

Euro-China Investment Report 2013/2014



Euro-China Centre at Antwerp Management School

Since the last decade there has been an enormous expansion of Chinese outward direct investment. This unexpected development has caught the attention of the media and today all kinds of comments are formulated when a Chinese firm takes over a European or other company. The last few years a number of studies have documented this amazing growth of the Chinese enterprises abroad. However, these studies concentrate on the most visible dimension of the Chinese outward investment, i.e. the acquisition of foreign/European firms by Chinese state owned enterprises. In 2011 the Euro-China Center of the Antwerp Management School published its first bi-annual Euro-China Investment Report (Zhang, Yang, & Van Den Bulcke, 2011) in which a broader and more complete picture of the Chinese presence in Europe was presented. Since then the China's economy has undergone several important changes which also had repercussions on its outward foreign direct investment. The second Euro-China Investment Report, written by the same authors, not only provides an update of the previous research study, but also tries to identify relevant characteristics and trends. It also offers essential insights and background information for decision makers at the level of the regional and national governments in Europe and China, as well as for the managers responsible for the strategies of their companies.

Although it is not possible to present all the results of the 83 page report, some of the main findings are the following:

- China in 2012 became the third most important investor abroad after the US and Japan in terms of outward investment *flows* (UNCTAD 2013). Its total outward foreign direct investment (FDI) *stock* has reached 509 US\$ billion.
- China's FDI *flows* to the EU-27 multiplied about 30 times in 2011 as compared to 2009 and accounted for €3.19 billion reaching € 15.03 in terms of stock (Eurostat 2013). Europe has become a more favored destination of Chinese investment abroad and surpassed the US in attractiveness.
- A total of 7,148 Chinese enterprises, wholly or partly owned by Chinese companies, families and individual entrepreneurs, were active in 35 countries in Europe at the beginning of 2013 (Amadeus database 2013) as compared to 4,525 firms in 28 European countries in 2011. This is an increase with 66 per cent in a two year period.

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- In 2011 companies with Chinese shareholders employed 27,381 people. In 2013 the number of jobs provided by companies in Europe with a Chinese participation in the equity capital went up to 123,780 jobs, a multiplication with 3.5. For the assets controlled by Chinese investors the increase was even higher. While the manufacturing sector counts only six per cent of the total number of Chinese firms in Europe, it employs 51,000 persons, or two fifths of the Chinese employment in Europe.
- More than 4 out of 5 (82 per cent) of Chinese enterprises are individual and family-owned firms. The proportion of the corporate subsidiaries slightly increased from 16 per cent in 2011 to 18 per cent in 2013.
- The international development of Chinese entrepreneurs is clearly illustrated by the surge of Chinese private business in Central and East Europe. The Chinese corporate investors, including the growing privately owned Chinese corporations, are mainly active in West and North Europe.
- Although the Chinese firms are spread all over Europe, there is a strong concentration in a small number of countries. The top five European host countries are: Romania, Germany, Serbia, the Czech Republic and Hungary. Together these countries have attracted 80 per cent of the Chinese firms.
- Chinese companies also tend to agglomerate in a small number of cities and their hinterland: such as Bucharest, Belgrade, Prague, Budapest, Hamburg, Moscow, Düsseldorf, and Frankfurt.
- France, the United Kingdom and Germany stand out as the preferred countries for mergers and acquisitions by Chinese corporate investors, especially for deals in high technology manufacturing and knowledge intensive services. Especially German medium sized firms have been targeted by Chinese investors looking for technology, brands and know-how. In fact more and more Chinese FDI takes the form of such 'asset augmenting' investment in order to strengthen their competitive position in their home market and continue their global expansion.
- The individual and family businesses are more inclined to enter into joint venture arrangements, although mainly with other Chinese. State owned enterprises and private corporate investors prefer relatively more wholly- owned subsidiaries and majority owned joint ventures.
- In the previous report about three quarters of the Chinese enterprises in Europe recorded a positive result in the latest available accounting year. In the new report only about half of those firms (53 per cent) registered profits in the latest available year. That

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- this is likely linked to the worsening economic situation in Europe is confirmed by the fact that the enterprises in South and East Europe suffered most.
- In 2013 there were 710 so-called sister city relationships (SCR) between Europe and China. The central and local governments in China consider the CSR as an important way to enhance economic and business exchanges, while in Europe the cultural exchanges dominate. Together with the investment promotion agencies a better and more effective use should be made of the SCR arrangements.
 - According to the findings of a special survey, the organization of governmental visits and trade missions to each other's city is the most important activity of European-Chinese sister relationships. More than four out of five of the surveyed cities reported such travel exchanges. Other important services such as business introductions and matchmaking meetings, assistance with administrative procedures, especially related to the work permits were offered less frequently by the respondents to the survey.
 - Europe, the EU and the national and local governments should keep informed about the establishment of Chinese enterprises and find a balance between attracting such enterprises and safeguarding and making sure that they have a positive economic impact. Clearly a distinction should be made between the corporate investors and the numerous entrepreneurial firms. The dynamism of this latter category of small firms is not fully exploited yet. Meanwhile, although the expansion of Chinese outward investment will undoubtedly continue to grow, the overall size is still small and represents only a small share of the total FDI in the respective economies.