Columbia Center on Sustainable Investment
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND THE EARTH INSTITUTE, COLUMBIA UNIVERSITY

# Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues

No. 142 March 2, 2015

Editor-in-Chief: Karl P. Sauvant (Karl.Sauvant@law.columbia.edu)

Managing Editor: Adrian P. Torres (adrian.p.torres@gmail.com)

## The challenges for Chinese FDI in Europe

by

Louis Brennan*

As the motives driving China's outward foreign direct investment (OFDI) have expanded from resource-seeking to asset- and market-seeking, Chinese FDI in Europe has grown rapidly. Although Europe, with its advanced technologies and know-how, brands and sophisticated markets, represents an attractive destination for asset-seeking and market-seeking Chinese FDI, it has also posed challenges for Chinese investors. They arise for a number of reasons: the divergent characteristics of the host region, home country liability of origin, as well as China's OFDI regulation and the capabilities of the investing enterprises.

The magnitude of the psychic distance between Europe and China intensifies the challenge for Chinese enterprises in overcoming the liability of foreignness. This challenge is all the greater given the myriad of investment-related agencies that operate in the host region and sometimes even within individual countries. Chinese enterprises investing in Europe also have to navigate the visa system in many European countries, which can be arduous and complex. The fragmented nature of the European response to Chinese FDI is also a factor that has beset Chinese FDI in Europe.[1] European countries have had varied responses to investment from China, ranging from keenly seeking such investment (e.g., the UK), to apprehension or outright resistance (e.g., some southern European countries). However, in the midst of the European economic crisis, countries that were previously opposed to Chinese investment have become more receptive.

The vexed issue of liability of origin also creates challenges for Chinese FDI in Europe. Some European states have been reluctant to accept Chinese enterprises as legitimate since they are perceived as opaque in their governance, as being unfairly subsidized by the government and as serving the interests of the Chinese state rather than being commercially driven. This reluctance has been reinforced by a perception that China has failed to adhere to, and enforce, adequate minimum standards related to employment law, health and safety and the environment. Coming from a home country environment in which there is little history or necessity to engage in public relations, Chinese enterprises have not been adept at managing their image and reputational issues and have struggled to adjust to the exigencies of the host region.

Home country regulations and the hierarchical systems that operate in relation to OFDI in China have also served at times to militate against Chinese FDI in Europe. This is especially the case in relation to acquisitions, where the freedom to respond quickly in a bidding scenario can be critical to a successful outcome. However China's regulatory framework dealing with OFDI is undergoing significant change as a result of the reforms signalled by Xi Jinping, with now only deals valued at more than $1 billion requiring full review by the National Development and Reform Commission as compared to the previous threshold of $100 million, thus largely removing one stage of the approval process for such investments. Nonetheless, there is still some way to go in terms of simplification of the system regulating OFDI.

Perhaps the greatest challenge facing Chinese enterprises in Europe is adjusting their style of organizing and of managing their operations from their traditional hierarchical mode of organization, as well as the command-and-control based approach to management, to one that is more compatible with the more autonomous work culture prevalent in Europe. Chinese acquirers that tend to be more successful in Europe have largely adopted a hands-off approach to the acquired entity; those that have not adjusted their style of management tend to face challenges, such as the loss of key human capital,[2] as well as related reputational capital. Navigating the very different cultural and institutional environment in Europe and operating according to local norms and practices requires preparation and training for Chinese managers. In that respect there has been a recent call[3] for the European Union (EU) to engage in training programs (similar to ERASMUS) for emerging market managers, such as those from China, to ensure that the positive impact of investments in the EU are realized. An additional challenge for Chinese investors in Europe relates to their need to develop their absorptive capacities if they are to fully reap the benefits from the know-how and capabilities of the acquired entities.

Looking ahead, there are reasons for supposing that Chinese FDI in Europe will surmount the challenges that it has hitherto faced. A noteworthy feature of Chinese enterprises is that they tend to be fast learners and hence have the potential to rapidly develop the capacity to adapt to the requirements of the European environment. Furthermore, the recently initiated negotiations of a EU-China bilateral investment treaty hold the promise of addressing some of the factors that have created challenges for Chinese FDI in the past.

---

[*] Louis Brennan (brennaml@tcd.ie) is Professor in Business Studies and Research Associate, Institute for International Integration Studies, Trinity College, Dublin. The author is grateful to Filip De Beule, Christoph Dorrenbacher and Andreas Noelke for their helpful peer reviews. **The views expressed by the author of this *Perspective* do not necessarily reflect the opinions of Columbia University or its partners and supporters. *Columbia FDI Perspectives* (ISSN 2158-3579) is a peer-reviewed series.**

[1] Louis Brennan and Tae Hoon Kim, "*Europe's response to non-traditional sources of investment*", in Louis Brennan, ed., *Enacting Globalization: Multidisciplinary Perspectives on International Integration* (New York: Palgrave Macmillan, 2013), pp. 298-311.

[2] Alessandra Vecchi and Louis Brennan, "An analysis of Chinese acquisitions of Made in Italy firms in the luxury sector," *Chinese Business Review*, vol. 13 (2014), pp. 192-208.

[3] COST Action, “Emerging market multinationals: Threat or opportunity for Europe?” IS0905 Policy Brief, https://www.tcd.ie/iiis/emerging-multinationals/assets/documents/Policy%20Document.pdf.



For further information, including information regarding submission to the *Perspectives*, please contact: Columbia Center on Sustainable Investment, Adrian Torres, adrian.p.torres@gmail.com or adrian.torres@law.columbia.edu.

The Columbia Center on Sustainable Investment (CCSI), a joint center of Columbia Law School and the Earth Institute at Columbia University, is a leading applied research center and forum dedicated to the study, practice and discussion of sustainable international investment. Our mission is to develop and disseminate practical approaches and solutions, as well as to analyze topical policy-oriented issues, in order to maximize the impact of international investment for sustainable development. The Center undertakes its mission through interdisciplinary research, advisory projects, multi-stakeholder dialogue, educational programs, and the development of resources and tools. For more information, visit us at www.ccsi.columbia.edu.

## Most recent Columbia FDI Perspectives

- No. 141, Sophie Nappert, “The other side of transparency,” February 16, 2015.
- No. 140, Axel Berger and Lauge N. Skovgaard Poulsen, “The Transatlantic Trade and Investment Partnership, investor-state dispute settlement and China,” February 2, 2015.
- No. 139, Ralf Krüger and Ilan Strauss, “Africa rising out of itself: The growth of intra-African FDI,” January 19, 2015.
- No. 138, Steven Globerman, “Host governments should not treat state-owned enterprises differently than other foreign investors,” January 5, 2015.
- No. 137, Dylan G. Rassier, “Locating production and income within MNEs: An alternative approach based on formulary apportionment,” December 22, 2014.

**All previous *FDI Perspectives* are available at http://ccsi.columbia.edu/publications/columbia-fdi-perspectives/.**