# China's Acquisitions in Europe

## European Perceptions of Chinese Investments and their Strategic Implications

Jerker Hellström

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Cover: British Prime Minister David Cameron and Chinese President Xi Jinping talk as they drink a pint of beer at The Plough in Cadsden on October 22, 2015. The pub was acquired by the Chinese investment company SinoFortone in late 2016. (Credit: Andy Rain, TT/AFP)

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# Sammanfattning

Syftet med denna rapport är att ge en översikt av de strategiska konsekvenser som europeiska forskare och tjänstemän anser att kinesiska investeringar i Europa kan medföra. Som grund för denna analys presenterar rapporten investeringarnas omfattning över tid under perioden 2005-2015, samt de sektorer och länder som kinesiska investerare har fokuserat på.

Rapportens huvudsakliga slutsats är att den snabba ökningen av kinesiska företagsförvärv i Europa har gett upphov till farhågor hos politiska bedömare och beslutsfattare inom en mängd områden. Dessa områden omfattar bland annat potentiella negativa strategiska konsekvenser för individuella EU-medlemsstater och EU i sin helhet, band mellan Kinas kommunistparti och investerande bolag, samt bristen på reciprocitet avseende europeiska investerares begränsade tillgång till den kinesiska marknaden.

Rapporten drar även slutsatsen att de ökande kinesiska investeringarna till stor del är ett resultat av att den kinesiska regeringen lättat på restriktioner för utgående investeringar samt att den har fört en politik som syftar till att uppmuntra företag att genomföra förvärv i utlandet. Det kan samtidigt konstateras att de totala kinesiska investeringarna i Europa fortfarande är förhållandevis begränsade, trots att allt fler och större förvärv genomförs; en utveckling som allt oftare beskrivs som en kinesisk “shoppingrunda”.

Nyckelord: Kina, Europa, Europeiska unionen, EU, utländska direktinvesteringar, FDI, företagsförvärv, M&A, strategiska tillgångar, statistik

## Summary

The purpose of this report is to provide an overview of the strategic implications of Chinese investment in Europe as perceived by European scholars and officials. As a basis for this analysis, the report outlines the characteristics of these investments in terms of magnitude over time during 2005-2015, but also in regard to sectors and countries targeted by Chinese investors.

The main conclusion of the report is that the rapid increase in Chinese takeovers of European companies has fuelled concerns among political observers and policymakers over a wide range of issues. These issues include potential negative strategic implications for individual EU member states and the EU as a whole, links between the Chinese Communist Party and the investing enterprises, and the lack of reciprocity in terms of limited access for European investors to the Chinese market.

The report also concludes that the growth in Chinese investment is to a large extent a result of the Chinese government's reduced restrictions on outbound investment and policies to encourage companies to look overseas for acquisitions. However, it should also be noted that Chinese investment in Europe remains on comparatively low levels, despite strong growth in the number and scale of Chinese acquisitions, a development which is increasingly being referred to as a "shopping spree."

Keywords: China, Europe, European Union, EU, foreign direct investment, FDI, mergers and acquisitions, M&A, strategic assets, statistics

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# Acronyms

| | |
|---|---|
| BIT | Bilateral Investment Treaty |
| BRI | Belt and Road Initiative (a.k.a. “One belt, one road” – *OBOR*) |
| CCP | Chinese Communist Party |
| CFIUS | Committee on Foreign Investment in the United States |
| EFSI | European Fund for Strategic Investments (a.k.a. “The Juncker Plan”) |
| EU | European Union |
| FDI | Foreign direct investment |
| M&A | Mergers and acquisitions |
| MES | Market economy status |
| SASAC | State-owned Assets Supervision and Administration Commission of the State Council |
| SOE | State-owned enterprise |
| UK | United Kingdom |
| UNCTAD | United Nations Conference on Trade and Development |

# 1 Introduction[1]

China has recently become a net exporter of capital. China's emergence as a capital exporter is partly a result of reduced government restrictions on outbound investment and policies to encourage companies to look overseas for acquisitions. In Europe, Chinese investors have mainly targeted companies that offer access to brands, technology and supply chains. These acquisitions have so far centred on the major European economies, but recent investment growth has also taken place in countries in southern Europe that have been hit by the economic downturn.

As Chinese enterprises are more actively investing in the European Union, their acquisitions are raising concerns among some political observers and policymakers. There are several reasons for the apprehension, the most important perhaps being the novelty of Chinese investment in Europe and the magnitude of certain takeovers in terms of value. A common theme in the debate is that the national security and competitiveness of EU member states could be jeopardized by the divestment of strategic assets, in particular when Chinese state-owned enterprises are involved in acquisitions.

Individual EU member states are able to review foreign investment for potential security and strategic consequences. However, there is no such mechanism on the EU level. In addition, some observers argue that efforts by European governments to attract Chinese investment could put EU coherence at risk and increase China's ability to influence political decision-making.

## 1.1 Objectives, methods and sources

This study sets out to provide an overview of Chinese investment in Europe during 2005-2015, in terms of targeted sectors, countries, magnitude and development. Against this backdrop, it then describes and analyses perceptions of China's investment and its strategic implications, as expressed by European officials, scholars and media.

The analysis is based on material gathered from interviews, academic papers and other publications, and media reports, as well as data from official sources and independent consultancies. The interviews were semi-structured in nature and the majority of interlocutors contributed on the condition of anonymity.

[1] The author wishes to thank Susanne Oxenstierna, Senior Researcher at FOI, and Frédéric Cho, founder of Frédéric Cho Advisory AB, for reviewing the final draft of this study. The author has also profited greatly from comments and suggestions from Richard Langlais, who language-edited the report.

## 1.2 Note on statistics

This study aims to provide an overview of Chinese acquisitions in Europe and thus relies heavily on statistics related to capital flows. It is, however, essential to be aware of the shortcomings of Foreign Direct Investment (FDI) data. No systematic recording of international capital and financial flows exists, so consequently there is a general lack of such data. Many investment figures should therefore be understood as estimates and not as official figures.[2]

Analysis of Chinese overseas investment is further complicated by the lack of information concerning its distribution across sectors and geographic regions. More than two-thirds of China's non-financial sector outflows are channelled via financial centres and tax havens (including Hong Kong, the Cayman Islands, the British Virgin Islands, Luxembourg and Panama), hence it is not known in which countries and sectors they are ultimately invested.[3]

It is also worth noting that statistics on acquisitions differ significantly between data providers, depending on the method applied and sources used.[4]

With regards to Chinese outward FDI, there is a specific set of factors that need to be clarified. A number of factors of importance to data used in this study are provided below.

- A common problem is the lack of a definition of *China*. Without a definition it is unclear whether China refers to the People's Republic of China (PRC), or if the Special Administrative Regions of Hong Kong and Macau are also included. This distinction is in many cases essential, not least since FDI in Europe by Hong Kong-registered entities generally has been substantially higher than FDI from mainland China.[5] In this study, China is defined as the PRC, unless stated otherwise.
- In regard to data on Chinese FDI in Europe, it is not uncommon that numbers reflect FDI only in the EU, rather than also including investment

[2] For a discussion of issues related to FDI data, see Clegg, Jeremy and Voss, Hinrich (2012) *Chinese Overseas Direct Investment in the European Union*, ECRAN, pp.13, 21-28.

[3] Sauvant, Karl P. and Nolan, Michael D. (2015) "China's Outward Foreign Direct Investment and International Investment Law," *Journal of International Economic Law*, Vol. 18, Issue 4, December 2015, p.2.

[4] For example, according to data compiled by Bloomberg, Chinese outbound acquisitions reached USD 93 billion in 2015, i.e. a figure more than double the USD 44 billion reported to the United Nations Conference on Trade and Development (UNCTAD) for the same year. Gopalan, Nisha and Tan, Gillian (2016) "China M&A Soldiers On," *BloombergGadfly*, 8 January 2016.

[5] UNCTAD (2016) "Annex table 02. FDI outflows, by region and economy, 1990-2015," in *World Investment Report 2016: Annex Tables.* Note: Higher FDI from Hong Kong can to a large extent be explained by the absence of currency restrictions and bureaucratic obstacles for overseas investment that exist in mainland China. As a result, many mainland Chinese enterprises are channelling their investments via Hong Kong.

in European non-EU member states. It should also be noted that China's Ministry of Commerce includes Russia in its figures for European investment.

- Media reports, but in rare cases also academic publications, in many instances fail to make a distinction between aggregated FDI and annual FDI flows. It should be noted that FDI flows may fluctuate heavily between years as total investment figures are strongly affected by major acquisitions. Moreover, there are examples where FDI data has been confused with data for mergers and acquisitions (M&A) and vice versa.
- When analysing investment activity, it is important to distinguish between the *amount* of deals on the one hand, and the *value* of acquisitions on the other hand. While the amount of deals may reflect the M&A activity in an economy, the development for specific years may in some cases be misleading.

## 1.3 Limitations

The scope of the report is limited to a discussion of perceptions of the potential strategic implications of Chinese investment in Europe; it does not attempt an analysis of those implications per se. Similarly, while the study does strive to place investment data from various sources in context, it does not address issues regarding the quality of that data. Since the period covered is 2005-2015, previous years are only briefly touched upon.

## 1.4 Outline

This study is divided into four parts. Firstly, it sets out to provide an overview of Chinese investment globally and in Europe during 2005-2015, in terms of targeted sectors, countries, magnitude, and development (Chapter 2). Secondly, it describes and analyses perceptions expressed by European officials, scholars and media against the backdrop of increasing Chinese investment, in particular from the perspective of potential strategic implications for the European Union. This is followed by a review of suggestions for the management of investment from Chinese entities (Chapter 3). Thirdly, the study presents Chinese initiatives for the facilitation of further investment in Europe (Chapter 4). Finally, in Chapter 5, the author presents his conclusions and suggestions for further research.

# 2 China's emergence as a capital exporter

In October 2016, Chinese media outlets reported that China had surpassed the US to become the world's largest assets acquirer, measured by the value of corporate takeovers completed in a single year.[6] During the first three quarters of 2016, Chinese companies reportedly acquired assets overseas for a total USD 159.2 billion, the highest amount so far.[7]

Despite the fact that Chinese enterprises remain far behind their US counterparts in terms of aggregated outward investment, and that the new data only included capital outflows for the first three quarters of 2016, the news of China's number one position was a reminder of how globalization continues to change the world economy.

China's emergence as one of the world's leading sources of investment overseas has a short history and has occurred very rapidly. As recently as 2014, official Chinese data suggested that China had become a net exporter of capital for the first time. [8] In 2015, Chinese FDI outflows reached USD 128 billion, a 10-fold increase from ten years earlier, according to the United Nations Conference on Trade and Development (UNCTAD).[9]

China's emergence as a capital exporter is to a large extent a result of Chinese government policy to encourage overseas acquisitions. The Chinese government's 12th and 13th five-year plans, for 2011-2015 and 2016-2020, respectively, encourage enterprises to invest overseas in order to get access to world-wide supply chains, advanced technology and high-quality brands.[10] In addition, the "Belt and Road" initiative (BRI), [11] launched in 2013 and enthusiastically

[6] Xie Yu (2016) "China Overtakes US as world's largest assets acquirer," *South China Morning Post*, 5 October 2016; Welitzkin, Paul (2016) "China passes US in outbound M&A," *China Daily,* 7 October 2016.

[7] Trentmann, Nina (2016) "Discourse with ChemChina Could Be Hurdle for New Syngenta CFO," *the Wall Street Journal*, 3 October 2016.

[8] Anderlini, Jamil (2014) "China foresees outbound investment of $1.25tn in a decade," *Financial Times*, 9 November 2014.

[9] UNCTAD (2016) "Annex table 02." Note: data on China's FDI outflows only include mainland China. If investments made by Hong Kong-registered enterprises are included, the FDI figure for 2015 amounts to USD 183 billion versus USD 49 billion in 2004.

[10] Xinhua (2011) "十二五"规划纲要（全文）[Outline of 12th five-year plan (full text)], 16 March 2011; PRC Government official web portal (2016) "中华人民共和国国民经济和社会发展第十三个五年规划纲要" [13th five-year plan for the national economy and social development of the People's Republic of China], 17 March 17 2016; Zhang, Jianhong and Ebbers, Haico (2010) "Why Half of China's Overseas Acquisitions Could Not Be Completed," *Journal of Current Chinese Affairs*, 2/2010, p.116.

[11] In Chinese, 一带一路 (*yi dai yi lu*), also translated as "One Belt, One Road" (OBOR).

promoted by the General Secretary of the Chinese Communist Party (CCP), Xi Jinping, has sent a strong signal to officials and business leaders in China that overseas investment in trade-enhancing infrastructure is a priority for the leadership.[12]

The investment drive is motivated, moreover, by a need to export capital rather than creating domestic bubbles. Oversupply in the Chinese industrial sector, combined with a stock market slump since June 2015, has led to disenchantment with investment opportunities in the Chinese market. In addition, domestic financing of overseas corporate takeovers has become much less costly as a result of low interest rates and continued liberalization of Chinese capital control.

Such cyclical factors contribute to the recent acceleration in China's cross-border acquisitions.[13] At the same time, China seeks expertise and experience in higher-end industries and services, which has led to a shift in Chinese investment from developing and emerging economies to high-income economies.

The growth of Chinese investment flows is, starting, however, from a low base. Among the traditional capital exporters, the United States in 2015 invested approximately USD 300 billion in markets abroad – more than twice as much as China – while outward FDI of the European Union's member states amounted to USD 487 billion.[14]

China's FDI outflow during 2010–14 was an average 6 percent of the world's total, bringing its share of the global outward FDI stock to 3 percent in 2014. It is estimated that by the end of 2015, China's global outward foreign direct investment (OFDI) stock – China's aggregated OFDI – had exceeded USD 1 trillion, representing a three-fold increase in five years' time.[15]

China's President Xi Jinping predicted, in November 2014, that Chinese offshore investment would reach USD 1.25 trillion over the coming ten years.[16] In late 2015, Li Keqiang, the Chinese Premier, stated that China was likely to invest more than USD 1 trillion over the following five years.[17] It should be noted, though, that future investment is difficult to predict. Moreover, it is not known what presumptions these official projections are based on.

[12] China Ministry of Commerce (2015) "推动共建丝绸之路经济带和 21 世纪海上丝绸之路的愿景与行动" ["Vision and actions on jointly building the Silk Road economic belt and the 21st century maritime Silk Road"], March 2015.
[13] García-Herrero, Alicia (2016) "Debt, not reserves, to constrain China's cross-border buying spree," *Bruegel*, 27 April 2016.
[14] ibid.
[15] Note: figures on FDI outflows are estimates that may vary significantly between data providers. (See *Note on statistics* in Chapter 1). Hanemann, Thilo and Huotari, Mikko, "A New Record Year for Chinese Outbound Investment in Europe," *Rhodium Group*, February 2016, p.2.
[16] Anderlini (2014) "China foresees outbound..."
[17] Reuters (2015) "China likely to invest over $1 trln overseas in next 5 years, says Li," 25 November 2015.

Whereas China's importance as a capital exporter is poised to grow further in coming years, available data suggest that it is also starting from a low level in terms of aggregated investment.[18] In fact, although China accounts for at least 14 percent of the global economy, its share in total cross-border acquisitions merely lies between 2 and 6 percent, depending on the source.[19]

## 2.1 Increasing Chinese investment in Europe

As part of the transition by Chinese investors from an interest in developing economies to high-income economies, Europe has become an important destination for Chinese outward FDI. In fact, in 2014 and 2015, the EU was estimated to be the largest market for Chinese acquisitions, in terms of value.[20] A major driver for this change is the desire to obtain advanced technology, brands and markets.

The majority of China's FDI in Europe comes in the form of acquisitions. Hence, the debate about Chinese investment in Europe is either one of corporate takeovers, or, perhaps more simply, of specific major deals. In 2015, more than 95 percent of China's FDI flows to the EU consisted of acquisitions.[21] In addition, one single acquisition – the EUR 7 billion takeover by Chinese state-owned enterprise, ChemChina, of Italy's Pirelli – accounted for more than one-third of China's total investment in the EU in 2015.[22]

Major acquisitions of European firms, including Sweden's Volvo Cars, and Kuka, a German maker of industrial robots, have garnered substantial interest, as have Chinese plans to invest in Piraeus, the Greek shipping terminal, and Hinkley Point C, the proposed British nuclear power facility. ChemChina, in early 2016, offered USD 43 billion to take over the Swiss pesticide maker, Syngenta. If approved, the deal would become the biggest Chinese acquisition to date.

In many instances, proposed takeovers by Chinese companies have raised concerns. There are several reasons for the apprehension. The most important ones include the novelty of Chinese investment in Europe, the magnitude of certain takeovers in terms of value, and the rapidly increasing number of acquisitions in recent years; a development that is often described as a "shopping spree."[23]

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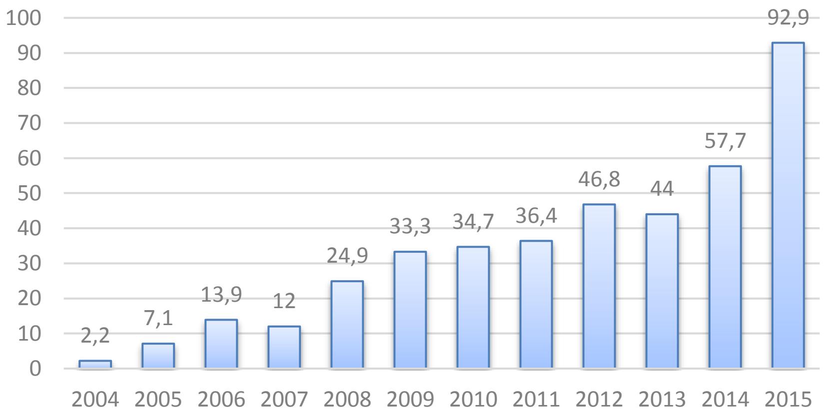
[18] UNCTAD (2015) *World Investment Report 2015: Reforming International Investment Governance* (Geneva:UNCTAD), pp. A3-A4 and A7-A8.
[19] García-Herrero (2016) "Debt, not reserves..."
[20] Hanemann, Thilo and Gao, Cassie (2016) "China's Global Outbound M&A in 2015," *Rhodium Group*, 4 January 2016.
[21] Data obtained from Rhodium Group, 17 October 2016.
[22] Hanemann, and Huotari (2016) "A New Record Year...," p.4.
[23] See, for example, Le Corre, Philippe (2015) "China's European Shopping Spree," *The Wall Street Journal*, 21 January 2015; Macfarlane, Alec (2016) "The Dealmakers Behind China's Overseas Shopping Spree," *The Wall Street Journal,* 15 March 2016 (updated 25 October 2016); Deutsche

In 2015, flows of foreign direct investment into Europe were at the highest level since 2007, according to UNCTAD.[24] Increasing Chinese capital flows into Europe contributed to this development.

According to official Chinese data, 5.5 percent of Chinese outward FDI (USD 6 billion) flowed to Europe in 2013, bringing the FDI stock in Europe to USD 54 billion, or more than 8 percent of China's accumulated investment overseas.[25] The countries listed by China's Ministry of Commerce as the main recipients of Chinese accumulated FDI in Europe by the end of 2013 are Luxembourg, the UK, Russia, Germany, France, and Sweden.[26]

Figure 1. China's global outbound M&A annual volume, 2004-2015 (USD billion)




Source: Bloomberg, cited in Gopalan, Nisha and Tan, Gillian (2016) "China M&A Soldiers On", *BloombergGadfly*, 8 January 2016.

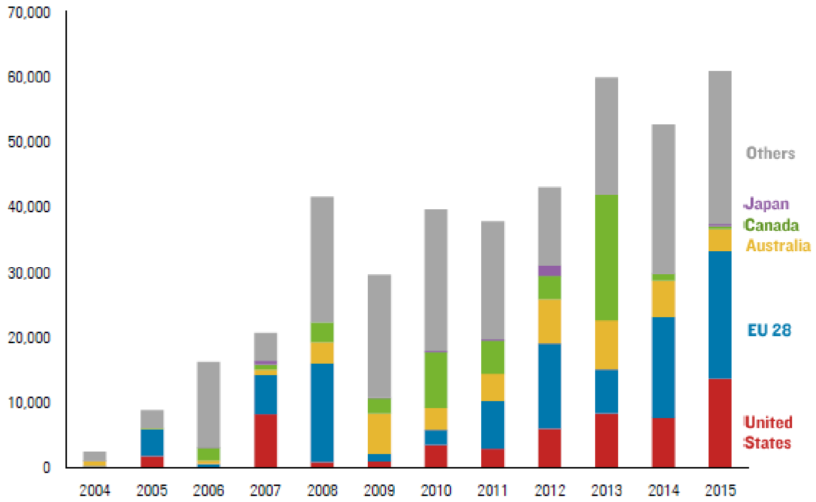
Welle (2016) "Made in Germany - Focus: China's shopping spree," October 18, 2016; Zhang, Cathy and Zhang, Maggie (2016) "China's companies go on overseas shopping spree," *South China Morning Post*, 10 August 2016; Campbell, Matthew and Browning, Jonathan (2016) "Great Leap Upward: Behind China's $100 Billion Shopping Spree," *Bloomberg*, 30 March 2016.

[24] UNCTAD (2016) "Annex table 01. FDI inflows, by region and economy, 1990-2015," in "World Investment Report 2016: Annex Tables."

[25] It should also be noted that China's Ministry of Commerce includes Russia in its figures for European investment. With regard to how to interpret Chinese FDI data, see *Note on statistics*.

[26] China Ministry of Commerce (2015) *中国对外投资合作发展报告 2014* [*Report on Development of China's Outward Investment and Economic Cooperation 2014*], p.83.

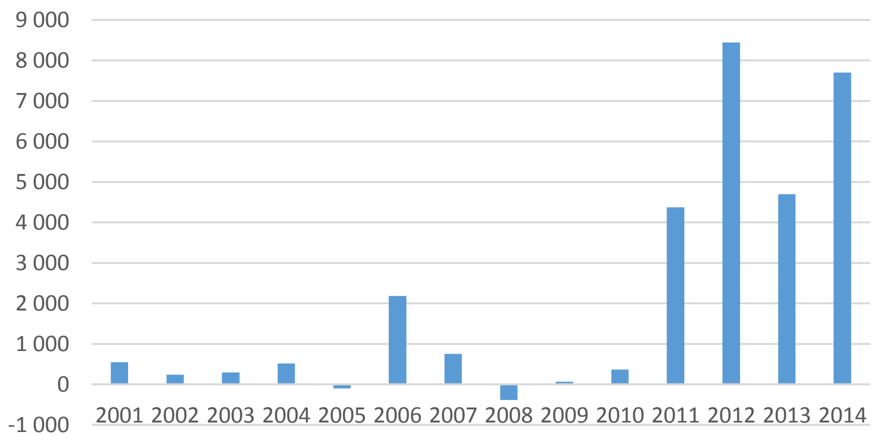
Figure 2. Completed Outbound Chinese Cross Border M&A Transactions by Region of Target, annual aggregated value (USD million)




Source: Bloomberg, Thomson, Rhodium Group, cited in Hanemann and Gao (2016) "China's Global Outbound..."

Note: Note: figures include disclosed value of all completed M&A transactions by ultimately Chinese-owned firms, irrespective of the size of the resulting stake, aggregated by date of completion.

Figure 3. China direct investment flows to EU-27, 2001-2014 (EUR million)

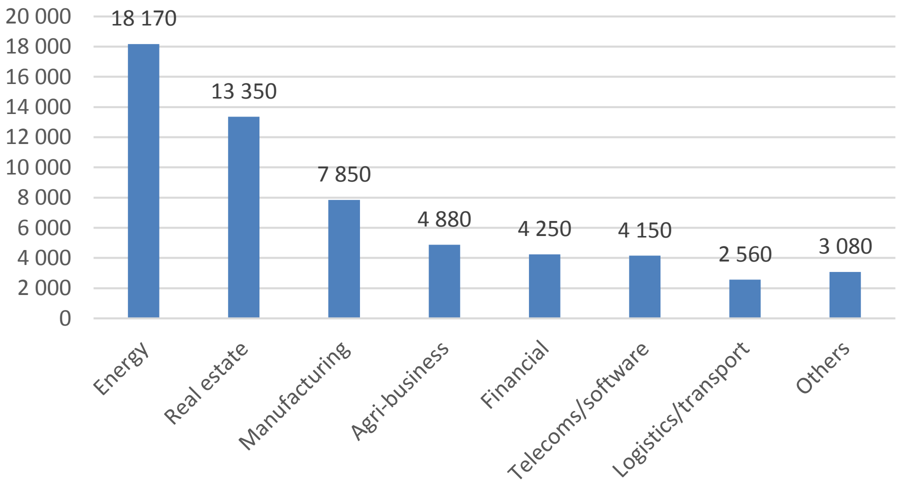



Source: Eurostat, "EU direct investment inward flows by extra EU investing country," updated 11 August 2016; Eurostat, "Foreign direct investment statistics," updated 16 September 2016.

China's acquisitions have centred on the major European economies, but much of the recent increases in investment have taken place in cash-strapped southern European economies (see Fig. 9).[27] In 2015, five EU member states accounted for more than three-quarters of total Chinese FDI flows to Europe: Italy, France, the UK, the Netherlands, and Germany.[28] While this capital is increasingly coming from private Chinese actors, state-owned enterprises (SOEs) continue to dominate the investment made in Europe.[29]

In terms of investment targets, 95 percent of Chinese investment in the EU during 2010-2014 was concentrated in seven business sectors, according to one estimate. Nearly one-third of this investment was in the energy sector, with another 23 percent in real estate, followed by manufacturing, agriculture, finance, and telecommunications/software (see Fig. 4).[30]

Figure 4. Chinese investment in the EU by sectors, 2010-2014 (USD million)



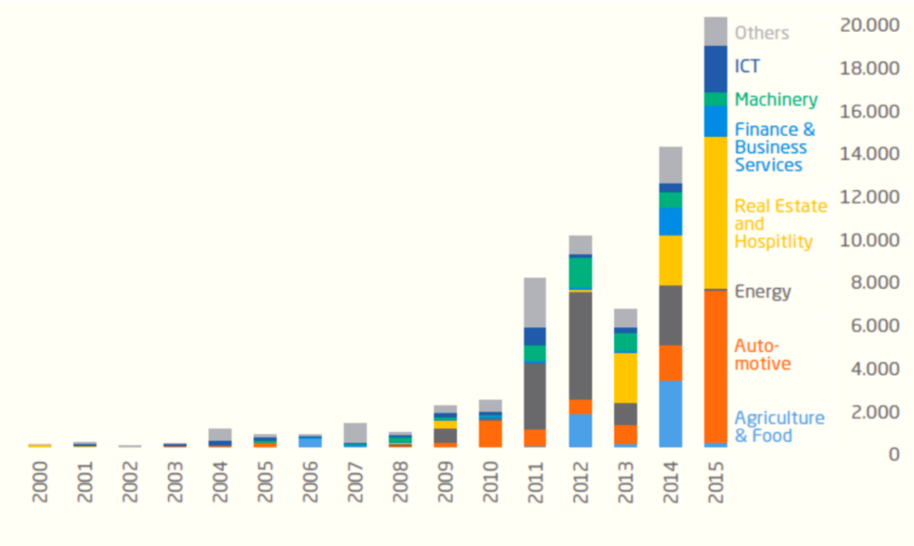

Source: Casaburi (2015) "Chinese Investment in Europe 2015-16," p.47.

[27] Hanemann and Huotari, (2016) "A New Record Year...," p.8.
[28] Baker & McKenzie, "Chinese FDI hits $40 billion in 2015 for Europe and North America," 10 March 2016.
[29] The share of SOEs in total Chinese investment in Europe was 70 percent in 2015. Hanemann and Huotari, (2016) "A New Record Year...," p.6.
[30] Casaburi, Ivana (2015) "Chinese Investment in Europe 2015-16," *ESADE China-Europe Club*, p.47.

As Fig. 5 shows, however, the target sectors vary substantially between years. In 2015, for example, most Chinese investment was in the automotive and real estate and hospitality sectors, whereas the energy sector attracted little capital.[31]

Data cited by the European Parliament, in June 2015, concludes that, in 2012-2014, Chinese investors sought to acquire technology, know-how, and brands in France, Germany, Italy, the Netherlands, Sweden, and the UK; within agriculture and food, energy, automotive, and other high-tech manufacturing sectors.[32]

Figure 5. Distribution of Chinese outward FDI in the EU28 by industry 2000-2016 (EUR million)




Source: Hanemann and Huotari (2016) "A New Record Year..."

In addition, Chinese investment in the aftermath of the financial crisis has involved infrastructure projects in Greece and Hungary, and utilities, energy and real estate in Portugal and Spain.[33] It has been argued that the EU should seek to encourage

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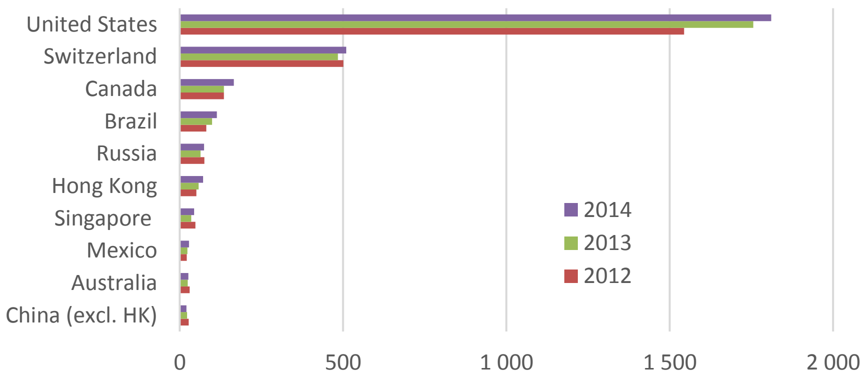
[31] Hanemann and Huotari, (2016) "A New Record Year..."
[32] European Parliamentary Research Service (2015) "EU-China Summit – building new connections," June 2015.
[33] European Parliamentary Research Service (2015) "EU-China Summit – building new connections," June 2015.

Chinese investment in certain key areas in which Chinese companies excel, above all, transport, energy, and communications infrastructure. [34]

Despite a rapid increase in Chinese investment in Europe, China has yet to become a significant capital exporter to the region, in terms of aggregated investment. [35] By the end of 2014, Chinese direct investment accounted for only 0.5 percent of the extra-EU economies' total inbound FDI stock in the EU, according to Eurostat.[36] To offer a comparison, the U.S. accounted for 40 percent of the FDI stock, while 11 percent was made up of investment from Switzerland.

Other significant investors in Europe are Brazil, Canada and Russia. In addition, Eurostat figures suggest that Chinese investment in the EU represents less than one-third of FDI from Hong Kong (see Fig. 6). Given the inter-connectedness of mainland Chinese business with that of Hong Kong, it is likely that some of China's overseas capital exports are in fact made by Hong Kong-registered entities. [37]

Figure 6. Aggregated direct investment in the EU by extra-EU investing country 2012-2014 in order of top 12 in 2014 (EUR billion)

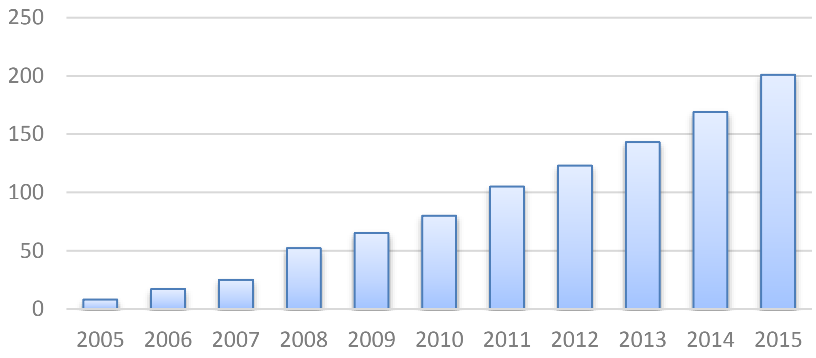



Source: Eurostat, "Foreign direct investment statistics," updated 16 September 2016

[34] Godement, François and Stanzel, Angela (2015) "The European Interest in an Investment Treaty with China," *ECFR Policy Brief*, European Council on Foreign Relations, February 2015, p.8.
[35] Clegg and Voss (2012), *Chinese Overseas...*, p.10.
[36] The value of China's FDI stock in Europe as of end-2014 was 20.7 billion Euro, or 0.5 percent of the 4,583 billion Euro invested by extra-EU28 FDI partners, according to Eurostat; see also Hansakul, Syetarn and Levinger, Hannah (2014) "China-EU relations: Gearing up for growth," *Deutsche Bank Research*, 21 July 2014, p.12.
[37] Eurostat, "Foreign direct investment statistics," updated 16 September 2016.

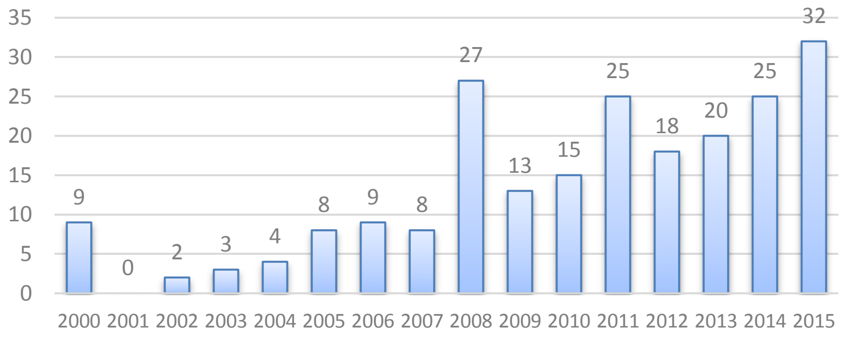
As the available data shows, although Chinese enterprises are becoming increasingly active investors, China still lags far behind the United States in terms of aggregated investment in Europe. Despite strong growth in China's European investments, by the end of 2014 it was still not among the top 10 investors in the EU28.[38]

Figure 7. Chinese aggregated investment in European businesses 2005-2015 (USD billion)




Source: Dealogic, cited in Quartz (2015), "Chinese takeovers in Europe are at an all-time high—even if ChemChina's Syngenta bid fails," 16 November 2015.

Figure 8. China- and HK-registered companies' acquisitions in Europe, annually in 2000-2015 (USD billion)




Source: Dealogic, cited in Quartz (2015) "Chinese takeovers in Europe..."

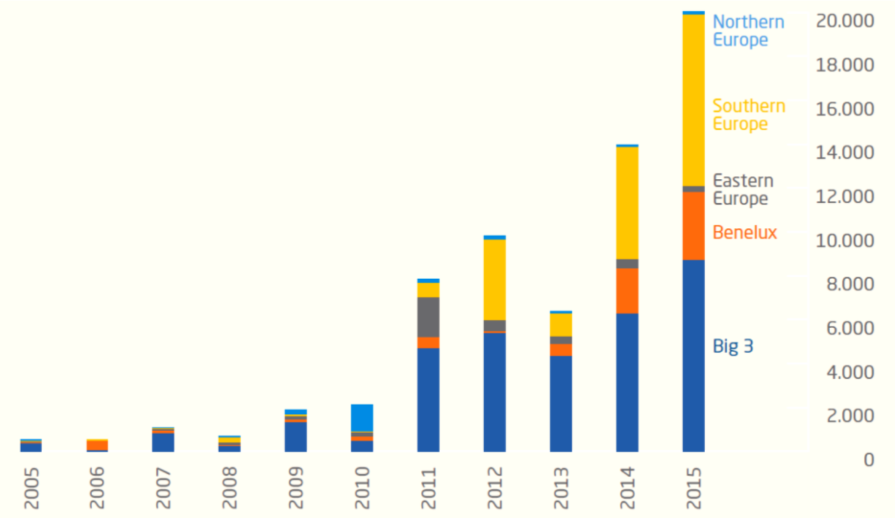
[38] ibid.

# 3 Chinese investment in Europe: perceptions of potential implications

Investments in Europe by Chinese enterprises – both state-owned and private – have drawn widespread attention in recent years, not least as a result of a number of high-profile acquisitions made since 2010. European governments in need of capital to expand infrastructure, or hold down unemployment rates, as well as companies looking to grow (or divest of) their operations, are increasingly reaching out to Chinese investors, or being approached by representatives of the Chinese state and business. As shown in the previous chapter, capital exports from China are growing rapidly, but Chinese aggregated FDI in Europe remains at a low level in comparison to investment from many other states.

The long list of acquisitions includes companies from all over Europe, but Chinese investment has focused on the "Big 3": Germany, the UK, and France (see Fig. 9 and Table 1 below).

Figure 9. Chinese outward FDI flows to the EU28 by country group 2005–2015 (EUR million)




Source: Hanemann and Huotari (2016) "A New Record Year..," p.8.

Table 1. Largest Chinese acquisitions in EU member states in 2008-2014

| | Target | Country | Acquirer | Sector | Value (USD mln) | Year |
|---|---|---|---|---|---|---|
| **1** | Rio Tinto PLC | GB | Aluminum Corp of China (+Alcoa ) | Basic Materials | 14,135 | 2009 |
| **2** | Eni Spa | IT | China National Petroleum Corp | Energy | 4,210 | 2013 |
| **3** | Energias de Portugal SA | PT | China Three Gorges Corp | Energy | 3,510 | 2011 |
| **4** | GDF Suez Exploration | FR | China Investment Corp | Financial | 3,264 | 2011 |
| **5** | Barclays PLC | GB | China Development Bank Corp | Financial | 3,062 | 2007 |
| **6** | Volvo Personvagnar AB | SE | Zhejiang Geely Holding Group | Consumer | 1,800 | 2010 |
| **7** | Borsod Chem Zrt | HU | Wanhua Industrial Group Co | Basic Materials | 1,552 | 2011 |
| **8** | Talisman Sinopec Energy UK Ltd | GB | China Petroleum & Chemical Corp | Energy | 1,500 | 2012 |
| **9** | InterGen NV | NL | China Huaneng Group Corp | Utilities | 1,232 | 2010 |
| **10** | Weetabix Ltd | GB | Bright Food Group Co Ltd | Consumer | 1,165 | 2012 |
| **11** | KION Group AG | DE | Weichai Power Co Ltd | Industrials | 1,136 | 2012 |
| **12** | Ineos Ltd | GB | PetroChina Co Ltd | Energy | 1,015 | 2011 |
| **13** | Apax Partners LLP | GB | China Investment Corp | Financial | 956 | 2010 |
| **14** | Kalahari Minerals Ltd | GB | China Development Bank Corp, China General Nuclear Power Holding Corp | Basic Materials | 935 | 2011 |
| **15** | UPP Group Holdings Ltd | GB | Gingko Tree Investment Ltd | Financial | 869 | 2013 |
| **16** | CLSA BV | NL | CITIC Securities Co Ltd | Financial | 842 | 2012 |
| **17** | Emerald Energy PLC | GB | Sinochem Group | Basic Materials | 736 | 2009 |
| **18** | FGP TopCo Ltd | GB | China Investment Corp | Financial | 726 | 2012 |
| **19** | Putzmeister Holding GmbH | DE | Sany Heavy Industry Co Ltd | Industrials | 689 | 2012 |
| **20** | Redes Energeticas Nacionais | PT | State Grid Corp of China | Utilities | 509 | 2012 |

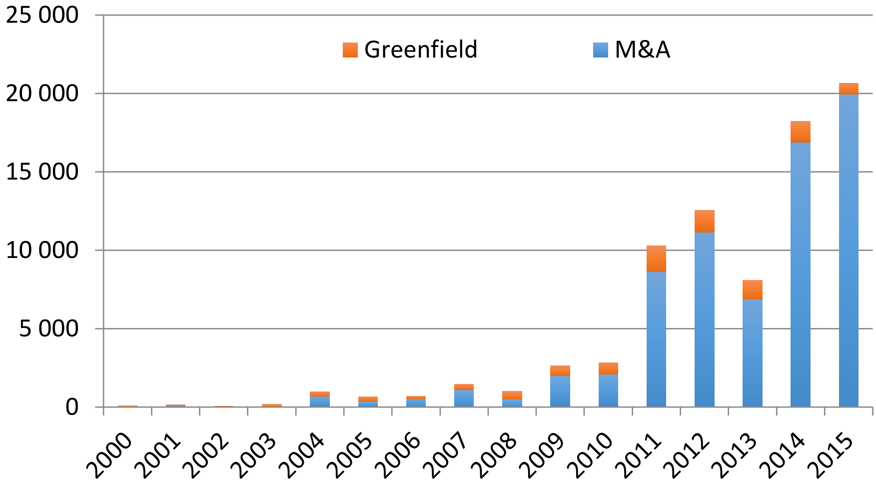
Source: Hansakul and Levinger (2014) "China-EU relations...," p.30.

Notes: a) numbers include completed M&A, investment, and joint ventures, where value is disclosed on Bloomberg; 2014 refers to January to May; b) Aluminum Corp. of China's (Chinalco) acquisition of 18 percent of shares in Rio Tinto PLC did not materialize. See Cimilluca, Dana, Oster, Shai and Or, Amy (2009) "Rio Tinto Scuttles Its Deal with Chinalco," The Wall Street Journal, 5 June 2009.

As noted above, the vast majority of the investment from China comes in the form of M&A (see Fig. 10). However, much of the debate concerning China's capital exports to Europe involves greenfield investment,[39] such as establishment of local branches, including research and development operations, in the EU (e.g. by telecoms equipment manufacturer Huawei) and investment in infrastructure and power stations (e.g. the Greek port of Piraeus and the Hinkley Point power station in the UK).

[39] Greenfield investment can be defined as the creation of a subsidiary from scratch by one of more non-resident investors. See International Monetary Fund (2004) "IMF Committee on Balance of Payments Statistics and OECD Workshop on International Investment Statistics Direct Investment Technical Expert Group (DTEG)", November 2004.

Figure 10. Chinese FDI transactions in the EU28 by entry mode, 2000-2015 (investment value in million USD)




Source: Data obtained from Rhodium Group, October 17, 2016.

## 3.1 European concerns

While inward investment brings with it obvious economic opportunities for EU member states, calls have been made for better management of potential "side-effects" from Chinese investment. Many of the concerns raised can be recognised from debates in the U.S. and Australia, where implications for national security have come to the fore in several cases.

Some of the major concerns related to Chinese investment in Europe are discussed below. The rise in Chinese acquisitions is being described as a "splurge," or a "shopping spree," based on the fact that Chinese FDI flows to Europe have increased rapidly. Many fail to note, however, that China is starting from a low base and that aggregated investments remain limited.[40]

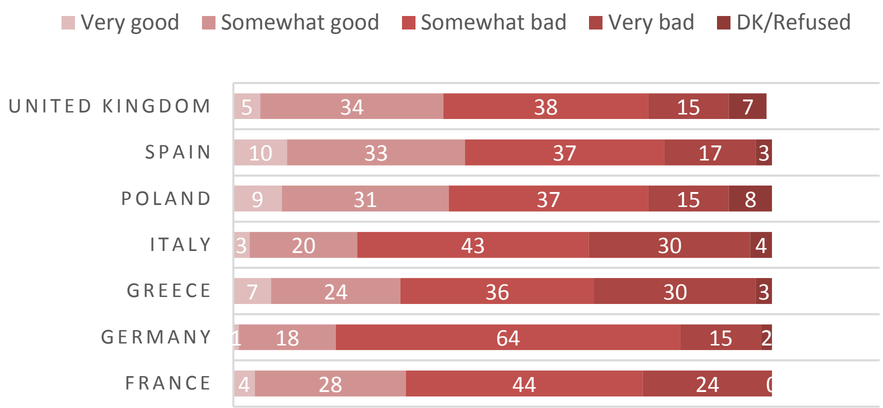
[40] Wilkes, William (2016) "China's Deal Makers Have German Tech Firms in Their Sights," *The Wall Street Journal*, 9 June 2016.

The acceptance of Chinese acquisitions is reportedly declining in Europe.[41] It is argued that the number and scale of takeovers, combined with a shift in consensus on China, has made Chinese investment propositions seem less attractive.[42]

The British government has welcomed investment from Chinese enterprises, such as Huawei, in the telecoms industry. Meanwhile, France is said to be more reluctant towards Chinese firms in the fields of information technology.[43]

According to a poll conducted by the Pew Research Center in 2014, an overwhelming majority of the general public in France, Germany, and Italy tend to perceive foreign acquisitions of local firms in negative terms, whereas Britons are generally less critical. The poll, which also included public perceptions in Spain, Poland, and Greece, showed that the majority of respondents in all of the seven countries held negative views of foreign acquisitions (see Fig. 11).

Figure 11. Views of foreign acquisitions in host economy, 2014 (percent)[44]

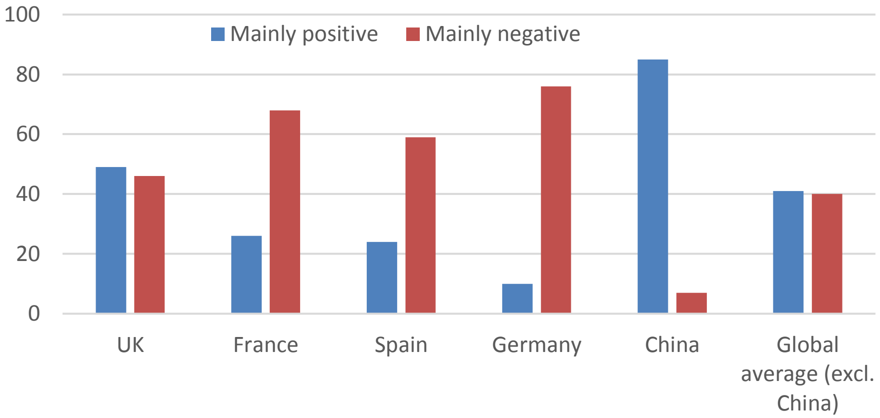



Source: Pew Research Center (2014) "Faith and Skepticism about Trade, Foreign Investment," 16 September 2014, p.39.

[41] Financial Times (2016) "Resistance to China's acquisition spree stiffens," 25 October 2016.
[42] Interview #9.
[43] Correspondence with Philippe Le Corre, visiting fellow at the Center on the United States and Europe, at Brookings, and the author of "China's Offensive in Europe," May 2016. On Huawei in the UK, see for example Liu, Cecily (2016) "Huawei signs deal with UK government to boost clients," *China Daily*, 17 May 2016, and Gordon, Sarah (2016) "Huawei to press ahead with £1.3bn investment after Brexit," *Financial Times*, 28 June 2016; on Huawei and other Chinese technology firms in France, see Gros, Maryse (2016) "Huawei inaugure son 4ème centre de R&D en France" [Huawei inaugurates its 4th R&D centre in France], *Le Monde Informatique*, 15 June 2016, and Le Corre, Philippe and Sepulchre, Alain (2016), *China's Offensive in Europe*, (Washington, D.C.: Brookings Institution Press), p. 126.
[44] Note: DK = Don't know.

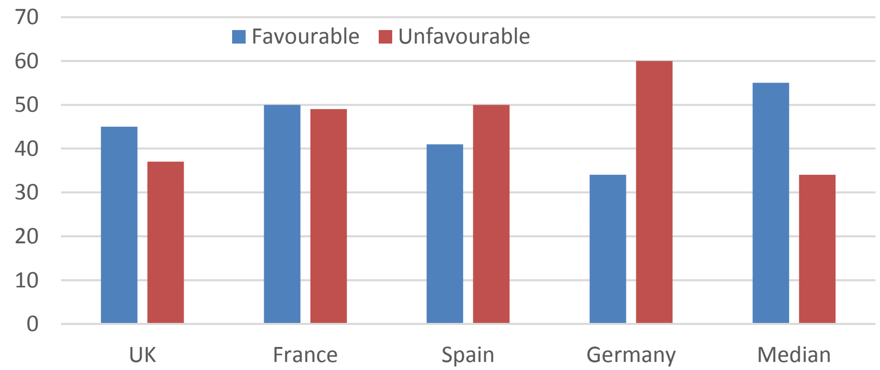
Also, in terms of perceptions of China's global influence, the public in Germany seems to have a predominantly negative view, while the British public is close to 50/50, and thereby similar to the global average (see Fig 11). Views of China differ substantially, though, between polls (see Fig 12 and 13).

Figure 12. Perceptions of China's global influence, 2014 (percent)




Source: BBC World Service (2014) "Negative views of Russia on the Rise: Global Poll," 3 June 2014, p. 37.

Figure 13. Views of China, 2015 (percent)




Source: Pew Research Center (2015) "Global Publics Back U.S. on Fighting ISIS, but are Critical of Post-9/11 Torture," 23 June 2015, p.3.

Some of the major concerns related to Chinese investment that have been raised by European officials and media are listed below.[45] There are concerns about:

1. Chinese investment increasing China's ability to wield political influence in Europe; adverse effects from Chinese investment on EU coherence;

2. Investment resulting in Chinese control of assets with relevance to national security; Chinese control of key/strategic industries (relating to competitiveness) as a result of investment;

3. Problems related to Chinese corporate governance and business practices;

4. Lack of investment reciprocity: European openness vs. limited access to the Chinese market;

5. State support, links to the CCP and lack of transparency

Three of the above areas of concern, namely Chinese political influence, control of assets of relevance to national security and corporate ties to the CCP, can be regarded as potential strategic implications of having received Chinese investment. While the areas that relate to corporate governance, investment reciprocity and transparency are not usually of a "strategic" nature, they are nevertheless commonly raised by interlocutors and in media reports as actually having "strategic" importance, and are thus included in this overview.

In addition to those concerns, which are discussed further below, officials have also voiced opposition to Chinese takeover attempts, for example in France and Germany, without elaborating on the reasons for their objection. One such example is the plan by Jin Jiang, a Chinese SOE, to increase its stake in the French hotel group, AccorHotels, and eventually gain control of the company. French President Francois Hollande, in June 2016, publicly opposed Jin Jiang's proposal, on the grounds that the ownership of Accor should remain in diverse hands and said that he was watching developments closely.[46]

[45] See, for example, Le Monde (2014) "L'Etat vend une partie de l'aéroport de Toulouse à un consortium chinois" [The State sells part of the Toulouse airport to a Chinese consortium], 4 December 2014; Mozur, Paul and Ewing, Jack (2016) "Rush of Chinese Investment in Europe's High-Tech Firms Is Raising Eyebrows," *The New York Times*, 16 September 2016; Riley, Alan (2016) "West should be on its guard against Chinese investment wave," *Financial Times*, 1 April 2016; Rifkind, Malcolm (2016) "How China could switch off Britain's lights in a crisis if we let them build Hinkley C," *The Telegraph*, 16 August 2016; Pelkmans, Jacques, et al. (2016) "Tomorrow's Silk Road: Assessing an EU-China Free Trade Agreement," Centre for European Policy Studies, April 2016, p.212.

[46] Reuters (2016) "Hollande says Accor capital should remain in diverse hands," 6 June 2016.

### 3.1.1 Concern #1. China's ability to wield political influence in Europe increases: adverse effects from Chinese investment on EU coherence

China's investments are often referred to by observers as forming part of a "divide and conquer" strategy that will lead to increasing Chinese political influence in Europe.[47] China's ability to wield influence is perceived as being facilitated by the fact that Europe has become "weakened and somewhat divided."[48]

Chinese officials, noting the demand in many EU member states for foreign capital, are said to be increasingly using promises of investment in these countries as a diplomatic instrument for seeking politically favourable outcomes in negotiations with the EU and its member states. [49]

While political considerations will always play a role in business agreements involving companies of any origin, not least Chinese enterprises, others argue that most investment decisions are made with commercial, rather than political, interests in mind.[50]

The risk may rather be that some EU member states, as a result of intensifying competition for Chinese capital, fall into the trap of easy money offered by China.[51] In order to attract investment, European countries may decide to act in ways that they believe will please Beijing, perhaps even to the extent that they put EU coherence on foreign policy at risk and sacrifice political principles.

Irrespective of whether Beijing is using promises of trade and investment as political tools, or whether the real issue is actually about certain EU member states pre-emptively "kowtowing" to China, the result would likely still be the same. One possible implication is that EU coherence is put at risk, in particular in terms of formulation of China policy. Many observers see a risk that European leverage vis-à-vis China on matters of strategic importance would thus be weakened.[52]

This has so far mainly related to China's so-called "core interests," including priorities relating to national sovereignty and territorial integrity, for example to persuade others to advocate Beijing's position on the South China Sea. In early 2016, for example, Hungary and other eastern European countries were reportedly

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[47] Interview #3; European Parliamentary Research Service (2016) "One Belt, One Road (OBOR): China's regional integration initiative," July 2016.

[48] Browne, Andrew (2016) "'China's Offensive in Europe;' Is There a Master Plan in Beijing?," *The Wall Street Journal*, 22 June 2016.

[49] Hanemann and Huotari (2016) "A New Record Year...," p.2.

[50] Hanemann, Thilo and Rosen, Daniel H. (2012) "China Invests in Europe: Patterns, Impacts and Policy Implications," Rhodium Group, June 2012, p.60.

[51] Interview #6.

[52] Hanemann and Huotari (2016) "A New Record Year...," p.2.

offered investment by Beijing in return for supporting the Chinese position on various issues, including the South China Sea.[53]

In the spring of 2016, the Chinese government invested much effort in winning international support for its maritime claims, in particular in advance of a ruling by the Permanent Court of Arbitration (PCA), in The Hague, on maritime entitlements in the South China Sea. Beijing had insisted, throughout the tribunal's deliberations, that the PCA had no jurisdiction on the matter and refused to participate. Instead, China's Ministry of Foreign Affairs launched a global advertising campaign, targeting newspapers globally, to communicate its position on the South China Sea.[54]

The PCA, on 12 July 2016, ruled that "there was no legal basis for China to claim historic rights to resources within the sea areas falling within the 'nine-dash line.'"[55]

It required three days of protracted negotiations for the European Union to issue a statement in response to the ruling. Not only was the wording in the statement very cautious (the EU "acknowledged" the ruling), three member states – Greece, Hungary, and Croatia – made it clear that they opposed any strong language in the statement. Moreover, the Hungarian government subsequently issued a statement in which it echoed China's position that "external pressure and interference may have an adverse effect on the current situation."[56]

Another factor that has been described as potentially increasing the opportunities for Beijing to influence European policy on China is the United Kingdom's withdrawal from the EU, as a result of the referendum in June 2016. If perceived as an illustration of a less united EU, the fact that one of the EU's top three economies is leaving the union can be interpreted as a new possibility for China to fend off complaints about irregularities in the Chinese market and to facilitate favourable business deals [57] It should however be noted that, before the referendum, the Cameron government had touted itself as China's "best partner in the West" and that pre-Brexit policies versus Beijing were already among the more lenient and risk-averse in Europe.[58]

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[53] Emmott, Robin (2016) "EU's silence on South China Sea ruling highlights inner discord," *Reuters*, 14 July 2016.

[54] Mollman, Steve (2016) "China's latest weapon in the battle for the South China Sea is newspaper advertising," *Quartz*, 23 May 2016; Ministry of Foreign Affairs of the People's Republic of China, "南海问题" ["the South China Sea Issue"], last update 1 August 2016.

[55] Permanent Court of Arbitration (2016) "PCA Press Release: The South China Sea Arbitration (The Republic of the Philippines v. the People's Republic of China)," 12 July 2016.

[56] Fallon, Theresa (2016) "The EU, the South China Sea, and China's Successful Wedge Strategy," CSIS Asia Maritime Transparency Initiative, 13 October 2016.

[57] Schuman, Michael (2016) "Who Wins from Brexit? China," *BloombergView*, 24 June 2016.

[58] ChinaFile (2015) "Britain: 'China's Best Partner in the West'?" October 20, 2015; Sudworth, John, "Osborne's Xinjiang visit: a 'political coup' for China?" *BBC News*, 23 September 2015.

Concerns over "divide and rule" tactics are also highlighted by China's initiatives to launch "sub-regional" platforms with groups of European states, both EU member states and non-EU members.[59] One such worry is that China is making investment offers to groups of countries that can form pro-China lobbies with an influence on policy-making in Brussels.[60] This is discussed further in Chapter 4. In order to safeguard policy coherence among EU member states, in particular in terms of China policy, one challenge for Brussels will be how to address the prospect of increasing Chinese investment and its potential political implications.

### 3.1.2 Concern #2. Chinese control of strategic assets

The issue of Chinese takeovers in strategic sectors in Europe is another concern for many European policymakers. Although it is a recurring theme in media reports on Chinese acquisitions, what can be considered a "strategic" or "critical" industry is rarely defined.

"Strategic assets" can refer to *technologically advanced companies*, which play a unique role for a nation's economic growth and international competitiveness. Hence, if such a strategic asset were to be divested to a Chinese company (or any foreign entity, for that matter), it would have a detrimental effect on the country in question. The concern may also relate to the transfer to China of advanced technologies and related patents.

Several Chinese takeover attempts in Germany, in early 2016, attracted much attention. It is possible that the attention was not so much about the sheer value of the deals as about the value of the acquisition targets' technologies. Some of these companies were reportedly considered pivotal to Germany's ambitions in manufacturing and engineering technology.[61]

One such deal was the takeover of German industrial robot maker, Kuka, by Chinese household appliance manufacturer, Midea. In May 2016, Midea made an offer for Kuka valued at EUR 4.5 billion. The German government expressed concern that key know-how was falling into foreign hands and attempted to limit Midea's ownership to 49 percent. Eventually, however, it allowed the takeover after major German shareholders in Kuka sold their stakes to Midea. [62]

Another definition of "strategic assets" is based on the potential *importance to national security* of the assets. Assets with relevance for national security may involve, for example, energy and other scarce natural resources, military

[59] Browne (2016) "'China's Offensive in Europe..."
[60] Fallon, Theresa (2014) "China's Pivot to Europe," *American Foreign Policy Interests*, 36:3, 2014.
[61] Wilkes (2016) "China's Deal Makers..."
[62] Reuters (2016) "Germany stalls Chinese takeover of Aixtron, citing security worries," 24 October 2016.

production, and critical infrastructure.[63] National security concerns in relation to foreign investment are described as particularly salient in France and the UK.[64] Chinese involvement in the proposed Hinkley Point C nuclear power station in the UK, where a stake in the project by China General Nuclear Power Group (CGN), is one such example that has come under scrutiny.[65]

Some who oppose the £18bn Hinkley project are worried that China would gain influence on UK energy security.[66] Opposition to Chinese involvement in the project, however, is not limited to security concerns; many critics instead question whether the construction of the nuclear power station is economically viable.[67]

European government officials and parliamentarians have voiced concerns, in certain cases, over Chinese takeovers, such as the acquisition by two Chinese companies (Shandong Hi-Speed Group – a state-owned company – and Friedmann Pacific Asset Management) of 49.9 percent of the shares in the Toulouse-Blagnac Airport. Karine Berger, a member of parliament for France's ruling socialist party, opposed the deal, referring to it as a transfer of "strategic infrastructure" to a non-European group. The French finance minister defended the takeover, on the basis that the Chinese consortium would only buy the business operations, and that the airport infrastructure itself would remain state property.[68]

One official asserts that Brussels should impose minimum standards regarding divestments of critical infrastructure and that the lack of such standards is especially problematic when the investor is a state-owned enterprise. Unfortunately, there is no definition on the EU level of what can be considered critical infrastructure.[69]

Yet another case of security concerns surfaced in October 2016, when the German government withdrew its approval of a corporate takeover by a Chinese firm, citing "previously unknown security-related information." The case involved German chip equipment maker, Aixtron, which was set to be acquired by the Chinese investment fund, Fujian Grand Chip Investment Fund LP, for EUR 670 million, in a deal that had been approved just six weeks earlier. As previously noted, the ability to block takeover attempts for security reasons is regulated nationally, and not on the EU level. In Germany, national legislation only allows the government

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[63] Zhang and Ebbers (2010) "Why Half of China's...," p.115.
[64] Sauvant and Nolan (2015) "China's Outward..," p. 11.
[65] Rifkind (2016) "How China..."
[66] The Week (2016) "Hinkley Point: Bold move or white elephant?," 16 September 2016.
[67] Monbiot, George, Lynas, Mark and Goodall, Chris (2015) "We are pro-nuclear, but Hinkley C must be scrapped," *The Guardian*, 18 September 2015.
[68] Stothard, Michael (2014) "France to sell airport stake to Chinese," *Financial Times*, 5 December 2014.
[69] Interview #5.

to block acquisitions if they jeopardize energy security, defence or financial stability.[70]

### 3.1.3 Concern #3. Problems related to Chinese corporate governance and business practices

Another concern is for how European companies are managed by their new Chinese owners. Concerns articulated by labour unions, among others, involve not only whether operations and employment, for example, are potentially at risk of being transferred to China, but also whether there are risks related to environmental standards. Some observers argue that a typical challenge for Chinese investors is that they either manage their new businesses too tightly, or too loosely.[71]

Some well-publicised cases add to the apprehension already felt towards Chinese business practices in some quarters. In a prominent case, the Chinese state-owned shipping and logistics company, COSCO, assumed control of Piraeus, the Greek shipping terminal, in June 2010. Only months later, COSCO managers were accused of suppressing wages and undermining collective bargaining with unions. Other examples include a solar project in Italy, which was shut down amid fraud allegations involving false bonds, and a Chinese-run highway construction project in Poland, which was abruptly halted, leaving local subcontractors unpaid. [72]

### 3.1.4 Concern #4. Lack of investment reciprocity: European openness vs. limited access to the Chinese market

The rise in Chinese FDI in Europe highlights concerns among European investors that they lack access to large sections of the Chinese market, where domestic state-owned and state-supported enterprises are given priority by their government.[73] According to the European Union Chamber of Commerce (EUCham) in China, which represents 1,600 companies, the Chinese government is becoming more “hostile” toward foreign companies, while domestic companies are being favoured.[74]

This development also raises concerns related to imbalances in two-way FDI patterns, as the increase in Chinese FDI in Europe coincides with a drop in European investment in China. These concerns are also underlined by the fact that

[70] Reuters (2016) “Germany stalls...”
[71] Browne (2016) “‘China’s Offensive...”
[72] Forchielli, Elena (2015) “Chinese Investment in the EU: A Challenge to Europe’s Economic Security,” *The German Marshall Fund of the United States*, 16 January 2015.
[73] Le Corre and Sepulchre (2016), *China’s Offensive in Europe*, p. xi; Hanemann and Huotari, (2016) “A New Record Year...,” p.2.
[74] Wilkes (2016) “China’s Deal Makers...”

Chinese interest is growing particularly fast in sectors that remain restricted to foreign investors in China, such as financial services.[75]

The lack of a level playing field is underlined by the fact that China prohibits or restricts investment in a number of sectors. This is in sharp contrast to the situation in the EU, which is generally open to foreign investment. Moreover, sectors that are open to foreign ownership in China are still subject to an approval system on a case-by-case basis. This creates uncertainty and a sense of arbitrariness among foreign investors in China.[76]

Nonetheless, it is important to keep in mind that, in 2012, the EU was the largest investor in China, while Chinese direct investment accounted for less than 1 percent of the EU's total inbound FDI stock.[77]

In October 2015, the European Commission proposed a new trade and investment strategy. The proposal listed the investment agreement with China as one of the Commission's top priorities.[78] As part of the strategy, Brussels is negotiating a bilateral investment treaty (BIT) with Beijing. EU member states already have individual BITs with China, although they generally lack requirements for and restrictions on market access.[79] On the issue of creating a level playing field on bilateral investment, a BIT is of interest for the EU in terms of getting access to China's investment, service, financial services, and public procurement markets.[80]

### 3.1.5 Concern #5. State support, links to the CCP and lack of transparency

Chinese business is characterised by active state involvement, in terms of ownership as well as regulation. Chinese companies' cross-border acquisitions are widely perceived as having benefited from the government's financial support. While this support may enhance an acquirer's competitiveness in a bid, there is also a risk that links between enterprises and the Communist Party will increase political sensitivities in the countries concerned. In particular, such sensitivities tend to be highlighted in cases where one of the bidders is a state-owned company.[81]

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[75] Hanemann and Huotari, (2016) "A New Record Year...," pp.2-4.
[76] Pelkmans et al. (2016) "Tomorrow's Silk Road...," p.212.
[77] Hansakul and Levinger (2014) "China-EU relations...," p.12.
[78] Other priorities mentioned in the proposal: the Doha Round of WTO talks, TTIP, and the EU-Japan free trade agreement. European Commission (2015) "Trade for All: European Commission presents new trade and investment strategy," 14 October 2015.
[79] See Official Journal of the European Union (2013) "2013/C 131/02."; Zhang Monan (2016) "As trade growth slides, China and the EU should tap the potential for investment cooperation," *South China Morning Post*, 13 October 2016.
[80] Godement and Stanzel (2015) "The European Interest...," p.7
[81] Zhang and Ebbers (2010) "Why Half of China's...," pp.116-117.

Many observers complain about the lack of transparency on the part of Chinese investors. In several cases, it has been difficult or even impossible to ascertain the ownership of a certain investing company.[82] Considering the existing suspicion over corporate ties to the Communist Party and the Chinese People's Liberation Army, or the Ministry of State Security, or both, the issue of transparency is also related to security concerns, as discussed above. [83]

The arrival of Chinese state-owned enterprises as investors has presented European policymakers with a new challenge. One interlocutor stated that SOEs "don't take independent decisions and act in a collusive way," adding that one SOE's board of directors was appointed centrally, either by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), or the Party itself. "We haven't been able to take this into account previously."[84]

The fact that Chinese state-owned companies are able to secure funding from the state for their acquisitions – subsidized financing – is also regarded as highly problematic from the perspective of fair competition. State support carries with it a risk of distorting the market for acquisitions, giving these companies an unfair competitive edge.[85]

## 3.2 Chinese investment and the lack of an EU security screening mechanism

Based on the concerns outlined in the previous chapter, it has been argued that the EU should find a common position in defining necessary restrictions on acquisitions that affect national security.[86] The EU lacks a mechanism similar to the *Committee on Foreign Investment in the United States* (CFIUS), the U.S. government body that screens corporate takeovers for security concerns. During the last decade, analysts have on several occasions suggested that it would be advisable for the EU to set up such a committee, which could work to safeguard regional and national security interests.[87] Isolated calls have also been made, by

[82] Interview #2.
[83] Le Corre and Sepulchre (2016) *China's Offensive in Europe*, p.126.
[84] Interview #5.
[85] See Organisation for Economic Co-operation and Development (OECD) (2015) "Guidelines on Corporate Governance of State-Owned Enterprises," 19 November 2015.
[86] Godement and Stanzel (2015) "The European Interest...," p.8.
[87] See, for example Forchielli (2015) "Chinese Investment..."; Quattrocchi, Matteo (2014) "National security and foreign investments: The case for a European Committee on Foreign Investment," *International Security Observer*, 15 January 2014; Véron, Nicolas and Röller, Lars-Hendrik (2008) "A European framework for foreign investment," *Bruegel*, 5 December 2008; Véron, Nicolas and Röller, Lars-Hendrik (2008) "Safe and Sound: An EU Approach to Sovereign Investment," *Bruegel Policy Brief*, November 2008.

officials, for the establishment of such a mechanism.[88] While such proposals have been prompted by concerns over increasing Chinese FDI, it should be noted that CFIUS is tasked with screening all foreign investment, irrespective of origin.

Despite calls for the creation of a “CFIEU,” there has been no formal initiative to establish such a body.[89] Moreover, it is unlikely that such an approach will be taken in the near future, because of opposition both within the European Commission and in various EU member states.[90]

Currently, each EU member state has its own national policy regarding security consequences of foreign investment.[91] National regulations often cover specified sectors in which security-related investment is restricted, or subject to approval by authorities. Such sectors include e.g. legal services, telecommunication, and air transportation. In addition, regulations in many EU member states also leave some flexibility for specific circumstances.[92]

A report published by the European Council on Foreign Relations (ECFR), in 2013, notes that European markets are less restrictive than those of the US or Canadian in terms of market access. While US legislation explicitly restricts foreign access to public procurement in cases where national security or the control of strategic resources are in question, the UK is the only EU member state that has such protective legislation in place. For example, the acquisition of media, and cases involving national security, can be referred to the UK Competition & Markets Authority (in April 2014, these functions were transferred from the Competition Commission).[93]

In 2008, Bruegel, a European think-tank, concluded that sovereign investment by foreign public bodies, including China’s State Administration of Foreign Exchange (SAFE), had thus far been benign, and that worries about security implications had not been substantiated. However, it was suggested that in view of the rising prospect of investment from illiberal countries, the EU should adopt legislation that would include a common objective of defending national and European security.[94] It has also been suggested that a committee or an agency

88 Interview #5.

89 ibid.

90 van der Putten, Frans-Paul (2014) “Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands,” Clingendael, 14 February 2014, p.29.

91 Véron and Röller (2008) “A European framework...”; Note: For example, in Germany, foreign investment is regulated by the Law on Foreign Trade and Payments (Außenwirtschaftsgesetz) implemented through the Foreign Trade and Payments Ordinance (Außenwirtschafsverordnung). In France, the law regulating foreign investment is <<Décret no. 2014-479>>, correspondence with Insa Ewert, research fellow at the German Institute of Global and Area Studies (GIGA), Institute of Asian Studies, May 2016.

92 Rhodium Group/Baker & McKenzie/CICC (2015) “Reaching New Heights: An update on Chinese investment into Europe,” pp.39-41.

93 Godement and Stanzel (2015) “The European Interest...,” p.7

94 Véron and Röller (2008) “A European framework...”

tasked with evaluating foreign investments could be established as part of the bilateral investment treaty between the EU and China, which as of November 2016 is still a matter of bilateral negotiation.[95]

The European Commission may also subject SOEs attempting to acquire European assets to greater regulation following a decision by DG Competition, in March 2016. In a ruling regarding a proposed joint venture between China General Nuclear Power Group (CGN) and France's EDF, DG Competition came to the conclusion that CGN, an SOE, should not be viewed as separate from SASAC. Hence, when taking CGN's turnover into account, it should be calculated as the combined revenue of all Chinese SOEs in the energy sector. The decision meant that CGN's turnover was automatically interpreted as being above the EUR 250 million threshold for merger clearance.[96] This was the first time that the Commission had stated that the Chinese government's control was so substantial that all SOEs should be treated as one single entity.[97]

CGN is 95 percent-owned by SASAC and the provincial government of Guangdong holds the remaining 5 percent. DG Competition noted that CGN had acquired three wind farms in the UK and was planning to invest in two new nuclear reactors in Romania. The joint venture would be used as a vehicle for the nuclear power plant at Hinkley Point, consisting of three sites, of which two would use Areva's reactor technology (Hinkley Point and Sizewell), whereas CGN's Hualong reactor technology would be used at the Bradwell site. CGN stated that the main motivation behind the investment was to obtain experience in the UK nuclear sector and to obtain approval for its reactor technology.[98]

CFIUS is also scrutinizing investment in Europe, even when neither party is American. One such deal is the Chinese investment fund Go Scale Capital's $2.8 billion acquisition of Philips NV's lighting components and automotive lighting business, Lumileds. Due to Lumileds' portfolio of U.S. patents and its manufacturing and R&D operations in the country, CFIUS effectively blocked the deal, in January 2016. In reaction to the concerns voiced by CFIUS, the parties abandoned the transaction.[99]

The sale of Swiss pesticides giant, Syngenta AG, to the Chinese SOE, ChemChina, valued at up to USD 43 billion, was expected to be blocked by CFIUS, because of

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[95] Forchielli (2015) "Chinese Investment..."

[96] Interview #5; European Commission DG Competition (2016) *Case M.7850 – EDF / CGN / NNB Group of Companies, Commission decision pursuant to Article 6(1) of Council Regulation No 139/2001 and Article 57 of the Agreement on the European Economic Area*, 10 March 2016; Price, Michelle (2016) "Chinese state-owned companies face greater scrutiny of EU deals after ruling," *Reuters*, 12 June 2016.

[97] Price (2016) "Chinese state-owned companies..."

[98] European Commission DG Competition (2016) *Case M.7850...*

[99] Raice, Shayndi (2016) "Europe-China Deals Get More U.S. Scrutiny," *The Wall Street Journal*, 24 January 2016.

Syngenta's U.S. holdings. The deal, however, was given a green light by CFIUS in August 2016. The Chinese government has since announced that it is planning to merge ChemChina with another SOE, SinoChem Group, which could mean that CFIUS might reopen the ChemChina-Syngenta case. The deal is also subject to approval by the European Commission's Directorate-General for Competition (DG Competition).[100]

Except for a small number of cases, including those mentioned above, few Chinese acquisitions in Europe have as yet been described as having potential security implications. This can partly explain the fact that official calls for a European screening mechanism are limited so far. In the event that the current trend of increasing takeover attempts persists, there will likely be a wider debate on the pros and cons of establishing a "CFIEU." A more likely scenario, however, is that foreign investment review processes will continue to be managed in individual EU member states.

Meanwhile, China continues to restrict foreign investment in a range of sectors. Such restrictions have already become an irritant in EU-China relations, and are likely to fuel discontent among European governments in the years ahead. Nevertheless, Beijing is aware of the demand in Europe for overseas capital. The Chinese government therefore continues to promote investment and has launched a number of initiatives for this purpose. Two of these initiatives are discussed in the next chapter.

[100] Bloomberg (2016) "ChemChina's Syngenta takeover seen on track with mega-merger," 14 October 2016.

# 4 Chinese initiatives related to investment in Europe

The Chinese government encourages acquisitions in Europe, for reasons relating to China's economic development, as highlighted in Chapter 2. While Beijing stresses the importance of overseas investment globally in its two most recent five-year plans and as part of the "Belt and Road" concept, there are also initiatives that specifically relate to Europe. This chapter outlines two of those initiatives: China's division of Europe into sub-regional groupings; and its investment in Europe by way of financial contribution to the European Fund for Strategic Investments (EFSI).

## 4.1 China's launch of sub-regional platforms

As mentioned previously, Chinese investments in Europe have centered on the EU's three leading economies: Germany, the UK and France. In order to facilitate investment and other forms of exchanges with other European countries, China has also launched a number of so-called sub-regional platforms.

The strategy of "sub-regional" partnerships, grouping together EU member states with European non-EU members, is an approach by China to manage Europe by regions. China has been promoting platforms for sub-regional cooperation (*ciquyu hezuo*, 次区域合作) in Europe since 2012, when it set up such a framework with 16 Central and Eastern European (CEE) states – also known as the "16+1" platform.[101]

In recent years, Chinese officials and scholars have also proposed a framework with six southern European countries ("6+1") and a framework vis-à-vis the five Nordic countries ("5+1").[102] One of the key motivations behind China's interest in establishing such platforms is to increase investment in infrastructure. [103]

The 16+1 initiative has been said to reflect a changing focus from developed EU countries to CEE countries, based on the growth performance of CEE countries

[101] The 16 CEE countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, FYR Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.

[102] The six southern European countries are Greece, Italy, Spain, Portugal, Cyprus, and Malta. The five Nordic countries are Denmark, Finland, Iceland, Norway, and Sweden.

[103] Bu Shaohua (2016) "中欧'次区域合作'：动力与未来方向" ["China-Europe 'sub-regional cooperation': driving forces and future direction"], *国际问题研究* [China International Studies], 2016, No.2.

amid the Eurozone crisis.[104] Since its inception, different theories have emerged that strive to explain the motivations behind the platform. Some are convinced that China nurtures hidden political intentions, to the extent that it tries to divide Europe from the inside. Others see it as a purely economic cooperation fostering investment and trade relations.[105]

The China-CEE Cooperation Secretariat was established in September 2012, when China also introduced a strategy of "12 measures" ("China's 12 Measures for Promoting Friendly Cooperation with Central and Eastern European Countries").[106] The measures had been announced by Chinese Premier Wen Jiabao during his official visit to Warsaw, in April 2012.[107]

The adoption of the "12 measures" was based on the recognition that the CEE's cooperation with China was far behind that of the developed EU member states. The measures included a special credit line of $10 billion; an investment cooperation fund aimed at raising $500 million during an initial stage; and currency swap deals with Hungary and Albania.[108]

While the eleven EU members among the 16 CEE countries are economically much stronger than the remaining five countries, and their trade with China accounts for more than 90 percent of the group's total, the five non-EU members have received the most significant deals.[109] One explanation for the over-representation of non-EU members is that regulatory frameworks had to some extent prevented the CEE's eleven EU member states from exploiting the credit offered by the Chinese government. Conditions attached to an agreement, such as the requirement that Chinese companies and labour are utilised, may conflict with EU regulations. In order to make the credit line more accessible for EU member states, Chinese authorities were modifying it in early 2014.[110]

A fundamental problem for the initiative is that the parties have vastly different expectations as to what the cooperation can bring about. While China is mostly looking for infrastructure investment opportunities, most CEE countries are keen

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[104] Simurina, Jurica (2014) "Short Term Policy Brief 85: China's Approach to the CEE-16," *Europe China Research and Advice Network (ECRAN)*, January 2014.

[105] Turcsányi, Richard Q; Matura, Tamás and Fürst, Rudolf (2014) "The Visegrad Countries' Political Relations with China: Goals, Results and Prospects," in Ágnes Szunomár, *Chinese investments and Financial Engagement in Visegrad Countries: Myth or Reality?* (Budapest: Institute of World Economics), pp.137-138.

[106] Szczudlik-Tatar, Justyna (2013) "China's Charm Offensive in Central and Eastern Europe: The Implementation of Its '12 Measures' Strategy," *Polish Institute of International Affairs*, October 2013.

[107] Hence the platform's alternative title, "the Warsaw initiative." See Simurina (2014) "Short Term Policy Brief 85..."

[108] ibid.

[109] Turcsányi, Richard Q. (2015) "The Limits of China's Cooperation with Central and Eastern Europe," *The Diplomat*, 4 December 2015.

[110] Simurina (2014) "Short Term Policy Brief 85...," pp.6-7.

to attract greenfield investments in order to create jobs and industrial production. However, China has yet to set up new facilities in the region. The preferred Chinese strategy is based on acquisitions or infrastructure construction.[111]

An issue for the China-CEE platform has been that the CEE countries have not established a coherent strategy towards China, one that could be based on political, cultural and regulatory frameworks rather than purely on investment strategy and financial analysis.[112]

Another issue is the fact that a number of these countries – Hungary, Bulgaria, Romania, Ukraine and Belarus, in particular – have good relations with China because of the fact that they do not pursue sensitive issues, such as human rights or Taiwan's international role.[113]

In response to any concerns that the 16+1 framework might compromise the EU's integration, China has repeatedly stressed that its cooperation with the CEE countries is a part of China-EU relations.[114] Moreover, EU officials are regularly invited to 16+1 discussions.

China's relations with Nordic countries remain on the bilateral level, despite repeated suggestions from China to establish a platform for China-Nordic cooperation, often referred to as the "5+1" partnership. Recently, Nordic countries have signalled that there may be potential for such a framework. In February 2016, for example, the ministers for Nordic co-operation launched an investigation to assess the potential for the development of a closer relationship between the Nordic Council of Ministers and China. This investigation will be conducted during 2016 and 2017. The ministers had recognised the potential for expanding co-operation within areas such as "research and innovation, green growth, environmental solutions, the Arctic, as well as health and social issues."[115]

According to an analysis published by the research institute under China's Ministry of Foreign Affairs, the China-Nordic cooperation platform would be built on mutual interest in development of environmental technology, but also on Nordic demand for access to Chinese investment and markets.[116] The analysis suggests that the Nordic Council of Ministers could harmonize the five countries' respective China policies. It does point out, however, that the EU has certain doubts about such a platform, which could become a stumbling block. Moreover, the fact that Norway and Iceland are not EU member states could complicate the

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[111] Turcsányi; Matura and Fürst (2014) "The Visegrad Countries'...," p. 133.

[112] Simurina (2014) "Short Term Policy Brief 85...," p.8.

[113] ibid, p.8.

[114] ibid.

[115] The Nordic Council (2016) "Investigation into increased co-operation between China and the Nordic Council of Ministers," 4 February 2016.

[116] Bu (2016) "China-Europe..."

adoption of a common Nordic policy vis-à-vis China. A final obstacle is China's current political boycott, which has been in place since 2010, of Norway.[117]

In conclusion, the concerns over Chinese "divide and rule" tactics, as discussed in Chapter 3, are certainly highlighted by China's establishment of sub-regional platforms, dividing Europe into groups consisting of EU member states as well as non-EU members.[118] Chinese investment remains on a low a level in the CEE countries, with which China currently has its only existing sub-regional cooperation framework in Europe. [119] Nevertheless, expectations about increasing Chinese capital inflows could mean that Beijing is able to utilize the "16+1" platform to promote its political agenda in the region.

## 4.2 Chinese investment in the Juncker Plan

In November 2014, European Commission President Jean-Claude Juncker announced an ambitious investment plan. At the EU level, the Commission would establish a new European Fund for Strategic Investments to inject at least EUR 315 billion into long-term projects and the financing of small and medium-sized enterprises and mid-caps, during 2015-17.[120] EFSI, subsequently dubbed "the Juncker Plan," is partly aimed at supporting "strategic investments in key areas such as infrastructure, education, research and innovation, as well as risk finance for small businesses."[121]

At the High-level Economic and Trade Dialogue (HED) held in Beijing, on 28 September 2015, China made a commitment in principle to contribute to the Juncker Plan.[122] Beijing had reportedly signalled that its Silk Road Fund would commit up to EUR 10 billion to the plan, making China the first non-EU country to announce its contribution to EFSI.[123] However, at the annual EU-China summit held in Beijing in July 2016, no such commitment was made, despite information that China would initially invest a more modest sum of EUR 2 billion in the

[117] See, for example, Sverdrup Thygeson, Bjørnar (2016) "Norden og Kina: «Forbrytelse og straff» Forholdet mellom Norge og Kina," *Internasjonal Politikk*, 74, 3: 1–12.
[118] Browne (2016) "'China's Offensive in Europe..."
[119] Hanemann and Huotari (2016) "A New Record Year..," p.8.
[120] European Commission (2014) "Communication – An Investment Plan for Europe," 26 November 2014.
[121] European Commission, "Investment Plan." (retrieved 7 November 2016).
[122] European Commission (2016) "Frequently Asked Questions on the Joint Communication: Elements for a new EU strategy on China," 22 June 2016.
[123] As of September 2015, nine EU Member States had announced contributions to the Investment Plan: Germany (€8 billion), Spain (€1.5 billion), France (€8 billion), Italy (€8 billion), Luxembourg (€80 million), Poland (€8 billion), Slovakia (€400 million), Bulgaria (€100 million), and the UK (£6 billion/around €8.5 billion). European Commission (2015) "Investment Plan for Europe goes global: China announces its contribution to #investEU," 28 September 2015.

Juncker Plan.[124] An obstacle for China's contribution to the plan, according to one interlocutor, was that Beijing had come to realize that Chinese investors would not be able to freely choose projects for investment.[125]

As of October 2015, there was seed capital of €21 billion, and national development banks had pledged €42.5 billion, far from the total target of €315 billion. So far, attempts to attract capital from outside Europe have proven unsuccessful.[126]

There is reportedly also a possible link between China's investment in EFSI and the issue of market economy status (MES). Beijing insists that Brussels has agreed to recognise China as a market economy at the end of 2016. In July 2016, the European Commission agreed to grant China's MES, while simultaneously establishing mechanisms aimed at preventing Chinese dumping and illegal subsidies.[127] Members of the European Parliament have voiced concerns that the Commission's position is dictated by fear of retaliation, in that Beijing might otherwise decide to withdraw its commitment to the Juncker plan. Moreover, according to parliamentarians, there are concerns that Brussels could risk a new era of economic friction with Beijing, if China's MES is not granted.[128]

The EU has five criteria for granting MES: 1) allocation of economic resources by the market; 2) the removal of barter trade; 3) corporate governance; 4) property rights; and 5) an open financial sector. According to a European legal expert, China has so far only met one of the criteria, i.e. the removal of barter trade.[129]

As of November 2016, China has not explicitly stated to what extent it will contribute to the Juncker Plan. Beijing may have expected that its contribution would increase its influence on the EU's China policy, at least in terms of the issue of market economy status. Moreover, China is said to have believed that investment in the plan would facilitate Chinese acquisitions in Europe. Regardless of the Chinese government's motivations for supplying funds to EFSI, China may have to address concerns similar to those raised in response to the acquisitions by Chinese enterprises.

[124] Emmott (2016) "Beijing to make..."
[125] Interview #5.
[126] García-Herrero (2015) "China's interest..."
[127] Vincenti, Daniela (2016) "Parliament urging Commission to act on China MES," *EurActiv*, 5 October 2016.
[128] Steinbock, Dan (2016) "Time is right for EU to grant China market status," *EUobserver*, 16 March 2016.
[129] Vincenti, Daniela (2016) "MEPs braced for fight over granting China 'Market Economy' status," *EurActiv*, 13 January 2016.

# 5 Conclusions

China's sudden interest in Europe as an arena for acquisitions has taken observers in the EU by surprise. While qualitative statistical figures on investment are hard to come by, it is obvious that Chinese corporate takeover attempts are rapidly increasing in number and scale, albeit from a low level.

Responses to Chinese capital exports to Europe have been mixed, but recent developments have led many to react with scepticism. Propositions that the Chinese Communist Party has embarked on a grand strategy to increase its clout in Europe politically, strategically, and economically are not rare, despite inconclusive evidence that this is the case.

Many interlocutors and media reports raise concerns that Beijing is pursuing a "divide and rule" strategy among EU member states, which may have already led to increasing influence on European policies towards China and put EU coherence at risk. There is evidence that certain European states are responding to Chinese sensitivities by attempting to appease Beijing, partly in order to attract investment. Suggestions that the Chinese government is using promises of investment as a political tool, however, have yet to be substantiated.

Moreover, some European observers argue that Chinese corporations – the majority being state-owned – are increasingly taking over strategic assets, i.e. firms that are of strategic value with respect to national security as well as competitiveness. These concerns are further emphasised by the involvement of the Chinese state, financially and structurally, in the companies investing in Europe and the lack of transparency that is a distinguishing feature for many state-owned enterprises that are active in Europe. The factor that has prompted the most vocal opposition in Brussels, however, is the lack of reciprocity in regards to investment: while EU member states are generally open to foreign capital, many sectors of the Chinese economy are off-limits to international investors.

In response to concerns over the strategic implications of Chinese investment, there have been isolated calls for the establishment of an investment-screening mechanism on the EU level. It is unlikely, however, that such an approach will be taken in the near future, because of opposition both within the European Commission and in various EU member states. The current solution, where screening of takeover attempts depends on national regulations, will remain in place. Nevertheless, if there is interest among EU member states, there is potential for a development of information-sharing with regard to inward investment, irrespective of origin.

The Chinese government has launched a number of initiatives in order to facilitate investment to Europe. Two of those discussed in this report – the sub-regional partnerships and investment in the so-called Juncker Plan – could serve as vehicles for continued capital exports. Nevertheless, the two strategies have yet to provide tangible results. While there is evidence that Chinese infrastructure investment in the Eastern and Central European economies included in the “16+1” sub-regional platform is increasing, it is still too early to talk about significant investment.

Europe offers China a market that is generally open to foreign acquisitions, with few sectors that are off-limits for foreign investors. At the same time, Chinese enterprises have ample inherent grounds for acquisition-based growth overseas. Not least, the Chinese government provides incentives for such investment, having identified a national demand for advanced technology, brands and access to affluent markets.

It is reasonable to assume that China’s interest in European investment will not wane anytime soon. While annual growth figures for the Chinese economy may continue to drop in the long-term, there are no signs that the Chinese appetite for investments abroad will slow down. In addition, as this study shows, Chinese acquisitions have attracted attention more because of the size of individual deals, rather than the aggregated numbers, which have yet to reach the levels of the U.S. and other major investor economies.

*Suggestions for future research*

The objective of this report is to discuss perceptions of Chinese investment in Europe; views among the Chinese academic or business communities are not taken into account. There is also, however, a debate within Chinese academia on how to most effectively promote overseas acquisitions. Initiatives suggested include for example development of China’s *soft power*.[130]

In light of the concerns expressed by various observers towards Chinese investment, a relevant area for future research would be to make a comparison between perceptions of Chinese investment in recent years and of Japanese investment in the United States in the 1980s.[131] Specifically, it would be valuable to identify the concerns that were expressed by scholars and policymakers in regard to Japan’s FDI and to compare those with the concerns outlined in this report. A follow-up study could then be to assess the concerns over Japanese investment and to analyse the extent to which those concerns were relevant.

Another relevant area for future research is analysis of attitudes towards Chinese investment in major European economies. Policies adopted by these states may

[130] See, for example, Zhang Tuo (2016) “中资企业跨国并购的全新特征与风险规避” [“New characteristics and risk evasion of overseas M&A by Chinese enterprises”], *Juece yu xinxi*, 2016:6.

[131] See, for example, Easterbrook, Gregg (2010) “China as number one? Remember Japan in the ’80s,” *Reuters*, 18 August 2010; Margaronis, Stas (1989) *Pearl Harbor II: Confronting the Japanese challenge,* Publisher: SAM Trade.; Emmott, Bill (1991) *The Sun Also Sets: The Limits to Japan's Economic Power*, (New York, New York: Touchstone); Milhaupt, Curtis J. (2009) “Is the US ready for FDI from China? Lessons from Japan’s experience in the 1980s,” in Sauvant, Karl P. (ed.), *Investing in the United States: Is the US Ready for FDI from China?* (Cheltenham: Edward Elgar, 2009), pp. 185–208.

also come to affect the Swedish government's position, and as a result also have an impact on investment flows from China to Sweden, both in terms of magnitude and sectors concerned. In Germany, the welcoming attitude on the part of the German government towards acquisitions by Chinese enterprises is reportedly being gradually replaced by growing resistance. It would also be relevant to study the British government's policies with regard to incoming investment, including investment from China, in a post-Brexit environment.

Finally, on the issue of transparency, the extent to which Chinese investment in Europe is funnelled through entities in Hong Kong and other tax havens remains a matter for future research.[132]

[132] Sauvant and Nolan (2015) "China's Outward...," p.2.

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### Interviews

Interviews conducted on condition of anonymity, Brussels and Stockholm, June-October 2016.

Correspondence with Insa Ewert, research fellow at the German Institute of Global and Area Studies (GIGA), Institute of Asian Studies, May 2016.

Correspondence with Philippe Le Corre, visiting fellow at the Center on the United States and Europe, at Brookings, and the author of “China’s Offensive in Europe,” May 2016.

China has recently become a net exporter of capital. China's emergence as a capital exporter is partly a result of reduced government restrictions on outbound investment and policies to encourage companies to look overseas for acquisitions. In Europe, Chinese investors have mainly targeted companies that offer access to brands, technology and supply chains. These acquisitions have so far centred on the major European economies, but recent investment growth has also taken place in countries in southern Europe that have been hit by the economic downturn.

As Chinese enterprises are more actively investing in the European Union, their acquisitions are raising concerns among some political observers and policymakers. There are several reasons for the apprehension, the most important perhaps being the novelty of Chinese investment in Europe and the magnitude of certain takeovers in terms of value. A common theme in the debate is that the national security and competitiveness of EU member states could be jeopardized by the divestment of strategic assets, in particular when Chinese state-owned enterprises are involved in acquisitions.

It is reasonable to assume that China's interest in European investment will not wane anytime soon. While annual growth figures for the Chinese economy may continue to drop in the long-term, there are no signs that the Chinese appetite for investments abroad will slow down. In addition, as this study shows, Chinese acquisitions have attracted attention more because of the size of individual deals, rather than the aggregated numbers, which have yet to reach the levels of the U.S. and other major investor economies.

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