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Chinese Investment in the EU

JIANG Shixue
Professor and Deputy Director
Institute of European Studies
Chinese Academy of Social Sciences
jiangsx@cass.org.cn

Institute of European Studies, Chinese Academy of Social Sciences • Beijing 100732

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JIANG Shixue
Institute of European Studies, Chinese Academy of Social Sciences
5 Jianguomennei Dajie, Beijing 100732
CHINA

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Professor and Deputy Director
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As China's economic power has continued to grow, encouraging Chinese companies to invest overseas has become a national policy priority. This is referred to as the "going out" strategy. The EU, the world's largest economy, offers a huge market and is home to many world-leading technologies. This has naturally made the EU important for Chinese outbound direct investment (ODI). The prospects for Chinese ODI in the EU are bright, to the benefit of both China and EU host countries.

I. Origin of China's "Going Out" Strategy

The "going out" strategy emerged as early as in the 1990s. On 12 October 1992, Jiang Zemin, then Secretary-General of the Communist Party of China (CPC), listed ten major overall tasks in a report to the 14th Party Congress of the CPC, the second of which was to "become more open to the outside world, making further and better use of foreign funds, resources, technologies and management expertise." Jiang Zemin continued: "We should actively open up to global markets, promote diversity in foreign trade, and develop an export-orientated economy. We should increase export trade and improve structures for export commodities, providing good quality and high-grade products. Meanwhile, we should be increasing imports by appropriate amounts, making more use of foreign resources and advanced technology. We must strengthen the reform of the foreign trade system and accelerate the establishment of a new international trade system, suitable for the development of a socialist market economy and conforming to international trade norms. Capable enterprises and science and technology research institutions should be granted the right to operate foreign trade activities.[1] We must actively expand Chinese enterprise's foreign investments and transnational operations."[2] Jiang Zemin's call to "actively expand Chinese enterprise's foreign investments and transnational operations" can be seen as the germination of the 'going out' strategy.

On 14 November 1993, the Fifth Plenary Session of the 14th Central Committee of the CPC passed its *Decisions on Several Issues in Establishing a Socialist Market Economy*, providing important guidance for China's reform and opening up. This document required the state to give

[1] In China many science and technology research institutions also produce high-tech products.
[2] Jiang Zemin's Report to the 14th Party Congress: "Accelerate Reform, Opening Up and Modernization; Strive for Greater Victories for Socialism with Chinese Characteristics."
http://news. xinhuanet.com/ziliao/2003-01/20/content_697148.htm

capable manufacturing and science and technology research institutions the right to operate abroad and to develop a batch of globalized, industrialized conglomerate of trading companies, as well as requiring the use of China's exchange rates, taxation and credit measures to regulate overseas economic activities.[1]

Jiang Zemin visited six African countries between 8 and 22 May 1996. On a trip to Tangshan, Hebei Province, one month later, he said: "We must study how state-owned enterprises can 'go out' in a targeted and organized manner, and make good use of international markets and foreign resources. There are huge potentials in the vast markets of developing nations. We need to look further afield, to the future, focusing on the long-term, and work to strengthen economic and technical cooperation with these companies, including using their markets and resources to form joint ventures and cooperative operations."[2] This was the first time he used the phrase "going out".

Jiang Zemin spoke on numerous subsequent occasions about the urgency and necessity of "going out". The most important of these was in his speech to delegates from the National Work Conference on Foreign Capital Utilization on 24 December 1997: "Here, I would like to talk again about an important topic. As well as attracting foreign companies to come to China and invest and open factories, we also need to guide and organize our domestic companies to go abroad, to invest and open factories overseas, to make use of those markets and resources. We need to take a wider look, both to European and US markets, and to the markets of developing nations… Apart from encouraging exports, we also need to make research and arrangement on the issue of how to 'go out' so as to develop economic and technical cooperation with other countries. Attracting foreign capital and investing overseas are closely linked and both are complementary aspects of our basic national policy of opening up. This guiding concept must be made clear. International competition is fierce, and we must act now to invigorate our current state-owned enterprises and push for our long-term economic development. I've talked about this issue since returning from Africa. We need to look at this more urgently and arrange and organize actual implementation, and strive for clear results within two or three years. The key is for guided and staged support for a batch of core large- and medium-sized state-owned enterprises to go overseas and open up foreign investment markets. This is a major strategy, important both for opening up and for economic development."[3]

On 11 October 2000, the Fifth Plenary Session of the 15th Central Committee of the CPC passed its *Proposal of the Central Committee of the Communist Party of China for Formulating the 10th Five-Year Plan (2001-2005) for National Economic and Social Development.* This was the first CPC Central Committee document to explicitly refer to the "going out" strategy. It required local governments to: "Implement the 'going out' strategy, and work to use both domestic and overseas resources and make breakthroughs in both markets; encourage outbound investments which would bring China's comparative advantages into play; expand scope, routes and methods of economic and technical cooperation with foreign countries; support overseas processing or resource development operations by competitive companies; and provide credit and insurance support. It is necessary to establish and standardize supervision mechanisms for Chinese companies' overseas investments and strengthen regulation of Chinese firms overseas and the

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1 http://news.xinhuanet.com/ziliao/2005-03/17/content_2709770.htm
2 http://www.wxyjs.org.cn/GB/186508/186513/186684/186686/16896286.html
3 Jiang Zemin: "Implementing an openness strategy, combining attracting foreign capital and overseas investing." http://www.wxyjs.org.cn/GB/186508/186513/186684/186686/16896286.html

coordination of investment."[1]

On 8 November 2002, in his report to the 16th National Party Congress, Jiang Zemin reiterated that "implementing the 'going out' strategy is a significant part of a new stage of opening up. By giving encouragement and support to companies with comparative advantages, of all ownership types, to invest overseas and drive product and service exports, we will form strong multinational companies and brands."[2]

In 2009 the Ministry of Commerce (MOFCOM) renamed its Foreign Economic Cooperation Department as the Overseas Investment and Economic Cooperation Department, while the National Development and Reform Commission's (NDRC) Utilization of Foreign Capital Department became the Utilization of Foreign Capital and Overseas Investment Department. The renaming of these two important government departments indicated that the promotion and management of ODI was being given a higher priority and had become part of the government's day-to-day work. [3]

The 12th Five-Year Plan, passed by the 4th Session of the 11th National People's Congress on 14 March 2011, again confirmed the importance of the "going out" strategy. The 52nd Chapter of the plan pointed out that China would continue to give equal importance to both attracting foreign capital and investing overseas, strengthen its ability to utilize both domestic and overseas markets and resources in a more efficient way, and guide companies of all ownership types to make orderly overseas investments, in accordance with market orientation and their own preference. It also called for more researches and studies on overseas investment environments, implementing stronger evaluation of investment projects, improving systems for promoting overseas investments, facilitating an easier outbound investment process, protecting China's overseas interests, and guarding against risks.[4] The report of the 18th National Party Congress also stated that the "going out" process should be accelerated; international management capabilities bolstered; and a batch of world-class multinationals fostered.

To implement the "going out" strategy, government departments have issued a range of preferential policies and stimulus measures. On 14 February 1999, for instance, the Office of the State Council promulgated a document titled *Opinions on Encouraging Overseas Processing and Assembly Operations*, written by the Ministry of Foreign Trade and Economic Cooperation, the State Economic and Trade Commission and the Ministry of Finance.[5] The measures included (1) funding incentives;[6] (2) simplified foreign exchange formalities; (3) export tax rebates; (4) financial services and underwriting; and (5) priority for import rights, export licenses and quotas,

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[1] http://news.sina.com.cn/china/2000-10-18/136029.html

[2] http://news.xinhuanet.com/newscenter/2002-11/17/content_632268.htm

[3] Lu Jinyong and Yan Shiqiang: "Evolution, Achievements and Prospects of China's promotion of ODI and services", *Overseas Investment and Export Loans*, pp. 28-30, Vol. 4, 2012.

[4] http://politics.people.com.cn/GB/14163512.html

[5] Overseas processing and assembly operations refers to Chinese firms using existing technology and equipment to run operations overseas, resulting in more exports of Chinese equipment, technology, components and raw materials.

[6] Incentives in the field of finance include: 1) relevant banks will provide mid-term RMB loans for overseas factory-building to all companies that comply with lending conditions; 2) the Central Foreign Trade Development Fund will provide funds to support overseas processing projects, with loans being assessed, disbursed and collected by the Chinese Export-Import Bank; 3) companies undertaking processing projects overseas can obtain funding support from the Fund of Foreign Aid, Joint Ventures and Cooperative Projects; 4) enterprises engaging with overseas processing and assembly operations may use their first five years' profits to boost their capital base so as to promote expansion; 5) banks supply preferential export credit for the equipment, technology, components and raw materials needed; 6) interest for foreign exchange loans needed for operating funds will be provided at normal interest rates, with interest being subsidized by two percentage points by the Central Foreign Trade Development Fund.

and simplified procedures for approving managers to be assigned overseas.[1]

On 16 March 2009, MOFCOM issued one more document titled *Measures for Overseas Investment Management*.[2] This was the first set of ministerial norms and regulations for outbound investment activity, and it provided detailed rules on the approval of outbound investments, norms, standards and management of investment activity as well as punishments for breaches.[3] On July 13 of the same year, the State Administration of Foreign Exchange (SAFE) issued its *Regulations on Foreign Exchange Administration of the Overseas Direct Investment by Domestic Institutions*. This document ruled that domestic institutions could use their own foreign funds, domestic foreign exchange loans in line with regulations, foreign exchange purchased with Chinese RMB, or goods, intangible assets and other foreign exchange assets approved by SAFE in ODI, and profits could remain overseas for use in further ODI.[4]

Many provinces, autonomous regions and municipalities directly under the Central Government set their own policies in line with state documents, in order to stimulate outbound investments. For example, on 16 November 2011, Zhejiang Province published a document on accelerating outbound investment, calling for the "transformation and upgrade to the service economy; bolstering of international economic competitiveness; planning for the utilization of both domestic and international markets and resources; strengthening of investment and trade cooperation with other countries and regions; encouraging the province's industries and companies to allocate and optimize resources globally; strengthening and upgrading local economy; fostering local multinational companies; winning international competitive advantages; and combining a global push with a stronger Zhejiang." To this end the document listed a range of preferential measures covering funding sources, tax breaks, cross-border RMB trades, market information, personnel training and risk early-warning systems.[5]

Even prefecture-level cities were producing regulations and policies designed to encourage local firms to invest overseas. The Ningbo government's *Proposals on Accelerating the 'Going Out' Strategy,* issued on 31 January 2007, said it would: "encourage leading firms in the fields of textiles and clothing; machinery and electronics; chemicals and construction materials; light industry and food; and agricultural and aquatic product processing to adopt a 'trade first, then invest' business strategy and make use of existing equipment and mature technologies in order to establish production facilities, sales networks and after-sales services in developing ASEAN, African, Latin American and East European nations, where they would develop overseas processing and trading in order to drive the export of equipment, raw materials and components." The document continued: "Development of overseas resources should focus on resource-rich and politically-stable nations which have good relations with China, mainly neighbouring countries such as ASEAN and Central Asian nations, Russia and Iran; the Middle East, and African and Latin American countries such as Nigeria, Venezuela, and Brazil, along with developed resource-rich nations such as Australia and Canada."[6]

To promote the implementation of the "going out" strategy, MOFCOM published a series of research reports on the investment environment of other countries, with 31 having being published

[1] http://www.gov.cn/fwxx/bw/swb/content_449812.htm
[2] http://hzs.mofcom.gov.cn/aarticle/zcfb/b/200905/20090506252047.html
[3] http://news.xinhuanet.com/fortune/2009-03/16/content_11021992.htm
[4] http://www.safe.gov.cn/wps/portal/!ut/p/c4/04_SB8K8xLLM9MSSzPy8xBz9CP0os3g PZxdnX293QwMLE 09nA09Pr0BXLy8PQyNPI_2CbEdFAKLWUno!/?WCM_GLOBAL _CONTEXT=/wps/wcm/connect/safe_web_
[5] http:///www.zhejiang.gov.cn/gb/zjnew/node3/node22 /node167 /node360/node368/userobject9ai129548.html
[6] http://www.zsyzw.cn/news/7/100/593/list/89230.htm

by August 2012.[1] Every April since 2003 the ministry publishes the *Foreign Market Access Report,*[2] and it has two websites giving investment advice and details of Chinese companies providing foreign trade services.[3] All this has helped inform companies about the investment environment in host countries.

Academic institutions, universities and companies have set up numerous research projects to study China's ODI. The National Planning Office of Philosophy and Social Science's *2011 National Social Sciences Fund Guide to Topics for Research Proposals* designated a project titled *Research on Promoting Chinese Investments Overseas under the New Situation.*[4] The Hong Kong China Chamber of Commerce held its first annual China Overseas Investment Summit between 15 and 16 November 2011, attracting 8,600 attendees from around the world.[5] Since 2009 the China Industrial Overseas Development & Planning Association and the China State Development Bank have jointly held an annual China Overseas Investment Fair.[6] The Western Returned Scholar Association's Entrepreneur Alliance has to date held ten forums on the implementation of the "going out" strategy by Chinese firms, with government officials, businesspeople, academics and foreign professionals exchanging their views, lessons and experiences about the topic.[7]

In sum, implementation of the "going out" strategy is a central part of Party and government work. It aims to use ODI to actively participate in international competition and cooperation, using the so-called "two markets" and "two resources" to bring about the sustainable development of the Chinese economy.[8]

II. Characteristics of Chinese Investment in the EU

According to the *2012 Statistical Bulletin of China's Outward Foreign Direct Investment,* jointly published on September 9, 2013, by China's MOFCOM, the National Bureau of Statistics and SAFE, 2012 saw the eleventh consecutive year of China's ODI growth, which reached US$87.8 billion, an increase of 17.6% on 2011, a new historical high. By the end of 2012, total stock of Chinese ODI around the globe had increased to US$532 billion, making it the thirteenth largest investor in the world. Chinese investment could be found in 179 countries of the world. However, it accounted for only 10.2% of the US foreign direct investment.

The main characteristics of China's investments in the EU are as follows:

1) Quick expansion of investments. In 2005 only US$190 million of Chinese ODI flowed to the EU. In 2007 the figure passed $1 billion, and in 2012 it was US$6.1 billion. Stock of Chinese investment in the EU had increased from only US$760 million in 2005 to over US$3 billion in 2008, and US$31.5 in 2012. Within the EU and in terms of stock, the five largest recipients of Chinese ODI by 2012 were Luxembourg (US$8.98 billion), the UK (US$8.93), France (US$3.95 billion), Germany (US$3.10 billion) and Sweden (US$2.41 billion).[9]

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1 http://www.fdi.gov.cn/pub/FDI/tzdt/zt/ztmc/zgdwtzcj2/default.htm
2 http://gpj.mofcom.gov.cn/aarticle/d/cw/201104/20110407504244.html
3 http://fdi.gov.cn/pub/FDI/default.htm
4 http://www.npopss-cn.gov.cn/GB/219471/219473/14842789.html
5 http://www.cois.net/about.asp
6 http://coifair.org/index.aspx
7 The 10th Forum on the Implementation of the 'Going out' Strategy by Chinese Firms was held at the Great Hall of the People on 12 December 2011.
http://www.wrsaea.com/plus/view.php?aid=275
8 "Two markets" and "two resources" simply means the Chinese and overseas markets and resources.
9 MOFCOM, National Bureau of Statistics and SAFE: *2012 Statistical Bulletin of China's Outward Foreign*

The major reasons behind the quick rise include: (1) the rapid expansion of China's economic power; (2) the strengthening measures adopted by the Chinese government, encouraging Chinese firms to invest overseas; (3) a growing awareness among Chinese firms of the importance and necessity of investing overseas; and (4) the EU's desire to attract foreign investment to speed up economic development, and privatization plans prompted by the debt crisis in particular have provided Chinese firms with some rare opportunities.

2) Broad range of investments. Looking at the stock of Chinese direct investment in the EU, by 2012, leasing and commercial services seem to be preferred, with US$9.7 billion of investment (30.7% of total stock), most in Luxembourg, the UK, the Netherlands, Germany and Ireland. Financial sector accounted for US$6.6 billion (21.0%), mainly in the UK, Luxembourg, Germany, France, Italy and Hungary. The manufacturing sector attracted US$6.3 billion (20.0%), largely in Sweden, the UK, Germany, the Netherlands, France, Italy, Spain, etc. Investment in mining was US$3.8 billion (12.0%) in such countries as France, the UK, the Netherlands and Luxembourg.[1]

3) Luxembourg is one of the primary destinations for Chinese direct investment in the EU. Prior to 2007 China almost had no investments in Luxembourg, but since 2009 there has been extraordinarily fast growth. Indeed, Luxembourg is a tiny nation, lacking natural resources and with only a very small market, however its investment environment has a number of attractions: (1) it is highly developed, with per-capita PPP GDP of over $80,000; (2) it boasts an excellent geographical location; (3) its markets are very open; (4) it has a robust body of legislation, a developed financial system, good infrastructure, and an educated workforce; and (5) there are tax breaks to attract outside investors.

On 23 May 2012, Wu Bangguo, Chairman of the Standing Committee of the National People's Congress, said when visiting Luxembourg that the country was known as a global financial centre, with strengths in modern services, advanced manufacturing, high technology, and logistics. He added that China would continue to support Chinese firms using Luxembourg as a platform for trade and investment in European countries, and he hoped that Luxembourg would provide further assistance. Grand Duke Henri expressed Luxembourg's desire to act as a bridge between Chinese investors and European markets.[2]

III. Chinese Investment in the EU: A Win-win Game

The EU economy is open, and many of the EU's national leaders and government officials have expressed that Chinese investment is welcome. On a visit to China in February 2012 German Chancellor Angela Merkel said that Germany welcomed Chinese investment and that neither Germany nor Europe would politicize investment; that Europe would not erect "protectionist walls"; and that the German and Chinese governments would cooperate on promoting bilateral trade and investment.[3] She added that those in Europe with self-confidence were not worried about Chinese investment, and competition would be beneficial for both sides.[4] On 12 June 2012,

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Direct Investment, China Statistics Press, 2013, pp. 48-49.

[1] Ibid, p. 22.

[2] "Wu Bangguo meets Luxembourg's Grand Duke Henri." 25 May, 2012. http:// politics.people.com.cn/GB/1024/17981149.html

[3]"Wen Jiabao and German Prime Minister Merkel meet reporters", 2 February, 2012. http://news.china.com.cn/txt/2012-02/02/content_24538326.htm

[4] "Chinese and German Prime Ministers discuss bilateral cooperation with business people", 4 February, 2012. http://news.xinhuanet.com/2012-02/04/c_122654911.htm

Philipp Rösler, the German Federal Minister of Economics and Technology, said at a Berlin press conference on attracting foreign investment that Chinese firms were encouraged to invest in the country, and he hoped the German people would recognize that these companies created jobs.[1] On 11 December 2011, former UK Prime Minister Gordon Brown said at the Halter Financial Conference in Guangzhou that Europe was a good place to invest, as it had always welcomed foreign investment - including from China.[2] According to Haris Pamboukis, Greek Minister of State, “the support of our Chinese friends is fortunate for us… I don’t think China is coming in here as a Trojan horse.[3]

However, some Europeans are prejudiced against Chinese investments. For instance, *The Economist* has published many articles criticizing Chinese investment. One article titled “Chinese acquisitions: China buys up the world”, reported that Chinese investments in Europe and elsewhere were causing worries, which would only intensify in the future. It went on to say that “Party-controlled investors” wanted everything from American natural gas to Brazilian electricity, to the Swedish car-maker Volvo; that Chinese companies also wanted raw materials, technology, and market share - but that they are guided by a state which is for many countries a strategic competitor rather than an ally.[4]

These comments on China’s ODI are clearly heavily biased. It is well known that China’s ODI is negligible in comparison with that of the US and other nations. According to Eurostat, in 2011 the EU received €225.3 billion in foreign direct investment, of which only €3.2 billion or 1.4% came from China.

In fact, Chinese investments in Europe benefit both China and the host. The main benefits for the EU are as follows:

1) Meeting funding needs in the host nation. Although the EU is a developed region, it still needs to expand its investments and make use of external funding to make up for local capital shortages. The damage caused by a persistent debt crisis has increased the need for external funds.

2) Creating employment in the host nation. Chinese investment in Europe, whether “green-field” or “brown-field” (mergers and acquisitions), creates significant employment opportunities. According to the *2012 Statistical Bulletin of China’s Outward Foreign Direct Investment*, the 2000 firms set up by Chinese direct investments in the EU employ 42,000 local workers.[5]

A report by the US consultancy Rhodium Group found that between 2000 and 2011, China’s 428 green-field investments in the EU (excluding projects of less than US$1 million) had created 15,000 jobs. Although brown-field investments (mergers and acquisitions) did not create many jobs, existing employment were protected, which kept unemployment rate down. The report found that Zhejiang Geely’s acquisition of Volvo in 2010 saved 16,000 jobs and brought US$11 billion of investment to Sweden and elsewhere. The employment created by that investment should not be underestimated.

Chinese investment also saves local firms, thus avoiding layoffs. According to Lenovo CEO Yang Yuanqing, when his firm acquired Germany’s Medion not one job was lost to Germany. In

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1 http://news.xinhuanet.com/fortune/2012-06/13/c_112205889.htm
2 http://www.chinanews.com/cj/2011/12-11/3523455.shtml
3 http://www.nytimes.com/2010/11/02/business/global/02euro.html
4 “Chinese acquisitions: China buys up the world”, *The Economist*, 11 November, 2010. http://www. economist.com/node/17463473
5 MOFCOM, National Bureau of Statistics and SAFE: *2012 Statistical Bulletin of China’s Outward Foreign Direct Investment,* China Statistics Press, 2013, p.22.

fact, the number of German employees increased significantly, and the firm's market expanded from Germany to Europe as a whole. Yang said that Lenovo is both a Chinese firm and also a local German company.[1]

3) Increasing the value of host nations' assets. Under market law, more buyers mean higher assets prices. Therefore, the arrival of Chinese capital will be beneficial to European privatization plans, with governments having a stronger bargaining power.

4) Increasing productivity in the host nation. Hampered by various internal and external factors, some European nations are failing to make use of comparative advantages in infrastructure and manufacturing, with labour productivity not increasing. One example was in Greece: the 2007 international financial crisis and local labour disputes led to a large fall in throughput at Piraeus, Greece's largest container port.

On 12 June 2008, the Chinese company COSCO won a privatization tender for a 35-year concession to run Piers 2 and 3 at the port, at a cost of €3.4 billion. After COSCO training, each team of Greek workers can load 22 containers per hour, compared to six previously. This is higher than the European average. Some teams have loaded as many as 46 containers per hour, a local record.[2] Between January and September 2012 the port loaded and unloaded 200,000 TEU (twenty-foot equivalent unit) of containers, up 96% on 2011.[3] Greek Minister of Foreign Affairs Dora Bakoyannis told Xinhua that during the term of COSCO's concession the company would create a profit of €4.3 billion for the country, along with 1,000 jobs and a 2.5-fold increase in throughput.[4]

5) Expanding market share for host country firms. When purchased by China's Sany Group, the main product of German firm Putzmeister was concrete pumping equipment, while its concrete-making equipment was not one of its strengths. Sany was soon able to help Putzmeister develop mixer trucks and plants, thus expanding its product range and strengthening its position on global markets.[5] Sany Chairman Liang Wengen has said that Putzmeister will continue to sell all its original products, but will now also sell Sany's construction equipment via its global sales network. He added that Putzmeister will not reduce jobs globally, but will actually increase staff numbers.[6] Putzmeister CEO Norbert Scheuch stated that: "the acquisition by Sany is an ideal enrichment of our product combinations."[7] The KHL Group, a provider of information on the construction industry, said the acquisition by Sany would further expand Putzmeister's influence in the concrete-making equipment market.[8]

Of course Chinese investments in the EU are also beneficial to China, in the following ways:

1) Demonstrating China's economic power. The development of the global economy shows that capital exports are closely linked to a country's economic power - the stronger the economy, the more ODI. Capital exports from developed nations such as the UK, the US and Japan were high when their economies were strongest. Reform and opening up has transformed China from a poor and backward nation into an economic superpower. In 1978 China's GDP was RMB364.5

1 "Chinese Premier and German Chancellor on Bilateral Cooperation with Business Leaders", 4 February, 2012. http://news.xinhuanet.com/2012-02/04/c_122654911.htm
2 http://www.chinasoe.com.cn/magazine/201205/2012-04-27/2886.html
3 http://www.simic.net.cn/news_show.php?lan=en&id=114637
4 http://news.xinhuanet.com/fortune/2009-10/01/content_12153389.htm
5 http://www.sanygroup.com/group/zh-cn/media/120714fmjicptwivcnxk_for_special_list_text_content.htm
6 http://hunan.sina.com.cn/news/shms/2012-04-18/23489.html
7 http://news.xinhuanet.com/energy/2012-07/25/c_123464721.htm
8 http://news.xinhuanet.com/energy/2012-07/25/c_123464721.htm

billion. It passed RMB1 trillion in 1986, RMB10 trillion in 2001,[1] and RMB51.9 trillion in 2012.[2] With such a large economy, ODI is bound to increase.

2) Obtaining advanced European technology. Europe was home to the industrial revolution, and many European nations have long been world leaders in science and technology. As China changes its pattern of economic growth it will need to expand its usage of such technology to achieve its grand aim of becoming a scientific-technological superpower. ODI allows China easier access to European technology and markets. For example, Putzmeister is a world leader in hydraulic systems, coatings and welding-technologies which are extremely useful for the Sany Group's road-surfacing and excavation machinery and components. Sany also gains access to Putzmeister's global sales network and the 'made in Germany' label.

3) Diversified foreign exchange reserves and assets. In 1950 China had foreign exchange reserves of only US$157 million. It reached US$10 billion by 1990, US$100 billion in 1996 and by 2006 passed US$1 trillion. At the end of June 2012, China's foreign exchange reserves stood at US$3.24 trillion.[3] This huge wealth helps strengthen China's overseas payments ability, improves confidence both at home and abroad in the Chinese economy and currency, and guards against financial risk.

But there is no question that if foreign exchange reserves increase too fast, or become too large, they will be harder to manage, causing appreciation pressure on RMB to increase, and maybe even 'wastage'. Therefore there is the urgent need to diversity China's foreign exchange reserves, and one quick way to do this is to increase ODI. On 1 February 2009, Prime Minister Wen Jiabao told the UK's *Financial Times* that "Foreign exchange must be spent overseas, mainly on foreign trade and investment. Therefore, we want to use foreign exchange to buy the much-needed technological equipment and products."[4]

4) Reducing EU dissatisfaction over the trade imbalance. The EU is China's largest trading partner, while China is the EU's second largest. For many years China's economic growth has strengthened its exports, and the EU-China Strategic Partnership has created the political conditions for promoting trade between the two partners. Chinese figures put bilateral trade at US$546.0 billion in 2012.[5] That is to say, every day products worth US$1.5 billion travel between the EU and China.

As Chinese products are competitive on the huge markets of the EU, and the EU has many restrictions on technology exports, the balance of trade has for many years been in China's favour. Chinese figures put the gap at over $140 billion in 2011.[6]

China in not solely responsible for the imbalance, however, the EU media and politicians view it as the outcome of unfair competition or even exchange rate manipulation. To protect their own markets many EU Member States launch frequent anti-dumping cases against Chinese exports.

To reduce trade frictions the EU should recognize the mutually beneficial nature of China-EU trade and expand technology exports to China. China should increase investments in the EU, and

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1 The National Bureau of Statistics, *China Statistics Yearbook 2011.* http://www.stats.gov.cn/tjsj/ndsj/2011/indexch.htm

2 Wen Jiabao, Report on the Work of the Government, 17 Marh, 2013. http://news.xinhuanet.com/english/china/2013-03/18/c_132242798.htm

3 http://www.safe.gov.cn/wps/portal/sy/tjsj_lnwhcb

4 http://news.xinhuanet.com/newscenter/2009-02/02/content_10753101_1.htm

5 http://ozs.mofcom.gov.cn/article/date/201302/20130200025487.shtml

6 According to data published by Eurostat, the trade gap between China and the EU was €155.9 billion in 2011. (See Eurostat News Releases, "Euro area external trade deficit 7.6 bn euro", March 16, 2012.)

as those investments become a more important part of trade, dissatisfaction with the imbalance will lessen.

IV. A Better Future for Chinese Investment in the EU

Chinese ODI is bound to increase. As the world's largest economy, the EU will continue to be an important destination for Chinese ODI. The EU debt crisis prompted some EU Member States to come up with privatization plans in order to balance their budgets. Greece was reportedly planning to sell off €15 billion worth of infrastructure and manufacturing businesses between 2012 and 2013, with the aim of earning a total €50 billion from privatization by 2015.[1] Ireland planned to privatize companies worth €2 billion but was told by the IMF to increase that to €5 billion.[2] By 2013 Portugal will have sold off airlines, railways, postal services, energy and paper-making businesses worth €6 billion.[3] Italy's Minister of Economy and Finance Giulio Tremonti said that the country will sell off the majority of its state-owned firms, excluding water companies, in order to balance its budget by 2014.[4] Spain also has plans to sell off the country's two largest airports and its national lottery operator.[5]

Europe will present many investment opportunities, both during the current debt crisis and in the 'post-crisis' era, and China's ODI will accelerate as its economy grows. Hence, there are bright prospects for Chinese investment in the EU.

Of course, realising those bright prospects requires China to consider the following issues:

1) Guarding against "country risk". Country risk covers all types of risks faced by a company in its host nation or on international markets, and has both broad and narrow definitions. Narrowly defined, according to the Economist Intelligence Unit, it is restricted to sovereign debt risk, currency risk, banking risk and other economic risks as well as political risk. More broadly, it includes political, economic, diplomatic, social and natural risks, among others. It can also cover political risks such as war, military coup, insurrections, ethnic conflict and social disorder; as well as economic crises, financial crises, banking crises, currency crises, and debt crises. It can include the risks of nationalization, exchange rate instability, bursting property bubbles, high inflation, fluctuating prices of raw material; and diplomatic incidents such as sanctions, embargos, and worsening or severed diplomatic relations with other countries.

Alongside these man-made risks there are also natural disasters such as earthquakes, tsunamis and the El Niño phenomenon. Country risk is closely related to a country's investment environment. In a certain sense, it is the investment environment.

An investment environment can be divided into 'hard environment', which cannot be changed (such as geographical location, climate, natural conditions, available natural resources, and so on) and 'soft environment', which can be changed by human being's power (such as economic policy, level of development, political system, social order, the legal system, infrastructure, and so on). Predicting and analysing country risk starts with the investment environment, and in particular the soft environment.

Compared globally, Europe has few country risks. But this does not mean Chinese companies

[1] *Financial Times,* September 30, 2011.
[2] http://online.wsj.com/article/BT-CO-20110915-703297.html
[3] http://www.globaltimes.cn/business/world/2010-03/513676.html
[4] http://www.reuters.com/article/2011/07/13/us-italy-debt-idUSTRE76C47720110713
[5] http://online.wsj.com/article/SB10001424052970204002304576628712123678024.html

can rest easy. There are numerous country risks to be considered: the debt crisis in Greece and the banking crisis in Spain; the London underground bombing and mass shootings in France and Norway; the resignation of Prime Minister Berlusconi in Italy and Belgium's failure to form a government for over a year; inflexible labour markets and powerful unions; prejudice against 'made in China' products and the 'China threat theory' deeply rooted in some people's minds; Russia's cutting off natural gas supplies via Ukraine and constant anti-dumping claims against China; earthquakes in Italy and volcanoes in Iceland, etc. Chinese enterprises should be under no illusion that backing by a powerful host country means the impact of these risks on ODI can be ignored.

2) How to select the best sector for investment. According to John Harry Dunning's theory of international investment, ODI is motivated by the desire to have access to one or more of four things: markets, resources, efficiencies, or strategic assets.[1] The motivations of Chinese companies 'going out' fit with all these categories, but it is said that China's search for resources is primary, while the search for efficiencies (that is, cheap overseas labour) is least important as China has plenty of cheap labour of its own.[2]

It is commonly known that European nations have extremely limited natural resources, but that the European market is huge. In 2011 the 27 EU nations had a combined population of 500 million and total GDP of $17.6 trillion, meaning a per-capita GDP of $35152.[3] Furthermore, the EU has many world-class technologies. Therefore the most likely aim for China's investing in the EU is the search for large profits or an increased market share in the host country.

It is important to note that the choice of investment sector should be in accord with the economic structure and policy of the EU. In 2011 the service sector accounted for 73.2% of the EU economy, industry for 24.9% and agriculture for 1.8%.[4] Opportunities in services and industry will therefore far outnumber those in agriculture.

On 3 March 2010, the European Commission published its *Europe 2020,* ten-year growth strategy, with a three-pronged approach of smart growth, sustainable growth, and inclusive growth. The core of smart growth is promoting technological innovation; sustainable growth focuses on developing a low-carbon economy and strengthening environmental protection; and inclusive growth boosts social cohesion and expands employment to speed up social development. Hence Europe will not welcome low-tech, environmentally-harmful or resource-inefficient investment.

In order to improve services and advice to Chinese companies investing overseas, MOFCOM, the NDRC and the Ministry of Foreign Affairs jointly published the *2011 Overseas Investment Guide,* listing the development goals of major industries in foreign nations, and key regions for development. This 302-page publication shows that EU nations encourage foreign investment in a wide range of sectors, but most are high-tech, beneficial to sustainable development and bring comparative advantages into play.[5] This is something Chinese companies must be aware of when investing in Europe.

3) Creating a positive corporate image. Corporate image is an intangible asset, and can have an effect on the growth of the company's business. In this globalized, internet era, corporate image

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1 John H. Dunning, *Multinational Enterprises and the Global Economy,* Addison-Wesley, 1993.
2 Titan Alon, Galina Hale and João Santos, "What Is China's Capital Seeking in a Global Environment?", http://www.frbsf.org/publications/economics/letter/2010/el2010-09.html
3 Economist Intelligence Unit, *European Union: Regional Overview*, December 2012, p.2.
4 https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html
5 MOFCOM, *2011 Guidance to Selecting Sectors for Outbound Direct Investment,* August 2011. http://hzs.mofcom.gov.cn/aarticle/zcfb/b/201109/20110907731140.html

also reflects upon the image and soft power of the company's home nation. Chinese companies investing in Europe must take their corporate image seriously. The successful experiences of multinationals from all over the world demonstrate how to create a good corporate image. (1) Take on more corporate social responsibility (CSR). It is necessary to employ more local workers, protect local environment, participate in local welfare undertakings and contribute to local economic and social development. (2) Be scrupulously honest. This must be part of corporate culture and standards. There should be no fraud, no tax avoidance or evasion, no sacrifice of integrity, no excessive profit-seeking and no harm to consumer interests. Managers and employees must put honesty at the heart of corporate culture. (3) Strict abidance to host country laws. Europeans have a strong sense of the rule of law, and all kinds of laws must be fully understood. Companies must operate and grow in accordance with these. Competition must be fair, and there can be no bribery. (4) Integrate as far as possible with local society. The investor must get along with the local people, respect local religious traditions and customs, and build good relationships with local governments, communities, media and NGOs.

4) Start talks on a China-EU investment protection agreement as soon as possible. As Chinese ODI has increased, the need for bilateral agreements on investment protection has become more apparent. China's 12th Five-Year Plan includes better legislation and regulation of outbound investments, and the pursuit of bilateral investment and double-taxation treaties.[1]

The first investment treaty between China and an EU nation was signed with Sweden, as far back as 29 March 1982. To date China has similar treaties with 26 EU nations.

The Lisbon Treaty, which came into force on 1 December 2009, revised the Treaty on European Union and the Treaty establishing the European Community, renaming the latter as the Treaty on the Functioning of the Union. The Lisbon Treaty made international treaties such as those protecting investments the exclusive right of the EU, with the implication that no nation may sign such a treaty with a non-EU nation without EU authorization. The "Europeanization" of these treaties is bound to have a major impact on their implementation.

According to the Vienna Convention of the Law of Treaties (Article 30, paragraph 4), a treaty signed by two parties cannot be replaced by another treaty signed by one of those parties and another party. So, in terms of international law, the 1,200 bilateral investment protection agreements EU Member States have signed with third parties (including China) will not lose force, even if they are not entirely in line with the interests of the EU as a whole or its Members. Admittedly, how to deal with these conflicts of interests is an internal EU matter, but it is inevitable that the interests of third parties such as China will be affected to some degree. China must keep a close eye on the "Europeanization" of investment protection treaties.

The Lisbon Treaty also requires the EU to consider non-economic factors, as well as economic liberalization, in setting foreign policy. Moreover, the Treaty rules that both the EU Council and the EU Parliament will review all legal documents relating to foreign policy; and international agreements must be approved by the EU Parliament before coming into effect. This means the EU's external economic relations will become more politicized.[2]

Both the EU and China have indicated on various occasions that talks on a China-EU investment treaty should start as soon as possible.[3] On 20 September 2012, the Joint Press

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1 http://politics.people.com.cn/GB/14163512.html

2 Anne Pollet-Fort, *Implications of the Lisbon Treaty on EU External Trade Policy*, Background Brief, No. 2, EU Center in Singapore, March 2010.

3 But some academics say if necessary China could consider abandoning bilateral investment agreement talks with

Communiqué of the 15th EU-China summit reiterated that both sides were committed to launching negotiations as soon as possible, to promote and facilitate investment in both directions and create growth and jobs. The negotiations would cover all matters of interest to either side, without prejudice to the final outcome. Both sides agreed to intensify technical discussions in preparation for future talks.[1]

5) Encouraging private firms to invest in the EU. Since the policies of reform and opening up were implemented at the end of the 1970s, China's public ownership has witnessed significant changes, resulting in a more diversified structure. Public ownership is still dominant, but other forms of ownership are also increasing.[2]

The Chinese government is determined to encourage private firms to invest overseas. A 2010 State Council document, *On Encouraging and Guiding the Development of Private Investment,* listed three forms of support for private companies competing on the world market. These were: (1) support for R&D, production and marketing during the launch of international operations, development of strategic resources and establishing international sales networks; (2) support for private companies using their own brands, intellectual property rights and sales and marketing on international markets to become multinational companies and create internationally-known brands; and (3) support for overseas investment partnerships between private firms, and between private firms and state-owned firms, to bring complementary advantages into play.[3]

On 29 June 2012, thirteen Chinese government bodies, including the NDRC, Ministry of Foreign Affairs, Ministry of Industry and Information Technology, Minister of Finance, MOFCOM, the People's Bank of China, the General Administration of Customs and SAFE, jointly issued the *Suggestions on Encouraging and Guiding Private Enterprises to Actively Make Overseas Investment.* This document listed eighteen measures towards this end. These included: strengthening guidance for planning and overall coordination; guiding outbound investment orientation; promoting corporate decision-making abilities; directing private firms to standardize their overseas operations; implementing and improving supporting tax policies; increasing financing and underwriting support; facilitating customs procedures; improving laws and rules on outbound investments; simplifying and improving management of outbound investments; perfecting foreign exchange policy; offering better economic diplomacy services; establishing bi- and multi-lateral investment protection mechanisms; establishing better mechanisms to avoid major country risks; and better protecting the safety of workers and asses.[4]

Private firms such as the Sany Group, Geely, and Huawei have major investments in Europe, and have met with considerable success. However, this does not mean that China's private firms have successfully implemented the 'going out' strategy. As at the end of 2011, 13,500 Chinese firms had made outbound direct investments. These included 8,136 limited liability companies (60.4%), 1,495 state-owned companies (11.1%); and only 1,120 private companies (8.3%) and

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the EU and instead negotiate bilateral treaties with the main Member States. (Xiao Fang, "The Lisbon Treaty and the Europeanization of international investment treaties of EU member states", *Chinese Journal of European Studies*, Vol. 3, 2011, pp. 93-110.)

[1] http://news.xinhuanet.com/world/2012-09/21/c_123741988_3.htm

[2] "The Decision of the Central Committee of the Communist Party of China on Some Issues concerning the Improvement of the Socialist Market Economy", passed by the 3rd Plenary Session of the 16th CPC Central Committee, calls for promoting all effective forms of public ownership, developing mixed ownership between state capital, collective capital and non-public capital, and strong development and guidance of the non-public economy.

[3] http://www.gov.cn/zwgk/2010-05/13/content_1605218.htm

[4] http://politics.people.com.cn/n/2012/0704/c70731-18439357-1.html

1,036 listed limited companies (7.7%).[1] Therefore, the role of private firms in outbound investments needs to be strengthened.

As a matter of fact, encouraging private investors to ‘go out’ could kill three birds with one stone. Firstly, it will relieve some of the worries Europeans have about China’s state companies in Europe. Secondly, it will help private companies play to their advantages - their flexibility and quick reactions - to utilize European markets and resources. Finally, it will also create more space for private companies in the international economy.

V. Conclusion

Speeding up Chinese ODI has become an important part of China’s strategy of reform and opening up. As the world’s largest economy, the EU will continue to be a preferred destination for these investments. China’s investments in the EU are expanding quickly and cover a wide range of sectors, with Luxembourg having become the primary destination.

Chinese investments in Europe provide necessary funds for host countries, create much employment, increase host country asset prices, spur productivity and help the host country expand its market share. Clearly these investments also benefit China, mainly by demonstrating the country’s economic power, enabling the acquisition of advanced European technologies, diversifying foreign exchange assets, and reducing the EU-China trade imbalance. Chinese investment in the EU benefits both parties. There are bright prospects for Chinese investment in the EU. To realize these prospects, China must study how to guard against country risk, select investment sectors, create positive corporate images, start negotiations on a China-EU Investment Agreement as soon as possible, and encourage private firms to invest in the EU.

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[1] MOFCOM, the National Bureau of Statistics and SAFE: *2011 Statistical Bulletin of China’s Outward Foreign Direct Investment,* China Statistics Press, 2012, p. 24