

# Chinese Investment in Europe

## A Country-Level Approach

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# Business vs. Security: The Conundrum of Chinese Investments in Belgium

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## **Summary**

*Belgium may not be China's prime destination for investment in Europe, but as in other neighboring countries these investments are increasing in quality and quantity. Chinese investments are mostly welcomed and encouraged by the government, its agencies and the business community. However, a recent failed deal with EANDIS, a public energy company, has also raised some concerns about the economic and security implications of (some) Chinese investments. Belgian intelligence services, notably, argue for a bit of caution vis-à-vis China. While these two visions could be complementary, they remain held by distinct communities that seem reluctant to acknowledge and listen to one another. As a result, the Belgian response to China's economic offensive remains overwhelmingly reactive and uncoordinated.*

## **The Chinese are coming! The evolution of Chinese investments in Belgium**

Tracking – and screening – foreign investments is a tricky business.<sup>1</sup> In Belgium, a federal country, this exercise is further complicated by the fact that trade and investment promotion is a regional jurisdiction, while the federal government maintains some authority with regard to the coordination of investment policy or relating to the possible screening of FDI. Each of the three regions (Brussels, Wallonia and Flanders) have their own trade agencies, which collect their own statistics on investments that they facilitated themselves. However, they use different methodologies, making any comparison difficult.<sup>2</sup>

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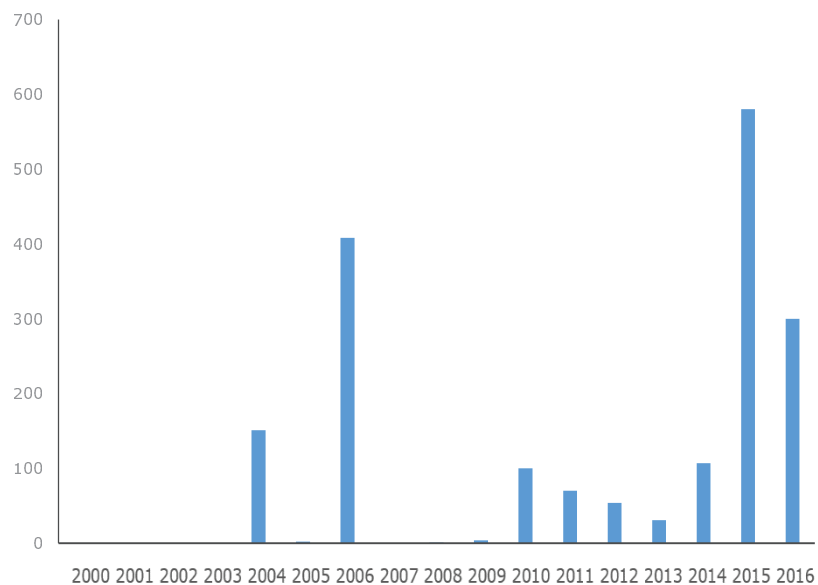
1. For a longer discussion on this topic, please read the introduction and data chapter of this report.

2. For instance, whereas the Flemish agency takes into account Chinese investments in shareholding, the Walloon agency only tracks investments in the real economy. Yet, all three agencies only track investments that they facilitated themselves, although they estimate that it is the wide majority of the actual investments.

Furthermore, there is absolutely no certainty that deals facilitated by regional agencies constitute the majority of the financial transactions in Belgium. Indeed, major Chinese investors (as opposed to Chinese SMEs) may not need to go through such agencies. A final factor blurring the investment picture is the fact that a significant amount of Chinese investment is likely transiting through other countries, notably Hong Kong but also, closer to home, through Luxemburg and the Netherlands, according to an official from the National Bank.<sup>3</sup> That makes it almost impossible to trace these investments to the source.

For this chapter, we have received access to the various databases available, and met with all relevant stakeholders. In addition to these official statistics, we use the data from the Rhodium Group, which in spite of its own limitations open the possibility of comparison across European countries. Based on this material, we provide the best possible picture on Chinese investments, while recognizing that the picture remains grainy, with too many blank spots. No better picture exists, however, as an authoritative measure of the real scope of the Chinese financial presence in Belgium has yet to emerge.

**Figure 1. Chinese investments in Belgium (2000-2016), in EUR millions**



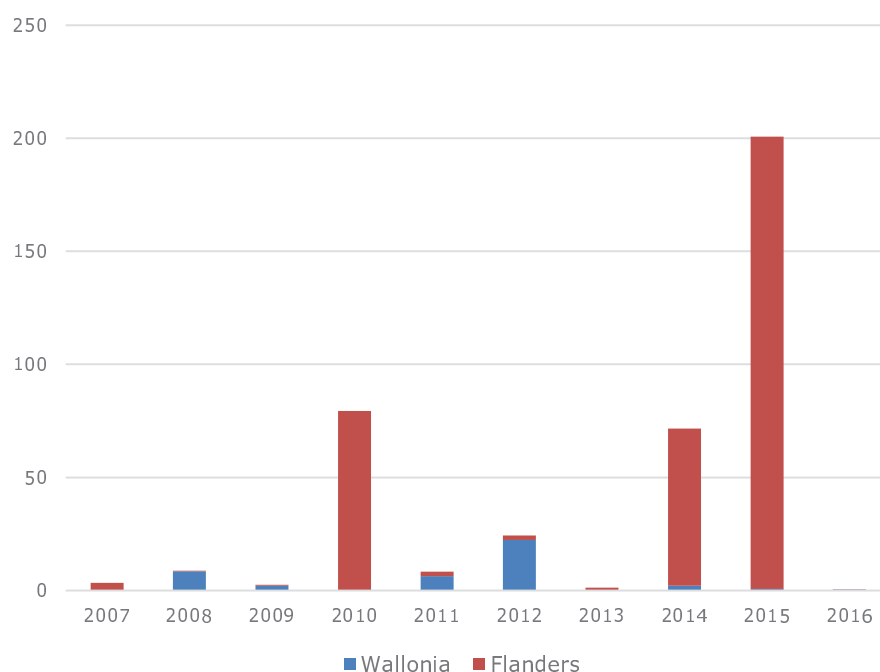
*Source: Rhodium Group*

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3. Telephone interview with an official from the National Bank of Belgium, Brussels, 30 May 2017.



**Figure 2. Chinese investments in Wallonia and Flanders (2007-2016),  
in EUR millions**



*Source: Flanders Invest and AWEX.*

These figures only include the deals concluded through the regional trade promotion agencies, and therefore do not reflect the full picture of Chinese investments in Belgium. Moreover, the two agencies use different methodologies, making the aggregate of the figures an artificial and imperfect exercise.

Chinese investments in Belgium remained low in the first decade of the 2000s.<sup>4</sup> For instance, Chinese investments in Wallonia for 2000-2010 amounted to 10 projects for a total of EUR 10 million, creating 90 jobs in total.<sup>5</sup> While very little attention was drawn to Chinese investments at the time, three major exceptions (in Brussels and Flanders) are noteworthy. First, COSCO purchased 25 percent of the Port of Antwerp's container terminal for EUR 150 million in 2004. Second, China National Bluestar Corporation (ChemChina) acquired Drakkar Holdings (Adisseo), an animal food company, for EUR 400 million in 2006.

4. Interview with officials from Brussels Invest & Export (BIE), Brussels, 21 April 2017; Interview with an official from Flanders Invest and Trade (FIT), Brussels, 21 May 2017; Interview with officials from Wallonia Export-Investment Agency (AWEX), Brussels, 30 May 2017.

5. Written question from Claude Eerdekens to Jean-Claude Marcourt, Question 86 (2010), Walloon Parliament, 11 February 2010.

Last but not least, in 2007 Ping An Insurance, China's then-largest life insurance company, bought a 4.2 percent stake in Fortis, a Belgo-Dutch bank and insurance group, for EUR 2.7 billion euros, making it the largest stakeholder. This deal, which was first celebrated, became more cumbersome when Ping An opposed the sale of Fortis to BNP Paribas in 2009, after the bank was nationalized in the wake of the global financial crisis. Ping An later filed an international arbitration claim against Belgium to recoup losses – the first time a Chinese company turned to the World Bank court (ICSID) for settling of an investment dispute against a state. It eventually lost the case.

A more positive story is that of Chinese carmaker Geely's takeover of the Swedish group Volvo, in 2010. Although there was no direct financial transaction in Belgium, Volvo had a major factory in Ghent, employing over 5,000 workers. After an initial period of concern, jobs have been successfully preserved, and production even expanded.

From 2010, Chinese investments rose progressively as a result of Beijing's strategy to invest more in Europe. According to officials from the regional trade agencies, the relationship has not only evolved quantitatively,<sup>6</sup> but also qualitatively, maturing considerably over the past few years. Following an initial period of uncountable delegation visits leading to unfulfilled promises and few real outcomes, investors are now coming better prepared, with clearer projects in mind and the will for results.<sup>7</sup> In short, they are coming for business, not tourism.

Chinese investments in Belgium have now surpassed Belgian investments in China for the first time in history, possibly as of 2014, although incomplete data render any precise dating impossible.<sup>8</sup> According to an investigation conducted in early 2017 by *De Tijd* newspaper, Chinese investors have acquired shares in 65 companies operating in Belgium, across a wide range of sectors. Together, these companies employ no less than 18,586 workers in Belgium.<sup>9</sup> Some recent landmark deals include the acquisition of the Belgian division of Delta Lloyd Bank by the insurance group Anbang in 2014 (EUR 219 million); the acquisition of Punch PowerTrain, the high-tech producer of powertrains for vehicles, in 2016 by Yinyi (EUR 1 billion); or the building of the China Belgium Technology Center, starting in 2017 and scheduled to become operational by the end of 2018,<sup>10</sup> a high-tech research incubator on the university site of Louvain-la-Neuve meant to attract

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6. The quantitative increase referred to by our interviewees is not self-evident from the figures available, but this could be due to a number of factors, including the fact that some investments may take years to materialize, but also that our figures may be incomplete (for all reasons mentioned above).

7. Interview BIE, *op. cit.*; interview FIT, *op. cit.*; interview AWEX, *op. cit.*

8. Interview with an official from the Belgian Ministry of Foreign Affairs (MFA), Brussels, 21 April 2017; Question of Gautier Calomne to the State Secretary for external trade, written question 0148 (Leg54), Federal Parliament of Belgium, 27 July 2017.

9. Tom Michiels, "China plant vlag in Belgische bedrijven", *De Tijd*, 4 March 2017.

10. The project was slightly delayed because the main Chinese investor was targeted by Beijing's anti-corruption campaign. In the meantime, another Chinese investor has stepped in the project.

some 700 Chinese workers (EUR 200 million), and which would also be an opportunity for China to demonstrate its ability to create new greenfield investments.

## Win-win? What's in it for them, and for us

Chinese investments in Belgium are diverse, but they show nonetheless certain levels of concentration, geographically and in terms of sectors and activities. A majority of these investments are located in Flanders, up to 70 percent according to the Flemish trade agency.<sup>11</sup> While the Brussels region attracts fewer investments, it hosts nonetheless some major financial institutions such as ICBC or Bank of China, and several important real estate projects, including the refurbishing of the former Sabena Hotel into a 5-star hotel Tangla in 2016 (EUR 70 million).

Belgium has three main incentives to attract foreign investors in general, which also appeal to China. First, Belgium offers a favorable tax regime for international companies, known as "notional interests". Multinational Chinese groups are therefore encouraged to create a branch in Belgium to benefit from this system, as highlighted by almost every government's delegation to China, even if they are to later repatriate these funds through intra-company loans.<sup>12</sup> Second, Belgium is a logistical hub in (Western) Europe, with several maritime ports (including Antwerp) and airports, and a dense network of highways, railways and fluvial routes. Chinese companies aiming for the European market appear to be particularly receptive to these favorable conditions.<sup>13</sup> Interestingly, some of these logistical assets are themselves targeted by Chinese investors. Indeed, the Chinese company COSCO took a 25 percent stake in Antwerp's container terminal in 2004, while 49 percent of the container terminal of Zeebrugge was first acquired in 2014 by COSCO and Shanghai International Port Group, before COSCO announced that it would acquire the entire terminal in September 2017.<sup>14</sup> The Port of Antwerp would still like to attract more Chinese ships and investments, as it lags far behind competing ports such as Rotterdam or Hamburg in this regard, and has created for that purpose a "Belt and Road working group".<sup>15</sup> Third, the presence of international organizations, and particularly the European Union, is considered an asset for international investors who wish to lobby for their interests.

Beside these particular conditions favoring international investments, Chinese companies seem to be driven by the same set of motivations in Belgium than elsewhere.

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11. John Vandaele, "Vlaamse regering ziet de Chinezen graag komen", *MO.be*, 2 March 2016; interview FIT, *op. cit.*

12. See for instance Bernard Demonty, "Charles Michel fait le forcing en Chine pour attirer les investisseurs", *Le Soir*, 31 October 2016.

13. Interview BIE, *op. cit.*; interview FIT, *op. cit.*; interview AWEX, *op. cit.*

14. John Vandaele, "Vlaamse regering ziet de Chinezen graag komen", *MO.be*, 2 March 2016; "Chinese Now Own All of Zeebrugge Container Terminal", *FlandersNews.be*, 11 September 2017.

15. "Le port belge d'Anvers souhaite jouer un rôle majeur dans l'initiative 'ceinture et route'", *Xinhua*, 28 October 2015.

They seek to acquire reputable brands, as well as technology and know-how. In some cases, they use Belgian companies as a “vehicle” to invest in other European countries, through a strategy of expansion. The Chinese manager of Anbang explained that this was clearly the strategy behind the acquisition of Delta Lloyd (now called Nagelmackers), although that case remains exceptional in Belgium.<sup>16</sup>

Chinese investments are overall largely welcomed in Belgium, except for the traditional caution vis-à-vis foreign investors in general. The business community is keen to meet Chinese partners, particularly those who can provide them with fresh capital. For instance, in 2016 the Belgian company Windvisions sold the country’s largest onshore wind energy park, composed of 11 mega wind turbines, to China General Nuclear in order to reinvest in the building of other projects. Similarly, one football team of the second league (Roeselare) in need of cash was already bought by Hawken Xiu Li, a Chinese businessman, while two other teams (OH Leuven and Mouscron-Peruwelz) have been approached by Chinese financiers.<sup>17</sup> In the parallel universe of football, we could add that the Belgian first league has become a bit more Chinese since 2014, when the Italian company MP Silva, owned at 65 percent by Shanghai Jin Xin Investment, a Chinese company, acquired the exclusive TV rights for EUR 70 million per year.<sup>18</sup>

Belgian companies are interested in more than just cash, however. In a number of cases, they also hope that their new shareholders will open the gate to the enormous Chinese market, which is still inaccessible for many European SMEs. That was clearly the motivation of the CEO of Punch PowerTrain, which seems to have paid off since the group continues to grow by about 50 percent annually, creating 722 new jobs in 2016 alone – in Belgium and China.<sup>19</sup>

More than just being welcomed, Chinese investments are facilitated by government agencies. The three regional trade offices have several permanent representatives in China promoting their respective regions, while the federal government has facilitated the contact between entrepreneurs from both sides through several economic missions over the past years.

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16. Emmanuel Vanbrussel, “Chinese financiële reus op overnampad in België”, *De Tijd*, 22 December 2016.

17. Wouter Verschelder, “De Chinezen komen naar het Belgische voetbal: OH Leuven verkocht aan schimmige vennootschap uit Shanghai”, *Newsmonkey*, 2 February 2017.

18. Jean-François Munster, “Les droits de la Jupiler Pro League passent entre des mains chinoises”, *Sud Presse*, 25 May 2016.

19. Tom Michielsen, “China plant vlag in Belgische bedrijven”, *De Tijd*, 4 March 2017; Guido Cloostermans, “Punch Powertrain boekt dit jaar ruim 500 miljoen omzet”, *Het Belang van Limburg*, 7 December 2016.

## The EANDIS case and the growing concern for “strategic sectors”

Until recently, Chinese investments seemed to raise little concern among Belgian authorities. Indeed, a review of the parliamentary questions of the federal and regional assemblies shows very few questions related to such investments and, when such questions were raised, they reflected a predominantly commercial orientation with a focus on Belgium’s ability to attract more investments.

That perception may have slightly changed in 2016. China’s State Grid, a state-owned company, made a bid for a 14 percent stake in EANDIS, the public company responsible for the distribution of gas and electricity in Flanders, for an estimated amount of EUR 830 million. While originally favorable to the deal, the EANDIS board composed of local politicians changed course, notably following the reception of a note from the civilian intelligence service, which was leaked to the press and initiated a major public debate, and calling for some prudence with regard to this investment project.<sup>20</sup> Eventually, the deal failed not because of the secret note, but rather due to internal politics. However, it highlighted for the first time in Belgium the potential risks associated with Chinese investments, and the role that security services can play therein.

The State Security (VSSE), the civilian intelligence agency, is responsible for the protection of the scientific and economic potential of the country. It considers that China is actively engaged in economic espionage and theft,<sup>21</sup> and that national companies are still too naïve and ill-protected against these risks.<sup>22</sup> In contrast, a number of economic stakeholders consider that the intelligence services are too paranoid, and question the over-cautiousness vis-à-vis China as opposed to other foreign investors.<sup>23</sup> Clearly, the business community and the security community are not aligned on China, even though the intelligence services occasionally brief Belgian companies on China-related matters.

The real implications of the failed EANDIS deal are still uncertain. At first, it created tensions between Brussels and Beijing, and the business community feared that it would deter future Chinese investments.<sup>24</sup> However, leaders from both countries seemed willing to quickly move on, as they organized the very first bilateral “innovation dialogue” in early 2017, at the request of China. More fundamentally, the EANDIS case has put forward the absence of policy with regard to foreign investments in so-called “strategic sectors”, which have in fact never been identified or defined by the Belgian authorities. In response to a

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20. State Grid was expected to invest not in EANDIS directly, but in a new group called EANDIS Assets, resulting from the fusion of EANDIS with other smaller public companies. It is eventually the failure of that fusion into EANDIS Assets that sealed the fate of the proposed Chinese investment.

21. The Chinese government indirectly recognized this when it launched its campaign to protect intellectual property rights (IPR) of foreign companies.

22. Lars Bové and Wim Van de Velden, “Staatsveiligheid wijst op risico’s”, *De Tijd*, 4 March 2017.

23. Interview BIE, *op. cit.*; interview FIT, *op. cit.*; interview AWEX, *op. cit.*

24. Interview MFA, *op. cit.*



parliamentary question, the Flemish Prime Minister said that he would consider the possibility of investment screening mechanisms, but no concrete proposal has yet been proposed.<sup>25</sup>

### **Monitoring and screening: some recommendations**

This paper has shown that there is a significant gap between the business and security communities with regard to Chinese (and foreign) investments in Belgium. These two communities have diverging views on the issue, and on how to address it. However, such views and concerns are not necessarily incompatible, as one can do business while being security-minded. The two sides could be reconciled through a more strategic and comprehensive approach.

Following the EANDIS case, it seems particularly essential to initiate a debate on the so-called “strategic sectors” of the Belgian economy, to identify them according to clear criteria. More clarity in this area would serve the national interest, while creating more clarity for foreign investors. It should then be determined whether some sort of red lines or screening mechanism vis-à-vis foreign investors should be put in place, and by whom. In the case of Belgium, such screening should involve various institutions, at the federal and federated levels, as well as the intelligence services. The State Security could indeed be mandated by the government – through its National Security Council, which sets priorities for the intelligence services – to monitor foreign investments in specific sectors more closely.

Beyond “strategic sectors”, a closer monitoring of foreign investments in Belgium would be desirable in order to better inform policy debates in this domain. At this stage, such monitoring does not exist. The monitoring of foreign investments and possible screening mechanisms should not be designed against China specifically, in order not to derail the positive business relationship that has emerged. However, it is clear that increasing investments from Chinese state-owned or state-related companies into the Belgian economy will continue to raise scrutiny.

Finally, the debate on “strategic sectors” and screening mechanisms could extend beyond the national level. “Europeanizing” the discussion should not serve as an excuse to prevent action at the domestic level, but it would make sense since investment has become a shared EU competence with the Lisbon Treaty. Furthermore, it would be desirable to increase EU coordination on these matters, given that many investments have a transnational dimension (when a Chinese company buys a European company to buy or invest in other European companies, for instance), or that several EU member states are likely confronted with similar situations and debates about these investments (for

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25. Oral question from Matthias Diependaele to Geert Bourgeois, Actuele vraag 6 (2016), Flemish Parliament, 5 October 2016.

instance, while State Grid was denied an investment in EANDIS, and similarly in Australia, it has made substantial investments in other European countries, such as Portugal). However, the recently proposed EU screening mechanism received a rather lukewarm reception in Belgian business and official circles, as it is deemed too high a price to pay (as it may upset and repulse Chinese investors) for what is considered eventually a minimal threat. This should not prevent further discussions and exchanges to take place in a multinational setting, including through informal forums. For instance, exchanges have already increased among European intelligence services on these issues, in the context of the Club of Bern – an informal gathering of European intelligence officers. Such discussions, focusing on perceived security challenges and good practices to address them, could help in formulating some recommendations for national governments and EU institutions.