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Mercator Institute
for China Studies

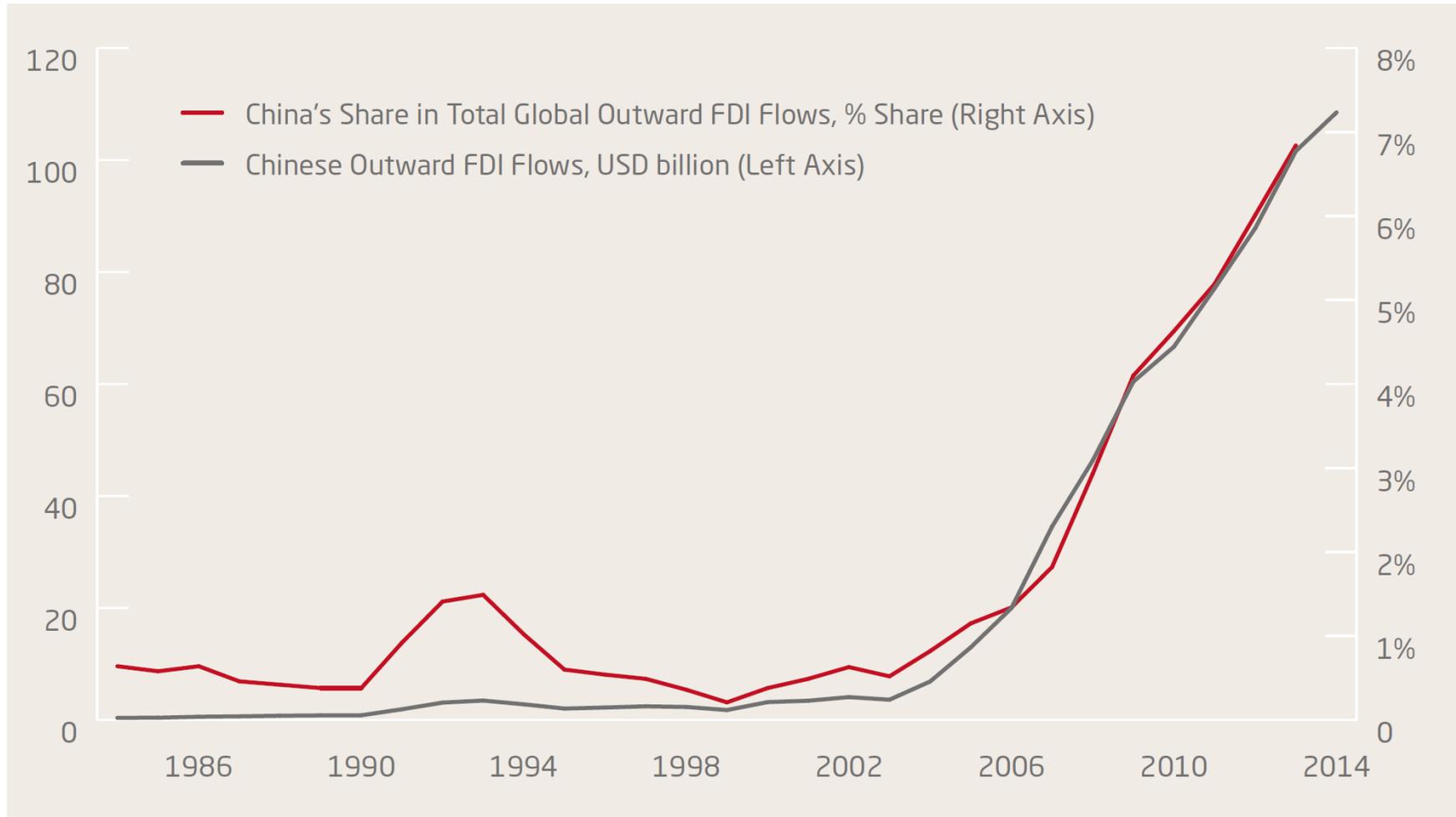
Chinese FDI: The European Policy Agenda

Brussels, 29 June 2015

Thilo Hanemann and Mikko Huotari

China's Outward FDI is Booming

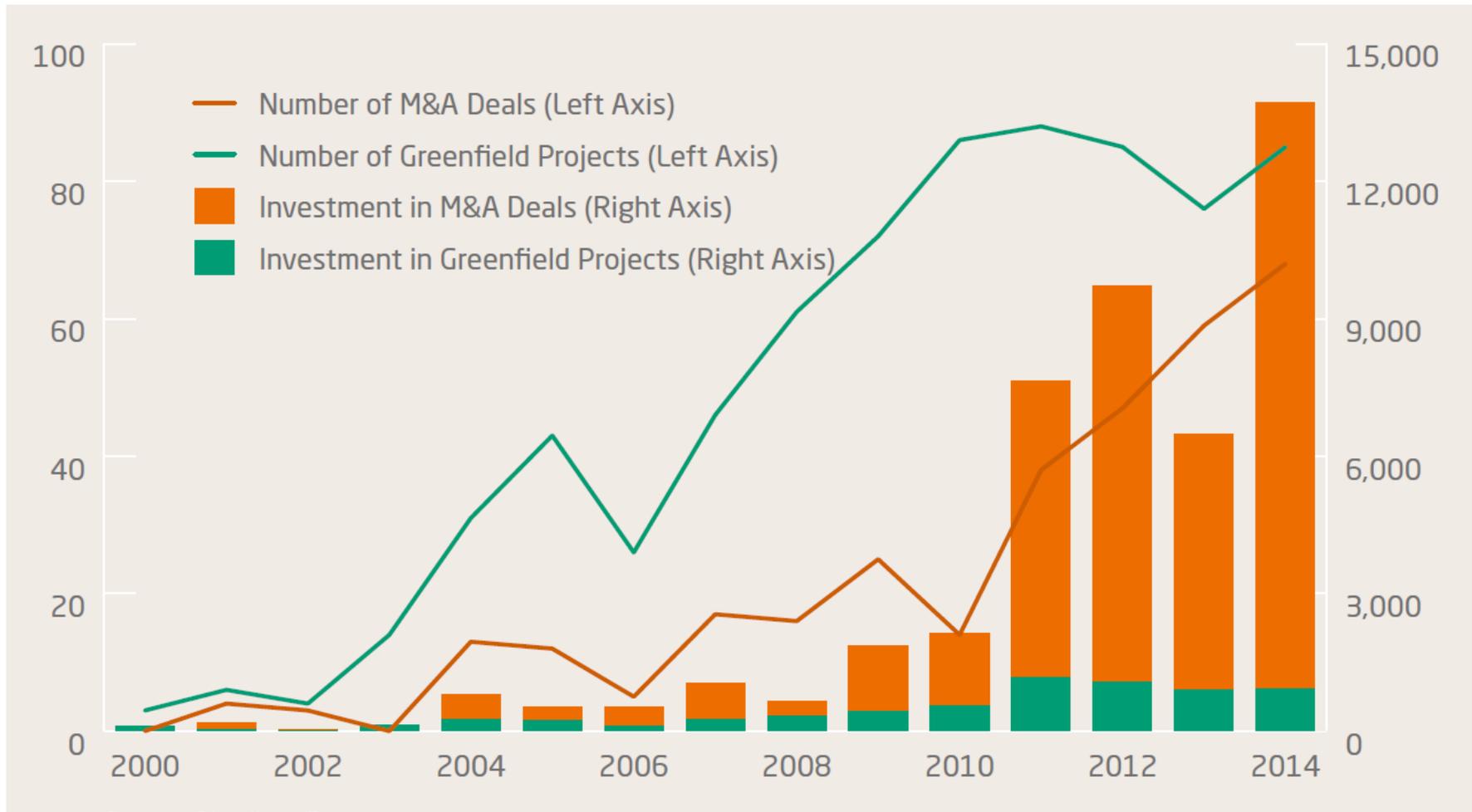
Annual OFDI in 3-year moving averages (USD billion; percent)



Source: UNCTAD, RHG.

Chinese Greenfield and M&A Transactions in the EU-28

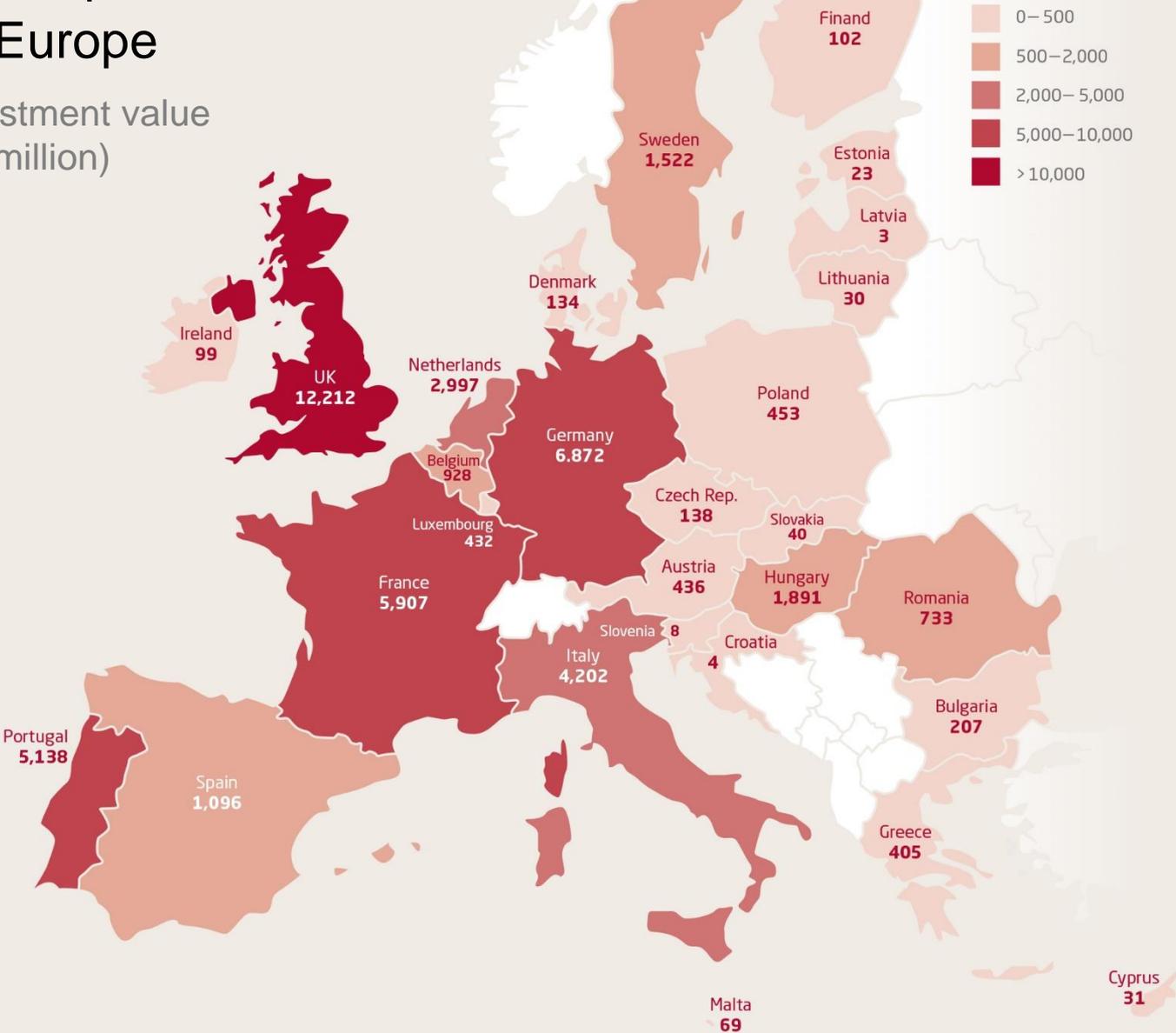
Number of deals; Investment value in USD million



* Only considers M&A transactions with resulting stake of 10%

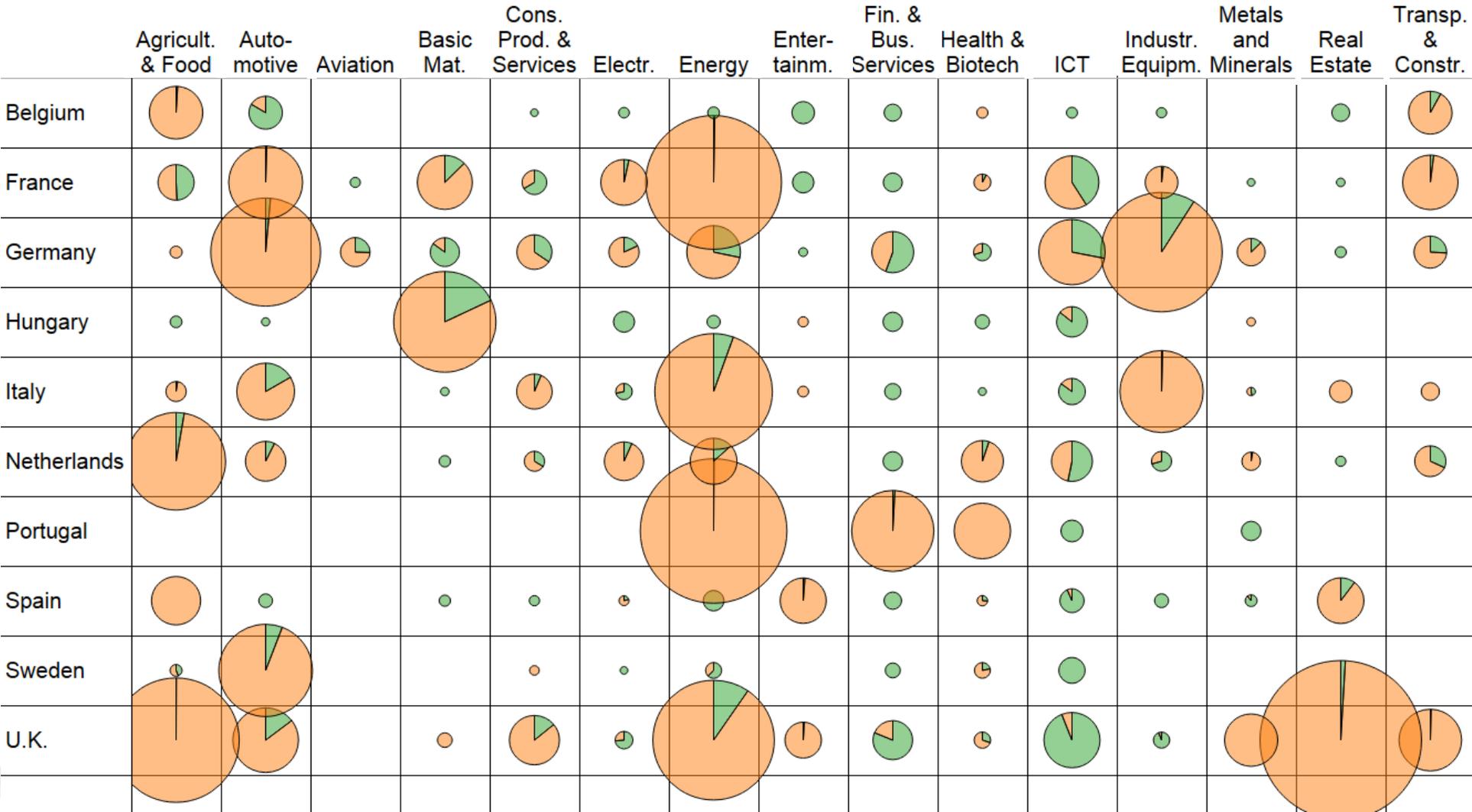
Chinese FDI is Spread Across all of Europe

Cummulative investment value 2010-2014 (EUR million)



Industry Mix in European Comparison

Cumulative investment value 2010-2014



China is Different: The European Policy Agenda

**A significant
new source of
capital**

**Backward
linkages with
Chinese
market**

**Contributions
to local R&D
and innovation**

**Asymmetrical
market access**

**Unfair
competition?**

**Headquarters
effect?**

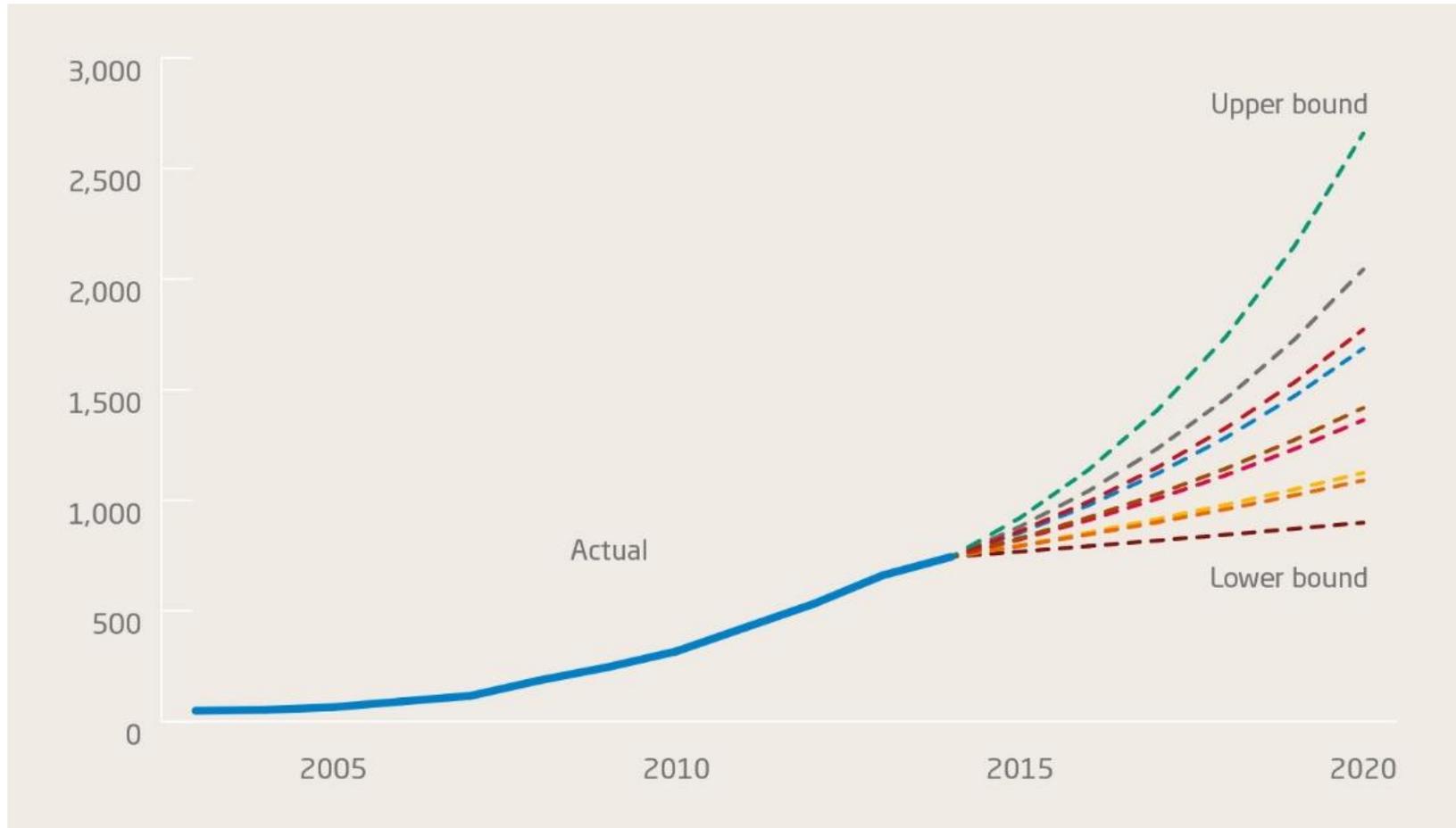
**National
security**

**Higher
volatility of
capital flows?**

**Regulatory
race to the
bottom?**

One of the Fastest Growing Exporters of FDI

Projections for China's global outward FDI stock in 2020 (USD billion)*



* This chart combines three scenarios for GDP size (\$11.2, \$13.6, and \$17.7 trillion) and OFDI stock to GDP ratio (6%, 10%, 15%) to estimate the upper and lower bounds of China's outward FDI stock in 2020.

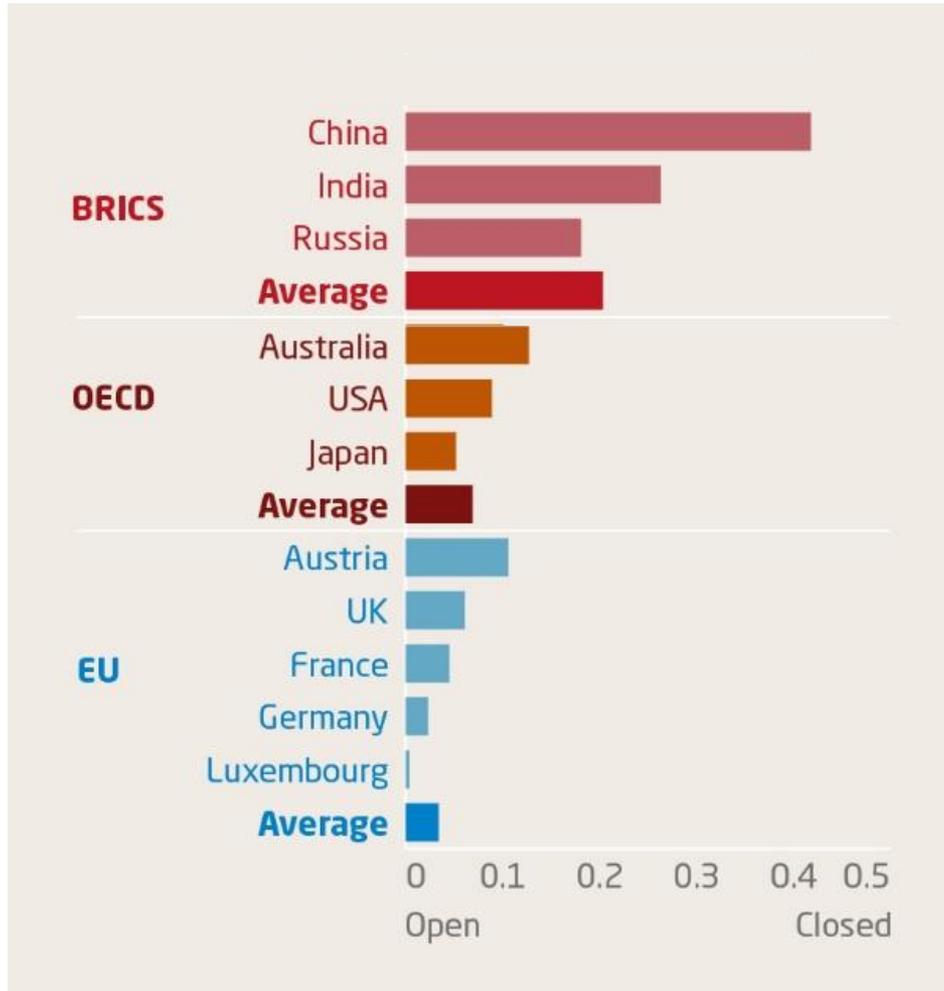
Not Just Quantity: Linkages and Local R&D Spending

Selected R&D investment projects by Chinese companies in Europe

Project	Chinese Investor	Location	Industry
R&D Centre	CSR Corporation	Dresden, Germany	Other Transportation Equipment
R&D Centre	Sany	Bedburg, Germany	Industrial Machinery and Tools
R&D Centre	Xuzhou Construction Machinery Group	Krefeld, Germany	Industrial Machinery and Tools
R&D Centre	Huawei Technologies	Duesseldorf, Germany	IT Equipment
R&D Head- quarters	Huawei Technologies	Munich, Germany	IT Equipment
Design Centre	Shanghai Automotive Industry Corporation	Birmingham, UK	Automotive Equipment and Components
Design Centre	Chang'an Automobile Group	Turin, Italy	Automotive Equipment and Components
Test Centre	Beijing Genomics Institute	Prague, Czech Republic	Pharmaceuticals and Biotechnology

Asymmetry in Market Access

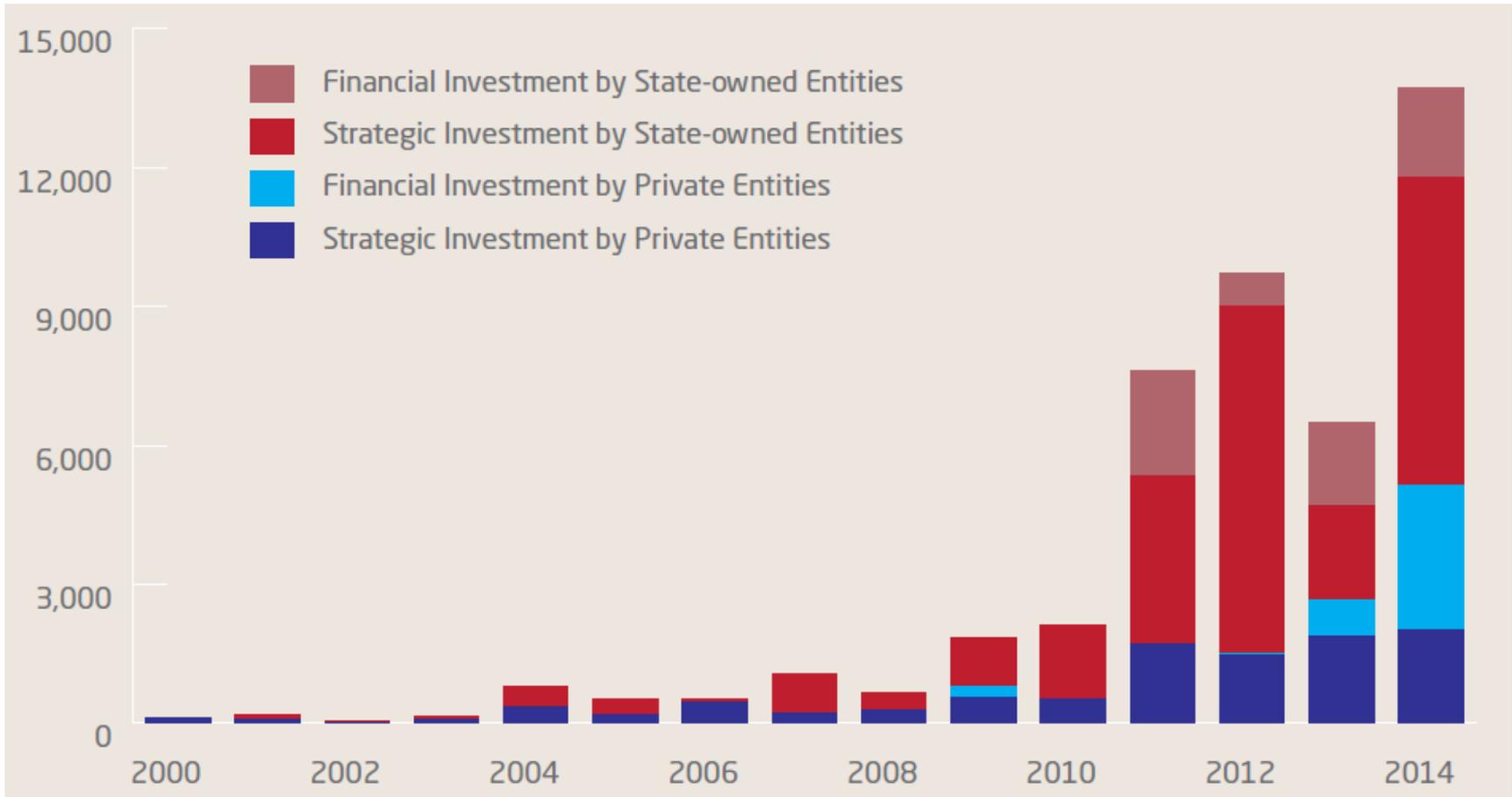
FDI Restrictiveness Index, 0=open; 1=closed



Source: OECD.

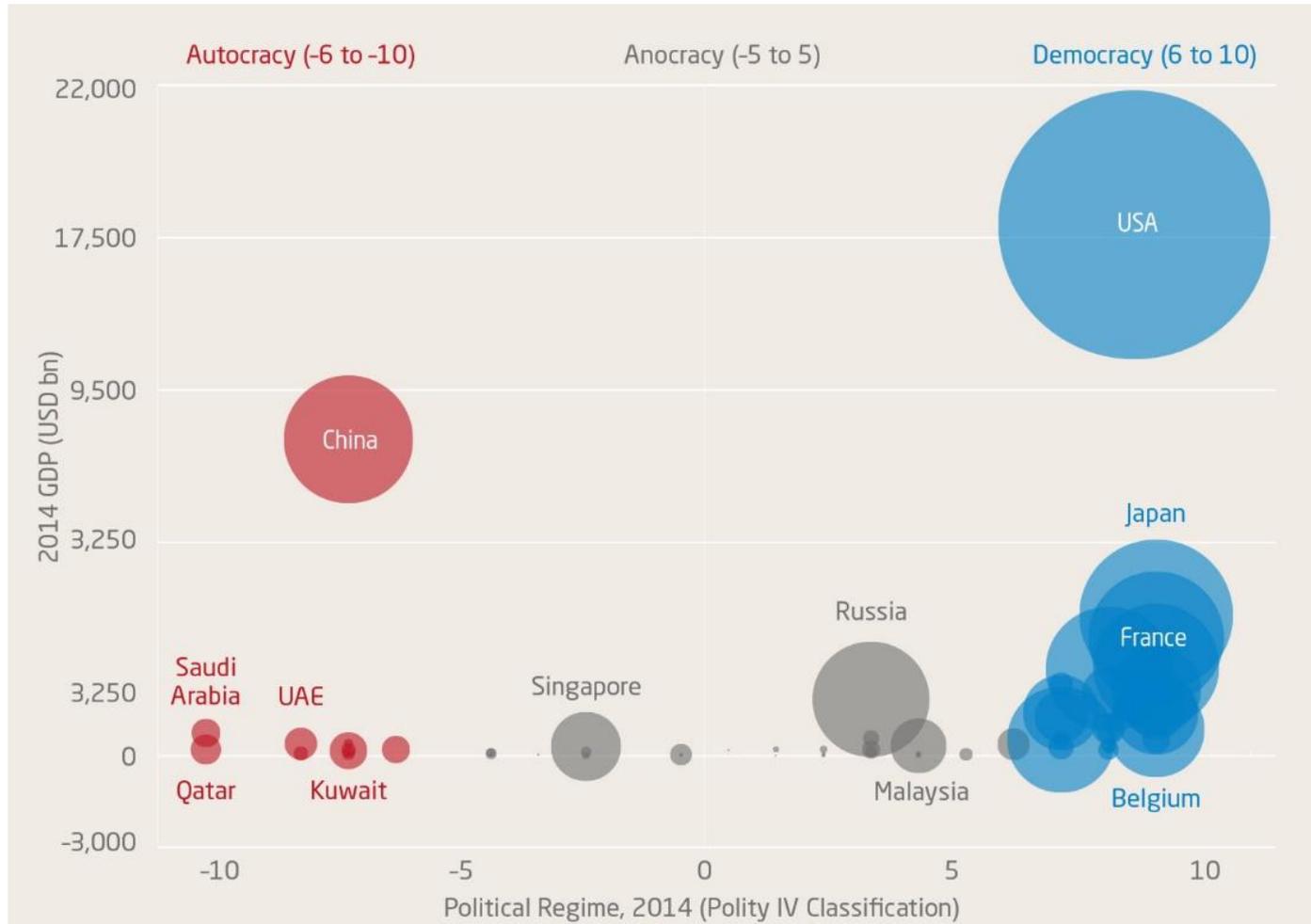
Subsidies and Other Non-Market Advantages

Chinese FDI in Europe 2010-2012 by type of investor and sector
(USD billion; percent)



National Security

Regime type, GDP and FDI flows (size represents average flows 2008-2013)



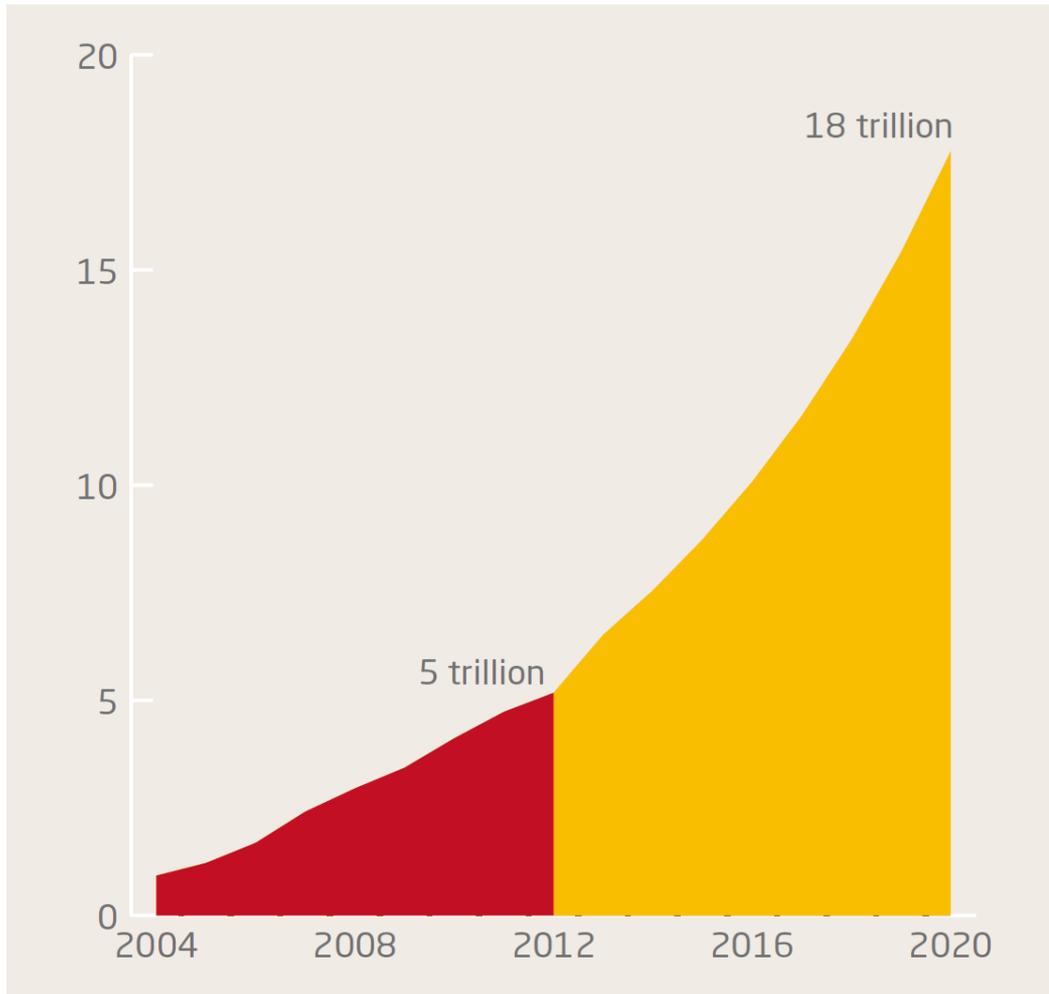
Source: IMF, UNCTAD, Polity IV.

EU Policy Priorities

- (1) Implement structural reforms to improve Europe's long-term growth outlook to attract productive Chinese investments.
- (2) Defend the principle of investment openness and resist the politicization of Chinese takeovers.
- (3) Conclude robust bilateral investment agreement that addresses existing asymmetries in market access by giving European companies pre-establishment rights, limited only by a short negative list of restricted sectors.
- (4) Explore potential frameworks for addressing concerns about capital subsidies and other non-market advantages for state-owned (and private?) companies from China to prepare for a scenario where reforms are slower than anticipated.
- (5) Initiate a European discourse about a more coherent pan-European approach to investment screenings for national security threats from foreign investment.

Beyond OFDI: EU China Policy in New Era of Chinese Capital

Projections for assets in China's international investment position (USD trillion)*



Source: SAFE, He et al. (2012); Projections based on assumption of fully convertible capital account by 2020.