INVESTMENT | DAVIDE CUCINO

Investment needs a level playing field

At a time when foreign direct investment in China continues to decline, the need for it and its importance are being called into question. However, as the global economic crisis is far from over, this is a time when, if anything, FDI should continue and increase, not the other way around.

We have seen the benefits that foreign investment has brought and still continues to bring to China. Investment brings great benefits to the host country, in terms of jobs, capital, taxation, technology and management know-how transfer, and the expansion of supply chains.

Chinese investment in Europe tripled in 2011. This not only demonstrates the European market's increasing importance to Chinese companies, but also shows the potentially massive benefits that the increasing ability of Chinese companies "going global" could bring for Europe.

The European Chamber, as a proponent of freer trade and investment, welcomes and encourages China's increased investment in Europe — so long as similar access is granted in China.

There are lots of perceptions right now that Europe is weak and China is strong. In some ways, this is the case.

But, Europe remains fundamentally strong and European business is still the global leader in many high-tech industries and advanced services. And Europe's future growth potential remains very strong.

As Europe needs China, we must also realize that China also needs Europe.

The eurozone debt crisis makes the relationship more important.

Davide Cucino, president of the European Union Chamber of Commerce in China

China, as a creditor nation, has lots of opportunities in the European Union. And at a time when the European economy is not growing, leading growth markets like China become even more important for EU companies.

Europe provides China with opportunities to deploy its foreign reserves, diversify its currency portfolio and spread risks. Importantly, it also offers many merger and acquisition opportunities.

While there are frequent temptations to protect markets during economic downturns, Europe remains resiliently open.

Alongside the increasing ability of Chinese companies to go global, this openness has been a major factor in contributing to China's massive investment expansion into Europe.

But, this also reveals the major sticking point for EU-China relations — a lack of alignment.

While the European Chamber welcomes Chinese investment in Europe, it is important to point out that Chinese companies are increasingly entering markets in Europe that European businesses are in many evident cases not allowed similar access into in China.

And Chinese companies are showing their capabilities to bid for major participation in infrastructure projects in Europe, while such procurement markets in China remain out of bounds for the European industry.

This is evidenced by deals such as Geely buying Volvo. Such an acquisition would not be possible were it the other way around because China requires foreign automobile manufacturers to form joint ventures, limited to a maximum 50 percent share, to operate in China.

Likewise, Chinese State-owned enterprises are increasingly entering markets in Europe that foreign enterprises are unable to access in China. Two deals in Portugal's energy sector demonstrate this lack of alignment. China's State Grid Corporation acquired a 25 percent stake in Redes Energeticas Nacionais, the Portuguese national energy network, in February. And in December, China Three Gorges bought a 21 percent stake in Energias de Portugal, Portugal's state power company.

The eurozone debt crisis is the result of a misallocation of resources. It is a crisis of sovereign debt, not of private debt. By and large, European companies remain strong and still hold large amounts of capital. This means that European companies are still in a strong position to invest.

China has been by far the biggest driver of global growth since the global financial crisis started in 2007. This growth and the sheer size of the Chinese market continue to offer major investment opportunities for European companies.

And we have the products, services, technology and know-how to serve the Chinese market.

But, while Chinese overseas direct investment in Europe tripled in 2011, in contrast, EU companies' investment in China over the same period actually declined — despite our members telling us that the Chinese market is increasingly important to their global success.

Without the open global trading system, China's remarkable economic development would not have been possible. So, we hope that as Chinese companies are increasingly going global, the importance of open markets will be increasingly recognized.

JOCHEN LUEBKE / AFP

A woman works on the China stand at fairgrounds in Hanover, central Germany, for the Hannover Messe technology fair on April 20. China was the fair's partner country in 2012.

But, more important is the role that further opening-up can play to help rebalance China's own economic model.

The European Chamber has listed the acceleration of the discussion on a China-EU Bilateral Investment Treaty as a top priority recommendation to the policy-makers of both sides.

This remains a precondition for a better sharing of interests between European and Chinese companies, enabling Europe to attract more capital and investment, and giving China more access to the technologies it needs to further climb the value chain and gain positions in new markets.

This process will bring the EU and Chinese economies closer.

At the core of both the EU's 2020 Strategy and China's 12th Five-Year Plan (2011-15) is the drive for green and sustainable growth based on an innovative economy.

This will bring synergies, but will also put China and the EU into greater competition in some areas.

Both parties need to keep an eye on the long term. If both sides can solve and make progress on issues that affect EU-China relations in the short term and foster the conditions for a comprehensive Bilateral Investment Treaty, this will bring huge long-term benefits.

Mutual open access to markets in the EU and China would promote competition and would lead to increased efficiency, effective innovation and greater economic development, ultimately benefiting both EU and Chinese consumers.

ZHENG YANGPENG AND LU YANYU

China on right track for growth model change

The dramatic rise in the price of land, labor and raw materials, and a 30 percent appreciation of the renminbi since 2005, have seen China fast losing the historic cost advantages that helped fuel arguably the most dramatic economic rise in history.

But after several visits to China, Anders Aeroe — a senior director of the World Trade Organization-linked International Trade Centre — says that he thinks the country remains firmly on track to successfully transform its manufacturing-led growth model of the past 20 to 30 years, into a more sophisticated economy, led by innovation and services.

In an interview with China Daily, Aeroe — whose organization is tasked with helping small business in developing and transition-economy countries — said the Chinese government's very visible hand on the economy, is working better than the international market's often invisible, more natural influences in helping companies here build their competitiveness around the world, and change their image.

"In my opinion, there is no invisible hand (in an economy).

"It doesn't exist. For a well-functioning market, it is amazing how many intelligent policies are needed," Aeroe said.

He said that the government's tackling of issues "simultaneously from industrial development to education to infrastructure to urbanization" has been well planned and delivered, and in contrast to many Western economies, China's evolution is being handled with "long-term vision" in mind, not short-term gain.

He said the "interplay between politics and economics" in China has played a hugely beneficial part in changing that business and economic model, and also reported that during his tour of the country he was enormously impressed by the number and standard of business graduates from universities.

"The interplay ... has certain advantages and allows China to do certain things and help it move faster on its development path, which I don't think has been seen in any places elsewhere in history," he said.

Anders Aeroe, head of the market development division of the International Trade Centre

Aeroe, who heads the ITC's key market development division, said China is correct in following the same trajectory of many of its predecessors, by gradually moving away from low-value added, labor-intensive manufacturing to a more sophisticated manufacturing power.

"When it comes to cheap labor, it only lasts so long because there are always other countries that are cheaper than you.

"It is important for a country to move up the value chain, to be more competitive in more sophisticated, more knowledge-intensive areas of production.

"So innovation, R&D and so on, become very important," he said.

Aeroe was in Beijing after traveling across the country, from Nanjing to Chongqing, and said he was hugely impressed by how much progress China had made in producing future business leaders, armed with master's degrees and PhDs.

He singled out one science park he visited in Chongqing, which housed various universities. It had more than 400,000 students, and one company in the park had half its workforce made up of PhDs.

"This is extraordinary because it showed that the country recognizes so well that the future lies in innovation, in added value.

"So in trade terms, it might be that you might export less, but the value you add will be higher," Aeroe said.

One of the most fundamental changes China is going through is its determination to reduce its reliance on exports and fixed-asset investment, and to grow the economy with increased focus on domestic consumption. Aeroe agreed that must remain one of the key elements of the future Chinese economy.

Official figures show that domestic consumption accounted for 51.6 percent of China's growth last year, up from 37.3 percent in 2010.

Aeroe said that as trade grows, a country's consumption pattern evolves, particularly in a big country like China, and domestic demand can play a tremendous role in supporting new industries and new growth spots.

"Anything from computers, clothing, consumer electronics, to services. You name it," Aeroe said.

"As people get more wealthy, they want a decent product, a decent service, so that also helps sustain a new knowledge-intensive environment."

Aeroe has many years of experience working with governments, enterprises of all sizes, and trade support groups to offer trade-related technical assistance, and he explained that this has made him rethink how markets operate, often away from the models extolled by traditional schools of economics.

As China moves toward a more "sophisticated" manufacturing sector, it should also rely more and more on the growing service sector, Aeroe said.

He argues that during the recent slowdown, it was the service industry that proved to be more resilient and robust than trade in manufacturing.

"A lot of what has been manufactured today comes with a strong service component — for instance, if you buy a new car the dealer might not make a huge profit on that but he relies on what he can make from after-sales services. Today, the really sophisticated products come with service," he said.

Many companies, he adds, are now being forced to change their business models from being a seller of what they produce, to a seller of what they offer in terms of service.

One example provided by Aeroe is Rolls-Royce PLC. Historically, the company produced engines for airplanes, but now it leases engines and look after the engines for clients, which has proved to be more lucrative.

Referring to how China's manufacturing industries could become more sophisticated, more jobs will be created as products demand higher levels of R&D, he said.

He noted that while global exports of services grew by 166.3 percent between 2001 and 2011, China's exports of services grew by 448.1 percent during the period, increasing its market share in service exports from 2.2 percent in 2001 to 4.5 percent in 2011.

And even if China's manufacturers move to cheaper locations, the service part will remain.

"It might be that low cost work will move to other Asian countries, where it's cheaper now compared to China, but you will still keep the service component.

"So the design and marketing, the promotion and branding, all of them will probably stay behind, creating jobs in a more sophisticated Chinese manufacturing sector," he said.

Aeroe rejected the belief that to protect its service sector, a country should put up walls between it and the outside world.

On the contrary, he believes in competition, and he thinks competition is vital for China to improve its competitiveness in service.

"Competition is a good thing; without it, companies get stale, and can't provide good services," he said.

But he also proposed a sound regulatory framework to ensure that "you don't have one foreign service provider coming and wiping out the market (with poor service)".

"Good regulation sets up the rules of the game, on how foreign competitors and existing local companies can play together," he said.

"A mix of intelligent policies, supporting and regulating a market — that mean a well-functioned market."

Added value key to countering rising protectionism

Anders Aeroe believes the best way for China to counter rising protectionism, is to engage in more value-added production.

"To remain competitive, Chinese exporters cannot only reduce their production price, they have to compete in terms of quality with other suppliers," he told China Daily.

"Chinese exporters would be less subjected to antidumping investigations if it specialized in a higher price range."

The head of the market development division of the International Trade Centre said he is also optimistic about China's transition as it "progressively changes its specialization from assembly with limited value added, into new activities with more value added".

Aeroe added that manufacturing companies in China have to be prepared to relocate some parts of their production processes out of the country, as costs rise at home.

The focus could shift here to R&D, while other countries in the region would benefit as manufacturing facilities moved to cheaper locations.

Aeroe said he is less enthusiastic, however, about regional free trade agreements, although FTAs are easier to conclude than multilateral agreements. Small economies may be excluded from them or face difficulties in having their concerns heard, he added.

There is also a greater risk of trade diversion from FTAs, meaning that international trade become less efficient for all, he said.

Looking at broader global trade issues, he said the world should still pin its hopes on the WTO's multilateral framework, as it could cut transaction fees for all members.

"For the moment, the average transaction cost is 10 percent of the world trade value.

"If the Doha Round, or at least the trade facilitation part is completed, the percentage will be reduced to 5 percent, which is major progress and will help world trade a lot," he said.

Global trade now exceeds pre-economic crisis levels and trade protectionism has so far generally been held at bay, he added.

But he noted that although the number of actions taken by the G20 countries is on the increase, the measures taken are generally very specific and limited in scope.

Global Trade Alert, a monitoring service run by Simon Evenett — a professor at St. Gallen university in Switzerland — recently reported that protectionist actions including tariff increases, export restrictions and skewed regulatory changes were much higher in 2010 and 2011 than previously thought.

The alert also noted that, despite the G20's pledge in 2008 to maintain free trade, its members are collectively responsible for 79 percent of global protectionist actions this year, up from 60 percent in 2009.

By comparison, G20 members' share of world trade declined from 80 percent in 2010 to around 77 percent now, Aeroe said.

The good news is after a plunge in global trade following the 2008 financial crisis, trade has recovered and hit a value higher than the pre-crisis level, he added.

The bad news is a "dramatic deterioration" in the sovereign debt of European economies is dampening demand and is likely to affect trade in 2012.

Contact the writers at zhengyangpeng@chinadaily.com.cn and luyanyu@chinadaily.com.cn