OUTWARD DIRECT INVESTMENT, THE FIVE-YEARS PLAN AND A NEW GROWTH MODEL IN CHINA: A COMPARATIVE ANALYSIS WITH EUROPE

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ABSTRACT

World trade and financial dynamics have definitely been altered in the 2008 global financial crisis aftermath. Heavily burdened developed countries, such as Greece or Spain, have experienced a sharp reduction in their external deficits after years of overspending and high indebtedness. A model based on mounting debts could not last forever so those countries were forced to embrace structural reforms during the crisis period which started in 2008-10.

Wages, exchange rates and overall price levels have gone down significantly in South European countries such as Spain. This just mentioned adjustment has consequently reduced their protracted trade deficit while attracting foreign savings in the form of FDI. But whose savings? China did realize that surplus accumulation, and debt securities purchases, could not grow endlessly neither. So the Thirteenth Chinese Five Years Plan implies that a domestic consumption-oriented economy, lifting barriers in the tertiary industry and encourage outward direct investments, all are indispensable conditions to rebalance the world economy starting from China.

KEY WORDS: Chinese Outward Direct Investment (ODI), Five-Years Plan, rebalancing, European Union, Spain

PART I – INTRODUCTION

Our world is rapidly changing and not only due to those negative consequences derived from the worst financial crisis ever occurred since 1929. We all know that the sustainability of welfare states in Southern European countries such as Greece, Portugal or Spain has been put into deep questioning after 2008. But, in opposition to this, some other economies are experiencing an historical development process (like China and Far-East Asia[1]).

Chinese annual GDP has swelled by 8.6%, on average, for the period 2008-2014[2]. However, the Eurozone has been suffering from a protracted economic downturn, which includes three almost consecutive recessions in 2009, 2012 and 2013[3]. Some highly leveraged economies in South Europe have required from external assistance to bail-out banks, public finances or both. Such a deleveraging process constitutes the main reason behind declining salaries, lower price levels, unbearable unemployment rates, currency depreciation, lesser imports and higher exports registered by those European countries in recent times. Southern European nations still need capital to ensure a sustainable economic growth and re-balance their battered finances. But the aforementioned domestic adjustment, only by means of either lowering salaries or promoting exports, might not be enough to achieve such an ambitious goal. Outward Direct Investment (ODI), from thrifty Asian economies towards those heavily indebted European countries, have become crucial to re-balance the world economy as well.

The just above mentioned "re-balancing" is already happening in both Spain and China. After 2008, trade and investment flows between the two countries have changed dramatically. On one hand, Spain has reduced its trade deficit while continuing to lure savings in the form of direct investments from China. But, on the other hand, China is shifting from a model of exports-savings to another through which it will promote domestic consumption and investments in real industries such as food, transport or tourism. To this regard, we must note that overall Chinese investments in Spain have been multiplied by fifty-fold since 2008.

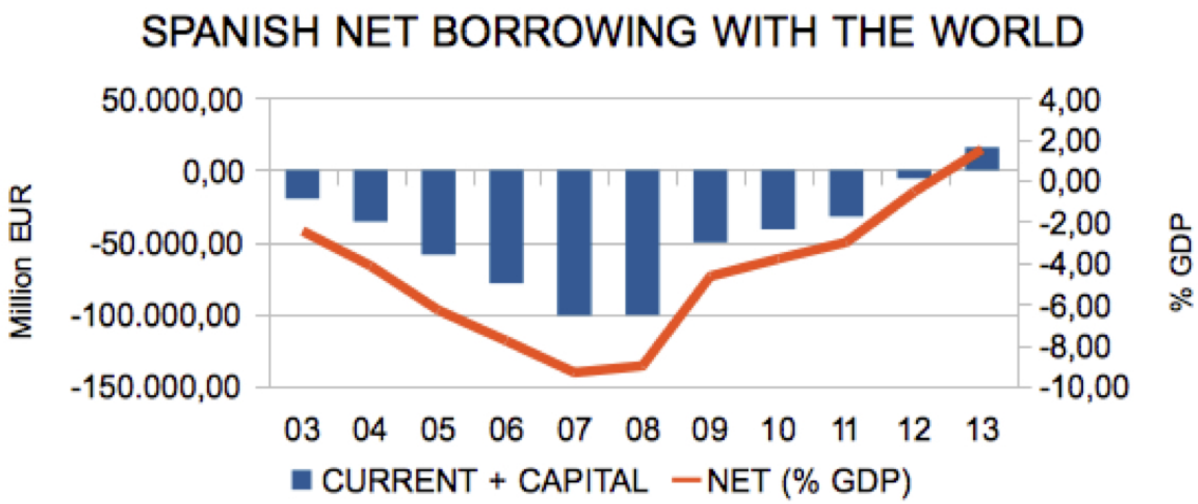
Through Part II and III, we are intended to define a new pattern of Sino-Spanish commercial flows by comparison with other world economies. We will also consider the main variables behind those just aforementioned changes in bilateral commercial flows before and after 2008. And, finally, we will summarize the most significant implications of those findings in our conclusions (Part IV). Previous research documents, such as *Chinese Investment in Europe* (ESADE Business School, 2014) alongside other white papers published by the Spanish ICEX, have been proved really helpful to complete our research[4].

Our paper just intends to contrast the existence of a new phenomenon, its main causes and immediate consequences. Further research to test our conclusions may definitely be required since the referenced period is too short (starting in 1995 but mainly focused on 2008 thereafter). However, not a few paradigms have been altered in the aftermath of this financial crisis. China is not that thrifty and exporting-oriented economy which we used to know in the past. And neither do Spanish people can indefinitely rely on mounting debts to consume as they have been doing until 2008. China is actually shifting to a more domestic consumption, and services, oriented economy[5], while Spanish exports already represent more that 30% of national GDP[6]. Therefore, our main working hypothesis is that sharp trade and investment fluctuations may just be the primary hint of a greater structural transformation implicitly acknowledged by this 13th Five-Years Plan which continues to take shape since at least 2008.

PART II - TRADE AND COMMERCIAL FLOWS BETWEEN CHINA AND SPAIN: AN HISTORICAL REVIEW

Throughout this chapter we are going to compare commercial flows between China, Spain and their economic exchanges with the whole world. A comprehensive analysis of these records will be crucial to contextualize any change in commercial and investment trends since 2008. Is the chronic Spanish trade deficit behind a shifting from one model based on imports-consumption to another more intensive in savings[7], either domestic or Foreign Direct Investments (FDI), and exports? Can trade surpluses, and accumulated savings, explain why China is shifting to a more domestic consumption-oriented economy? Is there any relationship between this transition, from an exhausted model to a new one, and the recent increase of Chinese Outward Direct Investment (ODI[8])? Our answer to these questions is that both external deficits and surpluses accumulated during all over the past two decades lay behind an inflection point which clearly took place in 2008.

Figure 1 - Spanish internal adjustment through X-M, and foreign capital inflows, began in 2007-08.



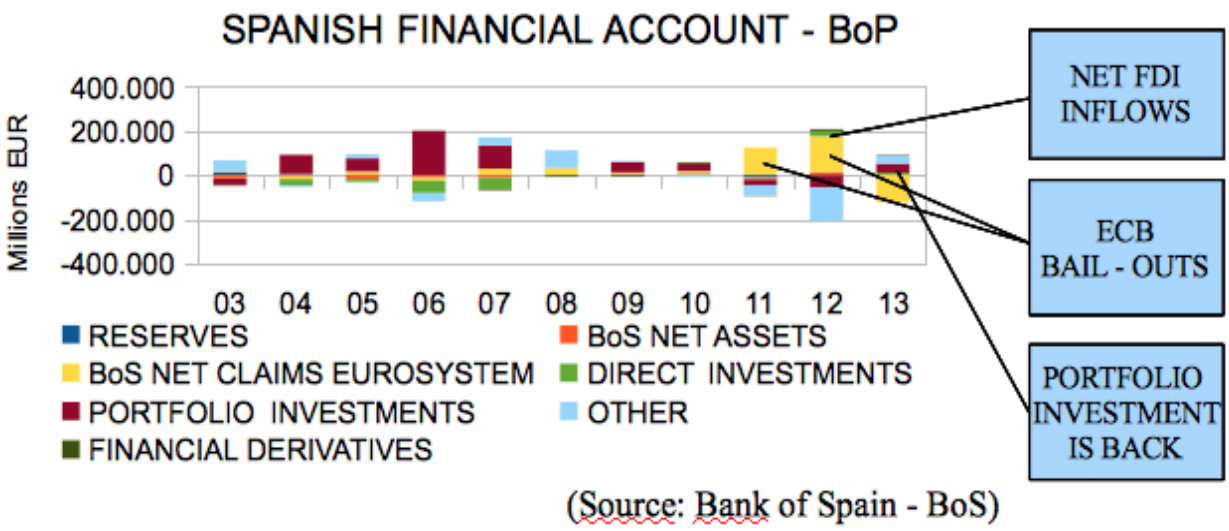
YEAR	CURRENT + CAPITAL	SPANISH GDP	NET (% GDP)
03	-19.744,50	803.472	-2,46
04	-35.735,80	861.420	-4,15
05	-58.679,30	930.566	-6,31
06	-78.561,70	1.007.974	-7,79
07	**-100.800,40**	**1.080.807**	**-9,33**
08	**-100.498,60**	**1.116.207**	**-9,00**
09	-50.206,40	1.079.034	-4,65
10	-41.138,20	1.080.913	-3,81
11	-32.278,40	1.075.147	-3,00
12	-5.834,10	1.055.158	-0,55
13	15.799,22	1.049.181	1,51

(Source: Bank of Spain – BoS)

SPAIN AND CHINA BALANCE OF PAYMENTS

Spain yet reached its highest external debt level with the whole world in 2007 and 2008. Shortly thereafter, however, Spanish current and capital account deficits began to decline. Debt growth had clearly a limit. And the country started to diminish its chronic trade deficit which has even turned into a very rare external surplus in 2013. Therefore, an unavoidable adjustment did finally take place in the form of diminishing external deficits. Besides, Spanish financial account statistics show how European institutions have helped to fund most of the external deficits registered in 2011 and 2012. After the still ongoing structural reforms, however, Spanish economy has become a net recipient of foreign direct investments and portfolio inflows are positive again since 2013.

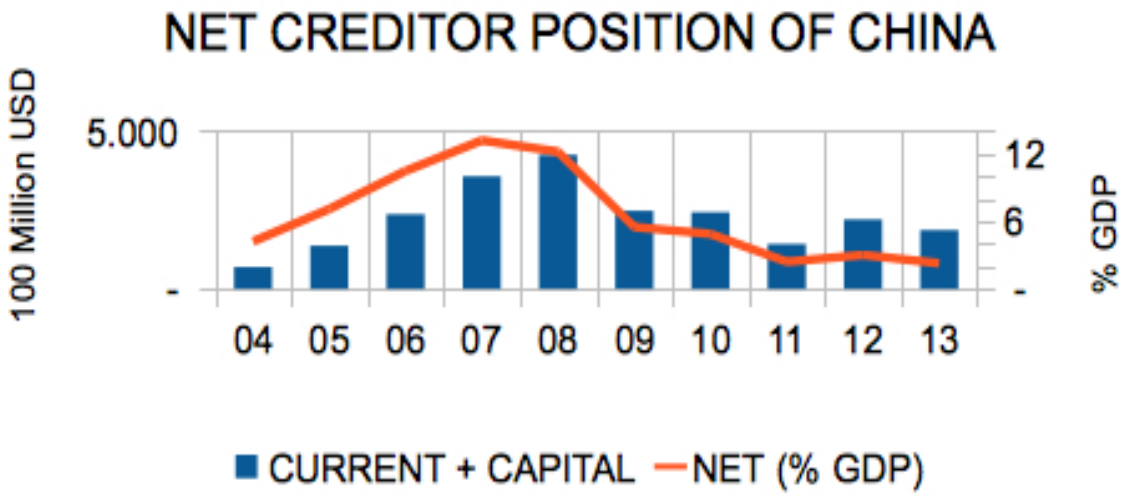
Figure 2 - Foreign capital inflows, such as investments and ECB financial support, have been crucial to fund Spanish external deficits.



By contrast, Chinese economy seems to have experienced a similar process, but the other way round. Chinese current account surplus reached historical highs, in 2007-08, but it has significantly been reduced since then. This simply means that it could neither grow up forever at the expense of protracted deficits in other countries like Spain. However, and given its initial stage of development compared to any other industrialized nation, China has been combining these external surpluses with even larger net financial inflows[9], a particular situation which simply reveals an uninterrupted process of foreign exchange reserves accumulation[10].

FDI in China has steadily increased while portfolio investments did reach a record high by 2013. In contrast to Spain, China still remains as a net recipient of foreign financial flows, despite its current and capital account surpluses with the whole world. Nevertheless, Chinese net creditor position began to decline simultaneously as the Spanish external deficit diminished, around 2008.

Figure 3 - Chinese current plus capital account surplus reached its maximum in 2007-08 and declined thereafter.



YEAR	CURRENT + CAPITAL	CHINESE GDP	NET (% GDP)
04	688	16.400	4
05	1.365	19.300	7
06	2.358	22.600	10
07	3.563	27.100	13
08	4.237	34.900	12
09	2.472	45.200	5
10	2.424	49.900	5
11	1.415	59.300	2
12	2.197	73.200	3
13	1.859	82.300	2

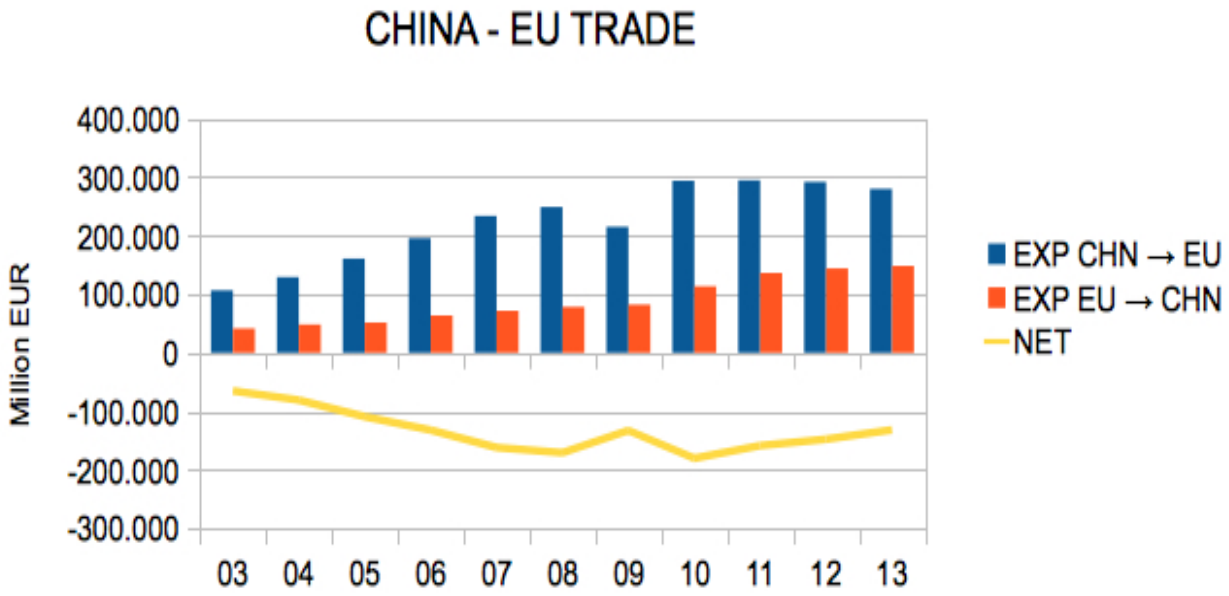
(Source: State Administration of Foreign Exchange – SAFE, NBS)

A COMPARATIVE ANALYSIS WITH OTHER WORLD ECONOMIES: CHINA-EU TRADE FLOWS

2007-08 represents an inflection point in overall dynamics of international trade. It seems that net creditor-debtor positions are converging into a more sustainable equilibrium while the gap between credits and debits have become considerably smaller since then. Greece, for instance, has turned into a very rare current account surplus in 2013. Italy has registered its first current account surplus since the Euro came into effect in 2002. And Portugal, Ireland or Spain, as above mentioned, have also reduced their external deficits in a significant manner since 2008. Outside Europe, United States registered a current account deficit equivalent to 5.7% of its GDP by 2005. However, in 2013, US deficit had been cut down to 2.4%. On the other hand, Chinese overall surplus also decreased from 13 to 2 percent between 2007 and 2013. And Japanese current surplus, for instance, has been reduced from almost 5 to 0.7 percent between 2007 and 2013[11].

Only Germany, among other world major economies, has managed to keep its current account surplus in a moderate but stable level during all over the past decade. However, the Sino-European trade relationship yet verifies our hypothesis that neither deficits nor surpluses can climb endlessly. Between 2002 and 2007, Chinese merchandise exports to the European Union rose by 17% annually. Meanwhile, Chinese imports from European countries registered a moderate growth of 12%. Henceforth, EU trade deficit with China did peak to EUR783 billion only between 2002 and 2007. However, the 2008-13 period certainly depicts another different story. Despite total trade volume has continued to increase, Chinese exports did just register an annual increment of 3% since 2008. But, on the other hand, European exports to China have been rising at a much faster rate, above 12%. This simply reveals that European Union has also begun to reduce its chronic deficit with China within the post-crisis period 2008-13[12].

Figure 4 - EU deficit with China started to decline from 2008-10.



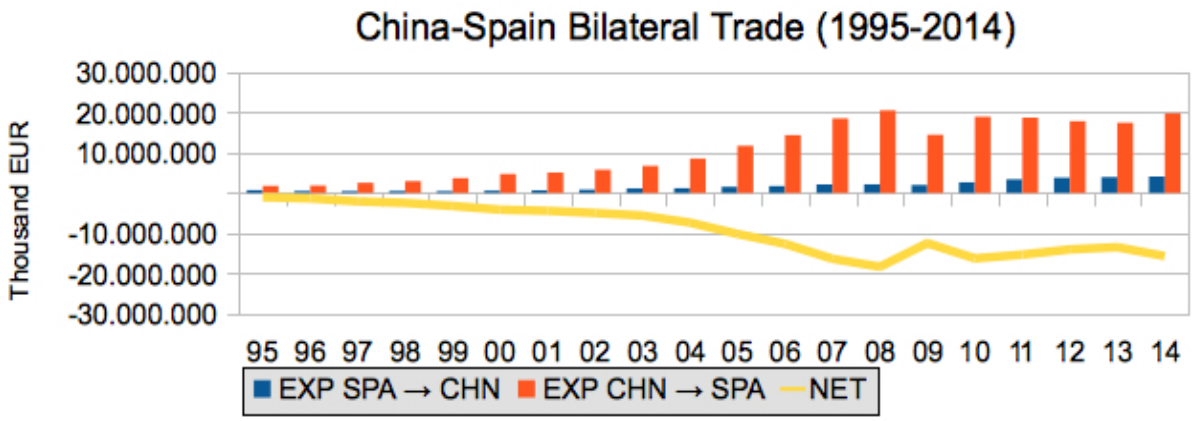
(Source: EUROSTAT)

As Figure 4 shows, the European external deficit with China stopped to climb after having reached record highs in 2008-10. This just reveals that China could not continue to accumulate such a huge surplus, indefinitely, with the EU. Some might think that increasing surpluses do merely reflect Chinese access to the WTO in 2001. But existing data clearly reflects that trade volume in China experienced a much faster growth between 1990 and 2000 compared to the entire period 2001-11. Nevertheless, the very same trend of Chinese decreasing surpluses with European economies can also be found when looking at Sino-Spanish trade flows starting in 2008.

MAIN TRENDS IN TRADE FLOWS BETWEEN CHINA AND SPAIN

From 1995 to 2008, Spanish imports from China did increase by twenty-fold, reaching an all time high at EUR20.5 billion. We should note, indeed, that Chinese exports to Spain did not slow down any single year during the aforementioned period. Moreover, Spanish "exports-over-imports coverage ratio" had steadily declined from 38.6 to 10 percent between 1995 and 2008. However, such a dominant trend started to reverse just in the wake of 2009. Since then, Spanish exports have experienced a significant rebound by reaching historical highs in 2014. And, on the other hand, Chinese exports to Spain have also decelerated. Therefore, Spanish trade deficit with China, measured by "exports-over-imports coverage ratio", has narrowed again to 20.6% in 2014.

Figure 5 - Spanish trade deficit with China has been diminishing since 2008.



YEAR	EXP SPA → CHN	EXP CHN → SPA	NET	COVERAGE (%)
95	679.640,48	1.756.610,15	-1.076.969,67	**38,69**
96	468.300,76	1.841.413,61	-1.373.112,85	**25,43**
97	428.839,79	2.528.523,37	-2.099.683,58	**16,96**
98	469.411,36	2.937.500,49	-2.468.089,12	**15,98**
99	442.252,23	3.686.016,82	-3.243.764,59	**12,00**
00	553.492,69	4.712.951,30	-4.159.458,61	**11,74**
01	634.356,76	5.079.226,67	-4.444.869,91	**12,49**
02	796.149,69	5.770.785,87	-4.974.636,18	**13,80**
03	1.100.364,88	6.729.057,63	-5.628.692,75	**16,35**
04	1.162.262,75	8.531.327,07	-7.369.064,32	**13,62**
05	1.527.310,25	11.709.355,46	-10.182.045,22	**13,04**
06	1.722.197,07	14.369.594,80	-12.647.397,73	**11,99**
07	2.126.671,71	18.492.718,31	-16.366.046,59	**11,50**
08	2.152.730,80	20.492.569,99	-18.339.839,19	**10,50**
09	1.986.110,76	14.457.485,91	-12.471.375,15	**13,74**
10	2.663.448,79	18.916.433,00	-16.252.984,21	**14,08**
11	3.387.341,00	18.704.831,43	-15.317.490,42	**18,11**
12	3.784.823,47	17.808.009,57	-14.023.186,10	**21,25**
13	3.943.023,26	17.412.712,70	-13.469.689,44	**22,64**
14	4.080.252,00	19.766.041,00	-15.685.789,00	**20,64**

(Source: ICEX)

But which are the main facts to explain this diminishing external deficit of Spain?

- Spanish exports to China have increased by 89% since 2008. However, imports from China yet remain below the final figures published in 2008.
- This contrasts with the fact that Spanish exports to China only grew up by 216% between 1995 and 2008[13]. However, Spanish imports from China had gained more than ten-fold during the same period (1995-2008)[14].
- All these figures reveal that Spanish deficit with China did increase exponentially before 2008. However, and as aforementioned, it has dramatically been reduced thereafter.
- Exporting Spanish companies to China have more than doubled since 2010. They were 13,697 in 2014. They were almost as many as those which did export to Germany (13,900). And they were also more than those which have exported to other traditional European trade partners such as the United Kingdom. However, the absolute value per unit is still much lower compared with those companies that currently do export to either Germany or UK. Why is that? Simply because Spanish companies have started to operate in the Chinese market very recently. "Most of their exports are still samples", according to our interview with Javier Serra, head officer at ICEX. But, nevertheless, existing data still shows an upward trend of Spanish exports to the People's Republic of China (PRC).
- Imports from China have picked up in recent times due to the mild recovery of Spanish domestic consumption during 2014. However, and as already mentioned above, they still remain far below the overall figures published in 2008.
- By economic sectors, Spanish imports of textile goods grew up significantly last year (13.8%). The economic recovery might have boosted overall demand for textiles and other consumption products, such as Chinese electronic manufactures, which also added up 4.9% in 2014. On the Spanish exporting side, automobile components and fresh meat have substantially increased their growth rates alongside heavy machinery or textiles, in a range of 20-36%. Spanish exports of scientific and technical instruments, which are among those with the largest demand in China, have also speed up their growth rates by 45%.

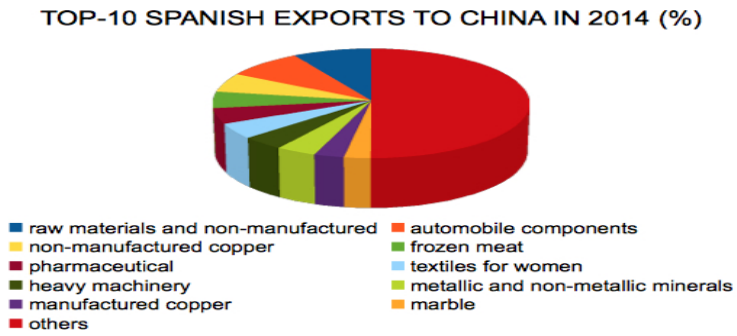
Doing a brief comparison with other countries in the world we have also found that:

- China is currently the largest trading partner of Spain in Asia. China ranks as the world eleventh largest exporting destination country for Spain. And, regarding to Spanish imports, China still holds the third largest position only behind Germany and France. However, Spain is not a significant top-trading partner for China[15].

- This means that trade fluctuations between China and Spain will always exert, necessarily, a greater impact on the latter. Consequently, increasing Spanish exports might have also contributed to a significant growth of Chinese direct investments in Spain, among other variables. China has already invested a large sum of money in food industry, tourism and maritime ports. We will analyze this hypothesis throughout Part III.
- Chinese top-trading partners are either big economies, neighbors or both[16]. Spain was still the world fourteenth largest economy in 2014. However, it only represents a 0.63% of the total Chinese trade volume (according to latest official figures released in 2014). As the gravity model states[17], yet there should be a greater potential for exchanges considering both countries economic size, but the truth is that bilateral trade still remains insignificant.
- Nevertheless, we cannot ignore that Spanish exports to China have been boosted by 20.4% between 2011 and 2014. Only United States (34%), and Morocco (41%), have experienced a higher growth for the period. Therefore, we should remark a robust upward trend in Spanish exports to China-PRC.
- Finally, and looking at Chinese overall trade with the whole world, imports growth began to overcome a traditionally higher rate of exports in 2008[18]. Between 2001 and 2008, Chinese exports grew by 355%, while the overall growth of imports was about sixty percentage points lower. However, since 2008, Chinese imports have increased by 51%. And total exports have also slowed down to 42% since 2008. Chinese trade surplus reached a record high of 8.5% in 2008. But, today, it only represents a 3.14% of the GDP. The ongoing economic reform in China, which prioritizes domestic consumption over a traditional export-oriented model, constitutes an ideal scenario for Spanish exports to grow.

Which economic sectors do actually offer a brighter perspective for Spanish exports to China? Since Spanish economy needs to diminish its current account deficit, through a relative increase of exports, let us summarize the most competitive industries in Figure 6.

Figure 6 - Main composition of Spanish exports to China.



(Source: ICEX)

Looking at Chinese overall imports, we have realized that electrical and mechanical equipments accounted for almost half of the total amount, RMB5.2 trillion. New technological manufactures represented 27% of total Chinese imports with the whole world. And crude oil, integrated electronic circuits plus agricultural products, completed the top-five Chinese importing sectors in 2014[19]. Among all these industries, on the other hand, Spanish producers might have had a comparative advantage in exporting primary goods. In fact, that chapter has registered the largest growth rate among overall Spanish exports, 25.8%, while meat and residuals have more than doubled between 2011 and 2014. China is also demanding a huge amount of copper, among other raw materials, in order to provide for its booming phone industry. Actually, copper demand in China has increased by 17.3%, and perspectives are also bullish for 2015. Spain, which is reducing its trade gap with China, has already found a great opportunity to promote this exporting industry even by the means of reopening some old mine[20]. Overall exports of Spanish copper to China grew by 14.4% in 2014[21].

Spanish heavy machinery shipments to China have also experienced a significant increment of 34.5% during 2014. And this is consistent with a moderate growth of heavy machinery goods imported by China from the world (6.6%). Also last year, Spanish exports of auto components have grown by 19.6%, a figure which seems to evolve accordingly with the increasing demand in China (see Table 1). Clothes for women represent another sector in where Spanish manufactures have outperformed the growth rate of total Chinese imports. Last year, and while Chinese textile shipments decreased by more than six percentage points, Spanish exports of female dressmaking grew over 20%. The high-end fashion design, which demand positively evolves with income levels, is behind that spectacular growth. And, according to our understanding, Spanish fashion industry may also find a great expansion opportunity in association with flourishing Chinese E-commerce companies which are looking for selling good quality products on their platforms[22].

Table 1 - Some Chinese imports from the world and a brief comparison with Spanish shipments to China.

WORLD → CHN (Thousand USD)	2013	2014	VAR	SPA → CHN (Hundreds EUR)	2013	2014	VAR
AGRICULTURAL	118.664.255	121.571.077	2,45%	AGRICULTURAL	323.432	407.072	25,86%
COPPER	19.508.977	21.645.117	10,95%	COPPER	97.440	112.175	15,12%
HEAVY MACHINERY	10.065.937	10.825.672	7,55%	HEAVY MACHINERY	116.914	154.552	32,19%
PHARMACEUTICAL	16.212.230	19.094.211	17,78%	PHARMACEUTICAL*	221.112	175.304	-20,72%
AUTO COMPONENTS	77.554.838	92.929.363	19,82%	AUTO COMPONENTS	262.424	313.954	19,64%

(Source: China General Administration of Customs, ICEX)

- **Even although Spanish pharmaceutical exports sharply declined in 2014, they had previously climbed by 45% between 2011 and 2013.**

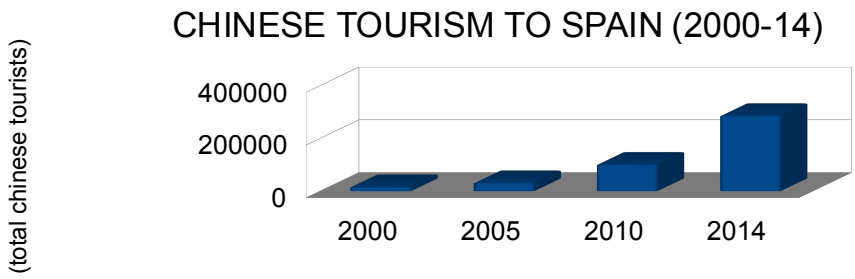
Figure 7 - Top 10 Chinese exports to Spain.

(Source: ICEX)

- **A PARTICULAR CASE IN THE SPANISH EXPORTING INDUSTRY: TOURISM**

Tourism deserves a special mention to complete this analytical background since thriving exporting industries, and the subsequent investments that they might eventually attract, are clearly related. As aforementioned, this hypothesis is something that we are going to discuss thoroughly, and tourism cannot be ignored[23]. According to the statistics, around 214,000 Chinese tourists visited Spain in 2013, a figure which has risen by 14% last year. Spanish authorities do expect that one million Chinese tourists could visit the country, annually, by 2020. Actually, Spain ranks as the world third largest touristic destination in terms of arrivals, which accounted for more than sixty million during 2013[24]. On the other hand, almost one hundred million Chinese tourists have travelled abroad that year, an annual increase of 25%[25]. However, only 0.25% of the total Chinese tourists did visit Spain in 2013. Why? We might have the temptation to identify distance, and / or cultural barriers, as main determinants of quite a disappointing outcome. But almost one million Chinese tourists visited Paris in 2013, five-times more than those who did finally decide to visit Spain. Air connectivity, and more efficient visa procedures, are needed to increase the flow of Chinese tourists towards Spain. So-called chinese-friendly organizations have recently emerged with the purpose of adapting existing touristic offer to Chinese tastes. But Spanish officials yet hold that Chinese tourism still remains well below its potential, although this disadvantageous situation is improving relatively fast (see Figure 8).

Figure 8 – Chinese tourism to Spain between 2000 and 2014.



(Source: Spanish Ministry of Industry, Tourism and Trade)

Recent trends seem to draw a brighter scenario for the future. Chinese tourism to Spain has been growing at an average annual rate of 20% between 2000 and 2014. However, and considering only the last five years, that figure has almost tripled. To invest in this specific sector would also make economic sense since Chinese tourists expenses are largely above the average (EUR 250 per day and person). Consequently, and given the aforementioned upward projections, Spanish touristic sector has certainly become an attractive target for Chinese investors. Dalian Wanda Group or HNA, for instance, have already invested big sums of money in the industry. And this is closely related to the fact that Chinese tourists arrivals could triple again by 2020.

SUMMARY AND MAIN IDEAS OF THE CHAPTER

1. Throughout this chapter, we have reached the conclusion that both trade deficits and surpluses stopped to swell from 2008. A comparative analysis showed that some Southern European countries are even experiencing their first external equilibrium in several years. China, for instance, has managed to gradually reduce its huge current account surplus with Spain and EU. Analogously, other major economies, such as the United States, have been lessening their deficits too. The main lesson derived from this financial crisis is that neither debts nor credits can grow endlessly. An adjustment of those imbalances had to take place.
2. While Spanish exports to China have been growing by 89% through the past six years, Chinese shipments towards Spain still remain below those figures registered in 2008. Before, Spanish imports from China had grown at a much faster rate than exports, but an inflection point in bilateral trade did happen shortly after 2008. Since then, Spain has significantly narrowed its chronic external deficit with China, by putting the overall exports-over-imports coverage ratio above 20%.
3. By sectors, we have compared Chinese total imports with those shipped from Spain. While overall demand for technological goods continues to increase, more than ever, Chinese imports of Spanish technical instruments are growing too (45%). Agricultural goods, heavy machinery, raw materials, pharmaceutical products and auto components are also among those industries which benefit most from Chinese strong demand. Chinese demand for tourism, as Figure 8 shows, has also skyrocketed from 2008.

Such a change in trade dynamics may explain some of the recent Chinese investments that have recently been flowing into Spain. Thriving industries are always attractive so the Spanish exporting sector is well positioned to get benefits of a growing demand in China. The 13th Five Years Plan offers incentives for Chinese enterprises to expand abroad and fulfill new consumption needs in China.

PART III - CHINESE INVESTMENT IN SPAIN

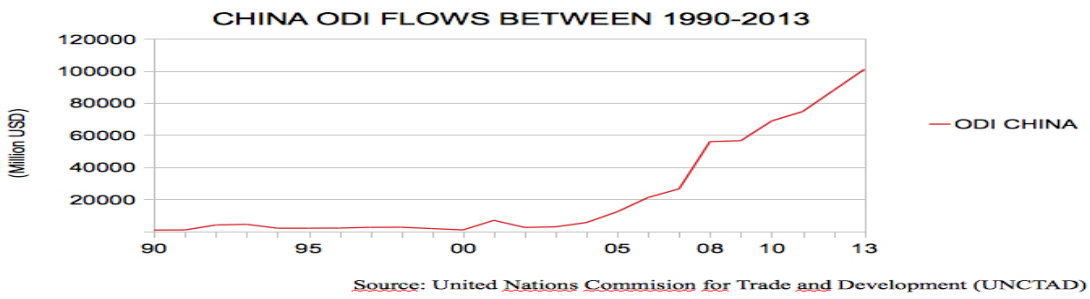
As already mentioned above, some of the most thriving Spanish exporting industries have become very attractive for those investors willing to sell manufactured goods and services in China. Ranging from tourism to primary products, or automobile components among others, we can find many industries which are experiencing a growing demand in China. However, other investments are not necessarily related to the manufacturing industry development. To this respect, Chinese purchases of Spanish sovereign debt have exponentially increased since 2010[26]. And it should be noted that Chinese portfolio investments in Spanish companies have amounted to more than ten billion euros only for the period 2007-14. Throughout the following chapter, all the same, we are going to focus mainly on Chinese portfolio and outward direct investments towards Spain (ODI).

AN OVERVIEW OF CHINESE ODI IN THE WORLD

Looking at the Chinese outward stock, we find out that it was multiplied by six-fold between 1990 and 2000. However, between 2000 and 2013, it has grown up from 27.7 to USD613 million (an overall increase of more than twenty-times)[27]. This may seem a significant increment but, even if Hong Kong SAR is included, it still barely represents less than 10% of the world total[28]. China currently ranks as the world-ninth largest investor in terms of outward stock behind United States, UK, Germany, France, Switzerland, Japan, Canada and Spain. Compared to the BRICS, Chinese outward stock overwhelms the sum of those investments made by Brazil, India and South Africa.

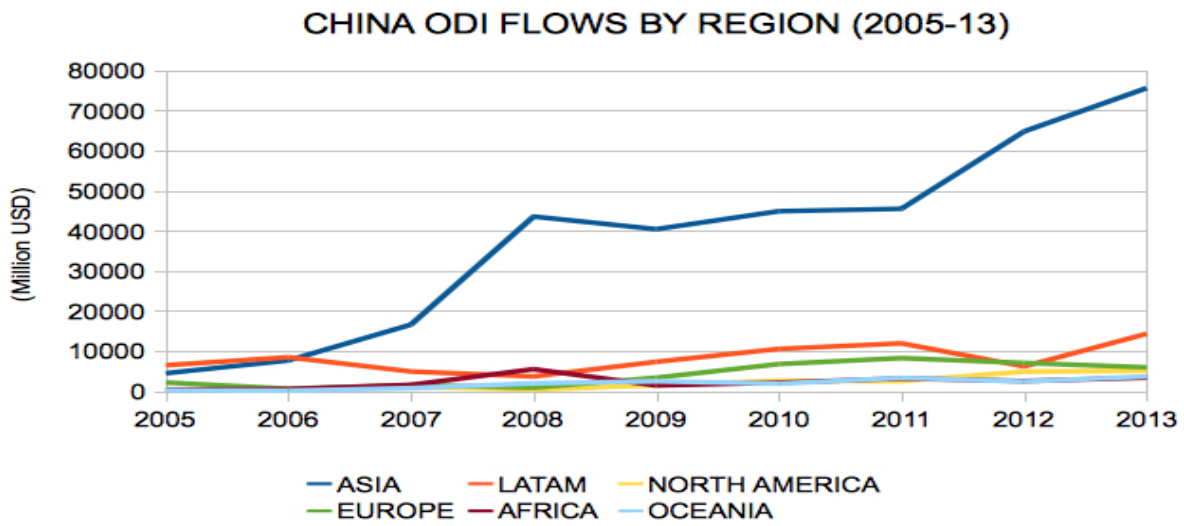
This is relevant considering that Brazilian stock was ten-times larger than the Chinese in 1990[29]. Therefore, we have to conclude that Chinese outward direct investment has climbed, exponentially, since 1990 (and at a much faster rate, indeed, between 2000 and 2008). Why? In 2000, China formally launched the so-called "Going Global" policy, aimed at proactively promote outbound investments. Loans, tax rebates or preferential access to foreign currencies were among the most relevant measures included in this policy, which impact can be fully appreciated by looking at Figure 9.

Figure 9 – Flows of Chinese Outward Direct Investment, ODI, with the world.



Between the years 2000 and 2013, Chinese ODI grew at an average annual rate of around 50%. And despite such a dizzying growth did start to take shape few years before the beginning of this current financial crisis, it also continues today, in 2014-15.

Figure 10 – Flows of Chinese Outward Direct Investment, ODI, by region.



Source: MOFCOM, PRC *(50% of overall flows to Asia are aimed at Hong Kong SAR)

By 2013, the largest recipient of Chinese ODI has been Asia-Pacific so far, especially Hong Kong SAR[30]. Latinamerica has overcome Europe as the second largest destination of Chinese ODI[31]. And neither Europe nor US appear as relevant destinations for Chinese investors. But, nevertheless, Chinese ODI to European countries has already taken off from 2009[32].

- **AN EXPONENTIAL GROWTH OF CHINESE ODI IN EUROPE**

Before the current financial crisis began, Chinese ODI stock in Europe was virtually insignificant, but it still did increase by five-fold between 2007-2012. No other region has achieved such a significant growth within that very short period of time. However, and looking at the overall figures, chinese ODI still lags behind other major investors in Europe (see Table 2).

Table 2 – Top ten countries as Extra EU-27 partners for FDI positions between 2010-12 (in billion EUR).

	2010	2011	2012	Growth rate 2010–12 (%)
Extra EU-27	3.145	3.768,1	3.947,4	25,5
United States	1.247,7	1.526,8	1.536,4	23,1
Switzerland	394,8	482,6	505,2	28,0
Canada	146,1	139,0	142,6	-2,4
Brazil	90,4	96,9	98,1	8,6
Russia	50,3	57,2	76,6	52,4
Australia	30,4	35,9	34,3	12,8
Hong Kong	41,5	64,7	50,2	21,0
Singapore	56,5	60,3	68,6	21,4
China	6,1	18,5	26,8	338,0
Japan	133,4	147,0	161,5	21,1

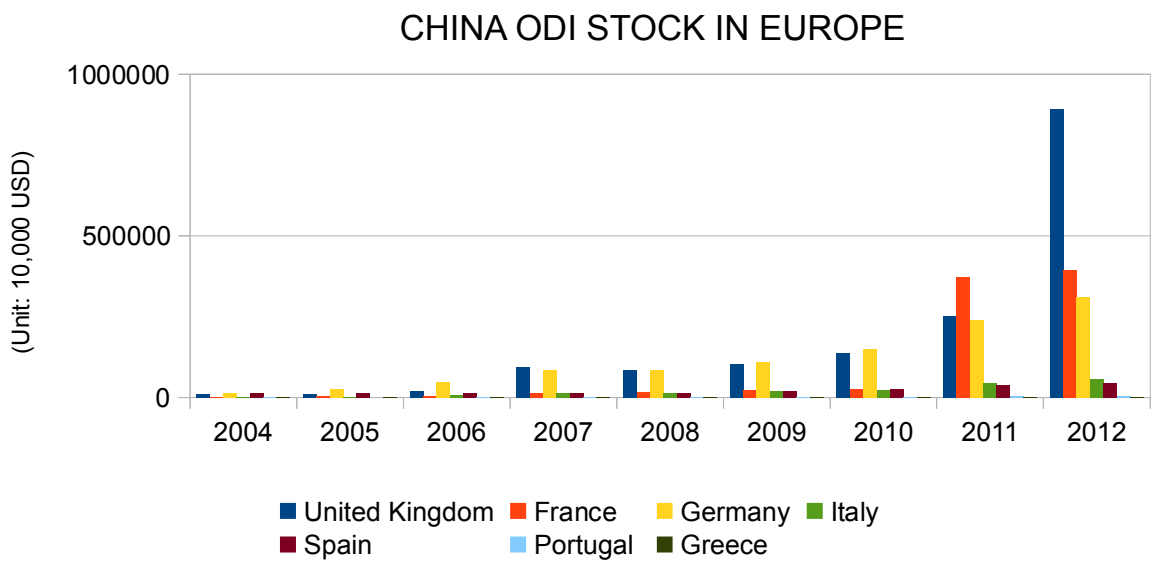
Source: EUROSTAT

Despite Chinese stock in European countries has grown substantially over these past years, it only amounts for less than 1% of the total investments that have been made there. Chinese ODI in Europe seems to have accelerated but it still remains insignificant compared with other major investment partners like Switzerland or the US. However, the current financial crisis yet certainly represents an inflection point of Chinese investments in Europe[33].

By country, we have found out that Luxembourg is the main recipient of Chinese ODI within EU[34]. Excluding offshore financial centers, nevertheless, United Kingdom is the most preferred destination for Chinese investors in Europe; followed by France and Germany. This is consistent to the fact that UK, France and Germany also represent about two thirds of total trade exchanges between China and EU. In the case of United Kingdom, Chinese ODI stock has been multiplied by eighty-fold between 2004 and 2012 (from slightly above one hundred million to USD8.9 billion, an average annual increase of 73%). Chinese ODI stock in France has been growing up at an annual rate of 91% during the period. And, finally, overall Chinese stock in Germany did reach USD3.1 billion by 2012 (with an annual growth rate of 48% since 2004).

Actually, in 2004, the largest recipient of Chinese ODI was Germany but closely followed by Spain. Nowadays, Chinese investments in Spain only represent 1.18% of the total European assets held by China. Nevertheless, Chinese ODI stock holdings in Spain have recently more than tripled. And this certainly contrasts with a modest annual growth rate of less than 5% registered during the years before 2008.

Figure 11 – Chinese ODI in Europe (the three largest recipients, excluding Luxembourg, plus Southern European economies).



(Source: China Outward Direct Investment Report, 2012)

Table 3 – Growth rates of Chinese ODI in selected European economies between 2004 and 2012.

Unit: 10,000 USD	2004	2005	2006	2007	2008	2009	2010	2011	2012
United Kingdom	10846	10797	20187	95031	83766	102828	135835	253058	893427
France	2168	3382	4488	12681	16713	22103	24362	372389	395077
Germany	12921	26835	47203	84541	85550	108224	150229	240144	310435
Italy	2084	2160	7441	12713	13360	19168	22380	44909	57393
Spain	12767	13012	13672	14285	14501	20523	24776	38931	43725
Portugal	20	-	20	171	171	502	2137	3313	4038
Greece	35	35	35	38	168	168	423	463	598
GROWTH RATE (%)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
United Kingdom	-	-0,45%	86,97%	370,75%	-11,85%	22,76%	32,10%	86,30%	253,05%
France	-	56,00%	32,70%	182,55%	31,80%	32,25%	10,22%	1428,56%	6,09%
Germany	-	107,69%	75,90%	79,10%	1,19%	26,50%	38,81%	59,85%	29,27%
Italy	-	3,65%	244,49%	70,85%	5,09%	43,47%	16,76%	100,67%	27,80%
Spain	-	1,92%	5,07%	4,48%	1,51%	41,53%	20,72%	57,13%	12,31%
Portugal	-	0,00%	0,00%	755,00%	0,00%	193,57%	325,70%	55,03%	21,88%
Greece	-	0,00%	0,00%	8,57%	342,11%	0,00%	151,79%	9,46%	29,16%

(Source: China Outward Direct Investment Report 2012, MOFCOM)

During 2014, and according to consultancy firms such as Baker and McKenzie, Chinese ODI in Europe totaled USD18 billion[35]. It also has reached historical highs and doubled the figures registered in 2013. United Kingdom, Italy, Netherlands, Portugal and Germany were the largest beneficiaries of Chinese ODI last year. And, since 2000, Britain has easily been the biggest recipient of Chinese investments in EU.

According to the Heritage Foundation, Chinese investors have revealed their preferences in European energy assets, agricultural products, Real Estate, finance, transport and technology. As ESADE Business School has recently published, Chinese sovereign funds SAFE and CIC have already invested in a wide variety of European industries, ranging from French utility giant Gas de France-SUEZ to Royal Dutch Shell or EUTELSAT[36]. Table 4 thoroughly provides an approximation of which industries has China already shown its interest within the EU.

Table 4 – Chinese overall investment in Europe between 2005 and 2014.

Unit: Billion USD	Agriculture	Energy	Finance	Real Estate	Tech	Transport	Other	Total
United Kingdom	2,3	4,9	4,8	7,1	0,2	1,7	2,7	23,7
France	0,6	6,6			0,8	1,6	1,1	10,7
Italy		3,5		0,5	2,4	0,5		6,9
Germany		0,5	0,9	2,3	0,7	1	0,6	6
Greece				0,1		5,2	0,1	5,4
Portugal		4	1,4					5,4
Spain				0,9	1,5			2,4

(Source: Heritage Foundation and Financial Times)

Box 1: A Pending Regulatory Framework to Enhance Commercial Flows between China and EU.

Shortly after China joined the World Trade Organization, in 2001, trade tariffs and protectionism started to decrease substantially. Also in the meantime, China launched an initiative called "Going Global Policy", aimed at encouraging chinese enterprises to invest abroad. Before its implementation, in 2000, less than twenty per cent of Chinese companies had started to invest in third countries others than China. Today, Huawei has recently broken into the top-one hundred global brands, according to Interbrand. And China has also managed to place ninety-five enterprises in the well renowned list published by Fortune 500. Therefore, both going-global policies and access to the WTO, represent an inflection point for Chinese ODI.

As aforementioned, European Union is also doing a big effort to attract investments from China, especially since the beginning of this financial crisis in 2008. In 2014, both China and Europe officially launched the negotiations to reach a comprehensive investment agreement. China accounts for 2-3% of European investments abroad, whereas Chinese investments in Europe are rising, but from an even lower base (see Table 2). Given the economic size of both China and Europe, investment flows still show a great untapped potential, according to senior analysts in EU. So a clear and comprehensive regulatory framework remains mandatory to realize this very attractive potential.

Some European countries, however, are taking steps to speed-up inward investment flows from China. Spain, for instance, has recently passed a "Foreign Investors Act" which grants resident permits among other benefits. It says "To those who invest:

1) €500.000 in Real Estate assets or

2) €1.000.000 in stocks, bank deposits or

3) €2.000.000 in sovereign debt

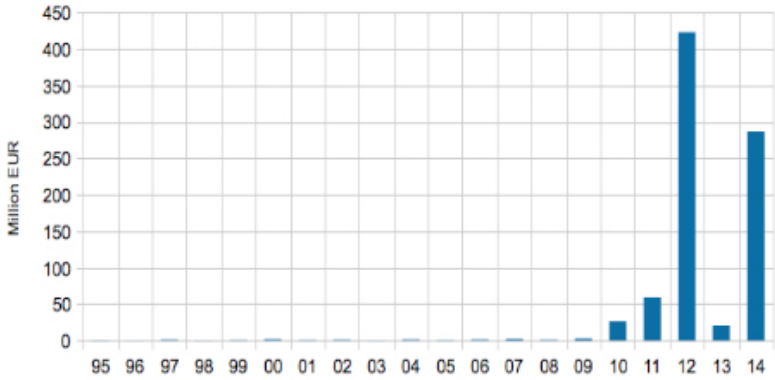
4) Any amount in business projects of public interest

… they will be eligible to apply for a two-years renewable residence and working permits (valid in the whole Schengen Area of EU)".

Each European country has set up its own legal framework to regulate FDI. According to Invest in Spain, that country offers an "almost total liberalization of foreign investments", which is consistent with the harmonized legislation inside the EU. However, some investments yet raise national security concerns so they are rejected. Other privatization options have been ruled out simply because they constitute either strategic or profitable investments for public shareholders (such as the Spanish electric utility REE). Lack of reciprocity has also become another argument to reject Chinese investments in Europe. But given the fact that there are neither capital controls, nor legal barriers of entry in most industries, Chinese investments still offer a huge potential and have been rising rapidly since 2008. In China, finally, we can observe that MOFCOM, SAFE and NDRC are also introducing reforms to flexibilize investments abroad. All these factors, together, make us believe that Chinese ODI in Europe will continue to rise. Chinese RMB offshore markets in Europe, alongside further liberalization and a definitive regulatory framework on bilateral investments, may also serve well to this goal.

Figure 12 - Chinese ODI in Spain has skyrocketed during the crisis.

YEAR	FDI CHN to SPA (Million EUR)
95	0,41
96	0,22
97	1,21
98	0,24
99	0,75
00	1,73
01	0,73
02	1,15
03	0,28
04	1,34
05	0,61
06	1,32
07	2,16
08	1,04
09	2,84
10	26,41
11	59,21
12	422,93
13	20,55
14	286,89



(Source: Spanish Ministry of Finance – DATAINVEX)

- **MAIN FACTS ABOUT CHINESE INVESTMENT IN SPAIN**

Spain has never been among the main recipients of Chinese ODI in Europe. Looking at Spanish statistics, for instance, we can see that Chinese direct investment flows were less than one million euros on average before 2008. However, they have skyrocketed since then (even surpassing the symbolic figure of four hundred million euros in 2012). But, compared to Europe, Chinese ODI in Spain has traditionally lagged behind other countries like France or UK.

We should note, once again, that FDI official figures might be underestimating the whole picture of Chinese investment in Spain. For instance, they do not take into account the heavy purchases of Spanish sovereign debt that were made by China between 2010 and 2012. Official sources estimate that current Chinese holdings among non-residents might account for more than 20% of the total. And, as aforementioned, Spanish debt holders have not been publicly disclosed since the sovereign crisis began in 2010[37]. However, we know that non-residents currently hold 42% of the outstanding debt. Consequently, and according to our estimations, Chinese holdings of Spanish treasuries might have reached EUR60 billion in 2014. Most of those purchases, given the fact that China did not hold a significant amount of bonds before 2008, were made between 2010 and 2012. So Chinese investments in Spanish treasuries must be taken into account even though they are not FDI.

Portfolio investments, on the other hand, are also much higher than those numbers reflected at FDI. According to Figure 12, Chinese ODI in Spain has totaled more than half billion euros between 2008 and 2014. However, and as the following table indicates, Chinese overall share in Spanish-owned companies has climbed to EUR10 billion since 2009.

Table 5 – Some of the most recent Chinese portfolio investments and FDI in Spain.

2015	Rastar Group	RCD Espanyol (Soccer)	Portfolio Investment (45%)	65,00 €
2015	Wanda Group	Atletico de Madrid (Soccer)	Portfolio Investment (20%)	45,00 €
2014	Fosun	Osborne (Food)	Portfolio Investment (20%)	Not disclosed
	Wanda Group	Santander Bank (Real Estate)	Real Asset Selling (Hotel)	265,00 €
	HNA Group	NH Hoteles (Hotels & Tourism)	Portfolio Investment (8,3%)	132,70 €
2013	HNA Group	NH Hoteles (Hotels & Tourism)	Portfolio Investment (20%)	234,00 €
	Shuanghui Intl	Campofrío (Food)	Portfolio Investment (36,99%)	257,00 €
2012	China Three Georges	HC Energía (Renewable Energy)	Portfolio Investment (100%)	251,00 €
	CIC	Ferrovial (Infraestucture)	Financial Assets Selling (10% at Heathrow Airport)	560,00 €
	Huayi	Cubigel (Components)	Real Assets Selling	3,00 €
	CIC	Abertis (Telecom & Infraestructure)	Financial Assets Selling (7% at Eutelsat)	385,00 €
	China Unicom	Telefonica (Telecom)	Financial Assets Selling (4,56% at China Unicom)	1.100,00 €
	China State Grid	ACS (Infraestructure)	Real Assets Selling in Brazil (7 electric lines)	752,00 €
	CIC	Santander Private Equity (Financial)	Financial Assets Selling (8,6% at Thames Water)	602,00 €
2011	Citic Heavy Industries	Gandara Censa (Industrial)	Buy-out	50,00 €
2010	SINOPEC	Repsol (Oil & Chemical)	Financial Assest Selling (40% at Repsol Brazil)	5.150,00 €
2007	Zhejiang Hisun	Pharmaprojects	Joint-Venture	4,00 €

(Source: Local Press, 2007-15)

Dalian Wanda Group has become very popular among Spanish people after having purchased an emblematic building in the capital, to reopen a five-stars hotel, for EUR265 million. And, more recently, Wanda has also announced an overall investment in the top-La Liga soccer squad Atletico de Madrid for about EUR45 million (which implies a total interest of 20%). The first type of investment has been registered in Spanish statistics as FDI. But the latter will be considered as a portfolio investment or PI. Nevertheless, both investments constitute an integral part of this company business strategy, which mainly consists in combining Real Estate with tourism and cultural industries development[38]. Tracking international investments down is really hard since some operations are not even disclosed. For example, is not publicly known yet how much money did Fosun pay to acquire a stake of 20% at Osborne last year (see table 5). And other investments have been carried through third countries different than China or Spain (see, for example, the investment made by SINOPEC to buy 40% at Repsol-Brazil in 2010). Sometimes, indeed, direct investments are considered as portfolio and viceversa. So, only at this point, let us consider both direct and portfolio investments together when we refer to "Chinese investment in Spain".

By economic sector, we can also establish a relationship between investment decisions and domestic demand in China. In the tourism industry, for instance, there has been a spectacular growth and Chinese arrivals are projected to increase by more than 30% between 2015-20. These growth projections, subsequently, have led to significant investments in this sector. Hainan Airlines Group already controls 30% at NH Hoteles after having invested more than EUR360 million. Dalian Wanda Group, as mentioned above, did purchase the emblematic "Spanish Building" to reopen a five-stars hotel in Madrid. Wanda Group has also applied for a license to build up two hundred thousand apartments, aimed at chinese buyers, in the Spanish capital city of Madrid.

Finally, it has shown its interest in the local entertainment industry by acquiring a stake at La Liga soccer squad Atletico de Madrid for EUR45 million[39]. To complement this latest investment, incidentally, the Dalian conglomerate has recently bought out Infront for EUR1.05 billion. Infront is a Swiss company which currently holds the broadcasting rights of every major soccer event in the world. Therefore, Wanda Group is positioning itself as a major supplier of leisure and Real Estate for Chinese customers who might eventually wish to demand its goods and services abroad. It does not mean that Wanda is doing all these investments only to satisfy a growing demand in China.

But we cannot ignore the fact that Chinese emerging demand has arisen as a fundamental driver of those investments, from China, towards Spain and EU. In this regard, the acquisition of Valparaiso Hotel by Jiangsu GPRO, can serve as a very illustrative example. After a deal worth EUR40 million, and located at the very touristic Mallorca Island, Jiangsu GPRO has completely adapted Valparaiso Hotel to Chinese tastes. No wonder, most of its customers are newly mid-high class Chinese tourists, so the booming domestic demand in China must be considered as a relevant variable behind investments like this.

Demand of energy is also significant in China. And this sub-sector has been the largest recipient of Chinese outward direct investment in recent times[40]. The most relevant takeover has been led by Three Georges, which paid EUR2.7 billion for Energias de Portugal in 2012, and this package included a Spanish subsidiary called Hidrocantabrico Energia HC. State Grid has also expressed its interest in Spanish electricity giant REE. And several renewable energy conglomerates remain based in Spanish soil to either expand their operations, acquire new technologies or both. Increasing energy demand from China is also consistent with the EUR5.15 billion stake sold in 2010 by Spanish oil giant subsidiary, Repsol-Brazil, to SINOPEC.

As already summarized in Part II, Chinese imports of world primary products have reached USD121 billion last year (just behind power generation, high-tech, electronic circuits and oil). Consequently, some relevant investments have also been made in this sector, helped by the fact that Spanish agricultural exports to China climbed last year more than 25%. Chinese demand of foreign primary products is growing up fast. In this context, as stated above, some deals with Spanish food manufacturers have been closed recently. In 2013, Shijiazhuang Group bought out the American manufacturer Smithfield Food for USD7.1 billion, a significant operation which did also include a controlling interest at Spanish Campofrio[41]. Or Fosun, which has recently injected some capital in Osborne, a high-grade Spanish pork and wine manufacturer, for an interest of 20%.

China currently ranks as the world largest country in terms of imports and exports. This means that maritime transport and investments in logistics are also supposed to evolve accordingly. To this regard, we should remark that Hutchison has already invested EUR465 million in the port of Barcelona between 2012 and 2014. COSCO and China Shipping, among others, hold also an strategic position in Spain. So all this makes complete sense since trade volumes between China and Spain have already reached record highs of EUR23 billion in 2014. Besides, increasing trade and investment flows do also constitute a great opportunity for Chinese financial institutions already established in the Spanish market, such as China Development Bank or ICBC[42].

Cooperation with local big enterprises, to enter third markets, are also among those variables that may better explain chinese ODI. Telefonica and China Unicom cooperation, with a mutual investment of EUR1.1 billion, does certainly reinforce this assumption[43]. Telefonica is one of the world leading investors in Latinamerica. Its overall investment there is worth EUR125 billion since 1990. And not only China Unicom, but also Huawei, may eventually find interesting to cooperate with Telefonica in third markets others than Spain. Actually, Huawei already cooperates with Telefonica and has also become one of the most significant Chinese players at telecommunication devices, alongside Lenovo and ZTE, in Spain.

In 2012, Huayi Compressor bought Cubigel for EUR3 million, and it currently exports more than 90% of its total production[44]. Chinese demand for industrial components is strong although Huayi-Cubigel does also export to more than fifty other countries. Since 2011, Foton is running a bus assembly factory in Spain (given the aforementioned comparative advantage of Spanish auto-components). Brilliance Auto wants to produce European-standardized cars in Barcelona. And BYD has signed a MoU with Spanish Castrosua to assemble electric buses. The assembly industry, which may actually have a great potential in bilateral trade, seems to offer interesting investment opportunities as well[45].

Power generation is also among the main engines of Chinese economic development. Hundreds of companies have been created in the domestic market and, today, many of them are searching for either new assets or technology to expand their operations abroad. Jinko, OP-Power, Sinovel, Solarfun, Suntech, Trina Solar, Wolss and Yingli Green, in the renewable energy sector, are already based in Spain. Chinese companies are also looking for a deeper cooperation with Spanish counterparts in petrochemical and nuclear sectors, to set up joint ventures from which they can adquire know-how. Finally, we should mention the role of China Investment Corporation in Chinese portfolio investments. Both SAFE and CIC currently hold USD35 billion in assets within the EU.

CIC, one of the four Chinese sovereign wealth funds, does not hold any known investment in Spain. Nevertheless, it bought 10% at Heathrow Airport from Ferrovial after having paid EUR560 million. Abertis has sold out its 7% share at EUTELSAT. And CIC recently acquired the shares held by Santander Bank at Thames Water. Although these three deals were purely financial we are still talking about money flowing from capital rich chinese companies into liquidity-needed Spanish enterprises. Explanatory variables behind Chinese direct and portfolio investments can be attributed to a wide range of factors (trade trends, technology, third markets access, comparative advantages and/or other motivations). However, a field research is also required to further analyze the real behavior of Chinese ODI.

SUMMARY AND MAIN IDEAS

1. Chinese outward direct investment has been multiplied by twenty-fold since 2000. Relevant initiatives, such as the "Going Global" policy or access to WTO, have certainly driven up Chinese ODI.
2. China has become the world-ninth largest international investor in terms of stock. Asia, specially Hong Kong, is the largest recipient of Chinese ODI followed by LATAM.
3. Although China is not among the main investors in Europe, Chinese holdings have been increasing by 338% between 2010 and 2012.
4. Chinese stock in Europe just represents a 0.65% of the total investment received from Extra EU-28. However, it has been multiplied by forty-fold between 2001 and 2012 (even at a faster rate since the current financial crisis began in 2008).
5. Throughout 2014, and according to consultancy firms such as Baker and McKenzie, Chinese ODI in Europe totaled USD18 billion. It has also reached historical highs and doubled the figure registered in 2013. United Kingdom, Italy, Netherlands, Portugal and Germany were the largest beneficiaries of Chinese ODI last year. And, since 2000, Britain has easily been the biggest recipient of Chinese investments within EU. Energy assets, agricultural products, Real Estate, finance, transport and technology are among those industries of interest for Chinese ODI.
6. Spain has never been among the main recipients of Chinese ODI in Europe. Looking at Spanish statistics, for instance, we realize that Chinese direct investments were less than one million euros on average before 2008. However, they have skyrocketed since then (even by surpassing the symbolic figure of four hundred million euros in 2012). But, compared to Europe, Chinese ODI in Spain has traditionally lagged behind other countries like France or UK.

7. Chinese portfolio investments in Spanish companies have climbed to EUR10 billion since 2008. Sovereign debt holdings are also estimated at EUR60 billion (20% of non-residents).
8. By economic sector, we can also establish a relationship between investment decisions and domestic demand in China. Major deals have been closed in industries where Chinese demand is increasingly strong. This is consistent with the EUR5.15 billion stake sold by Spanish oil giant subsidiary, Repsol-Brazil, to SINOPEC in 2010. And is also consistent with other operations made by Wanda Group, HNA or Jiangsu GPRO in the booming Spanish tourism industry. The number of Chinese outbound tourists certainly has a great potential to steadily grow up in coming years[46].
9. Primary products, maritime transport, logistics, auto components and power generation are also among those industries of interest for Chinese investors. Spanish comparative advantage in some sectors, Chinese domestic demand, access to third markets, technology, increasing commercial exchanges or just financial purposes are factors which clearly explain the recent peak of investments from China. However, a field research is required to draw more accurate conclusions.

PART IV: CONCLUSION

Recently passed 13th Five Year-Plans in China imply that the world economic dynamics have changed. China must now carry on more outward direct investments rather than receiving capital inflows in some overheated industries. Therefore, this would lead to a new economic model based on high-end exports and services. Chinese huge savings, piled-up over the last three decades, should be used to become a developed country sooner than later (this is, a knowledge-intensive economy with lower growth rates but more consumption and better quality). According to the World Bank, this is an unavoidable trend in China.

Table 7 – Diminishing capital and labor means that technology must take the lead in Chinese GDP.

Indicator	1995-2010	2011-15	2016-20	2021-25	2026-30
GDP Growth (percent per year)	9,9	8,6	7	5,9	5
Of which:					
Labor Growth	0,9	0,3	-0,2	-0,2	-0,4
Labor Productivity Growth	8,9	8,3	7,1	6,2	5,5
Structure of Economy (%)					
Investment / GDP	49	42	38	36	34
Consumption / GDP	47	56	60	63	66
Industry / GDP	46,7	43,8	41	38	34,6
Services / GDP	43,1	47,6	51,6	56,1	61,1
Share of employment in agriculture	36,7	30	23,7	18,2	12,5
Share of employment in services	34,6	42	47,6	52,9	59

Source: World Bank

As aforementioned, sharp changes in macroeconomic conditions have led the world to this new normal, which means a more balanced global economy. There is a transition from old global economic structures to new ones. China cannot save money forever neither Europe nor America can accumulate debts endlessly. Chinese external surplus is being channeled through outward direct investments, and imports, while Southern European countries are selling real assets out in order to cover their own deficits. Trade imbalances have also been substantially reduced since the global economic crisis began in 2008. The question now is whether this new business cycle may last longer or not. In Spain, our study case here, we still see an untapped potential for Chinese ODI. Spanish GPD, wages and the EURCNY exchange rate are yet far below their high levels of 2008[47]. And increasing exports to China, either manufactures or services such as tourism, must attract more Chinese ODI towards Spain. As mentioned above, Chinese enterprises are very inclined to invest at those industries with a great potential development in China.

Looking at Chinese long term growth structure, we have just noted that gains derived from capital accumulation and sectorial shifts are almost exhausted. Thirteenth Five-Year Plans clearly state that China should rely more on total factors productivity, TFP, which must become the biggest contributor to Chinese GDP in coming decades. Technology, and an increasing efficiency, are two top priorities for a country which is certainly redirecting its outward direct investment strategy to achieve that goal[48]. Spanish manufacturing industry has become a key driver for economic recovery, also in terms of employment, since exports have substantially increased their weight over GDP (from 21.9 to 32.6 percent between 2008 and 2014). Spain will achieve a full economic recovery only by rebalancing its balance of payments, which means that narrowing both current and capital account deficits remains mandatory for the country. This simply means, briefly speaking, that both spanish exports towards China and Chinese ODI in Spain should continue to increase. However, sino-spanish commercial volume is yet 3% of overall exchanges between China and EU. Only Germany represents one-third of European trade flows with China. And Chinese ODI in Spain still remains insignificant despite it has substantially climbed since 2008.

A complex regulatory framework yet appears as the main challenge for Chinese companies willing to invest in Spain. And a clearly insignificant volume of exports, from Spain towards China, also reveal that more efforts must be done in order to increase Spanish competitiveness. Spain has some of the world finest big size enterprises but they mostly operate in Latinamerica and EU. So Spanish influence in Asia-Pacific, unlike the one exerted by other economic powers such as Germany or United Kingdom, still lags well behind its potential[49].

Removing obstacles to investments, and promoting bilateral exchanges, would facilitate an incipient commercial relationship which has already proved beneficial. “We want to invest in Spain but do not know where nor who can our company talk with”, a relevant chinese investor told us during our interviews. Governments and other related institutions are already doing their best in promoting commercial flows between these two countries. But Spanish companies do mostly not have the means, or know-how, to operate in such a complex market as China[50]. And, on the other hand, Chinese investments in Spain yet lag far behind of those received by other European nations like Germany, France or UK. Lack of knowledge towards local markets still represents a main obstacle which negatively affects commercial flows between China and Spain.

But how can bilateral trade and investment flows be better promoted? Loosening regulations, as already mentioned in Box 1, does certainly constitute an important step. However, enterprises at both sides still need effective mechanisms to promote exports and ensure their investments.

For this purpose, the Spanish government has created a new organism called Invest in Spain, aimed at promoting Foreign Direct Investments or FDI. Spain has also established Economic and Commercial Offices, both regional and nationwide, which main goal is attracting investors in their own countries. These microeconomic actions, alongside a commercial-friendly regulatory framework and macroeconomic stability, are crucial to realize the untapped potential in commerce between China and Spain.

Finally, we must conclude that both countries seem to have found common grounds for cooperation. China, which has the world largest savings rate and is shifting to a more domestic consumption oriented economy, can find opportunities either by investing in Spain or importing Spanish goods. Spain, on the other hand, may find either capital or a huge market for those local and competitive enterprises which are going through financial difficulties today. Although Spanish investors do sometimes complain on some lack of reciprocity, alongside trade frictions which may eventually have taken place in the past, an adjustment is plainly unstoppable. Trade and investment flows between both countries have definitely changed their trend after the current global financial crisis that began in 2008-10. The 13th Five-Year Plan plainly reflect a new situation in which China must increase its consumption, tertiary sector and increasingly absorb global technology. Incentives for companies which must go-global have been included in this plan which may also lead to a renewed demand of more investments from China between 2016 and 2020.

1 Not only China but Philippines and Indonesia, among others, have accelerated their growth at a much faster rate than any other region since 2008 (World Bank, *Global Economic Perspectives, 2015. Page 55*).

2 This figure has been estimated at constant prices and according to official data released by the National Bureau of Statistics (NBS). Since "Price Base Year" has changed in 2005 and 2010, we have calculated the 2010 GDP deflator to deflate data between 2010-14 (then maintaining constant prices at levels of 2005). Finally, we have applied the formula below to conclude that Chinese GDP annual growth rate at constant prices climbed by 8.6% from 2008:

$$(1 + R) = \sqrt[6]{(RGDP_{2014} \ / \ RGDP_{2008})}$$

3 http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1 (Source: EUROSTAT).

4 http://itemsweb.esade.edu/research/esadegeo/ESADE_IN_PDF.pdf

5 Chinese industrial sector has been surpassed by the tertiary industry in 2013 (Source: National Bureau of Statistics, NBS - http://www.stats.gov.cn/tjsj/ndsj/2014/indexeh.htm).

6 Instituto Nacional de Estadísticas (Spanish National Bureau of Statistics) - http://www.ine.es/daco/daco42/cne10/pib0013.xls

7 Excess of Chinese savings, $S_{CHN} > I_{CNH}$, may have potentially been aimed at investing in Spain, whenever $S_{SPA} < I_{SPA}$

8 By 2008, Chinese Outward Direct Investment just represented 51% of the total FDI received by China. That percentage has significantly increased to 81% in 2013 (source: UNCTAD, *World Investment Report, 2014.* Page 206).

9 Chinese current account surplus was USD1.8 billion in 2013. But, at the same time, its financial account had reached a surplus of USD3.2 billion (source: Chinese Balance of Payments, SAFE).

10 While BoP in Spain is usually expressed as CURRENT + CAPITAL + FINANCIAL = 0, and whenever this equation shows that CURRENT + CAPITAL < 0 and FINANCIAL > 0, there is external deficit. However, Chinese BoP equals to CURRENT + CAPITAL + FINANCIAL + RESERVES = 0, so since CURRENT + CAPITAL > 0 and FINANCIAL > 0 → RESERVES < 0, there is a "foreign exchange reserves accumulation".

11 World Bank DATABASE - http://data.worldbank.org/indicator/BN.CAB.XOKA.GD.ZS?page=1

12 European Commission - http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf

13 Neither imports nor exports reflect the intermediate value-added. They only reflect the final value of a given good. And that value is entirely attributed to the exporting country. Spanish Institute of Foreign Trade, ICEX, estimates that overall exports to China might have been underestimated by EUR500 million in 2014. A cut clear example is represented by Airbus, which aircrafts are usually exported from France, even though Spain holds an estimated production share of 8%.

14 It should be noted, nevertheless, that Spanish imports from Far East Asian economies have remained constant at 9.56% of the total between 1995 and 2014. And that Asian economies, such as Japan or South Korea, started to export most of their manufactures from China right after this country joined the World Trade Organization in 2001.

15 According to the Chinese General Customs Administration, http://www.customs.gov.cn/publish/portal0/tab49666/info729729.htm, Germany accounted for one-third of total European trade with China in 2014. Only Germany, France, UK, Netherlands and Italy altogether did represent more than 70% of total trade between China and the European Union. However, Spanish share is only a 5%.

16 China ten-top trading partners in 2014 were the United States, Hong Kong, Japan, Republic of Korea, Taiwan, Germany, Australia, Malaysia, Brazil and Russia.

17 Krugman, Obstfeld and Melitz, *International Economics*. 2010, page 11.

18 National Bureau of Statistics, *China Statistical Yearbook*, 2014 (http://www.stats.gov.cn/tjsj/ndsj/2014/indexeh.htm).

19 http://www.customs.gov.cn/publish/portal0/tab49666/info729731.htm

20 "Booming copper demand will lead to the industry revival in Spain"
http://www.theguardian.com/environment/2015/feb/25/controversial-spanish-mine-to-repoen

21 It should be noted that more than half of copper exports are wasted materials and manufactures.

22 As some managers at www.jd.com have told us during some personal interviews here in Beijing, PRC.

23 Spanish tourism industry represents more than 10% of employment and GDP. Source: EXCELTUR

24 World Tourism Organization, UNWTO, *Tourism Highlights*, 2014, page 6.

25 These figures may be overestimated since Chinese Mainland citizens traveling to Hong Kong are also considered as overseas tourists.

26 According to some officials consulted for these matter, all do estimate that Chinese holdings of Spanish sovereign debt are worth EUR60 billion. This is a huge amount considering the fact that chinese overall debt holdings were insignificant before 2008. Former Spanish finance minister, Pedro Solbes, did acknowledge in Beijing that China "has played a crucial role to save the Euro". Holdings of Spanish debt are fully confidential since the sovereign debt crisis worsened in 2010.

27 United Nations Conference for Trade and Development, UNCTAD, *World Investment Reports 2008 and 2013*.

28 Hong Kong SAR and China mainland together would rank second in ODI statistics only behind the United States. However, and since Hong Kong SAR acts as a global financial hub, most of the outflows registered there do not correspond to Chinese enterprises.

29 http://unctad.org/Sections/dite_dir/docs/WIR2014/WIR14_tab04.xls

30 Most of the Chinese ODI to other world areas is channeled through Hong Kong SAR. Henceforth, Chinese ODI towards Hong Kong SAR accounts for 50%, which also makes difficult to track the final destination of those investments. Source: Ministry of Commerce – PRC, MOFCOM, *Statistical Bulletin of China Outward Direct Investment*, 2013.

31 According to Chinese president, Xi Jinping, ODI in Latinamerica should climb over USD100 billion within the next decade. During 2013, it grew up by 132%, from 6 to over USD14 billion.

32 We should note that Russia is included as part of Europe in the Chinese statistics released by MOFCOM. Besides, and according to the latest available data, Chinese ODI to Europe has almost doubled in 2014 (http://finance.chinanews.com/cj/2015/01-16/6977506.shtml).

33 According to EUROSTAT, Chinese stock in Europe grew from 5 to EUR26.8 billion within the period 2007-12.

34 Hong Kong, British Virgin Islands, Caiman, Luxembourg or Switzerland are among the main recipients of Chinese ODI. Therefore, it turns out rather impossible to accurately track the final destination of those investments. Source: MOFCOM, *China Outward Direct Investment Report* (中国对外直接投资统计公报), 2012, page 18.

35 http://www.ft.com/cms/s/0/7d8a9822-b128-11e4-9331-00144feab7de.html#axzz3VVzEZdyG

36 China Europe Club, ESADE, *China Investment in Europe*, 2014. Pages 39 - 40
http://itemsweb.esade.edu/research/esadegeo/ESADE_IN_PDF.pdf

37 Spanish outstanding debt-over-GDP ratio grew from less than sixty to one hundred percent after 2010. Spanish rating has worsened since then so international investors might prefer to keep their holdings confidentially.

38 http://www.wanda-group.com/corporateprofile/

39 Diminishing returns from the domestic Real Estate sector are pushing Chinese entrepreneurs to look for other investment opportunities such as Spanish soccer (especially after new policies and public support in China).

40 Investments in some of the largest European utilities, made by CIC or SAFE, have a financial purpose. But others in renewable or oil industries are aimed at either meet Chinese domestic demand, acquire new technologies or both.

41 Shuanghui, which recently has been renamed as WH FOOD, co-owns Campofrio alongside Mexican firm SIGMA.

42 ICBC has also spent EUR21.8 million to buy-out the building that actually serves as its headquarters in Madrid. And according to ESADE Business School, both ICBC and China Development Bank have extended loans for local companies such as Telefonica or ADIF (Source: China Europe Club, ESADE, *China Investment in Europe*, 2014. Page 75 http://itemsweb.esade.edu/research/esadegeo/ESADE_IN_PDF.pdf)

43 Telefonica has already sold its 4.56% stake at China Unicom, worth EUR1.1 billion, in 2012.

44 http://www.huayicompressor.es/index.php/about-us

45 However, MoU between BYD and Castrosua was signed several years ago without any significant development since then. Foton is also facing some operational hurdles in Spain.

46 There is a positive correlation between disposable income gains and demand of services such as tourism.

47 In spite of the Spanish government is very optimistic and expects a 2.9% GDP growth rate for 2015.

48 “China is not interested in buying more bonds but wantsto acquire real assets instead”, says Ciu Hongjiang, a senior analyst at Chinese Institute for International Studies.

49 We have realized, during our interviews with Chinese entrepreneurs, that high unemployment rates and sociopolitical instability have arisen as main concerns for doing business in Spain. Some Chinese investors are also aware of domestic risks such as that Catalonia could finally gain its independence from Spain.

50 Although Spanish companies with a physical office in China have climbed from 60 to more than 600 between 2001 and 2014. Source: Spanish Chamber of Commerce in Beijing.