

China's Overseas Investment in the European Union

Kerry Brown

Chinese overseas investment is a new, and growing phenomenon. In the last decade, there have been exponential increases in how much direct investment is flowing from China, particularly into the resource sector. As the eurozone crisis has deepened since 2008, there has been continuing talk by political and business leaders of investment in Europe being a key target for Chinese companies. And yet, the amounts invested so far come to less than 5 percent of China's global overseas foreign direct investment (FDI) total. In the crucial determinants of Chinese FDI, the EU ranks low. There is therefore a good structural reason why, despite the ambitious talk of the Chinese coming to invest more in vital sectors in the EU, this is not happening at the moment and is not likely to happen until China develops into a middle income, more developed economy.

Keywords: China, direct investment, EU, economy

In the last decade, Chinese overseas foreign direct investment (FDI) has become one of the major international economic stories. It is a new phenomenon and could, potentially, be extremely big. Over the last few years, many have predicted the 'coming of the Chinese', with the expectation that Chinese state and non-state companies, local and national government entities, would start to acquire significant assets abroad. Part of this has been encouraged by the collapse of the Lehmann Brothers Bank in 2008 and the weakening economic situation in the developed world since then. Some analysts have boldly predicted large amounts of money coming to destinations like Europe or the United States (US). Yet, statistics from both the United Nations Conference on Trade and Development (UNCTAD) and the Chinese government show that the Chinese remain extremely cautious as outward investors. This article will look at the key determinants of Chinese direct overseas investment globally in the last ten years since 2002 and the complex actors

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involved. It will then look at two examples of Chinese overseas FDI in the European Union (EU) area, in order to explore the kinds of problems that Chinese direct investment has encountered in one economically developed region. It will establish that, at the moment at least (January 2012), the amounts of Chinese FDI are very small within the EU, and the sectors they are in very limited. This is unlikely to change in the short to medium term, despite the ongoing impact of the eurozone crisis and the increased emphasis by some EU member states on getting more Chinese FDI. It will argue that, structurally, there is a reason for the low amounts of Chinese FDI in the EU, and that is that, in terms of the key determinants of Chinese outward investment, very few are fulfilled by what the EU has to offer. Unless this changes, there is no reason to think that the EU will radically increase as an FDI destination.

Chinese overseas FDI – what is happening globally and how does the EU figure in this?

Some analysts talk excitedly of “a kind of scramble for Europe now taking place as China purchases European government debt, invests in European companies and exploits Europe’s open market”.¹ In fact, the Chinese data available on this suggests a far more modest story.

According to UNCTAD, as of the end of 2010, China had a stock of USD317 billion invested abroad, up from USD245 billion in 2010. The USD72 billion of new investment in 2010 abroad was a 20 percent increase over 2009, when USD62 billion was added to the overall stock. In the space of just one year, therefore, China increased its investments abroad by one fifth. This is comparable to foreign direct investment into China, which increased from USD473 billion in 2009 to USD578 billion in 2010, a rise of 22 percent in the same year (UNCTAD). According to China’s Ministry of Foreign Commerce (MOFCOM), China’s non-financial investment abroad increased in 2010 by one third, going up from USD43 billion to USD59 billion.²

The question therefore is where is this money going? Two thirds of China’s outward FDI still remains in the Asian region, with 66 percent of the whole stock going to the Hong Kong Special Administrative Region (SAR). The next highest figure is destined for the Cayman and British Virgin Islands, with 11 percent. After this comes the rest of the Asian region, ex Hong Kong (8.56 percent). Almost all other players, from 2008 to 2010, were relatively minor, although as a result of the Free Trade Agreement with the Association of South East Asian

¹ Godement *et al.*, *The Scramble for Europe*.

² “2010 Statistical Bulletin of Chinese Outward Foreign Direct Investment”, <http://hzs.mofcom.gov.cn/accessory/201109/1316069658609.pdf> and UNCTAD, “World Investment Report 2011”, <http://www.unctad-docs.org/files/UNCTAD-WIR2011-Full-en.pdf>.

Nations (ASEAN) signed in 2010, investment there has increased markedly, on the back of a raft of commercial loans in the region of USD15 billion made by Chinese banks to partners since 2010, and approximately USD10 billion in aid project money. The EU accounts for less than 5 percent of the global figure.

Two more important features of Chinese FDI globally have to be explained, before moving to look specifically at the EU. In terms of which sectors this money is going into, the major areas are lease and business services (36 percent of the 2009 figure), mining, quarrying and petroleum (24 percent), and finance (15 percent).³ So while China's interest in securing sources for energy and raw materials tends to create the strongest headlines, in fact it is in leasing and renting offices for its businesses that the greater part of outward money is spent. And in terms of who is investing the money from within China, is it overwhelmingly, in the non-finance part at least, the central government. In 2008 and 2009, of the USD41 and USD47 billion outward FDI flows in those years respectively, USD35 in 2008 and USD38 in 2009 came from the central government or state-owned enterprises directed from Beijing. Only USD5.8 billion in 2008 and USD9.6 billion in 2009 came from provinces, despite an easing up in the last few years of regulations allowing non-central actors to invest abroad. Of provincial actors, the only significant players were Shanghai, Hunan, Guangdong (where Shenzhen accounted for a third of the total outward FDI), Shandong, Zhejiang and Liaoning. This characteristic is reflected in the stock of outward investment, where in 2010 USD21 billion belonged to the centre, and only USD60 billion to the provinces.

We can say that the general features for Chinese FDI are that it is predominantly driven by central government money; that it is overwhelmingly deployed in Asia, and particularly Hong Kong SAR and offshore destinations, where its onward movement is hard to verify; that it has risen steeply, but from a low base; and that it remains deployed in the key sectors of leasing and renting, energy and resources, and finance. These are the characteristics that have been dominant since 2002.

What are the determinants of Chinese outward FDI globally and which relate to the EU?

Chinese outward investment seems to arouse suspicions. An article in *The Economist* on 2 July 2011 stated:

... visible signs of Chinese encroachment will feed the worries of many Europeans. A poll conducted by the BBC World Service in March found rising concern about the eastward shift in economic power: a majority of Germans, Italians and French people view China's rise negatively. Americans and Canadians feel similarly.⁴

³ MOFCOM, "2009 Statistical Bulletin of China's Outward Foreign Direct Investment".

⁴ "Streaks of Red", *The Economist*, 2 July 2011, 56.

And yet, as the statistics above show, this is disproportionate compared to the amounts invested at the moment, which are very small. In a paper produced by researchers at Leeds University in 2007, the following determinants were set for analysis of Chinese overseas FDI. These will offer the framework later in this article for looking at two specific investments made in Europe since 2008:

1. Chinese FDI is market seeking, and market size has a significant positive impact.
2. Chinese FDI is associated positively with host country endowments in natural resources.
3. Chinese FDI tends to go where political risk is high – while Chinese investors say they like to invest in stable environments like the US and the EU, much of their current investment outside of Hong Kong and the British Virgin or Cayman Islands is in politically high risk environments.
4. Chinese FDI is associated positively with the proportion of ethnic Chinese in the host population.
5. The liberalisation of Chinese investment laws in 1992 caused an immediate increase in outward FDI.
6. A relative depreciation of the host country's currency leads to an increase in Chinese FDI.
7. Chinese FDI is associated negatively with host country inflation rates.
8. Chinese FDI is associated positively with Chinese exports and imports to the host country.
9. Chinese FDI is associated negatively with geographical distance from China.
10. Chinese FDI is associated positively with the degree of openness of the host economy to international investment.⁵

In this model, Hong Kong SAR is indeed the perfect destination for Chinese FDI, because it scores high on factors 1, 4, 7, 8, 9 and 10. Countries like Germany or France would score well for 1, 8 and 10. In a forthcoming analysis of Chinese FDI directly into the EU, Voss and Clegg develop this analysis to show that a further factor amongst countries within the EU competing for Chinese FDI is the existence of a positive inward investment policy framework and a network of inward investment officers.⁶

Indeed, openness to international investment (factor 10) is a particular issue. Chinese experiences since 2005 in international investment have been mixed. One of the explanations for the low amounts of Chinese FDI in developed markets, therefore, is the view of many Chinese that they are simply discriminated against. This was at its most intense in 2005 when the Chinese National Overseas Oil

⁵ Buckley *et al.*, "Determinants of Chinese Outward Direct Investment", 503-7.

⁶ Clegg and Voss, "Chinese Inward Investment into the EU".

Corporation (CNOOC) withdrew from its pursuit of purchase of the American energy company Unocal. CNOOC issued a statement explaining its withdrawal in 2005, stating that

The unprecedented political opposition that followed the announcement of our proposed formation was regrettable and unjustified. This political environment has made it very difficult for us to accurately assess our chance of success, creating a level of uncertainty that presents an unacceptable risk to our ability to secure this transaction.⁷

With the onset of the international economic crisis in 2008, there were some expectations that Chinese investment would increase. Over the last three years, Chinese money has been mentioned in connection to possible deals involving US banks, the European Financial Stabilisation Facility, assets in countries distressed by the euro crisis, and key European companies. As of early 2012, however, this has failed to materialise. The process of scrutiny of foreign investment in the US for example, raises a significant barrier, with the Committee on Foreign Investment in the United States (CFIUS), an interagency body which looks at the national security implications for all FDI, playing a particularly important role. In 2010, Chinese telecoms maker Huawei had its USD2 million takeover bid for US server company 3Leaf halted by CFIUS.⁸ The fact that President Obama stood by the Committee's recommendation only shows how sensitive Chinese FDI is in the US. Ironically, therefore, for some Chinese companies two of the world's most stable investment markets, the US and the EU, are, perhaps uniquely for them, politically risky simply because of the added scrutiny and barriers to entry that they attract.

Beyond the problems mentioned above of perceived political opposition to some forms of Chinese investment into a country, there are also issues for Chinese investors themselves. At the National People's Congress in 2009, an encounter took place that neatly illustrated the two sides of the problem. On the one side stood Xiang Wenbo, President of machinery maker Sany, who was asking the Vice Premier with responsibility for economic affairs why his company could not get more help in expanding abroad. Vice Premier Wang Qishan replied: "Are you sure of your managerial skills? Have you analyzed the corporate culture differences between the two parties? Do you understand how to deal with unions and their relations with management in the country [where your target company is based]?" He concluded with, "If you don't know your target and yourselves well, your ambition really scares me."⁹ In fact, the complex tax, union and employment laws in developed markets is one of the greatest challenges for Chinese state and

⁷ Quoted in Brown, *Rise of the Dragon*, 168.

⁸ "Huawei Waits for White House Review before Selling Unit", *BBC News*, 16 February 2011, <http://www.bbc.co.uk/news/business-12461553>.

⁹ Quoted in "Will China Buy the World: The Beijing Debate", *Wall Street Journal*, 10 March 2009, <http://blogs.wsj.com/chinarealtime/tag/wang-qishan/>.

non-state businesses trying to operate internationally. So although what has come to be known as the 'Going Out' (*zou chu qu*) policy to internationalise Chinese corporations has been in place since the 16th Party Congress in 2002, the pool of knowledge and experience that the Chinese have to draw on is relatively shallow. Inexperienced and sometimes poorly informed Chinese business people are hitting the double restrictions of an international environment where their objectives are ill understood and sometimes misinterpreted, and a domestic government that is increasingly cautious because of perceptions, at least in 2007 and 2008, that it had supported poor investment decisions which lost money amongst important constituents within China.¹⁰

Despite the establishment of the USD200 billion Chinese Investment Corporation (CIC) in 2007, therefore, and the involvement of the State Administration for Foreign Exchange (SAFE), along with the increased need of many developed markets for China's outward investment, this remains a story dominated by cautiousness on both sides, where the big figures have so far simply not transpired. The following two case studies will be used to illustrate the specific issues that Chinese investment has experienced in the EU – in particular, the purchase of key brands in major sectors (Geely and Volvo), and the problems of opportunistic investment in states in the EU most affected by the eurozone crisis (the purchase of Greek ports by the CNOOC). Both of these cases show that high visibility Chinese FDI in the EU remains the exception rather than the rule, and that whatever the commercial case, there are other factors that drive the FDI flows and which have made these cases, so far, isolated ones.

Buying the brands: Geely and Volvo

One of the guiding imperatives of the original Going Out policy which was declared in the final days of Jiang Zemin and Zhu Rongji's stewardship of the Communist Party was the need to create international champions amongst Chinese state and non-state companies. There were two contributory issues here. The first was the increased competition that was likely to be introduced to Chinese enterprises by entry into the World Trade Organisation (WTO) in November 2001. The second was the need to continue the reform of the state-owned enterprises (SOEs) which had been ongoing under the Premiership of Zhu Rongji since 1997, and which had seen the key state industries reduced in size, with a large number of workers laid off, and concerted attempts to make them more productive and efficient.¹¹ Part of this strategy was simply to attempt to purchase overseas

¹⁰ This issue is dealt with in Brown, "No Reverse Gear", http://www.kerry-brown.co.uk/files/clsa_paper_final.pdf.

¹¹ This history is covered in Yang and Stoltenberg, "Growth of Made-in-China Multinationals", 61-76. In fact, the Going Out policy was launched in 1999, though not formally endorsed as Party policy till 2002.

brands, as there was an awareness that one of the great weaknesses of Chinese companies was the major lack of outside understanding of what, and who, they were. By 2007, in terms of potential market capitalisation, China had some of the largest corporations in the world. Yet, companies like SinoChen, PetroChina, CNOOC, Huawei, ZTE, Lenovo and others were barely known beyond China's boundaries.

The attempts by Chinese companies to purchase foreign brands were also motivated by the desire to get hold of technology which would otherwise have been more difficult to access. Just as the wave of foreign investment into China from the 1980s often brought with it benefits in terms of technology transfer and management know-how, all in big deficit in China, so outward investment was an extra means of accessing this. The most celebrated example is the purchase by Beijing-based technology company Lenovo (previously called Legend) of the US IBM Think Pad brand in 2003. Failed acquisitions, however, are more common. After buying Thomsons, the French television manufacturer, the Chinese TCL group underwent a number of challenges, from problems with the old technology bought, to issues of how to understand the union laws in France, to problems over which markets the acquisition might best access.¹²

In August 2010, Chinese manufacturer Geely completed the 100 percent purchase of the European carmaker, Volvo, from its owners since 1999, Ford. It was, according to Geely Chairman Li Shufu, "an historic day", costing the Chinese company USD1.3 billion.¹³ The sale included commitments to maintain the car plants in Sweden and Belgium, along with the sales networks throughout Europe.

The purchase of Volvo was the largest single Chinese acquisition in Europe up to that point. In 2009, Chinese FDI stock in Europe was USD8.6 billion, making up only 3.5 percent of its global total. The Volvo Geely deal increased this by over 15 percent. That it was in the automotive sector was appropriate, as it was here that China had seen some of its strongest domestic demand grow since 2000. Germany was able to run the only trade surplus with China amongst the 27 EU states because of the strength of China's demand for cars, with Volkswagen and BMW in particular exporting and setting up successful plants within China. Since 2008, China had become the world's number one purchaser of cars, overtaking the US. With only 30 cars per thousand people in 2009, compared to 800 per thousand in the US and 500 per thousand in the UK, there was still plenty of room for growth too, making this one of the priority areas for non-Chinese manufacturers and exporters, but also for the Chinese government seeking to do something about the very low rate of domestic consumption as a proportion of GDP.

¹² See Brown, *Rise of the Dragon*, 180-1.

¹³ C.V. Nicholson, "Chinese Carmaker Geely Completes Acquisition of Volvo from Ford", *The New York Times*, 2 August 2010, <http://www.nytimes.com/2010/08/03/business/global/03volvo.html>.

Chinese involvement in overseas car manufacturing, however, had not been particularly happy. In 2005, Nanjing Automobile Corporation had finalised an agreement to purchase the UK MG Rover plant and brand at Longbridge, Birmingham. This happened subsequent to a prolonged discussion with the Shanghai Automotive Industry Corporation from the late 1990s into the 2000s. As a result of the huge pension liabilities of MG Rover, however, the deal was not brought to fruition. Lobbying at the highest level (letters were sent from then UK Prime Minister Tony Blair to Chinese Premier Wen Jiabao) meant that Nanjing was finally able to purchase the MG Rover brand, technology and factory for 50 million. Even so, this failed to preserve the 6000 jobs at the factory. In 2009, Nanjing Automotive reasserted its desire to produce 15,000 cars a year, and create 1,200 jobs, but this has, at the time of writing, come to nothing – this, in spite of bold talk by one person involved in the deal in 2005, that “the fact that Nanjing has bought the entirety of MG is an indication of their bigger intention to become a global automotive company”.¹⁴

Joe Studwell, in a study of foreign investment into China in 2002, showed that the automotive sector, much like auto engines and other technology-dense processes, is not an easy one to crack.¹⁵ It would seem therefore that, in addition to the ten determinants listed above, a further one of acquiring foreign technology, should be added, and that Volvo's purchase by Geely fits into this. According to one analyst with long experience of the Chinese market in the automotive sector, however, this would not be accurate. Nick Reilly, General Manager of General Motors in China, stated soon after the Volvo purchase that, far from being motivated by Chinese need for foreign technology, it was instead primarily driven by the need to have a brand name and designs that might give the Chinese some leverage in the international market. “China is the world's largest auto market with 13.6m units sold in 2009, and some 15 to 16m to be sold in China this year,” a 2010 report states. “Chinese car exports however are a disaster. China's already anaemic auto exports dropped another 46 percent in 2009. The value of car imports beat exports 3:1”.¹⁶ Far from giving them access to technology that they already mostly have, therefore, a purchase like Volvo, according to this interpretation, gives them the keys to determinant number 1 above, a large market. What Geely buys is an accepted brand, a brand that is associated with safety and reliability, along with “a range of already homologated cars, and a cadre of engineers that already is working on cars to be launched five years from now. Other than in the case of Rover and

¹⁴ “Rover Sold to Nanjing Automobile”, *BBC News*, 23 July 2005, <http://news.bbc.co.uk/1/hi/business/4708739.stm>.

¹⁵ Studwell, *The China Dream*.

¹⁶ B. Schmitt, “The Importance of Geely's Volvo Purchase for the Chinese Auto Industry”, *The Truth About Cars*, 28 March 2010, <http://www.thetruthaboutcars.com/2010/03/the-importance-of-geely%E2%80%99s-volvo-purchase-for-the-chinese-auto-industry/>.

Saab, where old tooling was trucked off to China, Geely buys a fully functioning car company.”¹⁷

Buying European assets to support exports: the case of Greece

The involvement of Chinese investment in strategic sectors was shown, through the case of Unocal in the US, to be a sensitive area. Brad Setzer, of the US Council for Foreign Relations, interviewed in November 2007, stated: “The rise of sovereign wealth funds represents a shift in power from the US to a group of countries that aren’t transparent, aren’t democracies and aren’t necessarily allies”.¹⁸ The Chinese CIC was one of the key areas of concern. Californian Congressman Richard Rombo, referring to the specific case of CNOOC and Unocal, said that if the bid had been successful, it would have had “disastrous consequences for our economy and national security”.¹⁹ It is not just the Chinese who are regarded with suspicion – the purchase by Abu Dhabi of the P and O port and ferry business was amongst the most heavily watched news stories in the US, creating huge anxiety and opposition over the potential sale of what was viewed as a key strategic asset to a foreign company. “Europe may be seen as a geopolitical irrelevance,” the *Economist* report on 2 July 2011 stated, “but the Chinese feel more welcome there than in America.” In addition, with the onset of the euro crisis from 2009, the need for Chinese money has grown.

The particularly grave problems in Greece sit at the heart of the euro crisis ongoing since late 2009, with the toxic combination of huge amounts of government debt, and a public sector that has become unproductive and, proportionally, a massive part of GDP. Under a number of different deals to secure lending so that it could deal with its economic problems, the Greek government agreed to the sale of a number of state owned assets from 2011. One of the highest profile was the final agreement to sell a major part of the Port of Piraeus to the Chinese Ocean Shipping Group Company (COSCO) in the summer of 2011 for between USD4.5 and USD 5 billion, in return for operating the port for 35 years. As part of the deal, COSCO agreed to invest over USD700 million in upgrading the port facilities. The public reaction to the deal, however, was complicated. Relief amongst some politicians in getting at least some inward investment was set off by concern. “What we want to avoid is selling off our primary assets for nothing,” said one

¹⁷ *Ibid.*; and “Geely Denies Financial Troubles Triggered by Volvo’s Acquisition”, *AutoNews*, 17 November 2011, <http://www.inautonews.com/geely-denies-financial-troubles-triggered-by-volvos-acquisition>. Reports surfacing in November 2011, however, claimed that Geely was experiencing financial difficulties due to large sums owed to foreign investors arising directly from the Volvo purchase. These reports were denied by the company.

¹⁸ Quoted in Martin, *China’s Sovereign Wealth Fund*, 5.

¹⁹ Quoted in D. Teather, “Washington Opposition Forces Chinese to Withdraw Oil Offer”, *Guardian*, 3 August 2005.

close advisor to the prime minister, quoted in a BBC report. Yet, "I'm afraid that that is what's about to happen."²⁰ Workers at the port also expressed opposition, complaining of lack of work, poor wages, and the refusal of the new managers of the port to recognise unions.

The huge amounts that China exports to the EU mean that ports are of significant interest to it, and Piraeus in particular has strategic value, being a potential competitor to Rotterdam. In that sense, this investment falls most strongly under factor 8 in the determinants listed earlier, the servicing of strong imports and exports. In June 2010, the Chinese Vice Premier Zhang Dejiang led a delegation of business people to Greece, with talk not just of the major port investment, but of Chinese involvement in the even more sensitive sector of telecoms, and in construction. On 15 June, 14 deals were signed at the end of the visit, including three for the construction of bulk cargo ships, and one on olive oil production. "The Chinese government will encourage Chinese businesses to come to Greece to seek investment opportunities", Vice Premier Zhang said during a deal-signing ceremony. "I am convinced that Greece can overcome its current economic difficulties".²¹ The value of these separate deals was put at €1 billion. As of February 2012, it is too early to assess how these deals have performed.

The sale of the port in Greece raises an interesting precedent around the issue of what impact the eurozone crisis might have. Ports have usually been regarded as key parts of a nation's infrastructure. Their sale and control therefore have come under intense scrutiny. The sale of the P and O company to the Abu Dhabi sovereign wealth fund in 2005 raised a storm of protest in the US, resulting in the divestment of the ports part of the business before the final sale went ahead. The issue in the EU is whether this concern about strategic assets being in the hands of a not wholly trusted or understood partner weakens as the economic pressures increase and the crisis continues. Will the EU accept increasing flexibility about what can be sold to the Chinese, and if so, what does that say about the original reservations and their foundation, and about the eventual impact this might have on the business and political environment in the EU. At the moment, there is certainly plenty of talk about the desire to see more Chinese investment flows into the EU, but beyond the rhetoric, there have been far fewer hard deals than might have been expected.

Conclusion

Chinese outward investment in the EU remains a story of potential, rather than actuality. The Volvo deal remains in place, but with question marks. Only in the

²⁰ C. Morris, "Could Chinese Investment Rescue Ailing Greece", *BBC News*, 25 June 2011, http://news.bbc.co.uk/1/hi/programmes/from_our_own_correspondent/9520732.stm.

²¹ "China Invests 'Billions of Euros' in Debt-laden Greece", *Daily Telegraph*, 15 June 2010, <http://www.telegraph.co.uk/finance/7829889/China-invests-billions-of-euros-in-debt-laden-Greece.html>.

case of the Greek port deal has there been a happy combination of strong Chinese interest in assisting its export markets in a key export destination, and the desire of the EU member state to confront its serious economic problems by selling a key asset. This is in spite of the ongoing impact of the financial crisis, and the frequently stated desire by European leaders to see more Chinese money come into the region. It is partly due to the fact that the main sectors into which Chinese FDI has gone so far have been resources, of which the EU has little. Indeed, it could be argued that in these sectors the EU and China are direct competitors, being net importers of energy and resources. In Australia and Africa, for instance, a large proportion of Chinese FDI has been in the energy and resource sector. This also accounts for the relatively large figure for Russia (mentioned in Table 1), which comes, according to MOFCOM, under the European figure. But there is also a structural explanation for why the figures remain low compared to China's investment activity elsewhere in the world.

Of the determinants listed at the beginning of this article, the EU only fully fulfils 1, 8 and 10. It is a large market for Chinese goods, a large trade partner, and an open economy. However, in terms of resources, distance from China, number of ethnic Chinese, and other determinants, the EU ranks low. Compared therefore to Asian countries which combine resources, an ethnic Chinese population, a large trade relationship with China, and lack of geographical distance, the EU suffers from a number of disadvantages. Apart from Germany, the UK and the unusual

Table 1. Chinese Outward FDI by Stock 2005 to 2010 (in millions of US dollars)

Country/Region	2005	2006	2007	2008	2009	2010
<i>Asia</i>	40954	47978	79217	131316	185547	228145
Hong Kong	36507	42269	68781	115845	164498	199055
<i>Africa</i>	1595	2556	4461	7803	9332	13042
<i>Europe</i>	1271	4458	7	5133	8676	15710
France	33	44	126	167	221	243
Germany	268	472	845	845	1082	1502
Russia	465	926	1421	1838	2220	2787
UK	107	210	950	837	1028	1358
<i>Latin America</i>	11469	19694	24700	32240	30595	43875
Cayman and British Virgin Islands	10918	18959	23436	30804	28637	40498
<i>North America</i>	1263	1587	3240	3659	5184	7829
United States	822	1237	1880	2389	3338	4873
<i>Oceania</i>	650	939	1830	3816	6418	8607
Total	57205	75025	117910	183970	245755	317210

Source: Chinese Ministry of Foreign Commerce 2010, "Statistical Bulletin of China's Outward Foreign Direct Investment".

case of Luxemburg, which received over USD5 billion in 2010, probably due to favourable tax policies, (and Sweden because of the one-off Geely deal), the rest of the EU is doing less well than countries like Cambodia, Indonesia and Laos. On this reckoning, therefore, the EU, no matter what political importance it attaches to obtaining more Chinese money, will remain a low-ranking destination compared to other regions.

In view of this, the overly positive or negative perceptions of Chinese FDI in some coverage of the phenomenon in the EU are misleading. Ideas that Chinese state companies in particular are coming in increasing numbers, as arms of the central Beijing government, to exercise influence over the EU through buy-outs in the member states remain wide of the mark, as does the idea that the EU states which are most under pressure as a result of the financial crisis will be able to find a way out of their troubles by searching for large amounts of Chinese FDI. This relates not to the attractiveness or otherwise of the kinds of investments that the EU is offering, but to the structure of Chinese outward FDI itself. The determinants of this FDI globally point to a menu of issues, only very few of which relate to the EU, and this means that the EU operates under a structural disadvantage, which will continue as long as the key players in Chinese FDI are largely state-led, central resource seeking companies. This does not mean that the narrative of Chinese FDI is straightforward. For each excited declaration by someone that 'the Chinese are coming', and that China is one of the few countries with the resources and liquidity to undertake major investment expansion abroad, there are others who look at the figures in more detail and see only very cautious expansion. In the EU, as this article has sought to show, there are clear reasons for this.

The list of determinants given in this article provide a broad framework within which to understand the kinds of investments made by China so far. On the whole, the list made in 2007 by Buckley *et al.* stands good in 2012. Chinese investment is driven by a range of separate factors, mostly through state-run companies, many of them through the central Beijing government. High expectations towards Chinese investment has to be set against the facts that China's outward investment policy remains cautious, that it is very limited so far, and that it is dominated more by pragmatism than some overarching narrative of wanting to take over the world by buying it. In addition, the EU on the whole ranks low with respect to the various key determinants. This may well change as China becomes a middle income country and a more sophisticated economy in the years ahead, involving much more outward investment in order to globalise more deeply, but at the moment policymakers in the EU need to be more modest and measured about what they can expect in the short to mid-term from China. Although FDI is likely to increase steadily, with some large one-off acquisitions, on the whole far more modest advances can be expected than those being made in the countries that have most of what the Chinese economy seeks.

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