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CHINA TRUMPS THE EUROPEAN UNION FOR FOREIGN DIRECT INVESTMENTS

With all of the problems, confronting Europe these days, it is hardly any wonder that foreign direct investments have dried up, considerably, in this part of the world.

In contrast to Europe's woes, the Government of the People's Republic of China (PRC) is smiling – all the way to the country's State-run banks.

According to the latest statistics in respect of foreign direct investments, worldwide, in the 2013 calendar year, the PRC was the recipient of more net inflows of foreign direct investments than the aggregate amount of all net inflows of foreign direct investments into the 28 member states of the European Union.

It is very apparent the European Union has lost a great deal of its attractiveness as a haven for foreign direct investments and, perhaps, it is no longer perceived as a region of the world that can compete with the likes of the PRC and many of the emerging economies of Asia.

In the early 2000s, the European Union could boast of enjoying about 50 percent of the worldwide inflows of foreign direct investments.

Today, inflows of foreign direct investments into the European Union have fallen to about 20 percent of the global pie.

Since 2007, the so-called BRIC economies – Brazil, Russia*, India and the PRC – have witnessed an increase in excess of at least 100 percent in terms of inflows of foreign direct investments.

* The recent outflows of foreign direct investments from The Russian Federation were due, almost entirely, to sanctions, having been imposed on segments of the economy as well as individuals and entities, domiciled in the country. These sanctions were imposed by the United Nations and were in response to Russia's military incursions on the sovereign territory of Ukraine and the providing of arms, ammunition and Russian-produced, heavy, self-propelled armaments to the pro-Russian separatists, resident, for the most part, in the southeastern part of Ukraine.

Making matters complicated for the European Union is that about 60 percent of all inflows of foreign direct investments have had their roots in what could rightfully be termed as intra-European Union bases.

That is to say that the funds did not originate from foreign investors, external of the 28 member states of the European Union.

What this means, in truth, is that the records of inflows of foreign direct investments into the European Union from intra-European Union states are not, in fact, new investments from non-European Union regions, at all.

One could say that what is, actually, taking place, within the 28 states of the European Union, is that capital is being moved round the region, from time to time, with well-heeled investors of certain member states, taking advantage of other states' situations in order for the investors to obtain a short-term advantage at the expense of the investee states.

Which may be considered, long term, not the best investment scenario for the European Union, as a whole.

> *'Naked came I out of my mother's womb, and naked shall I return thither: the LORD gave, and the LORD hath taken away; blessed be the name of the LORD.'* (Job 1:21)

Come One, Come All

In the current investment climate of the European Union, foreign direct investments from outside the European Union are welcomed ... and strongly encouraged.

With seed and expansion capital, being constrained in the European Union, domestic companies find it onerous to obtain financing from conventional sources.

Thus, any material expansion capital for many a corporate entity of the European Union is as easy to obtain as hens' teeth.

As for persons and entities, seeking seed capital, most would-be, start-ups in this part of the world have emigrated to other climes.

It is accepted that, of late, the European Union has been dragging its proverbial feet and, as a direct consequence, it is determined by many an international investor that there is sweeter ginger in other gardens, other than those wilting gardens of Europe, that is.

The seemingly perceived (and real) lack of structural improvements and more-generous conditions, afforded to prospective foreign investors, have come to mean that money that might, once, have been earmarked for investments within the European Union, is being diverted away from this part of the world to other areas where the investment climate is more conducive, as far as well-heeled investors are concerned.

It is accepted that foreign direct investments are supposed to be long-term investments, aimed at building up mutually beneficial relationships between foreign investors and the business vehicles into which investors' cash is being endowed.

Speculative investments are not, normally, the name of the game because, inter alia, it does not bode well for long-term relationships.

Very often, foreign direct investments are based on the overriding principle of a business entity in one economy, obtaining full or partial control of a business entity in another economy.

The reasons that foreign direct investments have become widely accepted are numerous, but, in general terms, it has come to mean that an investor in one economy takes note of the fact that it would be preferable to diversify part of the investor's parent, corporate entity by transplanting it into another economy.

The PRC is a classic example of the above statement since, when its economy was starting to take off, a number of State-run companies ventured out of the Middle Kingdom in order to find that which the country required to keep the wheels of China's industry churning and making it possible for industry to expand.

Among other things, more raw materials and minerals were required for the manufacture of goods as well as supplying the country with sufficient energy.

To that end, corporate entities of the PRC, aided and encouraged by the government of the day, sought joint ventures in economies that could supply the many and varied requirements of the PRC State.

Point of fact: The PRC heaped billions of dollars into the coffers of select, Australian mining companies in exchange for multiple shipments of coal that were used to produce electricity, thus permitting the PRC's wheels of industry to accelerate from their previous pace.

The Australian economy was on a roll, thanks to the sales of many hundreds of thousands of tonnes of coal to the antipodean's largest, single customer – the PRC.

Another example is that quite a number of North American companies have outsourced part of their administrations to India because (a) labour is cheaper in India than in the North American economy (b) it is more expedient so to do and (c) it relieved the administrative manpower of the parent company thus permitting better and more-efficient use of the American labour force.

The importance of foreign direct investments cannot be overstated due to the many (often, initially unseen) advantages that it produces, other than being just a source of financing.

The modus operandi of one economy will, invariably, differ from that of another economy and the interchange of ideas leads, in many cases, to new and improved methods of doing business.

Technological advances are made when conditions are conducive to creativity and labour is stimulated, not just by financial rewards, but, also, by a feeling of having become an integral part of an entity and being recognised for the contribution that it has made to that entity.

Such situations, invariably, lead to increased productivity and spill over, sometimes surreptitiously, but discovered when it is noted that there has been a material improvement in the gross domestic product of the host economy.

Also, as one can appreciate, where one economy is bereft of a certain industry and/or technological advances, the foreign direct investor can bring them to the host economy.

Thus, the investor's economy and that of the investee's economy both benefit.

The Value of Foreign Direct Investments

In the late 1990s and the early 2000s, the member states of the European Union accounted for about half of the world's inflows of foreign direct investments.

Thus, the European Union was viewed – and rightly so, too – as the most-important region of the world for foreign direct investments.

Within about 12 years, the share of the world's foreign direct investments to the European Union had dropped to about 20 percent; and, the $US239 billion-worth of foreign direct investments, about which the European Union could boast, was, roughly, equivalent to the combined net inflows of The United States of America and the PRC.

By 2013, inflows of foreign direct investments into Brazil, Russia, India and the PRC had reached about 29 percent of total inflows.

The PRC increased its presence, internationally, and, as soon as it had unseated Japan as the second-largest economy of the world, investors took careful note of the booming economy of Asia's fast-moving, industrial player.

Since 2010, the PRC has been the largest recipient of foreign direct investments – and it continues to excite investors to come to its shores.

In that year, the inflows into the PRC of foreign direct investments, at about $US258 billion, exceeded that of inflows into The United States of America by about $US65 billion.

As for the European Union, one might be inclined to disregard a great deal of the economic intelligence bumph that is produced by many of the economists in that part of the world because, as has already been pointed out, the inflows from members of the 28 states can hardly be considered as '*foreign direct investments'* due to the fact that, inter alia, they are intra-European Union state inflows.

Statistically, the following three countries enjoy the largest slice of the international foreign direct investments, annually:

The United States of America	$US3.20 trillion
The PRC	$US2.20 trillion
The United Kingdom	$US1.60 trillion

The PRC remains the dominant player in seducing foreign direct investments to its shores and, most likely, it will hold onto that position for some years to come.

Conversely, the European Union has been toppled from its top prominent position and, the way that things look today, it is unlikely, ever, to be able to regain the glory of yesteryear.

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