Chinese Yuan notes.
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Strategic Considerations of Chinese Investors in Europe

Ulrike Reisach

The growth of Chinese foreign acquisitions in Europe has attracted interest from businesses, media, and governments, raising concerns about potential transfers of knowledge and unclear linkages with Chinese governmental plans and subsidies. Still, it is important to bear in mind that each acquisition presents different backgrounds, strategies, priorities, and operational procedures. Some investments are business-driven, others are private; some fit the Chinese government's plans and some do not.

Chinese investors have adopted practices similar to their European counterparts: they grasp opportunities to enter new markets and internationalise their brand names, production facilities, staff, and operations in order to make more profits in new places. The globalisation and opening of world markets over the past decades has brought a new level of competition, which has overstrained several smaller- and medium-sized industries in both Europe and China. Not all companies have been adaptive enough or had the courage, strategic foresight, money, staff, and skills to expand their business at the right time, to the most promising places, and with the appropriate partners.

The Spread Your Wings Campaign started in China in 2001, the year of China's accession to the World Trade Organization (WTO). Since then, many Chinese companies went abroad in an attempt to increase their sales and manufacturing capacities (Reisach 2008, 47). More recently, much attention has been dedicated to Chinese investment through the Belt and Road Initiative (BRI), a project of the Chinese authorities that seeks to further connect China to South Asia, Central Asia, Europe, and Africa. In this essay, I will focus on Chinese investments in Europe, highlighting how investors formulate business strategies while adapting to national needs and initiatives.

National and Business-related Goals

Some investments are driven by the political priorities of the Chinese state. For instance, the need to feed an increasingly demanding Chinese population triggers investments such as those of the state-owned conglomerate ChemChina, which in 2016 purchased Syngenta (Switzerland), a global leader in fertilisers and herbicides. In the previous 10 years, ChemChina had also acquired 40 percent of Rozneft in Russia and 25 percent of Pirelli in Italy. The company has also gained complete ownership of Krauss-Maffei Plastic Material Machine Building in Germany and Rhodia and Adisseo with their fertilisers and additives to animal food in France.

But not all investments are motivated by the state. Internationalisation means diversification, new opportunities, and new challenges. Since the Chinese market is partially saturated and extremely competitive, it seems like a good idea to expand to markets which allow further growth. Tariffs make products more expensive and Chinese products do not always have the best reputation, therefore building up locations in the target market is a promising option. In choosing their locations in Europe, Chinese investors try to combine complementary strengths with needs. For instance, the town of Prato near Florence, Italy, is a prominent example of the Chinese fashion industry's migration to Europe (Chen 2011). The decline of local industries and the take-over by Chinese migrant entrepreneurs went hand-in-hand, and at the same time were caused and enabled by the new global paradigm of open markets (Adamo 2016).

Preferred targets in industrial regions of Europe embrace the automotive industry (including robotics), machine building, electronics and microelectronics, energy and environment, information and communication technology, software, chemical, pharmaceutical, and health-related companies (Hanemann and Huotari 2015 and 2017). Most of the investments come from Chinese industrial companies in a similar field. If the target seems attractive enough, these investors do not hesitate to move into new fields. This was the case when Midea, a huge Chinese manufacturer of household appliances, took over Kuka, a German industry robot company. Since Midea offered much more money than any other investor, the Chinese company was able to acquire one of the German industrial gems. This purchase caused some concerns as to whether the complete openness for foreign acquisitions was desirable for all sectors. Ultimately, an amendment regulation referring to the German foreign business law was created which now requires state permission for takeovers of companies in key telecommunication infrastructure and other technologies, which have the potential to endanger state security (BMWi 2017). Similar debates took place at the European Union level, when Germany, France, and Italy called for a EU-wide mechanism for more rigorous control of foreign takeovers (Alderman 2018).

Many industrial investments are driven by an interest in the special technology of a company, their brand names, and overall reputation for good quality. Chinese investors are keen to expand in new technological fields with the help of foreign acquisitions. Acquisitions mean technology transfers to both the Chinese company's headquarters and also to their other subsidiaries (Yu and Dowling 2018). Those often integrate the new technology into their product portfolio, offering it as 'superior quality', made in Europe, with a higher price. At the same time, they open the gateway to China for companies which had been too small and not prepared for the huge and dynamic markets in Asia. This was the case when the private Chinese heavy equipment company Sany decided to purchase the concrete-pump producer Putzmeister in southern Germany in 2012. Sany admired Putzmeister for its technology, and for the skills of its workers (Jiang 2015). Sany was also planning a further expansion in Europe, so the former owner of Putzmeister, Karl Schlecht, was happy to hand over his company to a much larger entity that guaranteed the job security of his employees (Schlecht 2012).

China's industry is on its way to move from 'Made in China' to 'Created in China', developing, publishing, and patenting its own innovation, in order to conquer world markets with high-quality products or services (State Council 2016). The number of Chinese patent applications has increased significantly, and so have their scientific publications. But not all of these patents and publications show the desired quality. Therefore, quality instead of quantity has been propagated as the 'new normal' for China (Zhang 2017), and the economic growth is supposed to be more qualitative than quantitative.

Small and Medium Acquisition Targets and Greenfield Investments

Chinese investors often acquire small- or medium-sized companies (SMEs) because they are cheaper and, as a consequence, less risky. Moreover, this kind of investment does not require complicated approval procedures in China nor does it usually trigger big debates in the target country. Often, acquisition targets have gone through the hands of several investment funds before, resulting in asset sales (or sale and lease back practices) with high profits for the funds but significant problems for the remaining industrial 'skeleton'. This kind of cross-border investment started through the opening of capital markets after the turn of the century. It is, therefore, not so surprising that after a decade of being picked apart by vulture capitalists, what is left of these companies usually welcome industrial investors from China who, for the first time, give them a perspective and let them expand their production facilities and workforces. For instance, in 2010 the German sealing and rubber products company Saargummi actively searched for a 'saviour' of their company in order to preserve jobs in their region. Finally, they found their desired investor in Chongqing Light Industry and Textile (CQLT), a Chinese stock market-listed company mainly owned by the megacity of Chongqing. CQLT is a major supplier for the Chinese car industry and through Saargummi it gained additional international subsidiaries in places such as Brazil and the Czech Republic.

Start-up or green field business investments in Europe allow for easy access to the European Common Market and immigration through business visas. The competition is not as fierce as in China, and the regulation is transparent and predictable. In the European Common Market with its free internal trade, it makes sense to establish a European holding in a low-tax location (Andrejovská et al. 2017, 1007–12). Chinese investors' European holdings or businesses benefit from regional subsidies, e.g. targeting job creation. Some of those businesses run well and employ local and Chinese workforce, while others seem not to be very active.

Personal Goals and Private Investments

Several Chinese conglomerates or rich individuals like to purchase luxury targets, such as cinemas, tourism agencies, shopping malls, or vineyards (Meyer 2016). This trend slowed in June 2017, when critics of Chinese foreign acquisitions became louder in the United States and Europe, and when the China Banking Regulatory Commission started assessing Chinese banks' exposure to debt raised by overseas acquisitions. First, large Chinese investors were asked to re-evaluate their foreign acquisitions (Giesen and Schreiber 2017). This was a call to stop debt-financed foreign acquisitions in fields that cause much public attention and are not directly supporting the government's long-term goals. Among others, Dalian Wanda seems to follow this advice and is reported to be exploring stake sales of their Hollywood film studio and sports assets (Wu et al. 2018).

Chinese private investors have also been quite active in European real estate markets, in cities such as London, Paris, Madrid, Barcelona, Prague, Berlin, and Munich. Similar to previous strategies in the United States and Canada, they seek European capitals, university cities, or holiday destinations to invest their money in promisingly profitable and attractive assets. Since the Chinese real estate market has become extremely competitive and expensive, and countries like Australia and Canada have restricted foreign real estate investments, it makes sense for wealthy Chinese citizens to invest in Europe.

Working and living in Europe is a strong motivation for many Chinese business persons to invest in the continent. Some EU countries sell passports to people who invest certain sums in order to raise revenue for the state. The relatively low cost is a tempting opportunity for Chinese investors who want to get rid of complicated visa requirements and obtain a permanent residence or citizenship in the EU. They enjoy several things which they cannot receive in China: the freedom of movement throughout Europe, the landscape and clean air, access to the health care system, and access to the schooling and university system for their families. In China, these things are only accessible through hard work and study, social connections, and large amounts of money. In this sense, it is often easier and cheaper for some Chinese investors to try their luck in Europe.

Additionally, small entrepreneurs are suffering from a highly dynamic and competitive market in China. They often run several businesses in parallel, usually together with family members. Running a business might be risky due to complex rules that differ in each Chinese province and are subject to frequent change. This and the current anti-corruption campaign leads some entrepreneurs to think that having a second or third location and place to live in Europe is a kind of insurance, just in case they run into difficulties at home. This kind of motivation might be understandable, but is risky for European business partners: a seemingly rich entrepreneur might suddenly run out of funding and backing in China. This was the case when D'Long, a conglomerate which had been one of the biggest private Chinese companies, tried to acquire the German aircraft manufacturer Fairchild Dornier in Oberpfaffenhofen, near Munich. From the first contacts in 2004 until 2010, media reports said that the Chinese investors had promised to finance a more than tenfold increase in staff numbers in order to develop a new class of regional aircrafts. The promised funding never arrived and it turned out that the Chinese Banking Regulation Commission was investigating speculative money transactions of the conglomerate.

The Chinese Approval Process as a Filtering Mechanism

Chinese investors need an approval to transfer money abroad. The National and Provincial Development and Reform Commissions run a tight evaluation process together with the Ministry of Commerce, before a Chinese company is allowed to make a foreign acquisition (Reisach 2016b, 8). This procedure has been established to avoid illegal money transfers and to make sure that Chinese investments abroad make economic sense. The approval process was developed after failures of Chinese takeovers made the headlines in Europe. In recent years, the process has been standardised, regional bodies have been made responsible, and President Xi Jinping's anti-corruption campaign seems to have had an impact, with European partners seeing fewer cases of high-volume mis-investments. Indeed, as Mueller's study in this issue of *Made in China* shows, most industrial investments are regarded as quite satisfying. If there are 'black sheep', in most cases they are not well-known state-owned companies but individual investors who do not get support from the Chinese government and the local embassy. The reason for this is simple: the failure of a company introduced or supported by high ranking Chinese officials involves a loss of face. As respondents in our research said: 'The Chinese government doesn't like bad headlines from investments that don't perform' (Reisach 2017b).

Successful applicants usually get favourable terms, such as insurance coverage or special support through funds that have been created to support economic and technical cooperation with foreign partners. Nevertheless, there are still Chinese investors that appear in Europe without going through these formal procedures. Sometimes it is Hong Kong or Taiwanese individuals or companies that are not subject to these rules, or overseas Chinese and private companies from mainland China that are registered in Hong Kong or in some tax haven. In those cases, the provenience of the money is usually not transparent and foreign partners would be wise to be careful.

Leadership Style and Decision-Making

Large Chinese companies are often very hierarchical, while smaller private ones are usually led by a founder/owner who runs the 'company family', like a good father. The structure of power, governance, and relationships inside and outside the company is decisive for success. This fits well with the leadership style of many medium-sized industrial companies in Europe. In my research, most of the partners in Chinese-acquired industrial companies whom I interviewed, especially representatives of the workers' council, said that they do not see any or much change in how the companies are being managed (Reisach 2017b). These results were confirmed by interviewing the CEOs and representatives of the Chinese owners. In general, board members see many commonalities in planning and decision-making.

Regarding planning and decision-making, Chinese investors carefully check business and investment plans, as well as manufacturing technologies, staff, and sales. Sometimes discussions take more time and need more explanation, but basically the interests are similar. Regarding strategies, most Chinese investors, especially the big state-owned ones, are investing in new manufacturing lines and subsidiaries in third countries such as those in Eastern Europe, Central and South America, and Asia. They use the brand name, language skills, and international management experience of their European subsidiaries to enter these markets.

In several cases, the new Chinese owners even open a subsidiary in China for their European acquisition as a kind of incentive for the local management to get more active in China. This 'bride gift' lets European managers experience the opportunities and dynamics of the Chinese market, and stimulates know-how transfer to 'their' subsidiary in China (Reisach 2017b, 32). Members of worker councils and unions are also welcomed into the Chinese mother companies, because they are able to spread the information that the Chinese owner company is impressively large and modern. This reduces fear and builds trust between the new owners and their current and future European affiliates.

Many Chinese companies lack staff with international management experience (Backaler 2015, 77–95 and 165). They often recruit Chinese natives who live and work in Europe as supervisors and board members for their European acquisitions. These Chinese already know the language and business culture and act as intermediaries between the Chinese headquarters and the European subsidiary. Several subsidiaries are bundled together in European holding companies and registered as limited liability companies (Ltd.), run by Chinese and European board members. This facilitates the sharing of expertise and motivates European managers. Tax and legal liability advantages reduce the risk and create additional benefits for all parties. Quite often, these entities are no longer recognisable as being Chinese in the statistics. They act according to EU law and can hardly be differentiated from other mixed investors on the market.

A Level Playing Field?

The European Union advocates free trade in order to foster exchange, cooperation, and innovation. Access to the European market is relatively easy for Chinese companies because Europe follows the World Trade Organisation's (WTO) principle of non-discrimination (WTO 2018). Chinese investors benefit from the openness of European markets, externally and internally; a low level of regulatory pressure; support from the Chinese state; low prices of European SMEs and their reputation for high quality products; innovative technologies; and a good cash flow through holding structures in low-tax locations in Europe. European companies do not enjoy these kinds of benefits if they enter the Chinese market. Their main incentive remains the size and growth of their sales in the Chinese market, and the hope for fair treatment as partners.

When China accessed the WTO in 2001, it was still more or less a developing country that needed and promised a step-by-step adaption of the WTO's rules. Most foreign companies that wanted to invest in China had to form a joint venture with a Chinese company as majority shareholder. These restrictions have been lowered in 2018 for car manufacturers, but investment in telecommunications and media, architecture and engineering, strategic infrastructure, as well as financial intermediation and insurance are still restricted for foreign companies in China (OECD 2015). Similar tendencies can be observed in the digital sphere: foreign companies need to team up with a Chinese partner in order to enter the Chinese market, whereas Chinese apps spread out along the 'digital silk road' and enter European markets without such regulations (Reisach 2018; see also Oreglia in the present issue of *Made in China*).

This imbalance requires several direct forms of action. First, a joint EU approach in dealing with and regulating large-scale investments or investments in sensitive industries (no matter where they originate from) while keeping up the core principle of free market access—here, EU member states still have quite different national sentiments and rules. Second, digital business needs more regulation. This is not a China-specific but international issue, and national or EU institutions cannot put this in practice while using a free and unregulated global Internet. This highlights the system difference we are observing: the Chinese government regulates the digital sphere, emphasises its cyber-sovereignty, and uses supervision to keep Internet activity under control. Western democracies usually do not like this approach, as it is perceived as directive and strict, but on the other hand, the consequences of complete freedom and openness have also revealed certain weaknesses. Going forward, it will be interesting to observe which systems and which methods will prevail.

Outlook

After a phase of strong European investment in China following the country's accession to the WTO in 2001, the direction of foreign investments has changed. Chinese entrepreneurs have matured and gained experience in international markets. They are increasingly setting industrial and digital standards, and may even become leaders in their respective spheres. Europe is an attractive partner for developing, sourcing, and selling products; for science, technology, and management experience; and for responsibility, environmental protection, and quality of life. It is sometimes complex and has internal challenges, but is advanced and more stable than Central and South Asia or Africa. If the European Union member states cooperate, they can use their comparative advantages and balance European and Chinese interests e.g. in standardisation, intellectual property rights protection, and cyber security affairs. Indeed, during turbulent times in world trade, it is advisable to work on future-oriented fields that foster a mutually fruitful Eurasian cooperation. ■