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An Analysis of China's Outward Foreign Direct Investment to the EU: Features and Problems

Abstract

This research paper reviews the development of China's outward foreign direct investment (OFDI) to the European Union since the global financial crisis, summarizes the apparent characteristics and causes behind that development, provides an in-depth analysis of the problems and deep-rooted risks in such investment, and predicts that with China's economy being stronger the scale of China's OFDI will be greater in the coming period. However, since Chinese enterprises are really newcomers of OFDI, they are far from being mature and successful players, which requires not only capital, but also an organic combination of intangible elements regarding economy, society, and culture etc.

Keywords: China, OFDI, European Union, cause analysis
JEL: F2

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Introduction

China has grown rapidly, and is now the second largest world economy. China's international trade has accelerated since the beginning of global financial crisis, and it now ranks third in outward foreign direct investment (OFDI), after the United States and

Japan.[1] Accordingly, it is more and more obvious that Chinese enterprises have increased outward direct investment (primarily through mergers), to EU countries.

Chinese enterprises have been able to merge with many European companies since the European debt crisis mainly because of the merged enterprises' economic interests and willingness of Euroepans to buy "cheap articles" in their home countries. Chinese enterprises' total assets in Europe are still very limited, but some European people are "doubting" or even "afraid of" China's direct investment. This apprehension is unnecessary, and the result of being misled by some local media, which indicates that developed countries such as the US and some European countries are still not ready for, and have failed to fairly assess, rapidly growing investment from China.

Features of the OFDI Made by the Chinese Enterprises in the EU

I. OFDI made by Chinese enterprises in the EU has increased rapidly on an annual basis, but the overall scale is still limited

On the one hand, China's OFDI in EU has enjoyed a strong growth momentum over the past a few years. From 2005 to 2012, China's stock of OFDI to the EU increased by an average of more than $ 1 billion annually, with the average annual growth rate being more than 70%. And China's OFDI in the EU rose faster than that of any other country investing in the EU. China's OFDI in Europe surged 56% year-on-year to $ 799 million in 2012.[2]

By the end of 2012, the stock of investment by Chinese enterprises in the EU was $ 31.44 billion, an increase of 55.6% year – on – year (Table1). At the same time, the share of OFDI to the EU in China's overall OFDI increased rapidly, and now ranks third after HK and the ASEAN. The Ministry of Commerce of China projects that China's total investment in Europe will reach $ 500 billion.

TABLE 1. Chinese OFDI stock to the EU between 2005–2012 (Billions of dollars, percentage)

	2005	2006	2007	2008	2009	2010	2011	2012
China's OFDI stock to the EU (Billions of dollars)	0.77	1.27	2.94	3.17	6.28	12.50	20.20	31.44
Year on year growth rate (percentage)	—	64.9	131.5	7.9	97.8	99.1	61.6	55.6

Source: MOFCOM, *Statistical Bulletin of China's Outward of Foreign Direct Investment*, various issues.

On the other hand, despite the constant increase in the flow and stock of OFDI of the Chinese enterprises in the EU, its share in both the direct investment in the EU and the overall OFDI of China is rather small. China started late in making investments in the EU and, accounts for less than 1% of the total foreign investment that Europe attracts. Therefore, despite the rapid increase (China's stock of investment in Europe increased by nearly 40 times between 2003 and 2012), China's OFDI to the EU is still insignificant. In addition, according to the statistics released by the European Statistics Agency, China's investment to the EU was € 3.2 billion in 2011 (during the same period of time, the EU investment in China was € 17.5 billion), which is quite small compared with the US investment to the EU which was as high as € 114.8 billion over the same period of time.

II. Chinese OFDI Engaged in Sectors and Countries to the EU

The industrial sectors involved in China's OFDI to the EU are mainly the leasing and business services sector, the manufacturing industry, and the financing industry. By the end of 2011, the leasing and business services sector accounted for 39% of China's stock of investment in the EU countries such as Luxemburg, the Netherlands, Ireland, and Germany. China's mining industry ranks second, accounting for nearly 19% of investments, which involved such countries as the UK, Germany, Sweden, Italy, Hungary, and Poland. The manufacturing industry ranks third, accounting for 18% of China's OFDI, which was primarily directed to Germany, Sweden, Hungary, the UK, Italy, Romania, Poland, the Netherlands, France, and the Czech Republic. The banking industry accounted for 10% and focused on the UK, Luxemburg, France, Germany, and Italy. The wholesale and retail trade accounted for 4% of OFDI, and targeted their investments to Germany, Sweden, the UK, Italy, France, and Romania.

As indicated above, China's OFDI to the EU focuses on certain countries. Although China has invested directly in all EU member states, the investment distribution is not balanced. According to the Chinese Ministry of Commerce, by the end of 2011 most OFDI by Chinese enterprises to the EU was to the core EU countries. Of those, Luxemburg, France, the UK, Germany, Sweden, Netherland, Hungary, Italy, Spain, and Poland have the most OFDI, and together account for more than 90% of China's total OFDI to the EU. France was China's largest investment destination in Europe in 2012, accounting for 21% of the total, followed by the UK and Germany, with 16% and 7% respectively.

Since the global financial crisis has broken out, Chinese enterprises have accelerated their pace in making direct investment in the UK, which has become the major investment destination of the Chinese enterprises. In 2012, Chinese enterprises completed more than 10 enterprise mergers and acquisitions involving more than $ 8 billion (equivalent to nearly one eighth of China's total OFDI that year), which exceeded the total Chinese investment in the UK over the past 6 years. Since 2013, China's investment merger and acquisition projects in the UK has involved more than $ 2 billion and maintained a strong momentum for continued growth. By sector, China's UK investments are gradually shifting from such traditional fields as trade, finance and telecommunications to high-end manufacturing, infrastructure manufacturing, brand network, and R&D centers. Some major investment projects include: the China Investment Corporation becoming a shareholder of the Thames Water Utilities and Heathrow Airport; Headquarters Base has invested in Royal Albert Dock; Ping An Insurance Company of China purchased the Lloyd's Corporation's building; and Dalian Uanda is planning on building a five-star hotel in London. All these projects represent major breakthroughs of China's OFDI in fields related to infrastructure and people's livelihood in developed countries.

Germany has historically been a major investment destination of China's OFDI in Europe. According to the *Statistical Bulletin of China's OFDI* that originates from the Chinese government, Chinese OFDI in Germany surged 56% year-on-year to \$ 799 million in 2012, accounting for 13.1% of China's overall overseas direct investment in the European Union. The accumulated value of China's OFDI in Germany increased from \$ 129.21 million at the end of 2004 to \$ 3.1 billion by the end of 2012, according to the 2012 Statistical Bulletin of China's Outward Foreign Direct Investment. In addition, China was the third-largest investor in projects in Germany in 2012, following the United States and Switzerland. Chinese FDI in Germany focuses on three key industries: automotive, industrial machine and equipment; electronic and semiconductor; consumer products (including food and beverages), accounting for 62% of total Chinese outward FDI in Germany.[3]

III. Chinese OFDI in the EU Is Mainly Through Mergers and Acquisitions

Compared with starting new programs in other countries, cross-border mergers and acquisitions have relatively low risk, offer quick returns, and can effectively avoid barriers for entering a new field by allowing investors to enter the sales channel of the host country faster and more easily and build their market share. Therefore, mergers and acquisitions have increasingly become the most effective way for Chinese enterprises to enter the EU market in a short period of time. A case analysis of 172 mergers and acquisitions by Chinese enterprises in the EU involving over \$ 50 million from 2004 to November in 2009 [Ling YAO, 2011] shows that the number of mergers and acquisitions involving EU enterprises accounted for 13% of China's overseas mergers and acquisitions. This number is equal to that of North America. The EU has become an important market for Chinese enterprises to carry out merger and acquisition projects. Here, significant differences can be seen compared with the 1980s when Japanese enterprises entered Europe mainly by greenfield investment and by directly building factories in Europe.

Since the European debt crisis broke out, Chinese enterprises have actively started merger and acquisition projects in Europe, which were facilitated by considerable decreases in European assets prices and the desire of many EU member state governments to promote employment and boost incomes through foreign investment. According to *Capital Confidence Barometer* released by Ernst & Young in 2011, 42% of interviewed Chinese enterprises that were interviewed hope to grasp opportunities presented by the European debt crisis and are thinking about merger and acquisition projects. And nearly 70% of the senior managers of the Chinese enterprises interviewed are more focused on opportunities than debt problems in the Euro Zone. Merger and acquisition projects (such as those in the financial and mining industries) conducive to improving the upstream and downstream industrial chain will be the focus of Chinese enterprises. It is predicted that the investment made by the Chinese enterprises in the EU through merger and acquisitions will continue to increase.

IV. Chinese OFDI in Central and Eastern Europe and in the Western Europe is Apparently Different

Generally speaking, China's direct investment in the Central and Eastern Europe has the following features. First, China's OFDI in Central and Eastern Europe is at an early stage. Its total investment volume is small. Although some individual investments by large-scale enterprises take up a larger share, the basic volume is small. Second, China's investment is focused on several major countries such as Poland, Bulgaria, and Hungary. In 2010 and 2011, China's direct investment in these three countries accounted for nearly 90% of its total investment in the ten countries of Central and Eastern Europe (Table 2). Third, sectors of investment are shifting from transportation and infrastructure (e.g., road construction and port building) to various fields such as local production, assembling, distribution, and logistics. Fourth, the combination of China's relative advantage in technology and human resources and the real need of Central and Eastern Europe have created a unique investment landscape that is gradually taking shape, which will mainly involve the R&D of communication technology, investment in clean energy, and machinery manufacturing and processing.

The high performance cost ratio of the labor force is a major reason for Chinese enterprises to invest in Central and Eastern Europe. The general labor cost in Central and Eastern Europe is significantly lower than that in Western Europe. According to statistics released by the International Labor Office, among the ten Central and Eastern European countries, Bulgaria and Romania have the lowest labor cost (less than 5 Euros per hour per person). In 6 of the remaining 8 countries, the labor cost is around 5–10 Euros per person per hour except in Slovenia and Poland, where the labor cost is a relatively high 10–15 Euros per person per hour. Even so, the labor cost is much lower than that in the Western European developed countries, such as the UK (€ 19.32 per person per hour) and Germany (€ 28.9 per person per hour). But from the market perspective, the Central and Eastern European countries, as official EU members, are an indispensible part of the larger EU market. Once Chinese enterprises enter Central and Eastern European countries, China has entered the large EU market. Therefore, these investments have a sound potential for further development.

TABLE 2. China's OFDI to Central and Eastern European countries between 2007–2012 (Thousands of dollars, %)

Countries	2007	2008	2009	2010	2011	2012
Poland	11750	10700	10370	16740	48660	7500
Latvia	−1740	n.a.	−3	n.a.	n.a.	n.a.
Lithuania	n.a.	n.a.	n.a.	n.a.	n.a.	1000
Hungary	8630	2150	8210	370100	11610	41400
Czech	4970	12790	15600	2110	8840	0
Slovakia	n.a.	n.a.	260	460	5940	2190
Bulgaria	n.a.	n.a.	−2430	16290	53900	54170
Romania	6800	11980	5290	10840	300	25410
Central and East European ten countries in total	30410	37620	37270	416540	129250	131670
Europe	1540430	875790	3352720	6760190	8251080	7035090
Share to the ten countries (%)	1.97	4.30	1.11	6.16	1.57	1.87

Note: n.a – not available; Estonia and Slovenia are not available.

Source: China business yearbook, 2008–2013.

TABLE 3. Labor cost of Central and Eastern Europe countries, 2010

Country	Labor cost per hour (Euro)
Bulgaria	2.90
Czech Republic	9.11
Estonia	7.34
Hungary	6.17
Latovia	5.23
Lithuania	5.39
Poland	10.76
Romania	3.84
Slovakia	7.90
Slovenia	14.24
United Kingdom	19.32
Germany	28.90

Source: ILO http://www.ilo.org/ilostat/faces/home/statisticaldata/data_by_subject (accessed on 17 April 2013).

In summary, a high-quality labor force, low production costs, a friendly investment environment, and the favorable geographical position of Central and Eastern Europe are all major reasons for China to seek more direct investment opportunities in this region.

The Chinese government strongly supports this kind of investment and it has become an important part of China's economic diplomacy towards Europe. In today's international relations, investment ties are not only an important indicator but also a promoter of bilateral diplomatic relations. China hopes to promote the economic growth of the host countries and create more jobs for them by constantly increasing its investment in the Central and Eastern European countries. China also hopes to have a larger group of people who are friendly to China and generally create a more friendly overall atmosphere overseas.

Therefore, the Chinese government attaches increasing importance to investment ties and other economic and trade cooperation with Central and Eastern European countries. In 2012, China adopted multiple measures to promote concrete cooperation with Central and Eastern European countries and further enhance economic diplomacy in this region. These measures include encouraging Chinese enterprises to co-establish an economic and high-tech park in each Central and Eastern European country in the next 5 years, and also encouraging and supporting more Chinese enterprises to participate in the construction of economic and high-tech parks in these countries.

Cause Analysis of Significant Increase of Chinese OFDI to the EU

I. China's fast growing economy and large foreign exchange reserves have provided a strong basis for OFDI.

The past 30 years haave seen China gain huge dividends under the *Reform and Open--door Policy*. By 2006, the country's GDP per capita exceeded $2,000. China, according to the Theory of Investment Development Cycle proposed in 1980s by John H Dunning, a renowned British economist, has entered phase II of OFDI. Statistics from China's National Bureau of Statistics also show that the country's GDP per capita in 2012 exceeded $7,000. With the economy's steady development, China's OFDI is expected to make the transition from Phase III to Phase IV – a net international capital outflow. Therefore, Chinese enterprises are likely to see a climax of OFDI to the EU in the coming years.

In addition, the great success of China's exports has contributed greatly to the rapid growth of its foreign exchange reserves. According to statistics from the country's central bank (the People's Bank of China), foreign exchange reserves reached a record-breaking $3.66 trillion at the end of September 2013, making China as the largest holder of foreign exchange in the world. However, China is also in urgent need of increasing its OFDI to resolve the issues caused by such large reserves. Currently, China takes more interest in helping Europe out of the crisis through increasing OFDI than in buying its bonds, for China believes that increased OFDI will inject fresh energy for the sustainable development of the European economy.

Certainly, Europe's sovereign debt crisis has also made European enterprises more price competitive, creating favorable opportunities for overseas investors including China. And the close flow of trade between China and the EU has led to each seeing the other as an important economic and trading partner. By far, China is the biggest EU export destination and 2nd biggest source of imports, with total bilateral trade amounting to 14.1% of China's gross trade. Over the past decade and more, this bilateral trade has soared from €72.26 billion in 1999 to a quintupled €433.85 billion in 2012, according to statistics from the EU. Import and export volume has grown from €19.6 billion and €52.6 billion in 1999 to €143.86 billion and €289.99 billion, respectively. Both sides have benefited greatly from the close flow of trade.

Under the framework of global labor division in new industries, the fast growing flow of trade between China and the EU countries will undoubtedly influence China's OFDI to the region, for it dramatically increases the eagerness of Chinese enterprises to directly enter the EU market for economic and trade activities.

Chinese enterprises are also in demand by Europe's advanced technologies and market. China has been accelerating its pace in implementing the "Go Global" strategy since the breakout of the global financial crisis, resulting in a transition of its OFDI from the initial "resource-seeking" to "market-seeking", "efficiency-seeking", "innovation seeking" etc. Some large overseas investment enterprises of China have even set their top priorities as obtaining advanced technologies, and adopting ideas and management styles when undertaking OFDI, which further increases the proportion of technology and management--oriented foreign investments in China's gross overseas investments.

China has been constantly faced with difficulties in obtaining state-of-the-art technologies in its inward FDI because when developed countries make direct investments in developing countries, they tend to transfer technologies that are mature, standardized or even close to obsolescence to the developing countries. The monopoly of developed countries in high-tech industries hence cannot be challenged. In this regard, the best way for Chinese enterprises to resolve the issue is to directly enter developed markets through OFDI. Through M&A, cooperation or R&D centers, Chinese enterprises can thus take full advantage of the favorable investment environment and high quality talents of the host countries, learn, digest and absorb high technologies (for instance, TCL, a Chinese electronics company, has obtained over 30,000 patents in the traditional color TV industry through restructuring Thomson CA, a French company) and make further breakthroughs and innovations.

Without doubt the EU, as a union of some of the world's most important economies, is endowed with a variety of advantages including advanced science, technology and management experience, a mature market system, abundant R&D expenditures, high quality labor, a modern corporate philosophy and strong market demand, all of which meet the basic requirements for Chinese enterprises to invest and develop. For this reason, enlarging OFDI to the EU is a development imperative for Chinese enterprises.

OFDI will also meet the consumer demand from China's fast growing middle class. According to UN statistics, the size of the "global middle class" will increase from 1.8 billion in 2010 to 3.2 billion in 2020 in 10 years. Asia's middle-class population is also expected to experience explosive growth, rising from 500 million in 2010 to 1.75 billion in 2020, 1/3 of whom will be from China.

To meet this huge demand from the domestic middle class, Chinese enterprises pay special attention to acquisition of local brands, which not only provides competitive differentiation advantages over domestic peers, but also enable them to compete in high-end markets which have long been dominated by Western counterparts. OFDI has contributed greatly to boosting the global visibility of Chinese enterprises and impacting the domestic market in a positive manner. The Rhodium Group, in its report China Invests in Europe, has noted that "Chinese enterprises are taking increasing advantages of the Eurozone crisis to acquire companies and renowned brands in Europe at cheap prices."

Consistent with this objective, a survey by China Council for the Promotion of International Trade (CCPIT) in 2011 found that among all Chinese enterprises investing in EU countries between 2009 to 2011, enterprises which took the highest proportion (28%) were the ones that acquired international brands as their investment objective. That precetnage was well above those enterprises whose investments were to acquire advanced technologies and management experiences (21%), avoid overseas trade barrier (19%), and supply energy, raw materials, and natural resources for the domestic market (14%).

More OFDI will also minimize China-EU bilateral trade frictions. At present, the daily trade volume between China and the EU has reached $1.5 billion. However, since the breakout of the global financial crisis, China-EU bilateral trade friction, with anti-dumping and anti-subsidy ("Double Antis") investigations as manifestations, accounts for a high proportion of all EU's foreign trade disputes. What's more, a broad range of products (from such labor intensive products as lighters, tiles, wheels and bicycles to such high-end products as PV products in recent years) and huge amounts of money are involved in these disputes. In September 2012, EU ProSun, a union composed of 25 European solar panel manufactures, filed a complaint with the European Commission seeking an anti-subsidy investigation into Chinese PV products, which involves over €20 billion, thousands of Chinese enterprises, and more than 400 thousand jobs.

Frequent China-EU trade friction will pose even more obstacles and challenges if China adheres to its traditional way of export trading. It is therefore necessary for Chinese enterprises to enter the global market through OFDI to EU countries, and thereby accelerate localization in R&D, manufacturing, management, marketing, and personnel. In the meantime, under the laws and regulations concerning free flow of goods with the EU, enterprises should provide products in accordance with European standards that meet the various needs of European consumers, enhance management and control over sales channels, and offer comprehensive after-sales services. Increasing OFDI to the EU, in the eyes of Chinese enterprises, serves not only as an important way of expanding brand and market, but also as an effective method of reducing China-EU trade friction.

Last but least, China is confident in the future of Europe. Europe has always been a place of good impression to Chinese people, who believe with its strong economic base and technological advantages, can tackle temporary difficulties. Europe remains in a good economic condition and the EU is an attractive place for investment. As a Chinese proverb says, "a lean camel is bigger than a horse", so too, Europe is still too big to fail.

The Chinese people believe that Europe, with its abundant resources, will eventually overcome temporary difficulties and remains a strong pillar for a stable global economy. An increasing number of Chinese enterprises have shown their trust in the European economy by making investments, which are truly conducive to calming the market and restructuring the economy.

Challenges Facing China's OFDI to the EU and Reasons Behind

I. Challenges from European side

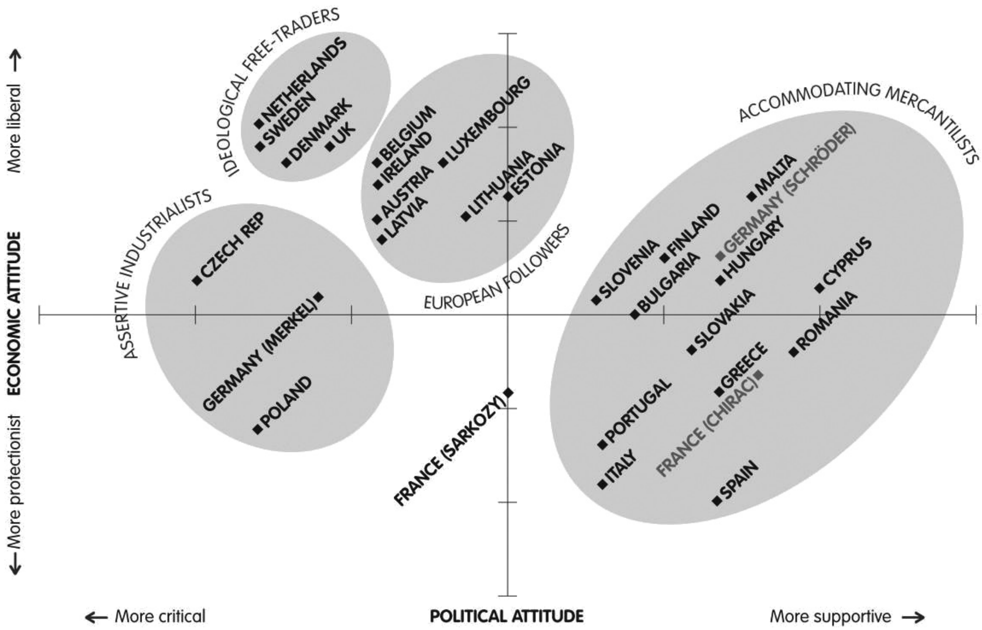
One challenge to OFDI is that the EU lacks political foresight concerning important strategic decisions. After the global financial crisis, a group of developing countries represented by China are emerging in the international economic landscape. Faced with this historic development, the EU should positively cooperate with those emerging economies as a complex international organization of 28 members to promote structural optimization and sustainable development with flourishing emerging economies. However, the fact is that EU leaders orally stress the significance of developing relations with emerging economies like China but lack effective strategies for doing so.

Another obstacle is that some people and enterprises within the EU misunderstanding, and doubt, the reasons for China's OFDI. On the one hand, it is generally believed in Europe that in 20 years China's economy will be the leading global economy. Many EU enterprises think highly of China and regard China's development as an opportunity to strengthen cooperation with China and seek common development.

On the other hand, there is the fear that China is purchasing Europe through direct investment, which leads to the panic among European people. Vulnerable and unemployed people, as well as small and medium-sized enterprises with low technical content, are particularly vulnerable to this fear. They do not realize that jobs are created and taxes paid when China's enterprises invest and build plants in Europe.

EU member states might hold four different views on the problem of trade friction with China. (Figure 1)

FIGURE 1. Possible attitude of the EU member states to China on the bilateral trade disputes



Source: Fox Godement [2009, p. 4].

The first group consists of is self-centered industrial states like the Czech Republic, Poland, and Germany. These nations tend to pressure China by supporting protectionism and oppose China's trade barriers.

The second group advocates free trade, and is represented by Finland, Sweden, Denmark and the UK. Members of this group press China politically to lessen trade barriers. They seek to benefit from China's economic development but are concenred by China's potential economic power.

Another group are followers in the EU. They do not treat China as an important nation for foreign relations, and would like to follow the existing policy of EU towards China.

Generally speaking, opinions towards Chinese OFDI vary among common European people. Those who know China and have connections with that country or are interested in China mainly support OFDI. People who know little about China, other than what they learn through local media, often fear a negative impact of China's investment on their employment -especially on the unemployed.

Attitudes among European enterprises towards China's OFDI also differ. Countries like Austria, Germany, and Switzerland welcome China's investment. This is because after the global financial crisis, some European enterprises lost financial support due to a credit tightening by European banks. Promising small and medium- sized enterprises with distinctive technologies and products from Austria, Germany, Switzerland etc. welcome investment from China, which can bring capital and market share that may help them develop and go global.

By contrast, some southern European countries (e.g., Greece, Portugal, Spain, Italy etc.) have failed to establish an internationally competitive industrial structure, used cheap loans and subsidies from the EU to overinvest in real estate after joining the Euro Zone. The fact that the global financial crisis hit them hard is due to their own mistakes. Emerging markets, such as China, should not be regarded as a scapegoat.

In addition, from the perspective of investment scale, China's direct investment in the EU, though surging from € 0.1 billion to € 3.2 billion from 2009 to 2011, is still far less than America's, which is about € 114.8 billion.[6] So viewed, European media reports about China's acquisition of European economy are groundless. There is no need to be afraid of capital from China. It is not the first time that Europe has such a fear. For example, in the 1970s and 1980s, German media were worried about Japan's capital acquisitions. Austrian media also warned the public about acquisitions by Middle Eastern countries and Russia's Country Fund.

In addition to these obstacles, international investment protectionism is rising, as manifested by the following factors. To begin with, the number of newly signed BITs continues to decline. By the end of 2012, the IIA regime consisted of 3,196 agreements, which included 2,857 BITs and 339 "other IIAs", such as integration or cooperation agreements with an investment dimension. That year saw the conclusion of 30 IIAs (20 BITs and 10 "other IIAs"). The 20 BITs signed in 2012 represent the lowest annual number of concluded treaties in a quarter century.[7]

Apart from that, many EU countries have strengthened examination and supervision on the inflow of foreign capital while actively introducing OFDI to facilitate economic recovery. According to World Investment Report 2013, 86 policies were adopted by 53 economies regarding foreign investment in 2012. Increasingly, countries have taken actions aiming at investment protection such as implementing industrial policy, reinforcing supervision, and watching cross-border M&A closely, which increases the risk of OFDI. Additionally, the UNCTAD's World Investment Report 2013 observed that over 2000 disclosed cases of cross-border M&A were canceled, totaling $ 1.8 trillion and accounting for 15% of global cross-border M&A flows.

Another manifestation of international investment protectionism are the growing number of investment barriers impsoed by EU member states. In recent years, some EU members have subjected M&A cases in key industries to their national security review mechanisms. For instance, in the spring of 2009, Germany issued a revised foreign trade act. The act authorizes the BMWI to verify foreign investors regarding national security and public order, and to terminate cases posing threats to national security.

In addition to national security verification for foreign investors, EU member states, based on their respective national conditions, have set investment restrictions in relevant area (Table 4). For example, France requires that foreign investment in banking and insurance should be approved by regulators. Several industries are not open to foreign investment including atomic energy, coal mining, and rail transport. In Germany, foreign investment is prohibited in particular industries, including inland waterway, employment, employment service and the lottery, which should be under the management of the German government.

TABLE 4. **Restrictive measures on FDI taken by some EU member states**

Member states of the EU	Laws and Regulations	Target
France	Bill No.1343 (2004), Decree No.1739 (2005)	Public order Public security National defense
Germany	German Foreign Trade Law (2009)	Public order Public security
Netherlands	Fiscal Supervision Law(2006)	Competition Financial market supervision
The UK	Corporation Law(2009)	Public interests (national security, media diversity, stability of financial system) Restriction on sensitive technology

Source: modified from Gao [2008, p. 8] and Kern [2008, pp. 34–38].

II. Challenge from Chinese enterprises

Challenges to OFDI also emanate from China. One such challenge is the overall competitiveness of Chinese enterprises, which has yet to be improved. Because of the short history of market-oriented economy in China, enterprises are relatively weak competitors. Compared with many Western corporations, Chinese enterprises still have a long way to go in developing better technology R&D, operating management skills, marketing, and other needed talents. Some large and medium Chinese enterprises also lack core competitiveness, in that they do not feature their own world-leading technologies and products or adequately protect intellectual property rights, resource and energy development, industrial design and brands. In addition, Chinese enterprises have often started late in "going global". Therefore, their experiences in overseas operations are inadequate, characterized by a lack of effectiveness in response to changing international market, market rules, and diversified cultures. One reason for these deficiencies is a lack of adequate human capitla that understands transnational management enjoys good command of multiple languages.

Chinese enterprises also lack sufficient risk awareness of investment in the EU. Some Chinese enterprises are surprised by social risks and high investment costs because they lack knowledge of the investment environment. The EU comprises 28 member states that contain a diversity of ethnic groups, cultures, laws, and customs, which make investment complicated. Chinese enterprises are particularly unacquainted with the laws and regulations of Central and East European countries in transformation, which have developed complex procedures to apply for licenses regarding environmental protection, construction, manufacture etc. The complexity of these investment environments is outside the Chinese experience, and beyond their expectations.

Conclusion

China's OFDI in the EU has been increasing more and more rapidly since the global financial crisis. This reflects, on the one hand, China's demand that Chinese enterprises take strategic action overseas in the context of structural transformation of the economy to promote their added value in terms of product innovation, brand and customer resources. On the other hand, it reflects the urgent need of some EU countries stuck in the European debt crisis for foreign capital inflow that may help them recover from the economic recession and create job opportunities. Therefore, China's direct investment to EU countries is a win-win for both parties.

For that reason, European and Chinese leaders should focus on the future of the bilateral relationship and work out a complete strategy for the long-run development and concrete implementation of steps under the new situation to promote the economic cooperation between Europe and China, including investment cooperation.

Economic fundamentals tell us that a country's OFDI is in direct proportion to its economic strength. It is predicable that with China's economy being stronger, the scale of China's OFDI will be greater in the coming period. However, since Chinese enterprises are really new comers of OFDI in the world, they are far from being mature and successful players. Over time, they need not only capital, but also an organic combination of intangible elements regarding economy, society, and culture etc.

Notes

[1] UNCTAD. World Investment Report 2013.p. xiii.
[2] China Daily 10/30/2013 p. 8.
[3] China Daily 10/30/2013 p. 8.
[4] Eurostat.
[5] UNCTAD. World Investment Report 2013, p. xix.

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