

Chinese Investment in Europe

A Country-Level Approach

Edited by: John Seaman, Mikko Huotari, Miguel Otero-Iglesias



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ETNC Report

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Foreword

The European Think-tank Network on China (ETNC) is a gathering of China experts from a selection of European policy research institutes. The ETNC is devoted to the study of Chinese foreign policy and European Union (EU)–China relations and facilitates regular exchanges among participating researchers. The ETNC strives to deepen the understanding of how Europe, as a complex set of actors, relates with China and how China’s development and evolving global role will impact the future of Europe. When examining the EU–China relationship, the network’s discussions, analyses and recommendations take a decidedly “bottom-up” approach, examining the bilateral relationships between individual EU member states and China in order to generate a more complex perspective on the broader EU–China relationship.

The network was first launched on the initiative of the Elcano Royal Institute and the French Institute of International Relations (Ifri) in Brussels on 6 November 2014. This meeting brought together experts from eleven EU member states, as well as observers from EU institutions. The ETNC members decided to meet in a different capital every six months and the Mercator Institute of China Studies (MERICS) joined Elcano and Ifri in their efforts to move the project forward.

The ETNC’s goals are:

- To facilitate regular exchanges among European researchers on key issues related to China and Chinese foreign policy, particularly on how they relate to the EU, individual EU member states, and other European countries.
- To generate discussions among European policy experts on bilateral relationships between EU member states and China, and subsequently on the EU–China relationship more broadly.
- To contribute to the analysis of China’s emerging grand strategy by focusing on European perspectives, with an eye on how this crucial relationship impacts the broader global economic and political order.
- To provide recommendations for the conduct of Europe–China relations based on in-depth discussions and research conducted by experts within the network.
- To create a European pool of expertise and contact networks in and on China that can be activated and utilized whenever one of the participating members requires it.

Ultimately, the ETNC’s main aim is to enhance European expertise, knowledge and networking capacity on China’s foreign policy and its foreign relations with the EU member states and the EU itself, by focusing on all the different levels of interaction. These range

from the local to the supranational, but the ETNC considers the national sphere to be the analytical point of departure.

This report is the third in an on-going effort to dissect and reassemble Europe–China relations from a European country-level perspective. The first roundtable discussions on the report were graciously hosted by the Finnish Institute of International Affairs (FIIA) in Helsinki in May 2017, and its conclusions further refined in discussions organized at the Istituto Affari Internazionali (IAI) in Rome in October 2017. The report has been coordinated by Ifri with the active participation of all ETNC institutions and an equal sharing of publication costs between Ifri, Elcano and MERICS.

List of Institutions Contributing to ETNC

Coordinating Institutions

- French Institute of International Relations (Ifri), France
- Elcano Royal Institute, Spain
- Mercator Institute for China Studies (MERICS), Germany

Participating Institutions

- Egmont Royal Institute for International Relations, Belgium
- Institute of International Relations, Czech Republic
- Danish Institute for International Studies (DIIS), Denmark
- Finnish Institute for International Affairs, Finland
- Institute of International Economic Relations, Greece
- Corvinus University of Budapest, Hungary
- Istituto Affari Internazionali (IAI), Italy
- Latvian Institute of International Affairs (LIIA), Latvia
- The Netherlands Institute of International Relations "Clingendael", The Netherlands
- Norwegian Institute of International Affairs (NUPI), Norway
- Polish Institute of International Affairs (PISM), Poland
- University of Aveiro, Portugal
- Institute for World Economy, Romanian Academy, Romania
- University of Economics in Bratislava, Slovakia
- The Swedish Institute of International Affairs (UI), Sweden
- Chatham House, United Kingdom

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Introduction: Sizing Up Chinese Investments in Europe

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Chinese investments in Europe have surged in recent years, and have become a critical feature of Europe-China relations. Foreign direct investment (FDI) in the European Union traced back to mainland China hit a record EUR 35 billion in 2016, compared with only EUR 1.6 billion in 2010, according to data gathered by the Rhodium Group. In a historic shift, the flow of Chinese direct investment into Europe has surpassed the declining flows of annual European direct investments into China.¹ As China continues to grow, develop, and integrate into the global economy, its overseas investments expand in quantity and quality, reflecting both the growing sophistication of the Chinese economy and broader Chinese commercial and policy goals. Going beyond FDI, Chinese investment is creating new realities for Europe-China relations.

This report by the European Think-tank Network on China (ETNC) brings together original analysis from 19 European countries to better understand these trends and their consequences for policy making and Europe-China relations, including at the bilateral, sub-regional and EU levels. As in all ETNC reports, it seeks to do so using a country-level approach. Through these case studies, including an introductory explanation and analysis of EU-wide data, the report aims to identify and contextualize the motives for Chinese investment in Europe and the vehicles used. However, the originality of the report also lies in the analysis of national-level debates on China, Chinese investment, and openness to foreign investment more generally. This is not just a story about FDI strictly defined, but about the (geo)political implications that emanate from deeper economic interaction with China. Ultimately, Europe is far from speaking with a single voice on these matters, and identifying where the divergences and convergences lie, will be crucial in formulating solid and complementary policy positions at the EU and national level moving forward.

1. EU FDI transactions to China in 2016 only totaled EUR 8 billion, according to Rhodium Group data. Still, according to Eurostat, in 2015 stock of EU FDI in China continued to outweigh Chinese direct investment stock in the EU by EUR 168 billion to EUR 35 billion. Eurostat, "The EU Continues to Be a Net Investor in the Rest of the World", Eurostat News Release, 12 January 2017, <http://ec.europa.eu>.

China's growing investment interests in Europe

Until recently, it was not uncommon to depict China as a minor source of investment in Europe and elsewhere in relative terms. Indeed, of total FDI stock held in the European Union by the end of 2015, China only accounted for 2 percent according to Eurostat figures, and its investment stock in many European countries remains low when compared with older investors. However, the facts on the ground are evolving rapidly, and China still has plenty of room to grow: The total stock of Chinese outbound direct investment worldwide still only represents 10 percent of its national GDP. Compare this to France or the UK (50+ percent), Germany (39 percent), the United States (34 percent) and Japan (28 percent).² If China continues on its path towards more advanced levels of economic development, we must expect a massive further increase in its outbound FDI. Europe has already become a favored destination for Chinese investment, and policymakers need to adapt to a new force shaping the economic and political landscape in Europe.

As the country analyses of this report show, European economies have a wide range of assets and features that Chinese investors seek. There should be no doubt that China needs Europe (maybe even more than vice-versa). Patterns of Chinese investment highlight sources of European attractiveness that need to be better appreciated and leveraged. Among the things that Chinese investors seek in Europe are:

- **Technology**, to include established high-tech assets, emerging technologies and know-how;
- **Access to the European market**, for Chinese goods and services;
- **Access to third markets** via European corporate networks, especially in Latin America and Africa;
- **Brand names** to improve the marketability of Chinese products both abroad and for the Chinese market;
- **Integrated regional and global value chains** in production, knowledge and transport;
- **A stable legal, regulatory and political environment**, particularly in a context of global disruption and political uncertainty;
- **Political/diplomatic influence** in a region that in aggregate terms remains the second largest economy after the US.

Behind the growth in China's outbound investments is the story of China's economic transformation towards more consumption-based growth and higher value-added industries, including technology and services. The success of China's economic transformation depends on an increased commercial presence abroad and deepening international linkages. This is not only true for all economic enterprises in China, including

2. UNCTAD, "Annex Table 8: FDI Outward Stock as a Percentage of Gross Domestic Product, 1990-2016", *World Investment Report 2017*, United Nations Conference on Trade and Development (UNCTAD), 7 June 2017, <http://unctad.org>.

SOEs and private companies, but it also serves as a critical source of Party legitimacy and political stability.

In this context, many chapters in this report confirm the importance of Beijing's policy initiatives in shaping investments overseas, and in Europe in particular. Beijing's "going out" policy starting in 2001, and intensifying after the Global Financial crisis, has facilitated and encouraged the internationalization of Chinese firms for much of the last two decades as a means to develop the national economy. More recently, both China's 12th and 13th five-year plans (2011-2015; 2016-2020) have encouraged overseas investments as a means to access supply chains, quality brand names and advanced technology – all reasons for investing in Europe. As China's industrial strategy grows in sophistication, plans such as "Made in China 2025" will increasingly channel overseas investments as a means to achieve clear policy goals in the so-called "new strategic industries" defined in Beijing. In 2016, the largest share of Chinese global mergers and acquisitions targeted the high-tech sector (24 percent of total deal values), compared to 20 percent that targeted energy and material assets (Rhodium Group, 2017). The controls on outbound Chinese capital that the Chinese government deployed in 2016 and 2017 also highlight the crucial impact of Beijing's interests and policies, i.e., the political nature of outbound capital flows. Finally, as China continues to press forward with its Belt and Road Initiative (BRI), an initiative now elevated to constitutional rank within the Chinese Communist Party in fall 2017, Europe can also expect to see an increasing number of related Chinese investments.

Reactions in Europe: Between open doors and growing concerns

Since the onset of the economic and financial crisis in 2008, and still today, many capitals and economic centers across Europe have looked to China and Chinese investors as a source of opportunity and growth. Indeed, promoting investment relations has risen to the top of many bilateral agendas. As demonstrated in the chapters that follow, Chinese investment serves to create and/or maintain jobs, to provide capital for research, development and innovation, generate wealth and tax revenue for cash-strapped governments, create new market opportunities for European firms both in China and in third markets, build and improve infrastructure and even introduce technology and innovative business models into Europe. Moreover, at a broader level, China and Europe face similar, pressing challenges, such as climate change, inequality and calls for protectionism, and there is an increasingly urgent need for joint solutions that cross-border investments can facilitate.

For all of these reasons, Chinese investment is and should be encouraged.

Growing concerns

Given these advantages, European countries actively seek out Chinese investment, but the magnitude and certain patterns of investments have also raised concerns. Finding the right balance between addressing these concerns and holding to the principles of economic openness has proven a serious challenge both in the context of Europe-China relations and for the European Union more generally. European concerns are related to a combination of issues that are often hard to disentangle and are prone to hype and politicization. Challenges raised in the following chapters of this report include:

- The role of the Chinese state in the economy;
- A lack of reciprocity and fair competition;
- National competitiveness and technological leadership;
- Uncertainty about security-related critical infrastructure and sensitive technologies;
- Investments as a source of political and geopolitical influence, and divisions within Europe;
- Broader regulatory concerns;
- Intra-European competition for investment;
- A growing “promise fatigue”.

Such concerns have become more publicly voiced in European capitals and in Brussels as Chinese companies have begun to buy what some consider critical infrastructure across the continent. The best examples here are the purchase of large shares in the port of Piraeus in Greece, the public electricity grid in Portugal, and the creation of the 16+1 framework with the Central and Eastern European countries with promising investments in major projects, such as the Budapest-Belgrade high-speed rail connection. This has given observers the impression that China is slowly penetrating the “softer” Central, Eastern and Southern outer circles of the EU and is encroaching on “core economies.” It was, however, a series of (proposed) high-tech take-overs in Germany, including the buying of leading German robotics firm Kuka, which proved to be a watershed in Europe. For the first time, parts of the German political class made explicit that Chinese investments could elicit substantial security concerns and become a strategic threat to the country’s industrial leadership.

Clearly, this is not only a German phenomenon, as illustrated in many of the chapters that follow, particularly the Netherlands. After many years of divisions and inaction, this year has seen remarkable synchronicity in debates about a need to regulate and screen (Chinese) foreign investment among OECD countries and throughout the EU. Following earlier developments in France, countries like Germany and even Hungary have proposed or even implemented new national legislation in this field. In Europe in particular, there is an increased realization among policymakers of the risks associated with foreign control over strategic assets, including “enabling technologies” that are key for national and European security.

These concerns are only magnified when considering the likely trajectory of China's foreign economic policies related to persistent structural imbalances in its domestic economy. Its unsustainable credit growth and overcapacity mean that Chinese firms, especially SOEs, are very keen to buy foreign assets and divert their extra-capacity to foreign markets. Furthermore, the targeting of Chinese investments into high-tech sectors risks whittling away at Europe's competitive advantage, which relies on technological innovation. If this technology is easily acquired through China's increased financial power, this will become a strategic threat to Europe's global economic positioning and standards of living. As such, this increased appetite to enter the European market needs to be welcomed with caution.

China's increased investment presence in the EU might also have political and geopolitical implications. There are concerns in Brussels and many European capitals that China might exercise, or indeed has already exerted political influence in the countries in which it has invested the most. Already we have seen how Greece and Hungary were reluctant to support a tougher line from the EU towards China regarding the South China Sea disputes. This is a worrisome development, which might also explain why now many EU countries, including the more vocal ones in this area like the UK, Sweden and France, appear more reluctant to criticize China's human rights record. In general, there is now an attitude of complacency with China because this will bring rewards: more Chinese investment and perhaps more access to the Chinese market. Yet, sometimes the expectations are not fulfilled. The current Hungarian government has been heavily seducing China for some time, but since 2010, and despite many promises from Beijing, only a very limited number of investment programs have seen the day of light. In this sense, it appears that China has been able to use this power of expectation to obtain diplomatic concessions.

Consensus and division on how to respond

In light of these growing concerns, the debate over how to respond has heated up, with many policy makers expressing increasing hesitation over security risks, loss of technological leadership and national economic competitiveness. The formal letter submitted to the European Commission in February 2017 by the Ministers of Economy from Germany, France and Italy highlights growing concerns about Chinese investments into strategic assets across Europe. In September 2017, the Commission formally proposed new legislation for establishing a common European framework for screening foreign direct investment into the EU.³ The proposed screening mechanism concerns primarily strategic assets that are critical to EU security and public order, including foreign

3. For additional resources on the proposed framework, see "State of the Union 2017: Trade Package: European Commission Proposes Framework for Screening of Foreign Direct Investments", *Press Release*, European Commission, 14 September 2017, <http://europa.eu>.

acquisitions of critical technologies, infrastructure, inputs or sensitive information. The proposal would also create a cooperation mechanism between Member States and the Commission, which can be activated when a specific foreign investment in one or several Member States may affect the security or public order of another. Greater transparency and a more coordinated and up-to-date approach to protecting critical infrastructure and sensitive technologies are sensible, and long overdue.

It should be noted here that China is not the only concern. Indeed, in many countries, particularly in Central and Eastern Europe as well as among Nordic states, Russia is considered to be a more immediate threat. Meanwhile, governments, for instance in France, have also expressed concerns in recent years over acquisitions by US companies, and have adjusted their own screening mechanisms as a result. Still, concerns over China have galvanized action at the EU level, and many countries lack both the means and the policy mechanisms to properly assess and manage the situation.⁴

Formulating a coherent response to this challenge on the European level will be difficult. The broader balance of the EU's and member states' competencies on investment is still evolving, although, as a result of the Lisbon Treaty, investment issues fall under the remit of the EU Trade Policy (article 207 TEU). Moreover, safeguarding national sovereignty has proven a core theme for many EU member states. Many in smaller-sized European states have expressed concerns that measures such as an EU-level investment screening mechanism could be used by larger Member States and/or the Commission as an instrument of influence to the benefit of some and the detriment of others. Still others (see the Denmark chapter, for instance) have argued that the strengths of their national economies lie in their high degree of openness to investment and trade, and that measures to control the flow of goods and money will only reinforce a growing international trend towards more protectionism and ultimately prove detrimental to growth and prosperity. The diverging views within the EU on these issues can in some ways be representative of diverging interests relative to the strengths and needs of national economies. Technology- and innovation-driven economies will seek greater protection combined with careful exposure to the Chinese market. Meanwhile, those more reliant on internal consumption, tourism and foreign capital see the benefits from Chinese investment in relation to these needs, and therefore have different assessments of the risks that this investment entails for the protection of intellectual property and the loss of competitiveness.

4. On national-level screening mechanisms, see Gisela Grieger, "Foreign Direct Investment Screening: A Debate in Light of China-EU FDI Flows", *Briefing*, European Parliamentary Research Service (EPRS), May 2017, p. 7, www.europarl.europa.eu.

The way forward

In light of this complex picture, both European capitals and the European Union need a more sophisticated response, seeking a proper balance between risk-management and openness. Chinese investment in Europe can be a source of jobs, growth and even development and technological progress, but it can also be a destabilizing, strategic challenge, if not an outright threat. In this light, the following should be considered:

- **Implement a more coordinated and focused European framework for investment screening**

The openness of European economies has proven to be a source of growth, development and prosperity, but in recent years, many countries in Europe have awakened to evolving geopolitical realities and the idea that a more fine-tuned balance between openness, security and public order is needed. The proposal by the European Commission to establish a framework for screening FDI in the EU is a step in the right direction. It is perfectly reasonable that European states should be both individually and collectively concerned with the protection of critical infrastructure and “enabling technologies” and seek to ensure that foreign investments do not threaten security and public safety across the continent. At the same time, there are clear risks of falling into a protectionist spiral. Using investment screening mechanisms as a means to protect broadly-defined, and perhaps politically-motivated “strategic sectors” should be avoided. Moreover, there is a clear need to communicate and conduct outreach both within Europe and to the rest of the world on the drivers and goals of such a framework.

- **Tackle the broader challenges: Reciprocity and fair competition**

In dealing with China, the question of reciprocity on issues such as trade and investment has proven to be a core concern for many in Europe, and a level playing field for European and Chinese firms in both markets should continue to be sought after. Indeed, the implications of a highly restricted Chinese market and a much more open European economy are significant. For instance, this report shows that a key motivation for many European firms seeking Chinese investors is to facilitate access to China’s internal market. This often gives China an unfair advantage when bidding for European assets, as China’s market remains comparatively closed. Chinese investors are therefore able to leverage market access and outbid foreign competitors. Support from the Chinese state, such as subsidies and financing from state-owned banks, only increase these advantages for Chinese investors. The call for reciprocity and fair competition has become louder, but it is not particularly new. European and US policymakers have demanded it now for some time, but progress has been very slow. There is now the risk that, if China does not open, Europe and the US could move towards negative reciprocity, i.e., restricting access to their own markets. This would be a lose-lose situation for everyone. The ball is now in the

Chinese court. The Chinese president Xi Jinping solemnly declared in Davos in January 2017 that China will do its part to facilitate the next stage in globalization. Now is the time to convert these words to reality. If China does not open sectors such as healthcare, education, telecommunications, energy, multimedia entertainment, and finance, it cannot expect to find continuously open doors in the EU.

- **Come to grips with a revived role of the State and the Party in China's economy**

The hardening of the European position vis-à-vis China could already be observed in regard to the debate on whether China should be granted market economy status. For a long time, it was expected that the EU would automatically offer this recognition to China, but this has not been the case. In Europe, there is now a consensus that the participation of the state and the Communist Party of China in the economy continues to be pervasive. Under Xi Jinping, even privately-owned Chinese companies have been called upon to “put country first” and be “patriotic”.⁵ Indeed, linkages between the government, the Party, the military and both SOEs and private enterprises and investors are growing under Xi Jinping's leadership and cannot be ignored.⁶ This has serious implications for security, fair competition and reciprocity. It means that Chinese SOEs get preferential state financing, that public procurement contracts are mostly given to Chinese companies, that there is suspicion that Chinese companies (including those that declare to be private) might have close ties with the government and/or the Party (which would have major national and European security implications) and that in China there is still the “rule by law” rather than a rule of law, with the legal insecurity this implies. Europe is certainly not in a position to ask China to change its state capitalist model, which has proven to be successful in many regards, including in maintaining CCP power. However, if Beijing is serious about deepening the “strategic partnership” with the EU at the economic and political levels, it will have to give concessions or improve in some of these areas to continue to be welcome in Europe. If it does not, the protectionist and political backlash will only increase.

- **Think regionally and sectorally**

Many of the chapters in this report highlight the regional nature of many Chinese investments – acquisitions often made in one country (Germany, Sweden, France, the Czech Republic or Portugal) can have direct implications for ownership and operations in

5. 中共中央 国务院关于营造企业家健康成长环境弘扬优秀企业家精神更好发挥企业家作用的意见 [CPC Central Committee and State Council on Creating a Healthy Growth Environment for Entrepreneurs – Promoting an Outstanding Entrepreneurship for Better Playing the Role of Entrepreneurs], State Council of China, 8 September 2017, www.gov.cn, see also Jennifer Hughes, “China's Communist Party Writes Itself into Company Law”, *Financial Times*, 14 August 2017, and Sebastian Heilmann, “How the CCP Embraces and Co-opts China's Private Sector”, *European Voices on China*, MERICS blog, 21 November 2017, <http://blog.merics.org>.

6. See for instance: Barry Naughton, “The General Secretary's Extended Reach: Xi Jinping Extends Economics and Politics”, *China Leadership Monitor*, No. 54, September 2017, www.hoover.org.

other countries (Romania, Belgium, Greece, Slovakia or Spain) and beyond. In particular, Chinese investments into sectors such as energy, transport or telecommunications lend themselves to longer-term regional strategies on the part of Chinese investors, whereas the European Union itself has often had trouble formulating regional policies in these areas. This highlights the need for a more coordinated, European dialogue on foreign investment more broadly, but also related to China in particular. More work needs to be done, for instance, on the regional strategies of individual Chinese companies, such as COSCO Shipping, Huawei, HNA, the China State Grid or CEFC, and their relationships with national strategies formulated in Beijing. In the end, it may be discovered that Chinese investments into critical or sensitive European infrastructure are more beneficial than not for national and European interests, but governments would be remiss not to do their due diligence and measure the risks and opportunities. Therefore, communication, coordination and adoption of best-practices should be a long term strategic approach.

- **Develop a more sophisticated, data-driven view of capital flows beyond FDI**

Many of the chapters in this report highlight the difficulties in defining and assessing Chinese investments using consistent, available data. Focusing on a narrow, statistical definition of FDI fails to measure the full extent of investment-related dependencies (loan obligations, etc.) and benefits (such as job creation, tax revenues, contributions to local innovation, etc.). For instance, investment by Chinese citizens into real estate in the last five years via so-called “Golden Visa” programs has proven a major source of investment and revenue for many countries, including Portugal, Greece, Spain and Latvia. In countries like Germany, Chinese venture capital and early-stage financing are on the verge of becoming a new driver of technological development. Moving forward it will be important to develop a more granular, country-based, bottom-up analysis of different types of Chinese capital flows into European countries, to include more qualitative analysis and study of the individual bilateral context and how the resulting information can then be used to develop a more coordinated EU policy.

- **Deepen European coordination and communication on foreign investment**

In recent years we have seen the drawbacks of the lack of strategic thinking in the EU. Under the European rescue and adjustment programs, countries like Portugal or Greece were under enormous pressure from other EU member states and institutions to privatize some of their public assets, which have eventually ended up in the hands of well-paying Chinese investors. Only now are we hearing calls for conditionality and/or restraint in selling “strategic” companies to non-EU investors. Yet again, this is another example of the EU’s reactivity and acting late (although as the saying goes, better late than never). This is not a plea against privatization per se (indeed, many public assets have proven to be structural burdens for their societies at large), but rather for a better thought-out

process. Perhaps these acquisitions were needed to open the eyes of politicians and policymakers in powerful capitals such as Berlin and Paris and also in Brussels. Now is the time to deepen coordination within Europe, sharing experiences and pooling resources can help overcome many of the challenges. In assessing the vulnerability of strategic assets, for instance, exchanges have already increased among European intelligence services on these issues, in the context of the Club of Bern – an informal gathering of European intelligence officers. Such discussions, focusing on perceived security challenges and good practices to address them, could help in formulating some recommendations for national governments and EU institutions.

- **Invest in European integration**

The story of Chinese investment is as much a story about China's unquestionable rise as it is about Europe's alleged fragmentation. Some of the political capital that China has been able to gain across the continent is due to a lack of confidence in the EU and its social market economy model to provide opportunities for future growth and investment. Years of stagnation after the crisis, Brexit and the re-emergence of nationalist forces have certainly dented confidence inside the EU, but it is also true that in 2017 the situation has markedly improved. Growth has returned, unemployment is in steady decline and some key elections have been won by pro-European forces. It is also important to look back and appreciate the level of coordination that has been achieved in regard to China policies. Two years ago, the members of ETNC were pessimistic about the possibility to craft a common position in sensitive areas such as whether China should be considered a market economy, whether there could be a common position on the steel dispute and whether the EU should have an investment screening mechanism. Today there is a more cohesive stance in all these areas, though differences still remain on these and other questions, as has been highlighted above. Nevertheless, the ability for Europe to speak with a stronger, more common voice in international affairs, and towards China in particular, can only come if there is confidence in the prospects of the European project.

Chinese Direct Investment in Europe: What Available Data Sources Tell Us

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Summary

Chinese investment in Europe has grown rapidly in recent years. However, there is a lack of clarity on the pace of growth and the distribution of investment across industries and countries due to insufficient data. This introductory chapter first presents an overview of different types of Chinese investment flowing into Europe, before discussing in more detail the available measures to describe direct investment from China to the European Union (EU), which is the arguably most prominent type of Chinese capital flow into Europe in recent years. While official Chinese and European datasets reveal a similar general trend, they suffer from major coverage gaps, internal inconsistencies, and delays. This chapter makes use of an alternative transaction-based dataset that provides information about additional variables of interest to policymakers and offers a broad overview of developments and patterns regarding entry modes, investor characteristics and the geographic distribution of Chinese direct investment in Europe.

Foreign direct investment is a critical, but not the only form of Chinese investment in Europe

The first analytical challenge for assessing the export of Chinese capital to Europe is the distinction between different channels and types of flows. A common starting point for classifying capital flows is the System of National Accounts (SNA). The SNA is an internationally agreed-upon standard set of principles for measuring economic activity used by the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and other international organizations.

In national account statistics, cross border investment flows are commonly separated into five categories:¹

- *Direct investment* entails cross border capital flows that achieve significant influence over the management of an invested entity and a long-term investment relationship. The common threshold for a direct investment is 10 percent of voting shares.
- *Portfolio investment* entails a typically shorter-term investment in liquid securities with no control, such as holdings of equity shares with less than 10 percent of voting rights, or corporate debt instruments.
- *Derivatives* refer to financial instruments such as swaps, futures, and options, which are only contractually related to the underlying value of real assets such as firms or commodities.
- *Other investment* is a residual category that entails all flows that do not fall under the previous categories such as foreign bank deposits, currency holdings, cross border loans, or trade credits.
- *Reserves* are liquid instruments held by governments or central banks in the form of gold, foreign exchange, or special drawing rights at the IMF.

As one of the world's largest economies and financial markets, Europe receives Chinese capital through all these channels: Chinese companies are building and buying new subsidiaries in Europe; Chinese institutional and retail investors are holding shares in European companies; Chinese banks are trading derivatives and securities; and the Chinese government owns European debt securities as part of its reserves. Moreover, other types of commercial transactions such as the buying of real estate by individuals, leasing or service contracts (for instance to build certain types of infrastructure) are often considered in debates about Chinese investment in media and policy circles.

While each of these channels is important for EU-China investment relations, foreign direct investment (FDI) has arguably emerged as priority. Not only has FDI from China to Europe grown rapidly in recent years, but it also entails long-term control over local operations, which brings a particular set of opportunities and risks. In the remainder of this chapter we focus on available data sources and approaches to better understand the broad picture of China's FDI footprint in Europe. This picture will be complemented in the following chapters with additional, detailed information on the specific modalities and trajectory of direct investment projects and other types of capital flows as well as on their local impact.

1. See the *Balance of Payments and International Investment Position Manual Sixth Edition*, International Monetary Fund (IMF), 2009. The IMF definitions are also accepted by other international organizations such as the Organization for Economic Co-operation and Development (OECD) and United Nations Conference on Trade and Development (UNCTAD).

Official data show a significant increase in Chinese direct investment, but lack coherence and granularity

Both governments and international governmental organizations provide data on FDI flows between the EU and China.² However, official government data can have gaps and long time lags. Moreover, they are mostly compiled based on balance of payments principles, so they are prone to distortions based on tax optimization structures in international transactions. Aggregate official FDI figures often lead to misunderstandings, for instance because they are often presented as net figures taking into account intra-company flows after acquisition.

The primary resource for official European data on EU-China FDI flows is Eurostat, which aggregates national member state data and includes some data not included by member states, reported through their own central banks or statistical agencies.

Eurostat's dataset on direct investments is constructed in accordance with the IMF Balance of Payments Manual Fifth Edition (BPM5) prior to 2012 and the IMF Balance of Payments Manual Sixth Edition (BPM6) for 2013.³ It provides data on FDI stocks and flows with partner countries, covering the period of 2001 to 2015. It also provides a breakdown by EU members and industries using standard classifications.⁴ These stocks and flows are presented on a market value basis.

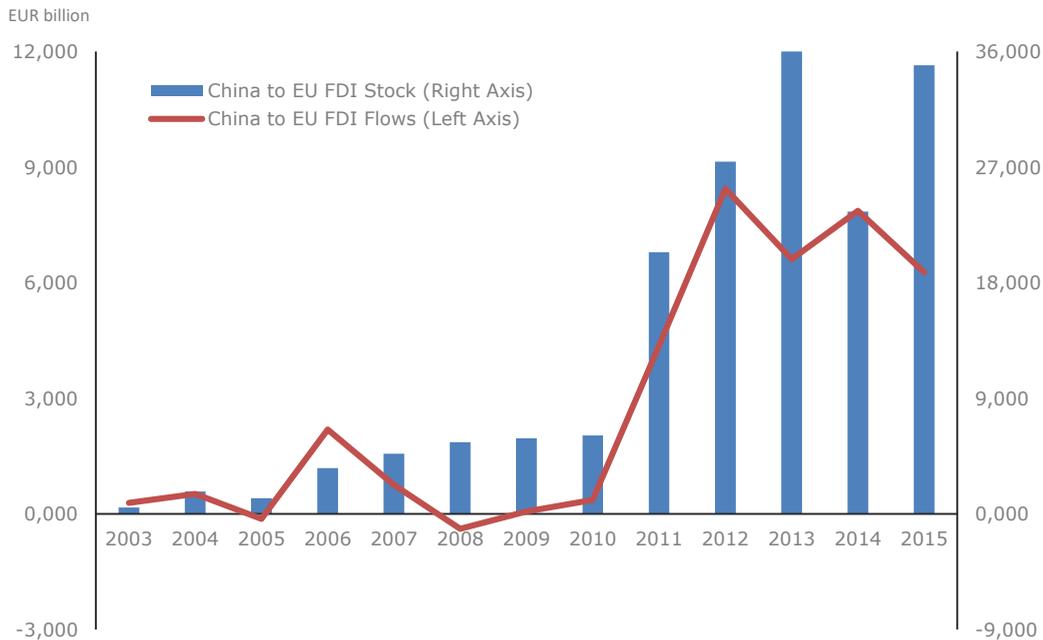
According to Eurostat, annual flows of Chinese direct investments to the EU were minor before 2007, with the exception of a small bump to more than EUR 2 billion in 2006. During the crisis of 2008-2010, flows were small or even negative, as Chinese companies pulled back money. Since 2011, however, annual investments have soared, reaching a relatively constant level of EUR 6-8 billion per year (Figure 1).

2. International organizations including the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD) and the Organization for Economic Co-operation and Development (OECD) collect and disseminate data on global FDI trends. However, they do not independently compile data and instead rely on data supplied by national governments. Thus, none of the available datasets maintained by international organizations offers any additional or unique insights on Chinese direct investments in Europe.

3. See <http://ec.europa.eu>.

4. Eurostat uses NACE (Nomenclature of Economic Activities) Rev. 2 classifications, the EU statistical classification of economic activities.

Figure 1. Chinese Direct Investment Flows and Stock in the EU (Eurostat)*



Source: Eurostat.

*2003 is EU-25, 2004-2007 is EU-27, and 2008-2015 is EU-28. Since 2013 data is compiled under BPM6.

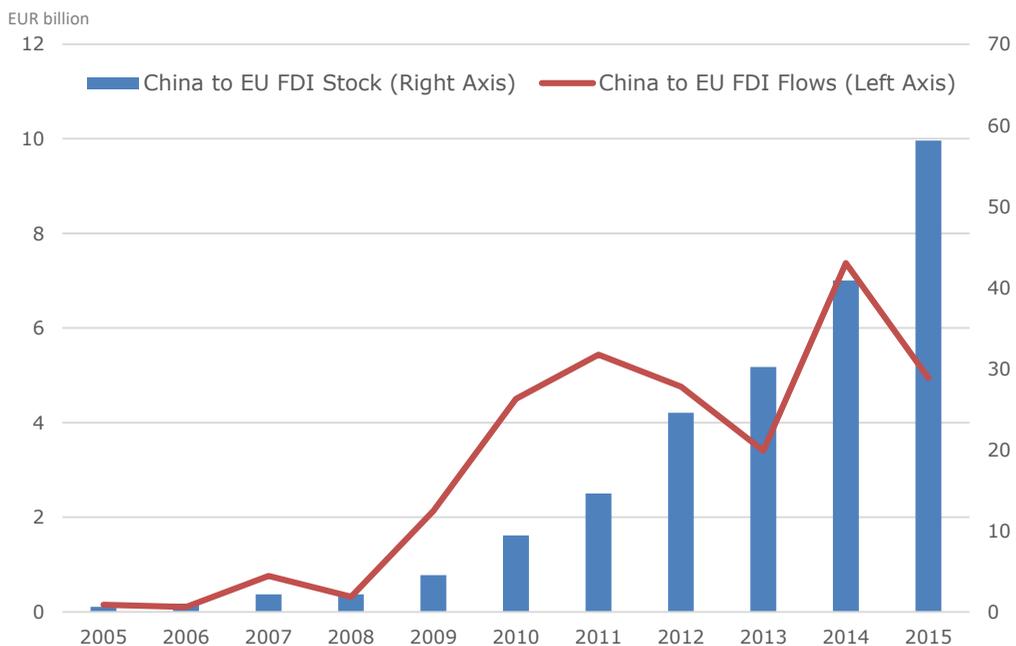
In China, several government agencies are involved in FDI data collection. The primary agency is China’s Ministry of Commerce (MOFCOM), whose leading position stems from its legacy as the primary FDI regulator in China’s approval-based regime for both inbound and outbound FDI. MOFCOM collects and publishes flows and stock data for “non-financial” outbound FDI, which it disseminates on a monthly basis. A more detailed breakdown by industry and destination country is released in an annual statistical bulletin together with the State Administration of Foreign Exchange (SAFE) and the National Bureau of Statistics (NBS), which also includes investment by financial institutions (“financial” FDI).

MOFCOM’s annual figures on Chinese direct investment flows and stock in the EU show a growth story very similar to the overall trend in Eurostat data, but record varying annual flows and stock figures (Figure 2). In 2015, MOFCOM records a OFDI stock from China in the EU of more than EUR 58 billion (historical value), more than EUR 20 billion higher than Eurostat’s EUR 35 billion figure. One possible reason for the discrepancy is that statistics collection for outbound FDI from China is complicated by significant channeling of funds through locations such as Hong Kong or the use of European holding companies for investments elsewhere for tax or other reasons (see below). This is also apparent in other data points, for example MOFCOM’s sector breakdown, which shows that mining is the top industry for Chinese investment in the EU (accounting for 24 percent of

total stock as of 2015), followed by financial services and manufacturing (23 percent and 20 percent, respectively).

The second source of Chinese data is SAFE, China’s foreign exchange regulator under the People’s Bank of China (PBOC). SAFE is responsible for collecting and publishing FDI data through the nation’s Balance of Payments (BOP) and International Investment Position (IIP) statistics and publishes aggregate flows and stock data on a quarterly and annual basis, but not any detailed information on the industry or country distribution. As such, SAFE does not offer any useful insights on flows or stock of FDI from China in the EU.

Figure 2. Chinese Direct Investment Flows and Stock in the EU* (MOFCOM)



Source: Ministry of Commerce.

*Data for 2005-2006 include only non-financial China to EU FDI flows and stock. Pre-2013 is EU-27 and after 2013 is EU-28. Converted to EUR from USD using annual average exchange rate.

The official datasets from Eurostat and MOFCOM illustrate general issues with FDI data. The first problem is that the pace at which government agencies collect and process data is generally slow and differs greatly. For example, detailed MOFCOM and Eurostat data are both released with a minimum of 6-12 months delay. Another major problem is that the quality of data inputs fluctuates widely across countries, as statistical authorities have different capacities for collecting and processing data. For example, some countries rely only on the exchange records system for source data and do not have inputs on reinvested earnings. Other countries lack the necessary data to calculate FDI stock or make relevant adjustments from historical to market value. Similarly, governments may

work with different definitions and categories of classifying FDI, which makes it difficult to compare their data.

Lastly and perhaps most importantly, the use of special purpose entities (SPEs) has increased tremendously in recent years, and the extent of “round-tripping” (where companies route funds to themselves through countries or regions with generous tax policies and other incentives – this is particularly the case with mainland China and Hong Kong) and “trans-shipping” (where companies channel funds into a country to take advantage of favorable tax policies only to re-invest it in a third country) makes it increasingly difficult to track FDI flows accurately. Those practices and complicated deal structures with “indirect” holdings also make it difficult for statistical agencies to correctly separate FDI from portfolio investment stakes.

One way to circumvent some of those problems is to compile data based on the ultimate beneficial owner (UBO) principle, which records FDI flows and stocks according to the country of the ultimate foreign investor as opposed to the country of the immediate foreign investor. This kind of data can bypass some of the distortions caused by the use of holding companies and offshore vehicles. However, MOFCOM and Eurostat data are highly susceptible to these distortions: MOFCOM data is compiled based on the immediate location and registers more than 70 percent of China’s 2015 outbound FDI stock in either Hong Kong or Caribbean tax havens. Eurostat data also is compiled based on immediate investor countries, while data from individual member countries shows that inflows from Asia were 50 percent higher after applying UBO principles.⁵

The described problems make a holistic real-time assessment of China’s FDI in Europe based on official data impossible.

Transactions data provide an additional, more granular and up-to-date perspective

The problematic nature of official FDI data has encouraged analysts to find ways of working around existing gaps and distortions. One solution has been to compile alternative datasets tracking FDI transactions for specific countries or industries using commercial databases and other inputs. Such alternative datasets are generally not comparable to FDI data compiled using the traditional BOP method because they often neglect non-equity components of FDI such as intercompany lending or reinvested earnings. However, they can provide a quasi-real-time tracking of flows, and accurate geographical and industry breakdowns.

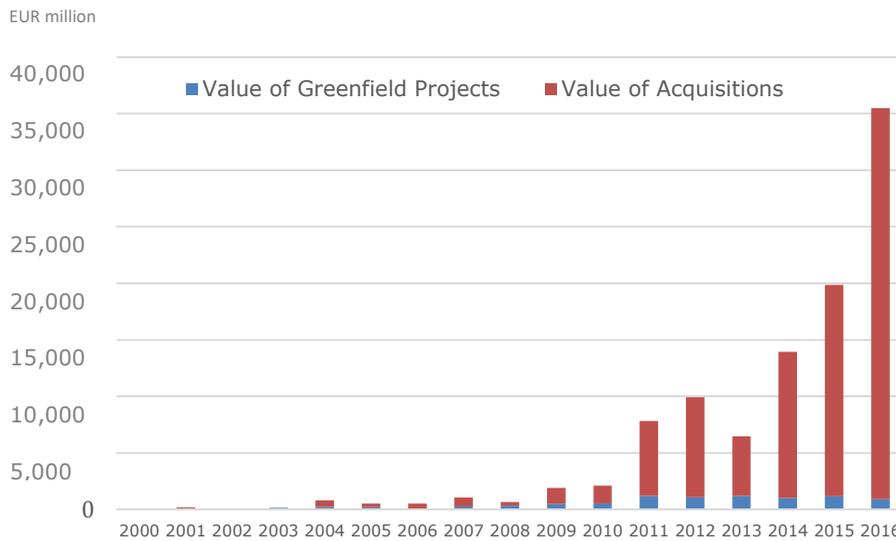
5. Deutsche Bundesbank, “Mixed Developments in Foreign Direct Investment in 2015”, *Press Release*, 28 April 2017, www.bundesbank.de.

One of the earliest databases covering China's global investments is the China Investment Tracker, which was launched by the Heritage Foundation and is now hosted by the American Enterprise Institute (AEI). The database covers China's global outbound investments from 2005 forward. It is updated bi-annually. The dataset is publicly available for download at a transactional level and currently includes more than 1,200 Chinese "non-bond" investment transactions above USD 100 million. It also includes construction contracts and troubled transactions that were not completed.

Rhodium Group (RHG), a private research firm, maintains another transactional dataset which underpins, among others, recent analyses of Chinese outbound direct investment in the European Union made together with the Mercator Institute for China Studies (MERICS) in Berlin. The EU-China FDI Monitor only includes completed transactions that meet the conventional definition of FDI. The RHG dataset is compiled by collecting information on individual transactions and then aggregating those data points. Compared to the AEI dataset, the EU-China FDI Monitor dataset has a much lower threshold for deals to be included (EUR 1 million), and it only includes investments that would be counted as direct investment under international definitions (resulting stakes exceeding 10 percent of equity). It captures all FDI transactions by ultimately mainland Chinese-owned entities, regardless of intermediate sources of financing. The dataset also only includes transactions that have been completed and it logs large, multi-year investments incrementally over time, instead of recording the entire amount at the outset. The latter is important because the value of most FDI projects is overstated at announcement, so adding them at full face value increases the risk of over-counting. Moreover, recording multi-year investments incrementally makes the data more comparable to official datasets that aim at recording annual investment flows.

From 2000 to 2016, the EU-China FDI Monitor dataset recorded more than 1,400 individual FDI transactions by Chinese investors in the EU worth a combined EUR 101 billion (Figure 3). Aggregate annual investment has grown from less than EUR 1 billion before 2008 to more than EUR 35 billion in 2016. While all three sources capture a similar take-off of Chinese investment after 2008, the EU-China FDI Monitor records higher total value 2000-2016 (EUR 101 billion) compared to the MOFCOM and Eurostat data (EUR 58 billion as of 2015, and EUR 35 billion, respectively).

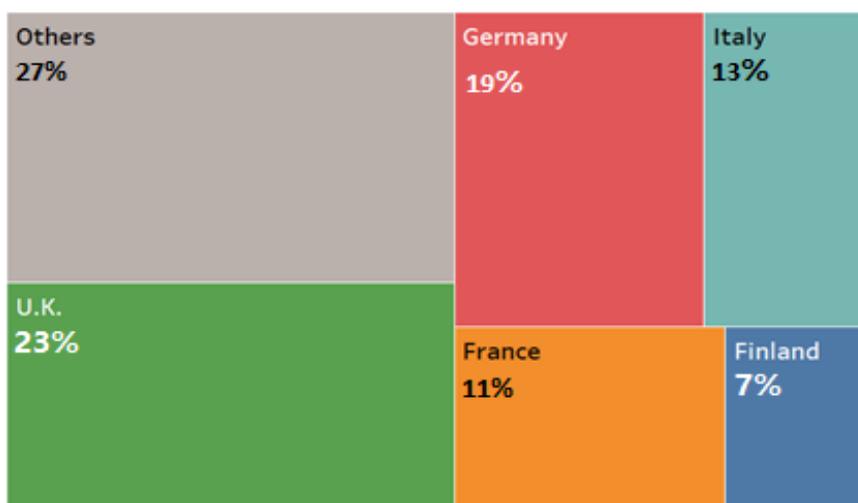
Figure 3. Chinese Direct Investment Transactions in the EU (RHG FDI Monitor)



Source: RHG EU-China FDI Monitor.

The dataset also provides other information and variables such as investor characteristics and the geographic details of each investment. The country breakdown shows that the UK is the top recipient of Chinese investment, followed by Germany and Italy (Figure 4). Other important recipients include France and Finland. Official data from Eurostat and MOFCOM also show the UK, Germany and France as top recipients of Chinese direct investment, but they also rank low-tax jurisdictions such as the Netherlands and Luxembourg among the top recipient countries.

Figure 4. Chinese Direct Investment in the EU by Recipient Country (RHG FDI Monitor)



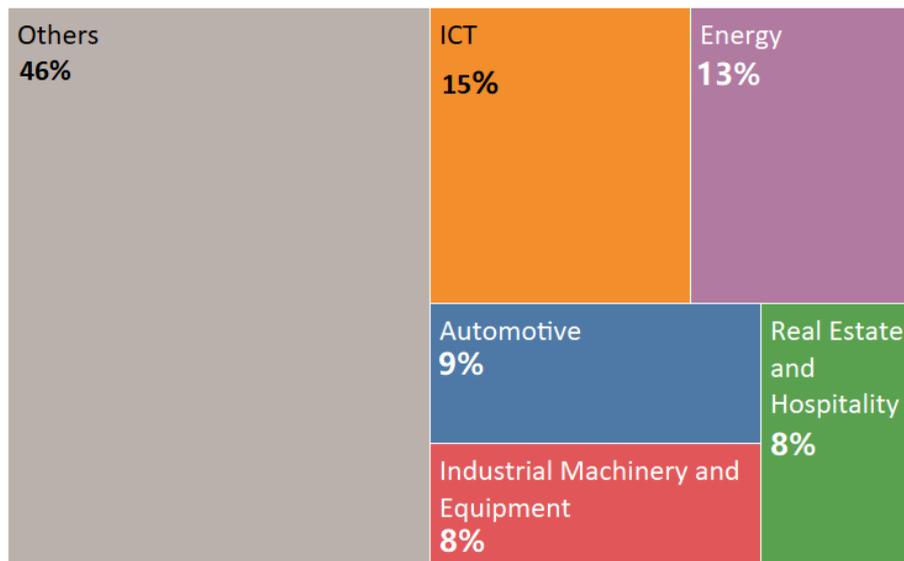
Share of total cumulative investment from 2000-2016 (EUR 101 billion).

Source: RHG EU-China FDI Monitor.

The FDI Monitor’s sector breakdown for Chinese direct investment in Europe shows ICT as the most important recipient of Chinese capital, accounting for 16 percent of investment over the entire coverage period (Figure 5). Transport, utilities, and infrastructure come in second place, followed by real estate and hospitality, automotive, and industrial equipment. MOFCOM data shows a very different sectoral distribution, with mining, financial services and manufacturing as the largest sectors. This partially is the result of distortions stemming from special purpose entities set up in Europe which, according to Eurostat, channel more than half of Chinese investments into the EU. These issues lead to a similarly distorted picture of Eurostat’s latest available industry breakdown (2014), which lists financial services (71.9 percent), automotive manufacturing (11.1 percent), wholesale trade (5.1 percent), and real estate (3 percent) as the five most important sectors for Chinese investors in Europe.

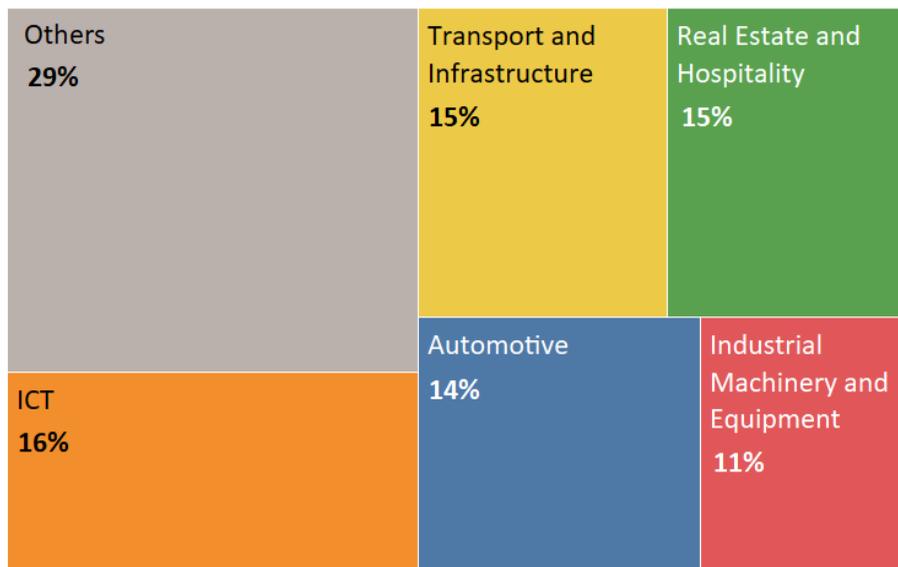
Figure 5. Chinese Direct Investment in the EU by Industry

2000-2009



Percent of total cumulative investment from 2000-2009 (EUR 6 billion).

2010-2016



Percent of total cumulative investment from 2010-2016 (EUR 95 billion).

Source: RHG EU-China FDI Monitor.

Conclusions

China's rise as an important source of investment presents both opportunities and risks for the countries of the European Union. Reliable information will be key for policymakers and the public to objectively assess these risks and formulate the appropriate responses. Official statistics on FDI flows between the EU and China from both sides have proven inadequate for assessing policy-relevant questions as they are incomplete, distorted, and published with significant delays. Alternative datasets can provide timely additional information regarding FDI by industry distribution, modes of entry, geographical spread, and ownership.

Aggregate statistics on specific types of capital flows such as FDI are only an entry point for an in-depth analysis of the benefits and challenges related to the growing commercial presence of Chinese entities in Europe. They need to be complemented by detailed assessments of other capital flows, individual projects and their local impact on job creation, local innovation capacity, as well as of public perceptions and related policy dynamics. Therefore, analyses that tease out not only the quantity but also the quality of China's FDI footprint in individual member states, such as those that figure in the following chapters, are indispensable complements to official statistics.

Reliable information on FDI from China and other capital flows and commercial transactions will be critical to resolving a broad range of policy challenges in EU member countries: a good understanding of location decisions is important for governments to assess their appeal to Chinese investors and formulate efficient investment promotion strategies; a detailed perspective on the industry distribution of Chinese direct investment can help negotiators strengthen their case for reciprocal market access for EU businesses in China, as in the upcoming negotiations between the EU and China over a bilateral investment treaty; and detailed information on the type and characteristics of the investing Chinese enterprises can help regulators tasked with reviewing Chinese investments for national security or antitrust risks to make informed decisions. Finally, more detailed and real-time information on the patterns, motives, and drivers of Chinese investment will help inform the public debate about this new trend and help separate irrational prejudices from valid concerns.

Business vs. Security: The Conundrum of Chinese Investments in Belgium

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Summary

Belgium may not be China's prime destination for investment in Europe, but as in other neighboring countries these investments are increasing in quality and quantity. Chinese investments are mostly welcomed and encouraged by the government, its agencies and the business community. However, a recent failed deal with EANDIS, a public energy company, has also raised some concerns about the economic and security implications of (some) Chinese investments. Belgian intelligence services, notably, argue for a bit of caution vis-à-vis China. While these two visions could be complementary, they remain held by distinct communities that seem reluctant to acknowledge and listen to one another. As a result, the Belgian response to China's economic offensive remains overwhelmingly reactive and uncoordinated.

The Chinese are coming! The evolution of Chinese investments in Belgium

Tracking – and screening – foreign investments is a tricky business.¹ In Belgium, a federal country, this exercise is further complicated by the fact that trade and investment promotion is a regional jurisdiction, while the federal government maintains some authority with regard to the coordination of investment policy or relating to the possible screening of FDI. Each of the three regions (Brussels, Wallonia and Flanders) have their own trade agencies, which collect their own statistics on investments that they facilitated themselves. However, they use different methodologies, making any comparison difficult.²

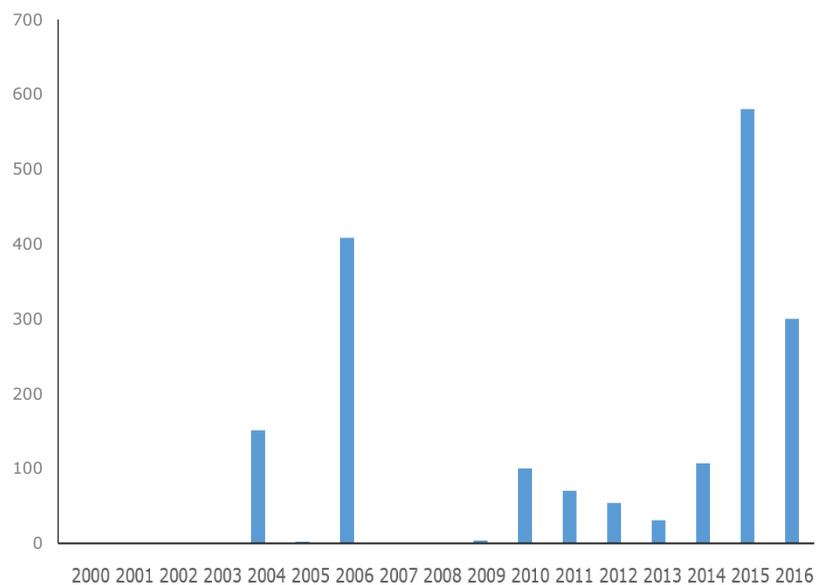
1. For a longer discussion on this topic, please read the introduction and data chapter of this report.

2. For instance, whereas the Flemish agency takes into account Chinese investments in shareholding, the Walloon agency only tracks investments in the real economy. Yet, all three agencies only track investments that they facilitated themselves, although they estimate that it is the wide majority of the actual investments.

Furthermore, there is absolutely no certainty that deals facilitated by regional agencies constitute the majority of the financial transactions in Belgium. Indeed, major Chinese investors (as opposed to Chinese SMEs) may not need to go through such agencies. A final factor blurring the investment picture is the fact that a significant amount of Chinese investment is likely transiting through other countries, notably Hong Kong but also, closer to home, through Luxemburg and the Netherlands, according to an official from the National Bank.³ That makes it almost impossible to trace these investments to the source.

For this chapter, we have received access to the various databases available, and met with all relevant stakeholders. In addition to these official statistics, we use the data from the Rhodium Group, which in spite of its own limitations open the possibility of comparison across European countries. Based on this material, we provide the best possible picture on Chinese investments, while recognizing that the picture remains grainy, with too many blank spots. No better picture exists, however, as an authoritative measure of the real scope of the Chinese financial presence in Belgium has yet to emerge.

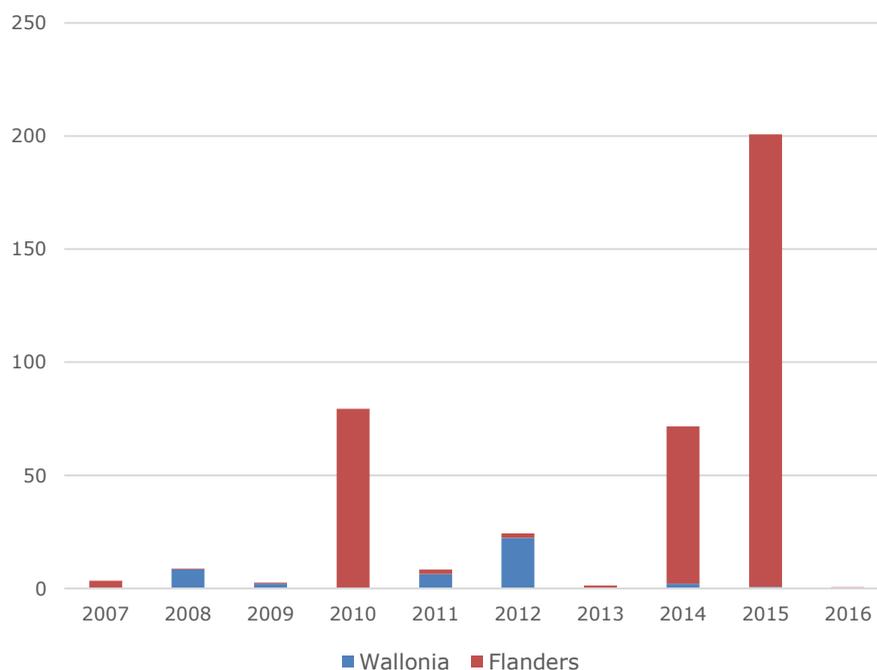
Figure 1. Chinese investments in Belgium (2000-2016), in EUR millions



Source: Rhodium Group

3. Telephone interview with an official from the National Bank of Belgium, Brussels, 30 May 2017.

Figure 2. Chinese investments in Wallonia and Flanders (2007-2016), in EUR millions



Source: Flanders Invest and AWEX.

These figures only include the deals concluded through the regional trade promotion agencies, and therefore do not reflect the full picture of Chinese investments in Belgium. Moreover, the two agencies use different methodologies, making the aggregate of the figures an artificial and imperfect exercise.

Chinese investments in Belgium remained low in the first decade of the 2000s.⁴ For instance, Chinese investments in Wallonia for 2000-2010 amounted to 10 projects for a total of EUR 10 million, creating 90 jobs in total.⁵ While very little attention was drawn to Chinese investments at the time, three major exceptions (in Brussels and Flanders) are noteworthy. First, COSCO purchased 25 percent of the Port of Antwerp's container terminal for EUR 150 million in 2004. Second, China National Bluestar Corporation (ChemChina) acquired Drakkar Holdings (Adisseo), an animal food company, for EUR 400 million in 2006.

4. Interview with officials from Brussels Invest & Export (BIE), Brussels, 21 April 2017; Interview with an official from Flanders Invest and Trade (FIT), Brussels, 21 May 2017; Interview with officials from Wallonia Export-Investment Agency (AWEX), Brussels, 30 May 2017.

5. Written question from Claude Eerdeken to Jean-Claude Marcourt, Question 86 (2010), Walloon Parliament, 11 February 2010.

Last but not least, in 2007 Ping An Insurance, China's then-largest life insurance company, bought a 4.2 percent stake in Fortis, a Belgo-Dutch bank and insurance group, for EUR 2.7 billion euros, making it the largest stakeholder. This deal, which was first celebrated, became more cumbersome when Ping An opposed the sale of Fortis to BNP Paribas in 2009, after the bank was nationalized in the wake of the global financial crisis. Ping An later filed an international arbitration claim against Belgium to recoup losses – the first time a Chinese company turned to the World Bank court (ICSID) for settling of an investment dispute against a state. It eventually lost the case.

A more positive story is that of Chinese carmaker Geely's takeover of the Swedish group Volvo, in 2010. Although there was no direct financial transaction in Belgium, Volvo had a major factory in Ghent, employing over 5,000 workers. After an initial period of concern, jobs have been successfully preserved, and production even expanded.

From 2010, Chinese investments rose progressively as a result of Beijing's strategy to invest more in Europe. According to officials from the regional trade agencies, the relationship has not only evolved quantitatively,⁶ but also qualitatively, maturing considerably over the past few years. Following an initial period of uncountable delegation visits leading to unfulfilled promises and few real outcomes, investors are now coming better prepared, with clearer projects in mind and the will for results.⁷ In short, they are coming for business, not tourism.

Chinese investments in Belgium have now surpassed Belgian investments in China for the first time in history, possibly as of 2014, although incomplete data render any precise dating impossible.⁸ According to an investigation conducted in early 2017 by *De Tijd* newspaper, Chinese investors have acquired shares in 65 companies operating in Belgium, across a wide range of sectors. Together, these companies employ no less than 18,586 workers in Belgium.⁹ Some recent landmark deals include the acquisition of the Belgian division of Delta Lloyd Bank by the insurance group Anbang in 2014 (EUR 219 million); the acquisition of Punch PowerTrain, the high-tech producer of powertrains for vehicles, in 2016 by Yinyi (EUR 1 billion); or the building of the China Belgium Technology Center, starting in 2017 and scheduled to become operational by the end of 2018,¹⁰ a high-tech research incubator on the university site of Louvain-la-Neuve meant to attract

6. The quantitative increase referred to by our interviewees is not self-evident from the figures available, but this could be due to a number of factors, including the fact that some investments may take years to materialize, but also that our figures may be incomplete (for all reasons mentioned above).

7. Interview BIE, *op. cit.*; interview FIT, *op. cit.*; interview AWEX, *op. cit.*

8. Interview with an official from the Belgian Ministry of Foreign Affairs (MFA), Brussels, 21 April 2017; Question of Gautier Calomne to the State Secretary for external trade, written question 0148 (Leg54), Federal Parliament of Belgium, 27 July 2017.

9. Tom Michielsen, "China plant vlag in Belgische bedrijven", *De Tijd*, 4 March 2017.

10. The project was slightly delayed because the main Chinese investor was targeted by Beijing's anti-corruption campaign. In the meantime, another Chinese investor has stepped in the project.

some 700 Chinese workers (EUR 200 million), and which would also be an opportunity for China to demonstrate its ability to create new greenfield investments.

Win-win? What's in it for them, and for us

Chinese investments in Belgium are diverse, but they show nonetheless certain levels of concentration, geographically and in terms of sectors and activities. A majority of these investments are located in Flanders, up to 70 percent according to the Flemish trade agency.¹¹ While the Brussels region attracts fewer investments, it hosts nonetheless some major financial institutions such as ICBC or Bank of China, and several important real estate projects, including the refurbishing of the former Sabena Hotel into a 5-star hotel Tangla in 2016 (EUR 70 million).

Belgium has three main incentives to attract foreign investors in general, which also appeal to China. First, Belgium offers a favorable tax regime for international companies, known as “notional interests”. Multinational Chinese groups are therefore encouraged to create a branch in Belgium to benefit from this system, as highlighted by almost every government’s delegation to China, even if they are to later repatriate these funds through intra-company loans.¹² Second, Belgium is a logistical hub in (Western) Europe, with several maritime ports (including Antwerp) and airports, and a dense network of highways, railways and fluvial routes. Chinese companies aiming for the European market appear to be particularly receptive to these favorable conditions.¹³ Interestingly, some of these logistical assets are themselves targeted by Chinese investors. Indeed, the Chinese company COSCO took a 25 percent stake in Antwerp’s container terminal in 2004, while 49 percent of the container terminal of Zeebrugge was first acquired in 2014 by COSCO and Shanghai International Port Group, before COSCO announced that it would acquire the entire terminal in September 2017.¹⁴ The Port of Antwerp would still like to attract more Chinese ships and investments, as it lags far behind competing ports such as Rotterdam or Hamburg in this regard, and has created for that purpose a “Belt and Road working group”.¹⁵ Third, the presence of international organizations, and particularly the European Union, is considered an asset for international investors who wish to lobby for their interests.

Beside these particular conditions favoring international investments, Chinese companies seem to be driven by the same set of motivations in Belgium than elsewhere.

11. John Vandaele, “Vlaamse regering ziet de Chinezen graag komen”, *MO.be*, 2 March 2016; interview FIT, *op. cit.*

12. See for instance Bernard Demonty, “Charles Michel fait le forcing en Chine pour attirer les investisseurs”, *Le Soir*, 31 October 2016.

13. Interview BIE, *op. cit.*; interview FIT, *op. cit.*; interview AWEX, *op. cit.*

14. John Vandaele, “Vlaamse regering ziet de Chinezen graag komen”, *MO.be*, 2 March 2016; “Chinese Now Own All of Zeebrugge Container Terminal”, *FlandersNews.be*, 11 September 2017.

15. “Le port belge d’Anvers souhaite jouer un rôle majeur dans l’initiative ‘ceinture et route’”, *Xinhua*, 28 October 2015.

They seek to acquire reputable brands, as well as technology and know-how. In some cases, they use Belgian companies as a “vehicle” to invest in other European countries, through a strategy of expansion. The Chinese manager of Anbang explained that this was clearly the strategy behind the acquisition of Delta Lloyd (now called Nagelmackers), although that case remains exceptional in Belgium.¹⁶

Chinese investments are overall largely welcomed in Belgium, except for the traditional caution vis-à-vis foreign investors in general. The business community is keen to meet Chinese partners, particularly those who can provide them with fresh capital. For instance, in 2016 the Belgian company Windvisions sold the country’s largest onshore wind energy park, composed of 11 mega wind turbines, to China General Nuclear in order to reinvest in the building of other projects. Similarly, one football team of the second league (Roeselare) in need of cash was already bought by Hawken Xiu Li, a Chinese businessman, while two other teams (OH Leuven and Mouscron-Peruwelz) have been approached by Chinese financiers.¹⁷ In the parallel universe of football, we could add that the Belgian first league has become a bit more Chinese since 2014, when the Italian company MP Silva, owned at 65 percent by Shanghai Jin Xin Investment, a Chinese company, acquired the exclusive TV rights for EUR 70 million per year.¹⁸

Belgian companies are interested in more than just cash, however. In a number of cases, they also hope that their new shareholders will open the gate to the enormous Chinese market, which is still inaccessible for many European SMEs. That was clearly the motivation of the CEO of Punch PowerTrain, which seems to have paid off since the group continues to grow by about 50 percent annually, creating 722 new jobs in 2016 alone – in Belgium and China.¹⁹

More than just being welcomed, Chinese investments are facilitated by government agencies. The three regional trade offices have several permanent representatives in China promoting their respective regions, while the federal government has facilitated the contact between entrepreneurs from both sides through several economic missions over the past years.

16. Emmanuel Vanbrussel, “Chinese financiële reus op overnampad in België”, *De Tijd*, 22 December 2016.

17. Wouter Verschelder, “De Chinezen komen naar het Belgische voetbal: OH Leuven verkocht aan schimmige vennootschap uit Shanghai”, *Newsmonkey*, 2 February 2017.

18. Jean-François Munster, “Les droits de la Jupiler Pro League passent entre des mains chinoises”, *Sud Presse*, 25 May 2016.

19. Tom Michielsen, “China plant vlag in Belgische bedrijven”, *De Tijd*, 4 March 2017; Guido Cloostermans, “Punch Powertrain boekt dit jaar ruim 500 miljoen omzet”, *Het Belang van Limburg*, 7 December 2016.

The EANDIS case and the growing concern for “strategic sectors”

Until recently, Chinese investments seemed to raise little concern among Belgian authorities. Indeed, a review of the parliamentary questions of the federal and regional assemblies shows very few questions related to such investments and, when such questions were raised, they reflected a predominantly commercial orientation with a focus on Belgium’s ability to attract more investments.

That perception may have slightly changed in 2016. China’s State Grid, a state-owned company, made a bid for a 14 percent stake in EANDIS, the public company responsible for the distribution of gas and electricity in Flanders, for an estimated amount of EUR 830 million. While originally favorable to the deal, the EANDIS board composed of local politicians changed course, notably following the reception of a note from the civilian intelligence service, which was leaked to the press and initiated a major public debate, and calling for some prudence with regard to this investment project.²⁰ Eventually, the deal failed not because of the secret note, but rather due to internal politics. However, it highlighted for the first time in Belgium the potential risks associated with Chinese investments, and the role that security services can play therein.

The State Security (VSSE), the civilian intelligence agency, is responsible for the protection of the scientific and economic potential of the country. It considers that China is actively engaged in economic espionage and theft,²¹ and that national companies are still too naïve and ill-protected against these risks.²² In contrast, a number of economic stakeholders consider that the intelligence services are too paranoid, and question the over-cautiousness vis-à-vis China as opposed to other foreign investors.²³ Clearly, the business community and the security community are not aligned on China, even though the intelligence services occasionally brief Belgian companies on China-related matters.

The real implications of the failed EANDIS deal are still uncertain. At first, it created tensions between Brussels and Beijing, and the business community feared that it would deter future Chinese investments.²⁴ However, leaders from both countries seemed willing to quickly move on, as they organized the very first bilateral “innovation dialogue” in early 2017, at the request of China. More fundamentally, the EANDIS case has put forward the absence of policy with regard to foreign investments in so-called “strategic sectors”, which have in fact never been identified or defined by the Belgian authorities. In response to a

20. State Grid was expected to invest not in EANDIS directly, but in a new group called EANDIS Assets, resulting from the fusion of EANDIS with other smaller public companies. It is eventually the failure of that fusion into EANDIS Assets that sealed the fate of the proposed Chinese investment.

21. The Chinese government indirectly recognized this when it launched its campaign to protect intellectual property rights (IPR) of foreign companies.

22. Lars Bové and Wim Van de Velden, “Staatsveiligheid wijst op risico’s”, *De Tijd*, 4 March 2017.

23. Interview BIE, *op. cit.*; interview FIT, *op. cit.*; interview AWEX, *op. cit.*

24. Interview MFA, *op. cit.*

parliamentary question, the Flemish Prime Minister said that he would consider the possibility of investment screening mechanisms, but no concrete proposal has yet been proposed.²⁵

Monitoring and screening: some recommendations

This paper has shown that there is a significant gap between the business and security communities with regard to Chinese (and foreign) investments in Belgium. These two communities have diverging views on the issue, and on how to address it. However, such views and concerns are not necessarily incompatible, as one can do business while being security-minded. The two sides could be reconciled through a more strategic and comprehensive approach.

Following the EANDIS case, it seems particularly essential to initiate a debate on the so-called “strategic sectors” of the Belgian economy, to identify them according to clear criteria. More clarity in this area would serve the national interest, while creating more clarity for foreign investors. It should then be determined whether some sort of red lines or screening mechanism vis-à-vis foreign investors should be put in place, and by whom. In the case of Belgium, such screening should involve various institutions, at the federal and federated levels, as well as the intelligence services. The State Security could indeed be mandated by the government – through its National Security Council, which sets priorities for the intelligence services – to monitor foreign investments in specific sectors more closely.

Beyond “strategic sectors”, a closer monitoring of foreign investments in Belgium would be desirable in order to better inform policy debates in this domain. At this stage, such monitoring does not exist. The monitoring of foreign investments and possible screening mechanisms should not be designed against China specifically, in order not to derail the positive business relationship that has emerged. However, it is clear that increasing investments from Chinese state-owned or state-related companies into the Belgian economy will continue to raise scrutiny.

Finally, the debate on “strategic sectors” and screening mechanisms could extend beyond the national level. “Europeanizing” the discussion should not serve as an excuse to prevent action at the domestic level, but it would make sense since investment has become a shared EU competence with the Lisbon Treaty. Furthermore, it would be desirable to increase EU coordination on these matters, given that many investments have a transnational dimension (when a Chinese company buys a European company to buy or invest in other European companies, for instance), or that several EU member states are likely confronted with similar situations and debates about these investments (for

25. Oral question from Matthias Diependaele to Geert Bourgeois, Actuele vraag 6 (2016), Flemish Parliament, 5 October 2016.

instance, while State Grid was denied an investment in EANDIS, and similarly in Australia, it has made substantial investments in other European countries, such as Portugal). However, the recently proposed EU screening mechanism received a rather lukewarm reception in Belgian business and official circles, as it is deemed too high a price to pay (as it may upset and repulse Chinese investors) for what is considered eventually a minimal threat. This should not prevent further discussions and exchanges to take place in a multinational setting, including through informal forums. For instance, exchanges have already increased among European intelligence services on these issues, in the context of the Club of Bern – an informal gathering of European intelligence officers. Such discussions, focusing on perceived security challenges and good practices to address them, could help in formulating some recommendations for national governments and EU institutions.

The Czech Republic: Receiving the First Relevant Chinese Investments

RUDOLF FÜRST, INSTITUTE OF INTENTIONAL RELATIONS

Summary

Chinese acquisitions and investments in the Czech Republic have increased markedly in the last two years, and are expected to continue on this new trend. The privately-owned, Shanghai-based China Energy Company Limited (CEFC), which chose Prague as the center of its European operations, has proven to be the most prominent investor, notably in the financial and tourism sectors. Others, such as the state-owned rail giant CRRC, are also showing significant interest in Czech assets. The Czech Republic's position benefits from its geographical location, industrial tradition and subcontracting production network with the EU states, mainly with Germany, which has made Czechia the largest per capita receiver of overall FDI in post-communist Europe. While China has historically played only a small part in this, the country is currently upgrading its attractiveness, particularly through the proactive support of Czech political and lobby groups for Chinese economic activities. At the same time, the Czech media and broad public uphold their suspicious and hostile view of a rising China and its objectives in Europe.

Chinese investments as the long-desired objective

The trade and investment agenda has been a permanent and crucial component of the Czech bilateral policy towards China. Czechia, so far the largest per capita receiver of FDI flows in post-communist Europe, and one of the favorite investment destinations for Japan, Taiwan, and South Korea in Central Europe, has tried for decades to convince Chinese enterprises of its advantages as an investment destination. Disappointingly, Chinese investors only began to consider the post-communist Central European states as more relevant only after their accession to the EU, i.e. since the beginning of the last decade, and mainly in the Visegrád Four (V4) regional context. China latter approached the CEE states as the group of 16 countries to work within the China + 16 format.

Attracting Chinese investments has been one of the key economic objectives of the new and pragmatic policy of Czech President Zeman and the recent Social Democrat-led centre-left coalition government. Aside from the governmental level, the driving forces for this investment diplomacy have been lobbyists related to the Social Democratic Party and Civic Democratic Party, represented by several former high-level politicians, such as Jaroslav Tvrdík, the former Minister of Defense, Jan Kohout, the former Minister of Foreign Affairs, and the former Prime Minister Petr Nečas.

During the first ever visit of the Chinese President in Prague in 2016, a package of investment memorandums and agreements with a total value of EUR 7.39 billion for the period of 2016-2020 was signed.¹ Before that year, the existing Chinese investment stock in the Czech Republic fell short of those of other Asian states, such as South Korea (EUR 2.232 billion) and Japan (EUR 1.277 billion). FDI stock from China only totaled CZK 6 billion (or EUR 220 million), or 0.35 percent of the total FDI stock for the Czech Republic according to the latest FDI data provided by the Czech National Bank for the year of 2015.² However, according to data by the Rhodium Group, based on a study of investment transactions, from 2015 to 2016 China increased its FDI in the Czech Republic by five times, reaching a cumulative value of EUR 568 million since 2005.

Figure 1. Chinese direct investments to the Czech Republic (EUR million)



With this rapid increase, CzechInvest, the Czech governmental agency for promoting investments, estimates that China has already ascended to a place among the top five foreign investors in the Czech Republic.³

1. Ekonomické dohody podepsané při příležitosti cesty presidenta ČLR do ČR, Dohody podepsané před presidenty. Office of the President of the Czech Republic, April 2016, www.hrad.cz.

2. FDI in Czech Republic, Czech National Bank, www.cnb.cz.

3. Rok od návštěvy Si Ťin-pchinga: čínské investice v Česku rostou, obchodní bilance ale stagnuje [One year after President Xi's visit: Chinese investments rising, but trade balance stagnates], Czech Radio (*Rozhlas*), 18 March 2017, www.irozhlas.cz.

Current investment projects

The most notable Chinese investment projects in the Czech Republic so far have been launched by Shanghai-based China Energy Company Limited (CEFC). CEFC is the PRC's sixth largest private financial group, and operates in the oil and gas trade, the financial sector, transport infrastructure, logistics, real estate, aviation and tourism services. CEFC established its European base in Prague in 2015. It is linked with the Slovak-Czech-owned J&T Financial Group and benefits from strong political support by President Zeman and the Social-Democratic business lobby. CEFC recently acquired a 9.9 percent share in the J&T Financial Group (after it originally acquired a stake of 5 percent in 2015), and its bid to increase its share in the company to 50 percent (EUR 980 million in 2016) is currently under a process of international approbation by financial authorities in EU and individual states in which J&T is officially registered. Other CEFC acquisitions include a 49.9 percent share in the Czech Republic's biggest private airline, Travel Service (EUR 46 million); Florentinum office buildings in Prague's downtown area (EUR 283 million) from Penta Group; a majority share in the largest Czech online travel agency Invia.cz (90 percent, worth EUR 84.5 million), which also operates in Slovakia, Poland, and Hungary; a majority stake in the Lobkowicz Group brewery; a takeover of ŽĎAS mechanical engineering company (with its subsidiaries TS Plzeň and Žďas SGS in Germany); minority stakes in two media organizations (Médea Group and Empresa Media); and two five-star hotels – the Mandarin Oriental Prague and Le Palais Art Hotel Prague. The CEFC's shopping spree continued in 2017 with its takeover of the Slavia Praha football club, the national league champion in 2017, together with its stadium.⁴

CEFC investments have broader implications for the Czech Republic. The so-far established three direct flights from Prague to Beijing, Shanghai and Chengdu (and the fourth, to Kunming, currently being finalized) are related to CEFC's engagement in the tourism sector through Travel Service and the Invia.cz travel agency. These companies plan to make the Czech Republic a hub for increasing numbers of Chinese tourists (last year the numbers saw double-digit growth in Czechia), including those who might be travelling to other CEE states or elsewhere in Europe. CEFC also provides finances for the opening of the Czech-Chinese Center of Chinese Traditional Medicine in Hradec Králové, a joint project with the University Hospital Hradec Králové, which received support from both the ministries of health in countries. The clinic is planned to be completed in 2018.

In contrast to other post-communist states, which are members of the China + 16 regional format, the Czech Republic so far has not seen Chinese investments in its energy sector and transportation and logistics infrastructure. Yet, some ground-breaking Chinese-Czech projects are in the making: CRRC, the world's largest rolling stock manufacturer, is interested in Škoda Transportation, the biggest Central and East European train and

4. Chen Aizhu and Jan Lopatka, "China's CEFC Has Big Ambitions, But Little Known about Ownership, Funding", *Reuters*, 12 January 2017, www.reuters.com.

locomotive producer and the license holder for the EU common market that would open the European rail transportation space for the Chinese state-owned investor.⁵ Škoda Transportation, which is listed in Cyprus, exports more than 50 percent of its production to the EU and US markets, and the expected acquisition up to EUR 2 billion was to be confirmed during the Czech-Chinese Investment Forum in Prague in July 2017.⁶ However, the final approval is still pending due to unfinished statutory and ownership procedures of the Czech company.

These developments suggest that – as elsewhere in Europe – the current trend of rapid FDI growth is likely to continue in the near future. Other, greater deals include, for example, the planned purchase by CEFC of O2 CR, the biggest Czech telecommunication operator (currently majority-owned by the Czech oligarch Petr Kellner and his PPF Group).⁷ A newly-established ICBC investment fund also plans to invest in the steel and machinery company Vítkovice Holding. CEFC, together with the Beijing Municipal Road and Bridge Group, agreed to buy 80 percent (EUR 240 million) of the Czech company TSS Cargo, the largest Czech railway transporter. These investments, together with other mid-sized investments into the automotive industry, machinery, health care and other projects, indicate that the trend of the year 2016 may continue, and the CEFC related deals still do not seem to expand into overdependency into single strong investor.

Much ado about too little?

Voices in the Czech media and political opposition criticize Chinese investments for their lack of real impact on technological progress, production capacities, export volumes and employment. As could be expected with the Czech double election – parliamentary elections in October 2017 and a presidential election in the beginning of 2018 – China, Chinese investments and economic policy towards China received more frequent and mostly negative coverage.

Most of the criticism is focused on President Zeman for his pro-Chinese policy efforts, his annual visits to Beijing and his support for Czech financial oligarchs who absorb the most of the Chinese cash. Also, the concentration of the CEFC investment deals has been exposed by Czech investigative media and online servers to criticism for their potential economic and political risks, linking them to Czechia's alleged abandoning of its values-oriented foreign policy. President Zeman further raised doubts about Chinese political influencing when he formally appointed Mr. Ye Jianming, the CEFC Chairman, as his advisor for the economic agenda with China. The domestic mainstream media with their

5. Jan Šindelář, "China's CRRC 'in Talks to Buy Škoda Transportation'", *15.cz*, 12 December 2016, <http://zpravy.e15.cz>.

6. Jan Šindelář, *op. cit.*, see also Spencer Kimball, "Chinese Train Giant CRRC Eyes Skoda Transportation", *Handelsblatt*, 21 November 2016, <https://global.handelsblatt.com>.

7. www.intellinews.com. Czech server Tiscali mentioned an issue of ownership transparency of the Czech company, <https://zpravy.tiscali.cz>.

anti-Zeman bias interpret Chinese investments negatively by describing them as dubious, inefficient, and hardly contributing to boosting tax revenues and exports. Some argue that investment projects are also serving China's espionage and military circles, and one widespread assumption is that the PRC pursues hostile political goals with its investment strategy – namely to spread its political influence into Europe.

Conclusion

Czech policy towards China is driven by its trade and investment agenda. So far, concrete economic outcomes of massive Czech diplomatic efforts have been unclear and hardly traceable due to unavailable current national statistics. Major investment projects that have occurred so far are mainly beneficial for Czech financial oligarchies, which are unlikely to have greater effects on the national economy.

Soaring Chinese acquisitions and investments in Czechia seem to confirm the general trend of the rising economic rapprochement of the PRC and Europe. Rising interest by Chinese investors in post-communist states is an indicator of Europe's new prominence (both in terms of individual regions and Europe as a whole) in China's global economic strategy. At the same time, the suspicious and hostile Czech media perception points to similar potential developments in the public perception across Europe.

Chinese Investment in Denmark: An Open Economy and Rare Political Questions

YANG JIANG, DANISH INSTITUTE OF INTERNATIONAL STUDIES

Summary

While Denmark has received very little Chinese investment in terms of total volume compared with others in Europe, it has nevertheless been a sought-after destination for Chinese investors hoping to benefit from the country's strengths in renewable energy, health and welfare solutions, and information technology. Some proposed investments, in particular in the telecommunications sector and in Greenland's mineral assets and former naval base, have raised red flags. General discussions about political conditions and human rights in China are common in the Danish parliament and media, but up to now these have rarely spilled over into the investment arena. Denmark has long considered its economic openness to be one of its greatest strengths and necessary for the small economy. In upholding openness, Copenhagen has argued in favor of granting Market Economy Status to China and has expressed reservations on the proposal to create a foreign investment screening mechanism at the EU level.

Introduction

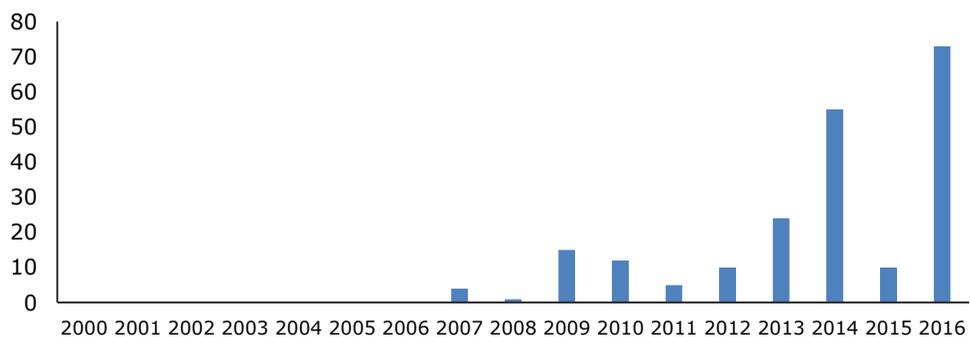
As a small and open economy and a Comprehensive Strategic Partner of China, Denmark has long been open to Chinese investment. Indeed, the two countries signed a bilateral investment treaty in 1985, which is still in force today. The total value and number of investments has grown fast in the past decade, although the value of most Chinese investment projects in Denmark has been rather moderate, varying between USD 100 and 500 million each.¹ From 2005 to 2014, Denmark had the highest number of Chinese investment deals in the Nordic region (13), but the total value is much lower than in

1. Baker&McKenzie, "Reaching New Heights: An Update on Chinese Investment into Europe", March 2016, p. 13, www.bakermckenzie.com.

Sweden and Norway.² Some of the reasons for the lack of major investment projects are a lack of more success stories,³ the small size of the domestic market, high labor cost and high income tax. According to transactional data from the Rhodium Group, Chinese greenfield investments in Denmark since 2000 have totaled EUR 209 million, with much of this being concentrated in the ICT, energy and electronics sectors.

Overall, Denmark's attitude towards Chinese investment can be characterised as an open economy with very rare political questions. The following sections will provide an analysis of this principled, open attitude of the Danish authorities vis-à-vis foreign direct investment and its consequences for Chinese investments, as well as describe the very few incidences where political concerns were raised, although only one Chinese deal has been blocked so far for political reasons.

Figure 1. Chinese Investment Transactions in Denmark, 2000-2016 (EUR million)



Source: Rhodium Group.

2. Ole Hedeman, "Chinese Investment in Denmark – A Promising Growth Potential for SMEs", *Danish-Chinese Business Forum Newsletter* vol. 3, 2015, <http://dcbf.dk>.

3. "Kinesiske investeringer vil toppe i 2015" (Chinese investment will peak in 2015), EY Press Release, Copenhagen, 8 May 2015.

Table 1. Chinese Investment Transactions in Denmark by Industry, 2000-2016 (EUR million)

ICT	81
Energy	44
Electronics	33
Health and Biotech	15
Financial and Business Services	13
Industrial Machinery and Equipment	11
Agriculture and Food	5
Automotive	5
Consumer Products and Services	3
Aviation	0
Basic Materials	0
Entertainment	0
Metals and Minerals	0
Real Estate and Hospitality	0
Transport, Utilities and Infrastructure	0
Total	210

Source: Rhodium Group.

Open to Chinese investment

As a small, open economy that relies heavily on foreign trade, Denmark is very open to foreign investment. There are ownership restrictions in the sectors of aviation, defense materials, hydrocarbon exploration, maritime and real estate, and restrictions on establishing companies providing professional services (e.g., legal, accounting, auditing, and medical services). Foreign investment screening is only conducted if there are monopoly concerns (in any sector), not for security reasons. Overall, the business environment is so open and highly developed that the World Bank ranked Denmark third in its Doing Business 2017 ranking of 190 countries.⁴ The laws and regulations implemented by the government in recent years are orientated towards more openness and are non-discriminatory, including the Growth Plan DK (Vækstplan DK) for 2014-2020.⁵

“Invest in Denmark”, an agency under the Ministry of Foreign Affairs that works to attract and maintain foreign investment, asked 32 Chinese investors in 2013 why they

4. World Bank, “The Ease of Doing Business Index”, www.doingbusiness.org/rankings.

5. “Denmark: Foreign investment”, Santander Trade Portal, <https://en.portal.santandertrade.com>. Danish Finance Ministry, “Vækstplan DK – stærke virksomheder, flere job” (Growth Plan DK – stronger companies, more jobs), 26 February 2013, www.fm.dk.

chose to do business in Denmark.⁶ Of the Chinese companies surveyed, 94 percent said that their investment was competency-driven. They attached particular importance to Denmark's sectoral competencies in renewable energy, health and welfare solutions and information technology. The strong Danish research and development environment, a well-educated workforce and the positive investment climate were also highlighted.

Importantly, Greenland remains interesting for the Chinese government and companies for its natural resources and as a hub on the Arctic shipping route. As discussed below, Chinese companies have made headway in uranium exploration and export in Greenland, and have expressed interest in buying an old naval base. Both issues have become politicized in Nuuk and Copenhagen.

The Danish government has tried to paint a positive picture of Chinese investments in the country. One often mentioned "success story" is the cooperation agreement in 2013 between TDC (the largest Danish telecoms company) and Huawei in which the latter supplies equipment and operates the largest mobile network in the country. The deal has reportedly resulted in the creation of 200 Danish jobs. Another often-quoted story is the purchase by Titan Wind Energy, a Chinese manufacturer, of the Varde wind tower factory from Vestas in 2012. Vestas had planned to close the factory, but Titan Wind Energy has not only kept the plant opened, but has made Varde its European headquarters, preserving the majority of the 120 highly specialized jobs.

Rare political questions

Occasionally, political questions are raised in the Danish parliament and the media when it concerns Denmark's economic relations with China. A general question has been whether Denmark's values of democracy and human rights would be compromised if it cooperates with an authoritarian country led by the Communist Party. But only on rare occasions have such questions been relevant to specific investment projects such as in the following three major cases concerning telecommunications, rare earths mining and a former naval base in Greenland respectively.⁷

When rumors of Huawei providing future equipment and services to the largest mobile network in Denmark surfaced in 2013, heated debates were ignited in the public sphere, media and at the Parliament. The concerns were the security risks of letting a Chinese company, accused of espionage and security backdoors by the US Congress in 2012, gain access to a large part of the Danish telecoms infrastructure. The government then decided that the Center for Cyber Security (CFCS, an institution under the Danish Defense Intelligence Service) would monitor Huawei's work in TDC's network; only those

6. "Kinesiske investeringer gavner Danmark" (Chinese investments benefit Denmark), *Berlingske*, 4 November 2013.

7. The first two cases are drawn from Yang Jiang, Aki Tonami and Adam Moe Fejerskov, "China's Overseas Investment in Critical Infrastructure: Nuclear Power and Telecommunications", *DIIS Report* 2016.

individuals with security clearance would be allowed to work in the Network Operation Center (NOC), from where TDC's network is controlled; and all Huawei hardware would have to go through a screening in 'the Cell' in the UK before being installed in Denmark.⁸ A scandal arose from this arrangement in 2015, however, when the Danish Broadcasting Corporation (DR) found a number of instances of individuals working within the NOC without security clearance. So far, however, the government has not blocked any Chinese investment in critical infrastructure on national security grounds, and Huawei and TDC are preparing to upgrade the national mobile network to 5G.

In Greenland, Chinese investments in natural resources, in particular rare earths and uranium, have spurred discussions on their implications for the environment, local life and farming, cultural heritage, and relations between Nuuk and Copenhagen.⁹ In the past two elections in Greenland, voters supported the parties that advocated uranium mining, as the autonomous region strives to transform from a fishing economy to a mining economy and to have more independence from the Kingdom of Denmark. In 2014 and 2015, Greenland Minerals and Energy Limited (GMEL) and China Nonferrous Metal Industry's Foreign Engineering and Construction Co. Ltd. (NFC) signed MOUs to cooperate in GMEL's Kvanefjeld Rare Earth Project, the most advanced mining project being planned in Greenland but currently still in the process of assessment. In January 2016, Greenland and Denmark reached an agreement on how to cooperate on foreign, defense and security policy issues related to the mining and export of uranium from Greenland.¹⁰ In this policy environment, GMEL accepted investment from Shenghe Resources, another major Chinese rare earth processor, giving the company a 12.5 percent stake in the company in September 2016.

Greenland is also important for China given its position along shipping routes in the Arctic. A Chinese company was, however, not particularly successful when it tried to purchase the Grønnedal naval base in Greenland in 2016. The base was closed in 2014 and put on sale, as it was no longer considered important for the Danish fleet. However, when General Nice Group, a Chinese coal and iron-ore trader that owns the Isua iron-ore mine in Greenland, expressed interest in buying the base in 2016, the Danish Prime Minister Lars Løkke Rasmussen personally blocked the sale as an extraordinary measure. The Danish government at the same time decided to reopen the base as a supply and training port, in order not to offend China by keeping it deserted or selling it to another

8. The Huawei Cyber Security Evaluation Centre (HCSEC or the Cell) was launched by the UK government in 2010 but funded by Huawei and staffed by security-cleared UK nationals to test Huawei's hardware and software for security risks before they could be deployed on UK networks. The Cell has set up an oversight board, consisting of representatives from the government, intelligence agencies and the company, to monitor the work of the centre, and the centre provides reports directly to the National Security Advisor of the UK. See Juliette Garside, 'The Chinese firm taking threats to UK national security very seriously', *The Guardian*, 7 August 2016.

9. Maurice Walsh, "You Can't Live in A Museum: The Battle for Greenland's Uranium", *The Guardian*, 28 January 2017.

10. "Denmark and Greenland Reach Uranium Export Agreement", *World Nuclear News*, 20 January 2016, www.world-nuclear-news.org.

party.¹¹ The Danish intelligence service has long been concerned about the prospect of a larger Chinese presence in Greenland for its potential influence on the small and economically weak self-government, but it is the first time that the Danish government directly prevented a Chinese acquisition in Greenland.¹²

Reconciling openness and security concerns

Overall, Denmark is open to and actively tries to attract Chinese investment. Although political circles, the media and the public often discuss issues of democracy and human rights in China, political questions are very rarely raised in the context of Chinese investment in Denmark. Special security procedures were put in place to allow Huawei's involvement in the Danish telecoms infrastructure, and a special agreement between Greenland and Denmark paved way for more Chinese investment in uranium and rare earth exploration. Only the attempt at buying a military base in Greenland was blocked for security and strategic concerns.

Denmark's generally open attitude towards Chinese investment is partly because Denmark believes in the merits of being an open market economy, and partly because China is not considered a major threat to Danish security. That is to say, strategic competition or rivalry is not an issue between Denmark and China as that between the US and China, and Sino-Danish relations are marked by a Comprehensive Strategic Partnership. Denmark is only concerned with Greenland getting more economic independence through the help of Chinese investment as well as potential cyber security risks involving Chinese companies. Denmark also believes in its formal institutions and laws to prevent unfair competition and corruption. Still, Chinese investment in Denmark remains small, and it could be possible that more scrutiny over foreign investment is imposed in the future, if, as a Danish journalist puts it (in conversation with the author in June 2017) "the East's economic rise threatens Danish values and systems".

Denmark has persistently argued in favor fulfilling China's wish to be granted Market Economy Status by the EU because the Danish government believes that Denmark and the EU will win the most by investing in openness. At the EU summit in June 2017, Denmark and other Nordic countries, supported by Baltic countries and the Netherlands, were against France, Germany and Italy's proposal that the EU should strengthen screening of foreign investment. Denmark has not officially responded to a consequent proposal made by the European Commission for a framework on FDI screening in September 2017, but the emphasis on welcoming globalization is tangible in the current Danish government's domestic and foreign economic policies. An old Danish saying helps

11. Adam Hannestad, "Nu vil Kina til at købe et militært anlæg i Grønland, men Lars Løkke siger nej" (Now China wants to buy a military facility in Greenland, but Lars Løkke says no), *Politiken*, 16 December 2016.

12. "Løkke stopper kinesisk opkøb i Grønland", *Information*, 20 December 2016.

to explain Denmark's position: "When the wind of change blows, some build fences, while others build windmills. In Denmark, we will build windmills."¹³

13. "Kinesiske investeringer gavner Danmark" (Chinese investments benefit Denmark), *Berlingske*, 4 November 2013.

Chinese Investment in France: An Openly Cautious Welcome

JOHN SEAMAN, FRENCH INSTITUTE OF INTERNATIONAL RELATIONS (IFRI)

Summary

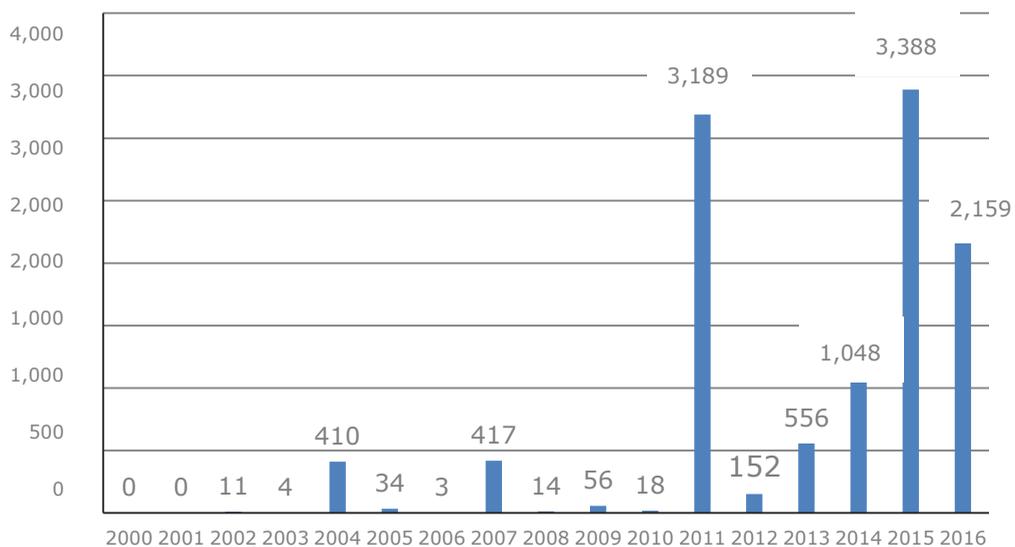
Chinese investment in France remains relatively low, both in relation to total FDI in France and global outbound FDI from China, but levels have risen considerably since 2010 and France is one of the top destinations for Chinese direct investment in Europe. Chinese investors in France are not only seeking market opportunities, but are also looking to acquire technology, know-how, distribution networks and brand names. French businesses and officials from local and central governments have long been and remain keen to attract Chinese investors. Still, the country has turned an increasingly wary eye towards certain types of Chinese investment, as Beijing's industrial strategy has peeked a particular interest in high-tech sectors in France and throughout Europe with a view to boosting the competitiveness of China's own enterprises. In such a climate, Paris has become more vocal about its concerns over a lack of reciprocity and market openness in China, and the opaque role that the Chinese government, and particularly state-driven financing, plays in the activities of Chinese firms abroad.

Chinese investments in France – small but growing

In absolute terms, China is a relatively minor investor in France, but the dynamic has picked up rather dramatically since 2011. According to data made available by the *Banque de France* and the French investment agency (AFII), which calculates FDI stocks and flows based on the balance of payments, China ranks 12th among foreign investors, with a stock of EUR 5.1 billion as of 2016. Indeed, the stock of Chinese direct investment in France pales in comparison with that from European partners such as Germany (EUR 58.2 billion) or the UK (EUR 65.9 billion), and non-EU countries such as the US (EUR 66.7 billion) or Japan (EUR 14.5 billion). Nevertheless, this is a marked change from its position of

38th in 2010, when FDI stock only totaled EUR 1.72 billion.¹ Indeed, Chinese investors have been particularly active in recent years, notably in the energy, real estate, automotive and tourism sectors. According to data gathered by the Rhodium Group – based on investment transactions – China’s cumulative investment in France rose from just shy of EUR 1 billion between 2000-2010 to over EUR 10 billion between 2011-2016. French authorities now count over 600 Chinese companies and their subsidiaries in France, with over 250 investment projects realized since 2008. These investors are credited with maintaining over 45,000 jobs – with almost one quarter of these being in the tourism and hospitality sector.²

Figure 1. Chinese Direct Investment Transactions in France (EUR million)



Source: Rhodium Group.

Chinese motives: markets, money, technology, and brand names

This new dynamism in Chinese investment in France is reflective of a broader trend in Chinese investment in Europe since 2010. What makes the French experience rather unique, however, is the broad diversity of motivations and sectors that attract Chinese investors. Ultimately, these investors are looking for some combination of access to the French and broader European market, so-called “strategic assets” – which include

1. These statistics are calculated based on immediate country of origin and include Hong Kong. Business France, *Rapport sur l’Internationalisation de l’économie française*, multiple years (2008-2016), www.businessfrance.fr

2. French authorities also report that over 700 French companies are present in China, with an FDI stock of over EUR 29 billion as of 2015. Direction générale du Trésor, *Investissements français en Chine et chinois en France en 2015*, July 2016, www.tresor.economie.gouv.fr.

technology and know-how, distribution networks and brand names – as well as pure profit-seeking equity investments.

Among the sectors where Chinese investment has been the most dynamic, and which illustrates the diversity of motivations, is the tourism sector. Indeed, large-scale deals have flourished in recent years, including: the Jin Jiang Group's purchase of Louvre Hotel Groupe in 2015 for roughly EUR 1.3 billion and subsequent equity investments of roughly EUR 1 billion for a 10 percent stake in AccorHotels in 2016; HNA's EUR 25 million purchase of a 10 percent stake in the Pierre et Vacances group; and Fosun's purchase of Club Méditerranée for roughly EUR 1 billion in 2014 as well as its ongoing interest in capital investments in the Compagnie des Alpes. France offers one of the world's most dynamic tourism markets, and with the growing number of Chinese tourists travelling abroad, particularly to France, Chinese investors hope to capture, or repatriate, a certain portion of the industry's value chain. Many of these companies also offer brand-name recognition, as well as global networks that have been developed over decades, an interest that is seen across many other sectors as well.

France has also witnessed a keen Chinese interest in its agribusiness sector, particularly as concerns over food safety in China have risen markedly over the last decade. Indicative of this interest is Shandong-based Syntura's partnership dating back to 2011 with the French dairy cooperative Sodialal. Syntura has invested an estimated EUR 200 million for the construction of Europe's largest powdered baby-formula processing facility, based in Brittany, drawing from Sodialal's production of milk, and of which the final product is entirely destined for the Chinese market. Following numerous health and sanitation crises involving baby formula, particularly the melamine scandal of 2008, Chinese investors hope not only to obtain a label of quality assurance, but also improve their own managerial and industrial processing know-how.

Meanwhile, the China Investment Corporation (CIC) provides another example of the diverse Chinese investor interest in the French economy. The CIC has been particularly active in France through a number of large-scale investments, starting in 2011 with a 30 percent stake in the Exploration and Production division of GDF Suez (now Engie), one of the world's largest gas and electricity utility companies. Included in the deal, estimated at EUR 2.9 billion, was also a USD 600 million investment for a 10 percent stake in Atlantic LNG, a subsidiary of the French company dealing in gas liquefaction in Trinidad and Tobago. In 2012, the CIC made a EUR 385 million investment for a 7 percent stake in satellite operator Eutelsat. In 2016, it also signed an MOU with the *Caisse des Dépôts et Consignations* (CDC) for the development of a joint investment fund for infrastructure projects in the greater Paris metro area that could result in investments from the CIC of up to EUR 1 billion over the next five to seven years. Ranging from technology to long-term infrastructure projects to overseas assets, these investments attest to the broad scope of Chinese investor interests in the French economy.

**Table 1. Chinese Direct Investment Transactions in France
by Industry, 2000-2016 (EUR million)**

Real Estate and Hospitality	3,386
Energy	3,089
Consumer Products and Services	1,448
Automotive	961
Transport, Utilities and Infrastructure	652
ICT	513
Basic Materials	441
Electronics	307
Agriculture and Food	246
Health and Biotech	137
Industrial Machinery and Equipment	130
Entertainment	86
Financial and Business Services	58
Aviation	4
Metals and Minerals	1
Total	11,459

Source: Rhodium Group

French reception of Chinese investments: an increasingly cautious welcome

View of Chinese investments in France are quite mixed. For many corporate actors, Chinese investments are seen as an opportunity to obtain much-needed capital or as a means to open new market opportunities in China. Indeed, companies such as Peugeot Citroën (PSA) have been able to call on Chinese investors in times of difficulty, when for instance in 2014 it sold a 14 percent stake to Chinese SOE Dongfeng for EUR 800 million. Such transactions are often billed as necessary for saving jobs and maintaining, if not expanding economic activity in France and abroad, and can provide a means to enter an otherwise difficult Chinese market. On this latter point, the aforementioned investment by Syntura into the French dairy sector is another illustration of how Chinese investments in France can help open Chinese markets to French firms.

Another advantage that many find in Chinese investment is the avenues for collaboration, and particularly financing that are created with Chinese partners in third markets. The CIC's investment into GDF Suez (now Engie), for instance, has been billed as a way to enter into strategic partnerships with Chinese firms and obtain financing for projects overseas. Another example is found in China Merchant Holdings' 2013 purchase for EUR 400 million of a 49 percent stake in Terminal Link, a subsidiary of Marseilles-based

shipping and logistics giant CMA CGM, which has opened the doors to cooperation in third markets through partnerships with Chinese firms, but in particular through the prospect of financing from Chinese banks. Indeed, in 2015 CMA CGM was able to secure a provisional line of credit or loan guarantees of up to EUR 1 billion from the China Ex-Im Bank. In 2016, CMA CGM also entered into the new “Ocean Alliance” with China COSCO – created following the merger between COSCO and China Merchant Shipping in 2015.

Meanwhile, views on Chinese investment from the French central government have evolved over the years, from a relatively open-door approach towards what some officials describe as a more clear-eyed or “less naïve” position. France remains open to Chinese investment, and hopes to continue to attract Chinese businesses. At the same time, recent developments in China’s industrial strategy – in particular its “Made in China 2025” strategy – favor a fast-paced development of value-added, particularly high-tech sectors. This political impetus has translated into what some have called a “shopping list” of Chinese investments in the French tech sector, from aeronautics to chemicals to telecommunications. Among the French security and defense community, many have voiced concerns about the increasingly close links between private, particularly high-tech enterprises and the armed forces, particularly in light of official Chinese plans for civil-military integration.³ In parallel, French concerns over China obtaining dual-use technologies have risen in recent years, with investments being just one vehicle for such kind of acquisitions. These evolutions were key drivers behind a joint letter signed by the French Minister of Economy in February 2017, alongside his German and Italian counterparts, to the European Commission calling for a common European screening mechanism for foreign investments, particularly in sectors where European firms hold “key technologies”.

France is already one of the European countries with the most developed screening mechanisms for foreign investments, which has itself evolved over time. French authorities have taken advantage of the provisions granted in Article 65 of the Treaty on the Functioning of the European Union (TFEU) that allows for scrutiny of foreign (non-European) investments into sectors deemed critical for national security. For Paris, this definition goes beyond the arms industry to include the media (print, radio and television), judicial services, internal waters, maritime transport, privatization of public assets and even tourism. In May 2014, the French government decreed to widen the original regulation, adopted in 2005, to include investments relative to water, energy, transport, electronic communications and public health. Of particular note is the timing of the latest decree, which took place as the sale of the energy division of France’s national champion Alstom to the American firm General Electric was under public scrutiny. As such, French

3. Zhao Lei, “Xi: Integrate Military and Civil Sectors”, *China Daily*, 21 June 2017, www.chinadaily.com.cn, and Antoine Bondaz, “Un tournant pour l’intégration civilo-militaire en Chine”, *Recherches & Documents*, October 2017, www.frstrategie.org.

authorities are quick to underline that such measures are not aimed at any one country in particular (i.e. China), but concern all investments from actors outside the EU.

Nevertheless, concern over vulnerabilities in French competitiveness to Chinese investments, in particular given the role of the Chinese state in the economy, has led French authorities to highlight China's lack of reciprocity and the assurance of a level playing field on the economic front. Much of China's market remains closed to foreign investors. As such, where many firms see Chinese investments as a way to generate market opportunities in China, French authorities increasingly underline the structural asymmetries. Indeed, exclusive access to the Chinese market by Chinese firms gives them a comparative advantage over other potential investors, in which they can leverage the power of a protected market to a degree that others cannot. When bidding for European assets, for instance, this exclusive market access allows Chinese firms to value assets differently and effectively out-bid other firms for key acquisitions. Moreover, funding made available from any number of China's state-owned or development banks provides a level of public support for Chinese companies that gives them an added advantage. As such, French authorities, alongside other European counterparts, are favorable to enlarging the criteria for foreign investment screening to include public, state-owned, or state-supported companies (aided, for instance, by loans from state banks for public financing vehicles).

So while France remains open to Chinese investors and actively seeks out Chinese investment, a deeper reflection is taking place on China's transformation towards a more consumption-based, value-added, high-tech economy and the implications for French and European competitiveness. Concerns about the direction of China's evolution at the political and military levels have also not been ignored. In the European context, this shift has led Paris to take a more vocal stance in favor of common procedures for screening foreign investment in the EU. Nevertheless, it is unlikely that an EU-wide screening framework will be sufficient to alleviate many of the broader concerns, which should be put forward in the context of negotiations with China on issues such as a bilateral investment treaty, or an eventual EU-China trade agreement.

Germany's Changing Take on Chinese Direct Investment: Balancing Openness with Greater Scrutiny

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Summary

A sea change in German-Chinese investment relations in 2016 was one of the key drivers of the ongoing rethinking of investment regulations at the EU level. With a record value of roughly EUR 12 billion, Chinese companies have never shown greater interest to invest in Germany. At the same time, annual German direct investment flows to China have been declining in recent years to levels last seen in 2010 (from between EUR 5-6 billion in 2012-2013 to roughly EUR 3.5 billion in 2016). This general picture, combined with the specific nature of a number of high-tech deals has led to intense controversies in the public and media spheres and elicited significant changes of the policy stances and the actual framework of how Germany handles inbound FDI. It has also spurred an unseen degree of coordination between Germany, France and Italy to push for a new European approach and expand Member State competencies in this field.

A sea change in German-Chinese investment relations

Germany is the second largest recipient of Chinese direct investment in Europe, with investments in the period 2000-2016 adding up to roughly EUR 19 billion according to recent studies by Rhodium Group (RHG) and MERICS.¹ Beginning in 2011, annual investment levels had first jumped up to a relatively stable level of EUR 1-2 billion per year before going through the roof in 2016, when more than EUR 12 billion, or one-third of Chinese investment in Europe, went to Germany. While sparking intensive policy and media debate, this development, in fact, represented a catch-up or normalization of Germany as a target of Chinese investment relative to the size and attractiveness of the German economy and compared to investment levels in other European countries.

1. See studies by Thilo Hanemann and Mikko Huotari referenced at www.merics.org.

Germany's advanced manufacturing capabilities are the biggest attraction for Chinese investors, with industrial machinery and equipment (~40 percent), automotive (~15 percent) and utilities (~15 percent) accounting for about two-thirds of total Chinese investment from January 2015 to June 2017. Renewable energies and the real estate and hospitality sector also attract increasing interest. In general, the industry mix has broadened to include investments in electronics, financial services, health, and biotech as well as aviation.

While most deals in Germany were small and medium-sized takeovers until 2015, this pattern has shifted quite dramatically with several high-profile deals valued above EUR 500 million in recent years (see table below). Compared to the period 2000-2014, in which state-owned enterprises were the most prominent Chinese investors in Germany, the last 30 months have seen interest from formally private investors accounting for more than half of the total investment value during this period.

In addition to Chinese direct investment in Germany, there is a new reality of other investment flows that have a growing impact on the German business landscape. One specific deal in 2017 that has remained below the 10 percent threshold of share-holding usually considered to qualify statistically as FDI is HNA's initial investment and rapid expansion in early 2017 to acquire a 9.9 percent stake (valued at about EUR 3.5 billion) and take a controlling position at Deutsche Bank (DB). With the subsequent takeover of asset manager C-Quadrat, HNA is now a key anchor investor for DB, where it has also indirectly obtained a seat and voting rights in the DB board.

Chinese financial, private equity and venture capital investors are also increasingly interested in German assets. Already in 2015, CIC had completed the acquisition of a minority interest in Tank und Rast, Germany's largest owner of a network of motorway service areas. More recent deals include a EUR 90 million Series B financing by Tencent for the German start-up Lithium (flying jet taxis), Fosun contributing EUR 12.5 million in early stage financing for the fintech company Swipestox (Naga Group), and Centogene raising EUR 25 million from a consortium including CIC Capital.

Table 1. Top 10 Chinese direct investment deals in Germany, 2000-Q2/2017

M&A target	Investor	Industry	Year	Approx. value (EUR million)
KUKA	Midea	Industrial Machinery and Equipment	2016	4,660
EEW Energy from Waste	Beijing Enterprises	Utilities	2016	1,440
BGP (property group)	CIC	Real estate	2016	1,100
ZF Friedrichshafen (Control systems)	Luxshare	Automotive	2017	1,000
KraussMaffei	ChemChina, Guoxin Internat. Investment, AGIC Capital	Industrial Machinery and Equipment	2016	925
Kion (and Linde Hydraulics)	Weichai Power	Industrial Machinery and Equipment	2012/13	738
BCP Meerwind Luxembourg	China Three Gorges	Renewable Energy	2016	730
Bosch Starter and Generator Business	Zhengzhou CMM Group, Renaissance Capital	Automotive	2017	545
Medion	Lenovo	Consumer electronics	2011	530
OSRAM Ledvance	MLS, Yiwu, IDG	Electronics	2017	500

Despite these new developments, the predominant type of Chinese investments flowing into Germany are acquisitions. Reporting on Chinese direct investment that only looks at greenfield investments (such as by the Germany Trade and Invest agency or EY), or uses outdated net transfer figures from a balance of payments perspective (such as by the Bundesbank), therefore needs to be put into perspective. Announcements that depict China as the most important investor in Germany providing a great number of jobs are usually based on reports that use the *number* of greenfield deals and not their value. For sure, the roughly EUR 250 million worth of greenfield investment in the last 30 months by mainly private investors building or expanding headquarters, offices, R&D and production facilities largely in the ICT, automotive and basic material sectors create important economic opportunities in Germany. The overwhelming majority of Chinese direct investment, however, currently comes to Germany in the form of strategic asset-seeking by acquiring technologies, existing know-how or brands often with the goal to exploit profitable back linkages with the Chinese market.

Corporate interests by Chinese investors that seek to modernize production processes and climb up the value chain often align well with a new industrial policy push and are catalyzed by strong government support, for instance by means of the “Made in China 2025” (MiC) strategy. The sectoral distribution of deals in recent years and new Chinese funds that specifically target advanced, digital industrial manufacturing (what in

German debates is labeled “Industry 4.0”) are indicative of the strong overlap of corporate purpose and Chinese industrial policy goals regarding investment projects in Germany. The mix of policy and company motives, as well as the precise role of the Chinese government (through direct influence on corporate strategy, financing support, other incentives and regulatory measures at home), vary from deal to deal. A lack of transparency for some critical deals and the limited timeline complicate an aggregate assessment. It is likely, however, that this overlap of interests will lead to a sustained targeting by Chinese companies of German “MiC” assets such as in automation, advanced engineering technologies and robotics.²

China’s “shopping tour” catalyzes vague fears of a “sell-out” of German industry

Until recently, and despite a tradition of lingering fears about foreign takeovers in the broader German public, policy and business circles have been quite united and unequivocal in their insistence on principled openness to international capital. With Germany being the largest investor in China and its biggest trading partner in Europe, Berlin was traditionally inclined to pursue a non-confrontational approach in its economic diplomacy toward China. Chinese direct investment was – and in general continues to be – seen as providing huge opportunities and an important channel to deepening business and political relations with China.

The change in perception in the German public, media and policymaking circles in 2016 and 2017 was driven by the rapid growth of the Chinese footprint. These newly voiced concerns are often more about the potential future effects of the presence of Chinese companies as investors in Germany than about current realities. In addition to realized deals, rumors about potential investments in household-name companies (such as HNA investing in Allianz, Anbang in Nordbank, Wanda in Postbank, Shanghai Pharmaceuticals in Stada) contribute to a vague but persistent fear of a “sell-out” of German industry to China.

Unfortunately, it is also not uncommon that media and research reports distort the picture by depicting South Korean, Taiwanese or Hong Kong investors as mainland Chinese (due to the seeming similarity of company names). While, greater scrutiny with regard to their actual mainland-linkages can be warranted in the case of HK-listed or incorporated firms, such developments points to a serious lack of experience and knowledge about investors from China and their domestic background in Germany.

2. Jost Wübbecke *et al.*, “Made in China 2025: The Making of a High-Tech Superpower and Consequences for Industrial Countries”, *MERICs Paper on China*, No. 2, 2016, www.merics.org.

Main concerns of policy makers: Reciprocity, state-led strategic acquisitions of critical technologies

Going beyond vague fears, three factors have contributed to a material shift in the policy stance towards Chinese investment since Germany in 2016:

- A persistent lack of reciprocity, i.e. the perception that there is no “rough equivalence or upward convergence of openness”³ in European-Chinese investment relations, which is driven by an intensifying chorus of German and European business complaints about a deterioration of the business climate in China and “promise fatigue” about Chinese announcements to liberalize inbound FDI.
- The release of major, new Chinese industrial policy plans⁴ that promulgate overseas M&As as a way of upgrading Chinese technology and ultimately displacing foreign companies both in China and globally has created new awareness of the potential long-term risks of such transactions for Germany’s competitiveness and industrial base.
- A rapid increase of technology acquisitions has spurred heated debates about the sale of critical or security-sensitive technologies to a non-allied country with industrial policies that aim at replacing German market shares in the future.

The two most controversial deals were Midea’s takeover of KUKA, a leading German robotics company considered by many as a “crown jewel” of German industry, and the attempt by a relatively non-transparent Chinese shell company, Fujian Grand Chip Investment, to buy Aixtron, a German-based global provider of semiconductor equipment.

Attempts by government officials to help form a German business alternative to the KUKA takeover bid in summer 2016 failed, not least due to what experts considered overpaying and the very attractive package that Midea was able to offer (adding long-term job guarantees in Germany to the promise of new opportunities in the thriving Chinese robotics market). Potential security concerns related to KUKA business in the US – among others robots being used in the assembly of US fighter jets – were mitigated by suggesting (and eventually implementing) a spin-off and separation of KUKA’s US business. Nevertheless, officials in Berlin led by the Ministry of Economic Affairs began to discuss different options to address concerns about the potential long-term consequences of Chinese industrial policy, subsidies and other strategic state interventions that influence investment in Germany.

This internal reflection process at the highest political level involving, among others, the German chancellery and Ministries of Finance and Defense was complicated by a series of events in fall 2016. Before and during a visit to Beijing in November, German officials were unusually upfront in raising concerns publicly and discussing the need for a revision

3. Thilo Hanemann and Mikko Huotari, forthcoming, 2018.

4. Jost Wübbecke, *et al.*, *op. cit.*, No. 2.

of relevant regulations. Irritating its Chinese counterparts, the Ministry for Economic Affairs also revoked an earlier clearance of the EUR 670 million Aixtron takeover based on information provided by US intelligence officials. It also announced a more detailed scrutiny of a proposed sale of Osram's light bulbs unit (Ledvance) to a Chinese consortium (the deal was eventually cleared again in January 2017).

Leading German business representatives, including the Economic Council of the German conservative party, and industrial associations also spoke out against what they perceived as new protectionist tendencies. The VDMA, BDI and DIHK accordingly used official statements and business-friendly media outlets to make their concerns heard in the debate. Despite warnings against a protectionist spiral making German markets less attractive for foreign investors, the lack of reciprocity nevertheless emerged as a joint rallying point for concerns.

An updated, targeted approach: seeking European leverage for German purposes?

While other ministries (including the Ministries of Finance and Defense) were less enthusiastic about changing relevant German regulations, Chancellor Merkel and the whole cabinet were described as "supportive" of Economy Minister Gabriel's advances in formal press conferences by the speaker of the cabinet in late 2016. Internally, ensuing intra- and cross-ministerial working level exchanges also involved the commissioning of external expertise on the topic, including on to the scope and interpretation of relevant European regulations.

Eventually, after a surprisingly fast decision process, uninhibited by the leadership change in the Ministry of Economic Affairs, the German government settled on a dual strategy of revising secondary domestic law (an executive-driven approach to legal changes) while leveraging the European level through a coalition of member states and requesting clarifications and EU action by the European Commission.

At the European level, the German Ministry of Economic Affairs was reaching out to Italian and French counterparts (in some ways building on the earlier alignment of interests regarding China's market economy status) to jointly send a letter to the European Commission (DG Trade) in February 2017 describing concerns and requesting clarification with regard to European and Member State competencies. The three countries' ministries followed-up with a "non-paper" in late July, in which they outlined their concerns in more detail with the aim of "assisting the Commission in developing concrete rules".⁵ This push for concrete action also on the European level was highlighted again in August 2017 with

5. Jakob Hanke, "EU's Big 3 Seek Greater Role for Brussels to Stop Chinese Takeovers", *Politico.eu*, 19 August 2017, www.politico.eu.

another letter by now-Minister Zypries directly addressed to Commissioner Juncker.⁶ The minister stressed again what key priorities for European action should be from a German perspective: the lack of reciprocity, and non-market (i.e. state-driven or state-supported) strategic investments in enabling technologies. The eventual proposal for a European regulation presented by the Juncker Commission in September was greeted by Zypries and her colleagues as a “step towards fair competition” arguing that European openness should not be used as “an entry point for industrial policy goals of other countries.”⁷

At the domestic level, Berlin has strengthened its controls over foreign investments by introducing an amendment to its Foreign Trade and Payments Ordinance, which complements the Foreign Trade and Payments Act. Since July 2017, Germany operates with a revised mechanism for screening investments regarding the scope of both the cross-sectoral screening related to threats to public order and security (§55 AWW) and the sector-specific screening of directly defense-related investments (§60 AWW). According to the revised Ordinance, public order and security are now explicitly defined to comprise operators of so-called “critical infrastructure”, developers of software for the operation of these, companies involved in the field of telecommunications, providers of certain cloud computing services, or companies that have important functions in the area of IT security and telematics. The sector-specific examination now includes investments in companies providing defense-relevant enabling technologies, including certain IT products (sensor technology or technology for electronic warfare) and other dual-use items by explicitly referencing specific items of the German export-control list. Other important changes include better staffing of the relevant offices, new notification requirements and longer initiation and review periods as well as an explicit inclusion of indirect acquisitions to be subject to the same scrutiny as direct acquisitions.

Outlook: a precarious German policy consensus with European reach?

This new, and for German standards comparatively tough, regulatory stance represents a remarkable policy shift. The update of the existing investment screening approach, focusing on limited changes regarding public security concerns, critical infrastructure and technologies more in line with contemporary realities does not, however, reflect growing German protectionism at work. It is also not particularly China-centered (which would not be *legally* possible), it does not directly tackle issues of reciprocity and also does not allow for economic factors to be considered in screening procedures. In practice, these targeted revisions are unlikely to pose new hurdles for a great majority of Chinese investment

6. Brigitte Zypries, “Schreiben von Bundesministerin Zypries an den Präsident der Europäischen Kommission”, 17 August 2017, <http://g8fip1kplyr33r3krz5b97d1.wpengine.netdna-cdn.com>.

7. BMWI, Pressemitteilung – EU Vorschlag zu Investitionsprüfungen, 13 September 2017, www.bmwi.de.

projects in Germany.⁸ Recently-voiced concerns, for instance with regard to the lack of transparency of HNA's financing structure as a key investor in Deutsche Bank, would under no circumstances be captured by these updated measures but continue to fall under the regulatory scope of European financial authorities such as BAFIN or the ECB.⁹

Yet, the way in which German authorities have both depicted regulatory changes at home and reacted to the new proposals that the European Commission unveiled in September 2017 reveals inconsistencies and issues of contention that are likely to emerge in the future debate about EU legislation in this field. Claims by German officials that the revised security screenings would lead to greater reciprocity and fair competition¹⁰ are far-fetched. Similarly, the argument that the Commission's plan would allow for a systematic protection of key technologies needs to be taken with a grain of salt. The EU proposal purposefully shies away from allowing for a protection of strategic *sectors* and does not involve a strengthening of competition policy tools. It remains unclear, too, how these expanded national competencies would be made applicable in the German domestic context.

The debate in Berlin about the appropriate balance between principled openness and targeted protection, as well as about the necessary measures to achieve policy goals including technological leadership, industrial competitiveness and reciprocity in investment relations with China, is far from concluded. Business associations continue to voice concerns about the fall-out with foreign investment partners who "could react negatively", or make outlandish claims that the new investment screening proposal allows EU authorities to effectively ban takeovers at will.¹¹ It seems likely, however, that the German government forges a consensus, at least internally, agreeing that the current European legislative proposal strikes the right balance in several ways: It smartly links EU and Member State competencies; it opens the door for a wider interpretation of security concerns related to critical (or enabling) technologies by Member States; and, probably most controversially, it includes government control and financing as potential (economic) review criteria. In the meantime, German policymakers will also quietly appreciate the European debate as an instrument for seeking leverage in upcoming negotiations with China.

8. The global reach of the US security review mechanism CFIUS was visible once more when a takeover of 10 percent of German-based HERE Technologies mapping company by a Chinese-led consortium went down the "Aixtron-road" and was called-off after US authorities withheld approval in September 2017.

9. Claire Jones, Martin Arnold, and Jim Brunnsden, "ECB Probes HNA and Qatar Stakes in Deutsche Bank", *FT.com*, 18 July 2017, www.ft.com.

10. BMWI, *op. cit.*, No. 8.

11. Dana Heide and Till Hoppe, "EU Raising the Drawbridge", *Handelsblatt Global*, 19 September 2017, <https://global.handelsblatt.com>.

China's Growing Economic and Political Clout through Investment in Greece

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Summary

China's growing economic and political clout in Greece raises at least two significant questions, which remain unanswered at this stage: 1) What is the precise total volume of Chinese investment capital, which appears to be underreported; and 2) To what extent do Chinese investments influence Greece's foreign policy? The drivers behind growing Chinese presence in Greece most probably relate to the pursuit of objectives that go beyond the country's national scale, particularly with a view to transport and power infrastructure. Chinese investors are making the best of Greece's fiscal predicament and economic crisis, which necessitate large-scale privatisation projects. At the same time, Chinese investment schemes are not subject to any particular scrutiny and there is no comprehensive assessment in Greece of their implications like the one currently being discussed at the EU level.

Estimated volume of Chinese direct investment

China is a newcomer to Greece as a major economic partner and investor – it was only in the mid-2000s that the two countries “discovered” each other. While the first foreign direct investment (FDI) was recorded in 2003, what is commonly referred to as the starting point of Chinese presence through foreign investment is the year 2008, i.e. when China COSCO Shipping² signed a concession agreement with the Greek government for a major part of the Piraeus sea port.

1. This paper draws on a longer study of Chinese investment in Greece, Plamen Tonchev, Polyxeni Davarinou, "Chinese Investment in Greece and the Big Picture of Sino-Greek Relations", Institute of International Economic Relations, Athens, December 2017, <http://idos.gr>.

2. COSCO Pacific Ltd at the time. China COSCO Shipping was formally established in February 2016 through the merger of China Ocean Shipping (Group) and China Shipping (Group).

The total volume of Chinese direct investment in Greece between 2000 and 2016 is hard to establish with a sufficient degree of precision. Relevant estimates fluctuate from EUR 585.2 million³ (Bank of Greece, BoG) to EUR 840 million (Rhodium Group) to some EUR 4 billion (a study commissioned by the European Bank for Reconstruction and Development – EBRD)⁴ to EUR 5.7 billion (American Enterprise Institute) to approximately EUR 7 billion (media reports in Greece). However, according to BoG data, by the end of 2015 China was not among the top ten source countries for foreign investment in Greece.⁵

Table 1. Volume of FDI from China and Hong Kong⁶ in Greece (in EUR million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*	Sub-total
China	---	---	---	---	---	---	---	1.2	8.0	---	72.8	16.9	18.8	29.3	137.8
Hong Kong	5.4	1.1	0	3.5	0.7	0.6	1.6	12.9	10.2	16.1	19.0	27.6	31.7	317.0	447.4
Total	5.4	1.1	0	3.5	0.7	0.6	1.6	14.1	11.0	16.1	91.8	44.5	50.5	346.3	585.2

Source: Bank of Greece; Balance of Payments.

* Provisional data.

The Institute of International Economic Relations (IIER) finds that a focus on FDI, as it is commonly defined, may lead to Chinese economic presence being underreported. Moreover, equity investment data alone do not properly reflect the degree of long-term interest or effective control exercised by Chinese investors. Just as importantly, due to the exclusive focus on the initial amount of direct equity investment, one may lose sight of other meaningful aspects, such as socio-economic benefits to be expected (e.g. jobs, public revenue, etc.) or the nexus between foreign investment and political influence exerted by investors.

The Big Five: sectors targeted by Chinese investors

To date, Chinese investment has largely focused on transport infrastructure, energy and telecommunications, while real estate and tourism are also becoming increasingly attractive for Chinese investors. Some of the key investment projects, including future plans, are presented below.

3. EUR 137.8 million from mainland China and EUR 447.4 million from Hong Kong.

4. Jens Bastian, "The Potential for Growth through Chinese Infrastructure Investments in Central and South-Eastern Europe along the Balkan Silk Road", *EBRD*, 2017 p. 10, www.ebrd.com. Notably, some items on the list relate to bank loans.

5. The list includes Germany (EUR 12.5 billion), France (EUR 8.4 billion), the UK (EUR 4.0 billion), Cyprus (EUR 3.7 billion), The Netherlands (EUR 2.1 billion), the USA (EUR 2.0 billion), Switzerland (EUR 1.6 billion), Italy (EUR 1.3 billion), Spain (EUR 1.1 billion) and Canada (EUR 1.1 billion), www.enterprisegreece.gov.gr.

6. Notably, FDI from Hong Kong appears to be much larger than respective amounts from mainland China because the biggest Chinese investor in Greece, COSCO Shipping, is registered in Hong Kong.

The largest Chinese project in Greece, COSCO's flagship investment, was made in two steps. After signing the EUR 831.2 million concession agreement in 2008, the corporation purchased a 51 percent stake in the Piraeus Port Authority (PPA) in 2016 for EUR 280.5 million. Since then, infrastructure development has been under way, with Piraeus rapidly turning into a major transshipment logistics centre and cruise hub.

The second biggest Chinese investment in Greece took place in 2016, with the purchase of a 24 percent stake in Greece's Independent Power Transmission Operator (IPTO/ADMIE) by China State Grid International Development Ltd. The investment is worth EUR 320 million and was completed in 2017. Meanwhile, a growing number of Chinese companies are involved in the area of renewable energy sources through the construction of small-scale photovoltaic parks, hydroelectric and wind power utilities.⁷ In November 2017, Shenhua Renewables announced the acquisition of a 75 percent stake in four windparks which are being developed by a Greek corporation. A large-scale project on the construction of lignite mines in northern Greece, which is being considered but has not materialised to date, involves the China Machinery Engineering Corporation (CMEC).

The telecommunications sector has also attracted Chinese corporations, such as Huawei, Zhongxing Telecommunication Equipment (ZTE), the Pacific Century CyberWorks (PCCW Global) and China International Television Corporation (CITC). Apart from selling equipment and providing mobile telecom services or big data management, some of these investors seek co-operation with local software companies on the development of next-generation networks and broadband Internet backbone infrastructure.

In real estate, a prospective EUR 7 billion project with Chinese involvement relates to the development of Athens' former airport at Hellenikon. A consortium, which includes the Chinese corporation Fosun,⁸ won the public tender in 2014 by offering EUR 915 million, with Fosun's share in this joint venture reportedly amounting to EUR 200 million.⁹ Some 850 Chinese citizens have reportedly bought property in Greece by making use of the so-called Golden Visa programme.¹⁰ Given that they spend an average between EUR 550,000 and EUR 600,000 each, it is reasonable to assume that the total value of these purchases is in the range of EUR 500 million.¹¹

7. Sky Solar Holdings Ltd, Yangtze Solar Power Investment (YSPI) Ltd, China New Era Group Corporation, Hanergy Global Solar Power Hellas, etc.

8. Since 2011 Fosun has held 13.8 percent of the shares of Folli Follie Group, a Greek jewelry producer, and Fosun's shares are reportedly worth more than EUR 100 million, <http://capital.gr>.

9. Yiling Pan, "Fosun Spearheads China's Dominant Investments in Greece", *Jing Daily*, 8 June 2017, <https://jingdaily.com>.

10. Launched in July 2013, the Greek Golden Visa programme grants a five-year residency visa in return for an investment in real estate. At a mere EUR 250,000 plus taxes and fees (just over EUR 300,000 in total), this programme offers the lowest cost to residency in Europe. The Greek residency programme is relatively fast, taking around 40 days until a residency card is issued.

11. Source: Enterprise Greece.

In tourism, as of September 2017, Air China has commenced direct flights between Beijing and Athens, with onward embarkation for Chinese passengers at Piraeus port onto cruise ships sailing the Aegean, the Adriatic coast and the Mediterranean. Moreover, in May 2017 COSCO signed an agreement with China Eastern Airlines for charter flights bringing Chinese tourists to Greece.

Modalities, Actors and Drivers of Chinese investment

There is no shortage of Sino-Greek intergovernmental agreements and Memoranda of Understanding (MoUs) – for instance, 19 agreements and MoUs were signed by Greek and Chinese partners during Li Keqiang’s visit in June 2014 alone. The actors in the Greek public administration are line ministries,¹² the Bank of Greece, Enterprise Greece, the Hellenic Republic Asset Development Fund (HRADF or TAIPED in Greek)¹³, etc. As for investment modalities, the first COSCO investment was based on a lease format, but since then Chinese investors have opted for the purchase of stock, i.e. acquisitions – such were the cases of COSCO’s takeover of PPA and State Grid’s investment in IPTO. Chinese investors are making the most of opportunities arising through the current wave of privatisation schemes, which have been imposed on the country by its international creditors, despite the initial misgivings of the current government.

Given that the liberalisation drive is seen by some observers as a “straitjacket” on Greece,¹⁴ the degree of ownership of the privatisation process on the part of the government and Greek society is rather low. Objections to foreign investment, including the growing Chinese presence in the country, are voiced by two main types of actors: 1) pressure groups, e.g. trade unions, driven by concerns about the loss of state-subsidised privileges and perks; 2) ultraleft factions within the ruling Radical Left Coalition (SYRIZA), which are ideologically opposed to capitalism and globalisation. The 2008 concession agreement in Piraeus brought about intense, albeit short-lived, protests on the part of PPA staff. However, with very few exceptions, subsequent Chinese investment projects have not been marked by particular tension, mostly because the third bail-out agreement was signed in July 2015 by Prime Minister Alexis Tsipras, leader of the SYRIZA party.

Regarding the evaluation process, Chinese investment schemes are not subject to more scrutiny than any other large-scale investment project in Greece. In principle, there is the so-called Interministerial Commission on Strategic Investments, which approves

12. For instance, the Ministry of Shipping and Island Policy, which oversees the sea port of Piraeus, or the Ministry of Environment, Energy and Climate Change, which oversees electricity production and transmission.

13. The Hellenic Republic Asset Development Fund (HRADF) leverages the private property of the Greek state that has been assigned to it according to the country's international obligations.

14. Eric Maurice, “Greek Deal Puts Tsipras in Straitjacket”, *EU Observer*, 12 August 2015, <https://euobserver.com>.

development projects, upon assessments and proposals made by Enterprise Greece.¹⁵ Other institutions involved in the process are Parliament and the Audit Council.

Recently, Prime Minister Tsipras announced the creation of a “task force”, headed by himself and aiming at the attraction of foreign investment. However, for the time being this looks more like an *ad hoc* college of ministers rather than a permanent and well-resourced structure with a clear-cut mission. It appears to be a political statement meant to bolster the new pro-investment narrative of the government and, in any case, this body is unlikely to act as a “screening mechanism” along the lines of the debate that has taken place in the EU in recent months.¹⁶ Notably, Greece is one of the EU member states, together with the Netherlands and the Nordic countries, which have raised concerns about tougher screening of FDI in the EU.¹⁷

The vast majority of Chinese businesses represented in Greece are subsidiaries of big state-owned enterprises (SOEs). Notably, a number of other foreign actors and stakeholders are involved in Chinese investment schemes one way or another.¹⁸ An interesting aspect of Chinese investment in Greece is the close co-operation between different Chinese companies – for instance, both Huawei and ZTE have decided to develop logistics hubs in Piraeus, in concert with COSCO’s Consolidation & Distribution Center (PCDC), though relevant details are not readily available at present.¹⁹

The rationale behind the decision of Chinese corporations to invest in Greece varies considerably, but it is clear that the growing Chinese presence in Greece aims at the construction of a cross-border transport corridor from the Mediterranean to Central Europe, within the framework of the well-known Belt & Road Initiative (BRI). This corridor would allow China to pursue the attainment of two more strategically important goals: (i) the reduction of transportation costs; (ii) improved access to and increased presence in the European market.²⁰

At the same time, apart from the specific Greek market one should look into the broader geographic considerations that drive Chinese investors in Greece. For instance, the magnitude of State Grid’s investment could well be seen as a door-opener for similar cooperation initiatives between Sino-Greek companies expanding into the energy sectors

15. The list of selection criteria includes, among other things: a total cost of the investment in excess of EUR 100 million or, otherwise, a threshold of EUR 40 million and the creation of a minimum number of employment positions, www.enterprisegreece.gov.gr.

16. Indicatively: Alicia Garcia-Herrero and André Sapir, “Should the EU Have the Power to Vet Foreign Takeovers?”, *Bruegel Blog Post*, 1 September 2017, <http://bruegel.org>.

17. Jim Brunsten, “EU Plan to Curb Chinese Takeovers Risks ‘Trade War’”, *Financial Times*, 17 September 2017.

18. E.g. in the case of Piraeus, these are foreign corporations using PPA services: Hewlett Packard, Maersk, the Mediterranean Shipping Company (MSC), the CMA CGM Group, Evergreen Marine, Hapag-Lloyd, Huawei, ZTE, etc.

19. As such, when considering Chinese direct investment in Greece, “fellow enterprises” will also have to be taken into account. On “fellow enterprises”, see “Foreign Direct Investment Statistics, Explanatory Notes”, *OECD*, p. 1, www.oecd.org.

20. Plamen Tonchev, “China’s Road: Into the Western Balkans”, European Union Institute for Security Studies, 15 February 2017, www.iss.europa.eu.

of neighbouring Balkan countries or along the Mediterranean rim, in conjunction with similar investment projects in Portugal, Italy and Spain.²¹

Chinese investment behind increasingly close Sino-Greek relations

Chinese investment has definitely contributed to the improvement of Sino-Greek relations and the oft-reiterated “strategic partnership” slogan is confirmed by a long list of official visits to Greece and China.²² At a symbolic level, a big part of the public diplomacy campaign launched mostly by the Chinese side relates to history and culture, which both countries take pride in. At the same time, the political implications of this ever-closer partnership between Greece and China are hard to play down. In fact, Greece is viewed by some EU partners as being much too welcoming to China among calls for a robust screening mechanism of Chinese investment in Europe and a firm response to the global rise of China.²³ Of particular concern for a number of EU member states and institutions was Greece’s stance in June 2017, when the Greek government blocked an EU statement to the UN on China’s human rights record. A year earlier, in July 2016, Greece was one of three member states which opposed the adoption of a joint EU statement on the South China Sea dispute.²⁴

With regard to perceptions about the growing Chinese presence in Greece, local media carry many stories about the plans of Chinese investors, though the coverage is seldom sufficiently accurate. Academic institutions are discovering China and so is the general public, even if a profound discourse on the goals and implications of Chinese investment in the country is definitely missing. Engulfed by its economic woes and disenchanted with the EU, Greece welcomes China without asking some necessary questions.

21. Jens Bastian, “Balkan Silk Road Report”, *EBRD*, 2017, pp. 9-11.

22. Greece has been visited by the Chinese presidents Jiang Zemin (April 2000), Hu Jintao (November 2008), Xi Jinping (July 2014), and prime ministers Wen Jiabao (October 2010) and Li Keqiang (June 2014). China has been visited by the Greek prime ministers Costas Simitis (June 2002), Costas Karamanlis (January 2006), Antonis Samaras (May 2013) and Alexis Tsipras (July 2016 and May 2017), and president Karolos Papoulias (June 2008).

23. For instance, in response to a question about China’s “political pressure” on “financially weak countries like Greece” through investments, Chancellor Merkel stated in July 2017: “I am concerned about what you described. Mutual dependencies are increasing and the balance [...] is constantly shifting”, adding that “Europe must work hard to protect its influence and, above all, it should speak with China with one voice.” Newsroom, “Merkel’s discontent for Greece-China Relations”, *The Greek Observer*, 3 July 2017, <http://thegreekobserver.com>.

24. Jason Horowitz and Liz Alderman, “Chastised by E.U., a Resentful Greece Embraces China’s Cash and Interests”, *New York Times*, 26 August 2017, www.nytimes.com.

Chinese Investment in Hungary: Few Results but Great Expectations

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Summary

Hungary was one of the forerunners in Central Europe in renewing its relations with China in the early 2000's. The Orbán government has elevated political relations with Beijing to new heights, and the 'Opening to the East' policy of Hungary has aimed at forging better trade and investment relations with China since 2010. Despite all the efforts, however, expectations regarding the potential tsunami of Chinese investment have not been met, and the country has not received any new, major Chinese investors in the last seven years. Still, the government regards China as an important partner, but political calculations may play a more significant role than economic interests.

Mapping Chinese investment in Hungary

Is the glass half empty or half full? The well-known proverb largely describes the status of Chinese investment in Hungary. On the one hand, based on Chinese data sources, Hungary hosts by far the highest amount of Chinese direct investments among the EU member states in the Central and Eastern European (CEE) region. On the other hand, the country has achieved only very modest successes in attracting new investors from China in the last several years. For some observers this might come as a surprise, as the Hungarian government has made concerted efforts, reoriented its entire foreign policy and offered significant political gestures to Beijing. And yet, it seems that China has found more appealing business opportunities in Poland, the Czech Republic, or in the Balkan countries in the recent years.

The lack of major Chinese direct investment inflows is in sharp contrast with the fact that Budapest enjoys relatively high political attention in Beijing; the two government just elevated bilateral relations to the level of a comprehensive strategic partnership in May 2017. The large Chinese community, the region's only Chinese-Hungarian bilingual elementary school, the CEE headquarters of the Bank of China, among other factors point to Hungary as a primary destination of Chinese investment, at least in theory. In fact,

despite all of this and the formulation of Hungary's "Opening to the East" policy in 2011, the country has been unable to attract any new, major investors since 2010. Even though many announcements have been made and many cornerstones have been laid, there are very few tangible achievements, and even those are investments in the range of a few million dollars.

Still, when it comes to the stock of Chinese direct investment, Hungary enjoys a pivotal position in the CEE region, as by the end of 2015 cumulated Chinese investment in Hungary reached USD 3.5 billion, according to announcements by the government. Of course, there is a very high level of uncertainty among the available statistical data. While the National Bank of Hungary reports that the stock of Chinese direct investment was around USD 200 million in 2015 (EUR 180 million), the Hungarian government talks about USD 3-3.5 billion. Rhodium Group, meanwhile, has recorded cumulative transactions of EUR 2 billion since the year 2000. Whatever the actual number is, the inflow of Chinese direct investment is highly concentrated – around 75 percent of the total amount is linked to a single transaction: the acquisition of chemical company Borsodchem by the Chinese Wanhua Group.

Besides Wanhua, major investors are Huawei, ZTE, Lenovo, Orient Solar, Sevenstar Electronics Co., BYD Electronics, Xanga, Canyi and Comlink. Unfortunately, major industrial greenfield investments are still lagging in Hungary so far, although the country would really need new jobs to be created.

A remarkable set of agreements were signed during the visit of Premier Wen Jiabao in Budapest back in 2011 and of then-Vice-Premier Li Keqiang in 2012, when he visited Hungary to witness the signing ceremony of seven bilateral agreements (e.g. a Chinese-built train connection between downtown Budapest and the airport; an agreement on a EUR 1 billion credit line between the China Development Bank and the Hungarian Ministry of National Economy; an agreement on SME cooperation, etc.). Yet, most of these were merely confirmed agreements of the previous year, and most of them have never been realized. None of the planned infrastructure development and joint venture investments have been realized since. In the framework of China-CEE cooperation, new Chinese financial sources were opened for Hungary in 2013, and the Hungarian Exim Bank and its Chinese counterpart concluded an agreement on a EUR 100 million credit line for export financing. A USD 500 million "Chinese Central Eastern European Investment Fund" was also established, with a USD 30 million contribution from the Hungarian side.

A milestone was reached when China, Hungary and Serbia agreed to modernize the railway line between Budapest and Belgrade. According to the original plans, the first train should have rolled through Hungary by 2017, but construction on the Hungarian side has not even begun. The main obstacle is the infringement process, allegedly started by the European Commission concerning financial agreements between the Hungarian and Chinese sides. Meanwhile, the Hungarian government denies that such an investigation by the Commission even exists, and publicly available information is painfully scarce on

the matter. No surprise, the lack of transparency is one of the main concerns of the European Union.

Based on what has already been announced, the Chinese investment model for the Budapest-Belgrade rail project is similar to the general pattern of One Belt, One Road (OBOR) investments: Beijing offers financial backing through a loan from its Exim Bank and hopes that Chinese companies will have the chance to modernize the railroad, establishing a transportation corridor between Piraeus in Greece and Western Europe via Macedonia, Serbia and Hungary. So far, it has not been clarified what the benefit for Hungary would be, while it seems that the Chinese side does not have to bear too high of risks: the loan and the interest rate (approx. 2.5 percent annually, according to the announcement of the Ministry of Foreign Affairs of Hungary) will be guaranteed by the Hungarian state, the construction will be carried out by a Chinese enterprise, and the railroad itself will be mostly used by Chinese cargo companies, all while failing to connect any major cities within Hungary.

Table 1. Major Chinese Investment Successes and Failures in Hungary

Company	Sector (Target company)	Mode of investment	Year of first mention or investment	Total value (estimate, EUR million)	Result
Changshu Standard Parts Factory	screw factory (Ongai Csavargyártó Ltd.)	acquisition	1997	NA	success
Yanfeng Automotive Interiors	Automotive	greenfield	2004	25	success
Hisense	electronics (joint venture with Flextronics)	joint venture	2004	3	success but closed in 2010
Huawei	ITC	greenfield	2005	300	success
ZTE	ITC	greenfield	2005	15	success
Lenovo- Flextronics	ITC	greenfield	2009	NA	success
Sevenstar	solar panels (EnergoSolar Ltd.)	acquisition	2009	NA	success
Wanhua Group	chemicals (Borsodchem)	acquisition	2010	1,600	success
Comlink	ITC	greenfield	2012	NA	success
BYD	Electric buses	greenfield	2016	20	success
China-CEE Fund	telecommunication (Invitel)	acquisition	2017	200	success
BBCA	Citric acid factory	greenfield	2012	80-200	still in progress

China Railway Group	railway reconstruction (Belgrade-Budapest)	infrastructure investment	2015	1,500	still in progress
Tianshan Industrial Group	aviation industry	joint venture	2016	30	still in progress
RZBC	Citric acid factory	greenfield	2014	100?	likely failed
HNA Group	airlines (Malév Hungarian Airlines)	acquisition	2004	NA	failed
Livan Biodegradable Product	Biotechnology	greenfield	2007	18	failed
Shanghai Construction Group	Cargo Airport	greenfield	2009	NA	failed
Orient Solar	solar panels	greenfield	2011	NA	failed
Canyi	Lighting technology	greenfield	2011	30	failed
China Railway Construction Corporation	railway construction (airport to downtown)	infrastructure investment	2012	150	failed
V0	Railway construction (ring around Budapest)	infrastructure investment	2013	NA	failed

Source: compilation by the author based on media releases.

Given the low number of successful projects, any clear strategic-level motivations on the Chinese side remain undiscernible. As the table above suggests, Chinese businesspeople arrived in Hungary almost a decade before Budapest introduced its “Opening to the East” policy. When it comes to the corporate level, the excellent geographic location, access to EU markets, and the favorable political and investment environment are the most frequently mentioned reasons for Chinese investment in Hungary. It is indeed true that the 16+1 cooperation and the role of Hungary in it has drawn further attention to the country in China, but the increased inflow of Chinese political and business delegations has not boiled down to tangible results so far.

Hungary’s openness to China and the power of expectations

Unlike in some Western European countries or the US, increased Chinese activity has not triggered any alarm in Hungarian political circles or among the wider public. To the contrary, there seems to be a cross-party agreement on the importance of relations with China, and none of the major political players oppose the opening towards Beijing. This is partly due to the relatively positive image that many Hungarians hold of the Chinese

people, thus making it hard for any party to gain domestic political support through China bashing. Hence, Prime Minister Orbán has mentioned China several times as a good example of a successful 'labor based society', and as an alternative to Western economies "based on speculation". Meanwhile, the lack of major Chinese investment in recent years obviously decreased public attention on the matter, and therefore security or political concerns have never been raised.

At the level of strategy, Hungary holds great hope in the potential for Chinese investment, despite the relatively low level of concrete results. Even though the "Opening to the East" policy has never been slated into a proper and sophisticated strategy, based on government communications it is clear that the main objective of government efforts is to attract money and investment from China to Hungary. Others regard it as a mere political brand invented by the MFA to gain political support. Budapest was so eager to cosy up to Beijing in the recent years that the government offered important political favors to China, even against the will of the European Union. This caught the attention of many international observers when the Hungarian MFA repeated Chinese statements on the South China Sea issue in 2016, or when the Prime Minister signed the joint communique on the "Belt and Road Initiative" in May 2017, despite the objection of the EU and its major member states. No wonder more and more experts raise the question: will the significant amount of Hungarian international political capital invested in China ever pay-off for the economy, or does the government regard China primarily as a political ally rather than an economic one? Political opponents of the ruling party argue that government efforts to get closer to Beijing (and Moscow) are part of a game against Brussels, and economic interests play only a minor role in this story. No matter what the intentions of the Hungarian side are, the example has been set, and countries across Central and Eastern Europe, including the Czech Republic, Poland and Slovakia, are all looking to forge closer ties with Beijing.

Chinese Investments in Italy: Changing the Game?

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Summary

Chinese investments in Italy have soared since 2014. In 2015, Italy was the top destination of Chinese investments in Europe, due mostly to ChemChina's acquisition of Pirelli. Beijing has, so far, invested almost EUR 5 billion in listed companies on the Italian stock market, a sum which corresponds to around 10 percent of total Chinese investments in European stocks, estimated at EUR 54 billion.¹ By the end of 2016, more than 260 Chinese industrial and financial companies had invested in around 450 Italian businesses, which in total employ more than 25,000 workers. More investments are likely to come in the near future, as projects related to China's Belt and Road Initiative are being implemented.

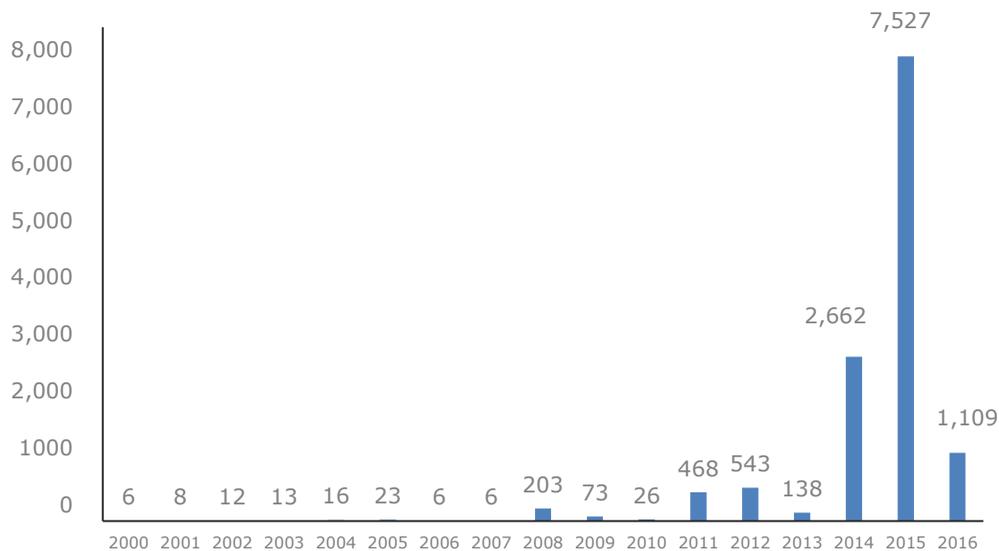
The business community in Italy is largely in favor of Chinese investments. Some political parties (both on the right and on the left) and government officials in key ministries, in particular the Foreign Ministry have, however, raised reservations about China's penetration in some industrial sectors considered of importance for the domestic economy. Moreover, there are growing fears that through investments Beijing may have access to sensitive technology and know-how, as well as gain unwanted political influence. This explains Italy's decision to join Germany and France in backing the call for an EU-wide investment screening mechanism in February 2017, and reinforce measures of its own.

The place of Italy in China's investment strategy

Germany, France and the United Kingdom have long been the preferred destinations of Chinese investments in Europe. However, since 2014 interest for Italy has soared. In 2015, ChemChina's acquisition of Pirelli put Italy in the top position for the year.

1. Andrea Franceschi, "Chi sono e che cosa comprano i grandi investitori cinesi in Europa", *Il Sole 24 Ore*, 4 May 2017, p. 25, www.ilssole24ore.com.

Figure 1. Chinese direct investment transactions in Italy (EUR million)



China has begun encouraging domestic companies to invest and operate in Italy – as well as in other countries. This is all the more important for the Chinese firms saddled with debt, overcapacity and losses – the so-called “zombie companies” – many of them state-owned enterprises (SOEs). Their situation is partly the result of huge investments that Chinese authorities required them to make to stimulate the economy after the 2008 global financial crisis crimped international demand. Acquisitions abroad address these problems by offering a better return on capital – which is declining inside China – and by allowing firms to offload some of their debt onto newly purchased companies.

Chinese companies undertake cross-border deals in Italy for many reasons, including access to expertise, technology and brands, as well as to move up the value chain. The state-owned firms have capital on hand, while low interest rates make it easier for private companies to borrow. According to Morning Whistle Group, an internet platform for cross-border investment, private companies completed about 70 percent of Chinese mergers and acquisitions (M&A) deals in 2016, while state-owned enterprises accounted for slightly more than 20 percent.

The mega-deals remain, however, largely the domain of SOEs, which use M&A to gain a foothold abroad and achieve economies of scale. These firms often follow government directives when investing abroad, receiving institutional support and access to cheap financing in return. A good example of this strategy is ChemChina’s acquisition of Pirelli in 2015. The China National Tire & Rubber Company (CNTR) – a parent of ChemChina – was at the forefront of the purchase, buying a majority stake (16.89 percent) in Pirelli, the world’s fifth largest tire maker, in a deal worth EUR 7 billion. This gave CNTR access to the most important car manufacturers around the world. It also gave the firm

entry into the replacement market, a segment dominated by the major European and Japanese brands. Buying Pirelli also fit with recent moves by Chinese car manufacturers. Geely acquired Volvo in 2010 and Dongfeng Motor took a 14 percent share of PSA Peugeot Citroen in 2014. Cross-border deals were a natural step for their Chinese suppliers.

After the Pirelli acquisition, ChemChina joined a consortium of investors that made a USD 1 billion bid for KraussMaffei Group, a maker of equipment that processes plastics and rubber, in what has become one of the largest Chinese takeovers to date of a German company. With these deals, ChemChina has managed to move up the value chain and build a global economy of scale.

China's inroads into Italy's corporate world

The Pirelli deal has been complemented by other investments in some of Italy's key strategic industrial and financial companies. In May 2014, the Shanghai Electric Group bought a 40 percent stake in power engineering company Ansaldo Energia for EUR 400 million. This was quickly followed by the acquisition of a 35 percent stake in energy grid holding company CDP Reti by China's State Grid for EUR 2.1 billion. Also, the entertainment industry has become a target of Chinese acquisitions. In June 2016, Suning Holdings agreed to pay EUR 270 million for a 70 percent stake in Italian football club Inter Milan, and in August Fininvest SpA (the Berlusconi family's investment vehicle) sold 99.9 percent of the AC Milan to a group of Chinese investors operating through a management company led by the state-owned Development & Investment Corp. for EUR 740 million (including EUR 220 million of debt).

By the end of 2016, the People's Bank of China (PBOC) – through its investment arm, the State Administration of Foreign Exchange (SAFE) – had invested roughly EUR 3.5 billion on stakes of about 2 percent each in ten of Italy's largest companies: these include Monte dei Paschi di Siena, Unicredit, Intesa SanPaolo, Saipem, Mediobanca, Fiat Chrysler Automobiles, Telecom Italia, Prysmian, Assicurazioni Generali, ENEL and the state-controlled ENI.²

Beijing has, so far, invested almost EUR 5 billion in listed companies on the Italian stock market, a sum which corresponds to around 10 percent of total Chinese investments in European stocks. All major sectors have been concerned. To give a few examples beyond transport and auto-parts (Pirelli) and the banking sector, in the last two years Fosun made a EUR 345 million investment in real estate property in Milan, Agic Capital (CIC Invested) acquired Gimatic (technology, robotics) for between EUR 100-150 million

2. See Francesca Spigarelli and Thomas Rosenthal, "Gli investimenti cinesi in Italia", in *La Cina non è ancora per tutti*, Milan: Edizioni Olivares, 2015, pp. 208-230. See also: Nicola Casarini, "Chinese Firms' Spending Spree Favors Europe over U.S.", *Geopolitical Information Service*, 25 April 2016, www.austriancenter.com.

and Gansu Gangtai, in a deal worth EUR 230 million, purchased 85 percent of Buccellati, a consumer and luxury brand.

By the end of 2016, more than 260 Chinese industrial and financial companies had invested in around 450 Italian businesses, which in total employ more than 25,000 workers. Many of these acquisitions have been facilitated by the small-size characteristic of most Italian companies, though Chinese investors have also targeted big companies. The main reasons for investing in Italy are:

- Moving up the value chain by acquiring technology, know-how and brands in sectors where Italy has achieved global competitiveness (machinery, electronics, banking and finance, food, fashion and lifestyle, logistics, but also football);
- Building economies of scale, as illustrated by the case of ChemChina's acquisition of Pirelli;
- Sending a political message to Rome, as illustrated by China's decision to invest just above 2 percent in companies listed on the Milan stock exchange, a move that requires public disclosure (and hence publicity);
- Acquiring logistical bases and having direct access to Europe's internal market for Chinese products, as in the case of Huawei (a leading global information and communications technology solutions provider whose European headquarter is in Milan);
- Following government directives which results in institutional support, access to cheap financing, and domestic favor. This is exemplified by the acquisition of both Inter Milan and AC Milan soccer teams, following the decision by Xi Jinping, the Chinese president and an avowed football fan, to make the country a football powerhouse and elevate China's national team to among Asia's best by 2030.

Notwithstanding growing capital controls implemented by the Chinese authorities, Beijing shows no sign of slowing its investment push in Italy, at a moment when projects related to China's Belt and Road Initiative (BRI) are being promoted.

Silk Road money

The Mediterranean Sea – with Italy in the center – is the end-point of China's 21st Century Maritime Silk Road. As a result, Italy is considered by Chinese leaders an important piece in the implementation of the Belt and Road Initiative. Italian ports and rail connections to the markets in central, eastern and northern Europe have become the focus of attention of the Italian government and the Chinese are keen on exploiting opportunities in the logistics and infrastructure sectors to promote the Maritime Silk Road.

Italy's flagship project in the context of the Belt and Road Initiative is the five-port project involving the Italian ports of Venice, Trieste and Ravenna, plus Capodistria (Slovenia) and Fiume (Croatia), linked together in the North Adriatic Port Association (NAPA). Launched in 2014, the five ports alliance has encountered some problems, mainly due to domestic political dynamics. The project has, however, been resurrected in late

2017, also in the context of growing pressure coming from both Italian businesses and Chinese authorities keen on promoting the Belt and Road Initiative.³

The North Adriatic consortium aims to attract – and service – China’s huge cargo ships reaching the Mediterranean Sea via the Suez Canal. Chinese investors having already shown interest for this project include: the port authorities of Shanghai and Nongbo; the CCCG Group (the world’s sixth largest infrastructure company) and the Industrial and Commercial Bank of China (ICBC). The latter has recently opened a few branches in Italy and has designed loan schemes to finance Belt and Road projects open to both Chinese and Italian firms.

Silk Road money is increasingly used to finance acquisitions in Italy. For instance, when ChemChina bought Italian tire maker Pirelli for EUR 7 billion in 2015, the deal was funded in part by the Silk Road Fund, which took a 25 percent stake in the ChemChina unit set up to buy Pirelli’s shares. The Silk Road Fund – whose money comes from the PBOC’s reserves, the China Investment Corporation, the Export-Import Bank of China and the China Development Bank – is thus used to finance takeovers abroad in sectors deemed strategic for the realisation of the Belt and Road Initiative. There are, however, growing fears in Italy that through investments Beijing may have access to sensitive technology and know-how, as well as gain unwanted political influence. This explains Italy’s decision to join Germany and France in backing the call for an EU-wide investment screening mechanism in February 2017. The latter does not single out any specific country, but it is widely seen as being aimed at China.

Strengthening the screening mechanism

In October 2017, the Italian government strengthened its existing screening mechanism so as to ward off the so-called “predatory” investments made by third countries in key strategic, high-tech sectors. This is a follow-up of the letter sent by Germany, France and Italy to the European Commission in February 2017, which backed calls for an EU-wide investment screening mechanism able to block Chinese investments made in key industrial sectors – and where there is no reciprocity.

In practice, the new regulation – which entered into force on 13 October 2017 – aims to reform the current rule of the so-called “golden power”, i.e. special powers that the government can exercise in order to guarantee Italy’s security and public order. The new regulation contains indications regarding those high-tech sectors considered of critical importance. They include: critical infrastructure such as data storage and management, as well as sensitive technologies like artificial intelligence, robotics, semiconductors, dual-

3. See on this point; “Venezia: Pino Musolino sollecita il rilancio dell’Associazione dei Porti del Nord Adriatico”, *Trasporti Italia*, 3 October 2017, www.trasporti-italia.com. See also: “Gentiloni: Xi vuole inserire i porti italiani nella via della Seta”, in *Il Sole 24 Ore*, 16 May 2017, www.ilssole24ore.com.

use technologies, internet security, space and nuclear technology. In all these sectors – and under specific circumstances – the Italian government can now impose conditionality and even block the acquisition. To determine whether an inbound investment could have an impact on internal security and public order, the government can now take into consideration the eventuality that the foreign investor is in reality controlled by a third country.

Italy's new regulation is clearly aimed at Chinese state-owned companies, which are controlled by the Chinese Communist Party and follow political directives when investing abroad. By blocking investments in some sensitive industrial sectors, the Italian government wants to make it more difficult for a foreign company to acquire expertise and technology that could be "stolen" and later used to produce goods sold at unfair prices.

Conclusion

The mood towards Chinese acquisitions is changing among Italian authorities, political parties and public opinion. These negative perceptions are based on the idea of unfair competition coming from China – a trend which some political parties see as the main culprit for the loss of tens of thousands of industrial jobs. There is also growing uneasiness regarding Chinese acquisitions of industrial assets considered of strategic importance for the domestic economy, coupled with concerns that through investments Beijing may gain unwanted political influence. Notwithstanding these concerns, large swaths of Italy's business community remains in favor of Chinese investments and of projects related to the Belt and Road Initiative – such as the North Adriatic Port Association. This divide between business and political interests is likely to continue in the years ahead, making it more difficult for Italy to adopt a clear and coherent strategy vis-à-vis China.

Assessing (the Lack of) Chinese Investment in Latvia

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Summary

The level of Chinese investment in Latvia is low in both absolute and relative terms, and most activity has taken place in the real estate sector. Political dialogue between the two countries has intensified, particularly in 2016 and early 2017, and Latvia's hosting of the 16+1 forum raised the country's visibility in China, and vice-versa, but it remains to be seen to what extent this visibility can be materialized in the form of Chinese investment in the country.

Mapping Chinese investment in Latvia

According to the official Latvian statistics, the balance of direct investment from the People's Republic of China (PRC) in Latvia was lower than EUR 0.1 million until 2009, with no investments made between 2005 and 2008. The amount of Chinese investment passed the threshold of EUR 3 million in 2013 and surged to EUR 59.90 million in 2014, coinciding with the sudden upsurge of "golden visa" applications of Chinese based on real estate purchases. These figures were also corroborated by the Embassy of the People's Republic of China in Latvia.¹

The data provided by the Rhodium Group demonstrates a different statistic, with sudden investment peaks of EUR 1 million in 2005, 2011 and 2015 with no investments during other periods.² This discrepancy arises due to differences in methodology. As stated by the Rhodium Group, only commercial projects are considered as foreign direct investment (FDI) and not purchases by Chinese citizens (i.e. real estate).

1. Interview with Liu Shaojun, Economic and Commercial Councilor at the Embassy of the People's Republic of China in Latvia, 10 May 2017.

2. Rhodium Group, Chinese direct investment transactions in Latvia, 2017.

Table 1. Foreign direct investment from the PRC in Latvia (EUR millions)

Year	2000	2001	2002	2003	2004	2005	2006	2007	
EUR millions	0.01	0.04	0.04	0.04	0.02	0*	0*	0*	
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
EUR millions	0	0.04	0.73	0.35	0.45	3.03	59.90	69.53	76.71

Source: Bank of Latvia, 01 DI data by country tables (closing position), 2017, <https://statdb.bank.lv>.

When measured in the context of total FDI in Latvia, Chinese investment was marginal until 2013 – accounting for less than 0.1 percent of total FDI. From 2014 to 2016 this figure rose approximately 0.5 percent. According to official statistics, total FDI in Latvia in 2016 amounted to EUR 13.521 billion, the main sources being Sweden, Russia, Cyprus, the Netherlands, Estonia, Lithuania and Norway (each of which constituted more than 5 percent of the total).³ While countries like Cyprus are used to mask original sources of investment, there is no data to suggest that significant amounts of Chinese investment have been channeled in a similar fashion.

Table 2. Foreign direct investment from the PRC as a percentage of total FDI in Latvia

Year	2000	2001	2002	2003	2004	2005	2006	2007	
Per cent	< 0.1	< 0.1	< 0.1	< 0.1	< 0.1	0*	0*	0*	
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Per cent	0	< 0.1	< 0.1	< 0.1	< 0.1	< 0.1	0.49	0.51	0.57

Source: Bank of Latvia, 01 DI data by country tables (closing position), 2017, <https://statdb.bank.lv>.

* No data were received by the Bank of Latvia in the respective years.

A breakdown of investment data for the year 2016 demonstrates that the bulk of Chinese investment is concentrated in the real estate sector (Table 3). Here, it is important to mention that a policy in place since 2010 allows citizens of non-EU countries to apply for a permanent residence permit – a “golden visa” – in Latvia (granting them travel rights in the whole of the Schengen Area) in exchange for investment (one type of eligible procurement is real estate). As residents of the PRC have been among the main applicants for residence permits in exchange for investment in real estate, this is considered as one of the main drivers that has increased Chinese investment in Latvia. Indeed, local real estate companies launched Chinese language versions of their websites to advertise this model of investment. A typical profile of a real estate investor is that of an upper-middle

3. *Ibid.*

class Chinese family from first- and second-tier cities in the PRC, investing in small-scale residential real estate in Rīga, Cēsis and Jelgava municipalities, with several commercial and hospitality real estate investment projects in Jelgava and Talsi municipalities. It must be noted, however, that the minimal threshold for eligible investment in real estate was been raised in 2014 to EUR 250 000 and a fee of EUR 5000 for renewing a permit was established in 2016.⁴

Table 3. Distribution of foreign direct investment of the PRC in Latvia at the end of 2016

Sector	EUR Million
Agriculture, forestry and fishing	0.059
Manufacturing	0.797
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.236
Accommodation and food service activities	0.372
Real estate activities	4.612
"Undisposed" (98% of which is real estate investment by residents of the PRC)	69.639
Total	76.714

Source: Bank of Latvia, correspondence in April 2017.

Huawei, ZTE and Alibaba are among the most visible Chinese companies operating in the region. Still, arguably, their strategy for Latvia has not been investment-oriented – these businesses operate by establishing a local representative office and integrating their offer within the local players' services and retail networks (ZTE has withdrawn its representation from Latvia, operating from the regional office in Estonia).

Assessment of drivers for Chinese investment in Latvia

Given the limited amount of Chinese investment in Latvia, one should distinguish between factors behind the current levels of Chinese investment and factors likely to determine future investment prospects.

To date, most of the Chinese investment in Latvia is related to real estate within the framework of the so-called "golden visa" rules, but this can be considered as an artificial driver for investment because it is determined by the aim of acquiring residence permits, not making investments as such. As the minimum investment limits to acquire residence permits have been raised in recent years, it is likely that Chinese investment related to real estate in Latvia will be limited in the future.

As to why Chinese investment has not been significant and has not extended far beyond the real estate sector, one should note the relatively small size of the Latvian

4. Latvijas Republikas Saeima, *Imigrācijas likums*, 31 October 2002, <https://likumi.lv>.

economy (GDP of EUR 25.02 billion)⁵ and population (1.95 million)⁶, as well as the lack of big infrastructure projects and large companies. Thus, for large Chinese companies the Latvian market is too small, whereas small Chinese companies are not in favor of spending their resources in rather unfamiliar locations. Chinese investors have mentioned that Latvia and other Baltic States are practically unknown in China, that there is no history of cooperation or particular emotional ties with the country and the region. Some investors mention the complicated political relations between Latvia and Russia as a potentially destabilizing factor for Chinese businesses. Still others consider that Latvia's geographical location is "too far north for an Eastern European country", suggesting that it is not a convenient investment destination even within China's cooperation initiative with the 16 Central and Eastern European countries, referred to as the 16+1 format.

Latvia's advantages, according to most potential Chinese investors, largely coincide with what is usually underlined by the Latvian institutions: EU membership (which can also be considered as a detrimental factor for the Chinese given the strict environmental and competition regulations compared to China), being part of the Schengen Area and the Eurozone; quality transportation systems, including sea ports and Riga airport; and the low cost of labor compared to most other EU member states. Some potential Chinese investors also mention that Latvia is still "undiscovered" by most Chinese companies and therefore there is little competition from other Chinese firms (unlike, for example, in Poland). It is also mentioned that the local population seems to be sympathetic towards Chinese culture, which makes it a good place for small, traditional Chinese medicine, as well as culture and arts-related businesses.

Arguably, the 16+1 cooperation format and the meeting of the Heads of the State and Government of the format in Riga in November 2016 has increased awareness of Latvia among Chinese investors. Yet it is still too early to draw conclusions as to how this has influenced the investment dynamic. As for possible positive future dynamics, Chinese investors mention the building of the "Rail Baltica" high-speed railroad (Tallinn-Rīga-Kaunas-Warsaw) both as a possible investment project, as well as an infrastructure that could increase regional connectivity, thus making the region more attractive for logistics and distribution center projects.

Reception and evaluation of Chinese investments in Latvia

As most other countries, Latvia welcomes investment from other countries and promoting investment from China is one of issues on the agenda when the Sino-Latvian relationship is discussed at the political level between Latvian and Chinese officials. It can be said that the central issues are the increase of Latvian exports to China (especially by reducing the

5. *Central Statistical Bureau of Latvia*, IKG10_01, Iekšzemes kopprodukts, 2017, <http://data.csb.gov.lv>.

6. *Central Statistical Bureau of Latvia*, IE01. Iedzīvotāju skaits un iedzīvotāju dabiskās kustības galvenie rādītāji pa mēnešiem, April 2017, <http://data.csb.gov.lv>.

barriers to access the Chinese market), to attract Chinese cargo over the Latvian transport infrastructure, and to attract more Chinese tourists.

As investment from China has been rather low in Latvia, it is difficult to measure its reception locally. Some aversion has been expressed by locals since a noticeable number of Chinese nationals have acquired real estate in certain Latvian cities. Still, according to a survey conducted in October 2016 among Latvian political science students – the future civil servants, politicians and experts – equal parts of respondents (43.1 percent) were either neutral or positive towards Chinese investments, the rest being negative.⁷

Since March 2017, Latvian authorities have officially determined the national security importance certain sectors, namely: electronic communications, mass media, natural gas, electricity and heating. To acquire ownership or gain influence over companies in these sectors, approval of the Latvian Cabinet of Ministers is now necessary.⁸ Even though this new regulation was not motivated by prospects of Chinese investment, rather concerns about Russia, in the future this rule can be used to limit entry of investment from the PRC in certain sectors because China is generally regarded as a strategic rival to the EU and the US. In regards to the US, it is important to mention that it is Latvia's strategic partner and the *de facto* guarantor of the country's national defense.

Investment in the broader context of bilateral relations

Apart from the PRC withdrawing its diplomatic representation to Latvia from 1992 to 1994 because Latvia established *de facto* diplomatic relations with Taiwan over this same period, political relations between Riga and Beijing have been active. Heads of state and government have been paid mutual visits, though not surprisingly Latvian representatives have travelled to China more often than the other way around. Nevertheless, 2016 and early 2017 have been marked by intensive high-profile visits to Latvia, including that of Chinese Prime Minister Li Keqiang (during the 16+1 summit held in Rīga), speaker of the National People's Congress Zhang Dejiang, as well as several ministers and vice-ministers, accompanied by business delegations. In light of Chinese political culture, the intensification of the political exchange could bring an increase of interest among investors in the long term.

To a large extent, development of the economic relationship has been the main driver behind the Latvian interest in cooperating with China: better access to the Chinese market, offering the use of Latvian transport infrastructure for channeling Chinese goods to

7. Māris Andžāns and Zuokui Liu, "Relationship Between China and Latvia – Perspective of Latvian Political Science Students", in: Māris Andžāns (ed.), *Afterthoughts: Riga 2016 International Forum of China and Central and Eastern European Countries*, Latvian Institute of International Affairs, 2016, pp.62-63, <http://liia.lv>.

8. *Grozījumi Nacionālās drošības likumā*, 23 March 2017, <https://likumi.lv>.

Europe, attracting investment and tourists from China, etc. Latvia also runs a consistent trade deficit with China – the share of Chinese imports to Latvia constituted 3.26 percent (EUR 401.4 million) of the total imports, whereas Latvian export to the PRC constituted only 1.15 percent (EUR 118.8 million) of total Latvian exports.⁹ From the political perspective, however, Latvia treats China cautiously as its role in global politics has been more sympathetic towards Russia (considered as the main source of threats to Latvia's national security), than the EU or the US. While political dialogue between both countries has intensified over the last two years, and the events of the 16+1 cooperation format in Latvia in 2016 have raised the visibility of Latvia in China and vice versa, it remains to be seen to what extent that visibility will lead to more Chinese investments for the Latvian economy.

9. "AT05. Exports and Imports by Combined Nomenclature Sections and Countries by Quarter (euro)," *Central Statistical Bureau of Latvia*, 2016, <http://data.csb.gov.lv>.

Chinese Investment in the Netherlands: A Key Role for Acquisitions in the High-Tech Sector

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Summary

Chinese direct investments in the Netherlands have largely gone towards ICT and the agriculture/food sector. Moreover, when it comes to the top acquisitions, which account for the bulk of FDI from China, the main motive is not access to the Dutch or the EU market, but access to advanced technology and established global networks. Overall, Chinese direct investment in the Netherlands follows and supports both the Made in China 2025 strategy and the Belt & Road strategy. It is probably because of the relatively small number and low profile of Chinese acquisitions that Chinese direct investment attracts little public attention in the Netherlands, even though concerns do exist among Dutch government officials. An effective policy response requires taking into account the unique nature of Chinese direct investments, their long-term, accumulative effects and their impact on global production chains.

In search of advanced technology and established global networks

In 2000-2016 the Netherlands was the seventh-largest destination of foreign direct investment (FDI) from China in the European Union. Acquisitions account for the great majority of these investments. The prominent role of individual deals helps explain the sharp fluctuations in the annual value of investments, in particular since 2011 (Table 1). As a consequence, it is important to look at the specific characteristics of the largest acquisitions in order to understand the factors that influence Chinese investments in the Netherlands.

1. This text was submitted in July 2017.

Some of the largest Chinese direct investment transactions in the Netherlands have occurred in the high-tech sector and are (indirectly) related to Royal Philips. Long the backbone of the Dutch high-tech sector, over the past decade Philips divested itself of most of its activities as part of its strategy to focus exclusively on health technology. For instance, in 2006 Philips spun off its semiconductors division under the name NXP Semiconductors. In 2015, Jianguang Asset Management (JAC Capital) purchased a part of NXP, namely its Radio Frequency (RF) Power business, which produces chips for cell phone towers. NXP sold RF Power, which at EUR 1.6 billion is the third-largest instance of Chinese investment in the Netherlands, because it planned to take over another company, Freescale, and it wanted to avoid regulatory scrutiny. JAC Capital is a subsidiary of China Jiayin Investment Ltd (JIC), a state-owned investment company established in 2004 with the purpose of “promoting technical progress and industrial upgrades”.² After acquiring RF Power, which has 2,000 employees, JAC renamed it Ampleon and turned it into a separate company based in the Netherlands.

The largest instance of FDI from China in the Netherlands to date is the EUR 2.45 billion acquisition of another part of NXP, its Standard Products division, by a Chinese consortium consisting of JAC Capital and Wise Road Capital.³ The former NXP division is now a stand-alone firm named Nexperia and based in the Netherlands. It has 11,000 employees mostly working in factories outside the Netherlands and produces semiconductors for the automotive industry, among other sectors. Wise Road Capital is a private equity fund that invests in European and American high-tech companies.⁴ The acquisitions of the two NXP divisions clearly contribute to the strategic aims of both JAC Capital and Wise Road (in the case of Nexperia) of investing in Western high-tech companies, as well as to the Chinese government’s ‘Made in China 2025’ strategy that is aimed at moving China’s manufacturing capacity up the global value chain.

2. As stated on the company’s website: <http://eng.jic.cn>.

3. This deal was agreed in 2016 but was concluded only in February 2017 and is therefore not included in the Rhodium data on which this report is based.

4. It is not clear where the latter is based but its managing partner, Zhang Yuanjie, is a former managing director of the China Investment Corp. It is also unclear how the shareholding in Nexperia is divided between JAC Capital and Wise Road.

Table 1. Chinese Direct Investment Transactions in the Netherlands (2000-2016)

Year	Value (EUR million)
2000	0
2001	89
2002	0
2003	0
2004	0
2005	36
2006	8
2007	127
2008	15
2009	91
2010	79
2011	453
2012	55
2013	298
2014	1,750
2015	2,279
2016	318
Total	5,598

Source: Rhodium Group.

Another Chinese company which has acquired assets that formerly were parts of Philips is China Electronics Corp. (CEC), the largest state-owned IT company in China. In 2007, CEC acquired the mobile phone business of Philips, including the rights to use the Philips brand for mobile phones, at an undisclosed price. Furthermore, CEC owns a controlling stake in TPV Technology, a Hong Kong-based company that is the world's largest producer of computer monitors. In 2004, Philips sold its technology related to computer monitors and entry-level flat screen televisions to TPV at a reported sum of EUR 270 million. In 2011, the Dutch company transferred its remaining television business to a joint-venture with TPV, which purchased Philips' entire (30 percent) share in the joint-venture for EUR 180 million in 2014. TPV has the exclusive rights to sell televisions and computer monitors under the Philips brand internationally. In 2016, an attempt by Philips to sell yet another business unit to Chinese buyers failed due to objections of the Committee for Foreign Investment in the US (CFIUS). A China-based private equity firm called GO Scale Capital⁵ had agreed to buy an 80 percent stake in the Dutch company's Lumileds division, which is based in California and produces light emitting diodes (LEDs),

5. Owned by GSR Ventures, Oak Investment Partners, Asia Pacific Resource Development and Nanchang Industrial Corp.

for USD 3.3 billion. CFIUS, which screens the relevance of foreign direct investments in the US for national security, did not disclose why it objected to the transaction.

Table 2. Major transactions for mainland Chinese investments in the Netherlands (2000-2017)

Year	Target	Acquiring entity	State-owned	Value of transaction (EUR million)
2017	NXP Standard Products division	JAC Capital, Wiseroad Capital	Yes (JAC)	2,450
2014	Nidera BV	COFCO	Yes	2,050
2015	NXP RF-Power division	JAC Capital	Yes	1,600
2015	Reaal NV	Anbang	No	702
2014	Royal Nedischroef Holding BV	Shanghai Electric	Yes	325
2011	DSM Anti-Infectives BV	Sinochem	Yes	210
2011	Inalfa Roof Systems Group BV	BAIC	Yes	190
2014	TP Vision Holding BV	CEC	Yes	180
2013	Vesta Terminals BV	Sinopec	Yes	129
2016	Tanatex Chemicals Group	Transfar	No	100
2007	Burg Industries BV	CIMC	Yes	108

Source: Rhodium Group, *Clingendael*.

Although the high-tech sector is the primary target for acquisitions by Chinese investors, several other sectors have also attracted investments from China, as is indicated in the table. The largest Chinese acquisition in the Netherlands outside of the high-tech sector has been the purchase of Nidera by China National Cereals, Oils and Foodstuffs Corporation (COFCO) at EUR 2.05 billion. Nidera was established in 1920 and developed into a major trading company for agricultural products, such as grain, seeds and vegetable oils, with an annual turnover of EUR 17 billion in 2015. In 2014, the three families owning Nidera agreed to sell a 51 percent stake in the company to COFCO, a state-owned enterprise and China's largest food company, for EUR 1.3 billion. In early 2016, Nidera borrowed additional funds from COFCO in order to compensate for a substantial loss that, according to media reports, was caused by a rogue trader and that hinted at possible other internal irregularities.⁶ In the summer of 2016, COFCO bought the remaining 49 percent of the shares for EUR 750 million. This sum represented a significant discount in comparison to the 2014 deal. In 2017, COFCO merged Nidera with COFCO

6. Isis Almeida and Javier Blas, "Grain Trader Nidera Reveals \$200 Millions 'Rogue Trader' Loss", *Bloomberg*, 29 June 2017, www.bloomberg.com.

Agri (the international trading unit of COFCO) to create a new business named COFCO International. By this time, it also became clear that Nidera had suffered further, major losses in 2016 due to irregularities. It is not clear to what extent the Chinese company was aware of Nidera's apparent weak internal controls when it made its investments. For COFCO, the main strategic aim of the transaction seems to have been enabling it to become a significant player in the global trade in agricultural commodities.

Over the 2000-2016 period, greenfield investments were responsible for only 8 percent of Chinese direct investment in the Netherlands. A significant greenfield investor is ICT giant Huawei, which employed 650 people in the Netherlands in 2015. In 2005, the Netherlands was the first European country where Huawei obtained a major contract (for the deployment of a 3G network for Telfort). Currently, Huawei is active in the Netherlands as a provider of equipment for telecom operators, in the field of IT solutions, and by selling smartphones and tablets for consumers. According to a study by the Leiden Asia Centre that focused on greenfield investors, at the end of 2015 a total of 315 firms that were registered with the Chamber of Commerce in the Netherlands were Chinese. Interviews conducted with a number of these companies indicated that many of them were investing in the Netherlands with the purpose of creating a foothold from which they can explore the European market.⁷ The same study found that the majority of Chinese firms in the Netherlands are active in services or wholesale/retail, and that state-owned enterprises are responsible for the bulk of Chinese direct investment in the Netherlands.

In terms of value, the top recipient sectors are ICT and agriculture/food. Moreover, when it comes to the top acquisitions, which account for the bulk of FDI from China, the main motive is not access to the Dutch or the EU market, but access to advanced technology and established global networks. Overall, Chinese direct investment in the Netherlands follows and supports both the Made in China 2025 strategy and the Belt & Road (and the related "Go Out") strategy.

7. Tianmu Hong, Frank Pieke, and Trevor Stam, "Chinese Companies in the Netherlands", Leiden Asia Centre, 2016.

Table 3. Chinese Direct Investment Transactions in the Netherlands by Industry (2000-2016)

Sector	Value (EUR million)
ICT	1,901*
Agriculture and Food	1,568
Financial and Business Services	686
Energy	313
Health and Biotech	287
Automotive	216
Electronics	202
Transport, Utilities and Infrastructure	122
Basic Materials	108
Industrial Machinery and Equipment	93
Consumer Products and Services	39
Real Estate and Hospitality	32
Metals and Minerals	30
Aviation	2

Source: Rhodium Group.

* Since 2017 data are not included in this table, the ICT figure does not reflect the record NXP Standard Products deal.

While investments by Hong Kong companies are not included in the FDI data in this report, various companies from Hong Kong have a presence in the Netherlands. A notable case is CH Hutchison Holdings, which owns several container terminals in the Port of Rotterdam, among other Dutch assets. Another example is Ausnutria Dairy Corp., which operates four facilities in the Netherlands for the production of infant milk powder for the mainland Chinese market.

Dutch respond mostly with open doors

There are no known examples of the Dutch government taking action to prevent an instance of Chinese investment. In 2010, when the Xinmao Group attempted to acquire Draka, a manufacturer of cables (and formerly a part of Philips) for EUR 1 billion, then-Dutch Minister of Economic Affairs Verhagen stated that he saw no reason to object to such a deal. In his view, Xinmao (a private company) was acting on purely commercial motives, and the take-over would not have a negative effect on European

competitiveness.⁸ The Dutch government also had no objections to the various Chinese acquisitions of semiconductor producer NXP. Chinese investment is not a major topic of public debate. The case that is most widely known in the Netherlands is the acquisition in 2014 of a football club, ADO Den Haag, for EUR 8 million by United Vansen. A subsequent conflict between the club's Dutch management and the Chinese owner of United Vansen received extensive media coverage, and is likely to have had a negative – but still limited – impact on the image of Chinese investors in Dutch public opinion. It is probably because of the relatively small number and low profile of Chinese acquisitions that Chinese direct investment attracts little public attention.

Concerns do exist among Dutch government officials. The Dutch intelligence agencies have warned about large-scale industrial espionage by Chinese and other actors (not necessarily in connection to FDI). In 2012, several political parties raised questions in the Dutch parliament about the risk that the involvement of Chinese firms Huawei and ZTE in the Dutch telecom sectors could make Dutch entities more vulnerable to espionage. And as a result of (failed) take-over attempts of major Dutch companies KPN and AKZO Nobel by Mexican and US firms respectively, the government and the media have been paying increasing attention to the question of whether existing policies regarding acquisitions by foreign entities need to be adjusted. In 2014, the Dutch government started a program of assessing potential FDI risks on a sectoral basis, focusing on infrastructure sectors that the government considers to be of vital importance for national security. An initial outcome of this program is a proposed law that would enable the Minister of Economic Affairs to block foreign investment in a Dutch telecom firm if this endangers national security or public order. The government prefers a sectoral approach over a generic investment screening for inward FDI. Moreover, the response of the Dutch government relates to inward FDI from any source and is not linked to or integrated in an approach to China or the specific characteristics of Chinese investment.

Implications for Sino-Dutch relations

Chinese investment in the Netherlands is small compared to the overall value of inward FDI. According to data of the Dutch Central Bank, by the end of 2015 the combined value of Chinese and Hong Kong direct investment stock in the Netherlands amounted to a mere 1 percent of total inward FDI stock. The main purpose of many of the larger Dutch acquisitions is for Chinese companies to enhance their own competitiveness in China or globally; they are less often related to the Dutch or even the EU market. Once under Chinese ownership, the acquired companies often remain in the Netherlands and continue to operate under their previous management. This means that in the short term such take-overs can often be beneficial for the companies themselves, which gain better access

8. The deal eventually was cancelled as it took too long for Xinmao to obtain permission from the Chinese authorities for the take/over. The main stakeholder in Draka opted for a non-Chinese bid.

to the Chinese market and Chinese capital, and for the Dutch economy, which suffers no jobs losses due to the transition. It is unlikely that direct investment so far has provided the Chinese government with an instrument to exert political influence in the Netherlands. Chinese investment is not only limited in relative size, but direct dependence on Chinese actors in terms of jobs or strategically important activities is also limited.

When it comes to the long-term effect of Chinese investment, two concerns need to be taken into account. The first is the possibility that the Chinese government, as part of a comprehensive and sustained strategy, will create a situation in which key technologies in many business sectors will be controlled by Chinese firms. This would concentrate bargaining power and high value-added activities in global value chains in China, and could ultimately weaken European competitiveness. As Dutch companies already are highly dependent on international supply chains, this scenario is only to a limited extent related to Chinese direct investment in the Netherlands itself. At the same time, due to their high degree of internationalization, Dutch companies may actually be very vulnerable to such a strategy. The second concern is that European governments will gradually lose their ability for autonomous policy-making towards China, as they become increasingly dependent on actual or expected Chinese investments.

In the future, Chinese direct investment will be of significant importance to the Dutch economy as it will very likely continue to grow in size. In order to adequately prepare for the above-mentioned long-term concerns, it is essential that the Dutch government take certain steps.

- First, the Dutch government's approach to incoming direct investments should take into account that China is unlike any other country. Its vast economic resources, its geopolitical role as the main challenger to US and Western leadership, and the dominant role of the state in its foreign economic relations make China's foreign investments highly consequential. In order to be effective, investment policies need to be designed specifically to address *Chinese* direct investment, even if they are ultimately embedded in generic FDI policies.
- Second, Dutch policies towards Chinese direct investment should focus on the long-term, cumulative effects of transactions rather than on individual cases. Large Chinese enterprises and Chinese state-owned enterprises operate abroad with an important degree of autonomy and with a focus on commercial interests, but they are ultimately under the strong influence or formal control of a single entity, namely the Chinese Communist Party.
- Finally, incoming Chinese investments should be evaluated in terms of their impact on international value chains. The Dutch government needs to do this by sharing information and perspectives with other countries. China, through its Belt & Road and its Made in China 2025 strategies, is aiming for a highly influential position in global value chains. The Netherlands, like other European countries, needs to be aware of this broader picture that mostly transcends national policies but that in the long run can have a major impact on its economic and security interests.

Chinese Investments in Norway: A Typical Case despite Special Circumstances

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Summary

Chinese investments in Norway have increased, and remain moderate but substantial compared with the situation in Europe overall. The Norwegian case is both typical and somewhat unique. Transactions made in the 2000s coincided with China's boom in outbound natural resource- and energy-related investments. Subsequent deals have demonstrated an increasing interest in specialized and high-tech companies. There has been diversification among actors, but state-owned enterprises remain the main source. Moreover, the debate surrounding Chinese investments in Norway has been limited and largely positive. What makes Norway a special case is the six-year freeze of bilateral political affairs that followed the Nobel Peace Prize in 2010. Although the suppression of some investor interests and opportunities is to be expected, several major investments were completed during this period despite the dysfunctional political ties. After the normalization of bilateral relations in December of 2016, actors on both sides are signaling increased economic interest and negotiations for a bilateral Free Trade Agreement are back on track.

Norway – part of the European trend

Chinese investments in Norway have increased in both number and scale over the past two decades. Overall volumes remain moderate compared to inflows from neighboring and other Western European countries and the USA, but China has become a notable actor, ranking between 10th and 15th place among the countries holding the most investment-

related assets (stocks) in Norway in recent years.¹ From a European perspective, Chinese investments in Norwegian companies are substantial and fit several well-known trends. Although a detailed estimate of the overall transactions and volumes is currently not available, Table 1 presents a list of the largest deals (USD 100 million and larger).²

Table 1. Major transactions involving Chinese (mainland) companies, 2002–2016

Year completed	Chinese investor	Entity in Norway	Size of investment in USD millions, (stake)	Sector
2003	Sinochem	Atlantis	105 (100%)	Energy
2008	COSL Norwegian, CNOOC	Awilco Offshore	2500 (100%)	Energy
2010	Grand China Logistics, HNA	Offshore Heavy Transport	380* (60%)	Transportation
2011	China Bluestar, ChemChina	Elkem	2000 (100%)	Chemicals
2015	Bluestar Elkem Investment, ChemChina	REC Solar	640 (100%)	Energy
2016	Reignwood	Voss Water	105* (55%)	Consumer
2016	Golden Brick, Qihoo and Beijing Kunlun	Opera Software (consumer division)	575 (100%)	Software, IT
2016	Elkem Bluestar, ChemChina	Fesil Rana Metall (incl. share in Nor-Kvarts)	Value not publicly reported but expected to be major	Metals, minerals

*Sources: Rhodium Group**, American Enterprise Institute, Zephyr Investment Management, and the authors' own observations and data triangulation.*

* The reports on final value/prize vary, so we have used the most conservative figures.

** Rhodium Group has provided data on some major transactions, but does not track transactions involving Norwegian assets as carefully as it does for investments in European Union member states.

While the table above only includes the largest, and relatively widely reported, transactions, the authors are compiling an internal record including other and smaller deals and transactions from 2000 and into 2017.³ We note that a rough count of the Chinese investments (mergers and acquisitions), which are currently known to us, totals

1. Adapted from the official figures provided by Statistics Norway, which refer to total positions (including shares, other equity, and debt instruments).

2. Due to the format and standards of this report, we have limited the specification of references and sources. However, information that is related to the transactions, figures, and other issues specifically mentioned in this chapter is on file with the authors and the Norwegian Institute of International Affairs.

3. We use a 10 percent purchase/share as the minimum baseline for what we consider to be direct investments, avoiding minor transactions and/or very short-term placements, in line with international standards for foreign direct investment accounting. In international statistics, the baseline is often either 10 percent or 20 percent, and we take note of this when comparing sources and figures.

around USD 7 billion (around EUR 5.9 billion).⁴ This does not include greenfield or other transactions that may fall under other categories, but is in any case very substantial by European standards. Expecting that a number of deals, particularly many smaller ones, are not included in the currently available data observations, we expect the total investment volume to be higher. We are also aware of several significant deals involving entities based in Hong Kong, some of which are affiliated with companies headquartered in the mainland. If we include these, the figure naturally increases. Moreover, many Chinese companies have established subsidiaries in other destinations for financial services or tax-related purposes, as internationalized companies in general frequently do. The original or ultimate ownership behind investments placed through subsidiaries can be challenging to observe and track. For these reasons, it is difficult to say how large the volume of Chinese investment may actually be, and we hesitate to specify more estimates based on the data we have collected and analyzed thus far.

We note that the China Investment Corporation (CIC), whose activities have been recorded in several European countries, is involved in Norway's petroleum sector, first through its 30 percent ownership share, acquired in 2011, in the Europe-based company Engie E&P, which has been operating in various Norwegian oilfields for several years. The remaining 70 percent of Engie E&P, the exploration and production arm of the French utilities giant formerly known as GDF Suez, is in 2017 being sold to the British company Neptune Energy. As part of the sale agreement, the CIC is expected to increase its ownership share to 49 percent.⁵

From the transactions we have been able to compile and study, we observe a number of well-known trends. First, early Chinese investments in Norway, which were made during the 2000s, were concentrated in natural resource and energy-related sectors. This coincided with the sharp increase in Chinese investments in the same sectors elsewhere. Second, later investments, which started around 2010, were geared toward specialized and relatively high-tech companies that were known as leading actors in their sectors. In terms of size, the purchases of Awilco Offshore (energy) in 2008 and Elkem (chemicals) in 2011 were particularly large. Later deals also included companies operating in consumer products (Voss Water) and software (Opera) industries. Third, although we have seen diversification among Chinese investors with the entrance of some private companies, the main actors are still state-owned enterprises.

Although the level of investments from Chinese companies into Norway has been considerable, it is important to keep in mind that Norway is still a small market with relatively few Chinese investors. Investment flows and volumes may, therefore, change considerably from year to year, depending on the actions of a few key stakeholders. There

4. The EUR figure is a simple conversion from USD based on rates, from Norges Bank, for 10 October 2017, and does not incorporate individual transaction – and – or year/date-specific currency considerations.

5. The European Commission gave its approval for the transaction in early November 2017, "European Commission clears Engie's E&P assets sale", *Enerdata*, 2 November 2017, www.enerdata.net.

are indications of substantial capital flows, also related to Chinese investors and companies, in and out of Norway. This is typical of the operations of large international firms with many subsidiaries. The annual overview figures provided by Statistics Norway, which is a state institution in charge of handling investment-related and other statistics, seem to illustrate this point.

According to their (Statistics Norway) overview, the total positions in 2013 (including shares, other equity, and debt instruments) connected to China-related investments are around USD 5.2 billion.⁶ We take note of an additional USD 261 million associated with investments having come from Hong Kong. Only direct investments are accounted for in these statistics (they do not consider ultimate ownership or the historic origin of the investments). These figures are still lower than the total sum of our recorded China-related investments from 2002 to 2016. This is to be expected as companies restructure and reinvest, and loan conditions, down payments, and other financial conditions are continuously changing.

It should also be noted that the total position figures from Statistics Norway change considerably from year to year. The total positions recorded in 2014 were reported to be less than half of the positions reported in the previous year (2013), and there was a further reduction in 2015. As mentioned earlier, we expect these changes to be connected to the activities of a limited number of influential actors, so this should not be considered a trend. To identify trends, we need a much longer-term perspective, especially when considering the still-limited number of Chinese actors operating in the Norwegian economy. Since the reporting and calculation procedures behind this statistic changed substantially in 2013, we have not considered previous years. Our main point is still that we see an increasing level of investments from China in Norway, but that total positions fluctuate year by year, which is to be expected.

Political considerations and public discussion

In principle, Norway is an open economy and makes few distinctions between domestic and international investors. There are several ownership- and market-regulating restrictions in place, but they apply to all investors alike. The National Security Act includes language on special reporting and approval procedures for investments, domestic or foreign, in assets considered as critical infrastructure.⁷ Several investment- and trade-regulating agreements do include special clauses concerning national ownership in fisheries, petroleum, and some other sectors, but there is no special screening mechanism in place for foreign investors. This being said, the expert committee that finalized general recommendations for an update of Norway's security regulations in 2016 did point out that

6. Statistics Norway uses a 20 percent purchase/share as a minimum baseline for what is recorded as an investment in this statistic.

7. "Lov om forebyggende sikkerhetstjeneste" [National Security Act, authors' translation].

Norway needs better protection against foreign ownership of assets that may be identified as part of critical infrastructure or vital societal functions.⁸ Their recommendations include the establishment of a screening mechanism that is based on highly specified and narrowly defined security considerations. The political process concerning this and all other recommendations will evolve in fall 2017, led by the Ministry of Defense.

The Norwegian and Chinese economies are largely complementary, and although Norway has a trade deficit with China, economic relations between these countries are generally viewed as mutually beneficial. Investments from Chinese actors into the Norwegian market are, in general, welcomed and have raised little political discussion. However, there has been some level of critical and concerned debate surrounding certain activities and initiatives, which fall into three main categories:

- **Security:** In the years leading up to 2009 and beyond, Huawei has become increasingly active in Norway and has obtained several major contracts for the installation and maintenance of mobile telecommunication and network infrastructure (e.g., 4G network). However, despite several national security institutions expressing initial concern over Huawei's involvement, there has been little political or public debate on this issue since. Huawei has been awarded new contracts, often in collaboration with Telenor, a large Norwegian state-majority shareholder company.
- **Chinese standards and practices:** Some politicians and national labor union representatives have raised issues with Chinese companies taking over Norwegian firms. For instance, China Bluestar (ChemChina), which moved in to buy Elkem for a deal that was completed in 2011, triggered some debate, mainly focusing on whether Chinese owners based in a country with an authoritarian political system would be able to develop the company and take care of the Norwegian workers. After the takeover, however, the debate faded. Elkem's Norwegian staff representatives appear regularly in the Norwegian media, speaking positively about their Chinese owners and what they have done with the company.
- **National ownership in strategic areas:** Serious concerns were raised in 2014 when the relatively high-profile Chinese investor Nubo Huang showed interest in buying a sizeable area in Svalbard, an arctic archipelago under the sovereignty of Norway, to use for tourism-related purposes. Most of these concerns were more related to the general question of national ownership in this geographically remote but strategic area than to the investor's nationality. Ultimately, the Norwegian Government bought the land. In 2014–2015, the same Chinese investor was preparing to purchase a large piece of land in the northern part of mainland Norway (Lyngen), also to be used for tourism-related developments. These plans raised concerns, and curiosity, at local and national levels, but the deal has since remained non-completed for reasons we assume to be unconnected to Norwegian considerations.

It may be noted that the Chinese consortium opting to buy Norway-based Opera Software in 2016 was not able to obtain approval for a full takeover. The consortium ended up buying only a part of the company (the still sizeable consumer division). Reportedly,

8. "Samhandling for sikkerhet," NOU 2016:19 (Norwegian official report on the coordination of security-related issues and institutions).

the problems were related to regulatory approval that was not given in time for the deal to go through, but in any case, these issues were related to US and/or Chinese regulators and not Norwegian institutions.

Normalization and a bilateral Free Trade Agreement

In many respects, Norway represents a typical and positive case of Chinese investments in Europe. What still makes Norway a very special case is the six-year period of political boycott that followed the 2010 Nobel Peace Prize being awarded to Liu Xiaobo. Although political relations were frozen and we do expect some suppression of investment interests and opportunities, several major investment deals were completed during this period. This speaks to the strategic incentives and actors driving many Chinese investors, whose operations may not depend on smooth bilateral relations.

In December 2016, Norway–China relations were normalized, and both sides have since increased efforts to bring all parts of the bilateral relationship up to speed. We do anticipate several positive effects to emerge from the normalization process. The interest from Chinese commercial actors in the past few months has been considerable, which relates to general investment opportunities, new trade deals, and the appraisal of potentially large, and often state-financed, infrastructure and construction contracts open for competitive bidding. Although this last point is not directly related to investments, it is worth noting that the interest from Chinese actors for infrastructure projects is likely to increase. Clarity on how to handle bidding procedures for Chinese, and other contenders, who are not subject to all the same agreements and regulations that most Norwegian and European bidders are, is becoming an issue. We have seen that local politicians and decision makers are not always certain how to manage such bids, as was the case with the 2017 bid by the Chinese, largely state-owned, company Sichuan Road and Bridge Group (SRBG) to construct the Beitstadsund bridge in central Norway. SRBG, which had already successfully bid for another construction project in Norway in 2013 (the Hålogaland bridge), was first exempted from evaluation for this new project, but was later included and won the competitive bid after the Chinese bidder's representatives raised complaints. Some politicians have thus called for more clarity, which is likely to be addressed.

Negotiations for a bilateral Free Trade Agreement have been restarted, building upon, but also reconsidering, the framework that was worked out in late 2010, when a reportedly close-to-done deal was abruptly shelved as Nobel Prize-related political problems materialized. Investment considerations, including reciprocal conditions and access to the other nation's market, are to be discussed and included in the agreement.

In conclusion, the significant and rapidly increasing level of Chinese investments in Norway, as elsewhere in Europe, should be met with more information and research. As skepticism toward Chinese investments – in Europe in general – seems to be rising, more

knowledge about who the investors are and what they are contributing to will benefit us all, and not least Chinese actors who want to invest more. However, it should also be stressed that the level of overall investment from China into Norway is still moderate, especially when compared with the inflow from other countries. In the case of Norway, our overall outbound investment flows to China are still considerably larger than the inbound investments we get in return. The Norwegian Government Pension Fund Global has (as of October 2017) around USD 15 billion invested in equities in China, spread over 500 separate investments. In Hong Kong, the Fund holds around USD 7 billion, spread over around 200 separate deals. Thus, investments are clearly an issue of mutual interest and remain a significant dynamic in Norway's bilateral and international relations.

Poland's Measured Approach to Chinese Investments

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Summary

The last two years have seen an increase of Chinese direct investment in Poland. These investments include both greenfield and acquisitions, and are considered as high quality investments. Still, there are no significant infrastructure projects, which are the goal of Poland-China cooperation under the Belt & Road Initiative. Poland has observed the lessons of Chinese investments elsewhere and taken a more cautious, measured approach. These investments are welcomed, and attracting them is one of the main goals of Poland's policy towards China, but the official discourse has slightly changed. In particular, Poland is not so much looking for cash-rich Chinese investors, but rather partners that may offer comparative advantages such as technology and know-how. Chinese companies are encouraged to take part in public tenders under the same conditions as others do, while the government maintains that it conducts a thorough screening of potential Chinese investors.

Mapping Chinese Investments

According to the latest data provided by the National Bank of Poland (NBP), in 2016 total Chinese direct investment reached EUR 123.3 million,¹ while in 2015, it was EUR 198.5 million.² However, the methodologies for calculating Chinese investments in the NBP data sets distorts the real picture. The year 2016 (as well as 2017) is widely considered as a period of noticeable rise of Chinese investments in Poland. The Polish Embassy in Beijing informs on its website that, due to the two biggest Chinese takeovers in 2016 (by Everbright and Three Georges) and other declared projects, the estimated level of Chinese

1. Foreign direct investment inward position at the end of 2016 broken down by country and economic zone. Data excluding Residency of Special Purpose Entities, www.nbp.pl.

2. Foreign direct investment inward position at the end of 2015 broken down by country and economic zone. Data excluding Residency of Special Purpose Entities, www.nbp.pl.

investment reached around EUR 757.6 million³ – much more than the NBP data show. It seems that the embassy's data is more representative, as the NBP's methodology does not include investments by Chinese companies registered outside the PRC or doing business not directly from China, while the embassy concentrates on declared investments by Chinese companies generally, including those registered in Europe, Hong Kong, or elsewhere.⁴ Embassy calculations are closer to the data collected by the Rhodium Group, which shows that in 2016 there were roughly EUR 936 million of Chinese investments in Poland⁵. Nevertheless, despite its rise, the share of Chinese investments among total FDI in Poland is still relatively insignificant.

Among the sectors that have received Chinese investments are:

- **electronics:** TCL in Zyrardow and Digital View in Koszalin both manufacture LCD panels;
- **electromechanical sector:** the Nuchtech company in Kobylka, near Warsaw, which produces an X-ray inspection system used mainly in transport (e.g. for trains);
- **machinery:** LiuGong, Tri-Ring;
- **distribution:** in Wola Kosowska near Warsaw there is a large Chinese and Asian products distribution center—GD Poland;
- **ICT:** ZTE and Huawei
- **energy:** China Three Gorges Corporation
- **environment:** Everbright
- **infrastructure:** Sinohydro
- **banking:** Bank of China, ICBC, Haitong, China Construction Bank .⁶

The latest Chinese investments include:

- In early 2012, LiuGong, a leader in China's construction equipment manufacturing industry, acquired the civilian branch of the Huta Stalowa Wola steel mill. This was the first full privatization in Poland with Chinese capital.
- In 2013, the Tri-Ring Group, whose activities include the design and manufacture of mechanical parts for the automotive industry, numerically controlled machines including components used in their operation, and trucks for civil and military use, invested around EUR 70 million in the acquisition of biggest bearings factory in Poland.
- In late 2015, Sinohydro, a major state-owned hydropower contractor, won a bid to build the Lublin-Chelm electric transmission line. In 2016, the same company

3. Wymiana handlowa i aktywność inwestycyjna [Trade and investment activities], www.pekin.msz.gov.pl.

4. Chinese companies often invest from the Nederland and Luxembourg.

5. Thilo Hanemann and Mikko Huotari, "Record Flows and Growing Imbalances. Chinese investments in Europe in 2016", *Merics Paper On China* (Update), No 3, January 2017, Figure 6, p. 10. www.merics.org.

6. Chińska Republika Ludowa. Informacje o stosunkach gospodarczych z Polską [People's Republic of China. Information about economic relations with Poland], Ministry of Economic Development, 29 November 2016, www.mr.gov.pl.

launched its involvement in the project of deepening and expanding the channels of the Wrocław floodway.

- In mid-2016, Suzhou Chunxing Precision Mechanical, a public company listed on the Shenzhen stock exchange that produces aluminum components for telecom, automotive, medical and other industries, opened a prototyping workshop in Gdańsk.
- In 2016, China Hongbo Clean Energy Europe purchased a plot in Opole to build a LED lighting factory. The company intends to invest EUR 85 million and create about 100 jobs. Apart from manufacturing, Hongbo plans to set up a R&D center as a second phase of investment and a result of company cooperation with the Technical University of Opole.
- In August 2016, China Everbright International, a leading player in China's environmental protection industry and the first one-stop integrated environmental solutions provider in the country, completed its acquisition of Novago, a leading solid waste treatment Polish company. The acquisition was approximately EUR 123 million.
- In October 2016, the Portuguese EDPR Group sold 49 percent of its shares in a wind farm in Poland to a fund controlled by China Three Gorges Corporation. Estimated value of acquired shares in Poland is calculated to EUR 289 million.
- In September 2017, Nuchtech announced its second investment in Kobyłka – a new manufacturing factory of scanners for air industry and custom services. It is argued that the new plant in Poland will be the fourth largest beyond China, Dubai and Brazil.
- There are also three Chinese companies listed on the Warsaw Stock Exchange: Peixin International Group N.V. (since late 2013), which produces machines for manufacturing hygienic products; JJ Auto CG, a company that produces parts for vehicles and heavy machinery; and Fenghua SoleTech (since late 2014), which manufactures shoes elements for world brands.

In terms of type of activity, Chinese investments mainly embrace manufacturing, finance, transportation, telecommunications, and small infrastructure projects. These investments largely take the form of M&As and several *greenfield* investments. A noticeable increase has come in the financial sector, as there are now branches of four Chinese banks in Warsaw. In 2012, two of the biggest Chinese banks – Bank of China and Industrial and Commercial Bank of China (both are branches of their Luxembourg offices) – opened divisions in Warsaw. Meanwhile in May 2017, a branch of China Construction Bank was opened in Warsaw.

Drivers for Chinese investments

Chinese involvement in Poland is focused on market, efficiency and technology-seeking investments. Poland's geographical location is one of its key assets – vicinity of key partners in Western Europe, access to the sea and a direct maritime connection with China, and convenient road and rail links. Other general reasons include investment climate, access to local human resources and qualified staff. What is more, Chinese companies

(e.g. LiuGong)⁷ are interested in introducing products with their own logo to the European market as well as obtaining EU certificates to expand in Europe. They also seek access to technologies. For example, LiuGong was interested in gaining access to technology for building crawler vehicles. In Everbright's case, the acquisition of Novago is closely linked to the company's international development strategy, which is to expand into Central and Eastern Europe using its own advanced energy recovery technology and the experience gained by its newly acquired company from Poland. Chunxing, meanwhile, with a new facility in Gdansk, would like to provide a quick machining prototyping and warehouse and logistics service to European customers. Its strategy is to set up a mass production base in Europe in the next 3-4 years.

Moreover, among the reasons why Chinese banks started operation in Poland is to familiarize Chinese companies with Polish laws and financial regulations. For example, it was the Polish branch of the Bank of China that granted Everbright a credit for the purchase of Novago. Since the Silk Road initiative (now called "Belt & Road Initiative", BRI) was announced, Chinese investors (e.g. banks) have eagerly highlight that their investments should be considered as implementation of the BRI or activities under the BRI framework.⁸

As far as Chinese drivers are concerned, it is also worth mentioning an example of investments that have been postponed. Agreed in May 2017, China Security & Fire's purchase of Polish Konsalnet – the largest security company in Poland – for about EUR 110 million was officially halted in July. Supposedly, the reason is a new Chinese policy of greater control over the flow of capital from the country. Capital outflows are so significant that the government only accepts investments consistent with the main objective, to gain access to recognized brands and new technologies.⁹

Reception and evaluation of Chinese investments

Reception of Chinese investments in Poland is generally positive or, at least, neutral. It is a change of mood compared to 2012, when the China Overseas Engineering Group (Covec) responsible for building a portion of a highway in Poland (that should have been finished before the Euro 2012), eventually abandoned the project. Nevertheless, the debate about this issue has been muted and this case has not changed Poland's goal of attracting Chinese investments, both *via* public procurements and FDI. The government's main message to China is that Poland welcomes Chinese *greenfield* and *brownfield* investments,

7. Eventually, LiuGong has resigned from using its own logo, replacing it with Dressta brand.

8. "Chinese banks putting down roots in Poland to enhance "Belt and Road" opportunities", *Xinhua*, 5 July 2016, <http://news.xinhuanet.com>.

9. Magdalena Wierzechowska, "Konsalnet został bez Chińczyków" [Konsalnet left by Chinese], *Puls Biznesu*, 3 July 2016, www.pb.pl.

but not necessarily M&As. Poland also encourages Chinese companies to take part in public tenders.

The reason for this approach is the fact that Poland is looking to improve its infrastructure as well as accelerate the country's industrialization (those goals are an important part of the Responsible Development Strategy – Poland's main, 25-year economic and development strategy)¹⁰, create new jobs, and revitalize and upgrade transport networks within the country and the region, especially in Central Europe. In that sense, Chinese investments are perceived as an opportunity. An example is the list of four potential projects in Poland (all about waterways) that could be implemented under the framework of the EU-China Connectivity Platform.¹¹ What is more, in May 2016 the Polish Prime Minister established a special inter-governmental group to work out a list of potential infrastructural projects that could be implemented together with Chinese partners.

Taking into account the examples of Chinese investments (especially in Germany) with security or technology risks, there is no public debate about these concerns in Poland. The supposed reason is the fact that, to-date, there have not been any specific Chinese attempts at hostile takeovers. Nevertheless, there are initial "behind the scenes" debates about these issues, as well as taking into account the mode of Chinese investments in other European, but also non-EU countries – in particular, providing money *via* credits and loans and taking full control over investments while transferring the debt burden on to the host country.

The incumbent Polish government, which pursues an active policy towards China, signals caution towards the PRC's investments. It highlights that the money is not a key, as Poland has enough capital so-far for infrastructural projects, e.g. from EU funds. In that sense, Poland is looking for technology and know-how and Chinese investors as partners, not money-providers. It seems that the Polish government is trying to avoid a scenario similar to the COSCO-Piraeus case, wherein a Chinese company takes full control over an investment. Polish officials also highlight Chinese investments to establish up a technology park in Wielki Kamień, near Minsk. Eventually, the burden of the investment was put on Belarus. What is more, the Polish government is learning the lesson from the Belgrade-Budapest railway: a flagship investment under the 16+1 formula, which led the Hungarian part to be under extensive probe by the European Commission.

This measured and cautious approach (e.g. to verify Chinese partners and avoid over-dependence on Chinese capital) is vindicated by the debate and remarks about potential Chinese involvement in infrastructure projects, especially the Central Communication Port

10. In February, the Polish government adopted a resolution on the Responsible Development Strategy. The document specifies the goals to be achieved by 2020 and 2030.

11. "List of the TEN-T related projects presented in May 2017 in the framework of the Expert Group on Investment and Financing of the EU-China Connectivity Platform", <https://ec.europa.eu>.

(CCP) – a current flagship project of the government (although it is still in the conceptual phase). After Prime Minister B. Szydło's visit to China in May 2017 (it was an official bilateral visit to the PRC, linked with participation of the Polish Prime Minister in the Belt and Road Forum), government representatives signaled that "we did not go to China for money from the CCP [...]. We are not looking for financing, in return for control over the investment. We are looking for an economic partner who will also be interested in the success of this investment."¹² "We want investments to be under Polish control – obviously in cooperation with China. We would like to avoid the situation in which projects, such as CCP, are entirely financed by China. [...] Infrastructure investments must be carried out with caution, with the predominance of Polish capital. This applies not only to Chinese capital, but to every other. We believe that capital has nationality. It would be unreasonable at this point to "let" investors enter into the infrastructure projects, giving them all the funding possibilities."¹³

There are several institutions and regulations to verify foreign investments and protect strategic sectors in Poland. These are general in character but are being used in the case of some Chinese investments. For example, Chinese banks with offices in Poland gained approval from the Polish Financial Supervision Authority to open branches in Warsaw and conduct operations in Poland. The approvals included some conditions, e.g. financial reports in Polish, disputes resolved by Polish courts under the same conditions as applied to Polish banks, etc. While the Office of Competition and Consumer Protection – an institution that is authorized to control mergers in order to prevent situations where, as a result of a merger, a dominant entity is created on the market – agreed to Chinese investment in Konsalnet (which eventually was put on hold). The office had to consider this transaction because the turnover of the Polish company exceeds EUR 50 million.

What is more, in mid-2015 a new law about control of certain investments – known as against hostile takeovers – was adopted. The activities under special protection – which means prevention from domination or even reaching a level of "significant share" by a foreign investor – are energy production and distribution, petroleum production, processing and distribution, telecommunications, manufacturing and trade of explosives, weapons and ammunition. Those sectors are considered as essential to the country's security.¹⁴ According to this law, the government should publish a list of protected companies.¹⁵ This law is not directed against any country but in a public discussions,

12. "Wild: nie przyjechaliśmy do Chin po pieniądze na Centralny Port Komunikacyjny [wywiad]" [Wild: we did not go to China for money for Central Communication Port], forsal.pl, 15 May 2017, <http://forsal.pl>.

13. "Henryk Kowalczyk o współpracy z Chinami. Co ze zwiększeniem eksportu i inwestycjami w Polsce?" [Henryk Kowalczyk about cooperation with China. What about expanding exports and investments in Poland], money.pl, 1 czerwca 2017, www.money.pl.

14. "Ustawa z dnia 24 lipca 2015 r. o ochronie niektórych inwestycji" [Act about control of certain investments Law], Dziennik Ustaw Rzeczypospolitej Polskiej.

15. Rozporządzenie Rady Ministrów z 8 grudnia 2016 r. w sprawie wykazu podmiotów podlegających ochronie, Dziennik Ustaw [Government's regulation about the list of protected companies]. This list includes seven companies.

Russia has been mentioned. Nevertheless, it could be useful in case of any other foreign investment. Incoming foreign investments are also verified by other institutions such as the Internal Security Agency and the Foreign Intelligence Agency.

Investment in the broader context of bilateral relations

From the Polish perspective, the main goal in relations with China is to expand exports, as Poland faces a huge and increasing trade deficit. Investments moving in both directions are the second main point on the bilateral agenda. It is difficult to assess to what extent closer bilateral political ties have an impact on Chinese investments in Poland. Nevertheless, it seems plausible that intensive political dialogue creates a good climate for greater interest from Chinese investors – given, for instance, the increase of visits of potential Chinese investors to Poland, especially after high-level meetings. Investment deals are also facilitated by high-level political visits – for example, after President Andrzej Duda’s visit to China in November 2015 and President Xi Jinping’s visit to Poland in June 2016, Hongbo’s investment in Opole and Everbright’s acquisition of Novago were presented as tangible results of those state visits.

The Covec issue in 2012, in which road construction was abandoned, also figured high on the political agenda, being raised by Poland on each occasion and during all meetings with Chinese officials until Chinese banks repaid their guarantees. This is a case in which investment figured as a seemingly regular point of tension in bilateral ties. Currently, as far as investments are concerned, Poland is focused on explaining the Polish investment climate and its characteristics to Chinese counterparts (e.g. existence of the special economic zones, where Chinese engagement is very welcome), to include Polish and EU law, especially public procurement regulations.

Conclusions

Poland’s measured approach does not change its goal of attracting Chinese investments, which generally are considered as potentially attractive, taking into account the fact that China, to some extent, has experience in high-quality projects, at least at home, such as modern airports (with convenient, ergonomic and energy efficient solutions). The recent examples such as Hongbo shows that effective, greenfield investments from China, including not only manufacturing but also R&D, are possible. What is more, this particular case proves that the cooperation on a local level may create tangible results. Nevertheless, China is considered as a difficult partner, which in a very assertive way is trying to export its excess manufacturing capacity and loan and credit schemes. Polish decision-makers are aware of this, which does close doors for Chinese investments. Nevertheless, newly announced investments (such as the Nuchtech plant in Kobyłka) demonstrate that there is still fertile ground to cultivate opportunities.

Chinese Investment in Portugal: Gaining Access to Cutting-Edge Knowledge and Extending Global Influence

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Summary

The EUR 2.7 billion investment made by China Three Gorges in the major Portuguese electric power supplier Energias de Portugal S.A. (EDP) in 2012, marked the beginning of a series of Chinese direct investments in Portugal that would reach EUR 5.7 billion by the end of 2016. These operations targeted large firms operating in strategic and/or sensitive sectors, which have granted Chinese firms access to advanced knowledge and extended markets. In the near future, two major trends can be put forward: firstly, the diversification of sectors targeted by Chinese investments; secondly, the further exploitation of current investment dynamics.

Chinese investors were second to none in taking advantage of the fragile and vulnerable condition of the Portuguese economy, severely affected by the 2008-2014 economic and financial crisis, and the inherent instability of the policy and political context in Lisbon. Austerity-driven policies imposed by the European Central Bank, the International Monetary Fund and the European Commission (the “troika”) as the remedy to mitigate the economically and financially troubled situation of Portugal, put forward a wide-ranging privatization program starting in 2011.

As stated in the troika’s Memorandum of Understanding (MoU), the plan targeted “frontloaded proceeds of about €5.5 billion through the end of the program, with only partial divestment envisaged for all large firms.”¹ In fact, the Portuguese government went significantly beyond the EUR 5.5 billion goal, confirming the troika’s expectation that it had committed “to go even further, by pursuing a rapid, full divestment of public sector

1. Troika Memorandum of Understanding, May 2011, p. 45.

shares in EDP and REN, and is hopeful that market conditions will permit sale of these two companies, as well as of TAP, by the end of 2011.”² By 2015, the outcome of privatizations amounted to approximately EUR 10 billion.

The lion’s share of this privatization frenzy was secured by Chinese interests (despite the small relative weight of China in the total FDI stock in Portugal, ca. 1.6 percent at the end of 2016). In a short period of time, large, Portuguese-flagged firms, operating in a number of strategic and/or sensitive sectors, started being partially or wholly owned by Chinese, mostly state-owned companies.

Mapping Chinese investment in Portugal

In 2012, China Three Gorges Corporation (CTG) became the main shareholder of Portugal’s national electric power supplier, Energias de Portugal S.A. (EDP), after beating out competition from the Brazilian Eletrobras and Cemig, and from the German group E.ON, and acquiring a 21.35 percent stake for EUR 2.7 billion. This was the first major FDI operation involving Chinese capital in Portugal, which, on its own, outnumbered the overall amount of pre-crisis Chinese investment in the country (ca. EUR 2.2 million), and, most importantly, shifted the sectoral investment patterns of China in a resounding manner: from small retail businesses to large-scale, multinational, strategic, and oligopolistic sectors.

Robustly and quickly, other emblematic Portuguese firms, such as Redes Eléctricas Nacionais (REN), the public power transmission monopoly, or TAP Air Portugal, the national air carrier, joined EDP in receiving Chinese investments, involving also Chinese private companies and investment funds. As a result, a small country like Portugal became a major European recipient of Chinese direct investment activities, superseded in the period between 2000 and 2016 only by the UK, Germany, Italy, France, and Finland.

According to the Rhodium Group dataset, Chinese direct investment transactions in Portugal amounted to approximately EUR 5.7 billion by 2016 (Table 1). The same source indicates that there were no Chinese direct investment operations in the country before 2010. The data shows that transport, utilities and infrastructure received the most activity (more than 56 percent), followed by financial and business services (ca. 28 percent), health and biotech (8 percent) and energy (ca. 6.4 percent).

2. *Ibid.*

Table 1. Chinese direct investment transactions in Portugal (2000-2016)

Sector	Amount (EUR million)	Percent of total Chinese direct investment
Transport, Utilities and Infrastructure	3,220	56.2
Financial and Business Services	1,597	27.9
Health and Biotech	460	8.0
Energy	368	6.4
ICT	47	0.8
Metals and Minerals	35	0.6
Entertainment	0	0,0
Industrial Machinery and Equipment	0	0.0
Real Estate and Hospitality	0	0.0
Total	5,727	100.0

Source: Rhodium Group.

It is worth mentioning that this dataset provides a conservative account of the actual volume of Chinese investment transactions in Portugal. For instance, it does not account for investment in entertainment industries and real estate and hospitality. While the former is not (yet) very relevant (although the acquisition of Global Media Group by the Macau-based KNJ Investment Fund, involving EUR 17.5 million, is notable), the latter, according to numbers provided by the Portuguese Immigration and Border Service (SEF), attracted approximately EUR 1.9 billion from October 2012 to April 2017, due largely to Portugal's Golden Visa policy. This policy was launched by the Portuguese government in 2012 as a means to attract foreign investment. In short, it grants a residence permit to all third country citizens who carry out an investment activity in Portugal fulfilling one of a set of conditions, such as the capital transfer equal or above EUR 1 million; the creation of, at least, 10 job positions; or the purchase of real estate property with a value equal or above EUR 0.5 million. Following the SEF, until April 2017, 4,231 golden visa residence permits have been granted, 3,376 of which (approximately 80 percent) to Chinese citizens.

An additional aspect that is important in the Portuguese context, though outside of the scope of traditional FDI, is joint investment operations of Portuguese and Chinese companies in third countries. The most prominent of these is the agreement reached in 2011 by Galp Energia and Sinopec, in which the latter invested EUR 3.4 billion in order to obtain a 30 percent stake in Petrogal Brasil, a Brazilian subsidiary of the Portuguese company.

Hitherto, the most significant Chinese direct investment transactions in Portugal include the following:

2012

- CTG acquired a 21.7 percent of EDP–Energias de Portugal for EUR 2.7 billion; State Grid Corporation of China (SGCC) bought 25 percent of REN – *Redes Eléctricas Nacionais*, for EUR 390 million; Huawei opened a R&D center in Lisbon, investing ca. EUR 40 million;

2013

- As agreed in the strategic partnership preceding the acquisition of a 21.35 percent stake in EDP in 2012, CTG bought a 49 percent equity shareholding in *EDP Renováveis Portugal* (EDPR) for EUR 359 million; Beijing Enterprises Water Group took over Veolia Portugal, a water supply company, for EUR 96 million.

2014

- Haitong International Holdings bought *BESI–Banco Espírito Santo Investimento*, the investment bank of the bankrupted *Banco Espírito Santo*, for EUR 379 million; Fosun International acquired the insurance operations of the national public bank *Caixa Geral de Depósitos*, (EUR 1 billion), in addition to 3.9 percent of REN – *Redes Eléctricas Nacionais*, (EUR 56 million); and 96 percent of Luz Saúde (EUR 489 million).

2016

- Fosun International bought a 16.7 percent stake in *Millenium BCP*, the largest listed bank in Portugal, for EUR 175 million (Fosun’s stake would be raised to 23.9 percent in February 2017); Hainan Airlines took a 23 percent share in TAP Air Portugal for EUR 30 million.

2017

- CTG bought the windpower assets of *ENEOP–Eólicas de Portugal* from EDPR for EUR 242 million.

Drivers for Chinese investment in Portugal

In the context of the economic and financial crisis that rocked Portugal from 2008 onward, the country emerged as a very attractive recipient for foreign investment, namely after 2011, in the aftermath of the “troika” intervention and the associated privatization-prone policy. In addition, it was the first country in the European Union to reveal a total openness to foreign capital in utilities that were (and still are) inaccessible in other European countries. However, any approach to the drivers for Chinese direct investment in Portugal should go beyond the obvious business advantages of investing in a troubled and

vulnerable economy, which, desperate for “fresh” money, set forth a large-scale privatization process.

In fact, there is plenty of evidence showing that Chinese investment in Portugal has been mostly driven by a matter of “accessibility”.³ On the one hand, it has involved a clear effort to gain access to cutting-edge knowledge and technology. On the other hand, it has constituted a robust strategy to enter new markets and reinforce new thresholds of the “Going Out” policy.

The former can be illustrated by the case of renewable energy-related technology. The acquisition of EDP and EDPR has granted CTG access to state-of-the-art knowledge and expertise in the field. According to EDPR’s official website,⁴ the aim is “to combine efforts to become worldwide leaders in renewable energy generation,[...], where EDP will lead in Europe [...], US, Canada, Brazil and other selected South American markets and CTG will lead in Asia markets where it is present and/or it has technological or industrial advantage.”

On market access there is also clear evidence to be found in the energy sector. CTG is currently involved in major energy production activities in several European countries, the US, Africa, and South America. EDP and EDPR were instrumental in this expansion. Two examples: the partnership with EDP allowed CTG to become the second largest private energy producer in Brazil, after the acquisition of eight hydro power stations; CTG gained access to EDPR’s wind-power generation capacity installed in European countries such as Poland, Italy, and the UK, as well as to wind assets in the US.

On the perception about Chinese investment

At the broad level, and from an official Portuguese perspective, there is an overall positive view on the effects of Chinese investment in Portugal, as evidenced by the continuance of an open and welcoming stance by the Portuguese government. This can be related not only to the injection of large amounts of money in a troubled economy, but also to the access of companies targeted by FDI transactions to large financing streams provided by Chinese banks. For instance, the REN deal guaranteed financing of EUR 1 billion from the China Development Bank.

This consensus has been (sporadically) broken, namely because of the left-wing resistance against the privatization frenzy (thus not directly related to Chinese investment). However, one can track a number of lively debates, such as that which occurred when a member of the government, in 2012, stepped down because of his

3. E.g., Miguel Santos Neves, “Economic Diplomacy, Geo-Economics and the External Strategy of Portugal”, *Janus.Net*, Vol. 8 (1), 2017, pp. 88-118; Annette Bongardt and Miguel Santos Neves, “The Chinese Business Community at the Crossroads between Crisis response and Global China’s Assertive Strategy – the Case of Portugal”, *MPC Research Report 2014/02*, Robert Schuman Migration Policy Center, European University Institute, 2014.

4. www.edpr.com.

opposition towards EDP's "excessive power".⁵ In another vein, a number of bankers expressed concerns about the growing influence of Chinese capital in the country. This was the case of Fernando Ulrich, then the head of BPI (Banco Português de Investimento), who said: "I am shocked with these big Chinese investments in strategic Portuguese companies. [...] Portugal is a Chinese aircraft carrier in Europe..."⁶ From academia, hitherto, very few authors paid attention to the developments driven by Chinese direct investment. From them, and most importantly, the concern is that the attempt to mitigate Portugal's excessive economic dependency on EU member states (namely Germany and Spain) led to the handover of strategic sectors to foreign parties with whom it is not possible to establish an approach leading to the co-management of crucial companies.⁷

In the end, and at the political and decision-making level, the words of the Portuguese Minister of Finance outline the perception and evaluation of Chinese direct investment transactions in the country:

"In Portugal there are no negative reactions towards Chinese investments... this is also true as far as the Government is concerned".⁸

Calling forth OBOR as a cornerstone of bilateral relations

According to China's president, Xi Jinping:

"China is willing to encourage investment in Portugal and expand to areas including finance, insurance, health care and infrastructure. [...] China supports Portugal's participation in the Belt and Road Initiative and encourages both countries to cooperate in maritime research and port logistics".⁹

This endorses the view that Chinese direct investment will remain a primary building block of Portugal-China bilateral relations.

China aims at keeping up momentum and further diversifying investment targets in Portugal. Portugal, in turn, though boldly recovering from the crisis, remains quite receptive towards Chinese capital and eager to widen its sectoral scope. China's Belt and Road Initiative (OBOR) increasingly emerges as a discursive cornerstone, providing ground for cooperation in the near future. The Chinese leadership, as illustrated by Xi's statement, is very keen in calling forth OBOR when dealing with Portugal. The same is true on the Portuguese side, as illustrated by the words of Caldeira Cabral, the Minister of Economy:

5. Miguel Prado, "Estado tem de impor o interesse público ao excessivo poder da EDP", *Jornal de Negócios*, 8 January 2012.

6. Fernando Ulrich, "Choca-me tanto investimento chinês em empresas estratégicas portuguesas", *Jornal de Negócios*, 17 April 2015.

7. Teresa Sousa and Carlos Gaspar, "Portugal, a União Europeia e a crise", *Relações Internacionais*, No. 48, 2015, pp. 99-114, 2015.

8. Anabela Campos, "Centeno diz em Nova Iorque que o investimento chinês na banca é bem-vindo", *Expresso*, 6 June 2016.

9. Xinhua, October 2016.

“Portugal insists on being aligned with and taking part in the Chinese strategy, which we share, as it is marked by its openness to the world.”¹⁰

Accordingly, OBOR is framing the end of a FDI cycle fed by the privatization of large public companies. It is outlining, on the one hand, further exploitation of current FDI dynamics, and, on the other hand, the diversification of sectoral targets. The latter is well evidenced by the increased attention paid to maritime ports and logistics, agro-food, and tourism. Currently, projects focusing on the Port of Sines, the main Portuguese logistic platform, emerge as the most visible part of Chinese investment diversification potential. As an example, the MoU signed by Haitong Bank, China Development Bank and AICEP-Global Parks (the branch of the Portuguese Agency for trade and investment responsible for Sines’ logistics zone), aims at the development of an integrated maritime, logistics and industrial hub to Western Europe and the Atlantic. The former finds ground on further exploitations of the Chinese dominance in strategic sectors like energy production and distribution. A good example is provided by the joint effort of State Grid (the major stakeholder of REN) and the Portuguese government to put together a huge project aimed at the interconnection of the Portuguese and the Northern African countries’ power grids.

10. “Caldeira Cabral quer a China a ‘produzir para dentro da Europa a partir de Portugal’”, *Jornal de Negócios*, 29 March 2017.

Chinese Investment in Romania: More Lost Opportunities Than Implemented Projects

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Summary

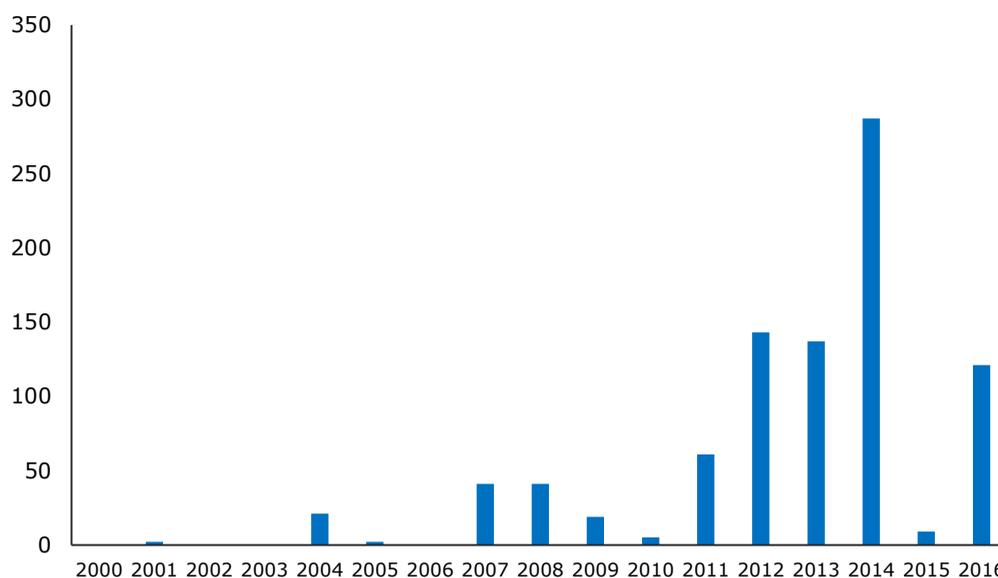
Chinese direct investment represents only a tiny share (0.3–1.3 percent) of the total FDI stock attracted by Romania. Chinese investment in Romania, both current and prospective, falls into three main categories. First, the majority is small or medium-scale and initiated by family businesses, even if significant companies such as Huawei and ZTE are also among the investors. Second, in contrast with Chinese investment before 2010, dominated by greenfield projects, large Chinese multinational companies have in recent years entered Romania as a result of international acquisitions of foreign firms that have operations in the country. Third, several relevant investment projects proposed by the Romanian government have been taken into consideration by Chinese SOEs since 2011–2012, but most negotiations have been either abandoned or have only moved forward very slowly. As the majority of such proposals refer to strategic industries, they will be strictly monitored by the European Commission in the new framework for FDI screening, and therefore moving forward on these large-scale investment projects is likely to become much more complicated. In order to attract more Chinese investment, Romania needs an active investment promotion agency, as well as continuity, stability, coherence and transparency in terms of legislative initiatives and regulations, but also the political will to strengthen Sino-Romanian relations.

Chinese investment in figures: still at a very low level

Until 2011, Chinese outward direct investment (ODI) into Romania remained well below the yearly value of EUR 50 million. In 2011, Romania recorded Chinese inflows of EUR 61 million, while in the subsequent three years the inflows were substantial and seemed to have entered a new stage. However, in 2015 their value marked a steep fall, followed in

2016 by another episode of evident increase, even if inferior to the values recorded in 2012-2014. The maximum of Chinese inflows into Romania was in 2014, as reflected by Figure 1.

Figure 1. Chinese direct investment transactions in Romania (EUR million)



Source: Rhodium Group.

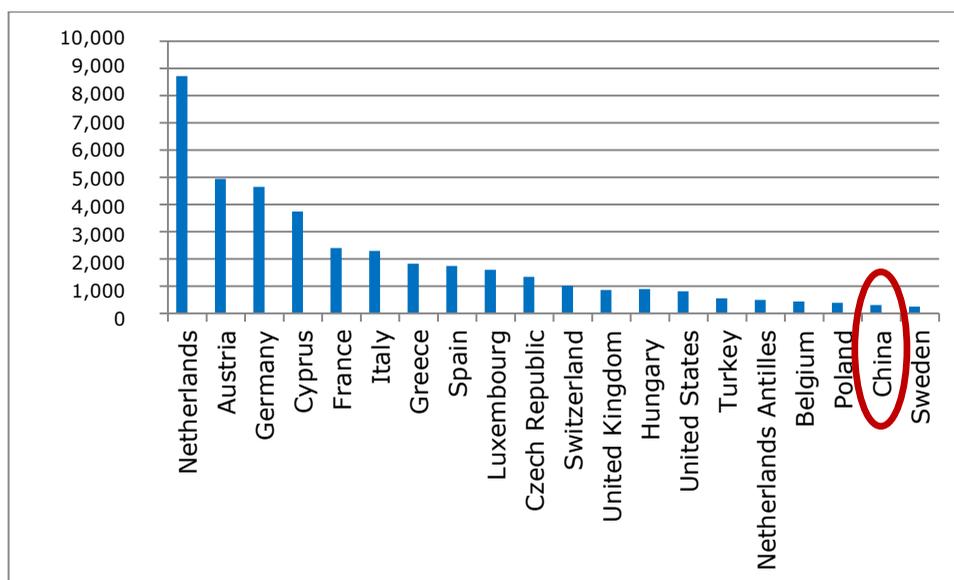
According to Rhodium Group data, total Chinese direct investment transactions in Romania during 2000-2016 are estimated at EUR 889 million (circa EUR 770 million for 2000-2015). However, the National Bank of Romania (2016) evaluated the stock of Chinese investment in Romania at EUR 209 million as of December 2015 (0.3 percent of total FDI) and placed China 24th in the hierarchy of the foreign investors.¹ Surprisingly, the National Bank Report of 2017 did not include China in the hierarchy of countries that invested more than EUR 100 million in Romania.² The National Trade Register Office estimated the Chinese capital stock held by Chinese investors at EUR 315 million as of December 2016 (0.75 percent of the total).³ Nevertheless by taking into account the value of total FDI stock attracted by Romania (EUR 70 billion, according to the National Bank of Romania, 2017) and the Chinese investments in Romania recorded by the Rhodium Group, it results in a share of 1.3 percent, much larger than the national estimates.⁴ At the end

1. National Bank of Romania, Foreign Direct Investment in Romania in 2015, Bucharest, September 2016.
 2. National Bank of Romania, Foreign Direct Investment in Romania in 2016, Bucharest, September 2017.
 3. National Trade Register Office, Companies by foreign direct investment, Statistical synthesis of the national trade register’s data, Number 223, Ministry of Justice, December 2016.
 4. Consult the data chapter of this report for a more detailed explanation on the different methodologies of data collection, which may provide a sense for why the figures are so divergent.

of December 2016, there were approximately 12,000 companies with Chinese capital in Romania – most of them being small Chinese businesses – which represented 5.8 percent of the total number of companies with foreign capital (National Trade Register Office, 2016).

With respect to the share in the total number of companies with foreign capital in Romania, China was surpassed only by Italy (21 percent of the total number of companies with foreign capital), Germany (10 percent), Turkey (7 percent) and Hungary (6 percent). Nevertheless, according to Romanian statistics, in 2016 China ranked 19th among the foreign investors in Romania with a share of only 0.8 percent of total foreign subscribed capital (Figure 2). This percentage should be compared with China's share in global outward FDI flows of around 9 percent in recent years.

Figure 2. Primary investors in Romania in terms of capital stock in companies with foreign capital at the end of 2016 (EUR million)



Source: National Trade Register Office (2017).

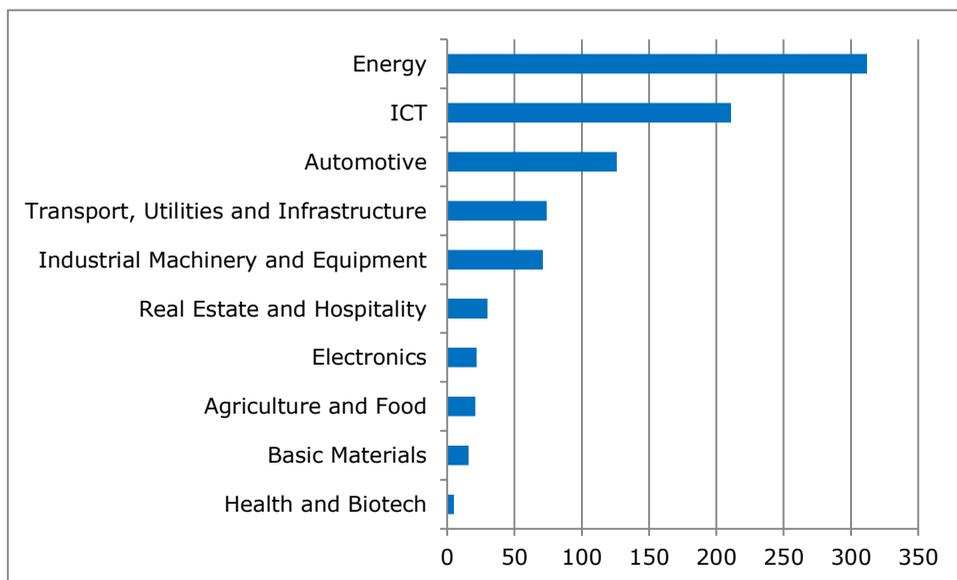
At the beginning of the 2000s, the Chinese government identified eight potential investment sectors in Romania ²– as many as in Germany – putting Romania in the first-tier group of European countries in terms of potential attractiveness for Chinese investors.⁵ The privileged relationship between China and Romania before 1989 placed the latter at a level well above that justified by economic arguments. However, Chinese investments in Romania were insignificant over the period 2000–2010 and Romania was rapidly surpassed by Western European countries and also two CEE countries (Poland since 2006

5. Jeremy Clegg and Hinrich Voss, *Chinese Overseas Direct Investment in the EU*, ECRAN, 2012.

and Hungary since 2007) in terms of stock of Chinese direct investment (MOFCOM, 2016).⁶ In terms of FDI stock attracted during 2000-2016 by CEE countries, Hungary was the main recipient of Chinese outbound direct investment (EUR 2 billion), followed by Poland (EUR 936 million) and Romania (EUR 889 million).

Three sectors have dominated Chinese investment in Romania during 2000-2016, accounting for three quarters of total transactions, according to the Rhodium Group data, namely energy (35.1 percent), information and communication technology (ICT) (23.8 percent) and the automotive sector (14.2 percent). The high concentration in these three sectors was facilitated by specific support measures offered by the Romanian government (especially green energy) and the presence of industrial parks, clusters and specialized human resources (in the ICT and automotive sectors in particular). Transport, utilities and infrastructure, as well as industrial machinery and equipment have also received significant Chinese investments, of approximately 8 percent each. Other sectors also have the potential to attract more Chinese investment (real estate and hospitality, electronics, agriculture and food, basic materials, health and biotech).

Figure 3. Chinese direct investment transactions in Romania by industry, 2000-2016 (EUR million)



Source: Rhodium Group.

6. Ministry of Commerce, People’s Republic of China (MOFCOM), *Statistical Bulletin on China’s Foreign Direct Investment*, September 2016.

Main modes of entry of Chinese companies to the Romanian market: from greenfield to mergers and acquisitions

Until 2010 greenfield investment represented the preferred mode of entry for Chinese companies in Romania. The list of significant Chinese greenfield investments in Romania includes: Friendly and Joy (F&J) (tobacco, wood, electronic industries, trade, energy investment, 1997), Eurosport DHS (production of bicycles, fitness equipment, baby carriages, rollers, 1999, with 40 percent of shares currently owned by a German group), ZTE Romania (telecommunications equipment and systems, 2002), Ricky Impex (bicycles and sports equipment production, 2002), Huawei (networking and telecommunications equipment and services, 2003), China Tobacco International Europe Company (cigarette factory, 2007), Yuncheng Plate Making (printing cylinders factory, 2008).⁷ Among these, only the two ICT companies, Huawei and ZTE, currently have future investment plans exceeding EUR 100 million.⁸

After 2010, Romania experienced a notable Chinese investment boom in renewable energies (RE), especially during 2012-2013, when companies such as Sunowe, Unisun, and Lightway Solar entered the Romanian market. In 2012, the Chinese producer Sinovel Wind Group announced its intention to invest in a wind turbine plant in Romania, but negotiations have since failed. The largest turbine manufacturer in the world, Goldwind, and another large Chinese turbine manufacturer, Ming Yang, have shown interest in entering the Romanian market, though not via FDI but rather Engineering, Procurement and Construction (EPC) contracts. The RE boom ultimately seems to have been short-lived. The sector had been disproportionately developed and Romania met the EU target for achieving a 20 percent share of RE in final energy consumption in 2014, following which the government reduced RE subsidies and the attractiveness for investors in the sector sharply decreased.

Since 2011, Chinese investments in Romania have also emerged as a result of large Chinese multinational companies making medium-scale or major acquisitions at the international level. Medium-scale transactions include a 2011 acquisition by China's Ningbo Joyson Electronic Corp of a 74.9 percent stake in Preh, the German supplier of electronic components present in Romania since 2008. In 2015, the same Chinese company acquired a majority stake in the German company Quin, which has production facilities in Romania since 2003. In 2016, Joyson Electronics completed the acquisition of the American Key Safety Systems (KSS), which also has three factories in Romania (opened in 1999, 2005 and 2010, respectively).

7. Andrea Chiriu and Zuokui Liu, "Sino-Romanian Relations: From the First Ponta's Government to Klaus Werner Iohannis' Victory in the Presidential Elections", *Working Paper Series on European Studies*, Institute of European Studies, Chinese Academy of Social Sciences, Vol. 9, No. 1, 2015.

8. "Huawei Announces Plans to Invest EUR 100mIn by 2018 in Romania, Moves on with Employment Plans", *Business Review*, 9 July 2013.

In the category of large-scale international acquisitions are included the following transactions. The Shuanghui Group (at present Wanzhou Group), China's largest meat processor, bought the American group Smithfield Foods for USD 7.1 billion in 2013, thus becoming the owner of the former Romanian Comtim company in Timisoara. In 2015, China National Chemical Company took over the Italian manufacturer Pirelli in a USD 7.7 billion deal. Pirelli owns two factories in Romania: a tire manufacturer in Slatina (Olt County), and a motor filter producer in Bumbăști-Jiu (Gorj County). In the same year, the Dutch trader Nidera (controlled at that time by China National Cereals, Oils and Foodstuffs Corporation COFCO, China's largest food processing, manufacturing and trading company) took over two important actors in Constanta harbor, namely United Shipping Agency (owner of a grain terminal) and United Shipping and Chartering (owner of a deposit). In 2016, China Energy Company Limited (CEFC) – one of the largest Chinese private companies – concluded negotiations with the Kazakh KazMunayGas (KMGI) on the establishment of a joint venture, CEFC 51 percent / KMGI 49 percent. In April 2016, CEFC announced that it would pay USD 680 million to KMGI for 51 percent of its shares, this being recognized by the Chinese and Kazakh governments as one of the major deals associated with the New Silk Road. KMGI was also the majority stakeholder of the originally Romanian state company Rompetrol, which has undergone a long process of successive controversial privatizations since 1993. The CEFC-KMGI deal also included Rompetrol. Shortly after that announcement, the Romanian state authorities reopened the Rompetrol file of past privatization irregularities related to debt conversion and finally the transaction was approved by the Romanian authorities at the end of July 2017.

The Romanian government has also proposed several large-scale investment projects that have been taken into consideration by Chinese state-owned enterprises since 2011-2012. These include infrastructure development projects (such as highways, high-speed rail, bridges etc.), irrigation systems and also construction, development and modernization of thermal power stations, and two projects of national interest, namely the Tarnița Lăpuștești hydropower station and the Cernavodă nuclear power plant. Even if they are not formally considered as FDI, the large amount of Chinese financing involved, the need of the Chinese company to register in Romania under the national law, and the specific framework of international tenders transform these types of construction contracts into a special form of cooperation as, if not more important as FDI. Although most negotiations have been delayed and finally abandoned due to technical barriers and results of environmental impact assessments/feasibility studies, there are still several energy projects waiting for approval, including the Rovinari coal power plant in Gorj county (estimated at circa EUR 900 million, developer China Huadian Engineering Co. Ltd.), Cernavodă nuclear Units 3 and 4 in Constanta county (EUR 6.5 billion, developer China General Nuclear Power Corporation CGN) and Tarnița Lăpuștești hydropower station in Cluj county (approximately EUR 1.2 billion, where a consortia of three Chinese companies pre-qualified for negotiations in 2015 but agreement was postponed).

The majority of such proposals refer to strategic industries, and even if they are not included in the FDI category, they might be strictly monitored by the European Commission in the new framework for EU-level FDI screening. In such a case, moving forward on these large-scale investment projects is likely to become much more complicated.

Assessment of drivers and obstacles for Chinese investment into Romania

According to the US Department of State,⁹ “Romania welcomes all forms of investment”, “the government provides national treatment for foreign investors” and the country’s assets are numerous. In spite of that, the investment climate is a “mixed picture, and potential investors should undertake due diligence when considering any investment”. “Legislative and regulatory unpredictability, as well as weak public administration” and “lack of coordination between government ministries” are among the factors that hinder the FDI in general,¹⁰ and Chinese investments in particular.

The motivation for the Chinese investment in Romania follows the pattern of other Central and Eastern European countries. According to international experts,¹¹ the main goal of Chinese investors in this region is related to establishing a presence in the EU common market, and expanding infrastructure, but further incentives also include market size and resource abundance.

Romania has several evident strengths in this regard, as it is attractive in terms of: its dynamic GDP growth rates (4.8 percent in 2016, an estimated 4.3 percent in 2017), significant market size, strategic geographical position, relatively low labor costs, substantial connectivity potential, high broadband internet accessibility and speed, rich natural resources and a skilled labor force (in spite of the significant “brain drain” process in recent decades). However, it lags behind other CEE countries with regard to the ease of doing business – ranked by 45th by the World Bank, as compared to Estonia (12th), Lithuania (16th), Latvia 19th), Poland (27th), Czech Republic (30th) for instance – infrastructure quality – ranked 83rd by the World Economic Forum in the international hierarchy of countries according to the second pillar of global competitiveness index, namely infrastructure – and logistics performance – ranked the 60th by the World Bank.

9. US Department of State, *Investment Climate Statements for 2017 – Romania*, Bureau of Economic and Business Affairs, 2017, www.state.gov.

10. US Department of State, *Investment Climate Statements for 2016 – Romania*, Bureau of Economic and Business Affairs, 2016, www.state.gov.

11. Christian Dreger, Yun Schüler-Zhou, and Margot Schüller, “Chinese Foreign Direct Investment in Europe Follows Conventional Models”, Das Deutsche Institut für Wirtschaftsforschung (DIW), *Economic Bulletin*, No.14-15, 5 April 2017.

Even if some of Romania's weaknesses might be transformed into cooperation opportunities, it is not easy. For instance, on the one hand, Romania has not implemented until now any high-speed rail project and its highway network is underdeveloped in contrast to China, one of the global leaders in infrastructure construction and technology. On the other hand, the resounding failure of China Overseas Engineering (COVEC) in Poland created an unfavorable image of Chinese construction companies in the EU, which discouraged cooperation in this field.

Despite this potential, a host of other factors serve to complicate the investment climate for would-be Chinese investors in Romania. One of these is a lack of continuity, coherence and transparency in terms of legislative initiatives and regulations. For instance, Romania's investment promotion agency has changed hands and names at least four times since 2009. Such changes do not help investors, and on the contrary they create confusion. The situation of Chinese investment in renewable energies as underlined in the first section is an example of how changing incentive schemes by national authorities made investments unattractive and caused many Chinese companies to abandon their investment plans. Another issue is related to technical barriers such as obtaining environmental permits – as illustrated by the 2015 cancellation of a roughly USD 300 million bid involving the China National Electric Engineering CO Ltd for a rehabilitation of the Mintia power project (Hunedoara county) – which also added complications for other Chinese investors.

These are several barriers for Chinese investment in Romania which explain why Chinese investors prefer negotiations with global players that facilitate immediate and simultaneous market entries, bypassing endless negotiations with Romanian companies or authorities. As a matter of fact, Romania is attractive for Chinese investors from many standpoints, but the government must be "ready to play its part".¹²

As regards the reception and evaluation of Chinese investment in Romania, one can remark a large gap between the official declarations and investment scale.

The Romanian authorities consider China as one of the most relevant markets worldwide and a valuable source of investment. Beyond such declarations, it is necessary to underline the following three aspects. First, Western European countries play the most significant role for the Romanian economy in terms of trade, investment and also development of infrastructure projects financed by EU funds. Since the Romanian accession to the EU, construction companies from the old member states of the EU have obtained the lion's share of the infrastructure contracts. The most important economic partners of Romania perceive Chinese companies as strong competitors. Second, there are preconceptions associated with Chinese investment regarding environmental protection, labor standards, safety etc. Third, China's image in Romania, although not

12. James Wilson, "Chinese Billions Come to Romania", *FDI Intelligence*, 11 January 2017.

thoroughly analyzed, is not particularly favorable and this is due to many determinants including¹³:

- Association of Chinese soft power with propaganda, which holds a rather negative connotation due to the region's communist past;
- Persistence of sensitive issues in EU-China bilateral relations, influencing the perception of China;
- A limited understanding of China in the country, because of the insufficient knowledge of its present economic, political and social situation;
- A preponderance of Romanian mass media towards China's liabilities, including via current topics such as territorial disputes in the South China Sea, as opposed to a focus of China's assets;
- The existing gap between expectations regarding cooperation with China and accomplishments in terms of trade, investment and other cooperation projects.

How to proceed

Romania should harvest the fruits of opportunity deriving from the relationship with China as a rising power. In spite of all the obstacles, Chinese companies have not lost their interest in the Romanian market. This should encourage the Romanian authorities to make the best of the cooperation opportunities, especially those offered by the 16+1 process as part of the Belt and Road Initiative.

As reflected by the case studies of the Chinese investment in Romania, the country is still attractive for the Chinese investors from many standpoints. In order to close the gap between potential and actual achievements, there is a need for strong political will beyond the political cycles. In this regard, the efficiency of the dialogue platform between Romania and the investors should be a priority.

Romania needs continuity, stability, coherence and transparency in terms of legislative initiatives and regulations. As underlined by the negative effects of the frequent changes in the structure and management of the body responsible for investment promotion and facilitation, the efficiency of the dialogue platform between Romania and investors should be a priority. Romania should also eliminate the useless costs induced by red-tape. The Chinese economy, culture, and political system should be better understood and accepted by the population at large, as misconceptions represent an apparent barrier in bilateral relations.

13. Iulia Monica Oehler-Şincai, *A Romanian View on China's Image in CEE from the Perspectives of 16+1 and OBOR*, paper presented at the round table Challenges of Adjusting to a Changing World Economy, Bucharest, 22-23 September 2016.

Chinese Investment in Slovakia: The Tide May Come In

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Summary

So far, Chinese companies have invested less than EUR 50 million in Slovakia. Cases of greenfield investment are rare, and the most significant deal – the entry of China Energy Company Limited (CEFC) into the J&T Finance Group – is currently under review by relevant authorities. The drivers of Chinese investment to Slovakia include gaining market access, reducing production costs, and technology transfer. The government has repeatedly tried to attract more Chinese investment to Slovakia but without much success. The local media has also raised concerns that certain potential Chinese investors have tried to gain privileges through access to governing party members. Finally, the announced purchase of U.S. Steel Košice, one of the key enterprises in the country, by Chinese He Steel for EUR 1.4 billion, can make Slovakia a top destination of Chinese investment in the region.

Introduction

Thanks to its ability to attract foreign direct investment (FDI), the Slovak economy has boomed since 2004 with an annual average GDP growth of 3.75 percent, significantly higher than the OECD average (1.20 percent).² Investors from Germany, Austria, the United States and France, but also from Asia, including Korea, Japan and Taiwan, have become the drivers of Slovakia's economic rise and have allowed it to reduce the unemployment to 6.4 percent (September 2017), which is the lowest level since 2008.³

1. Research for this study was supported by a grant from the International Visegrad Fund No. 60900008.

2. See OECD statistics available from <https://data.oecd.org>.

3. See Central Office of Labour, Social Affairs and Family: www.upsvar.sk/statistiky.

Yet, investors from China have been absent from this success story. So far, Slovakia has failed to attract a significant volume of direct investment from China, despite the efforts from various Slovak governments. Mediatized plans by China's largest steel producer, He Steel, to take over the U.S. Steel plant in Košice could profoundly change this picture.

Low levels of Chinese investment

Available data point to very low levels of Chinese investment in Slovakia, both relative to overall FDI in Slovakia and to Chinese investment in Europe. According to the Rhodium Group, total Chinese direct investment transactions in Slovakia for 2000-2016 amount to EUR 49 million, largely thanks to the projects completed in 2009-2010 and in the last four years. Data from the National Bank of Slovakia, using the balance of payments, similarly register EUR 47 million of total Chinese direct investment through October 2016, which is less than 1 percent of the overall FDI in Slovakia.⁴

For Slovakia, the Rhodium Group only records investment in three sectors, including automotive, consumer products and services, and financial and business services. The examples of finalized cases of direct investment include the Lenovo Operation Center for Europe, Middle East and Africa (EUR 5 million, 2006) and Mesnac Qingdao's tire research center (a joint venture, 2009). Rare examples of greenfield investments are Flame Shoes' plant (EUR 14 million, out of which EUR 4.5 million was provided by the Slovak government as the investment stimulus, 2014)⁵ and a production facility for large-scale display screens by Leyard Shenzhen Opto Electronics (EUR 2.3 million, 2016 with a planned further investment of EUR 3 million). Other cases of Chinese investment in Slovakia tend to be indirect in nature, such as Inalfa Roof Systems' production facility for vehicle roof windows (2011) or the acquisition of a materials factory (2013) from its German owner ZF Boge Friedrichshafen.⁶

The most important deal in financial and business services is the planned purchase of a 50 percent stake in J&T Finance Group, a regional-level player in the field of banking, real estate and energy, by China Energy Company Limited (CEFC). In May 2017, the EUR 980 million deal was approved by the highest Czech authority, the Office for the Protection

4. Počet čínskych investorov na Slovensku klesá, ich investície ale rastú. (The Number of Chinese Investors in Slovakia is Falling, however, the Volume of their Investment is on Rise.) Sme, 29 October 2016 (TASR): <https://ekonomika.sme.sk>.

5. Štát podporí firmu Flameshoes 4,5 miliónmi eur. (State will Support Flameshoes with EUR 4.5 million.) Sme, 22 April 2014 (SITA, MH): <https://presov.korzar.sme.sk>.

6. For a few more examples see Richard Turcsányi, "Chinese Financial Presence in Slovakia and Slovak 'China Policy.'" in: Agnes Szunomár (ed.), *Chinese Investments and Financial Engagement in Visegrad Countries: Myth or Reality*, Budapest: Institute of World Economics, 2014, pp. 89-107.

of the Competition,⁷ but it is undergoing approval by the authorities in other countries where the consortium operates, including Slovakia.

The examples above suggest that the main motivation for Chinese investment in Slovakia is gaining market access (to Western Europe) through localized production, reducing operation costs (the Lenovo center was moved to Slovakia from the UK) and accessing knowhow and technology. The deal with J&T Finance Group results from a shared interest for an expansion in Central and Eastern Europe in profitable areas of finance, real estate and energy.

Reception and evaluation of Chinese investments in Slovakia

Since his first election as Prime Minister in 2006, Robert Fico has strived to improve Slovakia's economic relations with China, including attracting Chinese investment. The Slovak government has identified a number of potential projects – the construction of a large hydroelectric plant on the Ipel' River, the sale of the Bratislava airport, the opening of a Bratislava-Tianjin direct flight connection, or a branch of a Chinese bank in Slovakia – but none of these have materialized due to the lacking interest on the Chinese part. In 2009, during his historic visit in Bratislava, Chinese President Hu Jintao advocated for the participation of Chinese companies in the construction of highways in Slovakia.⁸ Nevertheless, Premier Fico later publicly announced a preference for local builders rather than the Chinese.⁹ Despite of this announcement, Chinese companies have attempted to participate in local infrastructure projects. In 2015, the China National Nuclear Corporation (CNNC) was one of four bidders to submit a tender to acquire the majority stake in the country's largest energy supplier, Slovenské elektrárne. China Communications Construction Company also teamed up with Slovak builders to submit bids for the construction of a highway bypass in Bratislava and an R7 dual carriageway. Both bids were unsuccessful.¹⁰

Overall, it can be concluded that Chinese investment has not yet aroused much attention in Slovakia due to its low volume. Yet, some of the above-mentioned projects did attract public criticism for creating a more corruption-prone business environment. This was, for example, the case of CNNC when the Slovak legal NGO Via Iuris suggested

7. "Číňania budú mať J&T viac v hrsti" (Chinese will Have More Control over J&T.), Trend, 5 May 2017 (ČTK): www.etrend.sk.

8. Gabriela Pleschová and Rudolf Fürst, "Mobilizing Overseas Chinese to Back Up Chinese Diplomacy: The Case of President Hu Jintao's Visit to Slovakia in 2009", *Problems of Post-communism*, Vol. 62 (1), 2015, pp. 55-65.

9. Gabriela Pleschová, "The Slovak and Hungarian Partnerships with China: High Hopes That Did Not Come True", in: Rudolf Fürst and Filip Tesař (eds.), *China's Comeback in Former Eastern Europe: No Longer Comrades, Not Yet Strategic Partners*, Prague: Institute of International Relations, 2013, pp. 45-59.

10. "Big Slovak Firms Teaming Up with Chinese Companies", *The Slovak Spectator*, 19 February 2015, <http://spectator.sme.sk>.

it had links with the Slovak ruling party SMER,¹¹ or the case of hydroelectric plant construction when Slovak media implied that the rich sponsors of SMER, rather than the public, would be the project's main beneficiaries.¹² In his third term in power, Prime Minister Fico has continued negotiating with potential investors from China but without specifically targeting the Chinese subjects. Some of these talks stirred public interest, such as closed-door negotiations with CEFC¹³ as the company had raised concerns in the neighboring Czech Republic for its alleged connections with Chinese intelligence.¹⁴

Košice, a possible turning point?

The most recent intention by the Chinese company He Steel to purchase the U.S. Steel plant in Košice has caught the Slovak government by surprise.¹⁵ Employing 10,000 people, U.S. Steel Košice is one of the three largest employers in Slovakia and is the leading provider of jobs in the less-developed region of Eastern Slovakia. Under the American investor, which saved the plant from bankruptcy in 2000, it has become one of the pillars of the Slovak economy. but the plant has been losing competitiveness due to a lack of capital needed for technology upgrades and modernization, the costs of which are estimated at EUR 2 billion. Its economic performance has, moreover, suffered from falling global demand for steel, as well as low-priced exports from China. This has led the management to reduce the number of employees: between 2009 and 2012 the company dismissed more than 1,500 people.¹⁶ When U.S. Steel's intentions to sell the factory began circulating in the media, this resulted in a March 2013 memorandum with the Slovak government in which the company committed to keep the ownership at least until 26 March 2018 and avoid mass dismissals in exchange for financial aid from the government of EUR 166 million for the Košice facility.¹⁷

While the company respected its employment commitment, in 2016 it went public that the Košice production site was for sale. U.S. Steel allowed potential buyers, including He Steel, to undertake due diligence of the factory.¹⁸ The Chinese state-owned He Steel is the world's second largest producer of steel. In 2016, it purchased a former U.S. Steel

11. Richard Q. Turcsányi, "Central European Attitudes towards Chinese Energy Investments: The Cases of Poland, Slovakia, and the Czech Republic", *Energy Policy*, No. 101, 2017, p. 715.

12. Peter Kremšký, "Fico stavať s Číňanmi priehradu pri Poltári, za projektom cítiť Brhela" (Fico Wants to Build with Chinese a Dam near Polta. Brhel Seems to be Behind the Project), *Sme*, 23 April 2015, <http://ekonomika.sme.sk>.

13. Marek Poracký, "Fico tajne rokoval s Číňanmi, ktorí sú v J&T" (Fico Held Secret Negotiations with Chinese who are in J&T), *Sme*, 10 October 2016, <https://ekonomika.sme.sk>.

14. Grigorij Mesežnikov and Gabriela Pleschová, "Testing Democratic Resolve in Slovakia. In Sharp Power: Rising Authoritarian Influence National Endowment for Democracy Report", 2017, www.ned.org.

15. Marián Kizek, "Predaj košických železiarní ide do finále. Dajú Číňania 1,5 miliardy?" (Sale of Steel Mill in Košice goes to the Final. Will the Chinese Pay 1.5 billion?), *Sme*, 24 January 2017, <https://kosice.korzar.sme.sk>.

16. Annual Reports and IFRS Financial Statements of US Steel Košice: www.usske.sk.

17. Lukáš Kvašňák, "Košické železiarne potrebujú lepšieho majiteľa" (Steel Mill in Košice Needs a Better Owner), *Trend*, 5 January 2017, www.etrend.sk.

18. *Ibid.*

plant in Smederovo, Serbia, employing 5,000 people.¹⁹ For the factory in Košice, He Steel is expected to pay EUR 1.4 billion,²⁰ which would allow the current owner invest more back home, in line with the announced intentions of the US President Donald Trump to support domestic steel production.²¹

In January 2017, the American company signed a memorandum with He Steel that provides exclusive rights to negotiate the sale of its Košice plant. In May, the expected deal was confirmed by the Chinese embassy in Bratislava.²² Despite later rumors that He Steel ceased to be interested in the purchase due to the Chinese government's limits on out-bound capital,²³ negotiations continued in the summer of 2017 in Switzerland and China. According to daily Sme, the deal has already been made and He Steel should take over the Košice plant in April 2018, right after the U.S. Steel's memorandum with the Slovak government will have expired.²⁴ If completed, the purchase will make Slovakia the leading recipient of Chinese investment in Central and Eastern Europe.

Due to the factory's importance, the Slovak government has tried to gain leverage over the negotiation, but its influence is limited as the state currently has no control over the privately-owned company. Government representatives repeatedly declared an interest in purchasing a minority share in the Košice plant.²⁵ This suggests that the purchase of U.S. Steel Košice is not entirely the kind of Chinese investment that Prime Minister Fico has tried to attract to Slovakia. The new investor has been perceived with caution as the government is uncertain how it would behave in terms of employment. Yet authorities understand that the Košice plant needs a strong investor and view He Steel's engagement as an opportunity for the region. "This can be a new, highly positive period for the city, " explains Minister of Finance Peter Kažimír.²⁶

19. *Ibid.*

20. Marián Kizek, "Predaj košických železiarní ide do finále. Dajú Číňania 1,5 miliardy?" (Sale of Steel Mill in Košice goes to Final. Will the Chinese pay 1.5 billion?), Sme, 24 January 2017, <https://kosice.korzar.sme.sk>.

21. Marek Poracký, "Košickej huti sa darilo. Má najvyšší zisk za osem rokov" (Steel Mill in Košice has been in Good Condition. It has Made Most Profit in the Past Eight Years), Sme, 2 May 2017, <https://ekonomika.sme.sk>.

22. Martin Majerniček, "Najbližšie kúpime košický U.S. Steel, potvrdili Číňania" (The Next Investment will be Purchase of U. S. Steel, the Chinese confirmed), Pravda, 3 May 2017, <https://spravy.pravda.sk>.

23. Marek Poracký, "U. S. Steel nateraz v Košiciach ostáva, Číňania stopli rokovania" (U. S. Steel Steel Remains in Košice. The Chinese have stopped the negotiations), Sme, 7 July 2017, <https://ekonomika.sme.sk>.

24. Marián Kizek, "Predaj U. S. Steelu znovu nabera na obrátkach" (Sale of the U.S. Steel Has Been Speeding Up), Sme, 8. September 2017, <https://kosice.korzar.sme.sk>.

25. "Zmena vlastníka U.S.Steelu môže byť pozitívnou etapou pre mesto" (Change of U. S. Steel Owner can be a Positive Period for the City), Sme, 24 February 2017 (TASR), <https://kosice.korzar.sme.sk>; "Žiga, Pellegrini a Kažimír rokovali s U.S. Steel Košice" (Žiga, Pellegrini and Kažimír Negotiated with U. S. Steel Košice), Sme, 13 February 2017 (TASR), <https://ekonomika.sme.sk>.

26. "Zmena vlastníka U.S.Steelu môže byť pozitívnou etapou pre mesto" (Change of U. S. Steel Owner can be a Positive Period for the City), Sme, 24 February 2017 (TASR), <https://kosice.korzar.sme.sk>.

Because the factory is in relatively good shape – in 2016, U.S. Steel Košice raised its profit to EUR 271 million from EUR 43 million in 2015²⁷ – the new owner is not expected to lay-off many of the facility's workers. Also, the buyer will clearly need to invest into the site's overall modernization, which should take the priority and not the reduction of employment.

The possible takeover of U.S. Steel Košice by He Steel arrives in the wake the European Union's decision in October 2016 to impose anti-dumping duties on Chinese steel, after it had earlier refused to grant Market Economy Status to China. If He Steel as one of the top global steel producers wants to continue supplying the European market, this goal would be complicated by only delivering steel from China. Having production sites in Europe will allow the Chinese company to become a competitive player in Europe and show its strength in the steel sector.

27. Tatiana Jancarikova, "Slovakia Wants to 'Get Foot in the Door' in U. S. Steel Plant Sale", Reuters, 11 May 2017, www.reuters.com.

Chinese Investment in Spain: Open for Business, But Not at Any Price

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Summary

As in many other European countries, Chinese investments in Spain have increased spectacularly over that past years. Nonetheless, there has not been a public or political debate around the topic, and even less a thorough reflection by the government, the media and the academic community at large about the implications of these investments. One reason for the lack of interest in this topic is that, until 2016, the stock of Chinese investments was rather low and there have been no major acquisitions in strategically sensitive sectors. However, this could change in the years to come, considering what is happening in neighboring countries and the intensification and diversification of Chinese investments in Spain in the past few years.

Overall, for the moment, the perception of the Spanish government, the public administration at large and the media regarding Chinese investments is broadly positive. This contrasts with the view of Spanish public opinion, which looks with more suspicion on the capital coming from China than from other sources of foreign direct investment (FDI) such as the US, France, Germany, and even Japan.

A late and modest destination for Chinese investment

Up to 2008, Spain received hardly any Chinese investment. In the last eight years, however, the total volume of Chinese direct investment flows to Spain has mounted to EUR 4 billion, according to the Ministry of Economics of Spain, and EUR 3 billion if one takes the figures provided by the Rhodium Group.¹ Two factors mainly explain this discrepancy: investment in real estate by individual investors and in the energy sector by China Three Gorges through Energias de Portugal (EDP) and by Gingko Tree Investment

1. In this chapter, we will use both the data from the Ministry of the Economy of Spain and those from the Rhodium Group.

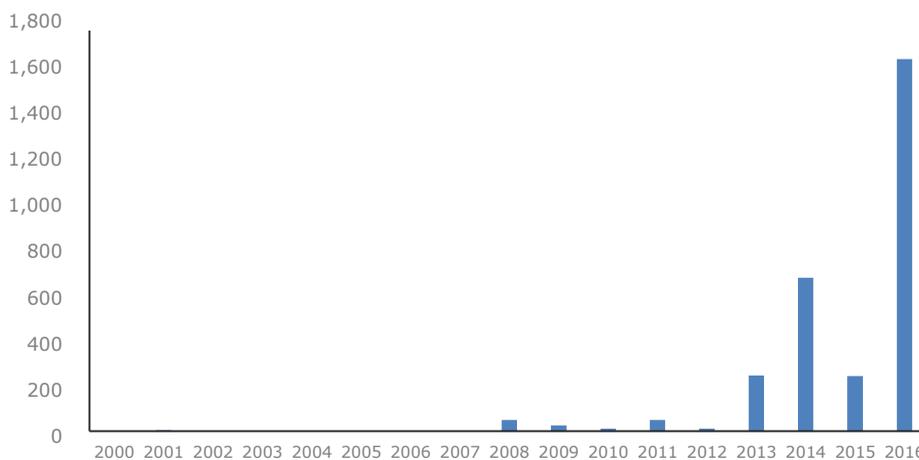
in Madrileña Red de Gas through an international consortium.² Either way, this is quite a modest figure compared with the EUR 10 billion of assets that Chinese firms have acquired from Spanish companies in Latin America.³

The amount of Chinese investment in Spain is quite ordinary also when compared with Chinese investment in other European countries and with the foreign direct investment received by Spain from other countries. According to the Rhodium Group figures, Spain is the ninth most important target country for Chinese direct investments in Europe, and the statistics offered by the Spanish Ministry of Economics make China the tenth largest investor in Spain, with a 2.65 percent share of Spain's stock of inward foreign direct investment (IFDI) as of 31 December 2015.

This means that, although Spain is the fourth largest economy in the Eurozone, and the seventh country in the EU by stock of IFDI, it is not one of the priority destinations for Chinese investors in Europe – so far.

Looking at the investment trend, caution is advised of making too much of the massive spike in Chinese investment in Spain in 2016 (see figure below), since the purchase of Urbaser (a branch of the infrastructure giant ACS specialized in environmental services) by China Tianying for EUR 1.2 – 1.4 billion accounts for $\frac{3}{4}$ of total Chinese direct investment in Spain for that year. This single operation also distorts the industry breakdown for Chinese investment in Spain.

Figure 1. Flow of Chinese direct investment in Spain (EUR millions)



Flow of Chinese investments in Spain (in millions of euros).

Source: Rhodium Group.

2. On the contrary, Rhodium groups reports much more Chinese investment in agriculture and food than the Spanish Ministry of Economy. The frequent reports of Chinese investment in this sector that finally do not materialize could explain this discrepancy.

3. Mario Esteban (ed.), *China in Latin America: Repercussions for Spain*, Madrid: Elcano Royal Institute, 2015, p. 55-59.

Unlike in other Southern European countries, Beijing did not purchase any strategic assets in Spain during the Eurozone debt crisis.⁴ Nevertheless, State Grid did attempt to buy the electric company Red Eléctrica de España, Fosun was after the public insurance firm CESCE, specialised in corporate risk, and the China Investment Corporation showed an interest in Repsol (energy), Canal de Isabel II (water), and the above-mentioned Red Eléctrica.

At the same time, one needs to note that, indirectly, China has already penetrated the strategically important energy market of Spain. By buying Energias de Portugal (EDP) in 2011, the Chinese state-owned company China Three Gorges became the main shareholder of EDP Spain and invested the sizable sum of EUR 600 million in EDP Spain from 2012 to 2016. Moreover, Gingko Tree Investment acquired for EUR 714 million a 35 percent share of Madrileña Red de Gas in 2015, which was sold to an international consortium formed by Gingko Tree, the Dutch pension fund PGGM, and the French electricity group EDF (see table below). In June 2017, however, EDP sold its gas distribution business in Spain to an international consortium for EUR 2.6 billion, which essentially means that China Three Gorges now only operates a Spanish electricity distribution business through a company called EDP HC Energia. Hence, the presence of Chinese actors in the Spanish energy market is still rather small.

Other sectors that have attracted significant amounts of Chinese money are the real estate and hospitality sector, with EUR 900 million – the most significant acquisitions being the EUR 367 million invested in the NH Hotel Group by the HNA Group (2013), the EUR 265 million investment by Wanda Group in the skyscraper Edificio España (2014), the EUR 50 million sale of Hotel Santiago in Tenerife to Chongqing Kangde Industrial (2015) and the EUR 48 million that the Jiangsu Group paid for Hotel Valparaiso in Palma de Mallorca (2014).

A large amount of Chinese money has also arrived in Spain through the Golden Visa program, which grants permanent residency to foreign investors who buy real estate assets for EUR 500,000 or more. Indeed, the official figures for this program show that one-third of the golden visas issued by the Spanish authorities have gone to 702 Chinese investors who have spent a total of EUR 489 million.

Apart from infrastructure and real estate and hospitality, other important sectors include agriculture products and food and beverages, which received around EUR 525 million according to the Rhodium Group. In the European context, agriculture in Spain is a comparatively important target for Chinese investors. Chinese companies are interested in the reputation and production techniques of Spanish food companies, since Chinese

4. Although China has not bought strategic assets in Spain during the Eurozone crisis, as in other Southern European countries, it bought a sizable amount of public debt. See Miguel Otero-Iglesias, "The Euro for China: Too Big to Fail and Too Hard to Rescue", ARI, Real Instituto Elcano, 13 October 2014; Miguel Otero-Iglesias, "How Much Spanish Debt Does China Hold?", Real Instituto Elcano, 17 December 2014.

consumers are spending increasing amounts on food products due to their rising purchasing power and to food safety concerns. Among the biggest acquisitions in this field are the purchase of Miquel Alimentació by Bright Food; Hijos de Albo by Shanghai Kaichuang (for EUR 61 million); 75 percent of the winery Marqués de Atrio by Changyu Pioneer Wine (for EUR 35 million) and 20 percent of the giant Osborne by Fosun.

Table 1. The 10 largest acquisitions by Chinese firms in Spain

Acquirer firm	Year	Percentage acquired	Total amount of investment (eur million)	Acquired Asset
China Tianying	2016	100%	1.174-1.400	Urbaser
Gingko Tree	2015	35%	714	Madrileña Red de Gas
HNA Group	2013	29%	367	NH Hoteles
Wanda Group	2014	100%	265	Edificio España
WH Group Limited	2014	37%	263	Campofrío
COSCO	2017	51%	203	Noatum
Rastar Group	2016	99%	200	RCD Espanyol
AVIC	2016	90%	110	Aritex
Bright Food	2015	100%	110	Miquel Alimentació
CITIC	2011	100%	90	Gándara Censa

Source: authors' calculations.

Another sector that attracts a considerable amount of Chinese investment is soccer. Three La Liga clubs have Chinese shareholders. Espanyol and Granada were purchased by Rastar Group and Desport, respectively, while Wanda Group is now in possession of 20 percent of the shares of Atlético Madrid, one of the biggest teams in Spain and Europe. In total, Chinese investment in Spanish football amounts to EUR 281 million so far.

Finally, although the technology sector has not been targeted by Chinese investors as much as in other countries, it is significant that the two biggest acquisitions in this sector happened in 2016: Aritex and Eptisa, two engineering firms, were bought by AVIC and JSTI for EUR 110 million and 16 million, respectively.

Is Chinese investment well received in Spain?

There is a clear difference between the perceptions and attitudes towards Chinese investments by the government and the media, and by the public opinion at large. Both the governments of the Spanish Socialists (PSOE), in power from 2004 until 2011, and the center-right Popular Party (PP), in power now, have tried to attract Chinese

investments, especially in the aftermath of the global financial crisis in 2008. From the Spanish government's point of view, when it comes to Chinese investments in Spain the attitude is: "the more investment, the better".

With this purpose in mind, the Spanish government has developed a series of concrete actions. For example, during every visit of senior Spanish officials to China, apart from seeing their Chinese counterparts, there is also a meeting with potential Chinese investors interested in Spain. Consistent with this strategy is also the fact that, according to the Spanish trade promotion office, ICEX, between 2014 and 2016 China is the place where Spanish officials have given the most briefings on Spain's Golden Visa program. This promotion of Spanish assets for Chinese investors also applies to the technology sector. ICEX has organized commercial missions of Spanish aerospace companies to contact with the Commercial Aircraft Corporation of China and that facilitated the acquisition of ARITEX by ARIC (see table above).

Although the government has not undertaken a thorough and exhaustive analysis of all Chinese investments in Spain, the general feeling in the administration is that with the 126 Chinese firms that are based in the country, the experience so far has been positive or even very positive. This is particularly true with firms that have generated an important amount of jobs⁵ or have helped Spanish firms to penetrate the Chinese market in the fields of agriculture, food and beverages, and distribution.

By contrast, there are a few, but well-known negative cases, such as the purchase of the Edificio España skyscraper by Wanda Group, which was not able to get its renovation project approved by the City Council in Madrid and eventually sold the building to a Spanish group. Another example is the dismissal from the board of the NH Hotel Group of two HNA Group executives, despite HNA being the largest shareholder, due to a conflict of interest once this Chinese company purchased Carlson Hotels. In addition, the opening of an ICBC office in Madrid has also been problematic due to its alleged involvement in illicit activities, such as money laundering. A Spanish court is investigating this issue involving not only ICBC Spain, but also ICBC Luxembourg, ICBC's European unit. These cases have damaged the image of Spain as a destination of Chinese direct investment, and also the image of Chinese investment in Spain.

Other significant divestments by Chinese companies in Spain, such as the sales of Campofrío, Naturgas Energía, or a 20 percent stake in the Osborne Group by WH Group Limited, China Three Gorges, and Fosun respectively, do not necessarily imply a negative assessment by these Chinese firms of their experience in Spain, but should be understood in a wider framework of corporate strategy.

5. The Ministry of the Economy of Spain claims that total Chinese direct investment in Spain generates only 2,661 direct jobs (1,000 by Huawei), while Spanish direct investment in China generates 30,674.

Despite these negative experiences, the Spanish media share the Spanish authorities' generally positive assessment on Chinese investment. A content analysis of news published on this topic from 2013 to 2016 by eight important newspapers in Spain, shows that the attitudes towards Chinese investments are similar in the media as in government. Usually, the coverage is positive (this is the case for *ABC*, *Cinco Días*, *El País* and *La Vanguardia*), moderately positive (for *El Mundo* and *Expansión*) or neutral (which is the case for *La Voz de Galicia* and *Público*). In other words, none of the most-read newspapers with national coverage, nor the two most circulated economic newspapers in Spain, have a hostile attitude towards Chinese investments.

On the one side are two most cited arguments in favor of Chinese investments. First is the complementarity between the availability of Chinese capital and the financial needs of Spanish firms, particularly during the Eurozone crisis. Second are the synergies that potentially emerge when the Chinese partner facilitates access to the Chinese consumer market. On the other side, concerns expressed usually focus on the lack of knowledge that the Chinese investors have of the Spanish legal system and the lack of transparency in their firms.

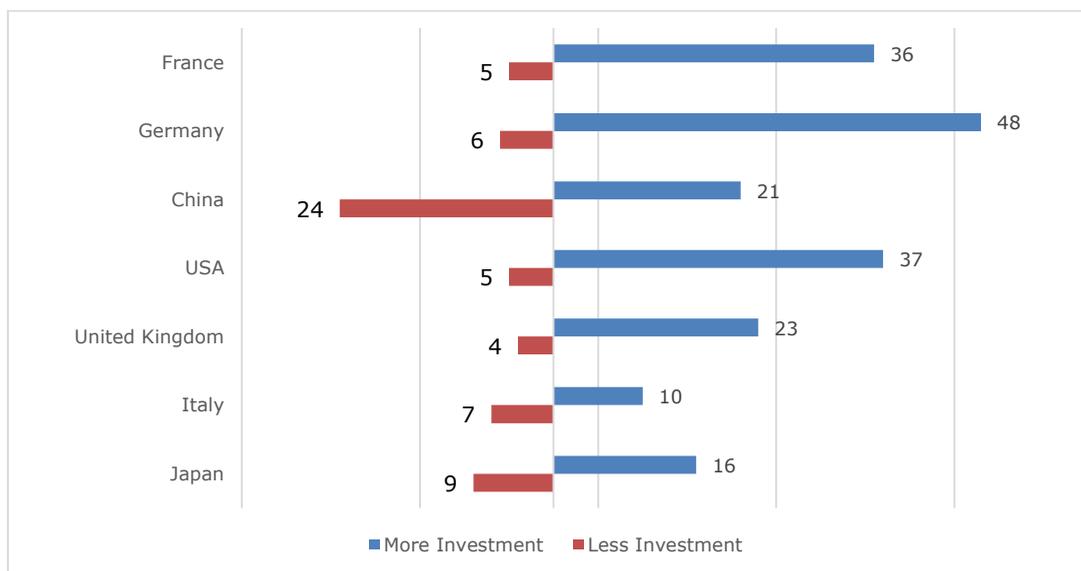
However, despite the strong consensus in favor of Chinese investments that exists among government and media actors, Spanish public opinion has a different view. A poll conducted by the Elcano Royal Institute⁶ in 2015 shows that most Spanish citizens perceive Chinese investment with hesitation, especially when compared with investment from other countries such as Germany, the United States and France. In order to capture the perceptions of the Spanish public, the poll asked the participants to respond to the following question:

Spain receives investments from different countries. Arguably, it is better for Spain to increase the investment that it receives from a number of countries and reduce that coming from others. In your view, from which countries should Spain receive more investment and from which less?

6. 37 Barometer of the Elcano Royal Institute. The representative survey by the Elcano Royal Institute consisted of 1,003 interviews conducted by phone across the country and was undertaken in November 2015.

The results were the following:

Figure 2. From which countries would you like to see more or less investments?



Source: 37 Barometer of the Elcano Royal Institute, November 2015.

As can be observed, Spaniards are generally in favor of inward foreign direct investment, especially if it comes from Germany, the United States and France. However, the attitude is different vis-à-vis China. One quarter of those interviewed think that China's investments in Spain should be reduced. This is a striking figure given that the country that generates the second most negative sentiment, Japan, was only viewed as such by 9 percent of interviewees.

These numbers are more easily understood when one looks to another survey, also conducted by the Elcano Royal Institute,⁷ which shows that a large percentage of Spaniards (concretely 34 percent) believe that China is the biggest investor in Spain, while only 17 percent think it is Germany, 10 percent France and 8 percent the United States. In reality, China is only the tenth biggest investor in Spain.

What then explains this desire for proportionally less Chinese investment? This is not about people just focusing on recent IFDI flows, since China has never been one of the five main origins of Spain's IFDI and is far behind the flows from many OECD countries. More research needs to be done on this topic, but two plausible explanations are that companies from non-OECD countries generate less trust in Spain than OECD companies; and the envy and rejection generated in some sectors of the Spanish society by the

7. 34 Barometer of the Elcano Royal Institute. This survey was undertaken in November-December 2013.

economic success of the Chinese community in the context of the deep economic crisis that the country has gone through from 2009 until 2014.

What is Spain's position regarding Chinese investments in Europe?

At the moment, the European Commission is focused on two aspects when it comes to Chinese investments in Europe. One is the negotiation of a bilateral investment agreement, and the other is the implementation of an IFDI screening mechanism for strategic sectors on the grounds of security and public order. On these matters, the position of Spain is as follows. On the one hand, Spain is in favor of an investment agreement that would facilitate greater access of European service industries to the Chinese market. This emphasis on market access is no surprise given the weight of the services sector in the Spanish economy. Spanish banking and telecommunication firms, for example, are confronted with many restrictions to penetrate the Chinese market.

Regarding the IFDI screening mechanism, Spain is not as worried as the countries that signed the February 2017 petition to the European Commission (Germany, France and Italy) about the strategic implications of Chinese investments in Spanish companies. First, Spain already has a working screening mechanism for IFDI. Second, Chinese investment on Spanish technological firms and critical infrastructure is quite limited. Besides that, Spain is satisfied with the idea to allow the Commission to give a recommendation, but not make a binding decision. The final word should remain with the member state receiving the investment, since the Spanish authorities do not want this mechanism to behave as an undercover protectionist mechanism in the hands of the Commission.

Nonetheless, this does not mean that this laid-back attitude will continue in the future. Most probably, the worries will increase as Chinese investors buy more high-tech, infrastructure and energy firms. This has already happened in 2016 with the acquisitions of Aritex and Eptisa (see above) and also the purchase by COSCO of a 51 percent stake of Noatum, the biggest Spanish port terminal operator.

Conclusions

Chinese direct investment in Spain has arrived later and in lesser volumes compared to other European countries. However, it is very likely that it will increase in the near future, especially if we consider the trend in the past few years and the business opportunities that exist in Spain in sectors such as agriculture products, food and beverages, real estate, tourism, manufacturing, engineering, and logistics.

In contrast to Spanish public opinion, which is generally reluctant to see more Chinese investments, the Spanish elites, in government, business and the media, are welcoming Chinese capital and tend to highlight the positive aspects that it brings. However, reluctance may grow if the volume of Chinese investments increases significantly and begins to penetrate more “strategic” or high-tech sectors. So far, when it comes to large scale operations in strategic sectors, the Spanish government has not been supportive of Chinese companies becoming the sole owner of large Spanish firms.

Chinese Investment in Sweden: Encountering Open Doors

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Summary

Compared to other countries in Europe, the level of Chinese investment in Sweden is relatively low, and it is not expected to increase significantly in the near future. Nevertheless, it has made international headlines due in large part to the most significant investment in Sweden to date: the Volvo-Geely deal in 2010. Both on a governmental and business level, as well as among labor unions, interest groups and the media, Chinese investment is almost exclusively regarded positively and presented as a source of capital to Sweden, leading to job opportunities and increased production of goods and services. Chinese companies are interested in technology and established brands, for instance when it comes to the fields of sustainable development and environmental protection. Even though the Swedish market is relatively small, it is seen by Chinese investors as part of a much larger European market. First and foremost, however, Chinese investors in Sweden are looking for products and technology that can be introduced back into the Chinese market – in other words, they seek products for their market rather than a market for their products.

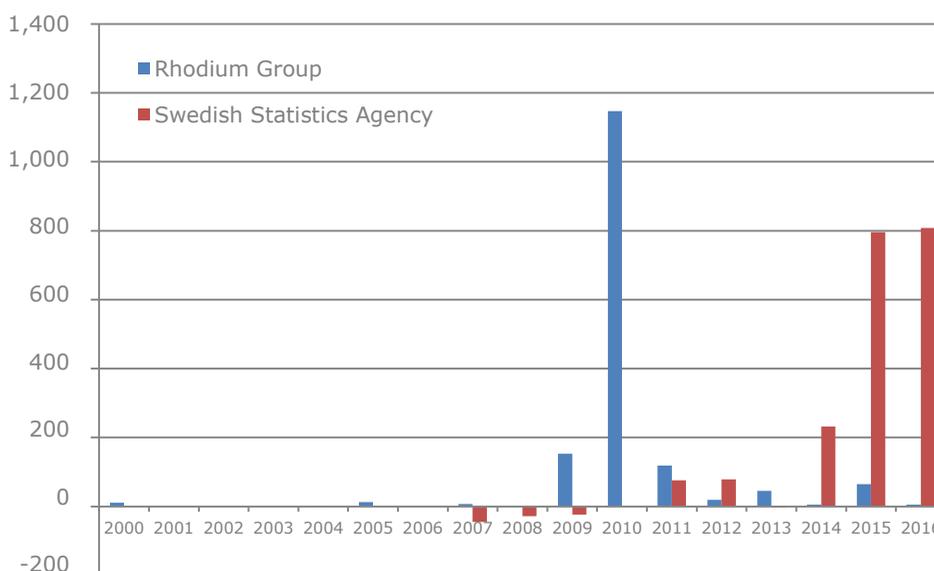
An overview of Chinese investments in Sweden

When looking at the amount of Chinese investment in Sweden, the trends and development that can be observed depend to a large extent on the methodology for compiling data and the definition of what constitutes foreign investment according to the specific sources and dataset used. This chapter builds on two statistical datasets, one provided by the Rhodium Group (RHG), and the other by the national Swedish statistics agency, Statistics Sweden (SCB).

The RHG data comes from a transactions-based database. It includes acquisitions that exceed 10 percent of the total voting share in a company, greenfield investment and follow-up expansion projects. The data does not include individual deals worth less than

EUR 1 million. Acquisitions are traced back to mainland-China, and investment going through a third party, like Hong Kong, are accounted for only in that case. The SCB data, based on the balance of payments, includes such elements as reinvested profits, commercial real estate, loans and long-term leases that are not included in the RHG data. The two datasets also differ in terms of compilation methodology. RHG uses commercial databases, algorithms, and media analysis,¹ while SCB bases their data on mandatory information given by companies in Sweden.² In order to provide financial discretion for these companies, the data becomes confidential if investment into one company accounts for more than 90 percent, or into two companies for more than 80 percent of the total amount of investment per year. For example, because of the overriding statistical effect of the Volvo-Geely deal of 2010, the SCB data for that year is classified.

Figure 1. Chinese Direct Investment in Sweden (by data source)



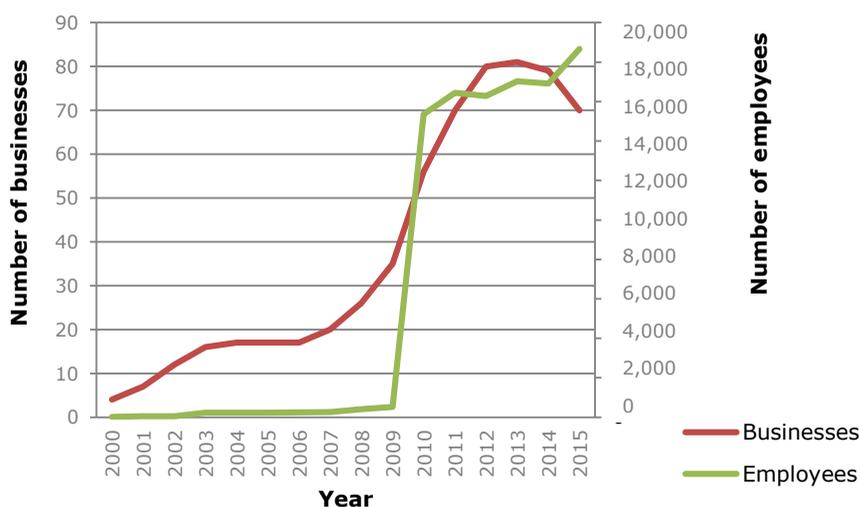
Source: Rhodium Group and Swedish Statistics Agency.

The differences in methodology show themselves in the statistics on Chinese investment in Sweden. According to data from RHG (Figure 1), Chinese investments since 2000 have amounted to EUR 1.592 billion in total. Out of this amount, 72 percent was invested in 2010 and can be linked to the Geely Group acquisition of Volvo Cars (for USD 1.5 billion), and only EUR 120 million during the period of 2013-2016. This greatly differs from data provided by SCB, which instead states that Chinese investment during this period amounted to EUR 1.892 billion (Figure 1).³ One possible reason for the huge

1. See the data chapter of this report for a more detailed, comparative discussion of methodologies.
 2. SCB, regulated by the law on the Swedish national bank (lag (1988:1385) om Riksbanken, 6 kap § 9, 2016).
 3. Total amount SEK 17.324 billion, based on Riksbanken exchange rate 3 April 2017.

difference with SCB data according to RHG, besides methodology, is that RHG estimated very conservatively for this timeframe since they did not have access to consistent, publicly-announced values. Furthermore, BOP data on an asset/liability format are based on direction rather than ownership, so FDI inflows from China (FDI liabilities) not only include Chinese direct investment to Sweden but also intracompany flows from Swedish subsidiaries in China to their parent companies. This might be another reason why inflows are higher than the sum of publicly reported deals in those years. Another possible source is greenfield investments, for example, Volvo cars (Geely) could have had continuous capital injection into their operations in Sweden without official announcement.⁴ Another explanation for some differences in the data might be the accounting of investment from Hong Kong. The acquisition of Silex Microsystems by Hong Kong-based GAE Ltd in 2015 is accounted for by SCB, but not by RHG.

Figure 2. Chinese Businesses and Employment in Sweden



Source: Data sampled from the Swedish Agency for Growth Policy Analysis database on foreign businesses and employees in Sweden.

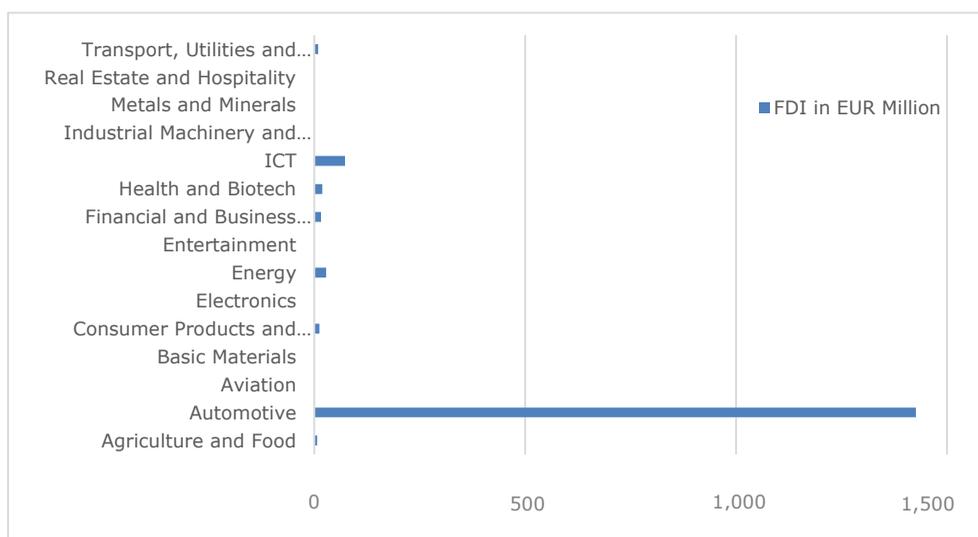
The business and employment data shown in figure 1.3 suggests a development that largely coincides with the RHG data, with a spike in 2010. One explanation for this is the Volvo-Geely deal, but there is also an increase of businesses in the surrounding years. From 2013 the number of businesses has decreased, while the number of employees has increased.

4. E-mail exchange with Rhodium Group.

Drivers and modalities of investment

Chinese investment in Sweden started with smaller private businesses and entrepreneurs, followed by mainly State-owned-enterprises (SOEs) and other state-backed investment, and finally by larger private investors.⁵

Figure 3. Chinese Direct Investment Transactions in Sweden by Industry (2000-2016)



Source: Rhodium Group.

The automotive industry has attracted by far the most attention by Chinese investors, with over EUR 1.4 billion worth of transactions recorded by RHG, or roughly 88 percent of the total. This is reflected through deals such as the acquisition of Volvo Cars by Geely (2010), the greenfield China Euro Vehicle Technology R&D company (2013), and also the acquisition of the Saab Automobile bankruptcy estate by the Chinese-owned National Electric Vehicle Sweden (NEVS, 2012). Other sectors that have generated investment are, for instance, information and communications technology (ICT), where the Swedish branch of Huawei accounts for a number of greenfield projects since 2001.⁶

Chinese investment in Sweden is partly directed towards production, but technology and innovation stand out as the main driving factors in attracting investment.⁷ Apart from purely financial gains sought by private investors, there are also other goals that Chinese investors seek to accomplish. According to China's ambassador to Sweden, Chen Yuming, investment in advanced manufacturing and technology can be linked to the "Made in China

5. Jeremy Clegg and Hinrich Voss, *Chinese Overseas Direct Investment in the European Union*, Europe China Research and Advice Network (ECRAN), 2012, <http://eeas.europa.eu> [2017-01-20].

6. Interview with Business Sweden (2017-02-09) and Swedish Enterprise (2017-02-10).

7. Interview with Business Sweden (2017-02-09).

2025” initiative.⁸ Sweden can offer products, know-how, technology and innovation in areas that constitute challenges for China, such as the environment and sustainable development.⁹ Here, the main interests of Chinese investment in Sweden correspond to investment in Western Europe, with advanced technology and established brands being the main interests of investment.¹⁰

The size of the Swedish market is relatively small compared to other big European countries, such as Germany or the UK. But when looked at by Chinese investors, it is usually seen as a part of a larger European market, and thus becomes part of one of the world’s largest economies.¹¹ Yet, this has turned out to be a secondary factor in attracting investment. Many investors do not seek to use Swedish companies as vehicles to gain access to the European market, but rather to seek products and technology that can be introduced to the Chinese market. It can therefore be said that Chinese investors are looking for products for their market, rather than a market for their products.¹²

Consequences and perceptions of Chinese investment

According to the official Swedish narrative, Chinese investment in Sweden is largely considered a platform on which to expand economic relations. Official visits to and from China are often characterized by business and trade issues,¹³ and investment is a way to spur these relations further. Sweden is a founding member of the Asian Infrastructure Investment Bank (AIIB), which is considered as strengthening the possibilities for future investment in industry and infrastructure. However, up to 2016 there were no One Belt, One Road (OBOR) projects in Sweden, so the initiative has yet to make an impact.¹⁴

In 1982 Sweden and China signed a bilateral investment treaty (BIT). The purpose of the BIT is stated as “[...] desiring to maintain fair and equitable treatment of investors

8. Embassy of the People’s Republic of China in the Kingdom of Sweden. Speech at the seminar “*Sino-Nordic Relations: Opportunities and the Way Ahead*” By the Chinese Ambassador Chen Yuming (2016-11-12) www.chinaembassy.se [2016-02-03].

9. Chen Yuming speech; Interview with Sweden China Trade Council (SCTC), an independent network for Swedish-Chinese business (2017-02-23).

10. Christian Dreger, Yun Schüler-Zhou, and Margot Schüller, *Chinese Foreign Direct Investment in Europe Follows Conventional Models*. Das Deutsche Institut für Wirtschaftsforschung (DIW), *Economic Bulletin*, No.14-15, 5 April 2017, p. 156-157.

11. Interviews with Business Sweden (2017-02-09), Swedish Enterprise (2017-02-09), SCTC (2017-02-23), IF Metall (2017-02-17).

12. Interview with Business Sweden (2017-02-09).

13. Regeringen, *Infrastrukturministern besöker Kina*, 2016. www.regeringen.se [2017-02-15]; Regeringen, *Tätare samarbete mellan Sverige och Kina*, 2016, www.regeringen.se [2017-02-15]; Regeringen, *Kinesiska investerare på besök i Sverige*, 2016. www.regeringen.se [2017-02-15].

14. Elin Rappe and Mikael Weissman, “*One Belt, One Road*” in the Swedish Context, in: Frans-Paul van der Putten, John Seaman, Mikko Huotari, Alice Ekman, and Miguel Otero-Iglesias (eds), *Europe and China’s New Silk Roads*. European Think-tank Network on China, 2016, pp. 60-62.

of one Contracting State in the territory of the other Contracting State".¹⁵ It is a means to provide protection against expropriation and discrimination for investors, and to facilitate their financial compensation. A multilateral European investment treaty with China could possibly lead to comparatively less protection for Chinese investors in Sweden, and as Chinese investments rise, these investors will clearly want to preserve this high level of protection guaranteed by the BIT with Sweden.¹⁶

In Sweden, there are no direct national mechanisms for authorizing foreign investments. The EU-directive for public procurement, for example, specifically states that no difference should be made between national and international actors.¹⁷ The BIT between China and Sweden outlines that the state may expropriate or nationalize an investment made by an investor of the other contracting state if it is in the national interest.¹⁸ The Swedish Competition Authority, just like the European Commission, can intervene in cases where the investment poses a risk to fair competition in the market.

There has so far only been one prominent investment in sectors linked to critical infrastructure or defense materiel production. The port of Fårösund on Gotland was purchased in 2017 by Hong Kong-based investor Ming Wai.¹⁹ The port has been used by the Swedish Royal Navy as a submarine base, and is thus considered of national security interest. Ming Wai has offered to provide the base to the navy free of charge. At the same time, potential Russian investment was met with criticism and portrayed as a threat to national security.²⁰

The general perception of Chinese investment in Sweden is positive when seen across sectors. Both on a governmental and business level, as well as among labor unions, interest groups and media, Chinese investment is almost exclusively portrayed as something positive. It is presented as attracting capital to Sweden, leading to job opportunities and increased production of services and goods.²¹ Since there is no longstanding experience with Chinese investment, a few events make up the bigger picture. There are two prominent examples of failed investments, the Fanerdun project in

15. Utrikesdepartementet, *SÖ 1982:28; Överenskommelse med Kina om ömsesidigt skydd av investeringar*, 1982, www.regeringen.se [2017-01-27].

16. Interview with the National Board of Trade Sweden (2017-02-14).

17. Regeringen, *Europaparlamentets och rådets direktiv 2014/24/EU* (Avd II, Kap 1, art 25), 2014, www.regeringen.se [2017-05-09].

18. Utrikesdepartementet, Art 3 (1), 1982.

19. Svenska Dagbladet, "Kines köper gotländsk ubåtshamn", Svenska Dagbladet, 10 April 2017, www.svd.se [2017-04-28]; Sverige Radio, "Hongkongkines har köpt Marinhamnen i Fårösund", *Sveriges Radio*, 8 April 2017, <http://sverigesradio.se> [2017-04-28].

20. Svenska Dagbladet, "Ubåtshamnens ägare nobbar Försvarets bud: 'Inte nära'", Svenska Dagbladet, 11 December 2016, www.svd.se [2017-04-28].

21. Interviews with Business Sweden (2017-02-09), Swedish Enterprise (2017-02-10), IF Metall (2017-02-17), SCTC (2017-02-23), National Board of Trade Sweden (2017-02-14).

Kalmar²² and the Dragon Gate project in Älvkarleby.²³ These projects came with lots of prospects, but were surrounded by problems and scandals, and ultimately failed to carry out what was promised.²⁴ On the positive side of the spectrum is the acquisition of Volvo Cars by the Zhejiang Geely Holding Group. This deal is, to date, by far the most substantial acquisition, both in terms of monetary amounts as well as the size of the company. The acquisition has resulted in a revitalization of the brand, as Volvo has shown good results and expanded its production.

Concluding Remarks

Chinese investment in Sweden is overall regarded as something positive, but according to official assessments there does not seem to be a clearly discernible trend of increasing levels of such investment. Chinese investments are reportedly slowing down around Europe, which may be a result of Chinese regulation on capital outflow,²⁵ but also of increased scrutiny and reproach in the recipient countries.²⁶ This has not been the case in Sweden, where the discourse on the still comparatively low amount of investment is shaped by big events and acquisitions, above all Volvo's success. While Chinese investment is considered as positive, this is not necessarily the case for all foreign investment, especially when it is linked to matters of national security. Future decisions taken at the European level regarding authorization mechanisms and multilateral investment treaties can likely be expected to have an impact on investment levels in Sweden.

Regarding the European Commission's proposal for an EU framework for screening foreign direct investments, Sweden agrees that problems exist relating to foreign acquisitions of operations that deal with sensitive infrastructure and technology. Sweden is prepared to actively participate in a discussion on how best to deal with the challenges described in the proposal. At the same time, Sweden considers the basis for the Commission's decision to be inadequate for assessing whether the proposed regulation constitutes a satisfactory answer to these challenges. In the opinion of the Swedish government, an enhanced basis for discussion is needed, including the usual consequence analysis and consultation with affected parties.²⁷

22. Fanerdun was a planned convention center in Kalmar, Sweden. The project was declared bankrupt in 2009.

23. Joanna Wågström, "Dragon Gate får öppna och ta emot gäster: 'De kan öppna imorgon om de vill'", *Dalarnas Tidning*, 14 December 2016, www.dt.se; Interview with Business Sweden (2017-02-09). Dragon Gate is a hotel located in Älvkarleby in Sweden. The construction of the hotel has been delayed due to problems regarding working conditions and permits. In the end of 2016 it received the final permit to open, nearly 12 years after the project began.

24. Interview with Business Sweden (2017-02-09), Swedish Enterprise (2017-02-10), IF Metall (2017-02-17); Adeen, Pannkaka av hela Kinasatsningen. Östran, 16 August 2010.

25. Jacopo Dettoni, "China's Overseas Investment Slows as Restrictions Take Hold", *fDi Intelligence*, 2017 www.fdiintelligence.com [2017-05-19].

26. Michael F. DeFranco and Thomas Giles, *Rising Influence: Assessing China's Record FDI Surge in North America and Europe*, Baker & McKenzie, 2017.

27. Regeringskansliet Faktapromemoria 2017/18:FPM9 (2017-10-18).

Chinese Investment in the UK: Growing Flows or Growing Controversy?

TIM SUMMERS, CHATHAM HOUSE

Summary

Since the mid 2000s, Chinese outward direct investment (ODI) into the United Kingdom (UK) has grown rapidly, approaching EUR 8 billion in 2016. This has been stimulated to a large extent by economic and commercial drivers, but has also been encouraged as part of the bilateral relationship between the UK and China. On the whole, Chinese investment in the UK has not been as politically sensitive as in other similar markets, though since 2015 there has been an increase in the debate around Chinese ODI in the UK. This chapter looks at the scale of and trends in Chinese investment, and at the politics of this in the bilateral relationship and more broadly in the UK.

Rapid growth in Chinese direct investment into the UK

Significant ODI from mainland China into the UK began around 2003. According to transactional data gathered by the Rhodium Group (see table below), between 2003 and 2008, annual flows of investment into the UK from mainland China (not including Hong Kong – see below) ranged from EUR 30 million to EUR 260 million, with an annual average of EUR 120 million.¹ There was a sudden spike in 2009, when the Rhodium Group data records EUR 1,140 million, due to two substantial transactions in the energy and real estate sectors.² This was followed by EUR 302 million in 2010 and EUR 137 million in 2011.

1. The author is grateful to Rhodium Group for providing the data cited here. Averages cited are the mean of relevant data in the table below.

2. The first was Sinochem's acquisition of British oil and gas company Emerald Energy, at GBP 532 million; see Reuters, "Sinochem Agrees \$878 Million Buy of Emerald Energy", 12 August 2009, www.reuters.com. The second was CIC's acquisition of a stake in developer Songbird Estates worth about EUR 250 million (data from Rhodium Group); see also China Knowledge, "CIC to Buy 19% Stake in Britain's Songbird Estates", 1 September 2009, www.chinaknowledge.com. All urls were accessed on 2 November 2017.

From 2012, flows have been more substantial, averaging EUR 3,371 million over the next four years, followed by a total of EUR 7,843 million in transactions in 2016.

Other data sources give different figures, but show the same picture of significant growth in Chinese investments.³ Data recently reported by the British government gives figures of Chinese investment in the UK for 2011-2014 as GBP 41.0 billion, GBP 49.6 billion, GBP 71.5 billion, and GBP 74.2 billion respectively.⁴ Writing in August 2017, the Chinese Ambassador to the UK mentioned a figure of US\$ 18 billion “so far” in non-financial investment into various sectors,⁵ while other reports cite figures of US\$ 44 billion in investment since 2005, of which US\$ 11.5 billion was in 2016.⁶

The fact that Chinese investment is a relatively recent phenomenon means that it is still small in terms of stocks of FDI in the UK, as elsewhere in Europe.⁷ But recent flows of Chinese investment have become relatively more significant. The British government reported that in the fiscal year 2016-2017 China (including Hong Kong) was the source of 160 projects, ahead of France with 131 but well behind the US with 577 projects.⁸

However, whereas foreign direct investment into the UK by companies based in mainland China is a relatively recent phenomenon, the UK has been home to major investments from Hong Kong for much longer. In 1994, Hutchison Port Holdings acquired Felixstowe, the UK’s busiest port, and since then other companies run by Li Ka-shing have invested across many sectors of the UK’s economy from water to telecoms, making his companies the largest inward investor in the UK.⁹ Other examples of major recent investments from Hong Kong include GBP 1 billion by Knight Dragon in new stations development in Greenwich Peninsula site, and the Far East Consortium’s GBP 1 billion Northern Gateway development in Manchester, as well as investments in FinTech.¹⁰ Other investors from Hong Kong include the Bank of East Asia, Value Partners, Top Capital Group (a GBP 55 million investment into a central Birmingham brownfield site), and investment

3. For discussion of issues relating to data see the article by Thilo Hanemann and Mikko Huotari in this report.

4. Presumably these figures refer to stocks of Chinese investment. See Foreign and Commonwealth Office, written evidence to the House of Commons Foreign Affairs Committee, 2017, <http://data.parliament.uk>.

5. Liu Xiaoming, “Chinese Investment in the UK Is An Opportunity Not A Threat”, *Evening Standard*, 21 August 2017, www.standard.co.uk.

6. “UK to Tighten Foreign Investment Reviews”, *Financial Times*, 24 July 2017, www.ft.com. This data appears to be based on that collected by China Global Investment Tracker.

7. Alicia García-Herrero, K. C. Kwok, Liu Yandong, Tim Summers, and Zhang Yansheng, “EU-China Economic Relations to 2025: Building a Common Future”, joint report by Bruegel, Chatham House, China Center for International Economic Exchanges and The Chinese University of Hong (London: Royal Institute of International Affairs), 2017, www.chathamhouse.org, pp. 16-24.

8. UK Government, “New Figures Show UK Attracts More Investment Than Ever”, 6 July 2017, www.gov.uk.

9. See Foreign and Commonwealth Office, written evidence to Foreign Affairs Committee, 2017.

10. Foreign and Commonwealth Office, *The Six-Monthly Report on Hong Kong, 1 January to 30 June 2017*, deposited in Parliament by the Secretary of State for Foreign and Commonwealth Affairs, 14 September 2017, p. 23. See also Foreign and Commonwealth Office, written evidence to Foreign Affairs Committee, 2017, and Foreign and Commonwealth Office, *The Six-Monthly Report on Hong Kong, 1 July to 31 December 2016*, Deposited in Parliament by the Secretary of State for Foreign and Commonwealth Affairs, 24 February 2017.

in a Greenwich Peninsula development by subsidiaries of New World Development.¹¹ In sum, investment into the UK from companies based in Hong Kong is still more significant than that from mainland China in stock, and at least matches its significance in flows.

Table 1. FDI transactions in the UK from mainland China (EUR million)

2000	0
2001	4
2002	1
2003	75
2004	51
2005	231
2006	30
2007	260
2008	73
2009	1,140
2010	302
2011	137
2012	3,650
2013	2,432
2014	3,823
2015	3,581
2016	7,843
Total	23,633

Source: Rhodium Group.

Growing diversity in Chinese investment in the UK

Over the 2000-2016 period, two sectors together have accounted for over half of total investment deals: real estate and hospitality accounts for 33.6 percent, and information communication and technology (ICT) 22.5 percent. Other sectors with significant Chinese investment are agriculture and food, at 11.0 percent, and energy at 9.7 percent. In terms of investment modality, corporate acquisitions or development are much more common than greenfield investments. Some prominent Chinese investors and investments include the following:

- Global telecoms company Huawei (based in Shenzhen) has been a long-standing investor in the UK, including in research and development, and has planned GBP 1.3 billion investment between 2013 and 2017.

11. "Greenwich Peninsula, A Hong Kong-Style Rail-Property Project, Given Green Light in London", *South China Morning Post*, 16 September 2015, www.scmp.com.

- CGN (China General Nuclear) has a 33 percent stake in the Hinkley Point C nuclear power plant together with another Chinese company; the total investment in the project, led by EDF, is GBP 18 billion. CGN more recently bid for a stake in a new nuclear power station in Cumbria.¹²
- Investment of GBP 800 million in Airport City, Manchester, by Beijing Construction Engineering Group, announced in 2013. In 2012, China Investment Corporation bought 10 percent of Heathrow Airport and a 9 percent stake in Thames Water.¹³
- Numerous purchases of major property assets in the UK; a recent example is the GBP 1.15 billion purchase of the tallest tower in the City of London by CC Land.¹⁴
- Recent investments in English football clubs: West Bromwich Albion bought by Lai Guochuan for GBP 175 million; Wolverhampton Wanderers bought by Guo Guangcheng; Aston Villa by Xia Jiantong; and Southampton by Gao Jisheng.¹⁵

In terms of evaluating these investments, one recent report suggested that the best-performing 30 Chinese-owned companies in the UK expanded revenues by an average 174 percent from 2014 to 2015 (and that the combined turnover of these companies was GBP 9.8 billion, with about 20,000 employees in the UK); among these, private companies outperformed state-owned enterprises. However, as many of these investments are relatively new (only 153 of the 280 Chinese-owned companies with revenues in excess of GBP 5 billion had reported earnings for at least two years by October 2016), it is too early to draw solid conclusions about their success.¹⁶ Indeed, success may depend much more on factors such as the sector and its prospects in the British economy than on the origin of the investment. Other Chinese investments in the UK appear not to have been so successful – for example, in early 2017 apparel company Bosideng closed its flagship store in central London.¹⁷

This brief survey of Chinese investment suggests that the main drivers are those which have featured increasingly in Chinese ODI over recent years, namely accessing new (and mature) markets, acquiring technology or brands, and investing in research and development. Investment in real estate is likely partly driven by a desire on the part of Chinese investors to diversify assets, though this motivation is difficult to establish other than anecdotally. Within the UK, London remains the most attractive destination for Chinese ODI, but cities across the north of England (grouped together by the government as the “Northern Powerhouse” region) have also been the focus of Chinese investment.¹⁸

12. “China in the Running to Buy into New UK Nuclear Plant”, *Financial Times*, 19 September 2017, www.ft.com.

13. “Investing in Britain: What Does China Own?”, *Sky News*, 21 September 2015, <http://news.sky.com>.

14. “‘Cheese grater’ Owners Agree £1.15bn Sale to CC Land”, *Financial Times*, 1 March 2017, www.ft.com.

15. Various sources. The precise ownership structures may not be so straightforward.

16. The data here is from Grant Thornton, cited in “Strong Growth for Top Chinese Investments in the UK”, *Financial Times*, 13 March 2017, www.ft.com.

17. “Bosideng Sells Equity Stake in *Mogao* and Closes Down Flagship Store in London”, Bosideng, 17 February 2017, <http://company.bosideng.com>.

18. “Northern Powerhouse Urged to Seize Chinese Investment Opportunities”, *Messenger*, 4 February 2017, www.messengernewspapers.co.uk.

Brexit: impact on Chinese investment in the UK

Since the early 2000s at least, the UK government has cited access to the entire EU single market as a major reason for Chinese companies to invest in the UK. The UK's decision to leave the EU and the single market will clearly change this, though at this stage it is not possible to say what a future EU-UK relationship might look like. Investors whose motivation is to access the single market from a convenient location within it will be unlikely to choose to invest in the UK. One substantial Chinese investor in the UK, Wang Jianlin, the founder of Dalian Wanda Group, warned that Brexit would "create more obstacles and challenges for investors" and that "many Chinese companies would consider moving their European headquarters to other countries".¹⁹ Others have played down the impact, suggesting that most Chinese investments in the UK were either in property or mergers and acquisitions with high-tech UK companies, and that "these two categories of investment are meant to benefit local economic growth of the UK, so they would not be impacted by [Brexit]".²⁰ Other reports have suggested that while real estate acquisitions remain strong, there has been a pause in Chinese investment in corporate assets following the Brexit referendum.²¹

It therefore seems likely that Brexit will lead to a reduction in the relative size of Chinese investment in the UK compared to that in the EU, though there is no data available to assess how big such a shift might be, and if the drivers for Chinese outward investment continue to grow (views on this differ at the time of writing in late 2017), the absolute flows of Chinese investment into the UK are likely to continue to rise, unless Brexit were to lead to a calamitous collapse in the UK economy.²²

Putting Chinese investment in the UK in a broader European context also reveals some relevant trends. The UK government claims that the UK has received more Chinese investment than any other major European country.²³ The UK accounted for 23 percent of total Chinese direct investments in the EU28 from 2000–2016.²⁴ However, in 2016 Germany overtook the UK as the largest destination country for new Chinese investment, and had already been a more popular location than the UK for Chinese-origin mergers and acquisitions.²⁵

19. Quoted in Philippe Le Corre, "Could Brexit Bring The End of The New Sino-British 'Special Relationship'?", Brookings Institution, 17 March 2016, www.brookings.edu.

20. Prominent economist David Daokui Li, quoted in "Brexit Could Put Chinese Buying of UK Assets on Hold", *South China Morning Post*, 27 June 2016, www.scmp.com.

21. Cynthia Chan, head of Chinese Business Group at PwC, cited in "Strong growth", *Financial Times*.

22. For further discussion of the impact of Brexit see Tim Summers, "Brexit: Implications for EU-China Relations", Chatham House research paper, 2017, www.chathamhouse.org.

23. Liam Fox's speech to the British Chamber of Commerce in Hong Kong, 5 January 2017, www.gov.uk.

24. Calculated from data in Thilo Hanemann and Mikko Huotari, "Record Flows and Growing Imbalances: Chinese Investment in Europe in 2016", *Merics Papers on China*, 2017, www.merics.org.

25. Jeremy Clegg and Hinrich Voss, "Chinese Overseas Direct Investment into the European Union", in: Kerry Brown (ed.), *China and the EU in Context: Insights for Business and Investors*, London: Palgrave Macmillan, 2014, p. 23.

Growing political debate around Chinese investment in the UK

An example of how Chinese ODI has moved onto the bilateral UK-China agenda is the Infrastructure Alliance set up by the two governments in 2016 to encourage cooperation between British and Chinese companies on infrastructure investment, primarily in third countries, but also on infrastructure projects within the UK. The UK government cites GBP 4 billion of Chinese investment in UK infrastructure and regeneration projects between 2012 and late 2016, and a UK-China Infrastructure Academy has been established to promote more such investment.²⁶

And as noted above, attracting Chinese investment into the UK has been an objective of the British government's work in China since the early 2000s. However, investment flows have not been correlated with the political mood music between London and Beijing, suggesting that economic and commercial considerations may have played a more important role than politics in decisions by Chinese investors. The substantial increases in Chinese investment flows in 2012 (noted above) occurred in precisely the year that ministerial-level contacts were frozen following the then-Prime Minister and deputy Prime Minister's meeting with the Dalai Lama in May 2012, though even during this freeze the two governments continued to find ways to promote greater trade and investment flows at a working level.²⁷

The prominent role that Chinese ODI has since achieved in the bilateral relationship was made clear during the state visit of president Xi Jinping to the UK in October 2015. Xi visited leading Chinese investor Huawei as part of his itinerary, but it was Chinese investment in the Hinkley Point C nuclear power plant which attracted most attention around the visit, and revealed the potential for political debate in the UK around Chinese ODI. Prior to this, Chinese investment had been largely uncontroversial, even when close allies of the UK such as the United States expressed concerns. The different approaches in Washington and London to investment by Huawei typified this distinction.²⁸

Part of this is to do with shifting views towards foreign investment *per se* – marked by some public concern in the UK over the acquisition of Cadbury by Kraft in 2010 and the attempted takeover of AstraZeneca by Pfizer in 2014, which is leading to changes in the foreign investment regime (though the UK's National Security Council already has a mandate to look at bids for what it considers are strategic assets).²⁹ It also reflects instinctive suspicion of China among some opinion formers in the UK, though this is still less the case than in the US. The impact of the debate on an EU-wide screening mechanism

26. UK government website, "UK-China Infrastructure Academy Opens Its Doors and Welcomes First Students", 8 December 2016, www.gov.uk.

27. See Tim Summers, "UK-China Relations: Navigating A Changing World" in *Mapping Europe-China relations: A Bottom-Up Approach*, European Think-tank Network on China, 2015, www.merics.org.

28. Tim Summers, "China's Global Personality", Chatham House research paper, 2014, www.chathamhouse.org, p. 30.

29. See for example, Covington [Law Firm], "A New Foreign Investment Regime in the UK", 14 December 2016, www.cov.com.

appears limited, not least because Brexit means the UK is unlikely to have to sign up to any new EU procedures. There have also been suggestions in the media that Chinese investments in the UK make the government more reluctant to criticize China on other issues, though hard evidence to support this is difficult to find. Another factor is the shift in tone since summer 2016 under Prime Minister Theresa May, symbolized by her decision to review again the Hinkley Point C nuclear project, even though the review was brief and the project given approval.

The government has since announced that it will introduce plans for tougher screening of foreign investments involving “important infrastructure”, following a commitment in the Conservative Party manifesto before the June 2017 general election.³⁰ The Chinese Ambassador to the UK has also weighed into the debate publicly, highlighting benefits of Chinese investment from the creation of 26,000 jobs and reduction of nine million tons per year of carbon emissions as a result of Hinkley, to the arrival by 2018 of a new generation of zero-emission cabs in London from the Geely Group’s GBP 250 million plant in Coventry.³¹ At the time of writing, the ongoing bid to acquire Imagination, a UK designer of chips and mobile graphics processors, by Canyon Bridge, a private equity group based in Silicon Valley, but with long chain of Chinese investors, is being seen as an indicator of any change in attitude to Chinese investment, following the rejection in the US of a previous bid by Canyon for Lattice Semiconductor.³²

Conclusion

Chinese investment into the UK is likely to continue to increase given the structural growth in the Chinese economy, its shift to higher value-added and service industries, and the global ambitions of many Chinese companies, combined with the long-standing openness of the UK to foreign direct investment and the economic outlook following Brexit. The pace of this growth is difficult to predict, and will depend somewhat on Chinese regulatory approaches to outward investment; these have been tighter since late 2016, but the structural pressures cited above give good reason to assume that investments which fit China’s strategic economic objectives are likely to continue to increase in number and scale.

Within the UK, though, the emergence of a political debate about Chinese (and other foreign) investment will complicate this process, and if growth in investment is too fast in sectors deemed strategic (particularly energy) then there could be some greater push back. The UK’s proposed new investment screening regime might introduce some

30. “UK to Tighten Foreign Investment Reviews”, *Financial Times*, 24 July 2017, www.ft.com. For details of the subsequent announcement, see UK government website, “Government Updates Mergers Regime to Protect National Security”, 17 October 2017, www.gov.uk.

31. Liu, “Chinese Investment in the UK Is Not A Threat”, *op. cit.*

32. “A (Canyon) Bridge Too Far?”, *Financial Times*, 1 November 2017, www.ft.com.

additional restrictions; its similarity to the evolution of such mechanisms in the EU will be watched closely, though the relatively light nature of the proposed EU screening mechanism means that regulatory gaps between the UK and EU may not prove decisive factors in investment decisions in the future.

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