



GROWING CHINESE FDI IN EUROPE

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



The US National Security Strategy for 2018 has underlined China's "strategic foothold" in Europe for the first time. It declares that the expansion of Chinese investment is aimed at "unfair trade practices and investing in key industries, sensitive technologies and infrastructure,"¹ hence making it increasingly relevant to economic dependency of the European countries on China to substitute US.

China's political and diplomatic influence in a region that, in aggregate terms, remains the second largest economy after the US² is viewed with great concern. Moreover, the impact of Chinese investment campaign is no more restricted to individual countries. Its implications are interlinked and are a critical feature of Europe-China relations.

China has taken over approximately 360 European companies. For instance, on May 10, 2018, China Three Gorges offered \$11 billion to take over the entire capital of *Energias de Portugal*-EDP, with subsidiaries in the United States, Spain and Brazil. It is not only the largest grid company of Portugal, but also holds the largest position amongst the EU and NATO member states. Similarly, among China's iconic investments in Europe is the Hinkley Point nuclear plant in southern England.³ One third of its funding comes from China.⁴

¹ Philippe Le Corre, "On Chinese investment and influence in Europe", *Carnegie endowment for International Peace*, May 23, 2018. carnegieendowment.org

² "World's Top Ten Largest Economies", *Focus Economics*, www.focus-economics.com

³ "On Chinese Investment and Influence in Europe", *Global Business Outlook*, www.globalbusinessoutlook.com

⁴ Philippe Le Corre. Ibid.

Considered by the western scholars as China's Economic Offensive in Europe, China's investments have increased from \$840 million in 2008 to \$318 billion, with an annual FDI growth of \$42 billion in 2017.⁵ According to Bloomberg, these investments in Europe include both mergers and acquisitions (M&A), and green field investments which would help China to build its operations from ground up, and provide a new business facility to the already existing companies apart from asserting its own choice of operations. They amount to 45 per cent more than Chinese investment in the US between 2008 and 2017.⁶

The largest share of Chinese investments has been attracted by the largest economies of Europe. For instance, UK has \$70 billion in cumulative Chinese investment, Italy has \$31 billion, Germany has \$20 billion and France has approximately \$13 billion.⁷ In fact, despite the largely uncertain future of UK as a market once it exits the EU, China is betting on London as an emerging hub of Chinese investments. At least four airports (Heathrow, Manchester, Parma and Toulouse, where Airbus is headquartered) are partially or wholly owned by the Chinese entities along with six seaports.⁸ This certainly is no coincidence.

Chinese citizens represent almost half of the investor visas the UK granted in 2017, outnumbering Russians, who are the next largest group of investor visa recipients (approximately 250 percent).⁹ The state-owned enterprises from China have initiated more than two thirds of Chinese investments across the European continent. China has also expressed interest in developing e-commerce across Europe, and will need to expand logistical capacities. This would determine the acquisitions of massive land from Montenegro to Portugal, and from rural France to Poland and Hungary by the Chinese companies. Some additional docksides have been bought or leased. In some cases, they remain unused.¹⁰

China's prerogative business contacts have so far been with Eastern and Central Europe. It has created such entities as the 16+1 format¹¹ meant to encourage EU members to join the Beijing-run

⁵ Thilo Hanemann and Mikko Hautari, "EU-China FDI: Working towards reciprocity in investment relations", *Mercator Institute for China Studies (MICS)*, April 4, 2018. www.merics.org

⁶ Andre Tartar, Mira Rojanasakul and Jeremy Scott Diamond, "How China is buying its way into Europe", *Bloomberg*, April 23, 2018. www.bloomberg.com

⁷ Philippe Le Corre, "On Chinese investment and influence in Europe", Op. Cit.

⁸ Philippe Le Corre, "On Chinese investment and influence in Europe", Op. Cit.

⁹ James Kynge and Courtney Weaver, "More Wealthy Chinese shell out for UK 'golden visas'", *Financial Times*, April 4, 2018. www.ft.com

¹⁰ Frans-Paul van der Putten, John Seaman, Mikko Houtari, Alice Ekman, Miguel Otero Eglasias (Edited), *A Report by European Think Tank on China (ETTC)*, December 2016. <http://www.iai.it>

¹¹ The 16+1 format is an initiative set up by China in 2011 aimed at intensifying and expanding cooperation with 11 EU Member States and 5 Balkan countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Macedonia) in the fields of investments, transport, finance, science, education, and culture.

Asian Infrastructure Investment Bank (AIIB).¹² The four largest EU economies, the United Kingdom (UK), Germany, France and Italy have already decided to join the AIIB which has helped to reinforce AIIB credibility.¹³

Initially traced back to the times of Mainland China and Silk Route, till 2008, the Chinese investments in Europe were mainly considered **opportunistic**. Since then, many capitals and economic centers across Europe have looked to China and Chinese investors as a source of opportunity and growth. China for instance, stepped forward to offer foreign investment as part of the bailout, during a Euro region's crisis in 2011 when the Lisbon government was under pressure from the European Commission, the European Central Bank, and the International Monetary Fund (IMF).¹⁴

President Xi Jinping's Belt and Road Initiative (BRI) is now the centerpiece of China's foreign and domestic policies. Though BRI presents opportunities for Europe, one must not forget that it is primarily a Chinese project. It would obviously help increase China's influence in the Eurasian region and beyond. Besides, the role of the partners in the project differs from country to country. On the other hand, it is quite unlikely that EU would speak with a single voice. Europe already has a complex set of convergence and divergence in its relationship with China.

In early 2017, the governments of Germany, France and Italy initiated a debate by sending a letter to the European Commission asking the EU to rethink the rules of FDI.¹⁵ This was contested by some governments including those of Finland and Austria, who have described such a procedure as "protectionist."¹⁶

Similarly, the 12th and 13th five-year plans of China (2011-2015; 2016-2020) also encourage overseas investments as a means to access supply chains, quality brand names and advanced technology. The main target is the investments in Europe.¹⁷

¹² PilipPe Le Corre, "Europe's Mixed Views on China's One Belt One Road Initiative", *Brookings*, May 23, 2017. www.brookings.edu

¹³ Ricardo Bastillo, "China, the Eu and Multilateralism, the Asian Infrastructure Investment Bank", *Revista Brasileira de politica Internacional*, Vol.16, No.1, July 16, 2018.

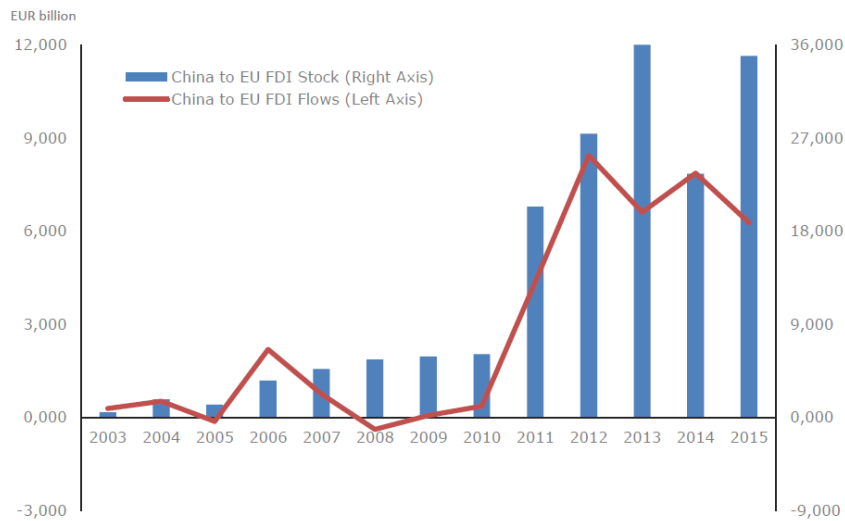
¹⁴ Philippe Le Corre, "On Chinese investment and influence in Europe", Op. Cit.

¹⁵ Ibid

¹⁶ Philippe Le Corre, "On Chinese investment and influence in Europe", Op. Cit.

¹⁷ Frans-Paul van der Putten, John Seaman, Mikko Houtari, Alice Ekman, Miguel Otero Eglasias (Edited). Op. Cit.

Chinese Direct Investment Flows and Stocks in the EU (Eurostat)



Source: Eurostat.

*2003 is EU-25, 2004-2007 is EU-27, and 2008-2015 is EU-28. Since 2013 data is compiled under BPM6.

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However, in his September 2017 state-of-the union address, EU Commission President Jean-Claude Juncker spoke out in favor of more investment screening measures against Chinese takeovers. He said “If a foreign state-owned company wants to purchase a European harbor, part of our energy infrastructure or a defense technology firm, this should only happen with transparency”.¹⁹ The non-binding cooperation system between member states and the Union that Juncker proposed “can be activated when a specific foreign investment in one or several member states may affect the security or public order of another.”²⁰ The planned framework would allow members to share details of proposed acquisitions on the grounds of security or public order, including those related to research, transport, energy or space.

Nonetheless, some Eastern and Central European members of 16+1 group have mixed responses to Brussels’ plans. Their heads of governments will meet again in Bulgaria, in July 2019, immediately after the annual EU-China summit. On the other hand, help from the Western European countries is not considered enough, and Serbia, Montenegro, and Albania are welcoming Chinese money warmly in a bid to boost their economies. In fact, several Balkan states have received substantial Chinese government loans or projects in exchange for open-door policies.

¹⁸ Ibid.

¹⁹ “President Jean-Claude Juncker’s State of the Union Address 2017”, *European Commission: Press Release Database*, September 13, 2017. <http://europa.eu>

²⁰ Ibid.

David Ignatius in his editorial in *The New York Times* of May 2018 is of the opinion that China intends to use this plan to “rule the world.” If considered true, what would it mean for the sovereignty or national security of the EU states? How should the trends and their consequences for policy making and Europe-China relations, including at the bilateral, sub-regional and EU levels be understood? As China continue to grow its integration into the global economy both quantitatively, as well as qualitatively with broader commercial and policy goals, they would significantly contribute to China’s evolving global role. Hence, the policymakers would require adapting to a new force shaping the economic and political landscape in Europe.

On the other hand, since Europe is already a favored destination for Chinese investment, the commonality of pressing challenges faced by both China and Europe such as climate change, inequality and calls for protectionism extend their closeness further afield. The need for joint solutions that cross-border investments can facilitate is becoming increasingly urgent for both. China has also decided to reinvest in its communication linkages through railway and road lines. The existing EU-China Connectivity Platform is already working to promote synergies between the BRI and EU policies and projects such as the Trans-European Transport Network Policy. The goal is to ensure that BRI is an “open platform which adheres to market rules and international norms.”

Europe also provides an access to third markets via European corporate networks, especially in Latin America and Africa.

Formulation of solid and complementary policy positions at the EU and national level are expected to determine the forward move, particularly when the US bond with Europe has been strained over the recent past. President Trump, after a contentious meeting with NATO allies during his visit in July 2018, has called the European Union a “foe.”²¹ Trump's use of laws aimed at national security risks to limit imports and foreign investments especially in Western Europe and China is also fuelling a reappraisal by both EU and US.

²¹ “Foreign investment diverts from US as Trump hardens trade stance”, *The Straits Times*, July 20, 2018. www.straitstimes.com