

Opportunities of EU-China Comprehensive Agreement on Investment for China

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Abstract: *The European Union is the most important region for China's FDI outside of Asia, while the Chinese market has been increasingly important for EU's trade and investment as well. Therefore, China and EU proposed a Comprehensive Agreement on Investment (CAI) in 2013 to better regulate bilateral investment activities and concluded it at the end of 2020. On the basis of the springboard theory, the CAI can bring some opportunities for China. Firstly, China can seek advanced technologies and talents from EU to further build its core competitiveness and meanwhile, more Chinese capital has been allowed to enter the EU's market. Secondly, the regulations and standards of the CAI contribute to the systematic reform of SOEs in China as well as the promotion of standardized operation and social responsibility of Chinese firms. Thirdly, it helps to enhance the innovation capabilities and upgrade the industrial structure of China. However, the CAI was not approved by the European Parliament in May 2021, so its final ratification still faces lots of difficulties.*

Keywords: *EU, China, Comprehensive Agreement on Investment (CAI), Opportunities.*

1. Introduction

According to Report on Development of China's Outward Investment and Economic Cooperation, the European Union is the most important region for China's FDI outside of Asia. In 2019, China's direct investment in Europe increased by 59.6% (Ministry of Commerce of China, 2020). In terms of EU, China's market is becoming more and more important for EU's trade and investment. EU occupies about 8% of Chinese total inward FDI. Therefore, in order to better promote and regulate bilateral investment activities, China and EU proposed a Comprehensive Agreement on Investment (CAI) in 2013, which has been concluded at the end of last year. However, the European Parliament did not approve its ratification in May 2021.

In general, CAI has made clear regulations on the sections involving market access, level playing fields, state subsidies, sustainable development and dispute settlement, on which the single market has already done a good job, with an open and relatively fair trade and investment environment. Compared with that, obviously, China and its enterprises have to make greater adjustments and concessions. Therefore, in the present article, it is going to explore why China would like to sign the CAI with EU and what exactly it can gain from the agreement.

2. Opportunities that China Can Gain from CAI

Based on the springboard theory on emerging market multinationals, EMNEs use international expansion as their springboard to seek assets and opportunities. The process follows an upward spiral model, involves inward internationalization, radical OFDI, capability transfer to home, home-centered capability upgrading and global catapulting with stronger capabilities (Luo & Tung, 2018). Therefore, the present study will use this theory to analyze the opportunities that China can seek from CAI.

Firstly, Chinese enterprises can learn from the EU and introduce advanced technologies and talents. Although China's economy has grown rapidly in recent years, there is still a big gap on R & D investment between China and EU countries. In 2019, China's per capita R&D investment was 368 US dollars, far lower than most EU countries, among which Sweden reached \$1707 and Germany, \$1586.¹ Therefore, CAI helps Chinese capital enter the EU single market and strengthen the exchange of talents

¹ Data retrieved from OECD Data, <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>

and technology through cooperation. For example, China General Nuclear Power Corporation participated in the acquisition of NNB Companies to acquire experience in the UK nuclear sector as well as the approval of its Hualong reactor technology (European Commission, 2016). On the other hand, CAI also provides greater possibilities for Chinese capital to "go out". It eliminates the investment barriers between the two parties to a certain extent, strives to create a level playing field, and strengthens the legal protection for overseas investment. In view of that, more Chinese companies, especially service companies, are willing to go global. Service industries accounted for 46.8% of China's FDI to the EU in 2019.²

Secondly, the CAI emphasizes a level and transparent playing field in many sections, paying particular attention to the administrative intervention of state-owned enterprises, also their decision-making procedures and state subsidies. These are not only available to China-EU investment, but also to the current systematic reform of SOEs, which is conducive to optimizing China's internal business environment, eliminating competitive distortions, and improving the efficiency of resource allocation. Moreover, the regulations on sustainable development and intellectual property rights have also set high standards for the trade and investment of Chinese enterprises, which is able to promote the standardized operation and social responsibility of Chinese firms.

Thirdly, the first driving force for the development is innovation (Moghaddam & Sethi & Weber & Wu, 2014). The introduction of advanced technologies and talents will further enhance China's innovation capabilities, which stimulate the transformation and upgrading of the industrial structure, moving towards the mid-to-high end of the global value chain (Wang & Zhang & Zheng, 2021). CAI has relaxed the conditions for market access as well as increased bilateral capital flows and cooperation on technical skills, equipment procurement, and exchanges between professionals in the fields like automobiles, data and financial services. For instance, Beijing Automotive Group acquired German Daimler AG, and Shagang Group acquired 24% shares of UK Global Switch (Ministry of Commerce of China, 2020). The process of exchange and learning conduces to the cultivation of innovative talents, and accelerates Chinese enterprises to increase R & D inputs, and further upgrades advanced technologies, so as to improve the core competitiveness of themselves and even that of the whole industry in China, injecting new vitality into China's economic development.

3. Conclusion

Compared with the European Union, which gathers plenty of developed countries, China, as an emerging market, has relatively large shortcomings in technology and experience, especially in the mid-to-high-end global industrial chain. Therefore, CAI has created a good environment for China-EU FDI cooperation, in which China seeks development assets and opportunities, also internalizes and further optimizes advanced technologies, aiming to build its own core competitiveness, and strive to advance in the mid-to-high-end global value chain. But we also need to be soberly aware that Chinese FDI entering the EU market and the final ratification of CAI still face lots of difficulties, such as the strict control of Chinese investment by EU's Framework for screening of FDI, the contradictions and mutual sanctions between China and the EU due to the issues of Hong Kong and Xinjiang, which directly led to the freezing of CAI as well as the pressure from the US. In a word, China still has a long way to go to achieve the objectives above.

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