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Chinese investment in Europe to surge

By Jamil Anderlini in Beijing

In the wake of a handful of high-profile Chinese investments in companies like Volvo and a constant barrage of headlines declaring China's economic rise, some Europeans might have the impression they are already being bought up by Beijing.

This impression is reinforced by a proposal that would see China give a small chunk of its \$3,200bn foreign exchange reserves to the International Monetary Fund to bail out European banks or backstop sovereign debt in the eurozone.

But while the country's huge reserves make it an important participant in international debt markets, they do not represent a piggy bank that China Inc can raid to snap up big swathes of European industry.

In fact, China's total stock of direct non-financial investment in the 27 European Union member states, while growing quickly, is still miniscule at around \$15bn, according to a new study from Rhodium Group, an economic consultancy.

That represents less than 0.2 per cent of all foreign investment stock in Europe.

To put it in perspective, total Chinese investment in hard assets in Europe in recent decades is equivalent to the average weekly increase of its foreign exchange reserves in the first half of 2011.

The vast bulk of those reserves is managed under a strict mandate that does not allow it to be spent on direct investments abroad. However, Beijing is encouraging its cash-rich state enterprises to expand beyond China's borders and the country's outbound investment is expected to surge in the coming years.

According to government figures, China's global stock of outbound direct investment reached \$330bn at the end of June, up from less than \$30bn in 2002 but that still only accounted for about 1.6 per cent of the global total from all countries.

Given Beijing's ambitions and the size of China's economy, the Rhodium Group estimates that Chinese companies could invest as much as \$1,000bn abroad between now and 2020, with much of it going to developed economies.

"China's investment interest is moving from natural resources toward developed economy assets such as brands, technology and distribution channels so places like