

European Proposals on foreign subsidies – some thoughts by an economist

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GCLC Lunch Seminar – May 27, 2021

Why be concerned about foreign subsidies – what/who do we want to protect?

Prima facie, one may be inclined to think:

Why not take advantage if other country subsidizes acquisition?

- Would benefit shareholders, employees
- Bad for competitors

Compare to antidumping rules

- Protection of domestic competitors (Industrial Policy)

Instead of

- Protection of customers
- Protection of competition

Rationale for proposal

Ensure level-playing field for EU companies and foreign companies:

- No foreign subsidies where no European subsidies are allowed

Small digression: Why prohibit subsidies in EU?

Similar rationale to the one for strict competition rules

Commitment device by governments against lobbying efforts of national companies and stakeholders

- not to subsidize companies
- not to allow mergers that reduce competition

In order to force companies to compete on their own merit by innovating, which has positive long-term effects

Rationale for proposal

Ensure level-playing field for EU companies and foreign companies:

- No foreign subsidies where no European subsidies are allowed

Problem: what about other advantages foreign firms might enjoy

- low labor cost
- low taxes
- less burdensome rules
- more state-funded R&D
- ...

Concerns about foreign investments in general?

National security concerns?

- E.g. Huawei
- This concern is independent of subsidies
- Other laws apply

Concerns about foreign investments in general?

Dynamic/strategic considerations: **It matters who produces what**

- **technology transfer** to foreign competitor
- **loss of monopoly rents**

Note:

- not clear that risk of loss of technological know how depends on subsidies
- e.g.: Big Tech companies buying up European start-ups

Concerns about Chinese investments in particular?

Some evidence that Chinese companies invest primarily in companies rich in patents

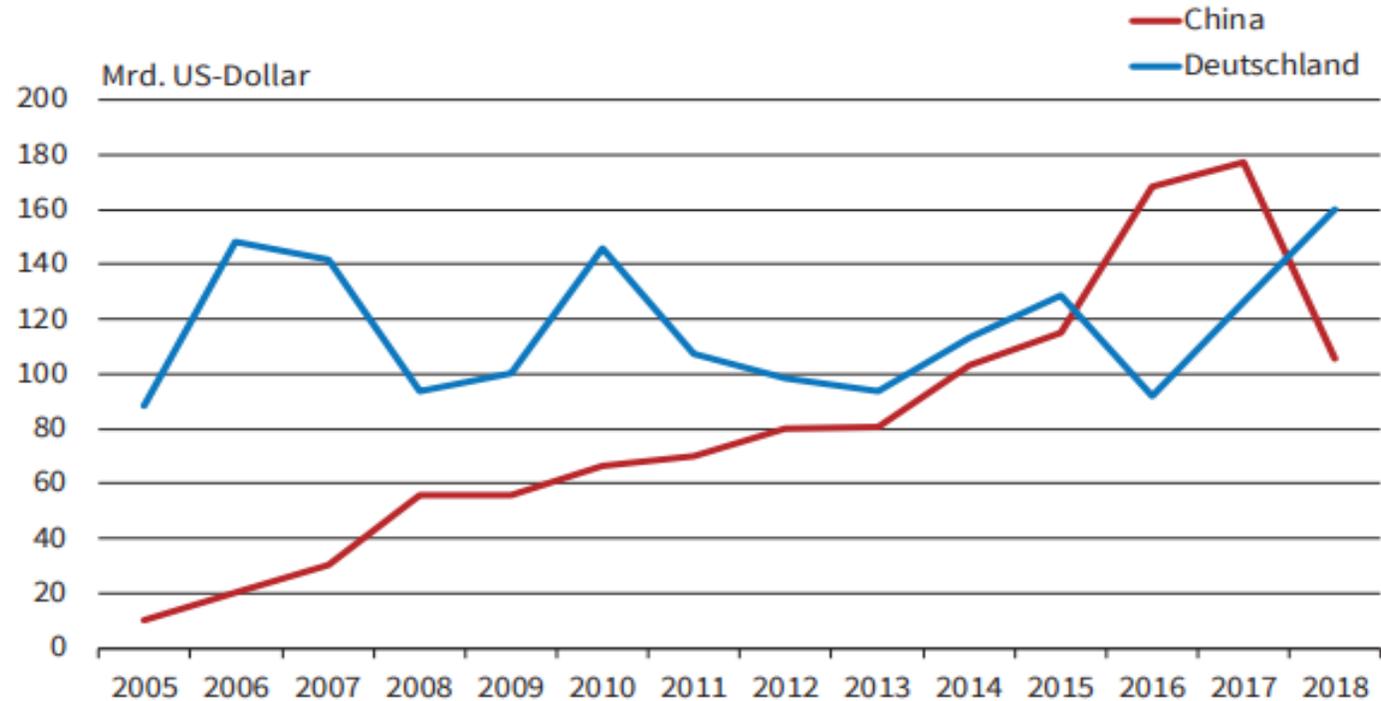
But

- available descriptive evidence does not support assumption that Chinese direct investments in Germany have led to a weakening of the economic performance of the companies concerned. (EFI)
- Nonetheless, corporate investments and takeovers by Chinese investors are fundamentally associated with the possibility of political strategic influence

Foreign direct investments China – Germany

Abb. 2

Chinas ADI-Flüsse im Vergleich zu deutschen ADI-Flüssen
2005–2018



Datenquelle: AEI (2019); Bundesbank (2019); Darstellung der Autoren.

Geopolitical and economic considerations

Geopolitical considerations?

- EU – China Comprehensive Agreement on Investment (CAI)

Economic considerations?

- Calls for technological sovereignty in Europe
- Accompanied by calls for R&D subsidies and investment subsidies

Summing up

- Let's be clear about the problem we intend to solve with current proposal
- Be aware of its limitations in solving these problems
- Always consider counterfactual to situation with current proposal