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GREENFIELD INVESTMENT MONITOR

In Focus: China's Expansion in the EU

EU greenfield vibrant, but major changes underway

Greenfield foreign direct investment (FDI) flows to the European Union in 2016 remained high at 63.3 billion euro (compared to 65.2 billion euro in 2015), **creating roughly 230,000 new jobs.**

By comparison, greenfield inflows to the United States were 12.4 billion euro lower, totalling 50.9 billion euro in 2016.

In fact, **total inward FDI** to the EU was also considerably higher than that to the US, standing at 429.8 billion euro in 2015, compared to 318 billion euro for the US. This means that around 15.2% of total FDI inflows received by the EU in 2015 were greenfield investments.

What is greenfield foreign direct investment?

Two main types of foreign direct investment (FDI) can be distinguished, namely greenfield and brownfield investments.

The concept of **greenfield investment** captures the creation of a firm from scratch, or the extension of existing production capacity by non-resident investors. **Brownfield investment**, on the other hand, primarily captures cross-border mergers or acquisitions of existing domestic firms.[1]

As **greenfield FDI** implies an expansion of the existing capital stock in an economy, it **directly generates additional economic activity**.[2] As such, it holds particular potential for supporting the European Commission's goal of generating jobs and growth in the short run. It *may* also lead to international technology transfers – depending on the sector in which the FDI takes place –thereby *potentially* increasing productivity growth.

Concrete examples of greenfield vs brownfield include the recent acquisition of the German robotics company Kuka, by Midea, a Chinese appliance company – which would be considered brownfield investment, since no additional production capacity was created in Germany. On the contrary, when Jaguar Land Rover, the UK-based subsidiary of India-based Tata Group, announced that it would invest 1.3 billion euro to build a new manufacturing plant in Slovakia, this qualifies as greenfield investment, since it clearly created additional production capacity and employment. As such, the construction of private and commercial real estate or distribution hubs would equally count as greenfield investments.

Business climate and regulation are particularly important determinants for greenfield investment.[3] Removing unnecessary regulatory barriers to investment will increase the attractiveness for FDI as a source of productive capital.

While trends in greenfield FDI are an important marker of economic activity, job creation and technology spillovers, brownfield FDI is equally important to grasp the implications of capital inflows and their impact on EU economic activity – not least because they can serve as indicators of developments in global supply chains that are crucial for increased productivity and technological transfer.[4]

The EU still owes much of its prominent position to the United Kingdom, which continues to represent the lion's share (29.2%) of total greenfield investment flows to the EU in 2016 (Table 1).

Nonetheless, UK greenfield investment took a big hit in 2016, dropping by 10.5 billion euro – from 29 billion euro (or 44.6% of all greenfield investment flows to the EU) in 2015, to just 18.5 billion euro in 2016. An increase of 8.3 billion euro in inward greenfield FDI in the EU27 compensated for this drop so that overall greenfield in the Union remained more or less stable. The increase was largely driven by increased greenfield FDI flows to France, Poland and Spain, as well as Italy (up by 1.6 billion euro) and Finland (up by 2.2 billion euro). Germany remained stable, while countries like the Netherlands or Ireland, which had ranked in the top 5 recipients in 2015, saw their inflows drop (by 1.6 billion euro and 460 million euro respectively).

In terms of sectorial allocation in the EU (Table 2), **real estate was, by far, both the sector that attracted the most greenfield investments** (15.7 billion euro, or 24.9% of total flows) **and created the most jobs** in 2016 (more than 43,000 new jobs created, equivalent to 18.9% of the total). In fact, greenfield flows to this sector – which includes investments towards the construction of residential and commercial buildings or of distribution hubs, for instance – grew by 5 billion euro compared to 2015.

Real estate was followed by software and IT services (with 5.8 billion euro invested in 2016 compared to 5.1 billion euro in 2015), communications (which saw greenfield FDI inflows cut by half, down from 10.1 billion euro in 2015 to 5 billion euro in 2016), consumer products (seeing a small growth from 3.4 billion euro in 2015 to 4.5 billion euro in 2016), and the automotive components sector (down from 5.3 billion euro in 2015 to 3.4 billion euro in 2016). Despite these sectors drawing in similar levels of funding, the communications sector proved far less job-intensive, generating only 9,000 new jobs (3.9% of the total), whereas the software and IT services sector created more than 29,000 new jobs (12.8% of the total) and the consumer products sector opened up nearly 27,600 new jobs (12% of total).

Table 1: Top 5 recipients of inward greenfield FDI, by Member State, 2015-2016

Country	Value €bn *(% of total)*		Jobs *(% of total)*	
	2016	**2015**	**2016**	**2015**
United Kingdom	18.5 *(29.2)*	29.1 *(44.6)*	50,805 *(22.1)*	61,102 *(30.8)*
France	8.5 *(13.5)*	3.1 *(4.7)*	19,445 *(8.5)*	9,353 *(4.7)*
Germany	5.5 *(8.6)*	5.8 *(9.0)*	25,429 *(11.1)*	21,618 *(10.9)*
Poland	3.8 *(6.0)*	1.6 *(2.4)*	26,263 *(11.5)*	13,186 *(4.7)*
Spain	3.7 *(5.8)*	3.1 *(4.8)*	17,271 *(7.5)*	12,602 *(6.3)*

Source: FDImarkets

Table 2: Top 5 recipients of inward greenfield FDI, by sector, 2015-2016

Sector	Value €bn *(% of total)*		Jobs *(% of total)*	
	2016	**2015**	**2016**	**2015**
Real estate	15.7 *(24.9)*	10.7 *(16.4)*	43,444 *(18.9)*	28,234 *(14.2)*
Software & IT services	5.8 *(9.2)*	5.1 *(7.8)*	29,362 *(12.8)*	26,622 *(13.4)*
Communications	5.0 *(8.0)*	10.1 *(15.5)*	9,014 *(3.9)*	11,975 *(6.0)*
Consumer products	4.5 *(7.0)*	3.4 *(5.3)*	27,598 *(12.0)*	19,662 *(9.9)*
Automotive components & Original equipment manufacturers	3.4 *(5.3)*	5.3 *(8.2)*	19,367 *(8.4)*	21,437 *(10.8)*

Source: FDImarkets

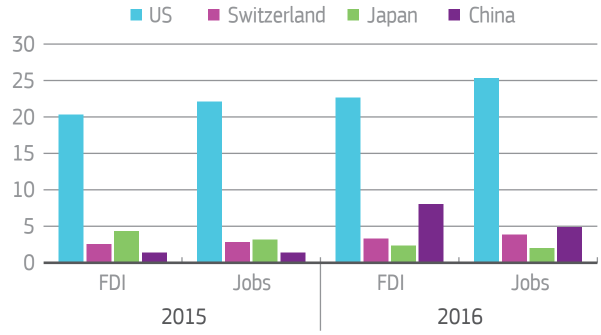
US remains top EU greenfield investor, despite China's rise

The US confirmed its position as the EU's most important source of greenfield FDI, with its share of EU greenfield investments, increasing from 43.3% in 2015 to 46.7% in 2016, to total 29.5 billion euro worth of investments.

Although **China's share increased fivefold** – from 2.9% to 15.4% – over the same period, surpassing Switzerland and Japan, **it still trails behind the US, both in terms of investments** (9.7 billion euro overall in 2016) **and job creation**, with the US generating more than half of new jobs from greenfield investments in the EU in 2016, against just 8.4% for China (Figure 1).

An issue that is often raised regarding China's FDI is that many of the enterprises investing in Europe are state-owned or supported. This means that, often, **government capital is being used to help Chinese companies to enter the EU market** (in the case of greenfield) or to buy up or into existing companies (in the case of brownfield). As such, this creates an uneven playing field with regard to European investors – and the EU's competition authorities should certainly keep an eye open for potential distortions of competition. This privileged position of state-backed Chinese companies is especially bothersome considering the lack of reciprocity in China, where restrictions on inward investments continue to prevail in many sectors. Finally, there are concerns that China could take advantage of its European business links to gain access to market-leading, cutting-edge technologies and access commercially-sensitive – or even security-related information. And there have already been incidences of Chinese companies subsequently openly sharing acquired intellectual property with other Chinese enterprises.

Figure 1: Shares of greenfield FDI from main non-EU sources (in terms of flows and jobs created)



Source: FDImarkets

Table 3: Top recipients of Chinese greenfield FDI, by Member State, 2015-2016

Countries	2016 (% of total)	2015 (% of total)
France	32.5	15.2
UK	23.1	35.9
Finland	16.8	0.7
Greece	5.0	0.0
Germany	3.5	13.9
Poland	1.3	6.6
Netherlands	2.5	6.3

Source: FDImarkets

Table 4: Top recipients of Chinese greenfield FDI, by sector, 2015-2016

Sectors	2016 (% of total)	2015 (% of total)
Real Estate	48.0	0.3
Alternative/Renewable energy	11.8	14.9
Paper, Printing & Packaging	7.8	0.0
Electronic Components	4.0	11.1
Automotive Components/ OEM	3.7	18.3
Financial Services	1.6	21.1
Aerospace	0.0	4.9

Source: FDImarkets

China betting on real estate – for now

The striking increase in Chinese greenfield FDI to the EU has topped many headlines and it is therefore worth taking a closer look at where the money is going, and where there have been notable changes in geographical and sector allocation.

Closer analysis reveals that **both the geographical** (Table 3) **and sectorial** (Table 4) **allocation of Chinese greenfield FDI are highly volatile**. The relative importance of sectors like financial services, automotive, electronic components and aerospace plunged between 2015 and 2016. In contrast, the share of the real estate sector shot up from virtually nothing to being responsible for almost three quarters of all Chinese greenfield FDI to the EU.[5] In fact, **excluding investments in real estate – which presumably**

entail only limited productivity-increasing technology transfers – China's greenfield FDI to the EU grew by a decidedly less impressive 3.1 billion euro between 2015 and 2016.

This shift in sectorial distribution is one of the reasons for the sharp increase in the relative importance of France as a recipient of Chinese greenfield FDI, while countries like Germany, the UK and the Netherlands saw a significant drop. Greece – which didn't receive any greenfield FDI from China in 2015 – was also on the up, accounting for almost 5% of inflows into the EU from China in 2016.[6] France's decisive rise was driven by a large-scale real estate project.[7] Similarly, Finland also saw its inflows from China increase, driven by a large project in the alternative and renewable energy sector,[8] but also by a large investment in the paper, printing and packaging sector.[9]

As evidenced by this year-on-year comparison, temporary changes in Chinese greenfield FDI to the EU can be impressive in magnitude and should not necessarily be interpreted as lasting trends.

What next for Chinese greenfield in the EU?

The EU is likely to remain an appealing investment destination for China, offering a favourable business environment with stable long-term returns. This is particularly true against the backdrop of the economic slowdown in China, which is likely to continue.

However, at the same time, Chinese regulators appear rather determined to stem financial outflows and circumscribe overseas investments. Barriers to investment and restrictions on foreign exchange actually drove a **sevenfold increase in the value of *cancelled* Chinese overseas acquisitions**; in 2016, 68 billion euro worth of cross-border deals were abandoned, compared to 9 billion euro in 2015.

Towards the end of 2016, Chinese authorities further increased the clampdown on capital outflows that was initiated in mid-2014, with measures including the administrative review of outbound FDI.

These moves could further encourage the Chinese exodus, potentially affecting greenfield investment flows to Europe, in addition to brownfield FDI, and marking a slowdown in the spectacular growth of Chinese FDI to the EU.

Notes

1. The database used is fDiMarkets which is a service by the Financial Times and estimates greenfield investments according to aggregated cross-border investment announcements by companies. It is the widely recognised standard for gauging the value and volume of greenfield investments globally. UNCTAD, the United Nations Conference on Trade and Development uses fDiMarkets as a source for its annual flagship publication, the World Investment Report. Figures include estimates.
2. This does not mean that brownfield investment does not increase economic activity, create jobs or enable technology spillovers. However, it does so arguably less than greenfield investment. This is especially true in the case of international mergers and acquisitions, as these do not necessarily imply an increase in the existing capital stock but integrate existing production capacity into global supply chains and thus allow for productivity increases.
3. European Commission, '*Greenfield Foreign Direct Investment and Structural Reforms in Europe: What Factors Determine Investments?*', European Economy Discussion Paper 033, June 2016.
4. As a practical example: Without looking at brownfield or merger and acquisition (M&A) activity, it would not have been possible to spot recent developments that resulted in China owning a large share of the Portuguese financial sector and its entire electricity distribution network.
5. This stark increase is driven by a few very large projects.
6. Almost 500 million euros for the building of an additional port to berth cruise liners and a large-scale passenger transport centre at Piraeus Port.
7. The project is a co-investment worth 2.8 billion euro in the city of Paris, between the Dalian Wanda Group (China) and France's Auchan Group, for the realisation of an integrated cultural, tourism and commercial project.
8. A wood-based biodiesel plant worth 875 million euro.
9. A 725 million euro investment towards the opening of a new pulp mill.