy-kongres-gospodarczy-ii-forum-regionow-trojmorza-29-30-czerwca-2021-r,3269.html>.

38. Andris Sprūds, Mārtiņš Vargulis. Three Seas Initiative Mapping National Perspectives, Latvian Institute of International Affairs 2022, <https://www.liia.lv/en/publications/three-seas-initiative-mapping-national-perspectives-1002>.

vehicles, machine tools, electronics, automobiles, food, beverages, shipbuilding, and textiles. The main export partners are USA, France, China, the Netherlands, and the United Kingdom, and the main import partners are the Netherlands, China, France, Belgium, Poland and Italy. The most important exported commodities are automobiles, vehicle parts, packaged medicines, aircraft, medical cultures, vaccines, and industrial machinery. While the most important imported commodities are automobiles, vehicle parts, packaged medicines, crude petroleum, refined petroleum, medical cultures, and vaccines³⁹.

As a country, Germany is one of the biggest investors in the world. In 2017 it had a balance of EUR 1.8 trillion, making it the second- largest net creditor in the world, after Japan⁴⁰. Although it should be noted that these figures do not represent Total Outward Foreign Direct Investment (FDI), but also other kinds of investments, e.g., shares and investment fund shares. Total Outward FDI of Germany in 2021 is estimated to be EUR 1.315 billion (USD 1.754 billion)⁴¹ with its most significant final destinations being the USA, Luxembourg, and the Netherlands⁴². It is illustrated in Table 1.

Table 1. TOP 5 Sources and Destinations of German Foreign Direct Investment (FDI)

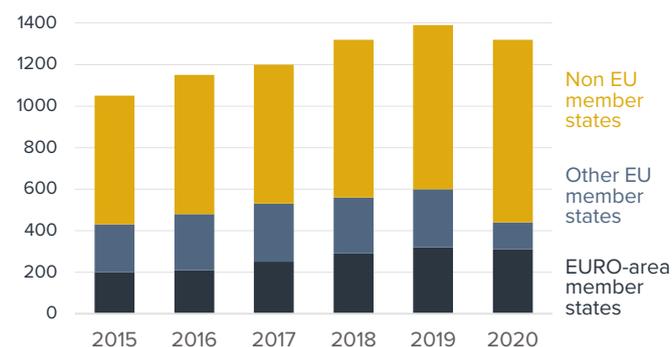
Direct Investment from/in Germany					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	\$1,023,358	100%	Total Outward	\$1,754,585	100%
 Luxembourg	\$189,366	18.5%	 United States	\$310,971	17.7%
 Netherlands	\$178,883	17.5%	 Luxembourg	\$213,181	12.1%
 United States	\$119,195	11.6%	 Netherlands	\$201,183	11.5%
 Switzerland	\$84,618	8.3%	 United Kingdom	\$140,310	8.0%
 United Kingdom	\$74,000	7.2%	 France	\$101,516	5.8%

Source: US Department of State. 2021 Investment Climate Statements: Germany.

It can be observed that the most significant destinations of German FDI are USA, Luxembourg and the Netherlands. There are no 3SI countries among the TOP 5 destinations of German FDI.

Figure 1. German Outward Direct Investment from 2015 to 2020

Domestic direct investment* abroad
€ billion, end-of-year position



* Primary and secondary direct investment (consolidated).

Source: Deutsche Bundesbank. Stock data - Capital links with foreign countries (2022).

The Federal Government of Germany provides guarantees for investments by German-based companies in developing and emerging economies. In 2020, the government provided investment guarantees of EUR 900 million for investment projects in 13 countries, the majority of those in China and India⁴³. It should be noted that most German FDI targets are non-EU-member states⁴⁴. It is illustrated in Figure 1.

Germany has signed bilateral investment treaties (BITs) with more than 150 countries, including all participating states of the 3SI. Furthermore, Germany is member of the Multilateral Investment Guarantee Agency, an institution which has the goal is to promote foreign direct investment into developing countries to support economic growth⁴⁵. These are factors that may influence German foreign investment, including into the Three Seas region.

39. Germany - The World Factbook, CIA, 2022, <https://www.cia.gov/the-world-factbook/countries/germany>.

40. Germany's international investment position: amount, profitability and risks of cross-border assets, Deutsche Bundesbank, 2018, <https://www.bundesbank.de/resource/blob/772350/e524e376b775aa3a0eadeafb8e01a092/mL/2018-12-deutsche-auslandsposition-data.pdf>.

41. Stock data - Capital links with foreign countries, Deutsche Bundesbank, 2022, <https://www.bundesbank.de/en/statistics/external-sector/direct-investments/stock-data-776576>.

42. 2021 Investment Climate Statements: Germany, US Department of State, 2021, <https://www.state.gov/reports/2021-investment-climate-statements/germany/>.

43. Ibidem.

44. Stock data..., op. cit.

45. Country Navigator. UNCTAD Investment Policy Hub, United Nations UNCTAD, 2021, <https://investmentpolicy.unctad.org/country-navigator/79/germany>.

2.2

German investment in the region so far

The main German institution related to foreign German investments is the Association of German Chambers of Commerce and Industry⁴⁶. It provides support for foreign companies that plan to invest in Germany and for German companies that plan to invest abroad. As of November 2022 this organisation does not publicly disclose publicly specific information regarding German foreign investment programs.

One possibility of German investments in the 3SI countries is through state-owned enterprises (SOEs). They are organisations which are not part of the government, but in which the government has more than 50% of shares or voting rights. However, there is not enough sufficient data to determine whether foreign investment using SOEs is a common practice in Germany. Examples of such enterprises are Kreditanstalt für Wiederaufbau (KfW) (German National Development Bank) and Deutsche Bahn. However, the German government has a partial stake in many other companies, such as Deutsche Telekom (32%), Deutsche Post (21%), Commerzbank (15.6%), CureVac, TUI, and Lufthansa. Sometimes German constituent states may also have shares of their own, for example, the state of Lower Saxony owns the third largest share in Volkswagen⁴⁷. German private investors also invest in 3SI countries. The values of German FDI for 3SI countries are shown below in Table 2.

Table 2. Values of German FDI for 3SI countries

Direct Investment from Germany to 3SI countries* (US Dollars, Millions)			
Location	2018	2019	2020
 Austria	33,134	38,910.	44,506
 Poland	1,607	1,816	2,045
 Czechia	722	766	463
 Hungary	219	156	438
 Slovenia	216	188	218
 Estonia	51	54	102
 Latvia	55	56	80
 Slovakia	42	55	37
 Lithuania	22	28	36

*There is no data available for Croatia, Bulgaria, and Romania.

Source: OECD Library. Outward FDI stocks by partner country | Foreign direct investment (FDI) (2020).

The most significant destinations for German FDI among 3SI countries are Austria and Poland. It should be noted that the German FDI value for Poland is higher than for all next listed countries combined. Still, German investments in all mentioned 3SI countries combined are six times lesser than German investments in USA alone. Furthermore, German investments represented 15% of all foreign investments in Poland in 2018.

2.3

Investment barriers for Germany

One of the main barriers of German FDI in general is low returns. There exist premises that during the last decade, it may have been more profitable for German companies to invest within Germany, than to seek foreign investment opportunities⁴⁸.

Currently the most visible current barriers for German investments in 3SI countries are the outbreak of the Covid pandemic and the ongoing Russian invasion of Ukraine. The pandemic has caused major disruptions in international supply chains and investments, including travel restrictions, a decrease in demand for many products and services, and postponed or cancelled investments and orders⁴⁹.

The Russian invasion of Ukraine also vastly changed the international economic situation and caused a global shift in political and economic affairs. Instead of being a bridge between the western and eastern world, 3SI countries may become a borderland of Western civilisation. However, it may be the reason for Western countries to invest in the 3SI initiative to assure economic and energy security in this region.

There may also be further barriers to German FDI in the region (bureaucratic, political etc.), however currently there is not enough data publicly available to support it.

46. Association of German Chambers of Commerce and Industry, <https://www.dihk.de/en>.

47. 2021 Investment Climate Statements: Germany, op. cit.

48. Franziska Hünnekes, Moritz Schularick, Christoph Trebesch. Exportweltmeister: The low returns on Germany's capital exports, Kiel Institute for the World Economy, 2019, https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/Christoph_Trebesch/KWP_2133.pdf.

49. Globalization after Corona. Recommendations of the Association of German Chambers of Commerce and Industry, Association of German Chambers of Commerce and Industry, 2021, <https://www.dihk.de/resource/blob/56692/27204405ceedc43e838e6c2372760f1e/globalization-after-corona-data.pdf>.

2.4

Investment incentives in the region for Germany

One of the investment premises are international trade relations. This kind of relationship between Germany and the 3SI countries is described in Table 3.

Table 3. Trade shares between Germany and the 3SI countries

Country	German share in import	German share in export	Share in import to Germany	Share in export from Germany
 Austria	39.00%	29.10%	4.21%	4.85%
 Bulgaria	11.50%	16.00%	0.48%	0.30%
 Croatia	14.10%	12.20%	0.20%	0.29%
 Czechia	25.60%	31.90%	5.48%	3.18%
 Estonia	10.40%	6.25%	0.095%	0.15%
 Hungary	24.50%	26.70%	2.83%	2.03%
 Latvia	8.71%	6.84%	0.099%	0.13%
 Lithuania	12.60%	7.74%	0.23%	0.3%
 Poland	25.20%	28.00%	6.60%	5.12%
 Romania	19.70%	21.70%	1.43%	1.34%
 Slovakia	18.90%	22.20%	1.73%	1.11%
 Slovenia	13.30%	17.90%	0.61%	0.41%
Total	-	-	23.99%	19.21%

Source: The Observatory of Economic Complexity. Germany (DEU) Exports, Imports, and Trade Partners. <https://oec.world/en/profile/country/deu>.

Germany is the most important trade partner for imports and exports for Austria, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia. Therefore, Germany is the most important trade partner for every 3SI country except for the Baltic States, which represents a significant investment incentive.

Factors that influence the German investors to invest in Poland, include good infrastructure, good subcontractor base⁵⁰ and building by German institutions the so-called *soft power* in Eastern Europe. It includes political lobbying, developing cooperation programmes, foreign cultural and scientific policy⁵¹ and placing German Chambers of Commerce in many locations worldwide, including 3SI countries⁵². Simultaneously, there is a concern in Germany that foreign investments in Poland cause a decrease in number of jobs in Germany⁵³.

50. Justyna Arendarska, Agnieszka Łada-Konefał, Bastian Sendhardt. Sąsiedztwo w ramach. Polacy i Niemcy o sobie nawzajem w przekazie prasowym, Instytut Spraw Publicznych, 23.09.2022, <https://www.isp.org.pl/aktualnosci/sasiedztwo-w-ramach-polacy-i-niemcy-o-sobie-nawzajem-w-przekazie-prasowym>.

51. Justyna Gotkowska. Niemieckie sieci na Wschodzie. Niemiecki soft power w Europie Wschodniej, Azji Centralnej i na Kaukazie Południowym, Centre for Eastern Studies, 12.10.2010, <https://www.osw.waw.pl/pl/publikacje/raport-osw/2010-10-12/niemieckie-sieci-na-wschodzie-niemiecki-soft-power-w-europie>.

52. Our locations worldwide, German Chambers of Commerce Abroad, <https://www.ahk.de/en/locations-worldwide>.

53. Justyna Arendarska, Agnieszka Łada-Konefał... op. cit.

2.5

Overall potential for increased investment

The Three Seas Initiative could clearly be beneficial area for investment for Germany and other countries in western Europe due to its developing logistical potential. Country members of 3SI are cooperating on numerous infrastructure projects, including Via Carpathia⁵⁴, Via Baltica⁵⁵ and other pan-European transport corridors.

Before the beginning of the Russian invasion of Ukraine, the directions of German foreign investment included 3SI countries, V4+ countries (Poland, Czech Republic, Hungary and Slovakia) and Eastern Partnership countries (Ukraine, Belarus, Moldova, Georgia, Azerbaijan and Armenia)⁵⁶.

Today, more than half a year since the beginning of the invasion, the significance of Caucasian and 3SI countries related to German foreign investments could increase due to the shift of international relations in this part of the world. For example, there is a possibility that Caucasian countries will export far more energy resources to Europe than before in transit through 3SI countries. On the other hand, the impact of the Russian invasion of Ukraine on businesses perceived by German investors, includes such effects as higher costs for energy, raw materials, supply chain and logistics disruptions, shortage of raw materials, reduction in incoming demand, and increase in trade barriers⁵⁷. Despite that, the business outlook perceived by German investors in 2022 seems to be better in the EU than in China, Middle East, Africa or South America⁵⁸, which means that the Three Seas region might be well positioned for receiving more German investment.

2.6

Summary

Germany is an important trade partner for every 3SI country as well as the single most valuable (in financial terms) trade partner for the majority of 3SI countries. Although there is no indication that 3SI membership itself is for the German government or German companies a criterion related to

placing foreign investments.

In summary, the factors influencing German FDI in 3SI countries are listed below.

1. Germany is already a big investor and one of the most significant trade partners of all 3SI countries.
2. Germany participates in numerous initiatives concerning 3SI countries, e.g., EU Danube Strategy and EU Strategy for the Baltic Sea Region.
3. Since the change in the international economy caused by the Russian invasion of Ukraine, Germany might seek investment opportunities in other countries than Russia.
4. Germany has a land border with three 3SI countries: Poland, the Czech Republic, and Austria.

German investments in 3SI countries could possibly increase if 3SI countries being to build relationships with German companies that lost investment opportunities in Russia due to the ongoing invasion of Ukraine. It may prove significant because Germany and its 3SI partners are already mutually their own key trade partners.

The main recommendation regarding activities aimed at increasing German investments is building closer relationship between 3SI as a whole group and Germany. Perhaps this could be achieved by creating interdependencies (e.g. joint business initiatives) and reshaping communication between 3SI as a whole and German government, German businesses and German business environment institutions. A communication might be facilitated by creating a joint industrial (or commercial) chamber, that would represent the whole Three Seas region (not individual 3SI countries). Such “German-Three Seas Industrial Chamber” might provide new business opportunities related to the whole region.

An additional method of building such relationship might include regional investment projects that would involve Germany (e.g., infrastructural projects). This way the benefits of increased investment in the Three Seas region could become more tangible for German investors.

54. Via Carpatia - stan realizacji, GDDKiA, <https://www.gov.pl/web/gddkia/via-carpatia---stan-realizacji>.

55. S61 Via Baltica - stan realizacji, GDDKiA, <https://www.gov.pl/web/gddkia/s61-via-baltica---stan-realizacji>.

56. Lidia Gibadło. Wizja nowej europejskiej polityki wschodniej RFN, Polski Instytut Spraw Międzynarodowych, 07.02.2019, https://pism.pl/publikacje/Wizja_nowej_europejskiej_polityki_wschodniej_RFN.

57. AHK World Business Outlook Spring 2022 Results of the Survey by the Network of German Chambers of Commerce Abroad, Association of German Chambers of Industry and Commerce, 2022, <https://www.dihk.de/en/ahk-world-business-outlook-spring-2022-51000>.

58. Experiences and prospects of German business in foreign business-results of a company survey, Association of German Chambers of Industry and Commerce, 07.03.2022, <https://suedafrika.ahk.de/en/news/news-details/going-international-2022-experiences-and-prospects-of-german-business-in-foreign-business-results-of-a-company-survey>.

3

China



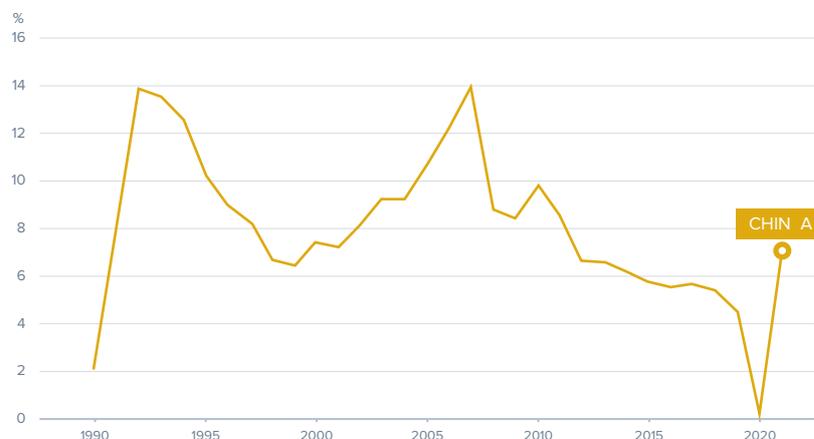
Mateusz Ptaszek
Radosław Pyffel

3.1

China's growing role

China's post-1990 economy, thanks to successive market reforms, becoming more open to the world (culminating in its entry into the WTO World Trade Organization in 2001) and effective strategic planning, has seen one of the fastest GDP growth rates in the world. This included reforms related to the opening of the external market and the development of a free market economy within its own borders. China then decided to accelerate industrialization, support private enterprise and urbanization, and increase development of modern infrastructure⁵⁹. It is also worth mentioning that China's "opening up" to foreign investment and technology has allowed it to start competing with the West and has provided the impetus to build a highly competitive economy⁶⁰.

Chart 1. China's GDP growth from 1990 to 2020



Source: World Bank Statistics⁶¹

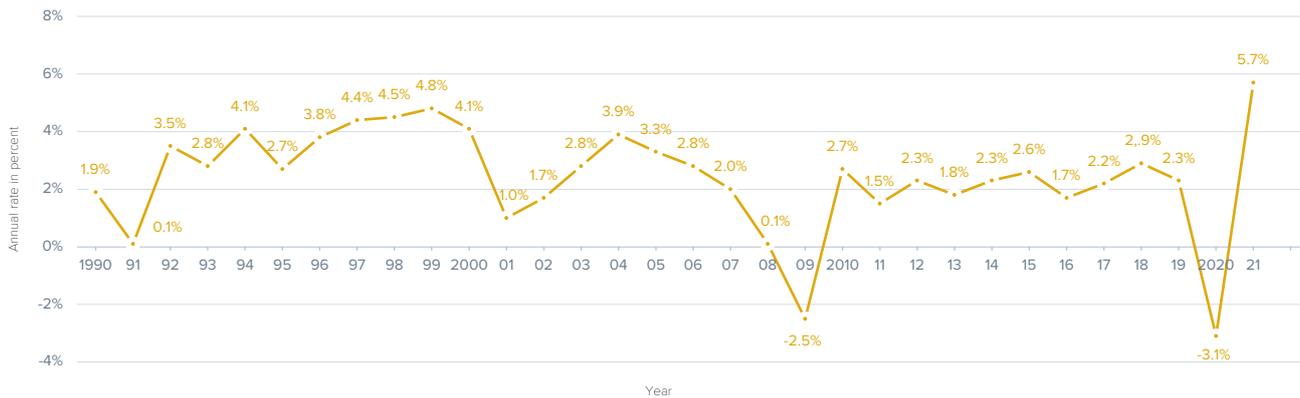
For the sake of illustration, it is also worth showing a graphic that presents the development of the world's largest economy (the US), whose size gap with the Chinese economy is narrowing year by year. This contributes to the U.S.-Chinese economic rivalry in various regions of the world, including the Three Seas/Central and Eastern Europe area⁶².

59. Barbara Liberska. Development prospects of China's economy until 2050, INE PAN, 2010, Economic Studies. No. 4, https://www.inepan.pl/pliki/studia_ekonomiczne/Studia%202010%204%2001.A.Liberska.pdf.

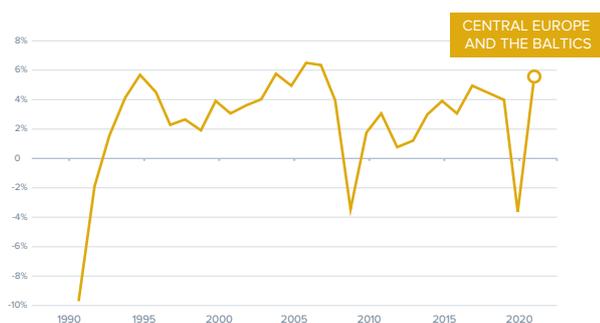
60. Which in turn allowed China to create an export surplus from which it could finance its further reform programs and develop the country.

61. GDP growth (annual %) – China, World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2000&locations=CN&start=1990>.

62. Paweł Pawłowski, Paweł Musiałek, Paweł Paszak. USA vs Chiny: Rywalizacja o wpływy w Europie Środkowo-Wschodniej, Warsaw Institute, 13.07.2020, <https://warsawinstitute.review/pl/aktualnosci/raport-specjalny-usa-vs-chiny-rywalizacja-o-wplywy-w-europie-srodkowo-wschodniej/>.

Chart 2. Annual Growth of the real GDP of the United States from 1990 to 2021.Source: Statista.⁶³

The time of China's accelerated economic development coincided with the intensive development of the Three Seas region, which after the collapse of the USSR in 1991⁶⁴, thanks to the market transformation, began to implement free market economic policies allowing them to achieve dynamic and rapid development. It could already be seen in 1991, when the Visegrad Group was established, and a year later the Central European Free Trade Agreement (CEFTA) was signed⁶⁵. A good summary of how dynamically the countries of the Three Seas region have developed is the graphic below:

Chart 3. GDP growth of Central and Eastern European and Baltic countriesSource: World Bank Statistics.⁶⁶

3.2

China's investments in the Three Seas region

(Central and Eastern Europe, 2012-2022)

It is worth noting that the concept of the Three Seas region is not directly present in Chinese policy. China, noting the growing importance of the Central and Eastern European (CEE) region, itself proposed a format to strengthen the political and economic relations of Beijing with the region. China's idea for CEE is the 14+1 format (formerly 17+1)⁶⁷, which was launched in 2012⁶⁸. According to many observers, especially from Hungary, China's activity in the region (and the building of economic relations with the Three Seas region) was initiated by the China-Central and Eastern Europe Economic and Trade Forum, jointly organized by China and Hungary in June 2011 (which coincided with the announcement of the failed construction of the A2 highway by the Chinese company Covic in Poland). The meeting was attended by then Chinese Premier Wen Jiabao, who had already decided to sign a series of economic agreements to strengthen cooperation between Beijing and Budapest. At the time, Jiabao also promised to allocate a loan of EUR 1 billion for this exact purpose⁶⁹. The proposed loan, however, was

63. Real GDP growth rate by year in the U.S. 1990-2021, Statista, <https://www.statista.com/statistics/188165/annual-gdp-growth-of-the-united-states-since-1990/>.

64. Excluding Austria, which was not part of the USSR or its sphere of influence.

65. Bartosz Józwiak. Transformacja i rozwój gospodarczy w państwach Europy Środkowej i Wschodniej, Instytut Europy Środkowej, 2016, https://ies.lublin.pl/wp-content/uploads/2020/08/riesw_1732-1395_14-5-275.pdf.

66. GDP growth (annual %) - Central Europe and the Baltics, World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=B8>.

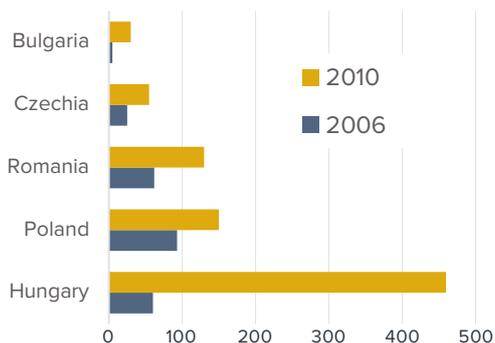
67. Marcin Kaczmarek. Chiny – Europa Środkowo-Wschodnia: „16+1” widziane z Pekinu, Centre for Eastern Studies, 14.04.2015, <https://www.osw.waw.pl/pl/publikacje/komentarze-osw/2015-04-14/chiny-europa-srodkowo-wschodnia-161-widziane-z-pekiniu>.

68. Thus, the format also included countries that are not part of the Three Seas Initiative, namely Macedonia, Montenegro, Bosnia and Herzegovina, Serbia, as well as Greece. At the same time, there was no place in the format for Austria, which is a 3SI participating state.

69. Dariusz Kałan, Biuletyn Europy Środkowej i Wschodniej, Centrum Stosunków Międzynarodowych, 02.2020, https://csm.org.pl/wp-content/uploads/2020/02/Biuletyn_Europy_Srodkowej_i_Wschodniej_nr_1__Chiny_w_po.pdf.

difficult to realize, due to the availability of capital in the region, including commercial capital offering similar or even better terms. Be that as it may, it is worth noting that it is Hungary remains the leader in terms of the number of Chinese investments in the Three Seas region, as well as the country that was first to begin cooperation with China and with the highest intensity, as evidenced, among other things, in the following graphic:

Figure2: Chinese investments in Central Europe, 2006-2010 (mln USD)



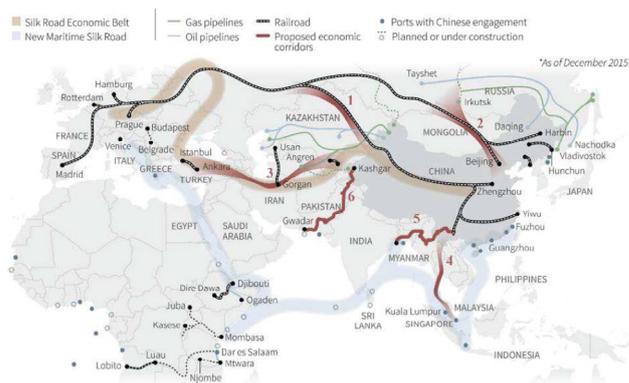
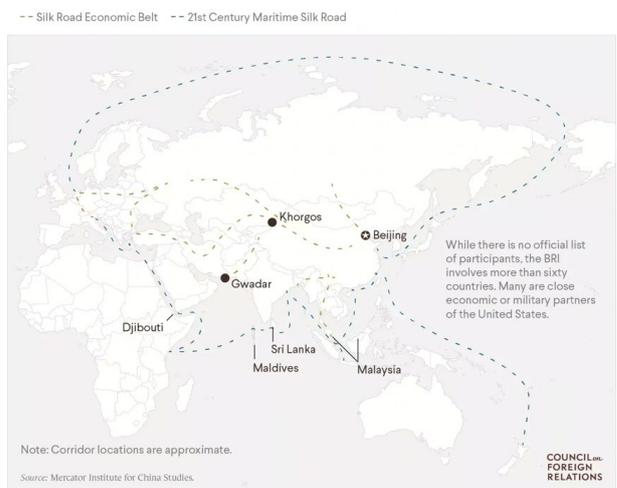
Source: Central and Eastern Europe Development

China’s willingness to invest in the Three Seas region (and de facto from the East Asian region to Central and Eastern Europe) is also linked to the start of economic expansion in the form of the Belt and Road initiative (BRI), which was officially announced by President Xi Jinping during his visits to Kazakhstan and Indonesia in 2013. According to analysts, the level of Chinese investment under this strategic project could reach USD 1.2-1.3 trillion by 2027⁷⁰. However, in recent years, due to the pandemic, as well as geopolitical tensions, the pace of the project have strongly declined, and as the recent 20th Congress of the Chinese Communist Party shows, although it has not been abandoned, it is not one of the top priorities of the Chinese state and party.

For the Three Seas countries, however, the most interesting aspect of the initiative is the so-called Eurasian Bridge Economic Corridor⁷¹, through which infrastructure, logistics and technology projects ultimately run. Seeing this as an opportunity, Central and Eastern Europe (and therefore primarily the Three Seas region) thus becomes an economic gateway for China leading to the “West”⁷².

Below is an illustrative map of the area to be covered by the Belt and Road Initiative and the direction of the economic corridors under the initiative.

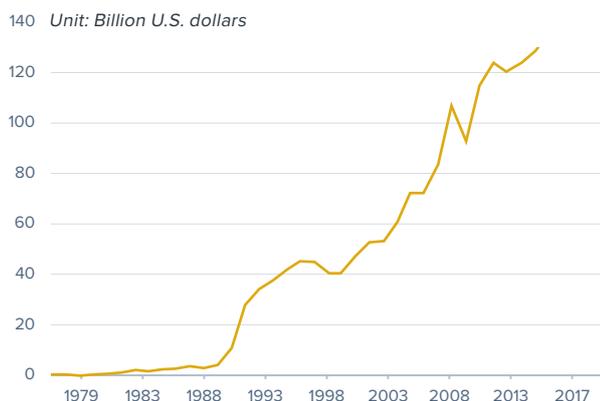
Land and sea corridors of the belt and road initiative



It has to be noted however that Europe (including the Three Seas countries) is just one of the components of the Belt and Road initiative and only a limited part of the investment funds can be realized in this region. Nevertheless, looking at the graphic China’s Foreign Direct Investment (FDI), and the levels it has reached over the years, one can conclude that the field of opportunities for the Three Seas countries to become a target for Chinese investment is quite large. China is focusing mainly on investments in infrastructure and new technologies. They are looking to invest in countries where development in this area is also a priority.

70. Andrew Chatzky, James McBride, China’s Massive Belt and Road Initiative, Council on Foreign Relations, 28.01.2020, <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>.
 71. Paula Tomaszewska, China’s Belt and Road Initiative and the Debt Risks of its Beneficiaries, Uniwersytet Przyrodniczo-Humanistyczny, 2019, https://desecuritate.uph.edu.pl/images/De_Securitate_Paula_Tomaszewska_Chinska_inicjatywa_pasa_i_szlaku_2_2019.pdf.
 72. Which creates an opportunity to build infrastructure in transportation, logistics and new technologies to improve exports under the Belt and Road initiative.
 73. Hui Lu, Charlene Rohr, Marco Hafner, Anna Knack. China Belt and Road Initiative, Rand Corporation, 2018, https://www.rand.org/pubs/research_reports/RR2625.html

Chart 4: China's actual use of foreign direct investment (FDI)



Source: Chinese Ministry of Commerce

As for new technologies and digitization, the main investor in the Three Seas region is Huawei, China's largest companies, able to simultaneously invest in the CEE market and around the world. In addition to Huawei, large investments are also being made by Alibaba, ZTE and CATL, among others. According to the European Commission, Huawei is the 2nd largest company in terms of investment in its industry within the European Union⁷⁴. The company's investments in the West are predominant, although it is worth noting that the Central and Eastern European region is not treated by the company as a mere supplement, as evidenced by its rivalry with U.S. companies to build infrastructure related to 5G technology⁷⁵. Despite the scale of the investment, Huawei's situation is not a simple one. It is influenced by the intensifying U.S.-Chinese technological rivalry. This has resulted in growing concerns about cooperation with the company, which is being accused in the public space of links with the Chinese government.

In conclusion, it is worth mentioning the most important Chinese investments in each of the Three Seas countries:



Austria:⁷⁶

- EHang Holdings' 2020 investment began testing autonomous air vehicles in Linz.
- China's largest talc manufacturer, Liaoning Aihai in 2021 completed construction of its factory in Vienna.
- Investments in the launch of the Inter-railway Express train service from the Chinese city of Suzhou to Granz.



Bulgaria:⁷⁷

- In 2018, the Bulgarian and Chinese ministers of agriculture opened an office in Plovdiv, which provides communication services for the 14+1 Logistics Center that has been established.
- In 2019, China Machinery Engineering Corporation (CMEC) signed an agreement worth EUR 120 million with the joint-stock company Logistical Center-Varna (the project concerns the development of port infrastructure in Bulgaria's largest coastal city of Varna).



Croatia

- Construction of a wastewater treatment plant in the city of Rijeka (the investment is expected to begin in 2022, the contractor is China Energy Engineering Group Jiangsu Power Design Institute praz Sumec Complete Equipment and Engineering. The total construction cost is expected to be around USD 7 million)⁷⁸.
- In 2018, the Chinese consortium China Road and Bridge Corporation won a tender to build a bridge crossing the Adriatic Sea and connecting Dubrovnik, isolated from Croatia, with the rest of the country. The bridge was commissioned in 2022 and represents the largest completed investment by a Chinese company funded by the European Union⁷⁹.

74. EU Ranks Huawei as the World's 2nd Highest Investor in R&D, Huawei, 20.12.2021, <https://www.huawei.com/en/news/2021/12/european-commission-huawei-investor>.

75. Eastern Europe, Huawei and 5G, Warsaw Institute, 09.08.2021, <https://warsawinstitute.org/eastern-europe-huawei-5g/>.

76. Pan Yinru. Covid-19 Hasn't Stopped Chinese Firms From Investing in Austria, Business Agency Head Says, YiCai Global, 22.12.2021, <https://www.yicai.com/news/covid-19-has-not-stopped-chinese-firms-from-investing-in-austria-country-business-agency-says>.

77. Rumena Filipova. Chinese influence in Bulgaria: Knocking on a Wide open door?, CHOICE, 08.09.2019, <https://chinaobservers.eu/chinese-influence-in-bulgaria-knocking-on-a-wide-open-door/>.

78. Senada Šelo Šabić. Chinese Influence in Croatia, CEPA, 12.08.2022, <https://cepa.org/comprehensive-reports/chinese-influence-in-croatia/>.

79. Chinese-built Peljesac Bridge in Croatia opens to traffic, a symbol of closer ties, Global Times, 28.07.2022, <https://www.globaltimes.cn/page/202207/1271607.shtml>.



Czech Republic:⁸⁰

- CEFC China Energy has been investing in the Czech Republic since 2015, having invested in real estate, tourism companies and the banking and finance sector. The company's portfolio is valued at EUR 1.5 billion.
- China General Nuclear (CGN) has been seeking investment in the expansion of Czech nuclear power plants since 2017, together with five other companies (in this case, it's worth noting that the Czech Republic has had a bad experience with Chinese companies, which at times failed to fulfill contracts, fell into a large debt, or simply went bankrupt).



Estonia:

- In 2018, Chinese engineering firm Guangzhou Hangxin Aviation Technology bought a 100% stake in an Estonian aircraft maintenance and repair company (Magnetic MRO) making it the largest Chinese investment ever in the country (the cost of the deal was EUR 43 million)⁸¹.



Lithuania:

- In 2013, North China Power Engineering acquired Lithuania's Energetikos Tinklu Institutas. Since then, the Chinese company has completed 23 public contracts, all related to strategically important energy projects for Lithuania⁸².
- Due to Lithuania's conflict with China over Taiwan and Lithuania's exit from the 17+1 format (currently 14+1), China abandoned economic cooperation with the country meaning it has removed Lithuania from its customs base⁸³.



Latvia:⁸⁴

- At the time of the pandemic, 2020, Chinese company MGI made an investment to help Latvia fight Covid-19. The company provided equipment for automated sample extraction and gene sequencing.



Poland:

- The construction of the S14 highway between Aleksandrów and the A2 section (thanks to which one of the largest cities in Poland, Łódź will have an advanced network of bypasses and expressways. The investment is being carried out by the Chinese company Stepcol Corp.). The tender was valued at PLN 724 million⁸⁵.
- A Polish-Chinese consortium with Intercon won the 2020 tender for the modernization of the Rail Baltica line, (the investment is valued at PLN 4.14 billion)⁸⁶.



Romania:

- Since 2004, Huawei and ZTE have regularly invested in expanding Romania's telecommunications network⁸⁷.
- China Tobacco International Europe Company (cigarette manufacturing facility in Pîrscov, Buzău)⁸⁸.



Slovakia:⁸⁹

- In Slovakia, China has a limited investment reach. Telecommunications companies such as Huawei, ZTE, Honor and Xiaomi are the primary investors.

80. Krzysztof Dębiec, Jakub Jakóbowski. Chinese investments in the Czech Republic: changing the expansion model, Centre for Eastern Studies, 06.06.2018, <https://www.osw.waw.pl/en/publikacje/analyses/2018-06-06/chinese-investments-czech-republic-changing-expansion-model-0>.

81. Sten Hankewitz. China completes its largest investment deal in Estonia, Estonian World, 08.05.2018, <https://estonianworld.com/business/china-completes-its-largest-investment-deal-in-estonia/>

82. Chinese Company Involved Projects in Lithuania that Serve Both to Mitigate and Reinforce Country's Dependency on Russian Power, Janes IntelTrak, 05.06.2020, <https://www.rwradvisor.com/chinese-company-involved-in-lithuania-projects-intended-both-to-mitigate-and-reinforce-countrys-dependency-on-russian-power/>.

83. Konstantinas Andrijauskas. Chinese influence in Lithuania, CEPA, 02.08.2022, <https://cepa.org/comprehensive-reports/chinese-influence-in-lithuania/>.

84. Naglis Navakas. The golden handcuffs of Chinese Investments, Re:Baltics, 05.09.2019, <https://en.rebaltica.lv/2019/09/the-golden-handcuffs-of-chinese-investment/>.

85. Jacek Losik. Firma z Chin kończy budowę S14. Efekt może jednak rozczarować. Na życzenie rządu, Money.pl, 25.09.2022, <https://www.money.pl/gospodarka/firma-z-chin-konczy-budowe-s14-efekt-moze-jednak-rozczarowac-na-zyczenie-rzadu-6814468126288736a.html>.

86. Jakub Madrajas. Rail Baltica: Polsko-chińskie konsorcjum po raz trzeci, Rynek Kolejowy, 02.04.2020, <https://www.rynek-kolejowy.pl/wiadomosci/rail-baltica-polskochińskie-konsorcjum-po-raz-trzeci-96085.html>.

87. Jan Drašković, Vassil Kirov, Aurelian Muntean, Elena Radu. Chinese Investment in Romania and Bulgaria, European Trade Union Institute, 04.2017, https://www.etui.org/sites/default/files/Chapter%207_5.pdf.

88. China's presence in Romania: The hundred flowers that never bloomed, Expert Forum, 07.10.2022, <https://expertforum.ro/en/china-presence-in-romania/>.

89. Yang Kunyi. China's investment in Slovakia expects huge rise: Deputy PM, Global Times, 26.11.2019, <https://www.globaltimes.cn/content/1171256.shtml>.



Slovenia:

- Chinese company Hinense in 2018 bought Slovenian appliance manufacturer Gorenje for USD 340 million. The investment created thousands of new jobs and the Slovenian-based Chinese company built a technology/logistics hub related to refrigerator production for European markets⁹⁰.



Hungary:

- Chinese battery manufacturer CATL (which specializes in producing lithium-ion batteries for electric vehicles) has pulled out of investing in Poland and announced a EUR 7 billion investment in eastern Hungary this year. This is the largest foreign investment in Hungary in its history⁹¹.
- Creation of a branch of China's Fudan University in Budapest. The investment is expected to cost nearly USD 1.8 billion with the majority of this amount to be financed by Hungary with Chinese loans.⁹²
- Budapest - Belgrade railroad line with a length of 350 km. So far an 80 km section in Serbia has been put into service. The Belgrade-Stara Pazova section was modernized by China Communications Construction Company and China Railway International Group, while the section from Stara Pazova to Novi Sad was financed by a loan from the Russian government and Exim Bank, and the contractor was Russian Railways RZD International. The Hungarian portion of this trunk line is being modernized by a consortium of Hungarian Railways MAV, China Railway International Corporation and China Railway International Group⁹³.

3.3

Potential for increased Chinese investment in the region

Taking the region's current situation into account, it is difficult to talk about the possibility of a significant increase in Chinese investment in the Three Seas region. This is further hindered by the fact that Latvia, Lithuania and Estonia have left the 16+1 format (making it 14+1)⁹⁴. The Baltic countries' reduction of economic relations with Beijing (Beijing completely blocked cooperation with Lithuania after Lithuania renamed the Republic of China's diplomatic post in Taiwan to the Taiwan Office), means a weakening of the format and may set a precedent for other countries (if only because of China's attitude to the war in Ukraine). The war on the region's eastern border also poses the threat of the Three Seas countries closing to the East (and thus primarily to the New Silk Road), mainly due to the influence of the US, which also wants to invest in the region thus competing with China⁹⁵.

The next challenge is China's frequent loan-based cooperation model in developing countries, which does not fully correspond to the region's needs, and, because of poor PR for global Chinese investments, has raised great fears in the Western press of a repeat of the Sri Lankan scenario and the so-called "debt trap".

Another barrier to cooperation with China is the distrust of many of the regional political elites (although this is certainly not the case with Hungary) regarding China's political system, which is a mix of authoritarian, communist and market systems, which makes mutual understanding difficult and may hinder cooperation with countries in the region on strategic infrastructure projects.

Reviewing the statistics, data, and analysis, it is worth highlighting one more point: Chinese investments in the Three Seas region (and around the world) are very often not as transparent as Western ones, whether in terms of the cost of the investments, their purpose or the resources used. This makes it difficult to make a factual analysis of the extent of Chinese investment in the Three Seas region. China refers to the region as Central and Eastern Europe including the Balkans and even Greece. With the exception of Hungary, however, the Three Seas does not play a significant role in China's global investment portfolio, and the region is certainly not prioritized by China.

90. Aljosa Milenkovic. China's Hisense acquires Slovenian home appliances firm Gorenje, CGTN, 23.08.2018, https://news.cgtn.com/news/3d3d774d79676a4e79457a6333566d54/share_p.html.

91. Mariann Óry. Chinese Investment Contributes to Hungary's Growth, Hungary Today, 23.09.2022, <https://hungarytoday.hu/chinese-investment-contributes-to-hungarys-growth/>.

92. Akos Keller-Alant, Reid Standish. What's next for China's Fudan University Campus in Hungary?, Radio Free Europe, 08.06.2022, <https://www.rferl.org/a/hungary-orban-china-fudan-budapest/31888800.html>.

93. Łukasz Kuś. W Serbii oddano do użytku pierwszy odcinek szybkiej kolei Belgrad – Budapeszt, Intermodal, 25.03.2022, <https://intermodalnews.pl/2022/03/25/w-serbii-oddano-do-uzytku-pierwszy-odcinek-szybkiej-kolei-belgrad-budapeszt/>.

94. Jakub Jakóbowski, Joanna Hyndle-Hussein. Latvia and Estonia outside the 16+1 format, 12.08.2022, <https://www.osw.waw.pl/en/node/30511>.

95. On the other hand, most of the Three Seas countries (except Hungary) support Ukraine very strongly and do not understand China's neutrality stance.

4

South Korea and Japan



Patryk Szczotka
Sandra Krawczyzsyn

4.1

General macroeconomic outlook – South Korea

South Korea is the fourth biggest economy in Asia and ranks fifth in the World Bank Doing Business 2020 ranking, measuring the ease of managing business activity⁹⁶. What makes this country a sought-after investment partner across the Three Seas Initiative countries is best described by the example of Poland. As stated by the Polish Investment and Trade Agency, the Korean economy is among the top five most innovative in the world, which translates into the specificity of foreign investments carried out by companies from this country, notably in consumer electronics and automotive sectors industries⁹⁷. One can identify a handful of Korean companies with a global presence in various sectors, including electricity and electronics, automobile, chemical, steel-making, shipbuilding and IT industries, with world-famous names such as Samsung Electronics, LG Electronics, Hyundai Motor Company, Kia Motors, POSCO and SK Telecom among others⁹⁸.

South Korea experienced gross domestic product growth of 4.1% in 2021, and despite rising inflation (almost tripling the inflation target of 2% in August 2022), according to the Organisation for Economic Co-Operation and Development (OECD) the recovery from the COVID-19 economic slowdown appears to be on the right track. In the international comparison, public debt remains low (in 2021, general government gross debt is 46.4% of the country's GDP)⁹⁹, while the foreign direct investment flows amounted to inward USD 6.91 billion and outward USD 38.88 billion from which Three Seas countries received USD 18.62 billion and other European countries USD 5.32 billion¹⁰⁰.

96. Korea Płd.: siła partnerstw strategicznych w obsłudze polskich przedsiębiorstw, Polish Investment and Trade Agency, 11.01.2021, https://www.paih.gov.pl/20210111/kierunek_korea_pld.

97. PAIH zorganizowała Polsko-Koreańskie Forum Biznesowe, Polish Investment and Trade Agency, 23.09.2022, https://www.paih.gov.pl/20220923/paih_zorganizowala_polsko_koreanskie_forum_biznesowe.

98. Investment Profile: South Korea | Industry Insights, APAC Outlook Magazine, <https://www.apacoutlookmag.com/industry-insights/article/254-investment-profile-south-korea>.

99. Korea Economic Snapshot, OECD, <https://www.oecd.org/economy/korea-economic-snapshot/>.

100. Korea. OECD International Direct Investment Statistics 2021, OECD, 2021, https://read.oecd-ilibrary.org/finance-and-investment/oecd-international-direct-investment-statistics-2021_5065b46a-en#page

4.2

Overview of South Korean investment and key investment areas in the Three Seas Region

It is worth noting that while South Korean firms have been investing in several Central and Eastern Europe's economies for years, Poland remains a favourite destination of Korean investment: in the years 2016-2021, around 56% of projects, or EUR 5.1 billion went to Poland, followed by Czech Republic (26%; EUR 2.4 billion) and then Slovakia, Hungary, Romania and Bulgaria¹⁰¹. With the exception of Latvia, Korean investment in the Baltics is almost non-existent. In 2020, Estonia reported Korean investments amounted to EUR 1 million. Lithuania's EUR 480 million in 2019 turned to zero in 2020, and only Latvia declared investments for a value of EUR 23 million¹⁰². For this reason, Poland was chosen as the case study signifying the potential for investment in Central and Eastern Europe. From January 2002 to August 2022, the Polish Investment and Trade Agency supported the implementation of 64 direct investments from the Republic of Korea, with the total value of the projects reaching EUR 6.4 billion and employment declared by the investors amounting to 28,796 jobs¹⁰³. It is worth noting that Korean investments focus on the sectors of vital importance to Poland and other countries of the Three Seas Initiative: infrastructure, energy and green technologies.

A high-profile case of Korean involvement in developing Polish infrastructure is a partnership between the Solidarity Transport Hub (CPK) and Incheon International Airport. Asian hub acts as a strategic advisor that provides CPK with the knowledge and experience necessary to plan and design a new airport. South Korean experts are working at CPK headquarters as part of an integrated team (including employees of the CPK company and external advisers)¹⁰⁴.

Recently, South Korea's state-owned Korea Hydro Nuclear Power submitted an offer to build Poland's first nuclear plant consisting of six reactors with a combined capacity of 8.4 gigawatts, with the first to be operational in 2033¹⁰⁵.

South Korea is also responsible for almost two-thirds of all foreign investments carried out in Poland in the e-mobility sector, amounting to a total of EUR 2.7 billion and making Poland the European Union's leader in the export of lithium-ion batteries¹⁰⁶. The largest Korean companies in Poland include LG - production of electronic products (plasma TVs, LCD TVs and household appliances): Mława (LG Electronics) and Kobierzyce near Wrocław (LG Display); Samsung - research and development centre (software for LCD screens and mobile phones produced in factories in Hungary and Slovakia); SK Chemicals - SK Eurochem Sp. z o.o. in Włocławek (joint venture with the Polish company Anwil) - production of PET pellets; investment in the Wałbrzych Special Economic Zone - production of coatings for liquid crystal screens, Mando - a factory of braking systems and power steering systems in Wałbrzych¹⁰⁷.

4.3

General macroeconomic outlook - Japan

Currently Japan is the third world's largest economy, with a GDP per capita of USD 39,285 (2021)¹⁰⁸. It is also ranked 29th among 190 economies in the ease of doing business¹⁰⁹. Although still behind South Korea, the Japanese rank improved from 39 in 2018 to 29 in 2019. It shows a considerable potential of easing the business-making process between Japan and other countries in the following years. Europe itself remains the third most popular region for expansion for Japanese investors. In

101. Jo Harper. Why Poland is increasingly South Korea's gateway to the EU., *Emerging Europe*, 26.03.2021, <https://emerging-europe.com/business/why-poland-is-increasingly-south-koreas-gateway-to-the-eu/>.

102. German, Chinese & Korean investments in the Baltic Region, EU-Japan Centre, <https://www.eu-japan.eu/publications/german-chinese-korean-investments-baltic-region>.

103. PAIH zorganizowała Polsko-Koreańskie Forum Biznesowe, op. cit.

104. Port Seul-Inczon doradcą strategicznym CPK. Umowa podpisana, *Rynek Lotniczy*, 26.02.2021, <https://www.rynek-lotniczy.pl/wiadomosci/port-seulinczon-oficjalnie-doradca-strategicznym-cpk--10854.html>.

105. Strzelecki Marek, Susan Fenton. South Korea's KHNP submits offer to build Poland's first nuclear plant, *Reuter's*, 21.04.2022, <https://www.reuters.com/business/energy/south-koreas-khnp-submits-offer-build-polands-first-nuclear-plant-2022-04-21/>.

106. Jo Harper. op. cit.

107. Republika Korei, Informacja o stosunkach gospodarczych z Polską, Ministerstwo Rozwoju, 2020, <https://www.gov.pl/attachment/11d9f7d3-a907-4211-9813-5af8ebcf0903>.

108. The world's largest economies, *World Data Info*, <https://www.worlddata.info/largest-economies.php>.

109. Doing Business 2020, *World Bank*, 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/j/japan/JPN.pdf>.

the past 20 years before the pandemic, the volume of investments from Japan grew to reach USD 73 billion¹¹⁰. A vast part of those investments relates to the industrial and technology sectors. As for the Three Seas Initiative, Japan is mentioned as one of the key external partners of the Initiative.

Along with Germany, South Korea and the USA, Japan forms the 'Western bloc', which is supposed to counter the weakening '14+1' format developed by China and replace it with more beneficial initiatives¹¹¹. The Three Seas Initiative's importance is visible when considering the number of direct meetings between the Japanese and European representatives. In 2018, Japanese Prime Minister Shinzo Abe visited five 3SI countries (Bulgaria, Estonia, Latvia, Lithuania, and Romania). Soon after, in 2019, he met with Polish, Czech, and Hungarian leaders during the V4 format meeting in Bratislava. The number of sessions shows a strong desire to increase the importance of Japan in the 3SI region as well as express a possibility of competition with other Asian counterparts in Europe¹¹².

Japan, whether represented by private companies or state representatives, is also consistently present at the Three Seas Initiative Business Forums organized annually since 2018¹¹³. The 3SI format, either directly or via the Three Seas Initiative Investment Fund, makes the investment in the region more accessible to Japanese investors by unlocking the combined potential of many smaller economies which individually would have a hard time attracting Japanese capital due to their small scale.

The Japanese interest in increased investment within the European continent was highlighted, for example, during Asia-Europe Meeting (2018), the Japan-EU Summit (2019) as well as at the G20 Osaka Summit (2019), where Japan and the European Union (to which all 3SI countries belong), affirmed their commitment to establishing a Connectivity Partnership "based on sustainability as a shared value, quality infrastructure and their belief in the benefits of a level playing field"¹¹⁴. Both sides agreed to work bilaterally and multilaterally, especially in transportation, the energy sector and people-to-people exchange. Both sides of

the Partnership highlighted the crucial areas of influence (Western Balkans, Eastern Europe, Central Asia, Indo-Pacific, Africa), out of which "Eastern Europe" clearly refers to the 3SI participating countries.

4.4

Overview of Japanese investment and key investment areas in the Three Seas Region

Although there are many meetings and verbal arrangements on the subject of Japanese investments in 3SI countries, the previous years brought little significant change for the region. Most direct investments from Japan to Europe were in Western Europe (Denmark, Germany, Italy). However, speaking just of Japan's presence in the Three Seas Region, Japan is visibly focused on the region's biggest economy. Numerous investments are dedicated to Poland as according to the National Bank of Poland, Japanese direct investment in Poland stood at EUR 25 million in 2019, when the Japanese companies employed about 40,000 people¹¹⁵. In 2022, more than 350 Japanese companies are operating in Poland, and plans for further investments are rising. Several factors of the country's potential (highly qualified employees, strategic location, relatively low costs or political stability) make Poland a sought-after economy for Japanese investors¹¹⁶. As the Japanese plan to spend PLN 1.4 billion on investments in Poland, this country may be an important case-study for other 3SI countries hoping to attract more Japanese investment.

Japanese investments in Poland dominate the automotive (Toyota Motors Manufacturing Poland, Bridgestone Poznań or Isuzu Motors Polska) and electronics industry (Sony, Panasonic, Toshiba and Sharp). Such companies mainly deal with the manufacturing of accessories for motor vehicles (e.g. Daicel Corporation Ltd., Takata Petri AG, Denso Corporation, Toyota Motor Corporation), consumer

110. FDI in figures, OECD, 2022. <https://www.oecd.org/investment/investment-policy/FDI-in-Figures-April-2022.pdf>.

111. Daniel Kawczynski. op. cit.

112. Sylwia Matusiak, Masuyama Takashi. The Three Seas Initiative: Potential Areas of Cooperation with Japan, https://libir.josai.ac.jp/il/user_contents/02/G0000284repository/pdf/JOS-03866947-4003.pdf.

113. First day of the Three Seas Summit and Business Forum has concluded, 3seas.eu, 20.06.2022, <https://3seas.eu/media/news/first-day-of-the-three-seas-summit-and-business-forum-has-concluded>.

114. The Partnership on Sustainable Connectivity and Quality Infrastructure between Japan and the European Union, The Japanese Ministry of Foreign Affairs, <https://www.mofa.go.jp/files/000521432.pdf>.

115. About 300 Japanese firms in Poland, investments total EUR 25 mln – PM, The First News, 03.03.2021, <https://www.thefirstnews.com/article/about-300-japanese-firms-in-poland-investments-total-eur-25-mln---pm-20238>.

116. Kinga Pawlikowska. Japan invests in Poland, Rzeczpospolita, 11.09.2022, <https://www.rp.pl/gospodarka/art37041051-japan-invests-in-poland>.

electronics and domestic appliances (e.g. ORION Electric Co. Ltd, Ricoh Company Ltd., Sharp Corporation), general-purpose machinery (Amatsuji Steel Ball Mfg Co. Ltd, Toho Industrial Co. Ltd., Makita Corporation), electronic components and boards (Okaya Group, Sony Corporation)¹¹⁷. The multitude of industries and the scale of cooperation also contributed to the transfer of Polish-Japanese know-how, i.e. the development of education and the dissemination of knowledge about specific applications. One such exchange center is, for example, the Polish-Japanese Academy of Information Technology.

However, further Japanese investments in Poland are expected to focus primarily on the energy sector, which is one of the key areas for the Three Seas Initiative. In 2018, an additional power unit, Kozienice Power Plant was created, whose turbine and generator (which are the heart of the unit), together with some components and maintenance tools, came from the Japanese parent company Mitsubishi Hitachi Power Systems¹¹⁸. As the investment has proven their and is frequently mentioned as a fine example of this type of investment, combined with the growing energy risk in the region, it can be concluded that the Japanese will continue to be interested in cooperation within this region.

The example of the rapid returns of Japanese investments in Western Europe after the pandemic, and the ongoing investments in Poland may be a lesson for other 3SI countries to become more actively involved in encouraging Japanese companies to invest. Two main points should be considered while encouraging Japanese investors in the region. Firstly, Japanese investors have recently focused on two main branches- the manufacturing section and the energy sector. Secondly, each country should establish what internal factors (like regulation) currently inhibits more Japanese investment, particularly when it comes to infrastructure.

4.5

Main investment incentives and obstacles for Japanese and South Korean investment in the Three Seas region

Considering the political commitment to developing Japanese and South Korean investments in 3SI countries and the already improving pandemic situation, it is clear that the region has the potential to develop cooperation further, either individually, within a subregional group or as a whole region. The region offers a highly skilled labour force, particularly in new technologies, and shows high dedication to energy and digital security solutions, which when combined lead to increased investment potential for Japanese and South Korean investors¹¹⁹.

While Japan and South Korea have already moved some of their investments from Western Europe to the Three Seas Region, the region should not take this transition for granted and continue improving its investment environment. The region should particularly focus on green transformation and increased security, which are key priority for both Asian countries¹²⁰. Keeping in mind the above-mentioned trends, one should also actively engage in the discussion on cooperation in the region - organise more visits of Japanese and South Korean businesses to 3SI countries, especially ones that will expose prospective investors to opportunities and networks from more than one 3SI country. In addition, it is necessary to monitor and analyse the current Japanese and South Korean investments around the world in general, and develop knowledge about the business culture of these two countries, which may also prove to be a factor that is lacking in the business relations between them and the Three Seas region.

Recently the Russian-Ukrainian war also became one of major investment obstacles, both prospective ones and ones already in place. The fear of an escalation of the conflict may be a key factor inhibiting the inflow of investments to CEE. However, in the longer term, the influx

117. Grzegorz Mazur, Masaki Takemura. Polish-Japanese Investment and Trade Relations, Meiji University, <https://www.isc.meiji.ac.jp/~takemuraofficial/works/pdf/PolishJapaneseInvestmentandTradeRelations.pdf>.

118. Why are the Japanese investing in Poland?, Poland Weekly, 24.07.2022, https://polandweekly.com/2022/07/24/why-are-the-japanese-investing-in-poland/?fbclid=IwAR2phVJeBwPChMhOgg0TX1zO7B4nXKJ_qKzQrn5vbb5R0FmQ8GzOWFlr7Io.

119. Izabela Albrycht et al. The Digital 3 Seas Initiative. Mapping the challenges to overcome, The Kosciuszko Institute, 2018, https://ik.org.pl/wp-content/uploads/digital3seas_initiative_roadmap_report_2018.pdf.

120. Pirouzan Parvine, Takura Kawai. Europe is more attractive than ever to Japanese investors, and post-pandemic era looks even better, EU Japan Forum, 2021, <https://www.eujapanforum.com/insights/ess/europe-is-more-attractive-than-ever-to-japanese-investors-and-post-pandemic-era-looks-even-better-dep7f>

of Ukrainians to the region and participation of Three Seas companies in the Ukrainian reconstruction may drive the economic growth of 3SI countries making the region more attractive for future investment.

As for the investor incentives in the region, Three Seas countries maintain a network of economic development institutions that offer instruments helpful in incentivising private investment through loan guarantees, preferential loans, taking up shares in projects, and organising investment funds open to the participation of private capital¹²¹. These are complimented by financing opportunities offered in the form of grants and loans from the EU, loans from multilateral institutions and development banks, and private capital. These sources can be mixed and utilised simultaneously.

4.6

Potential and perspectives for increased investment

As outlined above, South Korea and Japan are valuable partners to the Three Seas Initiative countries and can be considered an essential source of direct foreign investment, including infrastructural investment. The example of Poland proves that the CEE region can be attractive to investors from Asia and the Pacific. Thanks to the robust network of institutional support (with the special place given to the Polish Investment and Trade offices, with its offices in Seoul and Tokyo), Poland was able to capitalise on possible investment opportunities effectively. Most importantly, the bulk of the investments are located in strategically important sectors such as e-mobility and energy, and strategic projects such as the Solidarity Transport Hub, show that cooperation with the East Asian partners can be a driver of high-quality investment in the region.

Having said that, it is essential to acknowledge that with Korean and Japanese partners, a critical matter in business contacts is a great deal of attention given to developing relationships between partners. This means that on an operational level, building a friendly relationship in matters often regarded as private and non-professional (such as family life) is vital in building an effective business relationship. Relation building usually requires a significant

amount of time and personal commitment, and should be regarded as one of primary focuses in attracting foreign investment from Asia. It is worth noting that cultural awareness can significantly facilitate building business and investor relations and, consequently, increase the chances of achieving the assumed goals.

Furthermore, Korean and Japanese investment in Poland in sectors such as electro-mobility indicates that apart from geographical considerations, investors value high quality human capital, lower costs of labour (in relation to Western Europe) and tax incentives. Therefore, investment in development of the talent pool and implementing efforts in ensuring simplicity and effectiveness of the taxation system are the most crucial elements of incentivizing Korean and Japanese investors.

Ultimately, the cultural awareness coupled with the good practices and institutional incentives presented in the case of Poland can serve as a great example of attracting high-quality foreign direct investment in the Three Seas Initiative countries.

Along with Germany, South Korea and the USA, Japan forms the 'Western bloc', which is supposed to counter the weakening '14+1' format developed by China and replace it with more beneficial initiatives.

The region should organise more visits of Japanese and South Korean businesses to 3SI countries, especially ones that will expose prospective investors to opportunities and networks from more than one 3SI country.

121. Konrad Popławski, Jakub Jakóbowski. Building closer connections. The Three Seas region as an economic area, Polski Instytut Ekonomiczny, 2020, <https://pie.net.pl/wp-content/uploads/2022/01/PIE-Three-Seas.pdf>.

5

The Nordic countries



Wojciech Lieder

5.1

Economic and investment potential

The bi- and multilateral relations between the Nordics and the Three Seas Initiative participating states are still insufficiently developed.

While Denmark, Finland, Iceland, Norway and Sweden are rather small countries, population wise, they have a significant economic potential that is still underutilized in the Three Seas region. This potential is visible both in terms of GDP (Denmark USD 397.1 billion, Finland USD 299.2 billion, Iceland USD 25.5 billion, Norway USD 482.4 billion, Sweden USD 627.44 billion; in total it is USD 1.83 trillion; for comparison, Russia's GDP is USD 1.7 trillion¹²²) and the valuation of the Nordic companies. According to the Forbes Global 2000 ranking¹²³, the market value of the aggregated companies from this region is over USD 1.6 trillion (of which: USD 522.58 billion are Danish companies, USD 219.98 billion are Finnish companies, USD 232.98 billion are Norwegian companies, USD 633.58 billion are Swedish companies). For comparison - the total market value of all Russian companies is only USD 376.17 billion. Moreover, top Nordic companies, such as the ones listed at Global 2000, are more diversified sector-wise than for example Polish companies, which are predominately state-owned energy companies.

What also distinguishes them is high brand recognition in the world and their focus on continuous innovation. On the macro-scale, innovation of the Nordic countries is illustrated, for example, by the Global Innovation Index 2022, in which Sweden came 3rd, Finland 9th, Denmark 10th, Iceland 20th, Norway 22nd¹²⁴.

Due to their economic potential, the Nordics are a sought-after source of direct foreign investment (FDI). The dominant industries in which entities from individual Scandinavian countries invest are:

1

Denmark (2020): financial inter-mediation; business services; trade and transport, etc.; manufacturing; insurance; agriculture, fishing, mining and quarrying; real estate acquisition and management; information and communication; construction¹²⁵ (total FDI outflows USD 9.09 billion¹²⁶).

122. World Bank, <https://data.worldbank.org/>.

123. Andrea Murphy Isabel Contreras (ed.), The Global 2000, Forbes, 12.05.2022, <https://www.forbes.com/lists/global2000/?sh=1bedde9a5ac0>. The author is aware of the shortcomings of such a comparative method. It is not entirely reliable or conclusive (e.g. the Danish pharmaceutical company Novo Nordisk has achieved an increase in market value in recent years due to the global epidemic), but still illustrative.

124. Global Innovation Index 2022, WIPO, <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2022-section1-en-gii-2022-at-a-glance-global-innovation-index-2022-15th-edition.pdf>.

125. Danmarks Statistik, <https://www.dst.dk/>.

126. World Bank, op. cit.

2

Norway (2020): financial and insurance activities; mining and quarrying; manufacturing; second homes; information and communication; transportation and storage; real estate activities; professional, scientific and technical activities; wholesale and retail trade: repair of motor vehicles and motorcycles¹²⁷ (total FDI outflows - USD 11.1 billion¹²⁸).

3

Sweden (2020): manufacturing; metal and mechanical products; legal, professional, scientific and technological research; wholesale and retail trade; maintenance of motor vehicles and motorcycles; industry for transport equipment; financial and insurance activities; information and communication technologies; petroleum, chemicals, rubber and plastic products; insurance and reinsurance companies, pension funds¹²⁹ (total FDI outflows USD 23.1 billion¹³⁰).

5.2

Current investment in the region

Sweden, as the country with the greatest potential for foreign investment and the greatest economic strength among the Nordic countries, is necessarily a reference point for the Three Seas Initiative countries. The largest Swedish investments in the field of infrastructure, energy and digitization include:

- construction of a research and development center and a Northvolt factory producing lithium-ion battery modules in Poland,
- production and logistics facilities in Poland by GARO AB, operating in the field of electromobility,
- construction of the 5G network by the ICT giant Ericsson,
- a factory in Slovakia producing innovative electric cars by Volvo.

In case of Denmark, the most notable investment is the Baltic Pipe gas pipeline, a joint investment between Poland, Denmark and Norway, that will benefit the whole Three Seas region. Following this flagship investment, the Danish energy concern Vestas will invest in a factory and research center in Poland.

As for Norway, the Norwegian investment contribution is mainly illustrated by the activity of the Norwegian State Pension Fund (Oljefondet), which invests in listed (public) companies by purchasing minority shares in the range of 0.01-6.26% in the Three Seas Initiative countries. The total market value of the purchased shares as of 2021 is USD 3.91 billion (of which: USD 1.79 billion in Poland; USD 1.62 billion in Austria; USD 197 million in Hungary; USD 102 million in Romania; USD 98 million in Slovenia ; USD 42 million in the Czech Republic; USD 31 million in Croatia; USD 13 million in Estonia; USD 11 million in Lithuania; USD 0,6 million in Latvia)¹³¹.

Of the whole Three Seas region, the Baltics and the V4 group seems to gather the most interest of the Nordic investors and business open to international cooperation. The Baltics benefit due to their geographic proximity and well-established relationships with their Northern neighbors. As for V4 countries, especially Poland and the Czech Republic, they serve as key hubs for further expansion of Nordic companies into the Three Seas region. Swedish companies, to give an example, have used Poland to expand into Ukraine and Romania and Czechia for Slovakia and Hungary. In the eyes of the Swedes, both countries have the image of being stable, safe, geographically and culturally close, with good logistics and transport facilities and a well-qualified workforce. An additional advantage in both cases is stable economic growth and focus on long-term cooperation¹³².

127. Statistisk sentralbyrå, www.ssb.no.

128. World Bank, op. cit.

129. Statistikmyndigheten, www.scb.se.

130. World Bank, op. cit.

131. Based on data from Norges Bank Investment Management, Oljefondet, <https://www.nbim.no/no/>.

132. Based on: Poland, Business Sweden, <https://www.business-sweden.com/markets/europe/poland/> and The Czech Republic, Business Sweden, <https://www.business-sweden.com/markets/europe/the-czech-republic/>.

5.3

Perspectives for increased investment in the region

It should be remembered that the Swedes, and the Nordics in general, have always approached the issue of economic cooperation extremely pragmatically and collectively. They prefer to focus on developing cooperation between themselves, which for them is the safest form of international cooperation, including economic. When planning for tightening cooperation and applying for financing/co-financing, the Three Seas countries must remember that trust is a key component and one way of establishing it is a detailed verification process. The Nordic countries' key investment funds operate almost exclusively in the Nordic region and focus on investments that benefit first and foremost the region itself. However, there is also a gradual opening up to other countries. One example is the Swedish investment fund Infranode, which is a public-private partnership that invest on behalf of multiple pension funds in sustainable transport, green energy, digital infrastructure and social infrastructure (including healthcare, education and training). The Infranode charter prioritizes investments within the Nordic countries, but also allows for the possibility of minority participation in other countries, with a special focus on low-risk and geographically close countries.

An extremely important aspect of the potential attracting of Nordic investors are non-financial activities of companies that complement their financial reports and help better understand their impact on their surroundings. The ESG (Environmental, Social, Corporate Governance) reporting standard, although it will not officially become obligatory until 2023, has been practiced by the Nordics for many years. Nordic companies look into ESG data of prospective investments to expand the scope of research beyond purely economic indicators, and to have a better view of the potential financial and reputation risks¹³³.

This approach that focuses not only on increasing profitability, but also maintaining high standards might be difficult to meet, but that is not to say it is unachievable. In fact some Nordics actively push for universal recognition of the high importance of the non-financial factors, which can be seen for example in the Swedish efforts to have bigger

influence in international and European standardization organizations¹³⁴.

The lack of adequate ESG reporting in many Three Seas countries, especially when it comes to its availability in English, could therefore be seen as one of the main inhibitors for increased Nordic investment in the region. It is of course not the only barrier – for example in case of Poland Swedish companies cite the excessive bureaucracy and tough competition in the market as one of the key challenges for development and investment¹³⁵.

As demonstrated by the recent Volvo investment in an electric car factory in Slovakia, the Three Seas Initiative countries can bring more Nordic investment in the region as suppliers of components, systems and infrastructure elements. Comparing with the Nordics, the region has much greater production capabilities, skilled workforce (especially in the automotive industry) and lower costs, making the production cheaper and in turn electric vehicles more affordable, which is key for popularizing this type of transport. Volvo's parent company, the Chinese Geely Automobile, has already announced the search for savings in the form of relocating factories, warehouses and assembly plants from Belgium and Sweden to countries that provide more favorable conditions for economic activity.

In connection with the expansion of Polish container ports, but also the construction of the Solidarity Transport Hub (CPK), it is also worth strengthening cooperation with the Danish container shipping giant, the operator of container terminals, and recently also the air cargo operator - AP Møller-Mærsk, which will certainly not miss the opportunity to increase its dominance in the Baltic Sea basin. Companies such as the Norwegian RSA, which import electric vehicles from China, may also show interest in investments in Polish container ports. This is due to the depleting loading and logistical capacities of Norwegian ports, which in turn result in transport difficulties. Passing some of the transit through Poland and the Baltic states could help address the existing bottlenecks.

Another potential for more investment, including into infrastructure, lies in many tech companies that are native to the Nordics, in particular Swedish fintechs. Those companies require skilled labor force and large data

133. Based on: Hållbarhetsrelaterade upplysningar, Finansinspektionen, <https://fi.se/sv/hallbarhet/regler/upplysningar/> and Hållbarhetsinformation i informationsbroschyr och på webbplats, Finansinspektionen, <https://fi.se/contentassets/185b3827711f493897c148671179ebf6/hallbarhetsinformation-informationsbroschyr-webbplats.pdf>.

134. Regeringens strategiför standardisering, Regeringskansliet, <https://www.regeringen.se/4ada7f/contentassets/6cd7c3221c3448a683ddec2e2b3390e3/regeringens-strategi-for-standardisering.pdf>.

135. Poland, Business Sweden, op. cit.

centers, which can be acquired much cheaper in the Three Seas region. With additional tax incentives they could be convinced to relocate some of their operations and/or develop their infrastructure in the region.

Nordic states, in particular Sweden, have also extensive cybersecurity experience which would be translated into new solutions and infrastructure for the Three Seas region. Tightening cooperation in the field of cybersecurity and soliciting investments in infrastructure provided by Swedes will contribute to increasing security, stability and, consequently, investment attractiveness of the entire region in many other industries.

It is also worth mentioning, that Nordic countries believe in the collective approach towards cybersecurity. While for now mainly focused on coordinating proper cyberattack responses within their group, they are open to new international agreements that could increase the effectiveness of their cybersecurity measures. Poland and the countries of the Three Seas Initiative, face similar cybersecurity challenges, which make them naturally desirable partners for cooperation in this field. This cooperation could be complemented by investing in Ericsson's 5G solutions in the region, as an alternative, or diversification, if similar infrastructure offered by American and Chinese companies.

Nordic countries believe in the collective approach towards cybersecurity and they are open to new international agreements that could increase the effectiveness of their cybersecurity measures.

Poland and other countries of the Three Seas Initiative, face similar cybersecurity challenges, which make them naturally desirable partners for cooperation in this field.

5.4

Recommendations

To attract more foreign investment from the Nordics, the Three Seas countries should consider a variety of actions both on the regional and national levels.

These could include:

- Establishing favorable regulations for the location of innovation centers and data centers, which will be a great incentive for Nordic fintech companies to locate development centers in the Three Seas Initiative countries (given the access to a highly skilled workforce and the relatively low cost of doing business).
- Promotion of the logistics potential of the Baltic ports of the Three Seas Initiative countries in the Nordics and increasing the investment in the network of road, rail and inland shipping routes in order to improve the image of the region as logistics and transport hubs (especially today, in the era of the war in Ukraine and sanctions against Russia which redefined the transit routes).
- Paying special attention to promotion of ESG compliance and impact of the potential investments in the Three Seas Initiative region, which would make Nordic investors considerably more favorable towards building new investment relations.
- Making use of the vast experience and infrastructural solutions of Nordic (particular Swedish) companies from the broadly understood IT industry in order to build a 5G network and improve cyber security.
- Dispatching economic missions at the highest levels, providing cyclical B2B platforms for entrepreneurs and institutions from Nordic countries with the countries of the Three Seas Initiative (especially through existing platforms like the Three Seas Initiative Business Forum).

6

Afterword

Robert Kroplewski

Three Seas future must be built on a digital independence

The world today is less and less about North-South or East-West divide, and more and more about who controls digital data, and who does not. The digital dimension affects our social, economic, and geopolitical spheres and shapes new centers and peripheries. Digitization promises freedom from geographical determinism and allows for the establishment of relationships and business relations with people and countries on a scale never before possible.

But that opportunity comes with a price. Companies from the Three Seas region largely depend on international digital data in their research, development, and commercialization of their products. They also need that data to successfully manage their business in European and global markets. This creates for regional companies new growth opportunities, but it also puts them at risk of solidifying their location, and consequently their respective countries' position, within the global supply chains.

No single country in the Three Seas region can overcome this dependency on its own. We need to cooperate regionally or sub-regionally to better position ourselves in the digital economy and to find ourselves on the better side of the digital divide. That requires developing own AI-driven technologies, creating new digital business models, discovering synergies, and building data management capabilities.

That is why digitization is one of the pillars of the 3SI cooperation. The initial focus within the 3SI digital pillar, Digital 3Seas, is on “digital highways”, regional data centers and 5G connectivity, which are the cornerstones of digital development. Eventually, digital infrastructure should allow for the creation of a Three Seas digital twin, a digital representation of our energy, logistics, and infrastructure sectors, as well as knowledge repositories that would encompass research teams, innovation centers, and business consortia.

To support the digital transition, we also need to strengthen and transform the Three Seas Initiative. Specifically, we need to push for the 3SI institutionalization. Institutionalization is crucial for better recognition of the Initiative and operationalization of its goals. It also makes it easier to attract partners and investors, since they would have only one point of contact for the whole region. The institutionalization should not be limited to some sort of permanent, small-scale secretariat, as it is often suggested. Instead, it should strive to combine political representatives (presidents, prime ministers, ministers) with experts of various backgrounds (NGOs, think tanks, chambers of commerce, academia) within complimentary groups, councils, and committees.

The region could also benefit from the establishment of the Three Seas Innovation Fund which could support cross-border academic and industrial research projects of regional importance. Similarly to the Three Seas Initiative Investment Funds, it should be funded by public and private investors, and the decision on which projects should be funded should be made independently of them. In addition to its primary objective, funding research projects, the Found could also facilitate research cooperation throughout the region and help establish consortia required for other funding opportunities like Horizon Europe.

The Three Seas region faces many economic and infrastructural challenges that no country in the region can successfully face on its own. While some efforts have already been undertaken, much more needs yet to be done to ensure a prosperous future. In particular, this future requires the Three Seas countries to work together on gaining digital independence for the region. Without well-thought and well-funded digital transformation, there will be no escape from our peripheral status and dependence on foreign investment for our economic growth.

7 Authors



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