

Geographical and Strategic Factors in Chinese Foreign Direct Investment in Europe

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Abstract
Recently, the volume of Chinese FDI made in Europe has reached the level of European FDI in China (now constrained by restrictions and risks). It equaled the level of FDI made by Chinese firms in the United States before they began to decline in the last two years. The Chinese economic presence in Europe is divided into three parts in terms of volume, destination, and type of acquisition: The heart of Europe is made up of the three major destinations (Germany, UK, France), where more capital-intensive investments are made, followed by other Western European countries (EU-15). New member states (NMS) that joined the EU in 2004, 2007, and 2013, and Western Balkan countries, in accession to the EU, are associated with China in the 16+1 Format (with the exception of Kosovo) and are another gateway to Europe. They receive less direct investment because of smaller market opportunities but China is building infrastructure (ports, highways, railways)—segments of the Silk Road that will bring Chinese products to the mature markets of the EU.

1. Introduction
China’s cumulative foreign exchange reserves inspire both hope and fear among the regions and countries that are its potential recipients. Since the early 2000s, the “going global” policy has contributed to strong growth in China’s foreign direct investment (FDI), with some as a form of expansionism (Guichard 2014), others as a way to recycle financial resources out of conventional channels (buying American Treasury bonds). It is also the means for China to secure its supplies of raw materials and energy, and access new markets for its products. Through the Belt and Road Initiative (BRI), FDI is also a means for
mobilizing skills acquired at the domestic level, in particular in the construction of infras-
structure such as trains, ports, roads, telecommunications. For example, it provides a sup-
ply of primary and energy resources, acquisition of assets, and search for new markets on
the one hand, and integration into global and regional value chains on the other. Chinese
FDI, still modest in volume, reflects a new phase of the growth of the economy of the
Middle Empire.

In recent decades, Chinese FDI has focused on countries with significant natural
resources—countries such as those in the Persian Gulf, Africa, and Latin America. China
has also demonstrated interest in EU member-states (EU-28\textsuperscript{1}), countries waiting to join
the EU in the Western Balkans, and neighbors farther East, including Russia, Ukraine, and
Belarus. Another component of China’s presence, alongside FDI, is the state-owned firms
that offer their services in the areas of highway construction, ports, and communications
infrastructure. These firms operate abroad thanks to financing provided by China through
specialized policy banks such as Exim Bank.

These massive investment flows, it is hoped, will contribute to augmenting low levels of
gross fixed capital formation in the EU since the 2008–09 global financial crisis (GFC). It is
also hoped that it will complement European investments in new member states (NMSs)
and the Western Balkan states awaiting accession (Central and East European Countries –
CEECs). To underscore the importance of China’s engagement with its partners in the re-

gion, China and 16 countries founded an association, the \textit{Cooperation between China and
Central Eastern European Countries},\textsuperscript{2} also known as the 16+1 Initiative, intended to support
increased trade volumes and infrastructure in this part of Europe, alongside the goal of
reaching the more mature markets of the EU-15 (Richet 2018).

Fears provoked by Chinese FDI stem from concerns that Chinese firms are gaining par-
tial or even complete control of the EU’s industrial “crown jewels.”\textsuperscript{3} This vast investment
offensive involves nearly every economic sector in the EU. National officials in EU coun-
tries have extended a warm welcome to this new class of investors (Bond 2015) and have

\begin{footnotesize}
\textsuperscript{1} EU-28 = EU 15 plus 13 new member states (with the exception of Cypru
s and Malta) are all for-
m er socialist economies linked to the former USSR, two Republics of the former Federation
of Yugoslavia) and 6 countries from Western Balkans of which 4 former Yugoslav Repub-
l ics plus Kosovo and Albania. The 6 countries are expected to become members of the EU and beneficia-
 te of pre-accession programs.

\textsuperscript{2} Eleven of these countries are NMSs of the EU, 5 of which are members of the euro area, and 5 are
 accession countries to the EU.

\textsuperscript{3} For example, as seen in China’s entrance into the capital of the French company Areva (nuclear
industry), as well as PSA, Club Med, the acquisition of Pirelli in Italy, the robotic manufacturing
company Kuka in Germany, and the Swiss group Syngenta.
\end{footnotesize}
not hesitated to launch competing strategies to attract Chinese FDI even at the risk of fiscal dumping and lowest-bidder practices. Recently, however, the European countries most targeted by the acquisition of sensitive technologies from Chinese firms have decided to implement more protectionist measures against this type of acquisitions. The European Commission is considering the adoption of specific measures to protect sensitive sectors targeted by Chinese investors.4

The decision to invest in this part of the world, like elsewhere, no longer involves exclusively Chinese state-owned enterprises (SOEs). Private, publicly traded companies, small- and medium-sized enterprises (SMEs), start-ups, and born-globals have also become part of this trend. An increasing number of small-scale Chinese family firms are now scattered throughout the region, particularly in Serbia and Hungary (Araujo and Cardena 2013).

Does the presence of Chinese firms in CEECs represent a threat to the future integration of West European firms that have been crucial in the transformation of the region’s industrial landscape? Chinese firms’ investments may prove to be a threat only if they generate activity and exchange flows that match pre-existing flows with the EU, the primary partner of countries awaiting integration. On the other hand, it is necessary to underline the slowness of the integration process initiated by the EU, which focuses mainly on the adoption of economic policies of stabilization and institutional reforms. For NMSs like Bulgaria and Romania, these Chinese investments merely supplement FDI emanating from the EU, which remains the region’s most important source of foreign capital (Richet 2016). For other countries, such as Poland and Hungary, which criticize the strong presence of Western firms in their countries, China’s growing presence may instead be seen as a means of relieving this constraint.

Further to the south, a number of specific aspects of the Western Balkans might have limited appeal for Chinese investors, particularly in terms of substantial unrecoverable costs5 that have accumulated over the decade-long conflicts that afflicted the industrial sectors of that region’s economies, particularly in ex-Yugoslavia. The risk is limited, however, when it comes to the provision of services (construction of highways, railways, ports) mainly financed by China’s “polity” banks (Exim Bank, China Development Bank), banks that allocate loans decided on political (and diplomatic) motives.

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4 “Juncker to Lay Out Plans for Screening Foreign Takeovers in EU,” Financial Times, 9 December 2016; and the Commission reviews relations with China (Brussels, 12 March 2019).
5 These costs include absence of investments for several decades, the impact of economic disintegration of ex-Yugoslavia, physical and human destruction due to inter-ethnic wars and NATO bombing, and mass migration.
Given these circumstances, it is worth asking whether Chinese investors see CEECs as a convenient gateway into Western European markets or as a land of opportunity? It is a market of more than 100 million consumers, although fragmented, with rising income levels, continued low wage costs, and a high level of labor productivity. These factors contribute to the attractiveness of the CEECs even if the EU-15 is the target.

Whatever the explanation, Chinese FDI in the region appears to be motivated by traditional factors that include the institutional context, factor costs, resources, market growth, and integration in regional value chains. These factors appear to be aligned quite well along several axes:

- An East–West axis with FDI tending towards the high- and mid-tech in the EU-15 and greenfield-type investments with low labor costs in the NMSs.
- A North–South axis inside the EU-15 with FDI concentrated in Northern Europe tending towards high value-added FDI, and in the south with low value-added FDI.
- A Southern East axis in countries awaiting accession to the EU and Southeastern European countries—to take advantage of pre-accession opportunities and a lack of EU regulation to insinuate themselves into regional activities and eventually interfere in EU–Balkan relations.

This paper is organized as follows. Section 2 provides an overview of recent trends in Chinese FDI and investment flows toward developed market-based economies, with a particular focus on Europe. Section 3 discusses the geographical and sectorial features of Chinese FDI. Section 4 analyzes the expansion of Chinese FDI in Central Europe and the Balkan region and Section 5 focuses on Central and East European countries. Section 6 concludes and discusses the implications of Chinese FDI in Europe.

2. Chinese firms challenge markets

2.1 The internationalization of Chinese firms

China experienced accelerated FDI growth in the early 2000s following the country’s membership in the WTO in late 2001, and the launching of the “going global” policy. China is now the third largest investor in the world after the United States and Japan, with a total of US$ 116,000 million. Today it is the ninth country in the world in terms of cumulative investments. A total of 15,300 Chinese companies invested abroad in an amount of US$ 776,500 according to MOFCOM (US$ 729,585 million according to UNCTAD statistics) (Casaburi 2015). Available statistics reveal significant differences between sources on how to calculate FDI. Compared with the official data provided by MOFCOM (the Chinese Ministry of Commerce) (Table 1), other data, after recalculations, place a greater emphasis on
When China became a member of the WTO in 2001, it opened more of its domestic market to foreign firms and granted increased asset protection to firms already operating in China, particularly in terms of technology and intellectual property rights. For the government and Chinese firms involved, internationalization also implied, in addition to a politique de la grandeur, moving closer to technology production centers by acquiring assets that these firms were unable—or no longer able—to obtain locally through traditional industrial cooperation.

The acquisition of the Swedish Volvo group by the mid-sized Chinese firm Geely exemplifies this strategy (Balcet, Wang, and Richet 2012). The quest for strategic assets is simultaneously a strategy to catch up technologically and a way of upgrading domestic firms so that they can compete with foreign firms operating in the country. Boosting “national champions” with government support, such as access to financing and R&D, also enabled certain state-owned firms in traditional industrial sectors such as machine tools, heavy equipment, and energy to specialize, increasing their competitiveness with Western firms in their own markets (e.g., Chinese firms in the nuclear sector in the UK and defense companies in Turkey) (Huchet 2015).

Large state-owned firms continue to account for the lion’s share of manufacturing and export of high-value-added goods. They continue to account for the bulk of FDI, although private companies have begun to catch up. Among the top 20 Chinese firms investing abroad, there are 19 SOEs in the energy, construction, transport, and engineering sectors. Only the last one, Huawei, a huge telecom company that is not state-owned (i.e., private), has the status of an employee stock option. Gaining access to technology by investing in market-based economies has been the greatest driving force behind internationalization, ahead of other factors like searching for new markets, diversifying risk, and financial investment (Chaminade 2015).

### Table 1. Major targets of Chinese FDI

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Asia 70.0</td>
<td>Business service and leasing 6.8</td>
</tr>
<tr>
<td>EU 8.0</td>
<td>Financial 29.7</td>
</tr>
<tr>
<td>North America 4.3</td>
<td>Mining and energy 17.7</td>
</tr>
<tr>
<td>Latin America 11.0</td>
<td>Trade 16.0</td>
</tr>
<tr>
<td>Africa 3.0</td>
<td>Manufacturing 13.3</td>
</tr>
<tr>
<td>Oceania 3.0</td>
<td>Transport 6.4</td>
</tr>
<tr>
<td></td>
<td>Construction 4.8</td>
</tr>
<tr>
<td></td>
<td>Real estate 2.9</td>
</tr>
<tr>
<td></td>
<td>Other 2.3</td>
</tr>
</tbody>
</table>

Source: MOFCOM.
2.2 Different types of investors

Two main types of firms exist in China in terms of control and organization, which in turn influence their motivations to invest abroad. First, there are SOEs, which receive generous government support in terms of capital access, innovation, and aid (Haley and Haley 2013). They enter foreign markets seeking raw materials, technologies, and markets. In some countries, they are an important component of the “Chinese infrastructure diplomacy.”

Second are non-state-owned firms ranging from publicly traded private firms to SMEs and family-owned firms. Private firms contribute to the breakthrough of Chinese FDI in search of new markets and industrial cooperation, notably through acquisitions and partnerships. Their incentives to invest are also explained by their desire to escape internal control by the government, which obliges them to cooperate with less-efficient state-owned firms. Today, some of them are obliged to invest in the BRI initiative in risky projects. Among private non-state firms, there are sub-contractual companies of an OEM type that manufacture goods to order.

The non-SOEs generally lack access to public innovation. The transition from being an ODM forces them to ascend the value chain to acquire the necessary technologies. The internationalization of these firms towards developed market economies represents a way of gaining access to the knowledge and technologies that they lack domestically. Increase in public spending in research and development (R&D) is time-consuming in terms of impact and appropriation by firms of spin off. The majority of these firms still face numerous obstacles to become true multinationals. Nonetheless, some of them have been able to create some competitive advantages, build up international networks with numerous facilities and R&D centers abroad (Huawei).

2.3 Is China’s goal to conquer the world?

Is China buying the world? Does it specifically target Europe? Recent acquisitions across a spectrum of sectors ranging from airports to holiday and football clubs offer insights into China’s growing profile in developed markets. The underlying organization of these operations in terms of transparency, financing sources, and ties to government also sheds doubt on these projects’ viability and the reputations of the individuals and forces behind them. The recent measures taken by the Chinese government against firms investing abroad have several objectives: to control capital outflows, to discipline firms by ending the leverage mechanism, and to rationalize outward investment by linking them mainly to their core activities.

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6 OEM (original equipment manufacturing), as opposed to ODM (original design manufacturing) or OBM (original brand manufacturing), which develop their own products.
Peter Nolan (2012) analyzes the emergence of China on the international scene, the internationalization of its companies, and their hunger to acquire foreign assets in the natural resources and technology sectors relativizes the prominence of Chinese FDI in general in emerging economies. He raises questions about China’s capacity to absorb technology through its acquisitions. He demonstrates that in terms of level, the Chinese financial reserves mobilized for acquisitions are only equivalent to the capitalization of two large U.S. firms, Exxon and Apple.

The “savage capitalist globalization” has left a relatively modest amount of elbow room for emerging countries, including China. The high level of capital concentration took place “among us” (capitalist countries), strengthening the connections between companies and banks and financial institutions in high-income market economies. “For them” (China and other emerging countries), only the crumbs from this giant feast remain. The great capitalist corporations have focused on core innovation systems and have increased their lead over firms from emerging countries. Chinese acquisitions in advanced market economies have involved firms that are either in bankruptcy or are experiencing substantial financial difficulties, such as Volvo, PSA, and Club Med. More recently, in Europe, Chinese FDI acquisitions have shifted towards profitable higher-tech firms, reflecting both the need to integrate into regional value chains closer to the sources of innovation (automotive industry in Germany) and access to more advanced technologies (robotics).

The objectives set out in the documents concerning the 13th Five-Year Plan (2016–20) clearly show the intentions of the Chinese government and present a checklist of the priority sectors that need to be developed and, consequently, the technologies that companies in these sectors must develop either by benefiting from domestic R&D policies, or by incorporating technologies acquired from outside. The 2025 Made in China program is even more explicit and refers to particularly targeted objectives in the fields of robotics and artificial intelligence. At the same time, the Chinese government is increasing its pressure on foreign firms to increase their contribution to R&D efforts (making it easier to access licenses, integrating foreign companies to meet certain priority objectives). Implicitly, this practice reflects the focus of Chinese investors on technology transfer through cooperation within joint ventures in China.

3. Europe: A prized destination?

3.1. Recent acceleration

Economic relations between China and the EU in the early 1980s focused primarily on trade, turning only later to FDI. Europe is China’s leading trade partner and is one of the world’s primary investors in China. With the EU and other Asian countries such as South

Table 2. Trade flows and FDI stocks between China and the EU (€ billions)

<table>
<thead>
<tr>
<th></th>
<th>EU imports</th>
<th>EU exports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade in goods, 2016</td>
<td>364.6</td>
<td>170.1</td>
<td>−174.5</td>
</tr>
<tr>
<td>Trade in services, 2006</td>
<td>26.4</td>
<td>37.3</td>
<td>10.9</td>
</tr>
<tr>
<td>Inward stocks</td>
<td>34.9</td>
<td>168.4</td>
<td>+133.5</td>
</tr>
</tbody>
</table>

Source: Eurostat.

Table 3. The three phases of Chinese FDI in Europe

<table>
<thead>
<tr>
<th>Pre-crisis (2001–08)</th>
<th>China joins the WTO. Domestic deregulation, Catch-up policies</th>
<th>Chinese companies: Reacting to deregulation, WTO, experimentation, Outgoing FDI: weak % towards the EU</th>
<th>EU unimpressed by Chinese FDI outflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the crisis (2009–12)</td>
<td>Chinese firms: Seize a unique opportunity</td>
<td>Member-states compete with each other to attract Chinese FDI</td>
<td></td>
</tr>
<tr>
<td>Post-crisis (2013 to the present)</td>
<td>China: New leadership with Xi Jinping and Li Keqiang as the heads of the Party-State, new economic incentives, launching the Belt and Road Initiative</td>
<td>Chinese firms continue to invest by pursuing more sophisticated strategies, multiple actors, rationalizing and monitoring OFDI</td>
<td>EU: bilateral treaties on investment, collective interest/demand for identical treatment on the Chinese market. Extension of Belt and Road Initiative deals. Italy envisaging to sign a deal. EU advanced countries aware of growing risk for high tech firms. EU Commission suggesting policies against the backdrop of China’s growing economic power and political influence.</td>
</tr>
</tbody>
</table>

Source: Adapted from Jia (2015).

Korea, Europe has rapidly become a top-ranking partner, particularly through numerous direct investments in the region that have contributed the development of new sectors either via industrial cooperation (joint ventures) or by locating 100 percent foreign companies in the country. Increased exchanges between the two partners have triggered the development of a major asymmetry—a trade imbalance in China’s favor and an imbalance that favors Europe in terms of FDI (Table 2).

The entrance of foreign capital into Europe has unfolded in several phases, with the GFC functioning as an accelerator. With the appreciation of the RMB and the euro’s decline, acquisitions of assets in the region were stimulated. The absence of uniform regulations covering Chinese investment in Europe also facilitated entry.

Table 3 summarizes three phases of Chinese FDI into Europe. Chinese investment was initially much welcome in both the EU-15 and the NMSs. Advanced economies like the UK, Germany, and France adopted policies to attract Chinese investment before becoming more cautious concerning Chinese acquisitions in sensitive sectors. At the periphery, NMS and Western Balkans countries, through the 16+1 Initiative, constitute a component of the
Table 4. The different types of Chinese firms present in Europe

<table>
<thead>
<tr>
<th>Motivations</th>
<th>State-owned firms</th>
<th>Private companies</th>
<th>Entrepreneurs and family businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Search for assets (infrastructure/resources/key technologies)</td>
<td>EU-15, CEEC</td>
<td>Search for markets and assets (key distribution sectors/supply chains/brands/technologies)</td>
<td>Opportunities for bargains (combined with emigration)</td>
</tr>
<tr>
<td>Location</td>
<td>Key EU countries (incl. Germany, the UK, and France)</td>
<td>EU-15, CEEC</td>
<td>CEEC and Southern Europe (the Balkans)</td>
</tr>
<tr>
<td>Forms of entry Partnership</td>
<td>Mergers and acquisitions</td>
<td>Mergers and acquisitions</td>
<td>Greenfield investments</td>
</tr>
<tr>
<td></td>
<td>Global multinational firms and large European firms</td>
<td>European SMEs</td>
<td>Chinese, ethnic Chinese SMEs</td>
</tr>
</tbody>
</table>


Table 5. Chinese FDI stock in the EU, 2000–16

<table>
<thead>
<tr>
<th>UE-15 (millions of €)</th>
<th>EU-NMS (millions of €)</th>
<th>By sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK 23,636</td>
<td>Estonia 23</td>
<td>Energy 28</td>
</tr>
<tr>
<td>Ireland 2,723</td>
<td>Latvia 3</td>
<td>Automobile 13</td>
</tr>
<tr>
<td>Netherlands 5,598</td>
<td>Lithuania 33</td>
<td>Agriculture, agro-business 12</td>
</tr>
<tr>
<td>Belgium 1,808</td>
<td>Czech Republic 569</td>
<td>Real estate 11</td>
</tr>
<tr>
<td>Luxembourg 499</td>
<td>Poland 936</td>
<td>Heavy equipment 9</td>
</tr>
<tr>
<td>France 11,439</td>
<td>Hungary 2,051</td>
<td>Information technologies 6</td>
</tr>
<tr>
<td>Spain 3,015</td>
<td>Romania 889</td>
<td>Raw materials 5</td>
</tr>
<tr>
<td>Portugal 5,726</td>
<td>Slovenia 8</td>
<td>Finance and financial services 4</td>
</tr>
<tr>
<td>Italy 12,839</td>
<td>Croatia 4</td>
<td>Transportation and construction 4</td>
</tr>
<tr>
<td>Greece 840</td>
<td>Bulgaria 337</td>
<td>Health and biotechnology 2</td>
</tr>
<tr>
<td>Germany 18,817</td>
<td>Cyprus 45</td>
<td>Consumer goods and services 2</td>
</tr>
<tr>
<td>Denmark 209</td>
<td>Malta 70</td>
<td>Electronics 2</td>
</tr>
<tr>
<td>Sweden 1,502</td>
<td>Total 4,968</td>
<td>Metals and minerals 1</td>
</tr>
<tr>
<td>Finland 6,854</td>
<td>Total 82,376</td>
<td>Total 100</td>
</tr>
<tr>
<td>Austria 551</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 72,440</td>
<td>Total EU-28</td>
<td></td>
</tr>
</tbody>
</table>


The Chinese presence is manifested by investments (motorway construction, port modernization), acquisitions, and a few greenfield investments.

The investment of many Chinese firms into many European firms has been facilitated by the long cooperation developed in China with these firms in sectors such as the nuclear industry (EDF) and the automobile industry (PSA). Cooperation between French and Chinese firms also facilitated entry into third markets (in the nuclear industry in Britain, in the construction of ports in Africa) (see Table 4).

### 3.2 Pronounced geographical and sectoral diversity

According to Hanemann and Huotari (2015), a total of 1,047 transactions took place in the EU-28 between 2000 and 2014, encompassing 726 greenfield-type investments and 321 acquisitions. Annual investment flows were modest until 2008, after which they rose to approximately US$ 2 billion in 2009, 2010 and US$ 7 billion in 2011–12. Following a short-lived drop to US$ 6 billion in 2013, investment grew to over US$ 14 billion in 2015 (see Table 5 for details). The cumulative value of all transactions during the period rose to US$ 46 billion.
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Table 6. Geographical distribution of Chinese FDI by ownership (in %)

<table>
<thead>
<tr>
<th></th>
<th>SOE</th>
<th>Private firms</th>
<th>Individual and family business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>59.34</td>
<td>62.10</td>
<td>21.79</td>
</tr>
<tr>
<td>Northern Europe</td>
<td>21.58</td>
<td>11.57</td>
<td>1.41</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>7.47</td>
<td>4.44</td>
<td>14.07</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>11.62</td>
<td>21.89</td>
<td>62.73</td>
</tr>
</tbody>
</table>

Source: Antwerp Management School (2014).

The heart of Europe (EU-15) remains the principal target of Chinese FDI and, among those countries, particularly the “big three” (France, Germany, and the UK). Between 2000 and 2014, over 50 percent of cumulative FDI targeted the UK, Germany, and France. Chinese FDI has become more geographically diverse in recent years, particularly in Southern European economies (Portugal, Italy, Greece, and Spain) increasing from 10 percent before 2011 to over 30 percent from 2012 to 2014, with Chinese firms taking advantage of the local context by investing in previously state-controlled sectors, especially utilities and transportation. The proportion of FDI in NMSs, notably in manufacturing, agriculture, and infrastructure, has gradually expanded to roughly 8 percent of investment in the region.

A strong asymmetry is also apparent, with the majority of Chinese investment in the NMSs and Western Balkans being placed through advantages and risk levels that are specific to the region (Table 6): More focused middle-skilled investments in medium and higher technologies in the north part, but this is much less important in the south where infrastructure building is favored with the hope that they could open future markets (Serbia). In Bulgaria, investment in the automobile sector aimed at supplying regional markets with Chinese brands, but the joint venture has recently failed and has been canceled. In Serbia and Romania, investments in the telecommunications sector are part of the network strategy at the European level (Huawei).

Legislation that covers Chinese FDI is not yet uniform across the 28 EU member-states, a situation that enables investors to take advantage of variations in market access, taxation, and protection. At the same time, regulations have been tightened in the United States—another prime destination for Chinese FD—especially with regard to mergers and acquisitions in strategic sectors. Government and business association through the region, especially in Germany, ask for more screening and monitoring of Chinese investment in high technology sectors.

The survey carried out by Antwerp Management School (2014) shows the geographical distribution of firms by type of property (Table 6). The SOEs favor the heart of Europe, the CEECs attract more private firms and especially the SMEs and family firms. In the
control period, the same study reveals that total control is preferred in all acquisitions (Tables 6 and 7).

The GFC reduced the value of numerous available shares,\textsuperscript{8} thus facilitating takeovers across a variety of sectors. The impulse to acquire technology assets through the purchase of large firms such as Geely-Volvo and more modest-sized companies has motivated some investment. Geely’s purchase of Volvo, for example, represents an attempt by a Chinese medium-size car maker to enter the premium market, competing with firms such as Mercedes and BMW in the Chinese market. Geely-Volvo has recently entered the premium American market by exporting high-end cars manufactured in China. The firm appears to be secondarily using this acquisition as a mean of penetrating tertiary markets like Uruguay, Ukraine, and Belarus, where they assemble and sell only entry-level Chinese cars.

Other firms have pursued higher-end markets by internationalizing and establishing subsidiaries. This is the case with basic and mid-market firms such as Haier, and mid-to upper-market ranges and technology content, including Huawei. Acquisitions and knowledge are more difficult to acquire in more complex technologies requiring greater engineering skills, such as computers. Finally, company strategies in terms of growth are not uniform because they need to be tailored to match the competition in specific markets according to levels of concentration, levels of technology, financial capacities, and credit access.

Drawing on this analysis, Le Corre and Sepulchre (2015) propose this typology of the internationalization pattern of Chinese firms in Europe:

- Products trending towards high-end appeal: Haier
- Outsourcing and direct clients: Huawei

\textsuperscript{8} Initially offered at US$ 3.6 billion, Volvo sold for US$ 1.8 billion (Balcet, Wang, and Richet 2012).

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Table 7. FDI distribution by level of control, knowledge, and technology intensity (in %)

<table>
<thead>
<tr>
<th>Entry form per type of firms</th>
<th>Knowledge and technology intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SOE</td>
</tr>
<tr>
<td>Minority JV</td>
<td>10.88</td>
</tr>
<tr>
<td>50:50 JV</td>
<td>2.51</td>
</tr>
<tr>
<td>Majority JV</td>
<td>18.83</td>
</tr>
<tr>
<td>Wholly owned subsidiaries</td>
<td>67.78</td>
</tr>
</tbody>
</table>


\textit{Note:} JV = joint venture.
• Massive acquisitions: Lenovo, Geely, ChemChina
• “Orientalism”: Luxury hotels of Asian origin (Hong Kong, Singapore)
• National champions pushed out of China to extend their markets: Dongfeng, SAIC (automobile)

Firms can be classified into two categories based on type of investment—either specialized (Lenovo, Haier, Huawei) or diversified (Fosum, Wanda).

This confirms Nolan’s (2012) arguments regarding opaque governance (cascading shell companies, non-hierarchical organization), low percentages of foreign operations (10 percent on average as opposed to 80 to 90 percent for Western multinational corporations), strong disparities in mergers and acquisitions in terms of market, growth reserves, size, matching between the price of an acquisition and the intended target. Some firms were able to acquire relatively undervalued assets (Dongfeng/PSA) or moderately valued (Geely/Volvo) assets from companies running deficits, albeit with predictably increased risk. A final point relates to financing foreign acquisitions, which are typically funded through loans from Chinese banks. Several companies, including Huawei, have accumulated substantial overdrafts, and the number of risky commitments backed by some banks explains recent trends to exhibit greater restraint and reduce participation levels in purchases of foreign assets. In the case of Geely’s purchase of Volvo (US$ 1.8 billion), 40 percent of the acquisition was financed using the firm’s own funds, and only 10 percent was borrowed from a state bank; 10 percent was raised by issuing stock, and the rest was furnished by the two provincial governments that hosted new factory construction as stipulated in the agreement (Balcet, Wang, and Richet 2012). It is nevertheless clear that Chinese banks and institutions remain heavily involved in financing by issuing lines of credit to companies that invest in Europe.

This leverage mechanism has been abused by many Chinese companies that have made significant acquisitions in the United States and Europe (HNA Group, Dalian Wanda, Anbang, Fosung) either internally within conglomerates or externally issuing bonds and selling on international financial markets. Recently this has been questioned by the supervisory authorities because groups do not have the same latitude to raise funds and to make investments abroad, often far from their core business.⁹

4. NMSs and Western Balkans: A passageway or real anchorage?

A strong asymmetry between the EU-15 and the rest of Europe continues to prevail, with respect to NMSs and countries in accession. Although NMSs have begun to attract Chinese FDI, the percentage remains low, and overall FDI volumes in the region, other than a few

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cases in Hungary and Romania, remain modest. Except for Hungary, no other country in
the region has hosted FDI exceeding the equivalent of 1 percent of their GDP.

Several explanations for the region’s relative lack of interest for foreign investors can be
offered. Chinese investors arrive on the scene in the wake of massive institutional changes
that heavily influenced the transition to market-based economies. These changes included
mass privatization at competitive prices, cost advantages that, although some bargains re-
main, are tending to diminish, and the most appealing assets have either already been sold
or their value is held down by unrecoverable costs. Only such factors as proximity to mar-
kets and the greenfield investments’ lower costs can justify continued investment in the
manufacturing sector, in part because of stiff competition from the East, including Russia,
Ukraine, and Belarus. On the other hand, like in the Balkans, family FDI is thriving in the
region, contributing to the creation of a number of industrial facilities, although because
they have a relatively low total value, their impact on the region’s overall investment vol-
umes remains relatively modest.

5. Central and East European countries: A passageway or an economic anchor?

The 16 countries with which China has founded the 16+1 Initiative constitute a hetero-
genous set by size, population, level of development, specialization, institutional affiliation.
Eleven of these countries are members of the EU (Estonia, Latvia, Lithuania, Poland,
Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, and Bulgaria) that have
integrated in different waves (2004, 2007, 2013); five others, the Western Balkan countries
(Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia) are on their way
to accession in the EU and therefore are already subject to European regulations arising
from their status as future members.

For China, the CEECs are both a gateway, a market of nearly 100 million consumers, and a
stepping stone to the EU-15; it is also an area where the need for infrastructures construc-
tion is huge following the disintegration of the former Yugoslavia and the need to build up
east–west lines of communications.

It is primarily a place of transit. Poland, to the northeast, is on the land route from Belarus,
the arrival point of trains crossing the Eurasian Economic Union\(^\text{10}\) and continuing on their
way to Germany. In Southern Europe, the sea route, via the Suez Canal, reaches the port
of Piraeus in Greece. China has taken control and management of parts of the port for
a period of thirty years. Other nearby port terminals are of interest to China, notably in

\(^{10}\) This is a supranational institution initiated by Russia and gathering, today (besides Russia) Arme-
nia, Balarus, Kazakhstn, and Krygyzstan. Moldova, Mongolia, and Tajikistan are expected to join
this economic association, which aims to create a common market.
Bulgaria and in Turkey near Istanbul—a point of arrival of another road route that passes through Iran, Georgia, and Turkey.

The attractiveness of the CEECs is first of all the possibility of making a connection and entering the various European markets. This is an opportunity for Chinese construction companies to build infrastructure, including highways in different countries. The flagship project remains the construction of a high-speed rail line between Belgrade and Budapest, reducing the length of the rail link from more than eight hours to two and a half hours. The line is to be completed later by the Belgrade–Skopje section in Macedonia, then Skopje–Athens. The bulk (75 percent) is financed by loans from Chinese banks, the rest by the participant states that will reimburse the Chinese banks. The construction of this line obliges the Chinese firms and the states concerned to follow the European regulations on public procurement and environmental constraints.

The “shopping list” of Chinese investors, moreover, is limited in terms of asset acquisition. Economic openness and integration into the EU, the privatization process, and the proximity effect have made the region, initially in Central Eastern Europe, the backbone of the major Western European markets, making these economies dependent capitalisms (Richet 2016). The most attractive assets are no longer numerous, or they may even be non-existent. Chinese investors buy companies that are often in difficulty and cannot be recapitalized by domestic investors in sectors such as the steel industry (Serbia) or chemicals (Hungary), or participate in the modernization and extension of nuclear power plants (Romania). Construction and expansion of coal-fired power plants are also being planned in Serbia, Bosnia and Herzegovina (note that such investments, which go against the environmental commitments of multinational financial institutions to which China belongs, are backed by loans from Chinese political banks).

Other sectors attract foreign direct investment to benefit from local know-how, higher value-added content (northern Central Europe, the Baltic States) or to create a regional resource base in certain areas (information technology in Hungary and Romania) which can serve as a springboard for entering the EU-15 markets. In other cases, such as automotive construction in Bulgaria or electric batteries in Serbia, there is a spin-off effect. The upcoming participation of Chinese investors in the privatization of Serbian companies is expected to increase the phenomenon of sectoral diversification, although it is not yet possible to measure the coherence of these participations. Here we see the effect of “infrastructure diplomacy”: After signing contracts for the construction of roads, highways, ports, and railway lines on favorable terms, Chinese firms are encouraged to invest in other sectors.

For the receiving countries, the Chinese presence is welcomed with interest but also with a certain skepticism. The countries of the region, as in other parts of Europe, are spreading
Table 8. Chinese FDI 16 Central and East European countries in 2009 and 2014 (stock/US$ millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>97.41</td>
<td>465.70</td>
<td>475.35</td>
<td>507.41</td>
<td>532.35</td>
<td>556.35</td>
<td>471.14</td>
<td>32.79%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>120.30</td>
<td>140.31</td>
<td>201.26</td>
<td>208.11</td>
<td>329.35</td>
<td>173.77</td>
<td>19.41%</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>93.34</td>
<td>124.95</td>
<td>125.83</td>
<td>161.09</td>
<td>145.13</td>
<td>191.37</td>
<td>105.02%</td>
<td>11.28%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2.31</td>
<td>15.60</td>
<td>72.56</td>
<td>126.74</td>
<td>149.85</td>
<td>170.27</td>
<td>727.00%</td>
<td>10.04%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>9.36</td>
<td>9.82</td>
<td>25.78</td>
<td>86.01</td>
<td>82.77</td>
<td>127.79</td>
<td>1265.28%</td>
<td>7.53%</td>
</tr>
<tr>
<td>Serbia</td>
<td>2.68</td>
<td>4.84</td>
<td>5.08</td>
<td>6.57</td>
<td>18.54</td>
<td>29.71</td>
<td>1008.58%</td>
<td>1.75%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3.93</td>
<td>3.93</td>
<td>3.93</td>
<td>6.97</td>
<td>12.48</td>
<td>12.48</td>
<td>217.56%</td>
<td>0.74%</td>
</tr>
<tr>
<td>Croatia</td>
<td>8.10</td>
<td>8.13</td>
<td>8.18</td>
<td>8.63</td>
<td>8.31</td>
<td>11.87</td>
<td>46.54%</td>
<td>0.70%</td>
</tr>
<tr>
<td>Albania</td>
<td>4.35</td>
<td>4.43</td>
<td>4.43</td>
<td>4.43</td>
<td>7.03</td>
<td>7.03</td>
<td>61.61%</td>
<td>0.41%</td>
</tr>
<tr>
<td>Bosnia-Herzegovina</td>
<td>5.92</td>
<td>5.98</td>
<td>6.01</td>
<td>6.07</td>
<td>6.13</td>
<td>6.13</td>
<td>3.55%</td>
<td>0.36%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>5.00</td>
<td>5.00</td>
<td>5.00</td>
<td>5.00</td>
<td>5.00</td>
<td>5.00</td>
<td>0.00%</td>
<td>0.29%</td>
</tr>
<tr>
<td>Estonia</td>
<td>7.50</td>
<td>7.50</td>
<td>7.50</td>
<td>3.50</td>
<td>3.50</td>
<td>3.50</td>
<td>−53.33%</td>
<td>0.21%</td>
</tr>
<tr>
<td>Macedonia</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.26</td>
<td>2.09</td>
<td>2.11</td>
<td>955.00%</td>
<td>0.12%</td>
</tr>
<tr>
<td>Latvia</td>
<td>0.54</td>
<td>0.54</td>
<td>0.54</td>
<td>0.54</td>
<td>0.54</td>
<td>0.54</td>
<td>0.00%</td>
<td>0.03%</td>
</tr>
<tr>
<td>Montenegro</td>
<td>0.32</td>
<td>0.32</td>
<td>0.32</td>
<td>0.32</td>
<td>0.32</td>
<td>0.32</td>
<td>0.00%</td>
<td>0.02%</td>
</tr>
<tr>
<td>Total</td>
<td>410.60</td>
<td>852.58</td>
<td>1,008.77</td>
<td>1,334.00</td>
<td>1,435.76</td>
<td>1,696.51</td>
<td>3.13%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: China Analysis (2016).

the red carpet to accommodate Chinese investments that complement those made by EU-15 investments in unattractive sectors. Although railway lines provide access to Chinese markets, they do not contribute to the creation of many jobs, unlike greenfield investments.

Several countries wish to extend cooperation with China to other areas (airways, tourism). Greenfield investments rather than railway construction, opening up the Chinese market to products from the region, would contribute more to job creation. Analysts also highlight the skepticism of the region’s leaders regarding China’s real commitment. The governments of the region do not forget that their development is fundamentally linked to the EU’s regulations that oblige them and the many benefits they derive from their membership in the EU.

Is this real regional anchoring, or simply a light dusting to facilitate crossing this segment? Finally, the Chinese presence in the region is still weak. As a percentage, Chinese FDI here is low, accounting for only a very small share of Chinese FDI in this part of the EU. In addition, FDI in the CEEC is concentrated in only a few countries (Table 8). The sprinkling of Chinese government and firms would be the right of entry allowing passage through the region to the final destination—the heart of Europe.

An additional question is whether the Balkans are serving as a back door into the EU for Chinese FDI. As remarked earlier, there are geopolitical factors involved, including obstacles to the Balkans’ EU integration and the 16+1 alliance, as well as the possibility of a back-door initiative to conquer Europe via the south. But until now, the level of FDI and number of deals remain very low (Table 9).
Table 9. Chinese FDI in the Balkans

<table>
<thead>
<tr>
<th></th>
<th>Projects</th>
<th>Companies</th>
<th>New jobs</th>
<th>Investments (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>Average</td>
</tr>
<tr>
<td>Romania</td>
<td>35</td>
<td>23</td>
<td>12,136</td>
<td>346</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>16</td>
<td>14</td>
<td>5,097</td>
<td>318</td>
</tr>
<tr>
<td>Greece</td>
<td>13</td>
<td>9</td>
<td>1,339</td>
<td>103</td>
</tr>
<tr>
<td>Serbia</td>
<td>2</td>
<td>2</td>
<td>59</td>
<td>29</td>
</tr>
<tr>
<td>Bosnia-Herzegovina</td>
<td>2</td>
<td>2</td>
<td>595</td>
<td>297</td>
</tr>
<tr>
<td>Macedonia ARY</td>
<td>1</td>
<td>1</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td>Croatia</td>
<td>1</td>
<td>1</td>
<td>128</td>
<td>128</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>46</td>
<td>33,854</td>
<td>340</td>
</tr>
</tbody>
</table>


The region’s fragile economies are also sensitive to the potential ability of Chinese FDI to strengthen them by compensating for a lack of capital. Overall capital inflows have remained disappointingly modest, however (Table 9).

Chinese investments cannot always be considered as full-fledged offshore activities. In fact, they often consist of agreements assigning financial roles to the various parties to large infrastructure projects—building and renovating port facilities, railways, or electrical and nuclear power plants—with Chinese firms simply serving as the general contractors. It is difficult categorize such cases as FDI, which implies offshore activity and control or the creation of new companies (Figure 1). It should also be acknowledged that Chinese capital inflows are currently slowed by the insolvability and indebtedness of regional governments that refuse to back the loans required to finance projects. The Chinese government is attempting to directly align itself with Brussels to obtain financial guarantees that encompass the region’s individual countries.11

6. Conclusion

Global Chinese FDI has grown steadily over the past 15 years, particularly in Europe. This expansion has been fueled by substantial Chinese cash reserves resulting from steady growth of exports and a quest for strategic assets, as well as a search for markets by Chinese firms that face increasing domestic competition. These firms are also seeking to benefit from their competitive and organizational advantages, including flexibility in terms of catching up to competitors and learning new management techniques.

Three categories of Chinese companies have driven this epic surge in Chinese overseas investments. Some large Chinese state-owned firms that benefit from distinct advantages in terms of market access, R&D, and financing have shifted towards global operations by specialization and refining their skills. As a consequence, they have been able to invest in core

11 According to the Director of the Albanian Center for Strategic Studies in Tirana (personal communication, February 2016).
European industries in the EU-15, particularly the UK, Germany, and France. A second category of Chinese firms—private, non-state companies—also accounts for massive acquisitions in Europe. Like state-owned firms, they are primarily in search of new opportunities, such as expanding their market share or assets that are either not available in China or that exhibit higher value in the EU than in China. In terms of value chain integration, FDI by these firms tends to target Western chains rather than constructing chains based on Chinese firms. One new trend is growing diversification of investments towards other sectors (real estate, finance), both in terms of volume and individual placements. A final emergent category consists of growing investments made by entrepreneurial “ethno-Chinese” firms, although their total investment volumes remain proportionately low.

In terms of spatial distribution, a powerful asymmetry prevails between, on the one hand, state-owned firms, industrial capital firms, and services that have invested primarily in the EU-15 through joint ventures and acquisitions in the East, and, on the other hand, greenfield and family FDI, which continue to represent greater numbers but lower financial volumes.

Southeastern Europe, including the Balkans, is uniquely situated at the intersection of several Chinese strategies that include a possible geopolitical effort to develop a sphere of influence by taking advantage of the region’s political weaknesses. These strategies are also commercial in reflecting a desire to increase trade in the region, because the southern EU is the endpoint of a long road that is currently being constructed by China (the BRI). Chinese goods exiting the Suez Canal and arriving in Athens have to be carried by rail towards Northeastern and Eastern Europe, which explains the proliferation of rail and freeway infrastructure construction projects by Chinese firms. Investments in energy in Bosnia and Romania also serve as entry points for more promising markets such as the EU (including nuclear reactors in the UK).

China is presently experiencing an economic downturn that has caused diminished growth, financial instability, and plummeting stock values. The country has experienced difficulties in adapting its growth model. The present gloomy outlook will inevitably trigger reduced foreign reserves and, as a result, will impinge upon China’s investment capacity, in turn influencing FDI in Europe. A final shadow looms over future Chinese FDI in high-revenue market economies such as the EU: EU firms’ difficulties in adapting to Chinese management approaches.

References


