Conference on EU and the Emerging Powers
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EU-China FDI in the 21st century: Who is ready for a “win-win” strategy?

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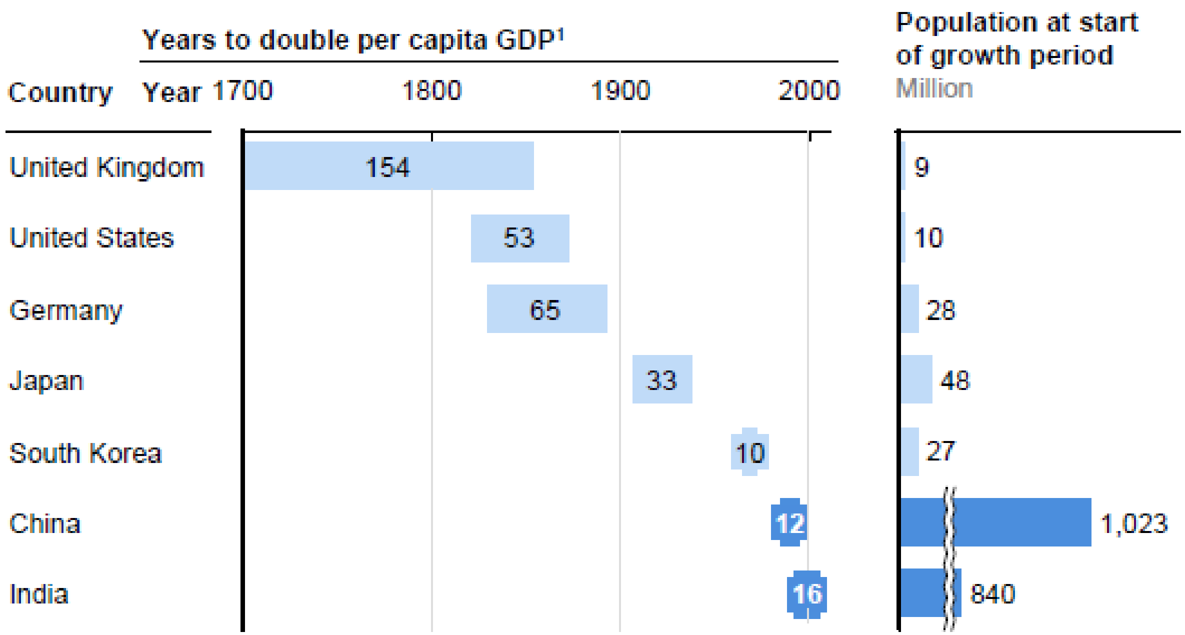
Structure of the presentation

- China leading a profound economic rebalancing
- A new tool for monitoring FDIs into and out of China (COFM)
- Major trends for FDI between China and the EU over the recent years and the emergence of new international corporate strategies
- Key question and issues
- Hints for policy makers

Profound rebalancing under way…

Comparison of historical economic transformation



1 Time to increase per capita GDP in PPP terms from $1,300 to $2,600.

SOURCE: Angus Maddison; University of Groningen; *Resource Revolution: Meeting the world's energy, materials, food, and water needs*, McKinsey Global Institute, 2011.

Source: McKinsey Global Institute

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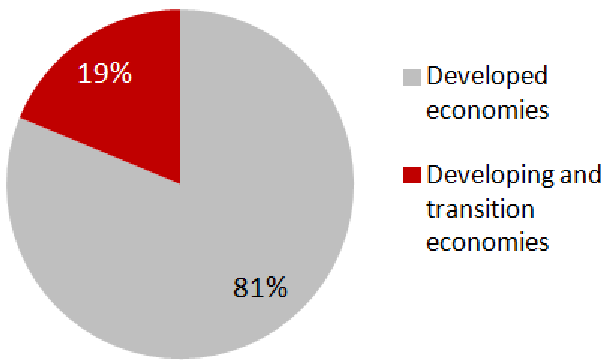
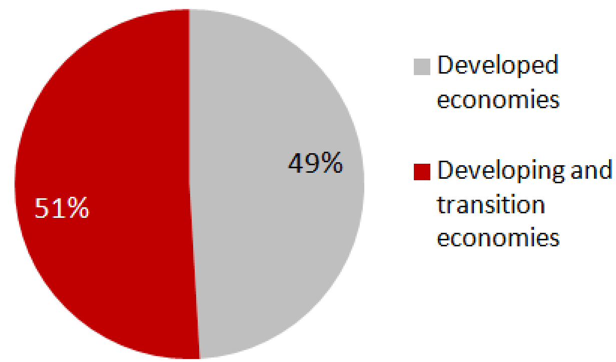
Profound rebalancing under way…
FDI from developing and transition economies

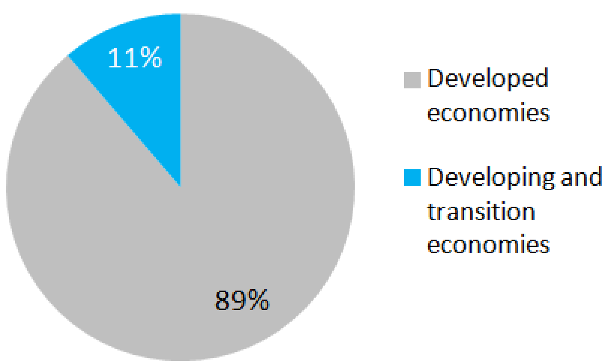
FDI inflows (% total) 2000



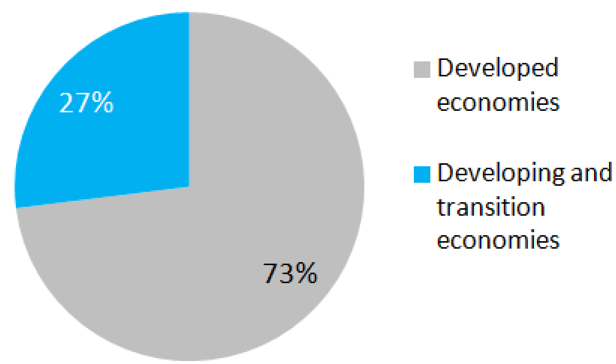
FDI inflows (% total) 2011



FDI outflows (% total) 2000



FDI outflows (% total) 2011



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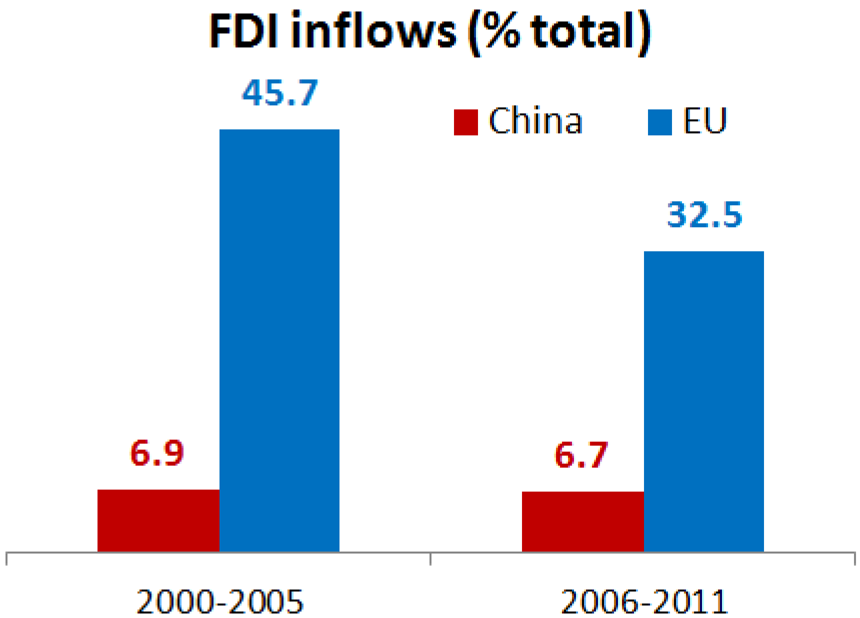
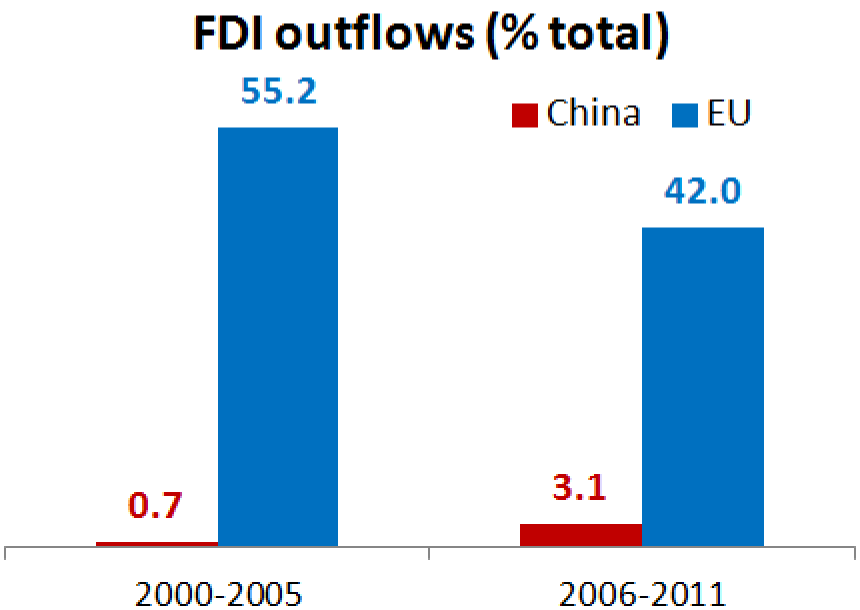
Profound rebalancing under way…

FDI from EU and China



Source: UNCTAD



Source: UNCTAD

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ChinaObs fdiMonitor (COFM)

A proprietary tool for monitoring FDIs in China

- TAC is a fully independent firm engaged in applied economic and financial research, focusing on international economic issues (trade, investment, country risk…)
- EC-funded project ('EU-China Economic Observatory') including the setting-up of data based on a bottom-up approach by cross-border operation
  - M&A from ThomsonOne (Thomson Reuters)
  - Greenfield investments from TAC & fDi Markets (Financial Times)
  - Updated on a quarterly basis
- Allowing a continuum from individual deals up to industry and macro figures

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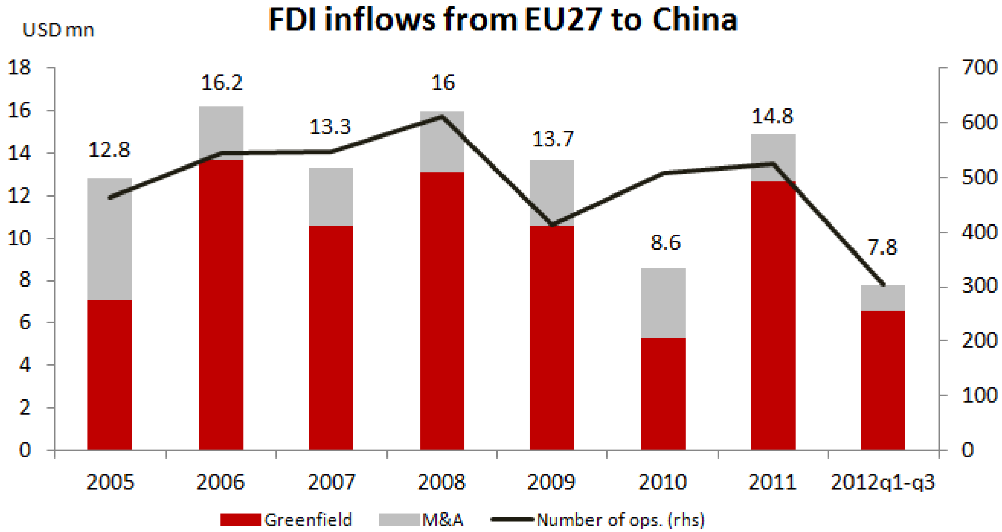
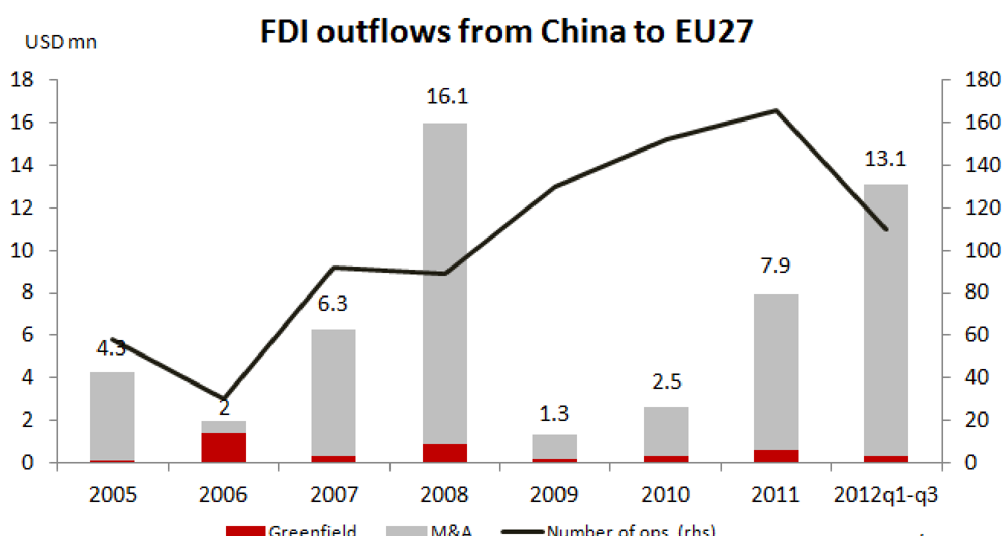
Major trends for EU27-China FDIs

Historical figures





Source: TAC/COFM

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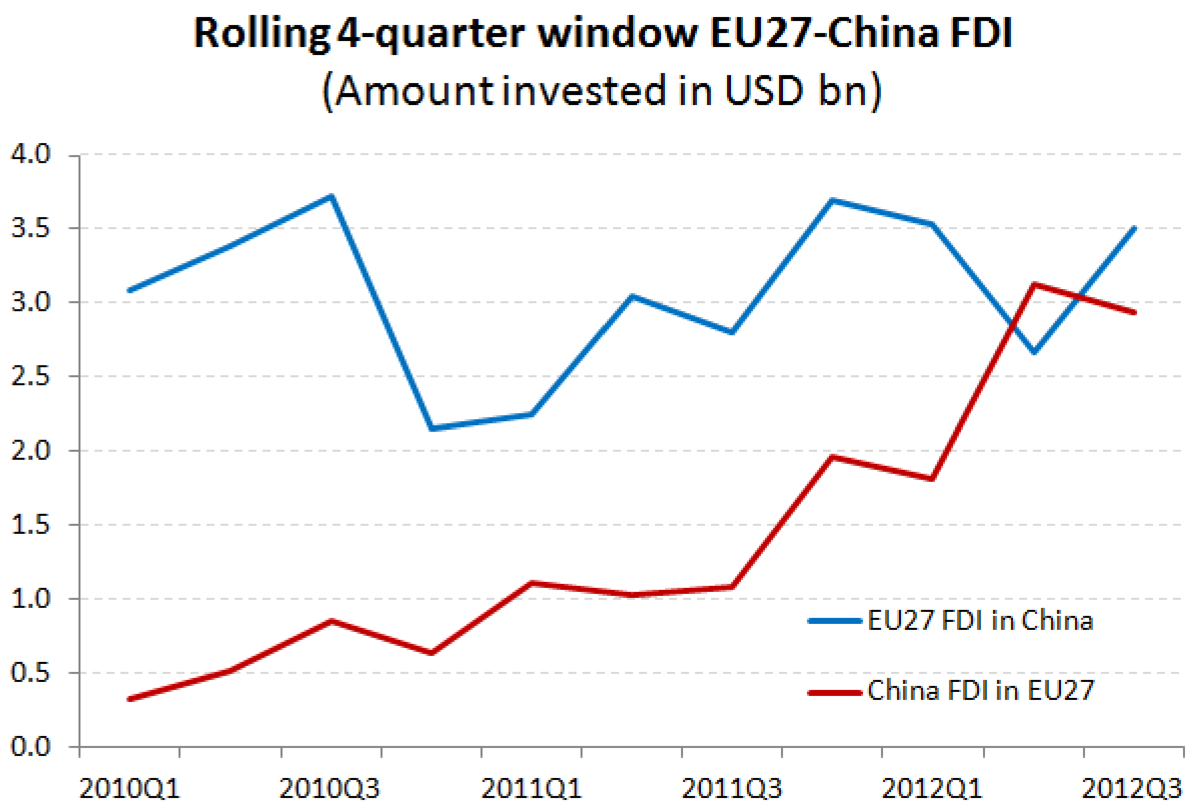
Major trends for EU27-China FDIs

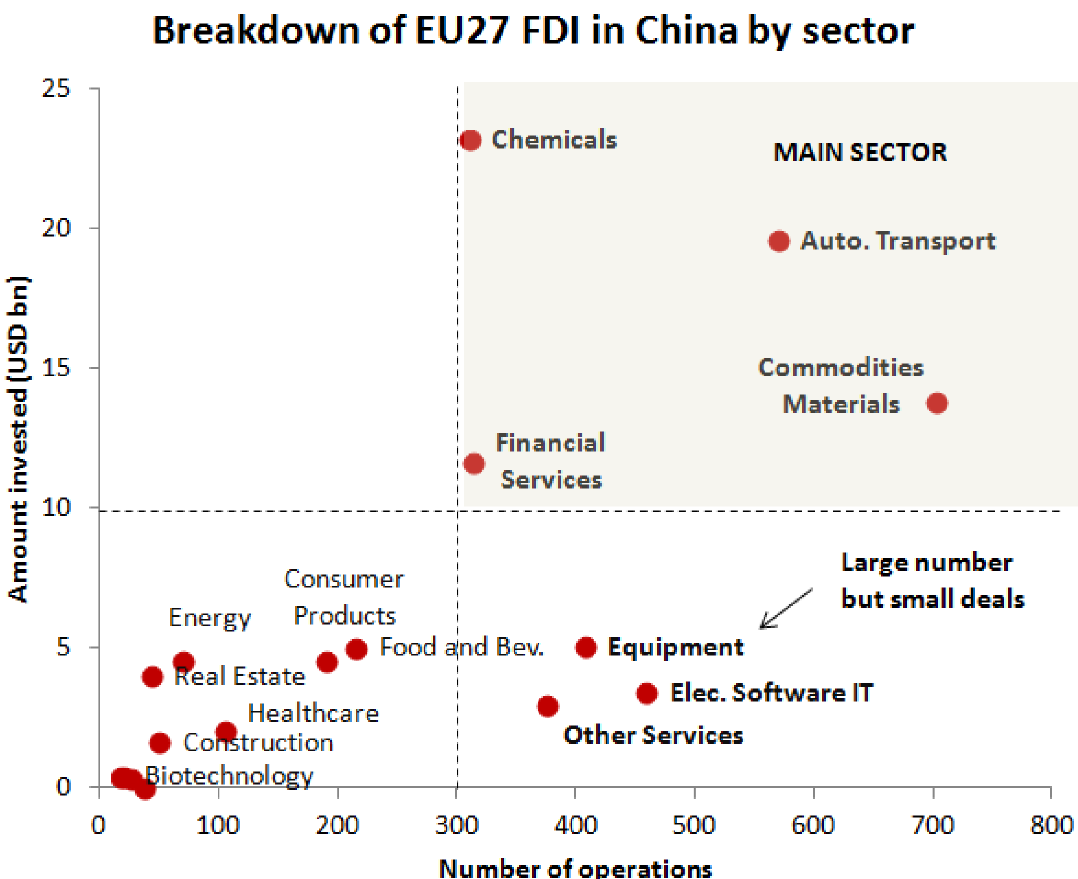
Recent trends: outflows are catching inflows FDI



Source: TAC/COFM

Major trends for EU27-China FDIs

Strategies of EU27 FDI in China



Source: TAC/COFM

In 2011-2012, motives behind Greenfield investments:

- 70% of respondents for the domestic market growth potential
- 29% for the proximity to markets or customers
- Only 1% for lower costs!

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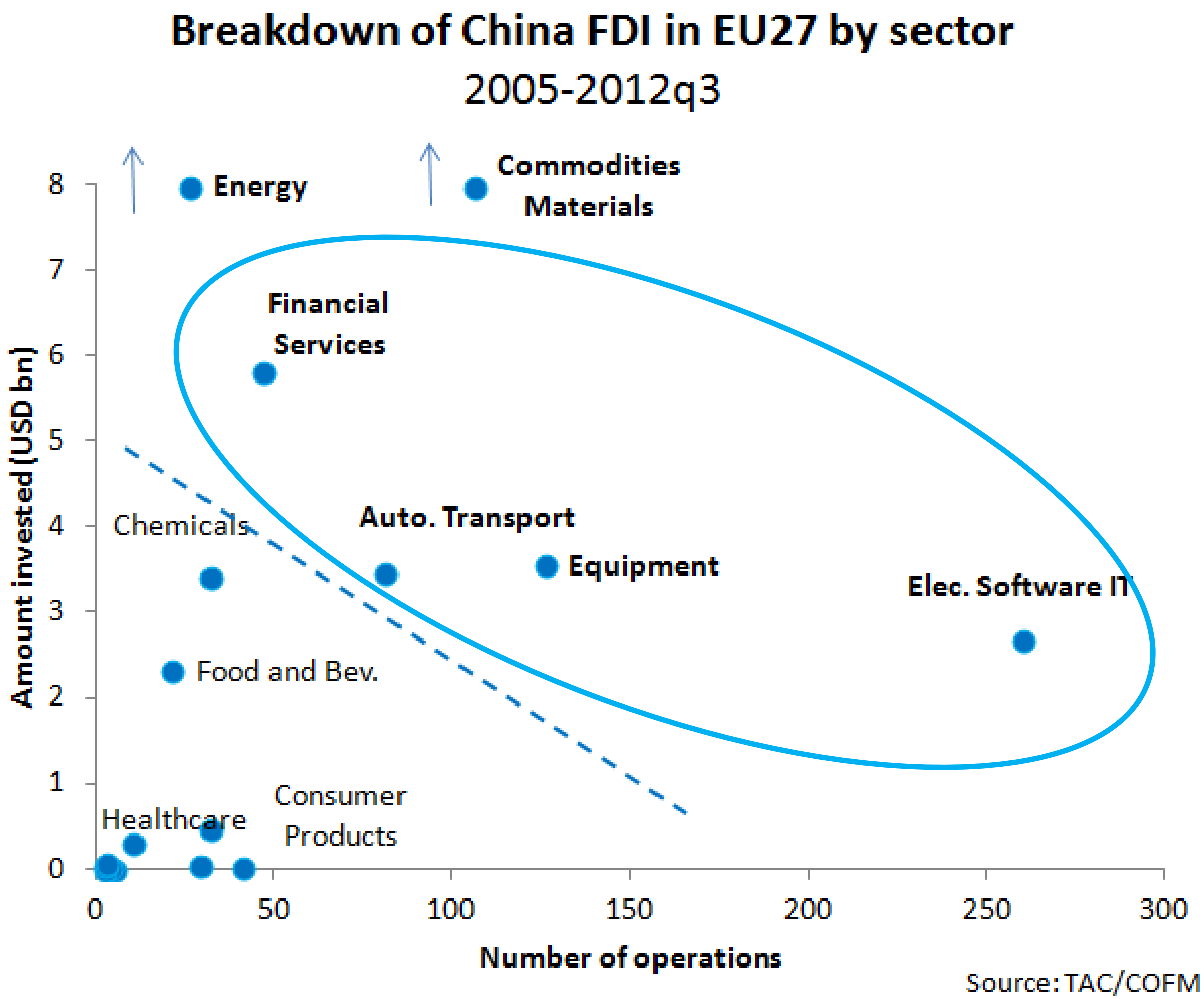
Major trends for EU27-China FDIs

Strategies of China FDI in EU27



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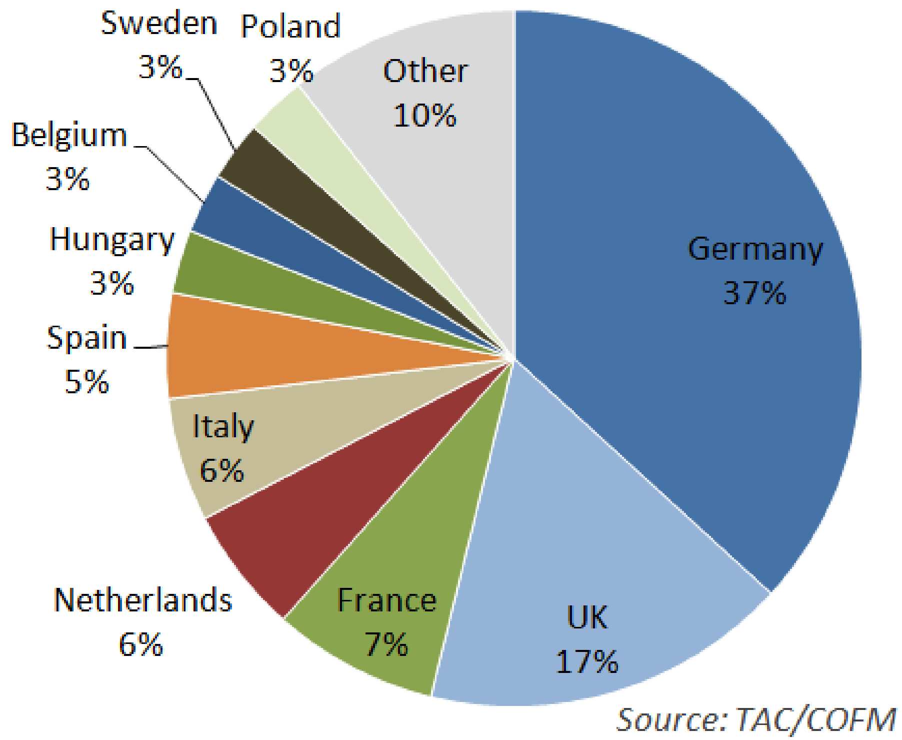
Major trends for EU27-China FDIs

Breakdown of Chinese FDI in EU27

Number of deals in 2005-2011 (total=715 deals)



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Major trends for EU27-China FDIs

Objectives of Chinese investors in EU27

Highly differentiated motivations with direct implications on localization and industry targets:

- **SMEs**: Search for new business opportunities in low tech manufacturing; preference for "new" EU members with lower labour cost and full market access
- **New "China's Champions":** Improving their market position abroad, diversifying their activity, acquire new technologies; looking for rapid expansion of market share and know-how
- **SOEs:** Complex relation between corporate versus national / strategic interests; invest in knowledge-intensive economy (move up in the supply chain) and also in utility sectors. Often target "sensitive" sectors

Key questions and issues for a win-win approach

Questions on macroeconomic impact

- FDI into China and the delocalization / de-industrialization debate. *Need for clearer picture on overall impact on labour (immediate loss versus improvement in overall market and competitiveness)*
- Chinese FDI into EU: increase in local competition or saving lost jobs? *Need to better understand the motives and objectives of Chinese FDI*

Questions related to fairness / objectives

- Is an "artificially low" cost of capital an unfair advantage? *SOEs, sovereign fund's investments versus private corporate investments*
- Are restrictions / limits on FDI explicit or implicit? *(sensitive sectors, e.g. energy, high tech, implementation of regulations, etc.)*

Key questions and issues for a win-win approach

Observations from a “political economy” perspective (1/2)

- China now need much less FDI than in the first decades of economic transformation and catch-up. The “country” has now the financial muscle and industrial capabilities to acquire abroad what it needs for sustaining its development.
- The role and share of foreign-invested enterprises (FIEs) in China is exceptionally large for a “continental” economy , reflecting an “abnormal choice” made in the earlier years of reforms.

➢ **Despite the continuing attraction of China for European FDI** (if only because of domestic market size and regional integration)**, foreigners are likely to face increasing constraints (regulatory, administrative, strategy…) with likely pressures on margins and policies favouring domestic competition.**

Key questions and issues for a win-win approach

Observations from a "political economy" perspective (2/2)

- EU companies are most sensitive to the "operating environment", including issues on IPR, fair competition and regulatory uncertainties, where the degree of "control" in China by the Chinese authorities is much more difficult to measure and assess properly.
- The current period of acute macroeconomic difficulties as well as a long-term outlook for weak domestic demand in the EU is leaving many EU companies more fragile and vulnerable.

➢ **Is it the best time to have increasing competition from Chinese companies, potentially buying European companies at "distress prices"?**

Hints for policy makers

- A bilateral investment treaty / agreement between the EU and China would go in the direction of clarifying and levelling the playing field (restrictions, market access, national treatment…).
- Need to have a much closer look at the role of cost of capital in competition between the EU and China, and incorporate cost of capital elements in any “investment screening process”.
- Need to support / prepare European companies to face a new round of increased competition from Chinese corporates, both in the EU and in countries that enjoy preferential market access to the EU.

Thank you for your attention

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