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CHINA IN EUROPE: GETTING INTO BUSINESS

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Abstract

China in Europe: Getting into business aims to entice discussion about the motivations and consequences of state-owned companies’ foreign investments. Having the recent and hyped phenomenon of Chinese businesses and investors gaining a bigger foothold in Europe, the case tries to identify the patterns in Chinese investment. One of the most prominent characteristics is the weight of SOE foreign investment when compared to private companies. By describing the internationalisation processes of Haier, Lenovo, Huawei and China Three Gorges — companies that are private, public and have mixed ownership — the reader is challenged to compare the options taken by the different companies.

Keywords:
China; Europe; SOE; Internationalization
Part A - China in Europe: Getting into business

The idea that China is going to be the “next big thing”, that it is going to take on the rest of the world and that in 20 years we will all be learning Mandarin in school has been around for quite
some time. China has, in fact, surprised the world with its consistently high growth rates throughout the years. However, it was not until it decided to “go global” that westerner companies started to see China as an international player.

China’s relationship with Europe has played a big role in its growing participation in international markets. The two hubs have developed an evolving interdependency by exploiting their synergies and complementing each other across an international value chain.

Unsurprisingly, upon China’s decision to open up the economy, Europe appears as a top destination for investment.

**The “go global” strategy**

The “Go Global” or “Go Out” policy was first included as a part of the 10th Five-Year Plan, which set the development guidelines for the period between 2001 and 2005, for the People’s Republic of China. Since then, it has been a priority in the Chinese government’s strategy.

The definition and communication of this strategic shift was made in the process of China gaining accession to World Trade Organization (WTO), which it officially joined on 11 December 2001.

For the previous decade, China had experienced a rapid growth, mainly focused on the secondary industry sector. It had been one of the top Foreign Direct Investment (FDI) destinations and quickly emerged as an undeniable global economic power. As the Chinese economy grew, the pressures of rapid inward-centred growth and the treat of the middle-income trap\(^1\) started to be felt. Excess liquidity, the massive outflow of population from rural to urban areas and environmental distress propelled the going-out mind-set.

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\(^1\) “Middle income trap is the situation in which a country’s growth slows after reaching middle income levels. Growth slowdowns coincide with the point where the inputs that drove the first stage of growth, from low to middle income, are exhausted” (adapted from: “Escaping the Middle Income Trap”, Global Economic Symposium, 2014)
The policy was defined as a “two-way investment promotion strategy” to promote China’s integration in the global economy (People’s Daily, 2001). As expressed in President Jiang Zemin's Report at 16th Party Congress, China was set to “do a better job in opening up by “bringing in” and “going out”” (2002). While the Chinese wished to maintain its trade expansion and keep attracting FDI, the government recognized that cooperating and competing in the international spectrum, would open new development opportunities. The reasoning, however, was not only volume-oriented, as it might have been in the past, but also quality-oriented. China wished to become relevant further up the international value chain, focusing on higher-level activities such as technology and innovation.

This way, the Chinese government would support “relatively competitive enterprises (…) to invest abroad (…) and bring about a number of strong multinational enterprises and brand names” (Zemin, 2002).

Fast forwarding to 2017, China has been implementing a broad expansion strategy to increase capacity to influence the world economy directing its investment mainly to the largest, most developed economic powers: the European Union (EU) and the United States (US). The rise of China coincided with the boom of globalization, which some say is now shifting from production to consumption, knowledge and technology. This factor may have contributed to the fact that, at this point, China is already more open than its peers Japan and South Korea at similar development stages. (García-Herrero et al., 2017)

**China-EU: an economic relationship**

Since China’s accession to the WTO and the subsequent creation of the EU-China Comprehensive Strategic Partnership in 2003, we have witnessed an effort towards creating a more favourable environment to deepen this economic relationship. Both uphold the importance of a “rule-based multilateralism” as the “core global governance” model and are
currently two of the most externally integrated economies worldwide. (Delegation of the EU to China, 2013)

Measures of cooperation that broaden discussions to include also environmental issues, sustainability and cultural exchanges, as detailed in the latest EU-China 2020 Strategic Agenda for Cooperation, are also taking place. In fact, this agenda was built over the pillars of peace, prosperity, sustainable development and people-to-people exchanges.

At the same time, both the EU and China are still facing challenges that arose and intensified with the most recent global crisis, such as high debt stock. In this paradigm, problems such as the lack of transparency, excess bureaucracy, protectionist policies and high government intervention, as well as inconsistent intellectual property and anti-trust laws gain further relevance and are yet to be tackled.

**Investment**

Investment relations between China and the EU have gained relevance following China’s strategic shift towards a more open economic model (Appendix I). As of 2015, Europe invested about €168 billion in China, while China invested around €35 billion in Europe. Even though Europe has shown to be key both in terms of volume and strategy, in recent years, China represented only about 2% or less of the EU’s annual outward FDI. (García-Herrero et. al, 2017) Chinese companies have approached Europe in different ways. Firstly, through direct investment that encompasses “an equity injection into an overseas subsidiary, either for the establishment of a new overseas subsidiary — greenfield investments — or to acquire a controlling stake (greater than 10%) in an existing company — mergers and acquisitions” (Hanemann & Huotari, 2012). Between 2000 and 2014, 70% of all transactions of Chinese companies in the EU were of greenfield investments, both new projects and expanding existing facilities. However, regarding volume of investment, acquisitions represented 86% of the total
value transacted “as M&A deals are generally more capital-intensive” (Baker & McKenzie, 2015). (Appendix II)

Secondly, through portfolio investment that are usually short-term and do not entail controlling position in the investee companies. These are investments “in liquid (easily bought and sold) securities, which might include holdings of equity shares with less than 10% of voting rights, or corporate debt instruments” (Hanemann & Huotari, 2012)

EU’s attractiveness

Despite the factors that detract investment from Europe, it is still one of the most open economies in the world and one of the most attractive FDI destinations. On the one hand, European states have developed to have labour laws that are, for the most part, protective of employees which encompass less flexible labour laws for employers. Both the high volume of bureaucracy and the lagging innovation (when compared to other economic potencies) damage Europe’s allure. Furthermore, an investor aiming at the EU has to account for 28 different legal and political systems.

On the other hand, the EU still stands out for its stability at a macroeconomic, political and institutional level. It has one of the largest domestic markets with around 500 million potential consumers which, on average, have an annual purchasing power of €13,672 per capita (Bruchsal, 2016). It is true that these values hide the large discrepancies among states, however the European vision of free flow of goods, services and people, opens up an immense pool of opportunities, namely investment opportunities. Additionally, Europe has established infrastructures, a competitive business environment that produces exportable R&D and where industrial clusters form. Which, consequentially, dispose of a high level, scientifically qualified and technically trained workforce and executives.

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2 “In terms of innovation, almost all indicators rank thee European Union below other economic powers such as the United States” (Casaburi, 2014)
Furthermore, due to its historical background, Europe holds strong political, economic and often commercial links to strategic countries and regions around the world. This is particularly true for former European colonies that have risen to gain international relevance like Brazil, or even North America.

Following the economic crisis, the “Old continent” faced a challenging period when valuable assets saw its price drop significantly and access to credit became more difficult. At this point, European governments showed to be particularly receptive to Chinese investment.

**Sovereign debt crisis**

Before the sovereign debt crisis took place, there was no strict control over the compliance with deficit-to-GDP or debt-to-GDP ratios set in the Maastricht Treaty (3 and 60 per cent, respectively). With the Euro as a common currency, all countries benefitted from low interest rates, making it easy to access credit while, on the contrary, austerity measures were held as impairing to growth.

The sovereign debt crisis began in 2009 as the possibility of the Greek economy defaulting became a reality, when in December S&P changed Greece’s rating from A- to BBB+ (IEconomics, 2017).

At this point, the European Central Bank (ECB), European Commission (EC) and the International Monetary Fund (IMF), which together came to be referred as Troika, were bound to intervene. The first country to receive financial assistance was Greece, but countries like Ireland, Portugal, Spain, Cyprus, Romania, Hungary and Latvia also received international aid.

The several financial assistance programs launched across Europe aimed at tackling the debt imbalances that drove countries to the sovereign debt crisis, putting the EU and particularly the Eurozone and Euro currency at stake. The programs put high pressure on governments and
populations to comply with strict austerity measures, amongst which the substantial privatization of state-owned assets.

China’s participation in the privatization programs has been highly publicised, as some of the deals closed in this process were a hype. While the weakened economy led to an increased uncertainty and risk aversion made investors retreat from the EU, Asian investors would normally bid above market price, gaining easy access to strategic assets. This process also revealed a growing interest of the Chinese in Southern European economies, namely Spain, Italy and Portugal.

In Portugal, the largest deals involved energy utilities and infrastructure companies, EDP and REN, which were acquired by China Three Gorges (CTG) and State Grid Corporation of China (SGCC). CTG, a power production SOE, and SGCC, the largest Chinese electric utility public company, showed very similar entry strategies. They established what they called strategic partnerships with the local companies by acquiring a minority but significant stake, which allowed them to maintain control and gain seats at the boards.

On the contrary, People Bank of China invested in multitude of privatising businesses from different industries, besides banking it also made investments in companies in the automotive, telecommunication, electric utilities and oil and gas industries. The investments were vast, however it consistently acquired about 2% stake in most companies.

But the Chinese movements in Europe were not restricted to privatisations (Appendix III). In 2014 China Huaxin Post and Telecommunications Economy Development Centre (“Huanxi”), mainly owned by a state-owned investment holding company, acquired the enterprise division of Alcatel-Lucent. The €202million investment provided the needed investment for the division that planned “to expand into new vertical markets, high-growth countries and, of course, the cloud” (Luxford, 2014). Huanxi is an industrial investment company that spots opportunities in Information and Communications Technologies (ICT) and this long-term approach serves to
strengthen the company’s strategic position in the “enterprise communications” business (Luxford, 2014).

In the same year, Weichai Power, a state-owned diesel engine company, invested €738 million to acquire 25% of KION and 70% of its hydraulics business. KION, a German group focused on manufacturing industrial material-handling equipment, and Weichai Core define this investment as a strategic partnership and a “cooperation in the field of material handling and hydraulic drive technology” (Linde Hydraulics, 2014). §

Many deals were closed in this period, reaching some of the core strategic sectors of the investee countries: IT, energy production and distribution, transport and logistics, insurance and banking. (Appendix IV)

With the outline of the financial crisis and the imposed austerity in European countries, the Chinese realized “the importance of the economic situation of its main trading partner for its growth” (Casaburi, 2014). However, China’s investments might have been “partly opportunistic (…) because assets were cheap and partly it was a structural secular shift in Chinese outbound investment, from securing natural resources in developing countries to acquiring brands and technology in developed countries.” (Anderlini, 2014).

Furthermore, even though the holders of debt have not been officially disclaimed, the Chinese government as well as the sovereign fund, China Investment Corporation (CIC), have announced purchases of European bonds. These rumours point to countries like Spain, Portugal, Ireland and Hungary, which, unsurprisingly, are also those that received financial assistance and that followed privatisation programs. It had also been suggested that China would be financing the European Financial Stability Fund (EFSF) in up to €3.9 billions. (Casaburi, 2014)

These actions aligned with the particular characteristics of Chinese foreign investment, which has come mainly from SOEs rose concerns about the true intentions of such investments. SOEs were the source of 31 out of the €46 billions of Chinese FDI into the EU between 2000 and
2014 (García-Herrero et al., 2017). Were these investments to be driven by non-economic objectives, Europe would face serious national security and political risks.

Regardless of some uneasiness, the weight of the EU in Chinese foreign investment kept increasing. Most recently, FDI transactions from China to the EU grew from €20 billions in 2015 to €36 billions in 2016 (García-Herrero et al., 2017). This way, we can safely conclude that, due to their interdependence, each play a significant role in supporting each other’s stability and improving each other’s economic prospects, not only for their mutual advantage, but also for the prosperity of the global economy. However, Chinese investment in Europe still falls shy of its potential, mainly because, considering the global panorama, the international integration and opening of the Chinese economy is still “a recent phenomenon”.

**Profile of current Chinese investment**

There are already a lot of Chinese companies with global a presence. According to Forbes Global 2000 List, banking and insurance companies, like ICBC, China Construction Bank and Bank of China, are the largest Chinese global enterprises. Not surprisingly, they are also state-owned. But ecommerce, retail and IT companies like ZTE, Huawei, Cosco, Lenovo and Haier, have also gained ground in the latest years. Chinese global firms are characterised by an outstanding management capacity, an appetite for innovation, expansion and abundant financial resources.

In Europe, the investment strategy is particular and different from other regions, aiming to take advantage of the continent’s capabilities. The focus of Chinese investment is innovation, through scientific and technological research; high-tech, advanced manufacturing; and growing interest in developing and incorporating services in their ventures.

The patterns of Chinese investment in Europe have entailed a rapid transformation in terms of geographic preference, configuration of target sectors, origin (private to public ratio) and the
role of the different provinces, which have gained a more prominent place in foreign investment.

**Geography**

In terms of destinations, China looks for key markets in each region. In Europe, Chinese investors have consistently preferred the most advanced countries, between 2000 and 2016, most of the investment was concentrated in France, UK, Germany and Italy (Appendix V). Ideally, they seek companies that grant them access to large markets, global brands, with higher purchasing power, and increased technologic and research capacity.

However, some investment has also been directed towards Eastern Europe, which, being at an earlier development stage, serves as a gateway for products and services coming from China. Also, as previously mentioned, following the privatisation wave, Southern Europe became more attractive, reaching a cumulative investment that represented 28,3% of total investment in the years between 2000 and 2015 (Casaburi, 2016-17)

**Sectors**

In 2006, the Chinese government defined seven strategic sectors: defence, electrical generation and distribution, oil, telecommunications, steel, civil aviation, water transport. Moving forward to present time, the focus is now on advanced manufacturing, innovation and technology and the services sector.

Last decade’s goal for China has been to “position itself as a force of innovation” (Casaburi, 2014). In fact, even though it was not its strongest year, two Chinese enterprises can be found in the top 30 worldwide innovative companies, this year: Shanghai RAAS (#4), a blood products company; and Tencent Holdings (#24), an internet services company (Forbes, 2017). This has been true across sectors, where Chinese investors aim to learn and support more advanced methods, research and higher-end activities. In 2015, the manufacturing sector
represented 39.4% of total Chinese investment in the EU, logistics and transport followed with 25.9% and real estate (10.6%), which has since become less significant (Casaburi, 2016-17)

Currently, investments are moving towards infrastructure, energy, agriculture, high-tech, health care, agri-food and consumer goods. (Appendix VI)

**Ownership**

As previously mentioned, the weight of SOEs in the Chinese economy is quite significant. Foreign investment benefitted from government incentives and was primarily used as an economic policy tool. Therefore, this trait has been observed across geographies.

Most of the cumulative outbound investment made by Chinese companies abroad was originated in state-owned or state supported firms. Particularly in Europe, SOEs keep being relevant and even more so when considering sectors that the Asian government holds as strategic. SOEs continue having easier access to financing, but this trend is changing rapidly. Chinese leaders understand that they cannot guarantee sustainable growth and long term competitiveness. To ensure the desirable evolution they need to become more market oriented. Since the 1990s and especially since joining the WTO, China has, indeed, been able to reduce the “aggregate economic size of SOEs”. In 2016 privately-owned companies (POEs) already represented 39.8% of total investment (Casaburi, 2016-17)

Moreover, since this economic structure increases uncertainty about the intention and sustainability of Chinese investments abroad, the government has made systematic efforts to create a fair and balanced competitive environment both inside and out of national borders.

**Mode of entry and Deals**

There has been a mix of ways Chinese companies have found to get into Europe according to the requirements, target and risk assumptions. The Chinese presence in Europe is made of a
combination of greenfield FDI, brownfield\textsuperscript{3} FDI and portfolio investments. As previously mentioned, while the number of greenfield projects is larger than M&A deals, the value of the investments allocated to M&A deals are much larger than to greenfield projects. Nonetheless, since 2010, a growing average value of greenfield projects has been observed (Appendix II). “Chinese companies have begun to invest in greenfield projects with significant capital expenditures, including research and development (R&D) centres in Scandinavia, food processing facilities in France, real estate developments in Britain, and machinery production in Germany” (Baker & McKenzie, 2015). Investment in expanding existing facilities in Europe has also increased and in 2016, the preferred method of expansion to Europe was establishing a subsidiary, accounting for 86% of cases (Baker & McKenzie, 2015).

Regarding M&A deals, while early on the preference was for 100% acquisitions that would allow them to control, manage and rapidly enter new markets, that is no longer the case. Although, the new trend is for Chinese investors to bet more in small and medium-sized M&A deals, purchasing non-controlling interests in local businesses, establishing joint-ventures and strategic agreements and partnerships.

Portfolio investments represented a significantly smaller share of the monitored deals. Nonetheless, when balancing inflows and outflows of portfolio investment, a tendency towards China investing more outside than what it allows to come inside has been observed.

How active the investors become is linked to the type of investment, green or brownfield, and whether draw minority or majority deals. These choices primarily reflect the level of commitment and control an investor wishes to exert over the investee.

\textsuperscript{3} The concept of greenfield investment captures the creation of a firm from scratch, or the extension of existing production capacity by non-resident investors. Brownfield investment, on the other hand, primarily captures cross-border mergers or acquisitions of existing domestic firms. (European Political Strategy Centre, May 2017)
A closer look into Chinese companies investing in Europe

In practise, how are these trends reflecting in operating businesses and companies? When looking at an organisational level of state-owned, partially state-owned and private companies, we find the strategies that make up the identified trends.

Haier

Consider Haier, for example, a consumer goods company focused on electronic home appliances. The group has a “mixed-ownership” structure, meaning that it is held by both private and public shareholders (Milhaupt and Zheng, 2015).

It first entered Europe in the year 2000, by establishing a subsidiary, *Haier Europe Trading S.r.l.*, in Italy. In 2012 it announced its intentions to boost sales in Europe, its plan was to “acquire or build production facilities to become closer to its European consumers” (Waldmeir, 2012).

Its presence and growth in Europe have shown the strategy it set when internationalization became a reality, what they call the “three-step strategy of going out, going in and going up”. This plan accounted for an internationalization that would focus first on developed countries, where it would start gaining market presence by selling cheaper versions of established products. The goal was “to scale up its core “made-in-China” portfolio and accelerate its move up the value chain” (Le Corre & Sepulchre, 2016).

Haier’s ability to target the upper end of the appliance market in Europe, the “going up” step, has been partially attributed to the fact that consumers do not associate it to a Chinese brand. Li Pan, managing director of Haier’s foreign operations in 2012 actually stated at the time, about its Chinese origin: “We never emphasise that point, we don’t deny it, but we don’t emphasise it” (Waldmeir, 2012). The fact is that Haier has been consistently investing in innovation and developing higher-end products and it “could yet become a household name in Europe before most customers even figure out it is Chinese.” (Waldmeir, 2012).”
Lenovo

Lenovo in its turn, is a classic case of a company that grew and expanded through acquisitions. Just like Haier, it is under a partial state-ownership (Milhaupt and Zheng, 2015).

The company gained a global foothold by acquiring IBM’s PC division in 2005. Six years later, it turned to Europe by acquiring a “German computer and consumer-electronics maker Medion AG in a cash-and-stock deal valued at up to €465 million” (Fletcher, 2011). The goal was to strengthen its presence in Europe as the company claimed the deal would increase its presence in the German market, where it would thereafter hold 14%, and in western Europe, where its market share would come up to 7.5%.

Most recently, in May 2016 Lenovo announced it would be moving its manufacturing as well as its data centre products to Europe to be closer to its partners and “core customer base” (Lenovo, 2016). While at first the company was following a clear technology acquisition strategy to “bolster its position at home and create strategic opportunities abroad” (Le Corre & Sepulchre, 2016), these latest moves show a company that is committing to Europe to a level that goes beyond a supplying and gaining market share.

Huawei

Huawei has been distinguished as an example of success for Employee Stock Ownership Plan (ESOP), which the company guarantees represents 99% of its ownership (Sevastopulo, 2014). It first entered Europe with the establishment of its Stockholm R&D centre in 2000. It has expanded its presence in the “old continent” mainly through greenfield projects and strategic partnerships, positioning itself as a technological partner rather than as an investor. Huawei Europe sets as one of its pillars cooperation: “driving smart and sustainable growth as a partner for Europe” (Huawei, 2017).

As the company states in it corporate website, Europe is its global centre of expertise. It has focused on gaining and developing research capabilities in Europe, benefiting from the
available resources. Praising itself for an open innovation mind set, what Huawei gathers in Europe it takes not only China, but the rest of the world, making Europe a key part of its global value chain.

At this point, it has 18 R&D centres in across Belgium, Finland, France, Germany, Ireland, Italy, Sweden and the UK. It has also a number of Innovation and Experience Centre with different partners and opened, in 2015, the European Research Institute in Leuven. It has also established a yearly programme that takes promising young students to “China for a month to help promote STEM (Science, Technology, Engineering and Maths) careers and skills, as well as forge a better understanding and closer links [to] China. The programme provides workshops and networking events, as well as career advice and opportunities for undergraduates to help further develop skills and talent.” (adapted: Huawei, 2016).

The company’s strategy has been a “straightforward effort to raise margins by diversifying out of the low-margin Chinese market into higher-margin foreign ones” (Le Corre & Sepulchre, 2016).

China Three Gorges

Finally, CTG, as previously mentioned entered Europe in 2011 by investing in a privatisation deal in Portugal, buying 21,35% of EDP, the largest Portuguese energy company with activities spread across all continents. The Chinese state-owned giant focusing on clean energy established a partnership with the Portuguese company aiming to “combine efforts to become worldwide leaders in renewable energy generation (…) where EDP will lead in Europe, US, Canada, Brazil and other selected South American markets and CTG will lead in Asia markets” (EDP, 2011).

In December 2012, CTG acquired 49% of EDP Renewables, the company’s branch focused on clean energy, namely wind energy, for €359 million. The deal encompassed follow-up investments such that by 2015 CTG would invest €2 billions in EDP’s wind power farms.
Within this partnership different projects gained track in South American, and particularly Brazil, and Africa. In fact, the companies set up a 50-50 joint-venture called Hydroglobal to study “hydropower projects in Peru and other Latin American countries outside Brazil, as well as in Portuguese-speaking Africa, notably Mozambique” (De Clercq, 2015).

The partnership has opened up opportunities for CTG to not only diversify its business but also reach regions in Europe, Latin America and Africa. CTG showed a clear “market access strategy” when investing in EDP, setting up a dedicated alliance that has been recognised as unique and has been “watched across the industry as a model for Chinese investment in renewables abroad” (Reuters, 2013). Most recently, CTG acquired an extra 1,9% participation in EDP increasing its stake to 23,3%.

It is undeniable that we can observe trends across Chinese investments in Europe, the share of SOE investment and the recent increase of POE relevance in foreign investment is a defining aspect. But when deciding to go abroad, does a company’s ownership matter? What motivates an SOE to invest in foreign markets might be different from what pushes a private company to do so. The same could be true for the expected result of these investments, which we may be too early to balance off. How does shareholder composition affect the motives, strategic options and potential consequences of a foreign investment?

On the other hand, should there be a difference in the way SOEs and POEs operate as investors, should investees like EDP be concerned with the origin of the investments they receive? How could these investments impact the way local companies operate and the business environment in which they operate? When changing the dynamics of a market, which stakeholders impacted?

Finally, it has been consistently observed that the primary FDI destinations for Chinese investors, US and the EU, have shown concerns in regard to this matter. What motivations could be behind this apprehension? What risks could Europe be facing if Chinese interests were beyond economic?
Part B - Teaching note

Scope and goals
This case was designed for courses of International Business. While it invites students to learn about the recent phenomenon that is Chinese investment in Europe, the case provides actionable examples of internationalization processes. Through the construction of the profile of the Chinese investor, students are presented with a scenario in which SOE investment has been consistently higher than POE investment. Given this, the case study aims to challenge students to question and understand the potential impact of ownership structure (state-owned, private or mixed) in a company’s internationalization strategy.

Synopsis and additional information
Because of the latest trends of Chinese investment towards Europe, a hype has risen around the subject and several analyses have been drawn. This trend has, therefore, provided some distinguishable examples of internationalization processes.

In the first section an historical background is set, explaining that since China’s admission to the WTO in 2001 and the consequent implementation of the “Go Global” strategy the presence of Chinese companies in international markets has grown.

The fact that this phenomenon is placed at the same time as the globalization boom should be no coincidence, it shows that the Chinese leaders identified the potential of actively participating in global markets. The “Go Global” national strategy entailed this mind set precisely. It determined that successful Chinese enterprises should be supported in the process of investing abroad, whilst maintaining the country’s attractiveness to FDI.

The following section, narrows the scope of analysis to the Europe as a target of Chinese FDI. The goal here is to explain how the relationship between the China and Europe has determined
and has been determined by this trend. On the one hand, the strength and relevance of their trading relationship, set a sound ground for the evolution of the China-EU investment economy. In 2015, Europe invested about €168 billion in China and China invested around €35 billion in Europe (García-Herrero et. al, 2017) (Appendix VII). On the other hand, this economic alliance has extended to further influence other areas that encompass peace, environmental issues, sustainable development, prosperity as well as cultural and people-to-people exchanges.

Further restricting the ambit, the case continues to determine the ways Chinese companies have entered Europe, focusing essentially on FDI as a form of investment and why Europe was the destination.

Between 2000 and 2014, 70% of all transactions of Chinese companies in the EU were of greenfield investments, both new projects and expanding existing facilities. Brownfield investments, however, surpassed the latter in regards to volume of investment. Acquisitions represented 86% of the total value transacted “as M&A deals are generally more capital-intensive” (Baker & McKenzie, 2015). Nonetheless, some relevant investments also came in form of Foreign Portfolio Investments, which is worth distinguishing from FDI as some it can also be also equity based.

The case goes on to depict how the Sovereign economic crisis in Europe affected the incidence of Chinese investment the continent. The crisis created a significant set of factors that enhanced Europe’s attractiveness adding to the structural appeal of the “Old country”. The role of Chinese investment in Europe’s recovery was quite significant as they actively participated in privatizations in the form of FDI (such as China Three Gorges) and FPI (such as People’s Bank of China); other M&A processes and greenfield projects as well as debt buyout. These market movements created some uneasiness, especially since most of the foreign investment came from SOEs, concerning the true intentions of such investments. If these investments were driven by
non-economic objectives, Europe would face serious national security and political risks, however the need and interdependency of the two potencies would see investment keep increasing.

The next section aims to draw the outline of the Chinese investor in Europe. In general terms, despite identifying different patterns, Chinese investors tend to prefer Western Europe most developed countries and focus on innovation (Appendix VIII). There is, traditionally, a large dominance of SOE investment, but POE relevance has been increasing in the last few years. Furthermore, there has been a mix of modes of entry and deals: M&As have been more valuable while greenfield projects have represented more volume and FPI has represented a smaller percentage of both volume and value. Despite this characterization, patterns have shown to be rapidly changing as this is, nonetheless, a recent phenomenon.

The last section of the case provides examples of different Chinese companies investing in Europe, that hold innovation as a common goal. With these examples, students are challenged to identify the different internationalization strategies, the level of flexibility, control and commitment that investor companies take on and how those decisions are or are not determined by the ownership structure of each company. In a different perspective, students should also be challenged to reflect on whether investee companies and ultimately countries, as a destination, are concerned with the origin of these investments and its potential consequences on businesses’ service levels, industries’ competitive environment, national security and financial and economic independence.

**Haier**

- Haier is partially owned by the state, however, its success is somehow attributed to the fact that they do not market themselves as a Chinese company or brand.
• While they are now a higher-end home electronics producer, their position was built from selling cheaper versions of established products and, from there, moving up the value chain” (Le Corre & Sepulchre, 2016).

• The company has now established headquarters in France and offices in Belgium, the UK, Italy, Poland, Russia and Spain.

• Haier has set its international strategic goal to become “Zero Distance to the Customer” strategy. Which resulted in their first wide range marketing campaign in European soil, in 2016.

• It has been appraised for its “open innovation model as part of the company’s ongoing transformation from a traditional manufacturing concern to (...) the company’s next incarnation as an Internet platform supporting autonomous operating units” as its CEO describes (Nunes and Downes, 2016).

Lenovo

• Lenovo is also a mixed-ownership company, it entered Europe through a 100% M&A deal, acquiring the German company Medion.

• The next big deal was when Lenovo acquired Motorola from Google, in 2014. While this was not a direct investment in the European market, the presence of the Motorola brand in western Europe came as a valuable asset. This fact became evident in Lenovo’s strategy for marketing their smartphones. While in countries like Romania, Czech Republic and eastern Europe as a whole, they presented their smartphones under the Lenovo brand, its plan for western Europe was to launch the devices under the Motorola brand.

• Just like Haier, Lenovo has stood out for its open innovation model, which materialised in the company’s “New Business Development online platform to make collaboration with startups easy. The platform has led to the creation of three “smart” devices—glasses, an air cleaner, and a router.” (Nunes and Downes, 2016).
Huawei

- Huawei has been quite secretive about its ownership structure being reluctant to even disclose its board members. However, following the suspicion brought about in some US deals, the company claimed that it is not only privately owned, but that 99% of its shares are owned by employees through ESOP (Sevastopulo, 2014).

- Its initial success in Europe is somewhat attributed to the relationships built with business customers like Telefónica (Spain), Orange (France), British Telecommunications and Deutsche Telekom.

- The company has positioned itself by Europe’s side as a partner for innovation, betting mainly in R&D and education.

China Three Gorges

- CTG is a fully state-owned company which entered Europe in the wave of privatizations propelled by the sovereign debt crisis.

- It is a “clean energy company that primarily develops and operates hydropower plants in China. The company’s activities also comprise wind power development; construction and operation of pumped storage power stations; project management, counselling, and supervision work; non-banking financial services; investments and management; tourism development and hotels management; asset disposal; and development of solutions for control equipment.” (Bloomberg, 2017).

- Its partnership with EDP has given it access to new markets as well as access to a wider knowledge-base and technology has EDP been dedicated to clean and renewable energy production in markets such as Latin America, North America and different locations in Europe.
Objectives

1. **Identifying different internationalisation strategies**

   The case allows students to identify, in the examples provided, different strategies of internationalisation. It clearly shows that the decision to internationalise and the way companies chose and are able to do so are not linear and are, instead, dependent on various factors.

2. **Exploring the implications of SOEs investment**

   The case describes four different cases of companies that invested in Europe. One privately-owned (Huawei), two with mixed-ownership (Haier and Lenovo) and one fully state-owned (China Three Gorges). Students are invited to compare the companies in regards to their internationalisation choices and motivations considering their ownership structure.

3. **Evaluating the level of involvement and its consequences**

   Still with their ownership structure in mind, students should be challenged to evaluate how ownership is reflected in the level of control, flexibility and commitment placed upon these investments.

4. **Considering the investee perspective**

   Students should also be invited to consider the point of view of the investee, may it be the company, the country or, in this case, Europe.

5. **Discuss the scalability of the conclusions**

   Since the case is set upon the unique characteristics of Chinese companies as investors and considering also the particularities of the Chinese government as an international player, the conclusions of the discussion should be questioned in regards to their scalability. Are the conclusions taken about this case and these companies applicable in other contexts where SOEs may surge as investors?
## Roadmap for case analysis and discussion

<table>
<thead>
<tr>
<th>Phase</th>
<th>Time</th>
<th>Topic of discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Goes Global</td>
<td>5 mins</td>
<td>• Historical rise of China as an international player</td>
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<tr>
<td></td>
<td></td>
<td>• National internationalization strategy</td>
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<tr>
<td>China-EU investment</td>
<td>10 min</td>
<td>• <em>Why has Europe become so relevant to China?</em></td>
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<td>• Understanding the fit between China and Europe’s goals and need as economic partners</td>
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<tr>
<td>Profile of the Chinese investor</td>
<td>15 min</td>
<td>• <em>How would you define the typical Chinese investor?</em></td>
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<td>• Highlighting the fact that a large share of FDI comes from SOE, which is particular characteristic to China as an international player.</td>
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<td></td>
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<td>• <em>What is most distinct about Chinese investors?</em></td>
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<tr>
<td>Getting into business – Haier and Lenovo</td>
<td>10 min</td>
<td>• Identifying Haier and Lenovo as the “mixed-ownership” companies</td>
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<tr>
<td></td>
<td></td>
<td>• <em>What pushed Haier to invest abroad?</em></td>
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<td></td>
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<td>• Video – Haier “Zero Distance” marketing campaign:</td>
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<td><a href="https://www.youtube.com/watch?v=238ZKly0rtgw">https://www.youtube.com/watch?v=238ZKly0rtgw</a></td>
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<tr>
<td></td>
<td></td>
<td>• <em>What was the strategy used and why?</em></td>
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<td>• <em>What was the company wishing to achieve?</em></td>
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<td></td>
<td>Lenovo</td>
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<td></td>
<td></td>
<td>• The same questions are posed about Lenovo</td>
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<td></td>
<td></td>
<td>• <em>Can you find any similarity in these investments?</em></td>
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<tr>
<td>Getting into business – Huawei</td>
<td>10 min</td>
<td>• Identifying Huawei as a private company that has been particularly secretive about its ownership structure</td>
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<td></td>
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<td>• <em>What motivated Huawei to go abroad?</em></td>
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<td></td>
<td></td>
<td>• <em>How did they choose to do so?</em></td>
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<td>• Video – Huawei “Seed for the Future” program:</td>
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<td><a href="https://www.youtube.com/watch?v=zY7ZAI_SiE">https://www.youtube.com/watch?v=zY7ZAI_SiE</a></td>
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<td>• Identify the nature and scope of Huawei’s investments when compared to the previous companies’</td>
</tr>
<tr>
<td>Getting into business – CTG</td>
<td>10 min</td>
<td>• <em>Considering CTG is a public company, how do its motivations, strategies and goals compare to the other examples?</em></td>
</tr>
<tr>
<td>Discussion</td>
<td>30 min</td>
<td>• The final discussion should be based on the questions posed at the end of the case study</td>
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<td>• To finalise the discussion, the scalability of the arguments and the debate should be questioned</td>
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