



Prof. Dr. Christian Dreger, Research Director of International Economics at DIW Berlin

FIVE QUESTIONS FOR CHRISTIAN DREGER

»China's investment strategy is different for Western and Eastern Europe«

1. Mr. Dreger, how high is China's OFDI, and how has it been developing over the past few years? Chinese global FDI amounts to 150 billion US dollars—and it is on the rise. The flows have grown substantially since the financial crisis. China is now the second largest investor in the global economy. More than 40 percent of China's FDI in developed countries flows into Europe, and the bulk of that goes to Germany.
2. What is the China's strategy for investing in Europe? The Chinese government is pursuing a country-specific strategy. It appears that they are focused primarily on creating new businesses in Central and Eastern Europe. In addition, there is a massive expansion of infrastructure within the framework of the New Silk Road Initiative. In Western Europe, the key motive is to get access to key technologies. Chinese firms are interested in investing in "hidden champions"—that is, world leaders in their respective market segments.
3. To what extent are European countries dependent on Chinese capital? Large benefits can be observed in euro area countries that have to consolidate public finances through privatization of former state-owned activities. Moreover, the investment activities can stimulate the weak investment in the euro area. Europe has been suffering from low investment for many years—even before the financial crisis—and the new capital from China can help to alleviate this problem.
4. Chinese investors are seeking access to key technologies—especially through their investment activities in Germany. Is Germany at risk of losing its tech advantage? That is always a risk when foreign companies are acquiring domestic businesses or buying shares. There is a risk of technology transfer, which means that China can exploit the more advanced technologies without having to develop them on their own. This is problematic for the high-tech countries in Western Europe. How much we can protect our advanced technology on the open international market is a general issue that extends beyond the recent Chinese takeovers—and such protection measures often do not work. Instead, Europe should focus more on promoting innovation and entrepreneurship in order to reach a higher path of long-term growth. In short, it's less about defending past achievements and more about taking steps to improve the foundations for future growth.
5. Chinese investors are able to access the EU market quite easily, but European investors in China are confronted with numerous restrictions. Should Europe insist on having these laws changed? It would be helpful if we entered into an investment agreement with China. It would replace the current individual country-specific agreements with an EU-wide agreement. Among other things, it should aim at facilitating market access to China. Many of the current restrictions could be relaxed, such as the obligation to establish joint ventures. There are also other restrictions in place that could be removed, and it is important to find an agreement that benefits both sides. For EU investment in China, it's not about a technology transfer: market access is the focus here, since China is already a pillar of growth for the global economy.

Interview by Erich Wittenberg



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