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China-Spain:

A strategy to encourage Chinese companies to establish European and Latin American headquarters in Spain: Madrid, Bilbao and Barcelona.

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¹ This note was prepared for the second meeting of the *Club España 2020*, held in late October 2010 at ESADE Madrid. The aim of this informal club is to bring together Spanish business leaders from national and multinational companies to (re-)examine Spain's participation in the international economy. The thoughts expressed herein are those of the author.

ABSTRACT

- **Chinese companies have completed various different transactions with Spanish companies in 2010.**
 - **There is now an opportunity to encourage some of these Chinese companies to set up their European headquarters in Spain.**
 - **Spain could position itself as a corporate hub for Chinese companies seeking to expand in Europe as well as in Latin America.**
 - **Specific actions and results could be achieved in the short term with three companies (Sinopec, BYD and Chery), as well as with the sovereign wealth fund China Investment Corporation (CIC). All of these organisations are weighing their options for setting up regional headquarters in Europe.**
 - **China Unicom and CITIC also present short-term possibilities, as they have privileged relationships with Telefónica and BBVA. Both companies are considering moving their European headquarters from London to Madrid.**
 - **In the medium term, Spain could seek further results with the oil companies CNPC and CNOOC, with the automaker Geely, and in particular with the high-tech companies Huawei and ZTE.**
 - **In these efforts, the following Spanish companies could play a key role: Repsol with Sinopec; Bergé with BYD and Chery; BBVA with CIC and CITIC Securities; and Telefónica with Huawei, ZTE and China Unicom.**
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China – Spain:
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Bilateral relations between China and Spain have intensified over the past few decades; the recent meeting between the leaders of the two countries is an example of this trend. Spanish companies have continued to invest in China and, in particular, Chinese companies have recently closed various deals with Spanish companies:

In October 2010, the oil company Sinopec acquired a 40% stake in Repsol Brazil. This deal resulted in the creation of a company valued at nearly US\$18 billion. Going forward, Repsol will maintain its 60% stake in the Brazilian subsidiary, with Sinopec owning the remaining 40%. With this deal, Repsol has obtained more than US\$7 billion in cash that will enable it to invest in its future.

In late September 2010, BYD (Build Your Dreams), a worldwide leader in rechargeable batteries (a sector which will be essential to the future of the electric car industry), signed an agreement with the Basque group Bergé on the distribution of BYD's products in Spain. Like Huawei, BYD is based in the city of Shenzhen. With 120,000 employees, the company supplies the automotive batteries used by nearly 20% of the world's population, as well as the batteries used in 25% of the world's mobile telephones. Warren Buffett owns 10% of BYD. In October 2010, BYD CEO Wang Chuanfu, one of China's richest people, signed a collaboration agreement with Endesa Chairman Borja Prado that focuses basically on energy storage in batteries.

Another key automotive group, Chery, is also looking to expand in Europe and Latin America. In 2010, the company decided to open a plant in Brazil, and it is currently finalising plans for project in Western Europe, possibly in Spain

(Catalonia). Chery is primarily a state-owned company, with Shanghai Automotive Industry Corporation (SAIC) holding a 20% ownership stake. As part of a strategic agreement reached with Socma in 2007, Chery has produced some of its vehicles in Latin America (Uruguay). The group produces more than 500,000 vehicles each year. In 2007, Chery formed a joint venture with the Israeli company Quantum to build electric cars. In 2010, it signed an agreement with another Israeli startup, Better Place, to produce electric vehicles.

The Chinese bank ICBC has decided to open branches in Spain to compete in the retail-banking sector. With nearly 390,000 employees and a market capitalisation of nearly US\$170 billion, ICBC is one of China's largest banks. It has 18,000 branches in nearly 110 countries worldwide. The Spanish branches will be owned by a subsidiary of ICBC based in Luxembourg. Gang Liu, formerly of the Luxembourg office, will oversee ICBC's operations in Spain. The bank already has branches in the United Kingdom, Luxembourg and Germany, and it plans to open more in Madrid, Amsterdam, Brussels, Milan and Paris. It has not ruled out the possibility of acquisitions in Europe. In other words, this is a chance for Spain to lead the process of internationalising a Chinese bank by offering Madrid as a location for the headquarters of European and Latin American operations.

The following transactions have opened a window of opportunity for Chinese partners to locate their European (and/or Latin American) headquarters in Spain:

Sinopec: This company has several subsidiaries with offices in Europe, mainly in London. One of these subsidiaries, China International United Petroleum & Chemicals Co., Ltd. (UNIPEC), the largest Chinese trading company in its sector, is based in London. The company does not have an integrated headquarters for Europe and/or Latin America. Sinopec's deal with Repsol YPF presents a unique opportunity for the company to locate its European headquarters in Madrid, like Pemex has already done. In addition, because of

its links to Repsol and Latin America, Spain could also serve as Sinopec's operational headquarters for Latin America.

BYD: The European office of BYD is currently located in Rotterdam. Why not move it to Spain? In addition to facilitating expansion into Europe, a head office in Spain could serve as a springboard for expansion into Latin America, with BYD's Spanish partners contributing their knowledge of the region. The question of whether to relocate the European office is currently open; Germany is another possible location, as BYD also closed a deal with the Stuttgart-based automaker Daimler in 2010. In any event, BYD wants to open a European base in order to boost sales on the continent. In the first half of 2010, BYD chose Los Angeles as the site of its North American headquarters. The Bergé group also has numerous links to Latin America: Why not locate not only BYD's European headquarters in Spain, but also its Latin American headquarters, using Bilbao and/or Madrid as centres of operations?

Chery and Geely: Bergé Automoción is the Spanish distributor not only for BYD but also for two other Chinese automotive groups, Chery and Geely, both currently involved in an international expansion process. In 2010, Chery Automobile set up a plant in São Paulo, becoming the first Chinese automotive group to invest in Brazil. The company will invest a total of US\$400 million in the new facility. Chery is also weighing the possibility of opening its first Western European production facility in Catalonia. The plant would manufacture 300,000 automobiles per year and create 3,000 new jobs. The possible locations for the new plant in Catalonia include L'Espluga de Francolí (Conca de Barberà), Vila-rodonà (Alt Camp) and Abrera (Baix Llobregat). In June 2011, Barcelona will host the first edition of China at Barcelona Summit, a meeting sponsored by ESADE and the Barcelona Chamber of Commerce to promote Chinese investment in the Catalan capital. In addition to opening the production facility, why shouldn't Chery use Barcelona and/or Madrid as a location for its headquarters for Europe or even Latin America (where, in addition to Brazil, Chery wants to position itself in Uruguay and Argentina)?

In 2010, Geely, another major Chinese automobile manufacturer, bought Volvo Cars for €1.4 billion. This is the largest foreign deal ever reached by a Chinese automaker. The headquarters of Volvo Cars will remain in Gothenburg, Sweden. Geely's website makes no mention of a European office. Geely automobiles are sold in Peru, Uruguay, Cuba and Venezuela. The company even offers an electric car, the Geely Nanoq. Why not imagine a Latin American headquarters for Geely in Europe?

CIC: The sovereign wealth fund CIC (China Investment Corporation) is looking to establish an office in Europe in 2010. London has emerged as a strong contender for CIC's new international office, but no decision has yet been made. Other Chinese companies with European headquarters in London include Alibaba.com and China Telecom. CIC is also considering New York as a possible alternative. In October 2010, the company opened an office in Hong Kong – its first business unit outside of mainland China – in a move that marks the beginning of its internationalisation process. (SAFE, the other Chinese sovereign wealth fund, already has offices in Hong Kong, London, New York and Singapore.) CIC is also interested in Latin America, which means that Madrid could be an attractive alternative for facilitating expansion and operations in both Europe and Latin America. A decision by CIC to open an office in Madrid would be an international milestone.

Huawei and ZTE: Both companies are leading suppliers for telecommunications operators. Telefónica is a major international client of ZTE and, in particular, of Huawei, which currently does business in 100 countries, with international sales accounting for 75% of its total revenue. In 2003, Huawei set up its European headquarters in London (this office was later relocated to Basingstoke, Hampshire, also in the UK). The company has facilities in Germany, France, Italy, Sweden and the Netherlands (as well as in Spain, although its website does not mention this fact). Huawei has operations in 13 countries in Latin America, with its Latin American headquarters located in Brazil. With close to 100,000 employees, Huawei is currently a supplier for 45 of the 50 largest telecommunications operators in the world. The company has international R&D centres in Silicon Valley and Dallas (USA), Stockholm (Sweden), Moscow

(Russia) and Bangalore (India). In 2008, Telefónica CEO César Alierta and Huawei Chairman Ren Zhengfei signed an agreement to create an innovation centre in Spain. With as many as 50 employees, the new centre will provide technical support services to customers throughout the Spanish-speaking world. Tang Xiaoming is the president of the Telefónica Global Account at Huawei. Huawei Spain currently employs more than 250 people. In 2004, ZTE decided to locate its base of European operations in Paris (Boulogne-Billancourt); in late 2009, this international office also took over responsibility for operations in Canada, the United States and Eastern Europe. In 2010, Telefónica and ZTE signed a commercial agreement that will bring the company into the markets of 12 different Latin American countries.

The strategy outlined here would enable several key Chinese companies, now currently engaged in the process of internationalisation (into Europe and Latin America), to locate regional headquarters in Spain:

Sinopec: European and Latin American headquarters in Madrid, like Pemex, close to its main partner Repsol YPF. A coordinated strategy could pay off in the short term and open the door for CNPC and CNOOC to also open headquarters in Spain.

BYD: European and Latin American headquarters in Bilbao, close to its main partner Bergé Automoción, with the additional possibility of opening the doors to Latin America. A coordinated strategy could pay off in the short term.

Chery: European and Latin American headquarters in Barcelona, close to its main European industrial facility, with support from the Spanish and Catalan governments to expand in Latin America. A coordinated strategy could pay off in the short term.

CIC: European and Latin American (international) headquarters in Madrid, close to two areas of strategic investment for the sovereign wealth fund. A high-level strategy could pay off in the short term.

Huawei and ZTE: European headquarters in London and Paris, respectively. Both have Telefónica as a major global client, particularly in Latin America. A coordinated strategy could pay off in the medium term.

China Unicom and CITIC: Privileged relationships with Telefónica and BBVA, respectively. Both companies are considering moving their European headquarters from London to Madrid. A coordinated strategy could pay off in the short term.

In each of these cases, Spanish multinationals can play a key role in a coordinated strategy to bring Chinese companies' headquarters for Europe and Latin America to Spain:

Repsol: Thanks to its close relationship with Sinopec, Repsol can provide incentives and encourage the Chinese oil company to set up its European and Latin American headquarters in Madrid. In addition, Repsol could play a key role in encouraging PetroChina (CNPC) and CNOOC to do the same, since in 2009 both companies expressed interest in acquiring a stake in Repsol. CNPC's website makes no reference to a European headquarters. Its subsidiary, PetroChina, has a European operation, PetroChina International Co., Ltd., based in London. In Latin America, the company has an office in Caracas to serve Venezuela.

Bergé and Telefónica: These two companies could provide key incentives for the Chinese automakers (BYD, Chery and Geely). Telefónica is a major client in Europe and Latin America for Huawei and ZTE, which supply technology systems for telecommunications operators and compete directly with giants such as Alcatel-Lucent (the result of a French-US merger in response to the rise of the Chinese groups). Additionally, Telefónica has a privileged relationship with Hong Kong-based China Unicom, China's second-largest mobile telecommunications operator; César Alierta sits on the company's board of directors. China Unicom Europe is currently based in London.

BBVA and Santander: BBVA has important partners in China (CITIC) and is heavily involved in talks with the Chinese sovereign wealth fund CIC. Both banks could play a key role in establishing CIC in Madrid. They, like all of the IBEX 35 companies that need to raise capital in order to deleverage, have an obvious interest in bringing the fund to Madrid. A move of this sort would be extraordinarily dramatic, effectively launching Madrid's finance industry onto the international stage. CITIC Bank International has offices in the United States but not in Spain, or anywhere in Europe for that matter. BBVA became a partial owner of CITIC in 2006 when it acquired 5% of CNCB, the group's subsidiary in mainland China, and 15% of CITIC International Financial Holdings (CIFH), its subsidiary in Hong Kong, for €1 billion. In 2008, BBVA increased its stakes in the CITIC subsidiaries to 10% and 30%, respectively, and in 2009 it participated in the group's capital increase. In total, BBVA invested more than €3.2 billion, positioning itself as one of the group's leading strategic partners. CITIC has several subsidiaries, including China Asset Management Co., Ltd., and CITIC Securities International Investment Management, which could be interested in opening offices in Madrid as a base for distributing Chinese funds in Europe, for example, or even as a springboard to Latin America. In September 2010, CITIC Securities, China's largest investment bank, initiated its internationalisation process by opening its first foreign branch in Australia. Santander has agreements with China Construction Bank, another one of China's largest banks, which has offices in New York, Hong Kong, Sydney, Tokyo, Seoul and Ho Chi Minh City, but whose only European offices are located in London and Frankfurt.

The country strategy described herein could be extended to other Asian countries. Many Spanish business groups have recently reached major agreements with Japanese multinationals: FFC formed an alliance with Mitsui to jointly develop solar thermal energy initiatives; Acciona signed a strategic agreement with Mitsubishi; and Abengoa formed an alliance with JGC.

This strategy would naturally apply to Latin American companies seeking to expand into Europe. Madrid, Barcelona and Bilbao could be the entry points, providing a European base for these expanding multinationals; Cemex and Alparagas are two examples of companies that have already have already

taken this step. Yet Spain still has a long way to go: the Brazilian Development Bank (BNDES) chose London over Madrid for its European office; Tenaris, a division of the Argentinean group Techint, chose Luxembourg over Spain for the site of its global headquarters; and so on. Spain and Latin America have strong corporate and economic ties, built over the past several decades through the expansion of Spanish businesses in the region. No other European country can claim to have this sort of relationship with Latin America. Spain should actively engage in a coordinated public-private effort to promote this asset.

For further information about ESADEgeio's Position Papers, please feel free to contact:

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