Chinese Investment in the Greater Europe Zone

Thierry Apoteker

Introduction

Concepts and definitions

Investments are financial flows that purchase financial and productive assets. Foreign investments are investments in enterprises that operate outside the domestic territory of the investor. These can be classified in two ways: (1) foreign portfolio investments are financial flows that enter equity or bond markets, possibly for a short time, and market prices are usually a fundamental driver for the foreign investor; (2) foreign direct investments (FDIs) involve significant foreign ownership (at least 10 per cent of voting stock) of productive assets. Inward FDI is defined as capital entering an economy attracted by favourable economic factors; outward FDI (sometimes noted as outward direct investment or ODI/OFDI) is a flow of capital moving abroad.

The economic literature that looks at the determinants of FDI is vast, and consistently points towards (1) the strengthening of an existing market structure or the expansion of a business to new markets (market-seeking FDI), (2) gaining access to resources in host countries (resource-seeking FDI) and (3) the optimisation of competitiveness or economies of scale (efficiency-seeking FDI).

As part of the economic reform movement initiated in the late 1970s, the Chinese government has continued the process of institutional transformation, seeking to attract foreign capital and technology as a critical element of its strategy to catch up
with the West. The impressive increase in Chinese FDI inflows throughout the 2000s has contributed to the acceleration of China’s GDP growth and made it the top destination for global FDI in developing economies.

Outward FDI from China also emerged during this time with the Go Global policy, initiated by the Chinese authorities in 1999. It encourages the globalisation of domestic enterprises and therefore overseas investment by Chinese enterprises. According to the United Nations Conference on Trade and Development (UNCTAD), China accounted for 3.6 per cent of total outward investment from developing countries in 1995, 10.0 per cent in 2005 and a massive 20.8 per cent in 2010 (€51.4 billion) in the midst of the global economic crisis. This made it the second-largest developing country in terms of outward FDI, beaten only by Hong Kong (ranked fourth globally in 2010), which acts as a key ‘transit’ point for operations in and out of China – from trade to capital flows, including investments.

In the academic literature, econometric studies emphasise the different features of Chinese outward FDI and show that large markets, cultural proximity with the host country and countries with abundant natural resources and poor institutions are the main drivers of Chinese FDI. Studies also suggest that Chinese investors have different overseas investment strategies compared with other investors. Those studies argue that good institutions in target countries will reduce the risk and costs of doing business and help to improve productivity, thus increasing Chinese outward FDI flows.

Data and statistical difficulties

In reviewing and analysing investment flows, one of the main difficulties is determining how these capital flows are measured. This is certainly true at the global level, but it is even more difficult in the case of China. For example, how should one classify investments below the threshold of 10 per cent of the equity of targeted companies? How does one deal with offshore centres that act as critical intermediaries for FDI in order to avoid taxes and transparency?

The official Chinese source of data for foreign direct investments into and out of China comes from the Ministry of