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Chinese Outbound Investment in the European Union



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TABLE OF CONTENTS

1. Foreword	3
2. Executive summary	4
2.1 To European policy makers	5
2.2 To Chinese policy makers	5
2.3 Further recommendations	5
2.4 Key survey findings	5
3. Background information: Chinese ODI in context	6
3.1 China FDI vs. ODI	6
3.2 Destination of Chinese ODI globally and to the EU	7
3.3 EU member states as recipients of Chinese ODI	8
3.4 Sectors invested in by Chinese enterprises in the EU	8
3.5 Size and type of Chinese ODI	8
3.6 SOEs and POEs as outbound investors	9
3.7 Key conclusions	9
3.8 A note on the measurement of Chinese ODI	10
4. Study background	11
4.1 Survey	11
4.2 Interviews	11
4.3 Respondents' profile summary	11
5. Findings	12
5.1 Strategy	12
5.1.1 Why look outside of China?	12
5.1.2 Motivations for investing	12
5.1.3 Destination and rationale	13
5.1.4 Perceptions of the EU investment environment	15
5.1.5 Key conclusions	16
5.2 EU FDI policy and approval processes	16
5.2.1 Regulatory obstacles	16
5.2.2 Key conclusions	19
5.3 EU operating and non-regulatory environment	19
5.3.1 Operating difficulties in the EU	19
5.3.2 Business-framework related difficulties	20
5.3.3 Operating, market and infrastructure difficulties	22
5.3.4 Key conclusions	22

5.4 Respondents' recommendations to the EU authorities	22
5.4.1 Key conclusions	24
5.5 Chinese ODI policy and approval processes	24
5.5.1 Approval processes	24
5.5.2 Regulatory approvals of outbound investments from within China	26
5.5.3 Chinese Government policy to encourage outbound investment	27
5.5.4 Key conclusions	29
5.6 Respondents' recommendations to the Chinese Government	29
5.6.1 Key conclusions	31
5.7 Future outlook and strategy	31
5.7.1 Future outlook	31
5.7.2 Future strategy	32
5.7.3 Key conclusions	32
6. Conclusion and recommendations	33
6.1 Recommendations to Europe	33
6.2 Recommendations to China	34
6.3 Further conclusions	34
7. Respondents' profile	36
7.1 Nature of business in China	36
7.1.1 Sector	36
7.1.2 Ownership structure	37
7.1.3 Size	37
7.2 Nature of business in the EU	38
7.2.1 EU countries invested in	38
7.2.2 Length of time in the EU	39
7.2.3 Size	40
7.2.4 Nature of investments in the EU	41
8. References and sources	42
9. Abbreviations	43
10. Table of figures	44
11. About the authors	45

1. Foreword

The soaring trend of outbound investment by Chinese enterprises is generating much intrigue and excitement across international economic and political spheres. Even though China has been the largest contributor to global GDP growth since 2006, outbound direct investment (ODI) from China is still relatively small. However since the mid-2000s it has increased dramatically year-on-year to reach USD 366 billion in investment stock by the end of 2011 and is an identified priority of the Chinese Government in the period of the *12th Five-Year Plan* (2011-2015).

The EU and its member states are positive about the benefits that foreign direct investment (FDI) brings to their economies in terms of increased productivity and efficiency stimulated by greater competition. In addition, it is also apparent that the EU has gained from Chinese investment in European government debt whilst managing recent difficulties. So as Europe looks to attract more *FDI*, and China looks to increase its *ODI*, it is timely to consult with those Chinese enterprises that have invested in Europe in order to find out what obstacles they face and how these can be overcome.

With this study we examine those conditions reported by Chinese enterprises who have already entered and are operating in Europe in order to provide valuable information and recommendations to the policy makers of the EU, EU Member States and China to encourage successful investments in Europe by Chinese enterprises. The successful completion of investments in the EU by Chinese enterprises is good for both Europe and China. Failed deals as a result of issues that should be surmountable do not help anyone.

The European Chamber advocates the mutual openness of both Chinese and European markets and looks to contribute towards increasingly open trade and investment environments. Since December 2009, responsibility for investment policy for Europe has been the sole competence of the EU institutions, rather than the 27 member states, and, at the time of drafting, the EU and China are in the early stages of composing a bilateral investment agreement which it is hoped will be a spur to greater economic ties.

Stronger economic ties can foster stronger political and cultural ties. The reception that China's enterprises receive overseas is closely tied with the international perception of China as a nation. Chinese ODI in the EU is still low in comparison both with that coming from other major regions to the EU, and with European investment in China. Some reservations have arisen, however, in the public sphere in Europe and elsewhere regarding investment from China which stem from concerns relating to, for example, state involvement and transparency, and also from frustrations relating to asymmetries in terms of market access for Chinese companies in foreign markets compared with foreign companies in Chinese markets.

The emergence of trusted and successful Chinese companies and brands in foreign markets will improve the image of China, and the efforts of China's leaders to improve the international standing of the country will aid the reception that Chinese enterprises receive when entering overseas markets.

We would like to thank all those that contributed to this study, in particular those Chinese enterprises that completed the questionnaire and agreed to be interviewed and those European experts from both the public and private sphere that donated their time and knowledge to this study.



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2. Executive summary

Europe is viewed by Chinese investors as a safe, stable destination for investment. It has a large consumer market for sales of goods and services, as well as advanced technologies, an educated workforce and desirable brands that could be acquired to help their competitiveness both domestically and internationally. Operating in the EU, however, is not considered easy and there are numerous obstacles often relating to bureaucratic procedures and high costs. Evidence indicates that there will be increased future investments from China into the EU and if the policy makers of both regions can positively address key issues, this investment relationship can develop further.

Chinese ODI has been increasing since the mid-2000s to reach nearly USD 65 billion in investment flow over the twelve months of 2011, and the trend of Chinese companies investing in Europe has become more prominent in the public sphere. Increasing ODI is a key goal of the Chinese government and is seen as a key tool in advancing its economic development, with Europe becoming a more frequent destination as China moves beyond making investments focussed on securing resources and on to acquiring advanced technologies, expertise and brands.

The results gathered from this survey indicate that Chinese companies are mostly looking to access the European market to sell their goods and services, while a smaller, but increasing number are looking to acquire technologies, expertise and brands through mergers & acquisitions (M&A) with European companies to improve their capacity to compete both at home and abroad. Data gathered, both through this survey and from external sources, indicates that to date, the majority of Chinese investments into the EU have been relatively small in size but larger M&A deals are becoming more common and this is likely to continue to increase in the future.

Survey responses show that the European Union (EU) is perceived by Chinese enterprises as a stable investment environment with advanced technologies, skilled labour and a transparent legal environment. In addition it is regarded as a relatively open market, with few market access barriers and little history of opposition to Chinese investments on national security grounds. However, the EU is not regarded as a particularly easy market to operate in and is reported to suffer from bureaucratic barriers and high costs. In this regard, the EU is not necessarily viewed as having a particularly favourable operating environment in relation to other major regions.

Key obstacles reported relate to obtaining visas and work permits for Chinese employees, dealing with European labour laws, human resources (HR) costs, and cultural differences in management style. Understanding various operating regulations such as tax laws are an issue as these are complex due to the lack of uniform legislation across the 27 EU member states and the reality of 23 different EU languages.

Recommendations by Chinese enterprises to EU policy makers captured in this survey focus on these operational issues. Notably few respondents made recommendations relating to the lifting of market access barriers in the EU market, which can be contrasted with the priorities of European businesses in China.

Chinese enterprises report that Government ODI encouragement policies are largely viewed to be of assistance to State-Owned Enterprises (SOEs) only, with private enterprises getting little help. Outbound investment approval processes from within China are seen by some as in need of further streamlining and this has been recognised by the Chinese Government with, for example, foreign exchange control liberalisation steadily taking place, which should reduce administrative burdens in this regard. Recommendations made here by Chinese investors to the Chinese Government focus on the desire for improved advisory and support services both in China and in Europe, and the greater streamlining of outbound investment approval processes from the relevant regulatory bodies in China.

The future outlook for Chinese investment in the EU is overwhelmingly positive with nearly all respondents indicating that they will make future additional investments in the EU, with the vast majority of these planning to invest at higher amounts. Companies are looking to expand investments, localise to a greater degree and invest in technology and human resource development.

A number of specific recommendations are made by the authors of this report to both Chinese and European policy makers on the basis of the findings of this research:

2.1 To European policy makers

European policy makers with responsibility for inbound investment should examine the comments and recommendations put forward in this study by Chinese enterprises and examine what can be done to better encourage future investment, including:

- Look to address the operational issues relating to bureaucracy and cost which are frequently raised here;
- Look to offer practical solutions to minimise the complexities of a market of 27 separate legal and tax regimes as well as 23 languages, such as establishing a source of consolidated legal information for all EU member states in one language;
- Investigate the reported obstacles in the FDI approval processes and see if these can be streamlined;
- Better communicate the openness of the EU market due to the reported lack of awareness amongst potential Chinese investors.

2.2 To Chinese policy makers

Chinese Government bodies charged with encouraging ODI should likewise examine the opinions put forward by their domestic enterprises, this should include:

- Review existing advisory and support mechanisms for Chinese enterprises looking at making outbound investments from within China;
- Review on-the-ground support in Europe and establish a chamber of commerce for Chinese enterprises with coverage for the whole EU;
- Review outbound approval processes and further streamline where possible.

2.3 Further recommendations

From a macro perspective, the EU should maintain its openness for foreign investment and continue to encourage ODI from China. China should look to develop various aspects of its international relations for the benefit of Chinese enterprises going overseas through means such as opening up the domestic market to foreign firms and, in particular, remedying situations where Chinese companies can invest in certain European sectors, when the reverse is not possible. This should nullify this issue as an irritant and lessen the chance of greater opposition to Chinese investment as a retaliatory measure in return.

2.4 Key survey findings:

Of the 74 surveyed Chinese enterprises that have invested in the EU:

- 97% indicate that they will make future additional investments in the EU, with the vast majority of them planning to invest higher amounts than their current investments;
- 78% report encountering operational difficulties in the EU, mostly related to issues of bureaucracy and high costs;
- 48% report encountering regulatory approval obstacles in Europe, with these mostly arising at the local level;
- 27% report encountering outbound investment approval processes from within China as an obstacle;
- 85% are in Europe, for Europe and are primarily looking to sell their goods and services in the EU market.

3. Background information: Chinese ODI in context

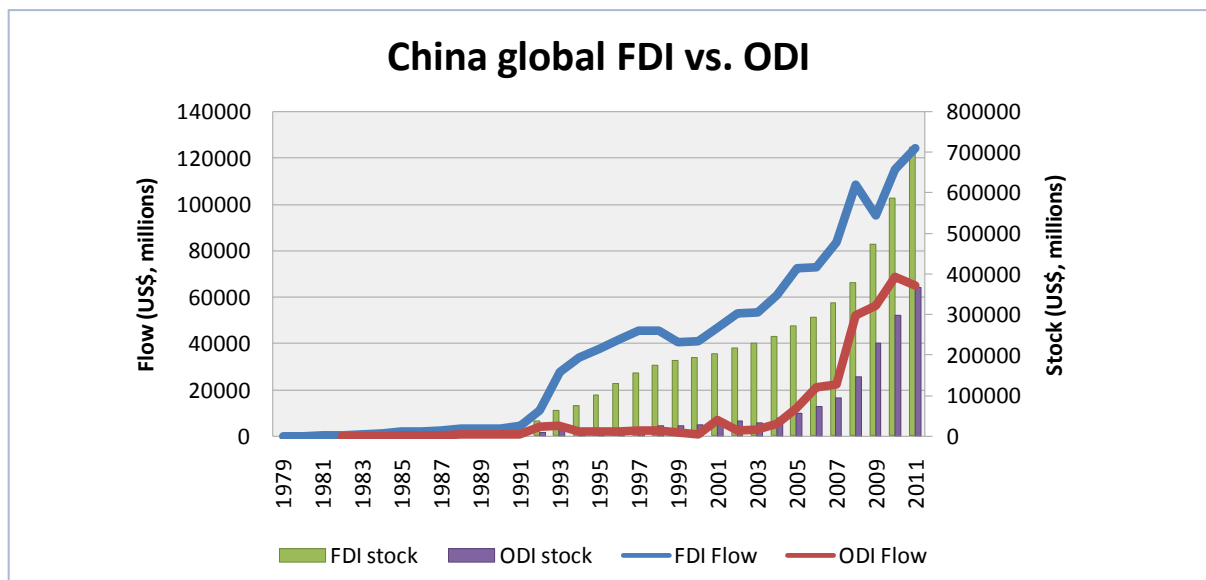
Since market reforms began in 1978, and particularly since the 1990s, there has been a large and fairly constant stream of FDI from other countries into China which contributed to its economic growth. Chinese ODI on the other hand remained relatively small for much of this period, yet in recent years there has been a notable increase and ODI has become a prominent component of Chinese Government strategy. As stated in China's 12th Five Year Plan: "China must adapt to a more balanced growth model, in which we place equal stress on imports, exports, attracting foreign capital and promoting outbound investments, instead of the current dependence on exports and foreign capital."¹

In this section we examine publicly available data to see how much ODI from China there is, where it is going, and what are the characteristics of China-EU investment.²

3.1 China FDI vs. ODI³

It can be seen from the chart below that while FDI into China has been growing since the beginning of the 1990s, it was not until the early 2000s that ODI from China to the rest of the world notably rose and then not until the middle of that decade that a significant increase was seen.

Figure 1: China to rest of world FDI (into China) vs. ODI (out of China), flow and stock, US\$, millions, 1979 to 2011⁴



¹ The National People's Congress, 2011, 12th Five-Year Plan, "Part XII: Mutual beneficial and win-win, improving the opening up"

² Within this study, 'China' refers to the Chinese mainland, excluding Hong Kong, Macau and Taiwan. The 'European Union' or 'EU' is used interchangeably with 'Europe' unless specifically defined otherwise. All these terms refer to the 27 member states of the EU (EU27) in existence up to the end of 2012 unless the historical data predates 2007. To note, from 2004 to 2006 the EU had 25 member states (EU25) and from 1995 to 2004 had 15 member states (EU15).

³ There are considerable differences between official data sources for FDI/ODI data. In this section UNCTAD, the National Bureau of Statistics of China, and EUROSTAT are all used where most appropriate with unofficial sources utilised where necessary. For more information, see section 3.8 in this paper.

⁴ UNCTADstat, extracted 14th November 2012.

According to data from the United Nations Conference on Trade and Development (UNCTAD), China's ODI flows in 2011 were USD 65 billion and total ODI stock had reached USD 366 billion.⁵ Chinese Government information states that, by the end of 2011 more than 13,500 Chinese enterprises had established over 18,000 overseas enterprises in 177 different countries across the world.⁶

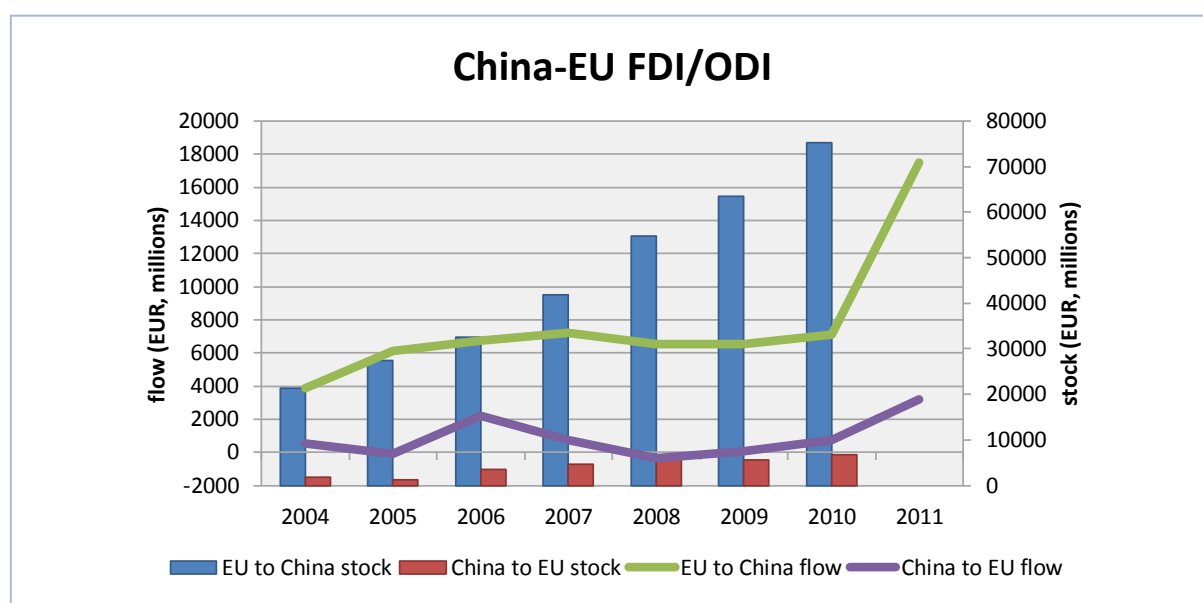
The Chinese Government has put in place a number of targets relating to ODI for the period of the 12th Five-Year Plan (2011-2015).⁷ These include:

- ODI will increase at an annual rate of 17% and will total USD 150 billion in 2015;
- The amount of China's overseas contracted projects will reach USD 180 billion and turnover will be USD 120 billion by 2015, with an annual growth rate of 6%;
- 550,000 Chinese nationals will go to work overseas during 2012, with the total number being over one million by the end of 2015.

3.2 Destination of Chinese ODI globally and to the EU

According to Chinese Government data, 72% of Chinese ODI during the period of 2004-2010 went to Asia and the vast majority of this (87%) goes to Hong Kong.⁸ It is likely that a significant proportion of this is in fact being routed from China through Hong Kong for structural reasons with the final destination being elsewhere.⁹ According to these figures, just 5% went to Europe.

Figure 2: China and Europe FDI/ODI, flow and stock, millions of Euros, 2004 to 2011¹⁰



5 UNCTADstat, extracted 14th November 2012.

6 Ministry of Commerce, 30th August 2012, MOFCOM, the National Bureau of Statistics and SAFE jointly announce the 2011 Annual Statistical Bulletin of China's foreign direct investment.

7 The Central People's Government of the People's Republic of China, 15th May 2012, MOFCOM identifies the major tasks and priorities for foreign investment during the 12th Five Year Plan period.

8 National Bureau of Statistics of China, 2011, Annual Report 2011. ('Europe' from this source includes Russia and other non-EU27 countries from the Greater Europe area.)

9 See section 3.8 within this study for more details on this.

10 EUROSTAT, extracted 14th November 2012. The 2011 data here for investment flow are noted as preliminary figures by EUROSTAT.

According to this data, in 2011 EU FDI flow to China amounted to EUR 17.5 billion and Chinese ODI flow to the EU totalled EUR 3.2 billion.¹¹ This would mean that mainland Chinese investments only counted for 1.4% of total ODI into the EU in 2011, whereas the EU accounts for around 20% of investment into China.¹²

3.3 EU member states as recipients of Chinese ODI

Chinese ODI to the EU is unevenly distributed between the 27 member states but there are considerable differences between relevant data from official EU and China government sources. For example, a disproportionately large amount is recorded by Chinese government sources as going to Luxembourg (USD 5.8 billion in 2010; three to four times as much as to Germany),¹³ due to the business environment that encourages the establishment of holding companies there, with the actual investment going to a different country.

Unofficial data for the period of 2000-2011 ranks France, the UK, Germany and Sweden (in that order) as the largest recipients of Chinese ODI in terms of investment value, and Germany, the UK, France and the Netherlands (in that order) the largest in terms of number of deals.¹⁴

3.4 Sectors invested in by Chinese enterprises in the EU

With regards to which sectors are most frequently targeted by Chinese investors in the EU, unofficial sources rank communications equipment and services, industrial machinery, and equipment and alternative/renewable energy as the most frequently invested sectors in terms of deal numbers. In terms of investment amount, chemicals, plastics and rubber, utility and sanitary services, and automotive original equipment manufacturers (OEM) and components are the largest recipient sectors.¹⁵

3.5 Size and type of Chinese ODI

Chinese ODI to the rest of the world by value sees slightly larger total amounts in Greenfield investment than M&A (in 2011, USD 39.7 billion for Greenfield and USD 34.4 billion for M&A). In terms of number of deals for China and the rest of the world, many more Greenfield transactions are conducted than M&A deals. From 2005 to 2011, there were 1,867 outbound Greenfield investments versus 603 M&A deals.¹⁶

11 EUROSTAT, extracted 14th November 2012.

12 European Commission, 2012, *Fact and figures on EU-China trade*.

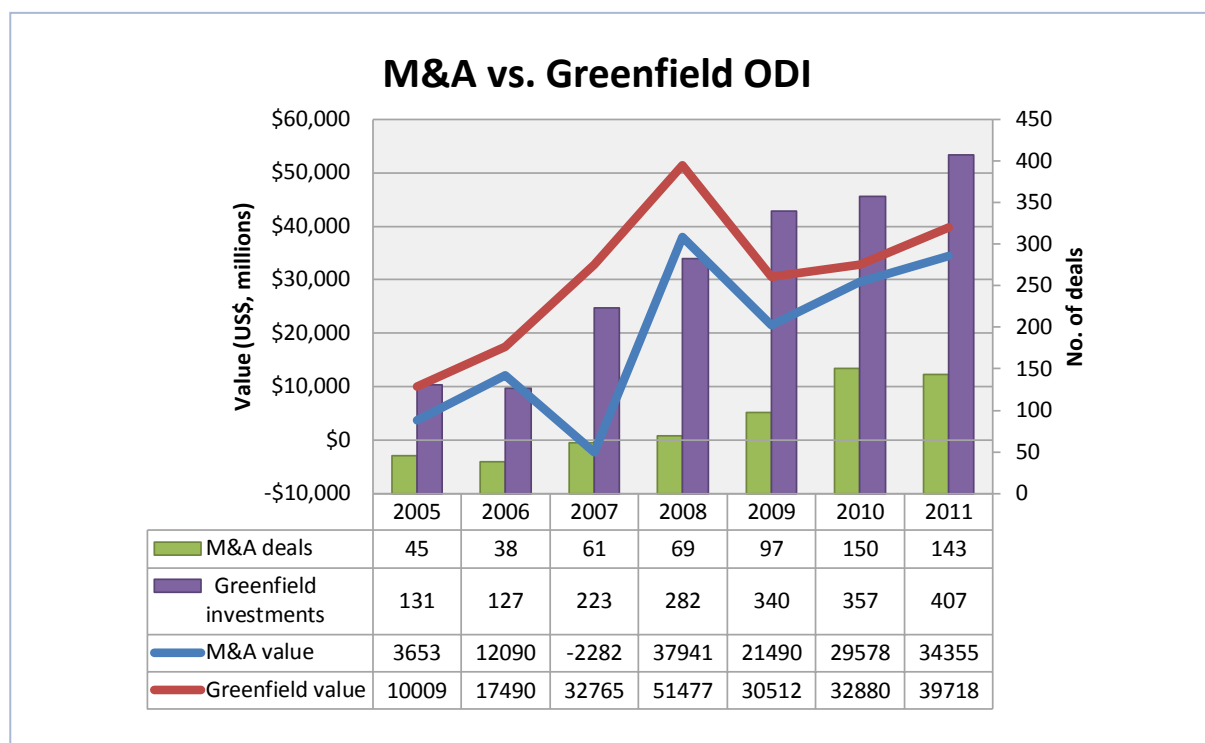
13 National Bureau of Statistics of China, 2011, *Annual Report 2011*.

14 Hanemann and Rosen, 2012, *China Invests in Europe*.

15 Hanemann and Rosen, 2012, *China Invests in Europe*.

16 UNCTAD, 2012, *World Investment Report 2012*.

Figure 3: Value and number of deals, cross-border M&A and Greenfield, China to rest of world, 2005-2011¹⁷



For China to EU-specific data on this we have to turn to unofficial sources: It is calculated that from 2000-2011, the EU27 received 428 Greenfield investments and 145 mergers or acquisitions of a value of more than USD 1 million.¹⁸

3.6 SOEs and POEs as outbound investors

In terms of ownership status of Chinese investors in the EU for the period 2000-2011, it is estimated that SOEs accounted for 72% and POEs 28% of investment amount. However, in terms of deal numbers, POEs are responsible for 63% and SOEs 37%.¹⁹

3.7 Key conclusions

Based on the above information, the following conclusions can be drawn:

- Chinese ODI has been growing steeply since the early-2000s and is targeted by the Chinese Government to continue increasing in the coming years, however it still remains low in comparison to other major countries and regions;
- ODI from China to the EU has been growing in the same period with much of this concentrated in Western Europe;
- There have been more Greenfield investments than M&A deals, but the proportion of M&A deals has increased;
- SOEs account for a larger amount of investment value, but POEs account for a larger number of deals.

¹⁷ UNCTAD, 2012, *World Investment Report 2012*.

¹⁸ Hanemann and Rosen, 2012, *China Invests in Europe*.

¹⁹ Hanemann and Rosen, 2012, *China Invests in Europe*.

3.8 A note on the measurement of Chinese ODI

The accurate measurement of Chinese ODI is complicated for a number of reasons. Various different sources from the public and private sector in China, Europe and elsewhere record and share such data but the methodology varies. UNCTAD provide an annual overview of international FDI flows, the Chinese Government (National Bureau of Statistics) provide China-specific investment data and the EU provides Europe-specific data (EUROSTAT). In addition, various other private enterprises provide databases that monitor investment activities on a deal-by-deal basis.

Between these different sources, there are differences (sometimes major) in the results produced and it should be noted that some aspects of this are common globally with the measurement of FDI/ODI and not specific to China.

Variations occur in the minimum value of an investment recorded as well as the minimum percentage of equity of the entity invested in to be regarded as FDI. Complications also arise when taking account of flows routed through various offshore centres for structural reasons. For example, UNCTAD ranks China behind Hong Kong in terms of investment outflows, yet it is known that much mainland Chinese ODI will be routed via Hong Kong. Also Luxembourg is ranked by Chinese government sources as by far the largest recipient of ODI within the EU because of its encouragement of certain business structures.²⁰ There are major discrepancies between Chinese and European data on the receipt of Chinese ODI by different EU27 countries for 2011.

Other papers are available which give a more detailed analysis of this issue. For this study, data from UNCTAD, the National Bureau of Statistics of China and EUROSTAT are all used where most appropriate. Unofficial sources are used and sourced where official data is not available.

FDI/ODI definitions

Foreign direct investment (FDI) “refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor’s purpose is to gain an effective voice in the management of the enterprise.”²¹

Outbound direct investment (ODI) (or outbound foreign direct investment) is different from FDI only in that it represents the investment flow out of a country as opposed to the investment flows in to a country.

²⁰ See UNCTAD, 2012, *World Investment Report 2012*, (see data on proportion of investment going into holding companies (p41).

²¹ UNCTAD, *Foreign Direct Investment (FDI)*, viewed 23rd October 2012.

4. Study background

4.1 Survey

The basis for this study is a uniquely compiled questionnaire of 20 questions. The criteria for targeted respondents were enterprises originating from mainland China with experience of completing at least one investment in an EU country.

In total, 74 surveys were completed over the period of August to November 2012. The respondents were approached using the networks of the European Chamber and the partner organisations of the study.

4.2 Interviews

In addition to the questionnaires, qualitative information was gathered from a number of face-to-face interviews with senior figures from Chinese enterprises (either with or without experience of investing in the EU), from Chinese government bodies with scope over ODI, representatives of European investment promotion agencies in China, and with other figures from European companies in China involved in facilitating such investments. The interviews were seeking to dig deeper on the main themes that shape this study: investment strategy, EU FDI environment, Chinese ODI policy, future outlook and recommendations.

The rationale of interviewing Chinese enterprises that had not directly invested in the EU (either having abandoned EU deals or having just decided to invest elsewhere) was done with the intention of trying to counterbalance any bias that may occur from surveying only enterprises that had already invested in the EU.²²

Fourteen face-to-face interviews took place which were between one and two hours and were conducted by the members of the study project team over October and November 2012.

4.3 Respondents' profile summary

Full details of the 74 respondents can be seen in section seven, but key points are summarised here.

The profile of the survey respondents in China is:

- Representative of a wide range of sectors;
- Roughly two-thirds state-owned and one-third private;
- Approximately two-thirds listed and one-third unlisted;
- Large in terms of number of employees and revenue.

Their profile in the EU is:

- Investments concentrated in Western Europe;
- The majority having a relatively small presence in terms of employees and size of investments;
- Greenfield investment being more common than M&A or other means;
- Approximately half having invested in the past five years with the other half six years or more.

²² All findings presented here are based on the answers given by the respondents in the questionnaire and interviews. There may be a degree of inherent *survivor bias* in the answers in that those enterprises surveyed were those that had successfully completed investments in the EU.

5. Findings

This section presents the unique data we have gathered through questionnaires and interviews that were conducted with Chinese enterprises.²³

The findings are analysed as follows:

- 5.1 Strategy
- 5.2 EU FDI policy and approval processes
- 5.3 EU operating and non-regulatory environment
- 5.4 Recommendations to EU authorities
- 5.5 Chinese ODI policy and approval processes
- 5.6 Recommendations to Chinese Government
- 5.7 Future outlook and strategy

5.1 Strategy

Presented in this section are the results gathered related to the strategy of Chinese investors in Europe. This includes the general perception of the EU, rationale for investing there, and how the 27 EU nations are differentiated and chosen as the preferred destination.

5.1.1 Why look outside of China?

In terms of what motivates Chinese enterprises to look outside of their home market in the first place, the main reasons cited during interviews were predominantly related to increased domestic competition. This led them to a) seek new markets for sales and/or b) become more competitive by acquiring new technologies, brands or expertise. It was also noted in an interview that Chinese enterprises may look to internationalise in order to differentiate themselves from other domestic market players and therefore avoid forced industry consolidations driven by the Chinese Government.

There are also large variances between different sectors, and this results in substantially different strategies. Chinese enterprises in industries such as automotive or fashion do not necessarily feel the pressure to invest overseas since they are selling to a large and growing market at home. They may also feel that they are unable to compete with European companies in these sectors in Europe, for example fashion brands in Italy or car manufacture in Bulgaria.

“China has a number of leading IT & Telecommunications enterprises that are capable of competing in the European market on the strength of their products, however this is not the case for Chinese auto-components enterprises where they need to start small and gradually build up the capacity to compete in overseas markets.” – respondent enterprise.

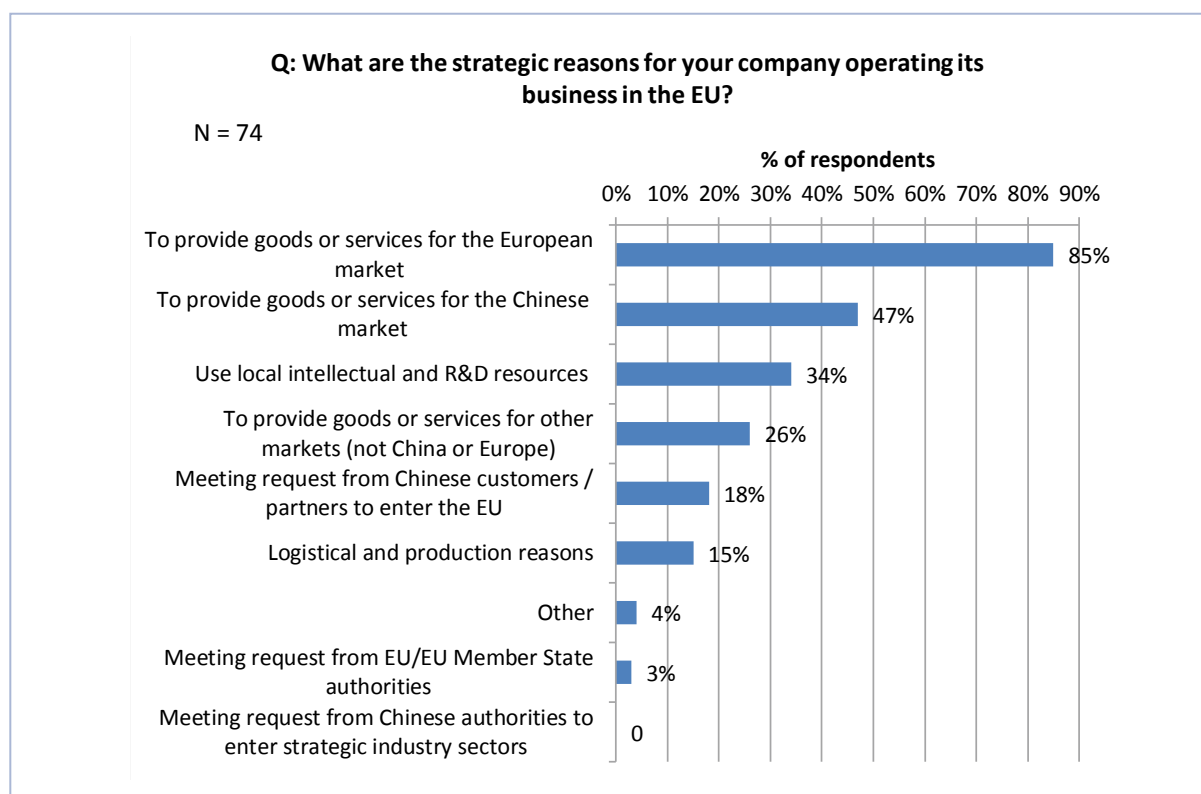
5.1.2 Motivations for investing in the EU

If, then, a Chinese enterprise is motivated to invest overseas, what attracts them to invest in the EU? Survey answers to this question show:

- 85% indicate that the main reason for investing in EU is to gain market share in Europe and to provide goods and services within the EU market;
- The second most frequently indicated response (47%) was to provide goods and services to the Chinese market;
- One quarter have invested in the EU in order to service markets other than China or Europe;
- More than one third cite the attraction of intellectual and R&D resources as a reason for investing in the EU.

²³ In the results presented here, there may be minor discrepancies for those figures where percentages should total 100%. This is owing to rounding percentages to the nearest whole number. Respondents were free to skip questions if they wished. Where a respondent provided no answer or selected “don’t know”, it is discarded from the results presented here unless stated otherwise. The number of respondents to each question is indicated in the charts by “N=X”.

Figure 4: Reasons for investing in the EU²⁴



There are different motivations for Chinese enterprises to invest in the EU, but what is indicated in our findings is that currently the majority of Chinese enterprises are entering the Europe market with sales-driven motivations, i.e., to sell their goods and services in a region with over 500 million relatively affluent consumers and therefore they are in Europe, for Europe.

This is supported by our respondent profile data that shows that the majority of investors have so far made mostly smaller investments in line with what would be, for instance, required to establish sales offices.

Larger investments would occur (and particularly M&A investments) when the Chinese entity wants to acquire advanced foreign technologies, brands or expertise, or to establish manufacturing or research and development (R&D) capabilities. This is indicated by nearly one half reporting that they are in Europe to support their sales in the Chinese market and with one third motivated by the intellectual and R&D resources available.

5.1.3 Destination and rationale

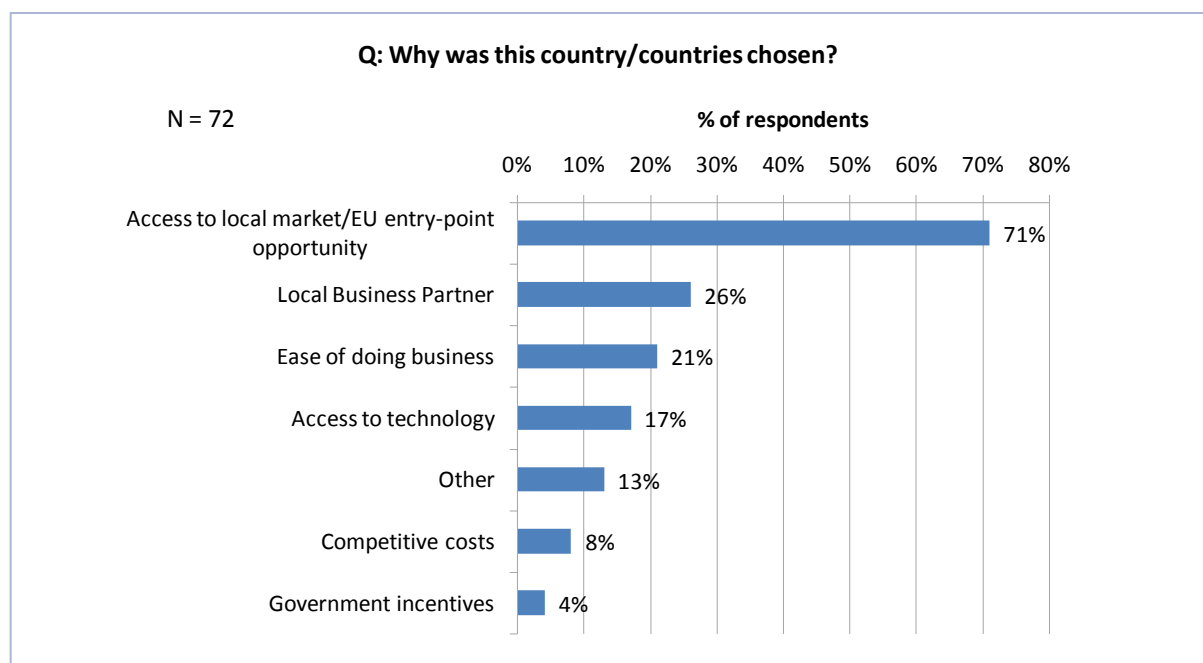
Once the decision has been made to invest in the EU, how is a specific country selected as the destination of preference?

As can be seen in the respondents' profile section of this paper, the preference of respondents to this survey is to invest in the Western European nations, led by Germany, France, Italy, the Netherlands and the UK.²⁵

²⁴ Written responses where "Other" was selected: "Expand company footprint", "According to the agreements reached by the national governments and EU", "tax refund and visa".

²⁵ The official data on this differs considerably between the Chinese and EU official sources so it is difficult to find a reference point to see if this is in line with actual investment flows. However, during interviews with government and private sector professionals it was widely agreed that Germany is perceived as the largest recipient in terms of deal numbers with the UK and France generally receiving fewer deals but typically of higher value.

Figure 5: Reason for choosing a destination country within the EU²⁶



Different EU countries are perceived as offering different strategic advantages in terms of the business environment they offer. How Chinese enterprises target which country to invest in tends to come down to a number of factors:

- a) Access to local market;
- b) Presence of a local business partner;
- c) Availability of certain technologies;
- d) Availability of skilled labour;
- e) Tax regime as well as availability of incentives and supportive policies;
- f) Logistical reasons;
- g) Cultural and language factors.

Nearly three quarters of respondent enterprises cite access to the local market and/or entry point to the EU as the reason for choosing the country that was invested in. This is in line with the commercial sales-driven motivations for investing in Europe as noted in the section above. It was commented on in interviews that for enterprises that had made the strategic decision to enter the EU market via M&A, the destination may be more opportunistic and based on asset price as opposed to a careful consideration of the advantages and disadvantages of each country.

“The financial and economic crisis in Europe made it cheaper to enter.” – respondent enterprise.

Having a local business partner in a specific EU country was cited by more than one quarter of respondents. Some cited that they invested in certain EU countries because of the cooperation they had established with the European players in that market: large Chinese investors in the UK and France both cited this as a major factor during interviews.

²⁶ Written responses where “Other” was selected: “Operational needs”, “Convenience”, “The dominant position in the market, and mature food processing technology”, “Good investing environment”, “Set up necessary sales outlets”, “according to the requirements of our clients”.

The availability of certain advanced technologies and labour with specific skills is certainly a factor. For instance, EU27 countries that have strong domestic industries in specific sectors will tend to be successful in attracting Chinese enterprises in that same industry. This was cited for countries such as Sweden for telecommunications, the UK for financial services and high-technologies, Germany for manufacturing, electronics and automotive, the Netherlands for logistics etc.

Few enterprises cited that government incentives were a factor in answering the above question but during interviews it was stated that prospective investors will examine the local policies, tax regime, and look at available incentives. This was one of the common themes of recommendations by Chinese enterprises to European authorities: better incentives, and often related to tax (see section 5.4).

Logistical reasons were cited as a factor, and particularly relevant in choosing a certain city to locate in within a country. Certain cities with sea ports, such as Rotterdam and Hamburg, are reported to have been disproportionately successful in attracting Chinese investments.

Cultural reasons are a significant factor, such as the presence of a Chinese diaspora in that country, as well as the amount of Chinese students and the level of Chinese tourism.

“They send their children there to study and then, after visiting, decide to invest there.”– paraphrased response from Chinese Government official discussing how some Chinese investments into Europe have been initiated.

Language issues are a factor with the EU27 having 23 different official languages. The capacity of a population to speak English was cited as a factor, since other EU languages are less widely studied and spoken in China. Further to this, having Chinese investment is perceived to have a snowball effect of attracting more Chinese investors as certain clusters develop where, for instance, certain service providers develop expertise in aiding Chinese investment and offer services in Chinese. In addition, Chinese schools and cultural centres may be developed. Vancouver, Canada was cited as a non-European city that has been especially effective in developing a Chinese cluster with commercial and residential facilities targeted at an overseas, Chinese population.

Various EU countries have established investment promotion agencies in China that seek to encourage Chinese investment and, to some degree, compete for it with other EU nations. It was noted by an interviewed Chinese official that the establishment and activities of these agencies by certain countries has been a significant factor in encouraging investment to those specific nations. The role of these agencies is to promote the advantages of their countries and to offer support to enterprises looking to invest in terms of information or assistance with administrative procedures. It was indicated in interviews that those EU countries doing this most effectively have been disproportionately successful in attracting ODI from China.

5.1.4 Perceptions of the EU investment environment

The overall perception of the EU as communicated during the interviews is that it is a safe and stable place to invest, with a transparent and predictable legal environment, social stability, trusted brands, advanced technologies and an educated workforce. Chinese companies are confident about the long-term prospects of their investments there, which were contrasted with regions such as Africa and Southeast Asia.

The difficulties of investing in Europe are discussed in the coming sections of this paper but it was remarked by a Chinese enterprise that for social stability to remain, despite the high levels of unemployment seen in some EU nations in recent years, is an impressive achievement which could not be replicated in all other regions. They further commented that if China were dealing with the high unemployment rates recently seen in some European nations there would likely be a huge stability issue.

As part of the survey respondents were asked to compare their perception of the business environment for foreign investment in the EU with that of other major regions. There were a reduced number of answers as respondents did not necessarily have experience of investing in these areas. Those that did respond indicated that the EU is regarded as more or less the same as the other more developed regions such as Australasia and North America, and regarded as

slightly less welcoming than the developing regions of the Middle East, Africa and Latin America. The notable exception to this is Southeast Asia, which is regarded as having a less favourable environment for Chinese enterprises than the EU.

Figure 6: Respondents' perception of the business environment for Chinese investment in the EU in comparison with other major regions²⁷

Region	EU is more favourable	EU is less favourable	EU is the same
Africa	15%	85%	0%
Australasia	11%	26%	63%
The Middle East	15%	69%	15%
Latin America	31%	56%	13%
North America	33%	21%	45%
Southeast Asia	48%	28%	24%

5.1.5 Key Conclusions

The main findings of this section can be summarised as follows:

- The EU is perceived as a stable investment environment with strong technologies, skilled labour and a transparent legal environment. In addition, it is a large consumer market in itself for the goods and services of Chinese enterprises;
- Most Chinese enterprises who have invested in Europe to date are looking to invest there to pursue the region as a sales market;
- Chinese enterprises are increasingly looking to acquire certain technologies, skills and brands to make them more competitive, both at home and in overseas markets, in line with the goals of the *12th Five-Year Plan*;
- The EU's investment environment is generally regarded as being similar to other major developed regions by Chinese investors, yet is perceived as slightly more favourable than North America and Southeast Asia;
- Destination within Europe is decided according to various factors such as the local market for sales, having a local business partner, availability of technologies and labour, the tax regime and logistical factors;
- The different 27 member states of the EU are differentiated according to their business environment and industry strengths as well as soft factors such as language and presence of a Chinese diaspora.

5.2 EU FDI policy and approval processes

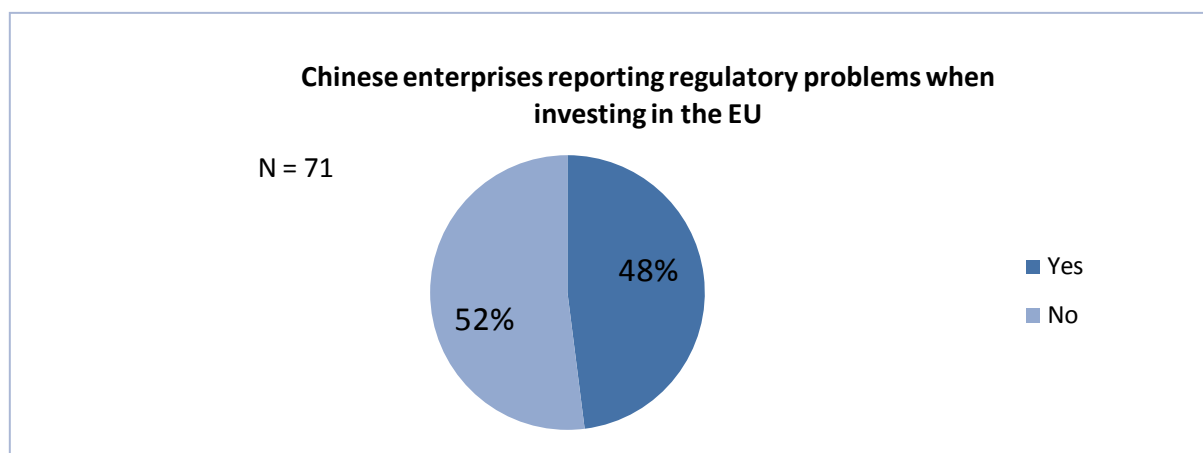
The results presented in this section are related to the FDI policy environment and investment approval processes in the EU as perceived by Chinese investors.

5.2.1 Regulatory obstacles

Just under half of respondent enterprises indicated that they had encountered regulatory problems when investing in the EU, with 52% of respondent enterprises replying that no such issues had been encountered.

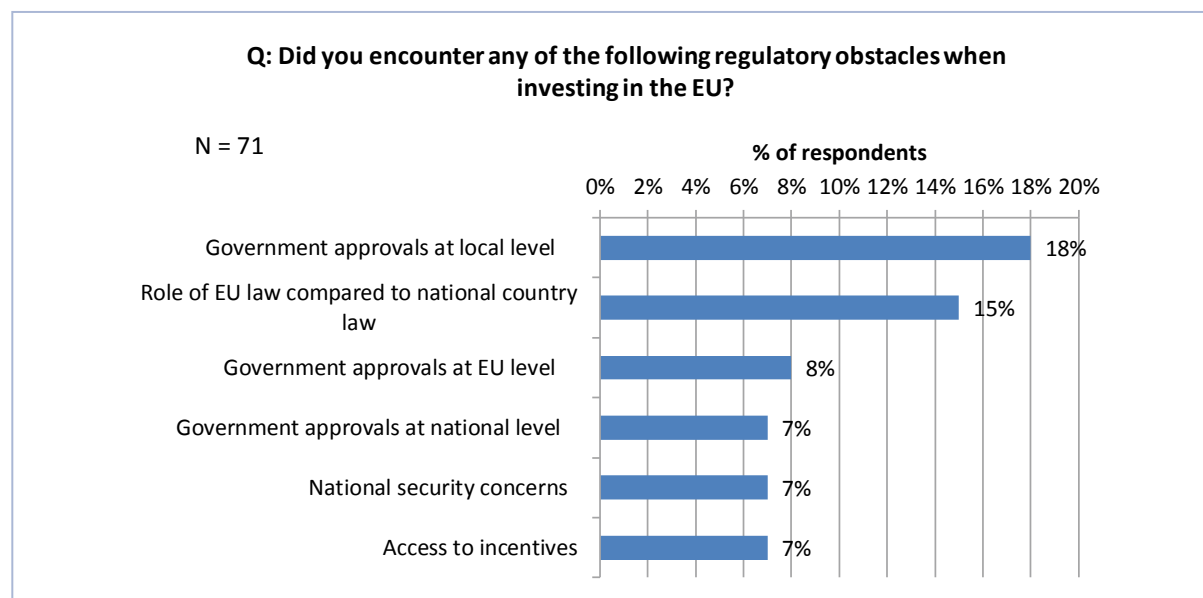
²⁷ Question: "If you have invested in any of the below regions, how do you feel the investment environment there for Chinese enterprises compares with that of Europe?" Response rate: Africa: N=20, Australasia: N=19, the Middle East: N=13, Latin America: N=16, North America: N=33, S.E. Asia: N=25.

Figure 7: Respondents reporting regulatory problems when investing in the EU



Of the 48% that reported regulatory obstacles, it was most commonly cited that this occurred at local level: nearly one fifth identified this as an obstacle.

Figure 8: Regulatory obstacles encountered when investing in the EU



The general impression of the EU investment environment, as communicated in interviews, is that it is perceived as open and welcoming of Chinese investments. It was stated that difficulties in the approval process are rare for Chinese companies and the EU compares favourably with the US and Australia where Chinese investments have met with opposition on the grounds of national security. This may sometimes be related to the different nature and target sectors for investment in Europe compared to these regions though.

"We have not encountered the opposition on the grounds of national security in the EU which we have in the US and other regions." – respondent enterprise.

Only a small percentage regarded government approvals at EU or national level as an obstacle, with a larger percentage reporting difficulties at the local level as being more common.

The responsibility for EU investment policy lies with the EU institutions since the *Lisbon Treaty* came into effect in December 2009. The EU has no unified inbound investment approval process but some member states have their own security reviews for investments meeting certain criteria. For example, Germany, France and the UK have official national security reviews which are instigated when an investment is directly related to national security (e.g. defence), or when it is over a certain value.²⁸

From the results presented above, only a small number (7%) report encountering national security concerns. Of these enterprises, the majority (80%) were from the IT & Telecommunications sector. During interviews, it was stated by both Chinese Government and investors that any moves to create an EU-level national security review for inbound investments to Europe would be opposed as it would be feared that it would make the approval process more difficult.²⁹

One interesting point is that, while the EU has few market access restrictions on foreign investment and has no such concept of a foreign-invested enterprise (FIE) like in China, a number of respondents stated that they believe the EU market could be further opened for foreign investors (see section 5.4). It was also stated in interviews with Chinese enterprises that they felt it would be useful if the EU could communicate more clearly which sectors are open to foreign investment and which are not, and even suggested that an EU equivalent of the Chinese Foreign Investment Catalogue³⁰ would be useful. This was further supported by European investment promotion agencies who stated that this is a common question when talking to potential investors in China.

The EU does preside over a unified competition policy which has the capacity to investigate any mergers and acquisitions that have the potential to undermine fair competition. This is instigated if the annual turnover of the combined businesses in a merger or acquisition exceeds specified thresholds in terms of global and European sales. If so, the proposed transaction must be notified to the Directorate-General (DG) for Competition at the European Commission, which will examine it. Below these specified thresholds, national competition authorities in the EU Member States may review the merger.³¹

There have only been a small number of deals involving Chinese enterprises that have been reviewed by DG Competition. One state-owned respondent to our survey commented that the administrative requirements when undergoing an EU anti-trust examination were burdensome to the point of discouraging future investment:

"The in-depth investigations conducted by the European Antitrust Commission on Chinese SOEs will inevitably bring huge challenges to the antitrust declaration work of Chinese companies, and severely influence the investments from Chinese companies to Europe. We suggest that the barriers of the antitrust investigations should be lowered." - respondent enterprise.

However, it should be noted that DG Competition examines Chinese SOEs in the same way as SOEs from Europe or anywhere else in the world in attempting to determine whether the enterprise can be considered as having independent decision-making power or whether this lies with an entity above them such as a government body.

²⁸ As of 1st December 2009, investment policy was moved from being the responsibility of EU member states to being the exclusive competence of the EU under what was agreed in the *Lisbon Treaty*. According to the European Commission, the identified strategy is "to make the EU more attractive by extending and deepening the single market, ensuring open and competitive markets inside and outside Europe, improving European and national regulation, and expanding and upgrading Europe's infrastructure and its scientific base." European Commission, 2012, *Foreign Direct Investment*.

²⁹ This is not something that is being officially considered by the EU authorities but has been raised in the public sphere through, for instance, various academic papers and politicians in Europe.

³⁰ MOFCOM and NDRC, 29th December 2011, *Foreign Investment Industrial Guidance Catalogue*. The *Catalogue* classifies whether foreign investment in certain sectors is "encouraged", "restricted" or "prohibited". It is used as a tool to ensure that FDI into China is consistent with government policy.

³¹ European Commission, DG Competition website, viewed 28th November 2012.

With regards to future investment ties, the EU and China are currently preparing to launch negotiations for an EU-China investment agreement, which would supersede the existing bilateral agreements in place between the EU member states and China.³²

5.2.2 Key conclusions

The main findings of this section can be summarised as follows:

- The EU is generally perceived as open to Chinese and foreign investment, although nearly half of Chinese respondent enterprises cited encountering obstacles in the investment approval process; this was the case particularly at local level;
- Opposition to Chinese investment on the grounds of national security is rare in the EU, especially in comparison to other major developed regions.

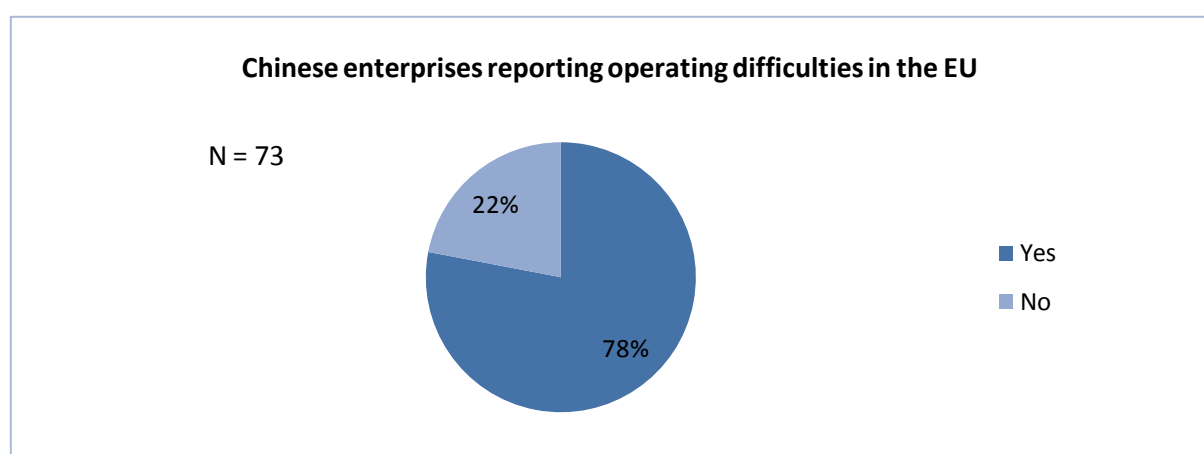
5.3 EU operating and non-regulatory environment

Responses relating to the experience of operating in the EU, with analysis of difficulties encountered are examined in this section.

5.3.1 Operating difficulties

The reporting of encountering operating difficulties on the ground in the EU is notably higher than those reporting issues relating to approvals and market entry in the previous section.

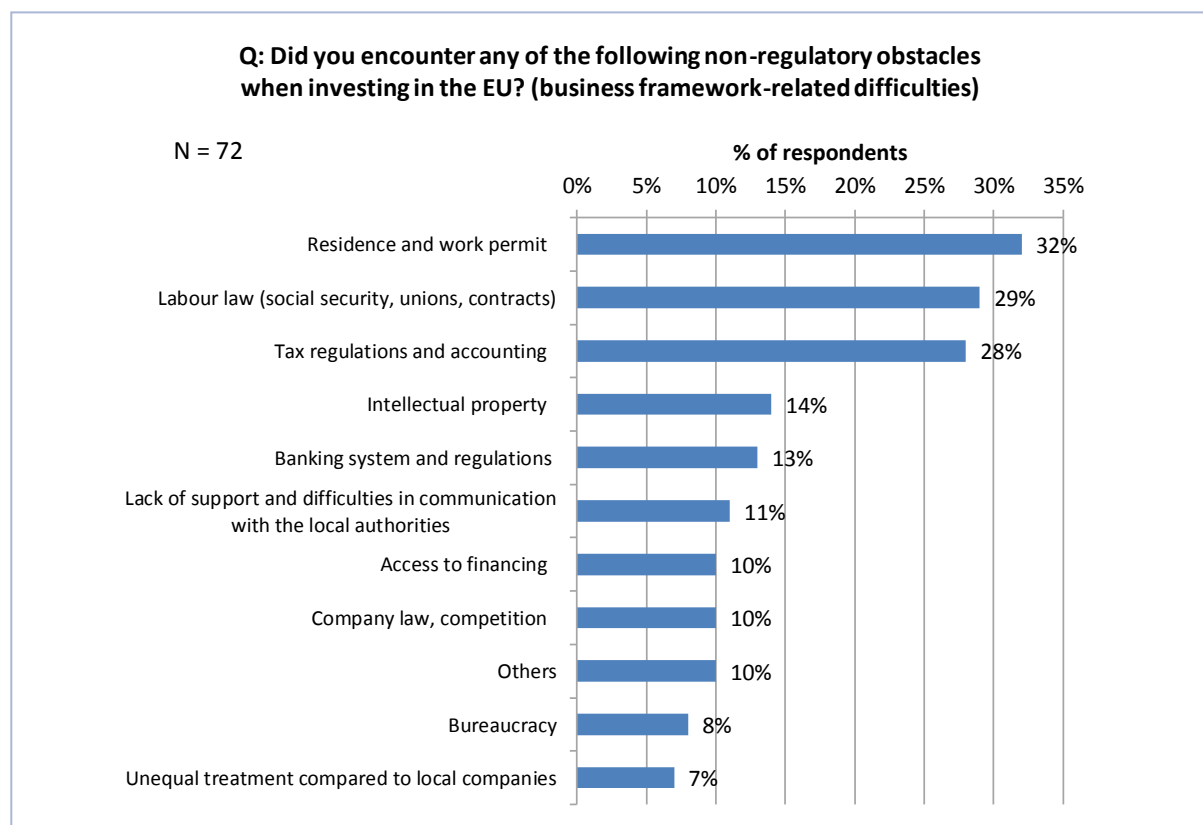
Figure 9: Respondent enterprises reporting of operating difficulties in the EU



78% reported having encountered at least one of the operating-related issues listed in the below two charts (figures 10 and 11) once established in the EU.

³² There are currently 25 bilateral investment treaties between the EU member states and China, with one of these treaties covering two EU nations.

Figure 10: Business framework-related difficulties encountered in the EU³³



5.3.2 Business-framework related difficulties

The most common operating obstacles indicated by respondents are:

- a) Residence and work permit;
- b) Labour law (social security, unions, contracts);
- c) Tax regulations and accounting.

a) Residence and work permits

The issue of visa, residence and work permits for Chinese employees of enterprises that are investing in the EU was persistently raised, with around one third citing it as an obstacle.

“Currently transferring knowledge from the parent company in China is difficult due to difficulties in temporarily transferring staff to Europe.” – respondent enterprise.

In reports produced by Chinese government agencies it is commented that some EU nations require “Chinese business people to submit a variety of documentary papers, many of which are simply not required for staff sent from other countries. Such practices have in effect impeded the investment from Chinese businesses in the EU Member States.”³⁴

It was stated in interviews that this is particularly an issue in the early stages of investment when Chinese management is required to be in Europe to oversee new operations. It becomes less of an issue over time as the enterprise looks to

³³ Written responses where “Other” was selected: “Inconsistency of policy incentives in Bulgaria”, “Trade protectionism”, “The tender project was ruled out for the safety reasons in the first round”.

³⁴ MOFCOM, 2010, *Foreign Market Access Report 2010*

become more localised and rely less on expatriate staff from China.

b) Labour laws

Labour laws were also regarded as an obstacle to Chinese investment in the EU by nearly one third of respondents. This is particularly relevant in M&A cases where such laws maybe hinder planned restructurings and are perceived by some Chinese enterprises to be inflexible.

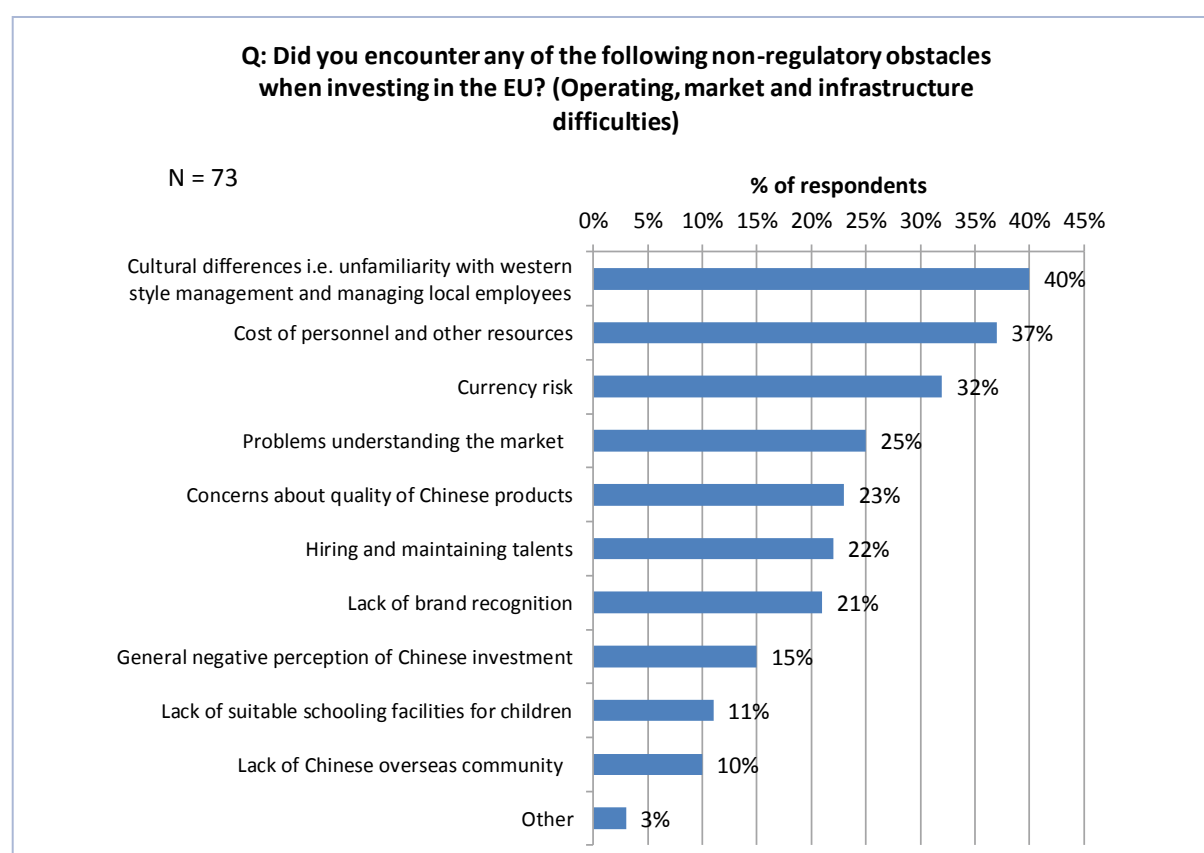
"Labour laws are the key issue. Lack of labour market flexibility and working hours are hard to cope with, especially in France. Taxes on labour are very high too. This is probably a cultural issue that we need to adapt to."³⁵ – respondent enterprise.

More than one of the European investment promotion agencies consulted commented on difficulties arising from a lack of experience of Chinese enterprises in dealing with labour unions. One anecdote was given of the bemusement of a senior Chinese company representative being required to deal with employee representatives in a discussion about where to place a coffee machine in an office.

c) Tax regulations

Tax regulations and accounting were regarded as an issue by about one quarter of respondents. Respondents commented on the different tax and accounting rules from those enforced in China.

Figure 11: Operating, market and infrastructure difficulties encountered in the EU³⁶



³⁵ Paraphrased response based on interview.

³⁶ Written responses where "Other" was selected: "political uncertainties in China", "People need to know French if they want to obtain a driving license in France, which is a language obstacle for English-speaking staff in multinational corporations".

5.3.3 Operating, market and infrastructure difficulties

The most commonly cited obstacles when answering the above question can be grouped as below:

- a) Human resource (HR)- related difficulties
- b) Currency risk
- c) Perception and image of Chinese enterprises

a) Human resource-related issues

A number of the most commonly cited issues can be grouped together as relating to HR. This includes cultural differences in terms of management style, personnel cost, and issues with hiring and retaining the right staff. Management style-related issues would particularly be an issue in M&A cases.

Other cultural issues cited include issues relating to overseas Chinese community and suitable schooling facilities, although this is mentioned as an obstacle by a minority.

b) Currency risk

This is identified as an obstacle by nearly one third of enterprises. When broken down by EU country of investment, it can be seen that this is particularly relevant for certain countries. Enterprises with investments in the Netherlands, France, Italy, Belgium, the UK and Poland were all disproportionately likely to cite currency risk as being an obstacle. On the other side, enterprises based in Germany, Romania, Spain, Hungary, Sweden and Greece were all disproportionately unlikely to state this.³⁷

c) Perception and image

Nearly one quarter cited concerns about the quality of Chinese products, one fifth cited lack of brand recognition and one sixth stated being on the receiving end of a general negative perception of Chinese enterprises.

5.3.4 Key conclusions

- Whilst the EU is regarded as being relatively welcoming of investment, operating there is regarded as fairly difficult;
- A number of key obstacles relate to HR: this includes obtaining visas and work permits for Chinese employees, dealing with labour laws, costs and cultural differences in management style. In addition, a lack of internationally experienced Chinese talents was noted, but this would not be an EU-specific issue, but rather affecting Chinese ODI globally;
- Understanding various operating regulations such as tax laws are an issue;
- A significant minority state that some aspect about how they are perceived as a Chinese enterprise in Europe is an obstacle.

5.4 Respondents' recommendations to the EU authorities

Responses given to the question, "**What would you recommend to the European authorities to encourage greater inbound investment?**" A number of key themes emerged in the answers given which are presented here in the order of most frequently stated coming first.³⁸

a) Provide tax incentives

It was commonly stated that the establishment of tax incentives and preferential policies to lower costs would work to encourage greater future investment from China.

³⁷ Percentage of enterprises with investments in those countries citing currency risk as an issue in relation to the overall percentage of enterprises with investments in those countries. For instance, whilst 67% of respondent enterprises have investments in Germany, only 43% of respondents citing currency risks have investments there. In contrast, whilst 30% of respondents have invested in France, 41% of those citing currency risks have investments there.

³⁸ The answers provided here are written answers submitted through the questionnaires. Where quotes are used, these are direct quotes. If these were given in Chinese, they have been translated by the European Chamber.

"We hope the European governments can encourage and reward the foreign investment with preferential policies in taxation." – respondent enterprise.

b) Provide better advice and support in relation to the legal environment

Common recommendations focussed on support and advisory services that Chinese enterprises felt would be of assistance in investing in Europe. This included requests for a centralised source of EU27 legal, regulatory and financial information in English, providing regular seminars on issues such as tax and labour law and also providing certain legal and management training for individuals.

"For businesses interested in investing, the local government should give more guidance on the investment environment, finance and tax systems, labour systems and environmental regulations in order to reduce the amount needed to be paid to intermediaries." – respondent enterprise.

c) Relax restrictions on visas and work permits

Recommendations relating to the easier granting of visas and work permits to Chinese employees were common.

"Provide foreign investors in Europe with more preferential visa and residential policies." – respondent enterprise.

d) Relax labour laws

Recommendations were frequently made relating to the relaxation of labour laws. It was noted that in practice this might be easier to enforce just for expatriate employees, rather than local hires.

"Relax labour law requirements and contributions, if not for local employees at least for Chinese employees." – respondent enterprise.

e) Provide preferential policies for HR and R&D expenditure

Other preferential policies were recommended to encourage investment in local HR and R&D.

"Provide tax breaks for Chinese companies setting up R&D centres and hiring local talents (example of Canada)." – respondent enterprise.

f) Simplify approval processes

Recommendations relating to an easier regulatory regime and approval process were made.

"Simplify the process for approval for the Chinese business setting up institutions in Europe and lower the investigation barriers. Consider the Chinese investment from economic rather than political perspectives, and thus realise mutual benefits." – respondent enterprise.

g) Improve EU-China trade and investment relations

The maintenance of a stable and open trade and investment environment for Chinese enterprises in Europe was also regarded as a priority.

"Reduce trade protectionism as well as political and ideological obstacles." – respondent enterprise.

h) Establish business-to-business platforms

The establishment of various platforms to foster business relationships between Chinese and European enterprises was recommended. The perception was noted that other regions do this more successfully in China than the EU.

"EU authorities should set up platforms for EU companies to look for partners in China, strengthen their supervision capabilities and improve cooperation with the Chinese Government." – respondent enterprise.

i) Lower antitrust investigation requirements

Recommendations were made to reduce the burden of antitrust investigations.

“We suggest to lower antitrust investigation requirements.” – respondent enterprise.

5.4.1 Key conclusions

Some of these recommendations are made at the EU level, but others are at the national or local level. Most relate to reducing operational and cost burdens faced by Chinese enterprises in the EU. This can be contrasted with the recommendations put forward in the European Chamber’s *Position Paper*,³⁹ which predominantly focus on market access restrictions faced by European companies in China.

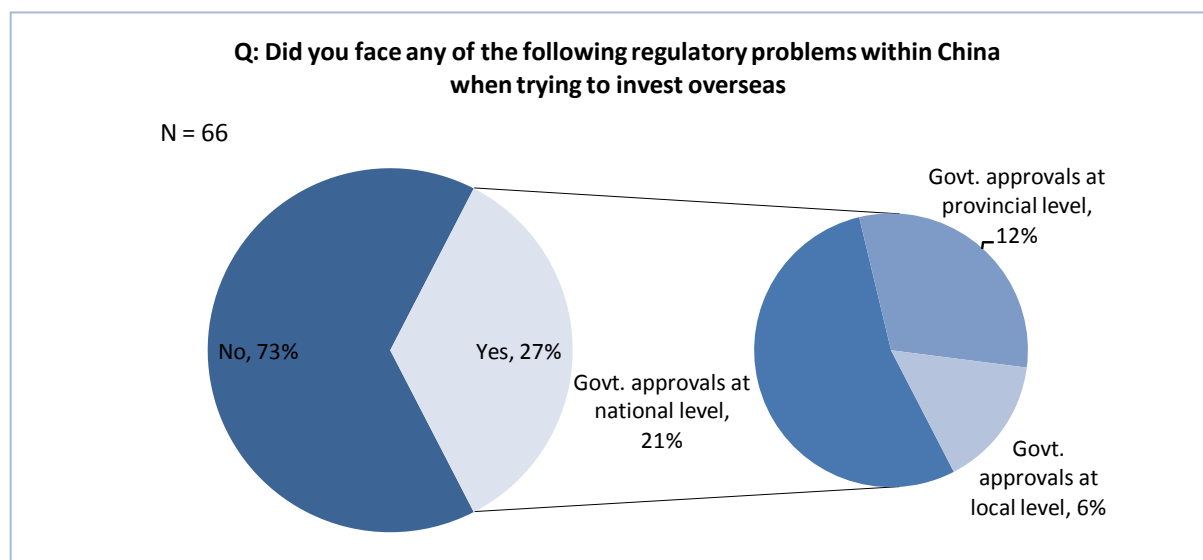
5.5 Chinese ODI policy and approval processes

China has put in place a number of policies to encourage its enterprises to invest overseas and Chinese enterprises looking to invest in the EU or elsewhere may be required to seek certain approvals from government regulatory bodies. In this section the responses of Chinese enterprises in relation to the effectiveness of these policies and impact of the approval processes are examined.

5.5.1 Approval processes

Approximately three quarters of respondents said that they did not encounter regulatory obstacles from within China when seeking to invest in Europe. Of those that did report issues, 21% said this was at the national level, 12% at the provincial level and 6% at the local level.

Figure 12: Regulatory problems encountered within China when seeking to invest in Europe⁴⁰

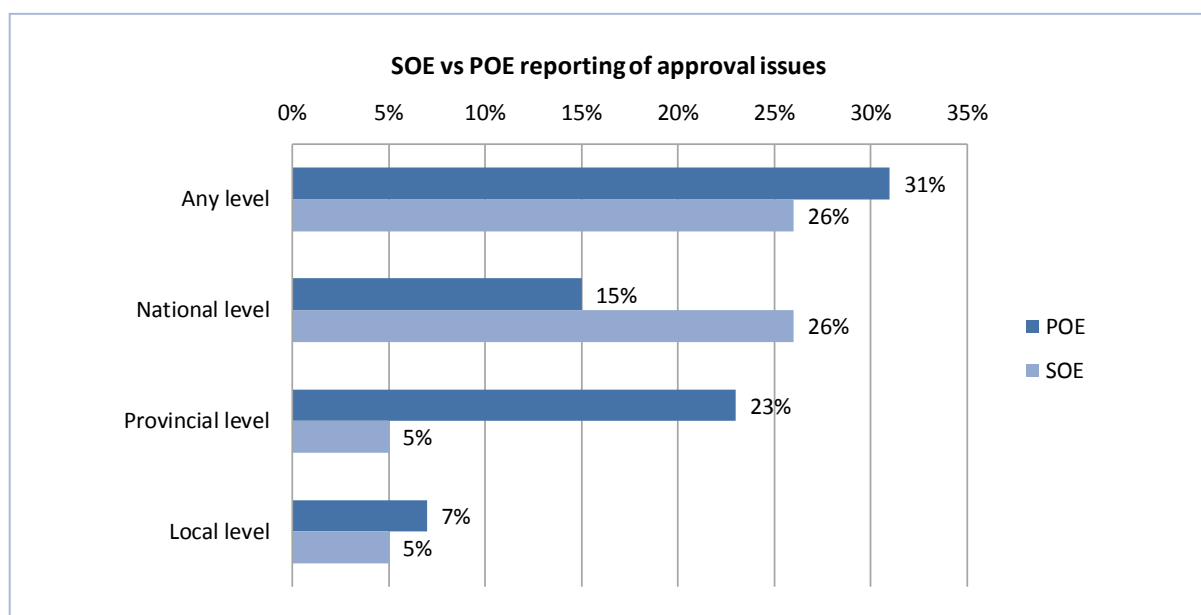


When broken down according to whether the enterprise is state owned or private it is noteworthy that the proportion of private enterprises encountering these issues at any level was slightly higher than for SOEs. However, the reporting of issues at national level was significantly higher for SOEs and POEs had a much higher reporting rate of problems occurring at the provincial level.

³⁹ European Union Chamber of Commerce in China, 2012, *European Business in China: Position Paper 2012/2013*

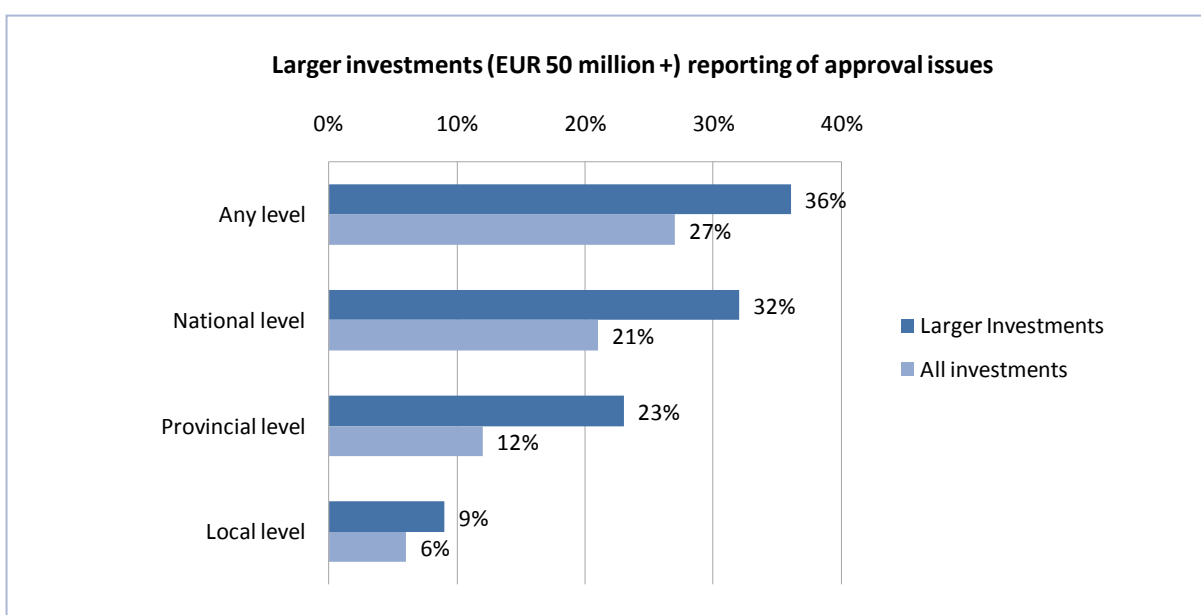
⁴⁰ Of the 27% that indicated meeting these approvals as obstacles, some selected these at multiple levels, therefore the 21%, 12% and 6% do not total 27% when added together.

Figure 13: Reported regulatory problems in China for SOEs and POEs



The reporting of problems was also more apparent for investments that were larger in size. This is in line with the higher approval requirements for larger investments.

Figure 14: Reported regulatory problems in China for larger investments



5.5.2 Regulatory approvals of outbound investments from within China

The approval process for Chinese outbound investments differs depending on whether the enterprise is privately or state owned. Whether it is approved at local, provincial or national level depends on the size of the investment.

Typically, there are four Chinese governmental bodies involved in approving the outbound investments of Chinese enterprises. These are SASAC (for SOEs only), NDRC, MOFCOM and SAFE, although other bodies may be involved depending on the details.

For an SOE, **SASAC** approval is sought as the first step. If an overseas investment is to be made by a central SOE (and therefore directly controlled by SASAC) of a value of less than that required to receive central NDRC approval, then provincial NDRC approval can be bypassed by the SOE.

National **NDRC** approval is required for investments over USD 300 million in resources sectors or over USD 100 million in non-resources sectors. For investments below these levels, provincial level DRC approval is sufficient. When the NDRC receives an application it takes five business days to decide whether or not to accept the application. If it is accepted, it will be approved or rejected within 20 business days.

The Chinese investor will then need to seek the approval of **MOFCOM**, which is the body responsible for administering and supervising overseas investment. Central level MOFCOM approval is required for investments:

- of USD 100 million or more;
- in a country which has not established a diplomatic relationship with China, or in certain other countries or regions specified by MOFCOM;
- which are spread over multiple countries or regions;
- involving the establishment of an overseas *special purpose company*.

Provincial level MOFCOM approval is required for investments between USD 10 million and USD 100 million or specifically in the energy, minerals or other strategic sectors. MOFCOM will also consult with the relevant overseas Chinese consulate.

MOFCOM takes five business days to determine whether or not to accept an application. After accepting an application, it must approve or reject the investment within a further 15 business days. Some applications requiring central level MOFCOM approval will also be subject to a preliminary examination by provincial level MOFCOM, taking an additional ten business days.

After obtaining NDRC and MOFCOM approval, an application is made to **SAFE** for the transfer of foreign currency funds overseas. This is usually the last step in the approval process and takes up to two weeks.

Additional approval from the State Council is also required where investment is in countries or regions which do not have a formal diplomatic relationship with China, are on a list of international sanctions or where a war or riot is taking place, or in an industry of a sensitive nature.

If the enterprise making the investment is from an industry with its own specific regulator then it is possible that an additional approval will also need to be required from that body.

5.5.3 Chinese Government policy to encourage outbound investment

The 'Going Out' policy of encouraging Chinese enterprises to invest overseas was first unveiled in 1999⁴¹ and by the mid-2000s ODI had started to notably increase. This encouragement of ODI has now become a key policy of the Chinese Government as they look to reform the domestic economy. As stated earlier, there are a number of targets in place relating to ODI for the period of the 12th Five-Year Plan (2011-2015), including an annual increase in amount of 17% per year to total USD 150 billion by 2015.⁴²

A 2012 release from the NDRC listed some of the benefits that they see from increased Chinese ODI. This includes:

1. Acquiring certain resources that China lacks

"Chinese enterprises acquired certain scale of oil, gas and mineral resources and reserves through overseas investments. Some of these enterprises now have better production capacities to adapt to the industrialisation and modernisation trend in China's development and these investment projects have played positive roles in energy supplies in China."

2. Acquiring more advanced technologies and management experience

"It is obvious that the investments in overseas high-tech and advanced manufacturing industries has increased and progressed well. By acquiring intensive scientific and technological resources overseas, setting up R&D centres, investing in electronic information, biological medicine, new materials and new energy, as well as advanced equipment manufacturing projects, domestic enterprises have now access to more international advanced technologies and management experience, and thus have improved their innovative abilities and long-term competitive advantages."

3. Reaching overseas markets for sales and to move lower-end manufacturing to other developing markets

"Traditional competitive industries have developed their outbound market orderly. Chinese enterprises in textile, machinery, automobile and other industries have been exploring global markets by establishing their manufacturing factories overseas. These actions drive the development of domestic equipment, labor and technical export, and have also played important roles in promoting the industrial restructuring in China."

4. To improve international relations

"The cooperation with some important countries and regions has been deepened."⁴³

This indicates that the Chinese Government seeks to use ODI as a tool to advance the domestic economic development and enhance international integration. China's 12th Five-Year Plan looks to develop its economy away from being driven by low-end manufacturing and exports and towards innovative, high technologies and service provision to encourage domestic consumption. China's goals can be aided by the acquisition of technologies, brands and certain skills and experience from foreign markets under the rationale that it is much quicker to acquire these than to develop them internally. This has coincided with a number of other factors that have encouraged this, such as the global financial crisis, which lowered the asset prices of potential acquisitions in certain regions, including Europe.

In addition, well known domestic Chinese brands are also looking at Europe to expand their markets. For Chinese brands to develop in other markets would be a source of pride within China, and seen as something that is required for a nation of its size and influence, but also because of the positive effect this would have on the international image of China. Chinese brands becoming trusted and valued in foreign markets is likely to have a beneficial effect on the perception of China as a whole in the international sphere. It should be noted that this also works the other way, with the perception of China and its government having an impact on the perception of its enterprises.

41 The Central People's Government of the People's Republic of China, 15th March 2006, *Improving the 'Going Out' strategy*.

42 The Central People's Government of the People's Republic of China, 15th May 2012, *MOFCOM's 12th Five-Year Plan for utilisation of foreign investment*.

43 NDRC, 19th June 2012, *Notice on guiding and encouraging private enterprises to conduct foreign investment*, (unofficial translation by the European Chamber).

The extent to which Chinese enterprises are motivated to invest in overseas markets for their own commercial reasons, and the degree to which they have been encouraged by government, is a key question that is asked by the recipient nation of the investment. Indeed it is apparent in a few international cases the independence and motives of Chinese investors have been questioned, either by the nation's government, the media or other public interest bodies, for example, the report for the US House of Representatives on Chinese telecommunications companies which gathered much international media attention.⁴⁴ Related to this report, it was commented by interviewed European government representatives that Chinese enterprises would benefit from greater transparency in their management structures and the clarification of the role of Communist Party secretaries in these enterprises would help with how they are received internationally.

However, according to the survey, no Chinese enterprises stated that a request from government was a reason for them investing in Europe (see section 5.1.2). This was further emphasised by government departments in interviews who stated that they do not strategically manage ODI, but rather just look to support independent commercial efforts. European investment promotion agencies also supported this in saying that the vast majority of Chinese enterprises that approach them have defined business intentions for investing in the EU.⁴⁵

During interviews with private Chinese enterprises it was reflected that government policy had generally not been a significant factor in deciding to invest in Europe. The consensus was that SOEs get a lot of support and encouragement for ODI in the form of preferential financing and subsidies, however POEs do not receive much support and struggle for things such as financing and information on foreign legal systems. Government bodies verified this stating that their encouragement policies are mostly focussed on SOEs. It was noted by Chinese POEs though that foreign exchange liberalisation in China is making certain approvals easier.

One aspect that is notably different in policy from many other regions is that the regulators in China tend to just approve one Chinese enterprise to bid in an overseas M&A auction scenario in order to avoid Chinese enterprises competing with each other. During interviews with Chinese government bodies it was confirmed that having Chinese enterprises compete with one another is not encouraged. It is also apparent that just as China has looked to prioritise inbound FDI into certain sectors and keep others closed for strategic reasons through such policies as the *foreign investment catalogue*, it also prioritises certain sectors for ODI for similar reasons.

One issue that may develop into an irritant is that the European market is much more open for Chinese investment than the Chinese market is for European investment. The major market access barriers faced by European companies in China are listed in the European Chamber's *Position Paper* but barriers faced by Chinese companies into the EU are few. The rationale for China restricting foreign investment from certain sectors was to protect Chinese enterprises and allow them to develop, but it is apparent that many sectors that are still protected have now developed to a stage where they can compete not only domestically, but also internationally. This is vividly illustrated by increasing Chinese ODI, with Chinese enterprises in such sectors as automotive and banking competing on a level playing field in Europe, but major restrictions still being in place the other way around.

This phenomenon will become more prominent as Chinese investment increases and has the potential to become a greater irritant to foreign business and governments as a result.

"As China's economic strength and foreign investment increases, the risks of intervention and restrictive policies from foreign governments may also increase." - NDRC⁴⁶

⁴⁴ US House of Representatives, 8th October 2012, *Investigative Report on the National Security Issues posed by Chinese Telecommunications companies Huawei and ZTE*.

⁴⁵ However, interviews also gave anecdotal evidence that whilst this point above seems true for POEs, there have been cases where SOEs were making moves to invest in Europe without a full understanding of why they were doing it and were seemingly being encouraged by government bodies. This was particularly mentioned in relation to state-owned banks being encouraged to invest in European markets in order to service other Chinese entities that are investing overseas.

⁴⁶ NDRC, 24th July 2012, 12th Five-Year Plan on Foreign Investment Utilisation and Outbound Investment, viewed 14th December 2012 (unofficial translation by the European Chamber).

During an interview with a large, private Chinese enterprise they stated that they lobby the Chinese government to open up to foreign investment more because they know that this will help with how they are received overseas. Further opening up would also likely lessen the voices calling for greater EU-level scrutiny of Chinese investment as a retaliatory measure.

5.5.4 Key conclusions

Chinese ODI policy has effectively facilitated a large increase in outbound investment to the EU and other regions in recent years. It is apparent that the central government sees this as a key tool in developing the domestic economy. Survey respondents believe that policies so far have mostly been effective in encouraging SOEs, rather than POEs, to invest overseas and, in addition, POEs face increased difficulties in securing outbound investment approvals. The approval and support systems for ODI could likely be improved and this is admitted in official government releases.⁴⁷

5.6 Respondents' recommendations to the Chinese Government

Respondents were asked, **"What would you recommend to the Chinese authorities to encourage greater outbound investment?"** A number of key themes emerged in the answers given which are presented here in the order of most frequently stated coming first:⁴⁸

a) Improve advisory and support services

The most common recommendations suggested that the Chinese Government could provide improved advisory and support services. This includes the provision of legal and management training for individuals.

"The Chinese Government should provide more basic information for companies interested in investing abroad, especially about security issues and risks." – respondent enterprise.

b) Streamline approval processes

The second most common theme of recommendations was in relation to the approval processes within China. It was stated that this should be further streamlined with the administration burden reduced.

"Provide more convenient outbound investment procedures. MOFCOM, SAFE and other relevant authorities should provide integrated services."
 "Provide more room for companies to make decisions; the current multi-level approvals are way too complicated." – respondent enterprises.

c) Provide financing

The third most commonly cited recommendation was in relation to the provision of financing.

"We hope the Chinese Government can improve the financial services and provide more loan support." – respondent enterprise.

d) Liberalise foreign exchange controls

The greater liberalisation of controls on foreign exchange was commonly recommended as a key issue in speeding up outbound investments.

"Liberalise the foreign exchange controls." – respondent enterprise.

⁴⁷ "The management system and supportive policies still need to be improved. The approval procedures need to be simplified and the coordinating mechanism needs to be strengthened." NDRC, 19th June 2012, *Notice on guiding and encouraging private enterprises to conduct foreign investment*, (unofficial translation by the European Chamber).

⁴⁸ The answers provided here are written answers submitted through the questionnaires. Where quotes are used, these are direct quotes. If these were given in Chinese, they have been translated by the European Chamber.

e) Provide tax incentives

It was recommended to provide preferential tax policies to encourage ODI.

“Preferential tax policies and other policy support (financing and credit).” – respondent enterprise.

f) Establish business-to-business platforms

The establishment of various platforms to foster business relationships between Chinese and European enterprises is recommended.

“Promote dialogue mechanism at industry/company levels between China and Europe in order to deepen the negotiation and dialogue mechanisms initiated at the government level.” – respondent enterprise.

g) Address perceptions

It was commented that the Chinese Government should examine how it can address misperceptions of Chinese enterprises abroad.

“Address the unknowns or (mis) perceptions of China from a Western perspective: political system, IP protection, lack of English language skills and cultural differences.” – respondent enterprise.

h) Review SOE management structures

It was noted that the management structures of SOEs leads to overly cautious strategies from senior figures which can lead to missed ODI opportunities. This is because of compensation structures that reward risk aversion.

“Change the performance assessment and reward system of SOEs to encourage more trial and error, and more outbound investments. Currently top management is unmotivated and too conservative since the performance reward system encourages minimised failures and not maximised success. This does not apply to POEs, which are sufficiently motivated to invest abroad.” – respondent enterprise.

i) Encourage POEs to a greater degree

The greater encouragement of private industry to invest overseas was noted.

“Allow private enterprises to invest abroad the same amounts as SOEs. Private enterprises are the key future driver of China's outward expansion strategy.” – respondent enterprise.

j) EU-China trade and investment relations

Similarly to the recommendations to the EU authorities, it is desired by overseas investing Chinese enterprises that China and the EU maintain good relations on all levels so as not to interfere with trade and investment relations.

“The Chinese government should maintain good relations with foreign countries and aim to improve the investment environment for Chinese companies overseas.” – respondent enterprise.

k) Promote unified standards

The establishment of unified EU-China standards was recommended as a practical step.

“Strengthen the establishment of common technical standards and certification process between China and Europe in key areas.” – respondent enterprise.

l) Enhance community support

Assistance in the areas of schooling and community were also raised.

“Consider the issue of education for expatriates' children; increase support for local Chinese investors' communities.” – respondent enterprise.

5.6.1 Key conclusions

Chinese enterprises most frequently requested better advisory and support services from the Chinese Government. In addition, despite the figures in section 5.5.1 suggesting that the approval process in China is not an issue for the majority of respondents, one of the most common recommendations related to desired improvements in this. The other most common recommendations relate to access to financing and foreign exchange controls.

One thing that was commonly noted during interviews was the lack of a Chinese chamber of commerce covering the whole of the EU. Such a body could provide certain support services on the ground in Europe, including aligning common interests of investors and help in advocacy work in engaging European policy makers.

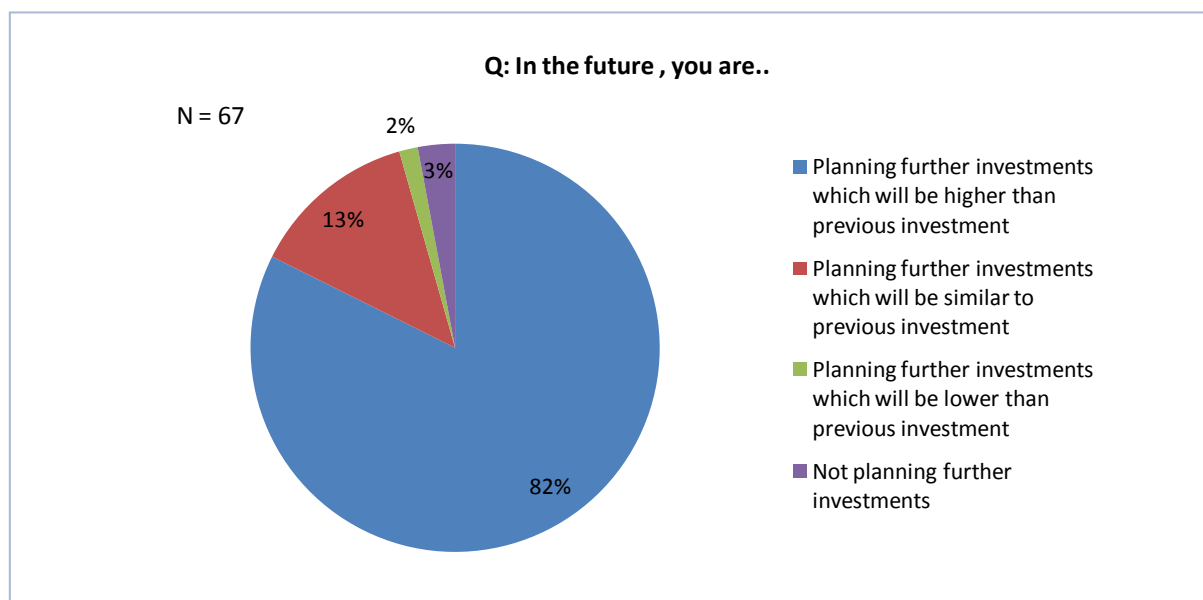
5.7 Future outlook and strategy

The final section of the findings examines respondents' future outlook, including investment plans and how they will adapt their strategy for upcoming investments.

5.7.1 Future outlook

When asked about future EU investment plans, 97% stated that they plan to invest further, with the vast majority planning investments of a higher amount.

Figure 15: Future investment plans of respondents



From these figures it could be reasonably concluded that a strategy of encouraging investments of even very small amounts can be a good longer-term strategy since these enterprises are apparently likely to increase their investments in the future. It was further commented by Chinese Government officials that they don't often see failed investments in the EU and very few Chinese enterprises leave Europe once they invest.

"Investing overseas is an opportunity to gain experience, even if it means failing sometimes. We start small and progressively expand." – respondent enterprise.

5.7.2 Future strategy

This is further supported in the answers that were received to the question, “**How would you adapt your strategy for future investments in Europe?**” A number of key themes emerged in the answers given which are presented here in the order of most frequently stated coming first.⁴⁹

a) Expand

A significant number of answers indicated that expansion will be a key element. This includes increased investments in general and plans to make larger M&A investments.

b) Localise

Further to this, it was commonly cited that the respondent enterprises will look to localise their investments more in terms of hiring more local staff and adjusting the branding strategies.

c) Focus on technology development

Chinese companies will focus on acquiring and developing more advanced technologies and they plan to establish or further expand R&D centres in Europe.

“We may consider investing in innovative, high-tech, and high-quality manufacturing companies with clear potential on the Chinese market, and not only limit ourselves to our traditional sector.” – respondent enterprise.

d) Examine policy developments

It was commented that future investment plans would be dependent on various policy developments.

“Our company would pay close attention to the local police and regulation, especially tax regulation and investment environment.” – respondent enterprise.

e) Develop human resources

Responding enterprises intend to focus on HR development with more local hires and a focus on more highly skilled individuals.

f) Develop products and services

Respondents will look to upgrade their products and services to better fit the European market.

“We will improve the quality of our products to expand in the European market.” – respondent enterprise.

g) Improve public relations

The intention to further focus on corporate image development was noted. Strategies include greater engagement with the local communities, including the overseas Chinese communities.

5.7.3 Key conclusions

Overwhelmingly responses indicate that those that have already invested in the EU plan to invest more: 97% of survey respondents stated this. These companies are looking to develop in the EU through expanding, localising, and developing HR, corporate image, products and services.

⁴⁹ The answers provided here are written answers submitted through the questionnaires. Where quotes are used, these are direct quotes. If these were given in Chinese, they have been translated by the European Chamber.

6. Conclusion and recommendations

The findings of this study largely indicate a positive future for EU-China investment relations. Chinese enterprises view the EU as an important market that is safe and stable for investment. As noted by respondents, the maintenance of social stability in times of such economic difficulties further underlines confidence in future investments.

Chinese investors note the positive aspects of a transparent and predictable legal environment, a highly-skilled and educated workforce with advanced international management expertise, and the availability of advanced and innovative technologies in the EU. Indicators are that Chinese enterprises will be looking to expand existing investments and invest more and at larger amounts in the future. The number of enterprises looking to invest via M&A will likely increase as these enterprises increasingly look to acquire technology, skills and brands that will help them better compete both domestically and internationally.

However, respondents were keen to note that whilst the EU offers greater stability, other major regions offer an environment that is easier for Chinese enterprises to operate in. Comments about the difficulty of operating conditions and high costs were frequent. The most common recommendations from Chinese enterprises relate to easier granting of visas and work permits to Chinese employees, allowing greater flexibility in labour laws, and asking for preferential policies to mitigate high costs and tax.

It is notable that there is little complaint about restricted market access in Europe. There are some comments about approval processes – most commonly at the local level – but very few talked of being prevented from operating in certain sectors in Europe. With regards to national security concerns, the EU was compared favourably to other major developed regions, such as North America and Oceania, and Chinese enterprises hope that this remains the case with no additional EU-level national security processes put in place.

In the light of the findings of this paper, we make a number of recommendations to both Chinese and EU policy makers which we hope would make a constructive contribution to enhancing EU-China investment relations.

6.1 Recommendations to Europe

a) Look to address the operational concerns relating to bureaucracy and high costs wherever possible

The European authorities should look to address key operational concerns such as access to visas and work permits. Since the requirements for expatriate staff are higher in the early stages of the investment, the possibility should be examined as to allowing the easier granting of such documents, which would then be phased out over a number of years to encourage greater localisation and the hiring of local employees. In addition it should be investigated as to whether any preferential policies to mitigate high costs could be put in place which could work to encourage successful investments.

b) Attempt to minimise the complexities of multiple legal and tax regimes across the EU and establish a one-stop shop for legal and other regulatory information

It was communicated that whilst the EU is a large and relatively prosperous market it is regarded as complex and hard to understand in comparison to other major regions. This is a result of multiple national legal and tax systems, combined with supra-national, EU-level legislation for some aspects.

It was often communicated by respondents that it would be useful if there was a one-stop shop for EU legal and regulatory information in English (or even Chinese), since the different languages of the EU present another obstacle.

c) Review FDI approval processes

The proportion of Chinese enterprises that stated they encountered regulatory approval obstacles when investing in the EU was relatively high. European policy makers should investigate this and look to address inefficiencies wherever possible.

d) Maintain the openness of the EU to foreign investment and promote this further in China

The openness of European markets to foreign investment is something that is good for both the EU and foreign enterprises wishing to invest and operate there. This is something that should be better communicated within China since it was reported that often during engagements on the ground with potential investors in China it was stated that these companies are unaware of the openness.

6.2 Recommendations to China

a) Review support and advisory mechanisms for potential outbound investors in China

Chinese respondents commonly reported that they would value improved support and advisory services from government or quasi-government bodies when they are exploring making outbound investments into Europe. It was also suggested that the facilitation of certain trainings for individuals in these enterprises would be useful.

b) Review support mechanisms on the ground in Europe, establish a Chinese chamber of commerce covering the EU and produce a *Position Paper*

It is apparent that Chinese enterprises feel they would benefit from greater support on the ground in Europe and that current institutional structures are not meeting these needs. The establishment of a united chamber of commerce, or similar body, representing Chinese enterprises in all EU member states would allow them to have a central point to communicate the support they need. The drafting of a *Position Paper* or similar such communication would allow these enterprises to effectively put forward their concerns to the European authorities.

In addition, a respondent enterprise discussed how Chinese enterprises are only just learning how to lobby for their interests in foreign markets, and how necessary this is to have their voices heard. The establishment of such a body may be able to help with this, and forming it in such a way that it is independent from government may help with reception.

c) Continue to simplify and relax the outbound approval regime

The simplification of the outbound approval processes in China is something which has been recognised as a necessity by the Chinese Government. However, many of our respondent enterprises regard this as a priority. Regarding foreign exchange controls, developments towards the greater internationalisation of the RMB should lead to greater liberalisation.

6.3 Further conclusions

In terms of how the EU-China investment relationship can be enhanced from a macro perspective there are various further steps that can be taken on both sides:

The EU27 nations are actively competing with each other for Chinese investment and in some circumstances they may not wish to see greater European cooperation efforts which would help Chinese investors because of this. It was commented on by interviewed representatives of European government agencies that any moves to create a united European body to provide information and services to Chinese investors (and potential investors) might be opposed by those EU nations with well-established investment promotion activities in China because it undermines their competitive advantages. The EU should seek to manage this and provide the resources needed by Chinese investors for the overall improvement of the investment environment in Europe.

In general, the EU should welcome Chinese investment for the economic benefits that it brings and continue to encourage it.

China should be aware of the intertwined image of China's engagement in international affairs and its enterprises. The development of trusted Chinese brands in overseas markets, in the same vein as other regional countries such as South Korea and Japan have national champions that are household names in Europe, will help China's external image. The reverse is also true that the government taking a positive stance in global affairs will help the image of China's enterprises.

There are further details contained within this report that suggests that other measures, such as examining compensation structures for senior figures at SOEs and generally encouraging the development of the private sector in China, will encourage successful ODI to Europe. Certain sectors in China are dominated by SOEs and greater competition in the market should lead to increased efficiency and capacity to compete overseas. In addition, private Chinese companies investing overseas will likely be treated with less suspicion in overseas markets as to their motives than SOEs.

Finally, Chinese policy makers should, as a priority, reduce market access restrictions for foreign business in China and address EU-China asymmetries in this regard. China's increasing ODI is certainly a welcome development and should enhance EU-China relations, but this is a key issue that will likely grow into a bigger irritant if not addressed.

7. Respondents' profile

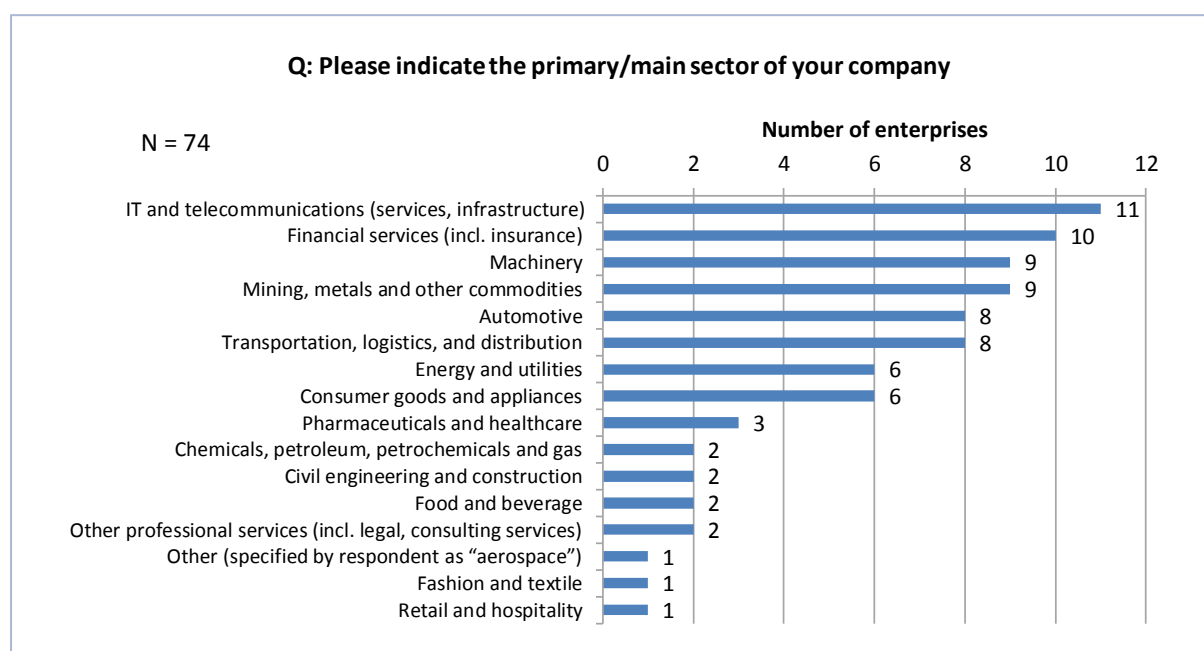
74 Chinese enterprises with experience of investing in the EU completed a unique questionnaire during the second half of 2012. The profile of those respondent enterprises is detailed below.

7.1 Nature of business in China

7.1.1 Sector

Respondents come from a wide range of sectors with the largest representation coming from information technology and telecommunications, financial services, machinery, metals/mining/commodities, automotive and transportation/logistics/distribution.

Figure 16: sector of respondent enterprises⁵⁰



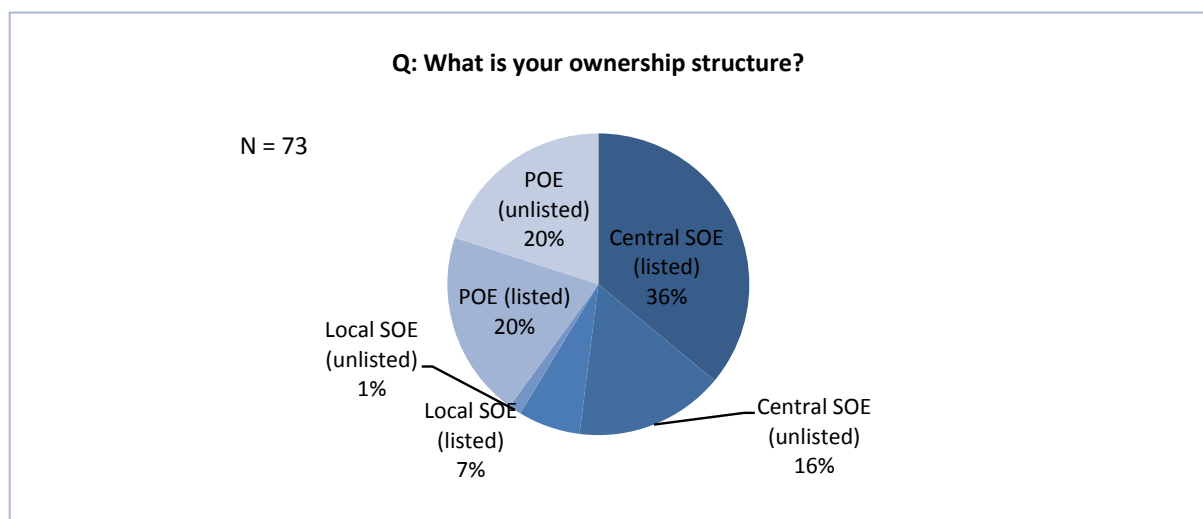
⁵⁰ 81 responses from 74 respondents because some chose multiple sectors.

7.1.2 Ownership structure

Respondents are:

- 60% SOE vs. 40% POE
- 63% listed vs. 37% unlisted

Figure 17: Ownership structure of respondent enterprises



7.1.3 Size

The majority of respondents came from large enterprises, with around two thirds reporting more than 10,000 employees in China and nearly half having over RMB 50 billion annual revenue.

Figure 18: Number of employees in China of respondent enterprises

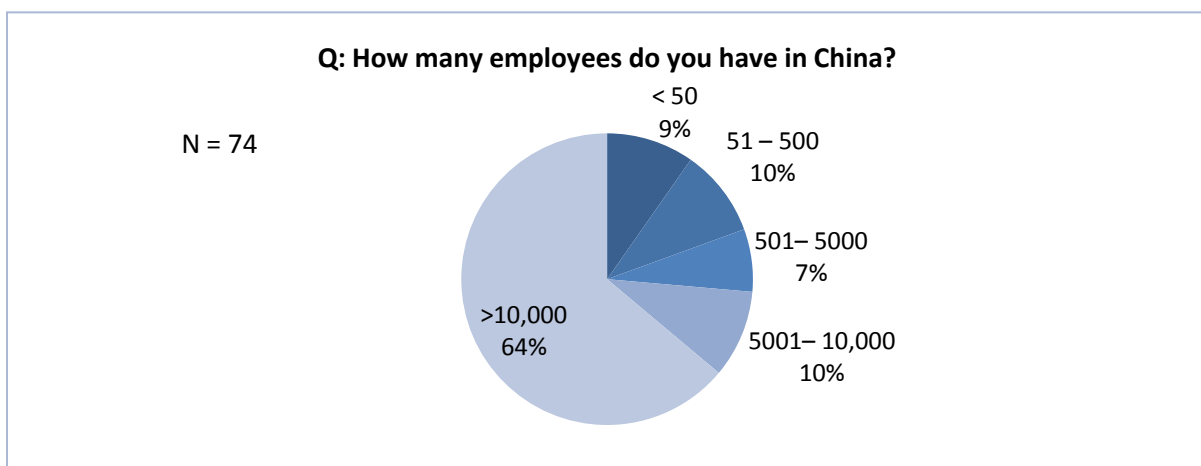
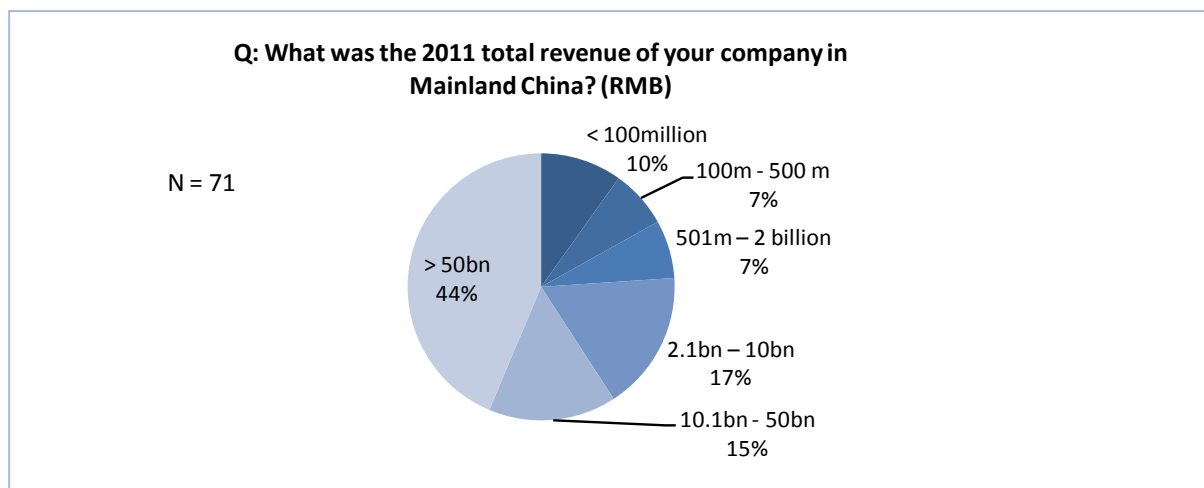


Figure 19: Revenue in China of respondent enterprises



7.2 Nature of business in the EU

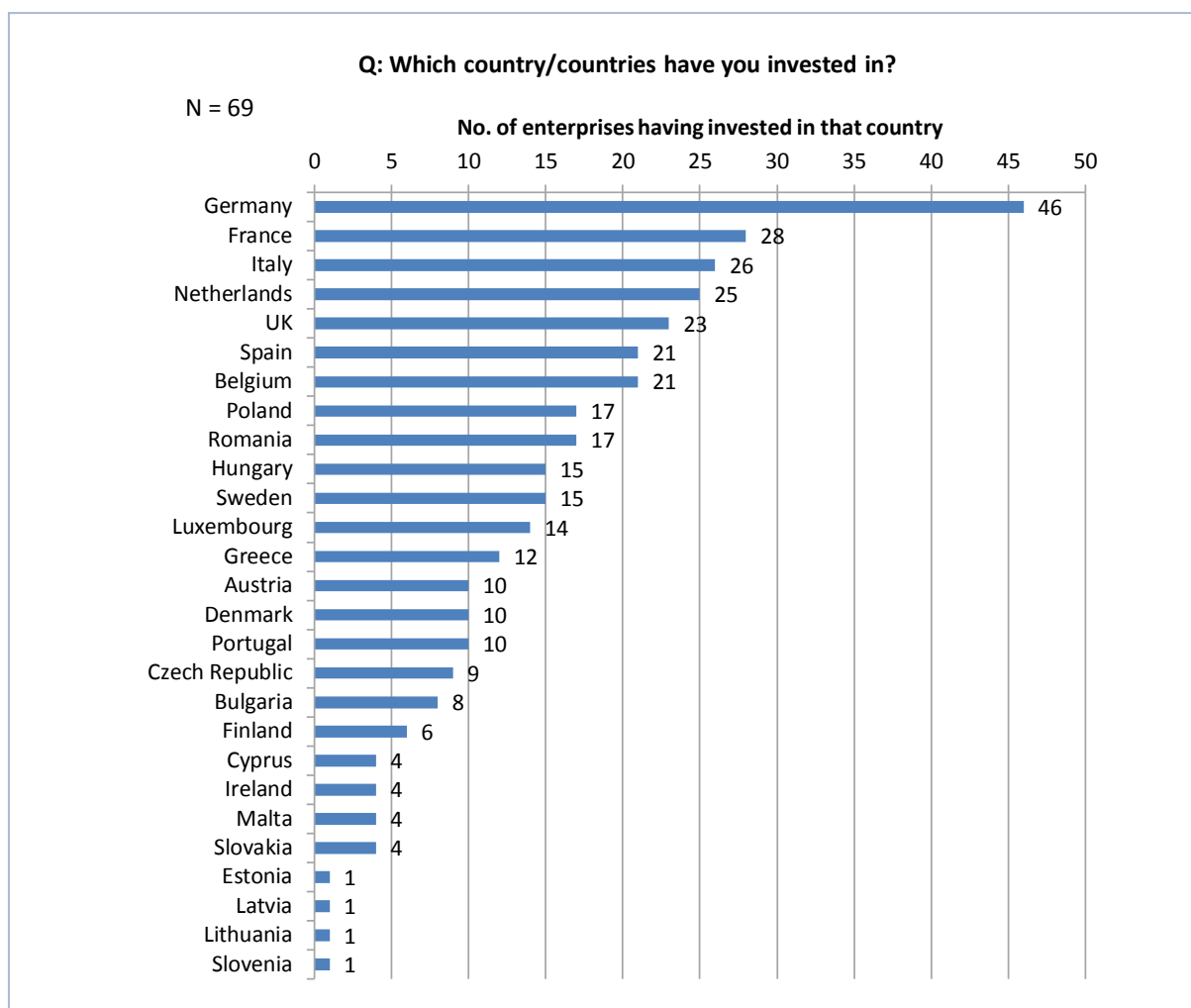
7.2.1 EU countries invested in

Sixty-nine of the respondent enterprises⁵¹ reported making at least 353 investments across the EU's 27 member states. This may understate the actual number, however, as some enterprises will have made multiple investments in individual countries. Notably, each of the EU27 countries has at least one investment by a Chinese enterprise that is a respondent to this survey.

It is apparent that the preferred destinations within the EU of our respondent companies are within western European countries; 67% had made investments in Germany, 41% in France, 37% in Italy, 36% in the Netherlands, and 33% in the UK.

⁵¹ Five declined to answer this question.

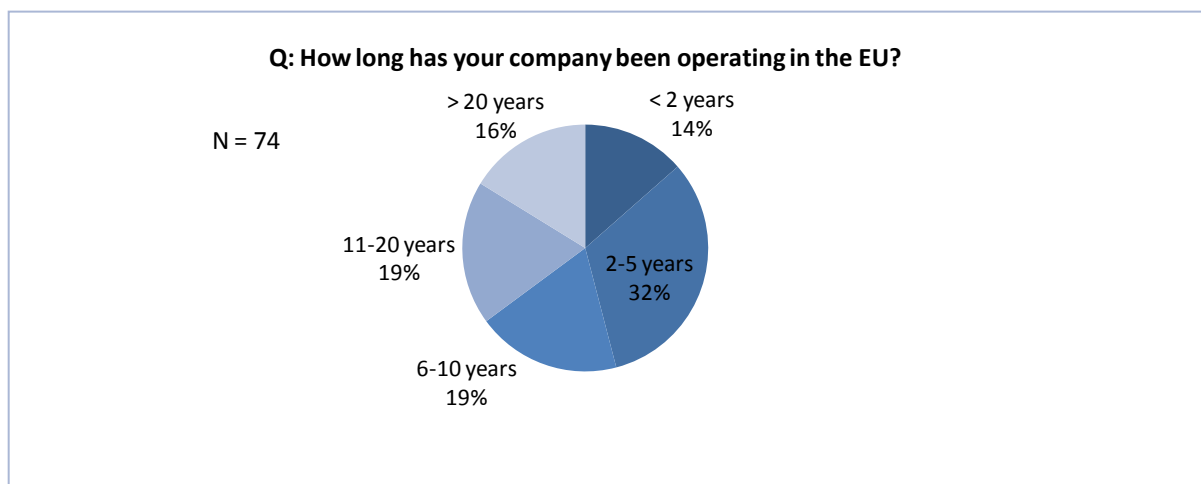
Figure 20: EU countries where respondent enterprises have made an investment



7.2.2 Length of time in the EU

The amount of time that respondents had been operating in the EU ranges from less than two years to more than 20 years. Nearly one half (46%) first entered in the past five years, with the other half having been in the EU for six or more years. This is reflective of the acceleration in the amount of Chinese ODI to Europe that is in line with other estimations.

Figure 21: Length of time operating in the EU of respondent enterprises



7.2.3 Size

Half of responding enterprises have fewer than 50 employees in the EU and the investments of 63% of respondents are valued at EUR 50 million or less; indicating that a large proportion of investments from China to the EU so far have been relatively small. Only 15% have more than 1000 employees in Europe and 28% have invested more than EUR 101 million.

Figure 22: Number of employees in the EU of respondent enterprises

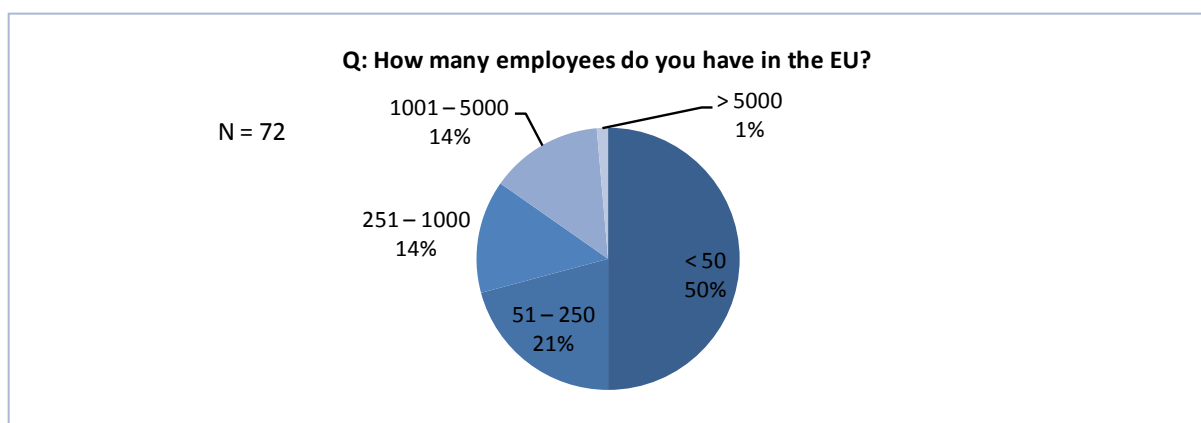
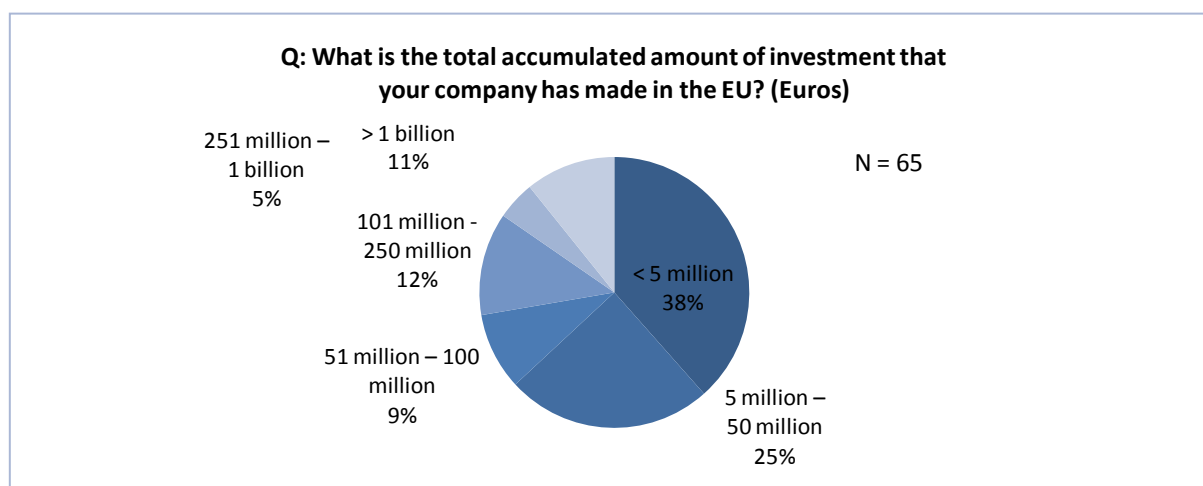


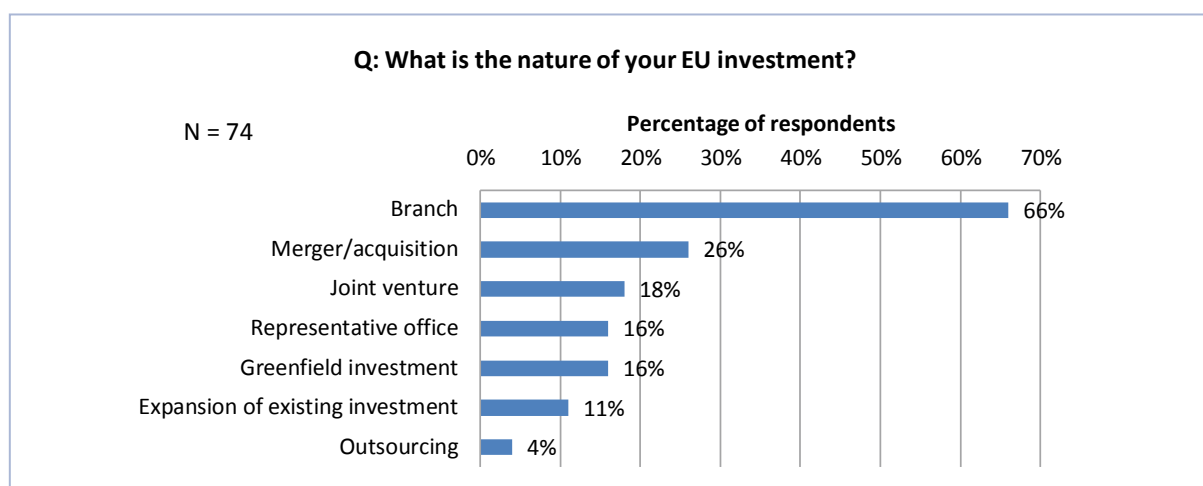
Figure 23: Total amount of accumulated investment in the EU per respondent enterprise (Euros)



7.2.4 Nature of investments in the EU

Around two thirds of respondent enterprises have set up branches in the EU. One quarter have invested through M&A and just under a fifth have established joint ventures.

Figure 24: Nature of EU investment of respondent enterprises



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9. Abbreviations

BN	Billion
DG	Directorate-General
EU	European Union
EUR	Euro (unit of currency used in some EU countries)
FDI	Foreign Direct Investment
FIE	Foreign-Invested Enterprise
M	Million
M&A	Mergers and Acquisitions
MOFCOM	Ministry of Commerce (China)
NDRC	National Development and Reform Commission
ODI	Outbound Direct Investment
OEM	Original Equipment Manufacturer
POE	Privately-Owned Enterprise
R&D	Research and Development
RMB	<i>Renminbi</i> (Chinese unit of currency)
SAFE	State Administration of Foreign Exchange
SASAC	State-owned Assets Supervision and Administration Commission
SOE	State-Owned Enterprise
UK	United Kingdom of Great Britain and Northern Ireland
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America

10. Table of figures

Figure 1: China to rest of world FDI (into China) vs. ODI (out of China), flow and stock, USD, millions, 1979 to 2011

Figure 2: China and Europe FDI/ODI, flow and stock, millions of Euros, 2004 to 2011

Figure 3: Value and number of deals, cross-border M&A and Greenfield, China to rest of world, 2005-2011

Figure 4: Reasons for investing in the EU

Figure 5: Reason for choosing a destination country with the EU

Figure 6: Respondents' perception of the business environment for Chinese investment in the EU in comparison with other major regions

Figure 7: Respondents reporting regulatory problems when investing in the EU

Figure 8: Regulatory obstacles encountered when investing in the EU

Figure 9: Respondent enterprises reporting of operating difficulties in the EU

Figure 10: Business framework-related difficulties encountered in the EU

Figure 11: Operating, market and infrastructure difficulties encountered in the EU

Figure 12: Regulatory problems encountered within China when seeking to invest in Europe

Figure 13: Reported regulatory problems in China for SOEs and POEs

Figure 14: Reported regulatory problems in China for larger investment

Figure 15: Future investment plans of respondents

Figure 16: Sector of respondent enterprises

Figure 17: Ownership structure of respondent enterprises

Figure 18: Number of employees in China of respondent enterprises

Figure 19: Revenue in China of respondent enterprises

Figure 20: EU countries where respondent enterprises have made an investment

Figure 21: Length of time operating in the EU of respondent enterprises

Figure 22: Number of employees in the EU of respondent enterprises

Figure 23: Total amount of accumulated investment in the EU per respondent enterprise (Euros)

Figure 24: Nature of EU investment of respondent enterprises

11. About the Authors

This is a European Union Chamber of Commerce in China publication that was written in cooperation with two main partner enterprises – KPMG and Roland Berger Strategy Consultants. All opinions contained within are those of the European Union Chamber of Commerce in China.

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The European Union Chamber of Commerce in China

Purpose

As the independent voice of European business in China, we seek greater market access and improved operating conditions for European companies.

Services

- We provide European business with an effective communication and lobbying channel to the European and Chinese authorities, business associations and media.
- We ensure our key recommendations and lobbying strategies are shaped by business through our members' Working Groups.
- We monitor China's compliance with the World Trade Organization (WTO) and other international commitments which impact on doing business in China.
- We support companies with an information platform on business and market conditions in China.
- We help companies expand their networks of European and Chinese business contacts.
- We promote sharing of knowledge and experience between European and Chinese business.

Principles

- We are an independent, non-profit organisation governed by our members.
- We work for the benefit of European business as a whole.
- We operate as a single, networked organisation across Mainland China.
- We maintain close, constructive relations with the Chinese and European authorities while retaining our independence.
- We seek the broadest possible representation of European business in China within our membership: large, medium and small enterprises from all business sectors and European Member States throughout China.
- We operate in accordance with Chinese law and regulations.
- We treat all our members, business partners and employees with fairness and integrity.

General Background

The European Union Chamber of Commerce in China was originally founded by 51 member companies based in China on 19th October 2000. The rationale for the establishment of the Chamber was actually based on the need of the European Union and local European businesses to find a common voice for the various business sectors. The European Chamber is recognised by the European Commission and the Chinese Authorities as the official voice of European Business in China.



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