

**MERICS Report on
China's FDI in Europe
and Germany
Some comments and
ideas**

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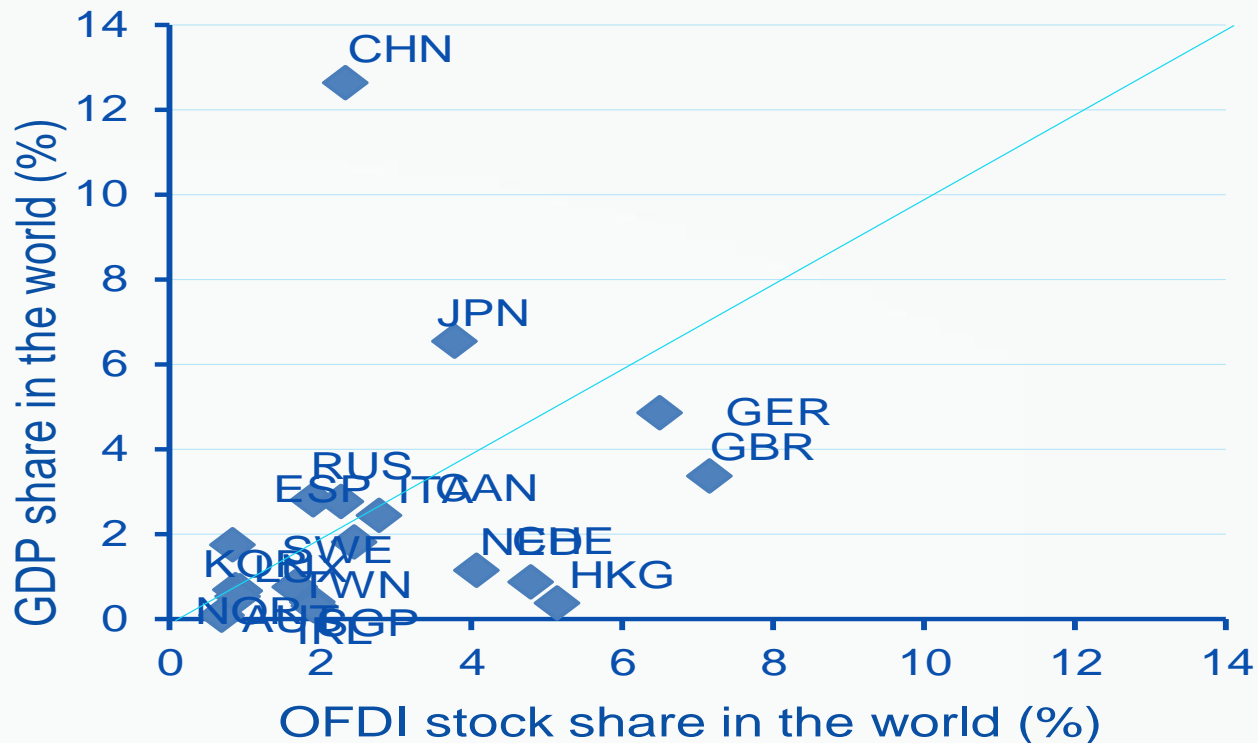
Key takeaways/comments

1. Key topic for Europe, not discussed enough

- Our own work confirms MERICS' key points
 1. This is just the tip of the iceberg: Much more FDI from China coming
 2. Europe is important as final destination

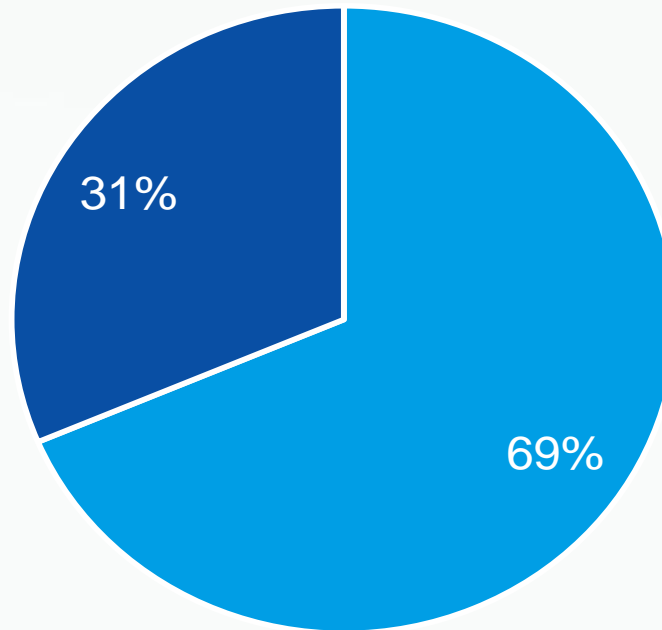
China has a long way to go with OFDI

China's share of global ODI stock remains relatively small compared to its GDP (2013)



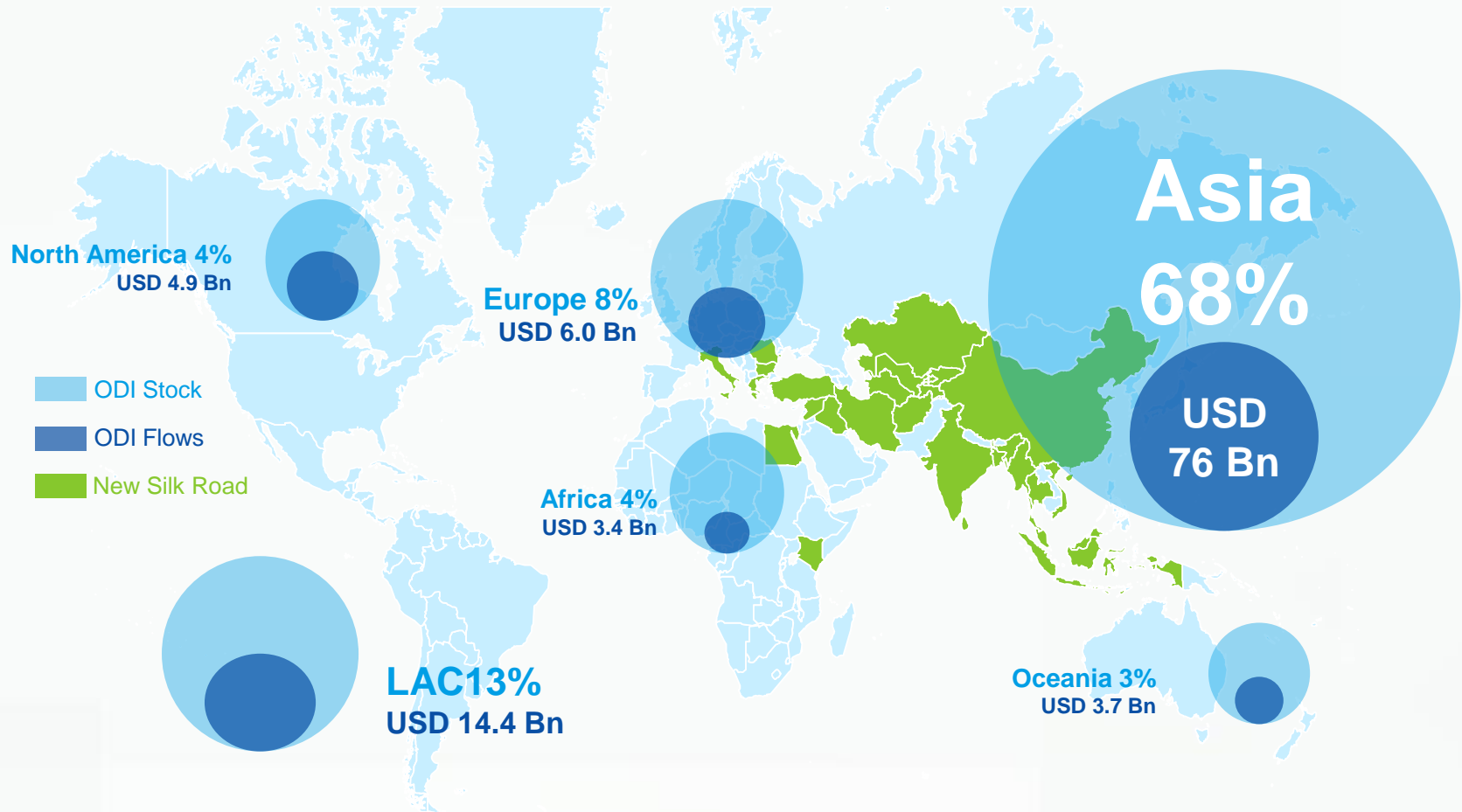
Very hard to know where it is going

Hong Kong, the Cayman Islands and BVI account for the lion-share total ODI stocks (2013)

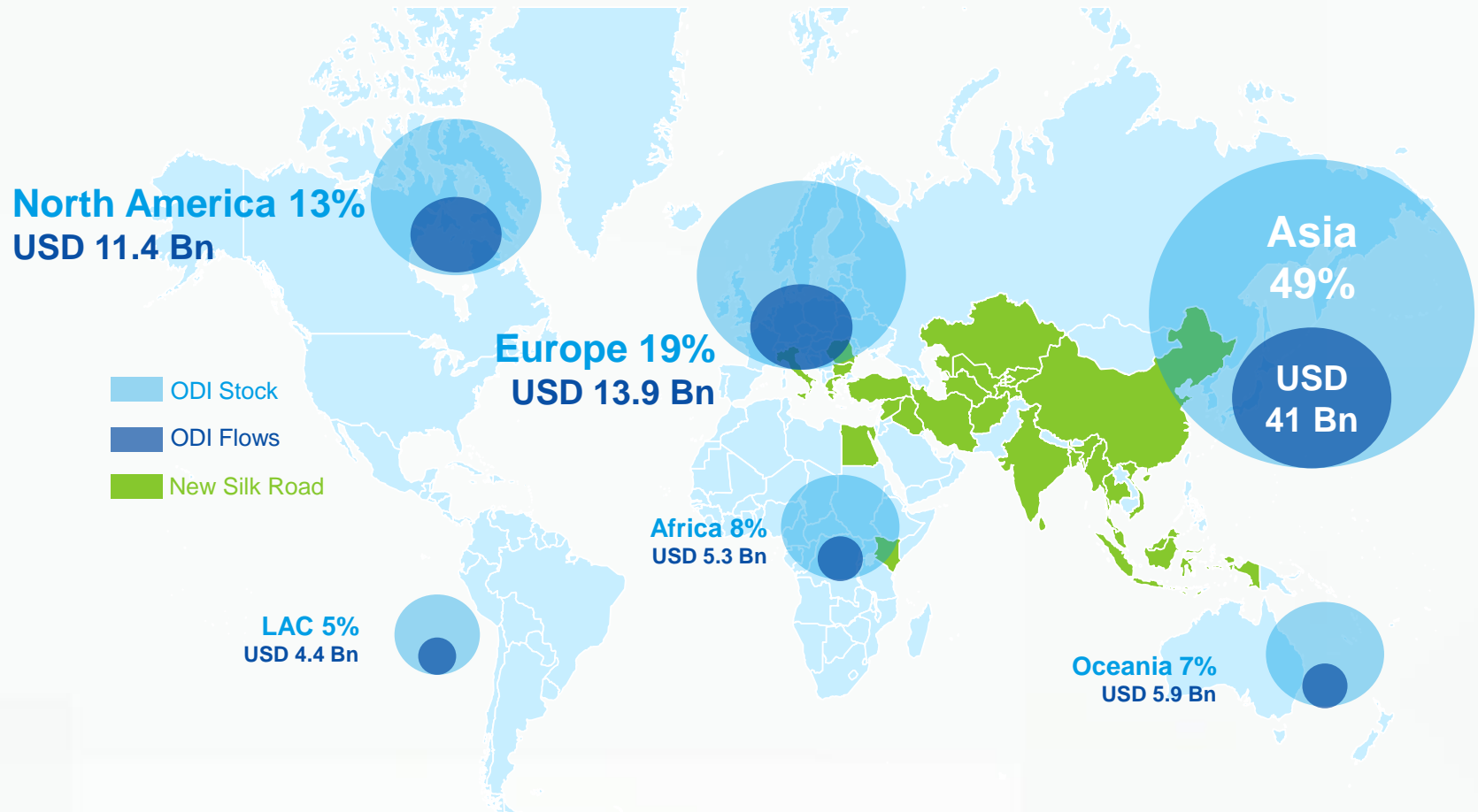


■ Offshore Centers ■ Rest of the world

Our own estimates show that Europe, followed by North America are very relevant



China's statistics give Asia overriding importance, followed by Latin America



2. Report very timely

- **Important ongoing negotiations:**
 - EU-China Investment Agreement just following the US?
 - No real European position or just too divided?
- **Key pending issues**
 - China's negative list too large (MERICS report points to this)
 - Geographical coverage of agreement even more important: only of Shanghai Free Trade Zone?
 - Should Europe then only offer Luxembourg in exchange?

3. Report very positive on two fronts

1. Advantages of receiving FDI from China

- Offers good reasons:
 - EU has benefitted from receiving large amounts of FDI
 - China is such an important partner: Export-enhancing employment creation, especially towards Chinese market
- Other hypotheses - less complementary for Europe - need to be considered:
 - Overriding role of Chinese SOEs as investors may threaten this end result profit maximization not being their key objective
 - Branding and technology acquisition may be more important:

2. China is reforming in a way that will offer more opportunities to foreign companies

- This is probably the point I am more doubtful about.
- Since Xi Jinping's key-off reform plan in Nov 2013 (the Plenum), very little attention to foreign companies.
- So far, very few measures to open additional sectors
- Intention to reduce the size of the state seems more clear but perhaps only to the benefit of the Chinese sector
- Even this not pushed to quickly: CEOs continue to have overriding power (although less so their leadership because of the anticorruption campaign)
- Does Xi Jinping only want a change in the leadership or a more pro-market model?. Even in the latter case, no sign yet that foreigners will get a larger part of the pie

How to make it work?

- **Reciprocity for market access as key**
 - MERICS report shows that China remains more restrictive to FDI than any major economy in the world (more than India and Russia)
- **Level playing field**
 - Existing WTO rules not enough, preferential treatment to China corporations (especially SOEs) should not be allowed
 - TPP offers a good framework for Europe when negotiating with China
- **No divide and conquer should be allowed**
 - No bilateral investment agreement between member states and China should be fostered, not even Germany!

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