

The key aspects of Chinese investment in Spain



The recent shifting of the economic power towards Asia, especially China, is one of the economic features with the most impact on the world's economy in the last few decades.

China is now the engine of the world's economy, and has surpassed Germany and Japan in its GDP. It is also the largest global exporter of goods and capitals, the largest consumer of raw materials; it has almost one third of the world's reserves in foreign currency as well as two banks that are among the ten largest banks in the world; and 89 of its companies were part of the Fortune 500 ranking of 2013. However, the arrival of Chinese companies in Spain is a recent phenomenon, although it is a fast-growing one.

The ESADE China-Europe Observatory has recently registered 60 Chinese companies present in Spain. Most of them operate in high-tech fields and in the upper segment of the value chain, with telecom and IT, logistics and transport in pre-eminent positions.

Investment segments

Firstly, the power industry has been one of the segments to receive a substantial part of Chinese investments in Europe, as shown by the presence of the CIC (China Investment Corporation) sovereign fund



Professor Ivana Casaburi
Director of ESADE China
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in the French Gaz de France (2.3 billion Euro) and Three Georges in Portugal, and its acquisition of Energías de Portugal (2.7 billion Euro). Although no operation of this magnitude has taken place in Spain, it has eight companies of the renewable energies sector in the country. Among these we can find Sinovel Wind, Sunford Light, Yingli Green Energy and Jinko Solar. Secondly, one segment with a strong presence of global Chinese companies is the IT industry, where we may point out companies like Huawei, ZTE, Lenovo and Haier. Huawei is present with three divisions – network equipment, mass consumer goods and corporate services – and is currently planning the establishment of an R&D centre in Spain. ZTE, a global supplier of telecom equipment and network solutions, is expanding its commercial network in Spain. In 2012, Lenovo became the world leader in PCs, and within its policy for international expansion, Spain is leading Lenovo's mass consumer goods business in Southern Europe with a 7.5% market share, a much larger one than that in France or Italy. Haier, a Chinese conglomerate, is a global competitor in the household goods and air conditioning segment. In Spain, it has also entered the tablet and smartphone segment. In 2012, the sovereign fund CIC acquired 7% of Eutelstat, indirectly acquiring for this purpose shares worth 385 million EUR from Abertis, the infrastructure conglomerate.

Thirdly, another sector with important Chinese investments is the transport and logistics sector, with various major Chinese groups operating. These companies occasionally take advantage of their presence in Spain to favour and control the commercial routes towards Europe, making them more agile. COSCO, currently one of the world's largest shipping companies, has its cen-

tral venue in Barcelona harbour as well as branches in Valencia, Cádiz, Algeciras and Madrid. Hutchinson Port Holdings, which belongs to the Hutchinson Whampoa group, has committed itself, from 2012 onwards, to investing 500 million Euros in the largest container terminal in the Port of Barcelona, and it may extend its activity to other economic segments. Furthermore, China Shipping and Kerry Logistics have a great deal of investment activity in Spain.

There are great opportunities to complement Chinese and Spanish and European companies

Another relevant industry is the banking sector. ICBC, the Industrial and Commercial Bank of China, one of the four large state-owned banks, and the largest bank worldwide in market value, has opened branches in Madrid and Barcelona, and recently acquired an important building in the centre of Madrid for 21.8 million EUR with the aim of transforming it into a financial centre, which shows the bank's interest in its Spanish and South European business. The potential externalities of the establishment of financial entities are of considerable relevance, as they act as funnels for savings and for the availability of Chinese liquidity towards Spain.

In this sense, over the last few quarters, we have seen important operations, such as the 50 million EUR credit awarded by ICBC to ADID for the high-speed train works, or the 930 million EUR credit line given by the ICBC and the China Development Bank (the latter with no presence in Spain) to Telefónica for the acquisition of technological products and services..

Expansion of Chinese companies

Outside these sectors, with a consolidated Chinese presence, the presence of Chinese companies in Spain has been opening to other sectors during the last year. In 2013, the Spanish hotel group NH Hoteles opened its capital to the Chinese HNA, which now controls 20% of the capital after acquiring shares worth 238 million EUR. Recently, the Chinese company has added an extra 4%.

In the agricultural industry, Shuanghui International Holdings (meat) announced the purchase of the North American Smithfield for 7.2 billion EUR, thus controlling the Spanish company Campofrío, which until then had been part of the US company. During the first quarter of 2014, two additional acquisitions took place in the hotel/real estate sector – one of these in Mallorca for 40 million EUR and another in Madrid, with the acquisition of the emblematic 'Edificio España' for 300 million EUR by the Chinese real estate company Dalian Wanda.

Other important Chinese companies present in Spain are Sinochem Corporation (petro-chemical), Minmetals (metals), China National Chemical Group – Bluestar Siliconas (chemical), Air China (aerial transport), Baosteel (steel and materials), Keeway Motor (electrical motorbikes) or CICC China Certification & Inspection Group (corporate services)..

Investment prospects

As Chinese companies continue expanding abroad, a larger number of private capital companies of this Asian country are expected to show interest in investing in Spain.

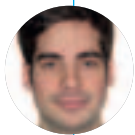
The opinions of the alumni

On September 25, ESADE and the Barcelona City Hall, together with the Guanghua School of Management, presented the Chinese Investment in Europe 2014, at the Guanghua School of Management in Beijing. The presentation was led by Ivana Casaburi, director of the ESADE China Europe Club and ESADE lecturer. The alumni present at the event have given us their opinions:



Raquel Redó (MBA PT 10),
Economist

“Despite the currently increased interest in investing in Latin America, there is still a large potential and interest in investing in the Spanish market. I was also surprised by the large interest generated by Barcelona as an example of a smart city among the entrepreneurs attending the presentation in Beijing.”



Miguel Calvo (ADE Lic&Master 08),
Product Manager in Perfect World

“The report reflects the major change that has occurred in recent years which, far from being limited to the most publicized cases such as the possible investments of Wang Jianlin, shows a very positive evolution of the presence of Chinese multinational companies in key industries, like IT and renewable energies. However, there is still a long way to go to move from a mainly commercial presence to a presence that incorporates the opening of R&D centres and the strengthening of brands.”



Ou Sun (ADE Lic&Master 12),
Analyst in Acció

“I believe for China the key attraction points to invest in Spain are its privileged geographical position as a gate to Europe and North Africa, its superior quality of life and its recent entrepreneurship law that grants citizenship for investments above a certain scope.”



The increase in the approach to Spain by Chinese investors coincides with the economic difficulties Spain has been experiencing since 2009. Far from being seen as a risk by Chinese investors, this crisis is regarded as an opportunity. The crisis has pushed prices, whether in the real estate sector or for land and offices, shares of traded com-

Many Spanish companies have considerable knowhow in certain industries that might be capitalized by Chinese companies

panies, companies suffering difficulties or qualified labour force, which in combination with a both politically and economically highly stable country, represents a great opportunity for Chinese investors with abundant liquidity and eagerness to expand their operations in Europe. Likewise, Spain offers large complementarities for Chinese companies. In the first place, many companies have considerable knowhow in certain industries (IT, biotechnology, energy or infrastructures, among others). Chinese companies could capitalize on this knowhow, establishing strategic alliances and joint ventures leading to the interchange of Chinese funding and Spanish knowhow, to the benefit of both parties. Likewise, these projects will contribute to open the doors of the Chinese market to Spanish companies, as well as facilitate the penetration of Chinese companies in

Latin America, where our companies own the continent's second largest investment stock. Such is the case of companies like Endesa, Gas Natural Fenosa, BBVA, Santander, Sacyr or Repsol, which are leaders in different South American countries as well as the ideal strategic alleys of the Chinese companies. The entry of Sinopec into Repsol's Brazilian subsidiary or the crossed participation of China Unicom and Telefónica are good examples of the potential of this kind of associations. One more advantage of Spain lies in its domestic market, with 47 million consumers with a per capita income of more than 35,000 EUR per year, its highly qualified and very competitive workforce as compared to other countries, the wide net of infrastructures (including 3 of Europe's 15 largest ports: Barcelona, Valencia and Algeciras), a competitive tax system for holding companies and ideal life quality conditions for expats.

In sum, there are good opportunities for complementarity between Chinese companies and Spanish and European companies. In fact, nowadays – and this is to increase in future – being globally really competitive will not be possible without making this complementarity become a fact. **E**

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