

CHINESE FIRMS IN GLOBAL MARKETS

ROUND 8

CHINA AND THE EU
GEELY

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Quiz Time!

Please evaluate the
cours!

[evasys.zv.uni-
wuerzburg.de/evasys/online/](https://evasys.zv.uni-wuerzburg.de/evasys/online/)

Passcode: 3WD9M



Quiz Time!

Please scan the code
to access the
socrative room!





European Concerns



EU OFDI Screening

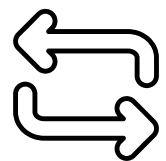


China-EU CAI



Case Study: Geely

European Concerns



RECIPROCITY



POLITICAL COHESION



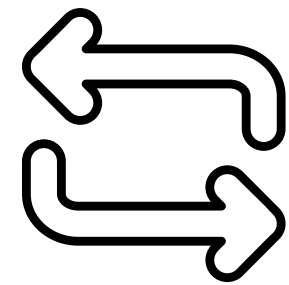
SECURITY



CHINESE CORPORATE GOVERNMENT



CCP LINKS TO CHINESE ENTERPRISES

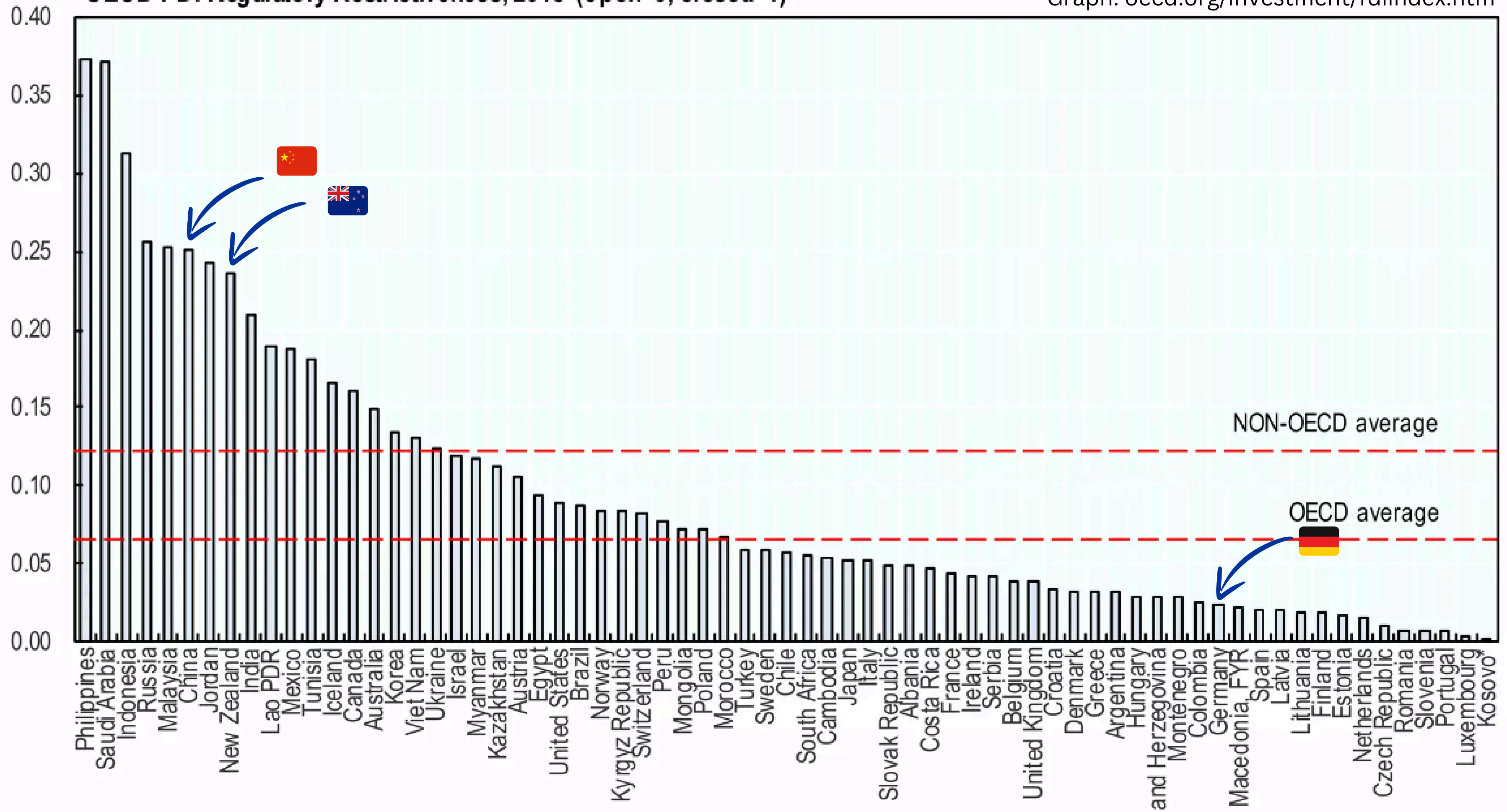


Reciprocity

- Long-standing European complaints that Europe is open, but China is not
- China does not conform to WTO regulations and national treatment (questionable)
- Objections to discriminatory behavior by China

OECD FDI Regulatory Restrictiveness, 2018 (open=0; closed=1)

Graph: oecd.org/investment/fdiindex.htm





Political Cohesion

- Some member states more open than others
- Hungary and Greece block proposed sanctions on China, Lithuania strongly favors them
- Greece vetoed a resolution on the South China Sea after COSCO bought the port of Piraeus
- Belt and Road, 16+1 initiative

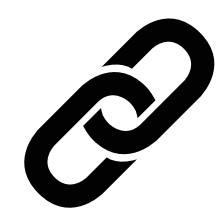
Security

- Should China be allowed to invest in critical infrastructure (Huawei and 5G)
- Concerns about national security and competitive advantages
- AXITRON takeover blocked due to fear of losing competitive advantage in semiconductors



Chinese Corporate Governance

- What happens to European workers after a Chinese takeover?
- Concerns over working conditions
- Weak labour unions in China



CCP Links to Chinese Enterprises

- Companies in China need links to CCP to grow
- The EU has concerns over both private and public Chinese investments
- Human rights concerns
- Communism as systemic rival and the PRC as economic competitor



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Case Study: Geely

The acquisition of
KUKA by Midea has
been cited as a
catalyst for the EU
FDI Regulation.

What do you know
about the case?



You are an EU official
and have to come up
with ideas on FDI
screenings.

What would be
important to you?



EU Regulation 2019/452

- Came into effect on the 11th of October 2020
- Preamble: why do we need this law?
- Answer: because we didn't have a screening mechanism until now
- Now the European Commission has the power to screen FDI into the EU



Preamble

- FDI is important for the EU's competitiveness, innovation, jobs, economy...
- Open investment environment, but not unconditionally open
- Restrictions on grounds of security and public order concerns

Preamble

“In determining whether a foreign direct investment may **affect security or public order**, it should be possible for Member States and the Commission to consider all relevant factors, including the effects on **critical infrastructure, technologies** (including key enabling technologies) **and inputs** which are essential for security or the maintenance of public order, the disruption, failure, loss or destruction of which would have a **significant impact in a Member State or the Union.**”

Preamble



- Responsibility for screening with the members
- Must provide justification
- Cooperation in key
- Members can raise concerns about investments in other member states that affect their own security or public order with the Commission



Preamble

- Commission can issue opinions, which members “should take utmost account of”
- If they don’t follow the opinion, they need to justify their decision
- Ultimately, approval for FDI lies with the member states

Preamble



- Investors can challenge screening decisions
- Members must provide information
- Members must provide a time frame
- Members can challenge already completed investments up to 15 months after approval

Preamble



- When members change their screening mechanism, they must inform the Commission
- Screenings must be reported annually
- Should include information about ownership structure, financing details, and subsidies
- Measures in place if information is unavailable

Article 1: Sovereignty

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“Nothing in this regulation shall limit the right of each member state to decide whether or not to screen a particular foreign direct investment within the framework of this Regulation”



Article 2: Definitions

FDI: “An investment of any kind by a foreign investor aiming to establish or maintain a lasting and direct link between the foreign investor and the undertaking to which the capital is made available, including investments which enable effective participation in the management or control of a company.”



Article 2: Definitions

Foreign Investor: “A natural person or undertaking of a third country.”

Screening: “A process to assess, investigate, authorize, condition, prohibit or unwind [FDI].”



Article 2: Definitions

Screening Mechanism: “A law or regulation and accompanying administrative requirements to screen [FDI] on grounds of national security or public order.”

Undertaking of a Third Country: “An undertaking constituted or otherwise organized under the laws of a third country.”

Article 3: Recommendations



- Members can individually adapt screening mechanisms, but must be transparent and not discriminate between third countries
- Must set out trigger circumstances, publish time frames, and recourse options for investors

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Article 4: Recommendations

- Lays out which investments could endanger security and public order
- Members have the right to decide on their own
- Recommendations include: critical infrastructure, critical and dual-use technology, supply of critical inputs, and media

4

Article 4: Recommendations

- Further recommendations when investments fulfill the following conditions:

Investor is directly or indirectly controlled by a third country government or armed forces, has been involved in threatening investments in other member states, or is engaged in illegal activities

Article 9: Investment Information

- Ownership structure (ultimate investor?)
- Value of FDI
- Product, service, and business operations
- Country of intended investment
- Funding and source of funding
- Date of proposed investment



Application of Regulation 452

- Dutch Semiconductors: Close involvement of the EU regarding the acquisition of a Dutch chip manufacturer by a Chinese company
- Nuctech: Raids on the offices of the Chinese security technology provider Nuctech due to supposed security breaches

Based on Regulation
452, should
investments in the
automobile industry
be considered for
screening?

Why or why not?





European Concerns



EU OFDI Screening



China-EU CAI



Case Study: Geely

How would you
describe the EU-
China relations
today?

What are the central
themes in business
and diplomacy?



EU-China Comprehensive Agreement on Investment

- European countries want easier access to the Chinese market
- Over ten percent of global trade between China and the EU
- So why is the deal taking so long?

EU-China CAI

- December 2020: Breakthrough after 35 rounds of negotiations stretching back seven years
- Text only needed to be translated and ratified by the European Parliament
- Parliament put it on hold, practically blocking the deal. Now just an 'Agreement in Principle'

CAI General Objectives

- Replace the many bilateral agreements with one EU-wide agreement
- Agreement should take the latest developments in EU investment policy into account
- Does not include trade issues, so no rules on public procurement or subsidies

CAI Specific Objectives

- New and improved market access conditions
- Addresses key challenges of the regulatory environments and dispute settlements
- Protections against unfair treatment, leveling the playing field
- Support for sustainable development

What the EU Wants

- Investment Committee consisting of Executive Vice President (EU) and Vice Premier (China)
- Dispute resolution mechanisms
- Protection of EU manufacturing in China
- China to match the EU's openness

What China Wants

- Changes in law must be communicated in a timely manner
- Stakeholders can comment on law changes
- Contact points to streamline standard setting and administrative procedures

Why the Wait?

- EU Parliament raises concerns over Hong Kong
- EU sanctions Chinese officials in Xinjiang
- China retaliates by sanctioning MEPs and two EU institutions
- This effectively sanctioned all EU ambassadors



European Concerns



EU OFDI Screening



China-EU CAI



Case Study: Geely

GEELY

- Began exporting cars in 2003 and sold almost 25 percent of all cars abroad in 2008
- New internationalization drive started with the 2010 acquisition of Volvo
- Acquired the London EV Company (2013) and a 51 percent majority stake in Lotus (2018)
- Controversy over stake in Daimler (2018)

Geely's Motivation

- Gain market access in Europe and broader West
- Acquire superior technology and management knowledge
- Brand building, both for the company and China

The Daimler Deal

- Geely employees slowly and secretly bought up shares in Daimler
- Suddenly, Daimler announced that Geely owns 9.69 percent of the company
- Shockwaves around the financial world and angering Germany by not declaring crossing the three and five percent thresholds

EU tariffs on Chinese EVs

- EU applies tariffs on Chinese EV imports!
- Tariffs of 17, 20, and 38 percent will be applied to BYD, Geely, and SAIC, respectively
- This is in addition to the already imposed 10 percent tariff on Chinese EVs
- EU divided over the matter
- China-EU summit

Based on your
knowledge of EU
Regulation 452, should
Geely's investment be
screened in Germany?

Why or why not?



Questions?



Homework

Please read the text
for the next lesson,
you will be quizzed
one last time!

