No love lost for Chinese investors!

By Sarah Guillou

In his speech of 15 January 2017, France's Minister of Economy and Finance, Bruno Le Maire, speaks of "plundering investments", suspecting Chinese investors of wanting to "loot" French technology. These statements inscribe the Minister of the French Economy in line with economic patriotism from Colbert to Montebourg, but this time, they are part of a broader movement of distrust and resistance to investment from China that is hitting all the Western countries. And while the French government is planning to expand the scope of decrees controlling foreign investment, many other countries are doing the same.

France is not the only country to want to modify its legislation to reinforce the grounds for controlling foreign investors. The inflow of foreign capital was primarily viewed as a contribution of financial resources and a sign of a territory's attractiveness. France has always been well placed in international rankings in these terms. In 2015, France ranked eleventh in the world in terms of foreign direct investment inflows, with USD 43 billion, mainly from developed countries (compared with USD 31 billion for Germany and 20 billion for Italy). And since French resident investors have invested USD 38 billion abroad (Germany and Italy, USD 14 and 25 billion respectively), the balance is in favor of productive capital inflows, which exceed capital outflows.

However, France has always distinguished itself by its greater political mistrust of foreign equity, especially when it comes to its "flagship" industries. But now this mistrust is being echoed in Western countries with regard to Chinese investors, and not only across the Atlantic where all the political actors have had to sing in tune with the economic patriotism of the Trump administration. Chinese investors are also perceived as predators by the Germans, the British, the Australians, and the Italians, to name just a few.

It must be said that China's industrial strategy is very proactive, and the external growth strategies of Chinese business is being supported by a policy aimed at moving upmarket and acquiring technology by any means. Moreover, the presence of the State behind the investors – it is characteristic of China to have private and public interests tightly interwoven as well as a strong State presence in the economy because of its communist past – creates potential conflicts of sovereignty. Finally, China is threatening more and more sectors in which Western countries believed they had technological advantages, which is worrying governments (see the *Policy Brief de l'OFCE* by S. Guillou (no. 31, 2018), "Faut-il s'inquiéter de la stratégie industrielle de la Chine?" [Should we worry about China's industrial strategy]). Finally, China is not exactly exemplary in terms of taking in foreign investment, as it erects barriers and constraints often associated with technology transfer.

Western countries are reacting by increasing the scale of their controls: issues touching on national security and public order are being supplemented by strategic technologies and the ownership of databases on citizens. In France, the Minister of the Economy, Bruno Le Maire, announced that he wanted to extend this to the storage of digital data and to artificial intelligence. In Germany, the acquisition of Kuka, the manufacturer of industrial robots by the Chinese firm Midea, has led to strengthening German controls, and in particular the refusal of the purchase of the Aixtron semiconductor maker.

In the United States, it is on the grounds of the acquisition of banking data that the acquisition of MoneyGram by Ant Financial – an offshoot of Alibaba – led the Committee on

Foreign Investment of the United States (CFIUS) to issue a negative opinion very recently. The European project to create a committee identical to the CFIUS has not yet been concluded, and it has not attracted the support of all EU members as some look kindly on Chinese investors.

This policy, while not coordinated, is at least common among the main recipients of Chinese investment. France is not the only one to hold this position. This kind of unanimity among the Western clan is rare, but it also involves risks.

The first is isolationism: too many barriers lead to giving up partnership opportunities, which in some areas are increasingly unavoidable, as well as opportunities for strengthening Western companies. The second is the risk that equity bans will be circumvented by Chinese investors. Acquisitions are not always hostile, and companies that are being acquired are often ready for partnerships that can take other forms. Thus the failure of the merger of Alibaba with the American MoneyGram was offset by numerous agreements that the company sealed with European and American partners to facilitate the payments of Chinese tourists, in particular to allow the use of the Alipay payment platform. It will certainly seal a partnership of this type with MoneyGram. These partnerships lead to technology transfers and to sharing skills, or even data, without the counterpart of capital inflows. The third risk concerns the flow of Chinese capital into Asia and/or Africa, for example, allowing the capture of markets and resources that will handicap Western firms. Any Chinese capital available will have to be invested. The absence of Western partners will imply a loss of control and isolation that could be detrimental.

It is thus necessary to come back to the use of well-chosen but demanding controls, which are absent from the dichotomous reasoning that prevailed in the Minister’s statements, if not his intentions. As long as French technology is attractive, this should be celebrated and the pluses and minuses of alliances need to be assessed. It will only be a matter of years before China’s technology becomes as attractive as France’s. And the Chinese will not fail to come and remind Mr. Le Maire of his position.