Europe Will Continue to be the Number One Destination for Chinese Investment

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[**Abstract:** *There has been a surge of Chinese investment in Europe, particularly since 2010 because Chinese entities are aware of the broad range of assets of European economies such as cutting-edge technologies, the market, and vast corporate networks. For Europe, too, Chinese investors are a source of opportunity and growth, with the promotion of investment relations gaining top position on many bilateral agendas. The total Chinese investment in Europe between 2008 and 2017 has been of the order of $318 billion—45 per cent more than the Chinese investment in the US. China's investment in Europe is geographically well spread and the largest countries in the European Union have been major recipients of the investment. China eyes technologies in Europe to further the objectives of its Made in China 2025 strategy devised to make China the possessor of key technologies. The growing scale of Chinese investments has given rise to a number of concerns as the Chinese continue to buy critical infrastructure and technologies. While some member countries of the European Union have suggested instituting a screening mechanism for Chinese investments, the other members are not favourably inclined. Until a screening mechanism is put in place in the European Union, Chinese investment in Europe will remain strong.*]

When it comes to foreign direct investment, Europe has emerged as the preferred ground for China in the West. For several years now, Europe has attracted both state-run and private Chinese enterprises looking for investment opportunities despite the historical, geographic, legal, linguistic, societal, and cultural complexities of investing in the European Union. During the first decade of this century, there was little significant Chinese investment in Europe. However, the figures since 2010 show a real investment surge.[1]

European economies have a wide range of assets and features that Chinese investors seek, such as cutting-edge technology, the world's largest single market, vast

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[1] Le Corre, P. and A. Sepulchre (2016), "Chinese Investors Can't Get Enough of Europe," *The Straits Times*, May 10. Available at: https://www.straitstimes.com/opinion/chinese-investors-cant-get-enough-of-europe

corporate networks that stretch across the globe, brand names, integrated regional and global value chains, and a stable legal, regulatory, and political environment. For Chinese companies, these assets are of great importance—both today and in the long run. For Europe, too, Chinese investors have been important, particularly since the onset of economic and financial crisis in 2008. Many capitals and economic centres across Europe look to China as a source of opportunity and growth. Promoting investment relations is a priority on many bilateral agendas.[2]

Chinese investments in Europe, including both mergers and acquisitions (M&A) and greenfield investments, amount to $318 billion—45 per cent more than the Chinese investment in the US between 2008 and 2017. China has taken over approximately 360 European companies, from the Italian tyre maker Pirelli & C SpA to aircraft Leasing Company Avolon Holdings Ltd., while Chinese entities also, partially or wholly, own at least four airports, six sea ports, wind farms in at least nine countries, and 13 professional soccer teams.[3]

China's long-term trend of investing in European brands, technology and infrastructure will continue as the country's investments are broadly spread (geographically) and the largest European economies—the United Kingdom ($70 billion in cumulative Chinese investment), Italy ($31 billion), Germany ($20 billion), and France ($13 billion)—attract the largest share of Chinese capital. Despite the largely uncertain future of the UK as a market, once it exits the EU, China is betting on the British capital as an emerging hub of Chinese finance. The Hinkley Point nuclear plant in southern England is one-third funded by China.[4]

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[2] Seaman, J., M. Otero-Iglesias and M. Huotari (2018), "Sizing Up Chinese Investments in Europe: How Can Europe Strike the Right Balance between Security and Economic Openness," *The Diplomat,* March 01. Available at: https://thediplomat.com/2018/03/sizing-up-chinese-investments-in-europe/

[3] Tartar, A., M. Rojanasakul and J.S. Diamond (2018), "How China is Buying Its Way into Europe," *Real Clear World*, April 23. Available at: https://www.realclearworld.com/2018/04/23/how_china_is_buying_its_way_into_europe_191569.html

[4] Le Corre, P. (2018), "On Chinese Investment and Influence in Europe," Testimony: House of Representatives Foreign Affairs Committee, Carnegie, May 23. Available at: https://carnegieendowment.org/2018/05/23/on-chinese-investment-and-influence-in-europe-pub-76467

The acquisition of German companies by Chinese investors began with the purchase of family-run industrial companies in 2010, and continued with the Chinese company Midea Group Co.'s acquisition of the robotics company Kuka AG in 2016 for $5.2 billion. More recently, a Chinese investor became the top shareholder of Daimler AG when he invested $1 billion in it. Many Chinese companies have eyed German companies with the goal of acquiring technologies to further the objectives of the Made in China 2025 strategy, a national action plan of China that aims to make the country a champion of key high-tech industries such as aerospace, robotics and artificial intelligence.

In Italy, ChemChina bought the tyre-maker Pirelli in 2015 for $7.7 billion. ChemChina has also acquired a string of industrial and energy related companies.

In one of the European Union's neighbouring country, i.e. Switzerland, China effected the world's single largest acquisition worth $46 billion when its company ChemChina acquired Syngenta, a large agri-business conglomerate, in 2018.

China has become a key investor in Greece when in 2016 a state-owned Chinese Corporation (COSCO) took over 67 per cent of Athens Piraeus harbour, which has since become the principal port of entry into Southern Europe for the Chinese.

During the Eurozone crisis of 2011, China stepped forward to offer foreign investment when the Portuguese government was under pressure to sell state assets, thus making Portugal a key recipient of Chinese investment. As part of the bailout, China entered into many deals, including the takeover of Portugal's power distribution and the acquisition of controlling interests of the country's largest insurer and a group of hospitals. Besides, the islands of Cyprus and Malta have also thrown open their gates to Chinese investment.[5]

The fact that Chinese entities also partially or wholly own at least four airports (Heathrow, Manchester, Paraná and Toulouse) and six sea ports is part of China's strategy to develop e-commerce across Europe and hence the need to expand

5 *Ibid*.

logistical capacities through large-scale land acquisitions from Montenegro to Portugal, and from rural France to Poland and Hungary.[6]

The growing scale of Chinese investments has given rise to a number of concerns. These include the role of the Chinese state in the economy, a lack of reciprocity and fair competition, China's growing political and diplomatic influence, and intra-European competition that the investment potential is generating. Such concerns are growing as Chinese companies have begun to buy critical infrastructure across the continent. High-tech takeovers in Germany, including the buying of robotics firm Kuka, has given rise to some voices denouncing such takeovers as these are being perceived as a security concern and a threat to the country's industrial leadership. A number of national governments, from Germany to Hungary to Latvia, have proposed strengthening of investment-screening mechanisms. Germany, France and Italy have formally proposed EU-wide investment screening mechanism[7]. However, a coherent approach to the issue at the European level is beset with difficulties. Most of the smaller European countries such as Greece, Portugal, and Cyprus are sceptical of the move of major countries of the European Union as it may hamper these countries' ability to attract the much-needed capital.

The money will flow to where it is most welcome. Until a European review mechanism is put in place—the US has one and Australia has one—Chinese investment in European brands, technology and infrastructure will continue, and so will Europe continue to be the number one destination.

[6] *Op. cit.* 2
[7] *Op. cit.* 1