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Chinese investment in the EU: a win-win game
A view from China

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Chinese investment in Europe remains a political hot potato and often raises fears in Europe. But at the same time, Europeans recognise that foreign investment can be a helping hand in the midst of an on-going crisis. To realise the full potential of these investments, Europe must not only improve its investment climate but also assess Chinese investments more rationally, not simply being driven by fear. Chinese investors must also change, recognising European concerns.

Growing investment with future potential

Driven by rapid economic growth, China has become a serious source of outbound foreign direct investment (FDI). According to the latest Chinese figures (August 2012), the total stock of China's outbound FDI had reached $424.8 billion by the end of 2011, ranking thirteenth in the world. China's increase of outbound FDI is the result of implementing its so-called 'going global' strategy, designed in the 1990s. In the 11th and 12th five-year plans and also in the 17th and 18th Chinese Communist Party Congress reports, "going global" was emphasised as an effective and urgent way of acquiring overseas resources and technology, integrating the domestic market with the world economy, and exercising soft power.

This has led to a significant deepening of the China-EU economic relationship. While the flow of China's outbound FDI in the EU was only $190 million in 2005, by 2011 it had grown to almost $7.6 billion. Over the same period, the stock of China's outbound FDI in the EU had increased from $760 million to more than $20 billion. In a study about Chinese outbound FDI, released on 31 January 2013, the European Union Chamber of Commerce in China found that of the sample of 74 Chinese enterprises that had already invested in the EU, almost all of them (97%) indicated that they would make future investments in the EU, with the vast majority of them planning to invest even higher amounts, for example to gain larger market access in Europe or to acquire more advanced technology. But 78% reported that they had encountered operational difficulties in the EU, mostly related to issues of bureaucracy and high costs; 48% had encountered regulatory approval obstacles, mostly arising at member-state level; and 27% reported that they had encountered the outbound investment approval processes from within China as an obstacle.

Fear of China?

The expansion of China's outbound FDI is often seen as a threat, with a 'fear of China' prevalent in the West, including in the EU. According to the European Council on Foreign Relations, China is "scrambling for Europe". Some Chinese investment projects have been blocked because they might allegedly give China a "strategic foothold". However, China's outbound FDI to the EU is still quite limited, unlike that of the United States. According to Eurostat, in 2011, China's share of total FDI inflow into the EU accounted for only 1.4%, whereas the United States had the lion's share of more than 50%.

But, even more importantly, Chinese outbound FDI is a win-win game for both sides. For the EU, Chinese capital can play a positive role in a number of ways:

- It can create or safeguard jobs. Chinese Ministry of Commerce calculations indicate that the 1,600 Chinese enterprises in the EU have hired 50,000 local workers. According to a report by the Rhodium Group, released in June 2012, the 428 green-field projects in its 2000-2011 dataset created an estimated 15,000 new jobs, not counting employment at smaller firms with less than $1 million of investment. Although generally speaking, mergers and acquisitions create fewer new employment opportunities, Chinese investment can preserve jobs in firms on the brink of shutdown, or lead to job growth once firms at risk have recovered. For example, the Rhodium report suggested that Geely's 2010 acquisition of Volvo had saved 16,000 local jobs.

- It can make up for the shortfall in some European countries' capital and investment needs. While it is true that the EU's economy is highly developed, the debt crisis and years of sluggish economic growth have limited public investment and undermined confidence for private investment in many countries. Thus, China's outbound FDI in the EU can be very helpful, particularly at a time of fiscal austerity and belt-tightening.

- It can promote the development of productivity in the host country: for example, before its take-over by Chinese shipping company COSCO in June 2008, the Greek harbour of Piraeus could handle only six Twenty-feet Equivalent Units (TEUs) per hour; now the number has reached an average of 22, or even higher.

- It can help European firms to increase their world market share. After China's Sany Heavy Industry acquired Putzmeister, for instance, the German company could take advantage of the Chinese firm's global market network to increase sales of its high-tech concrete pumps.

Overall, Chinese FDI in Europe should provide the same benefits as other direct investment flows, whether from inside or outside the EU. Foreign direct investment benefits both producers and consumers.

And China also benefits

Clearly, China itself also benefits greatly from its outbound FDI in the EU in manifold ways:

- It demonstrates China's economic strength. Three decades-plus of economic reforms in the Asian nation have resulted in continuous rapid growth, creating what is often dubbed "an economic miracle". Without this economic strength, China would not be able to make any outbound FDI.

- It can help China to acquire advanced technology from the EU. In its transformation from a physical investment-driven economy to an efficiency-led model, China must make better use of science and technology. Europe was home to the Industrial Revolution and still has the lead in science and technology in many fields.

- It can help diversify risk related to China's huge foreign exchange reserves. By mid-2012, China's foreign exchange reserves had grown to $3.2 trillion. This amount of assets can strengthen China's ability to guard against financial risks from within and beyond its borders. However, inefficient use of these reserves will not only create waste, but also cause the value of China's currency, the Renminbi, to appreciate. International experiences from other nations show that making outbound FDI is an effective way to diversify the use of foreign exchange reserves.

- It might ease the unhappiness of some Europeans about the trade imbalance between China and the EU. The comprehensive strategic partnership between China and the EU, established in 2003, has created good political conditions for China-EU trade. According to China's calculation, their two-way trade totalled $567 billion in 2011, i.e. around $1.5 billion per day. But the EU suffers a deficit – $140 billion in 2011 alone. It is hoped that increasing Chinese investment in the EU might reduce bilateral trade tensions and change EU attitudes towards China's exports.

Despite progress achieved in recent years and in spite of the fact that both sides would benefit from an increase of Chinese FDI in Europe, both China and the EU still need to do more.

What both sides should do

China must be realistic and better understand 'country risks' in the EU, without expecting a risk-free return: all countries have specific 'country risks', albeit to varying degrees of severity. While China should not ignore these risks, there should be realistic assessment of the opportunities as well. Overall, compared with Africa or Latin America, the EU has lower 'country risks'.

It is not easy to ask Europeans to revisit their views about China's political system or its unique development path. To help this process along, it is high time for Chinese investors to improve their corporate image. Chinese investors must try harder to abide by the host country's laws, and to adhere to transparency, protect the environment, respect local customs, etc.

But the European Union also needs to act: the EU is often considered to have a favourable investment environment, but there is room for improvement. For instance, it is important for EU countries to stop focusing irrationally on their 'fear of China'. Furthermore, as the report of the European Union Chamber of Commerce in China suggests, the EU needs to streamline FDI approval procedures, facilitate procedures for granting visas and work permits for Chinese employees, and reduce bureaucracy.

Working together

More cooperation would also be beneficial, for example in the form of a China-EU Investment Agreement. It is important to note that the 15th China-EU summit in September 2012 reaffirmed the intention to start negotiating such a treaty as soon as possible in order to promote and facilitate investment in both directions.

There is a lot of potential for mutual benefit from increased Chinese investment in the EU, and indeed from EU investment in China. Decision-makers on both sides must work together constructively to create the right environment for this potential to be realised.

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