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France ponders difficult decisions over Chinese FDI

Cécile Sourbes | 12/04/2018 12:00 pm |

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Since his election, president Emmanuel Macron has been on a mission to better control Chinese FDI in France. But doing so without threatening investors is a tricky balancing act, as Cécile Sourbes finds.

In January 2018, during a state visit to China, French finance minister Bruno Le Maire set the tone on Chinese investments in France. "France welcomes long-term investments from China," he said, "but only after screening deals to ensure French assets are not looted."

The comments raised eyebrows in France and abroad. From a purely economic perspective, they seem at odds with the open economy that French president Emmanuel Macron wants. But, looking closely, the remark illustrates the stance the French government has taken towards Chinese investments in recent months.

Push at the EU level

In June 2017, Mr Macron walked into his first EU Council meeting asking his European counterparts to curb Chinese investments on the continent. The call followed up on an attempt by France, Germany and Italy earlier in February to urge the European Commission (EC) to review politically motivated acquisitions of some European tech companies. Although targeted at foreign investors, the request primarily aimed to address the question of Chinese investments in the EU at a time when those investments are surging.

According to the EU-China Investment Monitor, published by Rhodium Group and produced for the EC, Chinese investments in Europe jumped from $22bn in 2015 to $40bn in 2016. In France alone, government data shows Chinese investments reached €6bn – or about $8.5bn – in 2017.

But for Emmanuel Gros, co-founder of B&A Investment Bankers in Shanghai and vice-president of the French Chamber of Commerce and Industry in China, these numbers pale in comparison with French investments in China.

"There are currently 2500 French companies in China," says Mr Gros. "This represents a total of $20bn in investments. So if we look at the numbers, French investors actually benefit much more from the Chinese market than we could think and it would be wrong to believe that the trade relations are only one way."

Brownfield dominance

However, what seems to be at question is the nature of investment rather than the volume. Historically, French investors have stepped into the Chinese market by launching a number of greenfield investments, often synonymous with job creation and new infrastructure. In comparison, most Chinese investments in France are made through the acquisition of existing assets.

"It is true that about 80% of Chinese investments abroad result from merger and acquisition deals. But there is a reason for this," says Mr Gros. "By proceeding this way, Chinese investors save between five and 10 years on their investment since the companies they acquire already have the teams, infrastructures and skills in place. It also means the brand they buy into is usually well known and there is a market for it. Their role just consists of developing it further."

Still, the acquisition of French assets by Chinese investors has often been problematic. In 2014, for instance, the purchase of a 49.9% stake in Toulouse airport by Chinese-led consortium Casil Europe raised some concerns about national security.

More recently, alarm bells have started to ring in the tech sector. "We are frequently contacted by Chinese investors who want to acquire stakes or form joint ventures with local start-ups," says the head of one local investment agency in France. "But if we think that revenues generated by artificial intelligence or big data will easily reach hundreds of billion of dollars in the future, it's not unreasonable to think that the investors who control these sectors will control large parts of the world economy going forward. So the risk for us now is to see all the knowledge and patents being taken away."

New rules on the way

This is precisely what the French government wants to avoid. Following the example of Germany – which expanded its list of sensitive industries and widened the scope of the Ministry of Economy's powers of review in July 2017 – France is currently revising its own rules.

"The new text will be an extension of the 2014 decree, which itself already expanded upon the 2005 rules," says a spokesperson for the French Ministry of Economy and Finances. "Under the current procedure, we closely oversee foreign investments in the defence, transport, water, health, energy and telecom sectors. Our goal now is simply to include other sectors such as artificial intelligence and big data."

If everything goes to plan, the rules will come into force in mid or late April 2018 and will include new types of sanctions for foreign investors who fail to meet the criteria, though these have yet to be defined by the government.

But protecting the country's interests without threatening foreign investors is a tricky balancing act, and French authorities know they need to handle the question carefully. "It's not that we don't want Chinese investors in the country," the spokesperson adds. "The president and the prime minister have been very clear on this. Chinese investors are more than welcome. But for us, it's a matter of ensuring the autonomy of the country going forward."

Towards a rise of greenfield investments

Preserving the country's autonomy is one thing; attracting investors that will potentially create jobs is another. And on that side, it seems that Chinese investors are playing an increasingly important role.

According to the EC's May 2017 Greenfield Investment Monitor, Chinese greenfield deals in Europe jumped from 2.9% of the total in 2015 to 15.4% in 2016, generating more than 8% of job creation. France was the top recipient, securing 32.5% of the total volume of these deals, against 15.2% in 2015.

For Mr Gros, two elements explain this new trend. First, the highly competitive nature of the Chinese market means companies that have grown exponentially in China in recent years may have no other option but to expand internationally. "This is a crowded market," he says. "Local firms are not only competing against each other but they also compete with foreign companies that are grabbing large shares of the market, making it more difficult for Chinese players to expand locally."

Second, the increasing production costs in China associated with the cost of exports mean local investors now prefer to launch their own facilities abroad. "Wages in China increase by 20% on average annually and, on top of that, Chinese employers bear one of the highest percentages of social insurance obligations in the world," adds Mr Gros. "So producing in China is not so cheap any more."

This, coupled with the uncertainties linked to the Brexit vote in the UK and the recent five-month political deadlock in Germany, could mean Chinese businesses continue to choose France as a key destination in Europe for their greenfield investments. At least, this is the hope of Yann Pitollet, who heads Nord de France Invest, the investment agency which promotes Lille and its surroundings areas.

"Last year, we secured two Chinese greenfield investments, one with BYD, which produces green energy technologies, and the other with Pangniu Food, which specialises in soy-based foods," he says. "Obviously, Chinese investments need to be in line with the rules the government is setting. But the fact is that Chinese investors are more and more inclined to open production plants in Europe, and our region has surely a role to play in their expansion."