Review

NO 03

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The EU's response to China's state-driven investment strategy

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Contents

Annexes

Note on COVID-19 Pandemic

Our review work was completed prior to the outbreak of COVID-19, and therefore this report does not take into account any policy developments or other changes that occurred in response to the pandemic.

About the review:

Since the 1980s, China has been implementing a “state-driven investment strategy” to enable a strong export-driven economy. We looked at the EU’s response to this strategy.

Our review showed that it was difficult to obtain complete and timely data and thus to gain an overview of investments, which are part of China’s investment strategy in the EU. Furthermore, we found no formalised comprehensive analysis of the risks and opportunities for the EU. Future challenges will be to improve the setting, implementing, monitoring, reporting and evaluation of the EU-China strategy. Another challenge will be to coordinate the response of the EU institutions and Member States, by promoting the exchange of information.

Executive summary

I Over the last two decades, China has risen as a significant economic player on the international stage. Since the 1980s, China has been implementing a “state-driven investment strategy” to enable a strong export-driven economy. The Belt and Road Initiative, together with Made in China 2025, are the most significant Chinese investment strategies for economic growth and aim to increase China’s influence abroad, including on the EU and its individual Member States.

II We considered it timely to carry out this review, from our perspective as external auditors, of the EU’s response to China’s state-driven investment strategy, which poses challenges to the EU because of the growing importance of China as an economic player. In particular, State-Owned Enterprises benefitting from Chinese public financing form part of this Chinese investment strategy. Under EU rules such subsidies, if granted by Member States, would be treated as state aid. This difference in treatment makes it difficult for the EU to achieve a level playing field vis-à-vis China.

III This is not an audit, but a review of publicly available information resulting from studies, articles and academic publications gathered specifically for this purpose. Our review provides an overview of China’s investment strategy and compiles the challenges (risks and opportunities) that this strategy presents for the EU. We looked at the EU’s response to China’s investment strategy, consisting of the initiatives undertaken by the EU institutions as well as individual responses of Member States vis-à-vis China.

IV Our review showed that it was difficult to obtain complete and timely data and thus to gain an overview of investments, which are part of the Chinese investment strategy in the EU. Furthermore, we found no formalised comprehensive analysis of the risks and opportunities for the EU. The actions in the recent three key EU-China strategic documents cover almost all of the risks and opportunities, with the exception of three risks.

V The EU and Member States both exercise competences in policy areas related to the EU’s response to China’s investment strategy. In policy areas where a concerted EU approach could be an advantage, the fact that both the EU and Member States exercise competences means that there are multiple decision-makers (e.g. EU institutions and national governments) with possible diverging opinions and approaches. This can make it difficult to address the challenges faced by the EU as a whole in a timely and coordinated manner.

VI Different sources indicate that Member States often act bilaterally with China according to their own national interests and without always informing or coordinating with the Commission where necessary. As a result, it is in certain areas difficult for the EU institutions and Member States to have a coordinated response.

VII We highlight challenges related to the risks we identified. We discussed these with the Commission services and the European External Action Service and, where necessary, have included references to their views:

(1) How to provide more complete and timely data and statistics on investments, which are part of the Chinese investment strategy in the EU, to help better inform EU policy-making on China;

(2) How to carry out a formalised, comprehensive and up-to-date analysis of risks and opportunities for the EU, to help address the full range of challenges posed by Chinese investment strategy;

(3) How to improve the implementation of the 74 actions set out in EU-China strategy, in particular those promoting reciprocity and preventing the distortive effects on the EU internal market, and how to address the remaining risks;

(4) How to allow EU decision-makers to better set and track the EU-China strategy, by making a prior assessment of the EU financing required to implement the actions of this strategy going forward, earmarking this financing and compiling an overview of related spending;

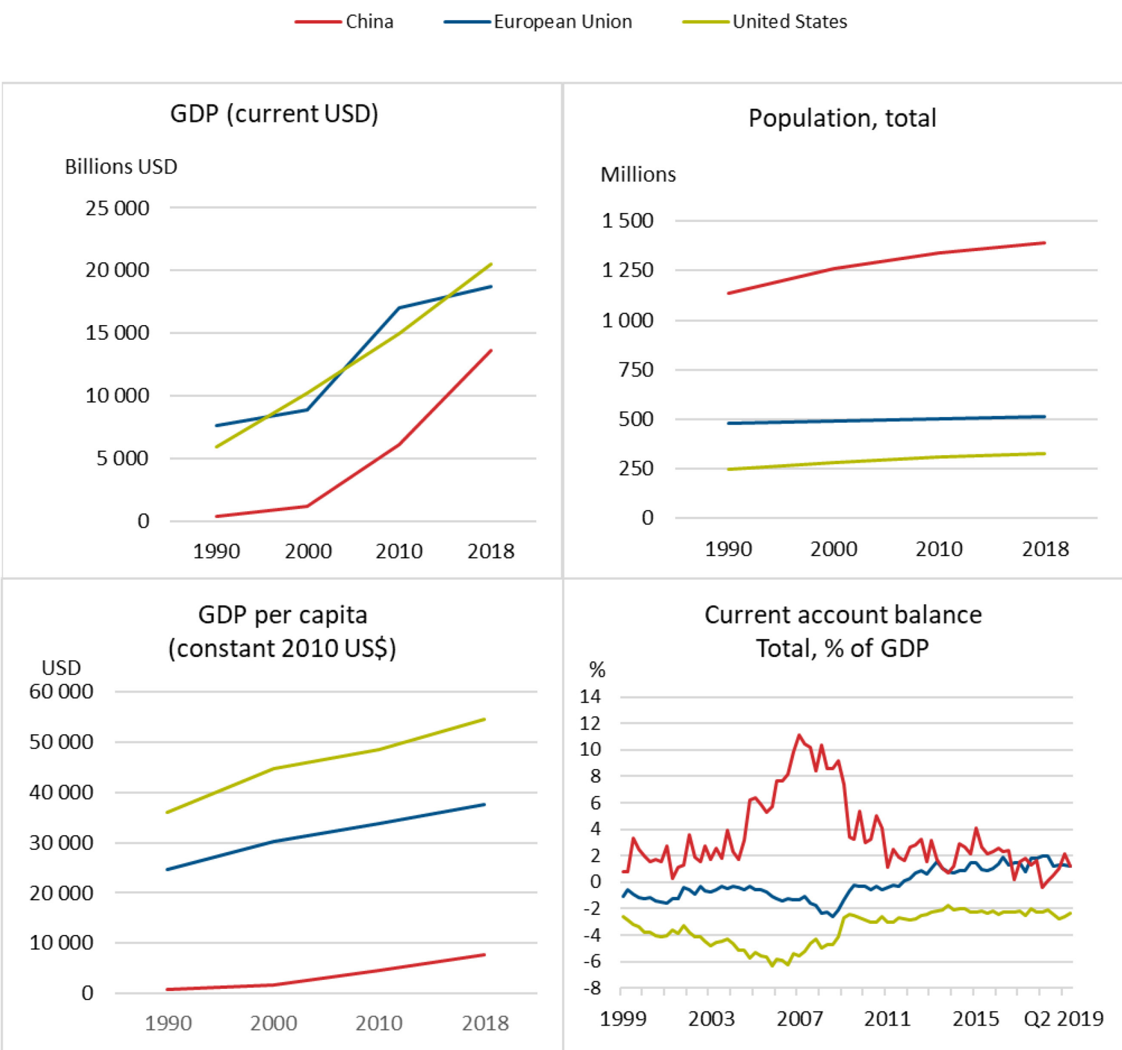
(5) How to ascertain that the challenges posed by the Chinese investment strategy are addressed by reinforcing the performance measurement, monitoring, reporting and evaluation arrangements for the EU-China strategy;

(6) How to better coordinate the response of the EU institutions and Member States, by promoting the exchange of information between them on EU-China cooperation.

1. Introduction

01 Over the last two decades, China has risen as a **significant economic player** on the international stage. This allowed China to become an important **geopolitical actor globally** (see ***Figure 1***). The EU is China's biggest trading partner, while China is the EU's second largest trading partner.

Figure 1 – Demographic and economic data of some large countries



Source: World Bank, "GDP (current US$)"; "GDP per capita (constant 2010 US$)"; "Population, Total"; "Current account balance (% of GDP)", World Development Indicators, *The World Bank Group*, and Organisation for Economic Cooperation and Development (OECD), Statistical data.

02 Chinese economic and trade policies are characterised by several strategies for development where **state-driven investments** have enabled China to become a global player in economic terms. These encourage Chinese enterprises to invest abroad, especially in **strategic sectors** (e.g. energy, telecom and railway systems), with **State-Owned Enterprises (SOEs)** benefitting from Chinese public financing. This can distort competition notably in the EU's internal market as China's SOEs are not subject to EU's state aid rules. The EU is committed to ensuring that there is a level playing field for EU companies that have to compete with Chinese companies.

03 The **"Belt and Road Initiative" (BRI)** is China's most significant investment strategy for economic growth. One policy aim pursued is to increase China's influence abroad, including in the EU and on individual Member States. The BRI promotes China's geostrategic ambitions to expand globally by sustaining domestic growth, developing regional and global connectivity, introducing Chinese standards to less developed countries and providing further trade facilitation between the markets along the BRI.

04 China's investment strategy has received both **praise and criticism** from the international community. On the one hand, the economic fruits of the strategy can have positive effects for both the European and world economies, such as promoting growth and jobs. Furthermore, China's unprecedented growth and successful poverty eradication plans have been credited with lifting more than 850 million Chinese people out of poverty, with a fall in poverty rate from 88.3 % in 1981 to 1.9 % in 2013[1]. On the other hand, concerns have been raised also in the EU about the dependence on Chinese investments in strategic industries, their concentration in sensitive or strategical important sectors, and the non-reciprocity of access to the European Single Market[2].

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1 "China systematic country diagnostic, towards a more inclusive and sustainable development", *World Bank Group*, Report No. 113092-CN, 2017.

2 Hanemann, T. & Huotari, M., "EU-China FDI: Working towards reciprocity in investment relations", *Rhodium Group* and *Mercator Institute for China Studies*, MERICS, 17 August 2018.

05 As the external auditor of the EU, the European Court of Auditors (ECA) has a unique perspective on EU policies, initiatives and finances. We considered it timely to look at the EU's response to **China's state-driven investment strategy** ('China's investment strategy') which poses the challenges outlined above, in the light of China's growing importance economically on the international stage. The **EU's response to China's investment strategy** is comprised of initiatives led by the EU institutions as well as Member States' individual action vis-à-vis China. As a core tenet, the EU has laid down that the EU's engagement with China should be principled, practical and pragmatic, preserving and promoting its interests and values[3].

[3] European Commission, HR/VP, "EU-China – A strategic outlook", Joint Communication to the European Parliament, the European Council and the Council, JOIN(2019) 5 final, Strasbourg, 12 March 2019, p. 1.

2. Scope and approach of the review

06 We looked at the **EU's response to China's investment strategy**. We consider this response to encompass the initiatives undertaken by the EU institutions as well as individual responses of Member States vis-à-vis China. Our review provides an overview of China's investment strategy and compiles challenges (risks and opportunities) that this strategy presents for the EU institutions and Member States. We further describe how the EU institutions:

- developed the EU-China strategy;
- aligned this strategy to respond to challenges;
- implement, monitor, report on and evaluate the strategy.

We also describe how Member States responded to China's investment strategy. Finally, we provide closing remarks where we identify the key future challenges for the EU.

07 This is not an audit, but a **review** of publicly available information resulting from studies, articles and academic publications gathered specifically for this purpose until March 2020. This review was also informed by Commission services and European External Action Service (EEAS) public documents, interviewing their staff, and consulting **experts** in the field (see ***Annex I***).

3. China's state-driven investment strategy

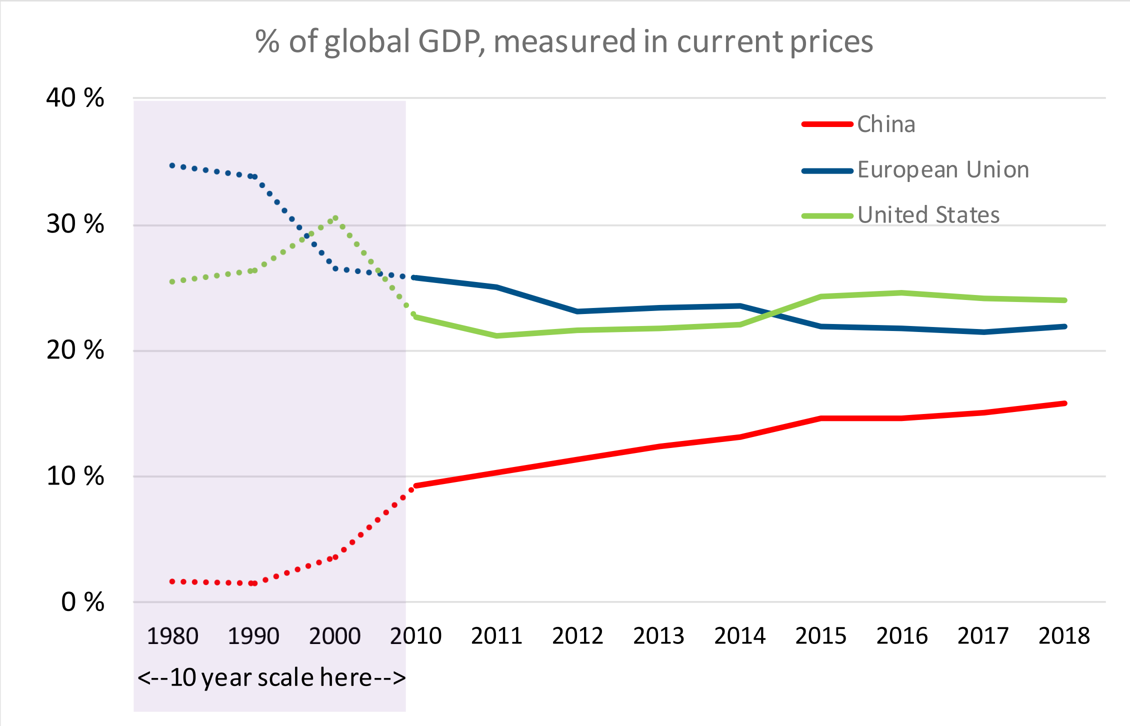
Description of the Going Global strategy

08 Since the 1980s, China has grown into a global economy and aspires to continue on this growth trajectory. Its share in global Gross Domestic Product (GDP) increased from less than 3 % in 1980 to 16 % in 2018 (see ***Figure 2***). The underpinning force for this growth is the ***Going Global strategy*** which emerged in 1999, two years before China's admission to the World Trade Organisation (WTO). The *Going Global strategy* was mainly focused on importing oil resources and other raw materials to facilitate its labour-intensive economy, while manufacturing goods with low added-value (heavy industry e.g. iron, steel and basic machineries)[4] were predominantly exported globally. In 2018, the International Monetary Fund (IMF) predicted that China's nominal GDP could overtake the US by 2030 as the world's largest economy[5].

4 Organisation for Economic Cooperation and Development, "Belt and Road Initiative in the global trade, investment and finance landscape", *OECD Business and Finance Outlook 2018*, OECD Publishing, Paris, 2018, p. 24.

5 International Monetary Fund, "People's Republic of China 2018 Article IV Consultation" *Press Release; Staff Report; Staff Statement and Statement by the Executive Director for the People's Republic of China*, Country Report No 18/240, IMF July 2018, p. 1.

Figure 2 – Percentage share of global GDP (current US$)

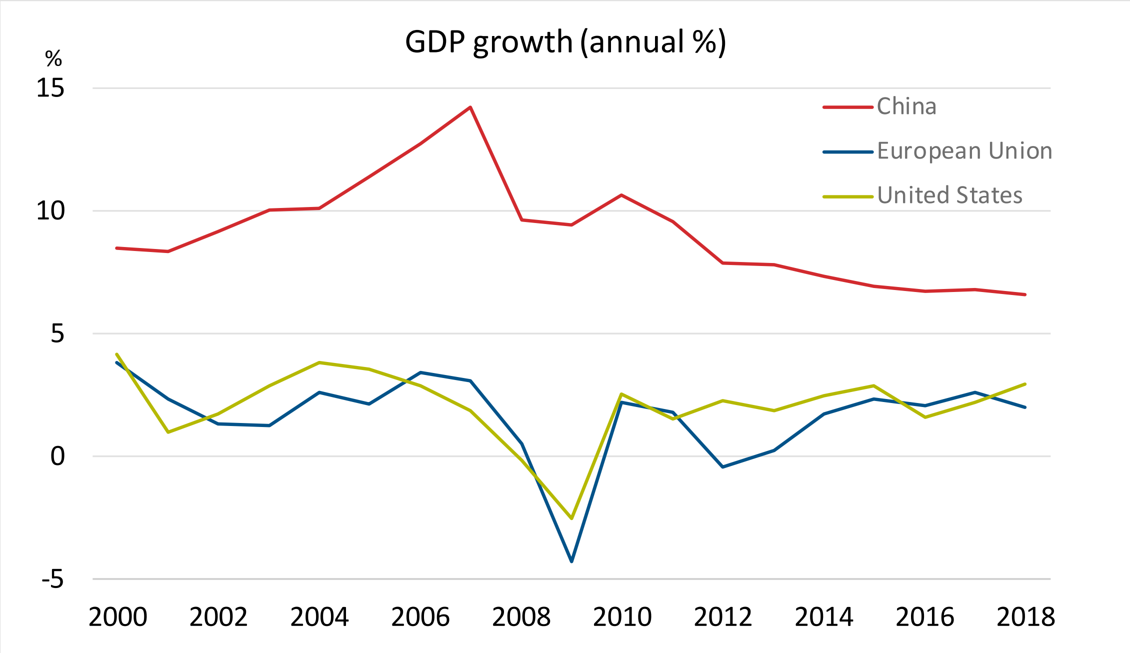


Source: "GDP (Current US$)" Data Bank – World Development Indicators, *The World Bank Group*. Last updated on 9.4.2020.

09 Until 2008, China had consistently **high annual GDP growth rates**. In the aftermath of the 2008 financial crisis, this rate has slowed down (see ***Figure 3***), mainly due to reduced exports of low value-added goods. China still experiences significant year-on-year growth, with the GDP growing 6.6 %, in 2018, compared to the EU which saw GDP growth of 2.0 % that year[6]. Over the last decade, the *Going Global strategy* underwent a shift towards an economy more focused on the production of high added-value goods, including the expansion of infrastructure enhancing trade regionally and internationally.

6 World Bank, "GDP growth (annual %)", World Development Indicators, *The World Bank Group*.

Figure 3 – GDP growth, expressed in annual percentage changes from 2001 until 2018



Source: World Bank, "GDP growth (annual %)", World Development Indicators, *The World Bank Group*.

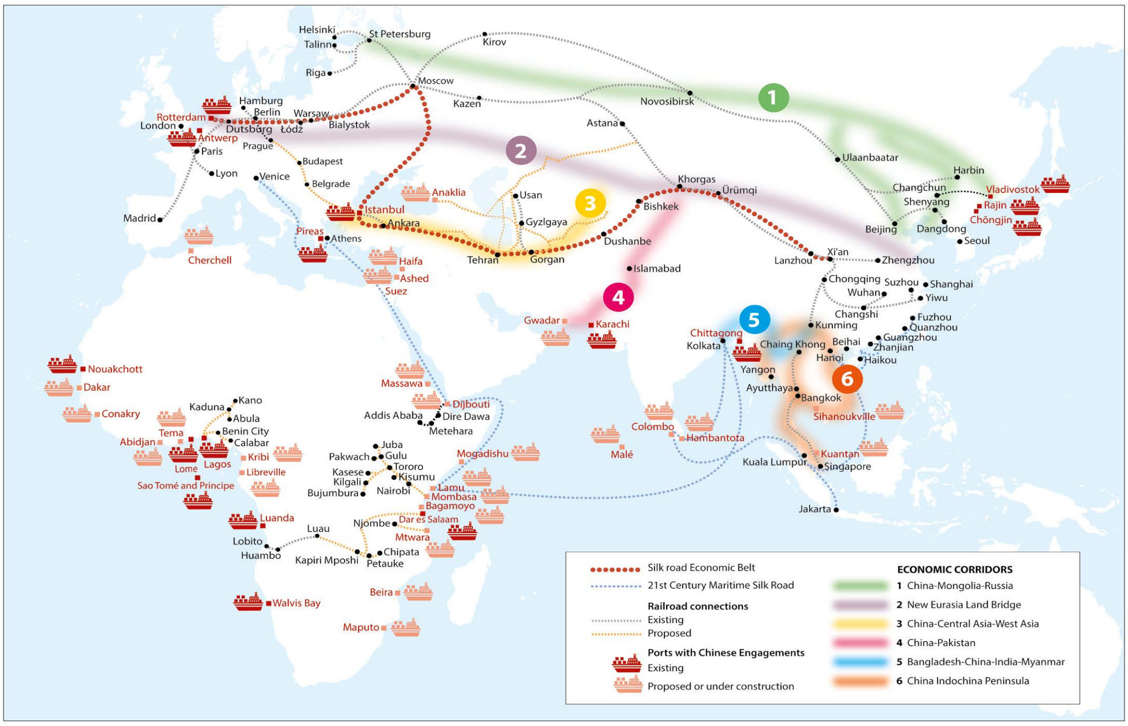
10 Two main strategies were formulated to further develop China's global competitiveness: the connectivity strategy ***Belt and Road Initiative*** launched in 2013 and the industrial strategy ***Made in China 2025*** launched in 2015. We define these initiatives as ***China's state-driven investment strategy*** which supports and financially encourages Chinese SOEs and private companies to invest in strategic sectors abroad.

11 In the last decade, China engaged more in the area of connectivity through the *Belt and Road Initiative* (BRI), which is a **long-term overarching strategy** comprised of a multitude of investment projects mainly focusing on building transport and energy infrastructure, enhancing trade and developing digital networks. Investing in the digital economy and innovation-driven development are priority areas for the BRI[7].

[7] "Xi Jinping Chairs and Addresses the Leaders' Roundtable of the Second Belt and Road Forum for International Cooperation (BRF)", *The Second Belt and Road Forum for International Cooperation*, 28 April 2019; Eder, Arcesati, Mardell, "Networking the Belt and Road – The future is digital", *Mercator Institute for China Studies*, MERICS, 28 August 2019.

12 In 2013, China launched the BRI as it is known today as the ***Silk Road Economic Belt*** and the ***Maritime Silk Road*** to boost regional economic growth. ***Figure 4*** shows the geographical extension of the BRI via "economic corridors" which are specific geographic areas within the countries the BRI passes through, extending to over 64 economies and representing more than a third of global GDP, and over half of the world's population[8]. The BRI has gained importance in recent years, which led to its inclusion in the constitution of the Chinese Communist Party in 2017 and ensured a constant financial flow into BRI projects[9].

Figure 4 – BRI: the six economic corridors



Note: Latin America also included in BRI[10].

Source: Organisation for Economic Cooperation and Development (OECD), "Belt and Road Initiative in the global trade, investment and finance landscape", *OECD Business and Finance Outlook 2018*, OECD Publishing, Paris, 2018, p. 11.

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8 Organisation for Economic Cooperation and Development (OECD), "Belt and Road Initiative in the global trade, investment and finance landscape", *OECD Business and Finance Outlook 2018*, OECD Publishing, Paris, 2018, p. 9.

9 Eder, T., "Mapping the Belt and Road Initiative – This is where we stand", *Mercator Institute for China Studies*, MERICS, 7 June 2018.

10 Teufel Dreyer, J., "The Belt, the Road, and Latin America", *Foreign Policy Research Institute*, June 2019.

13 *Box 1* provides an example of Chinese investment in infrastructure for one of the six economic corridors.

Box 1

Example of Chinese investment in infrastructure along the New Eurasian Land Bridge corridor

The 305 km **Khorgos-Almaty road** along the New Eurasian Land Bridge Corridor was in 2018 upgraded from a two-lane to a four-lane highway. The road connects Khorgos, a border city in China, with the city of Almaty in Kazakhstan, one of the major economic centres of Central Asia. The road has reduced travel times between the two cities by 40 % and transport costs from US$0.26 to US$0.24 per vehicle-kilometre[11].

14 From the launch of the BRI in 2013 to its foreseen completion in 2049, estimates for Chinese investments under this **initiative range from US$1 trillion to US$8 trillion**[12]. **This wide range reflects the limited data available on the size and scope of the initiative.** ***Annex II*** provides an overview of the definition, objectives, investments and financing of the BRI.

15 As far as the Chinese investments in the EU are concerned, it is not always possible to categorise these projects as BRI-related. **There is no publicly available inventory of official BRI projects**, nor on Member States' contributions to financial institutions involved in the BRI, such as the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB). The BRI projects are mainly financed by Chinese SOEs, including state-owned policy banks and commercial banks (see ***Figure 12*** in ***Annex II***), which benefit from Chinese public financing. Under EU rules such subsidies, if granted by a Member State, would be treated as state aid. This difference in treatment can distort competition in the EU's internal market and makes it difficult to achieve **a level playing field between China and the EU**[13]. The

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11 "Belt and Road Economics Opportunities and Risks of Transport Corridors", pp. 50-51, *The World Bank Group*, June 2019.

12 Hillman, J., "How Big is China's Belt and Road?", *Center for Strategic and International Studies*, April 2018.

13 *European Union Chamber of Commerce in China*, The Road Less Travelled: European Involvement in China's Belt and Road Initiative, 2020 p. 2.

Commission services and the EEAS have highlighted that in June 2020 the White Paper on foreign subsidies in the Single Market was published to partly address this issue[14], which was after the period of our review work. In addition, there is a risk that environmental, social and governance' standards are not sufficiently upheld[15] in the implementation of these projects. **The BRI is a complex initiative that is constantly evolving, which makes this a "moving target" for EU policy-makers.**

16 In 2015, the industrial strategy *Made in China 2025 (MIC 2025)* was introduced as a ten-year policy and represented a shift to an economy focused more on high added-value sectors, domestic consumption and exports. This showed China's ambition to become a global technological power. While it is difficult to put a price tag on this strategy due to the use of various financial tools, the Mercator Institute for China Studies (MERICS) has reported that over 1 800 government industrial investment funds related to this strategy have an aggregate size of about three trillion CNY[16] (€390 billion).

Overview of Chinese investments in the EU

17 It is not possible to provide an accurate overall picture of Chinese investments in the EU pertaining to the Chinese state-driven investment strategy (i.e. BRI and MIC 2025) due to the limited availability of public information (see paragraphs ***15*** and ***16***). We therefore use data on overall Chinese foreign investments in the EU to provide a high-level analysis. We have reviewed the overall **Foreign Direct Investments (FDI)** (see ***Box 2***) from China (including Hong Kong) into the EU in recent years.

14 European Commission, (2020) *White Paper on levelling the playing field as regards foreign subsidies*, Brussels, 17.6.2020 COM(2020) 253 final.

15 "Belt and Road Economics – Opportunities and Risks of Transport Corridors", pp. 111-112, *World Bank Group*.

16 Zenglein, M. J. & Holzmann, A., "Evolving Made In China 2025: China's industrial policy in the quest for global tech leadership", *Mercator Institute for China Studies*, MERICS, 4 July 2019, p. 12.

Box 2

Foreign Direct Investment (FDI)

FDI is defined by the Organisation for Economic Cooperation and Development (OECD) as a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy in an enterprise that is resident in an economy other than that of the direct investor.

The direct or indirect ownership of 10 % or more of the voting power of an enterprise resident in one economy by an investor resident in another economy constitutes evidence of such a relationship.

FDI positions (stocks) are the value of investments held at the end of a year, representing the accumulation of net FDIs acquired in previous years whereas FDI transactions (flows) measure the value of investment transactions during that year.

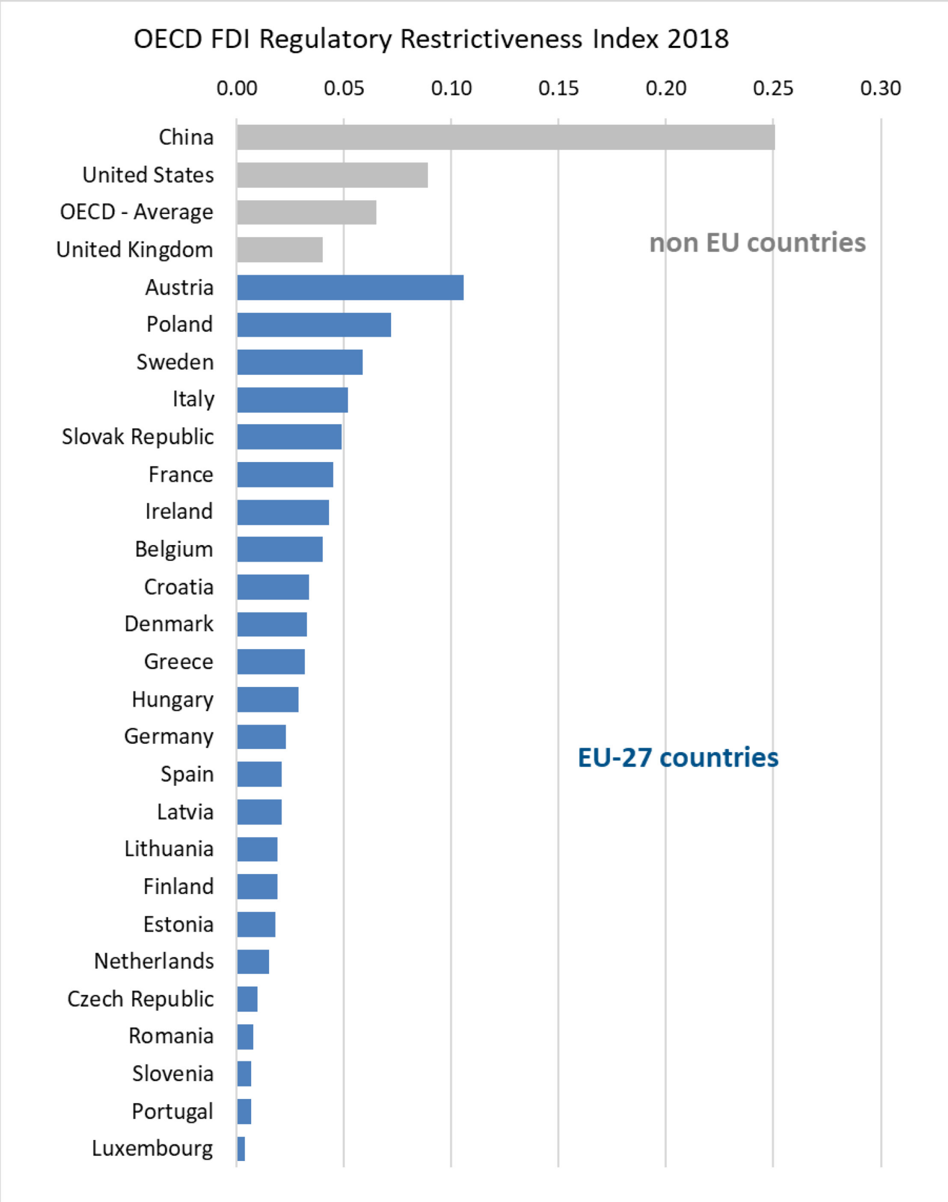
Restrictions for foreign investments in the EU

18 The OECD's **FDI Regulatory Restrictiveness Index** measures statutory restrictions on foreign direct investment in many countries, including all OECD and G20 countries. This covers four main types of restrictions on FDI: foreign equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners as key personnel, and operational restrictions (i.e. restrictions on branching and on capital repatriation or on land ownership).

19 ***Figure 5*** shows how restrictive EU Member States and other selected countries (including China) are to foreign investments. Although there exist varying levels of restrictiveness within the EU, overall the EU has a very open investment regime and there are few restrictions compared with the rest of the world. The EU indeed welcomes foreign investments as a source of growth and jobs, linking EU companies with global value chains. The EU is the world's leading destination of FDI. In 2017, the EU accounted for more than one third (35 %) of the world's inward investment positions[17].

[17] Eurostat, World direct investment patterns, July 2018.

Figure 5 – OECD Regulatory Restrictiveness Index 2018



Note: When the Index values 0, it means that the country is open. The value 1 means that the country is closed. The higher the value between 0 and 1 the more closed a country is considered to be.

Source: "OECD FDI Regulatory Restrictiveness Index Chart latest year", *OECD. Stat*.

20 Compared with the EU, China is less open for investment. China's foreign investment regime, including its **'Negative Lists'**, limits the access of foreign investors the Chinese market in several sectors, including several of those defined as key technological sectors in the *MIC 2025 strategy*[18]. The Commission's Joint Research

[18] "European Business in China Position Paper 2019/2020", *Investment Working Group Position Paper*, European Chamber of Commerce in China, 29 September 2019, p. 99.

Centre (JRC) reports that, in some sectors, the European firms are forced to engage in joint-ventures with Chinese firms and transfer technology. With regards to post-entry conditions, the Chinese legal framework and the unequal access to the Chinese market, as well as government funding place European firms at a disadvantage compared to their Chinese counterparts[19]. ***Table 1*** provides an overview of the sectoral restrictions of foreign investments in China as compared to the EU.

Table 1 – Sectoral restrictions of foreign investments in China as compared to the EU

Sectors	*Chinese Investment Regime vis-à-vis EU investors*	*EU Investment Regime vis-à-vis Chinese investors*
Exploration & exploitation of oil and natural gas	*Joint Venture only*	*No restrictions*
Printing of publications	*Minority only*	*No restrictions*
Automobile manufacturing	*Max 50 %*	*No restrictions*
Repair, design & manufacturing of ships	*Minority only*	*No restrictions*
Aircraft design & production	*Minority only*	*No restrictions*
Production of satellite television broadcasting	*Minority only*	*No restrictions*
Nuclear power stations	*Minority only*	*No restrictions*
Construction & operation of power grids	*Minority only*	*No restrictions*
Construction & operation of network of railways	*Minority only*	*No restrictions*
Construction & operation of civil airports	*Minority only*	*No restrictions*
Telecommunication companies	*Minority only*	*No restrictions*
Banks	*Max 20 %*	*No restrictions*
Insurance companies	*Max 50 %*	*No restrictions*

Source: Based on Holslag. J., "The Silk Road Trap, *Medford*", Polity Press, 2019. As the Chinese foreign investment restrictions are updated regularly, the information provided in this table is subject to change per these updates.

[19] Preziosi, N., et al. (Eds) Dias et al., "China – Challenges and Prospects from an Industrial and Innovation Powerhouse", *Joint Research Centre*, Publications Office, Luxembourg, 2020.

Size of investments from China in the EU

21 The EU monitors investments from non-EU countries (including China) by means of different sources. The main sources are **official statistics**, compiled by the Commission's European Statistical Office (Eurostat), and data on investments resulting from private sources which are compiled by the Commission's Directorate-General (DG) for TRADE and JRC (e.g. the European Commission's **EC-JRC Foreign Ownership Database**). DG TRADE also make use of data from Rhodium Group's EU-China Investment Monitor.

22 Eurostat publishes data on FDI stocks and flows to and from EU's Member States. The data is based on declarations from these Member States and statistical offices from non-EU countries[20]. These FDI statistics are **not timely** as they are published between 12 and 24 months after a given year. Furthermore, they are **fragmented** and **incomplete** and thus it is difficult to obtain an overview. As an example, they show only the **origin** (residence) **of the immediate investor** and they do not capture longer investment chains such as investments channelled through a Special Purpose Entity (SPE) in another country (e.g. for tax purposes). An overview of the limitations on the coverage of FDI statistics is provided in ***Annex III***. In addition, there are issues regarding the **methodology used by the Chinese Ministry of Commerce (MOFCOM) for compiling investment statistics published**[21].

23 Our review of Eurostat statistics indicates that China's investment in the EU has increased, but remains relatively low. In 1995, only 0.3 % of the FDIs in the EU were held by Chinese investors. ***Figure 6*** shows how China's share of the total FDIs in the EU has increased in the years 1995, 2005 and 2015. **At the end of 2018, this proportion had increased to 3 %**[22] **i.e. the Chinese FDIs (stocks) in the EU were €202 billion.** Financial centres with favourable tax environments can attract high levels of FDI[23], with Luxembourg being the **largest recipient of investments from China within the EU** at €82.5 billion, followed by the Netherlands. An overview of the Chinese FDIs to the EU is provided in ***Annex IV***.

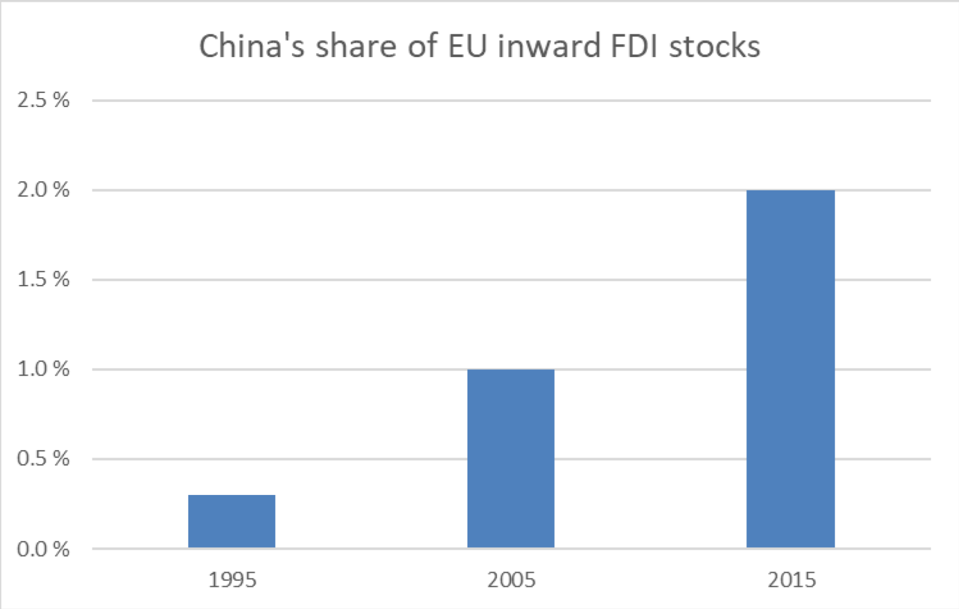
[20] Eurostat, Database, European Commission, 2020.

[21] Freeman, D., "China's Outward Direct Investment in the EU: Challenges of Rapid Change", EU-China Observer, 2015.

[22] Eurostat, Foreign Direct Investment stocks at the end of 2018, March 2020.

[23] The Rise of Phantom Investments, IMF, September 2019.

Figure 6 – Increase in the total share of the Chinese FDIs (stocks) in the EU in the years 1995, 2005 and 2015



Source: European Commission, "Accompanying the document Proposal for a Regulation of the European Parliament and of the Council establishing a framework for screening of foreign direct investments into the European Union", Commission Staff Working Document, SWD(2017)/0297 final – 2017/0224 (COD), Brussels 13 September 2017.

24 In response to the limitations of official FDI statistics, the Commission (DG TRADE) constructed a new non-public database, the "EC-JRC Foreign Ownership Database" using **firm-level data** (e.g. individual company balance-sheets) based on sources such as Orbis and Zephyr databases[24]. The EC-JRC Foreign Ownership Database captures foreign ownership of more than 50 % of the capital of unlisted companies and the ownership of the largest shareholder(s) for publicly listed companies. This can be used to identify the ultimate owner of the investment and provides a more granular classification of sectors than FDI statistics. Similar to issues of completeness for FDI statistics, this database does not include small companies that are exempted from publishing their balance-sheets and financial leasing is generally not covered.

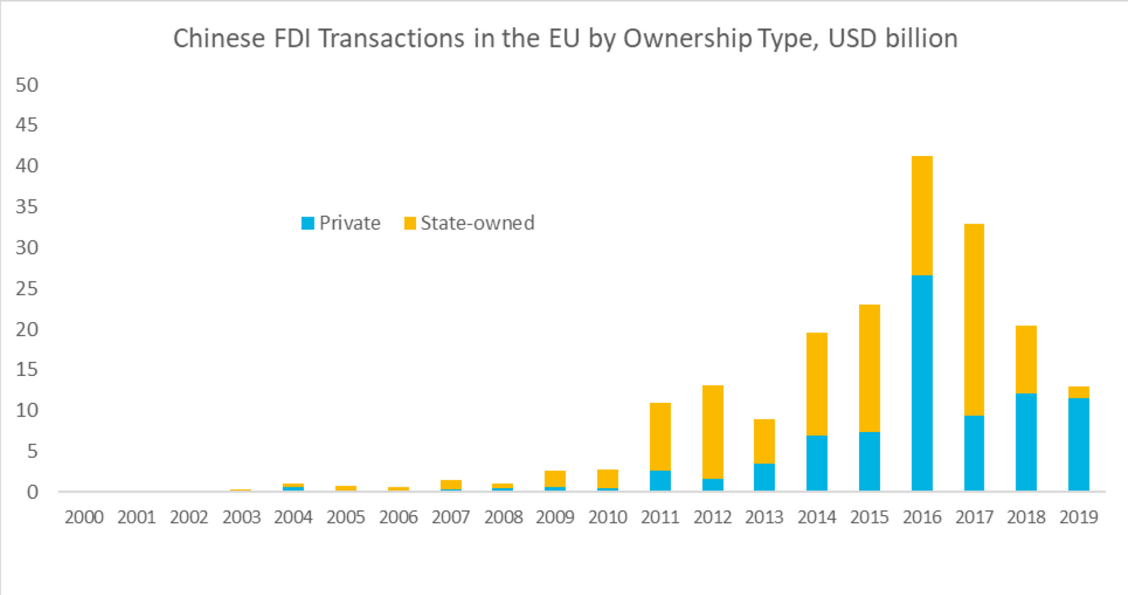
25 Based on the **EC-JRC Foreign Ownership Database**, the total amount of assets, including FDIs, controlled by Chinese investors at the end of 2017 was €2 114 billion. This represents 0.89 % of total companies in the EU by value, and 0.18 % of the total number of companies in the EU. According to the EC-JRC Ownership Database, the main recipient country of Chinese investments has been the United Kingdom (UK),

[24] Commission Staff Working Document, SWD (2019) 108 final.

totalling €1 772 billion of assets. An overview of the foreign ownership of companies in the EU controlled by Chinese investors is provided in ***Annex V***.

26 ***Figure 7*** shows the evolution over time of Chinese FDIs transactions (flows) and, in particular, the **significance of investments made from SOEs** as compared to those from private companies. The large state-owned sector is a hallmark of the Chinese economy.

Figure 7 – Chinese FDIs in the EU in the period 2000-2019



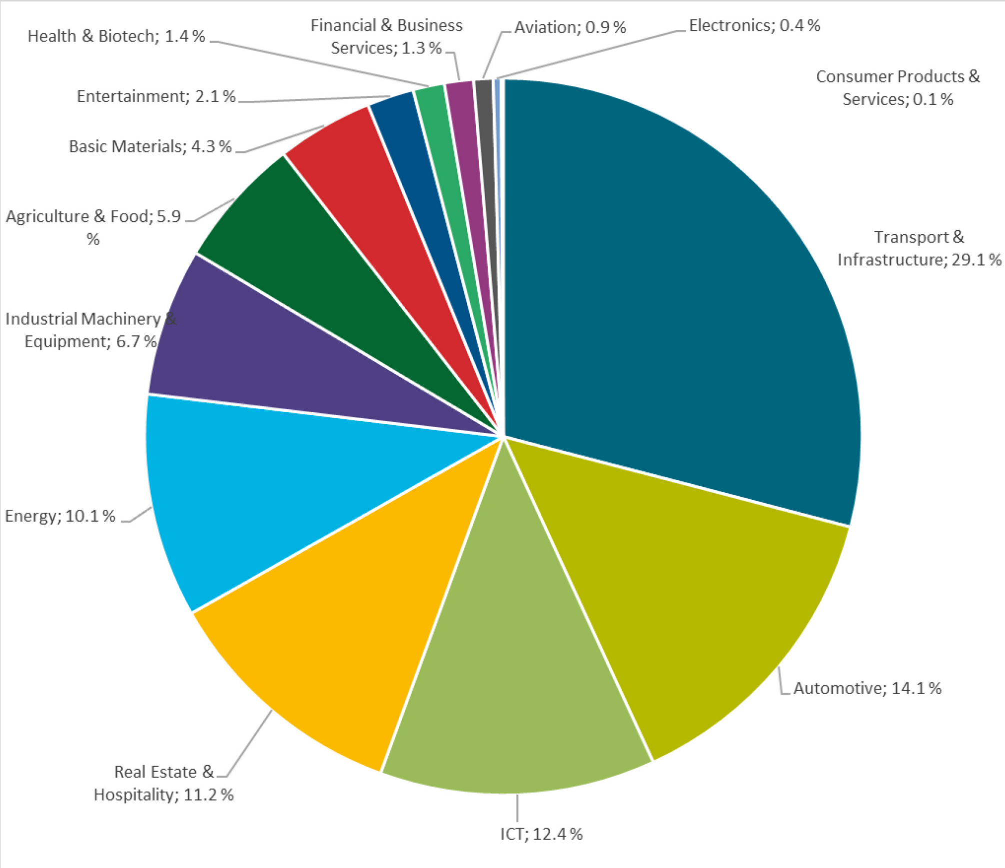
Source: Rhodium Group, 2020.

Sectors of investment

27 The sectors of Chinese FDIs from 2000 to 2019 include **strategically important areas**[25] such as **transportation and infrastructure** (29.1 %), **Information and Communications Technologies (ICT)** (12.4 %), and **energy** (10.1 %), as well as **automotive** (14.1 %), and **real estate and hospitality** (11.2 %). ***Figure 8*** shows the sectoral destination of Chinese FDIs since 2000.

[25] Strategic sectors and assets as outlined in European Commission (2017) *Welcoming Foreign Direct Investment while Protecting Essential Interest,* Brussels, 13.9.2017 COM(2017) 494 final.

Figure 8 – Chinese FDI transactions in the EU by Chinese state-owned Investors, 2000-2019, by sector



Source: Rhodium Group, 2020.

28 Some **examples of significant acquisitions by Chinese investors in the EU** are:

- 2012: Energias de Portugal for US$3.5 billion. Power utility company, Portugal.
- 2014: CDP Reti for $2.8 billion. Holding Company, utilities, Italy.
- 2015: Pirelli for US$7.7 billion. Automotive equipment and components, Italy.
- 2017: Logicor for US$14 billion. Transportation services and logistics, United Kingdom[26].

[26] Rhodium Group Cross Border Monitor (CBM): "People's Republic of China < > *European Union Direct Investment*", 1Q 2019 Update: Public Version, New York, 2019.

4. ECA compilation of risks and opportunities for the EU

29 When designing, setting and implementing policy documents addressing EU-China relations and in particular the challenges posed by the Chinese investment strategy, the Commission services and the EEAS identify and assess relevant risks and opportunities. According to these services, this ongoing assessment is based on information from various sources, including other EU services, Member States, third countries and experts that work on different policy areas. However, we found no **formalised comprehensive analysis of the risks and opportunities for the EU** of China's investment strategy.

30 As part of our review, we therefore carried out an exercise to compile our own list of risks and opportunities of China's investment strategy, based on publicly available information and consultation with experts. Using an international framework on risk management[27], we focussed on **risks and opportunities and classified these by type** as outlined below. See ***Annex VI*** for a more detailed description of these risks/opportunities and their sources. While all of these risks and opportunities apply to China, they may also be applicable to EU relations with other countries. Certain risks and opportunities may affect the EU directly, while others may impact EU policies in third countries.

31 ***Table 2*** provides the ECA's overview of the risks. Over half of the **risks** are political or economic in nature. In addition, there are also other risks of a social, technological, legal and environmental nature. The 18 risks listed in this review are not exhaustive, do not carry equal weight, with some of them creating more substantial threats to the EU than others. We highlight examples of risks in ***Box 3***.

[27] "Integrating with Strategy and Performance", *Enterprise Risk Management*, Committee of Sponsoring Organizations of the Treadway Commission (COSO), June 2017.

Table 2 – EU Risks from China's investment strategy

Type	#	Risk Overview
Political	R.1	Chinese investments in sensitive/strategic assets in Europe may affect security/public order
	R.2	Individual Member States concluding Memoranda of Understanding (MoUs) on BRI cooperation may undermine EU unity
	R.3	BRI projects may weaken Member States' strategic national infrastructure ownership, with geopolitical implications
	R.4	Chinese investments expand cross-border connectivity infrastructure which is exploited by transnational organized crime/trafficking
Economic	R.5	Lack of reciprocity in EU-China relationship due to unfair economic advantage of Chinese companies
	R.6	Lack of coordination between infrastructure programmes of the EU and China, which may generate gaps in connectivity infrastructure, or investment projects which compete with or duplicate others (*)
	R.7	Chinese SOEs financing unmanageable debts in EU and third countries, resulting in default with the loss of strategic collateral
	R.8	EU long-term competitiveness damaged from forced technology transfer to China
	R.9	EU importing goods from China priced below production costs
	R.10	EU economy impacted by negative shocks to its supply chains with key Chinese suppliers
Social	R.11	Workers labour/social rights not respected by Chinese companies engaged in foreign investments
Tech	R.12	BRI is not sufficiently compliant with EU data security rules, leaving EU vulnerable to cyber-attacks
	R.13	Chinese transport infrastructure does not adhere to EU/international standards, loss of positive effects
Legal	R.14	Chinese investments do not comply with EU financial regulations, e.g. money laundering
	R.15	Infrastructure projects in EU are irregularly awarded to Chinese bids that are artificially low
	R.16	Calculation of EU own resources affected by fraud on customs duty and VAT in Chinese imports
Enviro	R.17	Chinese companies do not comply with EU/international environmental or governance standards fostering sustainability
	R.18	Public health being affected by increased interconnectedness in a globalised world (including Chinese transport routes along the BRI) expediting the transmission of disease

Note(*): The Commission services and the EEAS do not consider this risk to be relevant due to the political reality and consider the issue of infrastructure coordination to go against the EU's current policy.

Source: European Court of Auditors (ECA).

Box 3

Examples of risks posed by the Chinese investment strategy for the EU

Excessive indebtedness in third countries and loss of strategic collateral

In order to implement the BRI, China has lent funds without taking sufficient account of the long-term sustainability of projects and with little regard for the fiscal position of borrowers. This has contributed to **excessive indebtedness** in third countries such as Pakistan, Tajikistan, Kyrgyzstan, Sri Lanka, Maldives and EU candidate country Montenegro[28]. This risk could potentially materialize in the EU if such BRI financing of projects is carried out in Member States.

Per risk **R.7**, there have been examples of infrastructure of strategic national importance being used as collateral. Hambantota International Port in Sri Lanka is of national and strategic importance. In 2017, the Sri Lankan government could not keep up with the repayments on the Chinese loan and the port was signed over to China Merchants Port Holdings on a 99-year lease with a payment of US$1.12 billion[29].

Intellectual Property (IP) and Technology Transfers

Many of the risks outlined in ***Table 2*** above would negatively impact the goal of ensuring reciprocity and a level playing field in EU-China relations if they materialized. Risk **R.8** mentions the transfer of technology from European enterprises to Chinese entities. In the Business Confidence Survey 2019, published by the European Chamber of Commerce in China, it was reported that 20 % respondents felt compelled to transfer technology in order to maintain market access in China, highlighting the lack of reciprocity in the EU-China relationship[30].

[28] Hurley, J., Morris, S. & Portelance, G., "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective", *Center for Global Development*, CGD Policy Paper 121, March 2018.

[29] Ferchen, M. & Perera, A., "Why Unsustainable Chinese Infrastructure Deals Are a Two-Way Street", *Carnegie-Tsinghua Center for Global Policy*, July 2019; Panda, A. "Sri Lanka Formally Hands Over Hambantota Port to Chinese Firms on 99-Year Lease", The Diplomat, December 2017.

[30] Business Confidence Survey 2019, European Chamber of Commerce.

Environmental Standards and Climate Change

R.17 focuses on the risk that Chinese companies do not respect the environmental standards of the EU. 'The European Green Deal'[31] is a top priority for the European Commission. One of its objectives is to have net zero emissions of greenhouse gases by 2050. Despite the announcement at the Second Belt and Road Forum for International Cooperation in 2019 to pursue 'open, green and clean cooperation'[32], the BRI continues to pursue coal-fired power projects. An example of one such project financed by Chinese loans is planned in Bosnia and Herzegovina[33], a potential candidate country to the EU.

Public Health

The recent COVID-19 pandemic has shown the risk to public health due to the interconnectedness in a globalised world. This risk impacts many countries worldwide. Studies have shown that pathogens can now travel further, faster and in greater volumes than before[34]. As China is now a leading provider of transport infrastructure worldwide, **R.18** highlights how new transport routes along the BRI could pose a risk to public health in the EU and its neighbourhood unless proper checks and sanitation precautions are in place.

32 ***Table 3*** provides the ECA's overview of the opportunities. All of the **opportunities** listed have a political and economic nature. We provide examples in ***Box 4***.

[31] The European Green Deal, COM/2019/640 final.

[32] Keynote Speech by H.E. Xi Jinping President of the People's Republic of China At the Opening Ceremony of the Second Belt and Road Forum for International Cooperation, Ministry of Foreign Affairs of the People's Republic of China, Beijing, 26 April 2019.

[33] Mardell, J., "China's Belt and Road Partners Aren't Fools", *Foreign Policy*, May 2019.

[34] Tatem, A.J., Rogers, D.J., Hay, S.I., "Global Transport Networks and Infectious Disease Spread", Advances in Parasitology, *Elsevier Public Health Emergency Collection*, vol. 62, 2006.

Table 3 – EU Opportunities from China's investment strategy

Type	#	Opportunity Overview
Political	O.1	Chinese investments in the EU can foster common interests through stronger bilateral relationship
	O.2	Chinese investments contribute to peace and security in EU neighbourhood/developing countries
Economic	O.3	EU-China engagement increases international lending capacities, facilitating economic growth
	O.4	Chinese investments in EU neighbourhood/developing countries enhances achievement of EU objectives, improving economic growth
	O.5	Euro appreciates due to China's foreign currency reserves being converted to acquire euro-denominated assets.
	O.6	BRI expands trade by improving connectivity and lowering trade costs in EU and other countries
	O.7	BRI provides further development of (commercial) rail as an alternative for both sea and air in the EU
	O.8	BRI rebalances freight flows going to/coming from the EU
	O.9	BRI provides incentive to streamline customs arrangements with a view to improve connectivity
	O.10	EU companies to build transport infrastructure in Central Asia with possible sharing of skills between the EU and China
	O.11	EU exposure to latest technologies presents chance to promote EU standards and capacities on digitalization
	O.12	EU diversifies risks of foreign investment ownership, reducing potential dependency on any individual country
	O.13	EU sectors such as higher education, research, creative/cultural industries benefit from cooperation and exchanges with China

Source: ECA.

Box 4

Examples of opportunities presented by the Chinese investment strategy for the EU

Improved connectivity and freight flows

COSCO Shipping Corporation Ltd (COSCO), a Chinese SOE, has stakes in terminals in European ports such as Valencia, Rotterdam, Antwerp and Piraeus.

For example, in the case of the **Port of Piraeus**:

— Since August 2016, the COSCO Shipping Group has been the majority owner of the Piraeus Port Authority – which operates Terminal I,

— COSCO Pacific runs Terminal II under a 35-year concession signed in 2008.

The agreement between the Piraeus Port Authority and COSCO improved connectivity (**O.6**) and freight flows (**O.8**). It allowed investments in new piers, and a rail link between the port's terminals and the national rail system. The World Bank reports that the Piraeus annual container throughput increased by 168 % between 2007 and 2016[35]. The Greek port continues to climb the rankings and in 2019 was one of the four most important port in Europe in container volume after Rotterdam, Antwerp and Hamburg.

Cooperation on academic and research cooperation

There are benefits to be derived from cooperation on academic and research cooperation, as outlined in opportunity **O.13**. EU sectors such as higher education, research, creative/cultural industries can benefit from academic exchanges with China through the Erasmus+ and Jean Monnet Activities programmes, as well as research initiatives through Horizon 2020. As of March 2019, there were 1 034 Chinese researchers participating in Marie Skłodowska-Curie actions. According to the Commission services and the EEAS, there are also certain risks associated with this opportunity, for example a lack of reciprocity.

[35] "Belt and Road Economics Opportunities and Risks of Transport Corridors", June 2019, *The World Bank Group*.

5. The EU's response to China's investment strategy

EU governance arrangements

33 Competences within the EU framework include the ability to legislate in the different policy areas. The EU and Member States both exercise competences in policy areas related to the EU's response to China's investment strategy. Some areas, such as national security, are the exclusive competence of Member States. Other areas fall under the exclusive competence of the EU, for example competition rules necessary for the functioning of the internal market. In some areas such as energy and transport, these competences are shared meaning that both the EU and Member States are able to pass laws.

34 In policy areas where a concerted EU approach could be an advantage (see the example of 5G security in ***Box 5***), the fact that **both the EU and Member States exercise competences** means that there are multiple decision-makers (e.g. EU institutions and national governments) with possible diverging opinions and approaches. This **can make it difficult to address the challenges faced by the EU as a whole** in a timely and coordinated manner.

Box 5

5G Security and Member States

The use of Chinese 5G equipment in critical EU infrastructure is described by many as a potential threat. 5G technology is an area where a concerted EU approach could have advantages, especially regarding cybersecurity concerns which might impact on the functioning of the internal market.

In the light of their exclusive competence as regards national security, Member States have had diverging responses regarding cooperation with China on 5G. Some of them took a cautious approach but continued to work with the Chinese technology company Huawei to roll out 5G networks, for example in Germany and Belgium. The Czech Republic, on the other hand, has halted cooperation with Chinese providers of 5G technology after their National Cyber Security Center issued a warning in 2018.

Following the European Council's call for a concerted approach to 5G in 2019, the Commission issued a Recommendation with guidelines to Member States on security of 5G networks. This was followed up with the EU toolbox in January 2020 for national risk-mitigating measures. Ultimately, a concerted approach to 5G in the EU will depend on an agreed position of the Member States.

35 Policy measures for the EU-China strategy (see ***Table 4***) are proposed in "**Communications**" jointly published by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy (HR/VP). These are implemented either by EU internal legal acts (Regulations or Directives), which need to be adopted by the Council and the European Parliament, or by foreign policy positions taken by the Council. **The drawback of this consensual decision-making process is that it creates the risk of not reacting to challenges faced by the EU in a timely manner.**

The EU institutional response

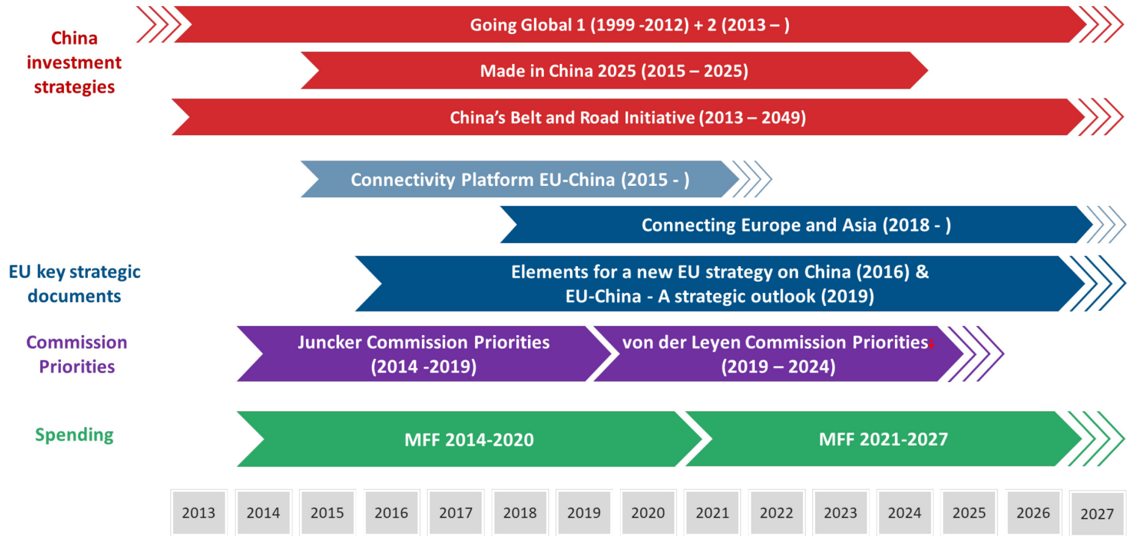
Development process of the key strategic documents

36 In this section we describe the development process of the EU's key strategic documents for the EU-China agenda, with a particular focus on:

- the strategic framework for EU action,
- the involvement of stakeholders in the process.

37 The Commission and the High Representative of the Union for Foreign Affairs and Security Policy (HR) have jointly published several strategic documents for EU-China relations, which include the EU institutional response to Chinese investment strategy. *Figure 9* presents the **EU-China strategic timeline** including the Multiannual Financial Frameworks (MFFs), and illustrates the complexity of this framework with overlapping timeframes. There exists other relevant strategic documents that contribute to the EU policies vis-à-vis China. These documents are not specifically focussed on China, e.g. the New Industrial Strategy for Europe (March 2020) or the Digital Strategy - Shaping Europe's Digital future (February 2020).

Figure 9 – EU-China strategic timeline, including the MFFs



Source: ECA, based on EU public documents.

38 The Juncker Commission set out **ten EU policy priorities** for 2014 to 2019[36]. Regarding **priority 9 "Europe as a stronger global actor"**, the 2016 Commission's Work Programme (CWP)[37] mentioned for the first time the objective of deepening bilateral relations and of updating tailored strategic approaches, particularly on China. This priority, along with **priority 6 "A balanced and progressive trade policy to harness globalisation"**, aimed to contribute to a coherent approach to connectivity: deepening

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36 "The Juncker Commission's ten priorities, An end-of-term assessment", In-depth analysis, *European Parliamentary Research Service (EPRS)*, May 2019.

37 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Commission Work Programme 2016, "No time for business as usual", Strasbourg, 27.10.2015, COM(2015) 610 final.

trade and investments with China on a level playing field, intellectual property rights, protection, greater cooperation on high-end technology, and dialogue on economic reform, human rights and climate action[38]. In this context the **EU-China Connectivity Platform** (see ***Box 6***) was set up in 2015 to enhance cooperation with China.

Box 6

The EU-China Connectivity Platform

In September 2015, the European Commission and the National Development and Reform Commission of China signed a MoU on establishing a Connectivity Platform.

The overall objective of this platform is:

— To strengthen the exchange of information,

— To promote seamless transport connections and facilitation, and to synergize related policies and projects: i.e. between the EU's Trans-European Networks (TEN-T) and China's BRI, and

— To create cooperation opportunities for Chinese and EU enterprises and an open, transparent environment, as well as a level playing field for investment in transport and other fields.

The highest level of the platform is the annual chairs' meeting, the results of these summits are reported in the joint statement.

By the date of our review, the main outcome of this platform has been the Terms of Reference on the **Joint Study on Sustainable Railway-based Comprehensive Transport Corridors between Europe and China**[39] (2019) to define the most appropriate and sustainable railway-based comprehensive transport corridors.

[38] European External Action Service, "Shared Vision, Common Action: A Stronger Europe - A Global Strategy for the European Union's Foreign and Security Policy", European Union Global Strategy, June 2016, pp. 37-38.

[39] Terms of Reference of the Joint Study on Sustainable Railway-based Transport Corridors between Europe and China, Webpage of DG MOVE, Last update: 9.6.2020.

39 In September 2019, the von der Leyen Commission published the guidelines[40] for the period 2019-2024 with **six key priorities**. Even though not directly mentioned, the **EU-China policy intersects with several of the Commission's initiatives**, in particular:

- The role played by the EU in international negotiations to make Europe the first climate-neutral continent;
- The development of joint standards for the new generation of technologies (such as 5G networks), and of education and skills empowering people;
- The EU combatting against criminals and the strengthening of the Customs Union to better protect the Single Market;
- The strengthening of the EU unique brand of responsible global leadership.

40 There have been three recent key strategic documents setting out the EU institutional response towards China's investment strategy. See ***Table 4***.

[40] von der Leyen, U., A Union that strives for more: My agenda for Europe – Political Guidelines for the next European Commission 2019-2024, 2019.

Table 4 – Overview of three key strategic documents setting out the EU institutional response towards China's investment strategy

Communication	*Overview*
"Elements for a new EU strategy on China" - June 2016	o Basis of current EU policies towards China o 47 Key Actions o To protect EU interests, the Commission services and EEAS promote universal values underpinned by the three UN pillars based on a constructive approach to differences o Reminds Member States that any bilateral agreements with China should reflect and safeguard EU interests o Stipulates that the implementation of strategy will be reviewed on a regular basis and updated as necessary
"Connecting Europe and Asia – Building blocks for an EU strategy" - September 2018	o While this strategic document on sustainable, comprehensive and international rules-based connectivity is not China-specific, it addresses the sustainable connectivity strategy between Europe and Asia, and thus China o 17 Key Actions o Main goals are: (1) To contribute to the development of transport, energy and digital networks between Europe and Asia (2) To strengthen partnerships with non-EU countries, regions and international organisations in Asia (3) To increase cooperation in education, research, innovation, culture, sport and tourism
"EU-China – A strategic outlook" - March 2019	o Three main objectives: (1) To deepen the EU's engagement with China to promote common interests at global level, based on clearly defined interests and principles (2) To seek more balanced and reciprocal economic relations (3) To adapt to changing economic realities and strengthen EU's own domestic policies and industrial base o 10 Key Actions

Source: Joint Communications of the Commission and the HR, JOIN(2016) 30 final, JOIN(2018) 31 final and JOIN(2019) 5 final.

41 The three above strategic documents were discussed by the Council: the former two strategies were endorsed in full, for the latest document (the 2019 strategic outlook), most of the proposals were endorsed.

42 The **process of setting these strategic documents** involved internal consultations of Commission services and the EEAS. The external consultation with Member States was done before their adoption by the Council, by means of discussions in the relevant

Council Working Parties and Committees, as well as in national business associations and political foundations. However, according to the Commission services and the EEAS, there was no specific and dedicated consultation process with Member States and external stakeholders for the 2019 EU-China strategic outlook because of the need to respond quickly and cohesively. Instead there were extensive discussions that took place with these stakeholders on China throughout 2018 and 2019, which were fully taken into account. The Commission services and the EEAS note that this explains the positive reception of the 2019 strategic outlook.

43 The strategic documents contain 74 actions. In ***Annex VII*** we have grouped these into 10 broad areas of EU response. They are summarised in ***Table 5***:

Table 5 – ECA Compilation of ten thematic categories for the 74 actions

Categories	Number of actions
A) Promoting EU values along with the three United Nations (UN) pillars (human rights, peace and security, development)	7
B) Preserving EU unity	5
C) Reciprocity to balance the relationship and level playing field	17
D) Preventing distortive effects on the EU internal market	2
E) Sustainable Economic Development and Good Governance	16
F) Tackling climate change and protecting the environment	4
G) Global public health concerns	1
H) Deepening the engagement on peace and security	10
I) Fostering cross-cultural understanding and cooperation on innovation	4
J) Wider foreign policy approach	8

Source: ECA.

Alignment of the response to the risks and opportunities for the EU

44 In this section, we describe how the EU actions align to the risks and opportunities highlighted in section 4. We mapped the risks and opportunities to the thematic categories (see ***Table 5***) and with the 74 actions of the three strategic documents (see ***Annex VII***) and prepared a compilation (see ***Annex VIII***).

45 Our review showed that the actions **in these strategic documents cover almost all of the risks and opportunities, with the exception of three risks**:

- R.6: The risk that there is a **lack of coordination between infrastructure programmes of the EU and China**, which may generate gaps in connectivity infrastructure, or investment projects which compete with or duplicate others[41];
- R.10: The risk that the **EU economy is negatively impacted from shocks to its supply chains** with key Chinese suppliers;
- R.18: The risk that **public health is affected by increased interconnectedness in a globalised world** (including Chinese transport routes along the BRI) expediting the transmission of disease.

46 Several initiatives have been undertaken with respect to reciprocity, level playing field and prevention of distortive effects on the EU internal market (thematic categories C and D in ***Table 5***). In ***Box 7***, we show by way of example an ongoing specific EU action undertaken as part of the 2019 strategic outlook.

[41] See note under ***Table 2***.

Box 7

Example of ongoing EU action undertaken in relation to reciprocity and the prevention of distortive effects on the EU market

Negotiation of a bilateral Comprehensive Agreement on Investment (CAI) with China

The EU is aiming to rebalance the market openness between the EU and China, address some key level playing field issues and replace Bilateral investment Treaties (BiTs) between China and Member States (see paragraph *64*) with a single EU-China CAI. The negotiations were launched in 2012 and at the 21st EU-China Summit of 9 April 2019, the EU and China committed to achieve the progress required for the conclusion of the CAI in 2020.

Implementation of the strategy

47 We describe below the process of implementation of the EU-China strategy covering the two key elements which are the responsibilities for implementation and financing[42].

48 Out of a total of 74 actions, 34 are EU actions, 38 are bilateral actions to be taken by both the EU and China, and two require unilateral action from China. **The responsibilities for implementing these actions depend on the policy area concerned**, without any explicit allocation of these responsibilities e.g. in the Commission, DG MOVE oversees the response related to transport, and DG ENER is responsible for the response on energy. Such an approach to responsibilities requires increased coordination for the successful implementation of an action.

49 **The EU-China strategy was implemented without any prior assessment of the EU financing** required to implement the actions of this strategy e.g. those related to infrastructure, and **without earmarking any EU financing**. According to the Commission services and the EEAS, there is neither an obligation nor a need to do so and, in line with the practice with other strategic partners, they consider that most of the EU-China actions draw upon the funding from existing EU programmes.

[42] C(2018) 7703 of 21.11.2018 – Communication to the Commission “Governance in the European Commission”.

50 A downside of this approach is that, currently **it is not possible to have an overview of EU spending** which is used to implement the EU-China strategy, despite the fact that such spending exists. In addition, we found examples where the EU budget funded projects which were part of the Chinese investment strategy. Whilst these projects were primarily meant to contribute to the objectives of the EU policy programmes, they also financed projects falling under the Chinese investment strategy (see ***Box 8***).

Box 8

EU financing Chinese Investment Strategy projects in Europe

Pelješac bridge in Croatia

In 2017, the Commission allocated €357 million of Cohesion Policy funds to cover 85 % of the cost of the Pelješac bridge in Croatia. This project aims to connect the area in the South around Dubrovnik to the rest of mainland Croatia. In 2018, the Croatian authorities awarded a major construction contract for this bridge[43] to a Chinese consortium led by the SOE China Road and Bridge Corporation, thereby financing a project which is part of the Chinese investment strategy[44].

European Bank for Reconstruction and Development (EBRD)

The EU is the largest single donor to the EBRD, an international financial institution. The EBRD has been deeply engaged in many of the economies along BRI corridors, where there is a need to develop infrastructure in order to support more robust and sustainable growth. China joined the **EBRD** in 2016 as a shareholder with the aim of opening up investment opportunities in eastern Europe, a region which sits along the BRI route[45].

[43] Silk Road Briefing, “Chinese Contractors Winning Bid for EU Funded Pelješac Bridge in Croatia Raises Eyebrows”, *Silk Road Briefing*, 10 May 2018.

[44] Blockmans, S. & Hu., W., “Systemic rivalry and balancing interests: Chinese investment meets EU law on the Belt and Road”, *Centre for European Policy Studies (CEPS)*, March 2019.

[45] Makocki, M., “China’s Road: into Eastern Europe”, *European Union Institute for Security Studies (EUISS)*, February 2017.

51 The EU also uses several financial instruments from **the European Investment Bank (EIB)** or **European Investment Fund (EIF)** outside the EU budget to engage with the Chinese's investment strategy (see *Box 9*).

Box 9

Engagement of EU Financial Instruments with the Chinese Investment Strategy in Europe

European Investment Bank (EIB)

The **EIB Group** finances projects in China. In May 2018, the EIB signed an agreement for climate-related investments with China Exim Bank (€300 million). The objective was to finance projects in the water, sewerage, energy and transport sectors[46].

European Investment Fund (EIF)

To develop synergies between China's BRI and the "Juncker Plan", in 2017 the **EIF** and the Silk Road Fund (Chinese state-owned investment fund for countries along the BRI) signed an MoU to create the China-EU Co-investment Fund, which was expected to provide €500 million support investments[47] for companies with potential to expand internationally. Targeted sectors include those with high cross-border synergies between China and the West[48].

Monitoring, reporting and evaluation of the strategy

52 The way in which actions have been set makes it difficult to monitor the progress of their implementation. **54 % (40 actions)** are specific and foresee the achievement of defined results ("**specific actions**"). There are **no performance metrics (e.g. indicators)** associated with these actions. The remaining **46 % (34 actions)** are generally defined, with no **targeted objectives** and do not include any deliverables to be provided ("**general actions**").

46 European Investment Bank, "China Climate Eximbank Framework Loan", *EIB*, 21 September 2017.

47 European Investment Fund, "EIB Group cooperation with China to be strengthened with new EUR 500 million *Silk Road Fund equity investment initiative*", *EIF*, 2 June 2017.

48 European Investment Fund, "First EU-China investment platform backed by the Juncker Plan", *EIF*, 6 August 2018.

53 According to the Commission services and the EEAS, the monitoring of the 74 actions is regularly carried out by their respective DGs. **We found documentation of this for only the ten actions of the 2019 EU-China strategic outlook.**

54 As regards the reporting, our review showed that except for some references in the management reports issued by the Commission services and the EEAS, i.e. the Annual Management Plans (AMPs) and the Annual Activity Reports (AARs), **there is no specific reporting for external or internal purposes on the three key strategic documents**.

55 We found some information in the Commission's Annual Management Performance Reports (AMPRs) about the implementation and evaluation of the EU-China strategy, and noted that the formulation of the 2019 EU-China strategic outlook was based on a review of the existing 2016 EU-China strategy communication. However, **there is no specific evaluation of the three strategies planned**.

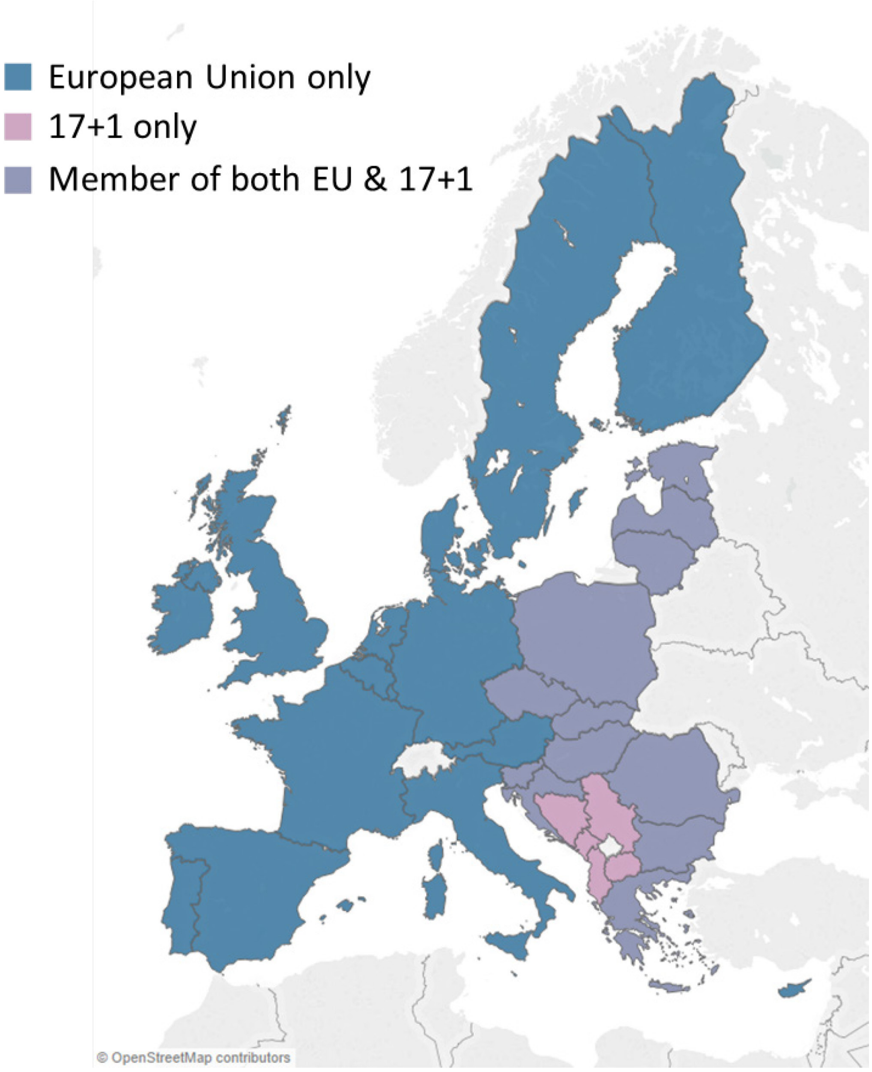
56 This approach to monitoring, reporting and evaluation of the 74 actions makes it difficult to ascertain whether the risks are being sufficiently mitigated or the opportunities are being fully explored with regards to the challenges posed by the Chinese investment strategy (see paragraphs ***29*** to ***32***).

Member States' response

57 Member States may cooperate with China on a bilateral basis, some of which are described below.

58 China established a framework for **cooperation with 17 Central and Eastern European Countries (CEEC)** (see ***Figure 10***) - commonly called the "17+1" (formerly the "16+1") - in order **to promote business and investment relations**. It was founded in Budapest in 2012 as a cooperation between China and the 16 members of the CEEC, which includes countries with legacies of communist regimes.

Figure 10 – EU Member States and countries of CEEC



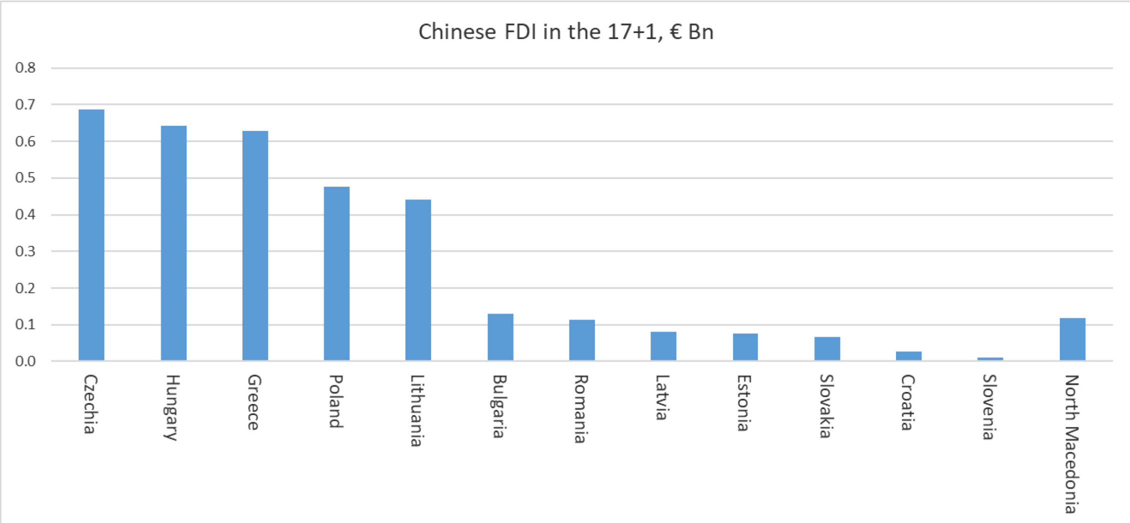
Source: ECA based on Commission's information, Map background ©OpenStreetMap contributors licensed under the Creative Commons Attribution-ShareAlike 2.0 license (CC BY-SA).

59 There are 12 Member States within the 17+1 cooperation framework. They engage with China bilaterally within this framework[49], which creates a **risk to cohesion of EU action**. In addition, **the 17+1 framework may also affect the implementation of the EU policies in the Western Balkans** as five countries in the 17+1 framework are Western Balkan states with candidate or potential candidate status.

[49] *European Council on Foreign Relations (ECFR)*, "China's Investment in Influence: the Future of 16+1 Cooperation", December 2016.

60 The Eurostat database shows that the 17+1 countries have not attracted high levels of Chinese FDI (see ***Figure 11***). Investments have been concentrated in five Member States (Czech Republic, Greece, Hungary, Lithuania and Poland). Of the 17+1, the Czech Republic received the largest investment from China with a reported €686 million in stock, which accounts for 0.3 % of total Chinese FDIs (stocks) in the EU.

Figure 11 – Chinese FDIs (stocks) in the CEEC at the end of 2017



Source: Eurostat's FDI statistics.

61 The relations between Member States and China, and their cooperation in certain areas are formalised by means of MoUs. These MoUs express a common **intention for joint action**, without any **legal commitment**. To date, **15 Member States have signed a MoU with China on the BRI related investment and projects** (see ***Table 6***).

Table 6 – MoUs on the BRI concluded between Member States and China

EU's Member State	Year when MoU on BRI was signed
Bulgaria	2015
Czech Republic	2015
Hungary	2015
Poland	2015
Romania	2015
Slovakia	2015
Latvia	2016
Croatia	2017
Estonia	2017
Greece	2017
Lithuania	2017
Slovenia	2017
Malta	2018
Italy	2019
Luxembourg	2019

Source: ECA, based on publicly available information.

62 **Member States have also other MoUs concluded** in a wide array of topics from nuclear cooperation (French New Areva – China National Nuclear Corporation 2018)[50] to the establishment of a 'Sister Airport Relationship' (China-Finland 2016)[51].

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50 World Nuclear News, "France and China enhance nuclear energy cooperation", *World Nuclear News*, 10 January 2018.

51 Ministry for Foreign Affairs of Finland, "Joint Action Plan between China and Finland on Promoting the Future-oriented New-type Cooperative Partnership 2019-2023", *UMFI*, April 2017, p. 27.

63 As set out in a Council Decision[52], Member States are obliged to inform the Commission of agreements relating to economic and industrial cooperation with non-EU countries, to ensure consistency of national and EU commercial policy. According to the Commission, **they have not been informed about any such MoUs signed by Member States** by the date of this review.

64 A Bilateral investment Treaty (BiT) is an agreement between two countries on the **promotion and protection of investments made by investors** from the respective countries in each other's territory. **All Member States, except Ireland, concluded BiTs with China.** Most of the BiTs were signed before 2000, with the oldest BiT in force being signed between Sweden and China in 1982[53]. The EU is aiming to replace these BiTs with a single EU-China CAI (see ***Box 7***).

65 Within the recently adopted common EU framework for screening FDIs on grounds of security and public order[54] Member States apply their **own national screening mechanisms**[55]. These mechanisms vary significantly in **scope** (review of intra or extra-EU FDI; differing screening thresholds, breadth of sectors covered beyond defence) and in **design** (pre-authorisation vs. ex-post screening of FDI)[56]. As of December 2019, 14 Member States have an established FDI screening mechanism. These Member States are: Denmark, Germany, Spain, France, Italy, Latvia, Lithuania, Hungary, the Netherlands, Austria, Poland, Portugal, Romania, and Finland.

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[52] Council Decision 74/393/EEC of 22 July 1974 establishing a consultation procedure for cooperation agreements between Member States and third countries.

[53] United Nations Conference on Trade and Development, "International Investment Agreements Navigator (China)", *Investment Policy Hub*, 2019.

[54] Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for screening of foreign direct investments into the European Union adopted on 19 March 2019 but applicable from 11 October 2020.

[55] "List of screening mechanisms notified by Member States", *Screening of foreign direct investment*, European Commission News Archive, 10 April 2019.

[56] "EU framework for FDI screening", EPRS Briefing, January 2018.

66 **Several Member States have published policy papers** regarding their relations with China, for example:

- The Swedish governments communication “Approach to matters relating to China” (September 2019),
- The paper “The Netherlands and China: a new balance” (May 2019),
- The Joint Action Plan between China and Finland on Promoting the Future-oriented New-type Cooperative Partnership 2019-2023 (January 2019),
- The China-Denmark Joint Work Programme (2017-2020) (May 2017).

67 Responding to most of the challenges from China’s investment strategy falls under the competences exercised by both EU institutions and Member States (see paragraphs ***33*** and ***34***). Different sources indicate that Member States often act bilaterally with China according to their **own national interests** and **without always informing or coordinating with the Commission** where necessary[57]. As a result, it is difficult for the EU institutions and Member States to have a coordinated response.

[57] E.g. European Parliamentary Research Service (EPRS) (2019) Briefing: *‘State of play of EU-China relations’* for the European Parliament, and Poggetti, L., ”Europe’s search for a China strategy”, *Mercator Institute for China Studies*, MERICS, 7 June 2019.

6. Closing remarks and challenges

68 This section presents closing remarks on our review. It also highlights some challenges in the management of the EU's response to China's state-driven investment strategy, which we have noted in the course of our review work. We discussed these with the Commission services and the EEAS and, where necessary, have included references to their views.

69 Since the 1980s, China has been implementing a "state-driven investment strategy" to enable a strong export-driven economy. Two main pillars of this long-term strategy are the BRI launched in 2013, and the industrial strategy MIC 2025 launched in 2015. The BRI is the most significant Chinese investment strategy for economic growth. It aims to increase China's influence abroad, including on the EU. There is no consensus among experts on the definition of the size and scope of this initiative. **The BRI is a complex initiative that is constantly evolving, which makes it a "moving target" for EU policy-makers.**

70 The EU is committed to ensuring that there is a **level playing field and reciprocity between the EU and China**. However, SOEs form part of the Chinese investment strategy and benefit from Chinese public financing. Under EU rules such subsidies, if granted by a Member States, would be treated as state aid. This difference in treatment can distort competition in the EU's internal market. In addition, when it comes to foreign investment, China is less open when compared to the EU.

71 It is not possible to provide an accurate overall picture of Chinese investments in the EU pertaining to the Chinese investment strategy (i.e. BRI and MIC 2025) due to the limited availability of public information. We therefore used publically available data on overall Chinese foreign investment in the EU to provide a high-level analysis. Our review of this data indicates that China's investment in the EU has increased, but remains relatively low, from 0.3 % of the FDIs in 1995 to 3 % in 2018. It also shows that **Chinese investments in the EU from 2000 to 2019 include strategically important sectors, and that over half of the Chinese investments in the EU during this period were made by SOEs**. However, it was difficult to obtain complete and timely **data and thus to gain an overview**.

<u>Future Challenge 1:</u>

How to provide more complete and timely data and statistics on investments, which are part of the Chinese investment strategy in the EU, to help better inform EU policy-making on China.

72 When designing, setting and implementing policy documents addressing EU-China relations, the Commission services and the EEAS identify and assess relevant risks and opportunities. However, we found no **formalised comprehensive analysis of the risks and opportunities for the EU of China's investment strategy**. As part of our review we carried out an exercise to compile our own list of 18 risks and 13 opportunities of China's investment strategy.

<u>Future Challenge 2:</u>

How to carry out a formalised, comprehensive and up-to-date analysis of risks and opportunities for the EU, to help address the full range of challenges posed by Chinese investment strategy. Such an analysis would involve the systematic collection and tracking of relevant data and information, necessary to ascertain the likelihood of such risks or opportunities from occurring and their potential impact.

73 The EU and Member States both exercise competences in policy areas related to the EU's response to China's investment strategy. Where a concerted EU approach could be an advantage, the fact that **both the EU and Member States exercise competences** means that there are multiple decision-makers (e.g. EU institutions and national governments) with possible diverging opinions and approaches. This **can make it difficult to address the challenges faced by the EU as a whole** in a timely and coordinated manner.

74 Policy measures for the EU-China strategy are proposed in "**Communications**" jointly published by the Commission and the HR. These are implemented either by EU internal legal acts (Regulations or Directives), which need to be adopted by the Council and the European Parliament, or by foreign policy positions taken by the Council. **The drawback of this consensual decision-making process is that it creates the risk of not reacting to challenges faced by the EU in a timely manner.**

75 The Commission services and EEAS have published three key strategic documents for the EU-China relations, including the EU's response to China's investment strategy: the 2016 EU strategy towards China, the 2018 strategy on Connecting Europe and Asia, and the 2019 EU-China strategic outlook. While the 2018 strategic document is not China-specific, it addresses the sustainable connectivity strategy between Europe and Asia, and thus China. Our review showed that the vast majority of these risks are being covered by the Commission services and the EEAS through their various policy initiatives and measures **with the exception of three risks**:

- The risk that there is a **lack of coordination between infrastructure programmes of the EU and China**, which may generate gaps in connectivity infrastructure, or investment projects which compete with or duplicate others. The Commission services and the EEAS do not consider this risk to be relevant due to the political reality;
- The risk that the **EU economy is negatively impacted from shocks to its supply chains** with key Chinese suppliers;
- The risk that **public health is affected by increased interconnectedness in a globalised world** (including Chinese transport routes along the BRI) expediting the transmission of disease.

Future Challenge 3:

How to improve the implementation of the 74 actions set out in EU-China strategy, in particular those promoting reciprocity and preventing the distortive effects on the EU internal market, and how to address the following risks: generating gaps in connectivity infrastructure or investment projects which compete or duplicate others, shocks to supply chains and transmission of disease.

76 **The EU-China strategy was implemented without any prior assessment of the EU financing** required to implement the actions of this strategy, and **without earmarking any EU financing**. Our review shows that while **such spending exists, it is difficult to obtain an overview** of the EU funds being spent or the various financial instruments involved. Furthermore, there has been EU financing which financed projects falling under the Chinese investment strategy in Europe and may undermine the current EU-China strategy.

Future Challenge 4:

How to allow EU decision-makers to better set and track the EU-China strategy, by making a prior assessment of the EU financing required to implement the actions of this strategy going forward, earmarking this financing and compiling an overview of related spending.

77 The way in which the 74 actions have been set **makes it difficult to monitor the progress of their implementation**. Clearer objectives i.e. knowing for each action what needs to be achieved by whom and by when, and measurement of progress against these objectives, would make it easier to monitor the implementation of the actions.

78 According to the Commission services and the EEAS, the monitoring of these actions is regularly carried out by their respective DGs. We found documentation of this for only the ten actions of the 2019 EU-China strategic outlook. Furthermore, **there is no specific reporting on the three key strategic documents and no specific evaluation of the three strategies planned**.

79 This approach to monitoring, reporting and evaluation of these actions makes it difficult to ascertain whether the risks are being sufficiently mitigated or the opportunities are being fully explored with regards to the challenges posed by the Chinese investment strategy.

Future Challenge 5:

How to ascertain that the challenges posed by the Chinese investment strategy are addressed by reinforcing the performance measurement, monitoring, reporting and evaluation arrangements for the EU-China strategy.

80 The EU's response to China's investment strategy does not only consist of the initiatives undertaken by the EU institutions, but also by the individual actions of Member States vis-à-vis China. The Member States' individual response to China's investment strategy can be seen in four areas:

- MoUs,
- BiTs,
- National FDI screening, and
- Member State policy papers on China.

81 In addition, China has established a framework for cooperation with a group of 17 CEEC (commonly called the "17+1"), of which 12 are EU Member States and five candidate or potential candidate countries from the Western Balkans. **As these countries engage with China bilaterally** within this framework, **the 17+1 cooperation framework may affect the effective implementation of the EU accession strategy for countries in the Western Balkans**.

82 Different sources indicate that Member States often act bilaterally with China according to their **own national interests** and **without always informing or coordinating with the Commission** where necessary. For example, while 15 Member States have signed an MoU with China on the BRI, the Commission has not been informed about any such MoU by the date of this review. As a result, it is difficult for the EU and Member States to have a coordinated response. Such an approach does not promote the economic power of the EU acting collectively when it comes to engaging with China, as opposed to acting individually as Member States.

83 The 2019 EU-China strategic outlook marked a shift in tone in EU-China relations, with China being referred to simultaneously as a partner and systemic rival. An effective response to this geopolitical shift would require **Member States to act, together with the EU institutions, as a Union**.

Future Challenge 6:
How to better coordinate the response of the EU institutions and Member States, by promoting the exchange of information between them on EU-China cooperation.

Annexes

Annex I – Panel of Experts

Name	*Position*	*Organisation*
Dr. Matt Ferchen	Head of Global China Research	MERICS
Ms. Kristine Berzina	Senior Fellow	Alliance for Securing Democracy, German Marshall Fund (GMF)
Professor Jing Men	Baillet Latour Professor of EU-China Relations, Director of the EU-China Research Centre	College of Europe

Annex II – Definition, objectives, investments and financing of the BRI

Definition

The BRI forms an integral pillar of the *Going Global strategy* and hence supports the *Made in China 2025 strategy*. It aims to boost connectivity in five different areas: policy, infrastructure, trade, currency and people. The infrastructure of connectivity has been given the greatest priority, focussing on transport, energy and IT.

By investing in infrastructure projects, connectivity is enhanced between different provinces, countries and regions, ultimately facilitating trade. The beneficiaries are mostly low-income economies, which have greater potential to grow rapidly, and to become new destinations for both Chinese investments and exports.

The main underlying assumption of the BRI is that a better trade infrastructure lowers transportation costs. This will have a positive impact on international trade. According to a study, a potential reduction of these costs by 50 % would increase trade by up to 3 % and 6 % in Asia and Europe respectively[58].

Objectives

- To allow China to use its excessive production capacity and invest its foreign currency reserves in the projects on connectivity.
- To facilitate the internationalisation of the Yuan/Renminbi, which will make it more competitive with the other global currencies.
- To better secure China's supply of energy, through the diversification of its energy suppliers.

[58] Garcia-Herrero, Al. & Xu, J., "China's Belt and Road Initiative: Can Europe Expect Trade Gains?", *Bruegel Working Paper*, Issue 5, 2016, p. 7.

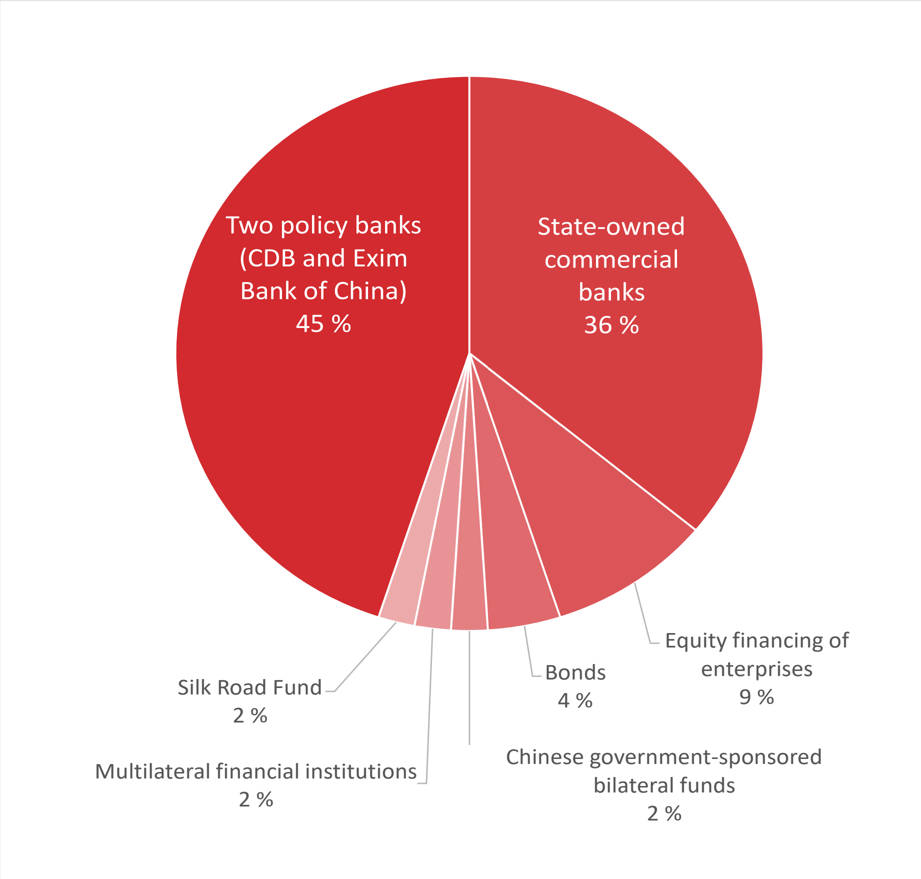
- To upgrade the Chinese industry using high technology transferred from countries receiving Chinese investments, while – at the same time – exporting Chinese standards. Through increased exports, the BRI aims to "encourage the acceptance of Chinese standards"[59]. An example of these standards are the mobile phones manufactured by *Huawei*, a leader in 5G technology.
- To supports China in increasing its political and strategic power, while aiming to maintain friendly and peaceful relations with its neighbours.

Investments and financing

The BRI is mainly financed by the Chinese state. By the end of 2018, the funding was calculated to be more than US$750 billion. This amount comes from various sources (see ***Figure 12***). Most of these instruments are state-owned or nationally funded. These sources give out concessional loans, which are one of the riskier parts of the BRI, because the funding goes to countries with lower sovereign credit ratings. Hence, this could give rise to cases where the infrastructure built under the investment, sometimes of national or strategic importance, is given to Chinese creditors in the case of a default, notably for the emerging or developing countries.

[59] Cai, P., "Understanding China's Belt and Road Initiative", *Lowy Institute for International Policy*, March 2017, p. 9.

Figure 12 – The sources of funding to support BRI projects



Source: He, A., “The Belt and Road Initiative: Motivations, Financing, Expansion and Challenges of Xi’s Ever-expanding Strategy” *CIGI Papers*, No. 225, Centre for International Governance Innovation, September 2019.

Most of these loans are executed by the SOEs. This method of execution means that there is no need to take the ownership of the infrastructure, and is more effective and efficient to keep the existing management and operation of the companies abroad. Therefore, the Chinese investments within the BRI are mainly made by mergers and acquisitions of companies instead of through greenfield investments.

Studies show estimates for increases in overall trade growth (2.8 % and 9.7 % for BRI corridor economies)[60], in foreign investments (4.97 % in total FDIs for BRI corridor economies)[61] and for global GDP growth (0.7 % to 2.9 %)[62].

60 World Bank, “Belt and Road Economics: Opportunities and Risks of Transport Corridors”, Main Report (English), *The World Bank Group*, Washington DC 2019, p. 5.

61 ibid, p. 55.

62 ibid, p. 5.

Annex III – Limitations of FDI Statistics

FDI statistics compiled by Eurostat have the following limitations:

(1) They do not include foreign investments if the investor owns less than 10 % of the voting power in an enterprise. Such investments are classified as portfolio investments (PIs) and it is not possible to identify the residence (or the nationality) of these investors.

(2) The data does not show other forms of influence exercised on the management and operation of the companies, such as representation in the board of directors or in the policy-making process, other contractual reasons or provisions of essential technology.

(3) The use of SPEs neither shows the origin of the ultimate owner, nor that there are asymmetries in the declarations of inward and outward flows of investment. DG TRADE has reported that, for the aggregated level in 2016, 64 % of inward FDI was channelled via SPEs, and that this poses a number of concerns when using FDI statistics for tracking foreign investments.

(4) DG TRADE further assessed that, when using bilateral FDIs to analyse the quality of data on foreign investments, there are the EU's national declarations of the domestic assets held by foreigners and the foreign countries declarations on the assets held in Europe. These two declarations usually do not coincide[63].

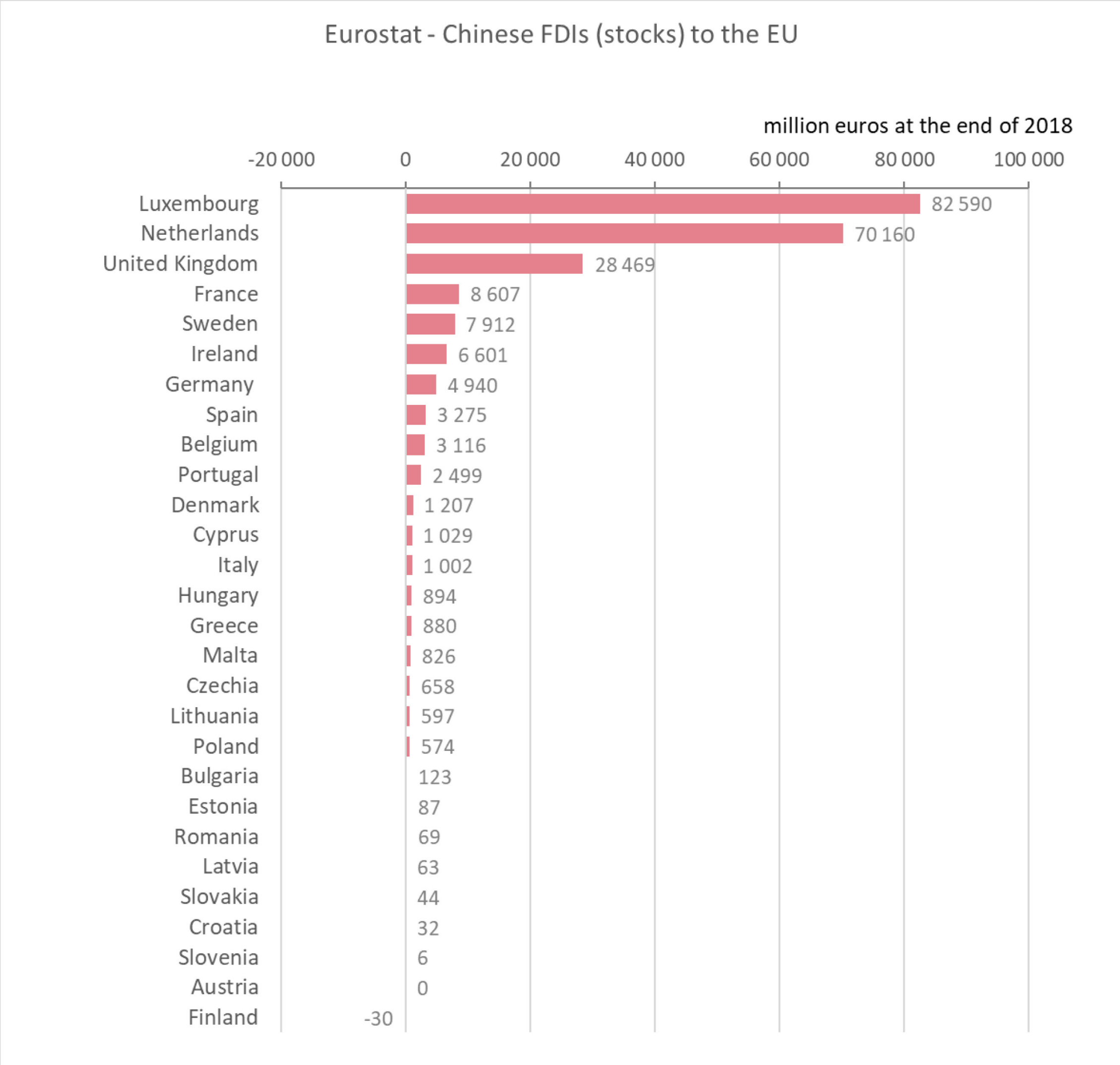
Eurostat facilitates a platform to exchange confidential company data between EU Member States in order to improve the quality of FDI statistics. In collaboration with the European Central Bank (ECB), Eurostat also organises quarterly meetings where Member States with significant bilateral asymmetries participate in order to improve the data.

Eurostat is exploring possibilities to develop FDI data showing the resident country of the ultimate investor, as well as the resident country of the enterprise finally receiving an investment (ultimate host country).

[63] Commission Staff Working Document, SWD(2019) 108 final, supra note 29, pp. 68 and 71.

Annex IV – Overview of Chinese Investments in the EU: FDI (stocks)

Figure 13 – Chinese FDIs (stocks) to the EU according to Eurostat data

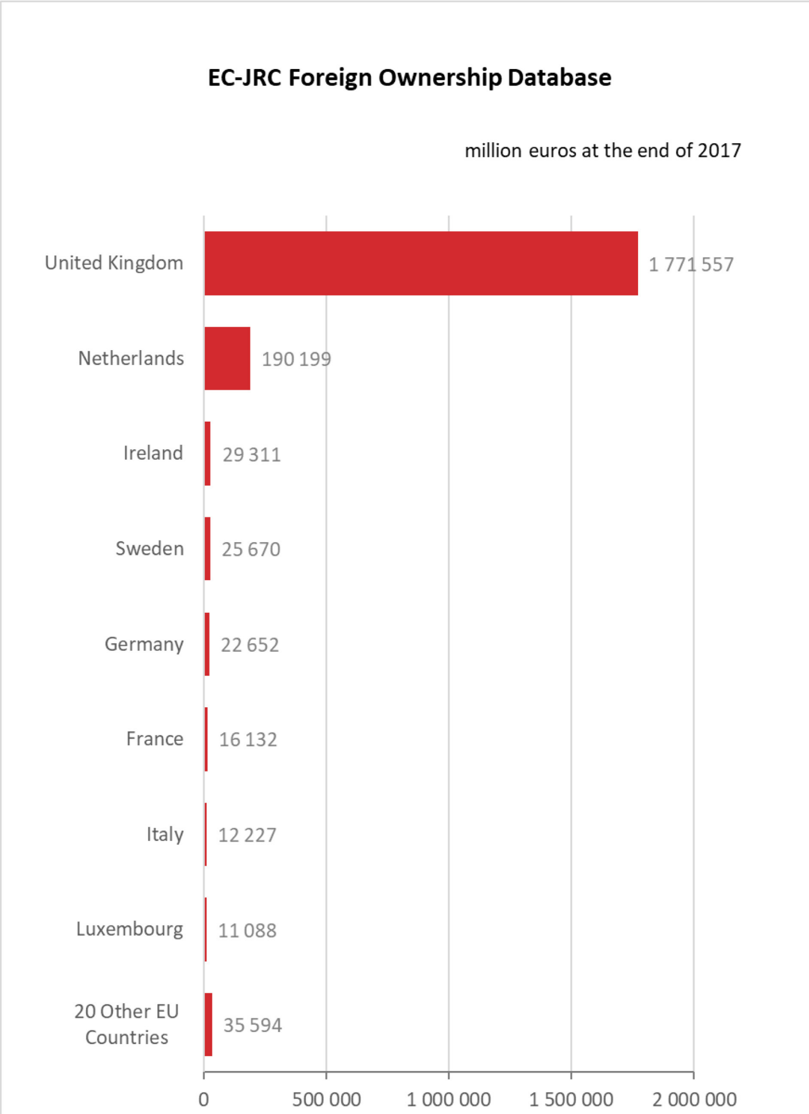


Note: The figure includes Hong Kong.

Source: Eurostat database, latest available data is end of 2018.

Annex V – Overview of Chinese Investments in the EU: Foreign Ownership

Figure 14 – Assets of companies in the EU controlled by Chinese investors according to the EC-JRC Foreign Ownership Database



Note 1: '20 Other EU Countries': Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain.

Note 2: ***Figure 14*** illustrates the total assets of companies in the EU controlled by Chinese investors, which may be different from the participations owned by Chinese investors (measured by the percentage of shares owned multiplied by total assets). As described by DG TRADE, the control of a company is defined as the ownership of at least 50.01 % of its shares, therefore 'control' does not imply ownership of 100 % of the capital. This data is compiled using both unconsolidated and consolidated accounts of the companies (depending on data availability). For additional information, please refer to Gregori W., Nardo M., Ndacyayisenga N., Rancan M., Foreign Investment in the EU, The FOWN dataset, EUR 29885 EN, Publications Office of the European Union.

Source: EC-JRC Foreign Ownership Database, latest available data is end of 2017.

Annex VI – ECA compilation of the risks and opportunities for the EU of China's investment strategy

RISKS

Number R + Type of Risk	Overview of External Risks	Data and information needed to capture / assess the Risk	Examples of sources for the compilation of the Risks
R.1 Political	Risk that Chinese investments made in the EU concerning sensitive / strategic assets may affect security and public order	Data and information on Member States' sensitive / strategic assets	Minghao, Z., "The Belt and Road Initiative and its Implications for China-Europe Relations", The International Spectator, the International Spectator, p. 114, October 2016; Conrad, B. & Kostka, G., 'Chinese investments in Europe's energy sector: Risks and opportunities?', p. 647, February 2017
R.2 Political	Risk that individual Member States conclude Memoranda of Understanding (MoU) with China concerning cooperation on the Belt and Road Initiative (BRI) potentially contributing to EU unity being undermined	Data and information on Member States' MoUs on the BRI concluded with China	Casarini, N., "When All Roads Lead to Beijing. Assessing China's New Silk Road and its Implications for Europe", The International Spectator, p. 105, November 2016
R.3 Political	Risk that the Belt and Road Initiative (BRI) projects may contribute to the weakening of Member States' ownership/control in critical infrastructure of national or strategic importance, which may have geopolitical implications for the EU's economic ties with other partner countries	See R.1 and R.2, as well as data and information on investment ownership of critical infrastructure	Conrad, B. & Kostka, G., "Chinese investments in Europe's energy sector: Risks and opportunities?", Energy Policy, pp. 646-647, February 2017
R.4 Political	Risk that Chinese investments expand cross-border connectivity infrastructure which is exploited by transnational organized crime/trafficking	Studies on the effectiveness, security and crimes concerning connectivity mechanisms	The Global Initiative Against Transnational Organized Crime, "Dialogue on Organized Crime and Development – Conference Report", pp. 2-3, February 2019
R.5 Economic	Risk of lack of reciprocity and unfair economic advantage for Chinese companies compared to EU companies due to unequal playing field and/or WTO rules.	Studies on the economic advantage of Chinese companies (as compared to EU companies) for the competition in the EU and international markets	European Parliament DG for Internal Policies, Research for TRAN Committee: The new Silk Route - opportunities and challenges for EU transport pp. 71 & 79, January 2018; Conrad, B. & Kostka, G., "Chinese investments in Europe's energy sector: Risks and opportunities?", Energy Policy, p. 646, February 2017

Number R + Type of Risk	Overview of External Risks	Data and information needed to capture / assess the Risk	Examples of sources for the compilation of the Risks
R.6 Economic	Lack of coordination between infrastructure programmes of the EU and China, which may generate gaps in connectivity infrastructure, or investment projects which compete with or duplicate others	Data and information, or studies on the coordination, overlaps and synergies between the BRI and EU's programmes in the area of connectivity, e.g. the use of transport infrastructure on the EU corridors from Chinese users	European Parliament DG for Internal Policies, “Research for TRAN Committee: The new Silk Route - opportunities and challenges for EU transport”, pp. 64-72, 84-85, January 2018
R.7 Economic	Risk that Chinese investments or loans in Europe result in bankruptcy, due to ill-conceived projects funded by Chinese state-owned banks, or Chinese SOEs financing unmanageable debts in the EU and in developing countries. If Chinese funding sources take over projects originally negotiated with international or EU lending institutions (who had offered more favourable conditions), this could give rise to cases where infrastructure of national or strategic importance is given to Chinese creditors in the case of a default.	Data and information, or studies on failure of projects and/or companies financed by Chinese investments in the EU and/or in developing countries	OECD, “China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape”, pp. 21 & 29, OECD Business and Finance Outlook 2018
R.8 Economic	Risk that EU long-term competitiveness and competition-driven global innovation dynamics is affected due to forced technology transferred to China through foreign investment	Data and information, or studies on the transfer of EU technology to China	Minghao, Z., “The Belt and Road Initiative and its Implications for China-Europe Relations”, The International Spectator, the International Spectator, p. 114, October 2016; Conrad, B. & Kostka, G., “Chinese investments in Europe's energy sector: Risks and opportunities?”, Energy Policy, p. 646, February 2017
R.9 Economic	Risk of EU importing goods from China priced below production costs	Data and information on EU trade deficit vis-à-vis China	Casarini, N., “Is Europe to benefit from China's Belt and Road Initiative?”, p. 10, Istituto Affari Internazionali (IAI), October 2015
R.10 Economic	EU economy impacted by negative shocks to its supply chains with key Chinese suppliers	Data on European dependence and substitutability on Chinese suppliers in supply chains outside of Europe, including research papers from ECB	ECB Economic Bulletin, “Transmission of output shocks – the role of cross-border production chains”, pp. 10-11, Issue 2 / 2016
R.11 Social	Workers labour/social rights not respected by Chinese companies engaged in foreign investments outside the EU	Studies on the laws and respect thereof of the social rights and benefits of local workers for foreign investments made outside the EU by Chinese companies	Minghao, Z., “The Belt and Road Initiative and its Implications for China-Europe Relations”, The International Spectator, the International Spectator, p. 115, October 2016

Number R + Type of Risk	Overview of External Risks	Data and information needed to capture / assess the Risk	Examples of sources for the compilation of the Risks
R.12 Technological	Risk that the BRI is not sufficiently compliant with data security rules to EU standards, leaving the EU vulnerable to cyber-attacks (cyber-crimes or espionage)	Studies on compliance with EU data security rules, and on cyber-attacks (or cyber-crimes or espionage) in general	Hanemann, T., Huotari, M. & Kratz, A., “Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies”, p. 20, MERICS and Rhodium Group (RHG), March 2019; Conrad, B. & Kostka, G., “Chinese investments in Europe's energy sector: Risks and opportunities?”, Energy Policy p. 647, February 2017
R.13 Technological	Risk that Chinese investment does not adhere to European / international standards (i.e.ie applying ‘lower’ domestic or "Global Default" standards), e.g. with regard to the building of cross-border transport connections. Such an unsustainable approach may result in a loss of positive effects of EU standards in areas such as trade and innovation	Studies on the application of, and discrepancies between EU / international standards and Chinese domestic/’Global Default’ standards in transport connections	OECD, “China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape”, p. 27, OECD Business and Finance Outlook 2018
R.14 Legal	Risk that Chinese investments do not comply with EU money laundering and other financial regulations, with a lack of information on the ultimate investor	Data and information, or studies on the compliance of the Chinese investments with EU money laundering and other financial regulations	Hanemann, T., Huotari, M. & Kratz, A., “Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies”, p. 20, MERICS and Rhodium Group (RHG), March 2019
R.15 Legal	Risk that large Chinese-led infrastructure projects in the EU are irregularly awarded due to Chinese bids that are artificially low (or propped up by state financing)	Data and information, or studies on the corruption of infrastructure project awards (in the EU), and where appropriate from Chinese companies	Conrad, B. & Kostka, G., ‘Chinese investments in Europe's energy sector: Risks and opportunities?’, Energy Policy pp. 646-647, February 2017
R.16 Legal	Risk that imports of Chinese goods in the EU are affected by fraud of customs duties and VAT affecting the calculation of own resources	Data and information, or studies on the evasion of customs duties and VAT from imports in the EU from China affecting the calculation of own resources	ECA Annual Report 2016-2018
R.17 Environmental	Risk that regulatory EU or international standards (including environmental requirements) are not complied with by the Chinese companies when engaging in procurement in the EU or accession countries (e.g. the impact of Chinese investment projects on the European Green Deal).	Studies on the respect of regulatory EU or international standards (including environmental requirements and procurement regulations) by Chinese companies in the EU or accession countries	“Belt and Road Economics – Opportunities and Risks of Transport Corridors”, World Bank Group, pp. 111-112
R.18 Environmental	Public health being affected by increased interconnectedness in a globalised world (including Chinese transport routes along the BRI) expediting the transmission of disease	Studies from the World Health Organisation (WHO) on Public Health Emergency of International Concerns (PHEIC)	Tatem, A.J., Rogers, D.J. & Hay, S.I., “Global Transport Networks and Infectious Disease Spread”, Advances in Parasitology, Elsevier Public Health Emergency Collection, vol 62, 2006

OPPORTUNITIES

Number O + Type of Opportunity	Overview of External Opportunities	Data and information needed to capture / assess the Opportunity	Examples of sources for the compilation of the Opportunities
O.1 Political	Opportunity that Chinese investments in the EU can foster common interests, creating a strong foundation for the EU-China bilateral relationship and long-term partnership	Studies on the impact of Chinese investments on creating a strong foundation for the EU-China bilateral relationship and long-term partnership	Conrad, B. & Kostka, G., "Chinese investments in Europe's energy sector: Risks and opportunities?", Energy Policy, p. 646, February 2017
O.2 Political	Opportunity that Chinese investments and activities contribute to peace and security (including the global public health) in the EU's neighbourhood and developing countries.	Studies on the impact of Chinese investments on the stability of EU's neighbourhood and developing countries	Casarini, N., "Is Europe to benefit from China's Belt and Road Initiative?", p. 10, Istituto Affari Internazionali (IAI), October 2015
O.3 Economic	Opportunity for EU of the engagement with China (including international multilateral development banks), to potentially increase international lending capacities in several sectors and facilitating economic growth for Member States	Studies on the cross-sectoral international lending capacities and impacts of Chinese investments on creating financial sources (including also international banks) and economic growth for Member States	Kamal, R. & Gallagher, K., "China Goes Global With Development Banks", Bretton Woods Project, April 2016
O.4 Economic	Opportunity given by Chinese investments in neighbourhood and development countries to contribute to the related EU objectives, notably by improving their economic growth	Studies on the impact of Chinese investments on the EU objectives on neighbourhood and development countries, in particular by improving their economic growth	European Commission and HR/VP contribution to the European Council, "EU-China – A strategic outlook", p. 4, JOIN(2019) 5 final, 12 March 2019.
O.5 Economic	Opportunity for the EU to allow "euro" to become a stronger currency due to significant share of China's foreign currencies reserves being converted in euro	Studies on the impact of Chinese investments on the re/de valuation of "euro"	Casarini, N., "Is Europe to benefit from China's Belt and Road Initiative?", p. 10, Istituto Affari Internazionali (IAI), October 2015
O.6 Economic	Opportunity that the BRI can expand trade, by improving connectivity and lowering trade costs in the EU and other countries	Studies on the impact of Chinese investments on the trade costs, and on the trade balance of the EU and other countries	"Belt and Road Economics – Opportunities and Risks of Transport Corridors", p. 5, World Bank Group
O.7 Economic	Opportunity given by the BRI for the further development in the EU of the (commercial) rail as an alternative for both sea and air	Studies on the impact of the further development resulting from the BRI in the EU of the (commercial) rail as an alternative for both sea and air	European Parliament DG for Internal Policies, Research for TRAN Committee: "The new Silk Route - opportunities and challenges for EU transport", pp. 65-66, January 2018
O.8 Economic	Opportunity given by the BRI to rebalance freight flows going to / coming from the EU	Studies on the impact of the BRI on freight flows going to / coming from the EU	European Parliament DG for Internal Policies, Research for TRAN Committee: "The new Silk Route - opportunities and challenges for EU transport", pp. 66-67, January 2018

Number O + Type of Opportunity	Overview of External Opportunities	Data and information needed to capture / assess the Opportunity	Examples of sources for the compilation of the Opportunities
O.9 Economic	Opportunity given by the BRI as an incentive to streamline customs arrangements with a view to improve connectivity	Studies on the impact of the BRI on incentivizing improvement and streamlining of customs arrangements	European Parliament DG for Internal Policies, Research for TRAN Committee: "The new Silk Route - opportunities and challenges for EU transport", p. 67, January 2018
O.10 Economic	Opportunity for EU companies to build railways, roads and infrastructure in Central Asia with possible sharing of skills between the EU and China	Studies on the impact of Chinese investments in transport connectivity infrastructure in Central Asia and sharing skills between the EU and China	European Parliament DG for Internal Policies, Research for TRAN Committee: "The new Silk Route - opportunities and challenges for EU transport", p. 68, January 2018
O.11 Economic	Opportunity via EU exposure to the latest technologies to promote its standards and capacity in technologies in deploying the Digital4Development Strategy, as outlined in the 'Connecting Europe and Asia: the EU Strategy'	Studies on the impact of exposure to Asian technologies on the EU commercial and security activities related to strategic digital development	European Commission, "Connecting Europe and Asia – Building blocks for an EU Strategy", Joint Communication to the European Parliament, the Council, The European Economic and Social Committee, The Committee of the Regions and the European Investment Bank, JOIN(2018) 31 final, Brussels, 19 September 2018
O.12 Economic	Opportunity for the EU to diversify the risks of (foreign) investment ownership, reducing any potential dependency on any individual country	Studies on the impact for the EU of the diversification of, and dependencies on, (foreign) investment ownership	Conrad, B. & Kostka, G., "Chinese investments in Europe's energy sector: Risks and opportunities?", Energy Policy, p. 646, February 2017
O.13 Economic	EU sectors such as higher education, research, creative/cultural industries benefit from cooperation and exchanges with China	Reports on Horizon 2020 and Erasmus+	Hellkötter, K. &, Ayoub, L., "Mapping the EU-China Cultural and Creative Landscape – Summarizing Report", LSE March 2014 for EU-China Policy Dialogues Support Facility II Dialogue Partners: European Commission DG EAC, Ministry of Culture of the PRC

Annex VII – Actions resulting from the EU strategy towards China

2016 Elements for a new EU strategy on China

#	Action	Issue	Type 1 G/S*	Type 2 U/B/C**
16.1	The fundamental principle of the EU's relationship with China is that it should be based on reciprocal benefit in both political and economic terms.	C	G	B
16.2	EU's engagement with China should be principled, practical and pragmatic, staying true to its interests and values. It will continue to be based on a positive agenda of partnership coupled with the constructive management of differences.	A	G	U
16.3	EU Member States' engagement with China must comply with EU laws, rules and policies.	B	S	U
16.4	The EU expects China to assume responsibilities in line with the benefits it draws from the rules-based international order.	E	G	C
16.5	The promotion of human rights will continue to be a core part of the EU's engagement with China, with the well-being of citizens respect for international obligations at the centre of its approach. The EU will hold China to account for its human rights record.	A	S	U
16.6	The EU confirms its "One China" policy.	J	S	U
16.7	The EU should continue to develop its relations with Taiwan and to support the constructive development of cross-Strait relations.	J	S	U
16.8	The EU should support the continued implementation of "One Country, Two Systems" in Hong Kong and Macao.	J	S	U
16.9	EU policy-making on China should take full account of the EU's close relationships with the US and other partners.	J	S	U
16.10	The EU should continue actively to support and encourage economic, environmental and social reforms in China towards a more open, sustainable and inclusive growth model.	E	G	U
16.11	The EU aims to ensure reciprocity and a level playing field in all aspects of its trade and investment. To that end, it will step up its monitoring of access to Chinese markets and to China's R&D support schemes by European companies.	C	G	U
16.12	The Comprehensive Agreement on Investment is the EU's immediate priority towards the objective of deepening and rebalancing our economic relationship with China.	C	S	B
16.13	The EU puts a high priority on the rapid conclusion of an agreement with China on Geographical Indications for the protection of food names, based on the highest international standards.	C	S	B
16.14	The EU is developing a new generation of modern, high standard trade agreements, and could consider broader ambitions such as a deep and comprehensive FTA with China, when the conditions - including implementation of the necessary economic reforms in China - are right.	C	G	U
16.15	The EU expects China to make significant and verifiable cuts in industrial over-capacity based on a clear timeline of commitments and an independent monitoring mechanism.	D	S	C
16.16	The EU welcomes productive Chinese investment in Europe provided it is in line with EU law and regulations. In return, the EU expects improved market access for foreign companies in China and a level playing field for business and investment. China should reduce the number of protected sectors and minimise national security reviews.	C	G	B
16.17	Cooperation on the rule of law, competition enforcement, as well as standards, rules and regulations in key sectors, should be reinforced.	C	G	B
16.18	Mutually beneficial cooperation on research and innovation should be strengthened, while ensuring a level playing field.	I	G	B
16.19	Cooperation on the digital economy can bring benefits to both the EU and China. It should harness growth through common standards and joint research on the basis of reciprocity.	C	G	B
16.20	EU should intensify cooperation with China on the protection and enforcement of intellectual property rights. The EU should reinforce measures to counter cyber-enabled theft of intellectual property and trade secrets.	C	S	B
16.21	The EU should use the EU-China Connectivity Platform as its main vehicle for working with China to connect the Eurasian continent via a physical and digital network through which trade, investment and people-to-people contacts can flow.	E	S	B
16.22	Cooperation with China on its "One Belt, One Road" initiative should be dependent on China fulfilling its declared aim of making it an open platform which adheres to market rules and international norms in order to deliver benefits for all.	E	G	B

16.23	People-to-people dialogue should be broadened in scope, and new initiatives identified to encourage a greater pluralism in contacts. People-to-people contacts should be mainstreamed throughout EU-China relations and the dialogue on mobility and migration should be strengthened.	I	S	B
16.24	Recognition of China's greater role in international relations and governance should be linked to greater adherence by China to international rules and standards.	E	G	B
16.25	The EU encourages China to mobilise its diplomatic and other resources towards providing security as a global public good, including engagement on Afghanistan and Syria.	H	G	B
16.26	The EU has a stake in Asian security and will continue to reinforce its positive contribution in that regard. Similarly the EU encourages China to contribute actively to peace and security in the EU's neighbourhood in line with international law.	H	G	B
16.27	The EU wants to see freedom of navigation and overflight upheld in the East and South China Seas. Disputes should be settled peacefully based on the rule of law and unilateral provocations avoided.	E	S	B
16.28	EU dialogue with China to seek more common ground on disarmament, non-proliferation, counter-terrorism and cyberspace.	H	G	B
16.29	The EU should ensure that it has a clear understanding of China's defence and security policies in order to inform its engagement with China.	H	G	B
16.30	Africa offers the best opportunity for EU-China security cooperation, both at sea and on land. Anti-Piracy cooperation off the Horn of Africa should continue.	H	G	B
16.31	The EU should seek opportunities for practical cooperation and coordination with China on issues such as capacity-building and supporting African peacekeeping efforts, making full use of both sides' diplomatic and security assets on the ground.	H	G	B
16.32	The EU and China share a common interest in supporting multilateralism. The EU should work with China towards consolidating rules-based global governance.	E	G	B
16.33	The EU should seek a common platform with China on key G20 priorities.	J	G	B
16.34	The EU should encourage China to play a more active and engaged role in the WTO and in multilateral and plurilateral trade and investment initiatives, assuming responsibilities in line with the benefits it draws from an open trading system and strengthening the ambition of these initiatives. The EU expects China to submit a GPA accession offer which matches the importance of the Chinese market.	C	S	B
16.35	The EU should work more closely with China on disaster management, humanitarian crises and migration.	H	G	B
16.36	The EU should continue to insist that China complies with its international legal and human rights obligations, both within China and abroad, and should work with China to this end.	A	G	B
16.37	An enhanced EU-China development dialogue should be launched.	J	S	B
16.38	The EU should capitalise on China's commitment to tackling climate change by reinforcing partnership in this field at both bilateral and multilateral level;	F	G	B
16.39	The environment is now a top Chinese policy priority, as recognised by the latest Five Year Plan. The EU should build on this to create a positive common agenda in areas such as tackling air, water and soil pollution, the circular economy, sustainable management of ocean resources, and fighting threats to habitats and biodiversity;	F	S	B
16.40	The EU should seek to work more closely with China on fighting antimicrobial resistance.	G	S	B
16.41	Dealing with China requires a comprehensive (by the EU) approach to ensure maximum impact.	B	G	U
16.42	Member States should reinforce agreed EU positions in their bilateral relations with China, while the Commission services and EEAS should ensure that Member States are made aware when EU interests need to be safeguarded.	B	G	U
16.43	Annual EU-China summits and high-level dialogues will set the objectives and priorities to implement the common strategic agenda. Yearly implementation reviews of the EU-China 2020 Agenda should take place at senior officials' level, with a reporting link to the EU-China summit.	A	S	U
16.44	The EU will work with China to assess the effectiveness of the many joint dialogues and seek to streamline them where necessary in line with EU priorities.	A	G	B
16.45	The EU should continue to improve its analytical capacity on China and to reach out to future generations of Chinese leaders in all fields.	I	G	B
16.46	Active use should be made [by the EU] of the available EU coordination mechanisms in order to promote EU unity.	B	G	U
16.47	The implementation of the EU's strategy on China should be reviewed at regular intervals in the appropriate formations of the Council. The EU should be prepared to update its approach as and when the underlying assumptions change.	J	S	U

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#	Action	Issue	Type 1 G/S*	Type 2 U/B**
18.1	The Commission will develop a methodology to assess the levels of sustainable connectivity in Europe and Asia and its economic impact within the EU and its regions.	E	S	U
18.2	The Commission will promote the exchange of data for customs and digital transport corridors and assess risks.	H	S	U
18.3	The Commission will pursue Air Transport Agreement negotiations with the Association of Southeast Asian Nations (ASEAN), Azerbaijan, Turkey and Qatar, and sign Bilateral Air Safety Agreements with [the] People's Republic of China (China) and Japan.	C	S	B
18.4	The Commission will promote agreements on the decarbonisation of transport in international fora, in particular in aviation and maritime sectors.	F	S	U
18.5	The Commission will promote the digitalisation and the administrative simplification of maritime transport in Asia and the Black Sea countries as well as the adoption of the Rotterdam Rules.	E	S	U
18.6	The Commission will explore the possibility of the extending the mandate of the EU TEN-T corridor coordinator(s) to the Enlargement and Neighbourhood region within the envisaged review of the TEN-T regulation which needs to be completed by 2023.	E	S	U
18.7	The Commission will work on standards for ethical use of forward looking technologies such as Artificial Intelligence and promote full compliance with responsible state behaviour online.	A	S	U
18.8	The Commission will further promote Erasmus and the Marie Sklodowska Curie actions in Asia and related reciprocity arrangements to increase opportunities for exchange and mobility.	I	S	U
18.9	The Commission will step up cooperation with relevant third countries, including in EU-China Connectivity Platform, to promote the digital economy, efficient transport connectivity and smart, sustainable, safe and secure mobility, based on the extension of the TEN-T network, and promote a level playing field in investment.	C	S	B
18.10	The Commission will support sustainable connectivity in policy and development dialogues with third countries.	E	G	U
18.11	The Commission will deepen cooperation with relevant regional organisations in Asia and pilot regional connectivity approaches for Asia.	E	G	U
18.12	The Commission will cooperate with European and International Standardisation Organisations and their national members in view of efficient and joint development of the necessary technical standards, including through targeted technical assistance and technical cooperation.	E	G	U
18.13	The Commission will work with United Nations Economic Commission for Europe (UNECE) to unify the legal regime for the carriage of goods by rail across the Eurasian continent, and with the Intergovernmental Organisation for International Carriage by Rail (OTIF) and the Organisation for Cooperation of Railways (OSJD) to extend the application of the EU's technical specifications and safety management frameworks.	E	S	U
18.14	The Commission (and where appropriate the High Representative) will facilitate investment for Euro-Asian connectivity through the investment facilities and guarantees, involving European public banks (EIB, EBRD and Member States' national banks and institutions), and IFIs, in line with international standards and level-playing field.	C	G	U
18.15	The Commission (and where appropriate the High Representative) will step up the EU's cooperation on investment with the Asian Development Bank and the Asian Infrastructure Investment Bank.	E	S	U
18.16	The Commission (and where appropriate the High Representative) will establish a Business Advisory Group for Euro-Asian Connectivity.	J	S	U
18.17	The Commission (and where appropriate the High Representative) will press for enhanced transparency of public procurement in Euro-Asian infrastructure, including through wider accession to the WTO Government Procurement Agreement and the adoption of GPA standards and support to the establishment of dedicated public procurement websites.	C	S	U

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#	Action	Issue	Type 1 G/S*	Type 2 U/B**
19.1	The EU will strengthen cooperation with China to meet common responsibilities across all three pillars of the United Nations - Human Rights, Peace and Security, and Development.	A	G	B
19.2	In order to fight climate change more effectively, the EU calls on China to peak its emissions before 2030, in line with the goals of the Paris Agreement.	F	S	B
19.3	The EU will deepen engagement with China on peace and security, building on the positive cooperation on the Joint Comprehensive Plan of Action for Iran.	H	G	B
19.4	To preserve its interest in stability, sustainable economic development and good governance in partner countries, the EU will apply more robustly the existing bilateral agreements and financial instruments, and work with China to follow the same principles through the implementation of the EU Strategy on Connecting Europe and Asia.	E	S	B
19.5	In order to achieve a more balanced and reciprocal economic relationship, the EU calls on China to deliver on existing joint EU-China commitments. This includes reforming the World Trade Organisation, in particular on subsidies and forced technology transfers, and concluding bilateral agreements on investment by 2020, on geographical indications swiftly and on aviation safety in the coming weeks.	C	S	B
19.6	To promote reciprocity and open up procurement opportunities in China, the European Parliament and the Council should adopt the International Procurement Instrument before the end of 2019.	C	S	B
19.7	To ensure that not only price but also high levels of labour and environmental standards are taken into account, the Commission will publish guidance by mid-2019 on the participation of foreign bidders and goods in the EU procurement market. The Commission, together with Member States, will conduct an overview of the implementation of the current framework to identify shortcomings before the end of 2019.	C	S	U
19.8	To fully address the distortive effects of foreign state ownership and state financing in the internal market, the Commission will identify before the end of 2019 how to fill existing gaps in EU law.	D	S	U
19.9	To safeguard against potential serious security implications for critical digital infrastructure, a common EU approach to the security of 5G networks is needed. To kickstart this, the European Commission will issue a Recommendation following the European Council.	B	S	U
19.10	To detect and raise awareness of security risks posed by foreign investment in critical assets, technologies and infrastructure, Member States should ensure the swift, full and effective implementation of the Regulation on screening of foreign direct investment.	H	S	U

Legend: For the reference to the colours of the actions and issues, please refer to ***Annex VIII***.

Issues:

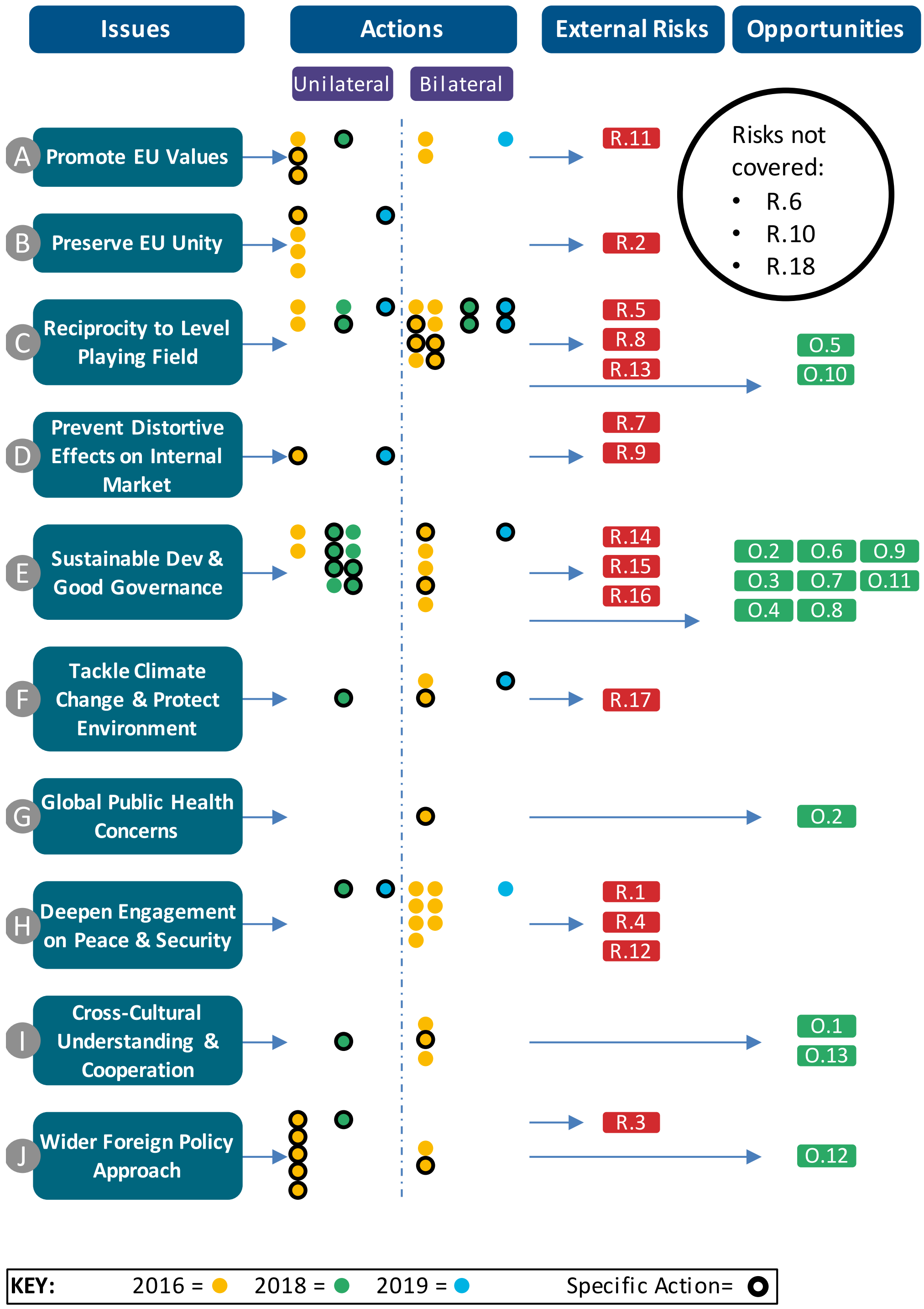
A) Promote EU Values along with 3 United Nations (UN) pillars, B) Preserving EU unity, C) Reciprocity to balance the relationship and level playing field, D) Preserving distortive effects on the EU internal market, E) Sustainable Economic Development and Good Governance, F) Tackling climate change and protecting the environment, G) Global public health concerns, H) Deepening the engagement on peace and security, I) Fostering cross-cultural understanding and cooperation on innovation and J) Wider foreign policy approach

Type 1(*): G: General, S: Specific,

Type 2(**): U: Unilateral, B: Bilateral, C: China.

Annex VIII – Areas of EU's response to China's investment strategy and alignment to China's risks and opportunities

Figure 15 – ECA mapping compilation of EU-China strategy actions



Note: Each risk is represented by a coloured dot. Only external risks covered by mapping analysis. All of the Opportunities are addressed in this mapping analysis.

Source: ECA Mapping Analysis.

ISSUES	ACTIONS: Unilateral EU/China Actions 2016	2018	2019	ACTIONS: EU-China Bilateral Actions 2016	2018	2019	Risks	Opportunities
A) Promote EU Values along with 3 UN Pillars	16.2 16.5 16.43	18.7		16.36 16.44		19.1	R.11	
B) Preserve EU Unity	16.3 16.41 16.42 16.46		19.9				R.2	
C) Reciprocity to Balance Relationship & Level Playing Field	16.11 16.14	18.14 18.17	**19.7**	16.1 16.12 16.13 16.16 16.17 16.19 16.20 16.34	18.3 18.9	**19.5** **19.6**	R.5 R.8 R.13	O.5 O.10
D) Prevent Distortive Effects on Internal EU Market	16.15*		**19.8**				R.7 R.9	
E) Sustainable Economic Development and Good Governance	16.4 16.10	18.1 18.5 **18.6** 18.10 18.11 18.12 18.13 18.15		16.21 16.22 16.24 16.27 16.32		19.4	R.14 R.15 R.16	O.2 O.3 O.4 O.6 O.7 O.8 O.9 O.11
F) Tackle Climate Change and Protect the Environment		18.4		16.38 16.39		**19.2**	R.17	
G) Global Public Health Concerns				16.40				O.2
H) Deepen Engagement on Peace & Security		18.2	19.10	16.25 16.26 16.28 16.29 16.30 16.31 16.35		19.3	R.1 R.4 R.12	
I) Foster Cross-Cultural Understanding & Cooperation		18.8		16.18 16.23 16.45				O.1 O.13
J) Wider Foreign Policy Approach	16.6 16.7 16.8 16.9 16.47	18.16		16.33 16.37			R.3	O.12

LEGEND: General: XX.X Specific: XX.X Deadlines: **XX.X** China Unilateral: XX.X (Specific: XX.X*)

Acronyms and abbreviations

AAR: Annual Activity Report

ADB: Asian Development Bank

AIIB: Asian Infrastructure Investment Bank

AMP: Annual Management Plan

AMPR: Annual Management and Performance Report

BiT: Bilateral Investment Treaty

BRI: Belt and Road Initiative

CAI: Comprehensive Agreement on Investment

CEEC: Central and Eastern European Countries

COVID-19: Coronavirus disease 2019

CWP: Commission Work Programme

COSO: Committee of Sponsoring Organizations of the Treadway Commission

DG: Directorate-General

EBRD: European Bank for Reconstruction and Development

EC: European Commission

ECB: European Central Bank

EEAS: European External Action Service

EIF: European Investment Fund

EPRS: European Parliamentary Research Service

EU: European Union

FDI: Foreign Direct Investment

FTA: Free Trade Agreement

G20: International forum for the governments and central banks from 19 countries and the EU

GDP: Gross Domestic Product

GMF: German Marshall Fund

GPA: Agreement on Government Procurement

HR/VP: High Representative of the Union for Foreign Affairs and Security Policy (and Vice-President of the European Commission)

ICT: Information and Communications Technologies

IFI: International Financial Institution

IMF: International Monetary Fund

IP: Intellectual Property

JRC: Joint Research Centre

MERICS: Mercator Institute for China Studies

MFF: Multiannual Financial Framework

MIC 2025: Made in China 2025 (strategy)

MoU: Memorandum of Understanding

OECD: Organisation for Economic Cooperation and Development

OSID: Organization for Cooperation of Railways

OTIF: (Inter-governmental) Organization for Internal Carriage by Rail

PHEIC: Public Health Emergency of International Concerns

PI: Portfolio Investment

SOE: State-Owned Enterprise

SPE: Special Purpose Entity

TEN-T: Trans-European Networks

UN: United Nations

UNECE: United Nations Economic Commission for Europe

US: United States

VAT: Value Added Tax

WHO: World Health Organization

WTO: World Trade Organization

Glossary

Agreement on Government Procurement (GPA): Agreement between 19 WTO members, including the EU, to open up their government procurement markets to one another.

Belt and Road Initiative (BRI): Chinese investment strategy focussing on connectivity infrastructure launched in 2013, with the aim of increasing the country's influence abroad.

China's state-driven investment strategy: Current Chinese policies supporting and financially encouraging private companies and State-Owned Enterprises (SOEs) to invest abroad.

Collateral: An asset taken as insurance or security when providing a loan, which is forfeited in the case of a default.

EC-JRC Foreign Ownership Database: A Commission database of assets of companies controlled by foreign ownership and investments in key sectors by entities outside the EU.

Economic corridor: Connected networks of infrastructure across international borders to facilitate trade and stimulate economic development.

5G equipment: Fifth generation technology standard for mobile networks.

Financial instrument: Financial support in the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments.

Foreign direct investment (FDI): The direct or indirect ownership, by an investor based in one economy, of 10 % or more of the voting power in an enterprise in another economy.

FDI Regulatory Restrictiveness Index: An OECD indicator measuring restrictions applied by OECD and G20 countries on foreign direct investments.

Gross domestic product (GDP): A standard measure of a country's wealth, based on the total value of goods and services produced there (usually during one year).

Joint venture: Two or more businesses combining resources to achieve specific commercial objectives, while retaining their distinct identities.

Made in China 2025 (MIC 2025): Chinese industrial strategy launched in 2015, focussed on high-added value goods for both export and domestic consumption.

Memorandum of understanding (MoU): Agreement between two or more parties to cooperate on a specific issue, without entering into a legal commitment.

FDI screening: Evaluation of whether a direct investment is likely to adversely affect the country in which the investment is made.

17+1 cooperation framework: Forum of cooperation between China and 17 central and eastern European countries (CEEC). This includes 12 EU's Member States.

State-owned enterprises (SOEs): A body undertaking business activities, over which the government has significant control through full or significant ownership.

Special purpose entity (SPE): Legal entity created for specific and / or temporary objectives.

Supply chain: The system of organisations, people, activities, information and resources involved in producing a product or service and supplying it to the customer.

ECA team

This ECA's Review "The EU's response to China's state-driven investment strategy" provides an overview of China's investment strategy and compiles challenges that this strategy presents for the EU institutions and Member States.

This report was adopted by Chamber V Financing and administration of the EU, headed by ECA Member Tony Murphy (Dean).The task was led by ECA Member Annemie Turtelboom, supported by Florence Fornaroli, Head of Private Office and Celil Ishik, Private Office Attaché; Alberto Gasperoni, Principal Manager and Head of Task; Jussi Bright, Thomas af Hällström, Manja Ernst and Lara Connaughton, Auditors.

As a consequence of the COVID-19 pandemic and the strict confinement conditions, no picture of the audit team could be provided.

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