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Chinese Investment in Europe in the Age of Brexit and Trump

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ideas into movement

The world is shifting east; but the astonishing vision of Eurasia from China is barely understood in the West. The 'New Silk Road' is a ribbon of trade, ports, pipelines and high-speed trains all the way to Europe. China, the world's leader in rail technology, is negotiating with 28 countries for routes on which trains will reach up to 400 kilometres an hour. This opening to the world has the approval of much of humanity and, along the way, is uniting China and Russia; and they are doing it entirely without 'us' in the West.

– John Pilger
The Coming War on China, 2016

A new era in global capitalism is now taking place: the era of Chinese capital and it is increasingly enveloping Europe and other advanced economies. On 14 May 2017, Chinese President Xi Jinping addressed 1,500 delegates, including 29 heads of state and officials from 70 countries and international organisations, at the *Belt and Road Forum for International Cooperation*[1] in Beijing. The summit was the global unveiling of China's multibillion dollar Belt and Road Initiative (also known earlier as the New Silk Road and One Belt, One Road project), a hugely ambitious foreign policy and infrastructure enterprise that will connect Asia to Europe and beyond.

In his speech addressing the world's elite, Xi strongly defended free trade and urged the world to say "no to protectionism". A few months earlier, he also surprised many when he said the same message at the World Economic Forum in Davos, an annual meeting attended by the world's most powerful and influential people. In the wake of the UK withdrawal of membership from the European Union and Donald Trump's unilateralist and more inward-looking US policies, China, which will celebrate the 100th year anniversary of its Communist Party in 2020, looked to be filling the void, emerging as the new champion of globalisation.

When China joined the World Trade Organisation in December 1991, economists predicted that it would be the world's largest economy in the 21st Century. It is now the world's second biggest and the breath and scope of what it achieved, in less than three decades of economic liberalization and global trade integration, is simply staggering. Understanding China's growth model, the challenges it has surpassed and continues to wrestle with, and the driving force behind its overseas foreign direct investments (OFDI), especially in terms of energy development in this era of neoliberal globalisation and runaway climate change, is important as it will significantly impact policy configurations everywhere.

We have indeed reached a multipolar world wherein new powers led by China have emerged to become key global decision makers regarding politics, trade, investment, finance, security concerns, environmental protection, human development, etc. Like the movement of capital during the period of colonialism, early Chinese investments focused first on energy and natural resource assets in developing countries. Unaccompanied by territorial occupation and forced alteration of cultures, Chinese capital found very welcoming destinations in developing Africa, Latin America and Asia. Chinese largesse competed with developed countries' aid and investments, which traditionally dominated growth creation and wealth accumulation in developing countries.

When China's state-owned and private companies started to invest in developing countries, criticisms and scepticism from the West thrived about China's role as a new superpower, questioning its partnership and support for dictators and oppressive governments in exchange for minerals and energy resources; notwithstanding the fact that Western powers did that too. Questions about whether China is a new imperialist or a sub-imperialist power out to enrich itself at the backs of poor people or if it simply wanted to strengthen its own global economic and political influences were raised in literature that examined China's rise[2] as well as the new formation called BRICS of China together with other emerging economies Brazil, Russia, India, and South Africa.[3]

China observers are now highlighting China's debt-diplomacy in their criticism. The bind between China and the recipients of its investments and economic support is no longer limited to economic partnership and assurance of supply of resources and raw materials to the Chinese economy. It is also extending to securing China's political interests in global governance and decision-making processes. This per se is not necessarily bad as it is a part of *realpolitik* that new players will create new dynamics in global power structures and political architecture. However, if it is increasing global inequality, poverty and social injustice and further undermining already weak social, labour and environmental standards, it is necessary to ask if China's increased power is a force for good or not and whether foreign investments in general provide a positive contribution to economies.

Europe has also welcomed Chinese investments with open arms, especially after the global financial crisis and plunging Eurozone economic growth. During the capital flight from Europe in the worst days of the sovereign debt crisis between 2008 and 2013, Chinese state-owned enterprises (SOEs) took the risk and entered European markets, pumping in investments and buying formerly national companies that were privatised. State-owned Chinese companies are the vanguard of China's outward investment. A recent Deutsche Bank study show that state-owned businesses accounted for 78 per cent of investments in Europe between 2008 and 2013.[4]

What encouraged this shift in Chinese OFDI policy and what are the implications for policy in host European countries and global markets? Will Europe's attractiveness to Chinese investments be affected by Europe's new realities, especially the United Kingdom's withdrawal from the EU (from here on Brexit)? What are the global ramifications if this happens or does not happen? What is the difference between Chinese investments in Europe and in developing countries? How should we understand China's new leadership role in the global political economy and is it possible for progressive movements and civil society organisations to influence it?

China's integration to the global economy and its impacts to global capitalism

Starting with no outward foreign investments when it launched its open-door policy in 1979, Chinese OFDI is now at more than US$100 billion per year, placing China in the ranks of top exporting countries of direct investments globally. There is also a recent major shift in the character of investments from natural resources in developing countries to technology, industrial and luxury brands, real estate and other assets in advanced economies in Europe and the United States. Despite the current uncertainty in the global economy brought about by the lingering economic crisis, China continues to register historic highs in its outward investments. In fact, projections indicate that China will increase its global assets by three-fold from US$6.4 trillion in 2015 to almost US$20 trillion by 2020. This increase is expected to go mostly to Europe.

The increase in China's OFDI and China's new role as global investor did not happen overnight, but rather as part of its long-term planning and was driven by Beijing's implementation of the 'Going Out' policy. Generally, the Chinese state's capacity to control what happens to its economy through state intervention have played a big part in the accelerated internationalization of Chinese enterprises and its rise as economic superpower. In 2001, then Premier Zhu Rongji officially used the term *Going Out* to describe China's strategy for outward foreign direct investment to complement an earlier strategy of *Inviting In* (inward FDI or IFDI) or encouraging foreign investments to come to China to effect economic growth.

Both *Inviting in* and *Going Out* strategies were adopted as policies to create local industries and expand the market space for Chinese exports and to increase capacity and learning for Chinese transnational corporations (TNCs). The *Going Out* policy, was implemented to secure resources and technology for more modernised production and to raise the prestige of Chinese brands globally. Chinese investments have headed to the remotest corners of the planet to secure the fuel and raw materials that China needed to satisfy the demands of its booming economy, based on manufacturing practically everything that we use now. Since 2012, and after a series of policy adjustments and buoyed by huge government subsidies, Chinese state-owned enterprise (SOEs) operators, private telecommunications enterprises, communications device suppliers, and real estate property companies have all actively 'gone out'.

China has been successful in its gradual opening of its economy. This started in 1978 when the Chinese Communist Party began to mix free-market economic approaches with long-term and planned policies in order to achieve rapid growth and catch-up with the developed economies. What makes the Chinese model different from other developmental and capitalist states is the continuing role of the Chinese national state as a dominant agent in decision-making, especially on matters concerning industrial (technological) upgrading and overall economic strategy. The Communist Party of China and government remains dominant despite the entry of powerful transnational corporations into the Chinese economy.

This role of the state made it possible for China to be relatively independent from the US geopolitical hegemony and chart its development policies. This autonomy, as well as the benefits from earlier planned economy policies that enabled universal education, health services, housing, automatic access to land for farmers and other key services gave China the space and capacity to grow. Economic liberalization was gradual and incremental. By the time of its accession to the World Trade Organization (WTO) in 2001, the Chinese economy was already substantially liberalized with more than 2,500 of its national laws and regulations amended and 800 other related laws repealed to fulfil WTO conditionality[5].

The last three Five-Year Development Plans from 2001 to 2015 were focused on structural reforms to achieve economic growth and increase the global reach of Chinese TNCs. The Chinese government established a US$ 200 billion investment fund managed by the China Investment Corporation in 2007. By 2009, international direct investments from China outpaced the foreign investments of leading EU investors.

The current 13th Five Year Development Plan, which covers the years 2016 to 2020, is even more ambitious in terms of industrial transformation and raising the quality and character of Chinese products. It focuses on next generation IT, digital control tools and robotics, equipment for aerospace, railways and power industries, high-tech ships, new energy vehicles, agricultural machinery, etc.[6] On the domestic front, China is transitioning from an investment-intensive, export-led model of growth, to one driven by internal consumption and innovation. Globally, Chinese businesses are busy acquiring prestigious utility, industrial, and service brands.

This plan is both very important and symbolic. The targets are meant to enable China to reach its next level of development, in which poverty is eradicated and and an era of relative prosperity is achieved. It is worth noting that the current Plan will end by 2020, which is the 100th year anniversary of the Communist Party of China.

China is Great Again: The New Silk Road and its political and economic impacts

China today has almost fully integrated into the global supply chains of industry, value and logistics. A Ministry of Commerce report showed that in 2016 Chinese investors made a direct non-financial investment of US$170.11 billion in 7,961 enterprises in over 164 countries and regions.[7] The Bridge and Road Initiative or BRI (formerly called One Belt and One Road project by Chinese policy makers), the biggest channel for outward investments, is China's way of creating a unified Eurasia. It is linking China to Europe via multiple channels through major infrastructure investments in high-speed rail, highways, ports, dams, bridges, gas pipelines, power plants, IT connectivity and electric power grids. 66 countries, from Spain to Indonesia, are being linked to China through the BRI.

First proposed in 2013 by Xi Jinping, the BRI is an estimated $3 trillion infrastructure project[8] that also involves trade agreements and investments. It is changing the contours of international development cooperation and affecting the geopolitics of energy as well. It currently covers countries with 60 per cent of the world's population (around 4.4 billion people) and almost 30 per cent of the global economy.

The BRI focuses on connectivity and cooperation among countries that are primarily between China and the rest of Eurasia. It has two components: the land-based "Silk Road Economic Belt" (SREB) and, second, the ocean-going "Maritime Silk Road" (MSR).[9] The 'belt' includes countries situated on the original Silk Road through Central Asia, West Asia or the Middle East, and Europe. The Maritime Silk Road, as a complementary initiative, is aimed at investing and fostering collaboration in Southeast Asia, Oceania, and North Africa, through projects around the South China Sea, the South Pacific Ocean, and the wider Indian Ocean.

BRI is China's key economic, political, diplomatic and developmental strategies rolled into one. As an economic strategy, it enables Beijing to channel its huge foreign reserves, including low-interest US Treasury Bills, overseas in a more profitable way. There is already an excess of huge and expensive infrastructure projects inside China made by local governments and public corporations to the extent that the "showcases" are even rivalling each other, while others have become redundant. Studies show that the costs of investments are bigger than their benefits.[10] Many concessions have already been granted to public corporations within China, making external investments increasingly the only profitable option for Chinese investors.

Investing in infrastructure overseas also provides employment and prevents massive layoffs of skilled workers in state-owned enterprises and affiliated companies. It is no surprise that acceptance of Chinese workers is included in all current bilateral infrastructure investment deals that China is negotiating with partner countries. According to Chinese Ministry of Commerce, the number of laborers dispatched overseas in 2016 alone was 970,000. The improvement of infrastructure in BRI-linked countries also benefits China as improvements in facilities reduce transaction costs of importing and exporting goods. This will expand China's supply chains and enable China to access labour markets overseas.

The more important agenda, which has a far bigger and more strategic importance than economic motivation for BRI, is political. The BRI is China's foreign policy strategy to achieve parity with the United States in Asia and Europe. It ensures the security environment and political clout it needs for its continued rise as a superpower. The new infrastructures have geopolitical importance and create leverage for China to avoid encirclement by US allies around its borders. Through the BRI, China is also winning back its historical place as the world's largest economy and regaining its superpower status prior to the colonial period. The territories included in BRI correspond to the old road and maritime route of China's trade and diplomatic hegemony two centuries ago.

Chinese largesse is also strengthening Beijing's global strategic influence through the means of debt-trap diplomacy. By providing loans and investments to partner countries in exchange for minerals and resources, recipient countries become long-term debtors. Beijing's loans are attractive as they do not require partner-states to change their domestic economies and China's principle of non-interference allows it to deal with states regardless of the indebted country's national political situation.

Many of the BRI partner countries that are part of the two initiatives are also members of the China-led Asian Infrastructure Investment Bank (AIIB). Part of the funding for BRI mentioned above was a USD 1.1 trillion earmarked in early 2016 by Chinese financial institutions and companies. In addition, there was also an authorised capital investment of US$ 100 billion for the AIIB and another US$ 100 billion authorised for the BRICS New Development Bank, which will also be used for BRI.

The rise of Chinese TNCs

Since 2011, China has been second only to the US in hosting the biggest number of TNCs in the list of *Fortune*'s Global 500. This ranking of the biggest, most powerful, and richest global corporations that control the movements of wealth and resources listed 106 Chinese TNCs in 2015 (including those based in Hong Kong) compared to 128 American-owned TNCs. Between the years 2000 and 2010, the numbers of Chinese TNCs increased from 10 (compared to 170 US TNCs) to 46 Chinese TNCs (and 139 US TNCs).[11]

The biggest corporation in the ranking is US-based Wal-Mart Stores Inc. which had a total revenue of $485.6 billion in 2014 followed by the State-owned company China Petrochemical Corporation, better known as Sinopec, which earned $446.81 billion. Sinopec has outranked Royal Dutch Shell, which was formerly second in revenues and now is third in the list.

It is important to understand Chinese TNCs and the way they operate. Most of the listed 106 Chinese companies are state-owned, with 47 directly under the control of the State Assets Supervision and Administration Commission or SASAC in China; only 22 are private corporations. Chinese State-Owned Enterprises or SOEs are different from usual corporations. The Communist Party of China normally appoints the top executives, including the Chief Operating Officers (CEOs) of SOEs as well as of the biggest state-owned banks. Informally, SOE executives have close ties with top government officials. At the lower levels, the management of local SOEs are also beholden to local Communist Party leaders.

The Chinese government has absolute control or has more than 50 percent ownership stakes in the primary firms in the industries of coal, oil, electricity, defence, telecommunications, air transport, and ocean shipping. SOEs provide the largest job opportunities in the country. Sinopec for instance, employs 18.7 million employees. This aspect of Chinese economic structure needs deep understanding and study as this begs the question of whether China is becoming a capitalist state or not. At this point, what is clear is that the state still employs a mixture of state intervention and market-based policies and applies them in a very different trajectory to other developing countries. China's history as a communist country and its current adoption of what it describes as "market socialism", plainly means that it has created a unique role for itself in the global economy.

China's outward foreign direct investments reaching historic highs

Despite China's economic transition experiencing a period of slowing rates of economic growth, continuing turmoil in the China stock market, and spiraling debts, the World Investment Report, shows that China's outward FDI flows in 2015 reached US$ 182.7 billion. This raised China to the rank of world's second largest source of OFDI. The largest investor country is still the US with US$ 300 billion; Japan is third with US$ 128.7 billion.[12]

OFDI from mainland-based enterprises grew faster than inflows into the country. Chinese firms have increasingly invested in services, advanced manufacturing, technology and other high value-added and consumption-related sectors, as well as in assets providing high and stable returns. The World Investment Report also shows that China has become the world's largest FDI recipient, surpassing the United States. It is at the top of the 2015-2017 list of the economies most attractive to multinational companies.

TABLE 1: Overseas Foreign Direct Investments: 2015 Top Countries
(in billions US$)

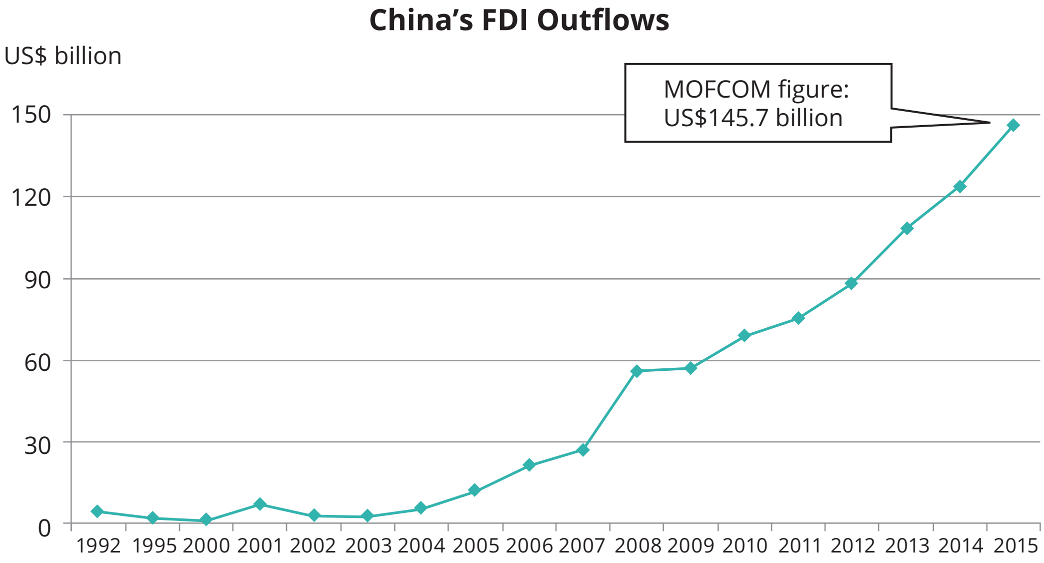
	2007	**2010**	**2013**	**2014**	**2015**
USA	393.52	277.78	307.93	316.55	299.97
China	26.51	68.81	107.84	123.12	127.56
Hong Kong China	64.17	88.03	81.03	125.11	55.14
Japan	73.54	56.26	135.75	113.59	128.65
Germany	169.32	125.45	40.36	106.25	94.31
Canada	64.63	34.72	54.89	55.69	67.18
Russian Federation	43.85	41.12	70.68	64.20	26.56

Source: UNCTAD 2015 World Investment Report, China Ministry of Commerce

In recent years, the Chinese government has substantially reformed the relevant administrative measures for its private and state-owned companies wishing to invest overseas, allowing them to make outward investments based on their own plans, in terms of countries of choice and development strategies. Still, the mainland's most preferred FDI destination is Hong Kong, receiving US$89.8 billion in 2015, which brings the cumulative outward investment from the mainland to Hong Kong to US$656.9 billion, accounting for 60% of the total outbound investment.[13]

Hong Kong serves as an important platform for both the inflow of foreign investment into the mainland and outflow of Chinese investment abroad. Most of this is subsequently channeled overseas through Hong Kong's platform for different kinds of services such as financial, legal, tax, risk assessment of sustainable operations, and international testing and certification.

TABLE 2: China's OFDI from 1992 to 2015 (in US$ billions)



Source: Statistical Bulletin on China's Outward Foreign Direct Investment

With the 2016 implementation of the 'Made in China 2025' initiative - a part of the current Five Year Development Plan seeking to propel China into a high productivity economy - more Chinese overseas investment can be expected in the sectors considered high priority by the Chinese Government.

The United States topped the list of countries and regions for Chinese outbound Mergers and Acquisition transactions in 2015 in terms of number of deals. China recorded 113 deals in the fields of healthcare, utilities and energy, real estate, computers and electronics, machinery, telecoms, insurance, in the US. Next on the list was Australia (42 deals) followed by South Korea (38).

TABLE 3: Top countries and regions for Chinese Outbound Mergers and Acquisitions in 2015 by number of deals

Rank	Country/Region	No of Deals	Investment Targets
1	US	113	Computers and electronics, healthcare, real estate, machinery, telecoms, insurance, utilities and energy
2	South Korea	42	Mining, utilities and energy, real estate, agribusiness and food, healthcare
3	Australia	38	Computers and electronics, consumer products, leisure and recreation, telecoms
4	Germany	26	Automotive, machinery, healthcare
5	Taiwan	24	Chemicals, computers and electronics, consumer products, financial services, healthcare
5	UK	24	Computers and electronics, professional services, real estate, transportation
6	Singapore	21	Computers and electronics, transportation, consumer products
7	Canada	19	Mining, oil and gas, healthcare
8	Italy	14	Automotive, financial services
9	Japan	13	Agribusiness and food, computers and electronics, healthcare
10	France	11	Healthcare, real estate, professional services
10	Israel	11	Computers and electronics, real estate

Source: Distributions of Chinese Investments 2016, Finance Maps of the World. http://finance.mapsofworld.com

Chinese investments in Europe

Although there are significant historical, geographic, legal, linguistic, societal and cultural challenges faced by Chinese investors investing in the European market, there has been a steady increase in the flow of capital from both state-run and private Chinese enterprises to the EU in the past years. Between 2000 and 2014, Chinese companies spent €46 billion on 1,047 direct investments in the 28 EU countries[14]. Foreign direct investment from China in Europe reached around €21.7 billion in 2015 and totaled more than €35 billion in 2016, an increase of 77 per cent from 2015.[15] Today, the EU is China's biggest trading partner, while China is the EU's second largest trading partner after the United States. Trade in goods between the EU and China is worth well over €1.5 billion a day, with EU exports amounting to €170 billion and imports to €350 billion in 2015.[16]

According to Baker & McKenzie, China has invested $US 205 billion across the continents since the turn of the century - $US 108 billion in North America and $US 97 billion in Europe. Nearly 80 per cent of that total has been invested since 2011.[17] The inflow increased after the 2008-09 global financial crisis when many businesses were leaving the EU and Chinese investments surged in. In 2010, the total stock of Chinese direct investment in greenfield projects and acquisitions in the EU was just over €6.1 billion.[18]. The EU continues to be a top recipient of Chinese investment.

The economic relationship between China and the European Union dates back to 1975, with current relations governed by the 1985 EU-China *Trade and Cooperation Agreement*. However, Europe's trade with China only significantly increased in the mid-1990s. The Asia Europe Meeting in 1996 strengthened Europe's "New Asia Strategy" that sought to build closer relations with China.

European investors' interest to focus more on China, instead of other developing countries in Asia, was bolstered by the Chinese economy's resilience during the Asian financial crisis in 1997. Before 2001 there had been economic disputes due to the EU's protectionist measures against Chinese exports to Europe and the EU's opposition to give China the status of market economy in the process of China's accession to the WTO.

There are continuing points of friction between China and the EU on political and security issues, such as the EU arms embargo on China after the Tiananmen Massacre in 1989 in which the People's Liberation Army (PLA) suppressed a predominantly student-led pro-democracy demonstration in Beijing. There is no official figure as to the number of civilian deaths. Estimates vary between the hundreds to the thousands. Beijing has pushed for the embargo to be lifted in several high-level meetings.

Despite the embargo, however, there are reports that European countries continue to sell arms to China. In 2003, for example, the EU sold China €400 million worth of "defense exports" and later, other military grade submarine and radar technology,[19] revealing the ineffectiveness of the embargo.

In January 2016, China became a member of the European Bank for Reconstruction and Development (EBRD). This membership facilitates EBRD's investments in 'Belt and Road' projects in member countries, particularly the construction of transport links between Asia and Europe

Some of the recent investments by Chinese State-Owned Firms include:[20]

In 2015:

1. China General Nuclear Power Corporation's (CGN) acquisition of 33.5 per cent stake in Électricité de France's nuclear power project being built at Hinkley Point in the UK for US$ 9 billion.
2. Acquisition of EEW Energy from Waste, a Germany-based waste management company. The company is expected to be valued at between US$ 1.6 billion and US$ 2.1 billion, which would make it China's biggest outbound deal in the waste management sector in 16 years.
3. China Three Gorges Corporation's acquisition of a 49 per cent stake in a 598 MW portfolio of wind projects owned by EDP, in Poland and Italy, for € 392 million (about US$ 427.1 million).
4. China Merchants Holdings, COSCO Pacific and CIC Capital consortium investment of US$ 940 million to buy a 65 per cent stake in Kumport Terminal, Turkey's third-largest container port. This investment is strategic due to its location, which is along the 'Belt and Road' area and one of the main 'bridges' between Europe and Asia.

In 2016:

1. HNA Group's acquisition of 100 per cent stake in the joint venture between Swissport International (with a stake of approximately US$ 2.8 billion) and the aircraft leasing arm of the Irish firm Avolon (with a stake of €2.3 billion). The company is one of the world's largest providers of ground and cargo handling services, operating in more than 269 airports. The HNA Group subsequently built on this acquisition through Bohai Leasing's (a company which is majority owned by HNA Group), acquisition of 100 per cent stake in

Avolon in its entirety, in a transaction worth US$ 7.5 billion in 2017. The acquisition was completed in early January 2016, making HNA Group the world's fourth largest lessor by asset value.

2. Tencent's €6.7 billion acquisition of Finnish gaming firm Supercel in 2017
3. Midea's acquisition of German robotics company Kuka for €4.4 billion
4. Beijing Enterprises' purchase of Germany's EEW Energy for €1.4 billion
5. Ctrip's €1.6 billion acquisition of British travel platform Skyscanner
6. Shandong Ruyi Technology's €1.3 billion investment in French fashion company SMCP group
7. Wanda AMC's acquisition of UK's Odeon and UCI cinema group for €1.1 billion.

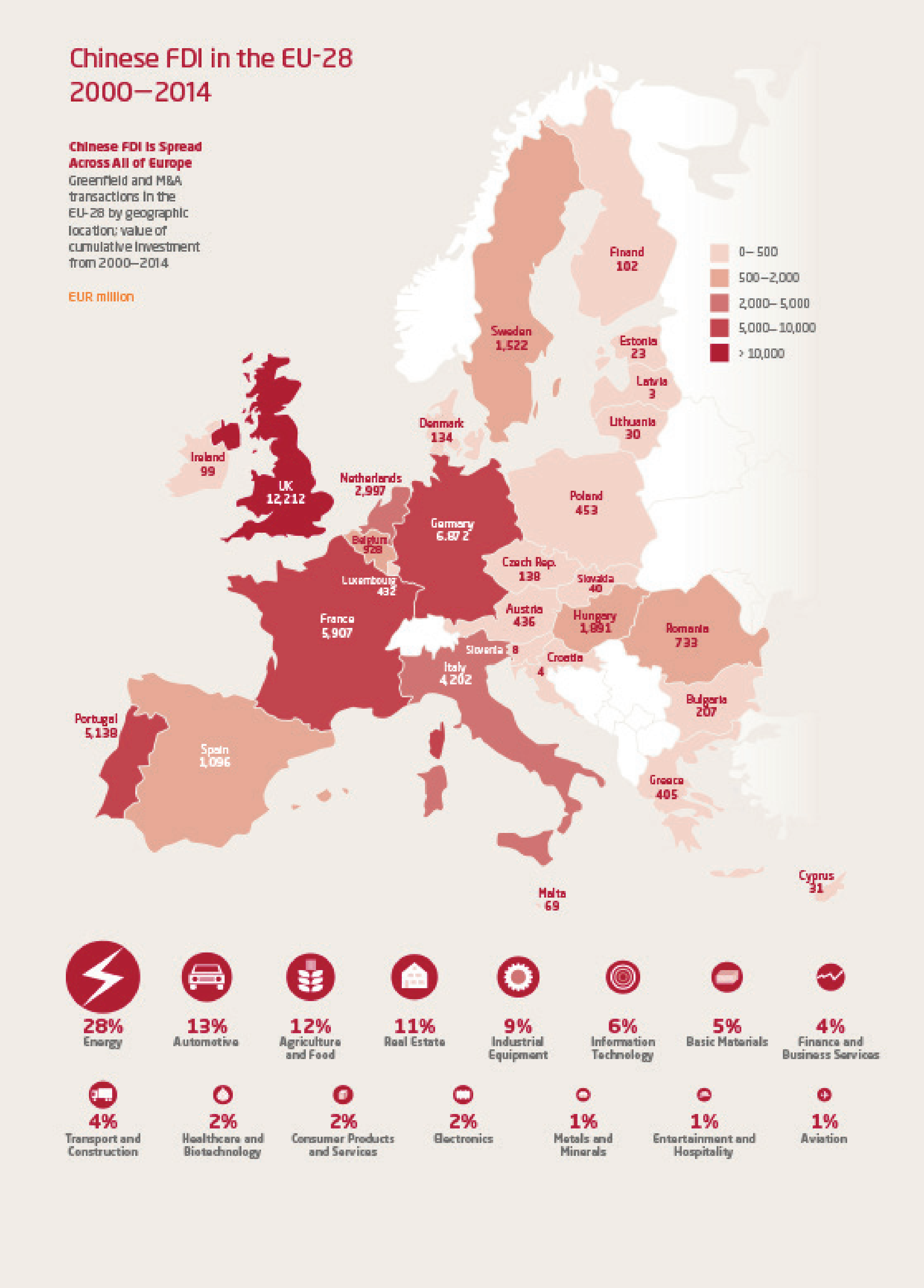
Factors influencing China's investment interests in Europe

The increase of Chinese investments in Europe (both in EU, Switzerland and Scandinavian countries) and other advanced economies follows the logic of its new realities and aspirations. China is experiencing slower growth and transitioning to a new economic model of producing more high-end technology and expensive products and away from cheap and low quality manufacturing that it is notorious for. Chinese companies are now acquiring European automotive, food, energy, transport, luxury brands, entertainment and travel brands to build their capacity and have world-class enterprises.

The 2008 debt crisis was a pivotal moment as it enabled Chinese government's purchase of Eurobonds and investing in infrastructure companies at extremely competitive valuations. Chinese investors took advantage of the European Commission's pressure on crisis-affected countries to privatise state companies and the firesale of public assets that ensued.[21] Ironically, and somewhat predictably, the "Troika" (made up of the European Commission, European Central Bank and the International Monetary Fund) pushed privatization of state-owned companies as a solution to fiscal crisis and for supposed efficiency savings, which in many cases resulted in Chinese SOEs buying Europe's assets.

In 2008, Cosco Holding, for example, acquired a 67 per cent stake of Greece's Piraeus Port from the Greece Port Authority. Cosco now entirely runs the port. Investing in Europe, however, was not just an opportunistic move during the crisis. Government planning played a crucial role in Chinese businesses' decisions where to invest as most of the firms are state-owned enterprises. Investments in European enterprises, especially in countries like Germany, Italy, France and the UK is part of China's investment strategy as they offer a way for Chinese firms to learn and acquire the best technologies to promote their TNCs global expansion.

Since the influx of Chinese capital to Europe, the sectors that attracted them the most are energy, automotive, food and real estate. The biggest recipient of overseas direct investment is the UK where Chinese investors have poured $38bn (£29bn) into a broad range of assets ranging from prime London real estates to banks, energy projects and football clubs since 2005. UK real estate is particularly attractive due to a predictable, transparent and rules-based legal system in the country. Chinese investors have pumped more than $12 billion into UK properties, nearly a third of China's overall investment in Britain.[22]


Chinese FDI in the EU-28
2000–2014
Chinese FDI Is Spread Across All of Europe
Greenfield and M&A transactions in the EU-28 by geographic location; value of cumulative investment from 2000–2014
EUR million
0–500
500–2,000
2,000–5,000
5,000–10,000
> 10,000
Ireland 99
UK 12,212
Netherlands 2,997
Belgium 928
Luxembourg 432
France 5,907
Portugal 5,138
Spain 1,096
Germany 6,872
Denmark 134
Sweden 1,522
Finland 102
Estonia 23
Latvia 3
Lithuania 30
Poland 453
Czech Rep. 138
Slovakia 40
Austria 436
Hungary 1,891
Slovenia 8
Croatia 4
Italy 4,202
Romania 733
Bulgaria 207
Greece 405
Malta 69
Cyprus 31
28% Energy
13% Automotive
12% Agriculture and Food
11% Real Estate
9% Industrial Equipment
6% Information Technology
5% Basic Materials
4% Finance and Business Services
4% Transport and Construction
2% Healthcare and Biotechnology
2% Consumer Products and Services
2% Electronics
1% Metals and Minerals
1% Entertainment and Hospitality
1% Aviation

Source: COFDI-Chinese Foreign Direct Investments, Mercator Institute for China Studies
https://www.merics.org/en/merics-analysis/merics-reports/merics-analyses/

Germany is the second largest recipient of Chinese OFDI in Europe. Chinese investments in Germany reached €6.9 billion in the period 2000 to 2014. According to a study by the Mercator Institute for China Studies and Rhodium Group, the annual investment levels in Germany is stable at €1-2 billion per year, which differs from the volatile patterns in other European economies.[23] Their paper explains that Germany's advanced manufacturing capabilities were the biggest attraction for Chinese investors, with automotive and industrial equipment accounting for more than 65% of total Chinese investment since 2000.

France got the third biggest share of investment with €5.9 billion.

More than 50% of cumulative investment from 2000 to 2014 went to the UK, Germany and France. The industry mix has broadened to include IT equipment, finance and business services as well as consumer products in recent years. Most deals in Germany were small and medium sized takeovers, in which Chinese state-owned companies accounted for a higher share of investment as compared to Chinese SOE investments in other European countries.

Recently, Chinese investment has extended increasingly to other European countries, creating an intra-European competition for Chinese capital. The total Chinese investment in Portugal, Ireland, Italy, Greece, Spain, and Cyprus rose from 10 per cent before 2011 to more than 30 per cent between 2012 and 2014. For the first time in 2015, Southern European economies received almost half of all Chinese EU investment owing to the fact that these countries, which still had significant state-owned sectors, are now simultaneously being forced to and also opting to privatize their assets in the context of their current financial crises. The following year, however, Chinese investors re-focused on the three biggest European economies Germany, the UK and France.

The biggest Chinese takeover in the EU to date is ChemChina's €7 billion acquisition of Italian tyre producer Pirelli. Dalian Wanda, the biggest Chinese property developer, also acquired the Atletico Madrid brand, while Haitong acquired the Banco Espirito Santo's investment banking business.

In 2015, Chinese companies invested € 20 billion in the EU, a 44 per cent jump compared to 2014 investments of €14 billion. According to the Mercator/Rhodium study, Chinese firms will deploy an additional US$ 1 trillion in outward FDI in the coming five years in Europe and globally.

The rising penetration and influence of Chinese capital in Europe has meant that every EU member state has sought high-level exchanges with China to strengthen bilateral investment. Bilateral investment relations play an important role in the rise of Chinese transactions in the EU. It is notable that the top recipients of Chinese FDI – the UK, France, Germany, Italy and Portugal, all have bilateral investment treaties with China.[24] There is now a China – EU mechanism called "16+1" wherein China meets 16 Central and East European countries on an annual basis for trade and investment discussions.

Apart from the strategic consideration to expand Chinese brands and learn to operate globally, another explanation for the increased interest in investing in assets in developed economies was the threat of losses by Chinese companies in frontier markets like Myanmar, Libya and Venezuela.[25] The move from these areas and the expansion to Europe comes with official government approval and with massive financial assistance from state-run and commercial banks, as well as sovereign funds.

Fear and protectionism in post Brexit Europe

Although Chinese investments continue to grow, there are several problems and ongoing obstacles for Chinese investments in Europe. Philip Le Core, co-author of the book *China's Offensive in Europe* identifies human resources as one of the problems. Like Japanese companies in the 1980s, Chinese investors have found it hard to relinquish power to European managers. In many cases, European employees have a "cosmetic" role, except in rare cases such as the senior European managers at Lenovo. Job creation is limited and due to the lack of transparency, it is very hard to determine how many Europeans are employed by Chinese companies in Europe. The study done by Le Corre and Sepulchre estimated the number to be around 40,000 people.

Another big problem is lack of trust, negative perceptions of the Chinese, and racism even in countries like Germany and Italy where the Chinese are pouring in huge investments. Generally, there is wariness about Chinese investments in Europe because they are state-driven. Chinese companies have cheaper access to credit from their national banks making it difficult for European companies to compete.

In their learning process, Chinese companies have also committed mistakes and encountered various problems. In one high-profile case, Poland in 2011 cancelled a controversial highway contract with the China Overseas Engineering Group (or Covec a subsidiary of China Railway Group). Covec had been awarded the contract to build a 50km stretch of an important highway between Warsaw and the German border in 2009 after it had bid at almost half the price of actual cost. It was the first Chinese company to win such a large European highway contract and had hoped to use the project as an entry-point to gain other business in the region. Its rivals complained of price dumping to Warsaw and Brussels. When construction started, the company run into problems as the costs were higher than expected so it was halted.

The nature of China's political system also means there is fear that there is more than economic risk at stake. European companies are still not willing to sell top technologies to China amidst concerns about energy security, defence or financial stability. The German government, for example reversed its approval for a €670 million (£603 million) acquisition by Chinese investment fund Fujian Grand Chip Investment Fund LP of the chip equipment maker Aixtron, despite clearing the deal in September 2016, citing national security concerns.[26] There was also a review of the Chinese purchase of the lighting firm Osram. Earlier in the year, there was a huge controversy over the acquisition of the robotics maker Kuka by the Chinese appliance-maker Midea.

The Social Democrat economic minister of Germany, Sigmar Gabriel has discouraged the selling of companies to the Chinese and called for EU-wide restrictions in October 2016. Gabriel circulated plans in the press to prevent foreign takeovers of certain technology companies unless the same rights were given to EU companies and especially if a state company was involved. He argued that Germany is being short-changed in its relations with China since it is more difficult for German companies to access the Chinese market than it is for their Chinese counterparts to access Germany's market.

A significantly improved market access for EU companies as well as a level playing field for business and investment was indeed the focus of the 6th annual EU-China High-level Economic and

Trade Dialogue (HED) held in Brussels in October 2016. Trade and investment conflicts between Beijing, Brussels and Berlin may continue as the Chinese government's support to its TNCs (and its investment in high-technology industries in Europe) is an integral part of its development plan. China's strategic advantage that comes from having a clear and long-term development plan directed from above and based on state-ownership of its key strategic industries, which sharply contrast with the EU's lack of a plan and all the implications that this entails, should not be blamed on China. It suggests, as was the case with Japanese and Korean companies previously, that European companies are most upset about facing competition that they are not able to beat.

Blocking Chinese investments will not be easy and it may not work to Europe's advantage. China is an important country for the German economy and other European countries. China's economy is worth some 700 billion euros a year. German companies like Volkswagen make most of their profits from the Chinese market even if they cannot be a majority shareholder in a joint venture.[27] Other fears have little basis in fact. In a Mercator Institute for China Studies study of 1,000 deals by China in Europe, there was no evidence that Chinese investment had negatively impacted local employment or innovative capacity.

It seems that even Brexit will not affect UK's appeal to the biggest type of Chinese investment in the country. Prior to the referendum on Brexit, China's President Xi Jinping and Premier Li Keqiang clearly advocated for the UK to remain in the European Union. This indicated a fear in China that Brexit could have negative ramifications in the EU-China dynamic and UK-China relations. The UK represents two per cent of China's total global trade. There were worries that Brexit could make the UK less attractive as a destination for Chinese outward foreign direct investment.

The tendency to both bash and woo China is still predominant in the UK. The British government was accused of Sinophobia over the decision to review whether to build the Hinkley Point C nuclear power station in which China would be a major investor. In the end, Theresa May's government decided that the project will go ahead.

The China Policy Institute explains that UK departure from the EU is of most concern to investors dependent on market access. A sudden decrease of the UK's potential market from half a billion people to 65 million would doubtless cause a careful reconsideration of any investment plan aimed at accessing the largest market possible. Other types of investment, such as those that are mostly UK-focused, would see only limited repercussions from the country's upcoming exit from the EU.[28]

In the case of the UK, a study of ten main deals conducted by China over the past three years as well as available lists of China's Mergers and Acquisition (M&A) activity over the past decade show a pronounced preference towards real estate. Between 40 to 50 per cent of all deals by China in the UK occur in this sector, compared to an average of 11 per cent in the EU. Like in Germany, 20 per cent or so of deals are asset-seeking, aiming to acquire British brands and technologies. 15 per cent are portfolio investments – falling into the 'diversification' category -, and 11 per cent are energy-related. These categories, together make up at least 85 per cent of China's M&A activity in the UK since 2005; these investments are highly UK-specific and unlikely to relocate to continental Europe.

The projection based on data compiled by CBRE Group Inc. in early 2016 was that Chinese companies are investing £4 billion in London properties, which is 30 per cent higher than the 2015 record.[29] Although the U.K.'s vote to leave the European Union lowered prices for Chinese buyers due to the depression of the pound against the yuan, any longer-term profits depends partly on whether Brexit will also drive down rents and values because of the diminished role of London as Europe's finance hub.

Since the Brexit vote, buyers from China have spent £600 million pounds in the U.K., according to the CBRE data, which excludes individual buyers. China Minsheng Investment Corp. bought Societe Generale SA's London headquarters for £84.5 million. China Vanke Co. bought Ryder Court, an office building in Mayfair, for £115 million and Kingboard Chemical Holdings Ltd. acquired Moor Place in the City of London financial district in October for £271 million. The majority of these investments are from Hong Kong-based companies.

China's stake in Europe's energy sector

Between 2008 and mid-2014, China closed more than 200 cross-border Mergers and Acquisition (M&A) deals or joint ventures in the EU. M&A has been the dominant type of Chinese investment into the EU. In China, state-owned enterprises dominate industries such as transport, energy and finance. It is not surprising that they are the vanguard for China's outward investment. Almost one third of Chinese investments in Europe went to the energy sector. Energy together with transport and finance amounts to about 50 per cent of Chinese investments in Europe.

A Taylor Wessing paper in 2012 notes two key factors as to why the Chinese are investing in energy, and particularly renewable energy, in Europe. Firstly, following a period of dynamic growth, China's renewable energy sector is expected to slow during the next five years as a direct result of measures taken by the central government to curb the growth in new alternative installations. Secondly, an increasingly competitive domestic renewable energy manufacturing sector is pushing Chinese energy companies to enter new markets. M&A is the fastest route into a new market. An added factor is the availability of a large number of distressed European clean energy assets for sale in the market. Most of the European solar companies acquired by Chinese companies between 2011 to 2012 were facing bankruptcy.[30] Chinese companies, both public and private, are investing in electricity grids, wind and solar farms, solar photovoltaic or PV manufacturing, and research and development.

In December 2011, China Three Gorges Group, owner of the $22.5 billion Three Gorges Dam, the world's largest hydro project, acquired stocks and became partial owners of Portuguese utility EDP or Energias de Portugal. The Chinese company acquired a 21 per cent stake for €2.7 billion. The deal is one of the largest ever investments by a Chinese company in a European business. One month later, Chinese sovereign wealth fund China Investment Corporation (CIC) acquired an 8.68 per cent stake in UK water company Thames Water for an estimated $1.1 billion in January 2012. This was followed by State Grid, China's largest utility, acquisition of a 25 per cent stake in Portugal's national grid operator REN (Redes Energéticas Nacionais, the current concession holder of the country's two main energy infrastructure networks: the National Electricity Transmission Grid and the National Natural Gas Transportation Grid) for $508 million, making it the first time a

Chinese company had acquired a European national grid operator. These three deals represented over $5 billion of deal value.

However, Chinese investments are mostly small or medium sized, and are made for multiple reasons, including access to R&D, production facilities and market networks. In numbers, these investments in Europe's energy sector remain small. The 2013 follow-up paper by Taylor Wessing identified that another important driver for Chinese investment in Europe is China's rapidly growing need to obtain innovative technology that can address domestic carbon reduction, pollution and energy efficiency challenges. China is heavily promoting energy efficiency and environmentally friendly technologies to meet its target of reducing carbon emissions per unit of GDP by 40-45% below 2005 levels by 2020.[31]

Recent research by the Columbia University Center on Sustainable Investment identify 135 Chinese firms involved in 208 renewable energy investment initiatives from 2004 to 2013 in the EU. Greenfield investment was the preferred mode of entry and investors were mostly private companies.[32] This form of foreign direct investment involves building everything the company needs from the ground up. This can include all facets of the business, from plant construction to marketing and distribution channels.

In total, seventeen EU members received investment, but more than 40 per cent of investments were in Germany. Other popular host countries were Bulgaria, Luxembourg and Italy. Chinese investors hailed from 19 provinces, but around 30 per cent of them were from Jiangsu province.

The research also pointed to the role of the Clean Development Mechanism (CDM) in driving Chinese investments in renewable energy. An investment associated with CDM can be claimed by China as fulfilment of its climate commitments. At the same time, since it is basically an investment, it is subject to the prices of the international carbon market, which therefore plays a critical role in shaping the future of Chinese investments in the EU energy sector. During the UN climate meetings in 2015 (COP21), China publicly committed to strengthen cooperation with the EU to build the new carbon market. Recently, Chinese firms also moved to invest in nuclear power (which the Chinese government includes alongside hydropower as renewables) even though many environmentalists question this categorization due to their anti-nuclear stance and the fact that other forms of energy like wind and solar could be cheaper in the long-term.

The rising share of Chinese investors in strategically important economic sectors such as electricity generation, transmission infrastructure and R&D, is also raising fears in the UK and other European countries that this could lead to Europe losing its capability to steer its economic development. Similar to the apprehensions about trade mechanisms playing bigger roles in climate politics which can undermine environmental regulations and constrain national industrial policies, there are concerns huge foreign ownership of the energy sector could also prevent governments from planning and setting energy policy.

Drawing on government documents and interviews with Chinese policy-makers, experts and academics, an article in *Energy Policy* argues that China started with a strong emphasis on availability of energy and has moved towards a greater emphasis on *environmental stewardship.* This is in contrast to the EU that started with a strong emphasis on environmental stewardship and moved towards a focus on *affordability* and *availability.* This shift in focus on the Chinese side and subsequent changes in subsidy structures and targets can partially explain the increase in investments in renewable energy technologies.[33] The article concludes that the Chinese and EU perspectives have become more aligned over the past ten years, coinciding with increased Chinese renewable energy investments in the EU.

The fact that China wants technology and know-how from Europe can be used by Europe as leverage. In terms of climate protection, addressing the severe problem of pollution in China and energy needs through renewable energy will both be good for China and for the rest of the world.

On the question of whether Chinese investments in Europe's energy sector are positive or may pose a threat to attempts to rapidly decarbonize economies, it is still too early to tell at this point. The size of Chinese investments is still small and in too early a stage of development to assess their long-term impact. The energy sector is a crucial part of any country's social, developmental and environmental strategy no matter where the investment is coming from inside or outside the country or whether it is from a public or private corporation. Since it is still too early to assess, the public perception of threat is probably just that – based on a fear of investments made by Chinese state-owned companies. It is not certain whether the perception of threat would be less if they were private companies or if the fear of losing economic control is real or if the real fear is about market competition with China in general.

The ongoing negotiation of a bilateral EU-China investment agreement could influence the framework in which energy sector investments are made in the future, although this remains to be seen. The 19th China-EU Summit's agreements and commitments in June 2017 show that the investment negotiations in general are speeding up.[34]

Difference between Chinese investments in the Global South and Chinese investments in Europe

Chinese infrastructure investment projects in developing countries are seen as necessary by the recipient governments. However, social movements in the destination countries are often critical about the impacts of such investments to labour, social and environmental standards. This is with good reason as many developing countries have gone through a lot of problems with foreign investments. Some reasons include the skyrocketing of foreign debts due to projects that produced very little benefits to the economy, human rights violations resulting from land and resources grabbing, environmental destruction, the destruction of communities, cultural loss and other impacts.

Such worries increased due to known rampant cases of suicides in Chinese companies as a result of unfair and unacceptable labour conditions inside China. It is also well known that China is facing many environment problems resulting from its fast-track development at the expense of its environment. There are growing criticisms in African and Asian countries about the lack of regard to the environment by Chinese bosses and workers.

Some criticisms have cultural roots too., in Uganda for example, the highway project connecting the city of Entebbe, where the airport is, and the capital city Kampala is seen as important because there has only been one concrete road connecting the two cities. However, Chinese professional workers have been criticized as lacking in basic cultural and language training and are seen as "rude" to local workers. As guests in someone else's country, Chinese workers are expected to behave sensitively and respectfully even if China is financing and executing the projects. Such perception about Chinese expat workers is shared by many Angolans.

So far, there are no equivalent criticisms and report of violations of labour standards and rights by Chinese investors in Europe. This could be attributed to the stronger implementation of standards (labour, social and environmental) of host countries, transparent laws and the stronger practice of implementation/enforcement of the standards in Europe. It seems that like other investors (UK, French, German, Dutch), Chinese investors exploit the loopholes provided by toothless rules and weak implementation if they can. Exploitative capitalists, irrespective of nationality behave badly when implementation of laws and standards are weak and if the minimum income is low.

However how Chinese investments or investors behave in Bolivia or Cambodia or Kenya cannot be compared with how they behave in the UK, Germany or France (the three biggest recipients of Chinese investments in Europe). There is a world of difference between the processes, the bureaucracy and rules in European countries and in developing countries. European countries have a stronger practice of labour and environmental standards. Furthermore, the labour unions in Europe enjoy a relatively better political environment where unions can more independently exist. Their counterparts in developing countries face more challenges due to corporate impunity. Labour organisers and environmental activists are often harassed or even harmed and killed by mercenaries hired by companies.

There is a difference too on what Chinese TNCs want from Asia, Latin America and Africa (which are extractive resources, raw materials, cheap labour in manufacturing) and what they want from Europe which is technology and brand names to boost their product reputation. That differences produce incomparable company practices. There could be differences in wages in Chinese companies based in former East Europe and West Europe, but that says more about the difference in labour standards and labour regulations in East and West Europe.

Investor practices in any country or state is determined by the state's willingness and/or ability to confront capital's practices of exploitation regardless whether they are Chinese or US, German or Dutch.

Rather than creating divisions along nationalist lines, how can we reach out to the millions of workers of Chinese companies inside China so they too will share our concerns and demands for an end to global inequality, injustices, exploitation of workers and the thrashing of our planet? How do we ensure that any transnational company respects the dignity of workers and our various rights? How do we push our own governments not to trade our rights in their negotiations with each other?

Impacts of Trump's election in China–EU relations

For the first time since the 1930s, the US has a president who views trade as a zero-sum game and sees globalization as bad and disadvantageous to US interests. It seems that the US is shifting away from multilateralism, exemplified by its withdrawal from the 2015 Paris Climate Agreement and the Trans-Pacific Partnership (TPP).

Trump's decision to pull out of the Paris Agreement is undeniably wrong, narrow-minded, irresponsible, and destructive. It is right that concerned people all over the world are appalled and that world leaders condemn the normalization of climate denialism by the current US administration. However, it is also true that the ecological equilibrium of the planet could not rely on the current process as it is now, nor on the success of the Paris Agreement as even those commitments are insufficient to what is needed to address the climate crisis.

Trump's trade policies, even if at first sight they seem to accord with social movements' criticism of 'free trade' policies, are in reality completely opposed to building a fairer world as they want to create more exploitation of other countries. During the election campaign, Trump proposed raising 45 per cent tariffs on Chinese goods, which ironically would be a violation of WTO rules. China can be expected to retaliate. The US and Chinese economies are so interlinked that any negative steps would have dire consequences to both. Europe may take advantage of this situation to increase trade relations with China.

Under Trump's presidency, the US is fast losing its credibility to lead, not just on trade and climate governance, but also on other key issues. The bigger implication of Trump's actions is how the world should now see the US. For better or worse, the world looks up to America's leadership in problem solving as it has been the cornerstone of current global economic, political, financial, and climate regimes. Trump's short-sighted and ill-informed reasons for walking away from global obligations shatters the very world order that it has painstakingly built. Will a joint EU-China global leadership take its place?

Conclusion

At the 16th EU-China Summit held in November 2013, negotiations began for a comprehensive EU-China Investment Agreement, which has the goal of progressive liberalisation of investment, the elimination of restrictions and a level playing field for investors in each other's market.

China comes to the negotiations with a clear plan, "Made in China 2025," designed to turn the country into a manufacturing superpower of advanced electronic and communications equipment. Their acquisition of companies in Europe is part of that plan. European governments need to arrive at a "European plan" to address specific concerns related to the nature of China's political and economic system (such as government subsidies to TNCs). However it should not be used to stir Sinophobia, nor to undermine China's achievements of developing their economy and lifting almost 1 billion people from poverty.

The BRI, as China's symbolic arrival to its next "golden age", as well as an economic and political strategy should be a wake-up call for the EU to develop a common strategic policy on Chinese investments. Almost everyone is trying to get on board China's BRI, it is important to ask however, if Chinese investment will be good for the growing number of marginalized people in Europe that are bearing the toll from austerity measures, diminishing wages and increasing cost of living and growing inequality.

China's 13th Development Plans are chiefly designed to promote China's state interests. And current EU efforts focused on investment openness and allowing lowering of social and environmental standards shows that the EU's neoliberal policies are principally designed to promote unfettered powers for transnational companies. Current trade and investment regimes do little to address the problems of economic and financial crisis faced by European countries. The Hong Kong People's Forum on BRICS in September 2017 also noted in its statement that "China has now evolved into a global engine promoting a neoliberal agenda: from free trade agreements to corporate-led integration across borders". This new configuration presents new challenges to movements and social justice organisations that are struggling to protect rights and good living standards.

Challenging this power of capital (whether Chinese or not) must not take the form of populist measures and anti-Chinese backlashes that raise fear and hatred against others. For movements, the primary questions are whether the new powers and wealth of Chinese companies/Chinese state is serving the interests of the workers and the poor in China and in Europe. If not, how do we raise our concerns about the increasing power of corporations in general and do away with the asymmetry of power between governments, corporations and people?

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Chinese investments in Europe have surged in recent years, totaling €35 billion in 2016. This paper examines the nature and scope of Chinese investments, how investments in Europe differ to those made in the Global South, why the Chinese state is interested in investing in the Europe and the implications for social movements committed to social justice.

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