

**Testimony before the House of Representatives Foreign Affairs Committee
Subcommittee on Europe, Eurasia and Emerging Threats**

Hearing on Chinese Investment and Influence in Europe

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Chairman Rohrabacher, Ranking Member Meeks, distinguished members of this committee, thank you for inviting me to testify.

The topic that we are addressing today has become increasingly relevant not just to European countries but also – as described in the latest and current National Security Strategy – to the United States¹. For the first time, the NSS underlines China’s “strategic foothold” in Europe, “where it is expanding its unfair trade practices and investing in key industries, sensitive technologies and infrastructure.” China’s overseas investments are no longer of concern to individual countries. For example, just two weeks ago, the company China Three Gorges offered \$11 billion to take over the entire capital of *Energias de Portugal*-EDP, Portugal’s largest grid company, with subsidiaries in the United States, Spain and Brazil. The Portuguese government says that the markets should decide, but what would happen if the largest electricity company of a member of the European Union (EU) and the North Atlantic Treaty Organization (NATO) were to be handed to a foreign country? What would it mean for the sovereignty or national security of Portugal, and for the organizations to which it belongs?

In the time available, I will address the following points:

- 1/ The landscape of Chinese foreign investments in Europe: a quick overview
- 2/ Ties between “traditional” Foreign Direct Investments (FDI) and “Silk Road” investments
- 3/ The ongoing debate in the European Parliament over screening Chinese foreign investments

1/ The landscape of Chinese FDI in Europe

Since 2008, the landscape of Chinese foreign direct investments in the European Union has changed dramatically.

¹ The views presented here are those of the author, and do not represent those of the Carnegie Endowment for International Peace or the Harvard Kennedy School

Two years ago, I published a book on the subject, *China's Offensive in Europe*², describing China's wave of post-2008 financial crisis investments. Since then, numbers have reached new heights, and projects have spread across the continent.

From \$840 million invested in 2008, China's annual FDI in Europe grew to \$42 billion in 2017. According to a recent compilation by Bloomberg³, total Chinese investments in Europe, including both mergers and acquisitions (M&A) and greenfield investments, amount to \$318 billion, 45 percent more than Chinese investment in the U.S. between 2008 and 2017. China has taken over approximately 360 European companies.

Although last year saw a slight decline, it is fair to say that the long-term trend of China investing in European brands, technology and infrastructures will continue. China's investments are also broadly spread geographically, although the largest European economies – the United Kingdom (\$70 billion in cumulative Chinese investment), Italy (\$31 billion), Germany (\$20 billion), and France (\$13 billion) – attract the largest share of Chinese capital. Among China's iconic investments in Europe is the Hinkley Point nuclear plant in southern England, which is one third funded by China.

For over a decade now, the City of London has been a magnet for Chinese cash as Beijing tries to build its currency, the RMB, into a world currency. By and large, Chinese money has been going into real estate and finance, with Chinese state banks well represented and active in the bond market and the international exchange market. Chinese citizens represent almost half of the investor visas the UK granted in 2017, outnumbering Russians, the next largest group of investor visa recipients, by 250 percent⁴. Despite the largely uncertain future of the UK as a market once it exits the EU, China is betting on the British capital as an emerging hub of Chinese finance.

In Germany, China's investments started with the purchase of family-run industrial companies, such as machine-tool maker *Putzmeister* in 2010, and continued with the Chinese company *Midea's* acquisition of robotics company *Kuka AG* in 2016 for \$5.2 billion. More recently, a Chinese investor's \$1 billion acquisition made it become the top shareholder of Daimler AG. German debate over Chinese FDI has intensified since the launch in 2015 of China's *Made in China 2025* strategy, a national plan that aims to make the country a champion in key high-tech industries such as aerospace, robotics, and artificial intelligence. Many Chinese companies have eyed German companies with the goal of acquiring technologies and orchestrating transfers of these technologies.

In Italy, China's Silk Road Fund helped *China National Chemical Corporation*, also known as *ChemChina*, buy tire maker *Pirelli* in 2015 for \$7.7 billion. *ChemChina* has also acquired a string of industrial and energy related companies.

² *China's Offensive in Europe*, Washington, D.C.: Brookings Institution Press, 2016

³ <https://www.bloomberg.com/graphics/2018-china-business-in-europe/>

⁴ <https://www.ft.com/content/d91bac2c-3752-11e8-8eee-e06bde01c544>

In the EU's immediate neighbourhood, Switzerland has captured the lion's share of Chinese FDI with *ChemChina's* acquisition of *Syngenta*, one of the world's largest agri-business conglomerates. The deal was finalized in 2018 for \$46 billion, making it the world's single largest acquisition by a Chinese company.

The islands of Cyprus and Malta, both full EU member-states, are throwing open the gates to Chinese investors, especially in finance and real estate. Both have also become strong supporters of China. Then there are the cases of Greece and Portugal, two Southern European countries that together account for a modest 2.5 percent of the EU's GDP in 2017.

China has become a key-investor in Greece, mainly through a central investment project. In 2016, a Chinese state-owned corporation, *China Ocean Shipping Company (Cosco)*, took over 67 per cent of Athens' Piraeus harbour. China has signalled that it intends to use this port as the main platform for its maritime Silk Road, part of Beijing's "Belt and Road" Initiative. Most Chinese companies are now using Piraeus as their principal port of entry in Southern Europe. Visiting China in 2016, Prime Minister Alexis Tsipras declared that Greece intends to "serve as China's gateway into Europe".

To the west, Portugal has become a key recipient of Chinese investment. Per capita, it is one of the largest in Europe. During a Euro region's crisis in 2011, the Lisbon government was under pressure from the European Commission, the European Central Bank, and the International Monetary Fund (IMF), the so-called "troika," to sell state assets. China stepped forward to offer foreign investment. As part of the bailout, China Three Gorges bought 26 per cent of EDP, and State Grid Corp. of China bought a stake in Portugal's power distributor, *REN-Redes Energeticas Nacionais SA*. *Fosun Group*, a privately-owned Shanghai-based company, controls the Portugal's largest insurer, *Fidelidade*, and a group of private hospitals, just to mention a few of the more prominent deals.

State-owned enterprises from China have initiated more than two thirds of Chinese investments across the European continent. Chinese sovereign funds or state banks have financed other deals by private investors, illustrating Beijing's use of state-directed, market-distorting, mercantilist policies. A truly market-based economy remains a distant prospect for today's China.

Chinese investments cover a wide-range of sectors that can be divided into three categories:

- Infrastructure
 - Chemicals
 - Traditional Energy
 - Property
 - Mining
 - Utilities
 - Environment/New Energy
 - Construction
 - Logistics

- High-tech, manufacturing
 - Telecom
 - Semiconductors
 - Electronics
 - Internet/Software
 - Automotive

- Consumer/leisure brands/services
 - Finance
 - Retail/Wholesale
 - Entertainment
 - Commercial Services
 - Health

Although China officially began encouraging its businesses to go abroad back in the 1990s, the original wave of substantial Chinese investments in Europe before 2008 was mainly **opportunistic**. Chinese companies –both public and private- were interested in acquiring brands and technology. Good examples of this include Volvo of Sweden, acquired by a little-known private car manufacturer, Geely. State companies started to appear as prospective investors in Portugal, Italy, Greece, Germany, France in the early 2000s. This was before Xi Jinping became general secretary of the Chinese Communist Party, in October 2012. This year, Mr. Xi was reappointed as general secretary and also as State president. Meeting in March 2018, China’s National People’s Congress scrapped the two-term limit for presidential terms, potentially allowing him to stay in power beyond 2023.

2/ From “traditional” FDI to “Belt and Road” investments

In 2013 came the Belt and Road Initiative, a network of regional infrastructure projects including railways, roads, ports, airports, telecommunication links, oil and gas pipelines and energy facilities. Launched by Xi Jinping himself, the BRI is now the centerpiece of China’s foreign and domestic policies.

Today, connections between existing Chinese investments in Europe and the BRI abound (although it is important to keep in mind that not all Chinese FDI is part of BRI). In the maritime domain, new port facilities and other coastal infrastructures built or acquired by Beijing extend from China to parts of Africa and the Mediterranean. In the context, the Piraeus Harbor becomes a key element of BRI and the acquisition of port facilities in the north of Europe would also make perfect sense for China. There are talks of railway connections between Greece and Central Europe, via the Balkans (especially Serbia), projects that would be conducive to BRI’s end goal. That being said, their completion is still a way off, as there are many complexities in this region – as in many other parts of Europe.

Meanwhile, the fact that Chinese entities also partially or wholly own at least four airports (Heathrow, Manchester, Parma and Toulouse, where Airbus is headquartered), and six seaports is no coincidence. China has expressed interest in developing e-commerce across

Europe, and will need to expand logistical capacities, hence its acquisitions of massive land from Montenegro to Portugal, and from rural France to Poland and Hungary. Some additional docksides have been bought or leased. In some cases, they remain unused.

What will happen next?

BRI keeps expanding, with the criteria used to qualify a particular project in a particular country for inclusion in the program elastic and vague. The initiative also has no clear objective or timeframe, which leaves open whether China intends to use this plan to “rule the world,” as author David Ignatius put it in a recent *New York Times* editorial⁵. Above all, it will be a long, painful march, especially once China realizes that dealing with so many countries and cultures – even over an indefinite period of time – is an almost impossible challenge.

There are already growing problems along the BRI. For example, reports have appeared about suspected tax fraud at Piraeus harbour, now run by a Chinese state-owned company, *Cosco*⁶. The European Anti-Fraud Office (OLAF) confirmed it is working with Italy on the investigation into the suspected tax scams, but declined to give details.

In Central and Eastern Europe, plans for a 350-km railway between Belgrade and Budapest have stalled for obscure reasons⁷, most likely a violation by the Hungarian government of EU public procurement rules⁸. The project was supposed to symbolize the vibrant partnership between China and this region, and it is possible that Chinese companies are waiting for a more opportune time to progress.

Above all, China has so far failed to get a substantial number of Europeans interested in the BRI. Unlike in China itself, where BRI has become a household name, polls show a lack of knowledge about the initiative in most European countries. The leaders of Germany, the UK and France all skipped Beijing’s Belt and Road Forum in Beijing in May 2017, as did the president of the European Commission. Instead the latter sent one of his vice-presidents, Jyrki Katainen, who said that any scheme connecting Europe and Asia should adhere to a number of principles, including market rules and international procurement standards, and should complement existing networks and policies. In fact, 27 EU ambassadors to Beijing have gone on record to criticize the Chinese plan, warning that it threatened to damage free trade.⁹

⁵ David Ignatius: China has a plan to rule the world, *Washington Post*, November 28, 2017
https://www.washingtonpost.com/opinions/china-has-a-plan-to-rule-the-world/2017/11/28/214299aa-d472-11e7-a986-d0a9770d9a3e_story.html?noredirect=on&utm_term=.03f62d0dd700

⁶ EU suspects tax fraud at China’s new ‘gateway to Europe’ as state-owned shipping firm Cosco faces mounting opposition abroad, *Reuters*, April 20, 2018

⁷ EU sets collision course with China over ‘Silk Road’ rail project, *Financial Times*, February 19, 2017
<https://www.ft.com/content/003bad14-f52f-11e6-95ee-f14e55513608>

⁸ Unlike Serbia, Hungary is a member of the European Union and need to comply with the bloc’s competition rules

⁹ <https://global.handelsblatt.com/politics/eu-ambassadors-beijing-china-silk-road-912258>

As an alternative narrative to BRI, the EU plans to release this year a strategy on “Euro-Asian Connectivity”, to promote cooperation on regional infrastructure between Europe and Asia in a way that upholds high standards and principles. The existing EU-China Connectivity Platform is already working to promote synergies between the BRI and EU policies and projects such as the Trans-European Transport Network Policy. The goal is to ensure that BRI is an “open platform which adheres to market rules and international norms¹⁰.” The EU-China Connectivity Platform promotes cooperation on infrastructure, including financing, interoperability and logistics. The framework has already generated cooperation on various projects.

It is fair to say that the BRI presents opportunities for Europe, but it is primarily a Chinese project that will help China expand its influence in the Eurasian region and beyond. It is not clear what level of control China’s “partners” will have. For the past few years, China has demonstrated its ability to divide Europeans by creating entities such as the 16+1 format, a group designed to facilitate government and business contacts between China and Eastern and Central Europe; and by encouraging EU members to join the Beijing-run Asian Infrastructure Investment Bank (AIIB).

Although connectivity is both a Chinese and an EU concept, it is easy to understand why certain European leaders are reluctant to give China carte blanche to invest in the continent’s infrastructure. At the end of the day, Europe and China have similar aims in their respective territories: preserving jobs, fuelling economic growth, and maintaining social stability. However, they have different ways of pursuing these goals and may achieve them better by staying somewhat apart.

3/ The screening mechanism debate: not an “EU CFIUS”

The Committee on Foreign Investments in the United States (CFIUS) generally focuses on foreign investments in U.S. companies that could pose a risk to national security —meaning companies that do business with large firms with strategically important technologies. The ongoing congressional discussions, led by Sen. John Cornyn (R-Texas), aim to expand the scope of CFIUS and give it oversight over more types of transactions.

In Europe, several countries have developed their own mechanisms to screen foreign investments that directly impact the activities of defence ministries or security agencies, but only a few countries have put in place a systematic screening mechanism for foreign investments in technologies, infrastructure, or other key economic sectors. Even those few countries that do have a mechanism in place usually run an ad-hoc Cabinet-level process, handled by the national Ministry of Economics. Very few deals have been blocked, at least officially. A prominent exception was the 2017 attempted purchase of German semiconductor company *Aixtron* by *Fujian Grand Chip Investment Fund*, which was

¹⁰ European Commission, “Joint Communication to the European Parliament and the Council Elements for a new EU strategy on China”, JOIN (2016) 30 final, Brussels, June 22, 2016, http://eeas.europa.eu/archives/delegations/china/documents/more_info/eu_china_strategy_en.pdf

simultaneously blocked in Europe and in the United States, due to *Aixtron's* American component. The French Finance Ministry has acknowledged having blocked “many deals”.

As often, the answer lies in a joint European approach. In early 2017, the governments of Germany, France and Italy ignited a debate by sending a letter to the European Commission asking the EU to rethink rules on FDI. In his September 2017 state-of-the union address, Commission President Jean-Claude Juncker spoke out in favor of more investment screening measures against Chinese takeovers. “If a foreign state-owned company wants to purchase a European harbor, part of our energy infrastructure or a defense technology firm, this should only happen with transparency,” he said. The nonbinding cooperation system between member states and the Union that Juncker proposed “can be activated when a specific foreign investment in one or several member states may affect the security or public order of another.”¹¹ The planned framework would allow members to share details of proposed acquisitions on the grounds of security or public order, including those related to research, transport, energy or space.

A debate is now taking place in the European Parliament¹², between states that want Chinese investments to be screened –or at least to be examined in a transparent way- and EU members who have opposed or at least remained silent so as not to offend China, a major investor. Among the countries in favor are Germany, France, the UK, Italy, Spain, and Poland. Among those who are more critical of screening proposals are Finland, Greece, Hungary, the Czech Republic, Austria, and Malta.

Some governments, including those of Finland and Austria, have described such a procedure as “protectionist.” Many others have remained silent.

In Central and Eastern Europe, many countries, including some¹³ that are part of the so-called “16+1” group set up by China in 2011 in parallel to the EU, have mixed feelings about Brussels’ plans. Heads of governments from the group will meet again in Sofia, Bulgaria in July 2019, (controversially immediately after the annual EU-China summit). Like Greece, several of these countries have been chastised by EU and German officials since the 2008 European debt crisis. They feel that Western Europe is not providing enough help to them. This sentiment is even stronger in the Balkans where candidate countries such as Serbia, Montenegro, and Albania are welcoming Chinese money warmly in a bid to boost their economies. Many have received substantial Chinese government loans or projects in exchange for open-door policies. China may be establishing its presence in this region in anticipation of these Balkan countries eventually joining the EU.

¹¹ State of the Union 2017 - Trade Package: European Commission proposes framework for screening of foreign direct investments, European Commission, September 14, 2017, http://europa.eu/rapid/press-release_IP-17-3183_en.htm

¹² Philippe Le Corre: EU nations must come together on Chinese investment, *Nikkei Asian Review*, October 11, 2017. <https://asia.nikkei.com/Opinion/EU-nations-must-come-together-on-Chinese-investment2>

¹³ The 16 members are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia

In acknowledging the interests of members like Greece and Hungary¹⁴, the European commission is having to navigate between demonstrating that Europe is open for business and trying to implement the new investment screening framework. While French President Emmanuel Macron tries to initiate new EU reforms, there is no doubt that this topic will lead to further intra-European discussions. As the continent's economy improves, it is quite possible to envisage more cross-European investment in line with the "new EU" outlined in Macron's speech to the European Parliament in Strasbourg in April this year. But the EU will still need outside investors and, for many members, China will remain an appealing source of funds.

The issue of reciprocity

Year after year, the European Chamber of Commerce in China has pointed out the lack of market-access in China, while European markets have remained fairly open to foreign investment, including from China, leading to massive investments from Chinese actors. This lack of reciprocity has become a sticking point in EU-China relations.

Although major Chinese deals are taking place in Europe, many European companies are finding it more difficult than before to access the Chinese market. According to the Mercator Institute for China Studies (Merics), EU investments in China amounted to just \$8 billion in 2016, one quarter the volume of Chinese investments in the EU¹⁵. The lack of investment reciprocity harms European interests and leads to the perception of China as a bad faith trade partner. Still, according to Merics, "the perception of China as a free rider undermines popular support for economic cooperation with China and for an open, liberal economic order in Western democracies". Since the start of China's "open-door policy" in the late 1970s, foreign companies in China have operated under a separate set of rules from domestic companies, and have been forced to set up joint-ventures with Chinese partners. Many foreign companies consider that they are being discriminated against. China continues to restrict foreign investment in such sectors as fisheries, media, communications, financial services, transport, electricity and construction.

This situation has affected the discussions between the EU and China on the signing of a much-needed Common Agreement on Investment, the equivalent of the, similarly delayed, U.S.-China bilateral investment agreement.

¹⁴ There have also been foreign policy consequences: Last year, Greece blocked the issuance of an EU statement at the United Nations criticizing China's human-rights record. In July 2016, Hungary, Croatia and Greece –all concerned with territorial disputes, but also of not offending Beijing- opposed a strong statement by the EU's High representative for External affairs following a ruling by the Permanent Court of Arbitration in The Hague overwhelmingly in favour of the Philippines and against China, over claims to the South China Sea.

¹⁵ Chinese FDI in Europe in 2017, Rapid recovery after initial slowdown, Merics, April 17, 2018. <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe>

As this author recommended in the past¹⁶, the issue of reciprocity should also be tackled through transatlantic cooperation, in a process that could also include other Organisation for Economic Cooperation and Development (OECD) members. The National Security Strategy calls for dialogue with European allies to “contest China’s unfair trade and economic practices and restrict its acquisition of sensitive technologies,” but it is not clear whether the Trump Administration is advocating for a joint approach. The U.S. and the EU should ensure regular information-sharing and joint monitoring of the nature and extent of Chinese investments and economic activities in Europe. Although the U.S. and the EU do not always speak with one voice, they should coordinate and present a united front as Chinese capital continues to flow towards the European continent¹⁷. As a consequence of a possible tightening of foreign investment screening in the U.S. and a general worsening of U.S.-China relations, it is possible that Chinese capital originally destined to the U.S. will switch to the European continent, which makes transatlantic collaboration even more essential.

¹⁶ *China’s Global rise: can the U.S. and EU pursue a coordinated strategy?* Brookings Institution, Asia Working Papers, October 2016

¹⁷ EU-China FDI: working towards reciprocity in investment relations, Merics, April 17, 2018