

EU-China Cross-Border Investments



BRUSSELS ACADEMY FOR CHINA
AND EUROPEAN STUDIES

BACES Finance Cluster With a Mission

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Improve understanding of EU-China
cross-border investments

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Foreign Direct Investment
(strategic, $\geq 10\%$ of voting shares)

Portfolio Investment
(short term, intended to be liquid)

Why improve? The EU-China investment relation is rapidly changing.

RECORD FLOWS AND GROWING IMBALANCES

Chinese Investment in Europe in 2016

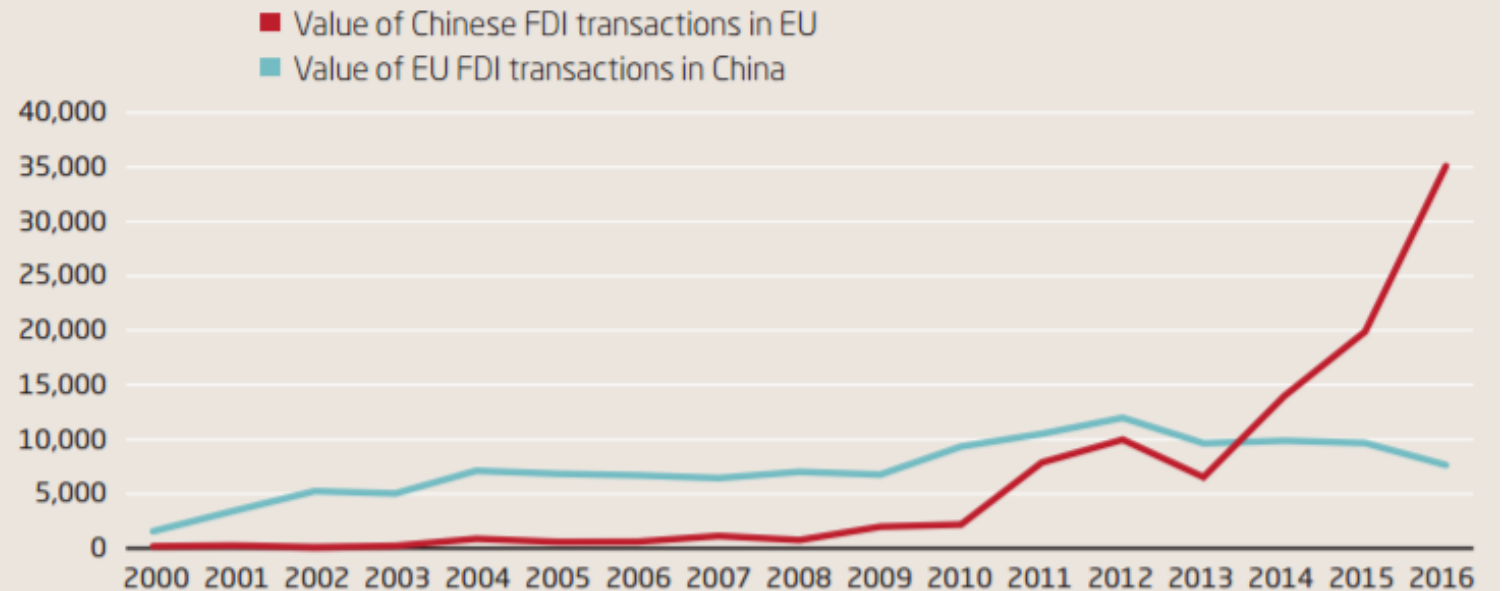
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No 3 | January 2017



Chinese FDI in Europe Surges, while EU FDI in China Declines

Value of FDI transactions between the EU-28 and China, EUR million



- The European Union (EU) continues to be a favorite destination for Chinese investors, with more than EUR 35 billion of completed OFDI transactions in 2016, an increase of 77 per cent from 2015. This stands in contrast with a further drop in investment by European firms in China.

resulting in ownership stake

CHINA'S GLOBAL OUTBOUND INVESTMENT FURTHER ACCELERATED IN 2016, MAKING CHINESE LEADERS NERVOUS



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exchange regulator calling on them to invest "carefully", according to an official state newspaper on Monday.

"Overseas mergers and acquisitions can sometimes resemble a rose with thorns, you must be careful and you must do your due diligence," Pan Gongsheng, the head of the State Administration of Foreign Exchange (SAFE) and a vice governor of the People's Bank of China (PBOC), told Shanghai Securities News, according to news agency Reuters.

"These deals can be like clasping a handful of sand at the beach, it looks like you've got it in your grasp but at the last moment it slips through your fingers," he added.

Pan's comments come shortly after PBOC Governor Zhou Xiaochuan, delivered remarks in a similar vein at this month's National People's Congress, accusing some domestic investors of expending capital overseas "blindly" and in a rushed fashion.

"Some of this outbound investment was not in line with our own policies and had no real gain for China," he contended.

<http://www.cnbc.com/2017/03/20/china-regulator-says-foreign-acquisitions-like-a-rose-with-thorns.html>

ADVANCED MANUFACTURING AND SERVICES ARE NOW DRIVING CHINESE INVESTMENT ACTIVITY, TRIGGERING EUROPEAN DEBATES ABOUT SAFEGUARDING CRITICAL TECHNOLOGY

Growing Chinese interest in the advanced manufacturing and services sectors further fueled European debate about potential risks from inbound Chinese investment. For one, Chinese interest is growing particularly rapidly in sectors that remain restricted to foreign investors back in China (for example entertainment or utilities and infrastructure), which has further amplified the political salience of unequal market access between European and Chinese markets.

Secondly, the growth of Chinese acquisitions of high-technology assets combined with new industrial policy plans has elicited fresh concerns about the sale of core industrial technology to Chinese buyers. The release of major new Chinese industrial policy plans (see MERICS Paper on China No. 2 “Made in China 2025”) that promulgate overseas M&A as a way of upgrading Chinese technology and ultimately displacing foreign companies both in China and globally have created new awareness of the potential long-term risks of such transactions for Europe’s industrial base. Officials in Berlin, Paris, Brussels and other European capitals have woken up to the potential implications of such scenarios and are discussing different options to address concerns about the potential long-term consequences of industrial policy, subsidies and other strategic state interventions.

Goal: Improve understanding of EU-China cross-border investments

- Challenges:
 - EU-China investments relationship is rapidly changing;
 - Assessing optimality of these investment requires:
 - To some extent predicting the future:
 - Reward and risk of the future outcome - stochastic;
 - Accounting for the non-linear dependence on a large number of factors, both endogenous and exogenous.
- Consequence: Many opinions, not all fact-based;



Our intended contribution to improving the understanding of EU-China investments

- Descriptive
 - Quantitative: Gather and monitor data (aggregate and at deals level) and extract relevant statistics;
 - Qualitative: Case studies and interviews;
- Theory
 - Models of investment behavior (eg differences in objective function between Chinese and European investors and policy makers) and how the market structure affects it;
 - Econometric methodology to study the relationship (differences in data availability and quality; non-linear dependence and non-normality);
 - Tools for optimizing portfolio investment (constraints)
- Applied research:
 - Combine theory and data to make conclusions.

Steps taken

- Several MSc theses are on-going about EU-China FDI
 - At the deal-level (event studies)
 - At the macro-level (connection to other macro variables, such as GDP growth, FX, inflation; and controlling for other influences)
- Advertising of PhD topics
- Baces-CSC scholarships:
 - 16-17: Sichuan-VUB CSC student Chunlin Wan (improved tools for portfolio optimization).
 - 17-18: Renmin-VUB CSC student Wenjing Wang (composite indicator approaches for investment analysis and evaluation) and Sichuan-VUB CSC student Wei Zhang (financial market structure and FDI flows).