

The *Belt & Road Initiative* and EU-China Economic Relations: Trade, Finance, FDI

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Main Points of the Presentation

- OBOR and China EU Relations
 - Interpreting the Initiative
 - End of the road or which partnerships?
- Chinese presence in Europe
 - Trade, Chinese currency swaps
 - Chinese FDI in Europe: Trade vs. Capital Investments
 - The Balkans: A Southern Entry for Chinese companies?
- Conclusion

Final stops, Duisburg and Athens...



Interpreting the Initiative: Political and Geopolitical Dimensions

- The end of the unipolar world? Reshaping international relations
- OBOR as a reply to Free Trade Agreement supported by the US?
 - TPP: 12 countries, 800 million people
 - TTIP: the EU and the US, 820 million people: may collapse
 - OBOR: 65 countries, 4,4 billions people....
- Means of perpetuating the export led growth model
- Export expertise in fields of infrastructures, steel, cement: research opportunities outside China, modernizing West parts of China, Xinjiang (highest oil and gas reserves, lowest development level in China)
- Lenin and the Theory of Imperialism: low profitability and overcapacities at home.: managing vast overcapacity, necessity to find new markets
- Playing different cards?
 - Going Alone?: OBOR: Asia -> Europe
 - Rest of the world: Latin America, Africa...Still priorities
 - Promoting and investing in the BRICS
 - Building new institutions, the New Development Bank
 - But strong asymmetries: Brazil & Russia down, India: ambiguous relations and cooperation, SA: inexistant

A difficult trade off between external and domestic-led growth

- End of the growth model founded on investment in infrastructures and exports
- Future growth based on domestic consumption, on development of services
- Towards the green economy: less energy dependant in the future
- Restructuring & swtiching: could cause economic dislocation, threaten political stability



Looking for external markets

A set of risks

- Too Ambitious?
 - Time horizon, Implementation, Resources
 - Financing, Returns, Sunk costs
 - Enough cash to finance the projects? Degrees of commitments of partners..
 - Optimizing the use of transport infrastructures: not from A to D but between A and B, B and C, C and D....Creating numerous hubs along the road.
 - Which (international, regional) governance?
- Partnerships:
 - Weak and risky States...(Pakistan),
 - Strong States Reluctants (Vietnam, India)..
 - Emerging Powers (Iran)
- Entering Russia backyard:
 - Eurasian Economic Union and OBOR
 - Convergence between different aims?

Domestic dimension of B&R Initiative: Focus on backward provinces

Linking backward provinces to the project

Articulating with external projects

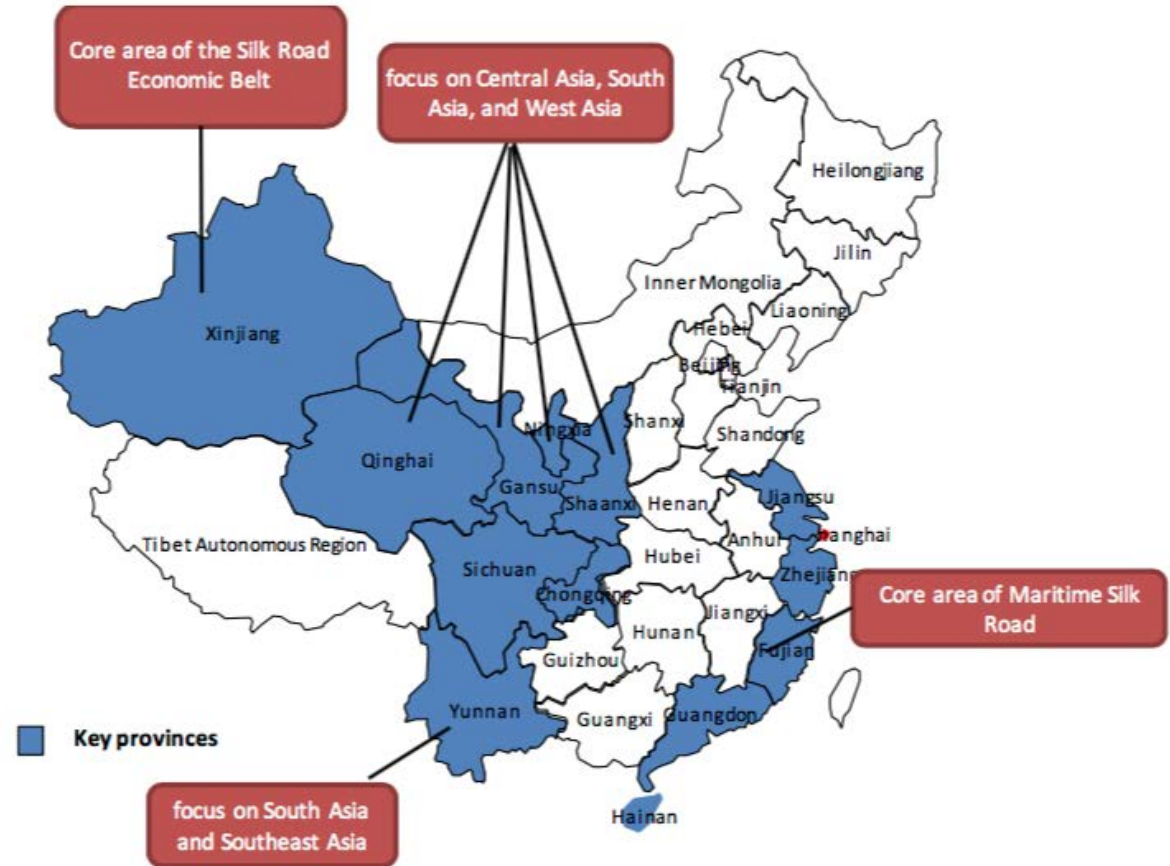
Planning and managing issues:

- how local/provincial/national projects will fit together?
- How adjust to double constraints?
Rationalizing, expanding

Financing

- Sources
- Local financing?
- Dealing with local and municipalities indebtedness and financing investments?

Trade offs, fine tuning, arbitraging










































































































The 13 provinces will feature prominently as the OBOR develops

Opportunities by sectors and provinces

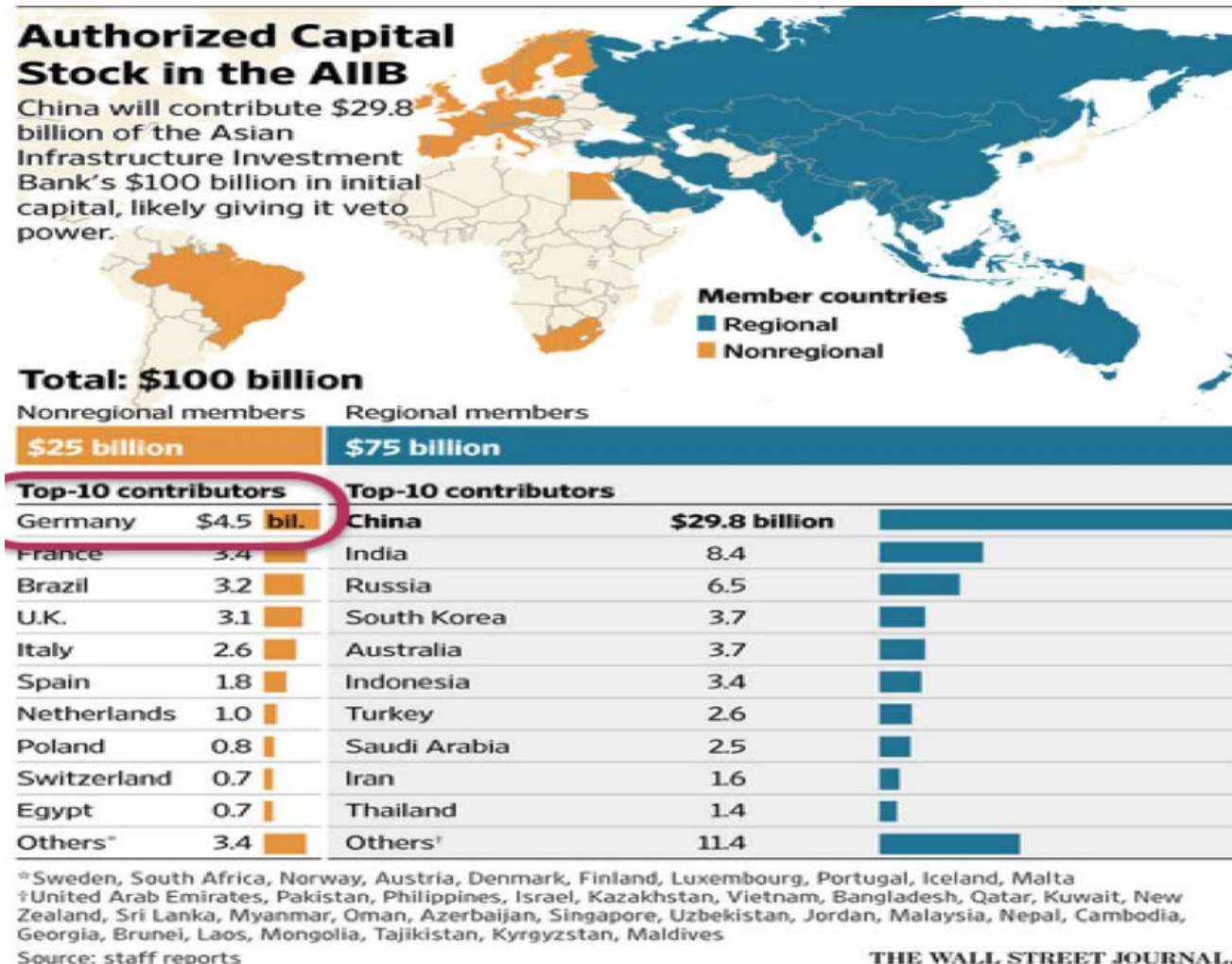
New markets for industries with overcapacities

Access to new financing instead of managing bad debt debts

Extending know how abroad

Province/ municipality	Primary Opportunities						Secondary Opportunities		
	Infrastructure	Financial and Professional Services	Agriculture and Environment	Advanced Manufacturing and Transport	Energy and Resources	E-Commerce and logistics	Healthcare and Life Science	Tourism	Creative and Culture
Xinjiang									
Fujian									
Shaanxi									
Gansu									
Qinghai									
Ningxia									
Sichuan									
Chongqing									
Yunnan									
Jiangsu									
Zhejiang									
Guangdong									
Hainan									

Financing: who controls?



Financing. Comparing the role of different institutions

Name	Size (bn US \$)	Intended Recipients	Focus	Funding Source
Asian Infrastructure Investment Bank	50 initially Up to 100 bnUS\$	All regional member countries	Infrastructures	Member countries
Silk Road Fund	40 bnUS\$	Countries along OBOR routes	Infrastructures Resources development Industrial cooperation	Mostly chinese capital
New Development Bank	50 initially Up to 100 bnUS\$	BRICS plus other emerging economies. Cooperating with other international institutions (the WBk)	Supporting green investments promoting environment protection. Associate to (and no competition with) AIIB financing	Founding members (the 5 BRICS countries)

The EU & OBOR : The Red Carpet?



EU-China Relations

- Asymmetric (volumes, contents, Exp, Imp)
- China: not yet recognized as a market economy: still difficulties (anti-dumping), political pressures
- No Global Treaty on Investments
- For China one Europe, 28 states and more...
 - Core EU (Most industrialized, EU-15)
 - New Members States (and others: 16+1..)
 - Accession countries (Western Balkans): The southern entry.
- Differentiated attractiveness: EU-15, CEES, Balkans & SEE
- Lowest bidder strategies by some countries for attracting chinese investments
- Individualistic strategies followed by member states: UK, France...Red carpet policies...(currency swaps, external RMB bond issuing..)

Opportunities/Threats for the EU

- (A reminder: the Japan « going global strategies » 3 decades ago...)
- EU: the most attractive destination for FDI but still low level
- UK: from a 'special relationship' with the US to a 'golden era' with China? But up to now only 1% of total outflow of chinese FDI.. Brexit: a concern for China
- Germany the main target? Most attractive to FDI, many « Hidden Champions »: upstream regional chinese value chain?
- Trying to play one country against another?
- Human rights issues: some countries still punished (Norway) other aligned (Serbia, France)
- Anti-dumping issues: how to manage
- Other interests for Europe in Asia (South Korea, Vietnam, Japan..ASEAN)

China and EU Commitments

- Chinese investments in the EU: from 0, mid-2000 to €14/y in 2014. Stock: €46 billions
- EU Members joining the Asia Infrastructure Investment Bank , China joining the EBRD (problems: EBRD has to promote democratic States..)
- EU-China Summit in Brussels (June 2016):
 - Looking for synergies between the Juncker Plan and OBOR Initiative
 - AIIB adding \$100 billion + Silk Road Fund investing \$40 billion along the road
 - EU Commission, European Investment Bk, Silk road fund to identify how China and the Juncker Plan could co-operate : where, how, levels of commitments?
- Can chinese companies do it?
 - Many failures
 - High indebtedness, money laundering (BoC in Spain, Italy)

The EU: at the end of the road..

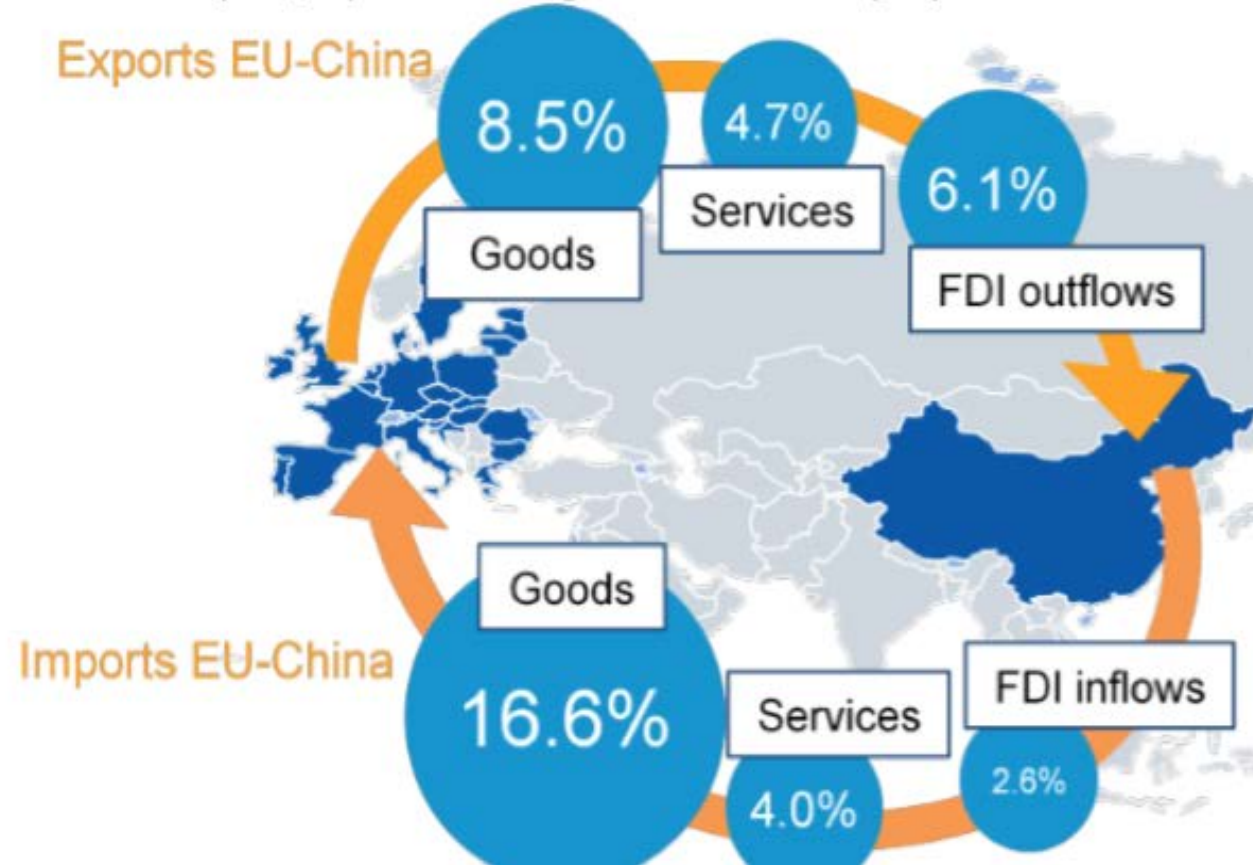
EU: 1st China trade partner

China: 2nd trade partner after the US

End of land (Duisbourg) and sea (Pearus) roads

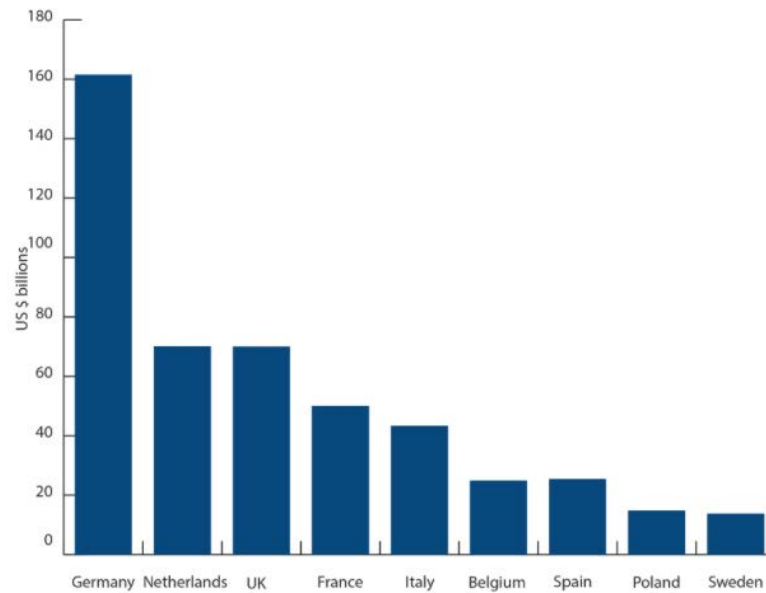
Question : Enough goods in Europe to fill up train and boats back to China?

% of total EU exports, imports and foreign direct investment (FDI) flow

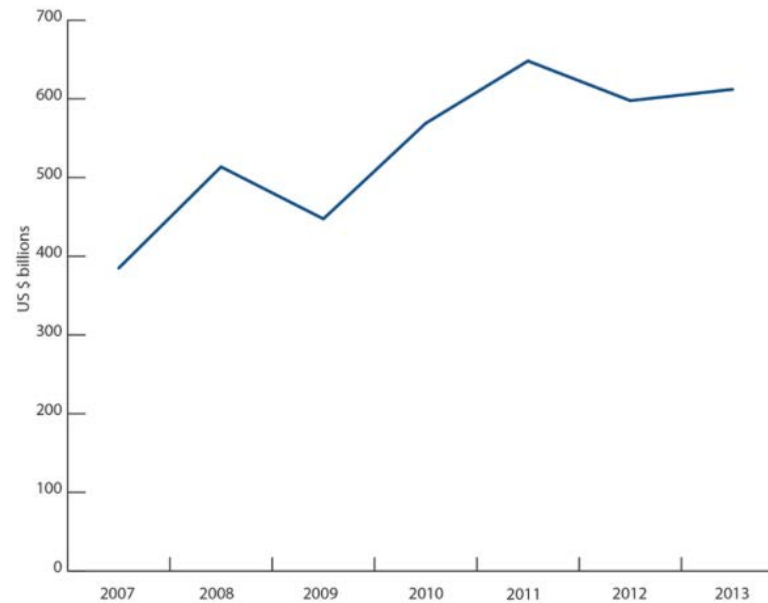


China-EU Trade

EU leading trade partners, 2013

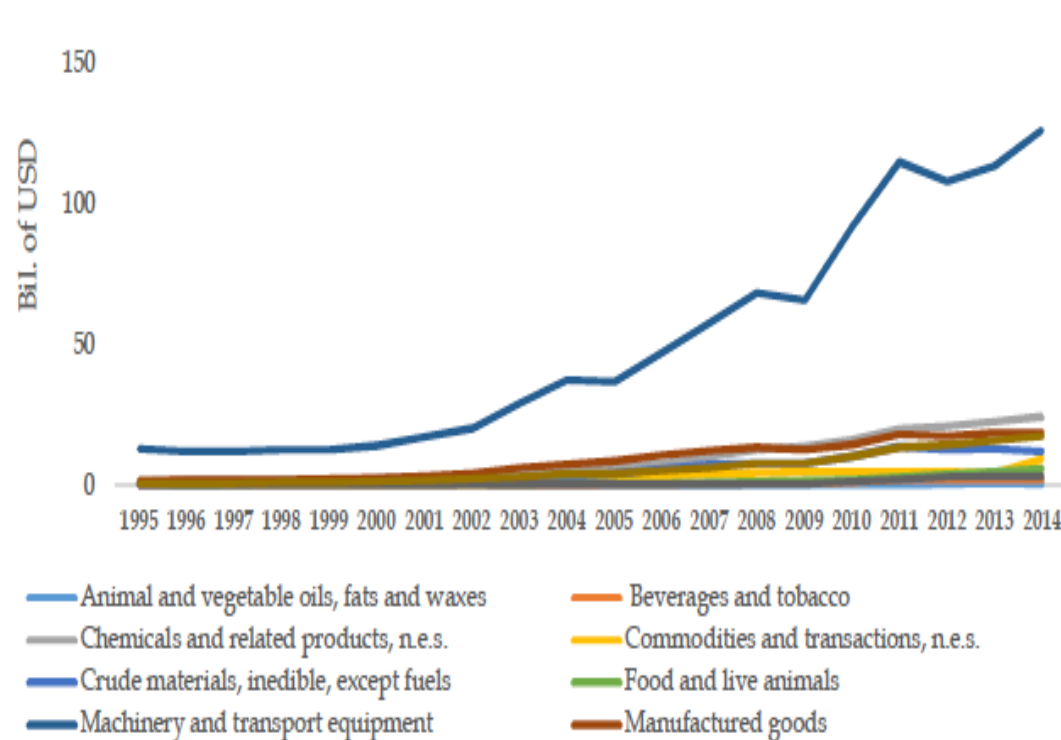


EU-China total trade

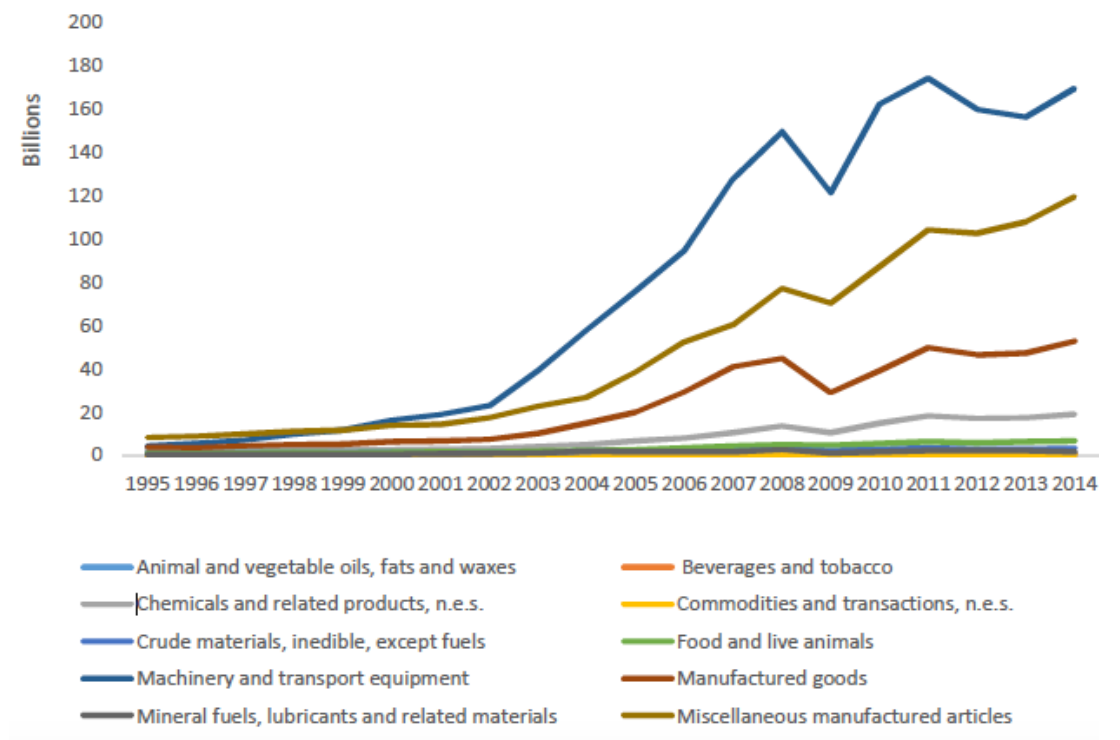


EU-China Trade in goods

EU-goods exports to China by sector

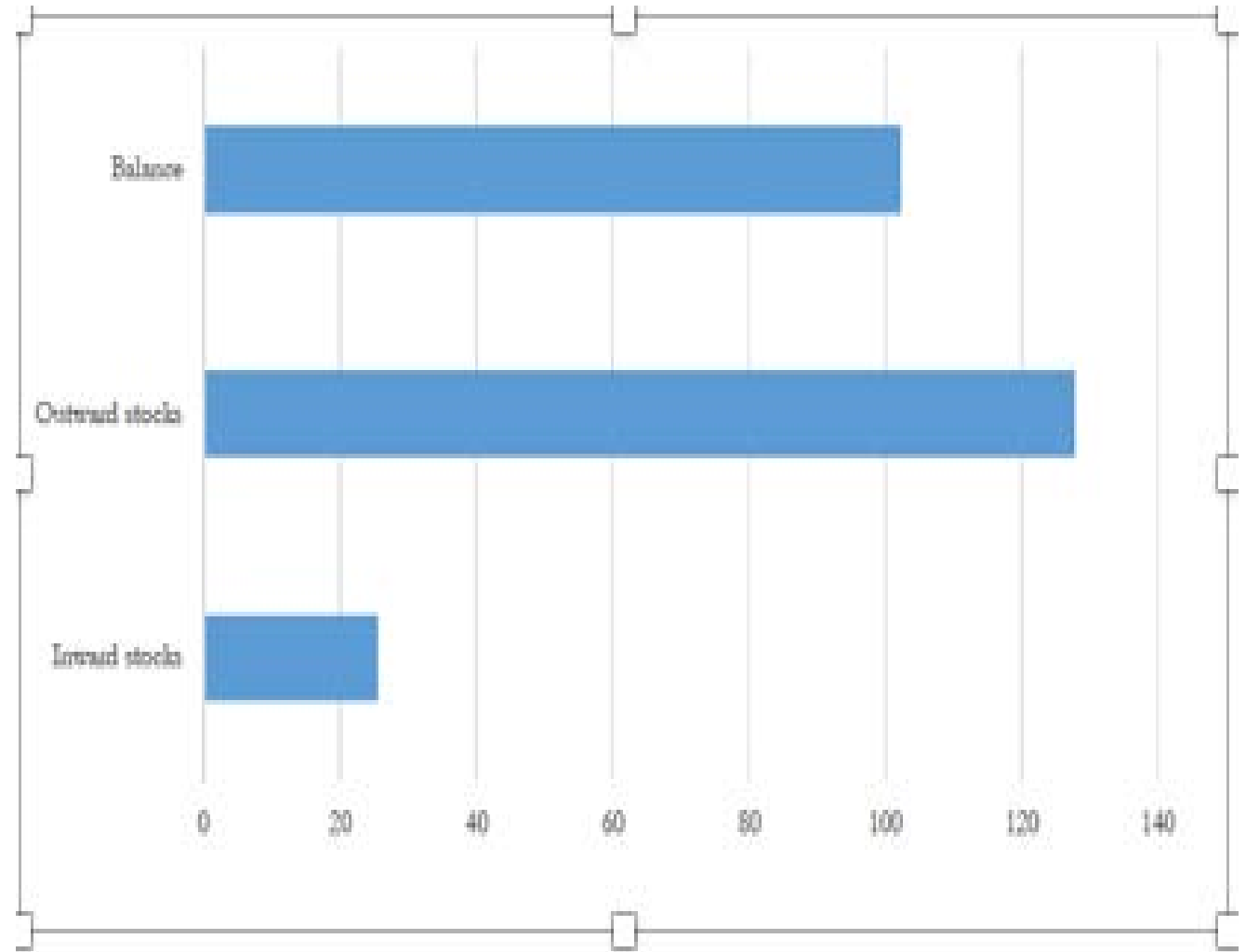


EU-goods imports from China by sector



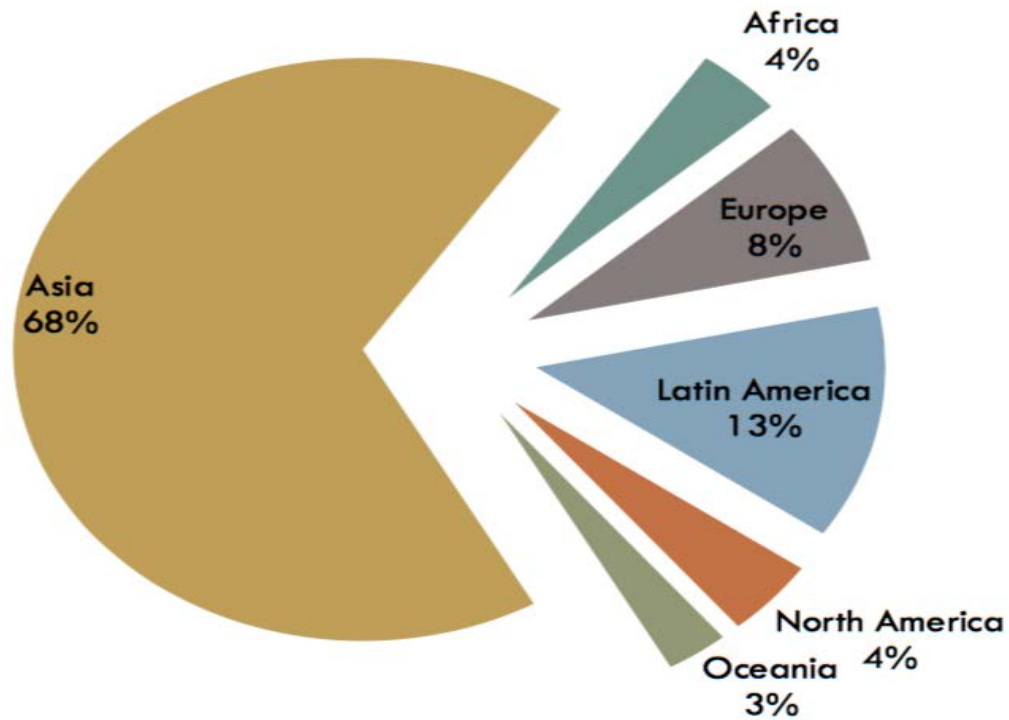
FDI between the EU and China

- Role of EU FDI in China: contributing to the development of several sectors (automotive, electronic, energy..)
- Going out Policy: Europe as a new destination (after Asia, Latin America..)
 - Huge financial resources: « shopping around »
 - Asset seeking/technologies: Volvo
 - Market access: medium technologies
 - Risk diversification (finance)
 - Multiplicity of investors
 - SOE: investing in joint-venture (EDF, PSA)
 - Equities & Private companies
 - SME/Family investment
- Integrating/creating regional value chain

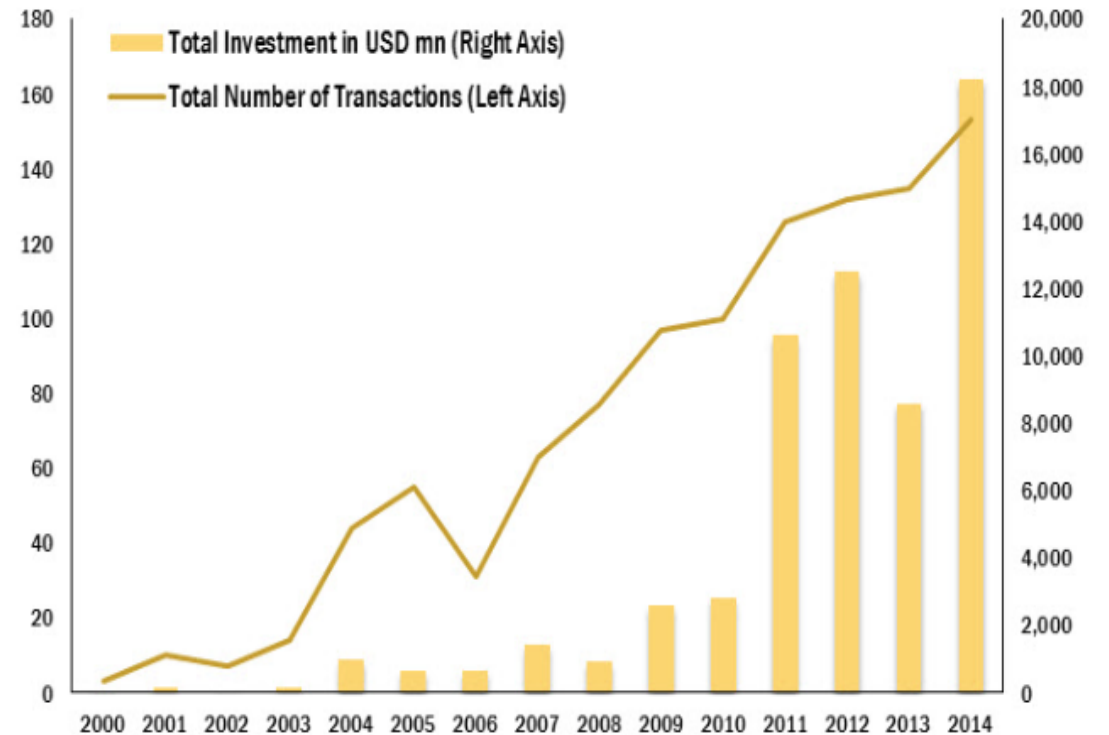


Chinese FDI World & European Distribution

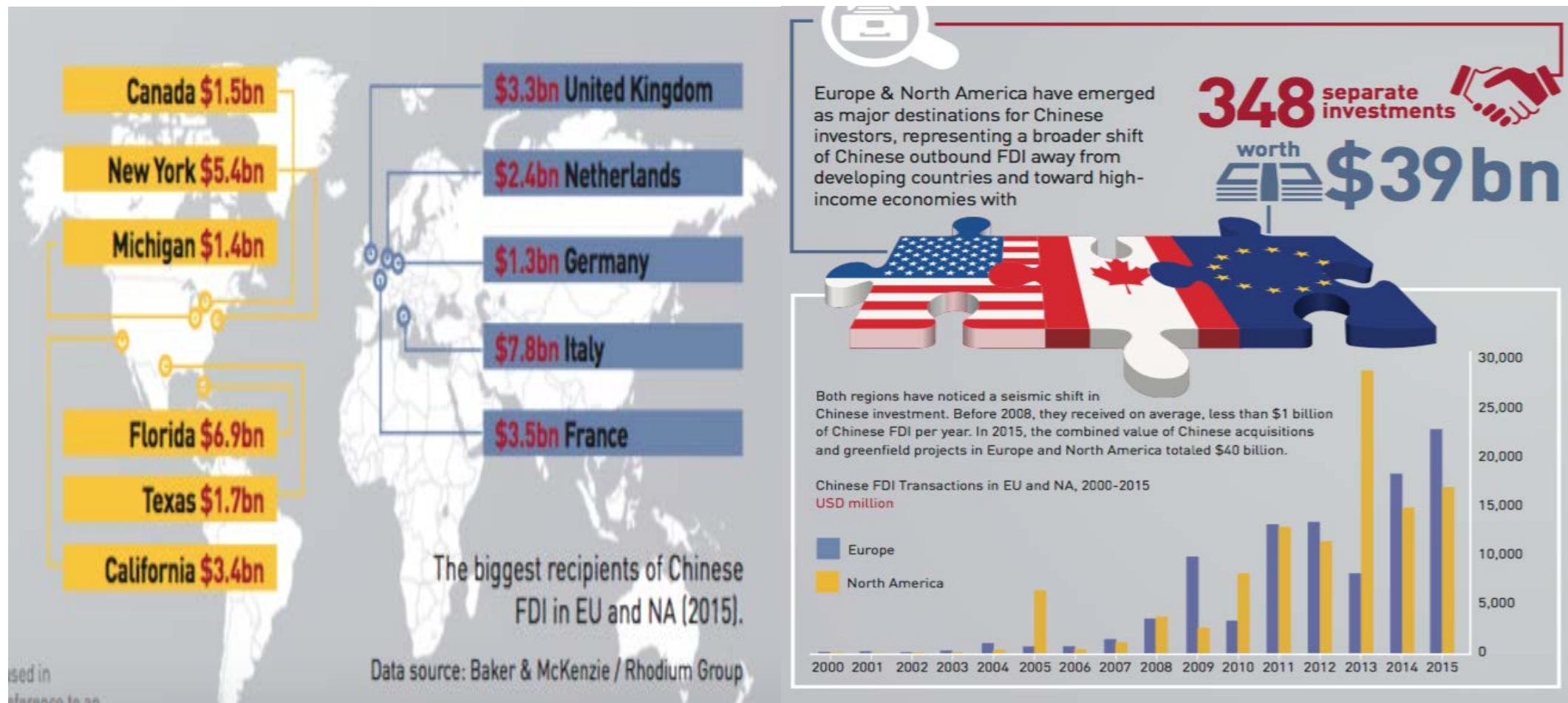
Chinese Global FDI



Chinese FDI in Europe, 2000-2014 (\$ million)



EU/US? Strong attractivity of the EU



Chinese FDI, Stakeholders, Destinations, Objectives

- A variety of stakeholders: Central government, provinces, and municipalities, State-owned banks and companies, capital corporations, private, SMEs, family
- A variety of financing strategies: public, subsidies, private, self-funding,
- US vs. Europe?
- Europe: EU-15, EU 28, 1+16
- Direct investments and/or trade routes: *One Belt, One road Initiative*, (Silk road)
- Technologies: medium, high also classic (energy) (SOE)
- Search for Strategic Assets vs. Markets for Chinese products.
- Evasion, circular investment, valorization, speculation
- Mergers and acquisitions vs. Greenfield investments
- Majority/minority ownership of acquired companies
- Industry vs. Services, finance, commercial real estate
- Specialization, Deepening vs. Diversification
- Multinationalization vs. repatriation to the domestic market, stripping foreign assets
- Market Growth: The Chinese or global market 1+16: China + NMS + Balkans + Russia, Ukraine

The Different Types of Chinese Firms Present in Europe

	State-owned Firms	Private Companies	Entrepreneurs and Family businesses
Motivations	Search for assets (infrastructure/resources/key technologies)	Search for markets and assets (key distribution sectors/supply chains/brands/technologies)	Opportunities for bargains (combined with emigration)
Localisation	Key EU countries (incl. Germany, the UK, and France)	EU-15, CEEC	CEEC and Southern Europe (the Balkans)
Forms of Entry	Mergers and acquisitions	Mergers and acquisitions	Greenfield investments
Partnership	Global multinational firms and large European firms	European SMEs	Chinese, ethnic Chinese SMEs

Limited internationalization?

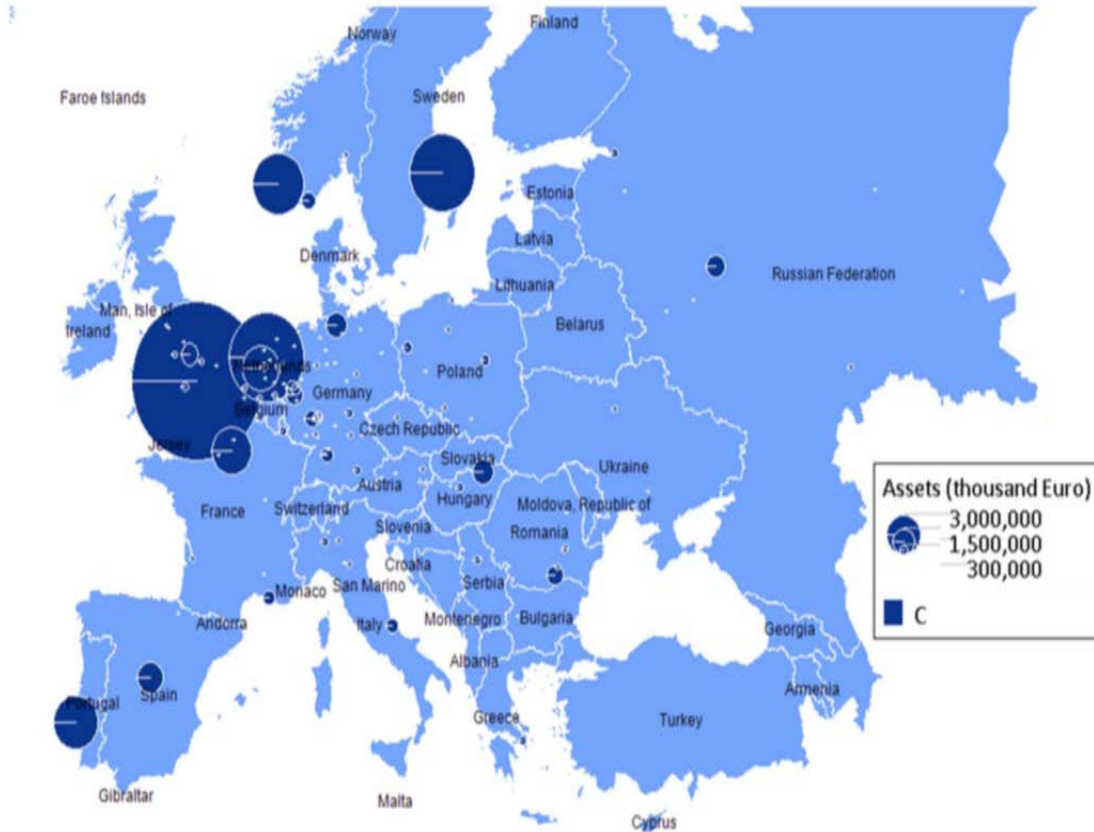
- *Chinese FDI towards the North:*
 - Search for strategic assets, brand purchases, market shares for medium- and high-technology products
 - Construction of Chinese value chains, which continue to be weak, even non-existent
 - Integration into international/regional value chains
 - Acquisition of bankrupt companies (IBM, Volvo, PSA, Club Med), participation in firms experiencing difficulty (EDF, AREVA)
- *Multinationalization:*
 - Chinese companies operate in traditional industries such as mining and metallurgy, protected domains such as banks and telecoms, and mostly state-owned firms
 - Truly internationalized Chinese with global strategies continue to be very weak
 - Absorption technological and innovations capacities remain necessary
 - Insufficient financial resources to ensure financing See Artus For an exhaustive list of acquisitions between 2015 and February 2016 (2016b)

Chinese FDI Stock in the EU by Sector (millions of €)

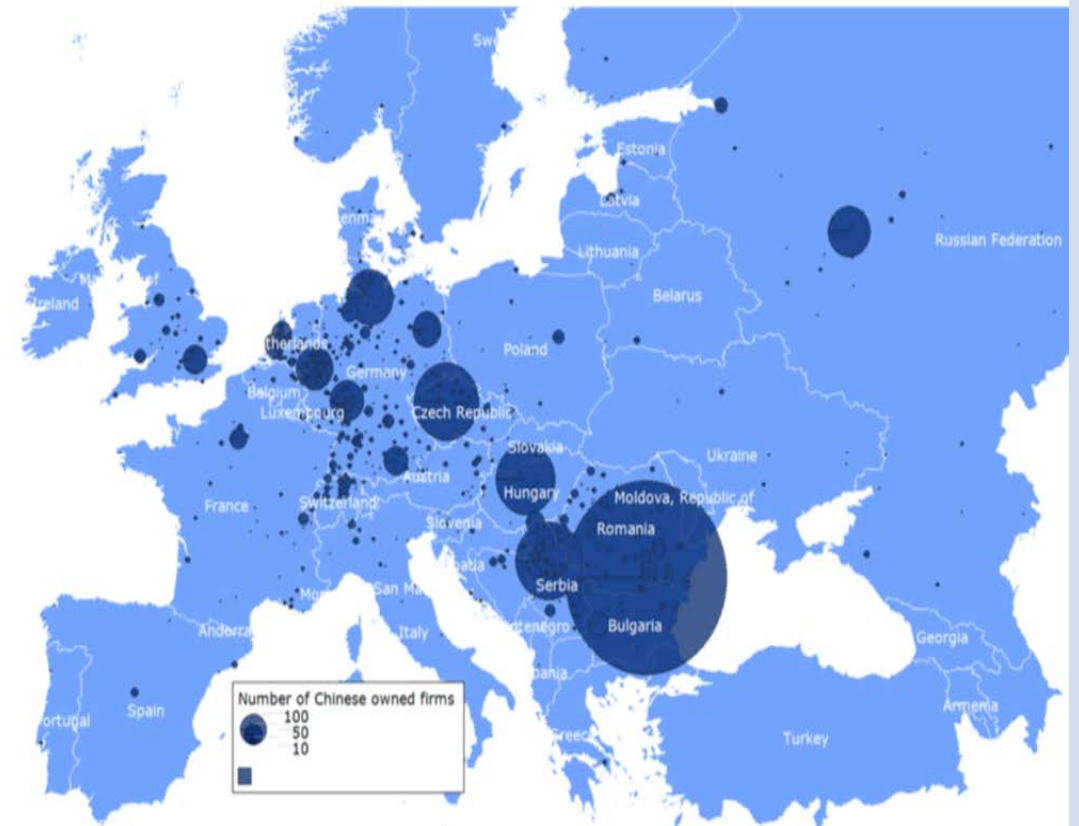
UE-15		EU-NMS		By sector (%)	
Great Britain	12,212	Estonia	23	Energy	28
Ireland	99	Latvia	3	Automobile	13
Netherlands	2,997	Lithuania	30	Agriculture, Agro-business	12
Belgium	928	Czech Republic	138	Real estate	11
Luxemburg	432	Poland	453	Heavy equipment	9
France	5,907	Hungary	1,891	Information technologies	6
Spain	1,096	Romania	733	Raw materials	5
Portugal	5,138	Slovenia	8	Finance and financial services	4
Italy	4,202	Croatia	4	Transportation and construction	4
Greece	405	Bulgaria	207	Health and biotechnology	2
Germany	6,827	Cyprus	31	Consumer goods and services	2
Denmark	134	Malta	69	Electronics	2
Sweden	1,522	Total	3,590	Metals and minerals	1
Finland	102			Leisure activities	1
Austria	436			Aviation	1
Total	42,437	Total EU-28	46,027	Total	100

Geographical Distribution of Invested Capital by Number of Facilities

Amounts of Capital Invested



Number of Facilities



Comparative Attractiveness of the EU-15, NMSs, and the Balkans

Host Countries in Eastern Europe and the Balkans

Advantages

Complement FDI from the EU-15
Diversification
Inflows of capital, markets, jobs
Renewal of industrial sector
Development of exports
Insertion into Chinese value chains

Disadvantages

Increased external control (dependent capitalism)
Intercultural and communications shock
Distance from EU standards and insertion into regional value chain des standards
Defiance with regard to the EU

Chinese firms' Expectations

EU-15

High-earning markets
Opportunities for technology access
Lower euro value, increased RMB value
Regulation of investments
Chinese still not stringent
Experience with Chinese-EU cooperation (European FDI in China)

NMSs + Balkans

Low labor costs
Greenfield investments encouraged: volume
Growth markets
Continuity between Northern and Southern roadways (One beltway, one road)
Geopolitical game: Mixing among EU businesses (1+16)

Localisation

- The heart of Europe (UE-15) remains the principal target.
- Between 2000 and 2014, over 50% of cumulative FDI targeted the UK, Germany, and France. Chinese FDI has become more geographically diverse in recent years, particularly in the PIGS, increasing from 10% before 2011 to over 30% from 2012 to 2014, with Chinese firms taking advantage of the local context by investing in previously state-controlled sectors, especially utilities and transportation.
- The proportion of FDI in NMSs, notably in manufacturing, agriculture, and infrastructure, has gradually expanded to roughly 8% of investment in the region. The diversification of Chinese FDI in this part of Europe is confirmed despite the fact that the highest volume of investments continues to be directed towards more developed and prominent economies.
- A powerful asymmetry is also at work, with the majority of Chinese investment in the NMSs and Southeastern Europe, including the Balkans, being placed due to advantages and risk levels that are specific to the region .

Sectors

- Chinese FDI prioritizes the energy and advanced manufacturing sectors. Over \$13 bn have been invested in public utilities, fossil fuels, and renewable energies, for example. The advanced manufacturing sector--the automotive industry (\$6 bn), heavy equipment (\$4 bn), and telecommunications (\$3 bn)--represent the second sector, followed by services, particularly transportation (\$2 bn), and high value-added sectors like biotechnology and finance (\$3 bn). Chinese investments have more recently encompassed agriculture and agribusiness (\$5 bn) and commercial real estate (\$5 bn).

An exemple of recent acquisitions in the Core EU(+ Norway & Sweden)

Target	Buyer	Seller	%	Location	Industry	Value (estimate)	Date
Syngenta	ChemChina	Listed	100 offer	Switzerland	Agricultural chemistry	€ 40 bn	2016 02
Pirelli	ChemChina	Listed	100	Italy	Automotive supplier	€ 7.1 bn	2015 11
Swissport	HNA Group	Private Equity: PAI	100	Switzerland	Airport services	€ 2.6 bn	2015 08
Avolon Holdings	HNA Group	Listed (87% Private Equity)	100	Ireland	Aircraft leasing	€ 2.3 bn	2015 08
Tnuva	Bright Foods	Private Equity: Apex & others	56	Israel	Dairy	€ 2.2 bn	2015 01
RF Power unit of NXP	Jinyin Investment	Corporate (NXP)	100	Netherlands	Semi-conductors	€ 1.6 bn	2015 11
EEW Energy from Waste	Beijing Enterprise	Private equity: EQT	100	Germany	Waste recycling	€ 1.4 bn	2016 02
Opera Software	Qihoo 360, Kunlun & PE	Listed	100 offer	Norway	e-commerce	€ 1.4 bn	2016 02
WMF	Haier	Private Equity: KKR and Fiba	100 bid	Germany	Household goods	Expected € 1.4 bn	2016 03
Madrileña Red de Gas	Gingko Tree (jointly with PGGM & EDF)	Private Equity: Morgan Stanley Investments	100	Spain	Utilities	€ 1.3 bn	2015 04
Groupe Du Louvre	Jinjiang Hotels	Private Equity: Starwood	100	France	Hotels	€ 1.2 bn	2015 01
Infront Sports & Media	Dalian Wanda	Private Equity: Bridgepoint	68.2	Switzerland	Sports marketing	€ 1.1 bn	2015 02
Punch powertrain	Yinyi Investment	Private Equity: Grmv & others	100	Belgium	Automotive supplier	€ 1.0 bn	015 02
Club Med	Fosun	Listed	100	France	Tourism	€ 939 m	2015 01
KraussMaffei Machines	ChemChina & P.E.	Private equity: Onex	100	Germany	Machine tools	€ 925 m	2016 01

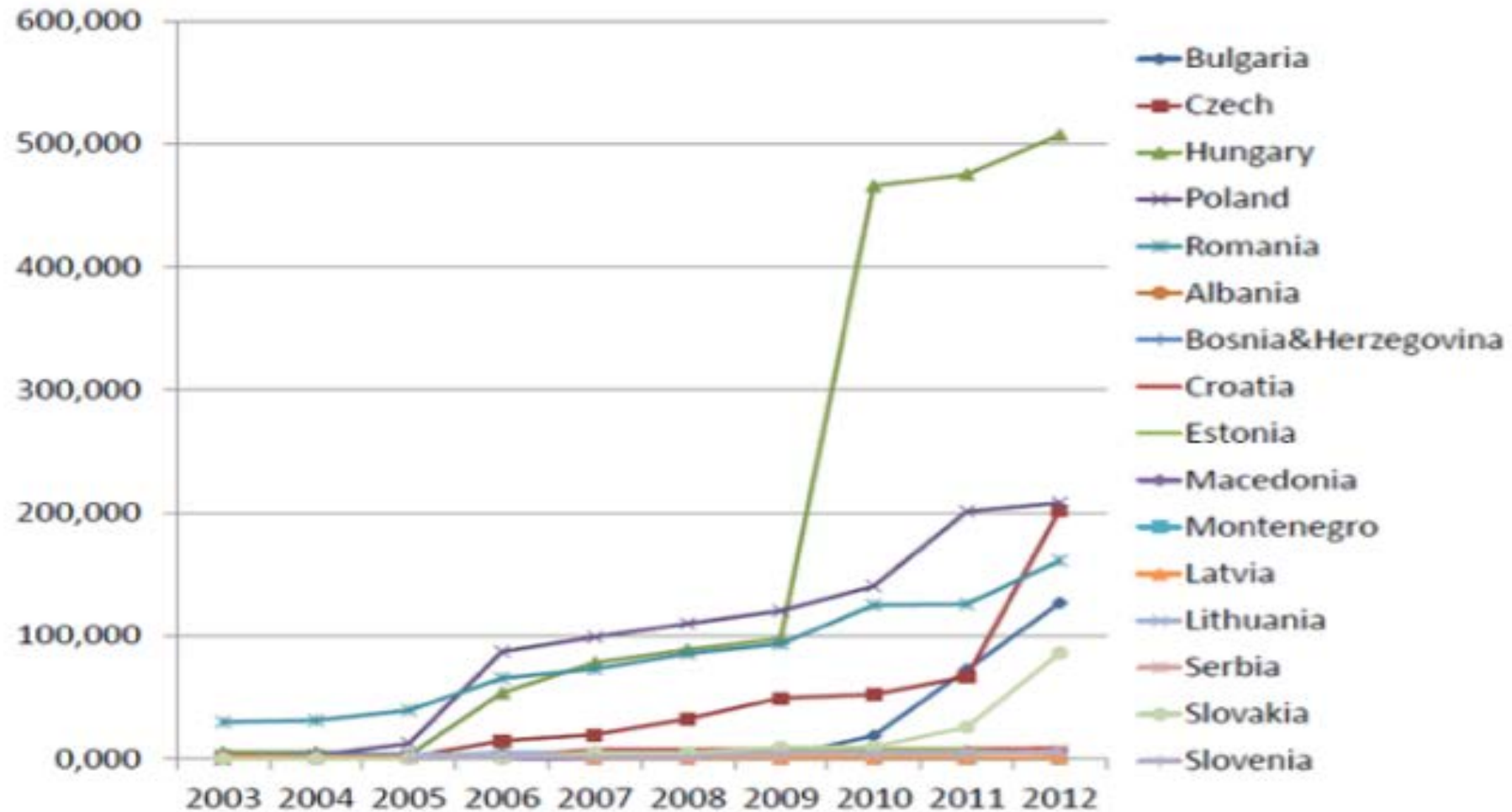
Motivation & Growth Compared

- Drivers:
 - The financial crisis reduced the value of numerous available shares, facilitating takeovers across a variety of sectors
 - Competition at home for corporate companies
 - Combining domestic and international growth: SOE in some industries (nuclear, electricity)
- Strategy:
 - Take home the technology and up-grading in China: Geely/Volvo Pursue higher-end markets by internationalizing and ascending (or descending) subsidiaries. case of basic and mid-market firms such as Haier, and mid- to upper-market ranges, including Huawei but Knowledge more difficult to acquire in more complex technologies requiring greater engineering skills such as computers.
 - Competing in some core European business (chemical) or controlling stakes in ailing enterprises (PSA, ClubMed)
 - SME, family business: new entrants looking for “hidden champions” (SME in Germany)
- Growth
 - Company strategies in terms of growth are not uniform because they need to be tailored to match the competition in specific markets according to levels of concentration, levels of technology, financial capacities, and credit access.

A Variety of investors

		Ownership	
		State owned	Private
Organizational form	Corporate investor	State-owned corporations <ul style="list-style-type: none">• National champions	Non-state owned corporations <ul style="list-style-type: none">• World-stage aspirants• Global niche players
	Entrepreneurial investor		Entrepreneurial and family businesses <ul style="list-style-type: none">• Entrepreneurial cluster participants• International entrepreneurs

Chinese FDI in Central Europe & Balkans (NMS + Accession countries to the EU)



The Balkans: A Southern Entry?

- Geopolitical interests
 - Southern Europe: One end of the sea road (Pireas)
 - Investing in accessing countries? Not a big deal
 - Sensible issues and political instability
- Economic opportunities
 - Access to northern markets (train, infrastructures)
 - Paving the way for other markets (power plant in Bosnia, Serbia, Romania, steel plant acquisition in Serbia))
 - Building regional value chains? Car industry in Bulgaria, electronics in Romania)
 - Financing infrastructure project to move chinese goods
 - Looking for loans backed by (reluctants) governments
- Beyond OBOR
 - SME, family-run business in the region

Chinese Presence in the Balkans: Financing Projects versus FDI?

Albania	Planned investment in the infrastructure sector; opening of a \$1.7 bn line of credit
Bosnia-Herzegovina	Major Chinese investment by Dongfang Electric of 350 million € in the electrical power generating industry; investment conceived as a point of entry into the region's energy sector
Bulgaria	Agreement to assemble the first Chinese cars in Europe between Great Wall Motors and Litex Motor; production began in 2015 with 50,000 vehicles Construction of an industrial park to transform agricultural products Investment in thermal power plant and assembly
Croatia	Control of 70% of the capital of a paper mill by the Qingdao group; the largest greenfield investment in the country
Macedonia	Signature of a contract with the Chinese Sinohydro company for the construction of two freeways (amid strong suspicions of corruption)
Montenegro	Exim Bank awarded a credit to Montenegro to build an freeway with the China Communications Construction company and its subsidiaries, China Road and Bridge Corporation
Romania	Entry of China General Nuclear Power Corporation into the capital of EnergoNuclear after the flight of European investors Investment in a new nuclear reactor Construction of a high-speed train Investment in telecoms by Huawei; creation of a European base, starting in Romania
Serbia	Strong presence of small companies founded by Chinese migrants Large Chinese companies in wholesale trade Investment of Huawei in telecoms Infrastructure, construction of a bridge over the Danube, financing of a high-speed rail line between Belgrade and Budapest Presence of the EXIM Bank, modernization of the national electrical grid Participation of Chinese firms in the construction of the Belgrade-Bar freeway

Conclusion (1): EU concerns about the Chinese economy

- Growing presence of China in Europe: trade, finance, investments.
- EU seen as a major destination as a market, as a partner. FDI location both for searching assets and market assets.
- Still strong asymmetries, unsettled questions: anti-dumping, investment agreement , access of EU companies to protected markets in China, IPR questions...
- Fears in Europe to see National champions, crown jewels fall into the hands of Chinese buyers..in many sectors
- Still difficult access to the market in China for EU companies (and other Western): Many non-market entry barriers for foreign companies
- Lack of transparency
- Permanent changes in the rule of the game (investment and intellectual property protection
- Access to finance: strong distortion
- Implicit subsidies, dumping practices
- Strong reluctance to grant the market economy status

Conclusion (2): OBOR

- Real capacity of the Chinese government to implement this program?
- Disconnection between growth rate, growth model change, financial stability
- What priority over other international issues
- Reaction of other players
- A step by step building up, « path dependency » to go forward?
- High risk: what will be the nature, content of trade in one, two decades?
- Which future for the project with a new leadership in China in 5 years?

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