

Antwerp | 30/11/2021

Recent Development of EU-China Cross-border Investment and impact of EU FDI screening Regulation

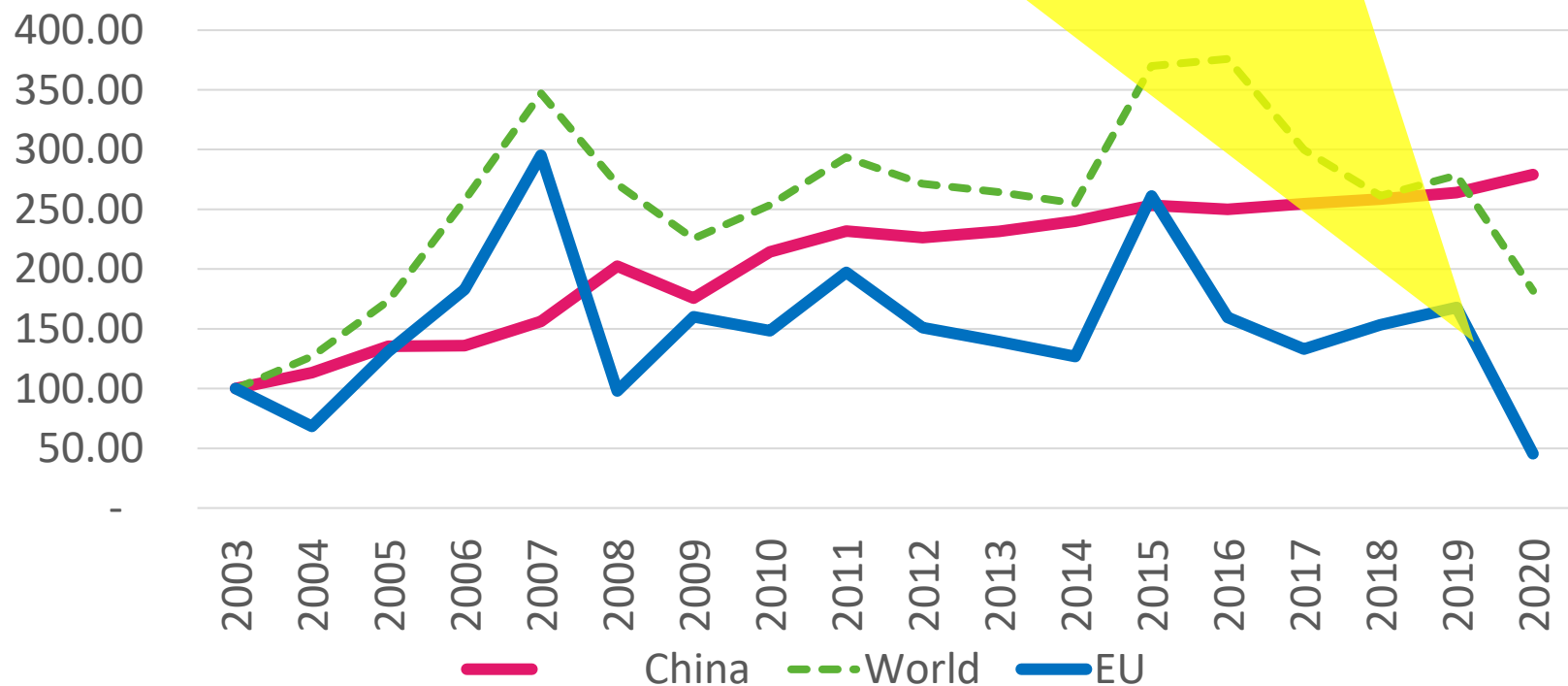
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Outlines

- Overview of EU-China cross-border FDI in the covid-19 crisis
- EU FDI screening regulation and impact on Chinese investment
- Business implication and challenges ahead

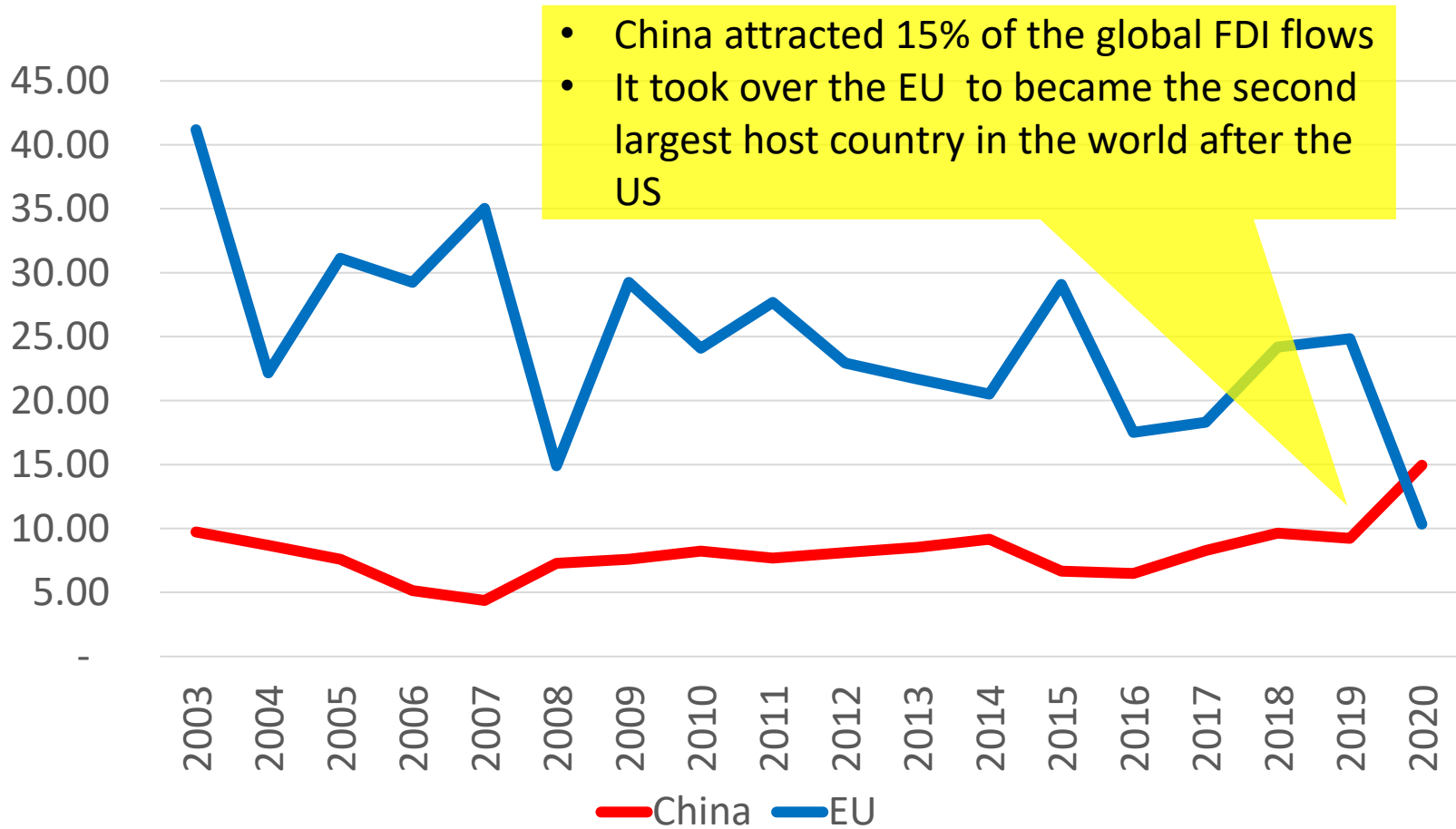
Global, EU and China Inward FDI flows Index 2003=100

- Global FDI flows dropped by 35%
- The decline was heavily checked developed economies, where FDI fell by 58%
- FDI in developing economies decreased by only 8% per cent, mainly because of resilient flows in Asia, while FDI to China increased by 6%



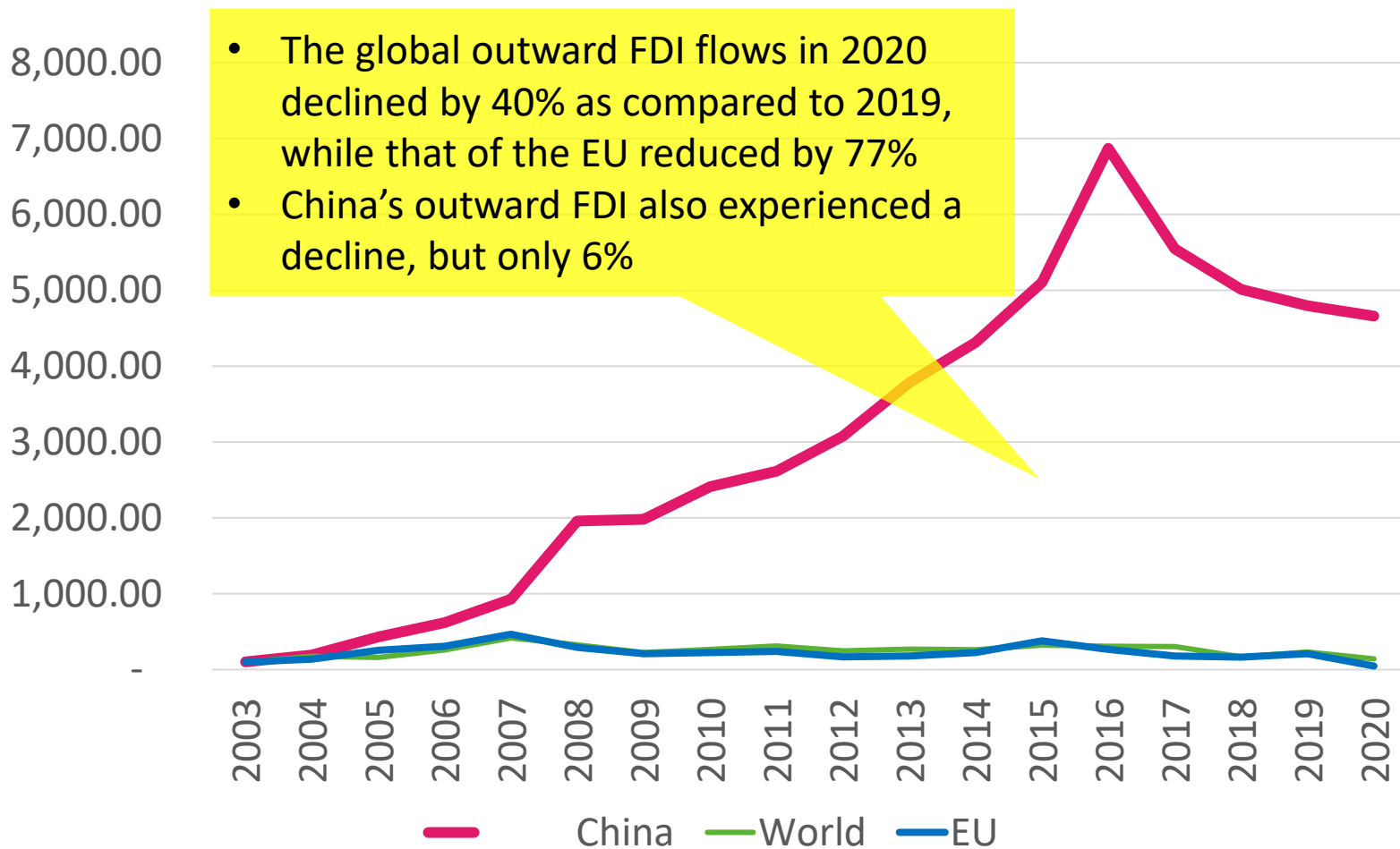
Source: UNCTAD, 2021

Importance of China and EU in the global inward FDI flows (%)



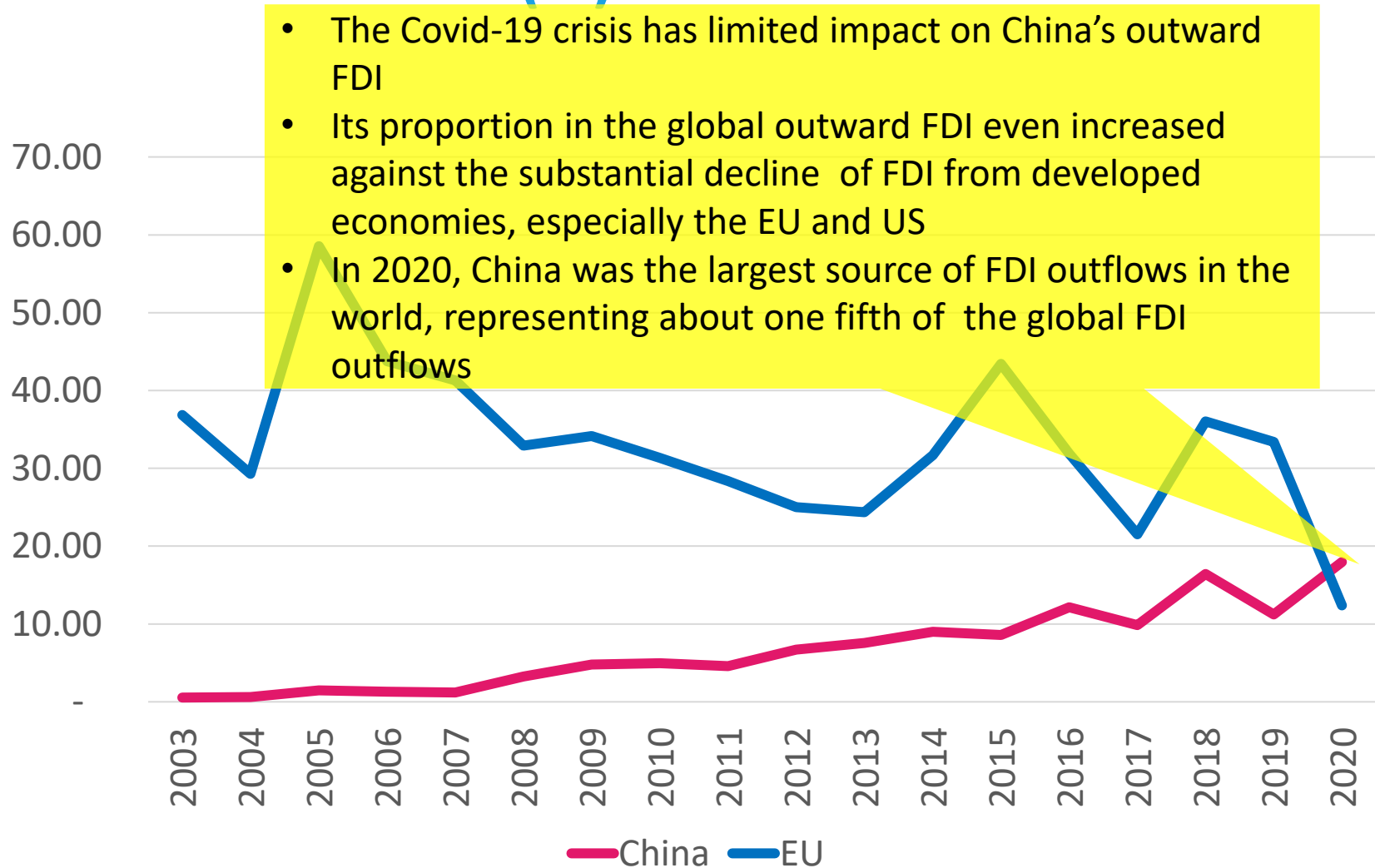
Source: UNCTAD, 2021

Global, EU and China outward FDI flows Index 2003=100



Source: MOFCOM, 2021

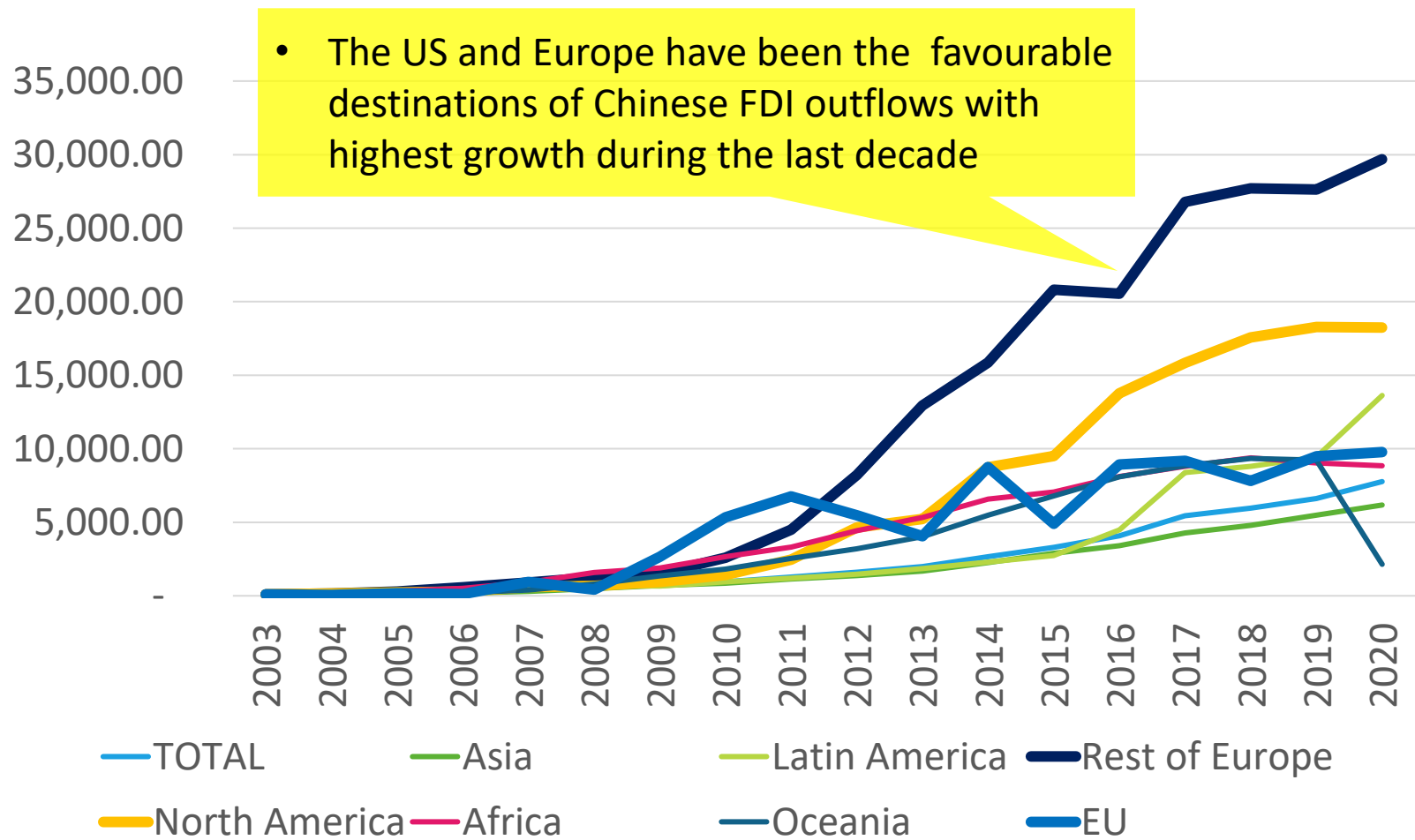
Importance of China and EU in the global outward FDI flows (%)



Source: MOFCOM, 2021

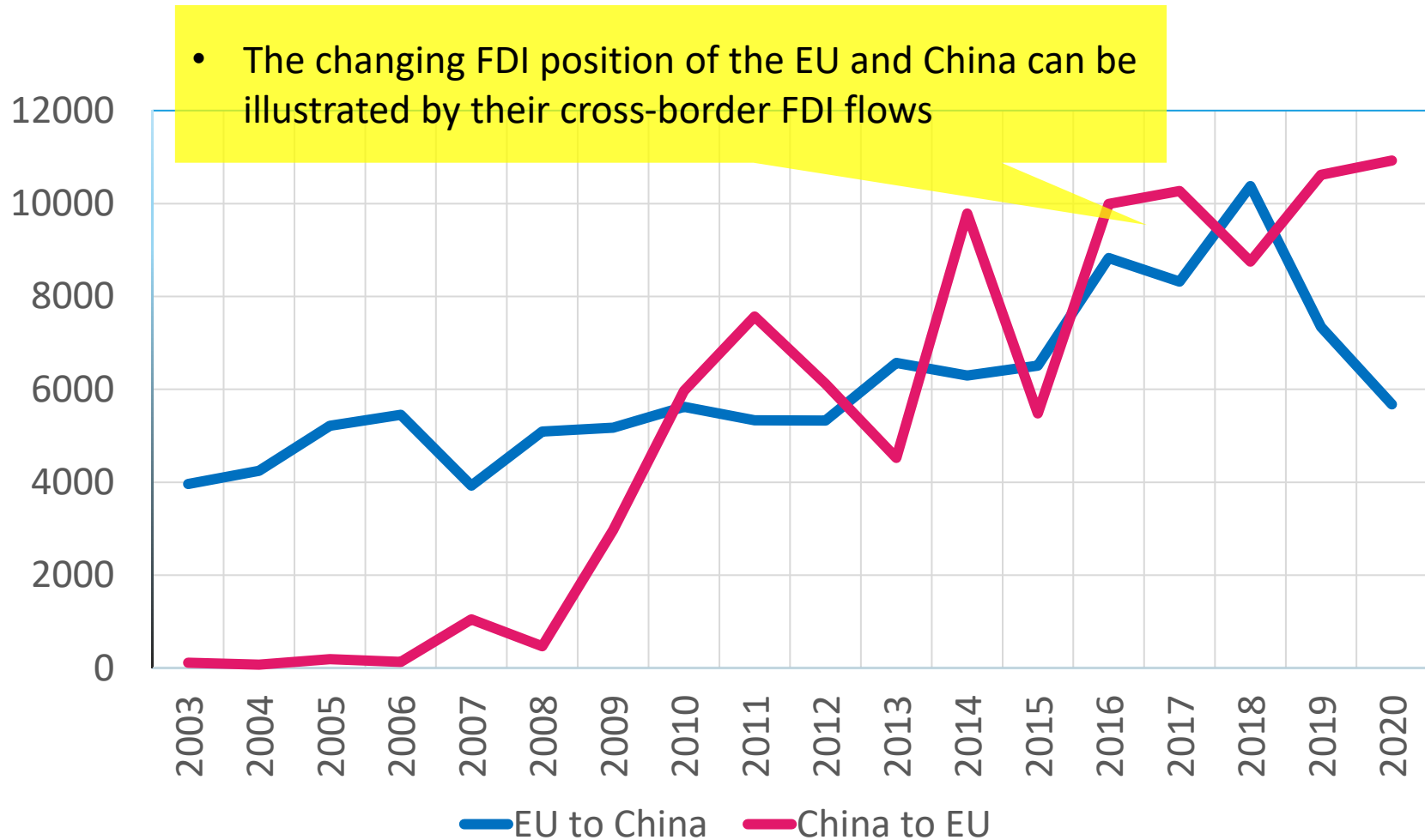
Growth of China's outward FDI flows

Index: 2003=100



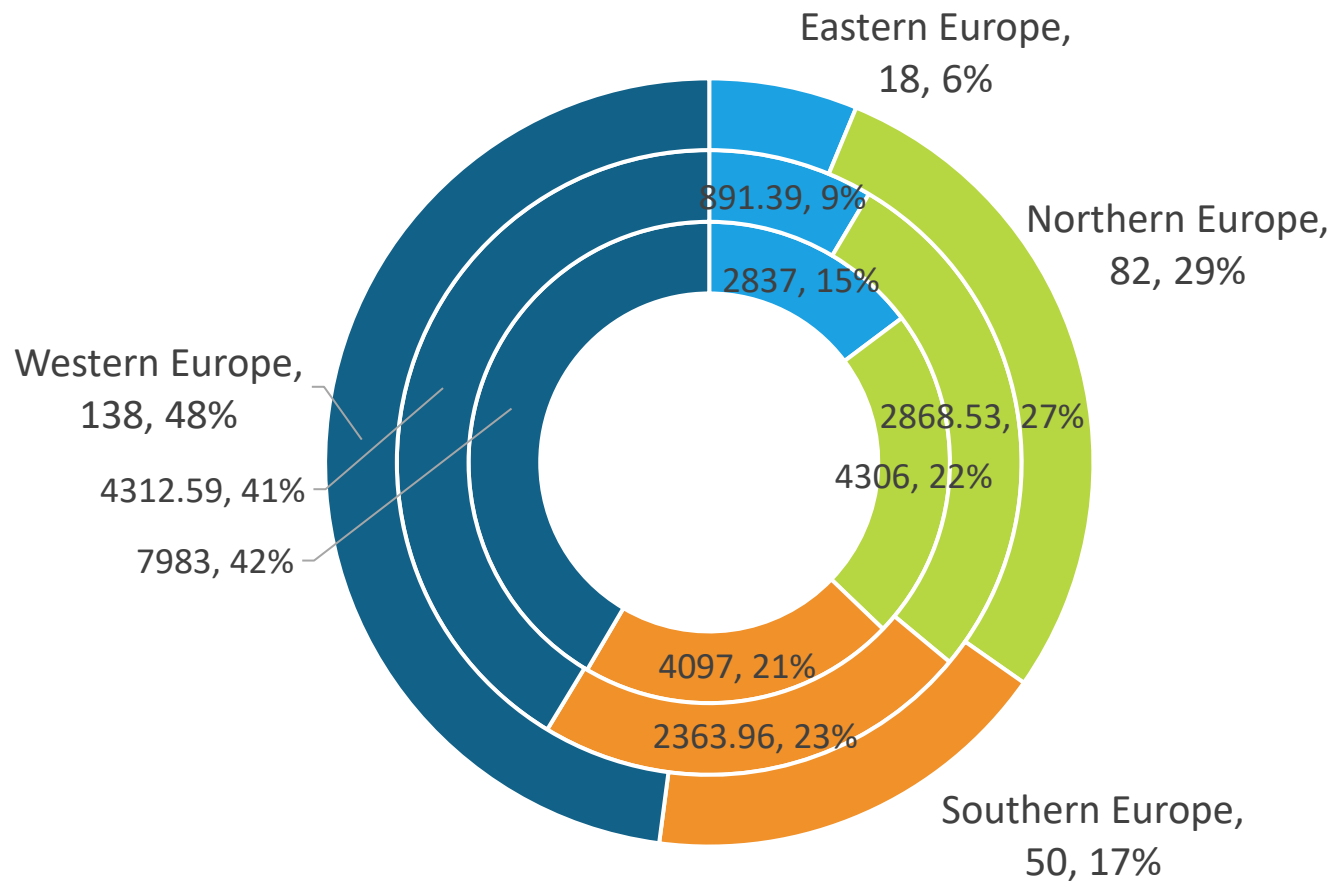
Source: MOFCOM, 2021

EU-China cross-border FDI flows million US\$, 2003-2020



Source: MOFCOM, 2021

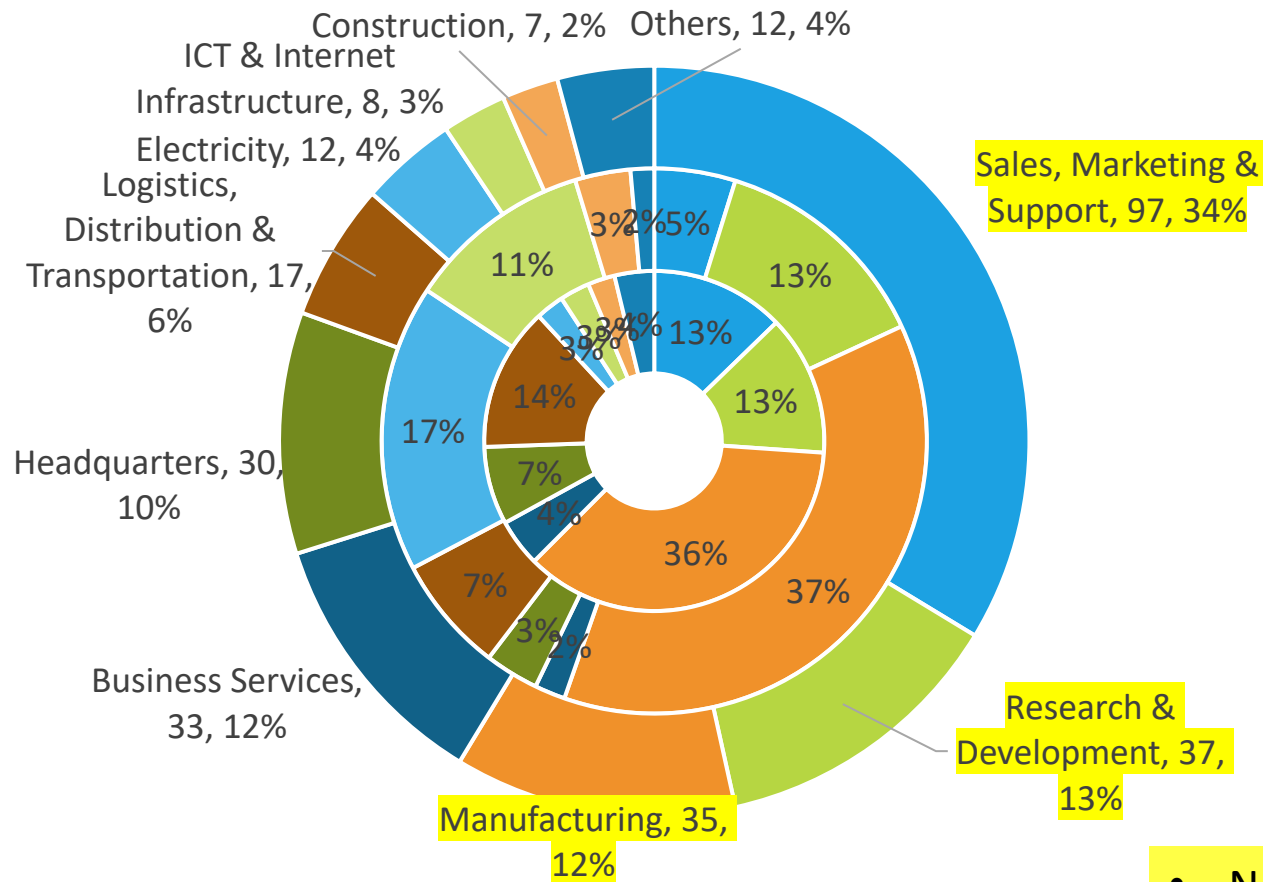
Regional distribution of China's greenfield FDI projects in the EU 01/2019-08/2020



- No. of projects
- Invested capital
- Job creation

Source: FT fDImarkets, 2021

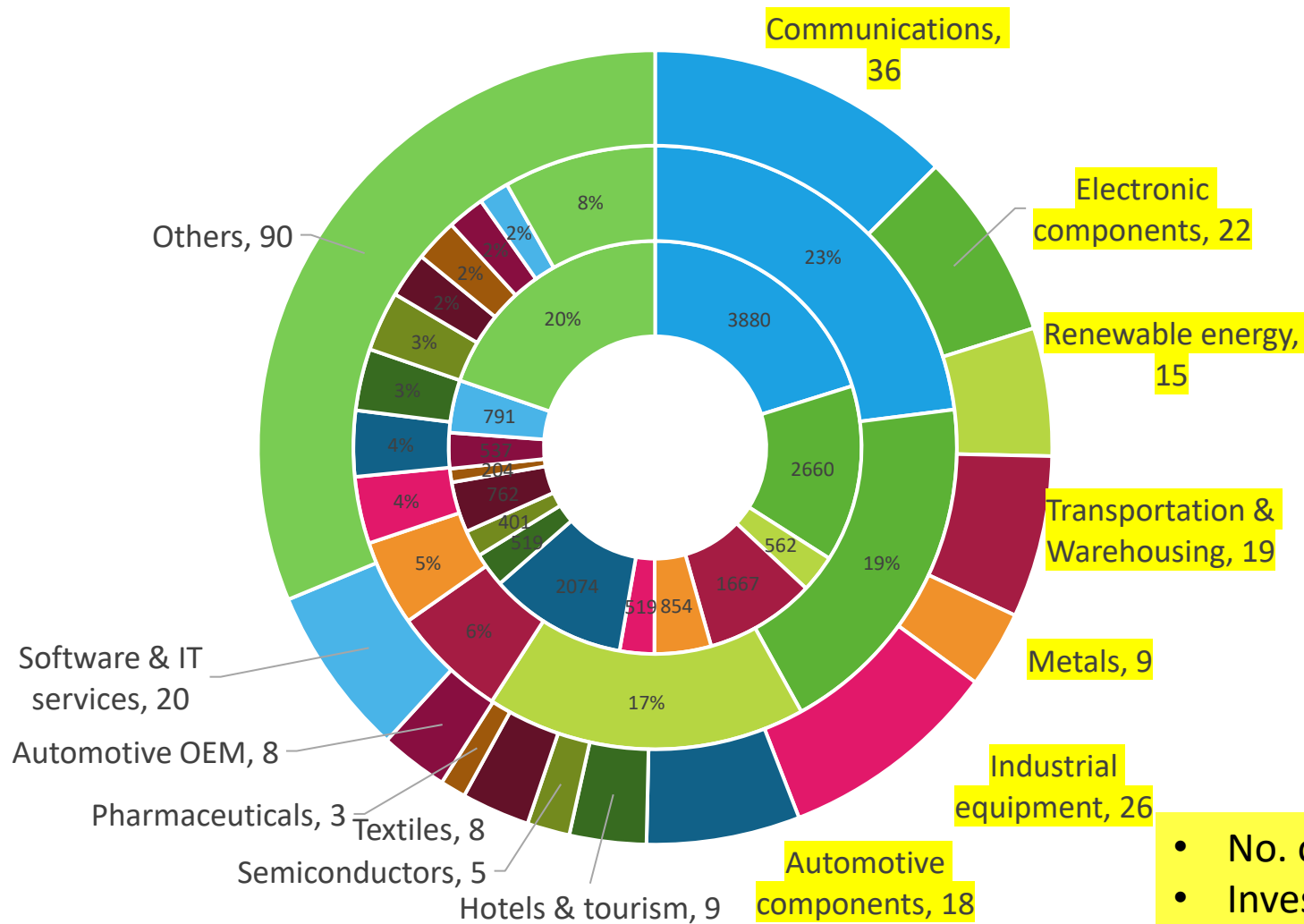
Sector distribution of China's greenfield FDI projects in the EU 01/2019-08/2020



- No. of projects
- Invested capital
- Job creation

Source: FT fDImarkets, 2021

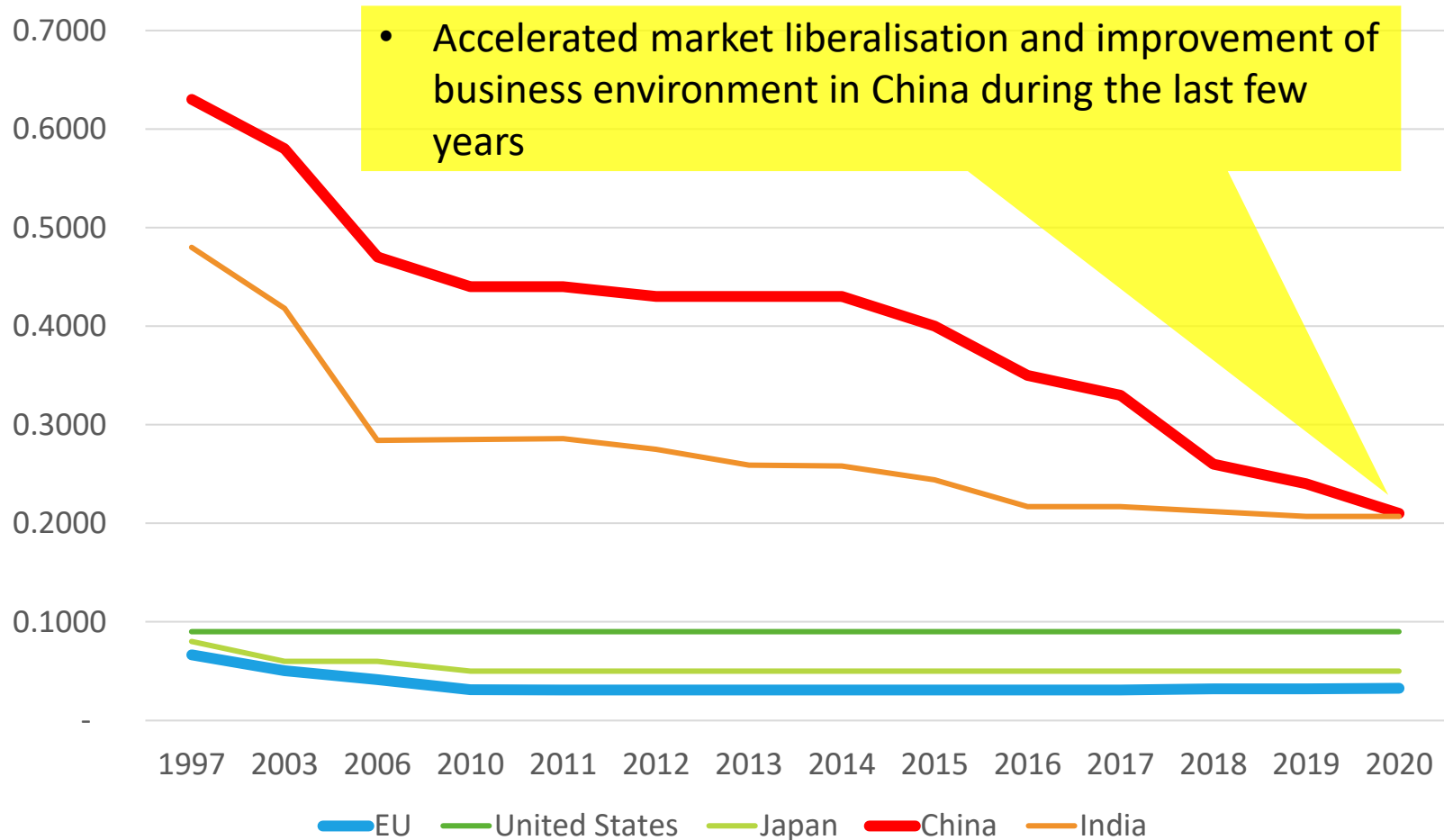
Industrial distribution of China's greenfield FDI projects in the EU 01/2019-08/2020



- No. of projects
- Invested capital
- Job creation

Source: FT fDImarkets, 2021

OECD FDI regulatory restrictiveness index



EU-China FDI between 2013-2020

- ▶ China to EU FDI stock – multiplied by nearly **4 times**
- ▶ EU FDI stock in China is €148 billion, while China's FDI in EU is €117 billion
- ▶ EU to China FDI stock – increased by 50%, i.e. **1,5 times**
- ▶ EU is about 8% of total China's inward FDI
- ▶ China is less than 2% of extra-EU inward FDI

- ▶ **Achievement of CAI**

EU-China trade between 2013-2020

- ▶ EU-China Trade increased by **36%** between 2013-2020
 - ▶ China is EU's largest importer and exporter
- ▶ 1,6 billion per day in 2020
- ▶ 34 train per day (14000 train in 2020)
- ▶ China is 11% of extra-EU export and 23% of extra-EU imports during the first three months of 2021, a growth of **25%** as compared to 2020 while the deficit of trade balance reduced by **50%**
- ▶ EU is 4,5% of China's total trade
- ▶ EU is no longer the largest trade partner of China – surpassed by ASEAN

Main Concerns of EU about China's OFDI

- Investment in critical infrastructure projects
 - National security, e.g. Eandis
- Made in China 2025 and acquisition in high-tech manufacturing
 - Key industrial technology and core competitiveness, e.g. Kuka,
 - Duality of the technology: Civil-military technology, e.g. Leifeld
- Politization of China's OFDI
 - China's regime and geopolitical ambition
 - Status of SOEs and government backed companies
 - State-capitalist

Outlines

➤ Overview of EU-China cross-border FDI in the covid-19 crisis

➤ EU FDI screening regulation and impact on Chinese investment

➤ Business implication and challenges ahead

Changing EU-China (**political**) relationship between 2013-2020

- › 2003: “comprehensive strategic partner“
- › 2019: EU-China Strategic Outlook: Commission March 2019

Strategic partner → Systemic rival

- › China is, simultaneously, in different policy areas,
 - › a **cooperation partner** with whom the EU has closely aligned objectives
 - › a **negotiating partner** with whom the EU needs to find a balance of interests
 - › an **economic competitor** in the pursuit of technological leadership, and
 - › a **systemic rival** promoting alternative models of governance

Context of the changing position of the EU towards China (1)

- Growing and more balanced trade and FDI flows between China and the EU
- More openness and transparency in the Chinese business environment
 - New FDI law – reduced negative list, etc.
- EU request to China for more market access, level playing field, reciprocal treatment, etc
- Achievement of negotiation for CAI agreement
- Post pandemic economic recovery
 - Strong digital and green economy
 - Establishment of EU supply chain (RescEU and InvestEU)

Context of the changing position of the EU towards China (2)

- Rise of protectionism (trade and FDI) at global level
- EU 'Strategic autonomy' (vis-à-vis US and China?)
- Rise of unilateralism as compared to multilateralism
 - Biden's new "multilateralism" without/against China
- More expansive notion of strategic industries, the national interest and national security
 - Made in China 2025 – legitimacy?

Increasing number of EU FDI regulations

- EU Merger Regulation (EUMR) (2004)
- European Program for Critical Infrastructure Protection (EPCIP) (2005)
- EU framework for screening investments (2020)
- EU 5G Toolbox (2020)
- White Paper on foreign subsidies (2020)

Two objectives

- To protect the critical and strategic assets
- To ensure the competition neutrality

EU FDI Screening Regulation

- Proposition in 2017
- Adoption in 2019
- Full implementation from 11 October 2020

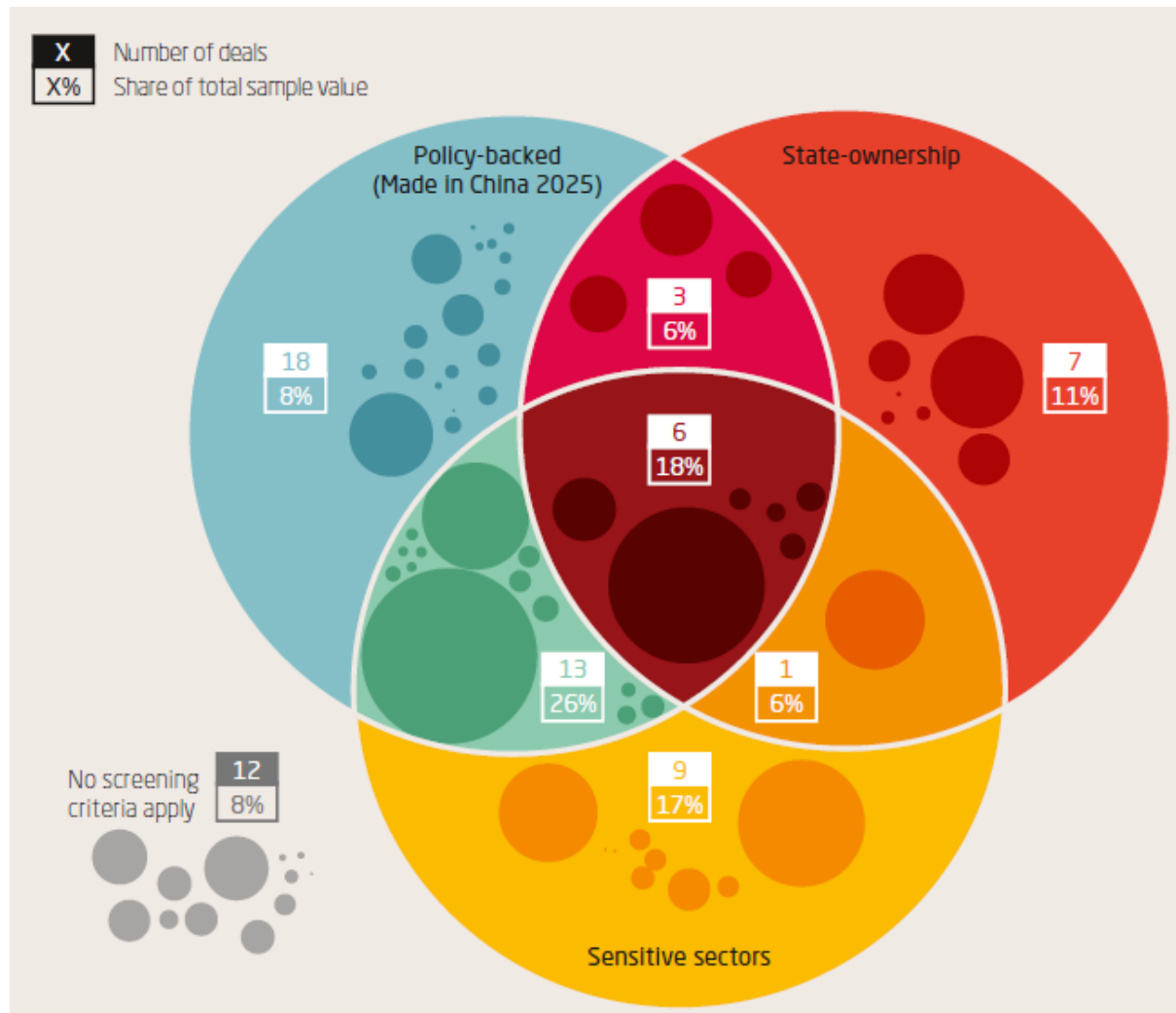
- A cooperation mechanism where Member States and the Commission will be able to exchange information
- Focus on protecting security or public order, and, a strong awareness of the criticality of certain investment targets

List of investment which affects security or public order

- Critical infrastructure
- Critical technologies
- The supply of critical inputs, such as energy or raw materials
- Access to sensitive information or the ability to control information, or
- The freedom and pluralism of the media

- May also consider whether the investor is controlled by the government of a third country, whether the investor has previously been involved in activities affecting security or public order, or whether there are serious risks that the investor engages in criminal or illegal activities

Chinese M&As potentially covered by EU FDI screening regulation in 2018

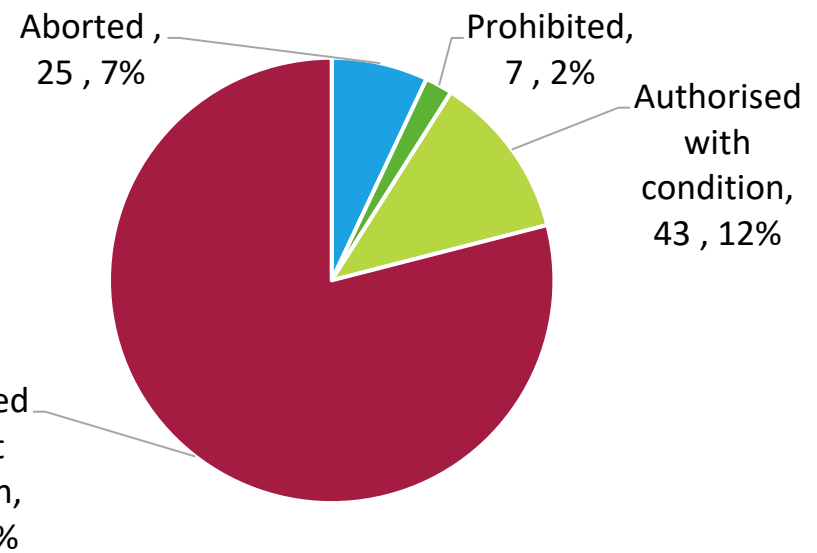
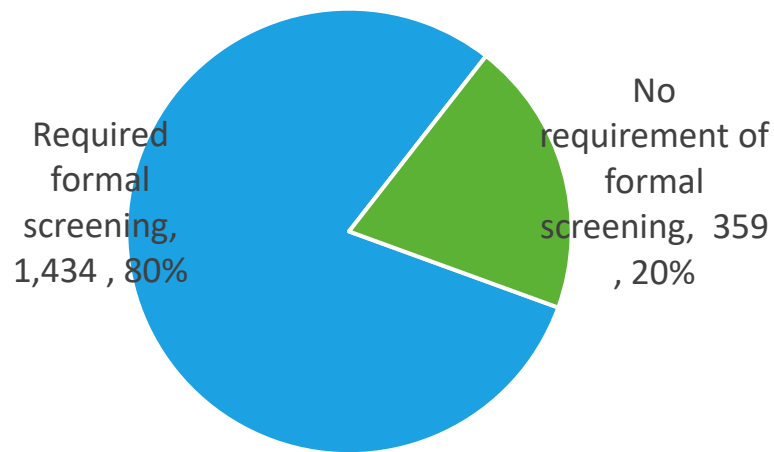


Total=92%

Source: Rhodium Group and MERICS

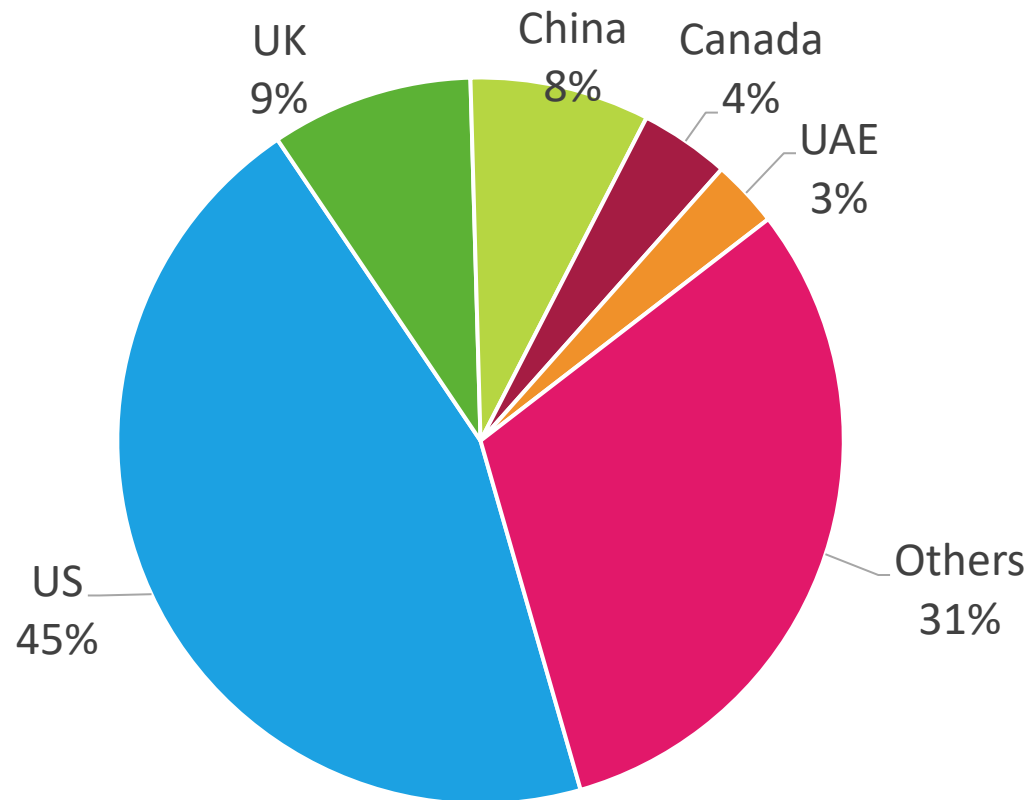
First annual report

➤ 1793 projects were reviewed in 7 EU member countries



Source: EU commission, 2021

Origin of the ultimate investor of screened projects



Source: EU commission, 2021

Notable screened acquisition in the EU and the UK, 2020 and 2021

Investor	Target	Country	Sector	Description
Shenzhen Investment Holdings	LPE	Italy	Semiconductors	Italy's government vetoed the takeover on national security grounds, after discussions with the EU commission, Sweden and the Netherlands.
FAW Group	Iveco SpA	Italy	Automotive	The Italian and French economy minister coordinated to oppose the sale of a unit of Iveco SpA. Eventually, Iveco SpA's owners pulled out of the talks.
CASIC	ISMT	Germany	Satellite communications, radar	Germany blocked the deal citing national security concerns as ISMT is an important provider of satellite communications, radar and radio technology. The Ministry of Economic Affairs and Energy said the deal would endanger Germany's technological sovereignty.
Zhejiang Shuanghuan Transmission Machinery	Schmiedetechnik Plettenberg, Werkzeugtechnik Plettenberg, VVP Vermögensverwaltung Plettenberg	Germany	Automotive	The transaction was dropped by Zhejiang Shuanghuan after failing to reach an agreement with the German Ministry of Economic Affairs and Energy on some provisions of the agreement required by the foreign investment screening review.
Vital Materials Co	PPM Pure Metals	Germany	Metallurgy	The German government initially blocked the deal as PPM Pure Metals supplies the German military. However, in December the acquisition was finalized.

Source: Merics and Rhodium Group, 2021

Concluding observation

- All Member States uniformly pointed
 - The Regulation and the cooperation mechanism as a very valuable tool for gaining a **comprehensive overview of FDI into the EU**, including particular investment targets and investor profiles
 - Significant **procedural issues** encountered, more general, issue raised by a number of Member States is the impact of the renewed attention to FDI screening on **staff levels**

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Possible business implication

- FDI will be regulated by a set of regulations from different perspective (EUMR, EPCIP, regulation on state subsidies, etc.)
- FDI will be regulated by more jurisdictions
- More sectors/projects will be covered by screening process
 - Expansion of existing projects
 - Investment by existing European subsidiaries
- Longer duration for administrative and regulatory process
- More complicated regulatory process, but maybe more transparent
- Transaction information will be widely exchanged
- Increasing possibility of recourse against screening decisions

Possible policy implication

- › The effectiveness of the regulations depends on the achievement of its objectives
 - › Protecting critical assets/security/public order
 - › Depoliticization/non discrimination
 - › Legitimacy issues on ‘Made in China 2025’ and Chinese SOEs
 - › Negative list instead of possible abusive use of the notion of national security, etc. – more transparency
 - › Ensuring competition neutrality, but **in the long term**
 - › Short term and long term perspective, e.g. solar panel from China –
 - › Cooperating vs. decoupling, e.g. Huawei/Option case

Questions to be asked

- › The effectiveness of the regulations depends on the achievement of its objectives
 - › Protecting critical assets/security/public order
 - › Depoliticization/non discrimination
 - › Negative list instead of possible abusive use of the notion of national security, etc.
 - › Transparency
 - › Ensuring competition neutrality
 - › Short term and long term perspective, e.g. solar panel from China –
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Q & A