

## Louvain School of Management

# The Chinese Foreign Direct Investment in the European Union and the attractiveness of the geographical European Regions

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## 1. Introduction

In a couple of decades of institutional and domestic economic reforms, China has encountered a fulgurous growth and has become the second world largest economy in terms of the nominal gross domestic, just after the United States. China reaches the first position if the GDP is scaled by the purchasing power parity, an indicator that compares prices of a basket of goods in their respective currencies (see *inter alia* the recent reports of the United Nations (UN) and the International Monetary Fund (IMF)). China has also evolved from a major host of Foreign Direct Investment (FDI) to become a major investor. According to the official statistics released by the Ministry of Commerce of the People's Republic of China (MOFCOM) and the United Nation Conference on Trade and Development (UNCTAD), China has a net investment balance and is the third largest world investor.

During these years, the patterns of the investment, as well as the motivations behind them, have changed. Due to imbalances in the 2000s, the government had the willingness to switch to a more sustainable economic growth with a focus on the final consumption, innovation, services and high value added products (Lemoine, 2007). This has been more encouraged since the financial crisis and especially since 2013 with notably the 13rd Plenum, the 12th and 13th Five Year Plan (FYP) and Made in China 2025 (Seaman, et al, 2017). The Belt and Road Initiative (BRI) has also pushed the investment in infrastructure, transport and logistics.

The real increase of Chinese investments in the European Union (EU) is still recent. It began only one decade ago, and it is still significantly increasing and evolving. As China is one of the largest investor in the world, it is important to understand its influence. Indeed, China can have a big impact, both positive and negative, on the European economies (Hanneman & Huotari, 2015). Moreover, several EU countries are afraid for their national security when facing such a notable increase of Chinese investment in critical infrastructure and key technologies (Hanneman, Huotari, 2015, Seaman, et al., 2017).

Numerous researches have already been written about this phenomenon and have analysed the motivations behind Chinese investment policy. However, several authors can contradict themselves, the articles are sometimes too dated while the phenomenon is still evolving, and there is not any article (to the best of our knowledge) that shows the motivations for all the countries of the EU. Therefore, it is really interesting to provide a critical and qualitative

analysis of the literature, as well as to compare them, in order to synthesize the evolution of the Chinese Outward Foreign Direct Investment (ODI or OFDI hereafter). The aim is to interpret the motivations for each country of the European Union country.

Moreover, it has been shown that China does not see the EU as a single entity but as separate markets. The motivations in the countries are not the same and Chinese firms analyse and evaluate the advantages of each host country comparatively to decide in which one they should invest. Some countries have received big investment from China, for instance the core EU countries, while some have received barely nonexistent investment (Rhodium Group, 2017). There is also a competition between the countries to attract the investment in order to stimulate their economies since the financial crisis (Jia, 2015).

Consequently, whereas China does not see the EU as a single market, it is interesting to study whether China can see it in different geographic regions: the Western, Northern, Southern and Eastern region. We can wonder whether China can invest for the same motivations in the countries belonging to the same geographic region, whether the evolution of these motivations is evolving in the same way for these countries, and finally whether the motivations for investing are different across geographic regions.

### ***Research Question***

What are the motives of the Chinese Outward Foreign Direct Investment in the European Union and how are they affected by the EU geographic regions?

***My objective*** is to investigate these four statements:

1. The Chinese Outward Foreign Direct Investment (ODI or OFDI) motives depend on the European geographic region and not on the EU as a whole.
2. The Chinese ODI motivations are the same for each country within the same European geographic region.
3. The Chinese ODI motivations are different between the European geographic regions.
4. The evolution of the Chinese ODI motivations are the same within the European geographic regions.

In order to provide answers to those research goals, I first need to study the following questions:

1. What are the Foreign Direct Investments about?

2. What are the evolutions and trends of the Chinese ODI globally and in the European Union?
3. What are the EU opportunities and fears?
4. What are the Chinese ODI motivations interpreted in the light of Dunning's four motivations?
5. What are the European geographic regions?
6. What are the motivations for each country within the EU?
7. What are the evolution of these motivations through time?

### ***Structure***

In order to answer the questions above, the thesis is organized as follow:

Chapter 2 explains the main concepts of the thesis topic, the literature and databases used, so as its limit.

Chapter 3 presents the global evolution of the Chinese ODI since the open up policy, and its main patterns.

Chapter 4 focuses on the Chinese ODI evolution and patterns in the European Union, as well as the opportunities and concerns that they imply.

Chapter 5 explains the four categories of Multinational Enterprise (MNE) activity according to Dunning, as well as the other Chinese motivations to invest in Europe. We discuss the Chinese ODI motivations in each country and their evolution.

Chapter 6 summarizes, discuss the main findings and presents the limits and further researches that can be made.

## 2. Litterature and methodology

This chapter explains the main concept of the thesis, the literature review and databases used as well as its limit.

### 2.1. Theoretical concepts and definitions

In order to understand the evolution of the ODI, it is important to start by defining some concepts. These are: FDI, Inward and Outward FDI, Merger & Acquisition and Greenfield Investment, FDI stock and flow, State and Private Owned Enterprise, strategic and financial investors and the taxonomy of the four types of MNE activity by Dunning.

#### *Foreign Direct Investment (FDI)*

*“Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The “lasting interest” is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise. Direct investment may also allow the direct investor to gain access to the economy of the direct investment enterprise which it might otherwise be unable to do. The objectives of direct investment are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise“*  
(OECD, 2008).

Direct investments are consequently different from other types of investment such as portfolio investment (investment of equity share without having an influence) or derivative (financial security that are related to an underlying asset) (Hanneman & Huotari, 2017).

### ***Inward and Outward Foreign Direct Investment (ODI)***

- An Inward Direct Investment is the investment that flows into the country.
- An Outward Direct Investment (ODI or OFDI) is the investment that flows out from the country, such as the investment that China makes in other countries.

### ***Greenfield and Merger & Acquisition (M&A)***

There are two main types of FDI (OECD, 2008):

- A Merger and Acquisition (M&A) is the purchase of a fully or partially existing entity with a significant stake that is greater than 10% (OECD, 2008). M&A is a way of directly acquiring advanced technology, know how, brand, and distribution networks, mainly in sectors such as energy, advanced manufacturing (Nicolas, 2010), financial services and electronics (KPMG, 2016). M&A are affected by a short term vision (Davies, et al., 2015).
- A Greenfield investment is the establishment of subsidiaries in another country from the scratch (OECD, 2008). It can be headquarters, marketing and sales offices, warehouses, manufacturing facilities, R&D centers and real estate developments with a view to facilitate the access to the local market and help to customize the products for it. Greenfield investments are common in logistics, telecommunications and service industries, and are both common in developing and developed market (Nicolas, 2009). They are affected by a long term vision (Davies, et al., 2015).

### ***FDI flow and stock***

There is a distinction between FDI flow and FDI stock:

- The flow represents the direct investment during a given period of time, in that case during the year.
- The stock is the accumulation of direct investment at a given point in time (OECD, 2018).

As I would like to show the evolution and the increase of FDI, I will mainly use the FDI flow data.

### ***State and Private Owned Enterprise***

- A Chinese State Owned Enterprise (SOE) “*is a legal entity that is created by a government in order to partake in commercial activities on the government's behalf*” (Investopedia). SOE benefit from government advantages, are dominating the capital-intensive sectors (Hanemann & Rosen, 2012) and are mainly looking for asset with M&A in infrastructure, key technologies and resources (Richet, 2017). Some examples are ChemChina, PetroChina China Investment, and China Ocean Shipping Group Company (COSCO) (Hanemann & Rosen, 2012).
- A Chinese Private Owned Enterprise (POE) is held by private investors and encounter more difficulties to invest, as it does not have the same aid that the State Owned Enterprises. It mainly look for asset and market distribution, supply chains, brands and technologies (Richet, 2017). POE dominate the greenfield investment and the service sector, mostly target more small enterprises with a smaller average deal value. Some examples are Geely (buy Volvo), Huawei (most investment in sales, R&D, support, and small-scale manufacturing operations in the EU), ZTE and Lenovo (Hanemann & Rosen, 2012).

### ***Strategic and financial investor***

- “*Strategic investors make long-term investments to exploit advantages, access markets, or increase competitiveness.*”
- “*Financial investors are companies and funds that invest primarily for financial returns*” (Hanneman & Huotari, 2015).
- 

### ***The taxonomy of four types of Multinational Enterprise (MNE) activity by Dunning (1993)***

- Resource seeking: secure access to raw material, natural resources and commodities.
- Market seeking: defend the existing market share or access to new market.
- Efficiency-seeking: decrease the cost with a better productivity thanks to economies of scale or with cheaper inputs such as production, labour and administrative costs.
- Strategic asset seeking: acquisition (not exploitation as the three above) of advanced technology, know how, brands, distribution network, managerial and design skills.

## **2.2. Methodological aspects**

This work is a descriptive thesis. My methodology is based on a critical and qualitative analysis of the literature, as well as on the comparison of the different sources. That allows me to synthesize the evolution of the Chinese ODI and to interpret the Chinese ODI motivations for each country of the European Union.

## **2.3. Literature and data sources**

This thesis uses the literature given by my supervisor, from online libraries and databases, search engine, as well as books from the Tsinghua School of Economic and Management's library and classes. The literature is about the history and evolution of the Chinese economy, as it is important to know more about the economic history to really understand the evolution and motivation of the Chinese ODI. This is also about the Chinese Foreign Direct Investment globally and in the EU, as well as on the motivations. This thesis is developed with books, scientific articles, online articles, cases study, maps and graphics, as well as with analysis of Chinese investment from the Rhodium Group and from different consulting companies, research centers, universities and governmental agencies. For the database, I mainly use the one from The United Nations Conference on Trade and Development and the Rhodium Group.

There exist database from different official sources:

- China's Ministry of Commerce of the People's Republic of China (MOFCOM) data, the official figures from the Chinese government since 2010.
- Eurostat statistics, the official European figures on EU-China FDI flows since 2001.
- The United Nations Conference on Trade and Development (UNCTAD) data.
- The State Administration of Foreign Exchange (SAFE) data under the People's Bank of China.

However, these official databases present several problems:

- They are useless for evaluating recent investments. Indeed, they have gaps and different delays. For example, MOFCOM and Eurostat data are released after a minimum of 6-12 months.
- They lack breakdown of industry and country (Hanneman & Huotari, 2017).

- The data are distorted by the presence of offshore centers and tax heavens that account for about 60/70% of China's total ODI flow, such as Hong Kong, the Caribbean, Cayman Islands (BBVA, 2016, 2018). There is the "round-tripping" phenomenon, where Chinese companies send capital to a country with favorable tax policies for reinvesting the capital in China, and the "trans-shipping" phenomenon, where Chinese companies invest into a country with favorable tax policies for reinvesting it in a third country (Hanneman & Huotari, 2017). Moreover, the data are done based on the immediate investor countries, not on the ultimate beneficial owner, and thus do not take into account the return of the Chinese investment in China or in a third country (BBVA 2018). This makes the offshore phenoma worst.

Consequently, to track accurately FDI flows is really difficult. The data are insufficient, incomplete and biased. The ODI figures are overestimated in Asia, and underestimated in Europe and North America (BBVA, 2018). Depending on the sources, data have different figures. For example, in 2010, Eurostat has recorded \$0.98 billion of FDI inflows from China in the EU while MOFCOM has recorded \$5.96 billion, six times greater. Also, the destinations ranking are not the same.

This is why, for the European Union FDI investment, I use The Rhodium Group (RHD) data, an alternative approach based on the collection of data on individual or companies Chinese greenfield and M&A transactions in Europe since 2000. *"This avoids some of the problems above and permits a real-time assessment of Chinese ODI patterns with detailed information on sectoral and geographical distribution"*(Hanneman & Huotari, 2015). For the global figures, I mainly use the UNCTAD database, which allows to more easily see the evolution and to compare across countries. Also, The FDI exposed will be the non-financial one.

### **3. Chinese Foreign Direct Investment**

In order to analyze the Chinese Outward Direct Investment in the European Union and its motivation, it is essential to begin with an explanation of the evolution of the Chinese investment globally. This allows us to understand how the country has become a major worldwide investor.

This chapter firstly explains the open up policy and the development by the FDI, secondly describes the evolution of the ODI and thirdly discuss its main patterns in order to understand the trends.

#### **3.1. Chinese open up policy and development by the FDI**

Before to become one of the biggest economy in the world, China was closed to the international concurrence. The exceptional evolution started with the open door policy that was launched in 1978 by Deng XiaoPing, the Vice President of the Chinese Communist Party (Brown, 2008). The aim of this policy was to increase the growth of the Chinese economy and to push the integration of the country into the global market. Since then, the country has experienced decades of institutional and domestic economic reforms (Jing & Song), which has led to an increase in inward and outward FDI (Brown, 2008).

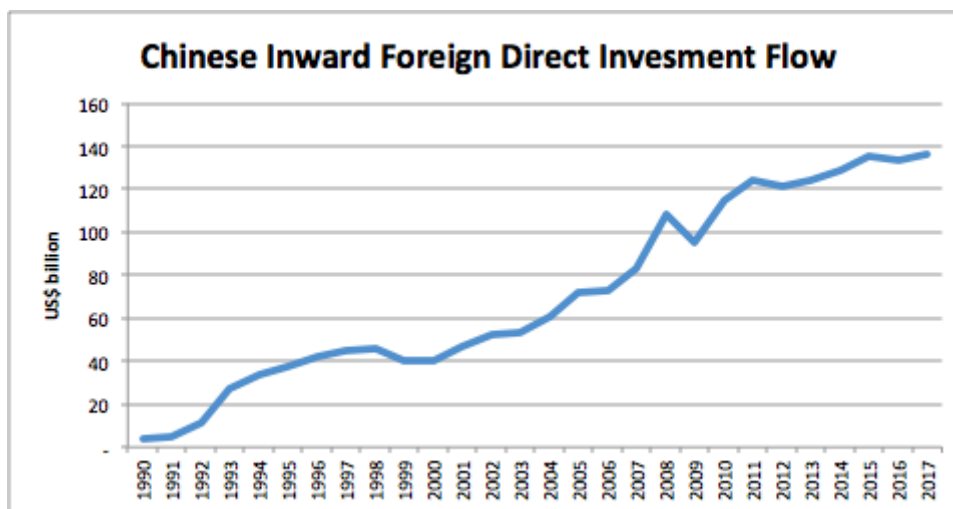
Two main dispositions were taken. The first was to develop the export-oriented industry. Therefore, China imported intermediate goods from Asian countries and exported finish goods to Western countries while benefiting from a low labor cost, making China one of the main exporter (Lemoine, 2007). The second was to attract FDI in order to capture global capital (Lemoine, 2013). In 1979, four Special Economic Zones (SEZ) were created to let foreign firms invest with low tax rates and simplified administrative implantation (Naughton, 2007). China that still wanted to have a control on the investment authorized it through Chinese-foreign joint ventures (Brown, 2008). The FDI increased beginning 1990s with opening of new SEZs and Deng XiaoPing speech during his Southern tour to visit the SEZ (Naughton, 2007). In 2000, with the entry to the World Trade Organization (WTO) and the launch of the go global policy, China removed a part of the restrictions on FDI and opened up his doors even more. The

liberalisation of the economy and the reforms were declared in the 10th Five Year Plan (FYP) (Lemoine, 2007).

This pushed China to become the second world largest destination of FDI, with US\$63 billion in 2005, which was an increase of more than 100% comparing to the 1990s. In 2008, the FDI flow increased by more than US\$100 billion (UNCTAD, 2017) and by 2013, the ODI stock was about US\$2 trillion (Hanneman, 2013). In 2016, China became the third world largest FDI flow recipient after the United States and the United Kingdom with US\$133 billion. With the majority coming from Hong Kong and invested in the manufacturing sector, the FDI investment trend did not change since the first investment which came into China (Naughton, 2007).

The figure 1 shows the significant increase of FDI in China since the beginning of the 1990s and in the 2000s with the go out policy.

*Figure 1 : Chinese FDI flow*



*Source: UNCTAD*

FDI have played the major role in China's growth, (Lemoine, 2013) and have been the main access to the global capital because of the Chinese financial system that was enough developed, stable and open at the beginning of the reforms (Aglietta & Landry, 2007, Schlichting, 2008). FDI have also played the role of technology transfer for China to catch up on the developed countries (Naughton, 2007).

### **3.2. Chinese Outward Foreign Direct Investment evolution**

The previous part has shown how China became one of the biggest economy notably in becoming a major host for FDI. This part shows how China has changed to become a major investor. This evolution can be explained in four waves: in the 80s with the open up policy, in the 2000s with the go out policy, since 2008 with the financial crisis, and since Xi Jinping election in 2013 with his initiatives.

#### ***a) 1980-2000: The open up policy***

In the 80s, the government allowed the companies to invest overseas. However, Chinese ODI were almost nonexistent (Hanemann & Rosen, 2012). This was due to the government focus on the promotion of the FDI, the permission to invest abroad only given to State Owned Enterprise (Cheung, 2009) and the willingness or capacity of only few firms to invest abroad (Hanemann & Rosen, 2012). Investment were mainly for political motives (Kaartemo, 2007). The increase in ODI accelerated in the second half of the 1980s, when FDI have started to come into the country and when China has been more implicated into the Asian manufacturing network. In 92, Deng XiaoPing continued the liberalisation and reform process but there was still highly restrictive controls on it. The aim was to raise the competitiveness of the National Champions to resist to the international concurrence (Hanemann & Rosen, 2012). These firms mainly invested in developing markets for political investment but also for trade facilitation, as well as the access to raw material dominated by coal, oil and metals (Lake, 2014). There was also an diversification and increase in the manufacturing investment (Kaartemo, 2007).

The average annual ODI flows grown from around \$0.5 billion in the 1980s to about \$2 billion in the 1990s, which represented 3,3% of the ODI from the developing countries (UNCTAD). The ODI stock risen from \$5 billion in 1990 to \$28 billion in 2000 (Hanemann & Rosen, 2012).

#### ***b) 2000-2008: The go out policy and the access to the WTO***

A second wave happened with the launch of the go out policy in 2000 and the access to the WTO in 2001. The significantly rise of investment began in the mid 2000 century with the implementation of gradually more liberal rules for ODI that facilitate to invest abroad, the willingness to catch up the developed countries and the push of the national champion to go out with subsidies (Richet, 2017, Jia, 2015, Hanemann & Rosen, 2012). In the 2000s, the increase of investment in natural resources with mainly national oil companies and the increase of

Chinese goods demand also pushed the ODI growth (Hanemann & Rosen, 2012). According to the survey by IBM Institute for Business Value (2005) and other surveys, even if a main motivation of the government has still been to acquire natural resources, the first motive has become the access to new markets. The acquisition of advanced technology has also become to increase (Valtteri Kaartemo, 2007). Therefore, even if China has been still targeting mainly developing countries (Burghart & Rossi, 2009), it has slowly started to be interested in developed economies (Hanneman & Huotari, 2015).

According to the UNCTAD, Chinese ODI flow risen from US\$0,9 billion in 2000 to significantly increase in 2004 with US\$5,5 billions for reaching US\$12.3 billion in 2005, which represented 9.6% of ODI from developing countries. After, ODI flow increased of 96% year to year to hit US\$52 billion in 2008. Concerning the ODI stock, it was US\$27,7 billion at the end of 2000 and reached US\$184 billion by the end of 2008. China ranked 13th in the world with only 2.8% of the world total ODI.

***c) 2009-2013: After the financial crisis***

After the financial crisis, the slowdown of the global demand for industrial products has generated a slowdown of Chinese export and growth. Imbalances that have risen in the 2000s became urgent to rebalance. Indeed, Chinese has been relying too much on the external demand, investment and exports, and not enough on the household consumption (Lemoine, 2007). Chinese companies have had a weak R&D capacity, brand image and distribution network (Gipouloux, 2006). Also, the investment balance was imbalanced with the FDI that were accounted for about the double of ODI (UNCTAD, 2017).

In order to rebalance the economy through the growth of the domestic consumption, the government notably launched the 12th Five Year Plan (2011-2015), the continuation of the 11th FYP that have already alerted about the imbalances but that was not fulfilled. In the 12th FYP, the government had the willingness to rebalance the economy, move up the value chain with more value added products, focus on the service sector and invest abroad for having a quick access to advanced technology (Ash, et al., 2012), as China needs innovation for a sustainable growth (Naughton, 2007). China has also needed to have access for new markets and gain advantages at home and abroad, human talent and distribution network to strengthen competitiveness in fast growing domestic market (Hanemann & Rosen, 2012). The government implemented new policies to continue to push firms internationalization with less regulated

administrative and new incentives (Hanneman & Huotar, 2015). He also pushed ODI in sectors of strategic advantage such as telecommunication, renewable energy and environment (Jia, 2015).

Chinese firms have still invested mainly for market access, but strategic asset seeking has been increasing. The crisis and the change of growth has pushed more the investment in the developed countries, so as Europe, that is an ideal market for their new goals (Hanemann & Rosen, 2012).

In 2009, China's ODI stock hit US\$245.75 billion, making China the fifth largest originator of ODI by volume after the United States, Germany, France and Hong Kong. ODI flows started to increase again in 2010 after the slowdown of the financial panic with US\$68,8 billion a 23% year to year increase, to reach US\$87,8 billion in 2012 (UNCTAD).

***d) 2013-now: Since Xi Jinping election***

On the 14<sup>th</sup> March 2013 Xi Jinping became the President of the Popular Republic of China. Later the year, at the Third Plenum, the meeting of the new leaders of china to make key reforms, the government announced more implementations for the economic rebalancing and a more sustainable growth that rely less on domestic investment and manufacturing and that promote consumption, service, high value added products and innovation. Then, going abroad is really important for that, indeed, to acquire strategic assets, expand in other markets and offshore low-value-added activities to other countries need FDI. This increases even more the interest to invest in advanced economies (Hanneman & Rosen, 2013, Baker & McKenzie, 2015).

The same year, the President Xi Jinping announced One Belt On Road (OBOR), also known as Belt and Road Initiative (BRI), as a central part of his foreign economic policy. The Belt is the revival of the Silk Road, a network from the seven century of trade routes, and the Road is the 21th Century maritime silk road between China and Europe (The economist, 2016). OBOR aims to increase Chinese commercial influence, secure its energy supplies, reduce the economy's dependence on investment in infrastructure at home, provide access to additional market, help to solve overcapacity problem and promote the development of its western region (Casaburi, 2016, Eder, 2018, KPMG 2016, The economist, 2016). In 2018, after 5 years, China invested for more than US\$25 billions into infrastructure projects concerning the BRI (Eder,

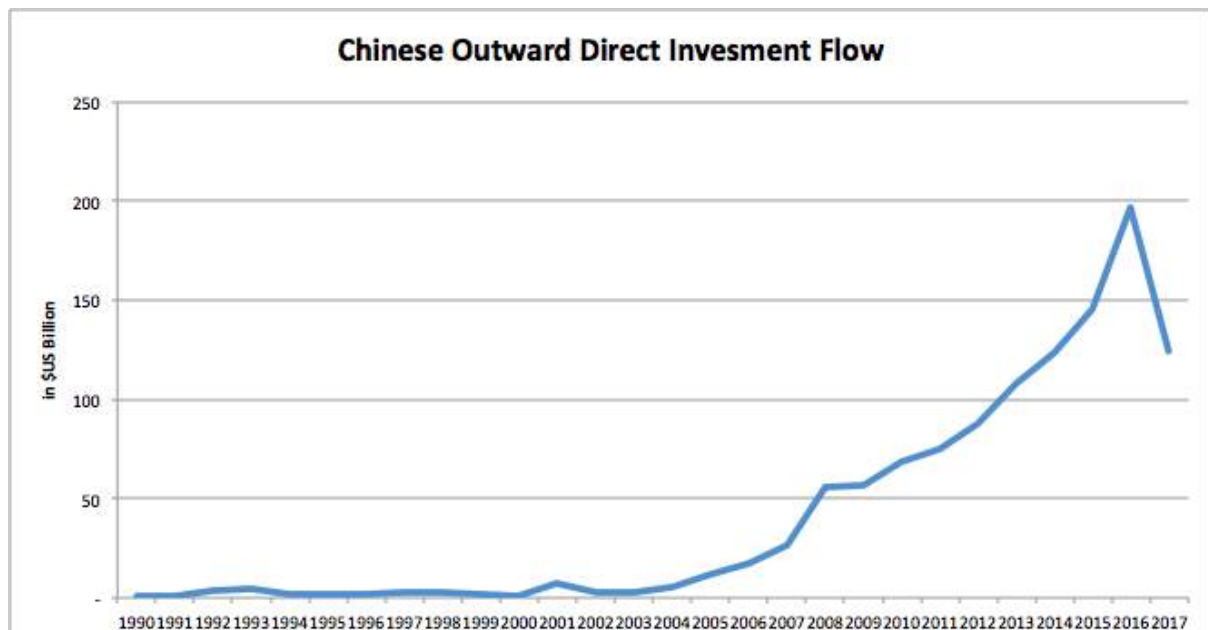
2018). The Chinese and BRI countries growth, as well as the Chinese investment in the BRI countries is expected to keep increasing. This increase is mainly driven by SOE investment in infrastructure, transportation, logistics, energy and utilities, as well as in commodities, industrial equipment, construction materials, financial and insurance services (KPMG, 2016, BBVA, 2018). Moreover, KPMG expects firms that operate in China to locate parts of their supply chains in BRI countries for the lower cost.

The 13th (2016-2020) FYP was also set to encourage ODI. This plan aims to adopt a New Normal, keep to shift to a sustainable growth, more boost the consumption, promote innovation, do more collaboration with the rest of the world and to more integrate in the global market (Amighini, 2015). The same year, the government launched Made in China 2025 for a transformation towards a more value added and high tech economy with an innovation-driven development that encourage strategic asset investment for the technology (Wübbecke, et al., 2016). Moreover, Internet Plus also encouraged to focus on ICT, advanced manufacturing and R&D (KPMG, 2016).

In 2014, according to the UNCTAD China ranked as the 3rd investor in the world after the United States and Hong Kong with ODI flow of \$US 123 billion and 9th for ODI stock, when China ranked 23rd in 2000. In 2015, the ODI with US\$145,6 billion surpassed the FDI and China became the second world largest source of direct investment after the United States (MOFCOM, UNCTAD, 2017) (See Annex 1). However, ODI figures may be distorted and lower due to the presence of offshore intermediaries such as Hong Kong and tax havens in the Caribbean. Thus, ODI could have still not surpassed the FDI yet. At the end of 2016, according to the UNCTAD, ODI increased to US\$196 billion to decline to US\$124,6 billion in 2017, a 36% decrease. According to MOFCOM, this decline is 29%. In 2017, the ODI stock reached almost US\$1,5 trillion. Chinese ODI is expected to increase again in 2018. Moreover, in 2017, according to the OCDE, the total stock Chinese ODI worldwide still only represents 12% of its national GDP and is equal to the one of the middle-income economies. Advanced economies have a higher percentage of GDP such as the UK (58%), United States (40%), Germany (43%), France (56%) and Japan (about 27%). This is why, China as still the means to increase its direct investment (See Annex 2).

The graph 2 shows the significant ODI increase since mid 2000 with the go out policy, the stagnation due to the financial panic and the new significant increase in 2010, to reach a pick in 2016 and to decrease in 20

Figure 2 : Chinese ODI flow



Source:UNCTAD

### 3.3. Patterns

This part presents the main patterns of the Chinese direct investments in order to understand the trends. These are the principal destinations and sectors and the investment structure of the ODI.

#### *a) Destinations*

Due to the different sources and the 60/70% of ODI flow that goes to Hong Kong and tax havens in the Caribbean, the top destinations are biased and are different depending on the source of the data (BBVA, 2018) (See Annex 3). This is why, it is really difficult to know the main destinations of ODI. According to MOFCOM, in 2013, the major destination of the FDI has been Asia with 68% (with almost 90% going to Hong Kong). America attracted 13% (with almost 90% that goes into the Cayman Islands and the British Virgin Islands, Europe 8%, Africa 4% and Oceania 3%.

Figure 3 : Distribution of Chinese ODI flows according to MOFCOM 2013



Source: MOFCOM

However, in 2013, according to BBVA Research, without the offshoring, Asia attracted 49%, Europe 19% and North America 13%, Africa 8%, Oceania 7% and Latin America 5%.

Figure 4: Distribution of Chinese ODI flows and stocks according to BBVA (2013)

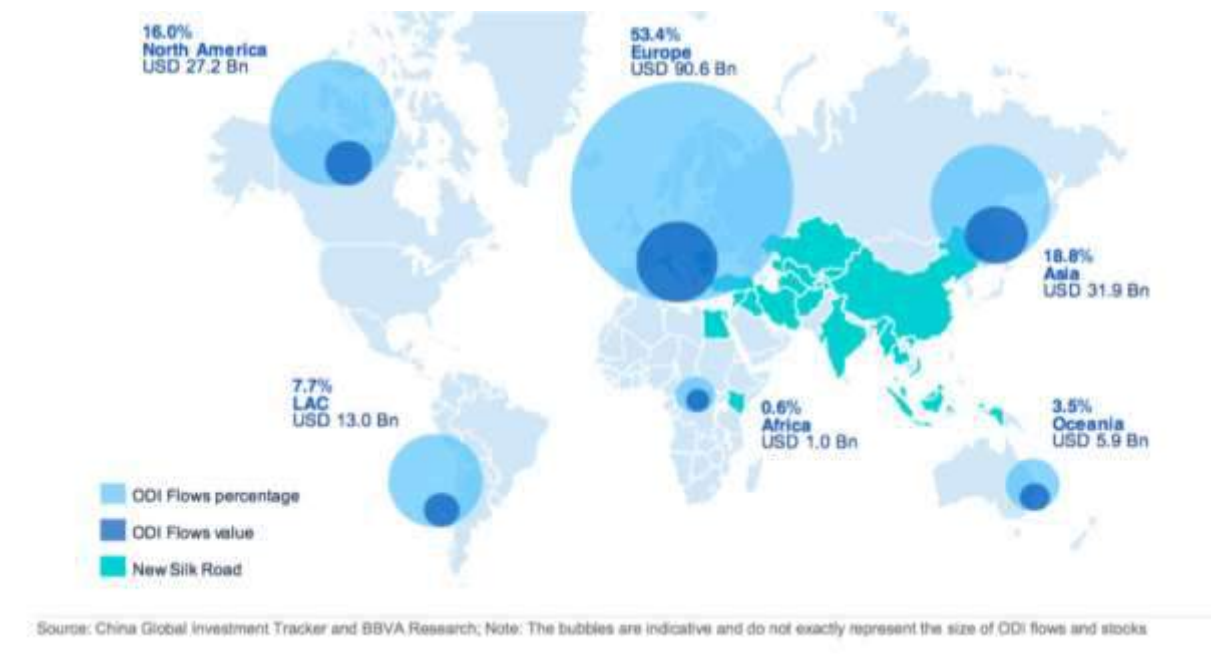


Source: MOFCOM, NBS, SAFE and BBVA Research; Note: The bubbles are indicative and do not exactly represent the size of ODI flows and stocks.

Another analysis from KPMG (2016) shows that, after excluding the ODI from Hong Kong, the British Virgin Islands and the Cayman Islands, the ODI stock in 2014 has been to 32,6% in Asia, 24,9% in Europe, 17,2% in North America, 9,3% Oceania, 11,6% Africa and 4,5% Latin America.

Moreover, since the push to invest in developed countries, the ODI in Asia is decreasing, and increasing in the developed markets notably in Europe (KPMG, 2016). In 2017, according to BBVA, Europe represented 53%, Asia 19%, with mainly Singapore, and North America 16%.

*Figure 5: Distribution of Chinese ODI flows and stocks according to BBVA based on CGIT data (2017)*



In 2016, according to the Rhodium Group, Europe represented 18% of Chinese ODI (Hanneman & Huotaria, 2016), which is less than the figures from the BBVA.

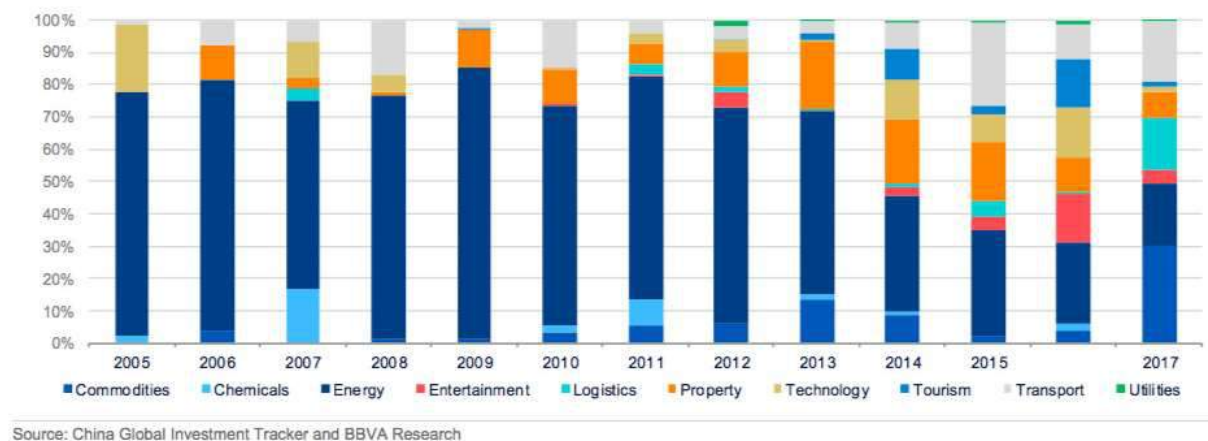
According to the Rhodium Group, fifteen years ago, only 10% of Chinese M&A has been targeting developed economies (Hanneman, 2013). Since 2012, the majority of Chinese M&A are targeting advanced economies like Europe, the United States, and Australia accounted for almost two-thirds of all Chinese M&A transaction value in 2015 (Hanneman, 2016).

## *b) Industries*

According to MOFCOM, the main investment until 2013 was in the financial sector, business services, mining, manufacturing, and infrastructure, transport and logistic.

According to BBVA, before 2013, investment in energy accounted for the big majority of the total investment. MOFCOM shows other statistics in this case because it is not the same targeted sector. Since the willingness of a less resource-intensive growth, Chinese ODI into energy is decreasing to account for 20% of the total investment in 2017 (BBVA, 2018). The investment in high value-added products, services, advanced manufacturing and consumer-related sectors is increasing, mainly into real estate, technology, entertainment, and infrastructure, transport and logistic (KPMG, 2016, BBVA, 2018). Due to the BRI, investment in transport and logistics, as well as in high tech sector, which is encouraged by the government, is expected to keep growing (BBVA, 2018).

*Figure 6: China's ODI flow by industry and region (2017)*



## *c) Investment structure*

POE are doing the majority of the deals with 75% of the total number of deals in 2015 when it was 55% in 2010. However, SEO are still doing the majority of the largest deals with 60% of the deal value in 2015 and 90% in 2010. (KPMG, 2016). POE mostly target smaller companies and catching up SOE in all areas both number of exchanges and in disclosed value (Richet, 2017).

Figure 7 : China's M&A deals in 2015 : SOE vs POEs



Nevertheless, in the first half of 2017, about 60% of the total deal value is made by SOE (Hanneman, et al., 2017). This is explained by the increase in investment for the BRI strategy, so as restrictive measures adopted in 2017 that are focusing on private enterprises (BBVA, 2018).

Strategic investors accounted for the vast majority of deals and deal value. However, recently, financial investment is increasing. In 2014, it accounted for 22% of the total M&A value (Hanneman, 2015).

## 4. Chinese Outward Direct Investment in the European Union

This fourth chapter focus on the Chinese ODI in the European Union and its patterns. Firstly, the evolution of the ODI in the EU is described, secondly the main patterns are explained in order to understand the main trends in the EU, and lastly the impact of the Chinese ODI in Europe is discussed with the opportunities and the fear that the EU is facing.

The data used are from the Rhodium Group due to the official data that are biased. Also, as Chinese investment in Europe is a relatively recent phenomenon, FDI stock is still small. However, recent FDI flows of Chinese investment have become more significant. It is then more relevant to show the flow to explain the phenomenon.

Note that, in 1995 there is the EU15 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, United Kingdom), the EU 27 since 2007 (EU15 with the fifth wave of enlargement: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia in 2004, and Bulgaria and Romania in 2007) and the EU28 since 2013 (with Croatia) (See Annex 4).

### 4.1. Evolution of the Chinese ODI in Europe

This part describes the evolution of the Chinese ODI in the European Union. This evolution happened in 3 waves: in the 2000s with the go out policy, after the crisis in 2008 and after Xi Jinping election in 2013.

#### *a) 2001-2008: the go out policy and the admission to the WTO*

Before the go out policy, the presence of Chinese ODI in Europe was almost inexistant. It started with the first wave in 2000 due to the access to the WTO and the go out policy in 2001. In the EU, Chinese firms mainly invested in trade facilities (Jia, 2015). However, Chinese ODI focus was still manly on acquisition in the developing countries for the ressources (Lake, 2014).

Between 2003 and 2009, the direct investment stock in the EU increased from €0.3 billion to €4.5 billion (NBS, MOFCOM and SAFE, 2010), which was an annual growth rate bigger than the one of global Chinese ODI stock (Clegg & Voss, 2014). According to the Rhodium Group, before 2004, Chinese ODI flow was below €0,1 billion. In 2004, it reached almost €1 billion,

to decrease the following years, to increase in 2007 to €1 billion and to decrease again to about €0,6 billion in 2008 because of the financial crisis panic.

***b) 2009-2012: after the financial crisis***

The second wave happened in 2009 in reaction of the financial crisis. When it was more urgent for China to move up the value chain and to shift to an intensive growth with a focus on innovation and consumption, Europe has been a good target. Moreover, China that has not been affected by the crisis, has been encouraged to take advantage of the weak position of the other countries. The EU member states that have needed money and have seen in China growth opportunities, have started to attract and compete for Chinese ODI (Richet, 2017). The main target has been the infrastructure and logistic (Jia, 2015).

Since the crisis, the ODI has started to grow exponentially. Indeed, according to the Rhodium Group, ODI flow that was small until 2008 in the EU27 with about €0,6 billion, increased to about €2.3 billion in 2009 and 2010. The EU became one of the biggest destinations for Chinese ODI flow with €7 billion in 2011 and €10 billion in 2012. However, the Chinese investment in the EU compared to the investments that the EU has been receiving from the rest of the world has been still small.

***c) 2013-now: since XI Jinping election***

The third wave started after 2012 with the new government with Xi Jinping and Li Keqiang. With the third Plenum, the 13rd FYP that is the continuation of the 12th FYP, Made in China 2025 and Internet Plus, China is targeting a more value added, consumption based and innovation driven growth. The aim is to move up the value chain and acquire brands, market share, technology, distribution networks and skills. The EU is more exposed to this wave as it has a technological leadership and famous brands. It is also the world second largest economy with a huge number of customers and it is a better destination in goods and services than for natural resources (Lake, 2014).

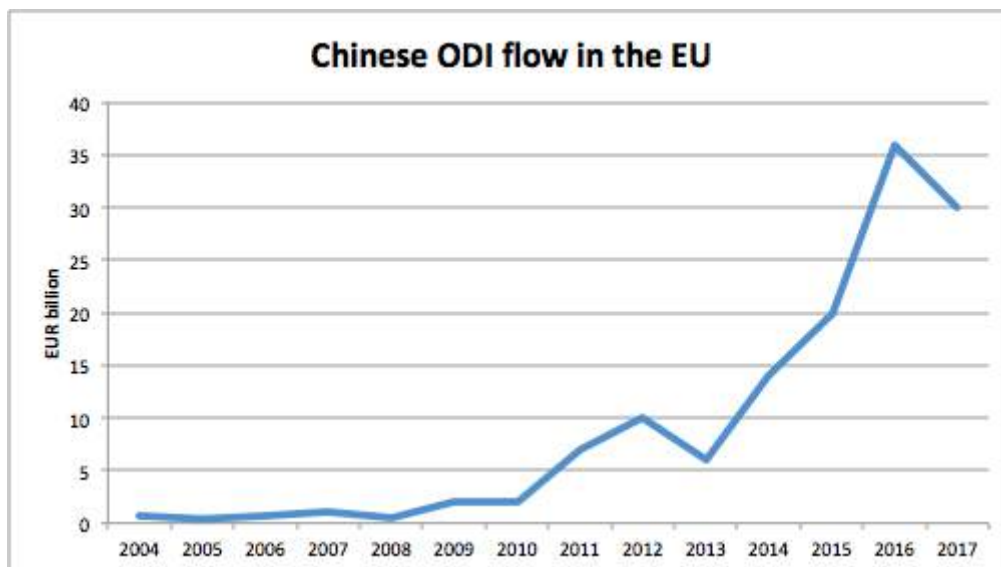
In 2012, China launched the 16+1 platform. This aims to deep and expand cooperation with China, and Central and Eastern Europe (CEE) countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia) (See Annex 5). This project is linked to BRI, as the 16+1 countries are mostly along the Belt and Road and as BRI is also

mainly focusing on infrastructure, transport and energy, as well as on high technology tourism and agriculture (KPMG, 2016, Bulgarian Chinese chamber of commerce and industry). The Chinese investment in the 16+1 countries is expected to increase.

In 2013, Chinese ODI flows in the EU28 declined to €6 billion and then increased to €14 billion in 2014. Chinese ODI flows in the EU surpassed European FDI flows into China, making China a net investisseur in the EU, when it was still in the deficit globally (See Annex 6). However, in 2015, China still only accounted for 2% of the total ODI stock according to Eurostat figures. In 2016, according the Rhodium Group, ODI in the EU hit a new record with €36 billion in 2016, an increase of 80% from 2015, which represented 18% of the Chinese global ODI flow. In 2017, Chinese ODI in the EU decreased to €30 billion, a decline of 17% compared to 2016. However, this was lower than the Chinese global ODI decline, 36% for the UNCTAD and 29% for MOFCOM, and 2017 is the second highest Chinese ODI flow in the EU. Moreover, Chinese investment flows were four times higher than EU investment into China this year (See Annex 6).

The graph 3 shows the evolution of the Chinese ODI in the EU, which started to increase after the crisis in 2008 and to increase again since 2013 with the government strategies to focus on the EU.

*Figure 8: Chinese ODI flow in the EU*



*Source: Rhodium Group*

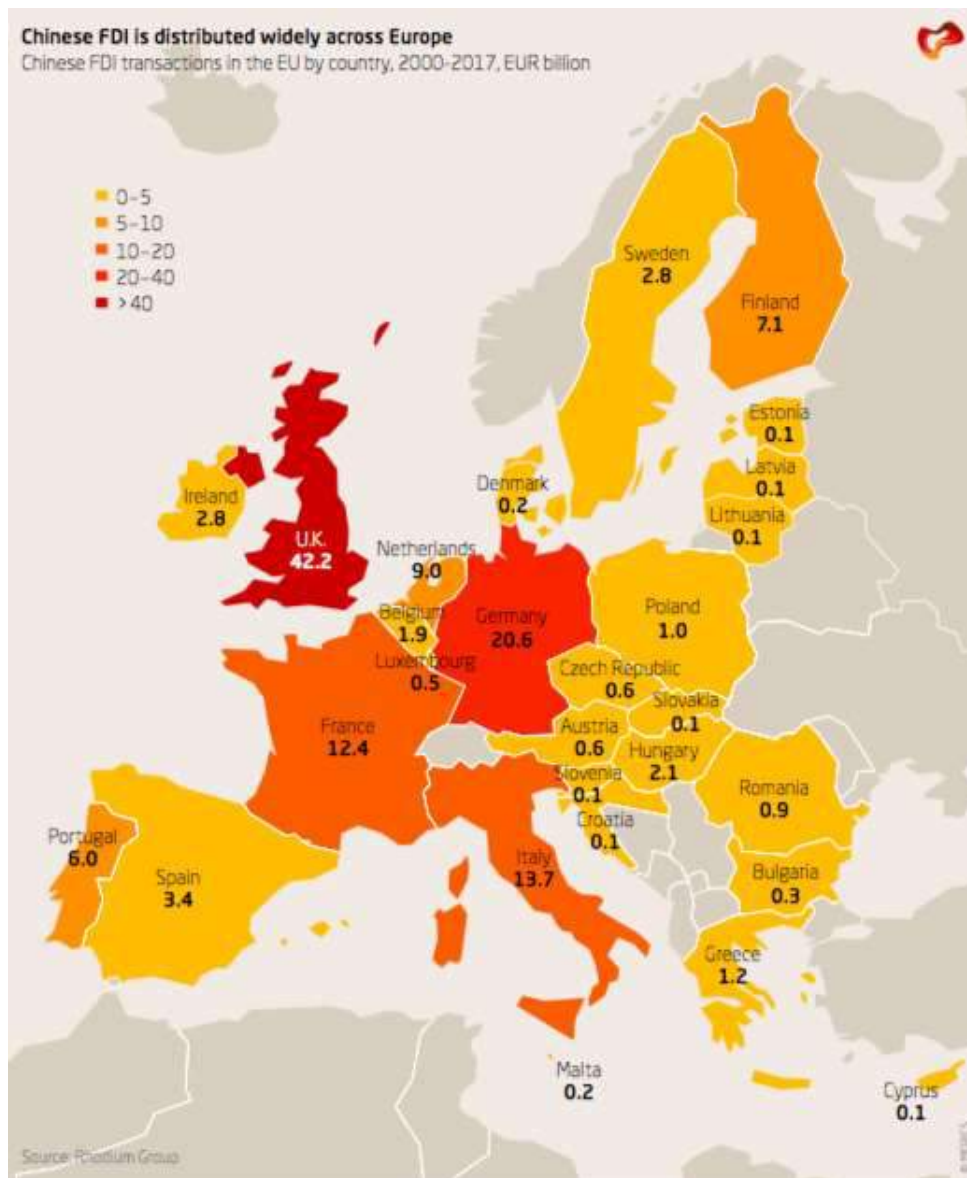
## 4.2. Patterns in the European Union

This part shows the main patterns of the Chinese direct investment in the EU in order to more understand the trends. These are the principal destinations and sectors, as well as the entry mode and the investment structure of the ODI.

### a) Destinations

The ranking of the major host countries differs between the data sources and years but remains mainly the big 3, which include the United Kingdom, Germany and France. According to Rhodium Group, between 2000 and 2014, the UK is the first investment destination with cumulative ODI of more than €12.2 billion then Germany with €6.9, France with €5.9, Portugal with €6,7 and Italy with €5,6. In 2014, according to Eurostat, the top four was: UK, Germany, Denmark and France, and according to MOFCOM it was: UK, Germany, Luxembourg and Netherlands, so the data are really different depending on which source you are based on. In 2015, with the €7 billion acquisition of Pirelli, Italy became the first destination. In 2016, Germany became the first destination with €11 billion flow and Finland with Tencent's purchase of Supercell for €6.7 billion took a bigger place on the destination investment for China. According to the Rhodium group, in 2017, UK took the first place again with the 14 billion purchase of the warehouse company Logisor. After that, the largest destination for cumulate investment between 2000 and 2017 were: the UK with €42,2 billion, Germany with €20,6, Italy with €13,7, France with €12,4, and Finland with €7,1.

Figure 10 : Distribution of Chinese ODI in the EU28

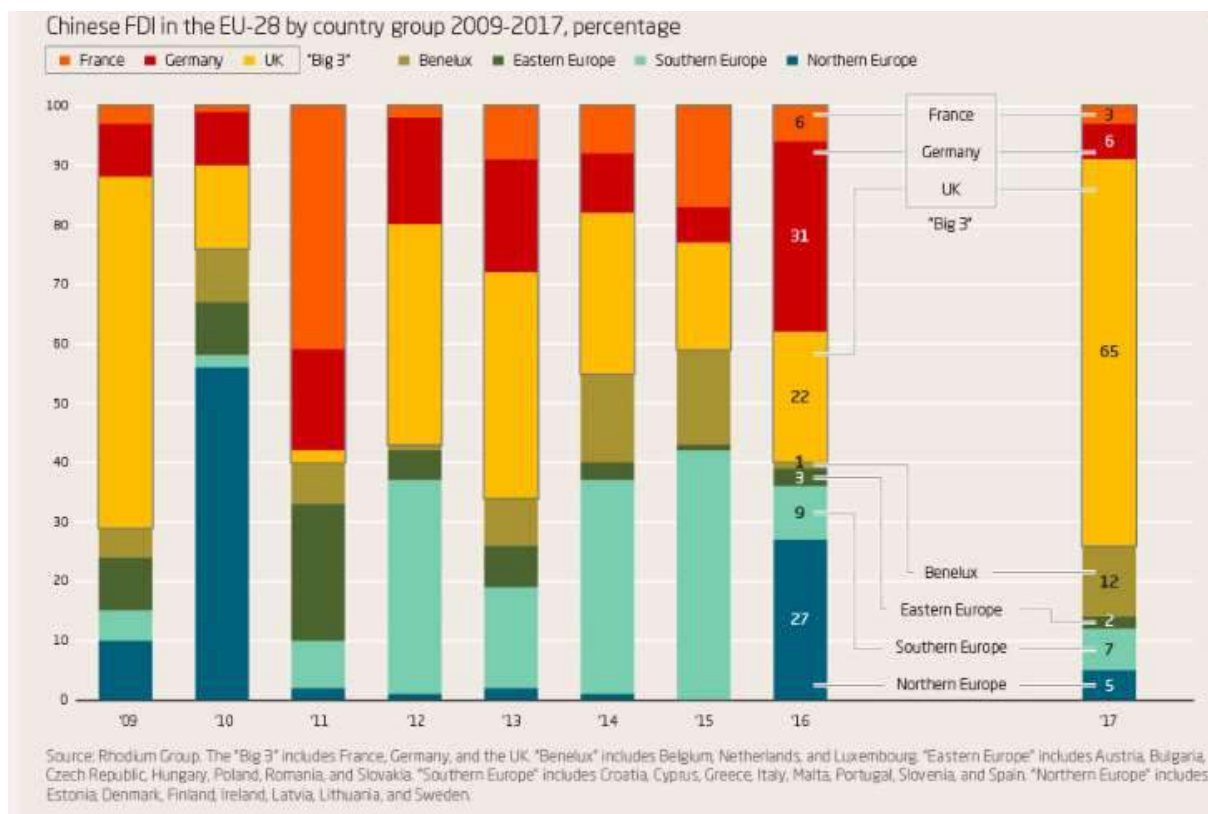


Source : Rhodium Group

In 2017, with the 75% share of China's total EU investment in the big 3, Chinese companies returned to the big 3 after the recent investment increase in the Southern European countries. Indeed, in 2012, 2013 and 2015, investment in Southern European countries accounted for more than the third of total investment in the EU28. These countries have been good investment targets as they have been the most infected by the financial crisis. The labor cost decreased, the governments attracted the investment mainly in strategic infrastructure (Jia, 2015, Hanneman & Huotari, 2015, Casaburi, 2015) and they are also a door forward to Northern Europe (Richet, 2017). Concerning Eastern European economies, the share was only 8% of total investment

value from 2000-2014 and around 2 and 3 % in 2016 and 2017, even with the Belt Road Initiative. Between 2009 and 2016, the average share of the Benelux is about 8%, and in 2017, the share is 12%. The share of the Northern countries is practically non-existent except in 2010 for more than the half of the total investment due to the acquisition of Volvo in Sweden, and in 2017 for almost 30% due to the purchase of Supercell in Finland. These are more big isolated investments than a trend.

Figure 11:



### b) Industries

Target industries in the EU are more diversified than globally. Also, the mining and extractive sector is practically non-existent, and there are more investment for advanced technology, as well as for R&D (Casaburi, 2015).

According to the ESADE database, from 2010 to 2014, the main investment were firstly in energy, then in real estate, manufacturing, agri-food and the financial sector. According to the Rhodium Group, between 2000 and 2016, the main was in energy (fossil fuel, utilities and

renewable energy), automotive, agri-food, real estate and industrial equipment. Both shows almost the same results. A lot of investment were made in the energy and electricity sector in the EU, such as Energia des Portugal and China also make investment in renewable energy (Casaburi, 2015). According to the Rhodium Group, in 2017, the first sector became transport infrastructure and utilities, the second ICT and the third one real estate and hospitality. Traditional industries as energy and automotive are decreasing, while real estate, ICT and infrastructure are increasing.

### *c) Entry mode*

According to the Rhodium Group, between 2000 and 2014, in the EU28, Greenfield projects and expansion of existing facilities represented 70% of all transactions (726 greenfield projects for 1041 transactions). However, M&A represented 86% of the total value, as M&A deals are generally more capital-intensive than Greenfield projects. The M&A are increasing due to an increase in asset seeking motive in the EU and in 2017, M&A represented 94% of the total value.

Figure 12 : Chinese FDI transactions in the EU28, 2000-2014



### *d) Investment structure*

Between 2000 and 2014, according to the Rhodium group, Privately Owned Enterprises accounted for the majority of the transactions with 62%. However, State Owned Enterprises accounted for the majority of the value with 69%, as they are dominating capital-intensive

industries in China. Moreover, SOE are less important in China's investment in Europe than in the rest of the world (Hanemann & Rosen, 2012). In 2016, SOE played a smaller role in total EU investment with 35%, but in 2017 they came back and represented 68% because of restrictions on private companies.

### **4.3. Impact of Chinese ODI in the EU**

This part discusses the impact of the Chinese ODI in the EU. While Chinese investment in the EU is growing, EU countries need to be more aware of the implications of these investments on their economies, opportunities and concerns.

#### *a) European opportunities*

The EU has several reasons to encourage and attract Chinese investment. Since the financial crisis, the EU has increased its interest in Chinese investment. The position of second world largest economy of China can lead to opportunities for Europe. Chinese firms offer lower prices and diversity to European consumers (Hanneman & Rosen, 2012), foreign investment *creates links with the global value chain and export markets*, which help European firms to better understand the huge Chinese market. Indeed, having a Chinese partner can be helpful (for ex Volvo)(Hanneman & Huotari, 2015). Also, in letting China investing in Europe, Europe encourages China to also let its door open.

Furthermore, the EU thinks that FDI will stimulate and help to restart the economic growth and investment after the Eurozone crisis (Hanneman & Huotari, 2015), increase the productivity and efficiency of its companies that are stimulated by a greater competition, generate wealth and tax revenue, and build and improve infrastructure (Seaman, et al., 2017). They see in Chinese investment opportunities to create and maintain jobs, and to provide capital for workers training and R&D. Chinese firms are already significant contributors to local R&D spending in Europe (for example Huawei and ZTE). Investment can also even introduce technology and innovative business models from China into Europe (Hanneman & Huotari, 2015). In 2013, an European Chamber survey shown that, among the 97% of those who have already invested and are willing to invest more, it is a main achievement to have more local staff and R&D centers.

### ***b) European concern***

A major concern for the EU is the Chinese state involvement and transparency. Indeed, SOE are still dominating the ODI in Europe with almost 70% in 2016, according to the Rhodium Group. SOE have a short term view and lack international management standards. Moreover, SOE are highly indebted but can use the government money to invest overseas without being sure that they are investing in good projects that will make money (Kynge, 2016). These subsidies can lead to an unfair competition for global FDI, as it is easier for Chinese state owned enterprises to invest (Hanneman & Huotari, 2015). Also, SEO are encouraged to buy foreign assets for diversifying their overcapacity in foreign markets (Seaman, et al., 2017).

Because of this state involvement, the EU is worried about the national security, the control of strategic assets so as critical infrastructure like the port of Piraeus in Greece and the public electricity grid in Portugal, and high-tech takeovers like German robotic firm by Kuali (Seaman, et al., 2017). Europe is afraid of the government's use of the investment to influence the politics and the recent focus on high tech for the transfer of know how that can decrease the European technological leadership (Hanneman & Huotari, 2015).

Another main concern is the market access asymmetries. Indeed, there is a significant gap in investment openness between the EU and China. On one hand, China is the less open country of the G20 countries (Hanneman & Huotari, 2015) and is still showing strategic restrictions to European investment in their market, especially in sectors with high growth opportunities. On the other hand, in the EU, Chinese investors benefit from one of the most open investment system (Hanneman & Huotari, 2018) and can invest in sectors that are restricted for European countries in China. Investment in China also has restrictions such as joint ventures with Chinese partners. The investment balance shows the difference in investment. It was €10 billion in 2016 and 2017, which is the third of the European investment in China.

Last fears are that Chinese investment can lead to “*labor rights violations, copyright infringement, tax evasion and environmental problems*”. Chinese investment can also expose Europe to macroeconomic volatility, as China is still an emerging market with a fragile domestic financial system (Hanneman & Huotari, 2015).

## 5. Motivations of the Chinese Outward Direct Investment

Now that the chapter 4 showed the evolution and main trends of the ODI in the EU, the motivations can be explained. This chapter firstly explains the four main FDI motives according to Dunning, as well as the other motivations, and finally discuss the Chinese FDI motivations in each country of the EU and their evolution.

### 5.1. The main motives of the Chinese investment

There are different theories about the FDI motivations. This part explains the one by Dunning, which is the most cited, and adapts it to the Chinese case.

Dunning (1993) identified four categories of MNE activity:

- Resource seeking
- Market seeking
- Strategic asset seeking
- Efficiency-seeking

#### *a) Resource seeking*

The aim of the resource-seeking investment is to secure the access to raw materials, natural resources and commodities that the country lack, at a higher quality or at a lower cost. In the 1990s and until the mid 2000s, it was the most important motive for the Chinese investment. The firms mainly invested in energy and natural resources in developing countries with a large market, low labor cost and unstable institutions. The main destination was mainly Asia, Africa and Latin America (Pietrobelli, et al., 2010), but this motive is not the most important in the European Union.

#### *b) Market seeking*

Market seeking investment started at the beginning of the Chinese investment for trade facilitating and expanded in the 2000s to become the first motivation (Kaartemo, 2007). This was notably due to the excessive competition in the Chinese domestic market because of the

huge number of foreign firms that have caused overcapacity and the fall of the profit (Pietrobelli, et al, 2010). There is the defensive and offensive market seeking strategy. The defensive market seeking strategy aims to preserve the existing market shares by offshoring activities in less developed countries with low labor cost for having better quality products at a lower cost, and in pleasing the Chinese customers and increasing their loyalty. The offensive market seeking strategy seeks to develop and expand new markets and source of demand, offer adapted products and services to a large base of consumers, save the cost of transportation and on trade barriers, and expand the global production chains (Pietrobelli, et al, 2010, Nicolas, 2010). Chinese firms also mostly established sales and marketing offices, as well as manufacturing subsidies, headquarters (Buckley, et al., 2008).

Market seeking investment will depend on the size and growth of the host country. Big and growing markets are the best targets as they have the biggest number of customers that can enjoy their products (Hanemann & Rosen, 2012). This motive is presents in both developing and developed markets, mainly in the form of Greenfield investments (Pietrobelli, et al, 2010).

Europe is a good choice for this kind of investment, as it is the second world's largest market with more than 500 million inhabitants with high purchasing power (Casaburi, 2015). Also, Europe gives the “*access to the integrated regional and global value chains in production, knowledge and transport and to third markets as Latin America and Africa*” (Seaman, Huotari & Otero-Iglesias, 2017), and has in general a good infrastructure structure (Casaburi, 2015). Different surveys notably by the European Chamber, the World Bank survey and Roland Berger have shown that this type of ODI is the first motive of Chinese investment in the EU. However, as this survey and information are from Chinese firms and from the Chinese government, this can be biased due to incentives to hide their real motives.

### ***c) Strategic asset seeking***

Since the 2000s, even if the resource and market-seeking motivation has been still a major motivation, strategic asset-seeking investment has started to become also a main motive. The increase were due to the willingness of China to catch up the developed countries and to switch to a more intensive and innovation driven growth. The 12th and 13rd FYP, Made in China 2025 and the 13rd Plenum have lead to this switch of growth. This has led to an increase of investment into developed countries like the United States and the EU countries (Nicolas, 2010) and to an intensification of M&A investment (Pietrobelli, et al., 2010). The strategic asset could help the

Chinese firms to improve their competitiveness both internationally and domestically against the huge number of foreign multinational and domestic competitors (Hanemann & Rosen, 2012).

Europe, that has a technological leadership, is a core market for this type of motivation (Seaman, et al., 2017). China is looking for technology and management know how in sectors that are expected to grow quickly in its domestic market the following years like financial and business services. Firms are looking for establishing R&D centers, educated and skilled workforce, distribution networks, as well as brand names to improve the marketability of their products abroad and on the competitive Chinese market (Seaman, et al., 2017).

#### *d) Efficiency seeking*

Efficiency seeking investment is willing to decrease the cost with a better productivity thanks to economies of scale and the implementation of new technologies to internationalise supply chain, or with cheaper inputs such as production, labour, communication and administrative costs. This will increase the competitiveness of the company with higher efficiency.

This was not a major motive for China (Buckley, 2008) but it is increasing with some M&A that want to cut the production costs with the displacement of production to lower cost countries in the EU (Pleschova, 2017) and increasing economies of scale as it is the case for Pirelli (Pietrobelli, et al, 2010).

## **5.2. Other motivations to invest in the European Union**

There are also other reasons to invest in the EU. These are some generalities that can be perceived in the EU, but we will see after that some reasons are specific for each country. A main reason is the profit that the investment can generate (Nicolas, 2010), which is better in Europe as the crisis has made the assets looking more attractive for Chinese firms. The SOE also invest for the subsidies from the government that are encouraging the companies to invest in Europe. Also, they are interested in the single market due to the legal, political and macroeconomic stability, the safe and secure environment (Seaman, et al., 2017, Kaartemo, 2007), as well as the transparency (Casaburi, 2015). There is a good bilateral relationship between Europe and China that hopes to have a political influence in Europe (Seaman, et al., 2017). Moreover, Chinese companies invest because of the few restrictive barriers active in

Europe which are less oppressive than in other developed countries such as Japan and the US. Indeed, Europe is attracting the Chinese investment and is one of the most open investment system (Hanneman & Huotari, 2018).

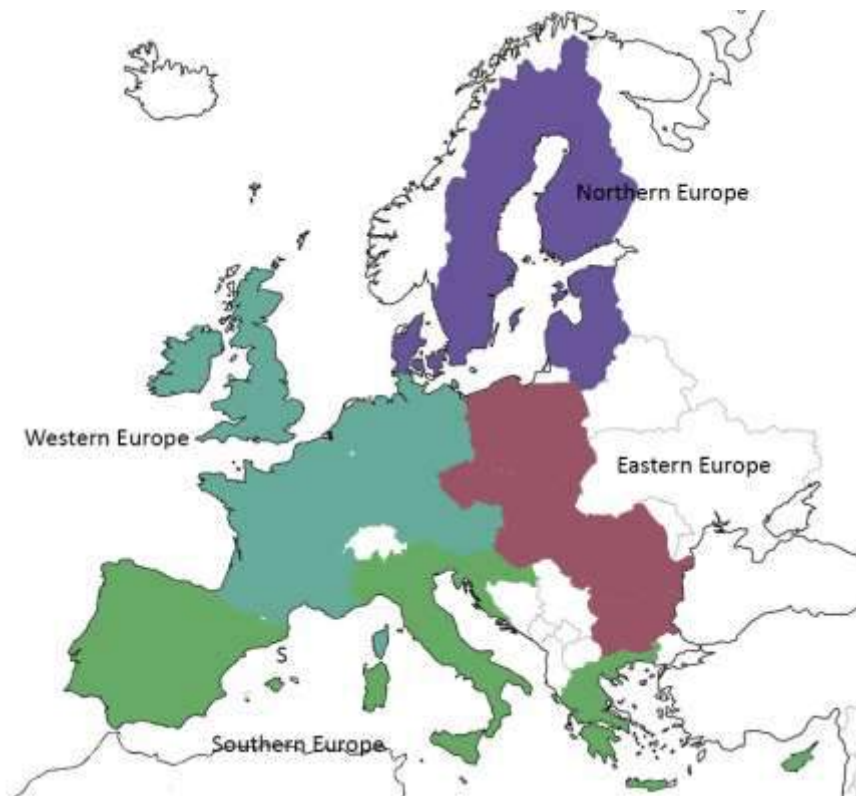
The Chinese actors who have already invested in the EU plan to invest more, according to 97% of the respondents to survey made by the European chamber (2013). These companies are looking to develop in the EU through *“expanding, localizing (more local staff), focus on technology development (R&D centers in Europe) and developing HR, corporate image, products and services.”*

### **5.3 Geographic European Regions**

There exists different geographic divisions of Europe. I chose the Rhodium group division and adapted it with the European geographic map made by the UN's statistical department.

Northern Europe includes Denmark, Finland, Sweden, Ireland, Latvia, Estonia and Lithuania. Southern Europe includes Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, and Spain. Eastern European economies include Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia. For the West, I include France, Germany, Belgium, Luxembourg, the Netherlands, the United Kingdom and Ireland (that is considered in the North for the Rhd Group but should be in the same region as the UK) and I also, according to the UN, include Austria (that is considered in the East for Rhd Group)

Figure 13 : European geographical region



#### 5.4. Motivations according to the European regions

This part analyses the motivations on each country split into several sub-geographic regions. The FDI figures are all from the Rhodium Group.

##### *a) Western Europe*

Some studies are made on the Chinese investment motives on the Big 3 (UK, Germany and France) and show the same results.

- **The United Kingdom**

The UK is the first destination of the Chinese ODI in the EU. A first wave of Chinese investments reached Britain in the beginning of the 2000 century for an ODI flow of €0,3 billion in 2003, to picked in 2009 to €1 billion and to reached €18,6 billion in 2017, for an ODI stock of €42,2 billion.

In the UK, the market seeking is one of the most important motive of Chinese investors (Burghart & Rossi, 2009, Summers, 2017). Chinese firms see a vast consumer base and a gateway to the Europe market. Almost half of all headquarters by Chinese companies serve as a Europe Wide representation. In the UK, the Chinese companies mainly do sales and marketing operations, and establish headquarters with Greenfield investment. London is the main destination and is a hub for services companies in ICT (Burghart & Rossi, 2009), business and financial services (Baker & McKenzie, 2015) and telecommunications, such as ZTE that want to expand its European market share. The UK's South East is also an hub for telecommunications and technology companies as Huawei that opened its European headquarters there (Burghart & Rossi, 2009).

The strategic asset seeking is increasing in the UK for advanced technology, brands and R&D (Summers, 2017). For the automotive industry, acquisitions are strategic-asset seeking in order to acquire technology, knowledge, clients and distribution networks like the purchase of MG Rover (Burghart & Rossi, 2009, He & Zhan 2017).

- **Germany**

Germany is the second largest recipient of Chinese ODI in the EU, with an ODI stock from the period between 2000 and 2017 of €20,6 billion. In 2016, Germany was the first destination of ODI in Europe.

As Germany is the biggest economy in the centre of Europe, Chinese investment is mostly market seeking with headquarters and trade-facilitating operations with small Greenfield investment.

Since 2011, the ODI are increasing to annual investment of €1-2 billion per year thanks to the M&A activity. The majority of Chinese FDI come to Germany in the form of M&A (82%), for mainly acquiring strategic asset (Huotari, 2017), as Germany is well-known for his technological excellence (Nicolas, 2010). Now, the main motive of Chinese investment in Germany is strategic asset seeking by acquiring technologies, know-how and brands. This motive is increasing (Huotari, 2017, Bian, 2017) with the example of Kuala and Daimler. The manufacturing with the automotive and industrial equipment was accounting for more than 65% of total Chinese investment between 2000 and 2014 (Hanneman & Huotari, 2015). The most important driver<sup>[1]</sup> for investment in industrial equipment is the access to the technology and know-how. The private companies also invest for the technology leadership of Germany (Baker

& McKenzie, 2015). Moreover, a more recent trend is the increase of greenfield investment for R&D, for example Huawei's (Drahokoupil, 2017).

- **France**

France is the fourth destination of ODI in the EU with an increase of the total investment from only €1 billion between 2000-2010, to €12,4 billion in the period between 2000 and 2017.

Investment is mainly market seeking with greenfield investment. There is establishment of sales offices, marketing activities, customer services and factories like for example ZTE, as well as headquarters. The aim is to access a good local market with customized products and to facilitate Chinese firms' access to the European market (Nicolas, 2010).

Since 2010, Chinese companies have been expanding in France with an increase for strategic asset motive. Chinese companies are really interested in the advanced technology, know how, famous French brands and the global networks (Seaman, 2017, Nicolas, 2010). R&D labs are also expanding with, for example, Huawei that is looking for the technology (Drahokoupil, 2017).

- **Benelux (Belgium, Netherlands, and Luxembourg)**

The Benelux receives an average of 10% of the total Chinese investment in the EU. Between 2000 and 2017, investment in Benelux were €9 billion in the Netherlands, which ranked them 5<sup>th</sup> in the EU, €1,9 billion in Belgium and €0,5 billion in Luxembourg.

The investment in Belgium and the Netherlands is following the same trend than the Big 3 with an increase in strategic asset seeking for the access to advanced technology, know how, reputable brands and established global networks. Market seeking is also present with investment in logistics for the access to the European market, as for example in the Rotterdam and Anvers Port (Renard, 2017). Chinese enterprises choose the Netherlands for a market seeking strategy as their gateway to Europe with low tax. However, since 2010, the search for strategic asset is increasing (Ernst & Young, 2012) and is now the main motive (Van der Putten, 2017), with mainly acquisition in electronics. In Belgium, China targeted the chemical sector (Amendolagine & Rbellotti, 2017) and established the China Belgium Technology Centre, a high-tech research incubator, which will allow to Chinese firms to access notably advanced technologies and skilled labour force. However, due to the tax insensitive, firms can invest in Belgium for reinvesting after in other countries. Luxembourg is the European headquarters of many Chinese firms, which set up a European subsidiary in this country for tax reasons

(Casaburi, 2016). The main motivation for investing in Luxembourg is different, as it is a tax haven.

- **Ireland**

The investment in Ireland is €2,8 billion. The major investment is the acquisition of Avalon in 2016 by HNA that wants to become a leader in the aviation industry (Casaburi, 2016, Hancock, 2017). I believe that Chinese firms invest in Ireland both for market seeking, as it is a gateway for EU with English as the main language and with low tax (Deloitte, 2012), for investment in strategic asset seeking for the leading technology (Deloitte, 2012, Hancock, 2017) and because the tax rate is very low and facilitate the implementation or foreign investments.

- **Austria**

The Chinese investment in Austria accounts for €0,6 billion. Austria is a gateway for Europe and is the leading hub for business in Eastern and Southeast Europe. A lot of foreign businesses have set up their Eastern European headquarters there (Brodey & Öhlberger, 2012). Also, as it is a destination for advanced technology and know how in manufacturing and automotive industry, investment for strategic asset seeking is increasing with Wolong Holding acquisition in 2011 (Casaburi, 2015) and Great Wall Motor (Grubler, 2018, 2017, Amendolagine and Rabellotti, 2017).

## **b) Northern Europe**

The major investment motive is strategic asset (Inno Scandinavia Ltd, 2009, Kaartemo, 2007, Casaburi, 2016).

China sees in Sweden, Finland and Denmark low population countries with too high labour cost (Casaburi, 2016). Finland has also too high taxes and Denmark a too small domestic market (Jiang, 2017). Chinese investors are mainly looking for know how brands, design, image, networks and investment in R&D. The investments are mainly in high technology and focus on ICT, renewable energy and environment (Nymalm & Forslund, 2017, Jiang, 2017, Kaartemo, 2007). Moreover, in Sweden, Geely acquired Volvo for the brand and know how (Casaburi, 2016), and in Finland, Tencent acquired the high tech company Supercell. Both were for strategic asset seeking motives (Bin, 2017).

Concerning the Baltic countries, Estonia, Latvia, Lithuania, the ODI flow was only €0,1 billion between 2000 and 2017. Chinese does not see these countries as attractive, as they are too small

and too far in the North from the Eastern countries (Bērzina-Cerenkova, 2018). The investment are for technology and R&D center (Kaarremo, 2007, Casaburi, 2016). However, with the 16+1, it is expecting to increase in for market access reasons with collaboration for infrastructure and transport, as well as for technologies (Bērzina-Cerenkova, 2018). In Lithuania, before 2004, Chinese investment focused on manufacturing. Since BRI, investment notably in the port Klaipeda is increasing (Larçon, 2017). China decided to establish a financial technologies coordination center in Lithuania to become a gateway for financial services of China to Europe (Lithuania Ministry of Finance, 2018). In Latvia, there is investment in transport (Duvignon, 2018). Also, Huawei, ZTE and Alibaba are operating with local representative office and marketing activities, and are adapting their offer within the local market (Andzans & Berzina-Cerenkova, 2017). In Estonia, the focus is on advanced manufacturing and business services (Larçon, 2017). In 2018, China acquired the Estonian aircraft maintenance and repair company Magnetic MRO (Hankewitz, 2018).

### *c) Southern Europe*

The share in Southern Europe grown from less than 10% before 2011 to about 30% in 2012-2014. However, it decreased in 2016 with 9% and in 2017 with 7%. With the Eurozone crisis, Chinese SOE have seized opportunities to invest in strategic and state controlled infrastructures in utilities or transportation.

- **Greece**

The motive is strategic asset seeking strategic for acquiring distribution networks and know how (Casaburi, 2016) and mainly market seeking as the country is seen as a logistic hub (Tonchev, 2015) with Chinese investments mainly in transport, infrastructure and telecommunication. China notably bought a part of the Piraeus seaport and plan to build a cross-border transport corridor from the Mediterranean to Central Europe for the BRI. In addition, this also has an efficiency motive, as it will reduce the transportation costs (Tonchev, 2017).

- **Spain**

According to a study by ESADE (2016), the main motive is for access to the market. Indeed, Spain is the 4th largest economy in the Eurozone and Chinese firms desire to have a physical presence to better understand the market in order to adapt their products, and to have access to the European and Latin market. There is also strategic asset motive for the skilled workforce, distribution networks, and know how, as well as an efficiency seeking motive.

- **Portugal**

Portugal is the 7th destination in the EU28 with €6 billion between 2000 and 2017. After 2011, with the privatization-prone policy and the acquisition of electric power supplier Energias de Portugal (Rodrigues, 2017), the investment has increased in strategic sectors of transport, utilities and infrastructure (Baker & McKenzie, 2015). This was for a strategic asset seeking motive for accessing advanced knowledge and distribution networks of markets that has been Portuguese (Casaburi, 2015, Rodrigues, 2017), as well as for market seeking motives for accessing the European, Latin America and African market (Rodrigues, 2017).

- **Cyprus and Malta**

The investment in these countries is really small, with €0,1 billion in Cyprus and €0,2 billion in Malta. To the best of our knowledges, no studies have been made concerning the motivation behind these countries. The investment is mainly done in real estate and tourism, for taking the products for the Chinese market and for the gateway to Europe (Crawford, 2018, Shanda Consult, 2017, CGTN, 2017). The motive behind these investments can be financial and non-strategic, and Cyprus and Malta can be considered as tax havens.

- **Croatia and Slovenia**

Like Cyprus and Malta, the investment is small in both countries with 0,1 billion and there are no studies made on these countries. I assume than the main motive will increase in market seeking. Indeed, Croatia and Slovenia are also part of the 16+1 and the investment for market seeking for the access to Europe with a focus for infrastructure and transport is expected to increase (Xinhua, 2017, Fister, 2016, Simmonds, 2018).

- **Italy**

Italy is the third largest recipient<sup>[11]</sup><sub>SEP</sub> of Chinese direct investment with 13,7 billion between 2000 and 2017. With ChemChina's acquisition of Pirelli, Italy was the first destination in 2015.

As China is looking for the size of the domestic market and Italy seventh largest economy in the world, the first motive was market seeking with Greenfield investment in sales and marketing offices, as well as headquarters. China is also looking for the access to the European market and Italy is a hub for Southern and core Europe, as in the case of Huawei, whose European headquarter is in Milan. Logistic and transport investment are high (Pietrobelli, et al, 2010) and are expected to increase due to BRI (Casarini, 2017). Also, china is looking for the

sophistication of the market, as the Italian market can be a test market for products adapted to European tastes (Pietrobelli, et al., 2010).

With China that want to move up the value chain and upgrade its technology capacities, the strategic asset seeking motive is increasing with acquisition for mainly advanced technology, know how marketing, design and brands in sectors where Italy has achieved global competitiveness and specialization, such as household appliances, automotive, luxury goods, machinery, electronics, banking and finance, food (Pietrobelli, et al., 2010). For example, Lenovo bought a division of IBM for the managerial know how and brands. A new trend is the increase in R&D activities (Pietrobelli, et al, 2010).

China also look for efficiency with economies of scale, as it is the case of ChemChina's acquisition of Pirelli (Casarini, 2017).

#### *d) Eastern Europe*

The Chinese investment started when these states became members of the EU and are increasing since the financial crisis, (McCaleb, 2017). The share in the Eastern countries was 8% from 2000 to 2014. However, recently, OFDI in Eastern Europe are decreasing for 3% in 2016 and 2% in 2017. Between 2000 and 2017, Hungary accumulated the bigger amount with €2,1 billion. However, investment is now mainly increasing in Poland with €1 billion, which is the biggest Eastern country, as well as in Czech Republic and Roumania. Investments in Slovakia and Bulgaria are increasing but are still small with €0,1 and €0,3 billion respectively.

As the workforce and land is cheap, China is looking for the resource. This is the case for Romania and Bulgaria in energy and woods (Drahokoupil, et al., 2017).

Market seeking is the main motive as they are a gateway to Western Europe (Pleschová, 2017, Hala, 2018, Fürst, 2017, McCaleb, 2017). China can produce the products at a lower cost and then introduce it with their own logo to the European market (Szczudlik, 2017). Greenfield investments are more common in these countries (Nicolas, 2010, Matura, 2017, McCaleb, 2017) as China can have a local presence to serve markets with a cheap labor cost. A large share of the greenfield investment are operations related to marketing and sales, such as Huawei that established sales, marketing and consumer services offices (Drahokoupil, et al., 2017). With the announcement of the BRI and the belonging to the 16+1 platform, the investment for market access is expected to keep increasing. The 16+1 platform focus on infrastructure, transport and

logistics as well as on high technology, agriculture, energy and tourism. For example, China is investing in Hungary in the railway reconstruction of Belgrade-Budapest (Matura, 2017).

Also, the efficiency motive is becoming more important, as China wants to move the value chain. They can produce higher quality products at lower cost, with the status as produced in Europe. An example is the Lenovo center that was moved to Slovakia from the UK (Pleschová, 2017). This is also a main motive in Poland (Szczudlik, 2017).

They also look for strategic asset such as the technology, know how distribution networks, as it is the case for Poland, Slovakia and Hungary, where the investment is mainly in the automotive and technology sector. However, this is still small compared to the core of the EU (Pleschová, 2017, Casaburi 2015, Szczudlik, 2017, McCaleb, 2017).

## 6. Findings and Conclusion

### *Evolution of Chinese ODI patterns and motives*

With economic and institutional reforms since the 1980s, China has become one of the world largest exporter and investment host. The country has also become a major investor, starting with state owned companies investment with political motives, to switch to commercial ones with trade facilities and investment in resources in developing countries. In the 2000s, with the launch of the go out policy and the access to the WTO, the gradual opening evolved into an active promotion of overseas investment, which lead to a significant increase in Chinese ODI. Many surveys on the Chinese investment motivations showed that the main reason has become market seeking for defending the existing shares and for accessing to new markets with a view to adapt the products to the new demand. After the financial crisis and the slowdown of the demand for domestic products, it has been more urgent to switch from an extensive to an intensive growth with a focus on internal consumption, high value added products and technology. China's main target has become the developed countries in order to move up the value chain and to acquire advanced technology, knowhow, brands and established networks. The investment in the European Union really started to increase significantly in 2008, as Europe, that needed liquidity, has been attracting investments. The single market is also a good target because of its technological leadership. After 2013, with the 13rd Plenum, the 13rd FYP and Made in China 2025, the emphasize has been even more on the innovation. Also, the Belt and Road Initiative and the 16+1 platform have pushed mainly the investment in infrastructure, transport and logistics, with a focus on the EU states, which increased again the investment. According to official datas, in 2015, the Chinese ODI globally has surpassed the FDI, making China a net investor, as well as the second world largest investor. In 2016, the ODI flow has reached a peak before decrease in 2017. However, the decrease in the EU has been less important than globally.

The main destination of those investments, without the offshore centers, recently became Europe. In the EU, the main investment destinations are the UK, Germany, Italy, France and Finland. The main sectors targeted have switched from energy to real estate and hospitality, ICT, and transport, infrastructure and logistics. The investment in the EU follows the same trend. Moreover, in number, there are more investments from private companies in greenfield

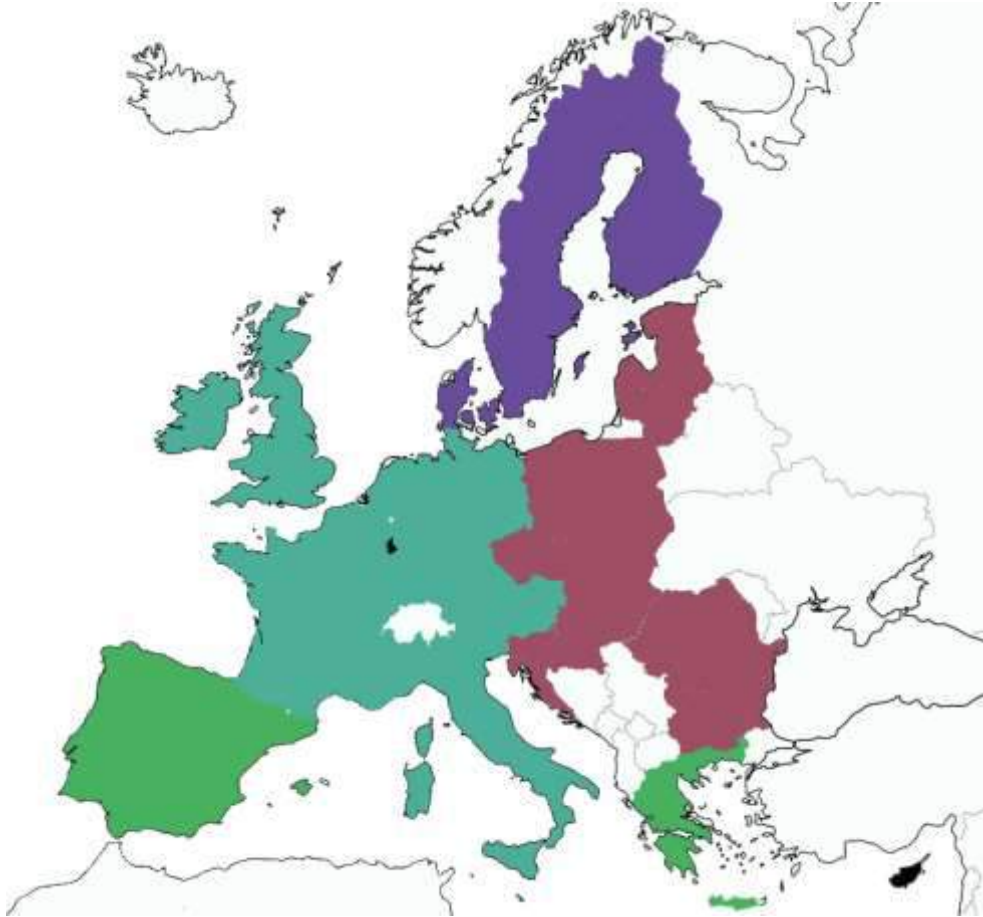
investment, and in value, more M&A from state companies. The POE were catching up recently, however, in 2017, SOE dominated the investment.

### *Motivations in the European Union*

- In Western Europe, the motivation for Chinese investment has moved from market to strategic asset seeking in order to move up the value chain. This is also the case for Italy, which is the third destination for Chinese investments, and can be considered as a part of the Western Europe. The exception is Luxembourg that is a special case as it is an offshore center.
- In Eastern Europe, the investment is mainly market seeking for the access to Europe. With the BRI and 16+1 platform, the investment focus on transport, infrastructure and logistics, as well as on energy, high technology, agriculture and tourism. There is also a small increase for efficiency for the lower tax and labor cost, and strategic asset seeking. However, the investment there are less important than the core EU.
- In Northern Europe, the main investment motivation is for the strategic assets. However, as a part of the 16+1 platform, investments in the Balkans are also for market motives.
- In Southern Europe, in Spain, Portugal and Greece, the investment strategy is mainly market seeking for adapting the products to the local market and for the access to Europe. Strategic asset seeking is also a motive for the technology and global network. Croatia and Slovenia are also part of the 16+1. Malta and Cyprus are, to some extent, exceptions, as they can be considered as tax haven countries.

This is my segmentation of my short/medium-term expectation of the future Chinese investment, according to the literature and my assumptions. I also expect the investment in the core EU to be the main target of the Chinese ODI and the gap between the core EU and the periphery to not get smaller.

*Figure 14 : Outlook for Chinese ODI in the EU*



Blue: Investment for the access to the market but mainly for the acquisition of strategic assets.

Purple: Investment for the acquisition of strategic assets.

Red: Investing mainly for the access to Europe with transport and infrastructure for the BRI, and a slowly increase for efficiency seeking.

Green: Investment mainly for market seeking.

### ***Conclusion***

*What are the motives of the Chinese Outward Foreign Direct Investment in the European Union and how are they affected by the EU geographic regions?*

This thesis showed that Chinese investment in the EU is a mix of motivations, which are evolving, depending on the Chinese policies and focuses. The 4 main motivations are present in the EU, with some less important than others. The resource seeking is the less significant motivation, as it is focused on developing countries. The market seeking one, both for the access to the local market and to Europe, is still a main motive and is increasing in some countries, pushed by the BRI. The strategic asset motivation for the advanced technology, know how, distribution network and brands, is also increasing and becoming a main motive due to the Chinese focus on innovation. The efficiency seeking motive is also slowly recently increasing with the growing interest in economies of scale with M&A and the displacement of production in Eastern countries to lower costs. Other strategies are the profit, the low risk, the desire of diversification, the tax incentive, the institutional and economic stability, etc.

Moreover, it showed that the investment motives are not the same in every country. China does not see the EU as a single market but as separate markets with different patterns and motivations to invest in. The core EU received more Chinese investment than the periphery. It also showed that China does not analyze systematically each country separately but can see them as groups in which the main motivations are nearly the same. The different geographic regions of Europe can be a good regroupement of countries for their motivations. Indeed, the Chinese investment motivations are, with some exceptions, the same for each country within the same European geographic region and different between the European geographic regions. Moreover, the evolution of the Chinese investment motivations is the same within the European geographic regions. However, this can be biased and due to other factors, as it will be explained in the limits.

### *Limits and further researches*

- The ODI data can be biased, as it was explicated in the second chapter.
- I did not realized surveys, detailed studies or statistics analysis, and a causality cannot be proved without empirical evidences. This work is made on critical and qualitative analysis of the literature.
- It does not exist one specific segmentation of the EU in geographic regions.
- There are other characteristics to take in consideration for the decision of Chinese investment, such as the growth, the size, the tax insensitive and the technological development on the host country. The old EU have notably a better technological

development than the new states. This is why, the same motivations in one geographical segmentation can be due to these factors.

- Some authors can have different definitions of the four main motives by Dunning. For example, some consider the resource seeking as a main destination in the EU for the skilled workforce. The motivation behind the establishment of R&D center can be also tricky. For some, it aims to acquired the existing technology, for others, it aims to adapt the products to the local market. The motivation behind the investment in infrastructure, transport and logistics can also depend on the literature. For some, it is motivated by the desire to access the market, for others it is for the established distribution network.
- For some countries, such as Austria, Belgium, Croatia and Cyprus, it does not exist analysis of the motivations behind the investments (to the best of our knowledge). I made assumptions based on the literature and data that I picked up on the Chinese investment in these countries. Some countries have too small level of Chinese investment to allow to understand the main motivations behind them. It is also difficult to find an exhaustive list of the Chinese investment in every country of the EU. Moreover, some investments are only done for the profit or for the diversification of the assets, not for having access to the market or the technology. An investment can also be isolated from the other investments in the same country and it is possible to make generalities. Furthermore, investment in real estate and hospitality can be hard to analyse, the tax incentives also play a role in the motivations and some countries are tax havens.

For further research, it is interesting to realise a complete analysis of the motivations of these countries with surveys and statistical analysis. For some countries, more recent analysis should also be done, as the phenomenon is evolving fast. Also, more deep analysis inside the country can be done, as the motivations can be different sometimes inside the same country.

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## Annexes

## Annex 1

Country fact sheet: **China**

the print, broadcast or electronic  
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## Foreign direct investment (FDI) overview, selected years

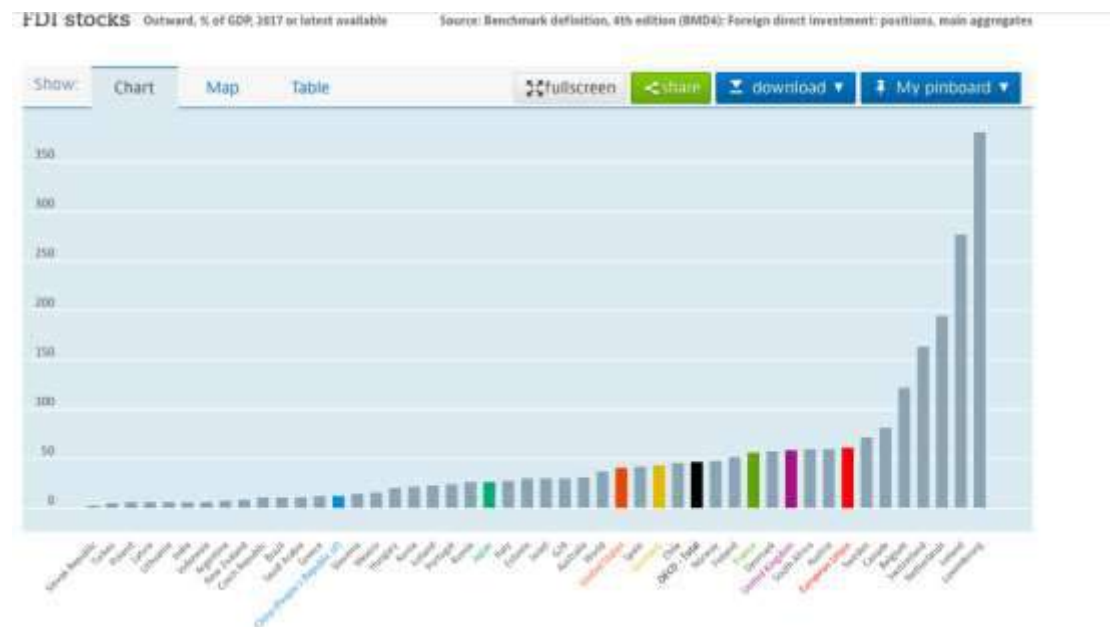
(Millions of dollars and per cent)

FDI flows	2005–2007	2014	2015	2016	2017	as a percentage of gross fixed capital formation			
	(Pre-crisis annual average)					2005–2007	2015	2016	2017
						(Pre-crisis annual average)			
<b>China</b>									
Inward	76 214	128 500	135 610	133 710	136 320	6.7	2.8	2.8	2.7
Outward	18 800	123 120	145 667	196 149	124 630	1.7	3.0	4.1	2.5
<b>Memorandum</b>									
India									
Inward	17 766	34 582	44 064	44 481	39 916	5.6	7.2	7.0	5.7
Outward	11 501	11 783	7 572	5 072	11 304	3.6	1.2	0.8	1.6
United States									
Inward	185 953	201 734	465 765	457 126	275 381	6.0	13.0	12.6	7.2
Outward	211 035	294 754	262 569	280 682	342 269	6.8	7.3	7.7	8.9
East Asia									
Inward	139 077	257 480	317 755	269 778	264 515	8.8	5.8	5.0	4.7
Outward	86 847	289 750	255 285	302 724	250 226	5.5	4.7	5.6	4.4
Asia and Oceania									
Inward	291 371	462 246	518 166	477 270	477 549	10.7	6.7	6.2	5.9
Outward	160 343	413 358	359 765	386 097	351 369	5.9	4.7	5.0	4.3
Developing economies *									
Inward	419 061	685 292	744 032	670 158	670 658	11.6	8.0	7.4	7.0
Outward	196 092	457 894	406 237	406 668	380 775	5.4	4.4	4.5	4.0
World *									
Inward	1 415 431	1 338 532	1 921 306	1 867 533	1 429 807	11.4	10.4	10.1	7.4
Outward	1 451 593	1 262 007	1 621 890	1 473 283	1 429 972	11.7	8.8	8.0	7.4
<b>FDI stock</b>						as a percentage of gross domestic product			
	1995	2014	2015	2016	2017	1995	2015	2016	2017
<b>China</b>									
Inward	101 098	1 085 293	1 220 903	1 354 613	1 490 933	13.7	10.9	12.1	12.6
Outward	17 768	882 642	1 097 865	1 357 390	1 482 020	2.4	9.8	12.1	12.6
<b>Memorandum</b>									
India									
Inward	5 641	253 120	282 617	318 487	377 683	1.5	13.5	14.1	15.4
Outward	495	131 524	139 038	144 086	155 341	0.1	6.7	6.4	6.3
United States									
Inward	1 005 726	5 456 688	5 709 658	6 555 622	7 807 032	13.1	31.7	35.3	40.2
Outward	1 363 792	6 276 783	6 007 773	6 361 419	7 799 045	17.8	33.3	34.3	40.2
East Asia									
Inward	365 439	2 878 627	3 109 291	3 300 677	3 628 193	20.9	22.9	24.2	26.9
Outward	152 493	2 894 523	3 221 785	3 526 965	3 965 777	8.9	23.9	26.1	27.8
Asia and Oceania									
Inward	574 109	5 730 319	6 045 019	6 394 800	7 292 268	14.6	27.0	28.2	31.4
Outward	211 713	4 263 570	4 691 508	5 110 895	5 719 791	6.0	21.2	22.8	24.8
Developing economies *									
Inward	842 659	8 452 641	8 677 872	9 234 028	10 353 481	13.0	29.1	30.9	33.6
Outward	312 372	5 210 405	5 644 300	6 130 830	6 898 384	5.2	19.2	20.9	22.7
World *									
Inward	3 564 636	25 378 774	25 664 955	27 663 091	31 524 356	11.1	34.1	36.3	40.4
Outward	3 993 675	25 128 561	25 514 309	26 625 621	30 837 927	12.8	34.2	35.5	39.8

Source: UNCTAD, *World Investment Report 2018*; <http://unctad.org/wir> or <http://unctad.org/dstatistics>.

\* Excluding Caribbean offshore financial centres.

## Annex 2



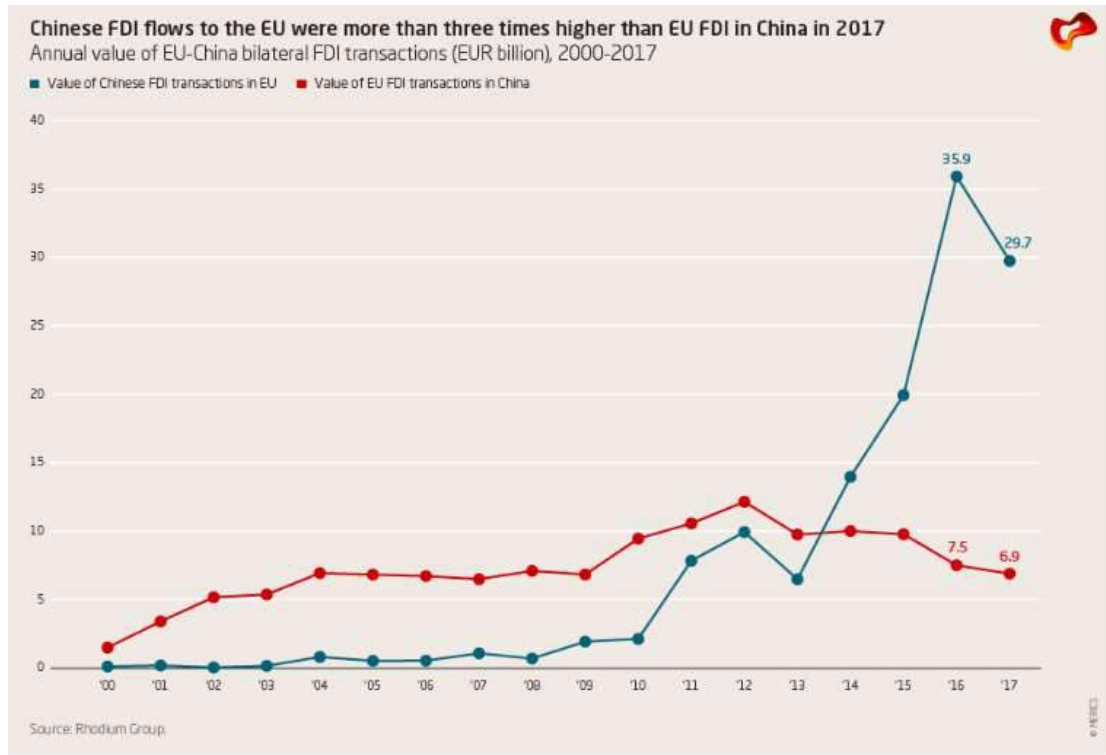
Source : OCDE

## Annex 3:



Source : 16+1 Lithuania

## Annex 4:



Place des Doyens, 1 bte L2.01.01, 1348 Louvain-la-Neuve, Belgique [www.uclouvain.be/lsm](http://www.uclouvain.be/lsm)

