Characteristics and Impacts of the arrival of Chinese and Indian Firms in Europe: First evidence

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Abstract

This contribution deals with the rise of direct investment flows from 'third-world' to 'first-world' countries. To analyze this trend, we chose to focus on China and India due to their continental size, their high economic growth regime and their rapid pace to embrace the world economy.

Europe is the focus of this study which draws on data from various sources. And to provide an understanding of the main characteristics of Chinese and Indian investors along with the resulting impacts on European economies we adopted a firm-level perspective.

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Introduction

The extent of Chinese and Indian investment has vastly increased on all continents over the last few years, and Europe is getting its share since 2002. Even if the phenomenon is very recent and still of modest magnitude for Europe, it makes good economic sense to single out the drivers of such a dynamic, in order to get a better knowledge of the new phenomenon and identify the discernible trends.

Hence, the presence of Chinese and Indian firms in Europe was seized through an empirical analysis associating a proprietary dataset along with fieldwork conducted during the second half of the year 2007[3] in order to point out their behaviour. We also drew some insight about their main characteristics related to, and the impacts following their arrival in Europe, topics that are of particular interest for the purpose of the Conference.

1. CHARACTERISTICS OF CHINESE AND INDIAN INVESTMENTS IN EUROPE

1.1. Macroeconomic data in brief

Worldwide data on FDI which are regularly released by the UNCTAD show that Outward FDI (OFDI) from China and India is still limited either in general terms or when compared to the size of each economy (table 1). Note that it's a relatively new phenomenon with more than half of the operations being carried out since 2002.

Table 1. Stocks of OFDI from Mainland China, Hong Kong, and India – 1990-2006 (billions of dollars)

	1990	**1995**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
World	1,763	2,901	6,148	6,319	6,866	8,197	9,732	10,672	12,474
Developing countries	133	311	817	807	849	859	1,036	1,274	1,600
Mainland China	2,5	16	28	33	35	37	39	46	75
Hong Kong	12	79	388	352	370	336	406	470	689
India	0.3	0.5	1.9	2.1	2.5	5	6.6	9.6	13

Source: UNCTAD

[3] F. Hay, C. Milelli and Y. Shi, *Présence et stratégies des firmes chinoises et indiennes en Europe : une perspective dynamique et comparative*, Ministère de l'Economie, des Finances et de l'Emploi, Paris, 2008.

Thus, by the end of 2006, India, China and Hong Kong respectively held 0.1%, 0.6% and 5.5% of FDI's world stocks, and 0.8%, 4.6% and 43% of the stockpile of Developing countries.
So far, Chinese investments are higher than Indian ones: 75 billion of dollars – 764 billion if FDI from Hong Kong is taken into consideration – versus 13 billion of dollars in 2006 (table 1).
For the same year, FDI outflows from Mainland China were six times as large as in 2002, whereas Indian FDI was four times wider than in 2004 (table 2).

Table 2. FDI Outflows from China, Hong Kong, and India, 2000-2006 (billions of dollars)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Mainland China	1	6.9	2.7	2.9	5.5	12.3	16.1
Hong Kong	59.4	11.3	17.7	5.5	45.7	27.2	43.5
India	0.3	0.8	0.4	0.9	2.2	2.5	9.7

Source: UNCTAD

If FDI outflows and inflows for India are relatively balanced, China tells a different story with inflows much greater than outflows. Of course, the opening and the integration of the Indian economy to the global economy is more recent – 1990s versus the end of the 1970s for China with the onset of the 'open door' policy.

Table 3. Chinese and Indian FDI stocks by region (billions of dollars)

	Mainland China *(end 2006)*		**India** *(April 2006)*	
	FDI	*%*	**FDI**	*%*
Africa	2.6	*3.4*	2.1	*17.5*
Asia	48	*64*	1.4	*11.7*
Europe	2.3	*3*	4.1	*33.3*
Latin America	19.7	*26.2*	1.6	*12.7*
North America	1.6	*2.1*	2.3	*19*

Sources: Chinese Ministry of Trade and Reserve Bank of India

Another difference lies in that Indian firms mainly invest in developed countries while Chinese firms are more prone to elicit developing countries. As a result, Europe is the first destination for Indian FDI[4] followed by North America, while Asia and Latin America are the primary goals for Chinese firms whereas Europe still gets a tiny part (table 3).

Overall, if macroeconomic data on Chinese and Indian OFDI are worthwhile when one wants to sketch out the general trend, they are, however, difficult to interpret for several and contrasting reasons. Indeed, on one hand, outflows are generally overestimated because of round tripping investments in both cases (China - Hong Kong - China and India - Mauritius - India), and flows are following circuitous route through tax havens (Virgin Islands, Cayman Islands or Bermuda). On the other side, outflows are underestimated because many of them are financed from funds raised abroad, such as reinvested earnings, foreign loans or even shares floated on foreign stock exchanges, all of this combined not usually being taken into consideration by official data. Besides, Chinese and Indian firms in their own right often underestimate the amounts they invest abroad to avoid controls of exchange (until March 2006 in China), to pay taxes, and in some cases to play off potential critics of 'unfair competition' as a consequence of their arrival.

More fundamentally, macroeconomic data don't allow to pinpoint and to characterise key actors, hereafter enterprises.

So, let us take up a microeconomic approach in order to address the aforementioned issue, namely, to have a better understanding of the behaviour of Chinese and Indian firms in Europe, and their resulting effects on European economies.

1.2. A proprietary database to support and flesh out a microeconomic analysis

Over the last two years, we assembled a database from multiple sources (national agencies for international investment, Thomson Reuters database, and Chinese and Indian embassies in Europe) on investments carried out by Chinese and Indian enterprises across Europe. Additional information was gleaned from other sources, such as articles from specialized press, or data from annual corporate reports. Besides, thirty interviews have been conducted in Europe to match up available information or to get new one.

Our aim was to collect significant investments made across Europe. Two modes of entry stand for the bulk of these operations: the setting up of subsidiaries on one side, and the acquisitions

[4] In reality the Federation of Russia accounts for nearly 70 per cent of the current stock far head the United Kingdom

of facilities on the other. But we encountered some difficulties in gathering information. Particularly problematical was the service and trade sectors, with numerous small or very small premises such as Chinese restaurants or ‘mom and pop’ shops. To address this bias we put a cut off at 10 employees. On counterfactual if we had included all the European offices of Chinese companies of maritime transport, the number of investments recorded in the database would have increased by 50 per cent. In a similar vein, we put aside the majority of the premises of the *Esprit* clothes chain, and did the same for the *Agatha* jewelleries and the *Marionnaud* perfumeries.

Eventually, our sample has more than 1,200 establishments of significant importance located in Europe.

1.3. Characteristics of Chinese and Indian companies in Europe

To set the stage, we will give some insights about history, as it still matters even when you are confronted with a new phenomenon.

- **History**

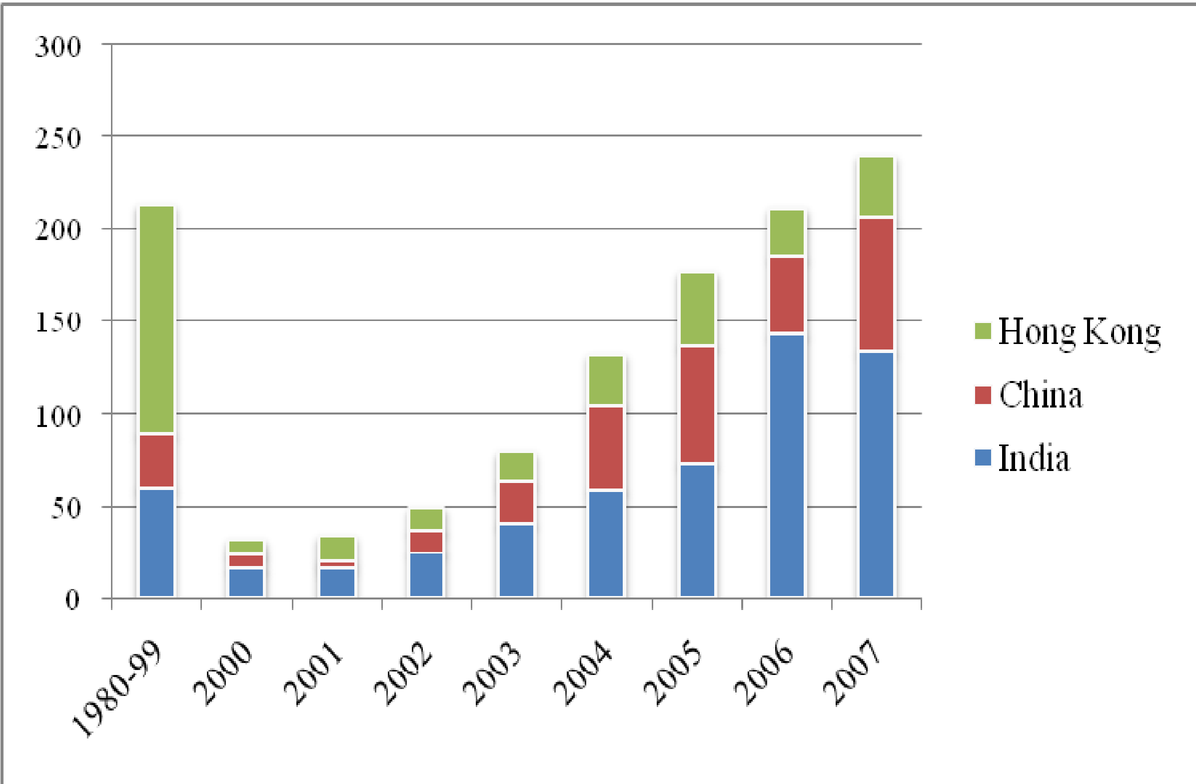
The initial forays of Chinese and Indian companies in Europe, at least publicly recorded, go back to the early 1980s, with a handful of affiliates in few European countries. Actually, the arrival of Chinese and Indian enterprises in Europe took place at the onset of the new millennium. Indeed, this time period encompasses more than 90 per cent of investments made by Chinese companies, quite 90 per cent of operations conducted by Indian firms, and around 50 per cent of investments carried out by Hong Kong’s firms. Furthermore, all these investments accelerated after 2002.

Firms from Hong Kong had a head start (figure 1): they entered the European market in the 1980’s when companies from Mainland China were hardly emerging in the domestic market, or Indian companies largely embedded in a national economy heavily regulated and sheltered with few incentives to move overseas. In this respect, firms from Hong Kong took advantage of their ‘British nationality’ – actually, it was the main reason along with the same language behind their focus on the United Kingdom. In addition, push factors such as the opening and specialisation of their city-state in corporate-oriented services have played a critical role, particularly significant when locating in Greater London.

On the whole, on more than 200 acquisitions carried out by companies from Hong Kong between 1990 and 2007, 55 per cent were finalized before the handover of 1997 while 20 per cent took place after 2002.

Investments conducted by firms from Mainland China started later, hence their latecomer status, with a first wave of State-owned enterprises occurring during the 1990s, which was followed by a second one of more independent companies after 2000.

Figure 1. Number of establishments set up in Europe by firms from Hong Kong, Mainland China, and India – 1980-2007



Source: proprietary database

Actually, the arrival of Indian investors in Europe is earlier than the arrival of Hong Kong's firms, if are put aside ventures with colonial legacy such as the emblematic *Jardine Matheson*. Indeed, the first investment made in Europe by a pristine Indian company goes back to 1975 with the set up in London of a representative office by *Tata Consultancy Services*, the software arm of *Tata Sons*, the largest and oldest Indian family-owned business group. As a matter of fact, this early move by an Indian company is due to the outward-looking nature of the 'information and communications technology (ITC) and ITC enabled services' sector in India which has emerged and developed overseas, and is still largely driven by foreign markets, particularly the US one.

Interestingly, in the 1990s, some large Indian companies acquired manufacturing facilities in Central Europe within the context of privatization programs. For instance, in Eastern Germany, when the *Treuhandanstalt* sold at a discount numerous plants, *Orkay, Usha* or *Dalmia* took this opportunity to acquire plants in textile, chemical, and electronic.

But Chinese and Indian companies have a very different background, as their home countries have followed alternative growth paths, with specific combination of state and capitalist development. And even confronted by the same constraints resulting from under-development and the lack of appropriate institutions, they have opted for different routes: State-owned companies were the unique solution in China whereas State-owned, of course, but above all family-owned companies have played a pivotal role in Indian development. But in both cases, there is a strong relation between the national development path and the outward FDI profile (Liu *et alii*, 2005; Child & Rodrigues, 2005; Pradhan 2007).

Not surprisingly, Indian companies in Europe quite exclusively encompass private companies, held and controlled by family founders (Tata, Reliance or Hinduja). The same is true for companies from Hong Kong (Hutchison Whampoa or Johnson Electric). On the other hand the bulk of companies from Mainland China is still made up of public or semi-public companies (ZTE, Saic, Jac Anhui, Cosco or State Grid), not to mention the 'invisible' links between top-ranking executives in some private Chinese companies and local public authorities (Huawei is a case in point here).

- **Modes of entry**

Generally speaking, *greenfield* investments made by Chinese and Indian investors rather involve commercial or services activities, whereas acquisitions more often concern manufacturing tasks, or R&D activities in some cases. Joint ventures are not used on a significant level by both investors, and it's too early to notice expansion or, on the contrary, the closing of previous investments. Surprisingly, Chinese firms do not resort to joint ventures to bridge the 'psychic distance' to European countries. Obviously, these features mirror the new global business environment where time responses, are from now on a central factor of competitivity for the enterprises. As a consequence, long-term strategies such as building its own manufacturing facilities or brand recognition are becoming costly and risky.

In the case of Chinese firms (Mainland China plus Hong Kong), the buyout mode occurs in 60 per cent of investment cases with firms from Hong Kong being the most dynamic (table 4).

Table 4. Modes of entry of Chinese firms in Europe – 1980-2007 (in percentage)

	Greenfield	Buyout	Joint Venture	Extension	Total
Mainland China	60.5 %	32 %	6 %	1.5 %	100.0 %
Hong Kong	12 %	86 %	2 %	-	100.0 %

Source: Calculation by the authors

Greenfield investments are preferred in 60 per cent of operations made by firms from Mainland China, probably because of financial liabilities' constraint. These firms are generally cautious and more prone to adopt a step-by-step strategy when they decide to enter Europe. Even large enterprises such as *Huawei* or *Lenovo* are more inclined to resort to organic growth without however discarding buyout deals when it's strategically advantageous.

However, the whole figure of Chinese investment in Europe took a new dimension in 2002 with the acquisition of sizeable European companies endowed with well-known brand name – e.g. *Adisseo* and *Rhodia* in France, *Schneider Electronic* and *Zimmerman* in Germany, or *MG Rover* and *Leyland* in the United Kingdom.

When one takes a closer look at Indian enterprises in Europe, acquisitions stand out as their first mode of entry (table 5). Indeed, firms from chemistry, pharmacy and the automotive industry have targeted European companies in order to rapidly capture a significant market share and also to acquire well-known brand names. By way of illustration, two Indian companies, *Mahindra & Mahindra* and *Tata Motors*, were the last contenders to acquire the UK icon brands, *Jaguar* and *Land Rover*, when *Ford* made the decision, in 2007, to bring them to the market[5].

Table 5. Modes of entry of the Indian firms in Europe – 1980-2007 (in percentage)

	Greenfield	Buyout	Joint Venture	Extension	Total
Indian Firms	46 %	49 %	1 %	4 %	100 %

Source: Calculation by the authors

[5] Finally, Tata Motors clinched the deal.

Contrary to the United States, the prominent entry mode of firms from ITC and ITC enabled services sector in Europe was through *greenfield* investments. But in both cases the aim was the same, namely to get a local presence close to customers for effective exports of software and related services such as BPO.

All in all, Indian firms appear to be less risk-adverse than their Chinese counterparts, and their managers have more leeway to take strategic decisions. Two reasons are here of most importance: first, they are for the most part family-run; and second, they exhibit less differences in culture and managerial practices than Chinese firms when they first arrive in Europe. Therefore, they have not restricted to friendly acquisitions and didn't hesitate to pay substantial premium to acquire vibrant European companies. For example, *Tata Steel* disbursed 10 billion of euros, in 2007, to acquire the Anglo-Dutch steel manufacturer *Corus*.

- **Geographical distribution**

The top five European countries – United Kingdom, Germany, France, Italy and the Netherlands – together are host of 75 per cent of Chinese and Indian investments in Europe. And the United Kingdom, France and Germany, the three largest countries, are, by far, the first destinations. The main explanations resort to: size, attractiveness of their domestic market, and gateway to serve Continental Europe. This mix is particularly potent in the Germany case, and it explains its lasting attractiveness. When considering Chinese firms, the importance of the United Kingdom as a top recipient results from investments made by Hong Kong's firms before the handover of 1997. Concurrently, the UK position is equally important for Indian investment. In both cases, the focus can be explained by linguistic and historical links between countries in reducing the 'liability of foreigners' or 'psychic distance' by decreasing the costs of entering the country and consequently increasing the cost effectiveness of their internal control mechanisms. In addition, a vibrant financial sector within the London city is also playing a critical role not only, as expected, in banking, assurance and financial services, but also in several professional services. Furthermore, it should be noted that ethnic factors have been at play in some Indian investments.

Germany comes just after thanks to reasons alluded to above, and additionally to the importance of its manufacturing basis with numerous small and medium-sized enterprises, better known as *Mittelstand*.

Afterwards, the eastward enlargement of the European Union notably to Hungary, Poland and the Czech Republic has given rise to fresh incentives to invest in Europe with new countries or places endowed with relatively low labour costs and good qualifications.

- **Sectoral composition**

The sector-base composition of Chinese investment in Europe is much larger than that of Indian firms which is more concentred on ITC and ITC enabled services, generic drugs and the automotive industry, even if it can be readily seen that equipment is the mainstay of Chinese investment in Europe (table 6a). Here, equipment dedicated to telecommunication and electronic sectors such as TV sets are the main components, and have been the key drivers of its dynamic during the last period (2002-2007). For example, the two Chinese telecom equipment manufacturers *Huwaei* and *ZTE* have offices in quite all European countries.
Far behind comes 'motor vehicles', and 'transport' and 'chemicals and chemical products' point at the third rank.

Table 6a. Main activities of firms from Mainland China in Europe (1980-2007)

Main sectors	**1980-2007**	
Equipement:	46 %	
- Telecommunication		*21.7 %*
- Electrical and electronic		*17.6 %*
- Machinery		*6.6 %*
Motor vehicles	10 %	
Transport	6.6 %	
Chemicals and chemical products	6.6 %	
Household appliances	6 %	
Textile and clothing	5.7 %	
Finance	1.5 %	

Source: Calculation by the authors

If equipment comes first for Hong Kong's firms in Europe (table 6b), the percentage is less important than for Mainland China (20.5% versus 46%). But, if one gathers 'transport',

'trade', 'finance' and 'construction firms' in one set entitled 'specialized services', the resulting picture is a bit different, and somehow mirrors the historical comparative advantage of the city-state.

Table 6b. Main activities of firms from Hong Kong in Europe (1980-2007)

Main sectors	**1980-2007**	
Equipment:	20.5 %	
- *Telecommunication*		*8.5 %*
- *Electrical and electronic*		*8 %*
- *Machinery*		*4 %*
Transport	16.5 %	
Trade	9.4 %	
Finance	8.4 %	
Textile and clothing	7.7 %	
Motor vehicles	7.3 %	
Luxury items	6.3 %	
Construction	6.3 %	

Source: Calculation by the authors

Lastly, we turn to considering Indian firms in Europe. When taking into consideration the number of operations, it appears that their sectoral composition is focused on few activities belonging to high-technology activities with two sectors standing out: first and foremost, ITC and ITC enabled services; second, the pharmaceutical sector, *viz* new processes and drug delivery system which had enjoyed at home a soft patent regime during the 1970-2005 period (table 6c). If the former was largely based on *greenfield* investments through internalisation strategies aiming at reaping operational synergies from a specific business model (onshore/offshore service delivery), the latter, on the contrary, was founded on acquisitions to rapidly take advantage of a window of opportunity in a changing industry and national setting. The ITC and ITC enabled services not only include the top-ranking Indian companies such as *Tata Consultancy Services, Infosys, Wipro or Satyam*, but also mid-sized companies (Polaris Software or Aftek Infosys). Most of their investments have been carried out through wholly-owned subsidiaries. They are targeting new customers across Europe as their market share is

here still low when compared with their US share.

'Chemicals and chemical products' come in second position. Here, the main driver has been an acquisition spree that took place in early 2000s. Thus, more than twenty European companies were acquired by Indian drug companies from 2000 to 2007; *Ranbaxy Laboratories* and *Wockhardt*, with respectively 6 and 5 buyouts, were the most active. 'Other chemical products' – i.e. fertilizer, weed killer, dyes and polyester fibres – takes the third rank.

As said previously, this ranking is lightly different when the value of operations is taken into consideration with the pharmaceutical industry posting at the first rank due to numerous acquisitions made across Europe. Other sectors, as the automotive industry or the metallic sector due to recent big ticket acquisitions, are also reaching the top ranks.

In summary, the sectoral composition of Indian and Chinese investments in Europe is consistent with the respective comparative advantage of their home country. Somehow, it confirms the intertwined nature of FDI and exports, and also may be indicative of the competitive advantages (and drivers) of emerging multinational at an early stage of their development. Actually, the context and dynamic of the home country seem particularly valuable for such companies, and could be an alternative to specific competitive advantages which have been extensively pointed in the academic literature (Dunning 1993, among others).

Table 6c. Main activities of firms from India in Europe (1975-2007)

Main sectors:	**1980-2007**
Software-consultancy-data treatment	42 %
Chemicals and chemical products: *- Pharmacy* *- Other chemical products*	19.3 % *13 %* *6.5 %*
Electrical and electronic equipment	4.5 %
Motor vehicles	3.5 %
Food and beverages	3.5 %
Machinery	3 %
Textile and clothing	3 %

Source: Calculation by the authors

- **Functions**

Three main functions have been picked up: services, production and R&D.

Either for Chinese firms or their Indian counterparts, services come first and are generally supporting trade, marketing activities or after-sales services (tables 7a & 7b). Their aim is to reduce transport costs, circumvent tariff barriers or potential peak tariff raised in retaliation, better satisfy the local demand, or set up regional headquarters. Note that the importance of this activity is underestimated in our dataset due to a threshold put at 10 employees to collect data.

Manufacturing functions hold the second rank for both investors. And it somehow runs against common wisdom according to which firms from China and India don't have any incentive to manufacture in Europe. But several factors support this finding: the rise of maritime transport and labour costs, the required customisation of products, and also the importance of the 'made in' label for European customers.

Note the relative importance of investments dedicated to R&D functions for Chinese investments. However, it's basically development – i.e. an adaptation to the room market – instead of innovative research. By contrast, R&D activity is less common for Indian firms. It suggests that operations conducted by Indian firms in Europe don't target in first priority technologies.

Table 7a. Main functions exhibited by Chinese investments in Europe (%)

Function	China	Hong Kong
Production	36 %	33 %
R&D	23 %	4 %
Services, *among them*:	62 %	57 %
- Trade	*22 %*	*23 %*
- Headquarters	*11 %*	*2 %*
- Transport	*5 %*	*18 %*
- Other services	*24 %*	*14 %*

Source: Calculation by the authors

Table 7b. Main functions exhibited by Indian investments in Europe

Function	**In percentage**
Production	38 %
R&D	2 %
Services, *among them:*	55 %
- Trade	*25 %*
- Headquarters	*3 %*
- Transport	*2 %*
- Other services	*24 %*

Source: Calculation by the authors

Furthermore, functions are often related to the modes of entry chosen by Chinese and Indian firms when they decide to move in Europe (Table 8). As argued earlier, manufacturing tasks are systematically associated with acquisition: 75 per cent for Chinese investors, and 87 per cent for Indian ones. Likewise, services are strongly correlated with *de novo* investments: more than 80 percent for Chinese investors, and more than 65 percent for Indian companies. Here, it's the full control over specific functions – i.e. trade-supporting activities in general or R&D – or on specific industries – ITC and ITC enabled services, or drug industry for Indian companies, or telecom equipment manufacturing or maritime transport for Chinese companies – that are the main reasons.

Table 8. Links functions-modes of entry of Chinese and Indian investors in Europe

	Greenfield		***Buyout***	
	China	**India**	**China**	**India**
Production	18 %	10 %	75 %	87 %
R&D	57 %	67 %	37 %	29 %
Services	81 %	80 %	16 %	10 %

Source: Calculation by the authors

2. THE IMPACTS OF CHINESE AND INDIAN FDI ON EUROPEAN COUNTRIES

This topic is of particular importance for policy makers, public opinion and citizens – it's also of great interest for scholars – as several and contrasting effects might be expected. But, to date, no assessment has been conducted at the European level. The explanation can be easily found in a phenomenon still in its infancy, the significant delay required to properly grasp the whole consequences, and the still relatively low amount of operations under consideration. Notwithstanding, we took the initiative to go beyond the casual observation by resorting to a more systematic approach.

2.1. A general framework

We started with the scheme put forward by Kaplinsky and Messner (2008) whose purpose was a little bit different: namely, to capture the different interactions (and their resulting impacts) of China and India, dubbed 'Asian drivers', and the global economy in general, with a focus on some developing countries in Africa.

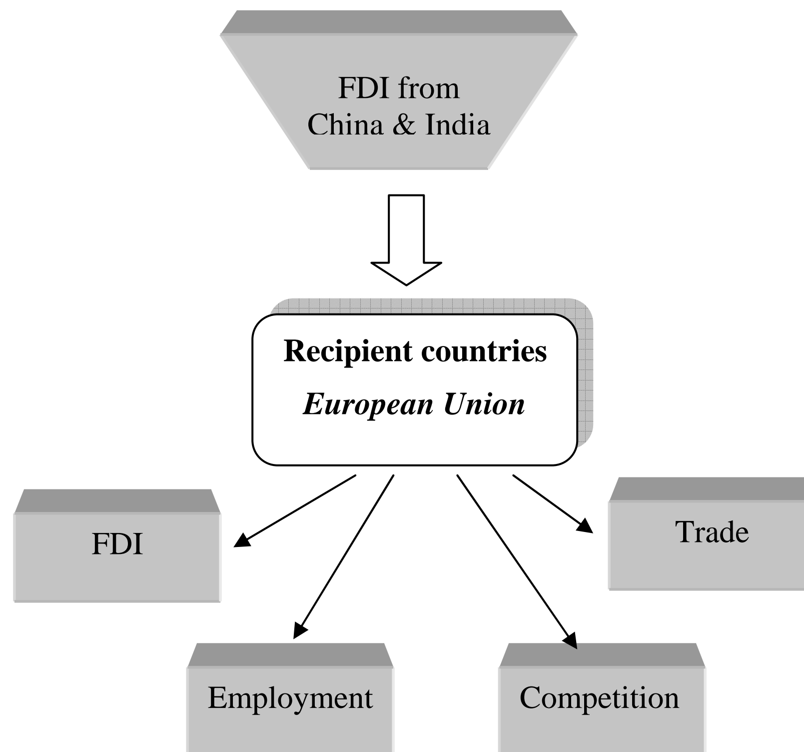
Here, our goal is less ambitious with only one channel of interaction, FDI, along with only individual recipient economies, which are mature ones (European countries). In this respect, we restricted ourselves to complementary or competitive impacts. What we tentatively have done in what follows is: first, to collect and sort out the different impacts observed through our own data; and, second, to tentatively connect the various effects.

For the sake of clarity, it's useful to recall the meaning of the two sets of impacts. Complementary impacts which meaning is quite intelligible are actually increasing effects already at play, while competitive impacts are rather challenging the previous ones. In both cases, we didn't presume that the consequences are positive or negative for recipient economies, but the complementary impacts are generally viewed as positive, or at least neutral, whereas the competitive ones are more negative in their nature.

At last, we picked up four different economic aspects – FDI, trade, employment and competition – that could be impinged by outward FDI – i.e. the arrival of Chinese and Indian companies in Europe. Of course, other domains could be affected but not in first instance in our view, as consumer welfare, for example, being rather an outcome of increased competition or of enlarged and diversified trade flows. Besides, it could be difficult to disentangle them from other channels of interaction or simply negligible (migration).

Figure 2 gives an overview on these different components.

Figure 2. General scheme



2.2. Complementary versus competitive impacts

In the real world, these impacts occur concurrently, but for analytical reasons, we will differentiate them whenever it's possible. Table 9 illustrates through examples the underlying logic.

- FDI comes naturally first. Basically, FDI flows from China and India towards Europe are a direct source of foreign investment for it (complementary effect), but they can also compete with other countries – be from developing or developed countries –- for FDI flows bound to Europe (competitive effect). For example, in low or mid-technological intensity sectors, Chinese or Indian companies willing to invest in Europe are growingly in competition with companies from countries on the same level of development, Brazil or Russia, among others. As a matter of fact, Tata Steel was outbid by Brazil's *Companhia Siderurgica Nacional* when it made the decision in

2006 to acquire the Anglo-Dutch steel producer *Corus*, and consequently was constrained to pay a premium to clinch the deal.

- Obviously, trade is the major domain to be affected. Two main reasons can be advanced: first, FDI is more and more interlaced with trade as a consequence of the fragmentation of manufacturing processes, and concurrently the development of transnational manufacturing networks. In reality, FDI has turned into the dominant vehicle for international trade. Thus, almost 40 per cent of all world trade these last years was intra-firm while two-thirds of exports came from affiliates of multinational enterprises. Second, it might have detrimental side effects in the political arena of European countries. If India is not concerned due to a well trade balanced figure it's another story for China due to bulging trade surplus with the European Union. Here, complementary effects result from FDI-trade related. And it's particularly true for Chinese investment in Europe, with increasing trade supporting networks and after-sales service centres helping the import of highly cost-competitive consumer or intermediate goods from China. This dynamic also unveiled a competitive dimension when Chinese companies are climbing up the value ladder and therefore displacing European firms at the back end to get direct contact with European consumers or to venture into marketing activities. The *Esprit* clothing or the *Marionnaud* perfumeries chains are living examples.

- Employment too is an important issue for the European Union due to lasting structural unemployment. As far as FDI from China and India are concerned, the results are mixed. On one side, jobs have been created or, in many cases, safeguarded. However, it's too early to draw firm results. Not surprisingly, sectors such as Chinese telecom equipment or Indian software which have grounded their entry and development in Europe through *de novo* investments have created numerous jobs. For example, *Huawei* now has 2,000 people on the payroll in its European subsidiaries. On the other side, as expected, mergers and acquisitions deprive the job toll with at times relocation of manufacturing lines in the home country. However, in some notorious cases, it's the reverse that prevails, with jobs being kept on or even extra jobs. The case of *Nanjing Automobile* which first relocated its production of *MG Rover* cars in China, before moving back two years latter to the United Kingdom is interesting to mention. At times, Chinese firms have maintained an European activity from the acquired firm with the aim to duplicate it in China. The *China National BlueStar* case, through its

British and French acquisitions, is a clear-cut illustration of this strategy. All in all, the results are contingent upon individual country or region, sector, or period of time. For example, France and Germany did not exhibit similar effects when confronted with the arrival of Chinese companies.

- Lastly, increased competition within European countries is visible but the results are similarly equivocal. On a plus side, economic wisdom views it as a key engine for consolidation that might increase efficiency of European companies – which can be significant through inter-sectoral linkages – while on a minus side, it could lead to relocation of manufacturing activities in the home country and imply job losses. By setting up wholly-owned subsidiaries they can closely interact with consumers. Moreover, in such sector as telecom equipment they could displace incumbent European companies through aggressive strategies based on discount prices or lead-time particularly short.

Table 9. Complementary or competitive effects on European countries resulting from the arrival of Chinese and Indian companies

Economic domains affected	Nature of impacts	Impacts and causal connections
FDI	complementary	FDI flows from China and India are a fresh source of investment for European economies
	competitive	Compete with other countries, particularly developing ones, willing to invest in Europe
Trade	complementary	FDI, particularly in the China case, support the import of cheap consumer or intermediate goods
	competitive	Imports displace local producers or transport companies
Employment	complementary	Extra jobs or, in many cases, jobs are safeguarded
	competitive	Layoff or displacement of employees resulting from closing or relocation
Competition	complementary	Accelerate the adoption of more efficient manufacturing processes. Spurt innovation
	competitive	A cut-throat competition in some sectors

		can be detrimental for European firms or industries

2.3. Discussion

We put emphasis on impacts directly affecting individual European countries, but in reality some indirect effects are also at play, and although still of minor importance could become more significant in the future. Likewise, some aspects may affect the whole European Union or even foreign countries – take for example, the US economy – with backward effects on individual European countries.

We also centered on economic aspects with other dimensions being put aside, as policy or strategic implications. But things are changing. By way of illustration, just have a hard look at FDI with the coming of the Chinese 'sovereign wealth fund' CIC. By its intrinsic nature it extends beyond sole FDI and somehow come to represent the rise of 'state capitalism'. Of course, it's questionable and requires monitoring[6]. However, the stakes are so far tiny, don't exhibit any activism contrary to hedge funds or private equity-funds, are long-run committed, and to date, have been significant providers of capital to European markets. So far, CIC has limited stakes in the bank and insurance sectors, or in energy: 1 per cent in *British Petroleum*, 1.3 per cent in *Total*, or 2.2 billion of euros in the British bank *Barclay*, but on the verge to acquire the German *Dresdner Bank* and the Swedish bank *Nordrea AB*.

As argued earlier one has to bear in mind the contingent aspect of these effects. If the general scheme used previously is valid for the period of time under consideration, it can change significantly in the future all the more because it's a new phenomenon.

3. CONCLUDING REMARKS

Indian and Chinese corporate presences in Europe are not alike, and the gap has widened during the last years, notably since 2004 (Figure 1). Accordingly, Europe is a more favorable destination for Indian firms, more so than for their Chinese counterparts: India is outperforming China in terms of the total number of investment operations already made. The main reason lies on the sectoral composition of Indian FDI which is focused on few high-

[6] This fund has been created in 2007; its amount is estimated to about 200 billion of dollars, with about 90 billion of dollars to be spent on assets abroad; furthermore, the State Administration of Foreign Exchange is trying to establish itself as a sovereign investor.

technological sectors. This striking difference reminds us that the rationale and behaviour of enterprises are not homogeneous across countries even when taking as source countries developing economies, on one side, and developed economies as recipient countries, on the other. In fact, what really seems to matter is the correspondence between the structure of the home and host economy with their former one being particular crucial here.

However, Chinese and Indian investments in Europe which exhibited different features and behaviour at its early stage of their arrival are nowadays adopting more similar stances to strengthen their European footprints.

Furthermore, these investors are looking for the various 'comparative advantages' endowed by European countries – e.g. the United Kingdom, particularly the Greater London, for European headquarters and business services, Germany for mechanical and pharmacy sectors, Sweden and Denmark for R&D and renewable energy activities, or France for luxury items. By doing so, they reinforce the prevailing advantages, but also they participate to increasing disparities between already well-endowed regions or sectors, and less wealthy ones. Further, this outcome could be compounded by the competition across Europe between national or regional agencies to attract international investment.

For the future, the general context would be different with significant consequences for Indian and Chinese investors in Europe, be already in place or newcomers. What is at stake is the choice made by many companies in China and also in India towards low-cost production. Unquestionably, it has been the main engine of China's economic miracle. But as inputs, labour and energy costs, and protection for employees and environment all got tougher, notwithstanding currency appreciation for China, the set up of manufacturing facilities across Europe might be a real option for Chinese and Indian investors in the coming years.

More generally, further research on China and India's outbound FDI in general, and towards Europe in particular, are worth considering. As far as Europe is taken under consideration, the current dynamic will last with more operations and a larger spectrum of activities even whether it would be a long learning process for Chinese companies. Equally important, are the various implications for the business models of Chinese and Indian companies with stimulating research questions in line.

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