

Chapter 46

Chinese FDI Activity in Europe: Trends, Impacts, and Challenges

Amir Manzoor

 <https://orcid.org/0000-0002-3094-768X>

Bahria University, Pakistan

ABSTRACT

Today, China has become one of the major exporters of capital in Europe. It is expected that China's liberal policy and growth model will soon make China a major provider of cross-border investment. This process is expected to have significant impact on host European countries of Chinese investment. Europe needs to change its policies and position itself strategically to not only reap the benefits of this massive influx of Chinese investment but also minimize potential risks that European countries face due to their historical linkages with China for trade and investment. The objective of this chapter is to review Chinese FDI in Europe to identify its impact on Europe's economy and suggest some measures for European economies to optimize the benefits of Chinese FDI for their national competitiveness and economic growth.

INTRODUCTION

China's outbound foreign direct investment (ODI) may exceeded inbound foreign direct investment (FDI) for the first time in 2014, making China a net exporter of FDI. This is surprising given the country's stage of development as well as its relatively low share of global ODI stocks. Figure 1 shows the trend of Chinese ODI by July 2016.

It appears that a very significant portion of Chinese ODI is focused on developed world. Out of top twenty recipients of Chinese ODI, eleven were developed countries. Figure 2 shows the top recipients of Chinese FDI. It seems that focus of Chinese ODI is not the region but the sector-wise strategic priorities. Within the same region, the amount of Chinese ODI in various countries varied significantly. One good example is middle-east region where Qatar received the least amount of Chinese ODI. The Figure 3 shows the countries that received the least amount of Chinese FDI.

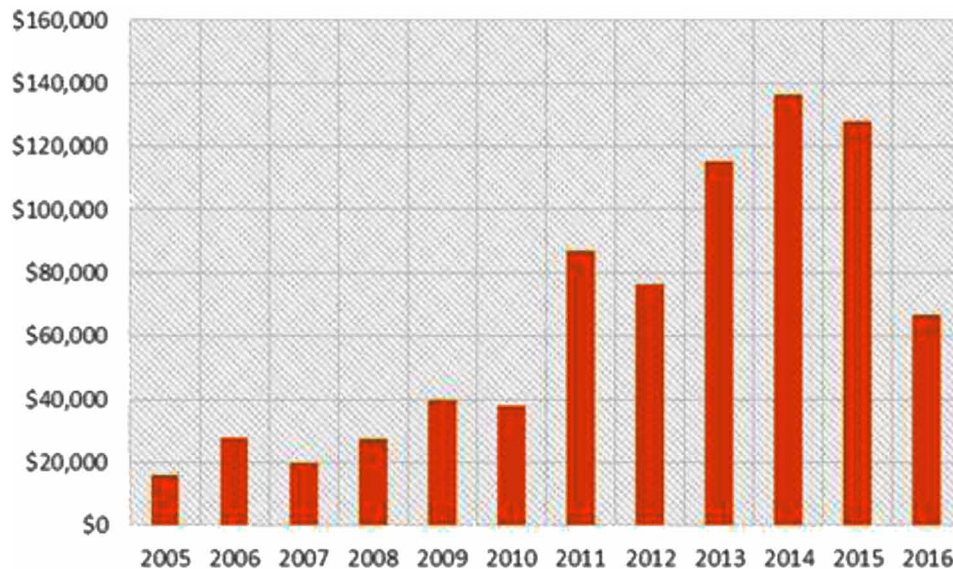
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Chinese FDI Activity in Europe

Figure 1. Trends of Chinese ODI

Source: (American Enterprise Institute, 2016)

(Figures are in Millions of US dollar)



The increasing influx of Chinese FDI continues to impact European economies. The amount of Chinese FDI in Europe has exceeded \$100 billion per annum and quickly shifting its focus towards more advanced European economies. Some of the most attractive sectors for Chinese investors include energy, transport, real-estate and technology. Both private and state-owned enterprises of China are actively making significant investments in Europe. Germany ranks no. 2 in the list of Chinese FDI recipients with total Chinese investment of €6.9 billion by the end of the year 2014 (UNCTAD, 2015). The advanced manufacturing capabilities of the more developed European economies are the major focus of the Chinese investors. The total Chinese investment in automotive and industrial equipment sectors of Germany alone accounts for more than two-third of the Chinese investment in Germany. With time, Chinese investment portfolio has diversified to include IT, finance, and consumer products sectors. In more developed European economies, the focus of Chinese investment is small-to-medium sized takeovers.

The objective of this chapter is to provide a comprehensive analysis of the outward direct investments by Chinese companies in the Europe region. After introduction, section 2 provides a discussion of the existing landscape of Chinese FDI in Europe. Section 3 discusses how new Chinese FDI would impact European economies and possible responses of European economies towards this FDI. Section 4 would discuss various concerns of stakeholders with respect to emergence of China as a new major FDI provider for Europe. Section 5 provides implications and recommendation for European policymakers for maximizing the benefits while addressing concerns discussed in section 4. Concluding remarks are provided in section 6.

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