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CHINA'S OFFENSIVE IN EUROPE

by

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**Translated by Susan Emanuel
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Chapter 1

China's Offensive in Europe

Since 2010, China has shown an ambition to establish itself in Europe. Luxury brands, technology, infrastructure, finance, real estate, and tourism: the sectors are varied and illustrate the diversity of Chinese interests. In Europe, the former Middle Kingdom has found a warmer welcome than in the United States.

In Shanghai is located the campus of a Chinese business school that is not like any other: the China-Europe International Business School (CEIBS) was founded in 1994 with financing from the European Commission, originally via a partnership with Jiaotong University in Shanghai.

CEIBS in 2014 celebrated twenty years of existence by doubling the size of its campus in Pudong. Originally financed by the European Union and housed by its Shanghai partner, it is now autonomous and resembles what is mistakenly assumed to be a European business school. CEIBS also has campuses in Beijing and Shenzhen, which enables it to cover a large zone (and to reach the two “Silicon Valleys” in China, Haidian and Shenzhen). The community of graduates of CEIBS includes more than 14,000 persons, of whom 8000 are holders of **Executive Masters of Business Administration (EMBA)**.

But for the last five years the E.U. has considerably reduced its financing. Links with Europe have also diminished, despite the presence of a German dean, Helmut Schütte, formerly from Paris-based business school INSEAD, and of a handful of European instructors. In fact, CEIBS trains Chinese business personnel, but not especially in the direction of the European market. Of course, this school is not a failure properly speaking, but nor is it a success for European policy vis-à-vis Beijing. Has it benefited Europe, and does it open avenues to Chinese investments on the Old Continent? Not exactly.

Not forthcoming on this subject, the embassy of the European Union in China boasts in its brochures about all the subjects that fall under CEIBS: education, training, commerce, environment, sustainable development, territorial management, intellectual property, food, youth, science, culture.... No less than sixty meetings are held each year in all its domains, proof of lively Sino-European relations. An example is urban and environmental questions, which are regularly topics of exchanges during Sino-European summits held alternately in China and in Europe.

Among the successes of the EU, we should signal the exchanges of **managers** and business personnel, like the “China-E.U. Managers Exchange Training Programme” that between 2006 and 2011 has trained some 400 Chinese and European managers in firms in the opposite country. For European managers this is a unique intercultural experience for those who have never worked in China, but on the

Chinese side a certain opacity remains: there is no prolonged stay for Chinese trainees to work within European firms. The cost for the European Commission was 23 million euros.

The Long March of Europe into China

In 1985, the pre-Tiananmen China of Deng Xiaoping signed its first agreement on cooperation with the former European Economic Community, principally on customs and tariff questions to do with access to markets. This relation was formalized ten years later with the publication of a “Communication on China” by the European Commission.

For its part, China has published various reports to define its relation with the E.U., including one in October 2013 that was supposed to set the tone for the next ten years, after examining the recent history and the international and national “context” – especially in relation to China, it seems. For Beijing, it is important to grasp the opportunities to strengthen mutual interests. There are “more points of agreement than divergences between the two parties, which should enable developing cooperation even more,” explains the document, adding that this strengthening is an integral part of the overall Chinese strategy. The goal is clearly to sign a free trade treaty, about which Brussels speaks only indirectly at the moment, while Beijing seems for once to make some concessions, on condition for moving toward more transfers of

technology and greater access to European markets: “We have a vocation to sell not only toys, clothing, and shoes,” Premier Li Keqiang is said to have stated in March 2014, before adding that “ when the present parties respect each other and trade in a constructive manner, there is no reason not to work together.”¹⁰ Rarely has China engaged so explicitly in collaboration with a group of nation-states. We know that China is seeking to formalize a bilateral investment treaty with the EU, in order not to remain outside the major transatlantic (TTIP) and transpacific (TPA) negotiations.

When a new European Commission was established at the end of 2014 under the presidency of Jean-Claude Juncker of Luxemburg, Sino-European relations began to take a different turn. The years 2010-2014 were marred by commercial disputes, starting with one over solar panels and then one over telecommunications. For the latter sector, it was the former Trade Commissioner Karel De Gucht who led the anti-Chinese revolt, only conceding a few days before his departure in October 2014. He was denouncing the disproportionate and unequal aid from Chinese banks (all state-owned) to the Chinese constructors of telecom equipment, Huawei and ZTE, – which were accused of dumping. It should be noted that they practiced prices 18% lower than those of European manufacturers; Huawei’s share of the European market went from 2.5% to 25% between 2006 and 2014, a spectacular breakthrough that was only possible thanks to public assistance,

¹⁰ Premier Li Keqiang’s press conference following the National People’s Congress plenary session, 14 March 2014.

explained a working document from the Commission.¹¹ As for the “dumping” of solar panels, Brussels and Beijing also found an arrangement by fixing a minimum sales price. Finally, as a byproduct of the visit by Xi Jinping in the spring of 2014, the European Commission abandoned various recriminations. “I think that raising these irritating subjects will ultimately reinforce EU-China relations,” concluded Karel De Gucht somewhat sadly. Efforts to make Beijing fall into line were hardly conclusive: on the trade level, the deficit rose to 137.8 billion euros in favor of China, which was far from being the premier supplier of the EU in 2014.

The European Chamber of Commerce in China is not mistaken: each year it publishes an incendiary report stressing the disequilibrium in market access at the expense of European enterprises in China, which suffer from “disproportionately restrictive rules.” The Chamber calls for a “significant retreat of political pressure from the business world in China”. “There is a very ideological point of view in China that considers we should be treated under a different régime because we are foreign enterprises,” bemoaned former EU Chamber president David Cuccino. A recognized lobbyist, the Chamber of Commerce stresses that the many foreign firms are being studied, especially within the framework of the anti-corruption fight. For example this is the case in the sectors of pharmaceuticals (GlaxoSmithKline) and agro food (Danone). Although China seeks to negotiate a treaty on investments, “it does not want this

¹¹ L’UE et la Chine se réconcilient sur les télécoms, *Reuters*, 20 october2014

to be integrated into the notion of access to the market,” wrote François Godement and Angela Stanzel in a recent policy brief.

How China makes its voice heard in Brussels

Without any doubt, China’s public relations has been professionalized. At the Chinese representation to the EU, an important Chinese diplomat recognized a few years ago that his work consisted of removing the landmines of “anti-Chinese campaigns” launched by the Commission, the European Parliament, national delegations, and assorted pressure groups! Contrary to his colleagues in European capitals, no cocktail parties and society functions for this diplomat, but rather serious and complex working meetings in the offices of the European Commission. Today, the economic mission has provided itself with specialists in each technical domain like the other embassies present in Brussels. The Chinese press is also well represented by means of the Xinhua agency, CCTV, the *People’s Daily*, and most of the major newspapers. The correspondents of these media, who are more like “representatives,” participate actively in multiple round tables in Brussels on the future of China-European Union relations (though they are often superficial).

More novel is the Commission’s direct lobbying. Serge Abou is the former European Union ambassador to China. He has just unashamedly joined as advisor to the lobbyists for the énigmatic Huawei group to

European institutions. Nobody at the European Commission seems to take offense at the mixing of **genres** that runs against European interests. The telecom group, which spends upwards of 3 million euros in lobbying, has recruited no less than seven persons for its European office, five lobbying agencies, as well as many outside consultants. This makes Huawei – known for employing numerous European and American “advisors” – the eighth largest group in terms of spending on Brussels lobbying, according to the transparency registrar of the European Parliament.

Other Chinese companies are represented in Brussels, discretely, and many Chinese professional federations parade through the offices of the Commission and the Parliament. For François Godement, author of several studies on relations between China and the EU, the European Union’s strategy in China is based on an anachronistic view that “China, under the influence of European involvement, was going to liberalize its economy, improve the rule of law, and to democratize.”¹⁴ We know what actually happened ...

France and Germany, blame the clichés

The establishment of diplomatic relations with the People’s Republic of China by General de Gaulle on 27 January 1964 allowed major French

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enterprises to have a place in the sun in the 1980s, in the framework of the “open door” policy under Deng Xiaoping, who came back to power at the end of 1978. Aided by numerous ministerial visits, the Franco-Chinese dialogue rapidly took the form of delegations of private investors who benefited from formal credits in domains as varied as energy (Lyonnaise des Eaux became Suez, EDF, Framatome became Areva); urban transport (Alstom), telecommunications (Alcatel), automobiles (Peugeot-Citroën)... resulting in “state to state” contracts, often guaranteed by formal credits like Coface for groups that did not really need them but benefited from the Jacobin generosity of a state concerned to appear in the foreground of the Beijing stage. It was a practice appreciated by China at the time. Certain European industrial groups knew in the 1980s and 1990s how to utilize the funds of various European governments (Italy, Netherlands, Germany, Belgium, Spain...) to advance their pour investments at a time when China had great need of infrastructure. One thinks of Alcatel, which between 1991 and 2000 counted a dozen subsidiaries in China – all of different nationalities.

Starting in 1980 when Valéry Giscard d’Estaing took the trip, all French presidents would visit China, the apotheosis coming with Jacques Chirac who opened wide to official Chinese visitors the doors of the Republic’s palaces. But this did not necessarily harvest the fruits: in fact the Franco-Chinese commercial deficit was dug in the years 1995-2007. Successive governments played as mediators for their European colleagues – in particular Benelux and the Federal Republic of Germany, before the latter established in turn an embassy and merged with the

former embassy of the GDR in Beijing in 1990. The European strategy of the European Commission described above actually began in 1985, and was partly inspired by French advice, in which the interests of the CAC-40 and the state were combined.

In 2015, the spirit changed. China for the previous thirty years had enjoyed stunning economic growth. After having long been the factory of the Western world, the country began to acquire technological or industrial champions whose products landed on Western markets. Inspired by Germany, the appliance manufacturer Haier, whose headquarters is at Qingdao, became the world Number One in refrigerators: in 2013, its sales figures reached 26 billion dollars after several acquisitions. As for Lenovo, after having acquired the PC division of IBM in 2004, it announced recently having bought from the same American group its System X division for 2.5 billion dollars, thus attracting into its camp 7,500 more engineers. In passing, this champion has won several state contracts, including a computing market of 160 millions euros for the French Ministry of Defense, which is surprising, since it concerns a mission to store and safeguard confidential data!

Having become the second world commercial power, China today wants “win-win” partnerships, and the contribution of credits no longer suffices, as attested by the presence of an Airbus factory in Tianjin (an investment of 645 million dollars) which will develop in 2016 the *A320neo* version; it will have among its competitors a Chinese 100-seat aircraft named the C919, whose design and construction are supplied by

a Chinese group from Shanghai (Comac) in alliance with the French defense firm Safran. Similarly, the Franco-Chinese civil nuclear project is flying high: an accord in 2011 between EDF and the China National Nuclear Corporation (CNNC) should in principle permit, though a transfer of technology, developing together the civil nuclear market, especially in South Africa and the United Kingdom .

Now the partners have to find new ideas... since the French government has no more formal credits – nor a magic wand. Of course, there are many kinds of cooperation in educational and cultural domains but the Chinese public seems to have been more seduced by the sirens of Hollywood than by French artists. On the economic level, certain French industrial groups that have been long present have succeeded in building a solid relationship with China, but the door to public markets is often closed to them. China wants more technology transfers, hence the relative success of Germany, its prime European partner, which has not hesitated to commit to the long term.

In Chinese eyes, France does not have the image of an industrial and technological country. On the other hand, we have known brands, and French products of the “art of living ” are recognized for their quality. The same is true of agro-food and health, sectors in which the Chinese middle classes are no longer satisfied with the local offerer. Powdered milk is systematically imported, and one of the important announcements at the end of 2013 was the opening of the Chinese market to French *charcuterie*. Generally speaking, the French SMBs are not very present on the Chinese market, since they are less accustomed

to export than their European neighbors. Of course, there are a few alliances, like the rapprochement in 2008 between a Shandong firm, Weichai, and the Baudouin motor manufacturer in Cassis, but that remains an isolated case and the profits are not yet forthcoming.

No doubt the centralized French state system is partly responsible for this situation. The efforts of local communities are recent, insufficient and fragmentary. Similarly, French civil society appears quite remote from China. Conversely, the image of China in France is also removed from reality and often a caricature. As concerns education: twenty years ago, there were only a few hundred Chinese students on French territory, while today there are 35,000, with a rate of increase of 10% per year.¹⁶ This is a real success, although belated. Here again, Anglo-American power dominates (240,000 Chinese students in the United States). But France could construct a veritable network of friendship through its brands, its leading products, its universities, its museums, and even its SMBs, so why forego the opportunity? For that to happen, French society has to take the measure of the stakes and translate its “envy of elsewhere” by sending trainees, **interns** and students to China – and by direct actions to build solid ties with Chinese society, without the government necessarily intervening.

The coming to France of President Xi Jinping in March 2014 remains the acme of those sumptuous visits that only the Republic of France can

¹⁶ François Godement, Angela Stanzel, “*The European interest in an investment treaty with China*,” *ECFR*, February 2015.

stage manage: a state dinner at the Elysée, a concert at Versailles, high-level conferences at the Finance Ministry and the Quai d'Orsay (Foreign Ministry)... but in the end, few contracts were signed, apart from the highly touted taking of a 14% share in the capital of the French car firm PSA Peugeot Citroën by the Chinese group Dongfeng for the sum of 800 million euros, and the purchase (in return for technology transfers) of a thousand Airbus EC 175 helicopters for 8 billion dollars. These helicopters will be constructed “jointly” with the Chinese aeronautic giant Avic. And we should not forget the 30% participation of CIC in the capital of GDF-Suez Exploration, with the aid of the **deposit office**. After the renewed friendship, after the difficult years of 2008-2011, a new key concern appears: How to get French and Chinese civil societies to work together?

In the port of Le Havre, Hsueh Sheng Wang, a Franco-Chinese businessman from Wenzhou and president of Eurasia, an obscure SMB (turnover of 18 million), declared in 2011 that he wanted to invest 22 million euros in a port wharf housing project that was supposed to bring 700 local jobs. But the results were delayed and the mayor's office became impatient. At the *Futuroscope* science theme park in Poitiers (France), the extremely lucrative investments by ZTE have been frequently announced, but still not come through (the Confucius Institute, by contrast, was created with the devoted assistance of China). Several other ambitious real estate deals are in gestation, starting with Terra Lorraine, managed by the regional council of the same name, which is meant to attract hundreds of Chinese enterprises, and the “Châteauroux Business District” that a big Chinese investor Chinese,

Beijing Capital Land, promised the good city of Châteauroux. The Bank of China is covering the risk, which is not small ...

Another fruitful sector is food processing, especially with investment from the Synutra group in Carhaix, in Brittany. In 2011, Jean-Yves le Drian, then president of the Brittany region, received a Chinese delegation from Shandong, as Richard Ferrand, a Socialist legislator from Finistère, recounts: “The Chinese told us that in their country there was no milk production and Chinese families were worried, particularly about powdered milk for newborns ... So France represented high food quality to them.” After many vicissitudes (due principally to the slowness of Chinese and French bureaucracies), the Synutra group decided to invest 100 million euros in a milk factory in Carhaix in Finistère. The factory is still under construction and should open in 2016. Moreover, the year 2013 saw the opening of the Chinese market to a French pig subsidiary, as well as permission for a dozen French producers to export their products to the Chinese market. Chinese inspectors did a tour in 2014, when the first exports were expected soon. Will this translate into other Chinese inspectors in France in this food sector? Nothing is less sure.

During this time, Germany was multiplying its own initiatives, benefiting from an extremely favorable context. China has long believed in an enlarged Europe (especially after the integration of ten new countries in 2004), and now makes Germany its priority in Europe. For many years, the heart of the Chinese power structure has been peopled by engineers, often graduates of the best engineering schools in the

country (Tsinghua, Tongji, Jiaotong...) who look with a favorable eye on German industry, which has been well known in China since the end of the 1980s, when Chinese entrepreneurs – especially in the special economic zones of Shenzhen and Xiamen – boasted about their brand new and technically perfect German machinery.

Thus the Chinese passion for German engineering is not a myth. In 2010, the German pavilion at the Universal Expo in Shanghai – situated just alongside the French one – of course attracted fewer Chinese visitors than its neighbor, but citizens keen on science stayed longer and were obviously passionate about the appliances installed in a visually startling way, whereas France offered the image of a champion of the fashion and luxury industries. “Generally speaking, Germans are more open to Chinese entrepreneurs, they focus on the long term, and their system is simpler than the French, who are perceived as overly ideological,” remarked Meng Fanchen, a former **executive** of Siemens China who is now established in France.

To understand the weight of Germany, it is enough to observe the German Internet sites vaunting “German power” to Chinese investors.¹⁷ This message is echoed in China, where German exports between 2000 and 2013 rose from 1% to 6.5% of total German exports. Almost half the European exports to China are German... The triumphant reelection of Chancellor Angela Merkel in September 2013 only strengthened the desire to cooperate with the prime European power,

¹⁷ François Godement, John Fox, *A Power Audit of EU-China Relations*, ECFR, April 2009.

with some people alluding to a “special partnership” between the two countries. Despite the revived relations between China and France in 2014, capped during the State visit by Chinese leader Xi Jinping, the rapprochement with Germany has become political. Angela Merkel goes to China at least once a year. Her principal ministers do the same, not to mention the captains of German industry and the presidents of the Länder. The China Investment Corporation (the sovereign Chinese fund) and the state enterprises have been encouraged to seek opportunities in Germany, where industrialists have enjoyed longstanding relations with the Chinese market, for example in the automobile sector. Volkswagen has been installed in Shanghai since 1985 and for thirty years supplied the taxi companies with their leading model, manufactured locally: *Santana*, originally in collaboration with *the Shanghai Tractor Automobile Corporation* (STAC), which became the SAIC Group. The history of this vehicle is a legend. In 1984, Volkswagen signed a contract with STAC, alongside the *China National Automotive Industry Corporation* (CNAIC) and the Bank of China, allowing the formation of the [joint venture Shanghai Volkswagen Automotive](#). From a few hundred vehicles rolling off the assembly line in 1982, Santana ended up producing 3.2 million vehicles until this model was halted in 2013. But the adventure continued for Volkswagen in China (more than 1 million vehicles sold per year), as well as for the other German car manufacturers that have made China their priority – all have agreed to invest in the various regions suggested by the Chinese government. Other German sectors are exceedingly interesting to China for investment: renewable energy, high technology, and machine tools.

Significant German investments in China – and commercial exchanges – are now accompanied by Chinese investments in Germany, although the proportions remain lopsided: 45 billion euros of German investment in China, versus 2 billion of Chinese investment in Germany.

But as confirmed again by the trip of Xi Jinping in April 2014 (ironically, just after the state visit to France), the Sino-German honeymoon is real. On the other side of the Rhine, no excessive splendor nor private concert, but visits to Northern Rhine-Westphalia, one of the most industrial *Länder* in the country. No less than 25 German industrial enterprises were acquired by China during the year 2013, three times more than in 2010. And according to several studies, this tendency should continue from now to 2020, reaching 2 billion euros in investment.¹⁸ Of course, this total includes some older public enterprises from the former East Germany, but the majority are SMBs **controlled by family capital.**

One of the most symptomatic examples of this arrival of Chinese capital in Germany is the purchase at the start of 2012 of the family machine-tool business Putzmeister (3,000 employees) by the state Chinese company Sany Heavy Industry (70,000 employees). This time, it was a matter of a 360 million euro investment. The founder of Putzmeister, aged 79, did not find heirs capable of carrying the torch and so

¹⁸ China itself created a surprise by announcing in March 2015 that it was going to finance the sending of 10,000 Chinese students to France. *China Daily*, 9 May 2015.

welcomed a Sany that had just finished the construction (200 kilometers from its headquarters) of a brand new research and development center for more than 100 million euros. The purchase of Putzmeister was quite a shock to the business cultures, not to mention the “clash of civilizations” dear to Samuel Huntington. Putzmeister Holding is a manufacturer of machines for the construction industry, in particular of concrete **pumps/tubes** used in buildings and mines, as well as in the construction of tunnels for major industrial projects. This partnering of the two industrial giants, Chinese and German, is historic.

The two partners say they are profiting from new constellation. The financial solidity of Sany securitizes the growth prospects of Putzmeister and procures it a considerable advance over the competition. Meanwhile Sany completes its portfolio with state-of-the-art technologies and “made in Germany” innovations and acquires a solid network for distribution and services outside China. On the ground at Aichtal, the employees do not hide some perplexity about the management methods of the new bosses. “It took a good two years for the engineers of Putzmeister to accept taking orders from the Chinese,” explains a consultant charged with supervising the transition. Sany will pursue its European breakthrough by the purchase of a second German firm – Intermix – and by the creation of a **hybrid company** with the Austrian group Palfinger.

We could also mention the acquisition of a small family business (1,000 employees), Medion, by Lenovo in 2012. The deal was effectively conducted by President Yang Yanqing. “At first we asked questions

about the integration of this new subsidiary, but the Chinese are fascinated by Germany,” murmured Catherine Ladousse, director of communication of Lenovo for Europe.¹⁹ Medion has enabled Lenovo to develop activities aimed at a general public in Germany, and to learn the “German method”. This acquisition was then displayed as an example to all the countries of Europe, and even to the United States (site of the former IBM divisions that became Lenovo) and in China. The Lenovo brand is today the largest maker of PCs in Germany, proof of a successful **graft/transplant** according to Gianfranco Lanci, the European president: “We are a Chinese *and* Global group, that is most important”. There is one cloud over the scene, though: the reduction of German investments in China, in particular Siemens. “The retreat of the major German groups in China might feed an anti-Chinese sentiment,” noted Michael Schaefer, who was the German ambassador to Beijing from 2007 to 2013.²⁰ Like their Western competitors, the German industrialists suffer from an increasingly reduced access to the Chinese market and some have begun a withdrawal that might imperil the balance in Sino-German economic relations. Moreover, the tightening of credit in China means six-month delays in payment that are more difficult to manage for German firms, which also suffer from increasingly effective Chinese rivalry.

China nibbles Italy, Greece, Portugal, and Spain

¹⁹ On the strengths of Germany, see: <http://china.ahk.de/cn/marketinfo-germany/economy-strength/>

²⁰ “Mittelstand and Middle Kingdom,” *The Economist*, 5 April 2014.

In June 2014, Chinese Premier Li Keqiang spent three days in Greece - an exceptional duration for an official trip - which led to no less than nineteen cooperation agreements and commercial contracts for a total amount of 3.4 billion euros. Shortly afterward, Xi Jinping himself made a “technical” stopover in Greece, welcomed with fanfare by the Greek President and Prime Minister.

The principal victim of the financial crisis that struck Europe after 2007, Greece scarcely hesitated to call upon Chinese capital to fill its coffers, largely encouraged in this by the **backers/loaners** - i.e. the European Commission, the Central European Bank, and the IMF. In 2008, the concession given to the Chinese state giant in marine transport COSCO for the management of two terminals in the Port of Piraeus for the sum of 500 million euros, for a period of 35 years, constituted one of the most visible actions by China. In 2013, COSCO chose to increase its investments by renovating - for 230 million - the existing terminals, thus making Piraeus its port of entry into Europe. There was talk of 400 jobs created and a total privatization of the port.

Also being studied is participation in the capital of the port authority (OLP) and even the purchase of the Elliniko airport south of Athens to make it a leisure complex in the mode of Dubai. China says it is also interested in the airport of Kasteli and the port of Thymbaki in Crete. According to a report in the *New York Times*, the cargo volume increased threefold between 2009 and 2012, employing a thousand Greek

workers.²¹ Productivity is said to have boomed even when the other part of the port, still managed by the Greek government, did not take off and offered only 800 jobs. We note that the contract with COSCO authorized the latter to offer lower salaries and less protection for employees and for union power ... The utilization of Athens as a logistic platform offers new possibilities to Chinese industrialists: some use it to send their products by train to Central Europe. Nevertheless, the success of the left (Siriza) in the elections of January 2015 put a brake on the privatization of the port of Athens. Although the Greek Minister of Finance at the time, Yanis Varoufakis, estimate that “this problem will be solved,”²² China did not appreciate this swerve and speculated about the “risks” to its investments resulting from democratic elections in Europe.

Milan is the economic capital of Italy, so there is nothing surprising about the founders of *Mandarin Capital Partners* electing to settle there. At the HQ of this group, situated at the hear of the financial capital of Italy, one is welcomed with Hunan tea. This was good timing, since Mandarin Capital achieved one of the best Sino-European operations of recent years through the acquisition of Cifa (machine-tools) by its rival but also partner Zoomlion, which was concluded in August 2013 for 500 million euros. In 2011, Cifa was on the verge of bankruptcy and did not get the support of its creditors when the family was divided. The

²¹ Interview in Paris, 8 Octobre 2013. ????

²² Interview in Beijing, 23 Septembre 2013. ???

operation permitted Cifa to construct – with its new shareholder – a new factory in Changsha, capital of Hunan, and to integrate some of its R & D teams. “Zhan Chunxin, president of Zoomlion, is a particularly open Chinese entrepreneur, and he trusted us,” said Lorenzo Stanca, one of the associates of Mandarin Capital Partners, which served as intermediary with Milanese business circles.²³ And the boss of Cifa has become vice-president of the new group.

At some 300 kilometers from Milan is located the little town of Prato in Tuscany, which hosts a Chinese population of almost 50,000 people, or a quarter of the inhabitants of Prato! Most of them come from Wenzhou, the town in Zhejiang from which a great majority of the Chinese in Europe come. Artisans, traders, small industrialists, real estate promoters, and software designers, they speak a particular dialect that differentiates them from other Chinese, and they often maintain complex relations with other compatriots from the north of China. For twenty-some years, the Italian government has left this zone to develop – despite the obvious grouping of a significant number of illegal immigrants. This “Chinatown” has become a veritable training center for Chinese entrepreneurs in Europe. Those who settled twenty years ago teach new arrivals about local customs, etc... The sectors that interest Chinese entrepreneurs in the rest of Italy include fashion, automobiles, food processing, machine-tools, and of course telecommunications (where we find Huawei again, which has opened

²³ Liz Alderman, *International New York Times*, 11 October 2012.

near Milan an R&D center for its mass market products), and even on-line commerce, which pushed the IZP Technologies Group to establish itself there in 2013. China State Grid thus acquired 35% of CDP Reti, the Italian national electricity agency; and the **luxury boat yard** Ferretti has also passed into the hands of Chinese investors, as has the Parma airport, bought for 200 million euros by IZP Technologies (although it had no experience in this domain). Moreover, the Chinese Administration SAFE has bought Italian treasury bonds in euros and acquired participation in Eni & Enel (energy), Fiat Chrysler (automobile), Ferretti (**yachts**) Telecom Italia, and Ferragamo (designer clothing and shoes). According to a study by the *Financial Times*, 200 Italian SMB have been bought by Chinese investors for a total of 6 billion euros.²⁴ Note that the commercial deficit between Italy and China is 15 billion euros, in favor of... China. "China has one objective: infiltrate the block of Western countries and separate Europe from the United States; to do this the Chinese are beginning with the weakest countries like Italy," declares the economist Alberto Forchielli, co-founder of *Mandarin Capital Partners*.²⁵ In this respect, the purchase of the tire giant Pirelli by the China National Chemical Corporation (CNCC) on 22 March 2015 for the sum of 7.7 billion dollars is a key moment in the history of Chinese investments in Italy. "From now on, Italian

²⁴ Comment at Brookings, Washington, 16 April 2015. ???

²⁵ Interview in Milan, 9 Decembre 2013.

industrial policy is made in Beijing,” former Prime Minister Romano Prodi is rumored to have said.²⁶

In 2004, China signed strategic partnerships with four countries: Germany, France, the United Kingdom... and Portugal. With Germany, Beijing aimed at an economic partnership, with France at multilateral dialogue via the United Nations; with the British, at the weight of the City of London and longstanding relations formed around the former British colony of Hong Kong, not to mention the Commonwealth, the English language, and multilateralism. But why Portugal, whose tottering economy made life difficult in Brussels after the financial crisis of 2008?

There are many reasons: China recognizes the political weight of the former Portuguese empire through language: there are more than 220 millions Lusophones in the world. In 1996, seven countries created a new community (CPLP) for countries speaking the Portuguese language (*Comunidade dos Países de Língua Portuguesa*). Apart from Brazil, Angola, and Mozambique (a country where China has many economic interests), we should not forget the very special relation between the former enclave of Macao and the former Middle Empire, which retook possession of the territory in 1999 after more than four centuries of Portuguese colonization. Each year, the “Macao Forum” celebrates – in the presence of the Chinese vice-prime minister - the relations between Beijing and Lisbon via Macao.

²⁶ Alberto Forchielli, <http://www.albertoforchielli.com/2014/09/26>.

On the investment side, the Chinese of Hong Kong quickly steered for Lisbon. We remember Stanley Ho, the king of the Macao casinos, who in the 1980s invested in Portuguese real estate. Today agencies specializing in obtaining “golden visas” are increasing in Spain and Portugal;²⁷ the principle is simple: whoever invests a minimum of 500,000 euros in real estate property may obtain a long-stay visa; the minimal obligation is to spend seven days in the country. After six years, the investor can ask for Portuguese nationality - and then get a EU passport! In Cyprus, the invested sum falls to 300,000 euros and in Greece... only 250,000 euros! Of course this procedure still affects only hundreds of persons (734 in Portugal), but it is expressly aimed at (rich) Chinese nationals who want to emigrate.²⁸ Up to now, the number of jobs created remains very small (real estate agents?) and the results are mixed, but several Chinese groups have made important investments, such as Fosun, which has invested 1 million euros to take 80% of the capital of Caixa Seguros, the insurance branch of the state bank Caixa Geral de Depositos (CGD). This was not the first time that Lisbon chose a Chinese group, always “the best offer”: in 2011, the government sold to China Three Gorges 21.3% of the public electric company EdP for 2.7 billion euros, preferring it to the German offer from E.ON; it also sold

²⁷ *Financial Times*, 7 Octobre 2014.

²⁸ According to *The Economist* (22 November 2014), the Portuguese authorities were said to have delivered 1,775 “golden visas” for Chinese investment totalling more than 1 billion euros between 2012 and 2014. A scandal broke out in 2014 involving the misappropriation of money to do with visas to Chinese “investorrrs”.

25% of the grid management firm to benefit the China State Grid for 390 millions euros.²⁹

The least we might say is that the situation of the former Spanish colonial empire has not yet thrown Spain into the arms of Chinese investors. For years, the Spanish presence in China was among the most limited since there were only cultural and educational activities, some businesses, and the Spanish press... there are no more than 200,000 Chinese settled in Spain, even including 8,000 students. Until now it has been the small businessmen of Wenzhou and the neighboring city of Qingtian that made China known to the Spaniards - an not necessarily for the best (a large-scale police operation dismantled a **criminal gang** network in 2012).

A woman from Shanghai married to a Spaniard, Margaret Chen Hong settled in Madrid twenty-one years ago, worked for a long time for Telefonica, and created a subsidiary in Beijing. "To this day there has never been a Chinese person highly placed in this group, proof that the two cultures have a hard time understanding each other," she says.³⁰ As head of the *China Club of Spain* that counts 130 members, she tries to integrate Chinese officials working for major Spanish firms, as well as bankers, lawyers, and accountants, into the local economic network; this population perfectly complements the Chinese expatriates affiliated

²⁹ *The Economist*, 28 March 2015.

³⁰ BBC, 19 March 2014.

with various Chinese business associations, including the business school ESADE in Barcelona.

Perhaps Spain may serve as platform for Chinese groups aimed at the Latin-American continent? In truth, China is already present there in force, and its entry into South America did not wait for Spanish help. The latter are perhaps realizing this, as do Chinese groups like ZTE or Huawei that have installed **their senior officials at Telefonica** in Spain (the same thing with Orange in France) but are developing in parallel on the South-American continent. Meanwhile the Hainan group, owner of the airline of the same name, after in 2012 having bought 48% of the French company *Aigle Azur*, took 20% of the Spanish hotel chain NH Hoteles (tourism being considered “strategic” when the time comes). “They have gradually placed their own people in NH, including among the European administrators,” recounted a knowledgeable source. Other recent acquisitions are the food processing group Campofrio and Osborne beverages...not forgetting the well-publicized purchase of *Edificio Espana*, one of the mythic buildings of Madrid, bought for 265 million euros. Like its Portuguese neighbor, Spain offers a special residence permit to Chinese investors in real estate (for property worth more than 500,000 euros) or in projects of general utility with job creation. At the end of ten years, the right of residence in Spain is granted (remember, only five years in Greece and Portugal...)

China does not neglect Eastern Europe, in particular the two countries that Chinese firms utilize as bases for sub-contracting: Rumania and

Hungary. During the summit called “16 + 1” held in Belgrade in December 2014 in the presence of Li Keqiang, he announced the establishment of a 3 billion euro fund designed to encourage Chinese investment to engage in public-private partnerships and in the privatization of certain enterprises in the CEE (Central and Eastern Europe) zone. Similarly, Beijing has announced the financing of a new railroad between Belgrade (capital of Serbia) and Budapest (capital of Hungary). Still wanting to advance its plan for a new Silk Road, China closely examines certain port and airport infrastructures in Bulgaria, Slovenia, and Croatia. After all, these countries may be excellent points of entry to the euro zone, with the least elevated production costs!

The passion for the United Kingdom

On the other side of the Channel, the Chinese are aiming not at access to the European market but rather at the international financial center that London. Since 2012, the Chinese have invested (or signed promises to invest) more than 10 billion euros... or as much as during the previous thirty years. After a rather turbulent joint history dating from the Opium War and the colonization of Hong Kong until 1997, the United Kingdom suddenly became the preferred destination of Chinese investors (along with Italy), passing France in 2012. [**See the table.**]

The favorite sectors are real estate and infrastructures but also finance, new technologies, and university education (there were 80,000 Chinese students in the UK in 2013). In London, one major transaction relating to the acquisition of commercial and residential buildings has been signed each

trimester, to the regret of Paris and Frankfurt. From participation in an airport to a high-speed train line, via electricity stations, hundreds of thousands of euros from China have been lavished on the British Isles, with a preference for London. Thus the City has signed an unprecedented agreement authorizing the largest private bank in China – the China Minsheng Bank- to establish its European headquarters there and given a green light to the China Merchant Bank (the third largest Chinese brokerage) to establish the first **trade center** in Europe. China has acquired brands like Weetabix and Pizza Express, it has invested in the airports of Heathrow and Manchester and will invest – alongside the French, which is doubly astonishing – in the nuclear power station at Hinkley Point C. This Franco-Chinese project (led by Electricité de France) has received the approval of the British authorities, and will be jointly financed by CNNC, CGNC (China General Nuclear Corporation) and by France. As for Huawei, it has promised to invest 1.2 billion pounds in the United Kingdom,³¹ and – always concerned about its image – has just signed a two-year sponsoring contract with the famous Arsenal football club – nothing sells better in a country passionate about football...

How can we explain this fascination with Britain when until recently Germany seemed the preferred target of the Chinese? The British superiority in finance as well as real estate and in higher education are recognized worldwide, placing the United Kingdom just behind the United States in terms of attractiveness: the English language, the size

³¹ The UK's China experiment, *the Diplomat*, 3 December 2013, <http://thediplomat.com/2013/12/the-uks-china-experiment/>

and liquidity of markets, a high reputation, the potential for profit in capital, and a fiscal system that is comprehensible to philistines, are all comparative advantages in relation to neighboring and competing countries like France, Benelux, and Germany.

British pragmatism and voluntarism also count for a lot, with the United Kingdom seeking to intensify as well as to normalize as much as possible its relations with China and to avoid provocative subjects. Two great events have shaped this ambition: the official visit by David Cameron in December 2013, accompanied by a plethora of ministers and business leaders, followed six months later by a return visit in great pomp by Prime Minister Li Keqiang, who was granted the signal honor of meeting the Queen. These encounters are the object of negotiations relating to the entry of the Chinese into infrastructure projects, through public-private partnerships that are generally closed to third party countries or to nations that are reputed to be unreliable. Nothing of the kind on the other side of the Channel, where the lure of gain seems to dominate. David Cameron himself explained he “had no difficulty with the fact that China is investing in nuclear power, in airports, and even in infrastructure linked to water.”³²

Chinese sovereign funds took 9% of the capital of Thames Water, principal company for water treatment in Britain. To this should be added a costly program of access to resident status: an investment of at

³² “David Cameron calls for China investment,” *Financial Times*, 2 December 2014.

least 2 million pounds wins a promise of permanent residency after five years.

The desire to attract Chinese investors is found at all administrative levels, starting with the Chancellor of the Exchequer George Osborne, who took the decision to attract the Asian Bank for Investments Infrastructure (AIIB), launched by Beijing in 2015, thus doubling its European partners (following close behind). The principal promotion body *UK-China Business Council* possesses a team supplied to Beijing and to several Chinese cities. Many British municipalities, starting with London (London & Partners), have offices specifically dedicated to welcoming Chinese investors and deploying vast sums to seduce this clientele. Andrew Finney, deputy mayor of Basingstoke in charge of economic affairs who has “assisted” many times the inevitable Huawei in its attempts to open facilities in his town situated between London and Southampton, expresses the ambient philosophy: “ Our approach is pragmatic and oriented to the client, whatever his origin or past. Gone is the bureaucracy and its procedures; we act as managers without qualms.”³³ Despite all this support, the intentions of Huawei continue, here as in France, to provoke great perplexity: the British Parliament has denounced the “facility with which the government of London has opened the door to a group whose technology apparently poses a security problem to the United Kingdom.”

³³ Interview with the authors, 17 July 2013.

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