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CHINA'S SILK ROAD TO EUROPE – STRATEGIES AND INVESTMENT

This article argues that Chinese overseas direct investment is not so much market-driven, but a result of long-term strategies and policies. These are an important basis in any analysis of the status and trends of Chinese investment in Europe. Therefore, the article aims to describe the most important strategies and policies that determine Chinese foreign investment in general, different market entry models, and to analyze the situation in Europe.
JEL: F42; F64; F68

1. Introduction

1.1. Importance of the Research

China's outward investment has drawn the attention of foreign business, governments, academic institutions and business consultancies in recent years, especially after 2009 when the country became the fifth by OFDI in the world. Chinese outward investment flow increased from USD 2.7 bn in 2002 to USD 55.9 bn in 2008 and continued rising adding a new digit in 2013 to USD 107.8 bn and becoming the second country by outward investment flow in 2015 with USD 145.7 bn. Meanwhile investment stock rose steadily from USD 29.9 bn in 2002 to USD 183.9bn in 2008 and reached USD 1809bn in 2017.

The period between 2013 and 2015 marks a milestone in the investment trends of Chinese companies overseas. Investment focus shifted steadily to Europe and Africa, away from countries in North and South America, while keeping relatively the highest portion in Asia. This shift was marked by an annual growth of around 72% in the investment flow from China in both continents in 2017, and inevitably drew the highest attention of European business and government. New restrictive policies have come up in the following years in key recipient countries, in the aim to protect their markets, resources and technologies from Chinese investors.

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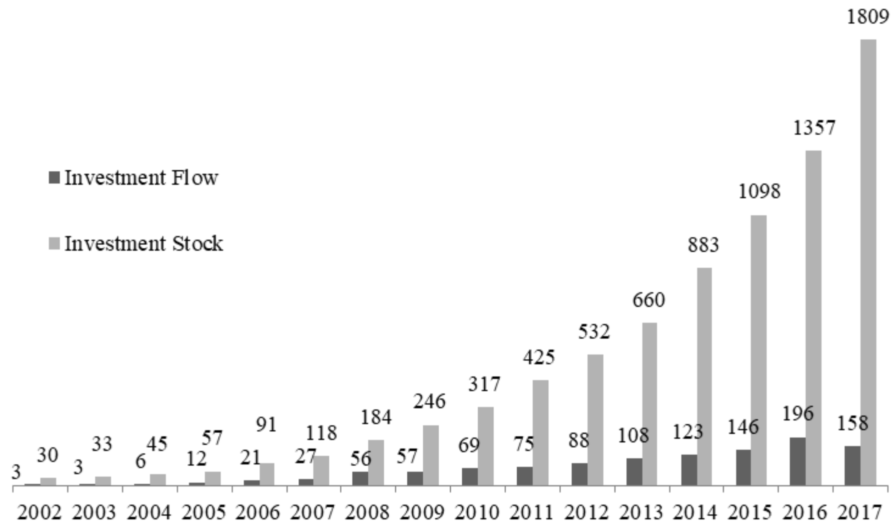
Figure 1

Chinese Outward Investment, USD bn



Source: Ministry of Commerce of China (MOFCOM).

At the same time, there was an increase in Chinese M&A deals, in the acquisition of technologies and mature businesses with productions basis with access to resources. The market saw more aggressive participation of Chinese companies in biddings for infrastructure and energy projects. Natural resources imported to China are re-exported with higher value-added, but met constraints with the newest trade restrictions and local protectionism in Europe and other markets. Investment in production basis out of China once allows for market access for these products, decreases resource transport cost in some cases, and at the same time resolves production overcapacity problem in mainland China.

It is not easy, however, to understand and explain all these trends just by the market rules and economic principles. Trends such as underuse of local stuff in overseas projects, running projects at zero profit, or even at negative financial performance, inability to perform projects in specific cases, rose concerns about the market orientation of Chinese investment, and cause misunderstanding of various forms.

This article aims at explaining the routes of the investment, its origin in China's strategies and policies, the fundamentals for overseas investment. This requires a detailed look at the specific regulations and development directions, so as to understand the current situation in a more comprehensive manner, and be able to foresee future development.

1.2. Research Methodology

The article is a political economy research. It uses documental analysis method to describe and summarize the main government strategies for China's going global, specific policies concerning incentives for overseas investment and restrictions for some industries, financial instruments and regulatory support for Chinese companies in their overseas business. The article aims at including all fundamental principles of each strategy, its scope, target, indicators to monitor efficiency, timeline for completion, involved parties in the strategy/policy, detailed instruments. The analysis includes a linkage between strategies and explains the natural logic for the development of each next regulatory step.

The first part of the article makes a historical review on the main strategy for Chinese outward investment, the "Go Global" strategy, updating all recent developments in the political course of the strategy.

The second part of the study deals with four additional strategies in close connection with the "Go Global" strategy, that enable the realization of the overall goal of becoming a leading economic power in the global market. The article includes description and analysis on the "Made in China 2025", "Central and Western China Development", "One Belt, One Road", and "17+1" strategies. Each strategy includes goals, scale, data on realized investment, sectors covered, and overview of key projects. Analysis on the connection between the different strategies and their role in the overall Go Global strategy goes together with the data and facts.

The third part of the article focuses on Chinese investment in Europe. It uses statistical analysis, presenting data into graphs. This part shows the results of the strategies in the real economy, indicating some trends and directions that relate to the already described strategies in the previous parts.

2. Historical Review of China's Go Global Strategy

2.1. China's Go Global Strategy

Dun Xiaoping laid the foundations of China's strategy to enter the global market in the late 1970s with the introduction of a reforming policy to open the country's economy to the world (CCPIT, 2007). China became aware that it cannot develop without the world, and must seek active economic cooperation with countries around the world. The boom in investment from the last few years to 2019 is precisely the result of this strategy, and it shows the long-term policy of the country, the relentless search for models to enter the world market, and the pursuit of ever more ambitious goals. Initially, the strategies were driven by the country's need for resources, technology and capital, but after 30 years of economic development, China started seeking its place as a global leader in the major sectors of human development and civilization.

Whether this will happen is not a question anymore, the question is when it will happen. How it will happen is also not a question, because if it doesn't work this way, it will work that way. One can find the argument for this hypothesis in the historical overview of the strategic framework for China's going global.

The models of going global have evolved in several stages, characterized by different governance (China Policy, 2017).

Phase One

Between 1978 and 1992, under the government of Deng Xiaopin, the focus was on developing international trade, gradually reducing trade deficits, and a increasing exports. The leading model included the export of Chinese goods to the world market, export of mainly low value-added resource products, produced by labour-intensive industries. This was a phase of exploring the depth of the international market and commercial practices.

This was also a period of active construction and operation of special economic zones in China. Since 1980, China has begun setting up special economic zones first in Shenzhen, Zhuhai, Shantou, and Xiamen to create a favourable investment climate and attract foreign investors. In 1984, the creation of 14 coastal special economic zones began. This was a result of the following measures:

- Creation of a complete set of infrastructure facilities in the zones;
- Implementation of preferential tax policies for foreign investors, such as abolishing import tariffs on equipment and reducing corporate income tax;
- Providing incentives for export-oriented projects with foreign investment, such as further reducing the corporate income tax on export output by 50% for those enterprises where exports account for 70% of income.

The establishment of industrial development zones of new and high technologies, zones for processing of export goods, and zones with different functions has started.

In order to stimulate exports and upgrade the added value of goods, a preferential policy was introduced for products with imported materials for processing in China and re-export as finished products. For this purpose, processing and re-exporting enterprises were exempted from import duties on raw materials and from taxes related to imports such as VAT and others.

In the mid-1980s, a dual exchange rate system was introduced to promote exports. The Chinese government allowed exporters to retain some of their earned foreign currency and sell it at exchange rates higher than official foreign exchange swap rates, where exchange rates are determined by the market rather than the government. Import-substitute sectors could import equipment and technology at officially quoted exchange rates, which were artificially overestimated to reduce import costs. In 1994, China reformed its currency exchange system, abolished the currency swap market, and introduced a single, manageable floating rate system.

China began implementing a policy to reduce indirect export taxes in 1985. The initial practice was to refund the product tax imposed on the export products of the exporting companies. Following the reform of the tax system in 1994, China abolished product taxes and levied VAT and excise duties; in this way, the tax rebates were altered to the reimbursement of VAT and excise duties imposed on the exported products.

Phase Two

Since 1992, under the government of President Jiang Zemin, the Go Global strategy has been decoupled as a stand-alone. The experience of recent years was summarized and the importance of investing abroad in developing international business activities was highlighted. Politicians appreciated the importance of setting up production bases abroad and using local markets and resources abroad. Chinese companies started gradually establishing their own sales channels abroad, or their own branches, or sales offices.

The business scope and scale of Chinese companies abroad gradually expanded. The overall business model and management system were reorganized. Chinese companies started setting up a number of operations abroad, including research and development centres, manufacturing facilities, sales/after-sales centres, and more. They wanted to have potential markets closer and diversify their industrial chain services abroad.

Phase Three

The third period is during Hu Jintao's government starting in 2002, marked by several important trends and developments that outline the following directions for opening China to the world:

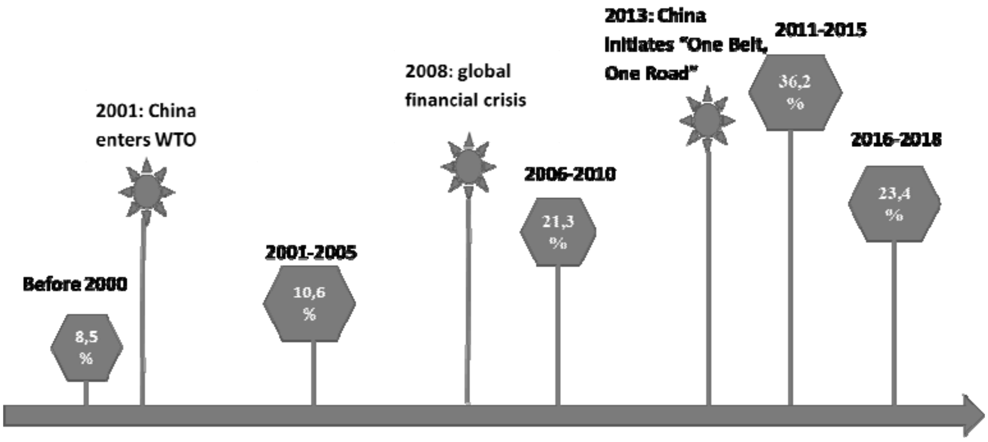
1) China's commitment to World Trade Organization with its entry in 2001, including the phasing out of part of the financial and foreign exchange markets restrictions, opening up more sectors to foreign investors and reducing trade barriers to foreign goods;
2) prioritization of the development of the national economy and informatization of the society, active development of the technological sector and increased interest in acquiring foreign technologies, launching of strategies for digitalization of all sectors, etc.;
3) prioritization of the revitalization of the old industrial system in the period up to 2005, which is a prerequisite for the development of subsequent strategies for launching large companies on the world stage;
4) launching of environmental protection policies in China at the expense of rapid economic growth.

Since 2005, China has introduced several policies and measures to reduce exports of polluting, energy-intensive and resource-intensive products. These policies include reducing or waiving the export tax rebate, introducing export tariffs, banning processing trade and even export quotas (for certain types of chemical fertilizers, for example).

This stage is often referred to as “the era of globalization”. In addition to state and private capital, it includes the process of going abroad. Investment areas are diversifying, taking a new strategic direction. The direction is shifting from the integration of the industrial chain to the distribution of assets on a global scale and moving up the global value chain.

Figure 2

Percentage of Chinese companies operating abroad



Source: AON, 2018, BAS.

The Central and Western China Development Strategy was launched in the early 2000s, setting a number of goals and instruments to balance the uneven regional distribution of economic activities in the country (State Council, 2013). In order to achieve the goals of this strategy, the “**One Belt, One Road” initiative** was developed in 2013, aiming at infrastructure connectivity and facilitation of transportation of goods and services from central and western China to Europe via the Silk Road (Cai, 2017). The strategy seeks to revive the old Silk Road by investing in infrastructure and facilitating transport links. This is an impetus for new government investment abroad and the creation of a number of platforms for the exchange of cooperation and ideas in the political, economic, educational and cultural fields.

A new stage in the development of the strategic framework for Chinese companies going global comes with the government of President Xi Jinping in 2013. Several specific strategies are being launched to achieve the goals of China’s Go Global strategy. Among them is “**Made in China 2025**”, which directly affects the development of the manufacturing sector in China. The strategy aims to form key industrial sectors in which China to be the No. 1 in terms of market share in the world and reduce its dependence on foreign technologies, stimulating innovation in the country (Consulting Council on SCSMC, 2015). Supporting strategies or strategies-tools to achieve the "Made in China 2025" goals are:

1) *China's regional development strategies*, including the development of the central and western China and the regions along the Yangtze River, the Pearl River Delta, and the Beijing-Tianjin-Hebei Region – in the south and east China;
2) *One Belt, One Belt Strategy* (Cai, 2017); linking central and western China with central Asia and from there with Europe, aiming to build infrastructure and facilitate transport links for exporting goods from manufacturing enterprises.

3) *The 17+1 Strategy*, building a platform for economic cooperation with the "door of Europe" – namely 17 countries in Eastern Europe, from Estonia in the north to Greece in the south and from Bulgaria in the east to Bosnia and Herzegovina in the west.

Since 2013, China has launched the creation of Free Trade Zones in order to free up import and export rights and expand free currency and bandwidth zones. In 2018, the Customs Administration of China announced the operation of special customs surveillance zones with warehouses for the release of goods in 37 cities in China. The creation of these zones facilitates cross-border trade with China, and e-commerce.

Supporting investment policies abroad by 2015

The state pursued a targeted policy even before the strategies mentioned above were created. Chinese companies' entry into the global market has been governed by specific guidelines and policies since 2003-2004 through priorities for the lending of projects abroad by the Chinese Export and Import Bank of China (EXIM), which finances Chinese activities companies abroad.

In 2004, the National Reform and Development Commission (NDRC) published "Administrative Measures for Investment Projects Abroad" (NDRC, 2004) and a little later in 2006, the State Council of China published an opinion on the measures, adding more specific criteria and priorities for EXIM.

In 2009, the NDRC published a new document on the administrative measures developed with the Ministry of Commerce (MOFCOM, 2009). This document decentralized the power to approve foreign investment and delegated it to the local departments of the Ministry of Commerce, with the exception of a few sensitive strategic areas. The investment approval procedure was simplified with only one application form and the response time was reduced to no more than three working days. Investors were allowed to evaluate the feasibility of their proposed projects abroad, while maintaining the role of the Ministry of Commerce in negotiating bilateral and multilateral investment agreements. Last but not least, the document set out guidelines for how investors should conduct business in the host countries.

New guidelines and policies were set out in the **12th Five-Year Development Plan 2011-2015** (APCO, 2010) It stimulated the boom in Chinese investment abroad. It contains two interrelated documents, which are the basis for the subsequent two strategies for launching a global market (Sauvant 2014).

The first document is *the Industrial Plan for the 12th Five Year Period*, which sits at the heart of the development of the "Made in China 2025" Strategy, published at the end of the period, effective in 2015.

The second document is the *12th Five-Year Plan for Foreign and Domestic Foreign Direct Investment*. These documents identify five priority areas for industrial sectors with potential for investment abroad. The areas are as follows (Sauvant 2014):

- outsourcing production to places where technologies in the local market are developed and global demand is high;
- establishing industrial parks abroad in regions where conditions are favourable;
- developing/participating in international projects for the exploration and collaboration of important energy and natural resources, such as oil and gas, iron ore, uranium, copper and aluminium, as well as the construction of long-term, stable, safe and diverse multi-channel natural resource delivery systems;
- establishing research and development centres in technology-intensive regions abroad and cooperation with foreign R&D institutions and innovative enterprises; and
- developing complete engineering projects by capable and wealthy large corporations; acquisition of units and companies and greenfield investments; international registration of intellectual property rights; creation of global marketing and sales networks and regional sales centres; and global resource configuration and integration in the value chain.

The government also identifies three priority areas for outward investment:

1) support for the active involvement of Chinese companies in natural resource projects abroad in order to ensure a sustainable, stable, economical and secure supply of energy and natural resources;
2) accelerating the implementation of technological advancement;
3) effective expansion in foreign markets.

Additional support was also provided by the State Tax Administration in the form of regular deductions and corporate tax exemptions to avoid double taxation, tax reductions on oil and gas revenues from overseas Chinese enterprises, and special corporate income tax (reduced from the normal tax rate of 25 to 15%) for high-tech enterprises certified by the Ministry of Science and Technology (Sauvant 2014).

Additional provisions are also available from the central bank for approval of project lending and some specific operational documents as follows (Sauvant 2014):

- Notice from the People's Bank of China on issues related to the macroeconomic management of all cross-border financing;
- Catalogue of Countries and Industries for Top Investment Abroad (updated as of July 28, 2017, March 10, 2015, etc.);
- Global Investment and Cooperation Information Services System;
- Guide to Chinese Outbound Investment Report (2017).

In reality, until the advent of special supplementary policies, many state-owned companies entered the global market, but in fact, did not have a clear strategy and the necessary management level. There are few companies with international competitiveness and well-known and influential brands. This trend began actively after 2015, with the launch of several important strategic courses – “One Belt, One Road”, “Made in China 2025”, and “16+1” (now “17+1”). Until then, the following activities abroad were typical:

- *Greenfield Subcontractors and Investments*: Unfortunately, when bidding, Chinese companies do not always understand the situation properly, and they appear to have insufficient risk management mechanism, and managing the post-auction project is challenging. Therefore, they reorient themselves to BOT and PPP performance models. Yet, it is doubtful how profitable are these projects for Chinese companies, and whether it is more a matter of stepping into the market, and building experience, rather than economic stimulus. There are also barriers to protectionism for local enforcement firms, especially in European Union countries, and especially for infrastructure projects, which on one side is hindering the development of such projects, on the other side, makes these projects a necessary step for the market, even without any profit.
- *Mergers and Acquisitions of Foreign Companies*: The result of numerous mergers and acquisitions is not particularly good due to poor management. There are also commercial and financial risk management challenges. There is rarely information about how companies are coping with the business of foreign companies they have purchased, whether they are retaining market positions, whether they are expanding their business, or simply buying technology and know-how.
- *Imports and Exports:* Most of China's exported goods and services are low value-added products such as textiles; and the export of high-end equipment is only just beginning, represented by high-speed rail and nuclear power. From 1978 to 2009, the percentage of raw materials / primary commodities in total exports fell to 5.3 from 54%, and the percentage of manufactured goods increased from 47 to 94.7%. by production volume of more than 170 types of products and first of all by volume of exports of 774 types of products.

Since 2014, the National Development and Reform Commission (NDRC), the Ministry of Commerce and the State Currency Administration have promulgated a number of regulations and policies to encourage foreign direct investment by Chinese companies, which greatly simplified the administrative process for approving investment abroad, for approval of foreign exchange operations. The number and scale of investment projects of Chinese enterprises abroad grew rapidly. However, since the second half of 2015, due to the impact of the RMB exchange rate fluctuations and to curb some illegal and non-compliant activities such as money laundering and currency arbitrage in the name of investing abroad, regulatory authorities started to tighten the control of investments abroad.

Sectoral policies during the 13th five-year planning period

On December 6th, 2016, the NDRC, the Ministry of Commerce, the People's Bank of China and the Currency Bureau announced measures to control some irrational external investment trends in specific areas. The government supported local capable and skilled enterprises to carry out real investment activities abroad; supported enterprise-based and market-oriented investment abroad in line with business principles and international practices, especially in support of corporate investment and construction under the One

Belt, One Road strategy and international capacity cooperation. The purpose of the new measures is to strengthen the financial management of foreign investment by state-owned enterprises, prevent financial risks from foreign investment and improve investment efficiency.

In August 2017, "*Notice No. 74 on Guidelines on Further Guiding and Regulating Overseas. Investments"* (Guobanfa [2017] No. 74) was published. This document regulates the direction of investment abroad by enterprises by dividing investment projects abroad into three categories: promoted, restricted and prohibited. According to the list, the industries that should limit the investments of companies abroad are:

(1) Real estate

(2) Hotels

(3) Cinema

(4) The entertainment industry

(5) Sports clubs

(6) Creation of investment funds or investment platforms without specific industrial projects abroad.

Shortly afterwards, in November 2017, the NDRC, the Ministry of Finance, the Central Bank and the Ministry of Commerce published "*Guidance on Strengthening the Credit System in the Field of Foreign Economic Cooperation*", "*Memorandum of Cooperation for Joint Disciplinary Actions against Entities with Serious Distrust in the Field of Foreign Economic Cooperation*". This opinion is in addition to the already announced notice of the State Council on establishing a social credit system in all areas of economy and society for the period 2014-2020, supplementing the system with the manifestations of enterprises in foreign economies.

Since the beginning of 2018, a number of ministries in China, incl. the Ministry of Industry and Information Technologies, the Ministry of Agriculture and Rural Areas, the Ministry of Culture and Tourism, the State Radio and Television Administration and other regulating bodies of certain sectors actively apply the working conditions and requirements of the State Council, promulgate and introduce a number of policies encouraging businesses to "go global" and target countries specifically in the "One Belt, One Road" initiative.

The Ministry of Commerce's *Overseas Investment Report* (MOFCOM, 2018) summarizes the most important sectoral policies of the three ministries (agriculture, culture and industry), with most policies affecting the industry sector. Some of these are presented here to clarify the direction of promoting investment abroad:

Guiding Opinions on the Financial Support for Building a Strong Manufacturing Country [2] aims at expanding the channels of financing the manufacturing industry to go global. Supports foreign investing companies to borrow through the use of foreign assets and equity as collateral, supports cross-border financing of manufacturing enterprises, the

[2] 关于金融支持制造强国建设的指导意见

creation of currency pools, cross-border two-way RMB funds, under the macro-prudential framework of the management policy. Supports qualified domestic manufacturing companies to use overseas markets for issuing shares, bonds and asset securitization products. Improves the support policy for manufacturing enterprises to enter the global market. Continuously optimizes currency management to meet the real and reasonable needs of manufacturing companies' currency purchases when entering the global market, encourages the creation of investment funds abroad for RMB, and encourages the further expansion of short-term export credit insurance.

Notice on the Work for Quality Industrial Brands in 2017[3] aims to extend the social impact of Chinese industrial brands. Encourages the promotion, exhibitions and exchanges of local and industrial brands, enhancing consumer confidence and promoting the promotion of Chinese industrial brands abroad. The document also calls for alignment with the One Belt, One Road initiative (OBOR) by extending methods of cooperation between Chinese and foreign businesses, using innovative business models to enhance overseas business and branding ability.

Action Plan to Promote the Development of the Automotive Battery Industry[4] encourages mutually beneficial cooperation between high-level local and foreign enterprises and encourages the exchange of battery and talent technologies, project collaboration and industrialization of achievements. Supports local battery companies in technology production, product exports and overseas investment to build factories, encourages skilled enterprises to set up R&D institutions in developed countries.

An Innovative Plan for the Development of a Modern Carbon Industry[5] An innovative plan to develop a modern coalition encourages China's pragmatic cooperation with OBOR countries, taking advantage of China's technology, equipment, engineering and human resources to apply pressure in countries with rich coal resources and environmental capacity on internal resources and the environment. chemical industry

Additional Notices on the Medium and Long Term Development Plan for the Automotive Industry guides automotive companies to formulate international development strategies. It is deepening the reform in managing investment abroad and building a "green channel for international cooperation in the automotive industry". Encourages profitable enterprises to choose a differentiated path of development and gradually move from export-oriented to in-depth modes of cooperation, such as investment, technology and management, so as to 'become global' for products, services, technologies and standards. It underpins the synergy of cars with Chinese brands and international engineering projects.

Emergency Industry Growth and Development Action Plan (2017-2019) aims to strengthen international cooperation with the emergency industries of the OBOR countries and with developed countries such as Germany, the USA, Japan and others. Encourages businesses to actively explore markets abroad, to offer complete solutions from system integration,

[3]关于做好 2017 年工业质量品牌工作的通知
[4]关于印发 促进汽车动力电池产业发展行动方案 的通知
[5]现代煤化工产业创 新发展布局方案

through product delivery, emergency services, and to the operation and maintenance of overseas rescue facilities.

Special Support for the Participation of Small and Medium-sized Enterprises (SMEs) in the Construction of OBOR[6] aims to build a service system to support the international development of Chinese SMEs, deepen cooperation between Chinese SMEs in trade and investment, technological innovation and cooperation with production capacity in OBOR countries.

Three-year Action Plan for the Development of Industrial E-commerce[7] encourages the further development of a comprehensive e-commerce pilot area, encourages increased cooperation between industrial enterprises and e-commerce platforms, the expansion of international markets, and the promotion of Chinese products exports and the entry of Chinese enterprises into the global market.

Three-year Action Plan for the Creation of the Double Innovation Platform[8] in line with the state strategy to support manufacturing companies, internet companies and telecommunications companies. The plan envisages strengthening international cooperation and expanding international markets in support of the platform's construction, using actively bilateral and multilateral mechanisms for international cooperation.

Opinion on Accelerating the Development of the Production of Environmental Protection Equipment[9] encourages environmental protection companies to enhance cooperation abroad through alliances with foreign companies, to actively expand foreign markets, to introduce technology from abroad through joint research, development, direct investment, construction and operation of conservation projects of the environment.

All these policies and timely measures are an important prerequisite for the development of Chinese investment abroad. One can also notice the special attention that the government is receiving specifically for investments in OBOR countries that are prioritized as a guide for development and promotion in almost every new policy or regulation. At the same time, the elimination of unhealthy projects and investments is also the reason for the decline in Chinese investment abroad in 2018, as an additional effect of the already tightened regulatory measures in the EU countries with the highest inflow of investments.

3. Strategies Review

3.1. "Made in China 2025" Strategy

The "Made in China 2025" strategy was officially announced on May 8th, 2015. The strategy proposes to achieve strategic goals for a country with a strong manufacturing sector in three steps:

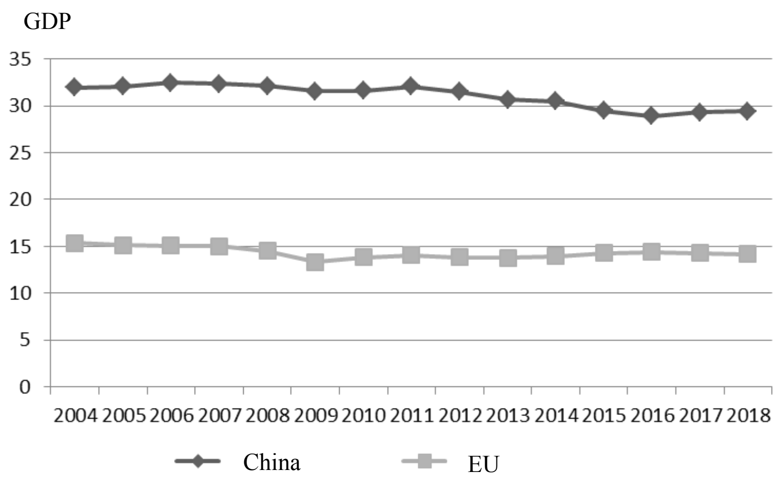
[6]关于开展支持中小企业参与“一带一路”建设专项行动的通知
[7]工业电子商务发展三年行动计划
[8]制造 业“双创” 平台培育三年行动计划
[9] 加快推进环保装备制造业发展的指导意见

- *The first step* is to include China in the list of strong manufacturing sectors by 2025.
- *The second step* is to become one of the strongest countries in the manufacturing sectors by 2035.
- *The third step* is to have China at the forefront of the strongest manufacturing sectors in the world by the 100th anniversary of the establishment of New China (2049) (Consulting Council on SCSMC, 2015).

The manufacturing sector in China is the economic field with the most developed market mechanism, with the main engine being the private economy, which plays an extremely important role in China's economic development.

Figure 3

Contribution of the manufacturing sector to China's GDP



Source: World Bank.

There are three main arguments for the creation of the strategy:

- The strategy is necessary to meet the needs of the new global technological and industrial revolution;
- After the financial crisis, all countries take steps to develop their manufacturing sectors.
- China's manufacturing sector has already achieved competitiveness and global market integration in many areas, which is an important prerequisite for considering overall improvement.

The "Made in China 2025" Strategy defined nine strategic objectives and priorities for development (Consulting Council on SCSMC, 2015):

1) Improving the capacity for innovation in the country's production;
2) Encouraging deep integration of computerization and industrialization;
3) Strengthening of industrial infrastructure;
4) Building strong brands;
5) Comprehensive promotion of green production;
6) Promoting breakthroughs in 10 key areas focused on the next generation of:
   - the information technology industry,
   - high-tech micro-controlled machines and robots,
   - aerospace equipment,
   - offshore engineering equipment and high-tech ships,
   - modern railway transit equipment,
   - energy savings and new energy vehicles,
   - energy equipment,
   - agricultural machinery and equipment,
   - new materials,
   - biomedicine and highly efficient medical equipment;
7) Restructuring of the manufacturing sector;
8) Active development of production for the service sector and production type of services;
9) Improving the level of international production development.

The implementation of these tasks is monitored by specific indicators for the development of the 10 areas (Table 1).

Table 1

Main indicators for the MFG sector 2020 and 2025

№	Indicator	2015	2020	2025
1	**Category: Innovative abilities**			
	R&D share of total expenditures in the income of manufacturing companies above the specified size (%)	0.95	1.26	1.68
	Number of discoveries and patents for every 100 million RMB in revenue of companies above the specified size*	0.44	0.70	1.10
2	**Category: Quality Efficiency**			
	Manufacturing Sector Competitiveness Index**	83.5	84.5	85.5
	Increasing the value added of the manufacturing sector	-	2% over 2015	4% over 2015
	Growth rate of productivity of all employees in the manufacturing sector (%)		~7.5[10]	
3	**Category: Digitization and Automation**			
	Broadband popularization (%) ***	50	70	82
	Popularization of design tools for digital development (%)****	58	72	84
	Digitization and automation of key workflows (%)	33	50	64
4	**Category: Ecological Development**			
	Decrease in energy consumption of the added value in the production of companies above the specified size (%)	-	18% down from 2015	34% down from 2015
	Reduction in carbon consumption per value added in production (%)	-	22% down from 2015	40% down from 2015
	Decrease in the water consumption per value added production (%)	-	23% down from 2015	41% down from 2015
	Utilization of solid waste in the industrial sector (%)	65	73	79

** Number of valid patents for inventions per 100 million RMB basic business income of manufacturing enterprises above the specified size = number of valid patents for the invention of manufacturing enterprises above specified size / basic business income of manufacturing enterprises above the specified size.*

*** The Production Quality Competitiveness Index is calculated from a total of 12 indicators.*

**** The degree of penetration of broadband networks is represented by a fixed frequency of penetration of broadband households.*

***** It is calculated by dividing the number of enterprises for design tools and projects above a certain income scale / by the total number of enterprises over a given income scale (the corresponding data come from 30 000 sample companies.*

Source: State Council of PRC, (State Council, 2015).

3.2. Central and Western China Development Strategy

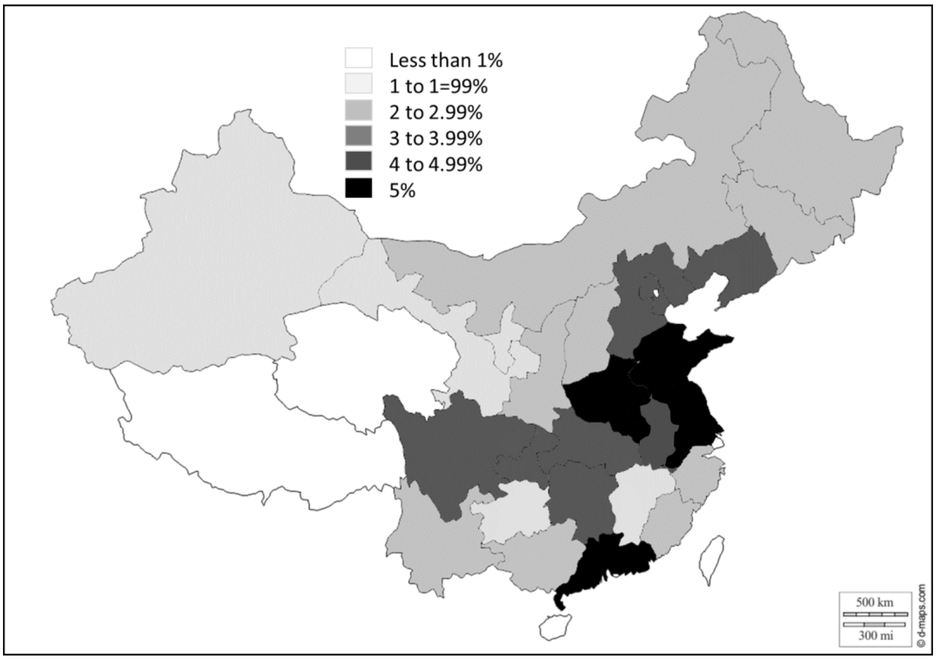
The Central and Western Development Strategy aims to balance regional differences in the country's economy. The distribution of population, economic resources, and product output

[10] Average value for the 13th Five Year Plan period.

differ radically in eastern and western China. The central and western parts of the country occupy about 60% of the country, but include mainly high mountain areas and the Gobi Desert. The land is large, with only about 400 million people (less than 30% of the total population) living in it, generating about 20% of the country's GDP in 2017.

Figure 4

Regional distribution of China's GDP in 2017



Source: Rob Gamesbay, http:/www.coolgeography.co.uk, BAS.

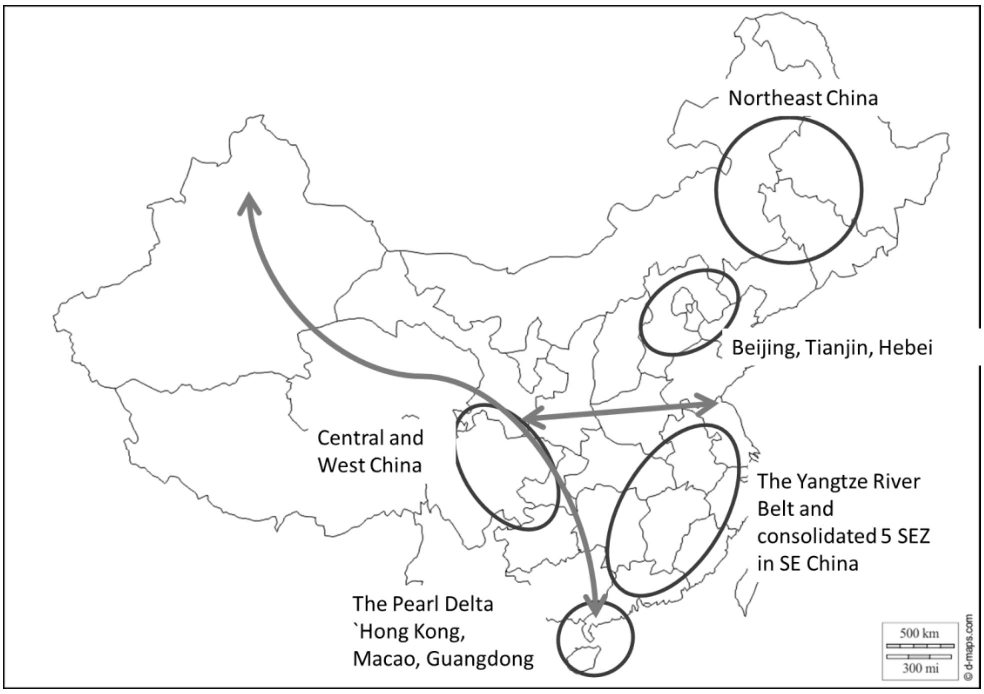
The concept of the central and western regions development was developed in the late 1990s, but was formally published in 2000 and entered into force in 2001. Special economic zones and free trade zones were built around the cities of Chongqing and Chengdu in central China and consolidation of the eastern zones. In 2009, the Western Triangle Economic Zone was formed.

The zone alone generated 40% of Western China's GDP as defined by the strategy. From 2000 to 2016, the Chinese government invested 6.35 trillion RMB (USD 914 billion) in 300 major projects, mainly infrastructure, education and talent retention, according to NDRC publications.

The strategy aims to ensure the sustainable development of the regions in western China through public investment in infrastructure that connects the region with southern and eastern China. This is also the place where the land transportation links with the countries of the One Belt, One Road initiative start. The initiative subsequently becomes a strategy, directly affecting Bulgaria and the countries in Eastern Europe.

Figure 5

Main Areas of Regional Development Policies



Source:BAS.

The main objectives of the strategy include the construction of logistical corridors between Nanning-Chongqin-Urumqi, rail and land transport by 2020, and the construction of river ports and logistics hubs. By 2025, the strategy aims at a highly efficient, green economy with multifunctional transport corridors.

A new plan released in January 2017 and new targets in the country's 13th five-year plan by 2020 strengthen coordination between the Western Development Strategy and other important strategies such as One Belt, One Road and Economic Development the Yangtze River Belt.

As a result of the consistent implementation of the objectives of the strategy over the last 10 years through 2018, central and western China regions show higher economic growth than eastern China regions (Xu, 2018). For the period 2012-2017, GDP per capita increased by 7.2, 8, 8.2 and 5.4% respectively in eastern, central, western and northwestern China. From 2000 to 2017, GDP in the western region increased from 1728 billion RMB to 17.1 trillion RMB and its share in China's total GDP rose from 17.5 to 20%. GDP per capita in the western region increased from 4,948 RMB to 45,522 RMB in the same period, or 62.3% from the average of China in 2000 to 76.3% from the average in 2017 (Xu, 2018).

3.3. “One Belt, One Road“ Strategy

The One Belt, One Belt Initiative (OBOR) was launched in 2013 and entered into force in 2014. The OBOR is a comprehensive new national strategy for economic development and opening up to the world, proposed by President Xi Jinping during his visit in countries in Southeast Asia as an initiative to build the Silk Road Economic Belt and the 21st Century Silk Road on March 28th, 2015. The NDRC, the Foreign Ministry and the Ministry of Commerce jointly announced their intention to take action to build a silk belt and a 21st-century silk road.

The initiative and its core concepts are documented in documents by the United Nations, the G20, APEC and other international and regional organizations. In July 2015, the Shanghai Cooperation Organization issued a "Ufa Declaration to the Heads of State of the Shanghai Cooperation Organization" showing support for the Silk Road Economic Belt initiative.

By the end of March 2019, the Chinese government had signed 173 cooperation agreements with 125 countries and 29 international organizations. The strategy is expanding from Asia and Europe to include more actors in Africa, Latin America and the South Pacific (OBOR, 2019).

It is a global strategy based on political dialogue, infrastructure interconnection, trade opening, capital sharing, and people-to-people connection.

The strategy is an additional policy instrument for the development of the western regions, creating an opportunity to continue the infrastructural connectivity of western China with the countries along the Silk Road. This connectivity is clearly evident from the map of rail links between central and northwest China, and central and southern China.

Better transport links go hand in hand with the Standard Connectivity Action Plan 2018-2020, which is a follow-up to the 2016-2018 Plan (Action Plan, 2018). The main objective is to create a new situation by 2020 for the development of international standardization through exchange and mutual learning, openness, inclusion, interconnectedness and sharing of results and to create a new model of work on the internationalization of standardization. The area of mutual recognition of standards is expected to expand, with a target of at least 1000 standards by 2020, and possibly 2000.

The map also clearly shows the final destination of the Silk Road, namely the markets in Western Europe, the countries that currently, and in the last few years, have received the largest volume of Chinese investment. In this sense, one can see the involvement of Bulgaria in the construction of the infrastructure connection – the corridor on the west coast of the Black Sea, which, however, is not specified in the new plan of the NDRC for the development of the transport corridors for the period 2019-2025, with a perspective until 2035.

Figure 6

New Corridors for the Transport Connectivity of the Silk Road

Source: Sohu, 2019, http://www.sohu.com/a/327856621_118392.

The OBOR strategy subsequently integrates with the goals of “Made in China 2025” and is a strategic guideline for the regional and sectoral development of the Chinese economy. Another feature of the OBOR is that it relies on moving China’s production abroad as a measure to overcome China's overcapacity problems and lower demand in the global market for various reasons. Therefore, the structure of investment in Europe is different from that in Asia or other parts of the world. In Europe, the share of investment in the manufacturing sector is relatively higher than in all other parts of the world. A comparison of the data is presented in the next section of this article.

The countries involved in the strategy increased in the years to 2019, as did the scope of investment. According to data from the Ministry of Commerce of China, in the period from 2013 to 2017 China invested USD 82 billion in the OBOR countries, and a total of USD 7.4 billion in the first half of 2018. Investment in the region is up 12% year-on-year and China is expected to build 82 areas for foreign economic and trade cooperation. The newly added investment in the cooperation area is 87% of the total investment; the host country's taxes and fees paid reach USD 3.3 billion.

In 2017, Chinese companies made investments in nearly 3,000 firms in the OBOR countries, in 17 large sectors, with a total investment value of USD 20 billion, an increase of 31.5% compared to 2016 (USD 15.3 billion), etc. The share of Chinese foreign direct investment in OBOR countries is 9.5% of all overseas in 2016 and 12.5% in 2017 (MOFCOM, 2018).

The main investment recipient countries are Singapore, Kazakhstan, Malaysia, Indonesia, Russia, Laos, Thailand, Vietnam, Pakistan and others. The total value of investment from the beginning of the strategy to the end of 2017 reached USD 154 billion. The Chinese map also shows the connectivity of the two roads through central and western China.

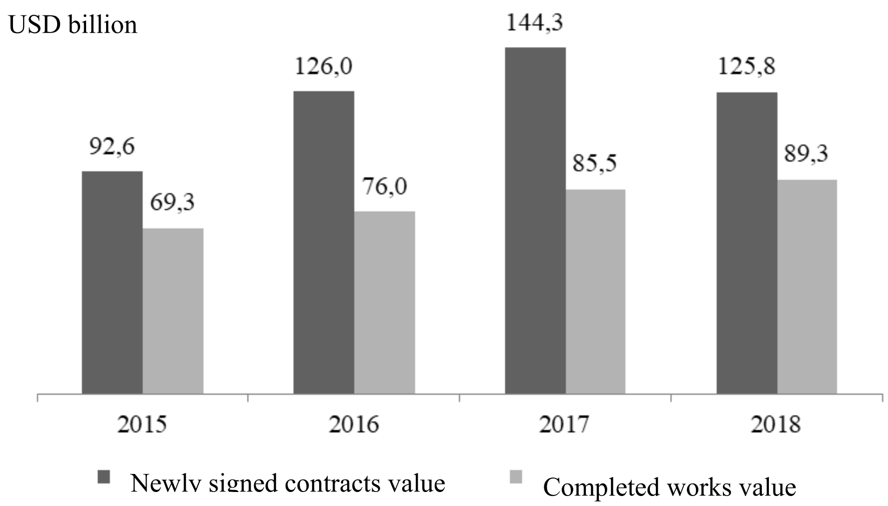
China's state support for OBOR projects includes:

- National Railway Express Company Plan for the construction of 43 hubs and 43 railway employees lines.
- Construction of a sea express line to shorten deliveries from China to Europe by 7-11 days.
- Construction of railway line Serbia-Hungary voted in 2016 as a key element of the China-Europe land and sea express line.
- Synergy between the OBOR Initiative and the Hungarian Open East Initiative, the Polish-Croatian Three Seas Cooperation Initiative and the EU Danube Strategy.

Following the launch of the initiative in 2013, in the context of infrastructure connectivity, China is further enhancing cooperation with countries and regions along the route in infrastructure investment. In 2018, Chinese enterprises completed USD 89.33 billion in contracted foreign projects in countries along the OBOR region, representing 52.8% of the total for the same period. The cooperation areas include mainly infrastructure construction, capacity cooperation, energy and industrial parks construction and more.

Figure 7

Chinese Investment Flow in OBOR countries



Source: UNDP 2019.

3.4. „17+1“ Strategy

This strategy started as an initiative for a multilateral cooperation platform between China and the first 16 countries from Central and Eastern European (CEE). In 2018 Greece was included in the initiative, making it 17+1. The initiative started in 2013 as a stand-alone component of the OBOR Strategy. It is the first of its kind “strategy in strategy”, at the same time an independent platform, organization and coordination mechanism.

The strategy also integrates successfully with the region's local strategies, including the Danube Strategy, the Three Seas Strategy (Adriatic, Black and Baltic Seas) and the initiative to restore the ancient trade route linking the Baltic Seas with the Amber Road.

Figure 8

Map of 17+1 Initiative Countries

Source: BAS.

As a result of the creation of the platform, the following meetings are held on a frequent basis, and the following projects were carried out:

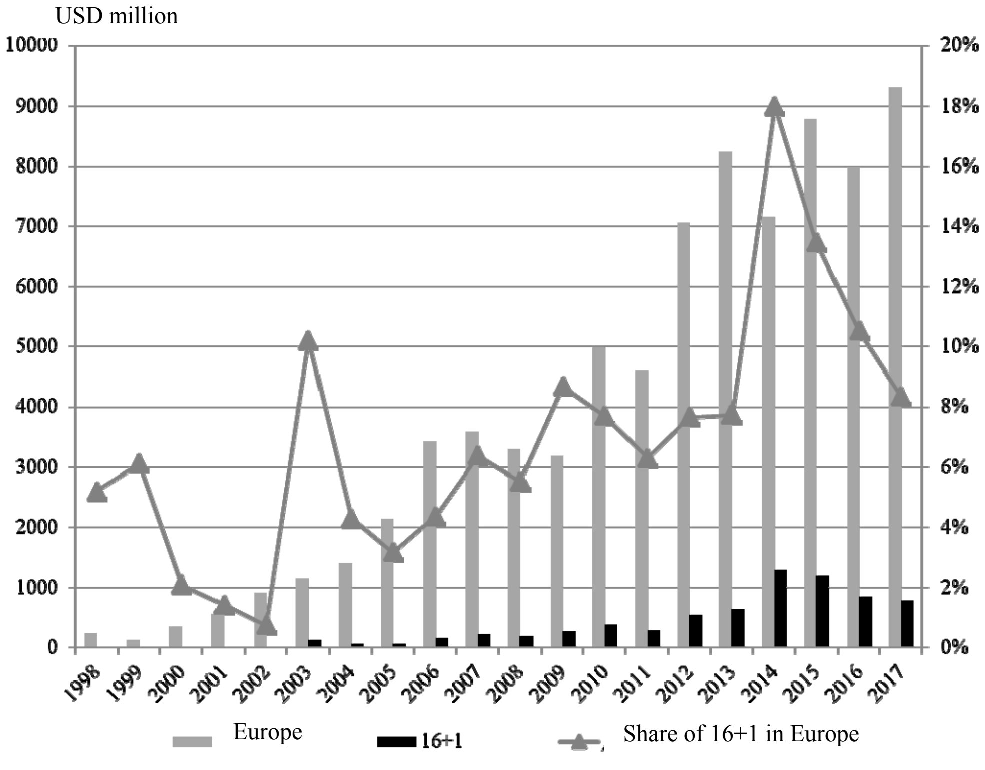
- Summits at three levels: prime ministers and ministers, district governors, municipal governors;
- 20 professional coordination mechanisms and platforms;
- Creation of the China-CEE Fund of EUR 10 billion in 2017 for the investments in the region with a plan to attract an additional EUR 50 billion;

- Twin Cities: 60 large and 100 small cities in 16+1 by December 7th, 2017;
- Direct flights: Beijing-Warsaw, Beijing-Budapest, Beijing-Prague, Shanghai-Prague, Chengdu-Prague, Beijing-Belgrade;
- Railway Express: Suzhou-Warsaw, Yi WU-Riga, Chengdu-Lodz, Changsha-Budapest;
- Other: visa-free regime for Chinese in Serbia, RMB clearing bank in Hungary, Chinese RMB bonds in Hungary, exchange in education, tourism.

Although serious efforts have been made to develop the platform, so far, investment in the 16+1 countries (until 2017, before Greece joins) hold a low share of total Chinese investment in Europe, from around 8-10% for the last few years until 2017. This share is volatile, changing with each new project as the base is low.

Figure 9

Turnover of Completed Project Contracts by Chinese Companies

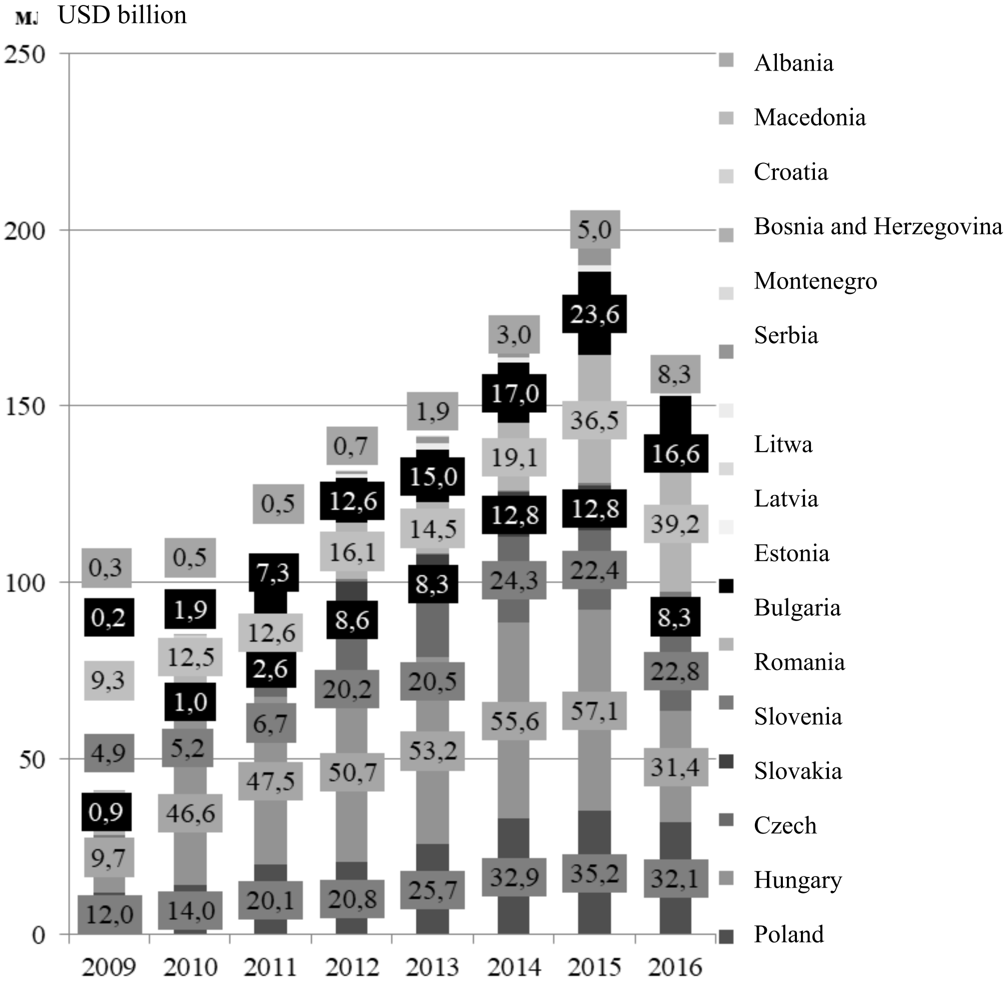


Source: Ministry of Commerce of China.

The turnover of the executed contracts in Europe amounts to USD 9.32 billion in 2017, of which 8.3% are in the 16+1 countries. The turnover of the executed project contracts is a separate indicator from the Chinese direct private investment, and covers only the concession projects realized, BOT projects and public-private partnerships mainly in the field of infrastructure construction (the Serbian part of the Belgrade-Budapest railway line, the investment of Shanghai Electric Ltd. in the construction of the 160 MW Serbian power plant in Pancevo and the expansion project of Maribor Airport in Slovenia (MOFCOM, 2018).

Figure 10

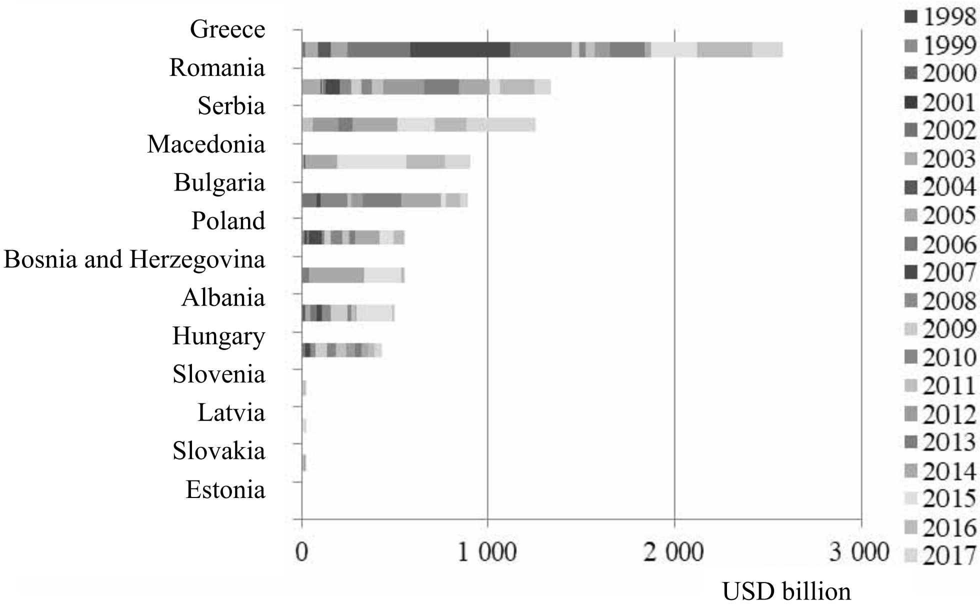
China's Investment Volume in 16+1



Source: Ministry of Commerce of China.

From both the investment data and the executed contracts data below, it can be seen that the amount of investment in the different countries is very different. If the total amount of investment is concentrated mainly in the Visegrad Four countries and Romania, then the draft contracts are executed mainly in Greece, Romania, Serbia and Macedonia, and then Bulgaria. Increased investment in infrastructure projects in non-EU countries such as Macedonia and Serbia in recent years underpin this data, with the inclusion of Greece and the expansion of the platform to 17+1 also linked to the implementation of infrastructure connectivity from the Piraeus port to Central Europe and then to Western Europe.

Figure 11
Turnover of the Executed Contracts of Chinese Companies in Selected Countries of 17+1
million USD



Source: National Bureau of Statistics of China.

4. Chinese Investment in Europe

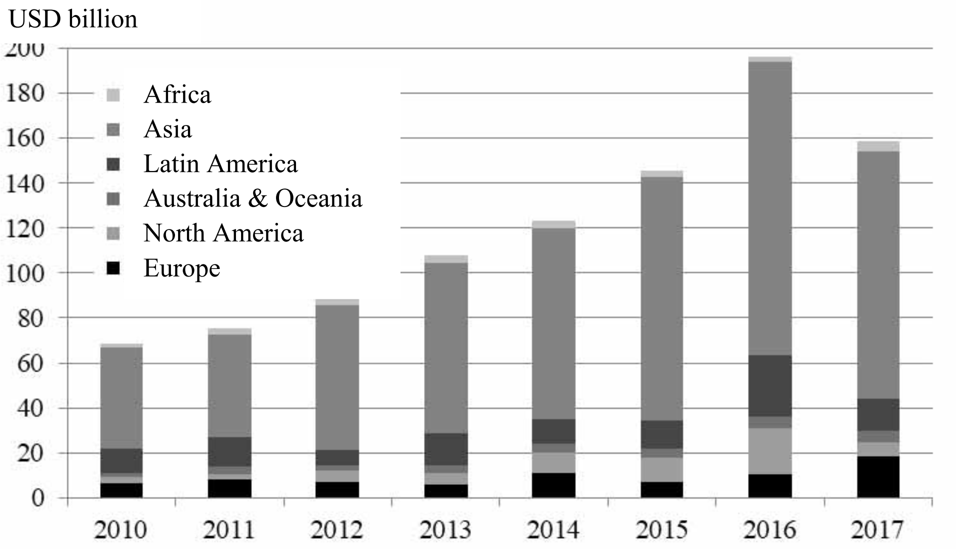
4.1. General Trends and Characteristics

In recent years, China's investment in Europe has generally shown an upward trend, and the investment fund has increased 3.1 times in the last five years to 2017, according to a 2018 report by the Ministry of Commerce. The recipient sectors diversified to include basic manufacturing, mining, finance, leasing and business services, wholesale and retail. The investment structure is constantly being optimized and investment methods are becoming more flexible (MOFCOM, 2018).

Chinese investments in Europe accounted for only 11.7% of total Chinese foreign direct investment (FDI) abroad in 2017, reaching $ 18.46 billion, an increase of 72.7% compared to 2016 (MOFCOM, 2018). Although this share is small, it has grown steadily over the last few years, especially since the launch of the OBOR and 16+1 strategies.

Figure 12

Chinese Investment Flow by Continent



Source: Ministry of Commerce of China.

It is considered that production close-to-market can replace the export pattern from China, especially for sectors where the commodity base is scarce in China. The EU is China's largest trading partner for 14 consecutive years to 2017, and China is the EU's second largest trading partner. Economic and trade relations between China and the EU form a model of mutual interest, but in order to be sustainable, moving China's production capacity to the market is an inevitable step. At the same time, Europe has quality assets and a need for capital, which is proving extremely attractive to Chinese investors. The report of the Ministry of Commerce states that China considers the OBOR initiative as a factor of investment, and believes that the implementation of the countries' integration and cohesion projects in the initiative, and more specifically the connectivity of Europe and Asia, is a strong factor for deepening of trade and economic relations.

Other factors for the development of investments in the region are the deteriorated trade relations with the US, as well as the difficulty of importing goods into the EU due to a number of imposed trade barriers.

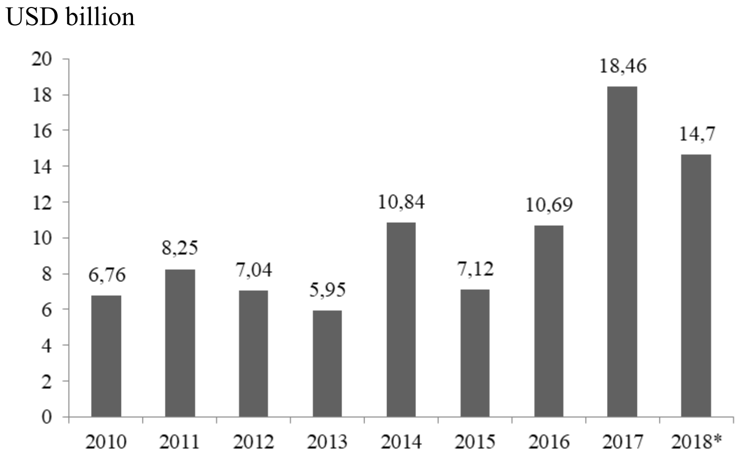
It is important to note that the share of Chinese investment in Europe is increasing in global total, albeit slightly, at the expense of a decline in investment shares in America. The

OBOR strategy plays an important role in this, leading to an increase in the share of Chinese investment in Africa as well (MOFCOM, 2018).

The March 2019 report of the Mercator Institute for China Studies (MERICS, 2019) shows a 40% decline in Chinese transactions in Europe in 2018 compared to 2017 to EUR 17.3 billion, and above 50% of the level in 2016, from EUR 37 billion (XINHUA, 2019). In 2018, Chinese investments in the acquisition of units or entire companies in Europe for the second consecutive year will fall, but not the investments in Germany.

Figure 13

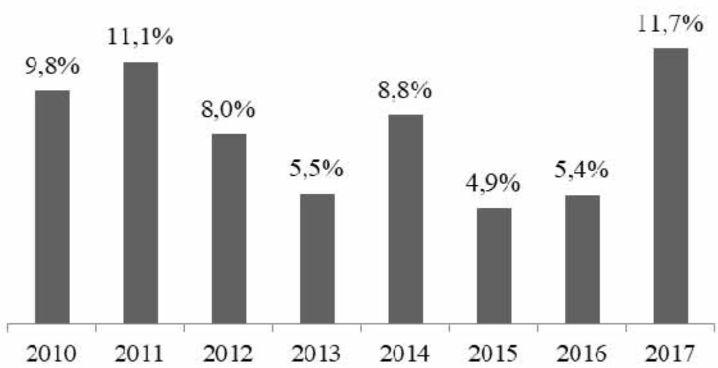
Chinese Investment Flow in Europe



** 2018 – MERICS*
Source: Ministry of Commerce of China.

Figure 14

Share of Chinese Investment in Europe in the Total Chinese ODI

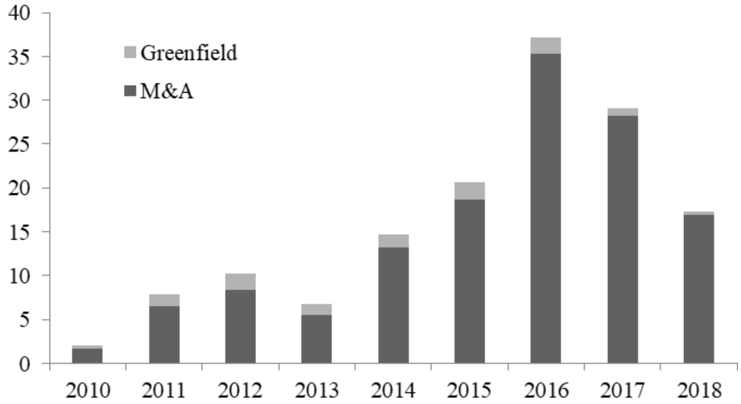


Source: Ministry of Commerce of China.

Another characteristic of these investments is that most of them are in the form of mergers and acquisitions through the purchase of corporate units in technology and finance companies and business services companies (MERICS, 2019).

Figure 15

Chinese Investment Flow in the European Union, (EU-28), billion EUR



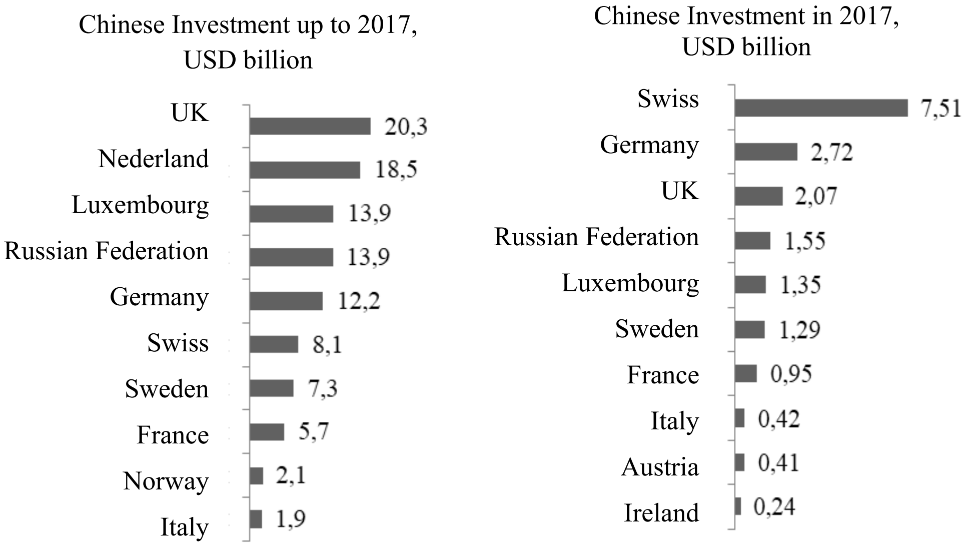
Source: Rodium Group (MERICS, 2019), BAS.

In 2017, of the 10 countries and regions with the highest number of Chinese mergers and acquisitions, three are in Europe, namely Sweden, Germany and the United Kingdom. Chinese group ChemChina acquired Swiss Syngenta for USD 42 billion, which is China's largest investment abroad since the start of China's global market entry strategy. It is also the second largest deal in the world this year. The same year, China's State Electric Network Ltd. acquired a 24% stake in the Greek national electricity company for USD 320 million, and China Investment Ltd. bought a 10% stake in London's Heathrow Airport. Beijing-based Jiengong Corporation is involved in a straight-line development in the Manchester port city, and Junyuan Marin Transport Port Ltd invests 200 million euros in a 51% stake in a Spanish port company (MOFCOM, 2018).

Characteristic of Chinese investments in Europe is their concentration in Western European countries and Russia, mainly Germany, France, the United Kingdom, and more recently Luxembourg and Sweden. As mentioned above, investments in Eastern Europe are extremely small, due to a number of factors, but for the whole 16+1 region they are equal to those in a Western country.

Figure 16

China's Investment Stock in the Top 10 European Countries



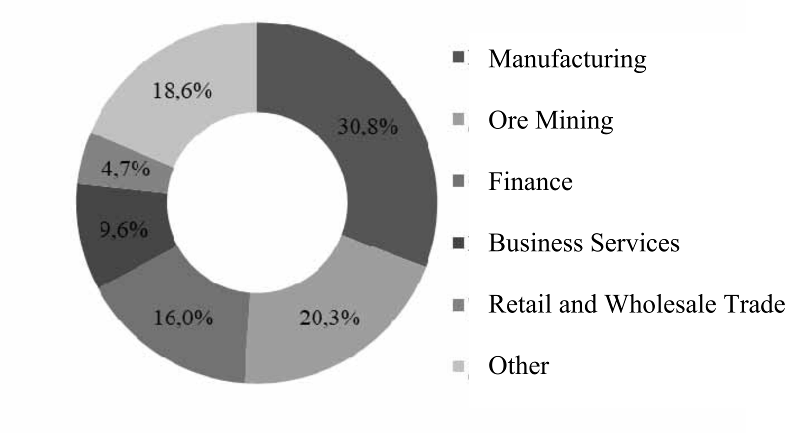
Source: Ministry of Commerce of China (MOFCOM, 2018).

4.2. Trends by Sector

More than 30.8% of Chinese investment in Europe is in the manufacturing sector, followed by the finance sector with about 20% of total Chinese investment, business services and leasing by 16% and wholesale and retail trade with about 9.6% of all Chinese investments in Europe in 2017 (MOFCOM, 2018). In comparison, this structure in the total Chinese investment in the world is much different. According to a report from the Ministry of Commerce, in the same year, these sectors occupied 19, 12, 34 and 17% respectively, showing greater interest in business services and leasing as well as trade in other regions. More investments have been made in energy, real estate, agriculture and communications and transport, which are small in Europe.

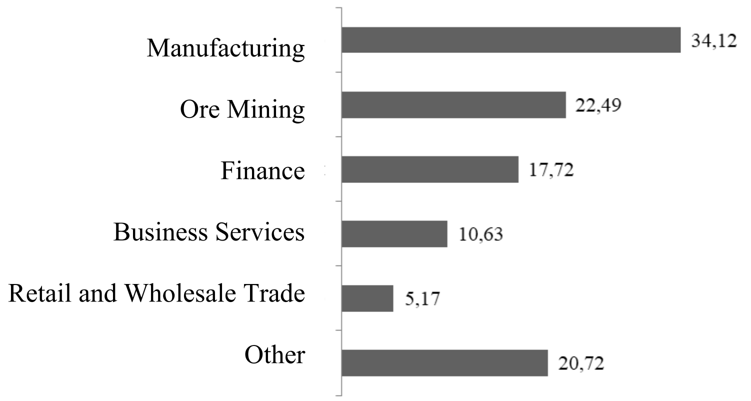
Chinese investment in manufacturing in EU countries reached USD 24.62 billion in 2017, realized mainly in Sweden, Germany, the Netherlands, France. The manufacturing sector mainly includes the automotive industry and the production of medical equipment. The financial sector accounted for 19.9% of all Chinese investment in 2017, or USD 17.13 billion mainly in Luxembourg, UK, Germany, France. The mining sector generates USD 14.13 billion in the Netherlands, Luxembourg, Belgium, and investments in the business services and leasing sectors are concentrated in the United Kingdom, Luxembourg, Germany, France, the Netherlands, which include investments in the wholesale and retail trade, amounting to approximately USD 4.49 billion (MOFCOM, 2018).

Figure 17
Breakdown of Chinese Investment Stock in Europe by Sector, 2017



Source: Ministry of Commerce of China.

Figure 18
Chinese Investment Stock in Europe (incl. Russia) in 2017, bn USD



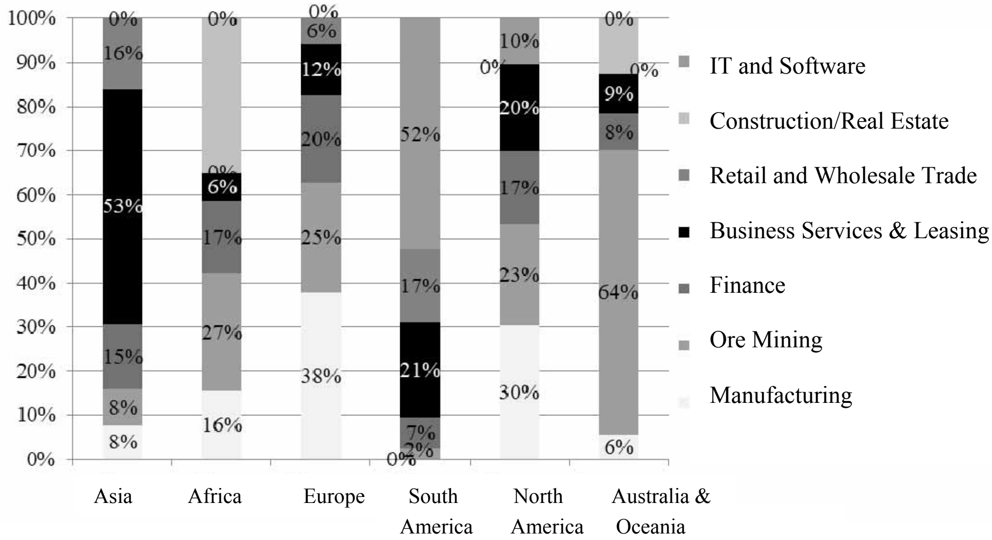
Source: Ministry of Commerce of China.

The predominance of investment in the manufacturing sector of Europe and ore mining, which is not so typical of other continents, clearly shows the principles of China's strategy to enter the global market through using local market resources. A comparative chart of investments by sector in different continents clearly presents the directions of investment.

It is clear that investment in the manufacturing sector in Europe has the largest share of all sectors, for example in South America this share is 0%, in Australia and Oceania only 6%, and in Asia 8%. In Asia, on the other hand, the share of investment in business services and leasing is the largest, and the share of investment in ore mining is the largest in Australia and the oceans.

Figure 19

Chinese Investment Structure by Continents and Sectors in 2017, %



Source: Ministry of Commerce of China.

5. Conclusions

The analysis ends with two main conclusions. The first is that China's overseas investment increased in a direct relation to the issue of the specific government strategies and policies. This starts with the Go Global strategy at the very beginning in the 1980s, and continues all along with the supportive and further developing strategies, and is particularly obvious with the adoption of the 12th Five year plan starting in 2010 and all supportive strategic documents coming in the years after 2013-2014. Each next strategy refined the direction of overseas investment, focusing on the three priorities – technologies, resources, infrastructure and energy at the beginning, and later on cutting off sport, culture, real estate investment in 2017. Increasing rates of investment were observed in Europe along with the acquisition of companies and factories, to quicken the process and achieve results according to the targets set. It can be concluded, that all real investment was done according to the goals set, using the mechanism provided, and reaching the results asked by the government, set with specific criteria in terms of sectors, technologies, number of working personnel abroad, etc. Removal of administrative barriers for overseas investment in 2014 also resulted in boosting the Chinese companies' expansion globally.

The second conclusion is that investment varies by region and is determined by the specifics of local markets, which corresponds to the priorities set by the strategies. Variations by sectors differ in the different continents, with the European market gathering the most investment in production bases and technology companies, unlike the Asian market, with more focus on trade investment and business and leasing services.

To quicken the process, China mobilized all possible means. The government introduced policies that encouraged expansion in the external market with the active participation of private companies, small and medium-sized enterprises as well. It also allowed the use of foreign finance as a resource to achieve the goals. Despite the large decline in Chinese investment in Europe in 2018, which was due to the increased restrictive approval regime for Chinese investment in many countries such as the UK, France, Germany, Italy and others, Chinese investment in Europe was extremely resilient to pressure (BAKER, 2019).

In response to increasing protectionism in some developed countries and higher barriers to investment from China, the Ministry of Commerce announced five areas of enhanced work to support Chinese enterprises in October 2019:

1) strengthening policy guidance and promoting high-quality foreign investment;
2) establishment of a system for promotion, supervision, servicing and guarantee for entering into the regulatory framework of investments;
3) improvement of the business environment for negotiations with the host country in support of the enterprises;
4) servicing and guarantee of performance, innovative methods of supervision and provision of the most appropriate public services for enterprises;
5) risk prevention, enhancing the accountability of security companies abroad, and timely and effective response to various risks.

Chinese companies could also possibly redirect efforts to countries with weaker investment constraints, non-EU countries, such as those in the 17+1 initiative. Among them, the recipients of the most Chinese FDI have been Hungary, Poland, Romania, Slovenia and Croatia for the past two years. However, as the markets of these countries do not contribute to the Made in China 2025 targets largely, investment there is done as long as it is in line with and helps achieving the targets set for the Western European markets.

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