Chinese Companies Investing in Europe:
Modern Conquerors or Strategic Partners?

DAVIDE SONZOGNI
MBA in International Finance, The George Washington University

Introduction and General Overview

As the Year of the Dragon unfolds, Chinese companies continue to nurture their ambitious plans to expand into Europe supported by the Chinese government (Anderlini, 2011). These modern conquerors can contribute to reshape global trade and investment flows in the coming years (Miller, 2011), which has caused controversial reactions in the European Union (EU) (Voss & Clegg, 2011).

On the one hand, as Chinese banks and investment funds are state-controlled, concerns have been raised about the real motives underlying their investment. In fact, what today seems to be a commercially motivated investment strategy might be leveraged in the future to pursue political goals. Moreover, the EU does not have a central investment review system similar to those of other developed countries such as USA, Australia, or Japan, which can prevent it from losing its industrial capabilities and preserve its technological leadership. In other words, the EU, as a whole, has a lower sensitivity and control over national-security issues than USA and other Western developed economies (Miller, 2011). However, potential and actual local conflicts with the national interest of host countries represent concrete barriers to Chinese expansion (Shi, Milelli, & Hay, 2010).

On the other hand, in recent years, Europe has started to welcome Chinese investors just as much as other foreign ones, especially those contributing to the development of greenfield projects (Hay, Milelli, & Shi, 2012). In fact, the Chinese have revived distressed companies (e.g. Volvo, world recognized car manufacturer, in 2010) through acquisition or equity participation, and continue to invest in others severely hit by the economic crisis (e.g. the Italian Ferretti Yacht at the end of 2011) therefore saving jobs, and indirectly helping creditors and suppliers. They also signed partnership agreements with local counterparts in the scientific and technology research fields - e.g. the agreement between the China Italy Technology Transfer Center and the Beijing Technology Transfer Commission to jointly develop science-focused theme parks (Virtuani, 2012). Furthermore, European Promotion Investment Agencies established a presence in China with the goal of attracting further investment from Chinese firms (Hay, Milelli, & Shi, 2012).

World Foreign Direct Investment in the Early 2000's: Drivers and Evolution

This twofold scenario acquires even more relevance from a macroeconomic perspective while the global financial crisis continues to evolve. In particular, the flow of foreign direct investment (FDI) is a key indicator that offers an overall framework to understand a complex and evolving situation. In this regard, the large systematic picture is defined by the World Investment
Chinese Companies Investing in Europe: Modern Conquerors or Strategic Partners?


Historically, foreign direct investment global flows follow closely the world’s economic cycles and are driven by the following factors (Sonzogni, 2007):

- Uncertainty level related to the velocity of economic growth
- Companies’ capacity to finance their operations with profits and loans
- Easiness for companies to have access to external sources of financing
- Attractiveness of debt versus predicted return on investment

Due to the effect of these factors, the beginning of the new Millennium was characterized by the apex of a strong wave of FDI started in 1993. In just seven years, the significant technological development, the international trend of deregulation and privatization of public organizations, and global flows grew four-fold reaching a record level of $1.3 trillion in 2000 (UNCTAD, 2011).

![Figure 1 – FDI flows and rate of growth (1993-2010). Source: World Investment Report 2011 (Unctad)](image)

Additional accelerating factors, such as China’s entry into WTO, India’s growing integration in the world economy, the admission of ten Eastern European countries to the EU contributed to the unprecedented creation of new opportunities to delocalize not only production plants, but also services and other activities. Moreover, fewer barriers to international trade both on a global and regional scale, a general cut of bureaucracy for foreign investment, and a reduction of public monopolies gave further boost to FDI.
From a microeconomics perspective, continuous innovation, internationalization of supply chains, and increasing fragmentation of product development and production, along with more uniform life styles, customers’ preferences and demand, played an important role.

Conversely, some negative events such as the outburst of the new economy’s financial bubble and the 9/11 terrorist attack counterposed the growth of FDI, and provoked a “wait and see” sentiment among investors. In fact, FDI’s trend dramatically changed in 2001 following the global slowdown of the economy and the considerable drop of stocks’ value on financial markets. Consequently, in the following two years FDI fell to $600 billion down to 1998’s level (UNCTAD, 2011).

Coming after a stable 2004, the year 2005 represents an important turning point for FDI’s flows trend. They dramatically grew for 3 consecutive years, fueled by the euphoric economic development all around the world, especially in countries such as China, India, and Brazil, reaching an historical peak of $1.9 trillion in 2007. The low interest rates, excess liquidity, stock’s value rise, and an extremely optimistic sentiment of market’s players was the ideal mix of underlying positive conditions to create a favorable environment for companies’ growth, especially through M&A. The acquisition of IBM’s pc division and the Italian telecommunication provider Wind, respectively by Lenovo for $1.8 billion and the Egyptian investment fund Weather Investment for $12.8 billion, were two clear example of this euphoric climate.

During the biennium 2008-2009, the consequences of the outburst of the real estate and the sub-prime bubbles were devastating for FDI flows. Sovereign debt issues, plunging profit, and credit crunch caused and accompanied a rapid 42% decrease to $1.1 trillion, sweeping away almost all the progress made since 2005.

Even though world trade and industrial production returned to their pre-crisis levels, FDI flows in 2010 remained about 15% below their pre-crisis average, and 37% below their 2007 peak. In fact, stimulus packages’ and other public fiscal policies’ support to the economy has not yet been replaced by private investment that is necessary to achieve a sustainable economic recovery. The root cause of this trend is that transnational corporations (TNC), usually leaders among private investors, maintained cautious investment plans due to the volatility of the business environment and the risk of a widespread sovereign debt crisis, especially in developed countries.

As for the future, UNCTAD maintains a relatively optimistic outlook, and “predicts FDI flows will continue their recovery to reach $1.4 –1.6 trillion, or the pre-crisis level, in 2011” (UNCTAD, 2011). This prediction is supported by the return of a widespread moderate confidence due to several factors which range from the ongoing stabilization of the financial system accompanied by stimulus package programs implemented by countries hit by the crisis to the resilient growth of emerging economies. However, it is also possible for FDI flows to stagnate due to the unpredictability of global economic governance, worsening sovereign debt crisis, and fiscal and financial imbalances (UNCTAD, 2011).
Chinese investment: the Macro Trend Remain Positive Despite the Crisis

Chinese’s gradual opening to foreign presence and expansion begun during the early ’80s and remained low until the end of the last century both in terms of acquisitions and FDI outflows.

From the early 2000s Chinese FDI was boosted due to the global expansion policy introduced by the government under the name zou-chu-qu, that translated literally means “going out”, which removed unnecessary controls on foreign exchange reserves and simplified administrative procedures.

Similarly, the considerable increase in Chinese ventures in Europe that opened the new Millennium represented a new wave of investment from Asia after South Korean in the 1990s and the more relevant Japanese investment in the 1980s. This trend continued both in EU and in the rest of the world in the following years, with the exception of 2006, supported by the positive economic climate in early years and not excessively penalized by the worst economic crisis of the last eighty years later. In particular, the EU enlargements in 2004 and 2007 allowed Chinese firms to invest in new, low-cost countries and leverage their position to acquire easier access to the rest of the Euro area. Although less than 3% of China’s global investment stock was located in the EU in 2009 (taking into account ventures made through the Luxembourg hub) the 12 new EU countries attracted over 10% of the EU’s total. “This is a greater proportion than their share of EU GDP, and suggests that Chinese investment decisions are driven primarily by growth” (Voss & Clegg, 2011).

As Chinese outward FDI flows augmented by 132% in 2008 and 6.5% in 2009 (UNCTAD, 2011) due to the intervention of the government with a stimulus plan and political support, Chinese investment in Europe increased as well - especially in the agriculture, raw materials, and energy sectors (Hay, Milelli, & Shi, 2012). However, the amount of transactions was lower than previous periods due to limited access to financial resources (Hay, Milelli, & Shi, 2012) and Chinese companies were controlling 118 European businesses in 2011 (Miller, 2011).

Importance of the Topic; Questions and issues to be addressed

Although the impact of Chinese companies’ investment in Europe has been limited so far because of their relatively small scale and share of total investment in EU, this topic is extremely important and relevant from its future evolution perspective (Nicolas & Thomsen, 2008). In fact, Chinese investment may benefit EU countries and European firms in many ways such as:

• Wider and privileged access to the Chinese and other emerging markets
• Opportunities to sell distressed assets and still make a profit
• Higher returns of R&D investment due to the premium price paid by Chinese firms to acquire technologies, patents, and know-how
• Opportunities to revive companies on the verge of bankruptcy
• Funds for EU banks
Chinese Companies Investing in Europe: Modern Conquerors or Strategic Partners?

Having this framework in mind, it is still unclear how the Chinese investment pattern will continue in the future, and how Chinese companies should approach their expansion in EU, reducing failures and not appearing as modern invaders, but strategic partners. At the same time there is a debate on how EU authorities should plan potential developments of Chinese presence in EU.

Literature review

The literature about this topic is relatively limited in terms of number of papers and data publicly available. However, there is a broad coverage of subjects that highlights fundamental aspects: characteristics, motives, modes of entry, strategies, and implications of Chinese investments both for EU and China.

I focused my research on the more recent period starting with the year 2000.

Characteristics: Recent Geographical and Industries’ Distribution

From a geographical standpoint, “over the last decade there is little evidence of a continuous and focused investment strategy in particular countries” (Voss & Clegg, 2011). Nevertheless, Chinese investments are mainly focused in Western European countries such as the United Kingdom (UK), France, Germany, and Italy, to manufacture and sell product on the spot, and take advantage of developed infrastructures. The size of the market also matters and acquired even more importance during the recent crisis: UK, France, and Germany account for 60% of total Chinese investments since 2008 (Shi, Milelli, & Hay, 2010), followed by Italy, Netherland, and Spain (Hay, Milelli, & Shi, 2012).

According to the British Trade & Investment’s UK Inward Investment 2007/2008 report, Chinese companies consider UK as their first choice location for a variety of reasons: London’s position as a prominent financial center, simple and transparent bureaucracy, diversity, and market efficiency, among others. Moreover, the UK Trade & Investment network managed by the government, also supported within the UK by regional investment promotion agencies, help UK companies to network with Chinese firms in their home country (Voss & Clegg, 2011). Therefore UK leads the ranking of top destination countries with 30% of total Chinese investments (Shi, Milelli, & Hay, 2010).

As for the second group of countries in the ranking, Chinese firms are playing an increasingly relevant role in the home appliances industry in Italy, where they initially opted for gradually entering the market as subcontractors (Rossi & Burghart, 2009).

Interest in Central Europe (Poland, Romania, Hungary, and Czech Republic), expressed by Chinese investors in 2007, slightly faded during the crisis (Hay, Milelli, & Shi, 2012). However, some investments were made leveraging reciprocal political and diplomatic relationships.

From an industrial distribution standpoint, Chinese investments target a wide range of sectors. While three of them (equipment, logistics, and telecommunications) are the top targeted sectors by Chinese investors (Shi, Milelli, & Hay, 2010), Chinese companies’ investments are shifting towards services to increase control over sales and value chain (Rossi & Burghart,
However, the number of industries covered by Chinese companies increased during the crisis (Shi, Milelli, & Hay, 2010), and include among the most relevant: textile, automotive, finance, metals and other materials, and pharmaceutical (Hay, Milelli, & Shi, 2012). The increasing footprint in the textile sector is a direct consequence of consumer demand for luxury brands in China (Hay, Milelli, & Shi, 2012). As for the automotive sector, the acquisition of Volvo by Geely from Ford along with the interest of BAIC of taking over the German car manufacturer Opel, owned by GM, are the clearest examples of the Chinese intention to become a primary player in this industry. Moreover, Hotyork Investment Group is acquiring a majority stake in the Italian luxury car brand De Tomaso this year¹ and Geely will begin to sell its car online in the Italian market from April 2012². It is also worth noticing that investments in renewable energy, virtually non-existent before the crisis, are acquiring more relevance since 2008 and represent 11% of Chinese investments in Europe (Shi, Milelli, & Hay, 2010).

**Motives**

By and large, motives can be explored considering two categories of Chinese investors: large state-owned firms with access to government funds and private companies. While the former’s investment goal is to diversify their portfolios of real assets, the latter is upgrading their industrial capabilities and developing their business in accordance with their corporate industrial strategy. However, private companies privilege the fast growing Chinese market growth more than European ones which are growing at a slower pace, stagnating, or even experiencing a recession.

Several other motives drive Chinese investors. First of all, there is no expansion attitude per se because Chinese companies have long term goals and a long time horizon to achieve a positive return on their investments, and are not too concerned about short term results (Hay, Milelli, & Shi, 2012). In this regard, the financial and political support of the Chinese government plays a crucial role. Moreover, the attitude not to radically change the structure of acquired companies and the soft approach - which both aim to maintain stability - takes precedence over every other consideration (Cogman & Tan, 2010).

Secondly, there is a broad consensus about the resource-seeking characteristic of Chinese investments. In other words, acquisition of assets, know-how, managerial expertise, brands, and technology are the key drivers of Chinese investments.

However, sometimes partners or targets are selected more for their consolidated distribution network rather than for their technology. In fact, developing business relationships with primary market players gives easy access to the profitable EU market (Nicolas & Thomsen, 2008) and segment with a high growth rate (Shi, Milelli, & Hay, 2010).

Chinese companies are also motivated by the potential transfer of acquired skills to create a sustainable competitive advantage in their domestic market (Shi, Milelli, & Hay, 2010).

¹ http://motori.corriere.it/motori/attualita/12_febbraio_14/detomaso-venduta-cinesi_95b7dd0-5729-11e1-a6d2-3f65ac5f5759.shtml
² http://motori.corriere.it/motori/attualita/11_dicembre_23/Geely-sbarco-italia_4e21c88e-2d49-11e1-8ae-f6cc586166bde.shtml
**Modes of Entry**

At the beginning of the century, Chinese companies started to invest in the European raw materials industry and established their first R&D centers in Scandinavia, Benelux, Spain, and central European countries (Shi, Milelli, & Hay, 2010).

Greenfield investment has been the elective choice in the telecommunication and service industry (Nicolas & Thomsen, 2008). For instance, China Telecom established a subsidiary in Europe in 2006 and CCTV opened its European headquarters in UK in 2008. Many R&D centers have been launched to adapt Chinese products to local markets or acquire host countries’ know-how in terms of technologies and managerial skills (Nicolas & Thomsen, 2008).

Unlike direct investors from other emerging markets, the most common mode of entry for Chinese companies remains the joint venture (JV) followed later by a more consistent investment.

Chinese driven cross-border M&A, especially of small scale, are becoming more common in EU, particularly as a consequence of the global crisis. However, hostile takeovers by Chinese firms are still extremely rare nowadays because European sellers have the opportunity to dismiss under-performing assets (Nicolas & Thomsen, 2008) with a collaborative negotiation approach, avoiding long and expensive struggles. Chinese companies are also often the only alternative on the EU market due to the stagnating European economy, a serious obstacle to this type of transactions. Furthermore, Chinese tend to avoid acquisitions of emblematic or large-sized companies that would result in protectionist measures or even potential xenophobic reactions against foreigner investors (Shi, Milelli, & Hay, 2010).

**Strategies**

In EU, three major types of strategies executed by Chinese companies can be identified: vertical integration, innovation that leverages internal core competences, and leadership in a segment or a niche (Shi, Milelli, & Hay, 2010) especially buying distressed firms, current partners’ shares, sub-contractor, or suppliers (Nicolas & Thomsen, 2008). Chinese companies also acquire minority stakes to strengthen their relationship with their European partners (Nicolas & Thomsen, 2008).

Chinese companies usually aim to create a competitive advantage through cost leadership by employing a large number of Chinese workers (Shi, Milelli, & Hay, 2010) who are relocated in the host country and are willing to work for a salary lower than the domestic workforce. However, relying solely on cost advantage is not a sustainable strategy (Shi, Milelli, & Hay, 2010).

Attempts by Chinese companies to differentiate their products have failed so far. In particular, they have been unable to overcome their competitors in industries such as telecommunication and automotive (Shi, Milelli, & Hay, 2010) in which strict standards, rules, and regulations are the minimum requirements needed to succeed.
R&D Strategies of Chinese Companies in Europe

An interesting sub-category of strategies is the R&D and innovation area of study. China’s technological learning style still follows an “imitation” paradigm (Di Minin & Zhang, 2010). The Chinese government aims to turn Chinese companies into real innovators, but has not yet understood which measures should be implemented and how to lead this epochal change (Xie & White, 2006). Meanwhile, Chinese companies, that are present in areas of European technological excellence, are implementing several different strategies which range from technological exploration/exploitation to cooperative/experiential learning (Di Minin & Zhang, 2010). There is empirical evidence that these firms are insulating themselves from their original partners by lowering their engagement in R&D activities, but it is not clear why (Di Minin & Zhang, 2010). In fact, according to the microeconomics theory they should increase their level of integration in the local innovation systems. If the root cause is that Europe is no longer being considered a major innovation area and instead is seen purely as a market to sell products designed elsewhere, EU authorities and companies should be concerned. However, some Chinese managers disagree with this view (Di Minin & Zhang, 2010).

Surprisingly, European legislators and authorities have so far ignored the phenomenon of Chinese R&D FDI in Europe (Di Minin & Zhang, 2010), but rising concerns about this issue are spreading among policy makers and politicians (Miller, 2011).

Implications of Chinese investment in Europe

Although Chinese investments represent a small share of China’s FDI, there are important implications for both sides.

From an EU standpoint the main concern at the moment is job preservation. Nevertheless, it is necessary to consider the scenario where there was no acquisition by Chinese investors. In many cases, the acquired firm was either bankrupt or facing severe financial difficulties, and clearly close to going out of business. On the one hand, the overall impact in terms of job preservation is relatively modest because Chinese FDI tends to be concentrated in sectors which are not labor-intensive (Hay, Milelli, & Shi, 2012). On the other hand, when jobs were preserved in ailing industries following a takeover by Chinese investors, this positive situation did not always last long. Sometimes, the takeover led to a short term recovery of the acquired company, but eventually the same weaknesses re-emerged (Nicolas & Thomsen, 2008).

From a Chinese perspective, investing in EU can fill the gap of China’s poor domestic innovation performance and weak technological spillovers from inward investments. In fact, the main issue for Chinese companies is not just having access to new technologies, but also to benefit and profit from them (Hay, Milelli, & Shi, 2012). EU is also a new opportunity to deal with domestic overcapacity and saturated market shares (Voss & Clegg, 2011). Furthermore, it can also help to relieve the pressure experienced on domestic markets due to greater competition that lower profit margins (Shi, Milelli, & Hay, 2010).

Issues and Failures

Many issues arise and several failed post-merger integration occurred from Chinese investments in EU.
First, there was often a cultural divide that impeded the development of an effective relationship with host country stakeholders, a common corporate culture, and an efficient integration of operations (Nicolas & Thomsen, 2008). Often, Chinese companies were unprepared to understand EU consumers, regulating authorities, legislators, unions, employees, and financial institutions (Nicolas & Thomsen, 2008). Poor knowledge of the local business environment and the specifics of the local market caused further difficulties (Schüller & Turner, 2005). Furthermore, Chinese managers were unfamiliar with strategic risk management. They were influenced by cultural aspects when offering products at the cheapest price and based their decisions on European stereotypes (Brod, 2009).

Chinese management also has a traditional slow, formal, and rigid decision-making process because of complex hierarchies and cultural values while the Western managers decide more quickly and are subject to less strict supervision. Moreover, the corporate governance of investing firms is often weak, not transparent, and dictated by the Chinese government (Nicolas & Thomsen, 2008).

Due to all the above issues, most ailing companies acquired by Chinese investors could not be revived, especially in the electronics sector (Nicolas & Thomsen, 2008). Moreover, Chinese companies apparently underestimated the difficulties of turning over firms in declining industries (Nicolas & Thomsen, 2008).

There are also external issues which interfere with an efficient market functioning and undermine healthy competition.

Chinese companies which receive subsidized funding from the government have an unfair competitive advantage over European competitors and, in some sectors, represent a real threat to European players. This issue is becoming more relevant as Chinese firms learn how to adapt to the European market, meet customers’ expectations, and leverage their European brands (Nicolas & Thomsen, 2008).

The lack of reciprocity that restricts the possibility to acquire Chinese companies in China is also a critical issue because it limits defensive options for European companies.

As there is no European review system comparable to those of the US, Australia or Japan, national security concerns arise because of the potential leakage of critical European technologies to China. In fact, should the private sector in the EU be bought out by Chinese companies, “the EU will risk losing its domestically-owned industrial capabilities and technological leadership” (Voss & Clegg, 2011).

In general, European governments consider China’s political system as distant from Western democracies, therefore the growth of influence of Chinese in European companies is a highly sensitive issue (Okano-Heijmans & Van Der Putten, 2009).

---

3 Sovereign wealth funds are widely affected by the lack of transparency
Success Stories

“Success stories tend to be concentrated in sectors where Chinese firms possess a competitive edge (telecommunication equipment), or where the European target is a strong leader or a niche producer” (Nicolas & Thomsen, 2008). The main cause of this pattern is the support of the Chinese government to Chinese companies (Nicolas & Thomsen, 2008). Two examples of success are BlueStars Silicones and Huwaei Technologies. BlueStars Silicones is a firm active in the chemical industry, bought by ChemChina from the French company Rhodia. Huwaei Technologies has become the second player in the European mobile equipment market, doubling its revenue and surpassing Nokia Siemens. Both companies improved productivity, invested in R&D, and positively managed cultural differences (Hay, Milelli, & Shi, 2012).

Future Development and Effects of the Global Crisis

During the National People’s Congress held at the beginning of March 2012, Chinese Prime Minister Wen Jiabao announced estimations about economic indicators and changes in policies which will influence FDI and, indirectly, investment in EU. He predicted a sharp controlled slowdown in GDP growth that is expected to decrease from 9.2% in 2011 to 7.5% in 2012 while pursuing the goal of 7% in 2015. The goal is to rebalance the national economy, making it less driven by exports and more by consumer demand. Therefore, imports and exports will drop to 10% in 2012 (they were 24% last year). China would also continue developing high technology and green industries abroad. Although past estimations were not reliable, the complexity of controlling growth has increased with the integration of China into the global economy. Since internal political resistance has delayed economic structural changes in economic policies in the past. I consider this shift an important turning point.

As for the effects of the global crisis, there are several different opinions and no consensus about the future growth of Chinese investments in EU. However, an interesting cornerstone is worth mentioning. Although decreased in number (Hay, Milelli, & Shi, 2012), Chinese investment projects launched during the crisis are more thoughtful, better planned, and more focused both on geographic regions and industries than before (Shi, Milelli, & Hay, 2010).

According to Thilo Hanemann, research director at New York consultancy Rhodium Group, Chinese companies will invest more than $1 trillion overseas between now and 2020 looking not just for natural resources, but also mature market making EU a primary target (Miller, 2011). Moreover, Chinese managers are becoming more ambitious in pursuing M&A in developed EU countries. For example, Mr. Wang, chairman of one of the biggest China’s food companies (Bright Food Group), recently said that its firm “needs to buy a top-three European food company” (Miller, 2011) and many other Chinese executives have similar goals. However, they tend not to disclose their plans and publicly announce potential targets not to inflate prices due to takeover expectations.

Experts predict M&A to continue increasing in the short and long term. For instance, Chen Gang, a food and beverage analyst with Sinolink Securities in Shanghai believe that "there aren't that many alternatives to achieve [international growth], other than through acquisition". Yufang Guo, a Rotterdam-based consultant has about 100 Chinese clients who are looking to buy business operations in Western Europe (Miller, 2011). The Wall Street Journal suggest
Chinese investors to look at Cyprus because of its "light manufacturing industry" with "textiles, shoes and hats," and Belgium because of its chemical products, logistics and ocean freight shipping (Miller, 2011).

As already noted, there is a growing presence of Chinese firms in some Eastern European transition economies: Hungary, Poland, and Romania. These countries are attractive mainly because of growth and wide privatization and liberalization (Hungary), a relatively large market (Poland), and a Chinese friendly business environment (Romania). This trend can also signal a shift of Chinese investment towards EU countries with a low production cost manufacturing product to be exported across richer EU markets (Voss & Clegg, 2011). Another explanation might be the opportunity of acquiring experience in low competitive markets (Hay, Milelli, & Shi, 2012).

Another factor that can support or weaken Chinese growth in Europe is the Treaty of Lisbon that established the authority of one commissioner over FDI in EU and investment liberalization (Voss & Clegg, 2011).

Analysis

Methodology and Source of Information

First of all, I have adopted a microeconomics perspective because macroeconomics statistics about FDI flows and stocks are biased by intra-firm investment, and circular flows between China and Hong Kong through intermediate detours, often made via tax havens such as Cayman Islands and Virgin Islands (Hay, Milelli, & Shi, 2012). There are also evident discrepancies between inflows and outflows data (UNCTAD, 2011).

I have also discarded non equity modes of international production and development (NEM), a middle ground between trade and FDI, because they are not covered by any national or international statistics (UNCTAD, 2011). Therefore the sources of information that I used to perform my analysis are scholar’s journal articles, academic books, and respected online sources listed in the bibliography.

Due to the scarcity of data, and no direct access to other parties’ proprietary database, I decided to follow a qualitative approach and take a strategic perspective. In particular, I utilized concepts and frameworks of the negotiation and conflict management theory (Lewicki, Saunders, & Barry, 2010) - combined with the integration-local responsiveness (IR) model (Bartlett & Ghoshal, 1987). As the latter helps to identify which industries are the most suitable for Chinese integration in the global competitive arena, the previous serve to define the best approach to successfully deal with the European counterparts and vice versa. The result is a four step model that I named with the acronym L.I.S.A.:  

1. List of industries  
2. IR model’s application (China only)  
3. Selection of Negotiation Strategy  
4. Adjustment of Negotiation Strategy
The L.I.S.A. Model: Description of Steps and Implementation

I used the IR model that defines four internationalization strategies which are determined by the relative low/high level of pressure for local responsiveness and global integration. The description and key characteristics of the four strategies are listed in the table below (Fan, Nyland, & Zhu, 2009).

Table 1 – IR model’s strategies: description and key characteristics.

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>LOCAL RESPONSIVNESS/GLOBAL INTEGRATION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>Low/High</td>
<td>Offer of global standardized products in the world, considered as a single market place.</td>
</tr>
<tr>
<td>Transnational</td>
<td>High/High</td>
<td>Combination of local responsiveness’ benefits with global-scale efficiency.</td>
</tr>
<tr>
<td>Multi-domestic</td>
<td>High/Low</td>
<td>Internationalization with locally adapted products through process targeted to customers’ needs of the host market.</td>
</tr>
<tr>
<td>International</td>
<td>Low/Low</td>
<td>Reproduction of success achieved in the domestic country on the international market.</td>
</tr>
</tbody>
</table>

I considered the guidelines of China’s 12th Five-Year Plan (2011-2015) to narrow down the analysis to the most relevant sectors for China’s expansion. It established seven strategic industries in which Chinese corporations are expected to succeed on a global scale. The seven industries are: biotechnology, new energy, high-end equipment manufacturing, energy saving and environmental protection, clean-energy vehicles, next-generation IT, and new materials. In addition, I have considered other relevant industries that stand out from the literature review: telecommunications, logistics, food, and textile. Then I positioned all the industries according to the underlying IR theory (Bartlett & Ghoshal, 1987) and determined which sectors are closer to the Transnational and Global categories: IT, Telecommunications, Equipment, and Logistics. All the other industries have not reached enough maturity in China (i.e. automotive, clean vehicles, and textile) or do not have pressure for global integration (i.e. new energy and new materials) to move towards the Transnational stage in which multinational companies consider markets as a portfolio of local opportunities and adopt a decentralized federation structure as a managerial model (Bartlett & Ghoshal, 1987). The overall framework is illustrated in the figure below.

After having determined the positioning of the industries on the IR chart, I have utilized a negotiation framework (Thomas, 1976) that considers two factors (importance of the relationship and importance of the outcome) to determine the most appropriate conflict resolution strategy depending on the combination of their importance (Lewicki, Hiam, & Olander, 1996). Five options are defined: Accommodating (“Lose to win”), Collaborative (“Win-Win”), Avoiding (“Lose-Lose”), Competitive (“Win-Lose”), and Compromise (“Split the Difference”). The importance of the relationship in the Chinese culture is crucial to succeed in business therefore is vital to aim to a collaborative solution whenever possible to achieve a mutual satisfactory agreement.
Chinese Companies Investing in Europe: Modern Conquerors or Strategic Partners?

To determine the theoretical expected negotiation strategy for EU and China, I have assigned scores to the factors that I assume contributing to the outcome and relationship’s importance for both parties. Chinese outcome’s weight is determined by the average of the priorities established by the government (high/low) and the IR positioning. The score of the relationship’s importance is determined by the mode of entry, considering JV as the less aggressive and M&A the more competitive one. On EU side the outcome’s importance is linked

![Figure 2 – IR model and industries positioning](image)

![Figure 3 – Conflict Resolution Strategies (Lewicki, Hiam, & Olander, 1996).](image)
to the strategic relevance of the sector (high/medium/low) while the relationship’s importance is related to long term benefits due to the Chinese presence (high/medium/low). The detailed scoring system is illustrated in the table below.

Table 2 – Scoring system

<table>
<thead>
<tr>
<th>Status</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority for</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>10</td>
</tr>
<tr>
<td>Low</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IR Strategy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transnational</td>
<td>10</td>
</tr>
<tr>
<td>Global</td>
<td>7</td>
</tr>
<tr>
<td>International</td>
<td>4</td>
</tr>
<tr>
<td>Multi-domestic</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mode of entry</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JV</td>
<td>10</td>
</tr>
<tr>
<td>Greenfield</td>
<td>7</td>
</tr>
<tr>
<td>Acquisition</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategic Sector</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>10</td>
</tr>
<tr>
<td>Medium</td>
<td>7</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit from Cooperation (long term)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>10</td>
</tr>
<tr>
<td>Medium</td>
<td>7</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
</tr>
</tbody>
</table>

Then I matched industries and strategies for both China and EU identifying misalignments and their magnitude utilizing the L.I.S.A. score, calculated with the following formula:

\[
\text{L.I.S.A. score} = 100 - \text{DISTANCE} - \text{PENALTY}
\]

DISTANCE is the geometrical distance between EU’s and China’s position in the strategies chart calculated with the Pythagorean Theorem as follows:

\[
\text{SQRT} [(\text{China outcome} - \text{EU outcome})^2 + (\text{China relationship} - \text{EU relationship})^2]
\]

PENALTY is equal to 0 if both EU and China follow a Collaborative strategy, 25 (half quadrant “length”) if one of them chooses a Competitive option while the other one uses a Collaborative strategy, and 50 if both parties utilize a Competitive approach. The total score can range between a minimum of 20 and a maximum of 100. The score is not calculated if one of the parties has an expected Avoiding or Accommodating strategy and the value N/A is assigned. The overall results and the detailed scores are illustrated in the table below.
### Table 3 – Overall calculation and results - L.I.S.A. score

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>Priority for Chinese Gov't</th>
<th>China's IR Strategy</th>
<th>Average</th>
<th>China's Mode of Entry</th>
<th>Strategic Sector EU</th>
<th>LT Benefit from cooperation EU</th>
<th>CHINA</th>
<th>EU</th>
<th>Distance</th>
<th>L.I.S.A. SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>10</td>
<td>7</td>
<td>8.5</td>
<td>10</td>
<td>10</td>
<td>1 Collaborative</td>
<td>Competitive</td>
<td>9.12</td>
<td>65.88</td>
<td>48.50</td>
</tr>
<tr>
<td>Logistics</td>
<td>4</td>
<td>10</td>
<td>7</td>
<td>10</td>
<td>7</td>
<td>7 Collaborative</td>
<td>Collaborative</td>
<td>3.00</td>
<td>97.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Equipment</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>7 Collaborative</td>
<td>Collaborative</td>
<td>6.00</td>
<td>69.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Telecom</td>
<td>4</td>
<td>8.5</td>
<td>6.25</td>
<td>10</td>
<td>10</td>
<td>1 Competitive</td>
<td>Competitive</td>
<td>9.75</td>
<td>40.25</td>
<td>71.25</td>
</tr>
<tr>
<td>New Energy</td>
<td>10</td>
<td>4</td>
<td>7</td>
<td>10</td>
<td>7 Collaborative</td>
<td>Collaborative</td>
<td>Competitive</td>
<td>4.24</td>
<td>95.76</td>
<td>97.00</td>
</tr>
<tr>
<td>New Materials</td>
<td>10</td>
<td>4</td>
<td>7</td>
<td>10</td>
<td>1 Collaborating</td>
<td>Accommodating</td>
<td>Competitive</td>
<td>9.49</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Clean Vehicles</td>
<td>10</td>
<td>1</td>
<td>5.5</td>
<td>10</td>
<td>1 Collaborative</td>
<td>Collaborative</td>
<td>Avoiding</td>
<td>10.05</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>10</td>
<td>1</td>
<td>5.5</td>
<td>10</td>
<td>1 Competitive</td>
<td>Competitive</td>
<td>Competitive</td>
<td>10.05</td>
<td>39.34</td>
<td>42.50</td>
</tr>
<tr>
<td>Energy Saving</td>
<td>10</td>
<td>1</td>
<td>5.5</td>
<td>10</td>
<td>10 Collaborative</td>
<td>Collaborative</td>
<td>Collaborative</td>
<td>1.50</td>
<td>98.50</td>
<td>N/A</td>
</tr>
<tr>
<td>Textile</td>
<td>4</td>
<td>1</td>
<td>2.5</td>
<td>10</td>
<td>6 Accommodating</td>
<td>Accommodating</td>
<td>4.27</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Automotive</td>
<td>4</td>
<td>1</td>
<td>2.5</td>
<td>7</td>
<td>6 Accommodating</td>
<td>Accommodating</td>
<td>1.80</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Food</td>
<td>4</td>
<td>1</td>
<td>2.5</td>
<td>10</td>
<td>10 Collaborative</td>
<td>Collaborative</td>
<td>5.22</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
China’s Future Investment in EU: When a Collaborative Win-Win Approach is possible?

Even if different weights determine slightly different figures, the results of the analysis show that some industries are suitable candidates for a mutual satisfactory relationship. Logistics, New Energy, Equipment made through JV or greenfield projects are the leaders of a virtual ranking along with Energy Savings executed through any mode of entry.

Biotechnology and Telecom through a JV or greenfield investment and IT through acquisition are the more problematic situations. EU safety and strategic concerns along with a more competitive Chinese approach due to the scarcity of resources (e.g. lower number of suitable targets) can be the root cause of this outcome.

The DISTANCE parameter provides interesting information, also for industries not covered by the L.I.S.A. score. In some cases (e.g. JV and acquisition in Food) it seems easier to establish collaborative partnerships while other scenarios (e.g. JV in Clean Vehicles and New Materials, and acquisitions in Automotive) prefigure conflict issues.

To reduce distant positions Chinese companies should adopt standards of corporate governance and social responsibility that are compatible with Europe’s economic interests. In my opinion, EU should implement an investment review system and a screening institution comparable to the US Committee on Foreign Investment.

Summary and Conclusions

The Chinese goal to make a transition from “Made in China” to “Designed in China” a business model, along with economic and political motives, is supporting Chinese FDI worldwide.

Even if they are growing, Chinese companies’ investments in Europe are still a small share of the total China’s FDI. Furthermore, only few acquisitions can be considered successful, either from a profit and value standpoint or a strategic perspective. Successful takeovers resulted from the two partners developing synergies and Chinese investors contributing to enhance competitiveness in specific markets or industries instead of just funding the acquired company.

I developed the L.I.S.A. scoring system to help both European and Chinese players identify and plan potential developments of the evolution of the China’s footprint in Europe together with Chinese partners. The tool can also be useful to anticipate area of conflicts due to different negotiation approaches and strategic goals.

In fact, the mutual understanding of the importance of the guanxi4, and the need for strategic and national security along with a more collaborative approach, when possible, would result in a greater number of successful agreements and long term business partnership.

The Logistics, New Energy, Equipment, and Energy Saving sectors are the most suitable candidates to develop a collaborative strategic partnership. Conversely, Biotechnology, IT, and Telecom appear to be the most problematic industries. Further analysis is necessary to fine tune weights of parameters, and check the reliability of the model on a large scale while extending it

---

4 The relationship in the Chinese business world
to other industries and negotiation styles combinations.

Finally, there is definitely a need of a more cohesive approach to better explore and analyze Chinese investment in EU. I believe that European countries should cooperate to improve statistical reporting and European scholars should collaborate more closely in sharing their researches’ results. Representative of both governmental agencies and businesses should also be involved in the studies. The ultimate goal should be a focus on areas which are important both for businesses and the scientific public. An exchange of ideas and closer collaboration would help all the stakeholders to better understand complex situations and evolving scenarios. Without a doubt, disseminating this information would ease the formation process of successful and mutually beneficiary strategic partnerships between Chinese and European players.

Bibliography


Chinese Companies Investing in Europe: Modern Conquerors or Strategic Partners?

