

Peter Mandelson

EU Trade Commissioner

## **Remaking the case for foreign investment**

*Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort*

European Chamber of Commerce in China

**Tianjin, 26 September 2008**

In this speech to the European Chamber of Commerce in China at Tianjin on 27 September 2008, EU Trade Commissioner Peter Mandelson urges China to act to reverse sliding EU investment rates in China. Noting that EU investment rates in China had been falling since 2005 and that Russia and India both now attracted more EU investment than China, Mandelson says that China is facing "tough competition for the world's most productive investment". He urges Chinese authorities to tackle "outdated and unnecessary" restrictions on EU direct investment. Mandelson argues that the EU and China should aim to create an open investment market in green technologies and to use their joint weight to shape the global investment environment that would emerge from the current banking crisis.

Speaking at the height of the banking crisis, Mandelson argues that in the important debate over new regulatory approaches to risk in financial globalisation, the case for open productive foreign investment should remain clear. Warning that the conditions for a "protectionist turn" in the global climate for foreign direct investment would only be compounded by the banking crisis, Mandelson urges China and the EU to preserve an open flow of foreign investment in both directions.

Mandelson:

- Welcomes the comprehensive strategy for attracting foreign investment set out by Chinese Vice Premier Wang Qishan in 2008. However, he noted that EU investment in China was still restricted by intellectual property theft, unpredictable mergers and acquisitions oversight, heavy licensing costs for foreign businesses and rules requiring forced joint ventures with Chinese firms. He says: "China appears to have put out the welcome mat for foreign investment, but the door is still half closed. In some cases it appears to be swinging shut." Mandelson argues that the EU and China should set the joint goal of reversing the reduction in EU investment rates by the end of the decade.
- Says that the European Commission is "committed to ensuring that China gets a fair hearing on any issues involving investment in Europe". Mandelson says he believes that Chinese investments in European petrochemicals, banking and logistics sectors had been good for both sides.
- Argues that the EU and China should aim to create as a matter of priority a fully integrated market for green investment and trade in green goods to encourage the development of low carbon industry.
- Argues that as Chinese global investment grew, it would have an increasing interest in an open global investment climate. He says that the EU and China should adopt an openness in their own investment ties that could act as a benchmark for the investment frameworks that would emerge from the current financial crisis. Mandelson notes that Chinese expectations of transparency and access abroad will "inevitably be judged by politicians and policymakers by the standards China imposes at home...going global means competing internationally on your merits, not on the artificial advantages that go with special treatment in the domestic market".

2008 has been an extraordinary year for China. You have faced many domestic challenges. I want to mention two. The Sichuan earthquake in May was a tragedy. The world mourned your loss and applauded your exceptional response. The Olympics - and the Para-Olympics - was a triumph - of organisation, common endeavour and of the human spirit. I applaud your strength in adversity, and your outstanding achievements. They give me confidence that together we can face the global challenges I want to discuss today.

It has been an extraordinary few weeks on the financial markets, weeks with consequences across the global economy, starting in the United States. But the costs of this crisis will be felt by all of us, including here in China through changing stock market sentiment, falling inward investment and a fall in export demand tied to falling consumer spending in Europe and the US. You could not find a more complex and unfortunate metaphor for our global economic interdependence.

The debate about whether this economic interdependence is a good or a bad thing misses the point. It can, of course, be both. An economy that was insulated entirely against volatility and risks in the global economy would also be insulated entirely against the benefits and rewards of the global economy. There will be some who will blame this financial crisis on globalisation itself. Or who will want to use it as a pretext for economic nationalism, or protectionism. Both would be a mistake. The development of a global economy has delivered immense benefits to all of us – not least here in China where hundreds of millions have been lifted from poverty, as a result of China's growth and international integration. But it also means we are each more exposed to decisions taken in other parts of the world. The problem is not globalisation itself, but managing risk at the global level.

Imprudent lending or speculation, poor product safety standards - these are of course national problems and they demand national regulatory solutions. But they are also questions of global governance, and need effective multilateral coordination. What the financial crisis has brought home to us is that globalisation demands a new regulatory paradigm – smarter regulation, regulation that reflects our interdependence and the way the global economy actually works. Our ability to develop good habits of multilateralism will determine the stability of our economic lives.

Precisely because irresponsible risk-taking has been able to destroy so much value on global markets, and knock public confidence, this is the moment when we need to be reasserting the value of financial globalisation. Global investment deepens the pool of funds available to capitalise our economy. Now is the moment to defend the value of an open global market and the importance of long term foreign investment. The kind of money that builds businesses rather than just betting on them.

This matters because the risk of a protectionist turn in the global foreign investment climate already exists. It is in grassroots concern in Europe and the US about foreign ownership by emerging-world companies or investment by state-backed entities from these rising competitors. The perception remains in Europe that European investors don't operate on a level playing field in markets like China, while our own markets are the most open in the world for inward investment. All these concerns will be compounded by the banking crisis.

So my message tonight is that the EU and China must resist this protectionist turn. Both in their own investment relations, but also by acting together at the multilateral level to shape the new global investment environment that will emerge from the current crisis.

## **Is China losing the race for EU investment?**

Vice Premier Wang Qishan made a striking speech to the International Investment Forum earlier this month, in which he set out China's long term ambition to attract the world's best investment to China, and see Chinese companies "go global" as investors themselves. He emphasised China's commitment to continued investment liberalisation, to improving investment conditions in the West and North of China. To improving legal frameworks for investment and toughening up Intellectual Property Rights protection. He stressed China's commitment to creating, as he put it, "broader space for the development of foreign businesses in China".

Vice Premier Wang also referred to the adoption of the Monopoly Law, which entered into force at the start of August. I agree with those who think that this is a hugely impressive achievement for China. It is the basis for a robust competition regime in China approaching international standards. I trust that any fears about discrimination towards foreign companies in the law's application will prove to be unfounded.

In the vision for investment that the Vice Premier has set out, Europe is an important and necessary partner for China because we have one of the most open investment markets in the world and we are a huge market for China's own foreign investment, whether it comes from companies or in the form of sovereign wealth.

We are necessary, too, because we account for more than a third of the foreign investment funds China is competing for.

And necessary because we are a global leader in high and green technologies and services, which are the sectors heavily favoured by the Chinese government and the 11<sup>th</sup> five-year plan. Europe may not be China's biggest source of investment, but it is the source of some of China's most productive investment, backed with sophisticated management and technology in chemicals, automobiles, and quality consumer products, trusted by customers around the world.

This kind of FDI has played a crucial role in China's three decades of reform and growth. It has helped drive China's export boom. Foreign-capitalised companies account for more than half of China's exports. Along with that investment has come new technology and business experience. It has powered China's rise from about 3% of global market share for high-tech goods in 1995 to 15% today. The Chinese government itself believes that about 40% of technology transfers into China originate in Europe, with European exports or investment. Our companies bring management skills that China badly needs.

So it is disappointing that European investment in China dropped again in 2007 to just 2% of all European FDI outflows - despite the fact that, globally, European FDI is actually growing strongly. Although China is leading the emerging economies as an investment destination, the reality is that China is now facing tough competition for the world's most productive investment. European companies have invested more in both Russia and India since 2003. China is winning a decreasing share of the EU's foreign investment in the emerging economies. These are lost opportunities for China.

Reversing this trend means understanding why it is happening. Some of it is probably cyclical. But there is still a sense among European businesses here that despite big achievements like the Anti-Monopoly law, conditions for investors are still subject to too many serious restrictions.

European investors in high-tech and famous brand goods are interested in the Chinese market, but they fear the theft of intellectual property if they transfer technology here. They come up against an unpredictable Mergers and Acquisitions policy. The barriers to market entry – the establishment costs in capital requirements, or licensing, or forced joint ventures, or ownership caps - make it difficult or impossible for European companies to choose China as an investment destination.

China appears to have put out the welcome mat for foreign investment, but the door is still half closed. In some cases it appears to be swinging shut. Too often, what European companies say they encounter in China, is an unspoken economic nationalism that implies that foreign investment is no longer wanted or needed. I suggest that such a mindset is a strategic economic mistake for China.

### **An investment partnership: the big picture**

I believe that Europe and China should agree this goal: to reverse the decreasing flow of European investment into China by the end of this decade. How do we do that? I think that the answers are in Vice Premier Wang's speech in Xiamen.

We should step up our work together to further improve intellectual property rights protection in China, so that companies are not held back from investing here by fear of counterfeiting.

We should work together to ensure that China's investment market is genuinely open. I believe this means that we should end outdated rules like 50/50 joint venture requirements and compulsory technology transfer requirements that are counterproductive, because they turn away the most innovative firms. This is necessary if China wants to attract not just more, but the best.

I think that it is reasonable to expect that European companies receive the same treatment here that Chinese companies benefit from when they enter the European market. Consistent implementation and enforcement of the law. Independent regulators. Transparent licensing and product registration procedures. Over the next year I want to use the EU-China High Level Mechanism to address these issues – and hopefully to start resolving them.

I am also committed to ensuring that China gets a fair hearing on any issues involving investment in Europe. China is a growing investor, and these investments have often hit the headlines. But I have defended the Chinese presence in European petrochemicals, banking and logistics sectors as good for both sides – as well as being a testament to Europe's openness to investment. But because this Chinese presence is likely to grow, we should deepen our work to balance market access in investment, to bind our current level of openness, and to go beyond it. By cooperating more closely, I hope we will be able to demonstrate that many of the restrictions that operate in the foreign investment catalogue are both outdated and unnecessary.

But I also believe we need to see the EU-China investment partnership as the source of inspiration. In the area of climate change, for example, China and Europe both share a strong commitment to using green technology to reduce the environmental impact of our economic growth, and reduce our dependence on imported energy. We know that the transfer of low carbon technologies between industrialised economies will be crucial to this. China's green technology producers are already free to invest in European markets. Removing the restrictions on European investment in environmental services, or low carbon technologies in China would be a powerful signal of our joint commitment and should be the core of our joint climate change policy.

The EU and China should aim ultimately to create an open and fully integrated market between us in green investment - in both directions. We need to be looking for new ideas that will facilitate this investment from Europe to boost low-carbon industry in China. One such idea is the proposal for Low Carbon Economic Zones in China, where European green investment could be channelled and low carbon industries nurtured and developed. I would like to propose that the feasibility of such green investment projects, with clear mutual benefits for both the EU and China, should be explored further as a matter of priority. We should also commit to identifying key green goods and technologies where trade is blocked by unnecessary administrative barriers, and cooperate closely on a global deal to eliminate tariffs on green goods and services through the WTO.

We also have closely aligned interests in an open global investment climate. The EU is the world's biggest foreign investor, and China is one of the world's fastest growing. As China's companies and its sovereign wealth vehicles start to 'go global' they will have every expectation of open, transparent investment markets abroad. Those expectations will inevitably be judged by politicians and policymakers by the standards China imposes at home. Chinese companies that benefit from an industrial policy of unfair subsidy and distorted capital costs cannot expect to be treated as normal competitors abroad. Going global means competing internationally on your merits, not on the artificial advantages that go with special treatment in the domestic market.

As I have already said, the current financial crisis has only reinforced the need to create a global dialogue and framework on financial globalisation and investment that extends beyond the developed world and takes in the rising powers of the emerging world. This is why I have been a vocal advocate of multilateral codes for both sovereign wealth funds and recipient countries of those funds. This is why I agree with calls for new mechanisms to strengthen the IMF's function as an early warning system for financial instability.

Europe and China, by our own example, should be providing a model of open investment that can become a global benchmark. A model that balances public interest and national security concerns with transparency and fair treatment for valuable and productive foreign investment. To speak with the same voice would go a huge distance towards underwriting a global and open investment climate.

## **Conclusion**

You can't build a business without investment and you can't build an economy without growing businesses. Whether we are talking about a hundred dollars in microfinance or a hundred million dollars in FDI, the principle is the same: putting together money and the people and ideas that can multiply it for mutual benefit. Investment is to economic growth what seeds and water are to gardens. Global investment allows economic gardeners to draw on more just than the seeds and water in their own backyard. The basic mistake of economic nationalism in Europe and China alike is the same. It is to see foreign direct investment as a sign of vulnerability when it is in fact a sign of strength.

Over the past thirty years or so, China has continued to reinvent itself, continued to grow and change. Foreign investment has always been part of that. My argument tonight has been that an open investment relationship will be central to China and Europe's joint economic future. China's own vision of the kind of economy it wants to be in ten years time means will only be built with an open investment environment based on strong competition rules and intellectual property protection. Europe wants to be a partner in that work.

My case tonight has been that the question of investment will also be central to some of our most important joint international interests. It will define how successfully we achieve joint ambitions such as reducing greenhouse gas emissions and developing low carbon economies. China's companies and investment have only just begun to make their mark in global markets. But China will shape financial globalisation in a powerful way. I welcome that and we should not be distracted by the market turbulence experienced along the way.