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China invests in Europe: patterns, impacts and policy issues
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Speakers

Karel De Gucht, European Commissioner for Trade
Thilo Hanemann, Research director at Rhodium Group
Daniel H. Rosen, Partner at Rhodium Group
Guntram Wolff, Deputy Director of Bruegel
Frank Xu, Managing Partner at China International Capital Corporation
Chair - **Neil McMillan**, Partner at Brunswick

In his opening remarks Commissioner Karel De Gucht pointed out that Europe faces severe problems and is seeking for ways to increase economic growth and secure wealth in Europe. Foreign investors are a possibility to secure jobs and enhance productivity which facilitates Europe's position in the world's value chain, beneficial for the investor and the recipient. This has three different reasons:

(i) FDI increases efficiency through technological, organisational and managerial skills
(ii) investment increases trade through the stronger linkages between the countries involved, and
(iii) it provides access to capital to finance growth and restructuring.

Europe is one of the biggest and most attractive regions of the world for incoming FDI with its economic wealth and a single market of 500 million consumers. Lately, the landscape of the main investors is rapidly changing: China becomes a big player. Thus, ignoring the new strategy of Chinese strategy and the increasing amount of investment money by Chinese companies puts Europe's economic position at risk. Chinese investments account for only 3.5 percent of FDI in Europe, Europe's investment only account for 2 percent of FDI in China. Compared to the size of these two major economic forces it is unsatisfactory and allows for large improvements.

To improve the investment possibilities four major issues need to be solved - A consolidation of the bilateral agreements between European countries and the People's Republic of China into one single, uniform framework, ensuring equal opportunity in terms of state aid and competition on both sides, common corporate social responsibility, labour and environmental standards and a new liberalisation of the conditions for access to the investment markets. While Europe stands for the most open regime in terms of FDI, which should not be challenged by false pretence of national security, China is listed as one of the most restrictive countries which needs to be adjusted in order to facilitate Europe's and China's exchange of investments for both-sided benefits. An EU-China investment agreement would help to deepen the relations and reinforce both economies such that negotiations should start with a minimum of delay.

Rhodium Group's report shows that, before 2010, Chinese investments in Europe were barely present. Chinese FDI mainly focused on acquiring distribution networks for the final goods exported and securing the steady stream of natural resources and intermediary inputs. Lately, Chinese strategy changed and FDI in Europe spiked and summed to over US$ 10 billion in 2011 with an expected average annual growth rate of around 25 percent until 2020. Chinese investors aim to acquire assets in high-technology sectors in the large industrialised Western-European countries, while the data does not show any significant tendency of Chinese investors to obtain political leverage in smaller countries. Unlike trade, direct investment in form of M&A and Greenfield investment is purely related with positive effects. 45,000 jobs in Europe are associated with

Chinese direct investments today with a large potential for growth if it is compared to the 4.3 million jobs generated by US investments in the EU. In order to facilitate and accelerate the inflow of Chinese capital in troubling times policy needs to be active in order to keep the door open. As a region enjoying a reputation for openness the EU should not impose additional barriers to capital inflows and close loopholes for veiled protection. China and Europe should address market distortions caused by state aid and economic security concerns. A common European concept and legislative should ensure a true separation between protectionist fallbacks and real national security concerns. Tailored investment promotions can help Chinese investors to overcome the hurdles imposed by matured markets in order to sustain the inflow of investments.

Event notes by Hendrik Meder