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The Political Dimension of Chinese Investment in Europe

Memo from the Joint Clingendael-Nyenrode conference:

An Open Market? Political Obstacles and Chinese Investment in Europe
(Clingendael Institute, 5 March 2010)

Topics that were discussed during this meeting:

- Size of and motives behind Chinese state-controlled investment in Europe
- Relevance of domestic public opinion for the political room for manoeuvre that European governments have in dealing with Chinese investment
- Desirability of establishing a central European body to monitor incoming investment and to enable more effective policymaking on incoming investment

Points of interest for European policymakers (observations from the Clingendael organizers):

- Chinese investments in the European Union (EU) are still relatively small in size. Chinese investors show a preference for developing countries (to where roughly 60% of Chinese foreign direct investment [FDI] goes) and Australia (which attracts about as much FDI as the European Union as a whole). The potential for growth in direct and indirect investment from China is very substantial.
- Many Chinese companies do not regard themselves competitive enough to enter Western markets and focus, for now, on developing countries., It is likely that they will shift their focus increasingly to the EU, when they have reached the right level in terms of scale and experience. The less developed markets in the newer EU-member states are an attractive initial destination in Europe for many Chinese enterprises – especially when these host countries have few political obstacles against Chinese investment.
- Chinese state-owned enterprises – including investment funds and banks – focus for the time being primarily on commercial goals (profit, diversification, experience, know-how, etc). This is not to say that, at a later time, the economic position of these enterprises may not be used for non-commercial aims by the Chinese political leadership. Most large investors from China are state-owned; top management is appointed by the government.
- Points of particular interest with regard to the (long-term) inflow of Chinese investments are: maintaining political room for manoeuvre with respect to themes that are of great importance for the Chinese government (human rights, Taiwan, Tibet, Xinjiang, weapons embargo, security cooperation with countries like Japan and South Korea), industrial espionage, and influence of the Chinese government on the independence and competitiveness in Europe (for example of the media, energy

sector, financial sector and critical infrastructure; and R&D and technology sectors, respectively). Australia's experience shows that the economic investment relationship with China impacts on domestic politics (for example, the position of the Prime Minister is affected by the relationship with China) and the capacity to assist the United States in their Taiwan policy.

- Two lessons from the Australian experience are: 1) domestic public opinion plays a significant part in defining the political willingness to welcome Chinese investments; 2) Rio Tinto-case: do not wait until a crisis erupts, but be proactive in creating mechanisms that provide the government with the necessary guidelines about how to balance commercial and national interests.
- At present, the capacity to oversee developments with regard to the inflow of Chinese investment is lacking at the national level (in the case of the Netherlands) as well as at the EU-level. Installed capacity in the Netherlands is fragmented (lies with actors such as the Netherlands Competition Authority [NMa], the Dutch Central Bank [DNB], Netherlands Authority for the Financial Markets [AFM]) and is not aimed at monitoring investment with consideration of national security concerns. Large differences exist between EU member states in terms of monitoring as well as formal limitations. An increase in Chinese investment in member states with few control mechanisms/limitations can increase pressure from countries that do have central monitoring and limitations in place, including Germany and France.
- Formal and informal investment barriers exist, with variations between EU member states. More uniformity and transparency could spur the inflow of desired Chinese investment. Chinese investment is beneficial for the economic development of the EU (consider, for example, that Australia is less affected by the global downturn than other OECD economies).
- A central body at the Dutch as well as EU-level that aims to monitor investment would facilitate more effective policymaking, as it could impose guidelines on incoming investment where necessary, and at the same time reassure the domestic public that careful reflection on the balance of national interests is behind government policy.

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For more information about the conference, please visit:
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