



VILNIUS GEDIMINAS TECHNICAL UNIVERSITY  
FACULTY OF BUSINESS MANAGEMENT  
DEPARTMENT OF INTERNATIONAL ECONOMICS AND BUSINESS  
MANAGEMENT

Justina Stukaite

**LITHUANIA - CHINA ECONOMIC COOPERATION: RESEARCH ON  
THE PERSPECTIVES**  
**LIETUVOS - KINIJOS EKONOMINIS BENDRADARBIAVIMAS:  
PERSPEKTYVŲ TYRIMAI**

Master's degree thesis

The study program of Business Management, state code 621N10008

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<p><b>Anotacija</b></p> <p>Magistrinio darbo tikslas - sukurti teorinį modelį/veiksmų planą, kuris padėtų lietuviško kapitalo įmonėms lengviau plėtoti verslą Kinijos rinkoje. Taip pat, nustatyti potencialius verslo sektorius, kuriuose galima būtų plėsti ekonominį bendradarbiavimą tarp Lietuvos ir Kinijos. Magistriniame darbe siekiama atskleisti dabartinės ekonominio bendradarbiavimo kliūtis bei pateikti būdus, kaip jų išvengti. Darbo pasiūlymai yra parengti remiantis lietuvių ir užsienio autorių metodologinės ir metodinės medžiagos analize bei atliktų empirinių tyrimų duomenimis. Magistriniame darbe atliekama išsami ekonominio bendradarbiavimo tarp Lietuvos ir Kinijos, analizė, apimanti eksporto, importo, tiesioginių užsienio investicijų problemas ir dvišalio bendradarbiavimo tendencijas. Siekiant įgyti žinių apie Lietuviškų įmonių verslo praktiką Kinijoje, buvo atlikti ekspertų tyrimai.</p> <p>Darbą sudaro 8 dalys: įvadas, problemos formuluotė; teorinė dalis; metodologinė; empirinė tyrimo dalis; perspektyvūs verslo sprendimai, išvados; literatūros sąrašas.</p> <p>Darbo apimtis - 125 psl. teksto be priedų, 21 iliustracijos, 10 lentelių, 72 literatūros šaltiniai.</p> <p>Priedai pateikiami atskirai.</p>	
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The academic supervisor of my Final Degree Paper is Prof.habil.dr. Borisas Melnikas.

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# TABLE OF CONTENTS

INTRODUCTION .....	13
1. DEVELOPMENT OF ECONOMIC COOPERATION BETWEEN LITHUANIA AND CHINA – PERSPECTIVE RESEARCH AREA .....	17
1.1. Economic cooperation development - object of scientific and applied research.....	17
1.2. Current issues occurring in reciprocal economic cooperation: possibilities of modern solutions.....	18
1.3. Need of research on economic cooperation between Lithuania and China: perspective research areas.....	20
2. THEORETICAL STUDY OF ECONOMIC COOPERATION AND PARTNERSHIP PROCESSES BETWEEN LITHUANIA AND CHINA.....	22
2.1. Contemporary approaches of international economic relations and business development: opportunities of applying recent approaches in various cases of bilateral economic.....	22
2.1.1. Modern theoretical and practical concepts of international economic relations and business management. ....	24
2.1.2. International trade theories: adjustment in the case of reciprocal economic cooperation between Lithuania and China. ....	25
2.1.3. Theories of Foreign Direct Investment impact on economic growth.....	28
2.2. Contemporary theoretical approaches to China, China's Economy, International Economic Relations: theoretical generalizations of recent approaches.....	32
2.2.1. Theory of doing business in China: Guanxi appliance for enterprises.....	33
2.2.2. Economic situation and reforms in China over past few decades: Generalizations of research results. ....	35
2.2.3. Variety of approaches to China's economy in context of economic internalization processes.....	36
2.3. Applicable theories and approaches to economic cooperation between Lithuania and China.....	41
3. METHODOLOGY OF EMPIRICAL RESEARCH ON ECONOMIC COOPERATION BETWEEN LITHUANIA AND CHINA.....	43
3.1. Structure and general characteristics of empirical research.....	43
3.2. Methods of empirical research on bilateral economic cooperation. ....	44
4. EMPIRICAL RESEARCH ON ECONOMIC COOPERATION BETWEEN LITHUANIA AND CHINA.....	47
4.1. Social and economic situation in Lithuania and China analysis: general context of development processes concerning both countries' economic cooperation.....	47
4.1.1. Social and economic development in Lithuania: main tendencies.....	47
4.1.2. Social and economic development in China: main tendencies.....	55

4.1.3.	Lithuania and China: a comparative statistical analysis of general economic tendencies of social and economic development.....	59
4.2.	An analysis of China's economic power, documenting and comparing it's attractiveness for trade and foreign direct investment among world's superpowers using quantitative expert solution methods.....	67
4.3.	Analysis of general trends in economic cooperation between Lithuania and China. ....	81
4.3.1.	Trade ties. ....	82
4.3.2.	Bilateral investments. ....	85
4.3.3.	SWOT analysis of economic cooperation between Lithuania and China. ....	86
4.4.	Representing case studies of economic cooperation between Lithuania and China.....	91
4.4.1.	LLC EKSPLA. Export of Lithuanian new technologies. ....	92
4.4.2.	Ltd ALITA. Lithuanian beverages trade to China.....	94
4.5.	Expert surveys and evaluations of further economic cooperation between Lithuania and China.97	
4.5.1.	Opportunities and methods of doing business in China. Mindaugas Reinikis. ....	97
4.5.2.	Lithuania - China Business Cooperation prospects: Insights and tenders about doing business in China. Danas Vaitkevičius.....	101
4.6.	Supplemented SWOT analysis of economic cooperation between Lithuania and China..	103
5.	PERSPECTIVE BUSINESS SOLUTIONS FOR THE DEVELOPMENT OF ECONOMIC COOPERATION BETWEEN LITHUANIA AND CHINA.....	106
5.1.	Perspective projects of international business related to economic cooperation between Lithuania and China.....	109
5.2.	Practical implement for the development of economic cooperation between Lithuania and China.110	
	CONCLUSIONS .....	113
	REFERENCES .....	117
	ANNEXES.....	125

**Abbreviations:**

ASEAN - Association of Southeast Asian Nations

CCI - Consumer Confidence Index

CPI - Consumer Price Index

CRIMT - China Railway International

ECI - Employment Costs Index

EFTA – European Free Trade Association

EU – European Union

FDI - Foreign Direct Investment

FEZ - Free Economic Zone

GDP – Gross Domestic Product

IMF - International Monetary Fund

IPR - Intellectual Property Rights

IT - Information Technologies

JV - Joint Venture

LFMI - Lithuanian Free Market Institute

LLC - Limited Liability Company

LPK - Lithuanian Confederation of Industrialists

M&A – Mergers and Acquisitions

MNC - Multinational Corporation

NGO - Nongovernmental Organization

OEM - Original Equipment Manufacture

OFDI - Outward Foreign Direct Investment

PPI - Producer Price Index

R&D – Research and Development

SAW - Simple Additive Weighing method

SOEs - State Owned Enterprises

SWOT – Strengths, weaknesses, opportunities, and threats analysis

TFP - Total Factor Productivity

TOPSIS - Technique for Order Preference by Similarity to and Ideal Solution

WFOE - Wholly Foreign Owned Enterprise

WTO – World Trade Organization

## LIST OF FIGURES

Figure 1: Tendencies of Lithuanian foreign trade .....	20
Figure 2: Lithuanian export structure .....	21
Figure 3: GDP and GDP growth rate in Lithuania .....	48
Figure 4: Inflation rate in Lithuania .....	49
Figure 5: Foreign Direct Investment inflow in Lithuania.....	50
Figure 6: Lithuanian FDI inflow by countries.....	52
Figure 7: Lithuanian export structure by countries .....	52
Figure 8: Lithuanian import structure by countries .....	53
Figure 9: Lithuanian FDI Inflows and Outflows .....	54
Figure 10: China unemployment rate .....	55
Figure 11: China GDP annual growth rate .....	56
Figure 12: China inflation rate.....	57
Figure 13: China exports .....	58
Figure 14: China imports .....	59
Figure 15: GDP annual growth rate.....	60
Figure 16: Producer Prices .....	62
Figure 17: Consumer Confidence .....	63
Figure 18: Consumer Spending .....	64
Figure 19: Labour Costs .....	65
Figure 20: Corporate Tax Rate .....	66
Figure 21: Lithuanian export by year .....	82

## LIST OF TABLES

Table 1: Differences between Chinese and Western culture .....	34
Table 2: Advantages and disadvantages of entry modes .....	39
Table 3: Economic point of view to legal structures .....	40
Table 4: Evaluation of criteria of experts .....	70
Table 5: Ranking of criteria by the importance .....	71
Table 6: Evaluating concordance .....	72
Table 7: Set of alternatives. ....	73
Table 8: Searching for negatives. ....	74
Table 9: Normalization of data. ....	76
Table 10: Multiplication by weights.....	76



## INTRODUCTION

**Relevance of the topic.** According to the Lithuanian Department of Statistics, in the year of 2013 turnover of trade between Lithuania and China was 2,26 billion LTL (654,10 mln. euros) and in comparison with 2012, has grown for 9,3%. In 2012 Lithuanian trade balance with China was negative and amounted to -1.65 billion LTL (-477,32 million euros). Recent bilateral tendencies of trade demonstrate enhancing collaboration and demand on reciprocal exchange of goods and services.

In 2013, Lithuania's export to China was 304,95 mln. LTL (88,39 mln. euros) and to compare with 2012, has grown 32,5%. Meanwhile, Lithuanian imports from China reached 1,95 billion LTL (565,71 mln. euros) in 2013 and in comparison with 2012, had grown for 6.5%. In 2013, Foreign Direct Investment in Lithuania was 42,79 billion LTL (12,40 billion euros). Nevertheless, Foreign Direct Investment from China amounted only 6.6 million LTL (1,9 mln. euros) and was listed as 45th country by highest FDI flows to Lithuania. Current figures indicate, that China's market might be a perfect opportunity for Lithuanian export growth. Furthermore, previously mentioned tendencies show capacities of extending FDI flows from Chinese investors. Therefore, a concrete plan with suggestions and steps for growing cooperation must be prepared. Nevertheless, initially a comprehensive analysis of the market should be made.

**The scientific problem.** How to enhance economic cooperation between Lithuania and China? Since the 14th of September, 1991, when Lithuania's and China's diplomatic relations officially started, the topic of bilateral economic cooperation has been discussed frequently. Though countries have signed a numerous amount of treaties and memorandums, reciprocal trade and Foreign Direct Investment is still experiencing it's early stage. What steps should be made, which theories and actions should be followed to improve the bilateral economic cooperation?

**Object of the Research:** Economic cooperation between Lithuania and China. Tendencies of import/export, FDI, other areas of economic collaboration.

**The aim of the Thesis:** create theoretical conception that lets Lithuanian companies to develop business in China faster, as well as suggest perspective business solutions.

**Tasks of the Work:**

1. To carry out an analysis of theoretical sources related to the relevant topic.
2. To prepare methodology of empirical research based on Lithuanian case.
2. To develop a complex research for validating the suggested model.
3. To perform all required investigations based on methodology mentioned above.
4. To create a new economic approach related to the selected subject.
5. To prepare conclusions and recommendations (on the basis of provided empirical research).

**Research Methods**

For comprehensive analysis of the chosen topic, a complex research including qualitative and quantitative research methods is provided.

**Practical value of the Thesis**

Provided theoretical analysis, empirical research and suggested practical implements can be used in order to increase reciprocal economic cooperation.

**Methods of the Thesis**

The paper is based on scientific literature, articles, online material, comments of the respondents.

## **1. DEVELOPMENT OF ECONOMIC COOPERATION BETWEEN LITHUANIA AND CHINA – PERSPECTIVE RESEARCH AREA**

According to the statistical office of the European Union - Eurostat, trade between European Union and China, in the year of 2013, was 428,392 billion euros. EU imported goods from China for 280,095 billion euros and exported for 148,297 billion euros. Out of which, only 0.2% was import to Lithuania and 0.0596% goods exported from Lithuania to China. As stated by European Commission: “EU-China trade has increased dramatically in recent years. China is the EU's biggest source of imports by far, and has also become one of the EU's fastest growing export markets. The EU has also become China's biggest source of imports. China and Europe now trade well over €1 billion a day. China is now the 2nd biggest partner of the European Union and the EU is the biggest partner of China.” (European Commission, 2014). According to the data of International Monetary Fund, in the 4th quarter of 2014, China for the first time in history has overtaken title of the world's largest economy, pulling the USA to the second place. Chinese economy is now worth 17.6 trillion dollars, while the USA one is \$17.4 trillion dollars (Business Insider, 2014). Recent tendencies indicate that China's role as a trading partner in the world's economy is steadily growing.

Due to geographical location, the biggest trade partners of Lithuania are other EU countries, Russia, Scandinavian countries (Bank of Lithuania, 2013). Nevertheless, Ministry of Agriculture of the Republic of Lithuania, Lithuanian Chamber of Commerce in Hong Kong and other authorities find the opportunities of expanding reciprocal trades with China, as a very promising and prospective area. China is considered not only as an opportunity for the export of Lithuanian goods, but also as a potential investor. Therefore, in order to obtain a better understanding of possible trading sectors, a comprehensive research must be conducted.

### **1.1. Economic cooperation development - object of scientific and applied research**

According to the “Europe 2020” strategy, the development of our world is facing several challenges defined by five key aspects: education, innovation, employment, climate and social inclusion. Access to the economic development would be available if these struggles would be met globally. Cooperation in international research as well as the need of them is pivotal for obtaining success in fac-

ing and solving global challenges. Mainly, when it concerns international and intercontinental economic cooperation (European Commission, 2010).

Nowadays, number of research based on economic cooperation between China and European Union is steadily increasing. There even exist separate research institutes which are working on the particular areas on economic cooperation between EU and China. One of examples, “OPENCHINA-ICT” (Choice, 2014). The project is supported by European Commission and the goal of it is a contribution to the enhancement of cooperation in information and communication technologies between Europe and China. Another research organization DRAGON-STAR was funded by FP7, aiming to support the Chinese participation in Horizon 2020, the biggest EU Research and Innovation program (European Commission, 2015).

Chinese Government established certain authorities to research the enhancement of Chinese economy's globalization and internalization. One of examples - China Center for Economic Research (CCER) which is an economic think tank in Beijing University, China. The CCER is aiming to institutionalize a new research approach which will attract international possibilities and bring together best Chinese economists who received scrupulous academic education abroad and could help solving problems related to international economic policy of China (China Data Center, 2014).

Due to China's policy of going global, Lithuanian economics could benefit of new FDI, as well as finding new trade partners from China. Therefore, there is a significant demand of research related to this area. According to the data found in Lithuanian scientific data bases, there are only several applied research carried out on the topic of bilateral cooperation. Research were mostly conducted by representatives of Confucius Institute at Vilnius University, or Lithuania-China Business Council. Lack of research carried on bilateral economic cooperation, makes it an essential sector to be updated.

## **1.2. Current issues occurring in reciprocal economic cooperation: possibilities of modern solutions**

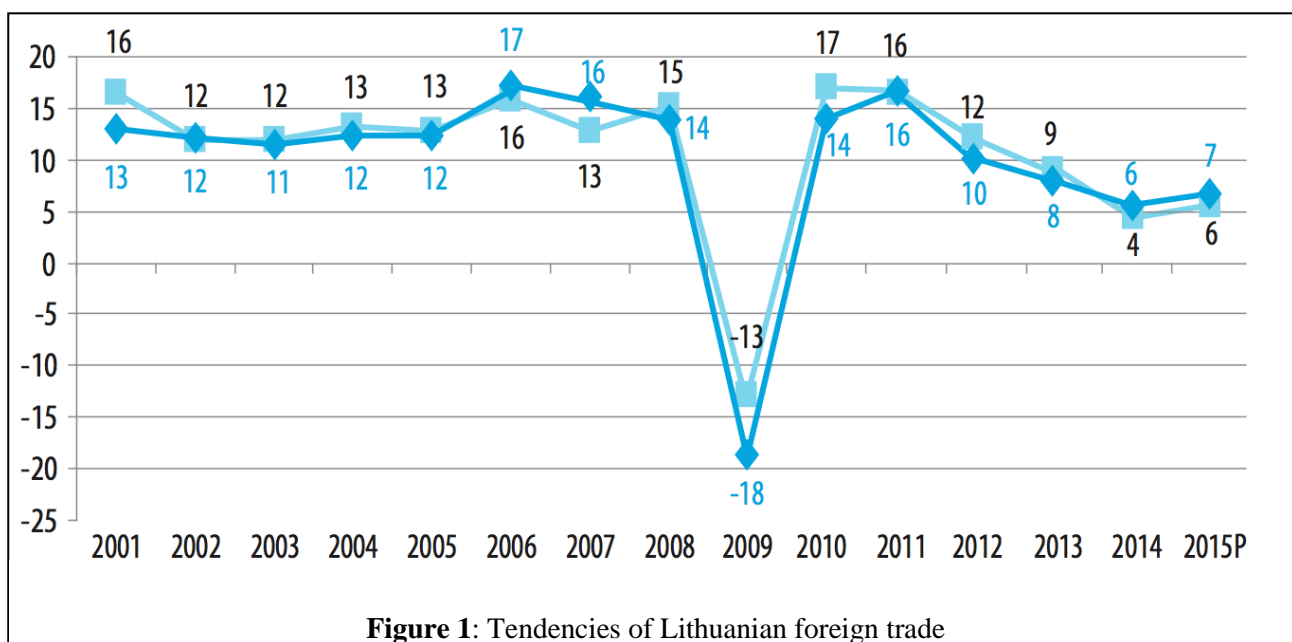
Being a member of European Union, Lithuania is facing economic challenges, similar as other member countries. First of all, foreign companies face numerous amount of trade barriers in China. According to Mindaugas Reinikis (2012) - Lithuania China Trade Association board member, China continues using special standards, which foreign competitors find difficult to meet. China also invokes export limitations on raw materials. Other problems concerning international business in China are lack of subsidies and financing difficulties, transparency and predictability in government decisions and law making (Reinikis, 2015). According to survey carried by EU Commission officers, 45% of EU companies running their business in China stated about missing business opportunities due to market access and regulatory barriers. An example in case of Lithuania - the export of dairy and meat products, as their licenses are still pending. Therefore, according to the Ministry of Agriculture of the Republic of Lithuania (2015), Lithuanian Government approved proposal to establish agricultural Attache in China. Nowadays, trade with China has a small percentage of Lithuanian foreign trade and especially small in agricultural and food products. Currently Lithuanian goods exported to China mainly are: frozen blueberries, whey powder, prepared rice and corn products, mineral water, alcoholic beverages. In 2014, country started to export poultry meat and edible meat offal, wheat gluten. Chinese General Quality Inspection and Quarantine Administration has already approved the export certificates for fish products.

According to the European Commission facts and figures about EU-China trade (2014), another issue is a poor protection of intellectual property. In 2012, 64% of all fake commodities confiscated at the borders of European Union, came from China. Intellectual property rights breach stays a big issue for European businesses in China. In 2012, Beijing's implementation of IPR laws and regulations was rated as inadequate between four out of every five European enterprises doing business in China. In the case of enhanced cooperation in different sectors, Lithuanian exporters should pay attention to the issues mentioned above.

According to Lithuanian Attache for Commercial affairs in China, Danas Vaitkevičius, in case of Lithuania, particular problem is a lack of recognition. Often recognized as European country, Lithuania doesn't have a set image as a trustworthy partner. Moreover, Lithuanian companies are lacking knowledge about Chinese market and processes of doing business in China. Therefore, in order to overstep recently mentioned barriers, suggestions must be provided.

### 1.3. Need of research on economic cooperation between Lithuania and China: perspective research areas

Lithuanian Free Market Institute (LFMI) is periodically carrying out research related to the Economy of Lithuania. One of research is the annual survey of Lithuanian Economy carried out amongst professional bankers and financial analysts. According to the last published survey of 2014/2015, the LFMI survey participants believe that economic growth in Lithuania will decrease in 2014, mainly due to trade restrictions between European Union and Russia, as well as due to the continued stagnation of EU economy. According to the biggest part of the LFMI respondents (93 percent), geopolitical situation between Russia and Ukraine is the main risk source for Lithuanian businesses. Recovering after the world recession Lithuania experienced a significant growth in foreign trade. Nevertheless, projected foreign trade downturn of Lithuania, emphasize an increasing demand of extensive studies on reallocation of Lithuanian export, as according to the respondents of LFMI survey, Lithuanian export will experience only 4% growth in 2014 compared to 8% increase projected earlier. Tendencies of foreign trade growth are showed in Figure 1.



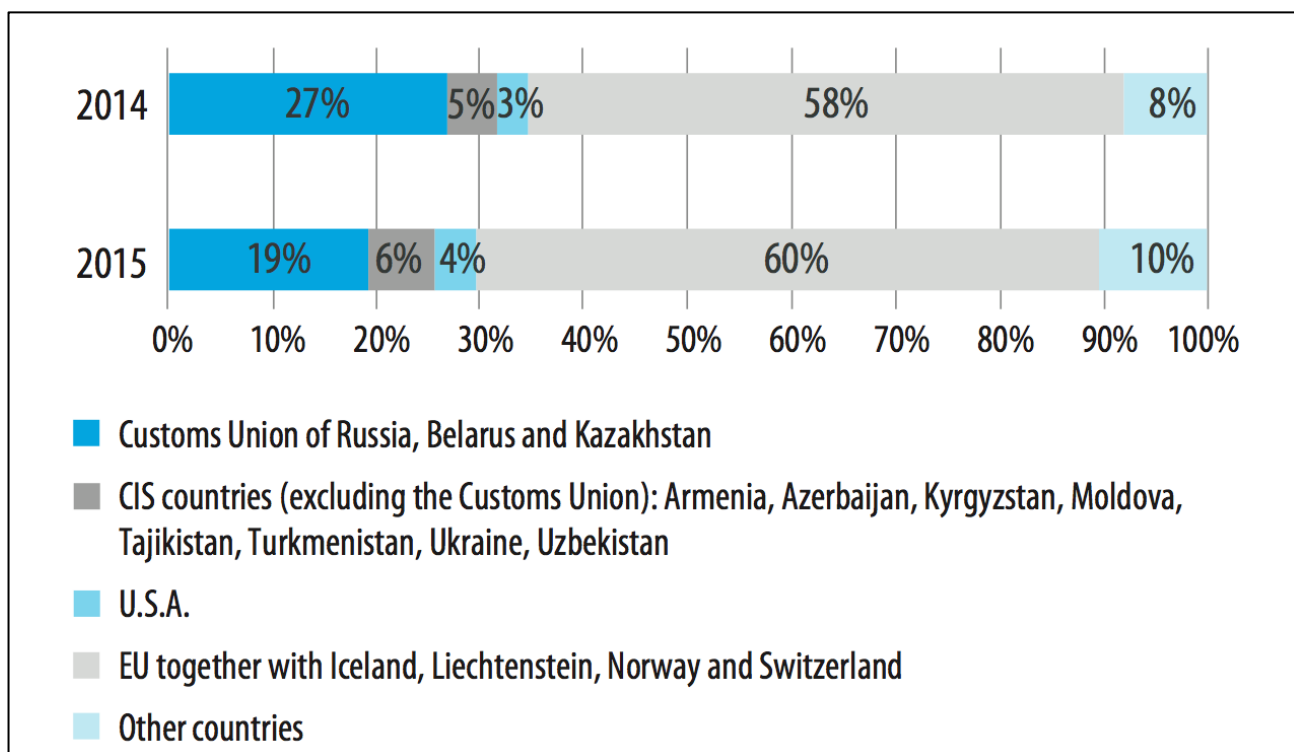
**Figure 1:** Tendencies of Lithuanian foreign trade

**Source:** 34th LFMI Survey of the Lithuanian Economy

Participants were also asked to evaluate how the Ukrainian issue might change the investment positioning in Lithuania. The majority of the LFMI survey participants (63 percent) think, that the previously mentioned geopolitical situation will affect the deterioration of the country's investment. Such



a noticeable change in the forecast of the export can mostly be ascribed to trade restrictions applied by Russia and the EU. The enforced trade sanctions are having negative consequences for Lithuania, as one of the major re-exporters to Russia. It is believed, that in 2015 the export to Russia will decrease by 42% and instead of holding 27% of total Lithuanian export, will remain only 19%. See Figure 2.



**Figure 2:** Lithuanian export structure

**Source:** 34th LFMI Survey of the Lithuanian Economy

Numbers and predictions mentioned above prove that in order to continue stable growth, Lithuania is in need of finding a new trade partners and broadening export to other countries. Meanwhile China, being a fastest growing economy in the world, is perpetually searching for overseas trade partners. Though there are numerous amount of research provided about the economic relations between China and European Union, China's economic cooperation with world countries and EU international trade, unfortunately there is a lack of research conducted on Lithuania's and China's economic cooperation. Consequently, the need of research on bilateral development of an economic cooperation between Lithuania and China is highly demanded.

## **2. THEORETICAL STUDY OF ECONOMIC COOPERATION AND PARTNERSHIP PROCESSES BETWEEN LITHUANIA AND CHINA**

International economic cooperation could be explained as the unbiased enhancement of various economic, scientific, and technological ties among countries and groups of countries, which is based on the principles of freedom and mutual benefit (Surganov, 2010). The diverse models of international economic cooperation allow countries to benefit economically from specialization and collaboration within the range of the world-wide division of labor, to bring natural supplies into the economy faster, and to speed up the economic development of each country (Curry, 2009).

In this chapter theories and approaches of International Trade, Foreign Direct Investment, processes of Internalization and Globalization and other studies, which would give benefit in creating a strategy for the increase of economic cooperation between Lithuania and China will be discussed.

### **2.1. Contemporary approaches of international economic relations and business development: opportunities of applying recent approaches in various cases of bilateral economic**

In the circumstances of modern world, the big participation in international division of labor is an important part of the development process for every country. According to Professor Lucia Paliu-Popa (2008) : “ In this context the foreign trade, as a distinct branch of the national economy is an important factor of economic growth caused by the internationalization of business and determining for the process of globalization. International business development tends to become a condition of existence of firms, regardless of size or scope of activity and the consequence is that the internationalization and globalization constitute the fundamental features of the early century and millennium. Addressed from economic and financial point of view, the globalization can be defined as the widening and strengthening of links between national economies on the global market of goods, services and especially capitals.” A comparable description is introduced in a report of the International Monetary Fund (1997) : "the phenomenon of globalization is the integration of world economy in strong growth both with the markets for goods and services and the capital”.

A numerous amount of features of social and economic life nowadays show the process of globalization (Popa, 2002) :

- the universal marketing: usually companies choose the marketing strategy which would meet the demand of globalization and thereby promote this process ( global brands of consumption such as "Nike", Advertising culture etc.).
- the world financial system: the global economy is based on a network involving, on a universal scale, banks and capital markets, national regulatory institutions, international financial institutions etc.
- the facilities of communication: global technical and technological development has allowed the refinement of transportation, the extent of the media world and, the creation of a world network of transference / obtainment of information.
- the global institutional frame: more and more governmental organizations or nongovernmental (NGO) are promoting discussions and plans of actions regarding global problems: racism, poverty, pollution, under-development etc.

The globalization of economics is a progressive integration of countries economies in a process that carries on the reduction of boundaries for the development of economic activities (Mussa, 2000).

The global economy nowadays is not anymore a sum of national economies and national markets being in touch but an universal unity with heterogenous structure, though with relationships between subsystems and principles. The structure of the world economy nowadays is consisted of the under-systems mentioned below (Perrson et al, 2003):

- countries and the economies;
- the global division of labor;
- the frame of global economic relations;
- the world market;
- the economic world chain, including the mechanisms of progress of its movement (mechanism of price, financial, trade, monetary);

- the institutional frame of global economic relations, the economic bodies and international institutions;
- the legal frame: principles, rules and regulations of international economic relations.

The integration of international economic relations, as well as globalization, includes elimination of restrictions, simplification of regulations for trade development, broadening of multilateral cooperation, technology transfer, the development of international financial exchange rate (Mussa, 2000).

The expansion of economic relations to universal level and forming an international business environment promote the world development and the globalization process (Paraschivescu et al, 2005).

The various processes in the modern economic world are caused by diverse of factors, such as globalization, internalization etc. The recent processes are causing changes in the order of global players as well as global competitiveness and roles of potential global partners (Armario et al, 2008). Therefore, in order to obtain the development of reciprocal cooperation between Lithuania and China, the aspects mentioned above should be considered and taken into account.

#### **2.1.1. Modern theoretical and practical concepts of international economic relations and business management**

In order to develop a deeper understanding of international economics, international business and management it is worth to note that states have been moving swiftly away from a system, where national economies were relatively self-restraining individuals, separated from each other by obstacles to cross-border trade by distance, time zones, language and by national differences in state regulation, culture and business frame (Hill, 2003).

The actuality of contemporary approach is moving toward a world where obstacles to trade and investment are decreasing, recognized distance is diminishing due to development in technologies of telecommunications, globalization, and national economies are interconnecting to a joint and interdependent world economic system (McShane et al, 2008).

Consequently an integrated global economy, modifications in the financial markets can be profitable for businesses concerned in the international arena. When they alleviate innovation, production and

exchange, adaptation in the prices of financial assets are useful to the real economy and work for stabilization of the fundamental political order. Economic use and expenditures are divided and re-divided within subsidiaries around the globe (Ravenhill, 2005).

J. S. Landefeld and B. M. Fraumeni (2001) delineated the current economy as the Internet age, the Information Technologies (IT) revolution, as well as the digital economy. The subcomponents of current economy involve high-tech products, IT goods and services, Electronic business, business-to-business electronic commerce, and retail electronic commerce.

The main law of every manager under the conditions of digital economy is to manage the supplies of the organization with the aim of enhancing the market value of the business (Carrada-Bravo, 2003).

Current technological improvements are steadily reshaping previous commercial relationships of global economy and supplying a combined financial management system, as well as contributing in business decision-making process and projecting efficient financial systems that satisfy the interests of management with that of the stockholders (Dedrick et al, 2005). In the recent world of the high-tech, E-business world of stock options, capital gains, mergers and acquisitions, intellectual property and changing tax laws the right management of the organizations become a harder challenge to deal with (Kraemer et al, 2005).

A big part of the global markets are now extremely competitive due to the relaxation of the world trade environment. Nevertheless, countries stand out in terms of a lot of dimensions: economic, political, legal, cultural. Consequently, these distinctions are either growing or reducing the expenses of doing business in a country (Hill, 2003).

#### **2.1.2. International trade theories: adjustment in the case of reciprocal economic cooperation between Lithuania and China**

In the year of 2013 China's international trade in goods, combined export and import was 4.2 trillion dollars and made China the leading country in international trade (The Economist, 2013). Theorists of international trade would state it as a cause of applying **Mercantilism theory**. Created in 1630, Mercantilism was one of the first theories of international trade, which claimed that maximizing net exports is the best route to national prosperity (Cartney, 1995). Mercantilism was one of the first

theories of international trades, that had a significant impact on the modern international trade theories. Generalizing, theories that are called new and modern trade theories are the alternative theories. New trade theories are those, which include the concepts of network, innovation and global competition (Demirel et al, 2008). To have a better understanding, the main theories of modern international trade must be reviewed.

**Skilled Labor Theory:** Authors like Keesing and Kenen point that most of the international trade between industrialized countries can be explained by differences in skilled labor. The theory states that the parties in certain sectors with a large number of professional, skilled workers, mostly are specializing in goods that require these things in production. On the other hand, countries that have a lot of unskilled workers have advantages in trade of goods, which do not require skilled labor in production (Kenen, 1970).

**Technology-Gap Theory:** This theory emphasizes the process of imitation and was suggested by Posner in the year of 1961. The theory states that countries that invent a new product or production process become the first exporters of that goods. Over time, due to the technology spread, imitation or the end of property rights, a product begins to be produced by other countries and because of cheap labor and natural resource advantages these countries produce recent product at a lower price than the innovator country. In this way, the good is exported by less developed countries. The innovator country imports, as she can not compete with these countries. The best example of this - once one of the largest textile exporter, Great Britain now is a textile importer (The Economist, 2014).

**Product Life Cycle Theory:** Current theory emphasizes the standardization process and was created by Vernon in 1966. It is a generalized and enhanced version of the technology-gap theory. It consists of five stages: the innovator country that has created a new product and standardizes, at the end of stage 5, becomes a net importer. In other words, the product life cycle theory tries to explain the dynamic comparative advantage of the new product and process advantages, rather than static comparative model (Gandolfo, 2014).

**Preference Similarity Theory:** This hypothesis was developed by Swedish economist Linder in 1961 and it examines the unequal trade in manufactured goods. Consistent with this approach, the trade in goods does not depend on the cost of production, but from the similarity of tastes and preferences, which actually are the conditions of the demand. The main factor that determines the taste



and preferences is relative income. According to Linder, firms are producing goods, which might be sold to a large part of society and have a large market. As firms produce in order to meet local demand, they gain experience and efficiency in the production of that product. Later, these goods are exported to the countries that have similar taste and preference or more to countries where income levels are similar. On the other hand, low or high-income individuals who have different tastes and preferences on different things, are the potential clients for business from other countries with similar taste. Consistent with this approach, known as "lapping demands" the trade of industrial goods will be intensive among those countries where the priority is on similar subjects and where people are having similar income. Linder's theory has not been supported, because it can not explain the trade of industrial goods that do not have domestic market or in other words that are produced exclusively for export (Morgan, 1997.)

**Economies of scale theory:** The average production cost of some goods depends on the volume of production or scale. If the output average costs decrease, then the price of goods is decreasing and the return to scale is increasing (Chacholiades, 2009).

**Factor endowment theory:** is dominated by constant returns to scale assumption. If returns are increasing because of economies of scale, the trade is profitable even when both parties are identical in all respects. Economies of scale, in addition to the cost advantage of large companies over small ones, creates formation of imperfect competition (The Economist, 2014).

**Monopolistic Competition Theory:** In contrast to the assumption of factor endowment theory, in real life, especially in industrial, goods are not homogeneous, because goods are different in terms of components, the use, appearance, or at least brands. Traditionally, it is considered that world trade is the exchange of goods, produced in not similar or completely different sectors. Currently, however, there are mainly traded different goods from the same industry. This is called intra-industry trade (bi-directional trade). Monopolistic competition theory explains the bi-directional trade in industrial goods through economies of scale. The idea of utilizing economies of scale forces firms to produce one or several types of goods, rather than different kinds and types of goods. In fact, the reason is the ability to change the differentiated goods and firms to reduce costs for international competition. While growing the several kinds or types of production, the specialization is created, which causes more efficient machines and exploiting economies of scale. Thereby countries become exporters of that product and import other types of the goods from other countries (Gandolfo, 2014).

While adjusting recently mentioned theories for the case of Lithuania and China, several assumptions could be made. To begin with, the theory of economies of scale might be adapted for the case of China, as due to the innovations and amount of labour force, China is able to produce a big volume of production in different sectors. On the other hand, the Technology-Gap theory could illustrate an example of China - being advanced in the technologies, China managed to become the major exporter of numerous amounts of goods, which initially weren't produced in China. Meanwhile in the case of Lithuania, the Skilled-Labour theory might be applied, as Lithuania has a high number of professionals in the sectors of Information Technologies, Telecommunications and Biotechnologies (The Official Gateway of Lithuania, 2015). Keeping in mind recently mentioned cases, the bilateral trades in different sectors might be increased.

### **2.1.3. Theories of Foreign Direct Investment impact on economic growth**

On the side of benefits that FDI gives to investors, FDI also has a significant impact on the economy of a recipient country. As FDI introduce a compound package of capital stock, technology, management, and “know-how”, it has a diverse impact on the hosting economy (Balasubramanyam et al, 2006).

There are various cases how FDI effects the economic growth. To begin with, within the capital hoarding, while growing, FDI is supposed to bring more inputs which are incorporated into output (Buckley et al, 2002). Production growth might also be caused by a broad scope of intermediate goods in FDI-related output.

Furthermore, FDI is thought to be a meaningful source of technological change and human capital augmentation (Bukley et al, 2002). Technological change happens meantime through the process of capital consolidation, as new diversities of knowledge-based capital goods are brought, and through the human resource increment, as productivity-enlarging labor coaching, new proficiency acquisition, other advanced management practices and organizational innovations occur (Zhang, 2001).

Moreover, FDI conducts to “technology diffusion” – the transfer of ideas and technologies, productivity spillovers, fulfillment of know-how, knowledge conveyance, which are essential elements of economic development (Borensztein et al, 1998). Technological development happens not only in

the FDI-recipient company, but as well in the country's economy, for spillover effects which is increased by FDI. In addition, FDI is thought to enhance effectiveness of the locally hold companies. The effectiveness of enterprises in the host economy is believed to be enhanced in direct and indirect (spillover) processes. Within the direct effect it is signified that FDI will contribute to the productivity of the sector in which a foreign company functions (Borensztein et al, 1998). Several research find that when companies are owned locally, productivity is relatively low, due to usage of cheap labor force as a factor of comparative advantage. This is opposite to the foreign-owned enterprises within same sectors, which hire more expensive labor force, but benefit due to higher productivity. On the other hand, the indirect processes, also considered to have an effect; when labor and knowledge are drifting from sector to sector, technology spread takes place. Besides, high-productivity foreign enterprises stimulate advantageous competition in the domestic market (Moran et al, 2005).

Besides the previously mentioned reasons, FDI is supposed to be highly important for economies in transition due to country's potential human resources, but lack the technology and capital needed for improvement and growth. FDI is believed to stimulate the capital accumulation and technology transmission in these economies (Zhang, 2001). During the transition period a country is experiencing the reorganization in its production and consumption, as well as is rebuilding its capital stock as a whole since the capital stock is inadequate anymore for the situation of new market. Therefore, the temp of the transition might be connected with the possibility of a country to stimulate capital inflows (Garibaldi et al, 2002).

One more reason why transition economies should be aiming in attracting FDI, in words of Balatsky (1999) is, the possibility of foreign-owned sector to lead the economy out of the temporary downturn. As during recession domestic producers are likely to be more vulnerable to. Moreover, Calvo et al (1996) propose that a big shift in capital flows to one more developed countries in the region may bring benefits for the neighboring countries, making investors more familiar with the emerging markets and enhancing a wish to invest to countries with similar economic perspectives.

Other key outcomes of FDI are increasing consumer choice, giving possibility households to smooth consumption, supplying the support for pension funds and retirement accounts (Calvo et al, 1996), enhancing tax collection on the state level (Carbough, 2000) and growing domestic investments due to increased competition (de Mello, 1997).

After a numerous amount of reasons for the importance of FDI, it is crucial to overview the theoretical studies of the FDI effect on economic growth.

The majority of empirical research in the area is based on models of exogenous and endogenous growth. The initial development of growth models was started with Harrod-Domar model. During the 1940s economists Roy Harrod and Evsey Domar autonomously developed a model of economic growth on the strength of a fixed-coefficient, constant returns to scale function. The model states that labor and capital are usually used in a set proportion to produce out equal amounts of output. The model's equation is  $Y = K/v$  where  $v$  is a constant found by dividing capital ( $K$ ) by investment ( $Y$ ) –  $v$  is the capital-output ratio. This ratio is firstly a measure of the productivity of capital or investment (Romer, 2001). The Harrod-Domar model is based on two main aspects of the growth process: saving and the efficiency of investment in capital. The model provides specific short term predictions of growth and has been used broadly in developing countries to set the “required” investment rate or “financing gap” to be covered in order to gain the wanted growth rate. The model require relatively small data and the equation is easy to apply. However, the model only stays in equilibrium with full employment of both labor force and capital stock causing incorrect longer term economic predictions and fails to account productivity gains considered essential for long-term growth and development (Romer, 2001).

In the year of 1950, economist Robert Solow presented a new model “Solow Exogenous Growth model” of economic growth that explained limitations in the Harrod-Domar model. He replaced the fixed-coefficients production function with a neoclassical production function. This model enable for substitution between the factors of production so that the relative funding of capital and labor could be reflected, rather than the fixed ratios required by the Harrod-Domar model. The neoclassical production function has changed, giving possibility in using a variety of combinations of capital and labor. Output can be enlarged in one of three ways: (1) enhance within set and equal portions of labor and capital, (2) grow in capital, or (3) increase via labor. The Solow Growth Model believes in production function with the assets of decreasing returns where each additional grow in capital per employee results in less output. Nevertheless, technological change is assumed as enhancing productivity. The neoclassical production function demonstrated growing technology or knowledge as labor augmenting and enlarging output. Solow believes technology enlarges separate (exogenous) of the model in two forms: mechanical (developed machinery, computers, etc.) and human capital (de-

veloped education, health, worker skills, etc.). Essential determinants of growth are population growth and technical change, consequently step by step poor and rich countries incomes should merge (Warsh, 2006).

Whenever the influence of FDI on growth is analyzed in the framework of Solow-type neoclassical growth models, FDI is considered as a benefit to the capital stock of the recipient economy. FDI is approached equally with domestic investment and the influence of the former is seen as being equal to the impact of the latter. Besides, according to de Mello (1997) “the basic shortcoming of conventional neo-classical growth models, as far as FDI is concerned, is that long-run growth can only result from technological progress and/or population/labor force growth, which are both considered to be exogenous. FDI would only affect output growth in the short run and, in the long run, under the conventional assumption of diminishing returns to capital inputs, the recipient economy would converge to its steady state, as if FDI had never taken place, leaving no permanent impact on output growth”. Moreover, as summarized by Romer (2001), capital accumulation is not able to consider for a big part of either long-run growth or cross-country earning differences in the framework of Solow-type models.

In the case of growth being endogenous, there are a few ways how FDI affects growth permanently. As suggested by Campos (2002), it is comfortable to believe about these different effects by indicating FDI impact on each variable in the production function. As discussed above, FDI can influence output firstly by augmenting capital stock (Cirulytė, 2003). Foreign and domestic capital might be considered in this approach as either substitutes or complements. In case of viewed as complements, the final impact of FDI on output is believed to be larger as a consequence of externalities. Moreover, FDI can have an impact on labor efficiency, being an essential source of human capital growth and technological development. In the case of FDI not contributing to the capital stock, it still develops knowledge transfers and gives specific productivity-increasing skills, which are the basic mechanisms of growth (de Mello, 1997). Besides, transferring knowledge by domestic firms, FDI also increases productivity of local research and development (R&D) activities (de Mello, 1997).

## **2.2. Contemporary theoretical approaches to China, China's Economy, International Economic Relations: theoretical generalizations of recent approaches**

According to the specialist in Asian Trade and Finance of the Congressional Research Service of the United States, Wayne M. Morrison (2014), : “ Economists generally attribute much of China's rapid economic growth to two main factors: large-scale capital investment (financed by large domestic savings and foreign investment) and rapid productivity growth. These two factors appear to have gone together hand in hand. Economic reforms led to higher efficiency in the economy, which boosted output and increased resources for additional investment in the economy.”

As claimed by Morrison, : “China has historically maintained a high rate of savings. When reforms were initiated in 1979, domestic savings as a percentage of GDP stood at 32%. However, most Chinese savings during this period were generated by the profits of State Owned Enterprises (SOEs), which were used by the central government for domestic investment. Economic reforms, which included the decentralization of economic production, led to substantial growth in Chinese household savings as well as corporate savings. As a result, China's gross savings as a percentage of GDP has steadily risen, reaching 53.0% in 2008 and is among the highest savings rates in the world. The large level of savings has enabled China to boost domestic investment. In fact, its gross domestic savings levels far exceed its domestic investment levels, meaning that China is a large net global lender.”

As mentioned in the Congressional Research Service Report on China's Economic Rise by Morrison (2014): “ Several economists have concluded that productivity gains (i.e., increases in efficiency) have been another major factor in China's rapid economic growth. The improvements to productivity were caused largely by a reallocation of resources to more productive uses, especially in sectors that were formerly heavily controlled by the central government, such as agriculture, trade, and services. For example, agricultural reforms boosted production, freeing workers to pursue employment in the more productive manufacturing sector. China's decentralization of the economy led to the rise of non-state enterprises (such as private firms), which tended to pursue more productive activities than the centrally controlled SOEs and were more market-oriented, and more efficient. Additionally, a greater share of the economy (mainly the export sector) was exposed to competitive forces. Local and provincial governments were allowed to establish and operate various enterprises on market principles, without interference from the central government. In addition, FDI in China brought with

it new technology and processes that boosted efficiency. China has achieved high rates of total factor productivity (TFP) growth relative to the United States. TFP represents an estimate of the part of economic output growth not accounted for by the growth in inputs (such as labor and capital), and is often attributed to the effects of technological change and efficiency gains. China experiences faster TFP growth than most developed countries such as the United States because of its ability to access and use existing foreign technology and know-how. High TFP growth rates have been a major factor behind China's rapid economic growth rate."

However, as stated by Morrison (2014) Congressional Research Service Report (2014) about China's Economic Rise: " In the China's technological development begins to approach that of major developed countries, its level of productivity gains, and thus, real GDP growth, could slow significantly from its historic 10% average, unless China becomes a major center for new technology and innovation and/or implements new comprehensive economic reforms. The Economist Intelligence Unit (EIU) currently projects that China's real GDP growth will slow considerably in the years ahead, averaging 6.4% from 2013 to 2020, and to 3.6% from 2021 to 2030."

The Government of People's Republic of China, has expressed a desire to obtain more balanced economic growth and stated its wish to drift away from its current economic model of fast growth, to slower, but sustainable economic growth, which would lead to reducing dependence on energy-intensive and high-polluting industries and depend more on high technology, green energy and services. In order to gain a better understanding of reasons which caused the tendencies mentioned above, the theoretical basis of China's Economic situation, internalization and globalization should be discussed. Moreover, in order to gain a deeper understanding of China as a world's trade partner, the theory of Chinese business culture must be analyzed.

#### **2.2.1. Theory of doing business in China: Guanxi appliance for enterprises**

China has published a numerous amount of laws, mostly after the Governmental decision to propagate country opening up to the world as one of the most important players in the global market. As one of the priorities for China was the firmly establishment of its obligation to the rule of law. The Chinese authorities implemented in 1999 by correcting country's constitution to protect that principle (Orts, 2001). In order to understand the Chinese point of view to laws concerning the business

contracts, the history and tradition of China's during several thousand years must be considered. Remarkably, Confucian teachings have a large influence on Chinese mentality. Guanxi is a Confucian heritage taught from ancestors to current generations, and stays as basic principles for Chinese (Chen et al, 2004). Confucius highlights moral standards over constitutional law (Zhang, 2006). The moral standards consist of bilateral trust and respect brought up through strong relationships (called "Guanxi"). Buddhism as well had a significant impact on the approach of the Chinese concerning law and contracts. Buddhism states social harmony and scowls on direct confrontation (Pan, Rowney et al, 2012). As a result, the Chinese tend to avoid direct conflicts. Chinese find the maintenance of relations, as a big social value and supreme to the law. A contract is normally a formality, not deeply considered regarding the legal execution (Leonhard, 2009). The following chart shows the differences in approaches:

Chinese Culture	Western Culture
Group Orientation	Individual Orientation
Relationship driven	Goal driven
Conflict averse	Inclined to address points of conflict
Seeks harmony, avoids confrontations	Seeks immediate resolution of issues
Communication is top down	Communication is multi-directional
"No" terminates negotiations	"No" means "Make me another offer"
"Yes" enables negotiations to continue	"Yes" is an agreement to close the deal

**Table 1:** Differences between Chinese and Western culture

**Source:** Chen and Partington, 2004

It is still significantly noticeable, that Western people are transaction-oriented concerning business dealings, while the Chinese stayed relationship - oriented. It is common in Western countries to sign up the contract or project first, and then develop relationships (Ambler, Witzel et al, 2008). Meanwhile, Chinese have a wish of knowing and respecting the people they are dealing with first, before starting contracts or projects. In the case of struggles, it is expected among Chinese that the counter party would be reachable and would deal with issues in a way as to keep a long-term relationship



(Gold et al, 2002). According to the Chinese, the relationship should be based on bilateral respect and flexibility that develop over time. In the case of situation's change to the damage of any party, the parties are expected to discuss it and be prepared to change the terms of the deal. The Chinese are seeking for a partnership relationship, which would mutually be beneficial to all parties. Consequently, the Chinese are building a trustworthy relationship first, and only then business projects (Gold et al, 2002).

There exists a difference between “everyday guanxi” and “special relationships”. In everyday guanxi partners exchange gifts of appreciation in order to demonstrate or secure the work of routine corporate or government actions – considered as social capital investments. In everyday guanxi, the Chinese party knows what will be suitable and what might hardly be acceptable, but all in the standard operating actions and corporate policies. Special relationships guanxi usually includes bribes to reach tasks done using a help of a close relative, an official, executive, supplier to gain acceptance of deals outside of normal operating procedures (Luo, 1997). The usage of special guanxi to accelerate things within standard operation is bearable and can be cooperated with the rule of law, while hiring experienced consultants with knowledge in handling deals. In the terms of business, Guanxi means demonstrating trust, respect and willingness to renegotiate conditions in the case of unexpected issues occurrence.

### **2.2.2. Economic situation and reforms in China over past few decades: Generalizations of research results**

As stated by Wayne M. Morrison, since the beginning of economic reforms, China's economy has grown considerably more rapid than within the pre-reform period. As claimed by the Chinese government, from 1953 to 1978, real annual GDP growth was calculated at 6.7% (Chinability, 2012). Though, a variety of analysts state that Chinese economic data within this period might be incorrect, as government officials frequently exaggerated production quantities due to the several political reasons. Economist Angus Madison calculated China's average annual real GDP within previously mentioned period at 4.4% (Madison, 2007). China's economy experienced economic recession within the leadership of Chairman Mao Zedong, including the Great Leap Forward in 1958 - 1960 (which caused a massive food shortage and statistically the deaths of tens of millions of people) and the Cultural Revolution in 1966 - 1976 (which was a reason of political instability and highly destroyed the economy). Since 1979, China's average annual real GDP has grown by almost 10%.

China has doubled the size of its economy in real terms every eight years. Though, the world recession, which began in 2008, had an impact on the Chinese economy (significantly the export sector). China's real GDP growth fell from 14.2% in 2007 to 9.6% in 2008, and slowed to 9.2% in 2009. Consequently, the Chinese government executed a big economic stimulus package and an extensive monetary policy. These measures enlarged domestic investment and consumption, which helped to stop a great economic downturn in China. As was projected by The International Monetary Fund (IMF) in October 2013, China's real GDP is supposed to grow by 7.6% in 2014, and reach the average 7.0% from 2015 to 2018.

### **2.2.3. Variety of approaches to China's economy in context of economic internationalization processes**

Over the last two decades, a tremendous growth in international trade has been recognized around the globe, which is fueled by the great expansion of multidivisional, that consider the globe as their potential market (Tung et al, 2007). The relationship of internationalization and performance has become one of the main research issue in the field of international business, it is important to research what has been accomplished and what has to be investigated in the future (Sapienza et al., 2006). In the past two decades, China has undergone a striking transformation in its economy, from an inward-oriented industrialization strategy to the reform and opening up policy, aimed at integration with the global economy. Therefore, China's reforms have increased inward foreign direct investment (FDI) and export growth, which had an impact on outward FDI (OFDI), which cause China's development and becoming main exporter in the world markets for manufactured goods (Liu et al., 2005), and the enhancement of OFDI (Frost, 2004). Though Chinese business internationalization has experienced a tremendous growth, private business holders are facing numerous financial, juristic and cultural problems. Chinese companies are still cautious, timid and conservatives, concerning internationalization. Explaining why and how firms expand internationally has long been of central interest for researchers. Among particular empirical literature, the OLI framework developed by Dunning (1980) has received the most attention. OLI framework argues that firms expand internationally to exploit the ownership-specific advantages (O), location advantages (L), and internalization advantages (I). Ownership-specific advantages refer to the superior, intangible assets accrued

to firms in terms of technologies, marketing capabilities, brand equity, or management competencies. Location benefits depend on the gains accumulated from integrating activities through various sides of the world where factor input and resources vary. Internalization benefits come from centralizing operations through the boundary of company and from utilizing economies of scale. Some research have extended the OLI paradigm and applied it to enterprises in growing economies. Erdener et al (2005) used the eclectic paradigm to study family - owned Chinese businesses and argued that eclectic paradigm is suitable in that context. Others have claimed that companies in emerging markets (as compared with enterprises in developed markets) have several ownership advantages: flexibility, relational assets and networking skills (Peng et al 2005). Yiu et al (2007) researched how home market conditions formulate the relationship between company's ownership advantages and international venturing via Chinese multinational enterprises. They investigated that positive relationship between technological possibilities and international venturing depends on the intensity of competition in home country. While the OLI framework claims a company's internationalization tries as a way to use its previously spread competitive advantages, the emerging point of view describes company's internationalization tries as a catch-up strategy to overstep competitive boundaries in the home market (Rodriguez, 2005). Mathews (2006) discussed that companies in emerging markets are tend to go international in order to drain into external resources. In order to explain such a process, he offered the Linkage, Leverage and Learning framework. Resource linkage views that companies expand internationally in order to access external resources. Resource leverage is concentrating on how companies link their resources with other companies to leverage their resources. Learning refers to constant use of resource linkage and leverage, in this case allowing company to perform operation better over time. This framework explains great emergence of some big multinational companies in emerging markets (Mathews, 2006).

Lue and Tung (2007) claimed that companies in emerging markets start outward international activities as a springboard to gain strategic assets and get through domestic institutional barriers. Similarly, Agyenim et al (2008) suggested that companies in emerging markets might start international activities to obtain other countries' resources, such as technologies, managerial and marketing knowledge. In addition, companies might expand international in order to overstep barriers in the home market, such as domestic protectionism and a disunited economy (Boisot et al, 2008).

Buckley et al defines internationalization as “the crossing of national boundaries in the process of growth” (Buckley et al, 1999). Based on recent definition, China is now the most internationalizing country among the developing economies. Chinese enterprises have used several different entry strategies for expanding overseas. Exporting is the most common, as this route does not include any direct investment or constant operational presence overseas. Original Equipment Manufacture (OEM) have both the cost advantage of a Chinese company and brand advantage of a foreign enterprise for gaining economies of scale and manufacturing benefit. One of the cases of this strategy is Galanz - the biggest manufacturer around the globe of microwave ovens, which is based in Guangdong Province . Galanz is producing microwaves for a lot of various global brands. Another possibility - Joint Ventures are liked by Chinese companies as the easiest way to get access to R&D and manufacturing activities, to “import” technology and expertise to Chinese companies (Peng, 2000). Example of Chinese JV is TCL. TCL is the second-biggest electronics enterprise in China. TCL created JV with Alcatel and Toshiba to create production of handsets and white goods. The disadvantage of this entry mode is obstacles in management differences related to business cultures within partners. Mergers and Acquisitions are constantly growing among Chinese companies. The biggest part of acquisitions have been established by big state companies in order to secure raw material supplies (McGregor, 2005). Greenfield Establishment of Subsidiaries is a higher level of the internationalization, as it includes buying foreign assets and founding subsidiaries in targeted economies. Qingdao Haier is the biggest Chinese electronics enterprise, selling low-cost white goods, air conditioners etc. Haier’s going global strategy is based on at the beginning entering more advanced markets e.g. Europe, USA, Japan markets and then continue expanding to emerging markets e.g. Indonesia, the Philippines and Malaysia.

There are a few primary options identified toward internationalization by Chinese companies under the level of exports, OEM, joint ventures, M&A, and creating greenfield subsidiaries (Guthrie, 2005). Every possibility offers certain benefits and risks. OEM and joint ventures can be considered as a preparation for upcoming M&A, and Greenfield Establishment of Subsidiaries. Companies can think of more than one of ways at the same time, though there is a potential risk of conflicts with foreign partners e.g.. due to cultural differences in doing business. The OEM/JV gives company an opportunity to operate on low cost production in China and make foreign partners responsibility lower. The M&A ways can ensure the aimed technology and/or brands rapidly with their existing cost advantages. Obstacles can occur as paying bigger amount than the actual worth of asset is, the

responsibility of overseas partners to manage gained assets and loss of brands value over time. The greenfield foundation of subsidiaries ways is defined as opening an offshore R&D, local manufacturing and local sales in global economies (Child & Yan, 2001). In this case responsibility of foreign partners can be lowered by training locally chosen employees in parent enterprise administrative cases. By being represented as a local enterprise in a greatly competitive market, for example, Europe, this way of internationalization also makes the image of the enterprise's brand stronger. Nevertheless, the strategy is a slower way to expansion. It might include the foundation of production overseas besides the technical and marketing makings. Therefore, it might be considered as a high-cost investment way, which might bring financial risk and pressure on the enterprise (Guthrie, 2005). The advantages and disadvantages of recently mentioned entry modes are listed in the Table 2.

<b>Entry mode</b>	<b>Acquisitions</b>	<b>Joint ventures</b>	<b>Greenfield investment</b>
Speed	Medium	High	Low
Control	Medium-High	Low-Medium	High
Access to flow of complementary capabilities	Low-medium	High	Low
Access to intangibles	High	Medium	Low
Risk	Low-medium	Low	High
Integration	Medium	Low	High
Flexibility	Medium-Low	High	High
Learning Opportunities	Medium	Low-Medium	High

**Table 2:** Advantages and disadvantages of entry modes

**Source:** Groove: guide for SMEs to enter fast growing china market

There are also several most recommendable ways of foreign enterprises expanding their business to China. See Table 3.

	Benefits	Disadvantages
<b>WFOE</b>	<ul style="list-style-type: none"> <li>- Manufacturing rights</li> <li>- Own strong presence in China</li> <li>- Basis for a strong China strategy</li> </ul>	<ul style="list-style-type: none"> <li>- More complicated to establish</li> <li>- Long-term commitment</li> <li>- Limited trading rights in China</li> </ul>
<b>FICE</b>	<ul style="list-style-type: none"> <li>- Import/export</li> <li>- Domestic Selling rights</li> <li>- Own strong presence in China</li> <li>- Basis for a strong China strategy</li> </ul>	<ul style="list-style-type: none"> <li>- More complicated to establish</li> <li>- Long-term commitment</li> <li>- Tax planning</li> </ul>
<b>CJV</b>	<ul style="list-style-type: none"> <li>- Mutual Reward, Mutual Risks</li> <li>- Localized partner setting, greater market control</li> <li>- Easier to obtain capital</li> <li>- Government supports</li> </ul>	<ul style="list-style-type: none"> <li>- Restriction of investment on the foreign party</li> <li>- Complicated Taxation and liability issues</li> </ul>
<b>Representative office</b>	<ul style="list-style-type: none"> <li>- Own presence in China</li> <li>- Cheap and easy to set up</li> </ul>	<ul style="list-style-type: none"> <li>- Can only work as a liaison</li> <li>- No trading rights</li> <li>- Can't invoice</li> </ul>
<b>Use of a Trading Company</b>	<ul style="list-style-type: none"> <li>- No direct investment</li> <li>- Existing know-how and experience</li> <li>- Existing supplier network</li> </ul>	<ul style="list-style-type: none"> <li>- Choosing the right partner has high impact</li> <li>- Expensive in long term</li> <li>- Own China know-how does not develop</li> </ul>
<b>Agent</b>	<ul style="list-style-type: none"> <li>- No direct investment</li> <li>- Existing know-how and experience</li> <li>- Easy and quick to set up and terminate</li> </ul>	<ul style="list-style-type: none"> <li>- Choosing the right partner has high impact</li> <li>- Expensive in long term</li> <li>- Own China know-how does not develop</li> <li>- Potentially unqualified for technical products</li> </ul>

**Table 3:** Economic point of view to legal structures

**Source:** Groove: Guide for SMEs to enter fast growing China market

In comparison with MNCs from the developed countries, the weaknesses of Chinese companies are little knowledge of foreign markets, weak point in Research and Development, lack of having world widely famous brands or trade names, a lack of experience in coordinating foreign operations as well as different understanding of strategic planning (Warner et al, 2004). Moreover, instabilities in Chinese RMB fluctuation, wrong communication channels, untrustworthy partners and lacking of team work due to intercultural differences, might be a reason of Chinese enterprises failing in Internalization processes (Ng & Xu, 2004).

### **2.3. Applicable theories and approaches to economic cooperation between Lithuania and China**

While generalizing and summarizing the theories mentioned above, as well as adjusting recently mentioned theories for the case of Lithuania and China, several assumptions could be made.

To begin with, International trade theories might be adapted. The theory of economies of scale might be adapted for the case of China, as due to the innovations and amount of labour force, China is able to produce a big volume of production in different sectors. On the other hand, the Technology-Gap theory could illustrate an example of China - being advanced in the technologies, China managed to become the major exporter of numerous amounts of goods, which initially weren't produced in China. Meanwhile in the case of Lithuania, the Skilled-Labour theory might be applied, as Lithuania has a high number of professionals in the sectors of Information Technologies, Telecommunications and Biotechnologies (The Official Gateway of Lithuania, 2015). Keeping in mind recently mentioned cases, the bilateral trades in different sectors might be increased.

The reviewed literature about Foreign Direct Investment showed, that FDI can affect augmenting capital stock. Moreover, FDI can affect labor efficiency, being an important source of human capital augmentation and technological change. Even if FDI does not add to the capital stock significantly, it promotes knowledge transfers and provides specific productivity-increasing skills, which are the most important mechanisms of promoting growth. Furthermore, through knowledge transfers and imitations by domestic firms, FDI also enhances productivity of domestic research and development activities. Finally, in endogenous growth models, policy actions are also treated leading to permanent increases in the rate of output growth. Therefore, there is an obvious need for Lithuania enhancing FDI from China.

The Chinese Business culture is significantly different to the Western countries. Therefore, in order to obtain a successful cooperation with Chinese enterprises, Lithuanian companies should gain knowledge about Guanxi. While the West were more transaction-oriented in their business dealings, the Chinese remained more relationship - oriented. The Chinese want to deal with people they know, like and respect first, then do the transaction or project. The relationship must be based on mutual

respect, realism and flexibility that evolve over time. If the situation changes to the detriment of any party, then the parties must discuss it and be prepared to modify the terms of the deal. The Chinese want a partnership relationship mutually advantageous to all parties. Therefore, the Chinese establish a trusting relationship first, and only then business transactions.

According to the theoretical studies, China is currently the most active internationalizing economy among the developing countries. Explaining China's firms process of internalization, the OLI paradigm was discussed. Among substantial empirical literature, the OLI framework developed by Dunning (1980) has received the most attention. OLI framework argues that firms expand internationally to exploit the ownership-specific advantages (O), location advantages (L), and internalization advantages (I). Ownership-specific advantages refer to the superior, intangible assets accrued to firms in terms of technologies, marketing capabilities, brand equity, or management competencies. Location advantages refer to the gains accumulated from integrating activities across different parts of the world where factor costs and resources vary. Internalization advantages come from centralizing activities within the boundary of a firm and from exploiting economies of scale. Recent research has extended the OLI paradigm and applied it to firms in emerging economies. Furthermore, having the largest population in the world, with expending sources, Chinese firms Internalization might be explained by Agyenim et al (2008) who suggested that firms in developing countries may invest overseas to seek other countries' resources, such as technologies, managerial and marketing skills.



### **3. METHODOLOGY OF EMPIRICAL RESEARCH ON ECONOMIC COOPERATION BETWEEN LITHUANIA AND CHINA**

In order to analyze the current situation on bilateral economic cooperation and to provide viable business solutions for the development of the reciprocal collaboration, empirical researches must be carried out. Therefore, the analysis of social and economic tendencies of both countries will be provided. The latter analysis will help to deepen the statistical knowledge of currently existing economic situations in both countries, trades and investments between both countries. An analysis of China's economic power among other world superpowers will be documented, which will help to evaluate China's strength, as a potential partner. Moreover, representing case studies and experts surveys will be made, which will reveal the subtleties of doing in business in both countries, from the perspective of enterprises and people, who are already successfully working in this area. Finally, in order to be able to provide practical implements for the development of economic cooperation, SWOT analysis will be carried out.

#### **3.1. Structure and general characteristics of empirical research**

To create a new economic approach, related to the selected subject, the empirical research was carried out. The research consists of several stages. According to the results of the empirical research, the strategic decisions will be provided. The statistical analysis of general economic tendencies and general trends of reciprocal economic cooperation will be provided. Another important stage will be the analysis of China's economic power, documenting and comparing it's attractiveness for trade and foreign direct investment among world's superpowers using quantitative expert solution methods. The juristic trade ties will be analyzed. As well as tendencies on bilateral investment will be investigated and brief conclusions will be conducted. Another important part of the research will be analysis of representative case studies. In this section the particular cases of the economic cooperation between Lithuania and China will be discussed, an example of enterprises will be given. After analyzing the cases studies, the conclusions about the experience of particular enterprises doing

business in China will be given. Moreover, the expert survey about opportunities To summarize the results and to make major points, the supplemented SWOT analysis will be provided.

### **3.2. Methods of empirical research on bilateral economic cooperation**

The initial stage of the investigation will include an analysis of social and economic situation in Lithuania and China. The main tendencies of social and economic development of both countries will be analyzed. Thereafter, in order to demonstrate the importance of China as a potential trade partner, an analysis of China's economic power, documenting and comparing it's attractiveness for trade and foreign direct investment among world's superpowers using quantitative expert solution methods will be provided. There is a growing recognition that in order to understand the aspects of economic globalization, the attention should be paid to FDI by MNCs: which means, a company based in one country locates or purchase production facilities in other countries. (Blonigen, 2005). According to Ginevicius (2011), every evaluation of complicated social-economical processes by quantitative multi-criteria methods implies a few stages. The initial compulsory stage comprises development of a set of criteria for such evaluation. Next stage is gathering the opinions of experts by ranking the criteria from most to least important. Experts assign the number one rank to the most important criterion, number four to the less important one and so on, until the least important criterion is assigned by its rank. The weights are calculating by summing each expert given rank and dividing the number from sum of ranking sums. The total sum of weights would make up one. Concordance of the data of all experts collected will be checked by using the concordance theory suggested by M. Kendall, which shows the level of similarity of perception of criteria by experts. In case their opinions are contradicting, Kendall's co-efficient becomes close to nil. Such a case, quite frequent, requires additional revisiting both initial stages until Kendall's co-efficient becomes sufficient, thus indicating acceptable level of concordance of opinions of experts. At the next stage there will be SAW (Simple Additive Weighing) multi-criteria evaluation method will be applied. The main advantages of SAW method: ability to compensate among criteria; intuitive to decision makers; calculation is simple ; does not require complex computer programs. (Velasquez et al., 2013). Disadvantages: All the values of the criteria  $R_i$  ( $i=1,...,m$ ) should be maximizing. Minimizing criteria should be transformed to maximizing ones, before being used in the analysis. All the values of the criteria  $R_i$  ( $i=1,...,m$ ) should be positive. The evaluation results, i.e. the values of the criterion  $S_j$ , depend on the type of their transformation to positive values. The estimates yielded by SAW do not

always reflect the real situation. The result obtained may not be logical, with the values of one particular criterion largely differing from those of other criteria. (Podvezko, 2011). Normalized values of criteria are multiplied by weights of significance of each criterion and are summed to the cumulative criterion of the method  $S_j$ : The larger is the cumulative criterion  $S_j$  of the SAW method, the better is the alternative. It then outranks all other alternatives with smaller values of  $S_j$ . Minimizing criteria are transformed to maximizing ones by any chosen method, e.g. by taking their inverse values (Podvezko, 2011). TOPSIS (Technique for Order Preference by Similarity to an Ideal Solution) method will be applied as well. The idea of the method is that the alternative is considered to be better in case if its Euclidean distance from the best hypothetical solution is smaller and the distance to the worst hypothetical solution is larger than of other worse alternatives. The method requires already described normalization of values of criteria by formula:

$$r_{ij} = \frac{r_{ij}}{\sum_{j=1}^n r_{ij}}$$

The formula reflects the idea that the alternative is the better the distance to the best hypothetical solution is the smaller and the distance to the worst hypothetical solution is the smaller (Podvezko, 2011). The results of the investigation will be provided.

The initial stage of the research on economic bilateral cooperation will also include SWOT analysis of economic cooperation between Lithuania and China. Afterwards, the analysis of statistical figures concerning general economic tendencies as GDP, Consumer Spending, Corporate Tax rates etc. will be analyzed. Furthermore, economic cooperation between Lithuania and China will be investigated. The figures of import/export and FDI will be studied.

The next part of the research consists of the descriptive research using primary data. There are several parts of the descriptive research: Observation, Unstructured interviews, Qualitative interviews, One case studies. Therefore, two Lithuanian companies will be investigated and their representatives interviewed. First, EKSPLA - the manufacturer of lasers, laser systems and laser components, which have their representative office in China. Second, ALITA - one of the main alcohol producers in Lithuania with especially wide range of beverages.

The further stage will consist of the analysis of expert surveys and evaluations of economic cooperation between Lithuania and China, using first and secondary data. This type of research was chosen in order to analyze the tendencies and trade ties of bilateral cooperation, using carried interviews methods. Finally, the supplemented SWOT analysis will be carried out and the results will be summarized.

## **4. EMPIRICAL RESEARCH ON ECONOMIC COOPERATION BETWEEN LITHUANIA AND CHINA**

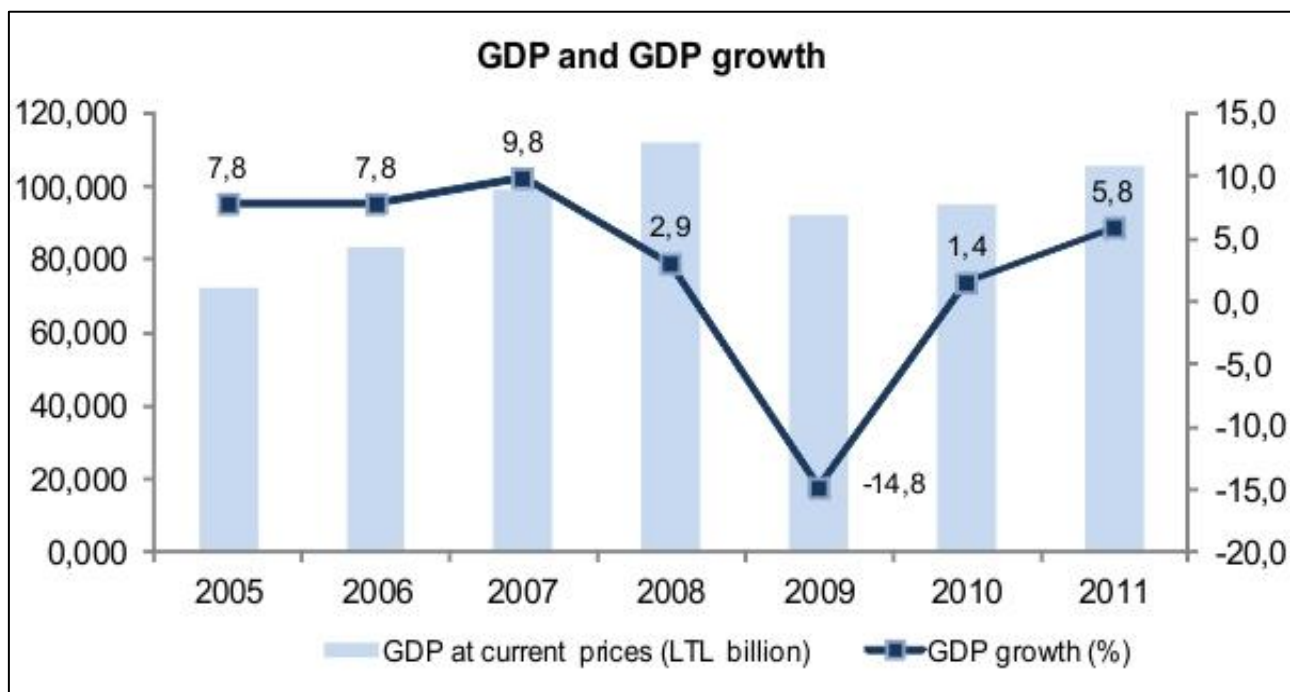
FDI in Lithuania, 2012 September 30th, was 40231,48mln LTL (11661,3 mln. euros). Out of which only 15.84 mln LTL (4,59mln. euros) was from China. China took 41st place by the size of FDI in Lithuania. FDI from Lithuania 2012 September 30th was 5683,7mln LTL (1647,45 mln. euros), of which 10.46mln. LTL (3,03 mln. euros) to China. China took the 20th place in accordance with the amount of FDI from Lithuania. In 2012, Lithuania's export to China was 230,15 mln. LTL (66,71 mln. euros) and to compare with 2011, had grown 15,43%. Lithuania's export to China amounted to 0.29% of the total Lithuanian exports. The Lithuanian import of 2012, from China reached 1,83 mlrd. LTL (531,75 mln. euros) and in comparison with 2011, had grown for 17,67 proc. Lithuania's imports from China amounted almost 2.12% of the total Lithuanian import. In order to increase current numbers and economic cooperation between Lithuania and China, the detailed research on economic trends, representative cases and potential areas must be carried out.

### **4.1. Social and economic situation in Lithuania and China analysis: general context of development processes concerning both countries' economic cooperation**

#### **4.1.1. Social and economic development in Lithuania: main tendencies**

In the past two decades, Lithuania has undergone a striking transformation in its economy, from an inward-oriented industrialization strategy to the reform and opening up policy, aimed at integration with the global economy. In this context, Lithuania's uniquely gradual reforms have produced high levels of inward foreign direct investment (FDI) and export growth, which may indirectly impact on outward FDI (OFDI). This especially became significant after May 2004, when Lithuania became a member of the European Union. FDI played an important role in increasing Lithuania's GDP (e.g. Statistics Lithuania said that cumulative foreign direct investment (FDI) in Lithuania by 31 December, 2013 accounted for LTL 43.9 billion (EUR 12.7 billion) and grew by 5.1% from 2012, reports

LETA/ELTA.), therefore there is a demand of the researches related to the following topic. The GDP and annual GDP Growth of Lithuania is showed in Figure 3.



**Figure 3:** GDP and GDP growth rate in Lithuania

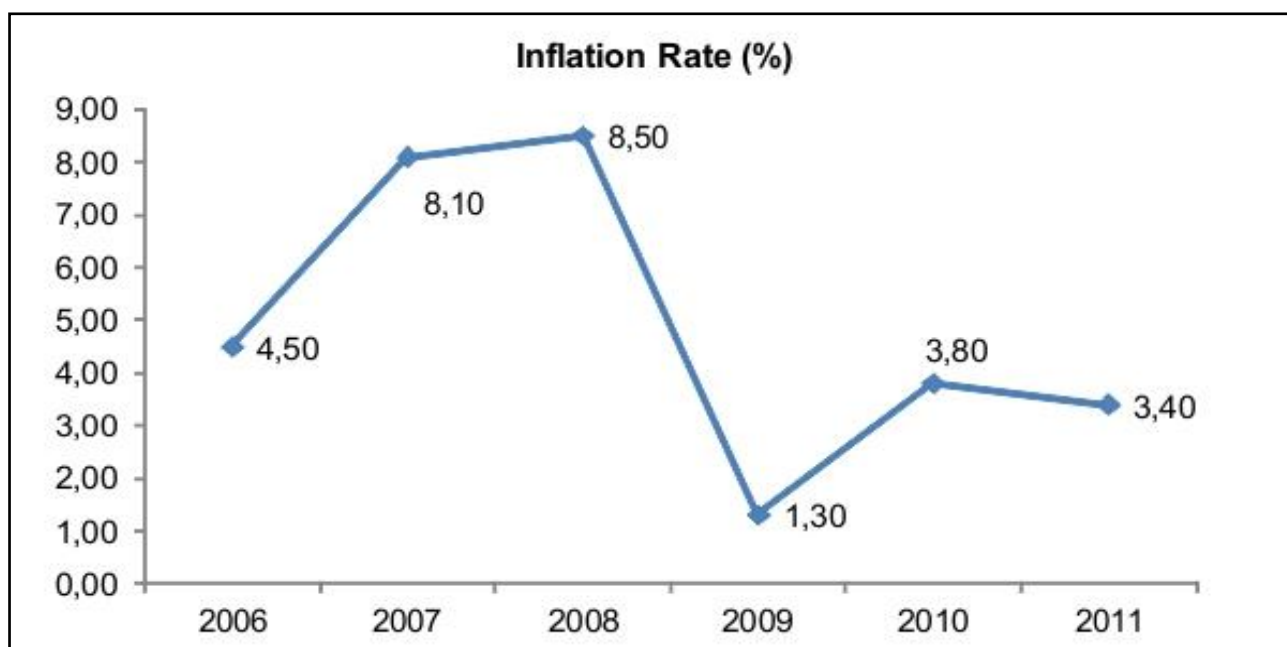
**Source:** Euro money country risk (2011)

A numerous amount of reforms made in mid-1990s has provided Lithuanian with an open and rapidly growing economy. After regaining independence in 1990's, country has faced a lot of crucial economic problems, due to the loose of economic partners ( the ones had while being a part of former Soviet Union), which caused dramatic decrease in import and export. Nevertheless, country has accelerated economy while opening up for the global trade and investment, reducing regulations and tax laws for FDI inflows and therefore currently being able to enjoy fiscal, financial and business freedom.

One of the first steps in economic growth was enhanced by the implementation of the monetary reform. In 1993 Lithuania has chosen a currency board system that was independent from any government institution and was regulated by Bank of Lithuania. In 1994 a free convertible currency Litas was introduced and was pegged to the dollar of the United States at a rate of 4:1.

Becoming a member of the World Trade Organization in 2001 and member of European Union in 2004 had an influence on big changes in Lithuanian economy. The membership of EU opened the ways for free capital and trade movement, which had a big impact for the FDI inflows between the Member States. Moreover, before the World Recession had dramatically decreased the economic growth of the country in 2009, a decade before (1998-2008) the Lithuanian economy was one of the fastest growing in the world, as the growth rate of GDP was positive 9 years in a row.

The World Recession effected the inflation, stagnancy in FDI, high unemployment. Sectors related to real estate and domestic consumption were extremely suffering. The annual inflation rate in 2011 was 3.4%, decreasing from 3.8% in 2010. The inflation rate in 2007 and 2008 was more than 8%, the highest in the past five years (see Figure 4).

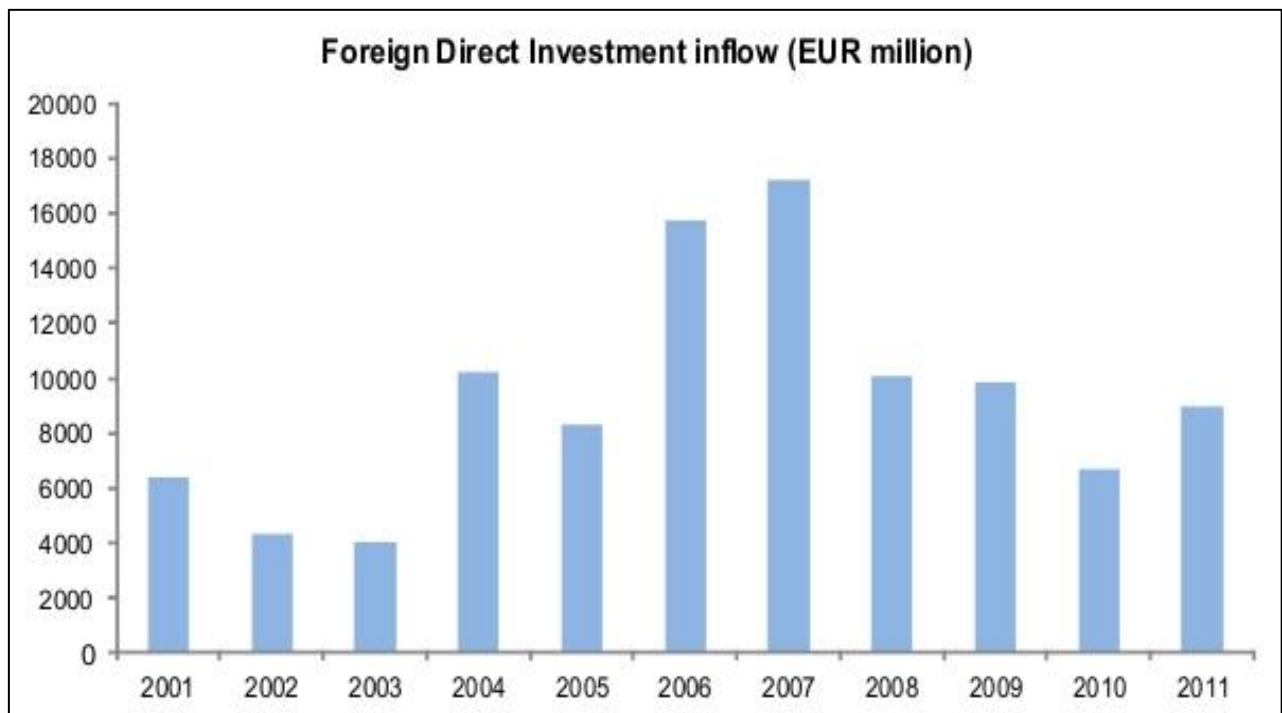


**Figure 4:** Inflation rate in Lithuania

**Source:** Euro money country risk (2011).

As stated by Statistics Lithuania, in the year of 2010-2011 Lithuanian economy growth was significant: Private consumption in the year of 2011 grown for 7.9% and FDI had grown for 11.6%. The rate of unemployment from 2010 being 17.1% reduced till 15.1% in 2011. The economy was recovering and the inflation rate was stabilizing.

According to the estimation of GDP accounts by the national statistics department of Lithuania, the annual GDP in the year of 2013 had grown for 3.3%, which actually showed that damaged caused by the World Recession were in the successful process of solving. The country was preparing for the entering of Eurozone in the year 2015. According to figures from the Bank of Lithuania, country had met 4 out of the 5 criteria by October 2013, with the only exception of government deficit of 3.2% of GDP, which exceeded the limit of 3.0%. Therefore on the 1st of January 2015 Lithuania became a member of Eurozone.



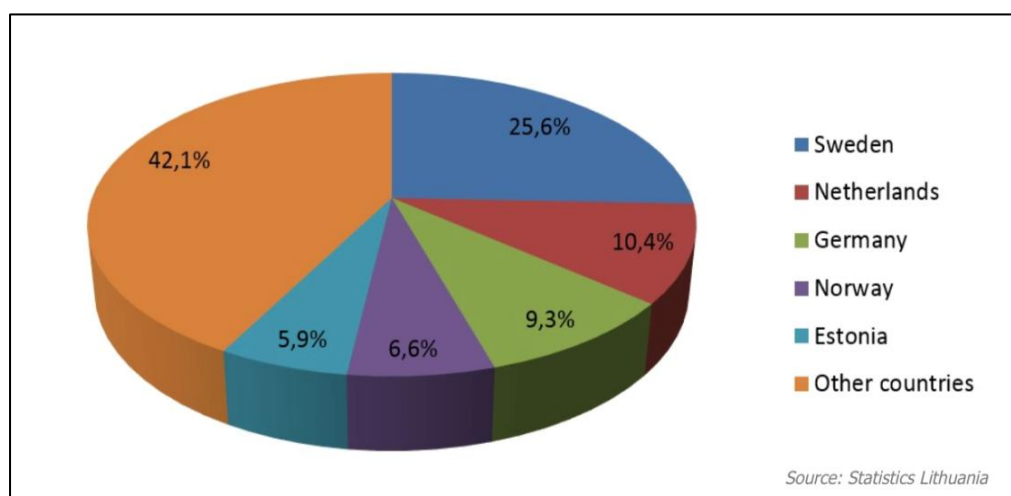
**Figure 5:** Foreign Direct Investment inflow in Lithuania

**Source:** Euro Money Country Risk (2011)

Due to the new investments laws, country faced mass privatization. Though FDI inflows to Lithuania extremely fallen in 1990s, but started to increase in the mid-90s. During the period of 1996 to 2007 FDI had grown from 2,8 billion litas (lithuanian currency litas -  $0.457 \text{ Lit} = 1 \text{ Rmb}$ ) in 1996 up to 34,6 billion litas in 2013. A significant increase of FDI was in 1998, due to the privatization of the telecommunication company “Lietuvos Telekomas”. This was the main reason why FDI increased 3.8 times compared to the same quarter a year earlier. The next significant growth of FDI was noticed in 2002, due to the privatization of the oil company “Lietuvos dujos”, as well as due to



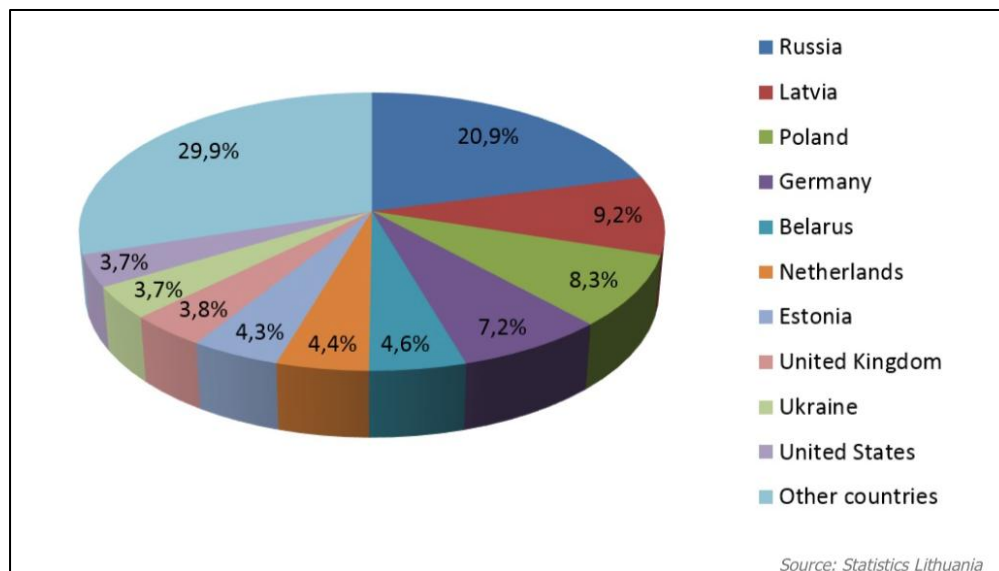
investment made by “YukosOil” corporation for the oil refinery “Mažeikių nafta”. Another increase of FDI inflows was noticed in 2006 due to the oil refinery “Mažeikių nafta” sale to polish company “PKN Orlen”. All in all, according to the statistics shown, we can assume that big part of FDI inflows were caused by privatization of the former state owned companies. An important break point, where FDI increased a lot, was the year of 2004, as on the 1st of May, 2004 Lithuania became a member of EU. Lithuania has become an attraction for FDI in the various sectors. The biggest stock of FDI for past years was service sectors as well as manufacturing sector. For instance the global brand - bank of Barclays, located its’ technology centre in Vilnius, capital of Lithuania, due to the high standards of service and relatively low labor costs. After Lithuania became a member of EU, a numerous reforms in agricultural sector were made. This was the reason of Agricultural sector is nowadays has the 3rd place of the attractive sectors for FDI in Lithuania. The growth of FDI in Lithuania is caused by several factors, like Lithuania's accession to the World Trade Organisation on 31 May 2001, accession of European Union in 2004, entering the Euro zone in January 2015 ( It is official, Lithuania recently became a member of Euro zone) etc. This made an impact on the higher FDI inflow from several countries. Starting in the year of 1996 the United States was the major direct investor to Lithuania, till the year of 1999, when Sweden became the largest investing country. At the beginning of 1997, the United States had 28.5 per cent of cumulative FDI in the Lithuania, when for example in 2007 it already had only 1.74% of total FDI. According to the Statistics Lithuania, in the year of 2014, the biggest roles in FDI of Lithuania were played by Sweden, Finland, Denmark (See Figure 6).



**Figure 6:** Lithuanian FDI inflow by countries

**Source:** Statistics Lithuania

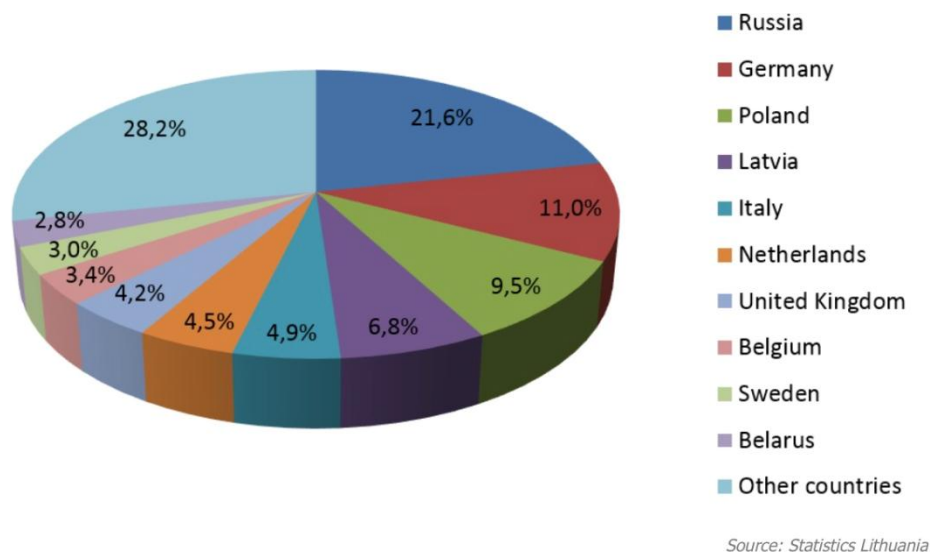
In general, the importance of EU countries as investors in the country has been growing constantly and they have accounted for more than 43% per cent of the FDI in the country since the year of 2012. Between the EU countries, the FDI share in Lithuania of the bigger economies like Germany and the United Kingdom, has decreased, meantime the role of scandinavian countries, has been constantly growing. For instance at the beginning of 1996, Germany was the second biggest investor in Lithuania with 13% share of total and the United Kingdom 8.8% . Though, by the end of the year 2009, Germany's share had dropped to 8.1% . Nevertheless, according to the data of Statistics Lithuania, recently mentioned countries remain being in the list of biggest Lithuanian trade partners. In 2014, Lithuanian exports accounted for EUR 24.5 billion and, as compared to 2013, decreased by 0.6%. The largest share in Lithuania's exports fell within mineral products (17.6% of total exports), machinery and mechanical appliances (8.7%), electrical machinery (6.7%), furniture (6.4%) and plastics (5.8%).



**Figure 7:** Lithuanian export structure by countries

**Source:** Statistics Lithuania

In 2014, Lithuanian imports accounted for EUR 26,5 billion and, as compared to 2013, increased by 1.2%. The largest share in Lithuania's imports fell within mineral products (24.4%), machinery and mechanical appliances (9.9%), electrical machinery (7.1%), vehicles (6.5%) and plastics (4.2%).



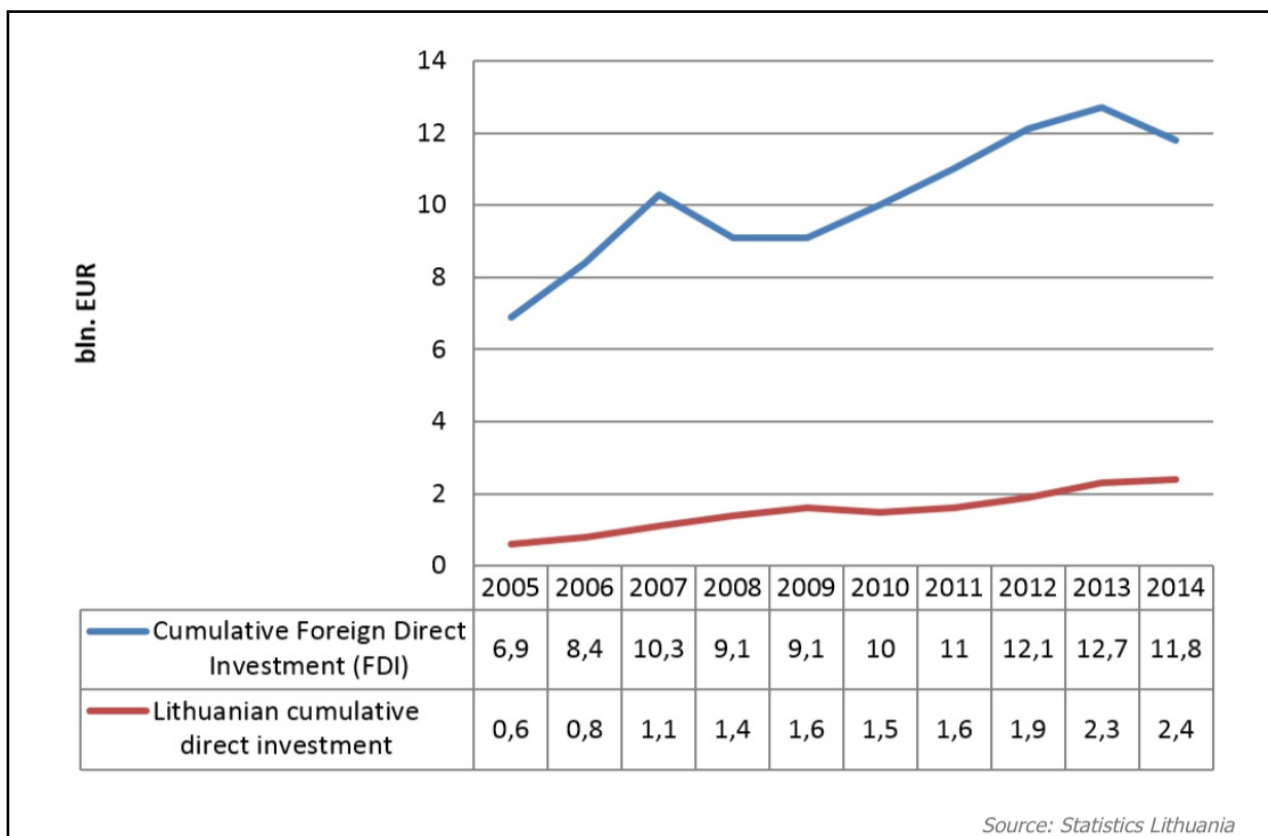
**Figure 8:** Lithuanian import structure by countries

**Source:** Statistics Lithuania

During the period of 1995-2013 Lithuania's GDP increased from 26 billion litas in 1995 to 149 billion litas in 2013, which is 5.7 times. The period when the growth was negative were only 1999 caused by Russian crisis and 2009-2011 caused by world recession. Share of FDI in GDP increased from 5% to 38% during the past two decades.

**Forecast of the main economic tendencies in Lithuania.** According to economists, The accession of Euro zone is going to accelerate the FDI inflow by 2.6% in 2015. The security of energetic independence and the crisis of Ukraine might continue to be dominative issues of the Government. Membership of Euro zone and current complicated economic situation in Russia will cause changes in GDP growth. The GDP growth is estimated to rise from 2.5% in 2014 to 2.7% in 2015 and 3.3% in 2016. FDI in service sector will continue being one of the largest share of FDI with information and communication technologies being the fastest growing. Moreover, FDI to the sector of Real Estate and Construction are assumed growth by 5.1%. Knowledge-based economy recently became a key point of Lithuania, therefore becoming the 19th member of Euro zone will also increase FDI in

sector of sophisticated biotech products like pharmaceutical substances, components for molecular diagnostics, laser equipment etc. In 2015, after the adoption of common EU currency, the investments to real estate are assumed to increase.



**Figure 9:** Lithuanian FDI Inflows and Outflows

**Source:** Statistics Lithuania

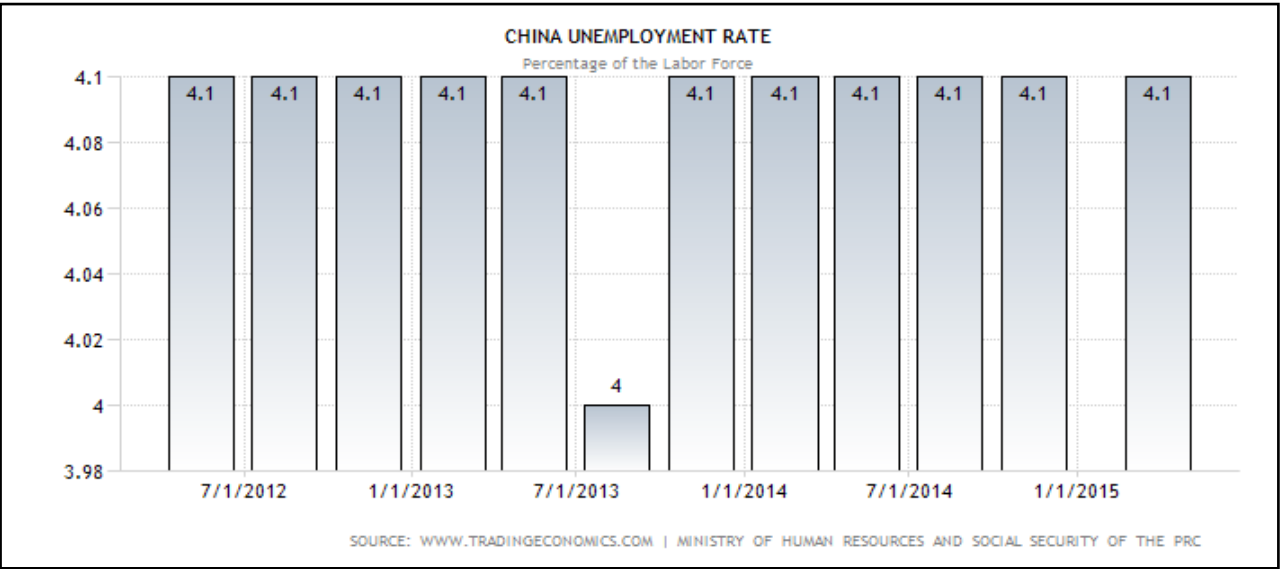
It is assumed that the main trade partner of Lithuania will stay the EU countries. Moreover, by improving the EU economic conditions should cause increase the external demand and mitigate the net export's negative contribution to annual GDP growth. Nevertheless, the slow gross fixed capital formation (especially investments in machinery and other equipment) will cause the stagnation of the increase of labor productivity and by that will set a ceiling to GDP growth in middle term.

Entering the European Union in 2004, as well as WTO in 2001 and joining the Euro zone in 2015 encouraged higher FDI inflows in Lithuania. This caused augmenting capital stock, as well as the effect on labor efficiency. In addition, increasing FDI promoted knowledge and provided productivi-

ty-increasing skills. To sum up, most of the years of past two decades, FDI had a significant positive impact on the Economic Growth of Lithuania.

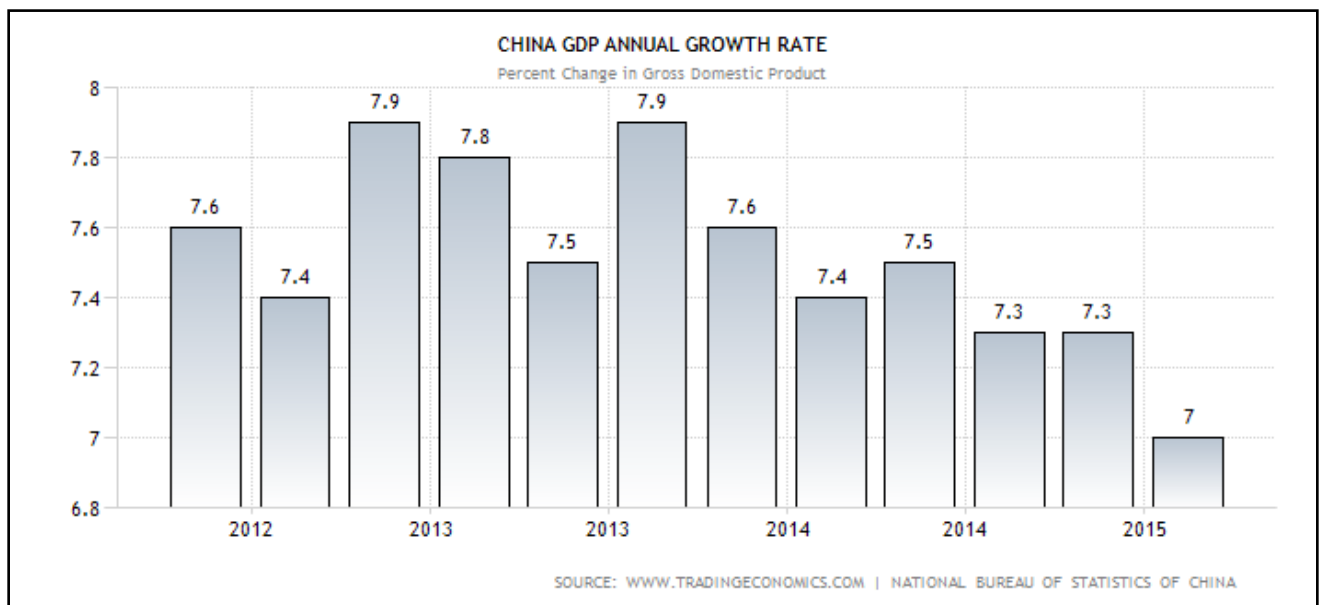
**4.1.2. Social and economic development in China: main tendencies.**

The tremendous growth of China as a major economic power in only about three decades is often viewed by analysts as one of the most extraordinary economic success stories in modern times. Since 1979, when various economic reforms were started, to 2013, China’s real gross domestic product (GDP) was growing at an average annual rate of nearly 10%. The calculations showed that till nowadays around 500 million people in China have been raised out of extreme poverty. China is now taking place as one of a major global economic power. It is now the biggest manufacturer, merchandise exporter, and holder of foreign exchange reserves in the world. Nevertheless, China’s economic growth is experiencing a downturn as the structural transformation of the economy continues and Governmental policy is changing (World Bank, 2014). The output of country grew by 7.7 percent in 2013, completing its 2012 growth rate and exceeding the 7.5 percent indicative goal of Chinese Government. Stable growth partly reflected the effects of mid-2013 growth support measures. See Figure 11.



**Figure 10:** China unemployment rate  
**Source:** Trading Economics (2015)

Nonetheless, previously mentioned growth rates have been significantly lower than during over the past decade. The economists of World Bank explain it as consequences of drivers of economic growth remained to move from manufacturing to services on the supply side, and from investment to consumption on the demand side, and as measures to remain in the rapid accumulation of credit (World Bank, 2014). Nevertheless, the impact of downturn in growth on labor markets has been relatively small due to the structural changes of economic operations related to the demand of labor force in service sectors. According to the Trading Economics: “In the first quarter of 2015. Unemployment Rate in China averaged 4.13 percent from 2002 until 2015, reaching an all time high of 4.30 percent in the fourth quarter of 2003 and a record low of 3.90 percent in the third quarter of 2002. Unemployment Rate in China is reported by the Ministry of Human Resources and Social Security of the PRC.” See Figure 10.



**Figure 11:** China GDP annual growth rate

**Source:** Trading Economics (2015)

According to the data of The World Bank on China Economic Update (2014) : The Fiscal and financial sector reforms are needed to address financial stability risks in the medium run. The first task involves effectively managing the process of rapid credit growth, including less well-regulated shadow banking system. The second: gradual and orderly deleveraging of large stock of local government debt accumulated through off-budget and quasi-fiscal platforms. Despite an increase in the monetary base, inflation stabilized in 2013 and inflationary pressures are subdued. Annual consumer price index (CPI) inflation eased marginally from 2.7 percent in 2012 to 2.6 percent in 2013, largely due to moderating price increases of food products. CPI inflation declined to 2.3 percent (year on year) in the first quarter of 2014 due to a moderation of food prices. In April CPI inflation decelerated further to 1.8 percent, in part due to seasonality.” See Figure 12.



**Figure 12:** China inflation rate  
**Source:** Trading Economics (2015)

Another major component stimulating the economic growth of China is export. Accordingly to the Trading Economics: “Export growth has been a major component supporting China's rapid economic expansion. Exports of goods and services constitute 30% of GDP. China major exports are: electromechanical products (57 percent of total exports) and labor-intensive products like clothing, textiles, footwear, furniture, plastic products, bags and toys (20 percent). In recent years, the exports of

high tech products have been also growing and in 2012 accounted for 29 percent of total exports. China's main export partners are the United States (17 percent), European Union (16 percent), ASEAN (10 percent), Japan (7 percent) and South Korea. Exports in China increased to 1763.31 USD Hundred Million in April of 2015 from 1445.69 USD Hundred Million in March of 2015. Exports in China averaged 516.51 USD Hundred Million from 1983 until 2015, reaching an all time high of 2275.14 USD Hundred Million in December of 2014" See Figure 13.

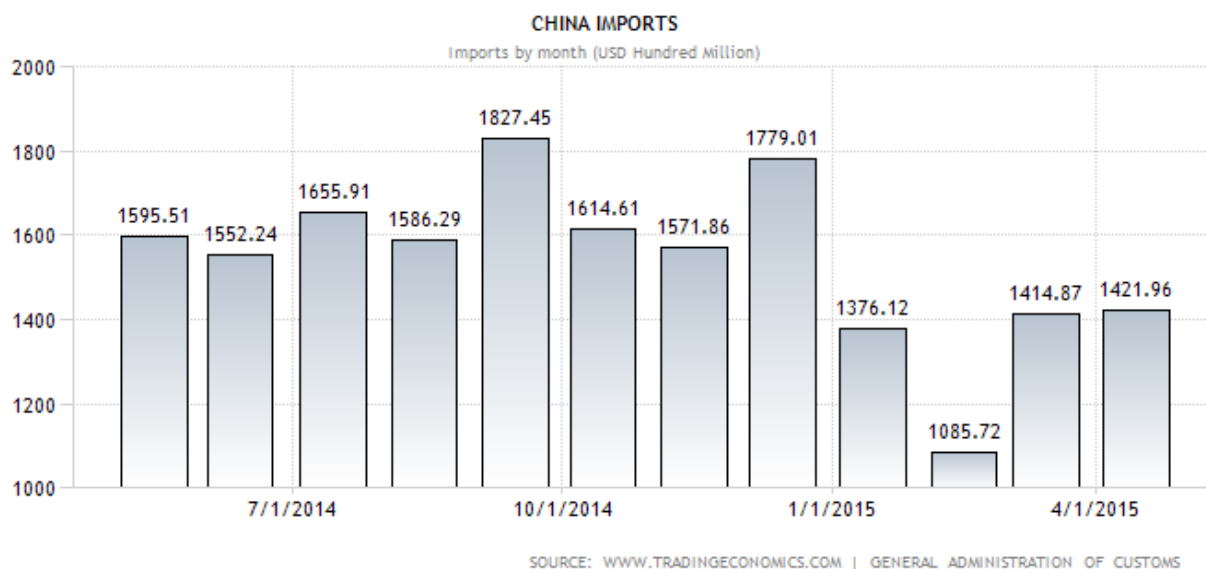


**Figure 13: China exports**  
**Source:** Trading Economics (2015)

Growing consumption and the amount of people with middle income, the demand of trendy European goods as well as auto mechanical items is also enhancing. According to the Trading Economics (2015): "China's main imports are electromechanical products (43 percent of total imports). The country is also one of the biggest consumers of commodities in the world. Among commodities the biggest demand is for crude oil (12 percent of total imports), iron ore (5 percent), copper, aluminum and soybeans. China's main import partners are: European Union, ASEAN, Japan, South Korea and Taiwan. Others include: Australia, South Africa and Brazil. Imports in China increased to 1421.96 USD Hundred Million in April of 2015 from 1414.87 USD Hundred Million in March of 2015. Imports in China averaged 447.73 USD Hundred Million from 1983 until 2015, reaching an all time high of 1830.94 USD Hundred Million in March of 2013 and a record low of 16.60 USD Hundred



Million in July of 1983.” The tendencies of the Chinese import within last year are showed in the



**Figure 14:** China imports

**Source:** Trading Economics (2015)

Figure 14. In order to obtain the stable economic growth, the World Bank on China Economic Update (2014) states: “ China could consider the opportunities and challenges in international trade negotiations. It could take more active part in negotiating global and regional policy portfolios of agricultural trade liberalization, aiming at securing the sustainable increase of global agricultural trade and reducing trade risks under the framework of fair global trade. China could make itself a leading partner in global agricultural development efforts and investments; cooperate internationally with countries endowed with rich agricultural resources in agricultural technology development and transfer; and help promote agricultural productivity worldwide. Therefore, reforms likely to support growth in the short term, such as promoting competition, eliminating entry barriers in select sectors, and reducing administrative burden on businesses, should be implemented in parallel. ”

#### **4.1.3. Lithuania and China: a comparative statistical analysis of general economic tendencies of social and economic development.**

In order to evaluate the potential sectors and methods for the development of economic cooperation between Lithuania and China, the analysis of general economic tendencies will be given. Identifying tendencies of Lithuania’s and China’s economies, the complex statistical analysis of the data

was carried out. The examined data was presented by the global economic researchers Anna Fedec and Antonio Sousa in their web platform Trading Economics. Trading Economics provides accurate data for 196 countries including historical numbers for more than 300.000 economic indicators, exchange rates, stock market indexes, government bond yields and commodity prices. The data provided is based only on official sources: World Bank, National Bureau of Statistics of China, Statistics Lithuania etc.

**GDP.** The gross domestic product (GDP) measures of national income and output for a given country's economy. The gross domestic product (GDP) is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time.



**Figure 15:** GDP annual growth rate  
**Source:** Trading Economics(2015)

According to Trading Economics: “ The Gross Domestic Product (GDP) in China was worth 9240.27 billion US dollars in 2013. The GDP value of China represents 14.90 percent of the world economy. GDP in China averaged 1252.79 USD Billion from 1960 until 2013, reaching an all time high of 9240.27 USD Billion in 2013 and a record low of 46.50 USD Billion in 1962. GDP in China is reported by the World Bank Group. The Chinese economy expanded 7.0 percent in the first quarter of 2015, down from a 7.3 percent increase in the previous three-month period. It is the lowest growth rate since the March quarter of 2009, due to a slowdown in manufacturing and property in-

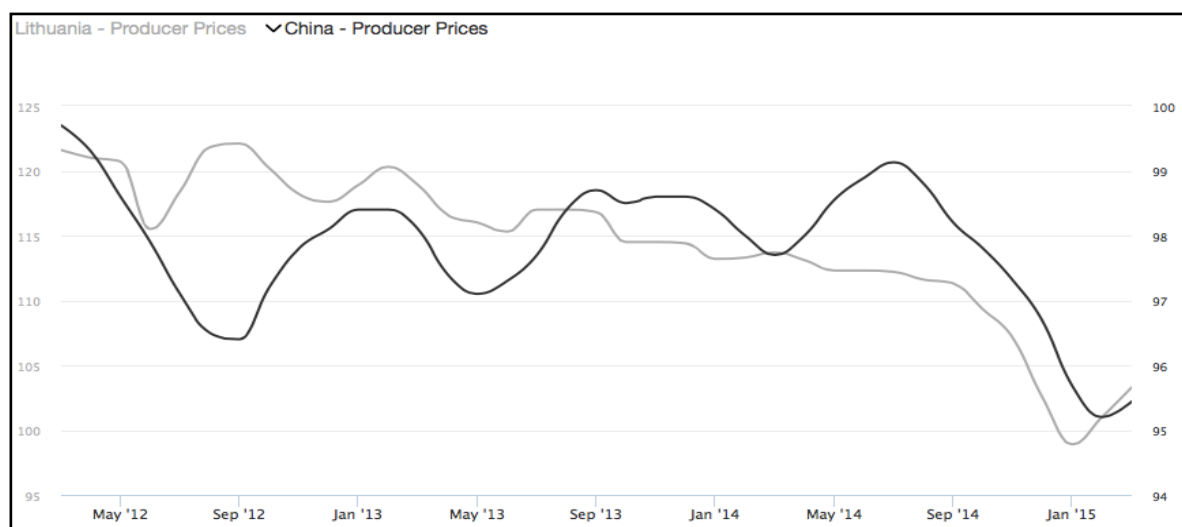
vestment. Year-on-year, fixed asset investment increased at a slower 13.5 percent in the first quarter of 2015, down from 13.9 percent in the first two months of the year. Property investment rose 8.5 percent in the first quarter, compared with a 10.4 percent increase in January to February. The industrial sector expanded 6.4 percent in the first three months of 2015. The manufacturing sector rose 7.2 percent, mining was up 3.2 percent and the production and supply of electricity, heat, gas and water increased 2.3 percent. Separate data for the March month showed industrial production expanded 5.6 percent year-on-year, the weakest since November of 2008. Retail sales rose 10.2 percent, easing from 10.7 percent in February. Meanwhile, exports shrank 15 percent, following a 48.3 percent rise in the preceding month. Imports also declined by 12.7 percent after registering a 20.5 percent drop in February. On quarterly basis, the GDP expanded 1.3 percent, compared to 1.5 percent in the December 2014 quarter. In 2014, the country's economy advanced by 7.4 percent, the slowest pace in 24 years. Premier Li Keqiang acknowledged the economy is facing increased downward pressures while markets widely expect more stimulus measures. The IMF projects China's economy to grow 6.8 percent in 2015.”

Meanwhile in Lithuania: “The Gross Domestic Product (GDP) in Lithuania expanded 2.40 percent in the fourth quarter of 2014 over the same quarter of the previous year. GDP Annual Growth Rate in Lithuania averaged 4.45 percent from 2001 until 2014, reaching an all time high of 11.60 percent in the fourth quarter of 2003 and a record low of -15.80 percent in the second quarter of 2009. The Gross Domestic Product (GDP) in Lithuania was worth 45.93 billion US dollars in 2013. The GDP value of Lithuania represents 0.07 percent of the world economy. GDP in Lithuania averaged 21.65 USD Billion from 1990 until 2013, reaching an all time high of 47.44 USD Billion in 2008 and a record low of 7 USD Billion in 1994.”

Analyzing the tendencies mentioned above, it is noticeable that recent goal of China is to maintain slower but sustainable GDP growth, as country is experiencing the current growth as the precursor to high inflation. While Lithuania, though having negative growth during the World Recession, which made the economy is running slowly and led country to increased unemployment and lower spending, is successfully recovering. The indicator also demonstrates Lithuania, as a trustworthy partner, with obtaining a slow, but sustainable growth of GDP.

**The Producer Price Index (PPI).** The index measures the price of goods at the wholesale level. It is one of the most important indicator to measure the inflation. Moreover, the PPI tracks how much

the producers are getting paid for the produced goods. According to the Trading Economics: “ Producer Prices in China increased to 95.44 Index Points in March of 2015 from 95.20 Index Points in February of 2015. Producer Prices in China averaged 101.33 Index Points from 1995 until 2015, reaching an all time high of 113.47 Index Points in July of 1995 and a record low of 91.80 Index Points in July of 2009. Meanwhile in Lithuania, Producer Prices increased to 103.30 Index Points in March of 2015 from 101 Index Points in February of 2015. Producer Prices in Lithuania averaged 86.03 Index Points from 1998 until 2015, reaching an all time high of 122.10 Index Points in September of 2012 and a record low of 55.70 Index Points in February of 1999. In China, as well as in Lithuania, the Producer Price Index measures the average change in price of goods and services sold by manufacturers and producers in the wholesale market during a given period. ”

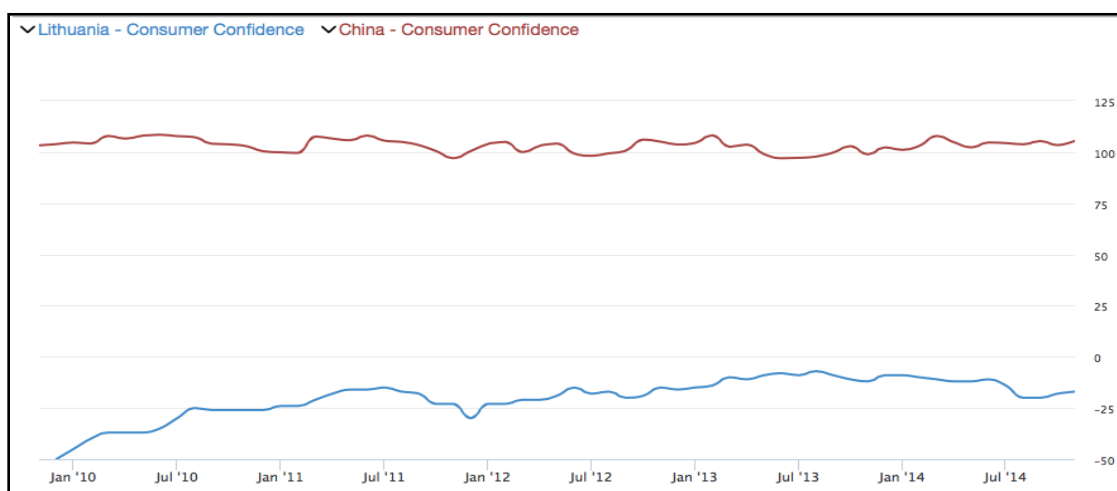


**Figure 16: Producer Prices**  
**Source:** Trading Economic (2015)

The data provided above, indicates, that being an EU member country, Lithuania still has a relatively small index of Producer Prices. The PPI is counted through three sorts of production: industry-based, commodity-based, and stage-of-processing-based companies. In case of producing their goods in Lithuania, according to the data given, investors from China would benefit more, as producing same amount of goods in China, as according to the statistics, Lithuania has a higher PPI.

**Consumer Confidence Index (CCI).** According to the information provided by Trading Economics: “ The consumer confidence indicator measures the level of optimism that consumers have about the performance of the economy. Generally consumer confidence is high when the unemployment

rate is low and GDP growth is high. Measures of average consumer confidence can be useful indicators of how much consumers are likely to spend. Consumer Confidence in Lithuania increased to -2 in March of 2015 from -8 in February of 2015. Consumer Confidence in Lithuania averaged -16.10 from 2001 until 2015, reaching an all time high of 9 in March of 2007 and a record low of -56 in January of 2009. Meanwhile, Consumer Confidence in China decreased to 107.10 in March of 2015 from 109.80 in February of 2015. Consumer Confidence in China averaged 109.66 from 1991 until 2015, reaching an all time high of 124.60 in August of 1993 and a record low of 97 in November of 2011. Consumer Confidence in China is reported by the National Bureau of Statistics of China.”

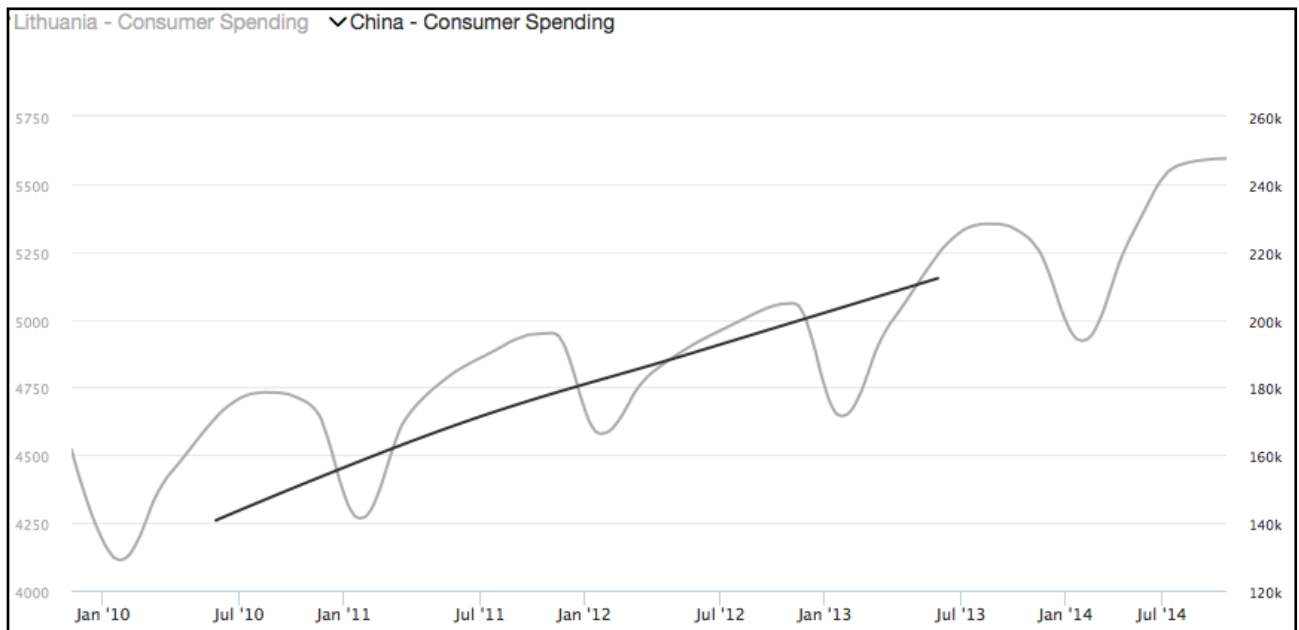


**Figure 17: Consumer Confidence**  
**Source:** Trading Economics (2015)

The high CCI in China demonstrates consumers spending money, which is indicating a healthy economy. While extremely low CCI of Lithuania indicates that consumers are saving more than they are spending, which according to Trending Economics, is indicating the troubles of the economy, as the more confident people feel about the stability of their incomes, the more likely they are to make purchases, which cause the higher incomes of the producers, higher demand of the employees, higher creating of workplaces, growing economy. Therefore, the CCI of China is a prove, that country is a potential partner for the exports of Lithuanian goods.

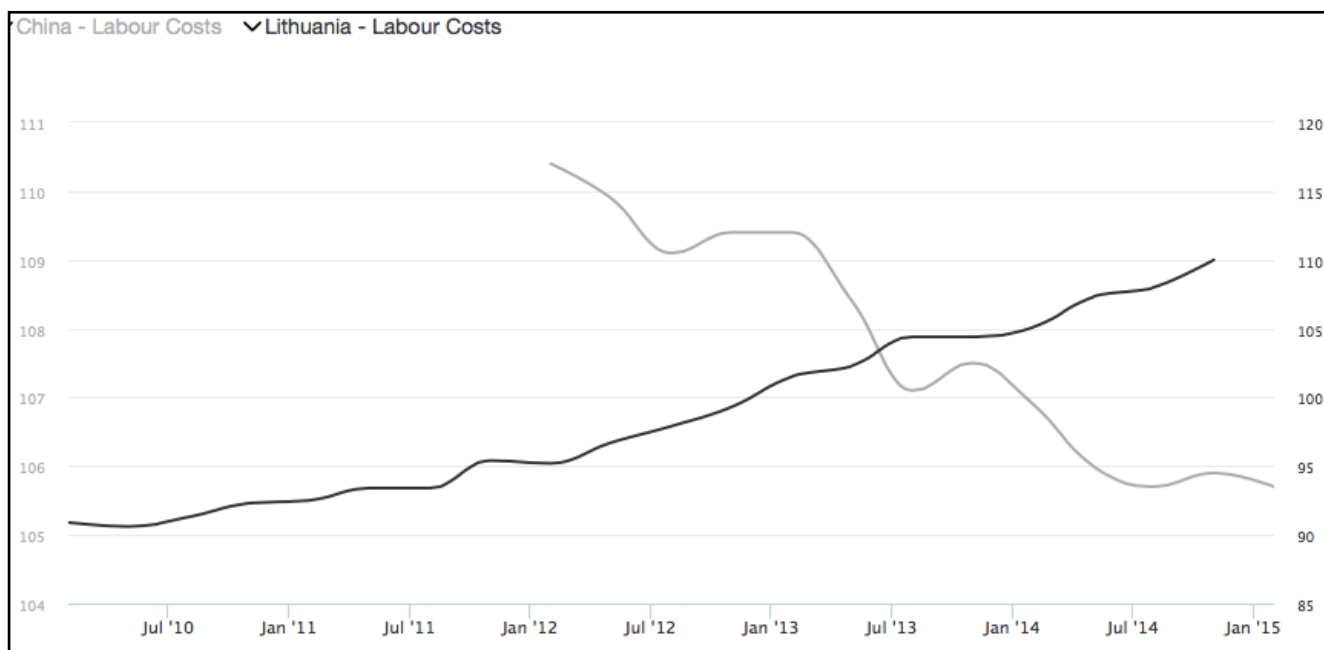
Another indicator proving the growing purchasing power of China’s citizens is **Consumer Spending**. The table below shows, that since the year of 2010, Lithuania was facing difficulties with rapidly decreasing consumer spending, while China managed to obtain the sustainable growth of Con-

sumer Spending, which is forecasted to continue growing. This is a positive indicator for potential exporters, as it lets making an assumption of growing market demand.



**Figure 18:** Consumer Spending  
**Source:** Trading Economics (2015)

**Labour Costs.** The weight is an important measure of inflation calculated based on shares of expenditure (quantity times price) by employers on salaries and wages. According to the Trading Economics (2013), the Labour Costs Index or the Employment Costs Index (ECI) measures the cost of labour including wages, benefits, and bonuses. When wages increase, the added cost is often passed to consumers in the form of higher prices (inflation). Together with the productivity report, the Labour Costs Indicator can demonstrate whether the increased cost of labor is justified or not.

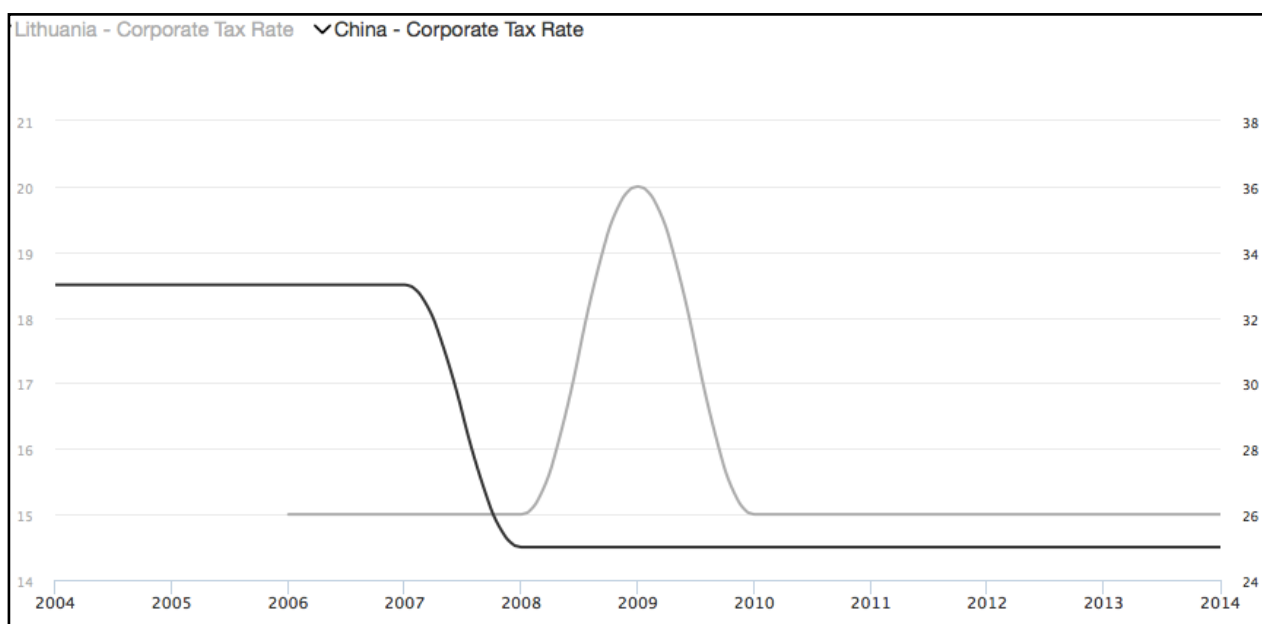


**Figure 19: Labour Costs**  
**Source:** Trading Economics (2015)

As mentioned by the Trading Economics: “Labour Costs in China decreased to 105.70 Index Points in the first quarter of 2015 from 105.90 Index Points in the fourth quarter of 2014. Labour Costs in China averaged 107.80 Index Points from 2012 until 2015, reaching an all time high of 110.40 Index Points in the first quarter of 2012 and a record low of 105.70 Index Points in the third quarter of 2014. Meantime, Labour Costs in Lithuania increased to 110 Index Points in the fourth quarter of 2014 from 108 Index Points in the third quarter of 2014. Labour Costs in Lithuania averaged 76.42 Index Points from 2000 until 2014, reaching an all time high of 110 Index Points in the fourth quarter of 2014 and a record low of 45 Index Points in the second quarter of 2001. “According to Xiaoqing Pi (2014), the editor economist of Bloomberg: “China’s ruling Communist Party is pushing for pay increases to retain public support and to accelerate the nation’s shift away from polluting and capital-intensive manufacturing to a more services-driven economy.”

The ECI in Lithuania is steadily increasing, while China is experiencing the downturn in labour costs, which economists explain as a positive thing - consequence of the decreasing inflation. The data above presents a 4.3 Index Points difference between Labour Costs in Lithuania and China. Moreover, the data proves, that despite the China’s Government intentions of raising wages, country still remains one of the cheapest labour providers in the world.

**Corporate Tax Rate.** As stated by Trading Economics: “The Corporate Tax Rate in China stands at 25 percent. Corporate Tax Rate in China averaged 26.78 percent from 2006 until 2014, reaching an all time high of 33 percent in 2007 and a record low of 25 percent in 2008. In China, the Corporate Income tax rate is a tax collected from companies, which is amount based on the net income companies obtain while doing their business during one year. Revenues from the Corporate Tax are an important source of income for the both governments. The Corporate Tax Rate in Lithuania stands at 15 percent. Corporate Tax Rate in Lithuania averaged 15.56 percent from 2006 until 2014, reaching an all time high of 20 percent in 2009 and a record low of 15 percent in 2007.”



**Figure 20: Corporate Tax Rate**  
**Source:** Trading Economics (2015)

The data above indicates the 10% higher Corporate Tax rate in China, which is a significant advantage of Lithuania, when attracting foreign investors.

According to the forecast stated in Trading Economics, by the year of 2020, China’s annual GDP Growth rate will decrease to 5% and by 2030 it will reach lower, but stable 3% growth. Producer Price Index will grow to 102 index points and Consumer Confidence Index will reach 109 index points. Corporate tax will remain the same of 25%, though labour costs will increase by 1.3 index point and will reach 107 index points. Meantime, Lithuania will remain with lower, but sustainable 2.36% annual GDP growth. Producer Price Index is predicted to reach 104 index points and Con-



sumer Confidence is expected to decrease dramatically to -9.13 Index points. Corporate Tax is assumed to stay 15% , as well as labour costs are expected to stay in 110 index point.

Concluding the statistical analysis carried above, it is assumed that:

- A sustainable annual growth of Lithuanian Economics indicates country as a trustworthy partner, for Chinese enterprises, maintaining a slow, but sustainable growth of GDP.
- Chinese companies could benefit while producing their goods in Lithuania, as the goods provided on Lithuania would not only have the certificates of goods produced in EU, but moreover, producing same amount of goods in China would bring higher profit, as according to the statistics, Lithuania has a higher PPI.
- The high CCI as well as high Consumer Spending of China demonstrates the consumer's willingness for making purchases, which cause the higher incomes of the producers, higher demand of the employees, higher creating of workplaces, growing economy. Therefore, the CCI of China is a prove, that country is a potential partner for the exports of Lithuanian goods.
- Despite the China's Government intentions of raising wages, country still remains one of the world's provider of cheap labor force.
- China has a 10% higher Corporate Tax rate, which is a significant advantage of Lithuania, for attracting foreign investors from China.

#### **4.2.An analysis of China's economic power, documenting and comparing it's attractiveness for trade and foreign direct investment among world's superpowers using quantitative expert solution methods.**

Being a relatively small country, Lithuania has been looking for overseas trade partners since regaining independence. Though becoming a member of WTO and EU helped Lithuanian economy to experience growth and recover after the Russian crisis, nevertheless being on of the world's leaders in new information technologies, laser industries and biotechnological researches, country was looking for bigger and more promising trade partners. The following research was carried out for prov-

ing the reasons and indicating motives of choosing China amongst World's Superpowers as a most potential, promising and successful partner for bilateral economic cooperation. The research also justifies the demand of broadening the economic cooperation between Lithuania and China, as well as proves the need of the researches based on the topic of bilateral trade.

The object of the current research is the evaluation of criteria for choosing the country to invest and comparing China's attractiveness among the other super powers. Evaluation of set criteria in China, USA, Germany, Canada, Brazil, Russian Federation. The research aims to measure the most important criteria, which companies pay attention to, while choosing the next destination for the internationalization of their business and to identify China's competitiveness as the most attractive country for FDI. Evaluated criteria and countries will help potential investors to pay attention to the most important criteria and measure their opportunities in investing in China.

#### **Tasks of the research:**

1. To investigate what factors influence the choice of FDI
2. To make a survey of the experts in order to get rankings
3. To analyze scientific literature
4. Calculate Kendall's co-efficient of concordance
5. Apply MCDA methods for evaluation

#### **Methodology of research:**

1. Systemic literature and scientific papers analysis
2. Questionnaire survey
3. Quantitative expert solution methods

**Choice of Criteria.** Despite the importance of FDI and MNCs in the world economy, research on the factors that determine FDI patterns and the impact of MNCs on parent and host countries is in its early stages. The most important general questions are: what factors determine where FDI occurs, and what impacts do those MNC operations have on the parent and host economies? The literature has shown that it cannot simply be concluded that factors such as exchange rates or tax policies have an unambiguous general impact on FDI patterns. Instead, meaningful insights come from develop-

ing hypotheses about, when a factor should matter for FDI, or even just a particular form of FDI, and then finding creative ways to test these hypotheses in the data.

These are the criteria chosen for the evaluation of potential countries attracting FDI:

- 1. GDP Growth (annual %)**
- 2. Inflation, GDP deflator (annual %)**
- 3. Exports of goods and services (% of GDP)**
- 4. Imports of goods and services (% of GDP)**
- 5. Start-up procedures to register a business (number)**
- 6. Internet users (per 100 people)**
- 7. Population (Total)**
- 8. Market capitalization of listed companies (% of GDP)**

**GDP Growth (annual %).** As an aggregate measure of total economic production for a country, GDP represents the market value of all goods and services produced by the economy during the period measured, including personal consumption, government purchases, private inventories, paid-in construction costs and the foreign trade balance (exports are added, imports are subtracted). Real GDP is the one indicator that says the most about the health of the economy and the advance release will almost always move markets. Therefore, GDP was chosen as one of the main criteria for FDI. **Inflation, GDP deflator (annual %)** GDP deflator is an economic metric that accounts for inflation by converting output measured at current prices into constant GDP. The GDP deflator shows how much a change in the base year's GDP relies upon changes in the price level. Also known as the "GDP implicit price deflator." It isn't based on a fixed basket of goods and services, the GDP deflator has an advantage over the Consumer Price Index. Changes in consumption patterns or the introduction of new goods and services are automatically reflected in the deflator. The reflection of consumption was the main reason to choose current criteria. **Exports of goods and services (% of GDP)** as well as **Imports of goods and services (% of GDP)** demonstrate economic monetary flows and even political view of the local government to foreign investors, therefore these were counted as appropriate criteria. **Start-up procedures to register a business (number)** are the procedures and difficulties companies are facing with while entering foreign market. Therefore this was mentioned as an important criteria. **Internet users (per 100 people)** doing business in Networking, Computing area or Social Media it is crucial to be able to reach as much internet users

as possible. As well as when providing social marketing campaigns of your product/service. Therefore, this criteria was chosen. **Population (Total)**. If the goal of the business is to reach as much people as possible( egz. Selling food products) population is extremely important. This is the reason the criteria was chosen. **Market capitalization of listed companies (% of GDP)** private sector analysis makes important impact in choosing country, as this indicator shows general possibilities of private sector business in those countries.

All the tables provided below in this research part are compiled by the author.

**Description of data. Finding weights of criteria.** To begin with, the survey of experts was made. Experts were asked to rank the criteria by the importance of it: 1 – very important, 2 – important, 3 – less important etc. Afterwards, the analysis of the set of alternatives was made. The sample was provided according number of criteria plus 2. In total we have 8 criteria and 10 experts. The results, as well as calculated Sums are provided below.

No.	Criteria/expert	1	2	3	4	5	6	7	8	9	10
1	GDP growth (annual %)	1	2	2	1	2	1	1	3	3	1
2	Inflation, GDP deflator (annual %)	3	4	4	2	3	4	2	2	1	3
3	Exports of goods and services (% of GDP)	4	3	1	7	1	2	3	4	2	2
4	Imports of goods and services (% of GDP)	5	5	3	4	7	3	4	5	5	4
5	Start-up procedures to register a business (number)	2	1	5	5	4	5	7	1	4	5
6	Internet users (per 100 people)	8	8	8	8	6	8	8	6	8	7
7	Population (Total)	6	7	6	6	8	6	6	7	6	6
8	Market capitalization of listed companies (% of GDP)	7	6	7	3	5	7	5	8	7	8
	SUM	36	36	36	36	36	36	36	36	36	36
	SUM of sums	360									

**Table 4:** Evaluation of criteria of experts

For the calculation of weights of each criteria, criteria were transformed doing some steps: calculating the sum of each line and then dividing sum of the line by sum of sums. Table 2 also demonstrates that the sum of weights should be 1.

After the calculation of the weights of criteria, the ranking of the criteria by its' importance were made. According to the opinion of experts, the most important criteria is annual GDP growth. Moreover, Inflation and GDP deflator are found to be very important as well. Less important factors while choosing countries for the internationalization of business are the population and market capitalization of companies. Full list of rankings is presented in Table 5.

Rankings	Criteria/expert
1	GDP growth (annual %)
2	Inflation, GDP deflator (annual %)
3	Exports of goods and services (% of GDP)
5	Imports of goods and services (% of GDP)
4	Start-up procedures to register a business (number)
8	Internet users (per 100 people)
7	Population (Total)
6	Market capitalization of listed companies (% of GDP)

**Table 5:** Ranking of criteria by the importance

Kendall's test of Concordance. For the sake of checking the concordance of experts' opinions, the Kendall's test was applied.

Kendall's test:  $(12 \cdot S) / (r \cdot m(m+1))$ .

First of all there was calculated the average of sums of ranks for every criterion:.

No.	Criteria/expert	1	2	3	4	5	6	7	8	9	10	Sum (e <sub>i</sub> )	$\bar{e}-e_i$	$(\bar{e}-e_i)^2$
1	GDP growth (annual %)	1	2	2	1	2	1	1	3	3	1	17	28	784
2	Inflation, GDP deflator (annual %)	3	4	4	2	3	4	2	2	1	3	28	17	289
3	Exports of goods and services (% of GDP)	4	3	1	7	1	2	3	4	2	2	29	16	256
4	Imports of goods and services (% of GDP)	5	5	3	4	7	3	4	5	5	4	45	0	0
5	Start-up procedures to register a business (number)	2	1	5	5	4	5	7	1	4	5	39	6	36
6	Internet users (per 100 people)	8	8	8	8	6	8	8	6	8	7	75	-30	900
7	Population (Total)	6	7	6	6	8	6	6	7	6	6	64	-19	361
8	Market capitalization of listed companies (% of GDP)	7	6	7	3	5	7	5	8	7	8	63	18	324
	SUM	36	36	36	36	36	36	36	36	36	36	360		
	SUM of sums	360											S=	2950

**Table 6:** Evaluating concordance

Then there were sums of squares of differences between  $e_i$  and  $\bar{e}$  found and S calculated. After that level of concordance was calculated (by counting ratio between S and  $S_{\max}$ )  $W = (12 \cdot 2950) / (8 \cdot 10 \cdot 9) = 49,16$ . To sum up, the opinions of experts were found concordant, as  $\chi^2$  distribution with degrees of freedom:  $\alpha = 5\%$   $\gamma = 7$  is 14,07 and calculated Kendall's co-efficient of concordance is higher than  $\chi^2$ .

**Formulation of set of alternatives.** According to Reilly (1998), there has been substantial progress in the literature in the past couple of decades, but it is complicated enough that, in many ways, it is still in the process of uncovering what is unknown. Experts of International Business are still discussing factors, which could cause increase and decrease of FDI. On the other hand, they agree, that investors wouldn't make a mistake, while investing to the biggest countries, such as China, USA,

Canada, Russian Federation and Brazil. The first part of the research showed, that the highest impact on choosing country to invest has GDP annual growth. According to this criteria and the size of the territory of country, previously mentioned countries were chosen and data from 2012 were used.

According to the data given, it is not possible to tell clearly, which country has the highest position in FDI attractiveness, therefore, MCDA methods should be applied.

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil
GDP growth (annual %)	0.202778	Max	9.3	1.847165649	4.290996864	2.528248552	2.732509243
Inflation, GDP deflator (annual %)	0.172222	Min	7.804543053	1.963919832	15.53749671	5.663077616	6.968884752
Exports of goods and services (% of GDP)	0.169444	Max	28.53559014	13.52598849	30.36026839	30.39600321	11.88916767
Imports of goods and services (% of GDP)	0.125	Max	26.05178406	17.18768106	21.80016698	31.57849582	12.62254662
Start-up procedures to register a business (number)	0.141667	Min	14	6	8	1	13
Internet users (per 100 people)	0.041667	Max	38.3	77.863021	49	83	45
Population (Total)	0.072222	Max	1344130000	311587816	142960000	34483975	196935134
Market capitalization of listed companies (% of GDP)	0.075	Max	46.28692022	100.6882225	41.93470409	107.2449748	49.62219467

**Table 7:** Set of alternatives.

**Results.** Seeking to find out, which country is the best and the most attractive one for investors MCDA methods SAW and TOPSIS were applied. To begin with, the data must be described. There were maximizing and minimizing criteria found. GDP growth (annual %), Exports of goods and services (% of GDP), Imports of goods and services (% of GDP), Internet users (per 100 people), Population (Total), Market capitalization of listed companies (% of GDP) are maximizing criteria. Inflation, GDP deflator (annual %), Start-up procedures to register a business (number) are minimizing criteria. The lower is inflation – the better and stable is economy of the country and the less start-up procedures it has for international investors, the easier it is to start business in that country.

**SAW Method.** It is needed to find whether there are negatives in the data. Excel function min was used. As we Table 7 demonstrates, that there are no negative data so we don't need to do the normalization of negatives.

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil	Min
GDP growth (annual %)	0.202778	Max	9.3	1.847165649	4.290996864	2.528248552	2.732509243	1.847165649
Inflation, GDP deflator (annual %)	0.172222	Min	7.804543053	1.963919832	15.53749671	5.663077616	6.968884752	1.963919832
Exports of goods and services (% of GDP)	0.169444	Max	28.53559014	13.52598849	30.36026839	30.39600321	11.88916767	30.39600321
Imports of goods and services (% of GDP)	0.125	Max	26.05178406	17.18768106	21.80016698	31.57849582	12.62254662	31.57849582
Start-up procedures to register a business (number)	0.141667	Min	14	6	8	1	13	1
Internet users (per 100 people)	0.041667	Max	38.3	77.863021	49	83	45	83
Population (Total)	0.072222	Max	1344130000	311587816	142960000	34483975	196935134	1344130000
Market capitalization of listed companies (% of GDP)	0.075	Max	46.28692022	100.6882225	41.93470409	107.2449748	49.62219467	107.2449748

**Table 8:** Searching for negatives.

Secondly, we have to normalize minimizing, in this case inflation and start-up procedures number of university criteria with a formula:  $r = (\min r) / r$ , the results are presented in Table 8.



### Normalization, $r=(\min r/r)$

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil	Sum
GDP growth (annual %)	0.202778	Max	9.3	1.847165649	4.290996864	2.528248552	2.732509243	20.69892
Inflation, GDP deflator (annual %)	0.172222	Min	0.251638029	1	0.126398729	0.346793734	0.281812643	2.006643
Exports of goods and services (% of GDP)	0.169444	Max	28.53559014	13.52598849	30.36026839	30.39600321	11.88916767	114.707
Imports of goods and services (% of GDP)	0.125	Max	26.05178406	17.18768106	21.80016698	31.57849582	12.62254662	109.2407
Start-up procedures to register a business (number)	0.141667	Min	0.071428571	0.166666667	0.125	1	0.076923077	1.440018
Internet users (per 100 people)	0.041667	Max	38.3	77.863021	49	83	45	293.163
Population (Total)	0.072222	Max	1344130000	311587816	142960000	34483975	196935134	2.03E+09
Market capitalization of listed companies (% of GDP)	0.075	Max	46.28692022	100.6882225	41.93470409	107.2449748	49.62219467	345.777

Secondly, all data was normalized. It was made by dividing each member of criterion line from the sum of that line. When we normalize all data the sum of each criteria should be 1. The results are presented in Table 9.

### Normalization $r/\text{sum } r$

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil	Sum
GDP growth (annual %)	0.202778	Max	0.44929879 7	0.08923971	0.20730534 7	0.122143982	0.132012163	1
Inflation, GDP deflator (annual %)	0.172222	Min	0.12540248 2	0.49834471 4	0.06299013 8	0.172822824	0.140439841	1
Exports of goods and services (% of GDP)	0.169444	Max	0.24876934 9	0.11791770 7	0.26467664 3	0.264988174	0.103648128	1
Imports of goods and services (% of GDP)	0.125	Max	0.23848062 2	0.15733774 2	0.19956089 7	0.289072692	0.115548047	1

Start-up procedures to register a business (number)	0.141667	Min	0.04960254 4	0.11573926 9	0.08680445 2	0.694435612	0.053418124	1
Internet users (per 100 people)	0.041667	Max	0.13064403 5	0.26559632 5	0.16714249 9	0.283118927	0.153498214	1
Population (Total)	0.072222	Max	0.66210139 2	0.15348420 7	0.07042028 3	0.016986369	0.09700775	1
Market capitalization of listed companies (% of GDP)	0.075	Max	0.13386349 6	0.29119408 7	0.12127672 5	0.310156459	0.143509234	1

**Table 9:** Normalization of data.

In order to find which alternative is the best data has to be transformed using previously found weights and normalized, multiplying the weights by each criteria and then sum numbers of each country. The highest result of sum shows the best result. As we see in table 10 according to this criteria China is the best one, in the second place is Canada, third – USA and the last places go for Russian Federation and Brazil.

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil
GDP growth (annual %)	0.202778	Max	0.091107812	0.01809583	0.042036918	0.024768085	0.026769133
Inflation, GDP deflator (annual %)	0.172222	Min	0.021597094	0.085826034	0.010848302	0.029763931	0.024186862
Exports of goods and services (% of GDP)	0.169444	Max	0.042152584	0.0199805	0.044847987	0.044900774	0.017562599
Imports of goods and services (% of GDP)	0.125	Max	0.029810078	0.019667218	0.024945112	0.036134086	0.014443506
Start-up procedures to register a business (number)	0.141667	Min	0.007027027	0.016396396	0.012297297	0.098378378	0.007567568
Internet users (per 100 people)	0.041667	Max	0.005443501	0.011066514	0.006964271	0.011796622	0.006395759
Population (Total)	0.072222	Max	0.047818434	0.01108497	0.005085909	0.001226793	0.007006115
Market capitalization of listed companies (% of GDP)	0.075	Max	0.010039762	0.021839557	0.009095754	0.023261734	0.010763193
Sum			0.274996292	0.203957019	0.15612155	0.250230405	0.114694734

**Table 10:** Multiplication by weights.

**TOPSIS Method.** TOPSIS is used in order to prove the results. This MCDA method is measuring Euclidean distance from the best hypothetical solution is smaller and the distance to the worst hypothetical solution is larger than of other worse alternatives. The first step is to do the normalization. First of all, there were each number squared, then sum of the line was found and square route was calculated. After that, each number of a line was divided by the square route. Data got was in the interval .

**Table 11 Calculating  $c^2$  and sqrt of sum**

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil	SUM	SQRT of sum
GDP growth (annual %)	0.202778	Max	86.49	3.4120209	18.41265408	6.392041	7.46660676	122.1733	11.0532
Inflation, GDP deflator (annual %)	0.172222	Min	60.9108923	3.8569811	241.4138041	32.07045	48.5653547	386.8175	19.66768
Exports of goods and services (% of GDP)	0.169444	Max	814.279905	182.95236	921.7458965	923.917	141.352308	2984.247	54.62827
Imports of goods and services (% of GDP)	0.125	Max	678.695453	295.41638	475.2472803	997.2014	159.328683	2605.889	51.04791
Start-up procedures to register a business (number)	0.141667	Min	196	36	64	1	169	466	21.58703
Internet users (per 100 people)	0.041667	Max	1466.89	6062.65	2401	6889	2025	18844.54	137.2754
Population (Total)	0.072222	Max	1.8067E+18	9.709E+16	2.04376E+16	1.19E+15	3.8783E+16	1.96E+18	1.4E+09
Market capitalization of listed companies (% of GDP)	0.075	Max	2142.47898	10138.118	1758.519407	11501.48	2462.3622	28002.96	167.3409

**Table 12 Topsis normalisation**

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil
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GDP growth (annual %)	0.202778	Max	0.84138498	0.1671159	0.388212938	0.228734	0.24721422
Inflation, GDP deflator (annual %)	0.172222	Min	0.39682081	0.0998552	0.79000166	0.287938	0.35433189
Exports of goods and services (% of GDP)	0.169444	Max	0.52235943	0.2476005	0.555761155	0.556415	0.21763765
Imports of goods and services (% of GDP)	0.125	Max	0.51033987	0.3366971	0.427053069	0.618605	0.24726862
Start-up procedures to register a business (number)	0.141667	Min	0.64853748	0.2779446	0.370592844	0.046324	0.60221337
Internet users (per 100 people)	0.041667	Max	0.27900116	0.5672029	0.356946649	0.604624	0.32780815
Population (Total)	0.072222	Max	0.95907009	0.2223256	0.102005505	0.024605	0.1405181
Market capitalization of listed companies (% of GDP)	0.075	Max	0.27660262	0.6016954	0.25059453	0.640877	0.29653364

When the data was normalized the gathered data was multiplied by weights and the best and worst value  $V^*$  and  $V^-$  was found for each criteria. Inflation and Number of start-up procedures are the minimizing criteria so that means its best value is minimum value and worst is the maximum value. In all other criteria it is in opposite manner.

**Table 13 Calculating  $V^*$  and  $V^-$ .**

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil	$V^*$	$V^-$
GDP growth (annual %)	0.202778	Max	0.17061418	0.0338874	0.078720957	0.046382	0.05012955	0.170614	0.033887
Inflation, GDP deflator (annual %)	0.172222	Min	0.06834136	0.0171973	0.136055841	0.049589	0.06102382	0.017197	0.136056
Exports of goods and services (% of GDP)	0.169444	Max	0.0885109	0.0419545	0.09417064	0.094281	0.03687749	0.094281	0.036877
Imports of goods and services (% of GDP)	0.125	Max	0.06379248	0.0420871	0.053381634	0.077326	0.03090858	0.077326	0.030909
Start-up procedures to register a business (number)	0.141667	Min	0.09187614	0.0393755	0.052500653	0.006563	0.08531356	0.006563	0.091876
Internet users (per 100 people)	0.041667	Max	0.01162505	0.0236335	0.014872777	0.025193	0.01365867	0.025193	0.011625
Population (Total)	0.072222	Max	0.06926617	0.0160569	0.007367064	0.001777	0.01014853	0.069266	0.001777
Market capitalization of listed com-	0.075	Max	0.0207452	0.0451272	0.01879459	0.048066	0.02224002	0.048066	0.018795

panies (% of GDP)									
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D\* was calculated by the formula:  $\sqrt{\sum(w \cdot r - V)^2}$ . The results are presented in Table 14.

**Table 14 Calculating D\***

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil
GDP growth (annual %)	0.202778	Max	0	0.0186942	0.008444364	0.015434	0.01451655
Inflation, GDP deflator (annual %)	0.172222	Max	0.00261572	0	0.014127356	0.001049	0.00192077
Exports of goods and services (% of GDP)	0.169444	Min	3.33E-05	0.0027381	1.22858E-08	0	0.00329522
Imports of goods and services (% of GDP)	0.125	Max	0.00018315	0.0012418	0.000573315	0	0.00215454
Start-up procedures to register a business (number)	0.141667	Min	0.0072784	0.0010767	0.002110306	0	0.00620172
Internet users (per 100 people)	0.041667	Max	0.00018408	2.431E-06	0.0001065	0	0.00013303
Population (Total)	0.072222	Max	0	0.0028312	0.0038315	0.004555	0.0034949
Market capitalization of listed companies (% of GDP)	0.075	Max	0.00074642	8.636E-06	0.000856804	0	0.00066697
		<b>Sum</b>	0.01104106	0.0265931	0.030050158	0.021038	0.03238369
		<b>D*</b>	0.10507646	0.1630738	0.173349813	0.145043	0.17995468

The same actions were taken in order to calculate  $D^- = \sqrt{\sum(w \cdot r - V^-)^2}$

**Table 15 Calculating D-**

Criteria/expert	Weights		China	The United States of America	Russian Federation	Canada	Brazil
GDP growth (annual %)	0.202778	Max	0.01869422	0	0.002010049	0.000156	0.00026381
Inflation, GDP deflator (annual %)	0.172222	Max	0.00458525	0.0141274	0	0.007476	0.0056298
Exports of goods and services (% of GDP)	0.169444	Min	0.00266601	2.578E-05	0.003282505	0.003295	0

Imports of goods and services (% of GDP)	0.125	Max	0.00108135	0.000125	0.000505038	0.002155	0
Start-up procedures to register a business (number)	0.141667	Min	0	0.0027563	0.001550429	0.007278	4.3067E-05
Internet users (per 100 people)	0.041667	Max	0	0.0001442	1.05477E-05	0.000184	4.1356E-06
Population (Total)	0.072222	Max	0.00455478	0.0002039	3.12484E-05	0	7.0082E-05
Market capitalization of listed companies (% of GDP)	0.075	Max	3.8049E-06	0.0006934	0	0.000857	1.1871E-05
			Sum	0.03158542	0.0180759	0.007389818	0.021402
			D-	0.17772286	0.1344468	0.08596405	0.146293
							0.07760649

The results are presented in Table 16. It is seen, that as well as SAW, TOPSIS method proved, that China is the most attractive country for Foreign Direct Investment. Unfortunately, Brazil is the least attractive, amongst analyzed countries.

**Table 16 Countries C values**

	China	USA	Russian Federation	Canada	Brazil
<b>C</b>	0.62844162	0.4518906	0.331505802	0.502144	0.30131285

Concluding the investigated research, we can summarize that:

1. Despite the obvious importance of FDI and MNCs in the world's economy, there is a lack of researches on the factors that determine FDI patterns and the impact of MNCs on parent and host countries. The most important general questions are: what factors determine where FDI occurs, and what impacts do those MNC operations have on the parent and host economies? Therefore, chosen evaluation of criteria helps to provide more complete investigations on the selected topic.
2. There were criteria of attractiveness for FDI stated: GDP growth (annual %), Exports of goods and services (% of GDP), Imports of goods and services (% of GDP), Internet users

(per 100 people), Population (Total), Market capitalization of listed companies (% of GDP) were stated as maximizing criteria. Inflation, GDP deflator (annual %), Start-up procedures to register a business (number) were stated as minimizing criteria.

3. There was an expert survey made for getting ratings of criteria. The opinions of experts showed concordance after applying Kendall's concordance test.

4. There were two MCDA methods for analyzing the most attractive country for FDI: SAW and TOPSIS. Both showed that China had the best position in 2012.

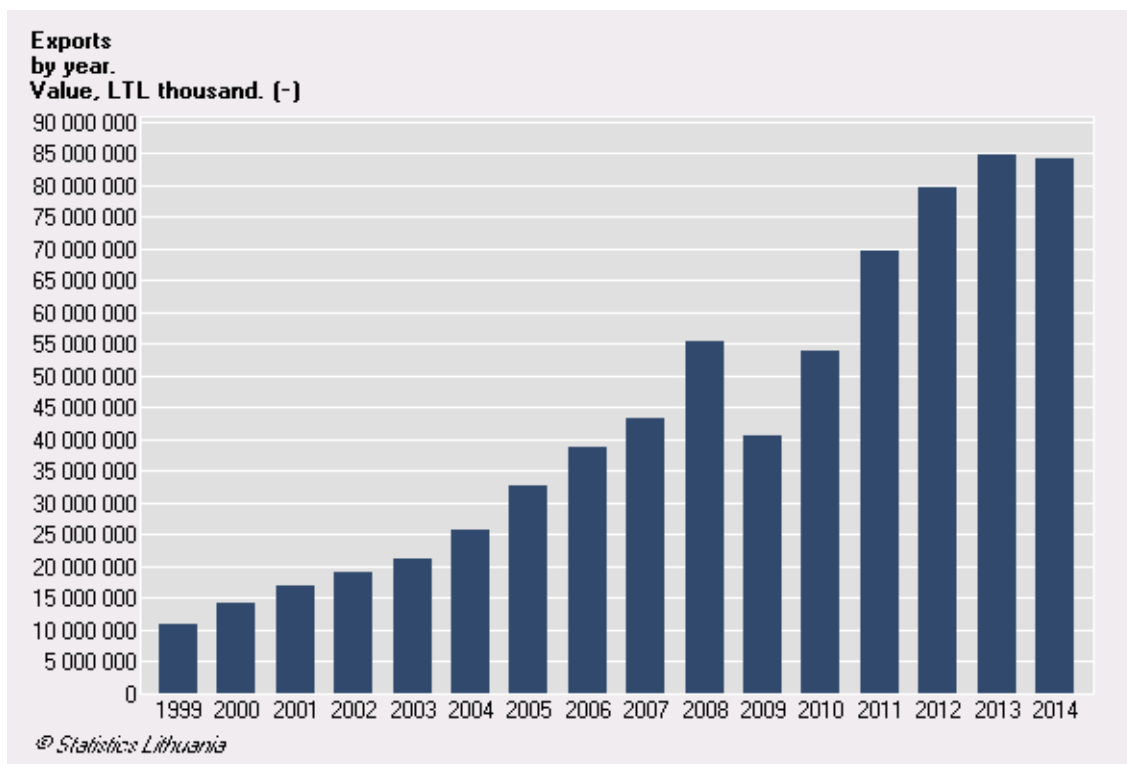
5. After applying MCDA methods, it was shown that: China and Canada showed leading positions in the attractiveness of FDI. USA took the 3rd place. Russian Federation and Brazil was 4<sup>th</sup> and 5<sup>th</sup>.

#### **4.3. Analysis of general trends in economic cooperation between Lithuania and China.**

Since the year of 2001 China officially became a member of WTO. Before joining the organization, China had to modify and reduce more than 7,000 tariffs, quotas and other trade barriers (The Economist, 2011). Nevertheless, though facing struggles before entering the WTO, after becoming an official member of it, country experienced a tremendous economic growth. In ten years of membership, China managed to increase its foreign trade more than 1.6 times. Joining the WTO significantly increased not only general China's foreign trade, but in particularly trade with countries of EU. Furthermore, the bilateral trade between EU and China is still seemingly growing.

Lithuania, as well as China, joined the WTO in the year of 2001. And have been an official member of it since 31st of May, 2001 (WTO, 2011). Though facing a numerous amount of challenges before entering, country had felt a big benefit afterwards. First of all, membership in WTO helped to recover from the Russian economic crisis of 1998-1999. Moreover, membership in WTO opened for Lithuania markets of 140 countries, as well as created an image of more reliable partner (Kiškis, 2006). The significant growth of the export of Lithuanian goods were also noticed after joining the European Union on the 1st of May, 2004. (see pic 7.) Since then, until now, EU is the biggest trade partner of Lithuania. According to the data of the official gateway of Lithuania, in the year of 2014,

55.6% of export and 64.5% of import were accounted from EU countries (The Official Gateway of Lithuania, 2015). See Figure



**Figure 21:** Lithuanian export by year  
**Source:** Statistics Lithuania

Though diplomatic bilateral relations between Lithuania and China were officially established on the 14th of September, 1991, one of the most important reasons of enhanced economic cooperation was the membership in WTO of both countries, as well as Lithuanian membership of EU, as it influenced the bilateral reduction of trading barriers and positive reforms related to customs. (Irwin, 2008).

#### **4.3.1. Trade ties.**

Diplomatic relations between two countries were established on 14 September 1991. After a year, in 1992, Embassy of China was established in Vilnius and in 1995, Lithuania established its embassy in Beijing, China. First step on bilateral trade relations were made on 01.30.1992, when Government of the Republic of Lithuania and the Government of the People's Republic of China signed the



agreement on economic-trade cooperation, which entered into force on 29.06.1994 (Valstybės žinios, 1995 ,Nr.37). One more important pace was made when both governments signed the agreement on investment facilitation, promotion and protection. The agreement was signed in Beijing, on the 08.11.1993 and entered into force on 01.06.1994. Another important stride was signing of the contract for the prevention of fiscal evasion, capital and double taxation. The recent contract was signed in Vilnius, 03.06.1996 and entered into force on 10.18.1996. The prevention of double taxation was one of the factors, which encouraged bilateral investments (Valstybės žinios, 1996, No.105). A significant facilitation for reciprocal trades was made when both countries signed the treaty on the field of maritime transport on the 23rd of April, 2007 and the agreement of agricultural cooperation on the 21st of April, 2008. A significant day in the history of economic cooperation between Lithuania and China was the 31st of August, 2009, as on that they several documents were signed. First signed paper was the memorandum of understanding on cooperation in the promotion of investment. The memorandum was signed between Ministry of Economy of the Republic of Lithuania and the People's Republic of China Ministry of Commerce, on the 31st of August, 2009 (Embassy of the Republic of Lithuania in Beijing, 2009). Another memorandum signed on the same date, was the memorandum of understanding on cooperation in the field of agriculture, signed by agricultural ministries of both countries. One more memorandum signed was one of cooperation and understanding, signed between The Economic Development Agency of Lithuania and between The Trade Promotion Office of China's Ministry of Commerce. And the last document signed on that day was the list of rules of conduct on trade and economic cooperation issues, signed by the inter-governmental commission. Since, there were signed two important treaties, which highly influenced trade relations between Lithuania and China. First, on the 07.06.2012, The plan of actions for cooperation in agriculture for 2012-2013 were signed. The document was signed between both Ministries of Agriculture. Moreover, Agreement on cooperation in food safety control was signed. Recent document was signed on the 10.11.2012, by the Lithuanian Ministry of Agriculture, Lithuanian Food and Veterinary Office and the China's Administration of Quality Supervision, Inspection and Quarantine (Embassy of the Republic of Lithuania in Beijing, 2012).

Apart from intergovernmental treaties, some important documents between particular companies were signed. An example of it, Lithuanian company "Lithuanian Railways", which signed a memorandum of cooperation with the representatives of China's international multimodal transport railway company CRIMT - CHINA RAILWAY INTERNATIONAL multimodal transport Co., Ltd.

(Ministry of Transport and Communication of Lithuania, 2013). According to the director of “Lithuanian Railways” Stasys Dailydka, this memorandum was a contribution to the development and promotion of freight transport in the East-West corridor, as well as for the exploitation of the advantages of Lithuanian and Chinese railway business. CRIMT is developing business in international cargo transportation via marine ways, rail shuttle organization, transit, logistics services, transportation of dangerous goods. CRIMT is actively looking for new routes of container trains between Europe and Asia, therefore company is interested in enhanced cooperation with “Lithuanian Railways”. CRIMT representatives are interested in the company "Lithuanian Railways" due to its modern fleet of vehicles, proper supervision and regular modernization of the railway infrastructure, its partners in both East and West directions. The company was especially interested in the prospective of the establishment of Lithuanian public logistics centers and opportunities to use them. As well as the possibility of carrying out the verification procedures in 30min for the freight trains, which are Belarusian-Lithuanian border at Kena railway station. CRIMT was also interested in opportunities to extend the train route towards Scandinavia, from Sweden to China, as in this case railways could be used for the transportation of machinery goods, such as "Volvo" parts etc.

Another significant example is related to Kaunas Free Economic Zone (FEZ. *lit. LEZ*). On the 24th of April, 2013, during Lithuanian's Minister of Agriculture Birutė Vėšaitė visit in China, the Memorandum of Cooperation between Kaunas Free Economic Zone and Chinese company „CAMCE Engineering Co“ (CAMCE) was signed. It is expected that the cooperation between Kaunas FEZ and CAMCE will attract to Lithuania more investments of Chinese companies. CAMCE is a subsidiary company of the "SINOMACH" cooperation, which is in the list of "Global 500" biggest companies in the world. The memorandum states about enhanced cooperation and logistical relations with the port of Klaipėda. CAMCE are also interested in contributing financially to the construction of the intermodal transshipment and storage terminal complex, which is part of Kaunas Public Logistics Centre. Both parties agreed to negotiate on China's business incubator and services center establishment in Kaunas FEZ. Chinese enterprises are also planning to establish their cluster in Kaunas FEZ. CAMC has committed itself to disseminate information for other Chinese enterprises about the possibility of settling in Kaunas FEZ (Government of the Republic of Lithuania, 2013).

According to Ministry of Foreign Affairs of the Lithuania, the government representatives of both countries last met in February, 2015, when both ministers of foreign affairs discussed strengthening

trade relations, as well as have agreed to advance signing of an Agreement on Mutual Recognition of Academic Degrees in Higher Education to promote student exchange.

To conclude, though reciprocal trade relations are still in its early stage, nevertheless, the history of signed trade ties demonstrates a great uplift in the bilateral cooperation. Concerning the memorandums and treaties signed, we can claim that:

- Chinese investors are interested in the opportunity of using Lithuanian railways for the imports and exports from Northern and Western Europe.
- Lithuania has a prospective of exporting to China its dairy and meat products.
- Kaunas Free Economic Zone is a potential and interesting partner for the clusters of Chinese enterprises.
- Both countries are willing to enhance the bilateral cooperation, especially in the fields of railway networks, marine transport, agriculture.

#### **4.3.2. Bilateral investments.**

According to Danas Vaitkevičius, commercial attache of the Lithuanian embassy in Beijing, though the area of bilateral investments is still in early stage, it is very promising. In March 2014, The Bank of Lithuania made an important investment and step for the enhancement of economic cooperation between Lithuania and China in the future. According to The Bank of Lithuania, the institution is one of the first members of the European System of Central Banks that invested in China. Moreover, the bank is the first among them to obtain the status of qualified foreign institutional investor in China. Lithuanian central bank was granted a 100 million USD quota and an approval to invest in China's interbank bond market (The Bank of Lithuania, 2014). Back to September 2013, The Bank of Lithuania and China Securities Regulatory Commission have already signed a Memorandum of Cooperation in the area of securities supervision. As stated in the Memorandum, the main goal of it is "To promote investor protection and integrity of the securities, futures and other related investment products markets by providing a framework for cooperation, including channels of communication, increasing mutual understanding and exchange of supervisory and technical information" (The Bank of Lithuania, 2014). The Memorandum opened the path for all financial institutions of

Lithuania to seek the status of qualified foreign investor, which was obligatory to have the possibility to invest in the China's financial market.

The private sector investments though, continue growing steadily. According to the data of Lithuanian Embassy in Beijing, Foreign Direct Investment from China is noticeably increasing. In the year of 2013, Lithuania and China's trade turnover was 2.26 billion. litas (654.10 million. euros), compared with 2012. increased by 9.3 percent. China's trade turnover took 17th place on the list of Lithuania's trade partners. The trade balance was negative and amounted to -1.65 billion. LTL (-477.32 million. euros). In the same year, 2013, Lithuania's exports to China amounted to 304.95 million. litas (88.39 million. euros) and compared with 2012. increased by 32.5 percent. (Embassy of the Republic of Lithuania in Beijing, 2014). Lithuanian companies tend to sell wood and furnitures, as well as various types of metals and biotechnological products.

At the end of 2013, Foreign direct investment in Lithuania was amounted to 42.79 billion. litas (12.40 billion. euros), of which direct investment from China - 6.6 million. (LTL 1.9 million. euros). China was ranked 45th by the size of foreign direct investment in Lithuania. Though FDI flows from China are still relatively little, country's import of Lithuanian products significantly increased. In 2013, Lithuania's imports from China amounted to 1.95 billion. litas (565.71 million. euros), compared with 2012. increased by 6.4 percent (Embassy of the Republic of Lithuania in Beijing, 2014). Main trends of export were Textile, and from Automotive industry.

On the 22nd of February 2015, during the debate of the United Nations Security Council in New York, Minister of Foreign Affairs of Lithuania Linas Linkevičius and China's Minister of Foreign Affairs Wang Yi met. Wang Yi expressed the positive opinion on strengthening trade relations and especially promoting export of Lithuanian meat and dairy products to China. The Chinese Minister assured that China was interested in importing food products and valued the high quality of Lithuanian food products. ( Ministry of Foreign Affairs of the Republic of Lithuania, 2015). Wang Yi also expressed China's interest in participating in the railway construction projects of the Baltic countries, as China has good experience implementing large transport infrastructure projects. The recently mentioned discussions brought positive expectations on the topic of enhancing the bilateral trade and investments.

#### **4.3.3. SWOT analysis of economic cooperation between Lithuania and China.**

According to Tim Friesner, SWOT is a simple, straightforward model, which evaluates potential strengths and weaknesses of organization/business, as well as opportunities and threats. The method is based on taking the information from an environmental analysis and separating it into internal (strengths and weaknesses) and external issues (opportunities and threats). SWOT is used widely in both academics and commercial practice (Friesner, 2014). The origins of SWOT Analysis appear to be lost, though there exists common opinion that SWOT was developed by Albert Humphrey at Stanford during the 1960's. Nowadays SWOT still remains as one of the most used market analysis methods. According to the database Business Source Complete, SWOT was cited over 2100 times in academic journals between January 2000 and March 2014. When included all business publications since 2000, over 40,000 citations were found, which proves the benefit and advantages of using the recent method (Everett, 2014). In order to develop the business overseas, companies have to identify the internal and external elements that are favorable and unfavorable to obtain the successful and safe economic activity (Humphrey, 2005). Therefore, the initial SWOT analysis of doing business in China, doing business in Lithuania and bilateral cooperation will be provided. The major points of the analysis will be identified from the perspective of potential investors and private enterprises. SWOT analysis of economic cooperation between Lithuania and China will not only help to identify explicitly the areas of possible cooperations, but will help to identify barriers and challenges of doing business in both countries.

### **Doing Business in China.**

**Strengths.** When started analyzing China's market, one of the main strengths was identified as continues opening up of various sectors of its economy to foreign investment (World Bank, 2013). Moreover, with its vast supply of cheap labor, the country remains the top destination for FDI in the developing world (Bloomberg, 2014). As well as, China's growing economy is progressively giving it bigger clout in international affairs, which will allow to build politically stable and important developing world. (Bright, 2014). Furthermore, being one of the biggest economies in the world, country can suggested a wide choice of distributions channels and quantity.

**Weaknesses.** According to foreign companies, one of the factors which complicates doing business in China is the poor protection of intellectual property (Yu, 2000). Chinese corporate governance is weak and non-transparent by western standards. Moreover, there is a considerable risk for foreign

companies in choosing the right local partner (Gao et al, 2012). In addition to this, as with any other one-party state, China's political system is unstable and unable to respond to the wider changes taking place in society. Also, there is an absence of important skills: the big part of labor force is unqualified (Tang, 2014).

**Opportunities.** The developing urbanization and infrastructure of China will provide major opportunities for foreign investment in land-locked villages as well as the conveyance of skills and know-how (Bright, 2014). Furthermore, The Chinese Government is giving more protection and encouragement to the private sector, which is now the most dynamic in the economy and accounts for most of the country's job growth (Saeed, 2011). In addition, China is actively expanding its political and economic ties with major emerging markets and being a fast developing country, China invests to new technologies: information, biotechnologies, telecommunications.

**Threats.** China's government might block tries by foreign enterprises to take over assets of national importance. As well, China is experiencing rising labor costs, therefore some investors are turning to cheaper destinations such as Cambodia, Vietnam. Enhancing corruption, broadening inequalities, rural poverty and environmental problems have been leading to social unrests in recent years, as a result, the government policy might change and taxes might be increased (Yang, 2014; Bright, 2014).

### **Doing Business in Lithuania.**

**Strengths.** Lithuania is situated in the geographical centre of Europe and has a marine ways to all north european countries. Country has well developed automotive road network and communication system as well. In addition, according to the Investment Guide in the Baltic States, prepared by accounting services leader KPMG, big advantage of Lithuania is skilled and hard-working labor force, with a good knowledge of foreign languages, Eastern and Western cultural understanding: "Lithuanian labour costs are four times lower than the EU average. Despite the less expensive workforce, education levels are high. Over 50% of the population speaks more than two languages and 93% has a secondary or higher education, 20% more than the EU average. In addition, nearly half of all people aged 24-29 have a university degree, the most in the EU." (KPMG, 2014). Another strength of country in competing in international trade arena is open economy, free movement of goods and services, which allows simplified export to european union countries.

**Weaknesses.** According to the Lithuanian Export Development Strategy, prepared by The Ministry of Economy of the Republic of Lithuania, one of the weaknesses of developing business in Lithuania is low labor productivity, due to the lack of clustering. Though labor force is skilled, but due to small population, country can't suggest Foreign Investors big labor productivity. Moreover, though there are several projects related to the developing of infrastructures, country still has the underdeveloped rail and multimodal transport infrastructures. Furthermore, there is a lack of innovation orientated business and a big part of the local business is small knowledge-based small one. This is partly caused by the low recognition of Lithuania, as trustworthy business partner among the potential foreign investors ( The Ministry of Economy of the Republic of Lithuania , 2012 ). There is also a large work force and brain drain to foreign countries, which might cause a lack of qualified employees in the future. As claimed by the Lithuania Migration Department during the period of 2004-2014, 478 121 person emigrated from Lithuania, while there were only 133 352 people immigrated (Lithuania Migration Department, 2015).

**Opportunities.** Lithuania might be the center and hub of service and maintenance of the Baltic Sea Region - the ability to compete with the Scandinavians due to much lower costs. A good example of it are Scandinavian people itself, who are the major investors in the country, which used Lithuania for extending their own home market due to similar business and cultural aspects. (KPMG, 2014). Another potential opportunity is effective use of Cohesion and Structural Funds for the creation of export and investment-friendly infrastructure. As stated by European Commission Cohesion Policy for Lithuania, in the year of 2014-2020 EU will invest 6.62 billion euros, from which 2.05 billion will go under the Cohesion Fund, for the support of countries development projects. (European Commission Cohesion Policy, 2014). Another feasible opportunity, claimed by the Ministry of Economy of Lithuania is to promote the attraction of investments and innovations in the most promising sectors for exports of high and medium technology, as well as promote the FDI in the well-developed sectors as biotechnologies, telecommunications (The Ministry of Economy of the Republic of Lithuania , 2012).

**Threats.** Bureaucracy and structural changes may require additional time, therefore the results of export development can be achieved not immediately. Moreover, general economic downturn increases the number of companies in bankruptcy (In 2013 the number of companies in bankruptcy was almost 3 times bigger than in 2001) (Enterprise Bankruptcy Management Department of Lithu-

ania, 2014). Furthermore, recession and deflationary global economic climate may restrict the “geography” of exports of Lithuanian origin goods, as well as with the growing cost of Lithuanian goods they become less competitive (National Commission for Energy Control and Prices of Lithuania, 2015).

### **SWOT Analysis of Economic Cooperation between Lithuania and China.**

**Strengths.** Developing bilateral trades, the attention should be paid to an open economy of Lithuania, as with well developed marine road network, Lithuania can offer free movement of Chinese goods to other European markets. At the same time, China being one of the biggest economies in the world, can suggest Lithuania a large market for the realization of goods with wide distribution channels. Another strength of both countries is cheap labor costs: China remains the top FDI destination worldwide due to vast supply of cheap labor force (Bloomberg, 2014). Meanwhile, Lithuania takes 3rd place in the list of cheapest labor cost countries in EU, after Romania and Bulgaria (Statistical Office of Federal Republic of Germany, 2013). Furthermore, steady continuation of opening up various sectors of Chinese economy for FDI, as well as reforms and reduced restrictions open up new opportunities for foreign investors, with less barriers. Likewise, Lithuania takes 24th place from 189 countries in the world, in the ranking of ease of doing business (World Bank Group Flagship Report, 2014).

**Weaknesses.** Both countries have the frailty in qualification and productivity of labor force. Unqualified migrants from rural areas make it harder to find qualified labor force in China (Tang, 2014). Meanwhile Lithuania, though having a qualified and hard working labor force, is lacking productivity and clusters, contrary to China, which is full of clusters. Moreover, there is a risk of business establishment/economic cooperation due to Lithuanian inflexible employment regulation and non-transparent Chinese corporate governance. Furthermore, there is a significant lack of knowledge of foreign languages as well as foreign recognition. Only 3.26% of China’s Mainland habitants are able to read books and periodicals freely (Rining et al, 2012). The communication barrier gets bigger not only due to the cultural differences but also knowledge of foreign language. Meantime, though the majority of Lithuanian society speaks at least 1 foreign language, the country itself still isn’t being recognized well in international arena and is still creating the image of trustworthy partner.



**Opportunities.** Being a fast developing country, China tends to invest to new technologies, which can be offered by Lithuania, which ease comparatively easy to do business in (World Bank, 2014). Also, the ability of Lithuania being a central hub of services and port of Baltic Sea Region due to its competitive costs might attract Chinese investors, as China being an important investor due to its' enhancement of trade ties with growing international markets. Another opportunity for Lithuanian exporters is the Chinese government encouragement and increased protection of private sector , which means meeting requirements for more types of goods to export e.g. dairy products easier (Brank, 2012).

**Threats.** To begin with, governmental disturbances might possibly become a threat, as the job of state institutions and structural changes might cause the delay of FDI process in Lithuania. Mean-time, China's government might block attempts of foreign to take over important assets (Babatunde, 2015). Another menace is rising costs: both countries are experiencing the rise of labor and costs of produced goods (Douglas, 2007). Moreover, general economic down turn in Lithuania and poverty in China might make it difficult to find stable and trustworthy partners, to keep business stable.

To conclude, The recent SWOT analysis has indicated that despite the weak points and threats of doing business in both countries, an economic cooperation between Lithuania and China has a wide range of prospects and opportunities. Evaluating the weaknesses and potential threats of doing business in both countries, such a governmental disturbances, rising costs, cultural and language barriers as well as general economic down turn, the economic cooperation between both countries could be enhanced in various levels. Being a geographic centre of the continent and offering one of the cheapest but well qualified labor force in EU, Lithuania can offer the transportation of Chinese goods via marine and automotive road network and after the launch of projects related to railways (Rail Baltica etc.), rail network system as well. Being a fast developing country, Lithuania is also attractive for foreign investors due its integration and creation of new technologies. Nevertheless, in order to maintain a better understanding in the possible development of bilateral cooperation, the research on perspectives and tendencies must be carried out.

#### **4.4. Representing case studies of economic cooperation between Lithuania and China.**

#### **4.4.1. LLC EKSPLA. Export of Lithuanian new technologies.**

Founded in 1983, EKSPLA is manufacturer of lasers, laser systems and laser components for R&D and industrial applications, currently having over 115 employees. Since its beginning, the company has aimed at production of high performance advance solutions. EKSPLA is member of Lithuanian photonics cluster and Baltics photonics cluster. Close cooperation with academic and industry partners enable to contribute to EU and international projects like OPTIX (an advanced system for detecting explosives in terrorist attack situations) and APPOLO (consortium for establishing and coordinating connections between the end-users and manufacturers). Company has won several awards in the innovation field, such as: In 2011 EKSPLA was awarded as „ Innovative Company of the Year “ The contest was organized by Lithuanian Confederation of Industrialists and supported by Lithuanian Ministry of Economy. Almost the entire output of company’s products (over 94%) is exported. The company occupies more than 70% of scientific picosecond lasers world market. Lasers are sold under the name of Lithuanian good, as more than 75% of the lasers value is created in Lithuania. Company has produced its production to such a ‘giants’ as: Cambridge University, Moscow M.V.Lomonosov State University, SOREQ National Research Centre, Mitsubishi Heavy Industries, Ltd., LG Display etc.

EKSPLA has a wide range of production:

- Solid-state lasers, laser systems and accessories for R&D applications
- Optical parametric oscillators/generators
- Complete spectroscopy systems
- Laser power supply and cooling units
- Laser optoelectronics
- Industrial DPSS lasers
- Custom designed laser system

More than 47% of company’s oriental sales distribution are made to China. Therefore, in order to gain a better understanding about company’s success in Chinese market, EKSPLA representative officer in Shanghai Maratas Safinas was interviewed. The results have revealed useful point, which are important to know for the enterprises, while doing business in China.

Company's Target customers in China – Universities, Scientific Institutions, R&D laboratories.

Main products – picosecond/nanosecond lasers, tunable and spectroscopy systems.

Started the trade in the mainland of China in 2003, company is rapidly increasing its sales. In 2008 the scientific lasers sales in China was around 1 mln. USD, while in 2012, was about 1,8 mln. USD.

According to the respondent, the main **sources of success for export** in China, were:

- ✓ Distributor's sales network and relationship - guanxi.
- ✓ Increasing Chinese government spending for research, technology and development.
- ✓ Ekspla production flexibility to meet specific requirements.

Company has opened its representative office in Shanghai in 2009. As claimed by interlocutor, **main advantages of representative office** are:

- ✓ Direct contacts with the local user.
- ✓ Direct information source about local market status.
- ✓ Direct technical and sales support to customer.

**The main challenges while doing business in China** were indicated as:

- ✓ Bureaucratic business and services environment.
- ✓ Complicated import/export procedures.
- ✓ Increasing local labour costs and low loyalty, especially between high qualified workers.
- ✓ Creation of relationship with customers.
- ✓ Fierce price competition with local manufacturers.
- ✓ Brand awareness and lack of country recognition.
- ✓ Complicated process of negotiations.

According to mister Safinas, Chinese market is a very promising area and company's should evaluate **long-term positive market outlook**, due to:

- ✓ The growing demand for high-tech.
- ✓ Local production costs increased prices.
- ✓ Strengthening of CNY exchange rate.
- ✓ Possibilities of expansion: egz. transforming representative office into a separate entity (WOFE status).

As claimed by mister Safinas, there are several **factors to be evaluated before starting the export to China**:

- ✓ Bureaucracy and high number of not loyal, trustworthy partners.
- ✓ The way of trading: directly to customer, via representative office etc.
- ✓ Specific Chinese business culture. Need of language knowledge.
- ✓ Strategy of representing the company's brand for the partners.

According to mister Safinas, Lithuanian companies have a high potential in cooperating with China, especially in the high-tech sector. Nevertheless, companies have to face a numerous amount of various barriers in order to obtain a successful economic cooperation.

#### **4.4.2. Ltd ALITA. Lithuanian beverages trade to China.**

The privately held Company Group ALITA, AB is one of the largest alcoholic beverages producers in Lithuania. As company describes themselves: "AB „Alita“ is amongst the leaders of producers of wine and spirits in Lithuania. The Company makes naturally fermented sparkling wines, alcoholic cocktails, ciders, fruit and grape wines and spirits - vodka, bitter brandy, national strong grain spirit SAMANE, brandy ALITA and bottled Scotch whiskeys as well. Products of AB „Alita“ had been exported to Denmark, England, Germany, USA. At the end of 1999 production export was started to Latvia. At the end of 2001 the first container of AB „Alita“ products was shipped to Japan. Concen-

trated apple juice and apple aroma is exported to Germany, Poland, Italy and other countries.” Company’s main features are: quality, innovation, energy and trustworthiness.

As stated in the Company’s Unaudited Consolidated Operating Result of 2013, Company Group Alita, AB, 12-month consolidated sales revenue of 2013 amounted to 95.9 million. LTL (27.8 mln. EUR) and compared to 2012 increased by 23%. In the same period of 2012 the revenue of Alita was amounted to 77.9 million. Litas (22.6 mln. EUR). Consolidated income from exports during the 12 months of 2013 was almost two times higher than the corresponding period last year and amounted to 24.8 million. Litas (7.2 mln. EUR). In 2013, company’s 12 months unaudited consolidated profit before tax in accordance with International Financial Reporting Standards amounted to 4.7 million. Litas (1.4 mln. EUR). as in the same period of 2012 the result was 1.7 million. Litas (0.5 mln. EUR) profit before tax. As stated in the Unaudited Consolidated Operating Result of Company Group Alita, AB, I half-year of 2014, consolidated income from exports within 6 months of the year was 1.4 times higher than in the corresponding period last year and amounted to 8.5 million. LTL (2.5 mln. EUR).

Though having a wide range of products, Alita is best known by its sparkling wine. According to the image - creation group „Made in LT” : “ Sparkling wine ALITA is the Company’s most popular trademark. In the year of 1980, Company started producing sparkling wine, which has become the “business card” not only of the Company but also that of Lithuania. Alita produces more than 10 kinds of white and red sparkling wine. ” The sparkling wine Alita is also exported to Chinese market. Company is selling its production to the Chinese distributors.

**Alita entry to the Chinese market.** According to Company’s export manager mister Mantas Krugelis, first steps for entering the Chinese market were made in 2011, in an annual international trade fair for wines and spirits “Prowein”, taking place in Düsseldorf, Germany. After making the first contacts in Germany, the negotiation process was started. As claimed by the respondent, building business relationship with Chinese partners required time and special efforts due to the cultural differences. Alita’s production is currently distributed in the biggest cities of several provinces and municipalities of China, such as Sichuan, Shanghai, Beijing etc. and takes almost 1% of the total sparkling wine market in China.

**Challenges related with the export to China.** Asked to indicate main issues the company is facing in cooperation with China, respondent noted several obstacles:

1. **The absence of wine consumption culture.** According to Mister Aurimas Zaleckas - Alita export manager to Chinese market, country doesn't have traditions of drinking sparkling wine. Therefore the first challenge and task for the company is finding ways to firm consumer habits.
2. **Cultural differences.** According to interlocutors, in order to obtain a successful business relationship, it is essential to gain knowledge about Chinese culture, as Lithuanian enterprises have the western style of doing business, which is distinct to negotiations and understanding of business culture in China. One of the main aspects concerning successful economic cooperation is finding the right way of communication, ability of finding a compromise.
3. **Lack of country recognition.** Although being a member of European Union, Lithuania is still not highly recognized in international arena. Therefore, Alita is facing challenges when competing with french, italian, american wines.
4. **Logistics.** Currently company is transporting their goods to China via marine way - using sea containers. Being a cheapest way for the transportation of goods to China, use of marine ways takes 2-3 months to deliver a product from the factory to the consumer. According to the respondents, the more convenient possibilities of logistics - cargo airplane or railway system would cause too high costs, as the system is not well developed yet.

**Alita strategy of expansion in the Chinese market.** In order to obtain bigger market share in China, company's entry mode strategy is based on several stages. First of all, introducing the product for the consumer. Due to the lack of consumption of sparkling wine in China, Alita is currently aiming to educate consumer about sparkling wine. Therefore, company's partners-distributors are distributing products to HoReCa (Hotels, Restaurants, Cafes) sub-distributors. HoReCa principle was chosen in order to make Alita's production visible, give an opportunity for customers to try the products, to accustom consumer to the drinking culture of sparkling wine. Secondly, according to mister Zaleckas, the further step in the growing export would be retail. Finally, in the case of success the wholesale trade - supermarkets would be reached.

**Steps for companies expanding their business to China.** As claimed by respondents, to achieve the goal of economic cooperation with Chinese enterprises, Lithuanian companies should follow particular steps:

- **Visit business fairs.** Trade fairs is one of the basis for future development of economic cooperation, with a possibility of finding potential partners, making useful contacts and increasing brand awareness. Alita is a participant of the largest trade fair in China - Canton Fair in Guangzhou, as well as of various fairs in Hong Kong, Chengdu etc.
- **Find the right partners.** As mentioned by mister Krugelis, trustworthy partners and stable partnership is a key to success in doing business in China. Knowing the partner, meeting him in personal, visiting China - is mandatory.
- **Maintain a good relationship with all parties participating in business.** According to the respondents, business culture in China is based on the relationship, trust and mutual understanding. Therefore it is crucial to maintain the trust of the Chinese partner during the bilateral visits, negotiations.
- **Investigate the market needs and tendencies of consumption.** The investigation of the market tendencies will help the company to obtain knowledge, needed for the creation of entry-mode strategy.

There are several initial steps and main aspects of doing business in China, such as having a precise strategy and trustworthy partners, which must be followed in order to obtain the bilateral economic benefit and were revealed in the cease above. The case of company “Alita” demonstrates, that though representing a small country and struggling the lack of it’s recognition, having a good inter-cultural understanding, clear vision of business and market entry plan can still open wide opportunities for the trade of Lithuanian goods in China.

#### **4.5. Expert surveys and evaluations of further economic cooperation between Lithuania and China.**

##### **4.5.1. Opportunities and methods of doing business in China. Mindaugas Reinikis.**

For the development of bilateral trade and better understanding of doing business in China: methods, opportunities and Chinese business culture were discussed during the interview with an expert of Chinese affairs - Mindaugas Reinikis. Mindaugas Reinikis is a board member of Lithuania - China Trade Association since 2009. Mindaugas is responsible for the strategy of organization, long term wins. Moreover, he was a Chairman of Lithuania - China Forum and currently working as a head of Corporate affairs in SC “Lithuanian Railways”. Mister Reinikis has also worked as a lobbyist for the Lithuanian Confederation of Industrialists (LPK) and did Chinese Business studies in Understanding China program at Antwerp Management School. Besides that, Mindaugas has also attended courses in China Executive Leadership Academy Pudong in Shanghai and studied in China Foreign Affairs University in Beijing. The results of the research are provided below.

The research showed, that mistakes which are usually made by Lithuanian entrepreneurs entering Chinese market are mainly related to the cultural differences. Mister Reinikis indicated, that the majority of Lithuanian companies are tend to negotiate with Chinese companies in a Western way. The interlocutor emphasized that it is impossible to gain an understanding of other culture, assessing it from the perspective of their own culture. It is important to understand that the culture is neither better neither worst, just different. Therefore, negotiations in each country are also conducted in various forms and one of the keys to success is gaining a cultural understanding about China.

Asked to indicate the major points for Lithuanian leaders to succeed in negotiations with Chinese enterprises, the expert mentioned:

- **Reputation.** There is nothing worse than loose the “face” in front of Chinese people. The trust and good reputation are the basis for the successful economic cooperation.
- **Respect.** It is crucial to understand that opened critics is not acceptable in Chinese business culture. Especially, it is unacceptable to criticize or disrespect older or higher ranked/more experienced person.
- **Guanxi.** Favor goes in return to another favor - relationship building is one of the key factors for a successful communication with Chinese. As mentioned in the theories of the previous chapter, Guanxi - strong relationship and building of it is vital for the success in China. It includes the culture of gifts giving, efforts in cooperation and compromising, subtle negotiations.



According to the data of the research, potential Chinese business partners have an opinion about Europe as: a) The market for the export of their goods b) The importer of the goods, which Chinese are still not capable to produce, such as luxury goods (Chanel, Louis Vuitton etc.) and new technologies.

**Potential areas of economic cooperation with China.** As stated by mister Reinikis, Lithuania has a great potential in doing business with China in several sectors:

- 1. Tourism.** The respondent claims, that in 2 years China will become the most traveling nation in the world. Europe - as a continent with a rich culture and diverse history is an attractive destination for visitors from Asia. Last year the number of Chinese tourists visiting Europe reached 6 million.
- 2. Education.** Mister Reinikis expressed the opinion, that for the Children policy in China, families usually have big savings for the future of their one child. Chinese Government promotes nationals to “go out” using a term *haigui* or “sea turtle”, which means Chinese citizens, who are gaining their education and initial work experience overseas and then return to China, gaining better wages and wider choice of carrier possibilities. This is one of the reasons, why parents are ready to pay a lot of money in order to obtain a high-quality European education for their children. Therefore, Lithuanian Universities could attract Chinese students when offering several study programs in the fields as Economics etc, taught in Chinese language.
- 3. High - Technologies.** Lithuania is advanced in such industries as biotechnologies, laser industry etc. Chinese investors are always willing to invest and looking for partners in these sectors.
- 4. Logistics.** The geographical location of Lithuania is a benefit in doing business with China, as country can offer storage and transportation of Chinese goods to North and Western Europe and European goods to China. Examples of it: weekly cargo airplane Kaunas - Shanghai and cargo train “Saulė”, connecting Antwerpen with Chengdu.

Factors causing the price of the imported goods from China. In the opinion of interlocutor, there are several factors, which has an impact on the price of goods imported from China.

- The concurrence and amount of competitors of particular good.
- Skills of Negotiations (from both parties).
- The quantity of the purchased goods.
- The Relationship between partners.

**Reasons of China being an attractive partner for Lithuanian export.** The results indicate, that according to the respondent, China is a good market for the export of Lithuanian goods as:

- 1. The market segmentation of China.** According to the respondent, when producing goods in Lithuania Latvia and Estonia, enterprise could reach the maximum of 6 million habitants through all the countries, which would cause high transportation costs. These habitants would have different incomes, habits, different needs and tendencies of consumption. Meanwhile the same amount of people in China, can be found when counting people from two neighbor districts, with the similar incomes and consumption tendencies in Shanghai. The higher is a concentration of people, the lower are the costs.
- 2. The demand of high-quality European goods.** Chinese consumers with middle or higher incomes are ready to pay high price for original European goods, though recent prices are 30% higher than in Europe. Moreover, Chinese consumers value the original design of European items, such as furnitures, textile, amber.

**Steps of entering Chinese market.** Interviewed about the strategy of Lithuanian firms expanding their business in China, Mister Reinikis shared his advised plan of actions:

- Gaining a better understanding of Chinese Cultural, visiting country.
- Participation in International Business fairs, becoming visible, making contacts, making trade ties with local partners.
- Visit various types of Chamber of Commerce in China.
- Finding trustworthy legal partners, as Intellectual Property Rights (IPR) in China are not developed.

#### **4.5.2. Lithuania - China Business Cooperation prospects: Insights and tenders about doing business in China. Danas Vaitkevičius.**

Danas Vaitkevicius is Lithuanian Attache for Commercial Affairs in Beijing, China. Started his carrier in March, 2011, Mister Vaitkevicius is still representing Lithuania in this position. He used to work for the Ministry of Foreign Affairs of Lithuania since 1999 till 2011. During that time Mister Vaitkevicius worked in the Embassy of the Republic of Lithuania in Georgia and Belarus. Mister Vaitkevicius has met a numerous amount of Chinese entrepreneurs and is working on the enhancement of Chinese FDI to Lithuania. The results of the interview with Attache are presented below.

According to Mister Vaitkevicius, the potential Lithuanian business segments, for the investments from China are:

- ✓ Chinese Sales Offices.
- ✓ Chinese Companies selling their products in EU. According to the respondent, in this case, part of the production process can be carried out in Lithuania, and it makes the production easier to be sold in the EU. However, Lithuania can not compete with the low production costs in China. Therefore, country can be attractive only for companies, which are manufacturing small quantities of goods in EU markets.
- ✓ Investments to the projects related to Infrastructure. An example of such a project was started in Belarus, where in the area near Minsk, Chinese company “CAMC Engineering Co” is determined to build a large industrial park, which Alexander Lukashenko has called the country's most important joint project.
- ✓ The extraction of natural recourses.

Asked to indicate some specific products, which might have a great potential or are already being sold in China, Mister Vaitkevicius mentioned:

- ✓ Frozen products such as fish and berries.
- ✓ Ecologic food and baby meal.
- ✓ Dairy and Meat products.

- ✓ Amber and handmade jewelry.
- ✓ Wood and Furniture.
- ✓ Lasers and Ferments.
- ✓ Biotechnological Items.

According to the respondent, the main aspects to which attention should be paid of companies wishing to do their business in China are:

1. Companies, which are wishing to access Chinese markets should cooperate more with each other and travel to exhibitions or trade missions together. According to Commercial Attache, businesses should first find the most appropriate size and theme of the exhibition. Besides that, collaboration with specific Chinese province can give better results than an attempt to take part in the most famous and largest exhibitions.
2. Use the potential of European Union, as products produced in the EU are attracting more attention of Chinese people. Taking into account the steady growth of the middle class and the popularity of trademark "Made in the EU", it is possible to think about the market of consumer goods.
3. Before looking for overseas partners, Lithuanian companies should at least approximately define an export development strategy - whether they seek partners who will distribute their products, or they will create a joint venture or perhaps set up their own office. It is important to consider the nuances of legal cooperation. Furthermore, it is important to prepare information about their company and products very thoroughly and likely in Chinese, as it is appreciated in China information given in the local language.
4. Taking into account Chinese business culture. One of the main characteristics of Chinese entrepreneurs - long decision-making time. The Chinese highly appreciate friendly relations, therefore are not in a hurry to start business with those who do not know well. In order to sell their goods in China, companies will have to be patient and very respectful to Chinese traditions.

Mister Vaitkevicius assured that for those companies, which have a clear entry mode strategy, high quality products and good understanding of Chinese culture, being the biggest ES partner, having

the biggest amount of billionaires in the world and experiencing the high speed of middle class growth, China can offer huge opportunities for Lithuanian export and possible direct investments.

#### **4.6. Supplemented SWOT analysis of economic cooperation between Lithuania and China.**

Based on the previously conducted research, the supplemented SWOT analysis of doing business in Lithuania was provided. The analysis indicates major points of the previously carried SWOT analysis and supplemented according to the results of research implemented above.

##### **Strengths:**

- ✓ A good geographic location. Lithuania is situated in the convenient geographic location , which allows country to offer Chinese companies the transportation of their goods to Scandinavian, Western and Eastern European countries.
- ✓ Skilled and hard-working people, with a good knowledge of foreign languages, Eastern and Western cultural understanding.
- ✓ Innovative labor force due to cultural diversity and rapid changes of economic tendencies.
- ✓ Rich cultural and historical heritage, which is attractive for tourists.
- ✓ Advanced infrastructure: country is well developed in the automotive and marine road networks.
- ✓ EU and WTO memberships. Being a member of EU and WTO helps country to create an image of a trustworthy partner.
- ✓ Open economy, free movement of goods and services to the member countries of European Union.

##### **Weaknesses:**

- ✓ Lack of clustering, which cause low labor productivity.
- ✓ Chinese cultural and language barriers.

- ✓ Inflexible employment regulations. Large work force and brain drain to foreign countries.
- ✓ The underdeveloped railway infrastructure.
- ✓ Taxation differences.
- ✓ The lack of innovation oriented business; big part of knowledge-based small business.
- ✓ Lack of foreigners knowledge about the country and the lack of recognition.
- ✓ Lack of business and political dialogue, governmental protection and encouragement for business.

### **Opportunities:**

- ✓ Being a fast developing country with a sustainable economic growth, country can produce hi-tech products for the Chinese enterprises.
- ✓ Lithuania might be the center and hub of service and maintenance of the Baltic Sea Region - the ability to compete with the Scandinavians due to much lower costs.
- ✓ Growing number of Chinese Travelers.
- ✓ Chinese demand for higher European education.
- ✓ Effective use of Cohesion and Structural Funds for the creation of export and investment-friendly infrastructure.
- ✓ Promote the attraction of investments and innovations in the most promising sectors for exports of high and medium technology.
- ✓ Promote the FDI in the well-developed sectors as biotechnologies, telecommunications

### **Threats:**

- ✓ Increasing labor costs and increasing the cost of production, makes Lithuanian goods less competitive.
- ✓ Membership of Euro zone and current complicated political - economical situation in Russia. as can cause changes and downturn in Lithuanian export.
- ✓ The lack of international understanding, recognition of the country, might cause difficulties in finding potential overseas partners.

- ✓ The world recession and general economic downturn in Europe might limit the geography of goods of Lithuanian origin.
- ✓ State institutions and structural changes may require additional time, therefore the results of export development can be achieved not immediately.
- ✓ Brain drain of high qualified specialists.

## 5. PERSPECTIVE BUSINESS SOLUTIONS FOR THE DEVELOPMENT OF ECONOMIC COOPERATION BETWEEN LITHUANIA AND CHINA.

According to carried research and theoretical studies, cooperation between Lithuania and China is still in early stage. Nevertheless, both parties are interested in bilateral economic cooperation, therefore future possibilities and insights will be proposed by the author. To begin with, the suggested steps mentioned below are essential to follow while entering Chinese market:

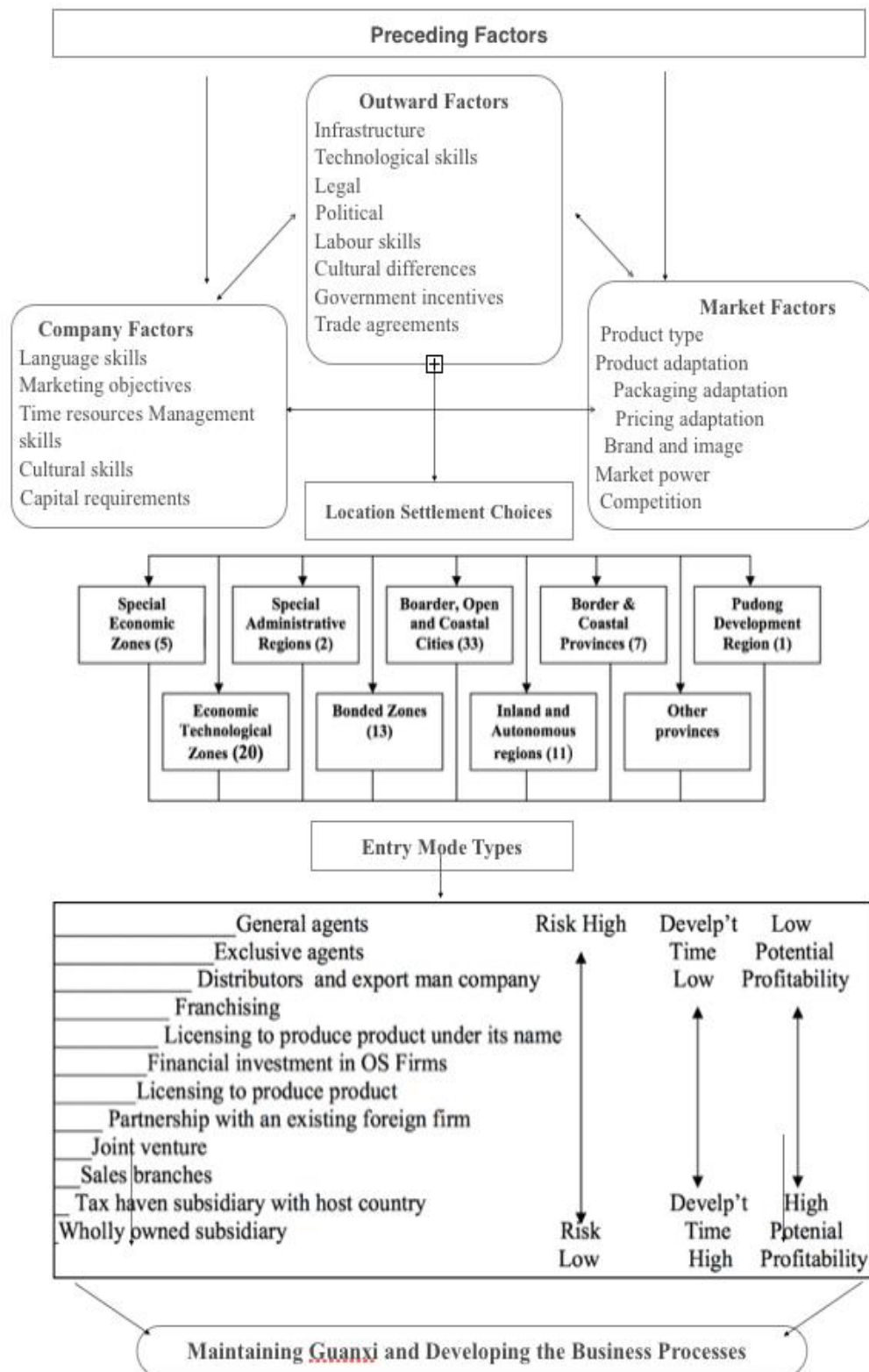
- ✓ **Conducting a comprehensive market research.** There are enormous differences between various provinces of China concerning GDP per capita, consumer spending habits, population, average income levels, education levels, literacy rates, lifestyles etc. Therefore, it is extremely important to understand that one of the key points in succeeding doing business with China is understanding, that rather than representing one unified market, China has various separate sub-markets described by greatly differing demographic, cultural and economic features. Consequently, it is recommendable to visit different provinces of country before starting business in order to gain knowledge about the local culture and specifications of different provinces.
- ✓ **Choosing the right province for trading according to the industrial orientation.** According to the previously carried research, one of the first steps of entering Chinese market effectively is identifying the specific geographical location of the target market. Being the largest population in the world, China is not homogenous, therefore choosing the right region is highly recommendable. It is essential to map out the location of target customers and suppliers, realizing how distribution channels differ among various areas, and fully researching any local legal barriers that may stop market entry in specific regions.
- ✓ **Selecting preferable type of entry mode.** The most suitable business model for entry the market is one of the most crucial decisions while starting doing business in China. Depending on the company plans to manufacture locally or import its products, as well as on the level of sales and technical support required by clients, it is important to choose the right entry mode strategy. The joint venture (JV) business model, wholly foreign owned enterprise



(WFOE), representative office or indirect export are likely to be chosen. The decision should vary depending to the size and scope of a company, together with the special features of the market.

- ✓ **Ensuring the protection of Intellectual Property Rights (IPR) before starting the trade.** IPR infractions are common in China, therefore it is highly recommended that foreign companies, especially owning large IP inventories, would consult with legal bodies and IPR specialists to create an IPR strategy specially for the Chinese market. Usually, strategy should consist of multiple legal, practical and technical vehicles created to prevent infractions and ensure, that legal rights are implemented in case of a breach.

The substantial disparities in international societies related to seldom clear needs, wants and demands, require a greater understanding for entering market in comparison with the situation in domestic market. Therefore, while creating the market entry strategy, crucial areas such as cultural differences, political and legal factors, distribution channels, geographical infrastructures and technological aspects should be evaluated. Therefore, to assist the knowledge of Lithuanian enterprises while entering the Chinese market, the conceptual model was provided. The model was Developed by the author from initial model of Gatfield and Wright.



According to the theoretical and research studies, author identifies several Lithuanian business sectors, having a high potential in cooperation with China:

- ✓ **Logistics service:** the transportation of Chinese goods via marine and automotive road network, as well as railways system (projected).
- ✓ **High-Technologies:** bio-technologies, Information technologies, Communication technologies.
- ✓ **Food&Beverages:** growing income of Chinese society affects the market demand on high quality European goods. The most promising areas are dairy and meat products.
- ✓ **Tourism:** there is a growing number of Chinese tourists visiting Europe. Thus, Lithuania, having a beautiful natural environment, eco-friendly and nature tourism, good quality recreational resorts could offer China full service.

#### **5.1. Perspective projects of international business related to economic cooperation between Lithuania and China.**

The Chinese Government encouragement of enterprises and professionals going global, is a good opportunity for Lithuanian export, as well as possibility of attracting Chinese investors. Therefore suggestions on the enhancement of economic cooperation will be provided.

According to the theoretical studies, conducted research and authors insights, there are several ways for Lithuania to enhance the economic cooperation with China:

**1. The establishment of Economic Research and Support Institute for the Chinese affairs.** The population of China is almost 3 times bigger than the population of all EU. Each region and provinces have not only different dialects, but different cultural habits, as well as different industry sectors. Therefore, there is a need of such a institute, which main functions would be:

- ✓ Providing Chinese market researches for Lithuanian companies, which are interested in economic cooperation with China.

- ✓ Helping Lithuanian enterprises creating their strategy in doing business in China, as well as to choose the right market entry-mode.
- ✓ Providing consultations and economic research for Chinese investors about Lithuanian market, legal matters of it.
- ✓ Introduce Lithuanian enterprises Chinese culture, business etiquette, relationship building (guanxi).
- ✓ Organizing business trips to the main and biggest business trade fairs in China.
- ✓ Promoting Chinese tourism in Lithuania.

**2. Encouragement of bilateral cooperation in education.** Lithuanian Universities should cooperate with Chinese Government and to create several study programs such as Economics, Finance, Civil Engineering, International law etc, taught in Chinese language.

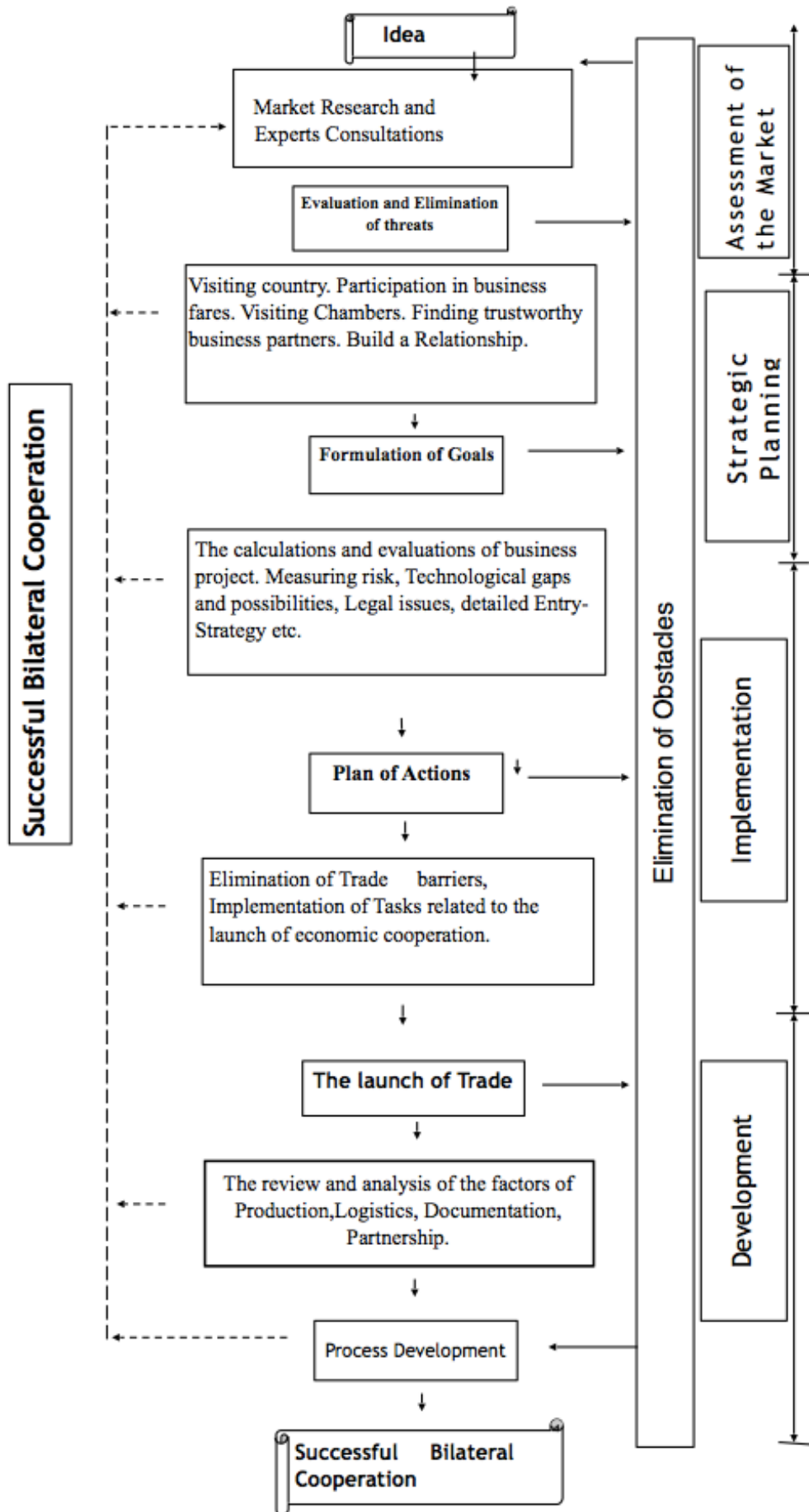
**3. Use Kaunas Free Economic Zone to create Chinese clusters.** Reduced taxation policy and convenient location makes Kaunas FEZ a potential place for Chinese FDI, creation of first clusters, which would also create workplaces and increase labor productivity.

**4. Suggesting Chinese companies to create an image of “Made in Europe”.** Lithuanian government should promote the idea of Chinese companies importing their raw materials and producing their goods in Lithuania, as the production Made in European Union have a better and more trustworthy image than products made in China. Therefore, potential investors could benefit from establishing their production in Lithuania, which has a competitive advantage amongst other EU countries due to high qualified, hard working and cheap labor force.

## **5.2. Practical implement for the development of economic cooperation between Lithuania and China.**

In order to visualize and simplify the suggestions for Lithuanian companies entering the Chinese market, the business process model was compiled by the author. The model illustrates suggested entry-mode plan for Lithuanian enterprises. To begin with, the assessment of the market is suggested

to be done. The research stage should include factors as size, growth, demand drivers, geography, cost advantages. Moreover, according to the theoretical and empirical researches, choosing the entry option is essential in order to be able to move to the further stage. After carrying out the market research, next step should consist of the identifying the most suitable entry option: exporting goods direct to customers, selling goods via distributors, opening representative office or buying the business overseas. After the elimination of barriers such as legal issues, the detailed plan of actions should be prepared. Despite the successful start of cooperation, it is highly recommended, to review and evaluate the initiated trade evaluating potential spheres to develop.



## CONCLUSIONS

1. The demand of research on economic cooperation between Lithuania and China is growing. Lack of studies conducted on the recent topic was noticed after carrying comprehensive theoretical and empirical analysis. Upcoming future investigations should particularly cover following topic: risks and legal issues of Chinese entrepreneurs doing business in Lithuania. Due to China's political situation, government has close contacts with entrepreneurs and actively supports, monitors business. Chinese government promotes the internationalization and technological development of Chinese capital companies. Moreover, country gives a lot of importance for business legal matters, so to avoid companies' risk fears. Unfortunately, the capabilities of Lithuanian Government are relatively small. Therefore, in order to avoid misunderstanding and loss of Chinese investors in Lithuania, the study of international business legal protection in Lithuania should be carried out.
2. Research indicates absence of governmental body, which would be operating only on the development of an economic cooperation between Lithuania and China. Consequently, in order to develop successful economic cooperation with Chinese enterprises, the establishment of Economic Research and Support Institute for Chinese affairs is essential. Main functions of authority would be: helping Lithuanian enterprises creating their strategy in doing business in China, providing Chinese market research for Lithuanian companies, consulting Chinese investors about Lithuanian market and legal issues.
3. According to the investigated research, the most promising areas in attracting Chinese FDI to Lithuania are: Tourism, High-Technologies, Logistics and Education. The research showed China currently being the most traveling country in the world, which is interested in the European tourism due to the cultural heritage of the old continent. Chinese investors are interested in the opportunity of using Lithuanian marine transport and railways for the imports and exports from Northern and Western Europe. Therefore, Kaunas Free Economic Zone could be a potential and interesting partner for the clusters of Chinese enterprises. Moreover, due to Chinese Government "Go Out" ( *haigui* ) policy, which encourage Chinese students and professionals gaining interna-

tional experience, Lithuania could benefit from creating study programs in various fields taught in Chinese language.

4. Seeking further economic development Lithuania has made a numerous amount of reforms, which opened the gate for higher inflows of FDI due to the reduction of taxation lows and other restricts. Country became an attractive choice for FDI due to the prospect of economic growth, political stability, similarity to Western markets, relatively cheap, though productive and highly educated workforce. Furthermore, the processes of privatization, became a convenient opportunity for foreign companies to acquire a controlling interest in the newly privatized companies. Also, high development in the sector of sophisticated biotech products like pharmaceutical substances, components for molecular diagnostics, laser equipment, as well as in the of sector of information and communication technologies caused investors choice of Lithuania, creating a higher demand for the labor force.
5. The supplemented SWOT analysis of doing business in Lithuania was provided. The analysis indicates major points of the SWOT analysis carried before and was supplemented according to the results of other part of the research. As one of the most important strength, was specified a good geographic location of Lithuania. Lithuania is situated in the convenient geographic location , which allows country to offer Chinese companies the transportation of their goods to Scandinavian, Western and Eastern European countries. Skilled and hard-working people, with a good knowledge of foreign languages, Eastern and Western cultural understanding were also named as Lithuania's strength. Though, such a factor as lack of clustering, which cause low labor productivity, was also mentioned.
6. According to the literature review and empirical research, feasible projects of international business related to economic cooperation between Lithuania and China were suggested. The projects included establishment of the Economic Research and Support Institute working on the enhancement of economic cooperation between Lithuania and China. Furthermore, several study programs taught in Chinese language were suggested. Moreover, as one of the forms for Chinese FDI, there was suggested a business model of importing to Lithuania Chinese raw materials and finishing the production of particular goods in Lithuania, which will be sold in EU, in order to



have an image of qualitative goods and maintain a higher price of goods, which would be beneficial for the Chinese investor, as well as for Lithuania due to the creation of new workplaces.

7. According to the literature review and empirical research the model for the Lithuanian companies entering the Chinese market was created. The business process model was compiled by the author. The model illustrates suggested entry-mode plan for Lithuanian enterprises. The model consists of processes sequence, which are divided to four main stages: Assessment of the market, Strategic planning, Implementation and Development.
8. Chinese enterprises are interested to cooperate with Lithuanian companies in various sectors. Lithuania is currently waiting for the last permissions and has a prospective of exporting to China it's dairy and meat products. Moreover, The research indicates about Chinese companies interest in the high quality Lithuanian items such as: original design furnitures, textile, amber, beverages.
9. Being a geographic centre of the continent and offering one of the cheapest, but well qualified labor force in EU, Lithuania can offer the transportation of Chinese goods via marine and automotive road network and after the launch of projects related to railways (Rail Baltica etc.), rail network system as well. Being a fast developing country, Lithuania is also attractive for foreign investors due its integration and creation of new technologies.
10. Entering the European Union in 2004, as well as WTO in 2001 and joining the Euro zone in 2015 encouraged higher FDI inflows in Lithuania. This caused augmenting capital stock, as well as the effect on labor efficiency. In addition, increasing FDI promoted knowledge and provided productivity-increasing skills. Most of the years of past two decades, FDI had a significant positive impact on the Economic Growth of Lithuania.
11. Chinese companies would benefit while producing their goods in Lithuania, as the goods provided in Lithuania would not only have the certificates of goods produced in EU, but moreover, producing same amount of goods in Lithuania would bring higher profit, as according to the statistics, Lithuania has a higher PPI.
12. The obvious importance of FDI and MNCs in the world's economy, there is a lack of research on the factors that determine FDI patterns and the impact of MNCs on parent and host countries.

The results of the research carried out using quantitative expert solution methods indicated that China showed leading positions in the attractiveness of FDI.

13. The high CCI as well as high Consumer Spending of China demonstrates the consumer's willingness for making purchases, which cause the higher incomes of the producers, higher demand of the employees, higher creating of workplaces, growing economy. Therefore, the CCI of China is a prove, that country is a potential partner for the export of Lithuanian goods.

*J. Stulraitė*

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## **ANNEXES**