

Foreign direct investment

China 'dwarfs' US investments in EU neighbourhood countries

Countries in eastern Europe, north Africa and central Asia receive more funding from Beijing, EBRD says



A battery production line in China. The EBRD's chief economist, Beata Javorcik, says China is also hoping to tap into 'the long reach of US subsidies' © STR/Reuters

Raphael Minder in Warsaw 8 HOURS AGO

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Chinese investments across eastern Europe, north Africa and central Asia have far outpaced those from the US, as Beijing seeks ways to circumvent US trade sanctions, according to a new report.

Last year the 36 countries in which the European Bank of Reconstruction and Development operates — ranging from Poland to Mongolia in the east and from Morocco to Turkey in the south — received just under 39 per cent of their combined greenfield investments from China, up from 5.1 per cent in 2022 and only 0.6 per cent 20 years ago, the international lender reported on Wednesday.

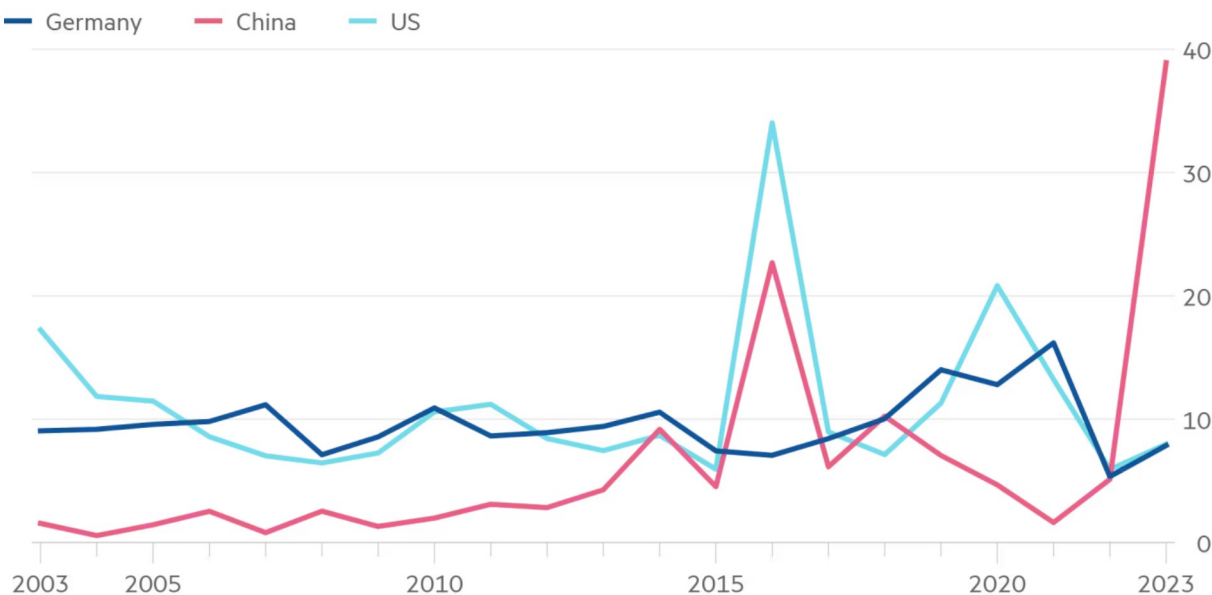
“China is dwarfing FDI from Germany and the US,” Beata Javorcik, the EBRD’s chief economist, told the Financial Times. The US and Germany each accounted for just under 8 per cent of greenfield foreign direct investment in the regions covered by the international lender.

This surge in part shows how “China has tried to diversify production locations in

This surge in part shows how China has tried to diversify production locations in terms of potential trade barriers”, she said.

EBRD countries received almost 40% of their greenfield investments from China in 2023

Greenfield FDI capital investments by country of origin (%)



Source: EBRD

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For instance, China is spearheading investments in Morocco, which has a free trade agreement with the US and can export raw materials for electric vehicles without being subject to punitive tariffs and instead be eligible for US renewable energy subsidies.

CNGR Advanced Material, a Chinese battery components manufacturer, signed an [agreement](#) last year to build a cathode materials plant in Morocco to supply the US and European markets.

With this kind of investment, China is also hoping to tap into “the long reach of US subsidies”, Javorcik said.

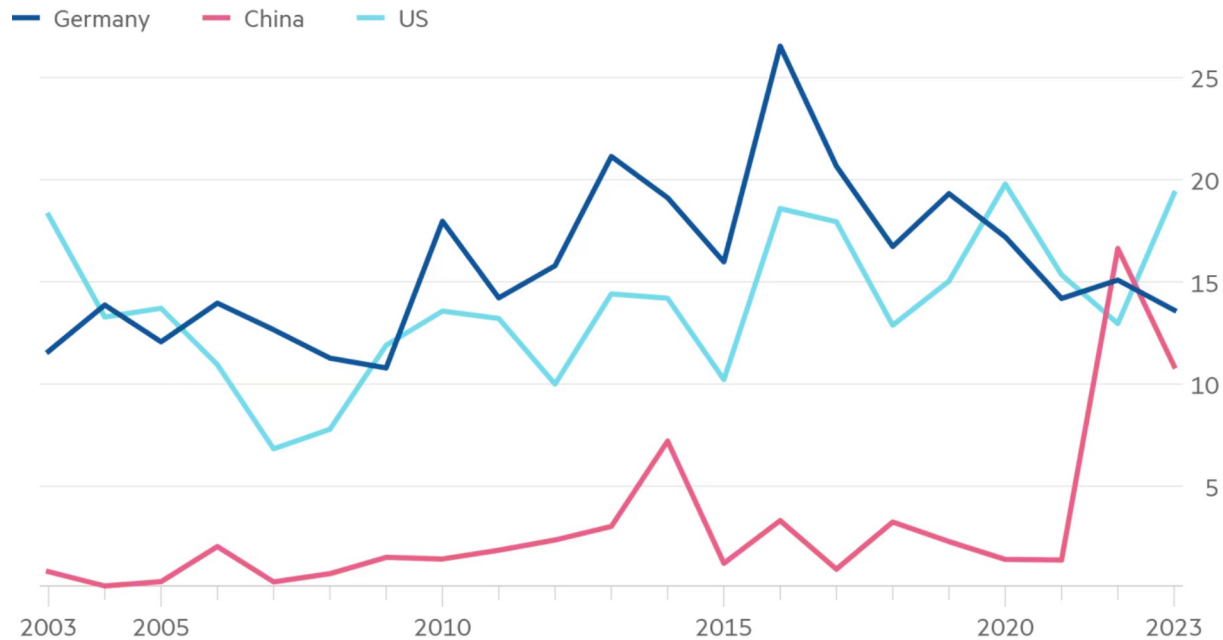
Washington on Tuesday announced significant tariff increases on [imports from China](#) including electric vehicles, batteries and semiconductors in order to protect US jobs.

But as the EU ponders whether to follow suit, Javorcik highlighted the potential for Europe to attract Chinese manufacturers rather than block them altogether, just as Washington got Japanese carmakers to open plants in the US in the 1980s. This strategy would help “create jobs and ensure that the EU remains a manufacturing base”, she said.

China's FDI lags behind the US and Germany in the EU's central and eastern member states, as Brussels has taken a more forceful approach against Chinese companies that are subsidised by Beijing and compete at lower prices on the internal market.

China's FDI in EU EBRD countries lags behind the US and Germany

Greenfield FDI capital investments by country of origin (%)



Source: EBRD

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The EBRD expects GDP across its regions to average 3 per cent this year and 3.6 per cent in 2025, up from 2.5 per cent in 2023.

The countries it operates in struggled to bring down inflation which surged in the Covid-19 pandemic and after Russia's full-scale invasion of Ukraine in 2022. While the pace of disinflation has been "somewhat quicker than expected a year ago", inflation is still about two percentage points above pre-pandemic levels, the EBRD said.

The bank lowered its GDP forecast by 0.2 percentage points from its previous report in September in part because of weakening growth in central Europe and the Baltic states, which are suffering from the impact of the war in Ukraine and Germany's economy slowing down. "Half a percentage growth in Germany is something that will be felt," Javorcik said.

The EBRD's chief economist, who is Polish, also noted countries in her own region continue to be hampered by a rise in their borrowing costs over the past two years, in contrast with other EBRD regions where the risk premium has fallen back to the levels before Russia's invasion.

“It’s yet another way in which you can see the long shadow of the war on the region,” she said.

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