1 Chinese Overseas Direct Investment into the European Union

Jeremy Clegg and Hinrich Voss

Introduction

The purpose of this chapter is to review the factors that have driven and constrained mainland Chinese investments in the EU from 2000 to 2013, and to outline the policy recommendations that arise for the EU and its Member States wishing to increase their share of Chinese foreign direct investment (FDI). The geographical focus of investment for this chapter is the EU of 27 Member States (EU-27). The narrower boundaries of the EU of 15 Member States (EU-15) will be used when we refer to time periods before 2004 (i.e. the pre-Fifth-Enlargement members).

We focus on FDI by mainland Chinese firms, that is, where the ultimate parent company is Chinese. This can be determined by using mergers and acquisitions (M&A) data, but not with conventional FDI statistics. Thus portfolio investments, government bond purchases and direct investments from the Hong Kong Special Administrative Region (SAR), from the Macao SAR, from Taiwan or from any offshore tax haven are not considered here. Direct investments from Japan, South Korea and the US are included only for comparative reasons, to put Chinese investments in the EU into international perspective. A Chinese foreign direct investment in the EU is taken to mean investment owned by a Chinese-resident enterprise in an EU-resident enterprise, with the intention of establishing a lasting interest while exercising a significant degree of management influence. Such influence
is inferred if the investor has 10 per cent or more of equity-based voting power (see UNCTAD 2009, p. 38; OECD 2008, para. 117). Chinese firms that invest overseas (including in Hong Kong, which is still regarded as autonomous from the People’s Republic of China (PRC) except in foreign policy and defence), thus owning productive assets in at least two countries, are classified as multinational enterprises (MNEs). This is regardless of their size or form of ownership. Forms of ownership addressed in this chapter cover state-owned and privately owned firms. Chinese listed firms can also fall into either of these categories. Sovereign wealth funds (SWFs), such as the China Investment Corporation (CIC) and the State Administration of Foreign Exchange (SAFE) Investment Fund, are government-owned investment vehicles, not state-owned enterprises. They are not solely, nor even predominantly, FDI-focused organisations. They are therefore treated as a separate form of investor. Monetary values are presented in Euros and US dollar.

Our analysis comprises a Chinese and a European perspective. The Chinese perspective is applied when we consider the investment pattern and motivation of Chinese state-owned and privately owned investors. Firms invest internationally in order to expand or to defend their overseas market (so-called market-seeking investment); to secure better access to raw materials such as oil and minerals (resource-seeking); to secure better access to technologies, brands, distribution channels (strategic asset-seeking); and/or to reduce overall production costs by utilising cheaper inputs, generally labour, or to achieve greater productivity (efficiency-seeking). Depending on the investment motive (and often several motives are present at a time), potential investors consider and evaluate host-country characteristics comparatively. Such characteristics encompass Chinese government attitudes and the Chinese institutional framework towards investing abroad. Indeed, one aspect that must not be overlooked in the Chinese context is the role of the government, which has been central in guiding the domestic economy to today’s economic success. The stance of central government policy has changed towards outward investment in recent years. Although cross-border investments were first permitted in the late 1970s, they were heavily restricted by the government. This slowly changed during the 1980s and 1990s as a regulatory framework was developed and state-owned enterprises