Should Chinese companies continue to invest in Europe?

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In this recent study, research groups Rhodium Group and MERICS confirm earlier reports that Chinese investments in Europe have been declining in 2017 and 2018. Also, for the first time, Chinese companies have divested significantly from the EU in 2017 and 2018. China's internal policies are important: tight capital controls, pressure on highly leveraged firms to divest overseas assets and a tightening of liquidity that impacts funding capacity. But that appears to be only half the story. As the report also points out, the EU and EU member states have begun to modernize their foreign direct investment (FDI) screening activities, (implicitly) targeting Chinese enterprises. The EU have established a framework for FDI screening (see for example this article). The European Commission has recently formulated ten action points in its rather tough strategic outlook on EU-China relations. The action points aim to "create a more balanced and reciprocal economic relationship", "address the distortive effect of foreign state ownership and state financing" and "raise awareness of security risks posed by foreign investment in critical assets, technologies and infrastructure". President Macron of France has warned Xi Jinping to respect the unity of European Union and its values, amidst concerns about growing Chinese influence in the EU.

Chinese investors should prepare for this less favourable legal and political business climate in the EU. But we don't think these developments should deter Chinese companies, state-owned or not, from investing in the EU. As a number of EU countries have shown, Chinese investments in the EU have been and remain more than welcome. Examples are Chinese investments in Greece, Montenegro and Portugal over the past few years. Very recent examples include Luxemburg and Italy who have joined the Chinese Belt and Road initiative. These are examples of government-to-government cooperation. We believe EU countries also continue to provide attractive opportunities for private-to-private Chinese investors, so regardless of their funding source. It appears the fundamental business rationale for private-to-private Chinese investments in the EU also remain strong (e.g., access to technology and a large market in politically stable jurisdictions). As such, we continue to serve Chinese clients with their transactions in the EU or who use the Netherlands as their basis for EU expansion.

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