The characteristics, changing patterns and motivations of

Chinese investment in Europe

Agnes Szunomar, Research Fellow and Head of the Research Group on Development Economics at the Hungarian Academy of Sciences

Traditionally, Chinese firms invest mainly in Asia, Latin America and Africa where they explore viable market opportunities and enjoy easier access to natural resources. Traditional partners of China in the European Union have also become a viable option as of late, offering markets for Chinese products and assets that Chinese firms lack such as advanced technologies, managerial knowledge and distribution networks. Consequently, Europe has emerged as one of the top destinations for Chinese foreign investment. Compared to the aggregate inward foreign direct investment (IFDI) stock, Chinese FDI in the EU remains moderate. However, given the trends and dynamism of Chinese inward FDI, the economic 'footprint' and impact of Chinese FDI in the EU is expanding.

In 2000, before joining the World Trade Organization (WTO), the Chinese government initiated the 'go global' (*zou chu qu*) policy aimed at encouraging domestic companies to become globally competitive. They introduced new policies to encourage firms to engage in overseas activities in specific industries, notably in trade-related activities. In 2001 this encouragement was integrated and formalised within the 10th Five Year Plan

(FYP), which also echoed the importance of the 'go global' policy. This policy shift was part of the continuing reform and liberalisation of the Chinese economy and also reflected the Chinese government's desire to create internationally competitive and established companies. Both the 11th and 12th FYP's continually stressed the importance of promoting and expanding overseas foreign direct investment (OFDI), which became one of the main elements of China's new development strategy.

Chinese OFDI has steadily increased in the last decade, particularly after 2008, due to the Chinese government's wish for globally competitive Chinese firms, the possibility that OFDI can contribute to the country's development through investments in natural resources exploration or other areas, and the global economic and financial crisis. The crisis indeed created more overseas opportunities for Chinese companies. Chinese OFDI over the last few years has continued to increase, while OFDI from European countries has declined due to the 2008 financial collapse. For example, between 2007 and 2011 OFDI from middle-income and high-income countries dropped by 32%, while China's grew by 189%. As a consequence, China moved up from sixth to third largest investor in 2012 in a list of the top ranked global investors. Third in line behind the United States and Japan, and the largest among the developing countries, outflows from China continued to grow.

Although the majority of Chinese OFDI is directed to the lower and middle-income countries, investments from China into North America and Europe have increased significantly over the past decade. Chinese OFDI in the European Union increased from $400m in 2003 to $6.3bn in 2009 with an annual growth rate of 57%, far above the growth rate of Chinese OFDI globally. Better still, Chinese investment over these six years averaged an estimated $10bn annually.

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Generally speaking, Chinese OFDIs are characterised by natural resource-seeking and market-seeking motives. However, in countries with financially stable economies, including Europe, Chinese investors are more concerned with a wide range of objectives, including market-efficiency and strategic assets-seeking motives. The main reason for the growing interest in acquiring European firms, is that by doing so Chinese companies can have access to important technologies, successful brands and new distribution channels.

Diversification characterises Chinese OFDI to Europe in a number of aspects. To begin with, Chinese investors are attracted by new sectors such as real estate, food, and financial services, while traditional sectors such as energy and automotive remain popular. In addition, Chinese companies invest across Europe: the majority of Chinese FDI goes to the United Kingdom, Germany, France and Portugal but all the other member states of the EU – including Central and Eastern European countries - are also experiencing a growth in Chinese investment. Thirdly, Chinese state-owned enterprises (SOEs) are still dominant players in Chinese OFDI although private firms make the greater share of deals. Finally, in addition to greenfield investments and joint ventures, China's merger and acquisition (M&A) activity in the more economically strong countries of Europe has recently gained momentum and continues to demonstrate an upward trend since more and more Chinese firms are interested in buying brands from overseas to strengthen their own.

Without doubt, the dynamism of Chinese investment in Europe is just the beginning of a long-term process. The European Union's Chamber of Commerce in China questioned in 2013 a sample of 74 Chinese enterprises that had already invested in the EU. They found that 97% of these firms intend to make future investments in the EU, mostly even higher amounts than before. Still, Chinese investment is often seen as a threat in Europe. But why are we more afraid of China accounting for only around 3% of total extra-European investment in the EU than we are of the United States accounting for one third of total EU inward FDI? The answer probably lies in the frequent uncertainty of the investors' intentions, or their relationship with the Chinese government and Chinese Communist Party. European market actors are also concerned about market access asymmetries; since Chinese public procurement process is often closed to outsiders, European investors do not have the same room for manoeuvre in China as Chinese companies in European markets. Therefore, the EU has long wanted to negotiate a Bilateral Investment Treaty (BIT) with China, a deal China has resisted for several years in order to protect its key industries. But as the Chinese economy is transforming, it needs more diversification in its investment strategy as well as more stable and safer locations for investments.

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An EU-China BIT, which would be the first of its kind since the EU's Lisbon Treaty, could bring benefits to both sides as it would set out the 'terms and conditions' for investments in both directions. Uniform rules would

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replace 27 bilateral investment treaties which China signed with almost all EU member states, with the only exception being Ireland. Nonetheless, removing market barriers, with some minor protection provisions, could help Chinese and European companies enter each other's market.

Although negotiations are progressing well, there are and will surely be conflicting interests and tensions on both sides as there are significant disagreements on the existing treaties. Some of the treaties are more favourable while others are more restrictive. Nonetheless, Europe must make sure Chinese investors are ready to adapt to local circumstances by clearing requirements for foreign investors and by creating an EU-level common investment framework. Member state-level investment treaties create a large room for protectionist moves which is far from the common European interest. Therefore, an EU-wide strategy with uniform requirements would be vital for Chinese investors just as equal rights on Chinese markets would be essential for European companies. In addition, the BIT could create a new kind of competition, which would help the Chinese economy to continue its willingness to open up to foreign investors and markets, in line with the recently announced 13th FYP.