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CHINA'S OFFENSIVE IN EUROPE

by

PHILIPPE LE CORRE & ALAIN SEPULCHRE

**Translated by Susan Emanuel
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INTRODUCTION

Europe as strategic priority

Despite the disillusionment that accompanied the first wave of investments on the Old Continent, Europe has become – almost by default – one of the preferred playing fields of China in the West. For several years now, it has attracted investors looking for projects despite Europe's complexities: historical, geographic, legal, linguistic, societal, social, and cultural.

In fact the European Union is China's prime commercial partner, with 467 billion euros in exchanges in 2015 (with a trade deficit of 137 billion euros in favor of China), which is of the highest interest to officials at the European Commission in Brussels. On the political level, relations with Europe have been rather good since 2007 – as long as controversial subjects are absent. There is a permanent dialogue. The EU-China summit of June 2015 in Brussels explored new subjects such as cooperation in the realm of security and the fight against terrorism. On this occasion the European Commission published a new policy paper.

But the major subject of the years to come might well be Chinese investments in Europe. While during the first decade of the 21st century there was practically no significant Chinese investment in Europe,

especially in France and Germany, the figures since 2010 show a real **surge**. According to a study by Deutsche Bank, the stock of Chinese investments in Europe has gone from 6.1 billion in 2010 to 27 billion euros in 2014.⁷

The current phenomenon of Chinese investments in Europe has accelerated due to the economic crisis that has ravaged several countries (Greece, Portugal, Ireland, Spain, Cyprus...) and buffeted the major European economies including France and the United Kingdom. Italy is a particularly eloquent case: in the year 2014 alone, more than 3 billion euros were invested in various projects, and almost half of the acquisitions realized by China were made in this country. In 2015, the ChemChina Group bought up the Italian Pirelli, one of the largest tire manufacturers in the world and a well-known brand among Formula One racing enthusiasts. Unsurprisingly, it was the Chinese state banks -- *China Development Bank, China Export & Import Bank (EximBank), the Industrial & Commercial Bank of China (ICBC)* -- that gave the starting signal five years ago by opening trade representations or branches throughout Europe. Today ICBC has fifteen agencies, and foresees others being opened. "No less than twenty châteaux in the Bordeaux region have been bought by our intermediary," proudly proclaimed Victor Xiao, the former managing director of ICBC France.

⁷ Deutsche Bank, *China-EU relations : Gearing up for Growth*, 31 July 2014.

CDB and EximBank serve as **intermediaries** to State-owned Enterprises throughout Europe for projects ranging from participation in key infrastructure projects (water, gas, port **installations**) to buying up corporations as varied as the British restaurant chain *Pizza Express*, the mythic Madrid real estate group *Edificio Espana*, the German manufacturer of machine tools *Putzmeister*, and the Swedish auto manufacturer *Volvo*.

Until 2013, the sums in play were modest. One may speculate, of course, about the difficulties that prevented the wave of Chinese investments from taking off more rapidly in Europe. ZTE, Haier, Huawei, and COSCO were among the pioneers but were content with opening sales offices, and enjoying some success thanks to very competitive tariffs.⁸ (2). But despite the triumphant press releases of agencies charged with attracting foreign capital, there were no long-term industrial installations or job-creating firms.

What has changed to explain the new craze for Europe? First there is the fact that the central government started encouraging the “conquest of the West” only recently: Under the previous Chinese leader, Hu Jintao, Beijing gave priority to the development of the domestic Chinese economy, and thus there was massive deployment of capital in Africa and Latin America, two important suppliers of natural resources. The other reason is linked to the misunderstanding among Chinese

⁸ Which are not significant investments

entrepreneurs about European markets, which were considered too complex and overly regulated. The role of the European Commission was badly perceived and poorly understood. Moreover, intercultural factors played a much larger role than people believed. On numerous subjects, a Sino-European dialogue of the deaf had long dominated, as all those who were involved in transactions over these years could testify. Despite all the MBA courses in the world, Chinese management **keeps** cultural specificities that correspond badly with those of Europe.

Surely the most fantastic story about the recent past concerns the stretch of 41 km of the Warsaw autoroute, which the Chinese state group Covec had selected during a call for offers in 2009. Two years later, under pressure from Polish business circles, the government canceled the contract on the pretext of an environmental law about the protection of animal species under threat of extinction. Mutual incomprehension led Covec turn back, and it never got over this failure, which caused a stir in Beijing at the time and remains one of the worst experiences of Chinese enterprise in Europe. Sometimes the Chinese demonstrate originality: in Denmark, they offered to finance a tunnel linking this country with Germany ... not taking into account the strategic aspect of this infrastructure. One obstacle is that negotiators **learn their trade** in China (or even in Africa) - like the head of a telecom group who foolishly wanted to offer money to one of the potential clients to help convince him!

In Europe, business is not conducted by means of bribes, as shown by the case of the aborted negotiation between the Belgian firm Solvay, the French Rhodia, and the Chinese chemical giant Sinochem between the summer of 2010 and the spring of 2011. The goal was to form a co-enterprise in an advanced chemical sector. On the one side were the Belgians and French, understanding the strategic approach and sharing professional knowledge, and on the other the ultra-rich Chinese giant in chemistry, a “king of improvisation but without any real vision,” according to an actor at the time. Although it had an experienced Chinese boss, Sinochem was in a wait-and-see position and played its meager advantages badly; both parties got help from consultants from McKinsey who tore their hair trying to keep each side sweet. In short, the grand common project never saw the light of day, defeated by mutual distrust.

In 2015, the Shanghai-based group Fosun finally bought the prestigious French brand Club Med for almost one billion dollars, but not without having given rise to several back-and-forths between the small shareholders of Club Med and the Shanghai financiers (who already owned a 12% stake), alarmed to see rival investor Andrea Bonomi coming out of nowhere, to raise the bidding in a few days. No doubt Club Med’s small shareholders had encouraged Bonomi to defy Fosun. In 2010, it was Fosun that had left investors in the lurch when negotiations had begun for a share of the capital in Barnes, the prestigious real estate agency that wished to develop Asian clientele by relying on an alliance with Fosun in China. The organizers of the

operation still remember limousine cars, contracts prepared, stays in villas... all for nothing, since the directors of Fosun had literally disappeared, scarcely worrying about the image they were projecting. “We did not model the values of Lenovo China on the rest of the subsidiaries, we wanted to keep our [other] collaborators,” confided Catherine Ladousse, director of communication for Lenovo Europe. Since the purchase of the PC division of IBM, this Chinese group was no doubt the most international, but this was probably due to the exceptional vision of its directors, ready to “Westernize” somewhat in order to conquer market shares.

Another tendency was appearing: the recruitment of Westernized Chinese business leaders to direct European enterprises that had been bought or (more rarely) the subsidiaries of major corporations. Wing Fa Lau is the Managing Director of Hedgen, a Belgian maker of **handbags**. Originally from Hong Kong, raised in the Netherlands, spending four years in China to perfect his Mandarin and his knowledge of the country, he was sent in 2012 by the company in Hangzhou that had just acquired Hedgen one year earlier. The model was simple: manufacturing in China, but creation, sales and marketing in Europe. Today the brand is developing rapidly in Asia (80% growth in 2013) and even in the United States.

The *mélange* of cultures is sometimes a good thing. Are the battalions of Chinese graduates of European universities finally going to find their place in this grand game of dominos? This will take time, because trust

in the Chinese business world, is like a **treasure chest** that cannot be opened up by Western logic. Confidence is the fruit of a long learning process, the product of social relations – if not familial and geographic ties, or those linked to shared student life. In Chinese enterprises, at headquarters or subsidiaries abroad, the climate is (almost always) one of distrust. Moreover, this atmosphere will not be relaxed by the anti-corruption campaign that has been at full tilt for three years, or by the resumption of political control from above.

Many publications have reported on all the aspects of the oftentimes tumultuous relations between China and the United States. Several books, including Howard French's *China's Second Continent* (Virago, 2014), have studied the growing Chinese presence in Africa. The role of China in Latin America also interests many researchers, such as Stephen Kaplan, author of *The China Boom in Latin America* (2015). On the other hand, the subject of relations between China and Europe – especially tied to China's outbound investments has been little treated.⁹ And so in this book we examine relations between these new actors, the Chinese and Western conglomerates.

China's Offensive in Europe describes through numerous examples and portraits the deployment of Chinese investments in various European countries (chapter 1), then it reviews the sectors targeted by these investors (chapter 2), from real estate to energy, including luxury goods

⁹ See Joel Backaler : *China Goes West: Everything You Need to Know About Chinese Companies Going Global* –Palgrave Macmillan, 2014.

and automobiles. This book then decodes the most influential Chinese groups and distinguishes various categories (chapter 3). Chapter 4 deals with relations between investors and Chinese finance that is essentially state-run. Chapter 5 tackles the immense intercultural challenges that – twenty years after Japan – surround the international deployment of Chinese investments. Two chapters close the itinerary, one to describe the quite specific phenomenon of links between Chinese politics and business, and the other to explain the difficulties experienced by China to improve its international image, which remains one of the principal obstacles to its expansion in Europe and in the Western world in general.

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INTRODUCTION

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