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Chinese FDI in the EU: learning from the renewable energy sector

by
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The European Union (EU) and China have very different depths of experience in relation to clean energy, and they have developed different approaches regarding this theme. To promote a greener energy mix, including solar, wind, biomass, and hydropower, Europe relied on consumption incentives, while China pushed production subsidies and massive public investments.

Recently, Chinese foreign direct investment in the EU is helping to integrate the Chinese and EU renewable energy industries and is playing an important role in addressing economic and technological challenges in that sector. As the EU has become comparatively weak in attracting global investment flows after the world economic crisis, China's willingness to invest in Europe is an opportunity to support key industries—that is, while China continues to need Western markets, European expertise and advanced technologies regarding renewable energy are still a benchmark in this area.

From 2004 to 2013, 135 Chinese firms undertook 208 renewable energy investment initiatives in the EU.[1] Greenfield investment was the preferred mode of entry in terms of numbers, and investors were mostly private companies. Market seeking was not the only, but was by far the prevailing motivation. As a result of overcapacity at home, Chinese firms looked for Western markets, thereby compensating for price pressures and reduced margins in China. Less frequently, they opened research-and-development centers in areas in which advanced technology and know-how were available. Seldom did they build manufacturing capacity.[2]

Investments exhibited a high geographical concentration. Seventeen EU members were target destinations, but more than 40% of investments were located in Germany. Other popular host countries were Bulgaria, Luxembourg and Italy. Chinese investors hailed from 19 provinces, but around 30% of them were from Jiangsu.

Generally, EU members with a poor institutional environment attracted investments only from Chinese provinces with poor institutions.[3] On the Chinese side, the extent and direction of investments were affected by the home province's supportive measures for renewable energies. Naturally, the level of development of the internal renewable energy sector was an additional determinant. On the EU side, the quality of the renewable energy industry (as in the case of Germany, the leader in related technology) and the availability of generous consumption policies seemed to attract investors.[4]

These trends have tremendous policy implications, both in geopolitical terms and for the ongoing negotiations of an EU–China bilateral investment treaty, as well as for the formulation of EU members' investment promotion policies.

To secure benefits from cooperation, the EU needs to play a more assertive role when discussing the terms of the investment framework with China, mostly with reference to reciprocity, impact and sustainability.

Reciprocity is still missing. The recently amended Chinese *Catalog of Industries for Guiding Foreign Investment* confirms an abundant number of restricted or prohibited industries, well beyond the sensitive sectors.[5] The EU's reaction through restrictions (as in the solar panel antidumping case)[6] is extremely weak. Indeed, this is also due to the considerable internal division within the EU.

Leveraging the interest of Chinese investors in Europe, the EU should address the impact of Chinese investments on local industries, in terms of relations with stakeholders, local supplier connections and labor-market trends. Provisions aiming at ensuring appropriate and fair corporate behavior, as well as clauses to commit to environmental protection, should be prioritized.

Promotion policies by EU members should be based on an understanding of the type of institutional environment and the level of industrial development of Chinese provinces. EU investment promotion agencies might "customize" measures and leverage similarities in the quality of institutions or complementarity of industrial systems. They might selectively develop services to assist investors from institutionally challenged provinces.

One last point, which cannot be ignored, is the Clean Development Mechanism (CDM). As China has sometimes associated the regulated business of CDM with its foreign investment projects, the new structure and mechanisms of the international carbon market could play a critical role in shaping the future of Chinese investments in the EU energy sector. Indeed, during COP21, China publicly committed to strengthen cooperation with the EU to build the new carbon market.[7]

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[1] Ping Lv and Francesca Spigarelli, "The integration of Chinese and European renewable energy markets: The role of Chinese foreign direct investments," *Energy Policy*, vol. 81 (2015), pp. 14-26.

[2] Ping Lv and Francesca Spigarelli, "The determinants of location choice: Chinese foreign direct investments in the European renewable energy sector," *International Journal of Emerging Markets*, vol. 3 (forthcoming 2016).

[3] Ping Lv and Francesca Spigarelli, op. cit., 2015, p. 21.

[4] Usha C.V. Haley and Douglas A. Schuler, "Government policy and firm strategy in the solar photovoltaic industry," *California Management Review*, vol. 54, 1 (2011), pp. 17-38.

[5] National Development and Reform Commission, Ministry of Commerce, China, "Catalogue of Industries for Guiding Foreign Investment (2015 Amendment)," Policy No. 22 (2015), Chinese version available at http://www.ndrc.gov.cn/zcfb/zcfbl/201503/W020150402620481787669.pdf.

[6] *Case AD590 - Solar panels (Crystalline silicon photovoltaic modules and key components)*, Initial Investigation, Art. 5, European Commission, initiated Sept. 6, 2012.

[7] Xinhua, "China to accelerate construction of carbon market: Xie Zhenhua," *China Daily Europe* (Dec. 7, 2015), available at http://europe.chinadaily.com.cn/business/2015-12/07/content_22648422.htm.

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