Geograhical and Sectoral Distribution of Chinese OFDI in Europe

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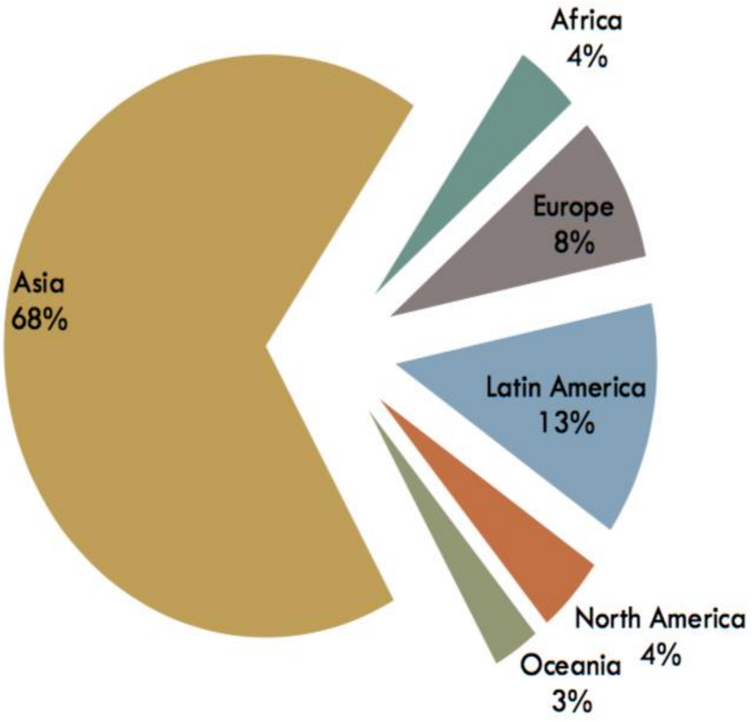
Main points

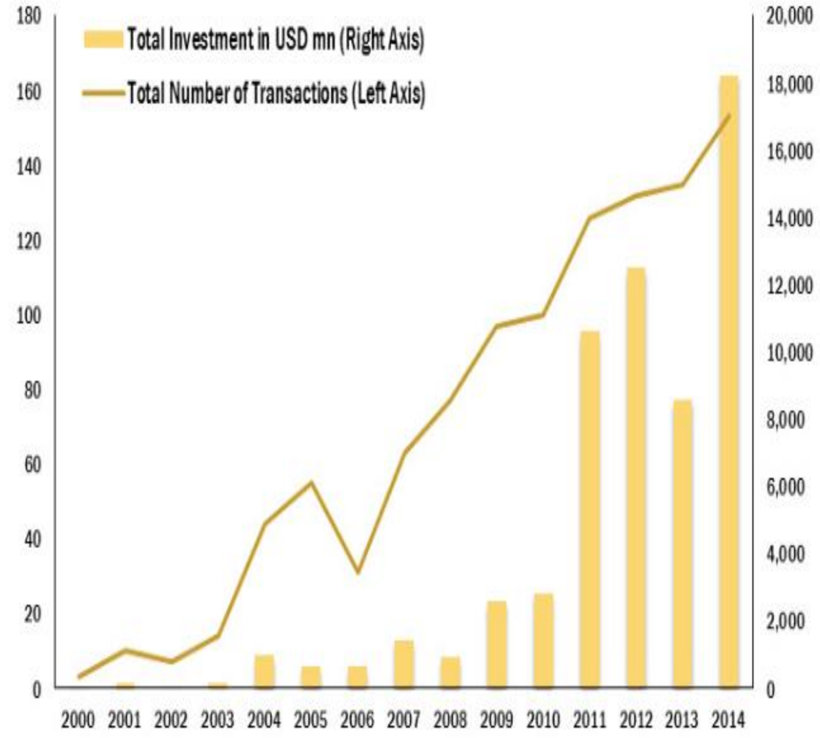
- Chinese Outward foreign direct investments towards developed market economies:
  - Is Europe becoming the top destinations? Challenging tthe US?
- Specific objectives:
  - Assets seeking, Integrating/creating regional value chains
  - Markets seeking for medium and higher range technologies?
  - Pursuing the « Going Global » Strategy
- Europe: a multifaced destination for Chinese OFDI
  - Heterogenities of different kinds,West or East (and South East):
  - « The three bigs » (UK, D, F) and the others
  - Trade matters: OBOR, Silk Road, Developing infrastrcutures
- Varieties of Sectors, of Entry modes, of Investors
- Unbalanced relations between China and the EU. Lack of BIT
- Eastern and Southern Europe (16+1): Back door entries?
- Brexit: Which impact on the flow Chinese FDI in Europe?
- Economic downturn: accelerating or stopping capital flight?

4 symbolic acquisitions..

World & European Distribution

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





A more realistic distribution?

Offsetting round tripping investment gives a better image of Chinese FDI

-minoring Asia

Increasing North America and Europe

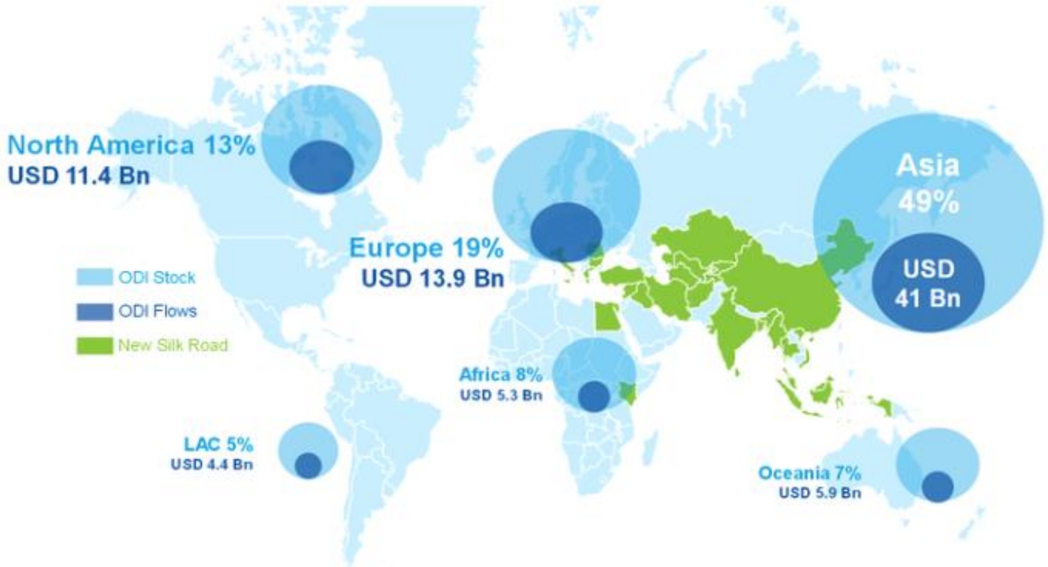
(Garcia Herrera, Bruegel)

Growing importance of Europe but US still attractive: finance, services for private investors

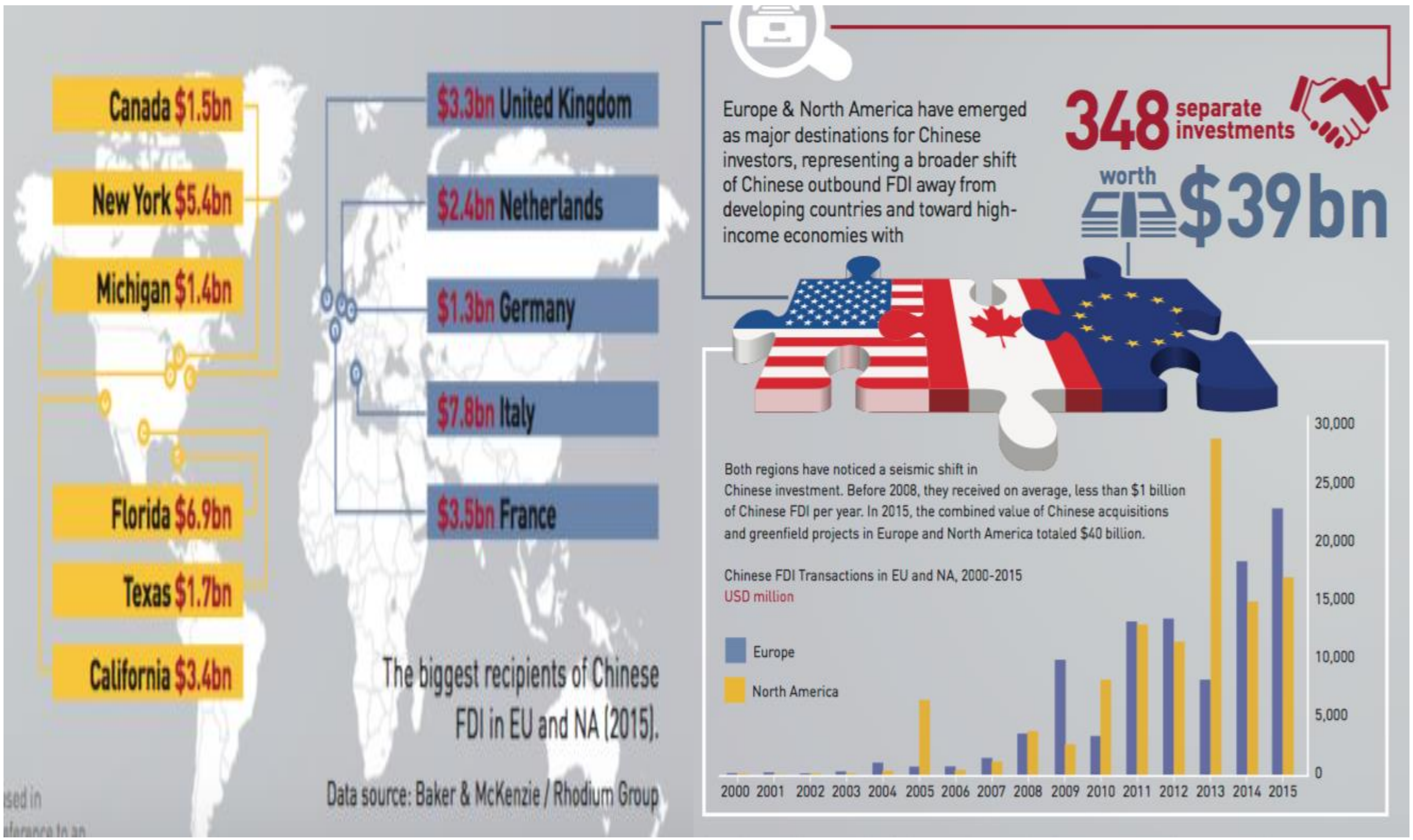
Europe : 28 countries (EU) and more, weak institutional environment

After the financial crisis: a surge of chinese FDI: cheaper €, higher RMB

Linkage domestic and international strategies…

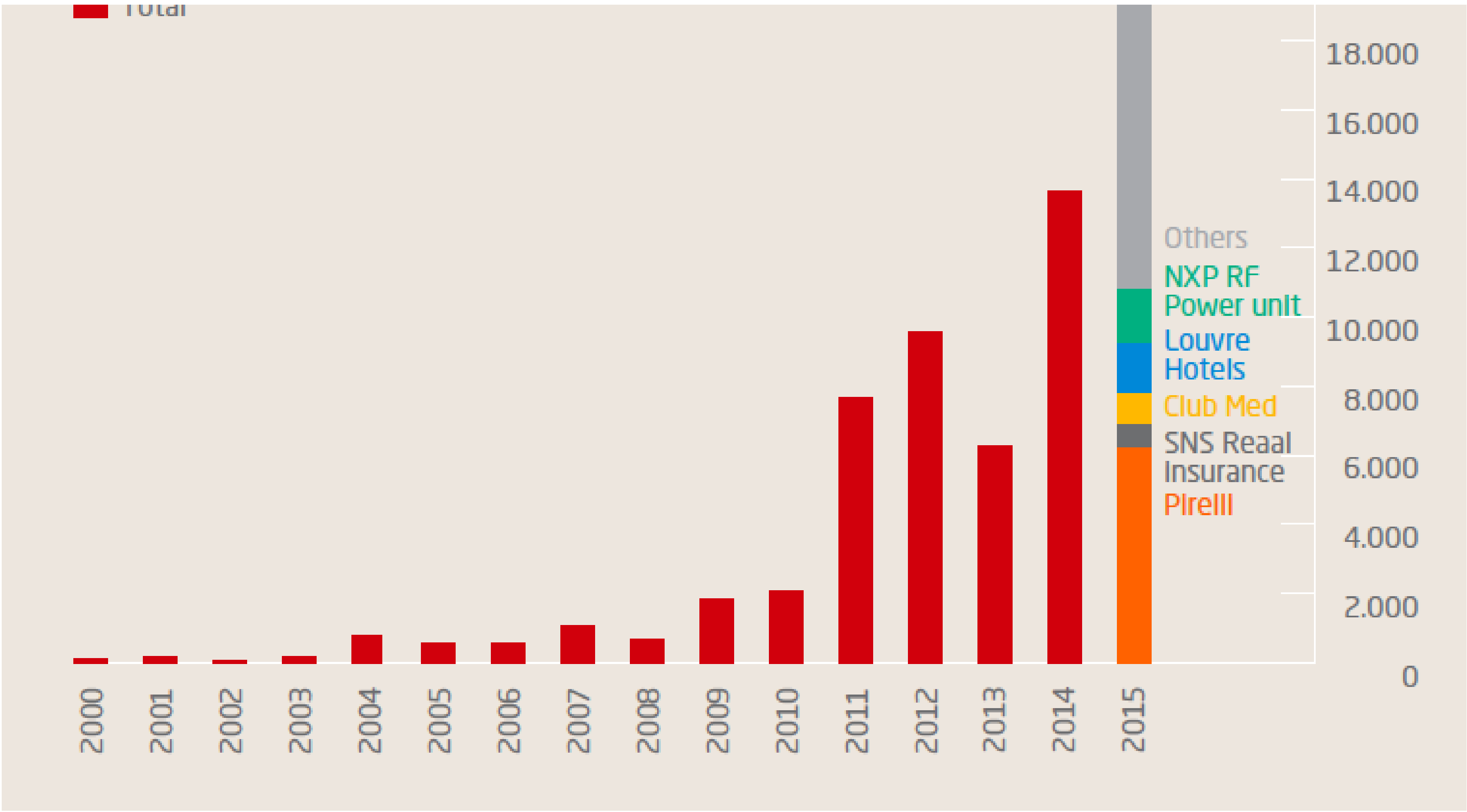


EU/US? Strong attractivity of the EU

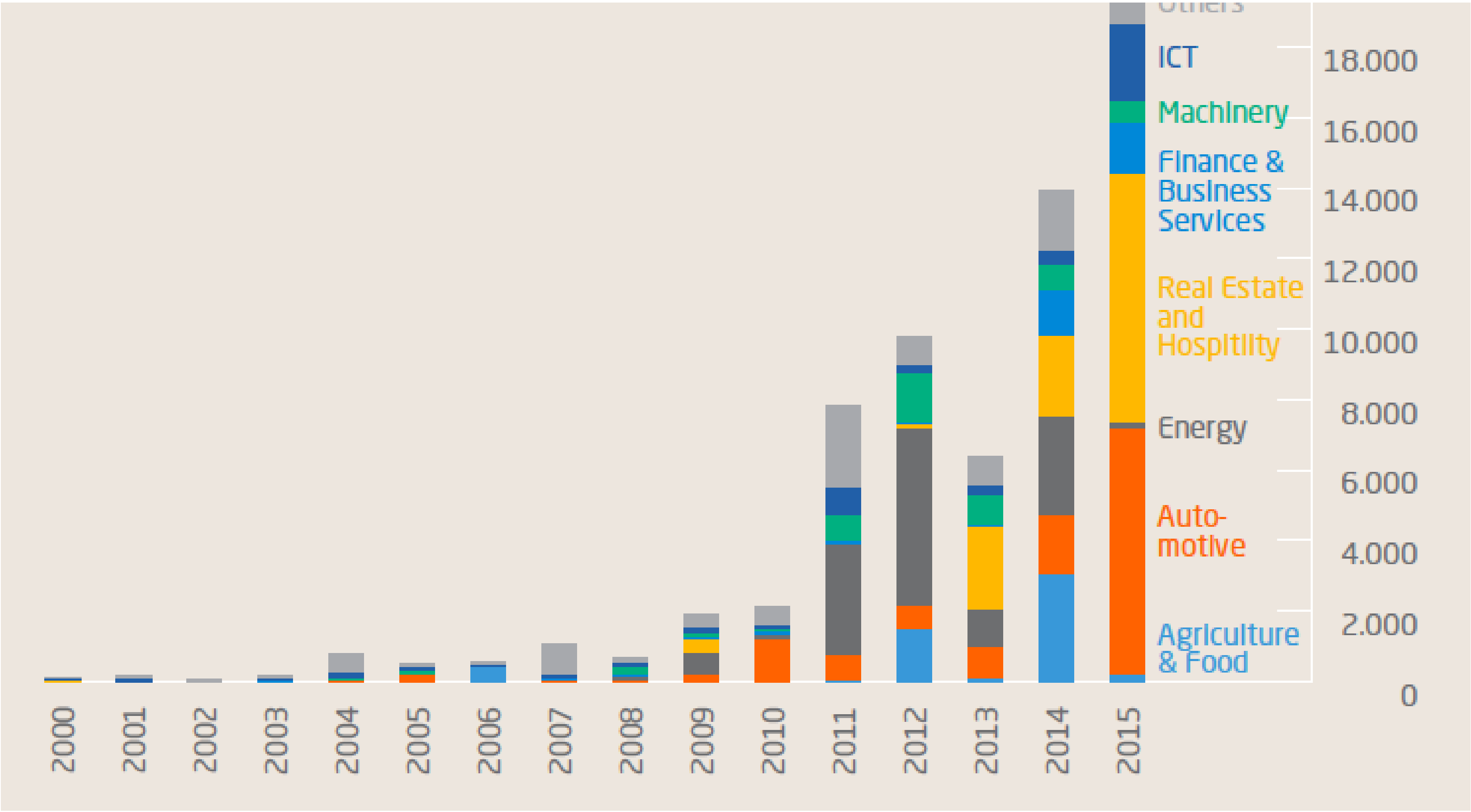


Value of Chinese OFDI Transactions in EU-28 Economies (EUR million)

EUR million)



Distribution of Chinese OFDI in the EU-28 by industry 2000–2015 (EUR million)



Chinese FDI, Stakeholders, Destinations, Objectives

- Varieties
  - of stakeholders: Central government, provinces, and municipalities, State-owned banks and companies, capital corporations, private, SMEs, family
  - of financing strategies: public, subsidies, private, self-funding,
  - of destination: US *vs.* Europe? Diff. in regulations, kind of investors
  - Of places and entities in Europe: the Big three (GER, UK, FR),EU-15, EU 28, 1+16
- Direct investments and/or new trade routes: *One Belt, One road Initiative*, (Silk road): acquiring ports (Pireus, modernising train tracks in Southern Europe)
- Technologies: medium, high, also basic (electricty)
- Search of Strategic Assets *vs.* Markets for Chinese products.
- Escape domestic control, assets valorization, speculation (real estate, finance)
- Mergers and acquisitions *vs.* Greenfield investments : A weakness compared to Japan in the 80s?
- Positioning into regional value chain (Germany, UK, France), creating China directed value chains
- Majority/minority ownership of acquired companies Industry *vs.* Services, finance, commercial real estate
- Sectoral specialization and deepening *vs*. Risk diversification (finance)
- Multinationalization *vs.* repatriation to the domestic market, stripping foreign assets: McCormick, Kaku, Volvo, Sygmanta (creating a monopole in China)

Limited internationalization?

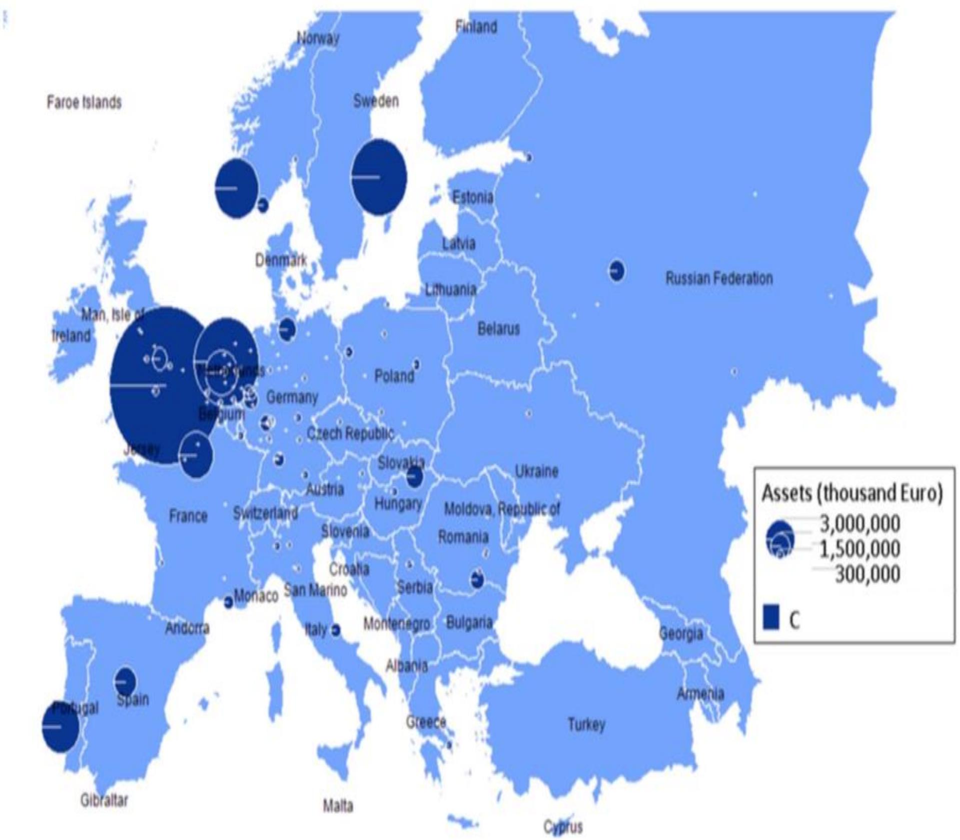
- *Chinese FDI towards High Income Developed Economies:*
  - Search for strategic assets, brand purchases, market shares for medium- and high-technology products. Strong finance backing of SOE from chinese banks
  - Construction of Chinese value chains still weak, even non-existent (Car plant in Bulgaria) . Investing closer from innovative center (Germany, UK, Italy)
  - Integration into international/regional value chains
  - Acquisition of bankrupt companies (IBM, Volvo, PSA, Club Med), participation in firms experiencing difficulties (EDF, AREVA) also "Hidden Champion" (German SME) international champion (Sygmenta, Swiss)
- *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 limited
  - Absorption technological and innovations capacities remain necessary to catch up on the domestic market + intercultural management.
  - Insufficient financial resources or high risks: taking minority stakes (finance)
  - A specific "chinese way" to internationalize: *LLL* (Linkage, Learning, Leverage Advantages) against the traditionnal *OLI* (Ownership, Localisation, Internatization Advantages)

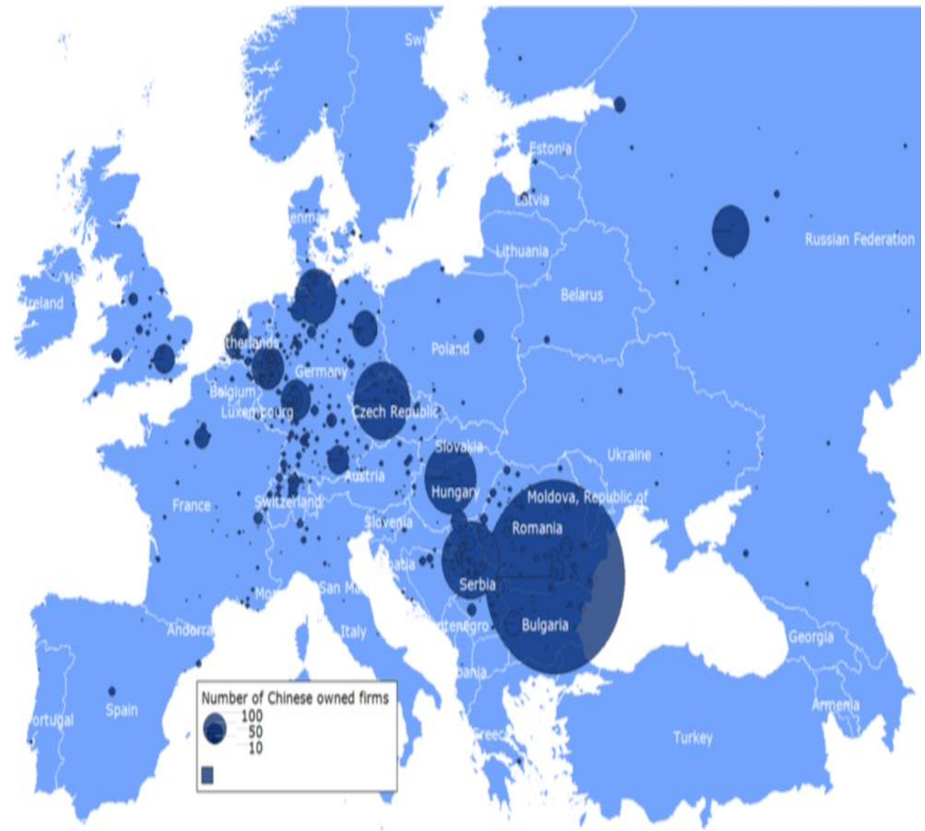
Chinese FDI Stock in the EU by Sector (millions of €)

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

Geographical Distribution of Invested Capital by Number of Facilities

Amounts of Capital Invested	Number of Facilities





Comparative Attractiveness of the EU-15, New Member States, and the Balkans

Host Countries in Eastern Europe and the Balkans	
Advantages	Disadvantages
Complement FDI from the EU-15 Diversification In-flows of capital, markets, jobs Renewal of industrial sector Development of exports Insertion into Chinese value chains	Increased external control (dependent capitalism) Intercultural and communications shock Distance from EU standards and insertion into regional value chain Defiance with regard to the EU
Chinese firms' Expectations	
EU-15	NMSs + Balkans
High-earning markets Opportunities for technology access Lower euro value, increased RMB value Regulation of investments Experience with Chinese-EU cooperation (European FDI in China)	Low labor costs Greenfield investments encouraged: volume Growth markets Continuity between Northern and Southern roadways (One belt, one road Initiative): Greece to Hungary through Serbia. Geopolitical game: Mixing among EU

Localisation: West, East, South?

- 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,
  - Chinese firms taking advantage of the local context by investing in previously state-controlled sectors: utilities and transportation.
  - The proportion of FDI in NMSs in manufacturing, agriculture, and infrastructure gradually expanded to 8% of investment in the region.
  - Diversification of Chinese FDI in this part of Europe is confirmed but highest volume of investments continues to be directed towards more developed and prominent economies.
- NMS and Southeastern Europe, including the Balkans
  - A powerful asymmetry
  - Risk levels very high, fragmented market. Trade off between FDI and commercial links, constrcution, etc

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 agri-business ($5 bn) and commercial real estate ($5 bn).

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)
  - Attractivity and ‘red carpet’ policies of EU individual countries (see UK..)
- Strategy:
  - Take home the technology and up-grading in China: Geely/VolvoPursue 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.

Sectorial & Country distribution

Stock of Chinese FDI in CEEE & WB (US$ million)

	2007	2008	2009	2010	2011	2012	2013	2014
Czech Republic	19,64	32,43	49,34	52,33	66,83	202,45	204,68	242,69
Estonia	1,26	1,26	7,5	7,5	7,5	3,5	3,5	3,5
Hungary	78,17	88,75	97,41	465,35	475,35	507,41	532,35	556,35
Poland	98,93	10,93	120,3	140,31	201,26	208,11	257,04	329,35
Slovakia	5,1	5,1	9,36	9,82	25,78	86,01	82,77	127,79
Slovenia	1,4	1,4	5	5	5		5	5
Albania	0,51	0,51	4,35	4,43	4,43	4,43	7,03	7,03
Bosnia & Herzegovina	3,51	3,51	5,92	5,98	6,01	6,07	6,13	6,13
Bulgaria	4,74	4,74	2,31	18,6	72,56	126,74	149,85	170,27
Croatia	7,84	7,84	8,1	8,13	8,18	8,63	8,31	11,87
Mecedonia	0,2	0,2	0,2	0,2	0,2	0,26	2,09	2,11
Latvia	0,57	0,57	0,54	0,54	0,54	0,54	0,54	0,54
Montenegro	0,32	0,32	0,32	0,32	0,32	0,32	0,32	0,32
Romania	72,88	85,66	93,34	124,95	125,83	161,09	145,13	191,37
Serbia	2	2	2,68	4,84	5,05	6,47	18,54	29,71

Brexit: Which Impact of Chinese OFDI?

- Difficult to assess
  - Wait & see strategies on both sides..
  - Difficult and long process to undo the treaties…
- Short term
  - £ (- 9%/US$) and UK stock value (-20%) down
  - Increasing uncertainty for investors. Some investments funds closed
  - But good bargains in some sectors: real property…
- Medium and Long term
  - End of the city as a major hub for financial transactions. London still attractive for internationalization and swaps of RMB?
  - Investment in industry: lower costs (?), but difficult access to the EU single markets
  - Strategic threats: Postponning Hinkley Point C, a new nuclear plant supported by CGNPG & EDF

Conclusion (1)

- Global Chinese FDI has grown steadily particularly in Europe. Quest for strategic assets, as well as a search for markets by firms facing increasing domestic competition.
- Firms seeking to benefit from their competitive and organizational advantages in terms of catching up and learning new management techniques.
- Three categories of Chinese companies have driven this surge in overseas investments.
  - Some large Chinese state-owned firms benefiting from distinct advantages in terms of market access, R & D, and financing. They have been able to invest in core European industries in the EU-15, UK, Germany, France.
  - A second category of Chinese firms--private, non-state companies, from the industry, services, and finance sectors-. primarily in search of new opportunities: expanding their market shares or assets that are either not available in China or that exhibit higher-value in the EU. In terms of value chain integration, FDI by these firms tends to target Western chains rather than constructing chains based on Chinese firms. One new trend is growing diversification of investments towards other sectors (real estate, finances), both in terms of volume and individual placements.
  - A third category consists of growing investments made by entrepreneurial “ethno-Chinese” firms, although their total investment volumes remain proportionately low.

Conclusion (2)

- Spatial distribution, a powerful asymmetry prevails between, on the one hand, state-owned firms, industrial capital firms, and services that have invested primarily in the EU-15 through joint ventures, acquisitions in the East, and on the other hand, greenfield and family FDI, which continue to represent greater numbers but lower financial volumes.
- Difference in attractivity among the big three, the EU-15, CEE SE and Balkan

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- Southeastern Europe, including the Balkans, is situated at the intersection of a number of Chinese strategies: industrial, commercial reflecting a desire to increase trade in the region. Southern EU is the end-point of OBOR.
  - Proliferation of rail and freeway infrastructure construction projects in the region.
  - Investments in energy in Bosnia and Romania also serve as entry points for more promising markets in the EU (including nuclear reactors in the UK)
- Which future?
  - Will the flow continue? Economic downturn in China, controlling capital outflow
  - Rising protectionist measures against China; UK, Germany, France (and the US?)
  - Moving goods or capital?
  - A new playing field between China and the EU: