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Abstract

This contribution deals with the rise of direct investment flows from 'third-world' to 'first-world' countries. To analyze this trend, we chose to focus on China and India due to their high economic growth regime and their rapid pace to embrace the world economy, which place them at the forefront of the surging wave of FDI and multinational companies from emerging economies.
The European Union which is the largest host region worldwide for FDI flows is the target of the paper, and the central point is to better assess the possible effects of the arrival of Chinese and Indian firms on its economy.
The paper is based on firm-level data. After providing understanding on Chinese and Indian FDI on a global scale, we draw from the existing academic literature hypotheses that are tested on findings derived from a proprietary dataset. On the basis of these insights, we identify and discuss the plausible economic impacts of those investments on European economies.

Keywords*: foreign direct investment, European economies, policy implications*

JEL Classification: F14, F23

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INTRODUCTION

The extent and amount of Chinese and Indian investment has vastly increased on all continents over the last few years, and Europe is getting its share since 2002. Even if the phenomenon is very recent and still of modest magnitude for Europe, it makes good economic sense to get a better knowledge of it and to identify the discernible trends.

The reasons of such interest are well balanced: on the one hand, China and India have embarked in a high economic growth regime and their firms are at the forefront of the surging wave of multinational companies originating from the 'third-world' and, on the other, the European Union is the largest host region worldwide for FDI flows[4] and a significant trade partners with both Asian economies[5] as both aspects are increasingly interrelated. Besides, some high-profile merger-and-acquisition deals involving Chinese and Indian companies have been fulfilled across Europe[6] these last years.

This general issue is however still underdeveloped by academics whereas the available information is either too aggregated or, when accessible at a micro-level, largely anecdotal or fragmentary.

Our first main motivation was to get convincing evidence about the characteristics of the European affiliates of Chinese and Indian companies. One can rightfully ask why it is relevant to consider India and China together as home-countries, rather than China alone or India alone, or than the emerging economies as a whole? At least, two reasons stand out. First, both Asian countries are, to date, the main emerging countries exhibiting outward FDI (OFDI) in Europe, if the Federation of Russia is put aside. Second, such a choice allows us to bypass the usual limitation of individual monograph and to enrich the analysis thanks to comparisons, because each country has its own specificities (distinct economic, social, regulatory, legal and historical features).

Our second motivation was to stimulate the discussion in a very new area, namely the possible effects of the arrival of Chinese and Indian companies in Europe.

We had in mind two research questions. The first one is basically academic-oriented and aims to test the soundness of the traditional theoretical approaches adopted to explain OFDI from advanced countries, and see if the displayed attributes by the 'newcomers' fit the standard framework. The second question is more policy-oriented and tries to address the possible

[4] With more than 800 billion of dollars in 2007 it accounted for 44% of the world total.
[5] This is particularly true for China. Note that the Russian Federation as part of the emerging countries group (or BRICs) is also a prominent trade partner for the EU.
[6] Thomson from France was sold to the Chinese TCL, Jaguar and Land Rover UK icon brands were sold to the Indian Tata Motors, among others.

economic impacts of Chinese and Indian investments on European economies, and also to look into their policy implications.

The paper is structured as follows:

In the first section, we introduce the existing academic literature related to our topic and draw the main hypotheses.

In section 2, we briefly provide some insights of Chinese and Indian FDI on the global stage, and we draw the salient features of Chinese and Indian affiliates in Europe from the dataset, and then we match and test them with the related literature.

In section 3, we identify, categorise and discuss the possible economic impacts of these new investments on European economies on the basis of their main characteristics.

Last, we put in perspective the outcomes and explore what policy issues the arrival of Chinese and Indian multinational companies (and presumably Southern ones in general) could imply at national and EU level.

Section 1. THEORETICAL CONSIDERATIONS

Our purpose here is to review the relevant academic literature as a way to draw up general hypotheses. The current academic literature on FDI from emerging economies is grounded on theories and studies developed to explain the motives and pattern of FDI in general (or supposed to be). S. Hymer (1960), R. Vernon (1966), C. Kindleberger (1969), R. Caves (1971) and P. Buckley and M. Casson (1976) were prominent contributors in providing basic assumptions: they had in common to explain FDI by market imperfections and to postulate that would-be multinationals must possess specific advantages (tangible or intangible assets) over local firms in order to face higher transactional costs and therefore to succeed in foreign markets. In a similar vein, J. Dunning (1974, 1978, 1981) provided arguably the most exhaustive framework called the eclectic theory – better known as the OLI theory with ‘O’ for ownership, ‘L’ for location and ‘I’ for internalization. Accordingly, firms undertake FDI when meeting the three above conditions. This approach has emerged as the central paradigm during the 1980s and 1990s, and is still dominant in the literature on International Business.

However, the rise of multinational firms from developing countries pointed some limitations in the explanatory capacity of the OLI theory, due in particular to its static aspect. J. Dunning (1981) further proposed the investment development path hypothesis (hereinafter IDP)[7] which

[7] Later J.H. Dunning and R. Narula (1996) introduced some refinement by incorporating dynamic interaction between variables.

asserts a causal connection between outward investment and the country's relative stage of development seized by its gross national product per capita – both variables being normalised by the size of the country population. He postulates that higher income levels of a country are associated with higher levels of OFDI. Thanks to its focus on the idiosyncratic and contextual aspects of the home country along with its dynamic aspect, this approach provides a framework better suited to the ongoing phenomenon. It has been extensively used and tested on numerous countries.

More recently, the rise of a 'second wave' of multinational companies from large emerging economies (e.g. BRICs) has come under closer scrutiny by academics. Of course, the current stage of the world economy is a tremendous force that greatly affects the activities of multinational firms in general (Dunning 2005). C. Bartlett and S. Ghoshal (2000) highlight that the firms from developing countries may seize the opportunity to move overseas even if they do not necessarily have peculiar advantages based on superior technology or competitive products.

Also, many authors such as K. Sauvant (2005), S. Mathews (2006), A. Goldstein (2007), P. Buckley *et al*. (2007), and P. Gammeltoft (2008) estimate that, in order to address their lack of specific competitive advantages, which was a prerequisite in conventional explanations[8], the firms from emerging economies when they invest abroad take advantage of the new context (relentless globalisation) or their home-country characteristics.

Furthermore, in reaction to conventional theories prone to explain extensively motivations of multinational companies by incentives in the host countries, more scholars put emphasis on the characteristics of the home-country context (Buckley *et al*. 2007; Matthews 2006; Morck *et al.* 2008; Dunning 2008).

In quite a reverse perspective, J.H. Dunning (2008) sees the home-country common advantage as the main driver for emerging country's firms. He also adopts together with other social scientists a more systematic approach (push versus pull factors) to categorize the constraints and incentives related to the investment decisions without opposing the conventional approach. P. Tolentino (2008), estimates that firms from emerging economies have rarely ownership advantages to insure success in their investments abroad, and that features of their home country, in terms of institutional settings and cultural context, are particularly relevant and worth considering when one regards their related behaviour and choices[9].

[8] Besides, they were focused on 'first-movers' of European and North-American multinational companies.

[9] More broadly, the current institutional literature emphasizes the institution requirements as preconditions for economic growth.

S. Matthews (2006) underlines the strategic goal of the latecomer multinationals: catch-up with the incumbent multinationals, and move as fast as possible from imitation to innovation. Three processes are mobilised by these companies – *i.e.* the linkage or interconnections with the global value chains, the leverage of their capabilities, and through repeated practice they get the appropriate learning.

A number of additional points have been raised in the literature. For example, 'psychic distance' introduced by the so-called Uppsala model (Johanson and Vahlne, 1977) can be a useful concept when studying multinationals from emerging economies. Indeed, it encompasses the cultural, linguistic, institutional and developmental levels and other gaps between a firm's country of origin and the countries to which it may internationalise.

Actually, among emerging economies, China and India are getting the lion's share of the academic interest. If the contribution for the Chinese side is to date more substantial, some Indian scholars are taking a fresh view on the Indian ongoing experience.

The academic view of Chinese OFDI bound to developed countries and its underlying rationale are not uniform. Indeed, on the one hand, the rise in acquisitions by Chinese firms across Europe validates the Dunning's theory (1998) of asset-seeking motivation and the observations made by P. Deng (2004, 2007). However, the pace remains slow, presumably because of the sizeable absorptive capabilities that Chinese companies need, before they become efficient in their undertakings. Another limitation is the frequent need to keep the acquired firm's managerial staff in place: that involves high costs, especially when compared to current Chinese standards. In this regard, H. Rui and G. Yip (2008) see the foreign acquisitions made by Chinese firms as a mean to acquire 'strategic capabilities' to offset competitive disadvantages and to leverage ownership advantages.

On the other hand, J. Zhan (1995) and P. Buckley *et al.* (2007) have pointed the predominance of market-seeking motivations of Chinese and Indian firms in Europe. J. Zhan advances that this characteristic is somehow the logical consequence of China's export oriented policy over the past years with FDI following their export channels to expand market shares. P. Buckley *et al.* pursue a little different line of reasoning: since market-seeking strategies are often correlated positively with large markets in developed countries, the engagements of Chinese multinationals may be driven by market-seeking motivations.

On the opposite, the IDP hypothesis is shared by most economists. X. Liu *et al.* (2005) investigate the relation between China's development path and its outward FDI. They bring convincing evidence that the pattern followed by Chinese outward FDI has so far been largely consistent with the prescriptions of the Dunning's hypothesis.

J. Child and S. Rodrigues (2005) use a broader approach on China's OFDI. To better portray the patterns and the internationalization motives of domestic companies, the authors place them at the interplay between globalisation and the domestic socio-economic settings, altogether subsumed in a political economy framework. They connect 'inward' and 'outward' internationalisation as one single process. Moreover, by taking into account the very nature of the Chinese economy, the authors bring in alternative views on the push factor side. They argue that initially disadvantaged firms from countries like China can acquire the necessary assets to offset these drawbacks through partnerships arranged with foreign multinationals, either in their home country ('inward internationalization'), or abroad ('outward internationalization').

P. Nolan (2001) and F. Wu (2005) have also underlined the importance of the push factors in the Chinese context, particularly the minus side (harsh general conditions, severe competition and overcapacity, and heavy-handed interventionism by the State).

In the case of India, J. Pradhan (2007) and other Indian scholars (Nagaraj 2006, Nayyar 2007) have comprehensively documented the emerging phenomenon of outward FDI and multinational firms. They give an in-depth understanding with the major characteristics of the whole phenomenon, *i.e.* the predominance of developed countries as recipient ones (particularly Europe), the relatively narrow sector distribution and the incline for takeovers (including hostile bids).

In conclusion, two general hypotheses largely shared by scholars can be drawn from the existing academic literature.

Firstly, the general theory seems still appropriate: put simply, OFDI is explained in terms of China and India's stage of development, and the IDP hypothesis is a valid tool, as well as the increased context of globalisation.

Secondly, due to the growing awareness that FDI from China and India are, in some respect, unique, it is postulated that the formal and informal set of institutions in these countries (presumably emerging countries in general) shape the strategy and the performance of their enterprises – be at the domestic or the international level – and have to be taken in consideration.

Section 2. THE EMPIRICAL ANALYSIS AND DATA DESCRIPTION: A FIRM'S LEVEL PERSPECTIVE

2.1 The background: China and India's FDI in a global perspective

Worldwide data on FDI which are regularly released by the UNCTAD show that outward FDI from China and India are still low in volume and value when compared with the global picture (table 1). Note that it's a relatively new phenomenon with more than half of the operations being carried out since 2002.

Table 1. Stocks of OFDI from mainland China, Hong Kong SAR, and India – 1990-2006 (billions of dollars)

	1990	**1995**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
World	1,763	2,901	6,148	6,319	6,866	8,197	9,732	10,672	12,474	15,602
Developing countries	133	311	817	807	849	859	1,036	1,274	1,600	2,288
Mainland China	2,5	16	28	33	35	37	39	46	75	96
Hong Kong SAR	12	79	388	352	370	336	406	470	689	1,026
India	0.3	0.5	1.9	2.1	2.5	5	6.6	9.6	13	29

Source: UNCTAD 2008

By the end of 2007, India, China and the China's Special Administrative Region (SAR) of Hong Kong respectively held 0.2%, 0.6% and 6.6% of FDI's world stocks, and 1.3%, 4.2% and 45% of the stockpile of developing countries. So far, Chinese investments are higher than Indian ones: 96 billion of dollars – 1,122 billion if FDI from Hong Kong SAR is taken into consideration as it is the place that attracts the highest amount of Chinese OFDI with a substantial part returning to mainland China through round-tripping route or being provisionally invested into offshore financial centres[10] – versus 29 billion of dollars for India in 2007 (table 1).

[10] Y. Huang (2008) documents this point at a micro-level: "Until 2005, many of the high-tech and so-called strategic industries were declared off-limits to domestic private entry in China. As a result, indigenous private

Table 2 conspicuously shows that the pace is gaining momentum for Chinese and Indian OFDI since 2004 – it is particularly impressive for Indian flows between 2005 and 2006 – whereas the discernible trend for the Hong Kong SAR outflows is more problematic during the same time period.

Table 2. FDI Outflows from China, Hong Kong, and India, 2000-2007 (billions of dollars)

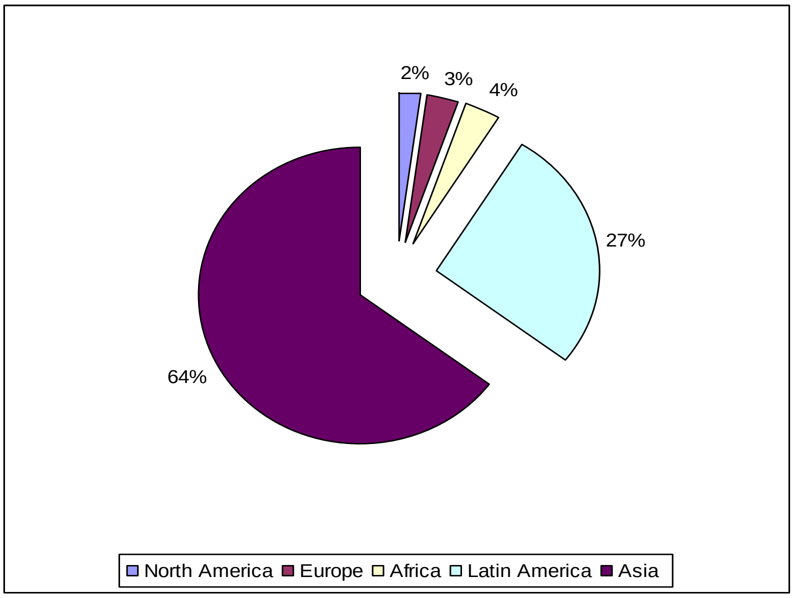
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Mainland China	1	6.9	2.7	2.9	5.5	12.3	21.2	22.5
Hong Kong SAR	59.4	11.3	17.7	5.5	45.7	27.2	44.9	53.2
India	0.3	0.8	0.4	0.9	2.2	2.5	12.8	13.6

Source: UNCTAD 2008

If FDI outflows and inflows for India are relatively balanced, China tells a different story with inflows much greater than outflows: in 2007, if China's inward FDI flows amounted to 83.5 billions of dollars, outward FDI flows for the same period had a total of 22.5 billions of dollars. Of course, the opening and the integration of the Indian economy to the global economy is more recent – 1990s versus the end of the 1970s for China.

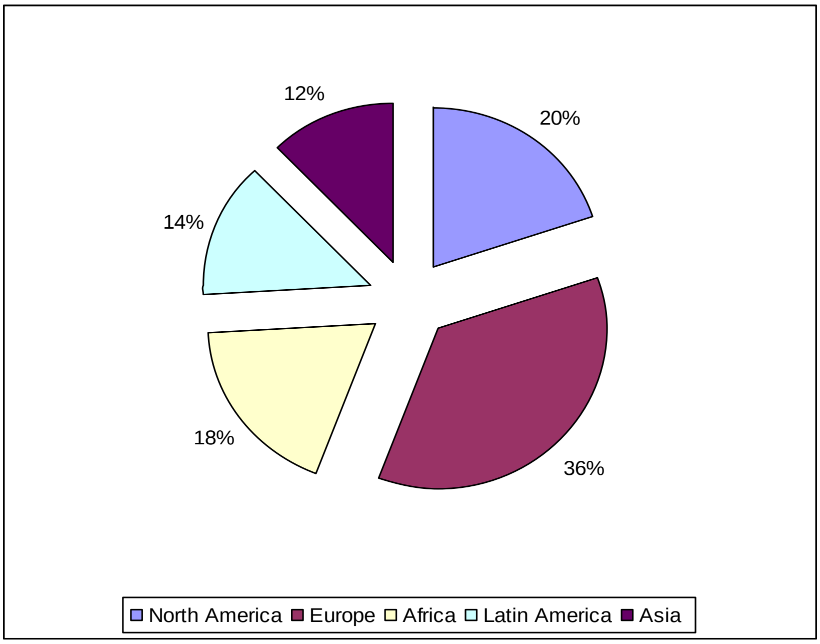
entrepreneurs could grow their business only via foreign registration, particularly in Hong Kong" (Lenovo case is particularly illustrative).

Figure 1a. Chinese OFDI stocks by region, December 2006 (billions of dollars)



Source: Chinese Ministry of Trade

Figure 1b. Indian OFDI stocks by region, April 2006 (billions of dollars)



Source: Reserve Bank of India

Another difference lies in the fact that Indian firms mainly invest in developed countries while Chinese firms are more prone to elicit the developing ones. As a result, Europe is the first destination for Indian FDI[11] followed by North America, while Asia and Latin America are the primary goals for Chinese firms whereas Europe gets a tiny part (figures 1a and 1b).

In summary, if macroeconomic data on Chinese and Indian OFDI are worthwhile when one wants to sketch out the general trend, they obscure relevant details which matter both for the analysis of the nature and behaviour of the economic agents, and for drawing the right policy implications. Actually, on the one hand, outflows are overestimated because of round-tripping investments in both cases (China - Hong Kong SAR – China, and India - Mauritius - India), or flows following circuitous route through tax havens (Virgin Islands, Cayman Islands or Bermuda). On the other hand, outflows are underestimated because many of them are financed from funds raised abroad – *i.e.* reinvestment of earnings, loans from the parent company or new equity raised through financial markets in host countries or on international markets – all of this combined and not usually taken into consideration by official data. Last, Chinese and Indian firms in their own right often discount the amounts they invest abroad to avoid controls of exchange (until March 2006 in China), to pay taxes, and in some cases to play off anticipated critics of 'unfair competition' as a consequence of their arrival.

2.2 Data collection

In order to analyse the investment carried out by Chinese and Indian enterprises across Europe since the early 1980s[12], we constructed our own data base while referring to multiple sources[13]. Additional information was gleaned from annual corporate reports and press releases; besides, information was collected through selected face-to-face interviews in order to get more detail on some critical points[14].

Our aim was to collect significant (real or potential) operations undertaken across Europe. Two modes of entry stand for the bulk of these ventures: the setting up of subsidiaries on one side (also called *greenfield* investments), and the acquisitions (or controlling interests)[15] of

[11] In reality the Federation of Russia accounts for nearly 70% of the current stock far head the United Kingdom.
[12] Actually, the data span the period from 1980 to 2007.
[13] From investment promotion agencies, Thomson Reuters database, and Chinese and Indian embassies in Europe.
[14] The authors have conducted them across Europe during the second half of 2007 through a structured questionnaire to match up available information or to get new one.
[15] For the sake of clarity: acquisition is a transaction that gives the acquiring firm a majority stake – *i.e.* more than 50% – whereas controlling interests range from 10% up to less (or equal to) than 50%. It has to be reminded that according to the current international standard, the proportion of equity ownership needed for an investment to qualify officially as 'direct' is 10%.

companies on the other. Other modes such as joint ventures, expanding of existing affiliates through diverse channels (or even closures) were not significantly recorded in the dataset. Beyond the tedious task in collecting relevant raw data at this level, we also encountered some methodological difficulties related to the service sector with numerous small or very small premises (Chinese restaurants or 'mom and pop' shops are illustrative). To address this point, we put a cut-off at 10 employees; we also put aside the majority of the premises of the Chinese retail chains[16], and we did the same for the representative offices of the Chinese companies of maritime transport.

2.3 The main empirical findings

For the sake of clarity, we will clarify the main findings we draw from the dataset according to relevant topics about the behaviour of Chinese and Indian companies in Europe.

2.3.1 Historical differentiation

If the arrival of Indian companies and Chinese ones (essentially from Hong Kong) date back to the 1960s, a first tide emerged in the 1980s. Interestingly, both sub-groups have experimented different waves of arrival reflecting changing conditions in their home country. Besides, the arrival of companies from Hong Kong in the 1980s has been a source of fresh experience and knowledge for companies originated from mainland China and willing to invest in Europe. Note that the former were generally controlled by families from 'ethnic origin' and, in some cases, with high family involvement in management. Their advantage laid in the high expertise of the 'home country' in specific business service and its openness to trade (Hong Kong was a true market-oriented economy). Half of all acquisitions occurred in the United Kingdom because of historical and cultural ties, and the British citizenship of their founders was of great help.

Indian firms for their part have experimented two distinct waves after inroads made in Switzerland and Germany in the early 1960s (Pradhan 2008). From the late 1980s to the early 1990s, several takeovers conducted by state-owned enterprises (SOEs) occurred in Europe. In parallel, Indian groups acquired physical assets in Central and Eastern Europe resulting from the privatisation sale of plants. In the early 2000s, took place a second flood driven by numerous acquisitions made by pharmaceutical companies across Europe, and the set-up of

[16] Such as the *Esprit* clothes chain, the *Agatha* jewelleries or the *Marionnaud* perfumeries.

representative offices and development centres by IT firms aiming to enlarge their customer bases in Europe.

Companies from mainland China entered Europe during the 1980s: this first stride was made of large and quintessential SOEs in strategic sectors such as finance, shipping or specialized services. A second surge emerged in the 1990s and swelled in the early 2000s, following the government policy to promote and back OFDI ('go outside'). It was characterised by diverse ownership structures – private ownership, local government ownership, and foreign participation.

Finding 1. *The arrival of Chinese and Indian firms in Europe is linked to home country constraints and incentives (regulatory framework affecting OFDI, government commitment to support domestic companies when they embark on internationalization through FDI).*

2.3.2 Geographic pattern

Germany, France and the United Kingdom are the first recipient countries as well for Chinese investment flows in Europe (including those from Hong Kong) as for Indian ones. Such a trend concerns both organic growth and the acquisition route. Two potential explanations can be advanced: on the one hand, they are the EU's largest countries and markets[17] and, on the other hand, they are the largest European trade partners of China and India: that shows that FDI really supports trade and services-oriented investments. A closer scrutiny unveils that Germany is the top target country, in Europe, for the investments and acquisitions made by Chinese companies whereas the United Kingdom is the first country for takeovers conducted by Indian companies. 'Psychic distance' and ethnic relatedness along with opportunities seem to be of most importance. German medium-sized companies with specific and valuable technical know-how and customer bases are of particularly interest for both Asian investors.

Central European countries (Hungary, Romania, the Czech Republic, Poland and Bulgaria) follow these core countries. Their attractiveness lies in wages which are 30 per cent lower than the average prevailing in the older EU members[18]. Such advantage is critical for labour-intensive activities as the assembly of household appliances, consumer electronics or transport equipment.

[17] This finding is consistent with the empirical results of the 'new economic geography' (Markusen & Meskus, 2002).
[18] See UNCTAD/WIR06.

Finding 2. *Large European countries are the most favoured destinations due to their size and their status of major trade partners with China and India.*

2.3.3 Underlying motivations

For Indian and Chinese investors targeting the European area, access to the market is their first motivation. For the Chinese side, this dimension includes trade-support thanks to many sales offices and trade representatives which primary motivation is to facilitate and promote the influx of 'made-in-China' products into Europe. They are also dedicated to various services to end-customers, a better assessment of local preferences and tastes, a faster satisfaction of needs coupled with a better after-sales service[19].

Indian companies implemented in Europe, particularly in sectors such as software and IT-enabled services, and pharmaceuticals (generics) – which represent the lion's share of their sector distribution here – are basically driven by market-access. Indeed, the former need to have a local presence in their overseas market for effective exports of software and related services.

If the asset-seeking motivation (management capabilities, technological know-how, marketing expertise and brand awareness) takes the second place for both investors, it is quite substantial for Chinese companies whereas it is far behind for Indian ones. As expected, acquisitions is the main route to tap intangible assets, but organic expansion is also used to set up development centres and design institutes within/or close to technological clusters or scientific parks in recipient countries. Both modes of entry have their advantages and drawbacks. *Greenfield* investment and wholly-owned subsidiaries allow a complete control on activities, but it is a slower route to be operational in a distant cognitive context. The acquisitions permit to rapidly tap specific assets, particularly intangible ones, but they include also disadvantages when the foreign company has to run the acquired company (liability of foreigness). If some Chinese firms[20] are displaying a keen interest to set up research and development (R&D) activities in Europe, their subsidiaries are mostly 'observation outposts' – bring back to the parent company new sources of knowledge – whereas 'market colonizers' – *i.e.* adapt products to local customers and get experience and learning – are to date scarce. For example, the Chinese telecom equipment manufacturers Huwaei and ZTE have set up

[19] If one takes into account the many retail outlets of chain stores, like Esprit or the Watson Group, and the reception or representative offices of shipping companies, such as China Ocean Shipping Co. or China Shipping Container Lines Co., the whole picture is even more suggestive.

[20] Notably TCL, Wanxiang and ZTE.

R&D facilities, just opposite from Ericsson's head office in the Kista scientific park close to Stockholm[21], whereas Hisense also has established a R&D centre close to Philips' headquarters in Eindhoven (The Netherlands).

Indian companies are also looking for specific assets when locating in Europe, but in the majority of cases this motivation is associated with market-access motivations. For example, when Wipro Technologies took the decision to locate in France, they chose scientific parks (in the South – Biot – and in the West – Rennes), in order to get direct connections and capture technological externalities, but also to provide business services to large European companies.

Finding 3. *Access to the market is before the asset-seeking motive as the main driver of the arrival of Chinese and Indian firms in Europe.*

[21] Interestingly, Huawei set up its R&D centre in 2001, when the Swedish company was downsizing, and therefore a lot of human resources were available. Similarly, it set up an R&D centre in 2007 in Brittany (France) where and when Alcatel-Lucent was closing its R&D facilities.

The different features of Chinese and Indian investments on a global and European level have been summed up in table 3.

Table 3. Characteristics of Chinese and Indian OFDI at a macro-level and micro-level

	China	**India**
Macro-level:		
Global (billions of dollars)	96 (stock 2007) 22 (outflows 2007)	29 (stock 2007) 13 (outflows 2007)
Europe (%)	3 %	33 %
Trend	Upward since 2001	Upward since 2004
Geographic distribution	First, developing countries	First, developed countries (particularly Europe)
Governance ownership	Prominently, public and collective, but the share of private firms is increasing	Private companies, essentially family-controlled
Micro-level (Europe):		
History	First, firms from Hong Kong (1980s). Afterwards, 2 waves: 1/ SOEs (1990s) 2/ firms with diverse structures of ownership (2000s)	Inroads: early 1960s Afterwards, 2 waves (late 1980s, 2000s)
Geographic pattern	Main recipient: largest countries	Main recipient: largest countries (UK stand out)
Motivations	Market-seeking (trade-support); and asset-seeking	Basically, market-seeking (asset-seeking is far behind)

2.4 Interpreting the evidence

The question to consider here is whether the above findings fit the existing theories and are consistent with the main hypotheses? A *prima facie* evidence of the European situation look rather more nuanced than the existing academic literature permits to anticipate. Even in its infancy, the presence in Europe of Chinese companies, either from Hong Kong SAR or mainland China, or Indian ones displays a complex picture. No ‘one-size-fits-all’ approach seems able to encapsulate the current aspects along with the ongoing trends.

The Dunning's ILO and IDP hypotheses are major candidates for our objective. However, the ILO assumption has some basic limitations, as it is explicitly founded on prior competitive advantage, and is historically grounded in the pre-globalisation era. The IDP hypothesis seems more attractive, but it does not take into account the whole effect of the overarching phenomenon with different modes and motivations.

'Psychic distance' seems to matter in some cases, particularly at explaining failures of Chinese investments when compared to Indian companies, even whether the gradual process can be better explained by common sense. Indeed, Chinese companies possess little of the crucial managerial resources and capabilities required to run foreign wholly-owned affiliates or to integrate acquisitions when compared to Indian companies.

We also found some evidence of the assertions made by Child and Rodrigues. Up to a point, 'inward internationalization', through joint ventures and other partnerships in mainland China, can be an alternative route to get the needed assets, but also a prerequisite stage to buy out the European partner, and consequently acquire facilities, brands and skills in Europe. On the contrary, the successful experience of Indian drug companies in a sheltered economy – thanks to the *Patent Act* of 1970 – provides convincing evidence of endogenous development for developing countries. It somehow stresses the importance of 'special institutions' that accelerate and facilitate the catch-up process (Mathews 2006).

To sum up, two competitive trends and correlative theories are at play: on one side, export-support FDI versus asset-seeking FDI, and on the other, a gradual approach based on *greenfield* and wholly-owned subsidiaries, which mostly represents the Uppsala school, *versus* a faster and riskier move, based on takeovers, which is supported by Mathews, Deng or, to a lesser extent, Child and Rodrigues. Both trends have to be viewed not as competing but rather complementary explanations, and therefore, no new approach or theory seems required to characterise and analyse the arrival of Chinese and Indian companies in Europe.

Section 3. THE IMPACTS OF CHINESE AND INDIAN FDI ON EUROPEAN COUNTRIES

This topic is of particular importance for policy-makers and public sentiment across Europe – it's also of great interest for social scientists – as several and contrasting effects might be expected. But, to our knowledge, no assessment has been conducted at the European level. At least three reasons can be advanced: a phenomenon still in its early stage, the significant delay required to properly grasp the whole consequences, and the relatively low amount of operations under consideration. Furthermore, these impacts may be quite different according to the European countries, and to the distinct groups inside each country (producers, consumers). Notwithstanding, we took the initiative to go beyond the common explanation which is largely anecdotal, by resorting to an appropriate analytical tool.

3.1. An analytic framework

To think about the issue, we started with the scheme put forward by R. Kaplinsky and D. Messner (2008) whose purpose was a little bit different, namely to capture the different interactions of FDI from China and India (dubbed 'Asian drivers') and the global economy, with a focus on some developing countries in Africa, and their resulting impacts.

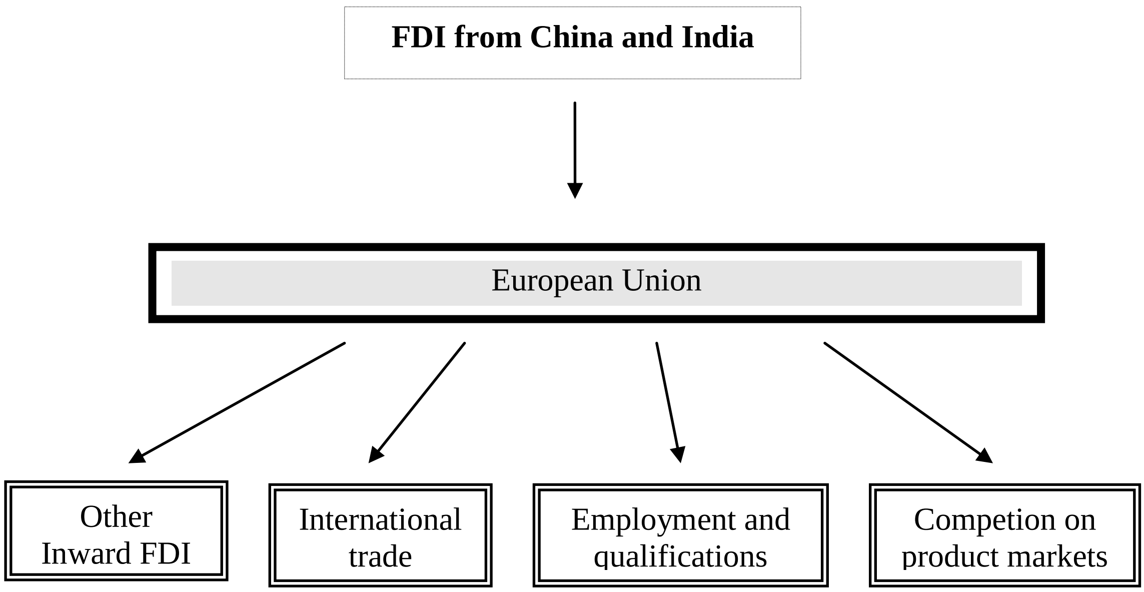
Here, our goal is less ambitious, with just one channel of interaction – FDI – along with only individual recipient economies, which are mature ones (European countries). In this respect, we restricted ourselves to two sets of impacts, namely the complementary or the competitive impacts. Complementary impacts, which meaning is quite intelligible, are actually increasing effects already at play, while competitive impacts are rather challenging the previous ones. In both cases, we didn't presume that the consequences are positive or negative for recipient economies, but the complementary impacts are generally viewed as positive, or at least neutral, whereas the competitive ones are more negative in their nature.

What we tentatively have done in what follows is: first, through the lens of our findings, we identified the diverse impacts; and, second, we tentatively connected the various effects.

Inside Europe, we picked up four different economic domains that could be significantly impinged by Chinese and Indian FDI – i/ other inward FDI ii/ international trade iii/ employment and qualifications iv/ competition on product markets. We put aside such aspects as environment and security concerns (considered as central animating issues nowadays) because they are much more complex to tackle. Of course, other domains could be affected, but not in first instance in our opinion. For example, the improvement of consumer welfare had rather to be viewed as an outcome of increased competition (downward prices) or of enlarged imports (increase of the variety of goods available resulting in more choice). Likewise, the innovation at the corporate level is related to the competition in the related industry than a pure autonomous phenomenon.

Figure 2 articulates the different aspects.

Figure 2. The general scheme



If the representation, given by figure 2, is suited to analytical needs, it does not reflect the real world as each domain is generally intertwined and therefore the effects much more difficult to disentangle. As a matter of fact, the increased competition observed in Europe, due to the arrival of Chinese and Indian enterprises, may produce indirect effects such as layoffs or increased imports from the home country. Thereafter, table 4 gathers and classifies the various effects that are already observable.

Table 4. Complementary or competitive effects on European countries resulting directly from the arrival of Chinese and Indian companies

Domains affected	Nature of impacts	Impacts and causal connections
FDI	*complementary*	FDI flows from China (plus investments by 'sovereign wealth funds') and India are a fresh source of investment for European economies
	competitive	They compete with other countries, particularly developing ones, willing to invest in Europe (crowding effect)
International trade	*complementary*	FDI (Chinese one in particular) supports and facilitates the import of cheap consumer or intermediate goods from China
	competitive	These imports of cheap goods can displace local producers, or service providers (maritime transport companies in the case of China)
Employment and Qualifications	*complementary*	Extra jobs (qualified occupations in many cases). Secured jobs when European firms in financial distress or declared bankrupt are took over
	competitive	Layoffs or job reductions resulting from the closing or production relocation, following a takeover by a Chinese or an Indian company
Competition on product markets	*complementary*	Accelerate the restructuration and consolidation of European industries. Spurt process and product innovation
	competitive	An over-competition based on price can be detrimental for incumbent firms or even industries

3.2 Discussion

Let us introduce some comments and discussion on table 4.

First of all, the possible economic effects of Chinese and Indian investments are somehow linked to the importance of their presence in European countries or sub-regions. Indeed, it is reasonable to presume that the impacts might be more significant in countries where their affiliates are the more numerous (UK, Germany and France); however, these countries are the largest ones, and somewhere, the effects are diluted, except when the investment is made in a depress region.

The effects can also change according to sectors, and complementary versus competitive impacts are potentially significant at this level. For example, by targeting the machine-tools sector in Germany, both Indian and Chinese companies can raise economic issues and stir political concerns. Last, the possible effects are also dependent of the entry mode: indeed, buyouts have not the same result as *greenfield* investments or the set-up of joint ventures. The former can result in a loss of control over strategic assets, of asset-stripping or the sharp reduction in the workforce.

Second, it can readily be seen that the main features of Chinese and Indian enterprises in Europe are not similar. Hence, the possible effects might be different, particularly in the international trade domain with a very contrasted figure: on the one hand, the EU has a swelling trade deficit with China (from -49 in 2000 to -160 billions of euros in 2007) and, on the other, it runs a positive balance of trade with India (from 1 to 3 billions euros for the same period). And, as far as China is considered, the trend unveils a competitive aspect when Chinese companies are climbing up the value ladder when they set up European affiliates to get direct contact with local consumers or to venture into marketing activities. More generally, the distinct figure of Indian-EU and Chinese-EU trade exchanges generate distinct economic impacts on European economies with different policy implications. In turn, these 'trade barriers' can enhance the arrival of Chinese companies in Europe.

Third, we put emphasis on impacts directly affecting individual European countries, but some indirect effects are also at play and, although still of minor importance, they could become more significant in the future. By taking into consideration the US economy – because it is still the prominent driver of the global economy – as a host country alternative for Europe when considering Chinese and Indian OFDI (currency change effect), it could yield some several side effects.

Four, we have downplayed strategic implications in a context of permissive liberalisation for FDI. But things can change. By way of illustration, just have a look at the emerging of 'sovereign wealth funds'. If they have contributed to stabilize an US financial system in complete disarray – during the second half of 2008 when the financial crisis was quite out of control – they are also an alternative source of financing for FDI. But their geographic origin – basically countries with significant forex reserves, *i.e.* China, Russian Federation and the oil-rich Gulf states – they have reintroduced political and strategic considerations to be taken into account in the FDI domain.

To summary, one has to bear in mind the contingent aspect of all these effects on the European economies. If the general scheme previously used is valid for the time period under consideration, it can evolve significantly in the future.

PERSPECTIVES AND POLICY IMPLICATIONS

Indian and Chinese companies, as they are at their early stage of their arrival in Europe, would presumably enlarge their presence because they are aspiring to become significant global players in their respective industries. Moreover, investment promotion agencies across Europe are establishing (or expanding) representative offices in both countries to attract local investors. However, the context would be slightly different. What is at stake here is the choice made by many companies in China and India towards low-cost production. Unquestionably, it has been the main engine of China's economic miracle. More generally, as inputs, labour and energy costs, and protection for employees and environment all got tougher (notwithstanding currency appreciation for China), the set-up of manufacturing facilities across Europe might be a real option for Chinese and Indian investors in the coming years.

Policy implications resulting from both investors may be distinct particularly in two sensitive areas: international trade and the role played by the Chinese 'sovereign wealth fund' (SWF). These issues are commonly addressed by the European Commission. Obviously, the steady increased of the trade deficit with China bear economic and political consequences. This dynamic has already put severe pressure on a number of European industries. The European Commission, which is in charge of the trade relationships between the EU members and the world, resorts to antidumping measures to protect European producers against 'unfair' practices. But consensus here is not easy to reach due to contrasting point of views at national level.

OFDI financed by SWFs are viewed as controversial, due to close link with their home-country government. Indeed, it's questionable and requires monitoring. So far, the stakes detained in Europe by the China Investment Corp., the Chinese SWF[22], are tiny, and do not exhibit any activism contrary to hedge funds or private equity-funds, and they are long-run

[22] This fund has been created in 2007; its amount is estimated to about 200 billion of dollars, with about 90 billion of dollars to be spent on assets abroad; furthermore, the State Administration of Foreign Exchange is trying to establish itself as a sovereign investor.

committed. However, it makes good economic sense to look after its behaviour in some detail, particularly with the consequences of the *subprime mortgage crisis* initiated in the United States, that will be severe in its effects and long-lasting duration.

The policy followed by the European Commission is to ensure reciprocity on these different issues. But such approach is particularly inefficient in terms of close outcomes, as India and China are still developing countries, even if they are transforming their domestic context rapidly.

At a national level, there is no economic rationale or supporting evidence to reverse the current policy to welcome these investments. For example, as far as employment and qualifications are concerned, there is no clue of negative impacts. So, sectors such as the Chinese telecom equipment one or the Indian software and IT-enabled sector, which have grounded their entrance and further development in Europe, through *de novo* investments, have created numerous jobs with medium and high qualifications[23]. This general picture could be different if mergers-and-acquisitions prevail in the future, as they usually deprive the job toll with, at times, relocation of manufacturing lines in the home country. Surprisingly, the opposite prevails, in some cases, with jobs being kept on or even extra jobs[24].

In conclusion, further field research on China and India's outbound FDI in general, and towards Europe in particular, are worth considering to getting an up-to date view of a phenomenon still in its early stage both to address academic considerations, and also to flesh out policy implications.

[23] For example, *Huawei* now has 2,000 people on the payroll in its European subsidiaries.

[24] By way of illustration, *Nanjing Automobile* relocated its production of *MG Rover* cars in China before moving back two years latter to the UK.

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