



China-Europe-Spain: The awakening of investment by Chinese companies in Spain and Europe

Ivana Casaburi, Ph.D.

Professor of Marketing, ESADE Business School - URL
Director of the ESADE China Europe Club - ESADEgeo

Adrián Blanco Estévez

Ph.D. Candidate
Universidad de Santiago de Compostela

China-Europe-Spain: The awakening of investment by Chinese companies in Spain and Europe

Ivana Casaburi, Ph.D. Adrián Blanco Estévez

Professor of Marketing Ph.D. Candidate
ESADE Business School - URL Universidad de Santiago de Compostela

Director of the ESADE China Europe Club
ESADEgeo

ESADE China Europe Club¹

January 2013

Abstract

- ✦ Chinese companies have shown a growing interest in Europe, which has led to a significant increase in Chinese investment in Europe over the last few years. In 2009, Chinese investment flows to Europe only amounted to €66 million, a volume that rose to €736 million in 2010 and shot up to €3.192 billion in 2011².
- ✦ Companies are witnessing the awakening of Chinese investment in Europe across very diverse sectors, mostly in the value-added sector.
- ✦ Luxembourg receives 46% of all Chinese investment in Europe, although in most cases it simply acts as a channel directing these investments towards other European countries. The main final destinations for Chinese investment are Germany (12% of the total), Sweden (12%) and the United Kingdom (11%).
- ✦ Spain, with the backing of the Mobile World Congress, is increasingly attracting more foreign investment for the telecommunications and mobile phone sector. In the short term, it may be possible to increase the investment by Chinese companies already established in Spain, as well as to allow new companies to enter.
- ✦ Spain could serve as a platform for Chinese companies wishing to enter Europe, South America and North Africa.

¹ This note was prepared based on the first annual ESADE China Europe Club Forum (www.esadegeo.com/china-about), organized on 30 October 2012, at ESADE Barcelona. The objective of this club is to bring together the directors of Chinese, Spanish and other European companies to reflect on the business relations between China and Europe and to identify means of collaboration that help the development of the economy in both regions. The views expressed here are the authors' own.

² Eurostat data. Excluding Hong Kong.

The awakening of investment by Chinese companies in Spain and the rest of Europe

In 1999 the Chinese government launched its Go Global³ policy, which consisted of a series of measures aimed at liberalising Chinese companies and encouraging them to secure an international business presence. The implementation of the Go Global policy – included in the 10th and 11th Five-year Plans – placed the promotion of OFDI⁴ at the heart of China's development strategy, and constituted a turning point in the number of operations and projects carried out by Chinese companies abroad, which started to multiply from then on. Data from the United Nations Conference for Trade and Development (UNCTAD) indicate that Chinese OFDI stock amounted to US\$27.7 billion in 2000 and rose sharply from then on, reaching US\$366 billion in 2011. In one decade, Chinese OFDI increased by 1,200%, resulting in a volume three times higher than India's foreign investments.

According to data from MOFCOM⁵ (Chinese official statistics), up to 2010 Europe received a total of US\$15.7 billion, which makes up 4.9% of total Chinese FDI, much lower than the amount received by the rest of the Asia (72%) or Latin America (13.8%). Having said that, Europe captured more investment than the United States (2.5%) or Africa (4.1%). Eurostat data indicate Chinese companies' growing interest in carrying out operations in Europe in recent years. In 2009, continental China (excluding Hong Kong) only invested €66 million in Europe. This rose to €736 million in 2010 and shot up to €3.192 billion in 2011 (last year for which data are available).

Along these lines, a report published by PricewaterhouseCoopers (PwC)⁶ indicates that the number of merger and acquisition operations in Europe rose from 11 in 2006 to 61 in 2011. Among these operations carried out in 2011, the report highlights the deal between the sovereign wealth fund China Investment Corporation (CIC) and Gaz de France Suez as well as the China Three Gorges operation with Energias de Portugal (EDP). In June 2012, the same sovereign wealth fund, CIC, acquired a 7% share of the satellite operator Eutelsat, buying the shares for €385.2 million from Spanish infrastructure group Albertis.

Contrary to expectations, Chinese foreign operations are not limited to projects involving raw materials and heavy machinery. Cases in point are the research development and innovation

³ Zou-chu-qu

⁴ Outward Foreign Direct Investment

⁵ Ministry of Commerce (MOFCOM), People's Republic of China. Data for the last full year (2010). Eurostat has recently published data for 2011, noting a volume of foreign direct investment (FDI) stock from China at €15 billion. MOFCOM was taken as a point of reference because it offers the same methodology and allows for a breakdown per destination country.

⁶ ["China deals, a fresh perspective"](#)

(RDI) centres set up in Europe by both Huawei and Zhongxing Telecommunications Equipment (ZTE).

The companies involved in this awakening of Chinese investment in Europe operate in very diverse sectors and are, in general, State Owned Enterprises (SOEs). The main companies include China Ocean Shipping Co.- COSCO (logistics and shipping), PetroChina (oil and gas), China Minmetals Corporation (metals and mining), Yantai Wanhua Polyurethanes (chemical), China National Chemical Corporation (chemical), Haier (electrical appliances), Lenovo (telecommunications), ICBC (financial services), Hutchison Port Holdings (logistics and port services), Sany (industrial products), Keeway Motors, Wolong and Geely (automobile industry). The latter acquired the Swedish company Volvo in 2010 (for €1.35 billion) in one of the most significant operations a Chinese company had ever carried out overseas. This is proof of the *new world* we live in, where emerging countries have the financial capacity to acquire companies in OECD countries.

According to MOFCOM data (stock for 2010, most recent data available), the main European destination for Chinese investments is Luxembourg. 46% of China's total investment is concentrated in this country, despite the fact that in most cases this is not the investment's final destination. Some Chinese companies begin their activity in Luxembourg and later expand to other European countries. This is the case of both the Industrial and Commercial Bank of China (ICBC) and Bank of China. Two of China's favourite destinations in Europe are the continent's major economies, Germany (12% of the total) and the United Kingdom (11%). Sweden (12%) is also high on the list, although investment is concentrated in the purchase of Volvo by the Chinese auto giant Geely. Other countries in which China has made major investments are the Netherlands (4%), Spain (2%) and France (2%).

Chinese investments in Spain in perspective

According to available data, which vary depending on the nature of the source and the calculation of the investment from Hong Kong, the volume of investment that reaches Spain is still low⁷, mainly because there has still not been any major operation by a Chinese company in a local company (M&A, Mergers & Acquisitions). However, there are currently over 50 Chinese companies⁸ operating in Spain, mainly from high-tech sectors or those operating in the higher echelons of the value chain. In the telecommunications sector, China Unicom has cross shareholdings with Telefónica (which opens doors to the Asian and European/Latin American markets respectively) and Huawei supplies the main Spanish companies in the sector and carries out RDI activities in Spain, just like ZTE. In the

⁷ Around 2% of the total investment that reaches Europe from mainland China, excluding Hong Kong.

⁸ Of the total number of companies, around 30 make productive investments in Spain.

renewable energy sector – which China is particularly interested in due to the need to diversify its energy supply in order to avoid bottlenecks in its internal growth – companies such as Sinovel Wind and Chint Solar are present in Spain.

Another important sector is logistics and ports, with activity conducted by three of the main Chinese companies in this sector: COSCO (with an extensive network of offices and presence in numerous ports), China Shipping Co. and Kerry Logistics. In addition, Hutchison Port Holdings (HPH) recently invested €500 million in the Port of Barcelona for the construction of a new container terminal, which was opened in October 2012. Given the size of the corporate group (Hutchison Whampoa Limited), it is crucial that their experience in Spain be satisfactory. In fact, Hutchison Whampoa is particularly interested in the telecommunications sector and may increase its investment in Spain in this sector. Chinese investment has also reached other sectors, such as the chemical industry and the development of medical products.

The recent entry of Chinese banks into the Spanish financial system is of great interest. At present, two of the *big four*⁹ are already established or becoming established in Spain. ICBC, which has a retail customer base of over 150 million, has offices in Madrid and Barcelona, and the Bank of China has announced its intention to open a branch in Spain. The expansion of the Chinese financial sector could lead to direct channelling of Chinese savings towards Spanish families and companies. One example of this is the €930 million credit line Telefónica secured with two major Chinese banks: ICBC and China Development Bank.

In addition to the companies already present, several large Chinese companies are currently knocking at Spain's door, for example China Development Bank (CDB) and Wahaha. This is basically due to the combination of two factors. On the one hand, as mentioned earlier, the Go Global policy has born ever more fruit in recent years, while Chinese companies have simultaneously experienced growing pressure to expand and diversify their investments. On the other, the state of the Spanish economy is creating downward pressure on all types of assets, increasing their attractiveness for Chinese companies.

In this context, we can identify a variety of other more concrete factors, more specifically related to the sector of activity, which explain why Spain is attractive to Chinese companies:

- ✦ Access to technology is a possible driver of investments by renewable energy companies.
- ✦ Geographical proximity to key suppliers and customers could explain the investments by technology firms Huawei and ZTE.

⁹ The term "Big Four" is applied to China's four biggest state-owned banks: ICBC, Bank of China, Agricultural Bank of China and China Construction Bank.

- ✦ Diversification of markets, internationalisation of Chinese companies and following the flow of the Chinese diaspora are factors which appear to justify ICBC's newly opened branches.
- ✦ The search for international customers established in the European market and the need for proximity to the customers are some of the reasons behind the growth strategy adopted by Chinese multinational service providers, such as COSCO and Hutchison.
- ✦ Moreover, Spain's strategic position within Europe, especially its access to the Mediterranean, is a key driver.
- ✦ In some cases, the investment is aimed at developing new lines of production, such as CITIC's acquisition by of the Galician heavy steel fabricator, Gándara Censa.
- ✦ Spain is also seen as the ideal partner for allowing companies to enter Latin American markets more quickly and on a more solid footing. This is the case of CDB with Banco Bilbao Vizcaya Argentaria (BBVA), China Construction Bank (CCB) with Santander, and ZTE with Telefónica.

In short, Chinese companies are aware that Spain offers an excellent direct market, with a population of over 45 million and a per capita income around US\$30,000. Moreover, investments in Spain provide access to the world's largest market in terms of purchasing power – the European market – and to one of the regions with the highest growth rate – Latin America – through joint investments or partnerships with Spanish companies, which are leaders in the region. Other advantages, such as tax benefits, human capital and costs, lead Chinese companies to carry out projects and investments of high added value in Spain, which are quite unrelated to the profile of the operations carried out in African countries, which are mainly aimed at the extraction and commercialisation of raw materials.

As for the means of entry Chinese companies choose, there is a preference for opening production plants and/or commercial subsidiaries. This is the case of China Ocean Shipping (COSCO), Huawei, ZTE, Lenovo (albeit through the purchase of IBM subsidiaries), Haier, China Minmetals Co., Air China and Shanghai Baosteel. Companies with less financial clout and a more modest international presence have opted for other means of entry, such as carrying out greenfield projects and signing distribution agreements with local companies such as BYD and Kerry Logistics.

The main challenges Chinese companies face in Spain fall into two categories; one shared with the rest of Europe and the other specific to Spain. The common challenge is the cultural and linguistic barrier, as well as a certain degree of mistrust in the host country with regard to inward investment, or a negative perception of Chinese brands and products. The specific challenges are those associated with the localisation of the activity and are related, from an operative point of view, to the investment climate. Examples of these challenges include the

management and processing of work and residence permits, bureaucracy which hampers investment procedures and the contraction of the consumer market due to the economic crisis. On the other hand, other factors related to the Spanish business environment, such as infrastructure, R+D taxation, the workforce and labour costs, are valued positively by Chinese managers. Similarly, upon arriving in Spain, Chinese companies can count on support from the authorities, both at state and regional levels, through their investment attraction and development agencies, which are highly useful to ensure a soft landing¹⁰.

In summary, it is clear that in the current economic context, China needs Europe and Europe needs China. In this setting, Chinese companies come to Europe mainly in search of technological and management knowledge, in order to become global competitors. Although in many cases this does not involve production in Europe, it does add value, for example through the creation of new jobs, and it is helping Europe to recover its position within the global economy.

¹⁰ These agencies offer numerous services, which range from the search for business opportunities and help with bureaucracy and the procedures required for setting up a company to providing information on investment incentives and financial support and collaboration to facilitate visas and work permits. In addition to the support from the public sector, Chinese companies also find support in the private sector, through law and consultancy firms, etc.

**For further information on ESADEgeo's Position
Papers, please feel free to contact:**

Marie Vandendriessche

ESADEgeo Center for Global Economy and Geopolitics
Av. Pedralbes 60-62, 08034 Barcelona, Spain
+34 934 95 21 46

marie.vandendriessche@esade.edu

www.esadegeo.com

<http://twitter.com/ESADEgeo>