Chinese investment in Europe: corporate strategies and labour relations

Edited by Jan Drahokoupil
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Introduction

Jan Drahokoupil

With an annual average growth rate of 30 per cent, China’s global outward foreign direct investment (outward FDI) recorded impressive growth in the period 2005–2015. Chinese outbound investment grew even faster in 2016, when it is estimated to have increased by 40 per cent (Haneman and Huotari 2017). Europe is a key destination for Chinese FDI. In 2016, Chinese companies invested EUR 35 billion in the European Union (EU), a 77 per cent increase from the previous year (Haneman and Huotari 2017). The upsurge in Chinese outward FDI indicates a rebalancing of global political-economic relations, with China and its companies acquiring new roles and gaining economic power. Chinese companies have been able to develop their innovation capacities. During recent decades we have thus seen an increase in the number of so-called ‘challenger multinationals’, companies that have risen from a peripheral position to become global market leaders pushing the technological frontiers in their sectors.

This edited volume brings together research that analyses the rise of Chinese multinational companies and their activities in Europe. It focuses, in particular, on the interplay of business strategies and employment relations. Such a focus is marginal in the academic research, but it is of key importance for practitioners and policy makers, as it has direct implications for the prospects of production networks and employment in Europe.

The book addresses the topic on three levels:

(i) It focuses on the emergence of major ‘challenger multinationals’. How did Chinese companies manage to catch up with their competitors? How did they internationalise? What was the role of industrial policies? Is there a specifically ‘Chinese’ management model? What is the nature of employment relations in Chinese companies?

(ii) It maps the patterns of Chinese investment, providing a bird’s-eye perspective on Europe. What is the geography of Chinese investment in Europe? Which sectors are targeted? What types of involvement prevail? What are the motivations of Chinese companies in investing in Europe? How have these investments performed?

(iii) It includes case studies that show the diversity of Chinese investments in Europe. What strategies do the Chinese investors pursue in Europe and with what results? What happens to local capabilities and employment after acquisitions? What types of employment relations do we find in Chinese acquisitions and greenfield investments? How best should employee representatives deal with Chinese management?
With the aim of providing a holistic overview of Chinese activities in Europe, individual chapters focus on key sectors and cover the different types of investment across Europe. The book thus complements an earlier publication that focuses specifically on electronics assembly in Europe and China (Drahokoupil et al. 2016).

1. China goes out

The global financial crisis of 2008 gave an important initial impetus to Chinese investments in Europe, with low asset prices and a deteriorating euro making European assets cheaper for Chinese buyers. Chinese FDI in Europe then started to surge from 2011, marking a strategic shift from investment in natural resources in South America and Africa and US government treasuries towards acquisitions of strategic assets in the United States and Europe. However, starting from an extremely low basis, Chinese FDI still constitutes only a fraction of the overall FDI stock in the EU (2 per cent in 2015 for China and Hong Kong combined, Eurostat, bop_fdi_main and bop_fdi6_pos).

However, the main driver of Chinese economic internationalisation was political. Before the introduction of the so-called ‘Going-out’ or ‘Going Global’ strategy in 2000, Chinese companies invested abroad only sporadically and required special approval in each instance. That changed after the ‘Going-out’ strategy was made a part of official economic policy by its inclusion in the tenth Five-year Plan for 2001–2005. As discussed in more detail in Chapter 8, the ‘Going-out’ strategy involves concerted efforts on the part of various state authorities that implement a number of support measures, including financial incentives and preferential tax treatment for Chinese companies to internationalise through investment abroad. The ‘One-Belt, One-Road’ Initiative, unveiled in 2013, supported infrastructure investment, particularly in eastern and southern-eastern Europe. The ‘16 + 1 initiative’ provides a framework that brings together China and central and eastern European governments in support of the One-Belt project. In 2014, China established the USD 40 billion Silk Road Fund to finance these initiatives. The Belgrade-Budapest high-speed rail and the investment in the Piraeus port terminal are supported within these frameworks.

In 2000–2014, the main areas of Chinese investment were energy (28 per cent), automotive (13 per cent), agriculture (12 per cent), real estate (11 per cent), industrial equipment and machine building (9 per cent), and information and communication technology (6 per cent) (Evans et al. 2015; Hanemann and Huotari 2015). Reflecting an investment strategy aimed at upgrading technology and acquiring brands, as well as other strategic assets, the focus shifted in 2015–2016 towards advanced manufacturing assets, accounting for more than one-third of the total Chinese deal value in the EU, with a particular focus on machinery (deals such as Midea’s acquisition of German robotics company KUKA for EUR 4.4 billion and China National Chemical Corporation’s acquisition of industrial machinery maker KraussMaffei Group for EUR 925 million). Information and communication technology was another growth sector (deals included the acquisition of a 49 per cent stake by a Chinese consortium in UK data centre operator Global Switch for EUR 2.8 billion, Ctrip’s EUR 1.6 billion acquisition of British travel platform Skyscanner and the EUR 6.7 billion investment in Finnish gaming...
The geography of Chinese investment is presented in Figure 1. The three ‘core’ European economies – Germany, the United Kingdom and France – accounted for the bulk of Chinese investment inflows into the EU (about 50 per cent on average in 2008–2016), reflecting the interest in acquiring capabilities and brands in machinery and information and communication technology. Southern Europe (Italy, Portugal and Greece in particular) also saw a consistent inflow of Chinese investment after 2008. Energy and infrastructure acquisitions were particularly important in that region. Central and eastern Europe received relatively little, but it has a specific role as it attracts greenfield industrial investment rather than asset-seeking acquisitions (see Chapters 5–7). The
region has also seen a number of financing promises for investment in infrastructure and energy, but these are yet to materialise. In 2016, Chinese investment shifted to ‘core’ European economies, with Germany and the United Kingdom alone accounting for more than half of total incoming Chinese investment that year (Haneman and Huotari 2017).

2. The rise of Chinese challenger MNCs

The emergence and nature of the challenger MNCs is analysed in Part 1. It includes chapters on MNCs active in the telecommunications and automotive industries, the key targets of Chinese industrial policies. Case studies of major challenger MNCs are complemented with an overview of human resource management and employment relations in Chinese MNCs. The telecommunications equipment providers Huawei and ZTE have developed into brand-name companies and technology suppliers, which only a small number of companies from China have been able to manage. The chapter by Pawlicki analyses the rise of these two leading ‘challenger multinationals’. Their impressive rise shows the importance of extensive, integrated and adaptable industrial policies. While neither company was part of the initial focus of China’s industrial policy, they both benefited from it, in various ways. The key feature of Chinese industrial policy was the ability of policymakers to adapt quickly to the results of their efforts, namely to the demise of the initially supported equipment companies and the rise of the new contenders. This, as Pawlicki argues, provides important lessons for EU policy. First, very direct industrial policies do work, even though sometimes through unintended results. Second, China is changing the conditions for competition by raising the stakes of politico-economic development. Finally, industrial policies yield positive effects also by propagating ‘decent work’, labour conditions and labour relations that are beneficial for broader social participation, furnishing future policy instruments with social conditionality clauses.

Chinese industrial policy, which has been instrumental in the rise of the ICT giants, was initially developed for the automotive industry. Its success in this sector, as analysed in the chapter by Pawlicki and Luo, has been more mixed. The policy has so far failed to produce global market leaders with a status comparable to that of Huawei. Independent research and development capacities are also lacking. Industrial policy focused on developing car manufacturers, leaving Chinese automotive suppliers behind. The ‘Going-out’ strategy then aimed to acquire the missing knowledge and technology through company acquisitions in foreign markets. The wave of Chinese acquisitions of European automotive companies initially met with concerns about possible loss of manufacturing and R&D expertise and related jobs. To date, however, experiences have been positive. As documented by Pawlicki and Luo, the strategic character of Chinese investments has led to the preservation of local resources and capabilities. Manufacturing, engineering and managerial resources have been kept in Europe and a draining of resources failed to materialise. European resources have been used to build up capabilities in China through knowledge absorption and learning processes. Chinese investors have showed a positive attitude towards investments and a long-term orientation. However, the authors conclude with the
The rise of the car-maker Geely, however, stands out from the general pattern. The exceptional catch-up strategy of the Chinese car maker is analysed in the chapter by Balcet, Wang and Richet. The company started to develop capabilities through reverse engineering in the production of low-end cars. However, rather than relying on joint ventures with a foreign carmaker in China, as other Chinese car-makers have done, it accelerated the catch-up process through internationalisation. This included exports, assembly abroad and market-seeking operations, as well as asset-seeking acquisitions. The acquisition of the failing carmaker Volvo, a focus of the chapter, played a key role in obtaining access to core technologies, brands and international property rights, allowing the company to expand into medium and higher category cars. Good industrial and financial performance driven by the expansion in the Chinese market led to an expansion of capacity of the Volvo operations in Gothenburg. In this context, collaborative relations developed between the Swedish trade union and the Chinese management.

Chinese multinationals are a diverse group, differing by sector, geography, company size and type of ownership. The difference between private and state-owned companies is particularly important, with the latter being more susceptible to government intervention, including in the area of human resource practices and policies. However, despite the differences, argues Miedtank in her overview of the employment policies of Chinese multinationals in Chapter 4, a common pattern can be identified. Accordingly, Chinese multinationals, in contrast to Western ones, have adopted a ‘light-touch’ or ‘hybrid’ approach to managing their European subsidiaries. The human resource management departments of Chinese multinational companies seem rarely to guide the human resource management departments of foreign subsidiaries or to assist in decision-making processes on overseas FDI. However, unintended home-country effects have started to emerge, related to the fact that Chinese multinationals tend to send abroad a large number of Chinese expats who have specific experience and ways of working. This leads to different cross-cultural misunderstandings between local employees and Chinese expats, such as expectations concerning work values and different communication styles. This unintentional effect also includes, Miedtank argues, the fact that Chinese multinational companies tend to accept trade unions, but rarely join local employers’ associations.

3. **Patterns of Chinese FDI in Europe**

Part 2 of the book provides an overview of different types of Chinese investments across Europe. It includes two chapters on central and eastern Europe, which seems to have a special significance for Chinese investors. The region is a preferred location for Chinese greenfield manufacturers due to its specific attributes (most notably, the low costs) and it has a gateway role in the context of the One Belt, One Road initiative.

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1. Private companies accounted for only 30 per cent of Chinese investment in the EU in 2015, but their share increased to 74 per cent in 2016 (Haneman and Huotari 2017).
A quantitative overview of Chinese FDI flows in the EU is provided in the chapter by Amendolagine and Rabellotti. The empirical analysis relies on firm-level data on greenfield investments and acquisitions. It confirms – and establishes in more detail – that Chinese FDI in the EU is concentrated in a few host countries and in a few sectors, namely automotive, communications, electronics, machinery and engines. The majority of investments have so far aimed at servicing European markets through sales by foreign subsidiaries, but producing in Europe is increasing among Chinese multinationals. Central and eastern Europe is an important destination for greenfield investment for manufacturing purposes, which suggest that intra-regional differences in the business environment and factor advantages are driving the location choices of Chinese investors. The analysis by Amendolagine and Rabellotti also includes insights on the effects of Chinese acquisitions on firms’ innovative capacity. It highlights the differences in absorptive capacity: Chinese investors with a high knowledge base benefit much more from their acquisitions in Europe than acquirers with a low knowledge base. Moreover, performance of targets with a very high knowledge base may be influenced through a ‘liability of emerginess’: the patenting performance of the acquirers targeting companies with a high knowledge base is worse than that of multinationals acquiring enterprises with a low knowledge base. In these cases, acquired companies might choose to protect their innovation capabilities, limiting the transfer of knowledge to their acquirers.

The following two chapters focus on Chinese investments in central and eastern Europe. Chinese involvement in the region has been comparatively small, but many countries have seen a rapid growth of Chinese investment since 2010. The chapter by McCaleb and Szunomár maps these investment flows and the types of Chinese involvement in the largest recipient countries within the region (Hungary, Poland, Czechia, Slovakia, Romania and Bulgaria). McCaleb and Szunomár argue that Chinese investments in central and eastern European countries differ from those of Western companies in terms of specific institutional factors that shape their investment decisions. In particular, they discuss the role of host-country institutions, notably the impact of EU integration, Chinese diaspora and political relations with China. A large Chinese diaspora and an early establishment of friendly relations with the Chinese government thus made Hungary the leading recipient of Chinese FDI in the region.

The question of the specificity of the region and the importance of institutional factors is pursued further in the chapter by Drahokoupil, Kirov, Muntean and Radu. It draws on case studies of Chinese investments in Romania and Bulgaria, countries that have been relatively marginal to overall investment flows from China, but that also host some high-profile investments, including Huawei, ZTE and the joint venture of Litex and Great Wall Motors. The chapter investigates whether and how Chinese investors have exploited the specific endowments of the two countries: the low-wage profile and a low quality of governance. The latter, as seen in the case studies, represents an obstacle also for Chinese investors, but the failures of Chinese involvements in energy infrastructure projects may also be related to a limited ability to cope with a degree of political unpredictability and public scrutiny characteristic of democratic political processes. The low-cost environment and access to European markets has been exploited through two types of successful strategy. First, Huawei and ZTE established European hubs
for technical support for communication network equipment. Apart from the low cost, the companies benefit from the Romanian education system, which produces engineers that the company can use to serve European customers. Second, there are investments in relatively simple industrial activities, centred on assembly, that benefit from low wages and proximity and access to European markets. The risk of such low-road strategies is that they lock the region into activities that compete primarily on low (labour) costs. Finally, the troubled joint venture of GWM and Litex contrasts with the success of Geely's acquisition of Volvo. While Geely acquired Volvo to obtain access to its technology, brand and know-how, GWM teamed up with a local partner that could offer only capital and the low-cost base.

4. Capability development, competition strategies and employment relations in Chinese investments in Europe

The third part of the book includes case studies that represent the diversity of Chinese investments in Europe. The case studies allow for a better understanding of business strategies and other factors that condition capability development, employment, and labour relations in individual types of investments, as well as their prospects. Germany has been a major target country for Chinese investors, with the number of acquisitions growing rapidly after 2009. The ‘Going-out’ strategy has encouraged investment in the country since its launch in 2000. The chapter by Bian and Emons on Chinese investment in Germany documents these efforts by the Chinese state to encourage and guide the internationalisation of its companies. The chapter also takes stock of the experiences of German employee representatives in dealing with Chinese owners. Chinese acquisitions came to be seen positively as the new owners have typically supported expansion of existing capacities, while leaving the acquired companies to operate independently. However, the ‘invisible’ involvement has also had some negative implication for employee representatives as it has brought a lack of transparency in management and difficulties in obtaining direct access to the owners. The approach of Chinese investors can be related to a series of labour disputes that accompanied earlier waves of Chinese acquisitions. Eager to avoid further negative publicity, the Chinese state then instructed companies investing in Germany to comply with local labour law and accept trade unions and works councils. The typical approach of Chinese investors observed in Germany since 2009, Emons and Bian argue, has been that of passive conflict avoidance, characterised by three ‘nots’: (i) do not contact interest representatives, (ii) do not reject their efforts to make contact and (iii) do not enter into direct confrontation with trade unions. Taking stock of experience with Chinese owners in German acquisitions, the chapter concludes with a list of questions to help employee representatives in Chinese-owned companies in their control and monitoring activities.

A detailed analysis of a takeover of a German *Mittelstand* (medium-size) company, the identity of which could not be revealed, can be found in the chapter by Zhu. It analyses the motives of the Chinese acquirer, the business outcome of the merger, the decision-making structure – including the integration of employee relations – and communications with the works council and the target management. While business performance since the takeover has been positive, expected synergies on the operational
level have failed to materialise. Because of their lack of international experience, the Chinese acquiring company tried to provide strategic advice to the target company and remained deeply involved in decision-making. The Chinese acquirer was in fact highly dependent on the competence and support of the German management to implement the decisions. Employee involvement mechanisms remained in place, but language represents a barrier in communication between the works council and the Chinese management.

The United Kingdom is another major target country for Chinese investment seeking to tap into local knowledge and innovation capabilities. In order to understand the knowledge transfer and capability development involved in such acquisitions, He and Khan, in their chapter, present a case study of a Chinese acquisition of a British engineering firm. Observing a dynamic process of capability upgrading in the acquired firm, He and Khan find a counter-intuitive development: rather than a knowledge flow from the subsidiary to the parent firm, as expected in this knowledge-seeking acquisition, they observe multiple types of upgrading (product, process, functional and inter-sectoral) in the Chinese firm’s newly-acquired subsidiary. They thus reject the common assumption that upgrading is exclusive to developing countries, when developed market firms invest there.

The chapter by Drahokoupil, McCaleb, Pawlicki and Szunomár analyses the European activities of Huawei. The telecommunication equipment manufacturer has developed a large production and sales operations across Europe, demonstrating the complex ways in which Europe has so far been affected by Chinese high-tech outward FDI. The company utilises local resources while optimising its pay structure. It locates functions in lower-cost locations when possible, while paying wages competitive on these labour markets. Huawei’s western European operations thus focus on R&D, Polish activities are focused on sales and marketing for CEE and Nordic countries, the Hungarian operations specialise in manufacturing and logistics and the Romanian affiliates provide technical support for customers across Europe. Huawei’s global production network strategy is linked to its business model: the company globalises certain company standards, such as a high customer orientation in its business model and labour-cost advantages of its global production network (see also Chapter 1). Adding to its cost advantage, Huawei also benefits from financing through various Chinese sources – for example, the Bank of China – at low interest rates. With its global production network Huawei is facilitating the spread of the ‘Silicon Valley model’ of industrial organisation and employment relations, in which polarised workforces are organised in fragmented value chains (Lüthje et al. 2013; see also Drahokoupil et al. 2016). The model also entails a rejection of positive and developed employment relations, based on employee representation and collective bargaining. As Huawei is mostly developing through greenfield investments, the company does not have to cope with existing company unions and/ or works councils. However, the European experience also shows that the management is likely to accept local institutions, including collective bargaining, if enforced through collective action and underpinned by good regulation of employment relations.

China Shipping Corporate Limited (COSCO)’s investment projects at the Greek port of Piraeus is a major Chinese infrastructure investment in Europe. The chapter by
Zheng and Smith examines the employment practices adopted by Chinese state-owned enterprises in Europe. COSCO is a powerful state-controlled firm, which is actively engaged in expanding its international networks and facilitating the state-sponsored internationalisation of Chinese firms. Employment practices adopted by COSCO echo some general changes in the shipping industry: shipping companies are trying to mitigate competition through international mergers and acquisitions, standardisation in transition time modelled by logistic software, automation of cargo handling equipment on ships and in ports and development of infrastructure integrating shipping and inland logistics, all of which have contributed to the simplification, casualisation and intensification of work. More importantly, employment policies and practices in Piraeus show characteristics of those adopted by Chinese state-owned enterprises after the state-led reform. These characteristics can be understood in terms of COSCO’s role as a key player in the Chinese state’s attempt to promote national economic growth and upgrade the capability of Chinese firms through outward foreign direct investment. Despite its ownership status as a publically listed company, the de facto governance structure of COSCO and the state–firm links maintained through such a governance structure are equally important in informing employment practices in Piraeus. COSCO’s international expansion thus reflects both the Chinese state’s policy of promoting outward FDI and the firm’s strategic choice in the face of growing competition in the global marine transport industry.

Finally, in the Annex, the book includes a guide for employee representatives with practical advice deriving from Wolfgang Müller’s experience as an adviser to employee representatives in companies owned by Chinese investors in Germany. Complementing the list of questions for practitioners in Chapter 8, it includes insights on what works councils and trade unions can do to achieve an optimal outcome when Chinese investors enter a company. Starting with a brief consideration of the situation in greenfield plants, the bulk of the guide focuses on the individual stages involved in a takeover. (A German version of this guide is also included.)

5. Policy implications

The surge in Chinese investments stands in a contrast to the recent decline in investment by European firms in China. Moreover, some European companies, notably telecommunication equipment providers, have seen their market share in China shrink in favour of local companies. The growing imbalances raise concerns about unequal market access and state subsidies for Chinese MNCs. While Chinese investors enjoy almost unrestricted access to Europe, foreign firms in China face severe restrictions. Paradoxically, European firms in China are effectively shut out of the very sectors, such as utilities and infrastructure, that have been targeted by Chinese firms in Europe. There are few signs of liberalisation, despite commitments made by the Chinese government in the context of WTO accession. In addition, Europe has been ineffective in addressing the state subsidies that underpin the expansion of Chinese MNCs in European markets (see, for example, the failed EU intervention in relation to the state financing of Huawei’s and ZTE’s expansion in European markets in Chapter 11).
To date, many European firms have benefited from the Chinese acquisition drive. Chinese owners have often provided opportunities for growth and capability upgrading. This book has also discussed cases in which Chinese investment has effectively given a new lifeline to companies struggling for survival. While fears of the decline of the acquired firms in the context of technology looting by the new owners have not materialised, these strategic acquisitions bring also serious long-term risks for Europe’s industrial base and its innovation clusters. As explicitly stated in China’s 2015 industrial policy strategy ‘Made in China 2025’, the ultimate aims of the efforts to upgrade through foreign acquisitions is to displace foreign companies both in China and globally (see Wübbeke et al. 2016). As demonstrated by the confused reactions to some of the controversial takeovers (for example, Aixtron, KUKA), the current system of fragmented national investment screening regimes is increasingly ill-equipped to address the risks involved. Better EU coordination of foreign investments in critical national infrastructure would help to address the security risks (see European Commission 2016). However, in contrast to China, a policy framework is lacking to protect strategic capabilities in Europe from takeovers by Chinese companies that operate in the context of an industrial policy framework that violates European competition principles.

Moreover, the EU should take inspiration from the success of active industrial policies in China. As observed by Pawlicki in Chapter 1, very direct industrial policies work, even if sometimes through unintended results. Industrial policies can also promote wider socio-economic development by propagating, through policy instruments with social conditionality clauses, ‘decent work’, labour conditions and labour relations that are beneficial for broader social participation.

Finally, while asset-seeking investment in western Europe represents a developmental tool for Chinese companies, the factor- and market-seeking investments in central and eastern Europe could contribute to the region’s development. However, it seems to contribute little if motivated by exploiting costs alone. Knowledge-seeking investments by telecommunication companies can help to establish IT innovation clusters, but there is a need for a stronger framework for inclusive labour relations to promote wider socio-economic development by retaining the generated value in the region.
References


Part 1

The rise of challenger MNCs from China
Chapter 1
Challenger multinationals in telecommunications: Huawei and ZTE

Peter Pawlicki

1. Introduction

The telecommunications equipment industry is of high strategic importance. Leading telecommunications equipment suppliers provide their country of origin with equipment for competitive economic and technical development, as well as the capability to influence future technological paths. Additionally, the information and communications technology (ICT) industry is one of the most prominent drivers of globalisation, the evolution of the international division of labour and new models of industrial organisation (Lüthje et al. 2013). In recent years Europe’s role in the telecommunications equipment industry has been changing rapidly, especially as new competitors from China have entered the market. Today, ICT equipment is not only a means of communication, but the backbone of the complex global economy. Furthermore, ICT equipment has become the source of new business models that use it to create new markets, sometimes with explosive growth dynamics and disruptive effects.

Multinational companies from China only recently started to invest in developed markets. As their economic as well as technological strength is constantly increasing it is important to understand how they were able to rise to prominence so quickly and how they are able to influence specific industry developments.

Huawei and ZTE, the leading telecommunications equipment providers from China, are the main focus of this chapter. Both are among the few Chinese companies that have been able to become important global players in the ICT industry. Most significantly Huawei and ZTE are brand-name companies and technology suppliers – roles only a small number of companies from China have yet been able to master. Both companies are formidable examples of how focusing on the development of in-house R&D capabilities can be a long-term strategy for growth. Their specific and highly successful business and innovation model has had a huge impact on the telecommunication industry, driving fundamental restructuring of markets worldwide, as well as of business models.

The telecommunications equipment industry has been dominated by companies from Europe and North America from the beginning. Suppliers from other regions were no match for them in either technology, size or international importance. This has changed fundamentally since suppliers from China – Huawei and ZTE – entered the industry.

1. Historically, the development of telecommunications equipment has been a prolific source of innovation and has driven major technological advances (see, for example, Lüthje 1993).
Both companies’ technological prowess and ability to take part in the standard-setting process for future telecommunications technologies are a showcase for shifts in the centre of gravity in global innovation networks towards countries such as China (He et al. 2015).

This chapter is structured as follows. First we look at changes in fundamental market dynamics since the rise of Huawei and ZTE. This is followed by a detailed analysis of both companies, focusing on their customer- and service-oriented business model. Both companies have developed within China’s very favourable system of industrial policies focused mainly on technology acquisitions, regulated market access and science and technology programmes, which are the focus of the next part of this chapter. However their success was rather an unintended results of these policies – which targeted state-owned enterprises and Sino-foreign joint ventures – coupled with their high adaptability (Pawlicki 2016). The companies’ specific innovation focus, which underscores the importance of customer orientation, is described as one of their success factors. The last two parts look at Huawei’s and ZTE’s R&D investments in Europe, as well as cooperation with regard to European standard-setting processes.

2. Shifts in the markets for telecommunications equipment

The dominance of European and North American equipment suppliers was successfully broken by Huawei and ZTE, who were able to take leading or at least top-five positions in the various markets for wireless and wireline technologies. Both Chinese suppliers differ from incumbent equipment providers through their low-cost products and an innovative business model focusing their product and service innovations on customer needs and requirements.

The United States was the first to start deregulating its telecommunications market in the 1940s. However, due to a very prolonged process full liberalisation was achieved only in the 1990s. In Europe the European Court of Justice and the European Commission opened up markets for telecommunication much more quickly, between the mid-1980s and the late 1990s (Mayer-Schönberger and Strasser 1999).

This has created huge markets for wireline telecommunications equipment while the nascent internet economy has undergone explosive growth. The market structure in Europe in the late 1990s was still determined by the previous system of regulated procurement policies and historically close ties between monopolistic network operators and companies such as Alcatel, Siemens and Ericsson, which were the biggest Europe-based telecommunications equipment manufacturers, accounting for over 20 per cent of EU production, while Nokia accounted for over 10 per cent. On worldwide markets for wireline and wireless network equipment the biggest players – Alcatel, Siemens and Lucent – each had a market share of about 9 per cent (Carr et al. 1998).

Europe’s strong position in wireless communication dates back to the 1980s when the GSM (Global Standard for Mobile communications) standard was developed by the
European Telecommunications Standards Institute (ETSI)\(^2\) and its member companies, within a framework set by the European Community. Participant companies in this process – such as Alcatel, Ericsson, Nokia and Siemens – were able to develop the required technological capabilities before the standard was released and thereby had a huge first-mover advantage (Bekkers et al. 2002). As the GSM standard became one of the two dominant wireless standards worldwide, Europe’s central role in the development of the subsequent third, current fourth and future fifth mobile communication generations stems from this initial effort.

Table 1summarises how European telecommunications equipment providers were able to dominate the GSM market in Europe in the initial phase of the sector’s development. Already in this period Ericsson was the European technology leader in wireless networks and had a well developed ability to provide system solutions that enabled the networks operators to integrate disparate technology platforms across wireline and wireless networks.

Table 1   **Estimated supplier market share of the 33 largest GSM networks in Europe, December 1996**

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Market share switching (%)</th>
<th>Market share base stations (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ericsson</td>
<td>48</td>
<td>37</td>
</tr>
<tr>
<td>Nokia</td>
<td>14</td>
<td>22</td>
</tr>
<tr>
<td>Siemens</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>Motorola</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Alcatel</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Lucent</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Bekkers et al. 2002.

The global markets for wireless telecom equipment have changed considerably since the initial GSM era in the late 1990s. LTE is currently the newest generation of mobile communication standards, and was developed after Huawei’s and ZTE’s entry into the worldwide markets for wireless technologies. With early in-house technology and product development both companies shed their late-comer status. In 2009 TeliaSonera, a Nordic network operator, commenced the operation of the first LTE networks worldwide. Huawei was able to develop one of two test-systems, leading the project in Oslo (Ward 2009).

Contracts secured with network operators indicate the equipment supplier’s market success and also reveal their capability to offer leading-edge technology, solutions and services.\(^3\) Figure 1 portrays the fundamental changes in the global markets for leading-edge mobile telecommunications equipment. Asian companies were able to close more

\(^2\) ETSI is an independent, not-for-profit, standardisation organisation in the telecommunications industry that comprises both equipment makers and network operators.

\(^3\) Declared LTE contracts can only be used as an indication to market share based on revenue. However, in the telecom equipment industry initial network equipment purchases are not revenue drivers. Follow-up purchases of equipment and services represent the biggest revenue sources, as network operators are in a relative lock-in situation with their installed base of equipment.
than 40 per cent of LTE contracts worldwide by 2013. Although European companies finalized 47 per cent of LTE contracts, Huawei outpaced Ericsson noticeably. With its 39 per cent of LTE contracts Huawei is currently the undisputed market leader in LTE technology. Although ZTE has been able to take only a much smaller market position it is still one of the top-five equipment vendors for LTE.

In the sector for wireline networks Chinese equipment suppliers have had similar market success. By 2012 and 2013, respectively, Huawei became the dominant market leader in both optical network and access equipment markets, while ZTE was able to move into the top five in these markets (Infonetics Research 2015 and Ovum).

Historically, the third major sector of the telecom equipment industry – Internet Protocol based network products and services – has been dominated by US companies such as Cisco. Currently, the market for service provider routers and switches is controlled by four companies that together account for over 90 per cent of the market: Cisco, Alcatel-Lucent, Huawei and Juniper (Infonetics Research 2015). While trailing the four market leaders, ZTE has been able to move into fifth position in this sector.

The entry of Huawei and ZTE has restructured worldwide equipment markets fundamentally. European companies have lost their leading roles in both wireline and mobile sectors, with Ericsson being the only equipment supplier that is competing with Huawei and maintaining its R&D leadership. Additionally, many European suppliers have disappeared as they were either closed down or, more often, acquired by or merged with competitors. Nokia Siemens Networks and Alcatel-Lucent are the major examples of merger strategies used by European and North American companies to fend of rising competition from China. The two organisations do not seem to be able to

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**Figure 1** Vendors’ market share based on declared global LTE contracts, July 2013

- **Huawei**: 39%
- **Ericsson**: 31%
- **Nokia Siemens Networks**: 19%
- **Alcatel-Lucent**: 7%
- **ZTE**: 2%
- **Samsung**: 2%

* Since late 2013 Nokia Networks
Source: Informa Telecoms & Media Company, Standard Chartered Research.
provide the planned advantages, as the current wave of mergers suggests. In April 2015 Nokia Networks\(^4\) announced the acquisition of Alcatel-Lucent for 15.6 billion euros.

Additionally, the biggest European and US companies have increasingly narrowed their product portfolios. Huawei and ZTE, on the other hand, quite early on diversified into all three sectors, with very broad product and service portfolios; Huawei has been able to develop successfully regarding market share and technology (von den Hoff \textit{et al.} 2008).

Cooperation with European network operators

Long-term partnership relations, technology dependence as well as security considerations were among the most important factors that made Huawei’s and ZTE’s entry into European markets challenging. Additionally, the European market is known for its very high technology and service standards. Both vendors initially focused on telecommunications markets in South America, Middle East and Asia developing overseas experience as well as building up their reputation as trustworthy technology suppliers with considerable cost advantages. Only in 2004 was Huawei able to win its first major contract in Europe with the Dutch mobile operator Telfort, for the development of a third-generation network.

In early 2005, after a rigorous two-year procurement and authentication process, Huawei was selected as one of the strategic suppliers for British Telecom’s twenty-first century network programme. Huawei was among industry leaders such as Alcatel, Ciena, Cisco, Ericsson, Fujitsu, Lucent and Siemens, which cooperated on the development and setting of new standards to ensure service interoperability. Huawei was assigned only to lower-value parts of the project. However, the alliance with BT was very important for Huawei as it marked its first supplier arrangement with a first-tier network carrier. This had major implications for its market reputation and recognition.

By the end of 2007 Huawei was able to secure contracts with all first-tier network operators in Europe. Two years later the company was successful on its main rivals’ home turf, with Telenor choosing Huawei offer over Ericsson’ and Nokia Siemens Network’s in 2009. In 2014 Vodafone announced that it had awarded Huawei the contract to upgrade its networks in 15 countries in Europe and Africa.

Huawei is currently generating two-thirds of its revenues outside China and Europe is its largest overseas market (Osawa and Zekaria 2014). The company states that it is providing equipment to 37 of the world’s 50 biggest operators. Regarding the European market for 4G networks around 50 per cent of the equipment is provided by Huawei (Yoshida 2015).

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\(^4\) In 2013 Nokia acquired 100 per cent of the shares in Nokia Siemens Networks, thereby also marking Siemens’ complete withdrawal from the telecommunications equipment market.
3. The new incumbents – Huawei and ZTE

Huawei’s and ZTE’s successful strategies based on a customer-oriented business and innovation model have their roots in the Chinese government’s development strategy of the 1980s and its industrial policies of the past three decades (Pawlicki 2016). Their ability to provide telecommunications equipment adapted to the requirements of developing markets, highly developed customer support and low prices have made both companies very competitive in developing countries, which were the initial focus of their internationalisation. Additionally, the ‘go abroad’ strategy of the Chinese central government was supportive.

Huawei

Huawei was founded by Ren Zhengfei, who is still the company’s president, as a sales company for private branch exchanges 1987 in Shenzhen, China. Currently, Huawei is often described as the largest telecommunications equipment supplier worldwide, with revenues of more than USD 46 billion. As the company is not publicly traded financial details are not verifiable, however. Huawei is employee owned, but details on the ownership structure are not publically available. Around 80,000 of the company’s 150,000 employees held shares in 2014 (Sevastopulo 2014).

Of Huawei’s 150,000 employees about 45 per cent are working in R&D (Huawei 2014). Based on the available data the company’s R&D ratio has historically lagged behind its rivals, such as Alcatel-Lucent and Ericsson, by about 5 percentage points. However, the newest reported R&D ratios – 14.2 per cent and 13.2 per cent for 2014 and 2013, respectively – suggest that Huawei has been able to catch up with the industry average (Huawei 2014).

Huawei has managed to build up considerable technological prowess and economic strength in components and mobile phones. Huawei’s chip design arm, the wholly owned subsidiary HiSilicon, has been the leading domestic chip company in China for many years, while it was able to become the twelfth biggest fabless chip supplier worldwide (PWC 2015). Although the company had been designing and manufacturing mobile phones for several years, it entered the market for smartphones only in 2010. Since then Huawei has become one of the top five mobile phone as well as smartphone vendors worldwide. The company uses its component development capabilities also for its handset business developing mobile processors.

Huawei’s newest venture is its enterprise division, which provides IT products and solutions such as storage, switching, routing, cloud computing, broadband access,
WLAN, server, videoconferencing, cloud data centres, enterprise networking as well as integrated security and monitoring systems.

ZTE

ZTE (Zhongxing Telecommunications Equipment Corporation) was established in 1985 by Hou Weigui in Shenzhen with investment from China’s Ministry of Aerospace. During the 1990s the company evolved to become ‘state-owned, privately managed’ (guoyou siying) (Harwit 2008). Despite its 1997 and 2004 initial public offerings, the biggest shareholder is a holding company owned by a state-owned research institute and a state-owned company (ZTE 2015; Hille 2010).

At the end of 2014 ZTE employed 75,609 people worldwide, of whom more than 27,000 worked in its R&D operations and over 15,000 worked in its manufacturing operations, while customer sales accounted for around 13,000 (ZTE 2015). The company’s R&D ratios are well behind the industry average of around 15 per cent.

ZTE was also a latecomer to the mobile phone and smartphone markets. Although not as successful as Huawei, ZTE was able to become one of the top ten mobile phone and smartphone companies worldwide in 2014.

With their mobile phones business Huawei, as well as ZTE, have taken a completely different development path from their industry competitors. Ericsson, Nokia and Siemens have had considerable mobile phone businesses, and Nokia enjoyed protracted leadership in the mobile phone markets worldwide. In 2005 Siemens was the first European telecommunications equipment vendor to exit the mobile phone market, followed by Ericsson in 2011, which sold its 50 per cent of shares in the Sony-Ericsson joint venture to Sony. In 2013 Nokia was the last big European telecommunication company to announce its withdrawal from the mobile phone market, selling its business to Microsoft. While the development and design processes of telecommunications equipment and mobile phones differ in complexity, focus, length and investment levels, the ability to establish links between them provides Huawei and ZTE with obvious advantages. Testing procedures, technical interfaces and product stability benefit from a deep understanding of both ends of the wireless telecommunication technology chain. The close relationships that both companies were able to develop as equipment providers with network operators worldwide were advantageous in building up their mobile phone businesses.

Customer service orientation

The Chinese government’s industrial policies and market regulations led to segmented rural and urban markets, leaving Huawei, ZTE and the other Chinese telecommunications equipment suppliers with vast rural areas that were offering only

8. Other shareholders included the Shenzhen Municipal Changcheng Industrial Company and the Yunxing Electronic Trading Company.
slim profit margins, coupled with complex integration problems, such as the varying quality of local power supplies or local government interference. In this environment Huawei and ZTE developed their service-oriented business model. Ahrens (2013) reports how Huawei built up an extensive service network in every Chinese province it was operating in, with over 200 engineers and technicians in counties, towns and small cities. By comparison, Ericsson had only three technicians in the same province. This huge service team allowed Huawei to provide quick, broad and reliable services and was one of its main sales arguments. Additionally, Huawei was able to offer high levels of product customisation that catered for the various idiosyncrasies of a fragile und underdeveloped infrastructure, or simply offered a graphical user interface in Chinese.

Huawei has based both its product development and its market entry strategies on providing products with high stability that fit the customer’s application requirements better than competing solutions (Fu and Fu 2012). Their customer-oriented business model helped Huawei and ZTE in their first internationalisation push when entering developing markets in Africa and Russia, where the understanding of impeding factors – technological, political and financial – were fundamental to be able to provide solutions that would cater for local requirements and needs (Cissé 2015; Li 2006). Huawei started its overseas expansion in 1995, while ZTE won its first contracts outside China in the late 1990s. Both companies used a similar strategy first occupying local markets on a loss-leader basis and then growing their profits through maintenance and network upgrades. In 2004 Huawei’s overseas sales surpassed its domestic sales.

Huawei’s customer orientation drove its early focus on power saving equipment. African network operators required solutions that would allow them to operate in regions without a reliable infrastructure. Huawei’s expertise in power saving and wind and solar based networks was later advantageous in cooperating with European network operators as they could both reduce energy costs and advertise these green solutions.

4. China’s policies of technology and industrial development – unintended results

In recent decades China’s industrial policies directed towards the telecommunications equipment industry have been extensive, integrated and foresighted. However, their initial positive results from a domestic industrial base were only short-term. The Sino-foreign joint ventures supported by the industrial policies had dwindled into insignificance by the late 2000s. The high level of adaptability of Chinese industrial policies made sure that the central government was able to change its bets during the race, favouring firms such as Huawei and ZTE as they rose to success (Pawlicki 2016). The long-term positive effects of China’s industrial policies seem to have been unintended as they provided domestic equipment suppliers such as Huawei and ZTE with a set of capabilities that go well beyond technological leadership. Their managerial, organisational and later also technological capabilities allowed both companies to successfully internationalise, supported by government policies, and acquire industry-leading positions.
China's industrial policies resulted in segmented markets that forced new domestic equipment suppliers to move to the rural and low-end markets. Huge state-owned enterprises and Sino-foreign joint ventures focused on the development of manufacturing capabilities as they could access leading-edge technologies through technology transfer cooperation with foreign suppliers. This locked them on a development path that could not be successful in an innovation driven industry in the long term. Companies such as Huawei and ZTE initially lacked access to technology transfer systems and science and technology programmes and had to invest heavily in in-house R&D capabilities. It was Huawei’s and ZTE’s initial decision to focus on developing in-house R&D capabilities that allowed both companies at a later stage to make full use of the development framework set up by governmental policies and regulations (Gao 2011; Pawlicki 2016). Demanding rural markets that shift requirements from technology to organisational capabilities, together with the build up of internal product development capabilities developed into a foundation from which Huawei and ZTE could start their highly successful internationalisation.

In the early 1980s the central government defined the telecommunications infrastructure and industry as strategically important both to provide a foundation for future economic development and as a source of technological strength. However, both the telecommunications industry and local infrastructure were underdeveloped. The central government’s strategy was geared towards short-term improvements in telecommunication infrastructure and a long-term evolution of local industry capabilities.

Early on, the central government realised that the size of the Chinese market gave it substantial bargaining power that could be used for technology transfer, leading to the ‘Trading Market for Technology’ (TMFT) strategy, resulting in Sino-foreign joint ventures. The first Sino-foreign joint ventures with foreign telecom equipment suppliers were established in the mid-1980s.

Favourable taxation and tariff policies supported the TMFT strategy to attract FDI to China. Already in 1991 foreign firms were offered tax concessions, with later laws reducing the tax burden for foreign companies to 11 per cent and 15 per cent in the 1990s (Feng 2010). Import tariffs were also set in such a way that they supported equipment imports and Sino-foreign joint ventures. (Feng 2010). Equipment that was imported based on deals financed by foreign governments and cross-border organisations was exempt from any tariffs. After China’s accession to the WTO the country ended all special-treatment tariff policies in 2001.

In the mid-1980s investment in telecommunications equipment was decentralised to the provincial level. This step was especially important for the big coastal cities that needed to provide modern communications infrastructure for foreign investors (Hong et al. 2012). These new investment projects led to an increase in foreign loans, usually conditional on buying equipment from creditor countries. In addition, Chinese companies were not able to provide the necessary modern equipment. The central government stopped accepting foreign loans in 1995 and established a domestic system of financial assistance. This decentralisation led to a segmentation of the Chinese market that increased the divide between rural and urban areas (Fan 2011; Harwit 2008).
A ‘buy local’ strategy was used in the wireless sector. In 2006 China Mobile and China Unicom, the biggest Chinese network operators and both state-owned enterprises, unified their purchasing policies with regard to GSM equipment. While provincial operators were still able to choose their supplier independently, they had to follow centrally set prices (Fan 2011). Furthermore, China Mobile’s new procurement policy openly favoured domestic suppliers (Hong et al. 2012: 919). This regulation had an almost instantaneous effect. In 2007 Huawei and ZTE had a 13 per cent share in the Chinese GSM market, while Ericsson had 42 per cent; in 2008 the two companies were able to take 37 per cent of the Chinese GSM market (Hong et al. 2012).

Chinese innovation policies aimed at developing national champions drove the development of a Chinese third generation wireless technology called TD-SCDMA. China’s central government provided extensive support for its TD-SCDMA project through funds, regulations and organisational help, while Datang, Huawei, China Mobile, China Telecom and China Unicom were the main Chinese companies that cooperated on this project. The project was highly complex and only partially successful (Tsai and Wang 2011; Hou 2011) as the standard did not become viable outside China. However, Chinese telecommunications companies were able to build up technological expertise and standardisation process experience and used these learning processes for their R&D on the fourth and fifth generation wireless technology.

TD-LTE, the 4G direct successor of TD-SCDMA seems to be much more of a success, having been chosen as one of the two global 4G standards by the ITU. Huawei and ZTE are investing substantially in TD-LTE technology and together with other firms – such as China Mobile, Datang Telecom, Nokia Solutions and Networks, Qualcomm, Samsung, and ST-Ericsson – are part of an international coalition that is developing the standard further.

Huawei’s and ZTE’s initial expansion to developing markets coincided with the Chinese government’s push for internationalisation (Di Minin et al. 2012; Pawlicki 2016), or the ‘go global’ strategy. Its aim is to facilitate OFDI in order to nurture the international competitiveness of Chinese firms and to use OFDI for the country’s general economic development (Sauvant and Chen 2014). Favourable credit lines for overseas investments were an important instrument of the ‘go global’ strategy.

5. Innovation the Chinese way?

While incumbent Chinese telecommunications equipment suppliers such as Eastcom focused on manufacturing and on joint ventures for technology acquisition and catch-up, Huawei and ZTE embarked on a more long-term development. From the outset both companies’ central strategies was the development of in-house innovation capabilities, through investments in R&D personnel and own product development (Gao 2011). This strategy of in-house innovation was aimed at the development of core technologies that would enable innovation-driven differentiation while keeping the low-cost advantage and developing complementary capabilities, such as professional management and customer orientation, coupled with very broad and fast customer service.
The telecommunications industry was long dominated by technology-led innovations. In industry lingo, ‘over-engineering’ of new equipment often occurred, where the technological and technical possibilities were the driving factor in development. Over-engineering is partly based in the technological and managerial capabilities of providers and customers. Incumbent network operators with their workforce of highly experienced engineers, operators and maintenance staff were able to put the many functions provided to use. This changed with the emergence of less mature markets and new market entrants. Here, initially, the technical personnel did not have the necessary experience and customers did not seek the abundance of functions and services. The major focus was to be able to provide a stable and cost-effective telecommunications infrastructure in a short time.

Huawei’s and ZTE’s customer-oriented R&D model was driven by their late-comer role; neither their technological experience nor their financial resources were sufficient to pursue a technology-led innovation model. As both companies commenced their globalisation focusing on developing countries before moving towards more mature markets their capability to provide customer-oriented innovations proved very useful.

While the model of technology-oriented innovation is not coming to an end, major changes in the markets for network operators and equipment suppliers are facilitating changes in requirements also in mature markets. Huawei’s numerous innovation centres, in which the company cooperates with its main customers, provide the necessary integration of customer needs and requirements directly into the R&D process. A good case in point is the SingleRAN technology that has been developed in cooperation with Vodafone at the Mobile Innovation Centre in Madrid and has become an industry standard since its introduction in 2008.

In recent years Huawei has announced that it will shift its R&D focus towards technology-driven innovation that will still incorporate future customer needs (BMI Knowledge 2014). While the company wants to retain its high customer orientation the slight refocusing is a sign of the company’s increasing confidence in its technological capabilities as well its ability to define future technology trends.

**Box 1  **Single RAN

Huawei’s SingleRAN (radio access network) enables mobile operators to seamlessly switch from 2G to 3G or to use both technologies simultaneously. This allows for cost savings through lower numbers of base stations as well as lower energy consumption. SingleRAN is based on the software-defined-radio technology, which enables simpler technology evolution as new standards can be implemented on the software layer and do not need new hardware.
6. European focus of Global Innovation Networks

Since it established its European presence by opening a R&D centre in Kista, Sweden in 2000 Huawei has built up a substantial Europe-based innovation network with 18 R&D centres in 10 European countries, employing around 1,200 researchers (Table 2). Additionally, Huawei has 19 joint innovation centres in Europe where the company is cooperating directly with its main customers, such as Vodafone and British Telecom, on technology sharing and joint application development. Furthermore, Huawei operates two regional technical assistance centres, 10 training centres and five local network operation centres in Europe. Its two regional headquarters, Warsaw and Düsseldorf, 41 sales branches, two logistic centres and 46 country-level spare parts centres are focused on sales and distribution responsibilities for this region. Overall Huawei employed 9,900 people in Europe in 2014. From a technology perspective Huawei’s 18 European R&D units cover all three carrier segments – wireless, wireline and optical – as well as both network infrastructure and mobile phones.

Huawei has increased investments in its European R&D since 2007 by 27 per cent a year, reaching 137 million euros in 2011. The company’s European investments amounted to around 3.8 per cent of its worldwide R&D investments in 2011 (Huawei 2013).

Currently Huawei operates more R&D units in Europe than in any other region of the world. However, most of the company’s engineers are employed in China and India, where Huawei operates R&D campuses of considerable size. At its Shenzhen headquarter and main R&D campus 40,000 people are working, while its only Indian R&D centre in Bangalore has been recently expanded to house 5,000 engineers. With around 1,200 employees in total the 18 European R&D centres are very small – ranging from 10 employees in Paris to 350 in Kista and 500 in Moscow. Albeit not very precisely, the size of R&D units can be used as a first indicator of their role within global innovation networks. The small Huawei European R&D centres suggest that the company is conducting projects that are research oriented, working on leading technologies, developing and acquiring new knowledge. Case in point is Kista, with its strong focus on research. Engineers from this centre only participate in the first steps of development projects, providing concepts and initial prototypes, while productisation takes place in China.

During its more than 15 years of development Huawei’s European innovation network has experienced substantial upgrading. Only four years after opening its R&D centre in Munich, Huawei started to upgrade this location to become the European Research Centre and Central Research Institute in 2012, by expanding its research focus both in hardware and software for wireline, wireless and optical networks, as well as applications. The Munich Centre plays a very important role in Huawei’s long-term research plans as it is performing fundamental and applied research. Simultaneously, Munich’s role in the control structure of the innovation network changed, as functions were added for leading and managing Huawei’s European research operations, as well as some of its innovation centres.
Milan was established in 2008 as a highly specialised R&D centre focusing on microwave and optoelectronics. In 2011 the operations were upgraded to become the Microwave Competence Centre, by locating here not only the global R&D activities in this field, but also service, marketing and sales support. The integration of sales and marketing and services is an important step in the upgrading of R&D centres as these functions are enabling higher ownership of R&D projects through direct customer relations and the resulting knowledge flows (Pawlicki 2014). The Milan competence centre was also Huawei’s first competence centre outside China, indicating how important Milan and Europe are within the company’s innovation network.

From the data currently available on the development of such Huawei locations as those in Kista, Milan and Munich, it appears that the company’s European innovation network is moving to a more mature role regarding both R&D and management. Increasingly, an intermediate control level has been established with regional management structures, giving European locations more room for own oversight. While initially managerial positions in Europe were staffed with Chinese managers, currently most country vice presidents are from Europe while country CEOs are still from China. Regarding R&D it appears that European locations are increasingly being enabled to drive research projects within Huawei’s centrally defined research and product development guidelines/plans, while increasing their ownership of these projects. However, as Europe lacks the manufacturing operations the question remains how far innovation capabilities can be developed, as one of the most crucial links is missing locally (Ernst 2005; Lüthje and Pawlicki 2009).

Huawei’s decision to establish R&D operations in Europe was driven by knowledge-seeking strategies, as well as the need to facilitate market entry. With its newest investments in Sophia-Antipolis, Bristol and Leuven Huawei is moving its knowledge-seeking strategies towards the component level and is trying to strengthen its proximity to standardisation institutions. Chipset and processor design are an important part of developing both equipment as well as terminal products. Bristol and Sophia-Antipolis are major European science and technology locations specialising in electronics and housing large numbers of world-class semiconductor companies. Additionally, several universities have outposts in Sophia-Antipolis; the headquarters of the European Telecommunications Standards Institute is also located there.

Compared with Huawei, ZTE’s R&D operations in Europe are minuscule. Of its 18 worldwide R&D centres only two are in Europe, with some additional operations in this region (Table 3). Similar to Huawei, ZTE’s first R&D-related investment in Europe established its research operations in Kista, where the company has been developing its mobile networks core technology. In France, Germany and the United Kingdom ZTE is focusing on technical support, as well as cooperating on development projects with its main European customers. In 2014 ZTE opened an R&D centre in Braga, Portugal with the help of Minho University, the DST group and InvestBraga. The centre is aimed at developing and testing new services and applications in the telecommunications sector.
Cooperation for standard-setting in Europe

In its brochure on the company’s European R&D activities Huawei discusses the EU eighth framework programme Horizon 2020 extensively and links it with its own ‘2020’ vision, while also formulating recommendations to the European Union (Huawei 2013). Regarding the ambitious ICT priorities highlighted by the Horizon 2020 programme Huawei advocates focusing on a number of areas, including 5G mobile networks, network services and functions and a cross-domain middleware for the Internet of Things. For the fifth mobile technology generation Huawei’s goal is to actively co-define standards and technologies and contribute to ecosystem development, allowing the company to develop a first-mover advantage. To achieve this the company started to invest in 5G R&D already in 2009.

The initial process of defining the next mobile standard, 5G, began around 2012/13, when among others the European Commission committed 50 million euros for research on 5G wireless technology. Huawei has been an active member of the EU project METIS (Mobile and wireless communications Enablers for the Twenty-twenty Information Society) from the start. The implementation of METIS involves overall eight work packages. Huawei’s European Research Centre in Munich is leading the research on the work package focusing on the new radio link concepts and design that the 5G technology requires (METIS 2013). The European Research Centre is also a key contributor to the 5G Infrastructure Public Private Partnership defined by the European Commission.

Huawei’s strategy is to closely work with policymakers, as well as regulatory standards and research institutions across Europe to push forward the research and standardisation agenda on 5G technology, as well as secure its involvement. Through various workshops, conferences, talks and reports the company is actively lobbying both publicly and in relation to specialist technical and industry communities. Huawei is active in the following EU projects: ARAGORN, FARAMIR, BONE, DICONET, CHRON, CONSERN, TREND, ULOOP, FI PPP – SmartAgriFood (SAF).

In 2015 the 5G innovation centre at the University of Surrey was established, with the additional investment of major telecommunication and electronics companies, such as Fujitsu, Vodafone, Samsung and Huawei. Huawei announced the investment of GBP 5 million for a test bed to be set up at the future 5G innovation centre.

Announcing the launch of the European Research Institute in Leuven, Belgium is Huawei’s most recent step to consolidate and further strengthen its cooperation with the European telecom industry and academia, as well as with policymakers and standardisation institutions in Europe. One of the main focuses of the future institute will be supporting Huawei’s various 5G projects under way in Europe.

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9. The METIS consortium comprises equipment vendors, telecommunication operators, car companies and academic organisations.
Conclusion

Huawei and ZTE provide insights into how Chinese companies have been able to become leading technology suppliers in highly competitive and technologically demanding industries. This should inform trade unions, policymakers and companies in Europe about China’s changing role in the global economy, and also about how to recognise possible threats from Chinese companies. Chinese companies increasingly are able to catch up with their competitors from Europe and worldwide. Investing in Europe such companies are interested in technical personnel and their expertise. With this they are becoming a stabilising element of the R&D capabilities in Europe, while integrating them further in the wider reaching global innovation networks of the ICT industry. Questions of labour conditions and labour relations need to be followed up in depth as this integration is driven by non-European investors.

Europe still has an important role in the telecommunications industry, especially in mobile networks. The newcomers Huawei and ZTE have increased competition and have left some European companies in a dire economic situation. However, their investments in Europe and their interest in cooperation, especially in the development of mobile communication standards, seems likely to solidify Europe’s role as a research and standard-setting location. But there are no guarantees.

The success of both companies is interesting with regard to business strategies as well as industrial policies. With their horizontally and vertically broad business strategies, which encompass all three major sectors of telecommunications equipment, as well as integrating components and mobile phones Huawei and ZTE have countered the widely held believe that technology companies need to focus on key markets and key competences. While they firmly rely on the industry standard (Lüthje et al. 2013) of vertical specialisation, outsourcing major parts of manufacturing, they have established a very broad set of technical, organisational and managerial capabilities that seem to be increasingly important. As network operators are facing rising competition and lower profit margins, Network Managed Services are increasingly becoming an important business model, in which equipment vendors are taking full responsibility for networks. Starting with planning, designing, building and operating a network for their customers, equipment companies also provide field maintenance as well as capacity and spare parts management. Additionally, the integration of wireless, wireline and IP-based networks is moving on. The Chinese equipment suppliers seem to be better prepared for these future markets than their Western competitors.

The case of Huawei and ZTE indicates the importance of integrated industrial policies, especially those that are extensive, integrated, foresighted and, in particular, adaptable. While neither company was in the initial technology acquisition focus of China’s industrial policy they profited in various ways from their existence. Most important, however, was the ability of policymakers to adapt quickly to the results of their policies, namely to the demise of the initially supported equipment companies and the rise of the new contenders. This should be a wake-up call for all policy stakeholders in the EU. First, as it shows that very direct industrial policies do work, even though sometimes they produce unintended results. Second, in an increasingly globalised economy China is
Table 2  Huawei’s R&D locations worldwide

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<tr>
<th>Region</th>
<th>Country</th>
<th>Location</th>
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<td>Asia</td>
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<td>Carrier network and enterprise businesses</td>
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Source: company information, author’s research.
upping the ante of political-economic development, thereby changing the conditions for competition. Finally, industrial policies make it possible not only to drive technological and economic development, but also the propagation of ‘decent work’, in other words, labour conditions and labour relations that are beneficial for broader social participation by equipping future policy instruments with clauses for social conditionality.

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Peter Pawlicki

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Chapter 2
China's cars and parts: development of an industry and strategic focus on Europe

Peter Pawlicki and Siqi Luo

1. Introduction

Initially, Chinese investments – across all industries in Europe – especially acquisitions of European companies were discussed in a relatively negative way. Politicians, trade unionists and workers, as well as industry representatives feared the sell-off and the subsequent rapid drainage of industrial capabilities – both manufacturing and R&D expertise – and with this a loss of jobs. However, with time, coverage of Chinese investments has changed due to good experiences with the new investors, as well as the sheer number of investments.

Europe saw the first major wave of Chinese investments right after the financial crisis in 2008–2009 driven by the low share prices of European companies and general economic decline. However, Chinese investments worldwide as well as in Europe have not declined since, but have been growing and their strategic character strengthening. Chinese investors acquiring European companies are neither new nor exceptional anymore and acquired companies have already gained some experience with Chinese investors.

The European automotive industry remains one of the most important investment targets for Chinese companies. As in Europe the automotive industry in China is one of the major pillars of its industry and its recent industrial upgrading dynamics. Many of China’s central industrial policy strategies – Sino-foreign joint ventures and trading market for technologies – have been established with the aim of developing an indigenous car industry with Chinese car OEMs. These instruments have also been transferred to other industries, such as telecommunications equipment. However, while the development of car manufacturers were at the centre of China’s industrial policies local automotive suppliers were mostly left out. This often resulted in the underdevelopment of supplier networks as the technological capabilities of Chinese suppliers lag far behind Chinese car OEMs.

In recent years, the internationalisation of automotive companies, of which the majority are state-owned and local state (province/municipal city)-owned – as well as of many other industries – has been a major goal of China’s central government’s ‘going abroad’ strategy, aimed at foreign markets, as well as knowledge sources that allow for technology acquisition. Chinese outward foreign direct investment (outward FDI) has both grown and changed considerably in the past decade. China became the third biggest outward FDI source worldwide in 2015, after the United States and Japan, while the investments of Chinese companies have become increasingly strategic (UNCTAD, WIR 2016).
Europe’s automotive sector has been the most active industry as both recipient and source of FDI in recent years. While Chinese investments are growing in number their volume is mostly smaller, as they often focus on smaller automotive suppliers. Since 2005, 51 Chinese investments have been documented in the European automotive sector, driven by the need for technology acquisition. To date, Chinese investments in the European automotive sector seem to have had positive effects on European operations as investment programmes were set up and labour relations did not deteriorate. However, one has to bear in mind that recent years have been characterised by dynamic growth in the automotive sector (Luo and Pawlicki 2016). However, only the next crisis will show how Chinese investors act during difficult times.

This chapter describes the development of the Chinese automotive industry, looking at its current overall structure and historical development with particular attention to government policies. The second part of the chapter looks at China’s outward FDI in general before moving on to a detailed analysis of China’s investments in Europe’s automotive industry.

2. China’s automotive industry

China has become both the world’s largest producer of and market for motor vehicles since 2009 (CAAM 2016: 7). The automotive industry has been one of the major pillars of the industrialisation driven by China’s central government since the 1950s. Thus the development of the automotive industry has been characterised by both central and local state-owned enterprises and very strong government ties. Both the development of manufacturing capabilities and technology acquisition, through Sino-foreign joint ventures, have been of central importance.

China’s automotive industry has a rather dispersed structure with a clear but relatively fluid hierarchy. For decades, the top three strategic players have been FAW (First Automotive Group Corporation), Dongfeng and SAIC (Shanghai Automotive Industry Corporation). By 2009, Changan Automobile had made it into the top four. However, after a series of mergers and restructurings, the relative strength among the top four has changed, while a few local automotive groups, such as BAIC (Beijing Automotive Industry Corporation) have moved upwards in terms of market share. The rapid growth of capacities and market shares of China’s automotive industry as a whole and especially those of its five major groups are closely connected to joint ventures and foreign investments.

In its strategy for developing a modern automotive industry in China the Chinese government has focused heavily on car makers and neglected automotive suppliers. Most Chinese automotive suppliers are highly dependent on the domestic market and have no stable position in the supply chains of global car OEMs. Many car makers in China purchase parts and components from multinational suppliers, as local suppliers lack the required technological capabilities.
In recent years China’s domestic market has become the most important outlet for both Chinese and foreign car makers. This development has been heavily supported by government policies. The EU crisis in the aftermath of the worldwide crisis of 2008 forced European car makers to develop offshore markets dynamically. China with its huge size and growth rates has provided possibilities for survival. China’s central government has also been actively encouraging the internationalisation of China’s automotive industry with regard to both the establishment of offshore markets and manufacturing operations as well as the development of R&D centres outside China for direct technology acquisition. Providing backing for investments and the acquisition of foreign companies is the latest step in this development.

The advent of the electronic vehicle era has opened opportunities for China’s automotive industry that have been supported by generous government policies since early on. Thus, China is playing a leading role in some of the most central technologies of this new industry, for example, battery technology.

The prevalence of large state-owned groups and their joint ventures, as well as their central role in China’s industrialisation have had positive effects on labour relations in the automotive industries. Trade unions and collective agreements exist at almost all car OEMs in China, with an organisation rate of nearly 99 per cent. Recently, the All-China Federation of Trade Unions was relatively successful in its effort to organise lower-tier auto parts suppliers. However, the role of unions in China is still problematic and not in accord with some of the core ILO international labour standards. From the perspective of wages, workers in the automotive industry are better off than most in China. However, there is a polarisation of wage levels along the supply chain, as well as between Sino-foreign joint-ventures and local companies.

2.1 History of the automotive industry in China

Since the 1950s the automobile industry has been perceived as one of the most important drivers of the modernisation of China’s industrial base. China’s central government, as well as numerous provincial governments, have been eager to invest heavily in car manufacturing to show the strength of national industrialisation and also to make use of the industry’s long value chain that can facilitate the development of many and various firms and industrial capabilities and with this, a large number of jobs.

In the early 1950s, the Soviet Union strongly supported China in the establishment of modern truck factories. In July 1953, FAW began construction in Changchun city. In the 1960s, a number of car producers came into existence in Nanjing, Shanghai, Beijing and Jinan, and special-purpose vehicles, such as military trucks, civil fire engines and ambulances, were put into mass production. In 1964, the state decided to develop utility vehicle factories in third-tier cities. Thus, the Second Automotive Works (now Dongfeng Motor Corporation), as well as the Sichuan and Shanxi automotive factories were built. In this era, local factories all copied the models and products of national factories.
Since 1981, economic reform policies have led the automotive industry into an unprecedented development. The industry focus shifted from heavy vehicles to passenger cars and other light vehicles and reforms facilitated the increasing development of new models. In 1998, China ranked No. 10 in the world with an annual production of 1.628 million vehicles and No. 1 in producing motor cycles. China has been able to independently develop different automotive products to different degrees. However, passenger cars were an exception, as here the development of indigenous capabilities lagged behind.

One of the main characteristics of the Chinese automotive industry is that in the past three decades foreign investors and companies have played a vital role. In 1983 the first joint venture – Beijing Jeep – was established between BAIC and American Motors Corp. VW was another early foreign investor in China, setting up a joint venture with SAIC in October 1984, far earlier than other car markers (for example, GM came long only as late as 1997). By the end of 1998, companies from more than 20 countries had established more than 600 foreign-invested automotive enterprises with an investment of 20 billion USD, which accounted for more than 40 per cent of automotive industrial capital (Xu 2003).

This development went far beyond the initial ‘3+x’ plans of the Chinese government, in terms of which the three automotive groups – FAW, Dongfeng and SAIC – were at the centre of international cooperation, with another nine smaller auto producers, such as Guangzhou-Honda. FAW established joint ventures with Volkswagen and Toyota, Dongfeng with PSA and Nissan, and SAIC with GM and Volkswagen. For a long time, the strategic automotive groups of the Chinese government were focused on setting up Sino-foreign joint ventures rather than developing capabilities in car making, due to the lack of independent well-known brands and research capabilities (Xu 2003). In the early 2000s, the joint ventures between global players and China controlled more than 95 per cent of the market in China. Sino-foreign joint ventures are heavily regulated; foreign companies are permitted no more than 50 per cent of shares and their cooperation with Chinese car makers is limited to two.

2.2 Current structure of the automotive industry in China

In 2015, the top five auto groups in China were ranked as follows: SAIC, Dongfeng, FAW, Changan and BAIC. SAIC ranked No. 1 by selling 5.86 million vehicles, while Dongfeng, No. 2, sold 3.87 million. Among the top five, FAW and Dongfeng are directly owned by the central government, Changan belongs to a military group – China North Industries Group Corporation – while SAIC and BAIC are locally-owned public enterprises. Following these five largest groups, there are GAC (Guangzhou Automobile Group), Brilliance Auto, Great Wall, JAC and Geely Auto. As a whole, the top five accounted for 72.5 per cent of the market in 2015 and the top 10 for 89.5 per cent (CAAM 2016: 26).

Geographically, several industrial clusters have developed, centred around the factories of China’s six major auto groups. Northeast China, centred on Changchun city, has historically been the key auto industrial base. Currently the Beijing-Tianjin-Hebei area...
is growing rapidly. The Yangtze River Delta is the largest auto production site, although slower growth is expected in the future. The Pearl River Delta was dominated by Japanese car makers in the first decade of the century. Since 2013, however, the FAW-VW Foshan factory has become the first Chinese-German joint venture in this region. Along the Yangtze River, domestic brand-name auto makers are concentrated, such as Chery, Jianghuai and Changhe. Hubei province in the mid-stream has established a cluster that connects Wuhan, Xiangyang and Shiyan cities. The next provinces – Hunan and Anhui – have also built up their own clusters. Finally, Chongqing and Sichuan province are located in the upstream of Yangtze River Delta, where the most rapid development has been seen in the past decade. Sichuan has attracted FAW-VW, FAW-Toyota, Volvo and Geely to produce in Chengdu.

Figure 1  Car manufacturing in China, by region

Source: own elaboration.
The majority of car manufacturers focus on small- and mid-sized vehicles, such as passenger cars, buses, carriers and special purpose vehicles; mid-sized vehicles account for 77 per cent of the industry, while the share of small-sized vehicles is 18 per cent. Only about 5 per cent of enterprises make large-sized vehicles, but the proportion is increasing.

With regard to ownership, about 48 per cent of all auto companies were privately-owned in 2013. However, most were small- or medium-sized companies, with total capital assets that account only for 13 per cent of the entire industry. Foreign-invested companies, including Chinese-foreign joint ventures, on the other hand, have a share of below 23 per cent in China’s automotive industry, but their total assets add up to 40.39 per cent.

2.2.1 Car makers

Five auto groups – FAW, SAIC, Dongfeng, Changan, and BAIC – dominate China’s automotive industry. Between 2009 and 2012 restructuring and mergers under the instructions of central government reduced the number of car makers by about 10 per cent, but employment numbers grew. While concentration has been taking place, a further geographical spread is occurring. With the exception of three provinces – Tibet, Qinghai and Ningxia – all provinces and municipal cities have their own car factories. However, market share is highly concentrated. In 2015, more than 72.5 per cent of the market belonged to the top five producers. A few local auto groups and private Chinese producers are responsible for about 20 per cent. The current problem of China’s automotive industry is thus rather the huge number of factories than overcapacity.1

In 2013, foreign-invested car makers accounted for 25.9 per cent of total enterprises with capital of 95.7 billion yuan. In terms of numbers of enterprises, privately-owned enterprises ranked second, with 18.7 per cent of total enterprises, but with only 5.39 billion yuan of capital. On the other hand, state-owned and stock share enterprises were few but very large, with capital of 51.3 billion and 60.6 billion yuan. Although Chinese brands have made some progress, there were none in the top 10 selling models in 2015.

2.2.2 Parts and components suppliers

China is home to 12,090 automotive suppliers. Their sales in 2014 and 2015 were less than the total of the 480 car makers but the supplier sector grew much faster, at 8.3 per cent compared with the 1.7 per cent achieved by car makers. Privately-owned suppliers constitute the majority in terms of numbers of enterprises, but they are mostly small-sized and produce few products. These suppliers are highly dependent on the domestic market and have no stable connections with global supply chains. Many suppliers belong to Chinese car makers and became fully-owned subsidiaries during the restructuring of state-owned enterprises. Independent suppliers are mostly either foreign owned or private.

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1. Sohu auto, It is not capacity that are excessive in the Chinese automotive industry but the number of factories, May 2013. http://www.cvworld.cn/news/sycnews/sector/130517/65315.html
Historically, China’s central government has focused its policy tools largely on car makers and almost entirely neglected suppliers. Thus many car makers in China purchase parts and components from multinational suppliers. Foreign-invested suppliers are leading both in market share, at 50 per cent, and technological capabilities. In particular in the mid- and top-end market, foreign-invested suppliers obtain more than 70 per cent of the profits.\(^2\)

Centred on or close to the major car makers, six supplier clusters and 11 national-level auto parts and components export bases have formed. Jiangsu province ranked No. 1 in the parts supplying sector with 13 auto parts industrial parks. Although Jiangsu only ranks seventh in terms of car manufacturing capacity, it is a strategic supplier to Shanghai. Except for the Shanghai and Jiangsu areas, no supplier clusters have developed in the vicinity of car makers, which is especially problematic in newer industrial bases such as Guangzhou.

2.3 Central government policies

China’s huge investment over time and favourable policies since the economic reform have substantially favoured the growth of its automotive industry. Until the late 1970s the building of automotive factories was a major focus of the country’s Five-Year Plans,\(^3\) while auto- and mechanical-related majors in universities were set up and investments were directed to research institutes and industrial standards. Before China’s accession to the WTO in 2001 policies that supported technology acquisition and the development of independent R&D, as well as the internationalisation of local producers through tax concessions, high tariffs and import quotas on cars and parts were the government’s focus.

China’s state-owned automotive groups were the major recipients of government support in form of policies, capital, and new product approvals. In 1986, the Seventh Five-Year Plan clearly positioned the automotive industry as a pillar industry of China, and put forward quality and mass production as the main targets.\(^4\) The state began to encourage individuals to purchase cars.\(^5\)

As early as 1978 a report developed the idea of foreign technology acquisition based on the principle of ‘trading market for technology’.\(^6\) The central government intended to use complete-knocked-down (CKD) production as an instrument of technology acquisition and absorption to develop independent R&D capabilities and create their


own brands.\textsuperscript{7} This opened up the Chinese market for foreign car manufacturers that started to establish Sino-foreign joint ventures in the following years. In 1994 the Automotive Industrial Policy encouraged auto enterprises to make use of foreign capital to develop the industry. This was the turning point for joint ventures and cooperative models. The tenth Five-Year Plan in 2000 continued to promote individual car-purchasing and developed the ‘going abroad’ strategy that helped Chinese companies to internationalise.\textsuperscript{8}

In 1991, the State Council set the export target for mechanical and electronic products to account for 20 per cent of all exports by the end of the Eighth Five-Year Plan.\textsuperscript{9} It also stipulated that cars and parts were the focus and enterprises should try to gain access to North American and western European markets. The main policies included support for technological improvement of exporting enterprises, favourable investment in the local economic plan, gradually increasing medium- to long-term loans with discounts if advisable and providing foreign trade education to talented students. During the ninth Five-Year Plan, tax policies and simplified procedures were the key to encouraging local auto producers to export.

In recent years technological innovation and domestic market share have become the key focus for the traditional automotive industry, whereas the sustainability strategy initiated the new direction of developing new-energy and energy-saving vehicles. In particular, as the high tariff policies for imported cars and auto parts were phased out after China’s entry to the WTO in November 2001, domestically-manufactured cars had to reduce their prices.\textsuperscript{10}

The 2004 State Council’s Automotive Industry Development Policy again emphasised its role as a pillar of the national economy, highlighting the importance of technology development through technology acquisition and the development of independent R&D capabilities. Moreover, in terms of development strategy, the Chinese government encouraged automotive enterprises to form corporation groups through strategic restructuring and make efforts to develop independent patents and brands.

The introduction of foreign technologies and the development of independent patents and brands have become the central focus of development as the Chinese government aims to upgrade the entire industry base. Privately-owned companies have been encouraged to attract foreign investment by the Ministry of Commerce since 2005. In 2006 the State Council announced support for the introduction of advanced

\textsuperscript{9} The National Development and Reform Commission (NDRC) is a specialised department in the State Council. In general, the State Council sets the direction and supervises macro-level policies, whereas the NDRC carries out research and concrete tasks such as drafting economic and social development policies.
\textsuperscript{10} By July 2006, the tariff on cars was reduced to 25 per cent and for parts and components to 10 per cent. When the terms of WTO entry were negotiated, China bought some time for the automotive industry at the expense of agriculture and other sectors. In consequence, China postponed cancelling official certificates and reducing tariffs for imported cars to 2005.
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technologies, key equipment and parts, as well as technology absorption. Moreover, procedures for offshore investments were simplified and funds allocated from the national foreign trade development fund to support R&D on products and technological innovation, in addition to more loans and tax refunds.

After the global financial crisis 2009, the market focus shifted more to the domestic side. With its Automotive Industry Adjustment and Revitalisation Plan the State Council helped to develop domestic demand by lowering restrictions on and the cost of car purchases. At the same time, the restructuring of the industry continues to be on the policy agenda. The 2009 plan encouraged the Big Four to acquire smaller enterprises nationwide, while promoting some leading parts and components companies to expand through mergers and restructuring in order to increase their market share, both internationally and domestically.\textsuperscript{11} The Ministry of Industry and Information announced in 2009 that new operating facilities must be built on the basis of mergers and takeovers of existing automotive enterprises and reported to the provincial-level governments and above.\textsuperscript{12} In order to improve China’s innovation environment new policies that raise intellectual property protection in the automotive industry have been introduced.\textsuperscript{13}

The 2004 ‘Regulations on the issues regarding investment on enterprises abroad’\textsuperscript{14} set detailed rules on how Chinese companies are to establish new overseas firms, or merge, takeover, buy shares in or invest in existing foreign companies. In 2014, the ‘Management methods concerning the approval of and reporting on investment projects overseas’\textsuperscript{15} named the National Development and Reform Commission as the main regulatory body for all projects worth more than 1 billion USD. Smaller projects are regulated by provincial-level governments. Additionally, since 2010, the requirements and procedures with regard to ‘going abroad’ were reduced and simplified continuously.\textsuperscript{16}

In its 2015 guidance the State Council encouraged offshore investments by domestic independent car brands in developing countries in order to export cars and parts of independent Chinese brands. With regard to Europe and North America the State

\textsuperscript{11.} Central government website, Plan of adjusting and renewing the automotive industry (汽车产业调整和振兴规划), March 2009. http://www.gov.cn/zengche/content/2009-03/20/content_8121.htm


\textsuperscript{13.} Central government website, State Council’s Announcement of special actions on punishing violations of intellectual properties and selling fake commodities (国务院办公厅关于印发打击侵犯知识产权和制售假冒伪劣商品专项行动方案的通知), Nov. 2010. http://www.gov.cn/zengche/content/2010-11/07/content_5469.htm

\textsuperscript{14.} Central government website, Regulations on approvals of overseas investment and establishment of enterprises (关于境外投资开办企业核准事项的规定), Nov. 2006. http://www.gov.cn/fwzx/bw/swb/content_447509_2.htm


\textsuperscript{16.} Central government website, Announcement on overseas guarantee management by domestic organisations (关于境内机构对外担保管理问题的通知), July 2010. http://www.gov.cn/gzdt/2010-07/30/content_1668261.htm; State Council’s Announcement on the opinions of the NDRC and other departments on facilitating international cooperation and nurturing new competitive advantages (国务院办公厅转发发展改革委等部门关于加快培育国际合作和竞争新优势指导意见的通知-国办发〔2012〕32号), June 2012. http://www.gov.cn/zwgk/2012-06/01/content_2151106.htm
Council encouraged the setting up of automotive technological and engineering R&D centres to support the development of Chinese R&D capabilities.\(^{17}\)

Recently, energy-saving and new energy vehicles have become a focal point of China’s automotive industry. Already the Eighth Five-Year Plan (1991–1995) named ‘Research on the key technologies of electric vehicles’ as a key project. Since 2001, the Chinese government has been actively promoting these new fields with large investments. The Tenth Five-Year Plan set up a 950 million yuan R&D fund to develop the foundations for three car assembly technologies – pure EV, hybrid plug-in vehicles, and fuel cell vehicles – as well as three key parts and components technologies (multiple-energy motor drive control system, electric motor and control cell system, and power battery and battery management system). In this process, the Big Six Chinese car makers have taken leading positions in cooperation with key parts and components suppliers and with research institutes and universities. Huge and costly pilot projects have promoted new energy vehicles since 2009 in 13 cities, such as Beijing, Shanghai and Chongqing.\(^{18}\) Clear standards on the production and entry requirements were set, while large subsidy funds were created that aimed at whole cars, as well as components.

The new sectors provide opportunities for China’s automotive industry that are unparalleled in the traditional automotive sector and have already seen major successes; for example, Chinese suppliers have become world leaders in lithium batteries R&D. As for major components such as electric motors and control systems, China has a relatively mature and fairly competitive sector.

Traditional leading car makers play an important role in the development of China’s new automotive sector. However, they often cooperate with high-tech companies that provide key technologies in battery, electric motor and electric control systems. The same strategy has been adopted by traditional parts and component suppliers. However, also another type of brand-new car maker, such as BYD, has emerged. BYD was a mobile-phone battery producer which accounted for 50 per cent of the market niche worldwide. Since 2003, BYD has entered the car manufacturing business and has focused on lithium batteries for electric vehicles.

3. **Chinese overseas investments**

China’s foreign investment activity started in the late 1990s, mainly in Latin America, Africa and other emerging markets. Supported by the central government’s ‘go abroad’ strategy, which sought to raise overall competitiveness and boost the long-term upgrading of economic development, while providing a secure supply of raw materials, major Chinese state-owned enterprises and private firms started to invest in foreign markets and acquire foreign companies.

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\(^{17}\) Central government website, State Council’s Guidance on the promotion of international cooperation of capacity and equipment manufacturing (国务院关于推进国际产能和装备制造合作的指导意见-国发〔2015〕30号). http://www.gov.cn/zhengce/content/2015-05/16/content_9771.htm

As China's outward FDI flows grew they shifted towards financial and technology-oriented acquisitions and focused increasingly on the United States and Europe. During the 2008 financial crisis Chinese investments surged in Europe and their level has not receded since then, with most investments going into the energy and automotive sectors. Chinese investments have gradually started to focus on Europe as a source of technology to support China's upgrading process, investing also in greenfield R&D centres.

While Chinese companies are investing in the automotive sector in Europe, the region with most merger and acquisition activity, most mergers and acquisitions in this sector are by US and European companies. Most Chinese investments in the automotive sector have focused on suppliers. By early 2016, 51 acquisitions by Chinese investors had been documented in the European automotive sector, with suppliers and Germany as the main focus. Chinese investors are interested in technological expertise, brand value and easier entrance into the global supply chains of leading car OEMs.

### 3.1 Development of Chinese outward FDI in the automotive industry

In 2014 in the automotive industry the first rise in merger and acquisition volume in years was registered. However, the deal volume has not yet reached pre-crisis level. Of the overall 542 deals in 2014, 181 were worth a total of USD 38.7 billion. PWC (2015) reports that in 2014 the average disclosed deal value was the highest since 2009. Of these 181 disclosed deals six had a value greater than USD 1 billion and 37 a value between USD 100 million and USD 1 billion. Out of the top 20 deals only two were international deals involving Chinese companies. Dongfeng Motor’s acquisition of 14 per cent of PSA Peugeot Citroen had a value of 800 million euros and AVIC’s purchase of Hilite International was worth 473 million euros.

In recent years Europe has been the most active region as both acquirer and target (PWC 2015). Europe was the target of an average of 41 per cent of all merger and acquisition deals between 2009 and 2014. Most of the automotive industry’s merger and acquisition deals take place in Europe and the major share of them is local. However, Europe also saw the largest number of inbound deals, pointing to the fact that companies from Europe are interesting acquisition targets for international industry players.

From a segment perspective, European automotive suppliers are also the most interesting group of companies worldwide. In 2013 North American and European suppliers were the main targets of acquisitions, representing 67 per cent of all deals. With 36 per cent of all deals in 2013 automotive suppliers from Europe continued to be the main target of acquisitions. However, suppliers from both regions are also the most active buyers with 32 per cent and 30 per cent, respectively, of all transactions originating from North American and European companies in 2013. Companies from North America were able to overtake European suppliers as buyers for the first time since 2008. Chinese companies slowed down their acquisition activities in 2013, dropping from 10 per cent of deals to 5 per cent (PWC 2014).
However, while Chinese suppliers slowed their international acquisitions they continued with their investment programmes. Chinese suppliers have been investing most in CAPEX for several years and with 13 per cent had the biggest growth rate worldwide in 2013. As their growth was double that of Chinese automotive OEMs, they have gained global market share.

3.2 Chinese investments in the European automotive sector

The European automotive industry has seen considerable investments, especially by private equity companies. In the direct aftermath of the 2008 crisis an upsurge in this type of investment took place, particularly at supplier level. A significant share of European automotive companies acquired by Chinese investors were owned by private equity firms – out of the 51 documented acquisitions, Chinese investors bought at least 15 from private equity firms (Table 1). Private equity investors tend to focus on debt-leveraged short-term gains, loading the acquired company with a huge financial burden that they subsequently have to repay. This is often accompanied by low investment and pressurising workers through lay-offs, wage reductions and deterioration of labour relations. Acquisition by an investor with long-term goals and a heightened sensitivity to public perceptions of its management style, however, can have positive consequences in terms of both investment and labour relations. On the latter issue, because Chinese management is often not acquainted with the European model of labour relations – based on democratic and authentic worker representation and co-determination, albeit varying from country to country – the handling of unions, works councils and worker representatives is uncertain.

A total of 40 acquisitions of automotive suppliers and 11 acquisitions of car OEMs were documented in Europe between 2005 and 2016 (Table 1). While the United Kingdom saw the biggest number of acquisitions of car OEMs by Chinese investors – MG Motors, Manganese/London Taxi and Emerald Automotive – these companies are small and produce for niche markets. The two biggest takeovers of car OEMs in the European automotive sector were Geely’s 2010 acquisition of Volvo and the 2012 takeover of Saab by NEVS, a Swedish company owned by Chinese investors. Although both European companies are smaller OEMs they are of considerable size and known for their engineering and technology leadership. The latest Chinese investment in a European car OEM is Dongfeng Motor’s acquisition of a 14 per cent stake in PSA Peugeot Citroën in 2014. Also in 2014 the Chinese State Administration of Foreign Exchange took a 2 per cent stake in FIAT.

Germany is the most important European location for Chinese automotive investments regarding number of acquisitions. All of the 32 documented acquisitions in Germany involved automotive suppliers (Table 1). While most takeovers in Germany were relatively small, well below 100 million euros, ZF Gummi & Kunststoff, KSM Castings and Hilite International were of much bigger value at 290 million, 300 million and 473 million euros, respectively. Hilite’s acquisition by AVIC Mechanical & Electrical

19. Financial buyers have a consistent share in the merger and acquisition activity of the automotive industry; their share rose to 78 per cent of total value and 31 per cent of total volume in 2009 (PWC 2012).
Systems was the eleventh biggest acquisition in the automotive industry in 2014 (PWC 2015). The biggest acquisition in Germany's automotive sector to date was reported at the beginning of 2016, with ChemChina acquiring chemical-process (plastics/rubber) machine builder KraussMaffei. However, in 2016 this deal was trumped by Midea’s take over of Kuka, a supplier of robots. This deal was considered so strategic that the German government tried to drum up a counteroffer by a German corporation, but failed to do so.

While German car OEMs and leading tier-1 automotive suppliers are huge groups, too big for a direct takeover by Chinese investors, the Mittelstand characteristic of most parts of Germany’s automotive sector allows a relatively easy entry. Many Chinese investors in Germany are parts of huge conglomerates, often market leaders and predominantly state owned.

However, the biggest acquisition took place in Italy in 2015 when China National Tire & Rubber, a division of National Chemical Corporation (ChemChina), announced the acquisition of Pirelli. At 7.1 billion euros this was the fifth biggest outbound investment by a Chinese state-owned enterprise to date. Additionally, the future Chinese owner announced it was planning to take Pirelli private.

Most press releases on and independent analyses of the various acquisitions underscore three main aims on Chinese investors’ agendas. First, Chinese companies are interested in the technology and know-how in the acquired European OEM or supplier. While the investors often already have a considerable market size, their products more often than not lack leading-edge technologies and quality assurance systems. Directly connected to this is the second goal, as Chinese investors are interested in the additional acquisition of brand names. Both central aims culminate in the strategic focus of being able to enter the global supply chains of leading Western car OEMs, while also enabling the upgrading of Chinese OEMs with leading-edge components.

Looking at the documented acquisitions from a Chinese perspective only four companies stand out with more than one acquisition in Europe. Ningbo Huaxiang Electronics has acquired six automotive suppliers in Europe, while Joyson Electronics has acquired five, Anhui Zhongding Group four and AVIC Electromechanical Systems three. All four suppliers have focused their acquisitions on suppliers that would provide them with capabilities in one of their major business operations. Geely and SAIC, on the other hand, do not exhibit a specific focus in their acquisitions. However, Geely has been consistent; this relatively small Chinese car OEM has acquired three European car OEMs. ChemChina is responsible for the two biggest acquisitions – Pirelly and KrausMaffe – its investments totalling around 8 billion euros.
Conclusion

For the past few decades China's automotive industry has found itself at the centre of the country's industrial development, upgrading and technology acquisition strategies. Some of the most central industry policy instruments, such as the ‘trading market for technology’ strategy, were developed for the automotive industry and only later spread to other industrial branches (Pawlicki 2016). However, industrial policies in China focused mainly on advancing local car makers, leading to an uneven development within the automotive value chain, as Chinese automotive suppliers lack technological capabilities and economic strength. Only recently have both local and national policies started to target suppliers.

The primary problem with China's automotive industry is its lack of independent research and development capabilities. The government has made great efforts to enable the industry to absorb foreign technologies, putting a heavy focus on joint ventures as the vehicle for technology acquisition. However, this has driven domestic companies to focus on developing their manufacturing expertise and operations, while keeping them heavily dependent on their foreign joint venture partners' technologies. Their incentive to develop their own research capabilities was thus small. Furthermore, many technologies provided by foreign companies were out of date, from a world market perspective. China's central government has not developed an environment supportive for local automotive R&D. For Chinese automotive suppliers this problem has been aggravated by their general underdeveloped status.

In recent years Chinese companies have been searching for new possibilities to acquire technologies that would allow them to upgrade towards a technology and innovation based market position. Chinese outward FDI has increasingly become a tool for the country’s industrial policy aimed at a medium- to long-term upgrading of its industrial base. This has led to a shift in China's investments from natural resources and US government treasuries towards financial and technology-oriented acquisitions, while moving away from Latin America and Africa towards North America and Europe.

Chinese investments in the European automotive sector are strategic investments that target the particular company’s technological and/ or process expertise and development capabilities, business and supply chain position and brand. The strategic focus of some Chinese investors goes well beyond a single company as acquired capabilities seem to be used for local industrial upgrading strategies in China. As long as no substantial crisis interrupts the dynamic growth path of China’s automotive industry it is likely that the number and volume of outward FDI in this sector will grow in the coming years.

The strategic character of Chinese investments translates into a careful preservation of local - European - resources and capabilities. Manufacturing, engineering and managerial resources are kept in Europe and the feared rapid drainage of resources has failed to materialise. European resources are used to build up capabilities in China through knowledge absorption and learning processes. Chinese investors have a positive attitude towards investments and a long-term orientation. Coupled with the strategic perspective on European operations this leads to investments in European operations
that are long overdue. There are already reports that show that management in Europe often does not change substantially after an acquisition by a Chinese company. Either existing executive management teams are kept in place or other experienced management personnel from Europe has been hired. While Chinese investors give European operations relative autonomy, they exercise control through financial targets (Luo and Pawlicki 2016).

With this the medium-term development of Europe’s automotive industry, as location for both R&D and manufacturing, seems not to be threatened by Chinese investments but rather to benefit from them. Chinese companies help to provide much needed investments for mid-sized suppliers that have been hit hardest by the increasing restructuring of supply chains by car OEMs. Both the already realised and announced investments of Chinese investors in the European automotive suppliers, as well as the highly developed regional supply chains are a medium-term guarantee for manufacturing and R&D resources in this region. Knowledge and expertise on processes, products, security and technology located in European companies and supply chains are too valuable to be put at risk by Chinese companies. Chinese investors seem to understand fully the close relationship between R&D and manufacturing, which will stabilise resources in Europe at least for the medium term.

New research also suggests that the current increasingly recursive internationalisation of both manufacturing and R&D will help to strengthen the position of at least some manufacturing capabilities and operations in Europe (Herrigel 2015). Internationalisation has moved beyond the simple search for low-cost locations and hierarchical centre-periphery relations towards a much more open structure regarding knowledge flows, where locations on the periphery are enabled to contribute to production process development equally. This evolving new internationalisation is based on processual and recursive knowledge exchange that is in part based on a spatial coupling between manufacturing and R&D. In this newly developing global production networks’ manufacturing capabilities will be kept in high-cost locations to enable R&D and innovation dynamics, especially for the process level.

However, going beyond the current characteristics of the global automotive industry and its central technology, the combustion engine, China’s car manufacturers and suppliers have been able to develop a technology leadership in central components of the EV industry. Coupled with China’s aggressive industrial policies towards the development of EV and autonomous driving this can lead to a medium-term shift in the power structures of global automotive supply chains.
## Table 2  
**Acquisitions by Chinese investors in the European automotive industry**

<table>
<thead>
<tr>
<th>Years</th>
<th>Company</th>
<th>Country</th>
<th>Industry position</th>
<th>Investor</th>
<th>Ownership</th>
<th>Value of transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>MG Motor</td>
<td>UK</td>
<td>OEM</td>
<td>SAIC</td>
<td>SOE</td>
<td>GBP 53 million</td>
</tr>
<tr>
<td>2006</td>
<td>Lawrence Co.</td>
<td>UK</td>
<td>Supplier</td>
<td>Ningbo Huaxiang Electronic (NBHX)</td>
<td>Private</td>
<td>GBP 3.4 million</td>
</tr>
<tr>
<td>2009</td>
<td>Schmitter</td>
<td>Germany</td>
<td>Supplier</td>
<td>Anhui Zhongding Group</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Jaguar Land Rover's interior production facility</td>
<td>UK</td>
<td>Internal supplier</td>
<td>Ningbo Huaxiang Electronic (NBHX)</td>
<td>Private</td>
<td>GBP 15 million</td>
</tr>
<tr>
<td>Volvo</td>
<td>Sweden</td>
<td>OEM</td>
<td>Zhejiang Geely Holding Group and Daqing city government</td>
<td>Private</td>
<td>US$ 1.5 billion</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Saargummi</td>
<td>Germany</td>
<td>Supplier</td>
<td>Chongqing Light Industry &amp; Textile (CQLT)</td>
<td>SOE</td>
<td>€68 million</td>
</tr>
<tr>
<td>Preh</td>
<td>Germany</td>
<td>Supplier</td>
<td>Joyson Electronics</td>
<td>Private</td>
<td>€19 million</td>
<td></td>
</tr>
<tr>
<td>Sellner new name: NBHX Trim</td>
<td>Germany</td>
<td>Supplier</td>
<td>Ningbo Huaxiang Electronic (NBHX)</td>
<td>Private</td>
<td>€300 million</td>
<td></td>
</tr>
<tr>
<td>KSM Castings</td>
<td>Germany</td>
<td>Supplier</td>
<td>Citic Dicastal Wheel Manufacturing (CITIC Group)</td>
<td>SOE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inalfa</td>
<td>Netherlands</td>
<td>Supplier</td>
<td>Beijing Hainachuan Automotive Parts (BHAP) – auto parts group of BAIC</td>
<td>SOE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Saab</td>
<td>Sweden</td>
<td>OEM</td>
<td>NEVS</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>Kiekert</td>
<td>Germany</td>
<td>Supplier</td>
<td>— Hebei Lingyun Industrial, part of China North Industries Corporation (NORINCO) — Henan North Xingguang Machinery and Electric — Tianjin Investment</td>
<td>SOE</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Buzuluk</td>
<td>Czech</td>
<td>Supplier</td>
<td>— Dalian Rubber &amp; Plastics Machinery — Tianjin Machinery Import &amp; Export Corporation</td>
<td>SOE</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Tailored Blanks</td>
<td>Germany</td>
<td>Supplier</td>
<td>Wuhan Iron and Steel (Wisco)</td>
<td>SOE</td>
<td></td>
</tr>
<tr>
<td>HIB Trim Part Solutions</td>
<td>Germany</td>
<td>Supplier</td>
<td>Ningbo Huaxiang Electronic (NBHX)</td>
<td>Private</td>
<td>€34 million</td>
<td></td>
</tr>
<tr>
<td>Innoventis</td>
<td>Germany</td>
<td>Supplier</td>
<td>Preh – subsidiary of Joyson Electronics</td>
<td>Private</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Table 2  
**Acquisitions by Chinese investors in the European automotive industry (cont.)**

<table>
<thead>
<tr>
<th>Years</th>
<th>Company</th>
<th>Country</th>
<th>Industry position</th>
<th>Investor</th>
<th>Ownership</th>
<th>Value of transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>ZF Gummi &amp; Kunststoff New name: Boge Rubber &amp; Plastics</td>
<td>Germany</td>
<td>Supplier</td>
<td>Zhuzhou Times New Material Technology (TMT) – main owner China South Locomotive &amp; Rolling Stock (CSR)</td>
<td>SOE</td>
<td>€290 million</td>
</tr>
<tr>
<td></td>
<td>I&amp;T</td>
<td>Austria</td>
<td>Supplier</td>
<td>Changzhou Xinggyu Automotive Lighting</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PSA Peugeot Citroën Hilite International</td>
<td>France</td>
<td>OEM</td>
<td>Dongfeng Motor Group Aviation Industry of China (AVIC) Electromechanical Systems</td>
<td>SOE</td>
<td>€800 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Germany</td>
<td>Supplier</td>
<td>Aviation Industry of China (AVIC) Electromechanical Systems</td>
<td>SOE</td>
<td>€473 million</td>
</tr>
<tr>
<td></td>
<td>KACO</td>
<td>Germany</td>
<td>Supplier</td>
<td>Anhui Zhongding Group</td>
<td>Private</td>
<td>€64 million</td>
</tr>
<tr>
<td></td>
<td>Kokinetics</td>
<td>Germany</td>
<td>Supplier</td>
<td>Aviation Industry of China (AVIC) Electromechanical Systems</td>
<td>SOE</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Koki Technik</td>
<td>Germany</td>
<td>Supplier</td>
<td>Aviation Industry of China (AVIC) Electromechanical Systems</td>
<td>SOE</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IMA Automation</td>
<td>Germany</td>
<td>Supplier</td>
<td>Preh – subsidiary of Joyson Electronics</td>
<td>Private</td>
<td>€20 million</td>
</tr>
<tr>
<td></td>
<td>Schumag</td>
<td>Germany</td>
<td>Supplier</td>
<td>Meikai Group/Meibah Precision Machinery</td>
<td>Private</td>
<td>€2.8 million</td>
</tr>
<tr>
<td></td>
<td>Nedschroef</td>
<td>Netherlands</td>
<td>Supplier</td>
<td>Shanghai Prime Machinery Company (PMC)</td>
<td>SOE</td>
<td>€325 million</td>
</tr>
<tr>
<td></td>
<td>Emerald Automotive</td>
<td>UK</td>
<td>OEM</td>
<td>Zhejiang Geely Holding Group</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Borgward</td>
<td>Germany</td>
<td>OEM</td>
<td>Foton (BAIC)</td>
<td>SOE</td>
<td></td>
</tr>
</tbody>
</table>
Table 2  
**Acquisitions by Chinese investors in the European automotive industry (cont.)**

<table>
<thead>
<tr>
<th>Years</th>
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<th>Investor</th>
<th>Ownership</th>
<th>Value of transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Wagu</td>
<td>Germany</td>
<td>Supplier</td>
<td>Anhui Zhongding Group</td>
<td>Private</td>
<td>US$ 107.4 million</td>
</tr>
<tr>
<td></td>
<td>Waldaschaff Automotive</td>
<td>Germany</td>
<td>Supplier</td>
<td>Hebei Lingyun Industrial, part of China North Industries Corporation (NORINCO)</td>
<td>SOE</td>
<td>€2.2 billion</td>
</tr>
<tr>
<td></td>
<td>Quin</td>
<td>Germany</td>
<td>Supplier</td>
<td>Joyson Electronics</td>
<td>Private</td>
<td>€90 million</td>
</tr>
<tr>
<td></td>
<td>Pirelli</td>
<td>Italy</td>
<td>Supplier</td>
<td>China National Tire &amp; Rubber, a division of China National Chemical Corp (ChemChina)</td>
<td>SOE</td>
<td>€7.1 billion</td>
</tr>
<tr>
<td></td>
<td>DeCon GmbH</td>
<td>Germany</td>
<td>Supplier</td>
<td>Ningbo Huaxiang Electronic (NBHX)</td>
<td>SOE</td>
<td>€2.2 billion</td>
</tr>
<tr>
<td></td>
<td>De Tomaso</td>
<td>Italy</td>
<td>OEM</td>
<td>Ideal Team Venture Limited</td>
<td>Private</td>
<td>€1.5 million</td>
</tr>
<tr>
<td></td>
<td>Wiederholt</td>
<td>Germany</td>
<td>Supplier</td>
<td>Anhui Zhongding Group</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>KraussMaffei</td>
<td>Germany</td>
<td>Supplier</td>
<td>China National Chemical Corporation (ChemChina), Guoxin International Investment Corporation, AGIC Capital</td>
<td>SOE</td>
<td>€925 million</td>
</tr>
<tr>
<td></td>
<td>Kuka</td>
<td>Germany</td>
<td>Supplier</td>
<td>Midea</td>
<td>SOE</td>
<td>€4.6 billion</td>
</tr>
<tr>
<td></td>
<td>SHW</td>
<td>Germany</td>
<td>Supplier</td>
<td>Anhui ARN Group</td>
<td>SOE</td>
<td>€130 million</td>
</tr>
<tr>
<td></td>
<td>Dürr / Ecoclean</td>
<td>Germany</td>
<td>Supplier</td>
<td>SBS Group (Shenyang Blue Silver Group)</td>
<td>private (?)</td>
<td>€100 million</td>
</tr>
<tr>
<td></td>
<td>AMK Holding</td>
<td>Germany</td>
<td>Supplier</td>
<td>Anhui Zhongding Group</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aberle</td>
<td>Germany</td>
<td>Supplier</td>
<td>PPM Solutions</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Punch Powertrain</td>
<td>Belgium</td>
<td>Supplier</td>
<td>Yinyi Group</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technisat Automotive division</td>
<td>Germany</td>
<td>Supplier</td>
<td>Joyson Electronics and Preh</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PURiitech</td>
<td>Germany</td>
<td>Supplier</td>
<td>Zhejiang Yinlun Machinery Ltd.</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ research.
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Chapter 3
Catching up strategies and multinational growth: the case of Geely Volvo

Giovanni Balcet, Hua Wang and Xavier Richet

1. Introduction

Since China’s accession to the World Trade Organisation (WTO) in 2001, the Chinese automotive industry has been booming. China became the largest automobile market in the world in 2009. The very high average annual growth rate between 2000 and 2010 was around 35.84 per cent, reaching a sales volume of 18.26 million units in 2010. This was followed by a slowdown starting in 2011.

In the development of the Chinese automobile industry, foreign OEMs (Original Equipment Manufacturers) have played a central role, bringing in technology, management know-how and marketing capabilities, as well as building distribution networks and supply chains. International joint ventures between OEMs and domestic state-owned car companies have shaped the Chinese market. In the late 1990s, some domestic private companies accessed the automobile market and experienced rapid growth. Geely, Great Wall and BYD are the main examples.

This chapter focuses on the case of Geely. Without any experience of producing cars, Geely broke both industrial (technology, capital, managerial skills) and institutional barriers (government regulation limiting the number of OEMs) to access the automobile industry in the late 1990s. It is an interesting case for illustrating various ways of catching up and eventually becoming an emerging multinational. Geely's catch-up efforts include technology imitation via reverse engineering, product architecture innovation and asset-seeking acquisitions abroad, together with various forms of international growth, including exports, assembly abroad, market-seeking operations and (again) asset-seeking acquisitions abroad. Our findings offer an insight into the competitive strategy of firms in emerging economies in the new context of globalisation.

We shall concentrate on Geely’s competitive strategies, exploring, on one hand, its catch-up trajectories and, on the other, its expansion in international markets and its multinational growth. The catch-up process in its early stages was driven mainly by technology, aimed at achieving low-cost and low-price solutions for the production...

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1. This chapter develops G. Balcet, Wang H. and Richet X. (2012) 'Geely: a trajectory of catching up and asset-seeking multinational growth', International Journal of Automotive Technology and Management, vol. 12, pp. 360–375. The authors thank Interscience Enterprises Limited for permission to publish this version. Many thanks go also to the participants in the ETUI workshop held in Zagreb on 25 November 2015, on Chinese Investments in Europe, for useful and stimulating comments. This publication has benefitted from the financial support of the Balkint project, funded by EACES (EU).

2. Reverse engineering, or back engineering, is the process of imitating a product (in this case, a vehicle), by disassembling its components and parts, analysing and reproducing them.
of low-end cars. At the same time, overseas market expansion was the consequence of fierce competition in the Chinese market. In a subsequent stage, catching up and international growth were driven by asset-seeking acquisitions in the global market. In addition, these two dimensions interact and reinforce each other in a dynamic way. Figure 5 illustrates this double trajectory.

Our methodology is that of an in-depth, longitudinal case history, through interviews with senior executives in Europe and in China. Archival data quoted are from China Automotive Industry Yearbooks (CAIY) from 1998 onwards.

Asset-seeking motivations are at the core of the new theories, proposing specific explanations of multinationals from emerging countries operating in developed markets in most recent years. These companies are expected to lack ex-ante monopolistic advantages, in particular as regards technology, patents and strong brands. A common hypothesis of these theories is that emerging multinationals' FDI in industrialised countries may be explained not only by market-seeking drivers, but also (sometimes to a considerable extent) by the need to access the resources and assets they lack. Their strategy is therefore oriented to augment or even to create, rather than to exploit, their specific ownership advantages (Mathews 2002; Balcet and Ruet 2011; Balcet et al. 2012).

2. China's automotive industry: catch-up processes and policies

Wang (2007) illustrated the emergence of the Chinese automobile industry by means of a theoretical framework based on two institutional determinants (institutional environment of host country, namely China and global institutions, such as the World Trade Organization) and two microeconomic ones (domestic firms and multinationals).

The first stage (1949 and 1978) of China's automobile industry can be generally characterised as the government-driven industrial formation stage under a planned economy. Based on the production model of transplants from the former Soviet Union, three important industrial bases of the contemporary Chinese automobile industry were formed: First Auto Works (FAW) in the north, Dongfeng Motors (DFM) in central China and Shanghai Automobile Industrial Corporation (SAIC) in the east.

FDI became increasingly important during the transitional period (1979–2000) when China decided to implement opening-up policies and to shift towards a market economy. Nearly all the top ten world carmakers established joint ventures with local SOEs, under the supervision of the Chinese government. VW, followed by GM, had the first-comer's role and advantages. At the same time, the complex Chinese federal system (Qian and Weingast 1997) – which involves the relative autonomy of the provinces, on one hand, and powerful ministries, on the other – led to the fragmentation of the automobile industry with the establishment of more than 100 domestic carmakers (all vehicle types included). At this stage, FDI, governments and Chinese companies jointly shaped the industry.
The third stage commenced in 2001, when China joined the World Trade Organisation (WTO). The WTO intervened as an additional powerful force influencing the development of the Chinese automobile industry, together with the Chinese government and foreign and local companies. Interestingly, it is also during this period that Chinese carmakers progressively began to catch up at an early stage of internationalisation. Figure 1 shows the production of the top ten passenger car producers in China in 2015. Eight out of ten are Sino-foreign joint ventures.

Figure 1  Top 10 passenger carmakers by volume in China, 2015 ('000 cars)


The first decade of the new century witnessed five important developments in the Chinese automobile industry:

(i) Market: acceleration of the growth of the Chinese market, with an average annual growth rate of 35.84 per cent between 2000 and 2010.

(ii) The Chinese government increased its influence on the reshaping of the automobile industry, in the field of inward and outward FDI policy, a new round of technology transfer, a stimulus plan during the financial crisis and a new energy policy.

(iii) The WTO and other country-based regulatory bodies increased friction with regard to trade and investment in relation to cars and components between China and other developed and developing countries.

(iv) Foreign carmakers: all the major players, including Volkswagen, General Motors, Ford, Toyota, BMW and Chrysler, announced aggressive investment plans in
the forthcoming years. More new models adapted to local consumers have been developed.

(v) Chinese carmakers: the entry of significant new players out of the jurisdiction of central government (either private companies or indirectly backed by provinces, municipalities or local banks). Some of them are at the outset of internationalisation. The market share of indigenous vehicles (both passenger cars and commercial vehicles) represented 45.6 per cent of the total market, selling 6.27 million in 2010.

Figure 2 shows the market shares of brands by their origin (domestic or foreign). By 2015, despite the slight decline of market share, Chinese carmakers (call categories of vehicle) represented around 40 per cent of the market. It is worth noting that this market share on the part of Chinese brands is contributed by more than thirty carmakers, and the economies of scale per car are far below those of the global players.

The industrial development of China, which has been proceeding on a vast scale, has relied on two main forms of technology transfer: formal mechanisms, including FDI, licensing, joint ventures, turnkey plants and other contractual or non-equity forms of international investment (UNCTAD 2011), and informal mechanisms, including reverse engineering, where there is no direct connection with the technology emitter.

Chinese firms went beyond the traditional informal mechanisms of technology transfer by moving towards product architecture innovation. Chinese companies, in a collective manner, have not only conducted reverse engineering, but also transformed product architecture from ‘close integral’ to ‘quasi-open’ (Fujimoto 2006). Specifically, the best-selling products sold in China have been copied, reverse engineered and remodelled. Accordingly, components characterised as ‘close integral’ have since become generic.

Notes: Vehicles produced by Sino-foreign joint ventures are indicated in the foreign car category. Chinese vehicles indicate only those of indigenous brands.
components and thus ‘quasi-open’. Those generic components can be mass-produced, achieving significantly low costs, through economies of scale, purchased by Chinese companies to mix-and-match with a view to generating new products under a Chinese brand name (Wang 2008; Wang and Kimble 2010). The capacities of Chinese firms in terms of architectural modification and technology recombination are important for understanding China’s cost advantages, beyond simple and intuitive judgements about ‘low cost labour’.

In parallel with the uniqueness of the abovementioned product-architecture innovation at the firm level, the formal mechanism of technology transfer is driven mainly by China’s government, via its imposition of the formation of international joint ventures for foreign direct investment. This was aimed at bringing about ‘the exchange between foreign technology and the Chinese market’. FDI in the Chinese automobile industry has had important positive externalities in terms of spillover effects and clustering (Richet et al. 2001; Yeung et al. 2006).

The Chinese government has played a critical role in shaping the development of the automobile industry (Richet 2015). The Twelfth Five-Year Plan (2011–2015) emphasised the development of alternative energy vehicles and domestic innovations. These policies have to match the heterogeneity of the Chinese economy’s industrial organisation, which is composed of different kinds of firms, namely state-owned, foreign-owned, private and listed companies (Table 1). Despite the great achievements, experience from various developing countries and local inter-industry comparison in China has demonstrated the drawbacks of policy-driven catch-up (Acemoglu et al. 2006; Tian 2007; Balcet and Ruet 2011).

Table 1 Different types of company in China’s automobile industry

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large state-controlled enterprises</td>
<td>Usually monopolies or oligopolies. Minority shareholdings sold in public offerings.</td>
<td>First Auto Works (FAW)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dong Feng Motors (DFM)</td>
</tr>
<tr>
<td>Joint ventures</td>
<td>Usually involving foreign partner, providing technology in return for market access</td>
<td>Shanghai Volkswagen</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dong Feng PSA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chang’an Ford</td>
</tr>
<tr>
<td>Private companies with some state</td>
<td>Encouraged by friendly government policy. Some measures to protect from foreign competition</td>
<td>BYD, Geely, Chery</td>
</tr>
<tr>
<td>influence</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from The Economist (2011).

3. Geely’s catch-up process via reverse engineering and product architecture innovation

Geely’s catch-up process has been driven in different ways in different stages. In a first stage, starting in 1998, reverse engineering and product architecture innovation were the main ways to acquire, assimilate and imitate foreign technology. In a second stage, from 2006, the company tried to catch up via asset-seeking international mergers and
acquisitions: the main aim of this strategy was to access to foreign technology and global brands.

Before embarking on its automobile venture, Geely progressively formed a multi-structured, widely diversified enterprise since 1984, including simple refrigerator components, motorcycles, materials for decoration, trading, real estate, hotels, tourism and higher education.

Based on its previous business success, Geely decided to tap into the automobile industry. Starting from scratch, the first car model produced in 1997, the Haoqing, was the result of reverse engineering of the Charade model from First Auto Works Xiali. There was a high level of similarity between Haoqing and Charade. Around 70 per cent of the components, including the engine, were interchangeable with the Charade model, based on technology transfer from Daihatsu, a Toyota affiliate. Two other models – the Meiri and the Ulio – were also based on the Charade platform, using 1980s technology.

When the technology level progressively improved, Geely started to innovate in product architecture, moving the company from simple reverse engineering towards changing product architecture from closed-integral to quasi-open design. Concretely, the Maple model produced in 2002 was based on the platform of the Citroën ZX, the French car assembled at Dong Feng Motors; Geely’s own engine (MR479Q), derived from a Toyota model (8A model), was installed in this model. Therefore, Maple was a combination and integration of two foreign technologies: a Toyota engine and the Citroën ZX car. This mix-and-match and recombination demonstrated a higher engineering capacity at Geely.

A higher level of architectural innovation characterised the following three models, the Free Cruiser, the King Kong and the Vision, developed after 2000. These three models were based on Kia’s Rio (also called the Pride) and Toyota’s Viosos and Corolla. Compared with previous models that were all in the A00 category (compact cars), the above three models were A0 and A class (small cars). The technological complexity was higher. Efforts were also directed towards developing an in-house engine (MR479Q) and transmission system, and integrating those key modules in the copied models.

The main result of the reverse engineering and product architectural change was the low cost of Geely’s cars compared with those focal models. Wang (2008) has discussed in detail the mechanism of achieving low costs, including the buyer-supplier relationship. The low cost, and thus low price advantage drove Geely towards the commercial success. Geely ranked as the eighth largest carmaker in 2010 with sales of 416,000 units.

Meanwhile, Mr Li Shufu, the president of Geely group, was fully conscious of the drawbacks of trying to catch up via reverse engineering and product architecture modification. Geely could in this way only be a follower of more mature technology, thus positioning itself at the low end of the market. Based on previous commercial success, international asset-seeking acquisition turned to be a viable solution: this strategic choice has deeply affected the Geely’s trajectory in recent years.
4. **Geely’s international expansion via exports and market-seeking operations**

Geely debuted in the export market in 2003. Export volumes increased progressively to more than 38,000 units by 2011 (Table 2). By 2011, the cumulated export volume was 158,000 units. By 2010, Geely had developed 36 overseas agents in 36 countries with 344 dealerships. In terms of regional coverage, Geely’s markets were mainly developing countries in the Middle East, East Europe, Africa, South East Asia, Central and South America. In the early stages, the Free Cruiser was the main exported model. Progressively, the King Kong was integrated in 2008, followed by the Panda in 2010. In the following years, more new car models were introduced to overseas markets.

<table>
<thead>
<tr>
<th>Year</th>
<th>Geely exports</th>
<th>Geely total sales</th>
<th>China exports</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>A/B</td>
<td>A/C</td>
</tr>
<tr>
<td>2004</td>
<td>5,000*</td>
<td>96,693</td>
<td>7,850</td>
<td>5%</td>
<td>64%</td>
</tr>
<tr>
<td>2005</td>
<td>7,000*</td>
<td>133,041</td>
<td>46,690</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>2006</td>
<td>10,000*</td>
<td>164,495</td>
<td>93,300</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>20,000*</td>
<td>181,517</td>
<td>188,428</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>2008</td>
<td>38,000*</td>
<td>204,205</td>
<td>241,000</td>
<td>19%</td>
<td>16%</td>
</tr>
<tr>
<td>2009</td>
<td>19,350</td>
<td>326,710</td>
<td>101,840</td>
<td>6%</td>
<td>19%</td>
</tr>
<tr>
<td>2010</td>
<td>20,555</td>
<td>415,843</td>
<td>180,000</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>2011</td>
<td>38,028</td>
<td>421,385*</td>
<td>476,072</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>2012</td>
<td>101,908</td>
<td>483,483</td>
<td>661,200</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>2013</td>
<td>118,871</td>
<td>549,468</td>
<td>486,000</td>
<td>22%</td>
<td>24%</td>
</tr>
<tr>
<td>2014</td>
<td>59,721</td>
<td>417,851</td>
<td>533,000</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>2015</td>
<td>25,734</td>
<td>510,097</td>
<td>427,700</td>
<td>5%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Notes: * These figures are approximate data announced by Geely in its yearbook.
+ These data differ slightly from the announcement made by CAAM presented in Figure 1.
* This is total exports of passenger cars; commercial vehicles are not included.

The establishment of assembly plants, on a contractual base, represented a major strategy for consolidating international expansion, slowly implemented by Geely. According to Geely’s annual report of 2010, there were contractual assembling plants in Russia, Ukraine, Indonesia and Taiwan. In contrast to Japanese companies in the US market in the 1980s, Geely had not yet reached the stage of direct investment in the establishment of its own foreign assembling plants.

Geely’s strategy of overseas market expansion can be explained mainly as a reactive decision due to fierce competition in the Chinese market, dominated by large MNCs. Supplying low-price vehicles with an attractive design was the main selling point for customers in developing countries. Geely’s latest five year plan (2011–2015) announced that there should be 15 manufacturing (SKD and CKD) assembling sites in overseas markets. Total sales outside China were supposed to reach 1.3 million units, according
to Geely’s plans. Some developed markets in Europe and North America will also be explored. This forecast was seriously affected by the global economic recession from 2008, however (Table 2).

5. Geely’s catch-up process and multinational growth via asset seeking FDI

Geely has pursued a consistent and clearly defined strategy of asset-seeking FDI, which represents a new stage both in the catch-up process and in its internationalisation trajectory. It was developed in three main steps.

Acquisition of London Taxi in 2006

Geely’s first venture was the acquisition of shares in Manganese Bronze Holding (MBH) in 2006, owner of London Taxi. Targeting this niche player in the automobile industry corresponded to what Geely was realistically capable of at that time. Geely wished to acquire the potential value of the iconic London Taxi brand and its overseas marketing and sales network. In October, Geely Automobile, a subsidiary of Geely, acquired 30 per cent of new shares. Then, in November, the two companies established a joint venture in Shanghai, with a 52/48 per cent share split between Geely and MBH. After these two transactions, Geely became the biggest shareholder of MBH with a 23 per cent stake.

The agreement between Geely and MBH sheds light on the former’s pragmatic approach: acquiring foreign technology, utilising the cost advantages in China and focusing on Chinese and Asian markets. The relocation of production to Shanghai Maple, a subsidiary of Geely, is aimed at acquiring new technology. In terms of sales, Geely is responsible in the Asian area and MBH had the right to sell in the rest of the world (Balcet et al. 2012).

In 2010, a new generation of London Taxis was developed, aimed at increasing fuel efficiency and improving adaptation to different market conditions. In 2013 Geely took full control.

Acquisition of leading Australian transmission producer DSI in 2009

During the financial and economic global crisis, in 2009, Geely took over Drive-Train Systems International (DSI), an Australian transmission producer and the world’s second largest producer of Automatic Transmission (AT) systems. Before the acquisition, Geely used 4AT technology with low torque applied to small displacement engines (small cars). The Australian deal helped Geely to broaden AT production (to 4AT and 6AT with high torque) and thus to internalise the core technology for producing bigger cars.
In March, the 257.1 million HK dollar (33.1 million US$) deal was signed between Geely and DSI. After acquiring the company, Geely became the leading Chinese carmaker having internalised the entire series of AT technology. This 100% acquisition provided access to DSI’s manufacturing equipment, factories and intellectual property, including trademarks, patents, software and research centre. We must stress that this opportunity to take over a frontier-technology component producer was created by the global crisis of 2008–2009.

Following the same business logic of asset-seeking drivers, in association with the development of the Chinese market, Geely quickly integrated DSI’s technology in nearly 10 models. This measure on one hand ensured a sales increase for DSI, and on the other hand, improved the overall technology level of Geely cars. In addition, the localisation of production to China via joint-venture plants was planned. By April 2010, DSI started to make a profit, less than one year after acquisition. Geely had the ambition to supply AT for other Chinese carmakers in the medium term and to export Chinese-made AT to overseas markets.

Acquisition of Volvo Cars in 2010

The acquisition of Volvo Cars on 2 August 2010 represented the latest step in Geely’s long-term strategy of international asset seeking (Balcet et al. 2012). It was the result of the confluence of various internal and external conditions. Li Shufu asked its top management team to prepare the purchase of international carmakers in 2002, only four years after the establishment of Geely. Although its senior management teams were not convinced, some research work was started. One external factor was that Ford had registered a net loss of 14.7 billion US dollars in 2008. This critical financial situation pushed Ford to sell Volvo.

The final deal amounted to USD 1.8 billion, significantly lower than Ford’s initial demand of USD 2.5 billion. Geely invested 4.1 billion yuan (600 million USD) via Beijing Geely Kaisheng International Investment Co., a company established in September 2009. Two government-supported companies or institutions invested 3 and 1 billion yuan, respectively. One is Daqing State-Owned Assets Co., the other Shanghai Jiaerwo Co., a company established in February 2010 by Shanghai Jiading District Government, Shanghai Municipality. The above three companies provided USD 1.1 billion. The remaining financing was from China Construction Bank (London) and Ford, with USD 200 million each.

Together with external consulting teams – mainly composed of Rothschild, the Freshfield law firm and Deloitte Touch Thomatsu – Geely conducted impressive work over four months. Before the acquisition, 6,473 documents were reviewed, more than 10 expert meetings were held and two site visits and three management presentations by Volvo were organised.

Great efforts were made to trace property rights with regard to the ownership of Volvo by Ford. For example, some components were shared between Volvo S40 and Ford Focus in
China produced in a joint venture with Chang’an group, another large carmaker. These two cars were produced on the same assembly line. The component-sharing between these two cars also existed in Europe. The clarification and separation of property rights was a must. Geely reviewed the technologies of thousands of components, one by one. Then commercial terms linked to the technology were clarified. During the negotiations, Geely demonstrated the strength of its negotiation skills.

A two-way internationalisation process has been under way since the acquisition. On one hand, Geely took control of Volvo, an enormous FDI undertaking. On the other hand, the new Volvo (under Chinese ownership) started to establish operations in China in terms of R&D, manufacturing and dealership development. Volvo’s market expansion in China can serve as the foundation of a global market strategy.

6. Assessing the post-acquisition trajectory

Volvo’s takeover by Geely Group, as has been pointed out, is a quite atypical case from a threefold standpoint. First, in the automotive sector, the Chinese catching up took place through cooperation with foreign firms in the form of joint ventures (Balcet and Ruet 2011; Richet 2015). The Chinese host companies, until recently, were platforms, allowing foreign operators to develop their activities in the country, leaving the bulk of market share to the foreign firms.

The acquisition of Volvo, a smaller – and bankrupt – Western firm, in the premium sector of the car market, was supposed to allow Geely, a mass-market producer, at the low end, to enter the premium segment and compete with large European firms present in the Chinese market (BMW, Mercedes Benz) by means of an external growth strategy.

Finally, the acquisition of this asset should allow growth in the Chinese market in the premium sector, providing a base from which to enter high-income foreign markets (such as the USA), under the aegis of the Swedish firm’s name and technology. At the same time, through technological acquisition, it should allow the Chinese firm to develop new Class C models to supply the domestic market and the world market, particularly North America.

After a few years, promising results from this special acquisition can be observed. Success can be attributed to a number of factors.

Governance of the new entity

On the Swedish side, acquisition by the Chinese partner has brought more independence, which had been lacking under the former owner (Ford). This greater management autonomy has been accompanied by substantial financial support to renew investment in Sweden (modernisation of the production line with an investment of 75 billion SEK) and developing new production units in China. The new owner provided financial support in the face of declining sales at the beginning of the decade. The Chinese
side, led by its president, focused on strategic goals, leaving the Swedish management to implement the strategy. The Swedish side could operate in a secure financial environment in a longer-term perspective. This new organisational environment has helped to reduce design time for new models from five years to 30 months. In The chairman of Geely Holding Group, Mr Li Shufu, summarises the approach of the new ownership as follows: ‘Releasing the tiger back into the mountains.’

Strategy of the new group

This took shape with the development of production in China, including Class A models. In a few years the firm has begun to take market shares in China, while increasing its sales in Europe and the United States (Figure 3). Meanwhile, Geely has continued to develop its models and maintain sales in China, a very price-sensitive market. The Chinese firm has continued its internationalisation strategy by building factories in central and eastern Europe and Latin America to sell its own brand. Meanwhile, production under the Volvo brand started in China in new plants. In 2016, the Volvo factory in Chengdu (Sichuan Province) exported 3,500 units of the S60I model to the United States (5 per cent of its production) with the aim of doubling the number in a few years. The Chinese group plans to invest in a greenfield factory in the United States, in South Carolina, which should be operational in 2018.

Figure 3  Volvo sales by region (units, 2015)


Meanwhile, the group has decided to launch new models in category C under each brand to supply the Chinese and Western markets (Europe and USA).
Research and development

Operating in different segments Volvo has developed a new modular building system, SPA (scalable product architecture) for large cars, based on which the company created the new CX90. The company has also built new four-cylinder engines which will equip the new models. By 2019, it will have a line-up of nine new or reworked vehicles: three sizes in three different styles.

Technological cooperation between the two brands took shape with the setting up in 2013 of a joint development centre in Gothenburg, the China-Europe Vehicle Technology AB (CEVT). Volvo and Geely, within CEVT, introduced a new platform (CMA compact modular architecture) to reduce costs and increase margins on B and C segment cars. This cooperation provides Volvo the possibility to produce more engines, increasing volume. For Geely, it offers the possibility to create a new image and substantially increase its market share (Sharman 2015). The new joint platform can be used by both brands for their new products in segment C. It is expected to lead to considerable cost savings in terms of development, testing and sourcing. The new L model (for Lynk & Go) jointly developed by Geely and Volvo on the CMA platform was unveiled in late October 2016. This is a model for both the global and Chinese markets. In China, Geely will sell this car at a higher price, approaching the prices of foreign producers. Joint research in this centre will expand to other areas, such as engines, transmissions, powertrain and further research on connectivity and self-driving cars. The output will be shared

Figure 4  Global premium car sales, 2016 (units)

between the two brands. This is the main channel through which joint research and technology transfer take place, leading to technology convergence.

Geely Chairman Li Shufu sums up the spirit of cooperation that has developed between the two parties: ‘the sharing of knowledge and technology had to take place without jeopardising brand integrity and individual product development, testing and sourcing’ (Bottet 2016).

Markets

The two components of the group have both strengths and weaknesses: reputation, mastery of technology and innovation on the part of the Swedish group; mass market, rationalisation and cost control, and adaptation to fluctuating markets for Geely Group. The two groups also have structural weaknesses. In the case of Volvo, poor volumes and economies of scale (compared with major global carmakers), limited market share (Volvo produces a quarter of the volume of BMW or Mercedes), and a limited (S40, S60, S90) and undiversified production range. The Chinese firm is still operating at the low end and is strongly constrained by competition on price and quality in a very fragmented market. Nevertheless, sales prospects should enable the group to ensure its growth and achieve its objectives in the coming years by positioning in segments with higher added value.

Industrial relations

In 2009 a letter of intent from Geely promised that Volvo facilities in Europe would not be affected by the future acquisition. Moreover, a meeting in China between a delegation of Swedish trade union leaders and chairman Li Shufu eased post-acquisition industrial relations. This pragmatic and collaborative behaviour represented a remarkable change vis-à-vis other experiences of conflictual labour relations on the part of other Chinese multinational investors (Miedtank 2015). Good industrial and financial performance, driven by post-acquisition expansion in the Chinese market, required the starting of a third shift at Gothenburg’s historical factory in 2015.

Therefore, after initial concerns over the Chinese acquisition, the assessment from the Swedish stakeholders, including trade unions and local authorities, has on the whole been quite positive. Problems and divergences remain, however, mainly between Swedish and Chinese managers on product development strategies.

7. Conclusion

In the early stages of corporate development in the domestic market, Geely’s catching up took place via reverse engineering in the production of low-end cars. This was a typical practice that has been observed also in Japanese and Korean companies. Catching up via product architecture innovation is unique to Geely (and other Chinese carmakers).
This strategy has contributed to the development of low cost and eventually low price cars.

After achieving stabilisation and a certain level of commercial success measured by increasing sales, and while the catch-up process continued, Geely decided to expand further. The growth in the second stage was driven by the expansion in overseas markets, via the sales of its indigenous best-selling cars to developing countries.

The third stage—asset seeking acquisitions abroad—provided access to core technologies, brands and intellectual property rights. This was the main strategy that helped Geely to expand into medium and higher category cars. Besides the operations in China, Geely established its first overseas R&D centre at Gothenburg, and three overseas styling design centres in Gothenburg, California and Barcelona. These centres can carry out the design of all new products on the class A and B platforms synchronously. In contrast to what would have been possible if Geely had tried to upgrade its technology alone, the external acquisitions allowed it to accelerate its catch-up process, and eventually also growth, in both the domestic and international markets (Table 3).

As shown in Figure 5, the evolution of Geely’s asset-seeking acquisitions abroad represents the final stage of two parallel trajectories, analysed in this chapter: technological catching up and international growth. In fact, these foreign acquisitions, including the Volvo deal, both strengthen the strategy of technological catching up and upgrade international expansion.

Taking into account that Geely has a significantly shorter history than other global carmakers, it will only be possible to fully assess the results and impact of catch-up
strategies in the coming five to ten years. This chapter is intended as a call for future studies on the catching up and multinational growth of Chinese carmakers.

- From the point of view of technology, it is worth investigating in detail how the acquired technology is integrated, assimilated and upgraded.

- From the point of view of asset-seeking acquisitions, future research can focus on how Geely managed the transition and integration of Volvo into the Geely group, the integration of two corporate structures and cultures, product portfolio, synergy in terms of platforms, modularity of components and the exploration of Chinese and global markets.

- From the point of view of multinational growth, little analysis has been carried out of Geely’s car exports and contractual assembly plants in overseas markets. We do not know how Geely has developed its sales network, built its brand and maintained after sales service.

Figure 5  Geely’s growth trajectory

More broadly, Geely is not an exceptional case of catching up. Despite the fierce competition from foreign carmakers, there are around twenty major Chinese companies producing indigenous passenger cars, representing around 31 per cent of the market. This chapter can serve as a benchmarking exercise or a framework for the analysis of other Chinese carmakers’ development trajectories, such as SAIC, BYD, Chery, Great Wall and JAC, among others.

In addition, the specificity of the institutional context in China, and in emerging countries in general, is another interesting point of analysis. This goes beyond the scope of this contribution, but it is clearly important to analyse how corporate strategy takes into account complex institutional factors and how corporate strategy and institutional
factors interact and co-evolve. This angle of analysis has important implications both for companies operating in developing countries and for the development of industrial policies.

Bibliography


All links were checked on 24.02.2017.
Chapter 4  
International human resource management and employment relations of Chinese MNCs

Tina Miedtank

1. Introduction

China’s participation in the global economy as an outward investor is relatively recent. However, since joining the World Trade Organisation in 2001, Chinese overseas investment has shown a significant and consistent increase despite the global financial crisis. Starting in the early 1990s, Chinese investment was concentrated primarily in the natural resource sector, directly mandated by the state to compensate for the lack of domestic raw materials and energy supply. After Chinese Premier Zhu Rongji announced the country’s ‘Go global’ investment policy in 2002, China’s overseas investment picked up steam in other sectors. Under this initiative, the Chinese government encourages domestic companies to expand internationally. In more recent years Chinese foreign investment has been diversifying into the services sector – including commercial services, telecommunications, mining services, logistics and utility infrastructure – reflecting an effort by Chinese investors to move up the global value chain. By investing in Europe, China also partly aims to catch up with global market leaders, tapping into foreign markets for high-value brand assets, technological competencies and other intangibles.

This chapter provides an overview of the findings of academic research on international management in Chinese firms. While the managerial behaviour of Chinese investors in Europe is still little known and the impact of their investment unclear, three important themes emerge from the reviewed literature. First, in contrast to Western MNCs, Chinese companies take a ‘light-touch approach’ with their European subsidiaries. The following section outlines the managerial implications, in particular for human resource management. The second theme is that Chinese MNCs tend to send abroad a large number of Chinese expats who tend to be inexperienced internationally. This international inexperience of Chinese managers causes unintended home-country effects, which are discussed in the second section. A third theme is that Chinese companies are very diverse, depending on sector, size, geographical origin and ownership type. The academic literature has focused on the difference between state and private ownership. The last section concentrates on the two different ownership types (state-owned and private-owned), aiming to provide a better understanding of Chinese firms’ behaviour and their human resource management.
2. Hybrid approach and Chinese human resource management

The existing theoretical work on multinational companies typically questions whether they transfer existing practices and competitive advantages or whether they develop new ones in their host environment (Elger and Smith 2005). The primary assumption in mainstream theory is that multinational companies possess prior competitive advantages (Porter 1980), firm-specific advantages (FSA) (Rugman 1981) or ownership-specific advantages (Dunning 1977), as well as an ability to exploit them abroad (Buckley and Casson 1976). The increasing investment of Chinese firms in Europe opens the question of what kind of best practices Chinese companies bring to and develop in Europe.

Compared with Western MNCs, Chinese multinationals tend not to purposefully transfer practices and policies to Europe. Instead, scholars, including Nolan (2001: 187), question the competitive capability of China’s international firms even after two decades of reform in comparison to other global companies. Particularly regarding brand development, R&D and marketing abroad, Chinese multinational companies are said to lack behind Western ones. Most studies on Chinese multinationals abroad frame the home-country effect even more pessimistically. Chinese multinational companies tend to lack expats with international experience and international management skills (Fan et al. 2013; Spigarelli et al. 2013; Zhang et al. 2014; Zhu et al. 2005). To compensate for this weakness, Chinese multinational companies tend to invest in particular in Western Europe, to acquire brands, gain international experience and learn technical knowledge and management skills (for example, Child and Rodrigues 2005; Deng 2009; Knoerich 2010; Kolstad and Wiig 2012; Ramasamy et al. 2012; Rui and Yip 2008; Wang et al. 2012; Zheng et al. 2016). These studies suggest that Chinese multinationals have no ‘country of origin’ advantage (for example, Child and Rodrigues 2005; Di Minin et al. 2012). Instead of exploiting their advantages in Europe, Chinese companies commonly invest there to upgrade their technological abilities, global brand recognition and marketing capabilities (for example, Child and Rodrigues 2005; Deng 2009; Rui and Yip 2008; Zheng et al. 2016). This different motivation seems to have led to different management processes in the overseas units of Chinese multinationals.

The earlier theoretical work focusing on multinational companies from developed economies investing abroad assumed that overseas units are wholly or partially structurally integrated to exploit their advantages abroad.¹ Multinational companies from China and other emerging economies tend to adopt a partial or no structural integration. There is little evidence that Chinese multinationals employ corporate control measures to ensure the implementation of home-country practices² (for example, Cooke and Lin 2012; Fan et al. 2013; Zhu and Jack 2016). One study by Liu and Woywode (2013) focusing on 13 Chinese mergers and acquisitions in Germany find that after acquisition, the majority of Chinese companies keep the existing German management and become only passively involved in daily operations by having seats on

¹ Examples of theories are the ownership-location-internalization framework by Dunning 1977, the Uppsala model by Forsgren 2002.
² Yet, the integration mode depends on the firm’s international experience, sector and motivation entering the particular market (Graebner and Eisenhardt 2004).
the supervisory board. The acquired companies have to report, and regular meetings take place, but operations remain autonomous (Liu and Weywood 2013). Although the German management teams usually enjoy high autonomy to make operational and even strategic decisions, the final decision remains with the Chinese management (Liu and Weywood 2013). Another study by Cogman and Tan (2010) analysed 120 deals for controlling stakes from the beginning of 2004 to the third quarter of 2008 in Asian cross-border mergers and acquisitions and revealed that more than 43 per cent of the Asian deals involved either limited functional integration or no integration efforts. They argue that the passive managerial approach can be attributed to the relatively low levels of absorptive capacity and cultural-specific influences. The Chinese long-term orientation may fundamentally affect the choice of integration mode. Chinese firms unanimously view cross-border mergers and acquisitions as a long-run investment. They may not expect immediate returns; instead, they emphasise the joint growth potential. This light integration has been labelled a ‘hybrid approach’ (Kale et al. 2009), a ‘partnering approach’ or a ‘light-touch approach’ (Cogman and Tan 2010; Zheng et al. 2015).

The implication of a limited or no integration approach between the central management and the overseas unit is that the Chinese management gives autonomy to the target firm’s management team and therefore is more likely to retain local talents, thus preventing a high employee turnover (Kale et al. 2009; Zheng et al. 2015). This long-term approach emphasises business stability and makes it possible to retain strategic assets and develop synergies. The latter are achieved by adopting a rather collaborative approach to building up individual- and organizational-level competences as well as ensuring knowledge transfer, including collaboration and teamwork (Kale et al. 2009).

Several studies focus on the human resource management aspects of the ‘light-touch approach’. One study by Zhu et al. (2014) reports that after the deal, the central human resource departments neither directed nor supported overseas subsidiaries in managing labour relations. In an investigation of a Chinese company in Italy, Spigarelli et al. (2013) reveal that there are no mechanisms to manage and coordinate human resources. The Italian subsidiary did not receive feedback on the information they sent from the Chinese central management. The examples show that there is a tendency for central human resource departments of Chinese companies to support neither the foreign direct investment process nor mergers and acquisitions nor the foreign subsidiaries. These observations imply that Chinese companies do not develop and apply international human resource or employment relations guidelines. Shenkar (2009) interprets this as an acknowledgement by Chinese multinationals of their weaknesses in international management and coordination. Others conclude that Chinese multinational companies investing overseas fail to recognise the strategic importance of human resource management (for example, Cooke and Lin 2012; Spigarelli et al. 2013; Zhu et al. 2014).

This ‘hybrid approach’ provides not only opportunities for the acquiring companies but also for the acquired ones (Liu and Woywode 2013). It enables Chinese multinationals to become familiar with the new context (Cogman and Tan 2010) and creates less disagreement compared with full integration (Madhok and Keyhani 2012). If it is an acquisition, the main motivation for European companies selling their product line
or company to a Chinese buyer is the hope of gaining access to the Chinese market. Knoerich (2010), studying the motivation of German companies selling to Chinese multinationals, finds that they not only want to assure their survival in the low-end market and to manufacture lower priced products in China, but also aim for access to funding for research and development from their Chinese buyer. At the moment, it seems that the goals of Chinese multinational companies and acquired Western European companies are complementary to each other. The complementarity of the goals provides not only a foundation for mutual consensus but also triggers this ‘hybrid approach’, including a high level of post-acquisition autonomy and a low degree of disruption (Zheng et al. 2014).

From a Chinese perspective, this hybrid integration process seems similar to Lao Tzu’s ‘wu wei’ (active non-action) concept. The invisible leader might be more desirable in professional organisations with a highly educated workforce because these types of leaders are able to delegate and empower (Xing and Sims 2011). In addition, this approach preserves harmony, which is a critical feature of Chinese culture (Chen 2002). Maintaining harmony also implies not forcing a situation or being attached to the results, which apparently goes against planning or setting objectives or measuring ‘success’ with economic or financial accomplishments (Xing and Sims 2011). Wu wei is evident in the Chinese chemical company studied by Fan et al. (2013) that adopted this Chinese traditional managerial philosophy to transform the company into a learning organisation.

Nevertheless, European managers comment that their Chinese partners from state-owned enterprises lack experience and individual-level absorptive capacity to transfer knowledge (Liu and Woywode 2013). Employees’ perception of the acquiring company having inferior skills and little experience can create distrust and even resistance (Empson 2001). Therefore, Chinese multinational companies need to position themselves carefully in European countries. In addition, they require more time and effort during the integration process to win trust (Yildiz 2014). Improvements in the responsibility and global strategy of central management’s human resource department would enable Chinese multinationals to more quickly gain a competitive advantage in the world market. The following section focuses on the secondment of Chinese expatriates to the European subsidiaries and what kind of unintended home-country effects arise from this practice.

3. **Unintentional home-country effects of human resource management**

A second reoccurring theme is the unintended transfer of a Chinese mind-set to Europe. Traditionally, it is said that the transfer of human resource management practices and policies is a critical factor in the success of overseas subsidiaries (for example, Cooke 2012). Because of the ‘light-touch approach’, Chinese multinational companies appear not to engage in such purposeful transfer processes regarding human resource management. However, Chinese multinationals send more expatriates to their overseas subsidiaries than Western ones do (Shen and Edwards 2004). Usually, expatriates are
a tool to ensure the transfer of practices to subsidiaries (Harzing 2002), but a light approach suggests that such purposeful transfer is not taking place. Instead, the sending of Chinese expats overseas may lead to unintended transfer processes which become evident in several respects (Fornes and Butt-Philip 2011). The infamous example of China Overseas Engineering Group (COVEC) demonstrates how the lack of knowledge of the new host country has led to an unsuccessful business. COVEC successfully bid to build a section of the A2 motorway in Poland in 2009. This bid was less than half the planned budget of the Polish government. Because of their undercutting offer and failure to engage with local partners (Jacoby 2014) COVEC did not manage to build the motorway section in Poland. This example shows that COVEC’s management had an incomplete understanding of the Polish environment and its legal, social and cultural practices. Indeed, several studies focusing on the human resource issues of Chinese companies operating internationally – for instance, by Cooke and Lin (2012) as well as Zhu and Wei (2014) – report that some Chinese companies have also underestimated local labour relations in their international investment decisions. Lacking this knowledge leaves Chinese management mostly underprepared to take care of their overseas operations.

Although labour relations tend to be disregarded during investment decision-making by Chinese multinationals, two observations of the employment relations of Chinese investors recur repeatedly. Chinese multinationals tend to conform to local employment relations customs and thus recognise rather than avoid trade unions (Zhu et al. 2005; Xing et al. 2016). Several studies have pointed out that Chinese companies accept trade unions in the host countries, although Chinese investors are cautious about them. Reasons for accepting foreign trade unions include that Chinese multinational companies take a relatively pragmatic approach in dealing with labour market institutions in the host country (Bian and Emons 2017; Cooke 2012); they also try to maintain harmony and to defuse conflicts (Xing et al. 2016). A second observation is that Chinese multinationals tend not to be members of European employers’ associations (Zhu and Jack 2016). This observation is in contrast with Western multinational companies, which tend to be members of local employers’ associations to obtain local human resource management and industrial relations information from them. Chinese multinationals fail to get actively involved in employers’ associations in human resource management and employment relations issues and Zhu and Jack (2016) suggest this is because of a lack of knowledge of employers’ associations’ functions. Although employers’ associations can assist, if needed, with clarification about labour regulations, Chinese companies consult their local subordinates, lawyers, local government departments, Chinese embassies or the Chinese Chamber of Commerce. There is thus potential for employers’ associations to raise awareness and promote their activities to Chinese and other foreign multinationals operating in Europe.

An explanation for this disregarding of the employment relations of host countries is the Chinese business context itself. The difference between China’s and Europe’s institutional environment is that China’s employment relations system is heavily state regulated and that a high uncertainty characterises the business context. The Chinese Communist Party (CCP) controls labour relations. Compared with European trade unions, Chinese trade unions have a more collaborative role and do not negotiate with
employers or employers’ associations. Rather than directly representing the workers’ interests, as in Europe, the Chinese trade union remains the voice of the Chinese Communist Party, for example, assisting in the implementation of the economic reform agenda (Zhu et al. 2007). The All-China Federation of Trade Unions (ACFTU) is the only union recognised by the government and operates in compliance with the CCP (Taylor and Li 2007). ACFTU focuses on the welfare of employees based on a paternalistic approach (Cooke 2009) and on building harmony at the workplace (Zhu et al. 2007).

The counterparts to the ACFTU are the China Enterprise Confederation (CEC), the All China Federation of Industry and Commerce (ACFIC) and local associations, which are all state-controlled (Taylor and Li 2007). For example, the CCP approves new initiatives by ACFTU, and the ACFTU chair is a member of the CCP and can hold a government position. Chinese labour relations do not provide a sphere for good labour negotiations, which calls into question the ability of the ACFTU to protect and promote workers’ interests (Taylor and Li 2007).

In contrast to China’s ACFTU, there are a range of independent and comparably powerful trade unions in Europe. Depending on the level of international experience, the European employment relations system represents a new challenge for Chinese management and may leave it underprepared to negotiate with their overseas employees’ representative organisations.

Chinese managers not only tend to lack knowledge of host countries but also to lack international experience and thus intercultural communication skills. There are substantial cultural differences between China and Europe regarding the relationship between leaders and subordinates and work–life balance, which calls for an appropriate level of cross-cultural skills (Fan et al. 2013; Wang et al. 2016). In China, there is a very hierarchical understanding of work relations in contrast to Europe, where it is more equal. In Chinese companies, there is a strong hierarchy in which orders are obeyed and the instructions of higher ranked employees are followed. Although Western countries vary in their hierarchical structure, they have a more democratic leadership style compared with China. One study by Wang et al. (2016) shows that British employees in a Chinese subsidiary tend to perceive their Chinese managers as less social because they do not interact with them during lunch breaks or after work. The employees reasoned that Chinese expatriates have a more work-centred approach and they perceived a higher power distance between them and the Chinese managers. A questionnaire by Busch and colleagues (2013) shows that the more authoritarian leadership style adopted by Chinese managers is perceived as problematic and dysfunctional in Germany. Another example is the case study by Zhu and Wei (2014) showing how expatriates of a Chinese multinational in Italy expected overtime work from their Italian workers and did not take into account Italian religious holidays. Wang et al. (2016) argue that Chinese expatriate managers’ home-developed interpersonal and communication skills are therefore not readily transferable to different contexts, and in particular not to Western Europe. Besides, the difference in interpersonal relations and communication style can lead to misunderstandings.
Another typical cross-cultural difference between European countries and China is directness. The Chinese tend to be indirect in criticism, which contrasts with the more direct feedback style of Europeans. Indirect feedback by Chinese expats may not be understood by local European employees. Again, the study by Wang et al. (2016) reports a case of a Polish employee working for a Chinese company, who pointed out that the Chinese managers focused on the solution if a mistake was made and did not seek the person who made the mistake. He perceived this as ineffective.

The above-outlined lack of international experience of Chinese expatriates has instead created unintended rather than intentional home-country effects. Due to the more frequent sending of Chinese expats to Europe and their lack of knowledge of host countries and limited international experience, there continues to be a need for legal, social and inter-cultural training. Shen and Darby (2006) found, however, that only limited or ad-hoc training is provided to Chinese expatriates. The provided training tends to focus on cross-cultural issues (Shen 2005), but lacks a long-term management development planning and formal and systematic management processes; in particular, pre-departure and post-departure cross-cultural training programmes are essential for Chinese expatriates in Europe.

At the moment, European subsidiaries seem to function as learning sites for training expatriates (Zhang and Fan 2014), gaining and maintaining competitiveness and as an opportunity to reform their old mechanisms (Zhang et al. 2013). Case studies conducted in the United Kingdom by Zhang and Edwards (2007) note that the main priority of Chinese multinationals is to learn. They use localisation and cross-organizational activities for that purpose (Zhang and Edwards 2007). UK practices have been implemented to some extent, gradually replacing the Chinese management system. A Chinese telecommunications company studied by Cooke (2012) outsourced a significant part of human resources to a consultancy to help design the human resource strategy, policies and procedures, cultural values, performance management, employee handbook and human resource infrastructure. Involving external consultants provides a learning and development process for a Chinese company in the United Kingdom and helps to benchmark the human resource strategy, procedures and practices against other competitors. These two case studies demonstrate how overseas subsidiaries can share valuable knowledge and experience with Chinese central management and contribute to management development. However, the uneven development of human resource competencies at the subsidiary level and the lack of capacity to provide support from central management can contribute to human resource problems (Cooke 2012).

The Chinese home-country effects manifest themselves in the implicit form of the transfer of management ethos, such as overlooking the strategic importance of human resource management and the possible potential of employers’ association membership, as well as expecting a certain set of values at the workplace, such as managerial unilateralism and hard work (Cooke 2014; Xing et al. 2016; Zhu et al. 2014: 958). Such values may result in unrealistic expectations with regard to local employees’ attitudes (Bunchapattanasakda and Wong 2010; Busch et al. 2013). Meanwhile, with the current growing trend of Chinese investment (see for instance Bian and Emons 2017; Hanemann and Huotari 2017), the demand for Chinese expatriates with international management
experience and sufficient cross-cultural skills will also continue to grow. As learners without international management skills, Chinese expatriates’ business leadership and management are easily challenged by local staff with superior knowledge and expertise (for example, Busch et al. 2013; Wang et al. 2016). Therefore, there should be a greater awareness among management and workforce of this difference. However, Chinese companies vary in their management practices, depending on sector, size, place of origin and ownership type. The following section highlights the differences between state-owned and private-owned companies with regard to human resource management.

4. Human resource management differences between Chinese state-owned and private-owned companies

A third reoccurring theme in the academic literature about Chinese companies investing in Europe is the difference between state-owned and private-owned enterprises. The advantages of state-owned companies derives from the political and economic developments in the last century. Before the Chinese reforms in the 1970s, there was no diversity of ownership types in China. All companies in all sectors were owned, run and controlled by the government (Wu 1994). State-owned companies traditionally followed the political agenda and the Chinese central government still acts with a ‘visible hands’ approach, which directly and indirectly influences the legal, regulatory and financial elements of the Chinese business system and the international activities of China companies (Buckley et al. 2007; Liang et al. 2012b). Central state-owned and provincial state-owned enterprises remain a significant feature of today’s Chinese economy (Smith and Zheng 2016).

One reason for the difference between state-owned companies and private companies is that the former still enjoy greater benefits from the state (Tam 2000; Buckley et al. 2007; Cui and Jiang 2012). Due to the better governmental relations, a significant share of loans is granted to state-owned companies (Morck et al. 2008). One explanation is that they are more likely to be endorsed by the local Chinese governments and banks might be more willing to lend to them (Liang et al. 2012a). State-owned companies thus maintain better relations with banks, which simplifies access to capital and other financial resources at below the market rate (Buckley et al. 2007).

The differences in terms of human resource management practices between private and state-owned companies tend to be that the latter remain more prone to government intervention, interference, as well as political pressure (Hassard et al. 2004). Chinese state-owned companies are characterised by strong connections to the central and provincial government, as well as by a strong hierarchy, complex organisational structures and corporate governance with little transparency. They have inherited the employment and social welfare functions and retained the traditional management characteristics of the Chinese centrally planned economy before 1978 (Bai and Enderwick 2005). The former Chinese workforce management system consisted of the ‘three irons’: the iron rice-bowl, iron chair and iron wage (Ding and Warner 2001). The enterprise-based danwei (or work unit) system provided lifetime employment, health
care, corporate accommodation and child care (the iron rice bowl). Employment was centrally planned, and government appointed the management of the state-owned companies (iron chair). Managerial positions were attained by the candidates' technical expertise and political soundness. The pay scheme was egalitarian, based on workers' age, seniority and loyalty (iron wages; Ding and Warner 2001).

Nowadays, the pay and reward system in state-owned companies is determined by responsibility, individual skills, enterprise performance and qualifications, but also by length of service and includes not only financial rewards but also subsidies for housing and health insurance. Moreover, the Chinese government retains a critical role in the recruitment of managers in state-owned companies and their careers. In state-owned companies, the Communist Party is responsible for cadre development and promotion, which are usually measured by the criteria of de (political and moral attitudes), neng (ability and educational background), qing (working attitudes) and ji (performance and achievement; Shen and Darby 2006). These criteria are not necessarily in the interest of the company. Political pressure and global competition have led to a hybrid form of management in state-owned companies, in which Western practices have been integrated partially but the tradition of the ‘three irons’ system remains (for example, Hassard et al. 2004).

While the number of state-owned companies had decreased to only 6,770 in 2012, the number of private enterprises increased to about 13 million (the National Bureau of Statistics of China 2013). The majority of Chinese private companies are family businesses, which emerged after the economic reform and thus have fewer features of the traditional system. They are characterised by a high degree of centralised decision-making and power concentration (Child and Pleister 2003). Compared with state-owned companies, private companies are more transparent and have simpler structures and easier communication channels, which leads to fast decision-making. When attempting to understand decision-making within a Chinese business, a family tree may be more informative than an organisational chart (Liu and Woywode 2013).

Private companies are more independent in their management and their political heritage therefore has less influence on their human resource management. Compared with state-owned companies they do not have the burden of over-employment and social obligations (for example, Child and Pleister 2003; Liang et al. 2012b). This advantage can lead to greater efficiency, flexibility and cost-effectiveness. Nevertheless, many private companies are characterised by short-term oriented business goals (Cooke 2005). Being especially more pragmatic and flexible regarding human resource management practices, private companies lack long-term human resource planning, a commitment to training and development and employee involvement and participation (Shen 2005). Chinese private companies typically do not implement a systematic training scheme due to financial and time resources (Shen and Darby 2006). Therefore, commonly, training occurs on the job. Usually, the senior management is responsible for management development. Thus, the organisational structures tend to be simpler, which may become unsuitable when the firm internationalises (Bai and Enderwick 2005).
Regulatory and institutional environmental differences have led to an unbalanced distribution of resources between state-owned companies and private companies (Bai and Enderwick 2005; Luo and Tung 2007). For example, China’s government initiated the ‘Go global’ strategy to encourage state-owned companies to internationalise. This policy eases access to commercial loans and funding from Chinese banks and institutionalises centres providing ‘International Business’ and foreign languages courses, as well as overseas business service centres (Voss 2011). While the ‘Go global’ strategy has encouraged state-owned companies to invest abroad since 1999, Chinese private companies have been legally permitted to invest abroad only since 2003 (for example, Luo and Tung 2007). Hanemann and Rosen (2012) estimate that 72 per cent of Chinese outward foreign direct investment in Europe was invested by state-owned companies compared with only 28 per cent by private companies in the period 2000–2011. In contrast, 359 of the 573 investment deals – 63 per cent – were conducted by private companies and 37 per cent by state-owned companies. There is thus a clear difference in terms of government support for investing abroad between ownership types in China.

Particular sectors are encouraged as the Chinese government selects eligible industries to advance in the future. Private companies tend to invest greenfield in the service industry, and they expand to Europe through social networks (Wu and Sheehan 2011; Ceccagno 2015). Successful established private-owned firms include Huawei and Geely, which work with host country institutions and strive to advance their employment practices and do not limit themselves to replicating Chinese employment practices (Fetscherin and Beuttenmuller 2011; Cooke 2012). In comparison, the involvement of high levels of government control and the inherited corporate culture, coupled with inflexible management styles have decreased the effectiveness of Chinese state-owned companies in handling the local overseas workforce. In the study on Chinese companies in Germany by Liu and Woywode (2013:478), a German CEO dealing with a Chinese state-owned company notes that ‘after almost three years of cooperation, I still don’t understand their organisational structure and I don’t think I will ever understand’. The complexity of state-owned companies’ organisational structure in combination with communication difficulties can create complex problems between Chinese and European partners.

A second reason for the difference between these ownership types is the motivation. Private companies go abroad to invest in countries with large, open economies (Ramasamy et al. 2012). For instance, Lenovo’s motive to internationalise was to advance their technology, grow their international networks and increase their international recognition. This acquisition sped up Lenovo’s internationalisation process, and because IBM agreed to distribute Lenovo’s PCs, the company increased its international network and recognition. Privately owned companies investing in European firms aim to adapt to international standards or to overcome disadvantages at home (Child and Rodrigues 2005; Mathews 2006; Rui and Yip 2008), which may strengthen their position in the Chinese market (Shimizu et al. 2004). In contrast,

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3. Hanemann and Rosen (2012) define POEs as having 80% or greater nongovernment ownership.
state-owned companies tend to target advanced economies mainly for knowledge, technologies and accessing brands (Buckley et al. 2007).

Both China’s unique institutions and Chinese multinationals’ resources and competencies are crucial factors, which should be paid attention to when interacting with Chinese companies or conducting research on Chinese MNCs. The professionality of human resource management practices and internationalisation processes depends, however, not only on the ownership type but in general on the relationship to the central government, the sector, the regions, the type and size of the company. International human resource management practices of private companies are less well explored, and there is a need for more knowledge about the international human resource management of Chinese companies across countries, sectors and ownership, in order to fully understand their similarities and differences.

5. Conclusion

China’s participation in the global economy as an outward investor is relatively recent. As the managerial behaviour of Chinese investors in Europe is still little known and the impact of their investment unclear, this chapter has summarised the literature on Chinese human resource management between 2001 and 2015. Three important themes emerge from the reviewed literature. First, in contrast to Western multinationals, Chinese companies have adopted a ‘light-touch’ or ‘hybrid’ approach toward managing their European subsidiaries (Cogman and Tan 2013; Liu and Woywode 2013). The human resource management departments of Chinese multinational companies seem rarely to guide the human resource management departments of foreign subsidiaries or to assist in decision-making processes on overseas FDI (for example, Cooke and Lin 2012; Fan et al. 2013; Zhu and Jack 2016). Improvement in the responsibilities and global strategy of central management human resource departments would enable Chinese multinationals to gain a competitive advantage in the world market more easily.

Second, Chinese multinational companies tend to send abroad a larger number of Chinese expats compared with Western multinationals. Through this kind of integration approach, unintended home-country effects have started to emerge (Cooke 2012). Examples include the fact that Chinese multinational companies tend to accept trade unions but rarely join local employers’ associations. In addition, the international recentness of Chinese multinationals also creates cross-cultural misunderstanding between local employees and Chinese expats, such as expectations of particular work values and different communication styles. With the current growing trend of Chinese investment (see for instance Bian and Emons 2017; Hanemann and Huotari 2017), the demand for Chinese expatriates with international management experience and sufficient cross-cultural skills will also continue to grow. Therefore, training should be employed to sensitise Chinese and local management, as well as the workforce with regard to cultural differences.

Third, the academic literature focuses on the difference between state-owned and private-owned ownership types. State-owned companies and private companies face
different regulatory and institutional environments and thus have different advantages and disadvantages. The difference between state-owned companies and private companies tends to be that the former remain more prone to government intervention, which also becomes visible in human resource practices and policies. However, China’s home policies are also responsible for differences (Bai and Enderwick 2005; Luo and Tung 2007).

As Chinese multinational companies expand their businesses into the European market (see, for instance, Cozza et al. 2015) it becomes increasingly important to understand how Chinese investors manage their workforce in foreign operations. Given the predominance of international human resource management studies focusing on Western European and North American multinationals (Glover and Wilkinson 2007; Wright et al. 2005), the new development of upward investment from China to Europe is a relatively new phenomenon. Chinese overseas investment provides a stimulating new research setting to test and expand the theoretical work on multinationals for academics. Moreover, it provides an exciting new business context to gain an understanding of and learn from Chinese businesses operating in the European market. Because of its novelty, the understanding of China’s context is essential (for example, Child and Marinova 2014; Harzing and Pudelko 2016). This chapter has argued that the ‘hybrid integration approach’, unintended home-country effects and distinct Chinese ownership types are features that those interacting with Chinese companies should attend to.
References


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All links were checked on 24.02.2017.
Part 2

Patterns of Chinese foreign direct investment flows in Europe
1. Introduction

After being the largest recipient of foreign direct investments (FDIs) among developing countries for more than two decades, China has became an important outbound investor, especially since the so-called ‘Go Global’ strategy was launched in 1999, as an effort by the Chinese government to promote investments abroad. The government, together with the China Council for the Promotion of International Trade (CCPIT), introduced several schemes to assist domestic companies in developing a global strategy to exploit opportunities for expanding in international markets. Since then, Chinese companies, especially state-owned enterprises and mostly large companies, but increasingly also medium-sized ones, have invested overseas to diversify their assets and location portfolios. In the following years, especially since 2006, China has accelerated its outward expansion through FDIs, and in 2015 it became the third largest in the world after the United States and Japan, while remaining the third main destination of FDIs, after the United States and Hong Kong (UNCTAD 2016). In particular, in 2014 China’s outstanding investment stock amounted to around USD 730 billion, which is around 3 per cent of all outward FDI in the world (UNCTAD 2016). In terms of destinations, the largest share of Chinese FDI stock is located in Hong Kong (58 per cent) and, overall, 84 per cent of the entire stock is directed to other developing countries (in particular, South-East Asia, 5 per cent and Sub-Saharan Africa, 3 per cent). Among the destinations in advanced economies, the EU (6 per cent) and the US (3 per cent) are among the top ones; it is worth adding that FDI stocks directed to Europe increased by around 77 times from 2003 to 2012, higher than in the United States, where Chinese FDIs rose by 47 times (UNCTAD 2014).

In this chapter, we rely on firm-level data on investment deals by Chinese firms to provide an updated picture of Chinese outward FDI patterns in Europe. In the following section, we introduce our data sources and present a map of Chinese investments in the EU by sector, country and entry mode. Then with a focus on greenfield investments, we offer a description of their distribution along the value chain in the recipient sectors. There follows an analysis of acquisitions, with a focus on those in the high-tech industries. We conclude with some policy implications.

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1. In this chapter we refer to European Union (EU) in terms of the following countries: Austria, Belgium, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK.
2. An overview of Chinese greenfield FDI and mergers and acquisitions in the European Union

This chapter relies on data at the level of both deals and firms to map the presence of Chinese investors in the European Union by sector and country. This represents an advantage with respect to most of the existing studies, which are based either on aggregate FDI data from the balance of payments or on official FDI data from the Chinese Ministry of Commerce (MOFCOM) (among others, see Buckley et al. 2007, Kolstad and Wiig 2012). Our data come from different sources. Information on Chinese greenfield investments to the EU in 2003–2014 are from FDI Markets (Financial Times Group), which is a deal-based database reporting all cross-border investments resulting in a wholly-owned subsidiary covering all sectors and countries worldwide. FDI Markets collects data through media sources and companies’ websites. For each investment, it provides details about the name and the location of the investor, the year of the deal, the sector, the main business activity undertaken with the project and the location where the investment takes place (in terms of country, region and city).

Merger and acquisitions data are obtained from two different sources. The first is Zephyr (Bureau van Dijk’s – BvD) and the second SDC Platinum (Thomson Reuter). On mergers and acquisitions there is information such as the name and location of the acquirer and the target company, the status of the deal (‘completed’, ‘rumour’, ‘pending’), the percentage of ownership transferred from the target to the investor and the date of the project. In the current analysis, we have taken into account all the ‘completed’ deals by Chinese acquirers of EU targets within the time-span 2003–2014. For the period from 2003 to 2011, the data about greenfield investments and acquisitions have been matched and harmonised at the firm level (both investors and target companies), including information about the ownership structure, the location of domestic and foreign subsidiaries, the sector of economic activity, the consolidated and unconsolidated balance indicators, some firm size variables, the names and types of shareholders and patenting activity. All these additional variables have been sourced by the database Orbis, published by Bureau van Dijk.

It is useful to add that our unit of analysis is the number of deals, which is more appropriate than the value of the investment when investigating the location strategies of multinationals because the choice of a specific country might be largely independent of the (initial) amount of capital invested. Moreover, the investment size varies widely across sectors, with resource-intensive industries showing higher average investment size than consumer goods sectors or services. This is the main reason why several empirical studies have chosen the number of deals (and not the investment size) as their unit of analysis (among others see Crescenzi et al. 2014; Amighini et al. 2013; Amighini and Franco 2013; Ramasamy et al. 2012).

2. FDI data provided by MOFCOM are based on officially approved investments. Despite recent data improvements and the formal commitment by MOFCOM to comply with international standards, there are still some concerns about their reliability and within the research community there is broad consensus that there are problems of underestimation. For a detailed analysis of these methodological problems see Amighini et al. 2014.

3. A total of 41 per cent of the deals in EMENDATA are both in Zephyr and SDC Platinum, 28 per cent are reported only in Zephyr and 31 per cent are only in SDC Platinum.
Based on the data sources described above, Figure 1 shows the geographical distribution of Chinese FDIs in the EU. Between 2003 and 2014, the countries receiving the largest number of investments are Germany, United Kingdom France, Netherlands Italy and Spain. These countries account for almost 76 per cent of the total of Chinese investments in the EU. Other important destinations are Hungary, Ireland, Poland, Romania and Sweden. Interesting differences come out when considering the geography of investments together with their entry mode. Greenfield deals are more widespread across the EU countries, also locating in Central and Eastern Europe (mainly in Bulgaria, Hungary, Poland and Romania). Instead, mergers and acquisitions are much more concentrated in the EU ‘core’, as well as in the Northern EU countries (Finland and Sweden).

Figure 1  The geography of Chinese investments in the EU (2003–2014) (number of deals)
Figure 1  The geography of Chinese investments in the EU (2003–2014) (Cont.)

Source: fDi Markets and BvD Zephyr.
Table 1 provides a snapshot of the top destination countries. Germany is by far the top destination of Chinese investments, receiving 37 per cent of total investments (458 deals): 39 per cent of greenfield projects (404 deals) and 26 per cent of mergers and acquisitions (54 deals). The United Kingdom follows at a certain distance, with less than half of the investments directed to Germany (202), but a number of mergers and acquisitions that is only slightly lower than those in Germany (41). The other European countries receiving a large number of investments are France (104), Netherlands (66), Italy (57) and Spain (49).

Table 1  Top destinations in the EU (number of deals and %)

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<th>Mergers and acquisitions</th>
<th>Greenfield</th>
<th>Total</th>
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<tbody>
<tr>
<td>Germany</td>
<td>54 (26.3)</td>
<td>404 (39.3)</td>
<td>458 (37.1)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>41 (20)</td>
<td>161 (15.6)</td>
<td>202 (16.3)</td>
</tr>
<tr>
<td>France</td>
<td>27 (13.2)</td>
<td>77 (7.5)</td>
<td>104 (8.4)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>24 (11.7)</td>
<td>42 (4.1)</td>
<td>66 (5.3)</td>
</tr>
<tr>
<td>Italy</td>
<td>16 (7.8)</td>
<td>41 (4)</td>
<td>57 (4.6)</td>
</tr>
<tr>
<td>Spain</td>
<td>6 (2.9)</td>
<td>43 (4.2)</td>
<td>49 (4.0)</td>
</tr>
<tr>
<td>Total above</td>
<td>168 (82)</td>
<td>768 (74.6)</td>
<td>936 (75.8)</td>
</tr>
<tr>
<td>Total EU</td>
<td>205 (100)</td>
<td>1029 (100)</td>
<td>1234 (100)</td>
</tr>
</tbody>
</table>

Source: fDi Markets and BvD Zephyr.

In general, greenfield investments are by far the most preferred entry mode, reaching 83 per cent of the total investments (1,029 out of 1,234). Moreover, as shown in Figure 2 considering time trends, greenfield investments increased up to 2011 and then started to decrease, while mergers and acquisitions increased continuously.

To explain the propensity to use different entry modes, we may refer to a recent econometric analysis (Cozza et al. 2015) carried out on the same data sources of greenfield investments and acquisitions, also including a control group of Chinese companies without foreign investments, similar to the investors with respect to their structural characteristics, such as size, age and sector specialisation. In this empirical exercise the authors find that Chinese investors register higher productivity than non-investing firms, but this effect materialises only some years after the initial investment. Some interesting differences in these results occur when distinguishing investments by entry mode. It is shown that greenfield investments show a stronger and faster impact on company size, and total sales, confirming the importance of market-seeking motives. Instead, acquisitions result in negative financial performance, although facilitating early access to intangible assets and confirming their orientation to the strategic asset seeking motivation, which will be further investigated later in the chapter.

Extending our descriptive analysis to sector- and investor-levels across the different entry modes, for the period 2003–2011, Table 2 shows that Chinese FDI in Europe is very concentrated not only in terms of destination countries (as seen in Table 1), but also target sectors. In particular, almost half of the Chinese investments (48 per cent) are directed to only four industries: electronics (128 deals), machinery and engines (114), communications (97) and automotive (62). Moreover, the machinery and engines...
sector hosts the largest number of mergers and acquisitions (35 or 21 per cent), while the electronics and communications industries receive the largest amount of greenfield investments (114 and 97, respectively).

Table 3 shows the distribution of Chinese FDIs across the top destination sectors and the main EU destination countries, presenting a very concentrated pattern. The machinery and engines sector receives the largest share of Chinese investments in Germany and the United Kingdom (45.6 per cent and 33.1 per cent of total investments, respectively); in Italy and Spain the most targeted sector is electronics (33.3 per cent and 64.3 per cent, respectively); finally, communications is the top destination industry in France (48 per cent) and in the Netherlands (along with electronics with 28.6 per cent).

Table 4 lists the six investing companies with more than 10 deals, which undertake around 16 per cent of all Chinese FDIs in the EU. Multinationals investing through complex entry mode strategies (both greenfield and mergers and acquisitions) belong to the capital- and knowledge-intensive manufacturing industry, such as automotive (SAIC), chemicals (ChemChina, China National Chemical), and energy (Suntech Power Holdings). Interestingly, investors in the service sector (ICBC) and in the electronics industry (Huawei and ZTE) only invest using the greenfield entry mode.
As previously indicated, the FDI Markets database provides information about 18 specific business activities carried out through investments. This information makes it possible to locate investments along the value chain and, following Sturgeon’s classification (2008), we have associated each business activity with one of the following value chain stages: Headquarters (HQ), Innovative Activities (INNOVATION), Commercial Activities (SALES), Logistics and Distribution Activities (LOG & DIST), and Manufacturing Activities (MANUFACTURING).4

Table 2  Top destination sectors in the EU (number of deals and %) (2003–2011)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Mergers and acquisitions</th>
<th>Greenfield</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>13 (7.7)</td>
<td>49 (7.2)</td>
<td>62 (7.4)</td>
</tr>
<tr>
<td>Communications</td>
<td>0 (0.0)</td>
<td>97 (14.4)</td>
<td>97 (11.5)</td>
</tr>
<tr>
<td>Electronics</td>
<td>14 (8.3)</td>
<td>114 (16.9)</td>
<td>128 (15.2)</td>
</tr>
<tr>
<td>Machinery &amp; engines</td>
<td>35 (20.8)</td>
<td>79 (11.7)</td>
<td>114 (13.6)</td>
</tr>
<tr>
<td>All sectors</td>
<td>168 (100)</td>
<td>673 (100)</td>
<td>841 (100)</td>
</tr>
</tbody>
</table>

Source: fDi Markets and BvD Zephyr.

Table 3  Investments in top destination sectors and top destination countries (number of deals and %) (2003–2011)

<table>
<thead>
<tr>
<th>Sector</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Netherlands</th>
<th>Spain</th>
<th>UK</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>0 (0.0)</td>
<td>19 (12.7)</td>
<td>8 (29.6)</td>
<td>3 (21.4)</td>
<td>0 (0.0)</td>
<td>16 (34.8)</td>
<td>46 (16.7)</td>
</tr>
<tr>
<td>Communications</td>
<td>12 (48.0)</td>
<td>17 (11.4)</td>
<td>8 (29.6)</td>
<td>4 (28.6)</td>
<td>5 (35.7)</td>
<td>16 (34.8)</td>
<td>62 (22.6)</td>
</tr>
<tr>
<td>Electronics</td>
<td>4 (16.0)</td>
<td>45 (30.3)</td>
<td>9 (33.3)</td>
<td>4 (28.6)</td>
<td>9 (64.3)</td>
<td>5 (10.9)</td>
<td>76 (27.6)</td>
</tr>
<tr>
<td>Machinery &amp; engines</td>
<td>9 (36.0)</td>
<td>68 (45.6)</td>
<td>2 (7.5)</td>
<td>3 (21.4)</td>
<td>0 (0.0)</td>
<td>9 (19.5)</td>
<td>91 (33.1)</td>
</tr>
<tr>
<td>Total</td>
<td>25 (100)</td>
<td>149 (100)</td>
<td>27 (100)</td>
<td>14 (100)</td>
<td>14 (100)</td>
<td>46 (100)</td>
<td>275 (100)</td>
</tr>
</tbody>
</table>

Source: fDi Markets and BvD Zephyr.

As previously indicated, the FDI Markets database provides information about 18 specific business activities carried out through investments. This information makes it possible to locate investments along the value chain and, following Sturgeon’s classification (2008), we have associated each business activity with one of the following value chain stages: Headquarters (HQ), Innovative Activities (INNOVATION), Commercial Activities (SALES), Logistics and Distribution Activities (LOG & DIST), and Manufacturing Activities (MANUFACTURING).4

Table 4  Top investors (number of deals and %) (2003–2011)

<table>
<thead>
<tr>
<th>Company</th>
<th>Mergers and acquisitions</th>
<th>Greenfield</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huawei Technologies</td>
<td>0 (0.0)</td>
<td>52 (7.7)</td>
<td>52 (6.2)</td>
</tr>
<tr>
<td>ZTE</td>
<td>0 (0.0)</td>
<td>24 (3.5)</td>
<td>24 (2.8)</td>
</tr>
<tr>
<td>China National Chemical</td>
<td>9 (5.3)</td>
<td>13 (1.9)</td>
<td>22 (2.6)</td>
</tr>
<tr>
<td>Industrial and Commercial Bank of China (ICBC)</td>
<td>0 (0.0)</td>
<td>15 (2.2)</td>
<td>15 (1.8)</td>
</tr>
<tr>
<td>Shanghai Automotive Industry Corporation (SAIC)</td>
<td>3 (1.8)</td>
<td>8 (1.2)</td>
<td>11 (1.3)</td>
</tr>
<tr>
<td>Suntech Power Holdings</td>
<td>1 (0.6)</td>
<td>9 (1.3)</td>
<td>10 (1.2)</td>
</tr>
<tr>
<td>All investors</td>
<td>168 (100)</td>
<td>673 (100)</td>
<td>841 (100)</td>
</tr>
</tbody>
</table>

Source: fDi Markets and BvD Zephyr.

4. Each value chain stage includes, besides core activities, also support activities, such as Business Services (HQ), Human Resource Management (INNOVATION), Technical Services and Customer and After-sales Services (SALES) and Firm Infrastructure (MANUFACTURING). The exact correspondence between fDi Markets business activities and value chain stages is the same as in Crescenzi et al. (2013).
Figure 3 shows that the majority of Chinese greenfield investments in the EU are for commercial purposes (48 per cent), being classified in sales, marketing and retail activities. Headquarters and manufacturing activities are also important, as they represent, respectively, 21 per cent and 18 per cent of all activities. Finally, innovative activities (R&D, design, development and testing, training), along with logistic and distribution activities currently represent a smaller share of Chinese investments (respectively, 9.5 per cent and 4 per cent).

**Figure 3    Distribution of investments along the value chain (2003–2014)**

![Distribution of investments along the value chain (2003–2014)](image)

Source: fDi Markets and BvD Zephyr.

Figure 4 presents the trend of the different business activities. Interestingly, commercial activities have been decreasing over recent years, while investments associated with manufacturing and innovative activities, have been – albeit slowly – increasing.

Finally, the geography of Chinese investments in the EU seems to differ according to the business activities undertaken (Figure 5). In particular, while commercial activities are more homogeneously spread over European countries, higher value-added activities (Headquarters and Innovation) are more concentrated in the EU ‘core’, in France, Germany, Italy, Netherlands and the United Kingdom. Remarkably, the map of greenfield investments associated with innovative activities almost overlaps with that of mergers and acquisitions (Figure 1) and this might suggest that the mergers and acquisitions entry mode is more likely to be chosen for asset-seeking purposes (Amendolagine et al. 2015). Finally, manufacturing activities are mostly associated with investments undertaken not only in the EU ‘core’, but also in lower labour cost economies in the eastern part of the EU (Poland and Romania).
Figure 4  Investments over time along the value chain

Source: fDi Markets and BvD Zephyr.

Figure 5  Map of Chinese investments in the EU by value chain stage (2003–2014) (number of deals)
Figure 5  Map of Chinese investments in the EU by value chain stage (2003–2014) (number of deals) (Cont.)

Source: fDi Markets and BvD Zephyr.
3. Are Chinese mergers and acquisitions in the EU supporting technology catch-up?

Overall, Chinese cross-border acquisitions have risen both in value and world share, reaching a peak in 2013 of more than USD 50 billion $, corresponding to about 20 per cent of all acquisitions worldwide and almost 50 per cent of the total outflows from China (Figure 6) (UNCTAD 2016). In 2015, Chinese acquisitions represented 34 per cent of total outflows and according to UNCTAD (2016) a number of cross-border megadeals, such as Haier’s acquisition of GE Appliances in the USA, ChemChina’s purchases of Pirelli in Italy and Syngenta in Switzerland, as well as Cosco’s deal for Piraeus Port have reinforced China’s position as a leading investor in developed economies.

As highlighted above, Figure 2 shows that although most Chinese FDI in the EU comprises greenfield investments, the number of multinationals deals has been almost constantly increasing since 2003. In terms of destinations, France, Germany and the United Kingdom hosted 16 deals in 2014, 47 per cent of Chinese cross-border acquisitions in that year (Figure 7). Considering the value of acquisitions, in 2012 the above countries received almost USD 9 billion FDI from China; that is, about 50 per cent of all Chinese FDI stock in the EU countries (UNCTAD 2016). Overall, Germany hosted the largest share of Chinese acquisitions from 2003 to 2011 (26 per cent). However,
looking at the dynamic trends represented in Figure 7, the top destinations of Chinese cross-border acquisitions appear to have changed over time: the United Kingdom hosted the largest share of Chinese acquisitions from 2007 to 2010, when Germany became the top destination. France was a very important target at the beginning of the period, attracting 50 per cent in 2003 and 38 per cent of deals in 2004.

Figure 6  Chinese cross-border acquisitions (value and %)

Source: UNCTAD 2016.

Figure 7  Top country target of Chinese mergers and acquisitions

Source: Bvd Zephyr and SDC Platinum.
3.1 High-tech acquisitions

Chinese cross-border acquisitions of companies in advanced countries are generally considered the fastest and most effective mean of accessing strategic assets and key capabilities (Chung and Alcácer 2002). They are a key strategy for Chinese multinational enterprises to acquire technology and brands, deepen marketing and R&D capabilities, access distribution networks and generally augment their managerial and organisational skills (Amendolagine et al. 2015; Cozza et al. 2015; Gammeltoft 2008; Zhou et al. 2014). This is widely documented by several studies of Chinese investments in the advanced countries (Amighini et al. 2013; Buckley et al. 2007; Rabbiosi et al. 2012). Through these acquisitions Chinese multinationals lacking technological firm-specific advantages may be able to close their technological gap with incumbent firms in advanced countries, acquiring new skills and competences in organisation, technology and management (Cui et al. 2014; Vermeulen and Barkema 2001). Moreover, through acquisitions, Chinese multinationals seek to access local knowledge embedded in the regions where their target firms are located, via the development of formal or informal networks with local actors such as suppliers, customers, universities and research centres (Cantwell and Mudambi 2011; Li et al. 2012; Piscitello et al. 2015). Thus, regions with strong technological bases offer Chinese multinationals the opportunity to tap into a rich pool of knowledge and to upgrade their technological capabilities and skills accordingly (Awate et al. 2015).

Chinese medium to high tech acquisitions\(^5\) increased substantially from 2003 to 2011 in the EU, following the general trend presented in Figure 2. In particular since 2007, with a downturn in 2010, the rise has been quite significant. Overall, they represent 43 per cent of Chinese cross-border acquisitions in the EU countries in our database.

Table 5 provides some information about the geographical and sectoral distribution of Chinese medium and high-tech acquisitions in the EU countries. Almost 80 per cent of the acquisitions are in manufacturing: the automotive industry and the machinery and equipment industries attract around 21 per cent of all Chinese medium to high tech acquisitions; both electronics and chemical industries receive around 16 per cent of all investments. In the service industry, 18 per cent of the acquisitions are in the computer and programming industry and the remaining ones are in publishing, information services and telecommunications.

Acquisitions in Germany are mainly in the automotive industry with investments going to Bavaria, a key specialised cluster, and in the machine industry, in which the main attracting regions are again Bavaria and Baden Wurttemberg, both highly specialised. In the automotive industry, Chinese companies have also made acquisitions in the United Kingdom and in France, targeting regions with strong specialisation in the sector, such as the southern Alpine region of France. In Italy, Chinese acquisitions target the manufacturing sector (mainly electronics and machinery) in Lombardy.

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5. We define medium and high-tech acquisitions according to the industry classification of investors. For deals extracted from BvD Zephyr, we employed the 2-digit NACE codes: 20, 21, 26, 27, 28, 29, and 30 (for manufacturing) and 59, 60, 61, 62, 63, 64, 65, 66, 69, 70, 71, 72, 73, 74, 78, and 80 (for services). Instead, the SDC Classification was used for the deals taken from the SDC-Platinum database.
In Belgium and in Portugal, Chinese multinationals have made acquisitions in the chemical sector, and in Austria the automotive industry. In the Netherlands half of the acquisitions are in the chemical and electronics sectors (mostly in the western region). Finally, in computer and programming Chinese acquisitions target France and the United Kingdom.

Table 5  
China’s outward FDI stock in central and eastern European countries: main forms, sectors and companies

<table>
<thead>
<tr>
<th>Country</th>
<th>Chemicals and pharmaceuticals</th>
<th>Electronics and electric products</th>
<th>Machinery and equipment</th>
<th>Motor vehicles and other transport equipment</th>
<th>Other manufacturing industries</th>
<th>Computer programming and consultancy</th>
<th>Other service industries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td></td>
<td></td>
<td>1 (8.3)</td>
<td>1 (1.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>2 (22.2)</td>
<td></td>
<td></td>
<td>2 (3.6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td>1 (11.1)</td>
<td></td>
<td>2 (3.6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>1 (11.1)</td>
<td></td>
<td>1 (8.3)</td>
<td>2 (33.3)</td>
<td>1 (50.0)</td>
<td>Ile de France</td>
<td>1 (11.1)</td>
<td>6 (10.7)</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3 (33.3)</td>
<td></td>
<td></td>
<td>20 (35.7)</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1 (33.3)</td>
<td>Lombardy</td>
<td></td>
<td>5 (8.9)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2 (22.2)</td>
<td></td>
<td>1 (8.3)</td>
<td>2 (22.2)</td>
<td>8 (14.3)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>1 (11.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1 (1.79)</td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td></td>
<td>1 (8.3)</td>
<td>1 (11.11)</td>
<td>2 (3.6)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3 (33.3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9 (16.0)</td>
</tr>
<tr>
<td>Total</td>
<td>9 (100)</td>
<td>9 (100)</td>
<td>12 (100)</td>
<td>12 (100)</td>
<td>3 (100)</td>
<td>2 (100)</td>
<td>9 (100)</td>
<td>56 (100)</td>
</tr>
</tbody>
</table>

Source: Bvd Zephyr and SDC Platinum.

Figure 8 shows the geographical origin of the Chinese multinationals that undertook medium to high tech acquisitions in the EU. More than 60 per cent of them are from only four provinces: Beijing (25 per cent), Hong Kong (18 per cent), Zhejiang, the region south of Shanghai, (11 per cent) and Jiangsu (7 per cent) north of Shanghai. Other important home regions are in the eastern side of the country: Shanghai, Jiangxi, Shandong and, finally, Guangdong, on the border with Hong Kong.

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6. Acquisitions originating from Hong Kong, undertaken by companies from mainland China are included.
3.2 Impact on the innovation capacity of Chinese multinationals

Although the theory of international business and strategic management generally supports a positive effect of mergers and acquisitions on acquirers’ innovation capabilities (Cohen and Levinthal 1989; Grant 1996; Lane and Lubatkin 1998; Kapoor and Lim 2007; Nelson and Winter 1982), the empirical evidence is rather inconclusive (de Man and Duyster 2005). In particular, the restructuring of R&D operations after acquisition can drive possible negative effects by reducing R&D personnel or replacing top managers (Colombo and Rabbiosi 2014). Furthermore, the urgent necessity of showing how successful the acquisition is might lead to a privileging of investments with short-terms rewards over more risky and uncertain investments, such as those in innovation (Valentini 2012).

In addition, when investing in advanced economies, multinationals from emerging markets not only suffer from the ‘liability of foreignness’ (like all other multinationals), due to the geographical, cultural and institutional distance between the home and host countries (Kostova and Zaheer 1999; Zaheer 1995; Hymer 1976). They also suffer from
what one might call the ‘liability of emergingness’, which is related to their emerging market origin, which reduces their legitimacy in advanced markets (Madhok and Kayhani 2012; Ramachandran and Pant 2010).

Table 6 illustrates the post-deal innovation performance of Chinese investors that have undertaken medium/medium-high tech multinationals in Europe, showing how the number of their patent applications7 within three years after the deal vary according to: (i) their knowledge base before the acquisition; (ii) the knowledge base of their acquired companies; and (iii) the knowledge base of the host regions. The knowledge base of both acquirers and acquired companies is measured as the sum of the patents applied in the five years before the deal, plus their respective backward citations and that of the host regions8, where the acquired firm is located, is measured as the logarithm of the cumulated number of PCT (Patent Cooperation Treaty) patents per capita in the five years before the deal.

Table 6  
INPADOC patents in the three years after the acquisition (mean values)

<table>
<thead>
<tr>
<th>(0)</th>
<th>(1)</th>
<th>Difference (1-0)</th>
<th>T-Stat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low acquirer knowledge base</td>
<td>High acquirer knowledge base</td>
<td>322.5</td>
<td>317.12</td>
</tr>
<tr>
<td>5.37</td>
<td>322.5</td>
<td>317.12</td>
<td>8.63*</td>
</tr>
<tr>
<td>Low acquired knowledge base</td>
<td>High acquired knowledge base</td>
<td>0.64</td>
<td>-62.27</td>
</tr>
<tr>
<td>62.91</td>
<td>0.64</td>
<td>-62.27</td>
<td>-1.27</td>
</tr>
<tr>
<td>Low host region knowledge base</td>
<td>High host region knowledge base</td>
<td>28.57</td>
<td>-47.62</td>
</tr>
<tr>
<td>76.19</td>
<td>28.57</td>
<td>-47.62</td>
<td>-1.21</td>
</tr>
</tbody>
</table>

Note: * Significant at 1% level.
Source: Bvd Zephyr, SDC Platinum, PATSTAT.

Looking at post-deal patent applications, Chinese investors with a high knowledge base before the acquisition – larger than the mean value of 55.52 – benefit much more from their acquisitions in Europe than acquirers with a low knowledge base (lower than the mean value). The difference between the mean number of patents applied by companies with a high knowledge base and that applied by companies with a low knowledge base is 317 (statistically significant at 1 per cent). This result confirms the literature on absorptive capacity (Cohen and Levinthal 1989) and technology capability accumulation (Bell and Pavit 1993; Lall 1992), clearly making the point that a large knowledge base is needed to acquire new knowledge (Cantwell and Mudambi 2011).

Besides, the patenting performance of the acquirers targeting companies with a high knowledge base (larger than the mean value of 4.82) is worse than that of multinationals acquiring enterprises with a low knowledge base. On average, companies targeting low knowledge base companies apply for 62.27 more patents than those with high knowledge base targets. This result could be explained by the ‘liability of emergingness’ of the acquirers, which can be particularly harmful when targets have a very high

7. We use INPADOC (International Patent Documentation) families as unit of measurement in order to consider the entire patenting production of companies and, further, to avoid double counting. Data are drawn from PATSTAT database.
8. Regions are defined at NUTS2 level.
knowledge base. In these cases, acquired companies might be willing to protect their innovation capabilities, limiting the transfer of knowledge to their acquirers (Awate et al. 2015; Hansen et al. 2016).

Finally, the ‘liability of emergingness’ also plays a role when Chinese acquisitions are directed to highly innovative regions, where universities, other local firms and business service providers can represent a potential source of knowledge for the acquirers (Beugelsdijk and Mudambi 2013; Dau 2013; Iammarino and McCann 2013; Meyer et al. 2011; Mudambi and Swift 2011). As a matter of fact, in these innovative regions we can expect that the willingness of local actors to share their knowledge with Chinese investors would be very weak. Table 6 confirms the inferior post-deal innovation performance (28.57 patents on average) of multinationals acquiring companies located in highly innovative regions (those with a number of PCT patents per capita larger than the mean value), while the number of post-deal patents is larger for companies investing in low knowledge base regions (76.19 patents on average).

3.3 Some case studies

Some qualitative evidence about recent acquisitions confirms the difficulties Chinese multinationals are still facing in their attempt to acquire knowledge with their investments in Europe. An interesting case is the takeover of the French Thomson TV business by the Chinese company TCL in 2004. In 2006, just two years after the deal, TCL reported a cumulative loss of USD 680 million. There were several reasons for this failure: first, TCL lacked a proper financial and competitive plan at the moment of acquisition; second, the acquirer was also deficient in terms of its ability to absorb knowledge-relative assets from the target company, mostly because Chinese managers had poor international experience in global marketing; and finally, the cultural distance turned out to be a big issue because Chinese management had to deal with local managers and workers accustomed to different rules and routines (Deng 2010).

Qianjiang Group (QJ), one of the top Chinese state-owned enterprises and the largest Chinese motorcycle producer, faced similar difficulties in the takeover of the Italian motorbike producer Benelli (Spigarelli et al. 2012). With this acquisition, QJ was targeting the technology necessary to produce more energy-saving and environmentally-friendly motorbikes, following the general plan of the Chinese government to reduce CO₂ emissions. However, several issues hindered integration with the Italian company, including communication problems in the technical area, major cultural differences in terms of laws and rules and, particularly, a business strategy focusing more on short-term goals (reducing costs) than on long-run objectives.

Another interesting case is the Delta Group, a Chinese supplier of biomass boiler and power plants, which acquired two world-leading biomass technology companies in Denmark between 2007 and 2009 (Hansen et al. 2016). It also faced integration problems and difficulties in developing innovative capabilities, notwithstanding strong political support, given that the development of a biomass energy sector was also aimed at increasing Chinese rural farmers’ incomes by offering them the opportunity
to supply agriculture biomass waste to power plants. The Delta Group has benefitted from its acquisitions in terms of product, process and functional upgrading, thanks to the knowledge transfer of processes and more advanced control procedures. However, the ability to manage the acquired knowledge resources turned out to be quite limited and therefore technological catch-up has not yet been achieved.

The Volvo takeover by Geely in 2010 is an interesting case, showing that Chinese companies are rapidly learning from their previous mistakes and increasingly able to take advantage of the experience accumulated. Geely is among the top ten automobile producers in China and one of the top 500 Chinese companies (Fetscherin and Beuttenmuller 2012). Having some previous experience in international cross-border acquisitions (in 2006 it acquired the British Manganese Bronze Holdings, London’s leading taxi company and in 2009 the Australian auto parts maker Drivetrain Systems International), Geely undertook the largest Chinese acquisition of a foreign carmaker by taking over 100 per cent of Volvo from Ford Motor Company for USD 1.8 billion. Since the acquisition, Geely has increased profits and sales volume and has been able to upgrade the quality of its cars in terms of safety, energy efficiency and environmental protection. Furthermore, it has filed about 1,200 patents (30 of which have been granted outside China) (Fetscherin and Beuttenmuller 2012).

It is still too early to draw conclusions but we expect that Chinese companies will be increasingly more careful in choosing their targets and will improve their acquisition strategies, relying on the so-called ‘light touch approach’, leaving a lot of autonomy to their acquired firms in the immediate post-acquisition phase (Liu and Woywode 2013; Zheng et al. 2016). Indeed, some recent Chinese deals in Europe, such as the acquisition of the 143-year-old Italian company Pirelli, one of the largest tire makers worldwide, and that of Syngenta, a big Swiss maker of seeds and pesticides – both by ChemChina – show that Chinese multinationals are becoming more sophisticated and hands-off with regard to their acquisitions (The Economist 2016).  

4. Conclusions

In this chapter we have mapped the patterns of Chinese FDIs in Europe with firm-level data. Our analysis shows that Chinese FDIs in Europe are concentrated in a few host countries (the largest European economies), which account for the majority of Chinese investments in the EU. Moreover, they are concentrated in a few sectors, namely automotive, communications, electronics, machinery and engines. Interestingly, while the majority of investments have so far aimed at servicing European markets through sales by foreign subsidiaries, producing in Europe is increasing among Chinese multinationals. Central and Eastern Europe is an important destination for greenfield investment for manufacturing purposes, which suggest that intra-regional differences in the business environment and factor advantages are relevant elements driving the location choices of Chinese investors (Crescenzi et al. 2016).

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An increasingly important motivation for Chinese investments is the acquisition of strategic assets, which is taking place through greenfield investments and increasingly through acquisitions. There is evidence that buying knowledge and technology are complex activities that require strong absorptive capacity and also signals that Chinese multinational are rapidly learning how to be successful in their asset-seeking acquisitions.

Policymakers in advanced countries will need to find ways of ensuring that these acquisitions are equally beneficial and asset-augmenting for the taken-over firms and for the regions where they are located, especially when their technological assets are of strategic value for the countries they belong to. They should try to minimise the probability of predatory behaviour and attract investors interested in embedding themselves where their acquired companies are located (Giuliani et al. 2014). Acquisitions and the arrival of new entrepreneurial forces from emerging countries may open up opportunities for advanced host country managers and entrepreneurs to learn from the new investors, which could be exploited to bridge the cultural and market distance with emerging economies.

References


Chapter 6
Chinese foreign direct investment in central and eastern Europe: an institutional perspective

Agnieszka McCaleb and Ágnes Szunomár

1. Introduction

Emerging-country multinational companies are increasingly integrating into the world economy through foreign direct investment (FDI), with Chinese outward FDI being the most spectacular case in terms of rapid growth, geographical diversity and takeovers of established Western brands. Chinese firms invest mainly in Asia, Latin America and Africa, where they seek markets and natural resources. However, the developed economies of Western Europe and the United States have recently also become important targets, offering markets for Chinese products and assets Chinese firms lack, such as advanced technologies, managerial knowledge and distribution networks.

In recent years Chinese companies have increasingly targeted central and eastern European countries, with the Visegrad countries (Czechia, Hungary, Poland and Slovakia), together with Romania and Bulgaria, among the most popular destinations. Although compared with the Chinese economic presence globally or even in the developed world, China’s economic impact on the central and eastern European countries is fairly small it has accelerated significantly in the past decade: trade volume is growing constantly, while we can observe rising inflows of Chinese investments in the region, which are expected to increase due to recent political developments: strengthening Chinese–Hungarian relations, Poland becoming China’s strategic partner (at the end of 2011), the establishment of the China-Central and Eastern Europe Cooperation Secretariat in September 2012, the 16 + 1 initiative and the One Belt One Road. This process is quite a new phenomenon but not unsurprising: on one hand, the transformation of the global economy, as well as China’s economic restructuring are responsible for growing Chinese interest in central and eastern Europe, while on the other hand, central and eastern Europe represents new challenges and new opportunities for China, too. As an additional impetus, the European ‘sovereign debt crisis’ has made central and eastern European governments more open to non-European, including Chinese business opportunities in order to recover from the period of recession.

The aim of this chapter is to map Chinese investment flows and types of involvement, and to analyse differences between countries, as well as to identify the determinants of Chinese FDI in the largest recipient countries within the region (Hungary, Poland,
Czechia, Slovakia, Romania and Bulgaria), with a special focus on the role of host-
country institutions, such as the impact of institutional change resulting from
integration with the EU, Chinese diaspora, promotion policies, privatisation and so
on. According to our hypothesis, Chinese investments in central and eastern European
countries differ from that of Western companies in terms of specific institutional
factors that seem important for Chinese companies: based on Chinese diaspora in the
host country and the quality of political relations Hungary has attracted the largest
Chinese FDI in central and eastern Europe, outperforming also Poland, the regional
leader in attracting FDI. The decisive role seems to be played by the Hungarian Chinese
diaspora and the country’s long (since 2003), friendly relations with China. Poland only
started nurturing relations with China around 2009. Czechia, the third largest recipient
of Chinese FDI in central and eastern Europe, recorded an increase in Chinese FDI
inflows only in 2012, which was caused by significant change in its diplomacy, from
being very critical about human rights and the independence of Tibet to being very
friendly and open to Chinese investment. This hypothesis is in response to the recent
call to combine macroeconomic and institutional factors for a better understanding of
internationalization of companies (Dunning and Lundan 2008).

As the topic of Chinese FDI in central and eastern European countries is a rather
unploughed furrow, the authors conducted several personal and online interviews
with representatives of various Chinese companies in central and eastern Europe (at
major Chinese investors in the region the interviews were conducted anonymously).
In order to place Chinese-central and eastern Europe investment relations within the
framework of China’s global investment strategy, the authors studied existing theories
and literature on Chinese investments in general, as well as on Chinese FDI in the
developed world.

After the introductory section, the chapter describes the changing patterns and
motivations of Chinese outward FDI in the transition economies and contains the
authors’ findings on characteristics and motivations behind Chinese FDI in central and
eastern European countries. The chapter provides a detailed description of the impact
of both macroeconomic and institutional factors.

2. Chinese outward FDI in central and eastern European countries

Most research on motivations for FDI apply the eclectic or OLI paradigm of Dunning
(1992, 1998), which states that firms will venture abroad when they possess firm-
specific advantages – namely ownership and internalisation advantages – and when
they can utilise location advantages to benefit from the attractions particular locations
provide. Different types of investment incentives attract different types of FDI, which
Dunning (1992) divided into four categories: (i) market-seeking (tariff-jumping or
export-substituting FDI is a variant of market-seeking FDI; Kinoshita and Campos
2003); (ii) resource-seeking; (iii) efficiency-seeking; (iv) and asset-seeking. The factors
attracting market-seeking multinationals usually include market size, as reflected
in GDP per capita and market growth (GDP growth). Investments aimed at seeking
improved efficiency are determined by low labour costs, tax incentives and so on
Chinese foreign direct investment in central and eastern Europe: an institutional perspective

(Resmini 2005: 3). Finally the companies interested in acquiring foreign assets might be motivated by a common culture and language, as well as trade costs (Blonigen and Piger 2014; Hijzen et al. 2008). It should be emphasised that some FDI decisions may be based on a complex mix of factors (Resmini 2005: 3; Blonigen and Piger 2014). Much of the extant research and theoretical discussion is based on FDI outflows from developed countries, for which market-seeking and efficiency-seeking FDI is most prominent (Buckley et al. 2007; Leitão and Faustino 2010). Chinese outward FDI is characterised by natural resource-seeking, market-seeking (Buckley et al., 2007) and recently also by strategic asset-seeking (Di Minin et al. 2012; Zhang et al. 2012).

The rapid growth of outward FDI from emerging and developing countries has been subject to numerous studies trying to account for special features of emerging-country multinationals’ behaviour that is not captured by mainstream theories. For example, Mathews extended the OLI paradigm with the ‘linking, leverage, learning framework’ (LLL) that explains the rapid international expansion of companies from Asia Pacific (Mathews 2006). Linking means partnerships or joint ventures that latecomers form with foreign companies in order to minimise the risks of internationalisation, as well as to acquire ‘resources that are otherwise not available’ (Mathews 2006: 19). Latecomers when forming links with incumbents also analyse how the resources can be leveraged. They look for resources that can be easily imitated, transferred or substituted. Finally, repeated processes of linking and leveraging allow latecomers to learn and conduct international operations more effectively (Mathews 2006: 20).

Nevertheless, traditional economic factors seem to be insufficient in explaining multinationals’ FDI decisions. In the past decade international economics and business research has acknowledged the importance of institutional factors in influencing the behaviour of multinationals (for example, Tihanyi et al. 2012). According to North, institutions are the ‘rules of the game’, ‘the humanly devised constraints that shape human interactions’ (North 1990: 3). Institutions serve to reduce uncertainties related with transactions and minimise transaction costs (North 1990). As a result, Dunning and Lundan extended the OLI model with institution-based location advantages, which explains that institutions developed at home and host economies shape multinationals’ geographical scope and organisational effectiveness (Dunning and Lundan 2008).

The transformation of central and eastern European countries from centrally planned to market economies has resulted in significant research on FDI flows to these transition countries. However, most studies focus on the period before 2004, which is the year of accession of eight central and eastern European countries2 into the EU (Carstensen and Toufal 2004; Janicki and Wunnawa 2004; Kawai 2006). Investors, mainly from EU15 countries, were attracted by relatively low unit labor costs, market size, openness to trade and proximity (Bevan and Estrin 2004; Clausing and Dorobantu 2005; Janicki and Wunnawa 2004; UNCTAD 2007). Diverse institutional factors influenced inward FDI: in the case of central and eastern European countries, the prospects of their economic integration with the EU increased FDI inflows, while in the central and eastern European countries that lagged behind in terms of their

2. Estonia, Latvia, Lithuania, Poland, Czechia, Slovakia, Hungary and Slovenia.
implementation of transition policies – which postponed their EU accession – FDI inflows were discouraged (Bevan and Estrin 2004).

When analysing the impact of the institutional characteristics of central and eastern European countries, such as forms of privatisation, capital market development, state of laws and country risk, the studies show varying results. According to Bevan and Estrin (2004: 777) institutional aspects were not a significant factor in the investment decisions of foreign firms. Carstensen and Toubal (2004) argue that they could explain uneven distribution of FDI across central and eastern European countries. Fabry and Zeghni (2010: 80) point out that in transition countries institutional weaknesses – such as poor infrastructure, lack of developed subcontractor network and an unfavourable business environment – may explain FDI agglomeration more than positive externalities that are effects of linkages, such as spillovers, clusters and networks. Kinoshita and Campos (2008), based on a study of 19 Latin American and 25 East European countries in the period 1989–2004, found that structural reforms, especially financial reform and privatisation, had a strong impact on FDI inflows.

Although the countries examined here – Hungary, Poland, Romania, Bulgaria, Slovakia and Czechia – differ in many respects, they have some common features as well. They have been in the process of economic catching up over recent decades; their development paths are defined mainly by the global and European powers, rules and trends; and FDI has a key role in restructuring their economies. Most of the abovementioned countries have started to get more interested in Chinese relations – more properly in attracting Chinese investments and boosting trade relations – since the new millennium, although the economic and financial crisis of 2008 drew their attention more than ever to the potential of Chinese economic relations.

Figure 1  China’s outward FDI stock in central and eastern Europe countries, 2003–2014, selected countries (million USD)

Source: CEIC China Premium Database, based on Chinese statistics.
As Figure 1 shows, Chinese companies started to make their first investments in central and eastern Europe already in the early 2000s when the countries of the region became members of the European Union (2004 in the case of the Visegrad countries and 2007 in the case of Romania and Bulgaria), but the economic and financial crisis of 2008 resulted in a major upsurge in this regard. As a result, central and eastern European economies account for 8 per cent of total Chinese investment in Europe.

Although China considers the region as a bloc, some countries seem to be more popular investment destinations than others: the selected six countries are the main recipients of Chinese outward FDI among EU member states. Among them, Hungary and Poland have received the bulk of Chinese investment in recent years.

2.1 Macroeconomic factors

As mentioned earlier, Chinese capital in central and eastern Europe, as a share of total invested capital, is still very small – only in Hungary is Chinese FDI stock above 1 per cent of GDP\(^3\) – but in the past few years this capital inflow has accelerated significantly and has also played an important role in the region’s recovery from the crisis. In the case of the selected countries – with the exception of Hungary – attempts have been growing to attract Chinese companies in the past two to five years. In Hungary this process began after 2003.

Chinese investors typically target the secondary and tertiary sectors of the selected six countries. Initially, Chinese investment flowed mainly into manufacturing (assembly). The main Chinese investors targeting these six countries are interested primarily in telecommunications, electronics, chemicals, transportation and energy. Their investments in these six countries are motivated mainly by market-seeking, but they also seek brands and new technologies (for example, acquisition of the Polish Huta Stalowa Wola by Chinese Liu Gong Machinery or the Polish Novago by China Everbright International Ltd.) or market niches that they can fill in European markets. Over time, services have attracted more and more investment, for example in Hungary and Poland there are branches of the Bank of China and the Industrial and Commercial Bank of China, as well as offices of some of the largest Chinese law offices, such as Yingke (in Hungary since 2010, in Poland since 2012) and Dacheng (in Poland since 2011, in Hungary since 2012).

As already mentioned, the main type of Chinese FDI in the selected countries is market-seeking investment: by entering central and eastern European markets Chinese companies gain access not only to the EU, but also to the CIS, Mediterranean countries and EFTA (Wisniewski 2012: 121), and in interviews Chinese investors also speak about the possibility of accessing North American markets. In addition, there are cases of Chinese companies following their customers to central and eastern European countries, as in the case of Victory Technology (supplier to Philips, LG and TPV) or Dalian Talent Poland (supplier of candles to IKEA).

\(^3\) When using Hungarian cumulative data (see the country-level analysis below).
When seeking for factors that may make the region a favourable investment destination for China, the quality and the cost of labour is to be considered first (company interviews). A skilled labour force is available in sectors in which Chinese interest is growing, while labour costs are lower in central and eastern Europe than the EU average. However, there are differences within the region – and the selected six countries – as well; unit labour costs are cheaper in Bulgaria and Romania than in Hungary, Czechia, Slovakia and Poland. These differences do not seem to really influence Chinese investors as there is more investment in Hungary, Poland and Czechia than in Romania and Bulgaria. One explanation for this may be agglomeration, as generally outward FDI in these countries is the highest in the region. With a corporate income tax rate of 10 per cent, Bulgaria has the most favourable tax regime in the region. Nevertheless, it has been the least popular investment destination for Chinese companies in the selected countries so far.

According to Eurostat’s ‘Demography Report 2010’, Poland and Romania are the biggest markets in terms of the size of population (38.1 and 21.5 million), while the others are medium-sized (10.6 million in Czechia, 10 million in Hungary and 7.6 million people in Bulgaria), although from the Chinese point of view all of them are considered to be rather small. Czechia, Poland and Hungary are relatively affluent markets as well: based on the IMF WEO database, GDP per capita is highest in Czechia (17,569 USD in 2015) and Slovakia (15,979 USD in 2015), somewhat lower in Poland (12,492 USD in 2015) and Hungary (12,239 USD in 2015), but considerably lower in Romania (8,955 USD in 2015) and especially Bulgaria (6,842 USD in 2015).

The macroeconomic factors do not fully explain the decisions behind Chinese FDI in central and eastern Europe. Hungary, the largest recipient of Chinese investment, is not the most attractive location in terms of either cutting costs or the search for potential markets. This indicates that institutions may be crucial when choosing location for Chinese companies.

2.2 Institutional factors

Institutional factors can be divided into two levels, supranational and national, both of which are important elements in the location decisions of Chinese companies in central and eastern Europe. As for supranational institutional factors, we can state that the change of the institutional setting of central and eastern European countries due to their economic integration into the EU (in 2004 and 2007) has been the most important driver of Chinese outward FDI in the region, especially in the manufacturing sector. The Chinese statistics on OFDI for the period 2003–2011 show that all major recipients of Chinese investments from the old EU (Germany, France, Italy and also the United Kingdom) recorded significant increases in inflows in the years 2004–2005 (MOFCOM 2012: 32–33). It must be noted, however, that the Chinese government’s ‘Go Global’ policy gained momentum in 2004, with growth of Chinese FDI all over the world (MOFCOM 2012: 6). The difference between Chinese FDI in the old EU and in the new member states is that in the former it mostly involved mergers and acquisitions (Hanemann and Rosen 2012: 44). Chinese FDI in the new member states in 2005–2007
was motivated mainly by the opportunity to access EU15 markets; central and eastern European markets were of secondary importance. Central and eastern European countries’ EU membership allowed Chinese investors to avoid trade barriers and the countries served as an assembly base due to their relatively low labour costs.

Chinese investment in Central and eastern European countries in 2004–2006 were dominated by firms from the electronics sector, especially LCD TVs producers, as their exports to the EU were restricted by quotas. Although the recent EU anti-subsidy investigation on solar panels from China resulted in a temporary delay in imposing anti-subsidy tariffs, it may encourage Chinese solar panel manufacturers to invest in central and eastern European countries. There are already cases of company takeovers in the renewable energy sector, such as Orient Solar in Hungary, and according to the media some companies from the solar sector are considering investing in Poland.

The motive of overcoming trade barriers is similar to that of Japanese investments in central and eastern European countries in the second half of the 1990s. Japanese multinationals established assembly plants there, but sold their products mainly in the affluent Western European markets (Woon 2003).

Another aspect of EU membership that is inducing Chinese investment in central and eastern European countries is institutional stability (for example, protection of property rights), as one of the drivers of Chinese outward FDI is the unstable institutional, economic and political environment of their home country (for example, Morck et al. 2007). This is in line with the findings of Clegg and Voss (2011: 101), who argue that Chinese outward FDI in the EU shows ‘an institutional arbitrage strategy’, as

‘Chinese firms invest in localities that offer clearer, more transparent and stable institutional environments. Such environments, like the EU, might lack the rapid economic growth recorded in China, but they offer greater planning and property rights security, as well as dedicated professional services that can support business development.’ (Witt and Lewin 2007; Wu 2011)

In their investment decisions in central and eastern European countries Chinese firms might also be attracted by free trade agreements between the EU and third countries, such as Canada and the USA (still under negotiation), as well as EU policies towards neighbouring countries, as they claim that their central and eastern European subsidiaries are to sell products in the host, EU, Northern American or even global markets. This driver might also explain some Chinese investment in Bulgaria and Romania before their EU accession, such as SVA Group in Bulgaria. However this type of institutional factor requires further research.

Moreover, Chinese firms’ central and eastern European subsidiaries enable them to participate in public procurement. In the case of government procurement, however, one of the conditions is ‘Made in the EU’ and EU-located subsidiaries make it possible to meet this requirement.

Recently, Chinese firms interested in investing in central and eastern European countries have become more inquisitive about food safety standards and certificates.
They would be interested in exporting agricultural products with EU safety certificates back to China where food safety has been a problem.

Regarding national-level institutional factors—such as strategic agreements and privatisation opportunities—their significance began to increase only recently. Before their integration in the EU central and eastern European countries focused mainly on fulfilling the EU entry criteria and generally neglected relations with countries from other regions, except for Hungary. Only since the aftermath of the global financial crisis of 2008 have we observed increased interest on the part of central and eastern European governments in attracting Chinese investors. In the case of Poland only recently have Chinese firms also been attracted by the privatisation of state enterprises, which provide access to technology (patents), brands, distribution networks and manufacturing capacity for European markets.

To sum up, national-level institutional factors that impact location choice within CEE countries seem to be the size and feedback of the Chinese ethnic minority, investment incentives and subsidies such as special economic zones, possibilities of acquiring visas and permanent residence permits (in exchange for investment), privatisation opportunities, the quality of political relations and the government’s willingness to cooperate. A clear example of this is Hungary’s good relations and very high level of Chinese FDI compared with other central and eastern European countries, while it is said that Liu Gong’s acquisition of HSW in Poland might have been delayed because of China Overseas Engineering Group (COVEC)’s problems with building part of the Polish highway.

2.3 Country-level analysis

As already mentioned, the selected six countries account for the majority of the population and economic output of central and eastern Europe and all of them have strengthened their relations with China in recent years. Now they have several Chinese companies investing in various sectors with a growing number of mergers and acquisitions in recent years (see Table 1). Hungary still receives the majority of Chinese investment in the region, followed by Poland and Czechia. Romania and Bulgaria have been pushing forward in recent years, attracting increasing amounts of Chinese FDI, while Slovakia lags a little behind due to its small size and lack of efficient transport infrastructure. The main forms and sectors of Chinese investment are similar in all countries, although it is more diverse in the more popular target countries (Hungary and Poland), while there are certain sectors—for example, agriculture and food—in which Chinese companies have preferred to target Bulgaria and Romania.
Chinese foreign direct investment in central and eastern Europe: an institutional perspective

Hungary

Chinese investment in Hungary started to increase significantly after the country joined the EU in 2004, which points to the supra-national institutional factor of EU membership in attracting Chinese companies. According to Chinese statistics, there was a rapid increase from USD 0.65 million in 2005 to USD 370.1 million in 2010. In 2010, Hungary took 89 per cent of total Chinese capital flows into the region (Chen 2012). By 2012, the amount of Chinese investments had further increased, reaching USD 507 million according to MOFCOM data, by far the highest in the region. The amount is far greater when taking into account cumulative Hungarian data, because a significant portion of Chinese investment is received via intermediary countries or companies and therefore appears elsewhere in Chinese statistics. According to Hungarian reports, Chinese investment in Hungary by 2015 was about USD 3–3.5 billion or more, which represents around 2–2.5 per cent of Hungary’s total FDI stock. More than USD 1.5 billion of that is the investment of the Chinese chemical company Wanhua, which acquired a 96 per cent stake in the Hungarian chemical company BorsodChem through its Dutch subsidiary in 2010 and 2011. This subsidiary also subsequently invested in the development of BorsodChem. It is the largest Chinese investment in central and eastern Europe so far.

Table 1
China’s outward FDI stock in central and eastern European countries: main forms, sectors and companies

<table>
<thead>
<tr>
<th>Country</th>
<th>Hungary</th>
<th>Poland</th>
<th>Czechia</th>
<th>Slovakia</th>
<th>Bulgaria</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI stock, 2013, USD</td>
<td>533 million</td>
<td>226 million</td>
<td>220 million</td>
<td>90 million</td>
<td>147 million</td>
<td>164 million</td>
</tr>
<tr>
<td>Main sectors</td>
<td>Chemical, IT / ICT, electronics, wholesale and retail, banking, hotels and catering, logistics, real estate</td>
<td>IT / ICT, electronics, heavy machinery, publishing and printing, real estate, municipal waste processing</td>
<td>Electronics, IT / ICT, transport equipment, food, media, aviation</td>
<td>automotive industry, IT / ICT</td>
<td>IT / ICT, television, agriculture, food, machinery</td>
<td>ICT / IT, tobacco, agriculture, food, machinery, transportation</td>
</tr>
</tbody>
</table>

Source: Authors’ investigation. FDI stock data based on Chinese statistics (CEIC database).
In Hungary, most significant Chinese multinationals operate in the manufacturing sector and have started to increase their investments in Hungary in the past few years. Chinese multinationals’ investments in Hungary are usually not greenfield; Chinese multinationals have bought the plants of other companies or replaced former partners of EMS providers. Although Chinese multinationals represent a relatively small share of total FDI stock in Hungary, they have saved and/or created jobs and contributed to economic growth with their investments and exports during the global economic and financial crisis. Furthermore, many of them (for example, Lenovo, ZTE, Huawei, Bank of China) have turned their Hungarian businesses into the European regional hub of their activities (Szunomár et al. 2014).

Hungary’s importance as a regional distribution centre can be observed in the field of trade, too. Some big retail and wholesale, as well as business matching centres in Budapest – for example, Asia Center, China Brand Trade Center, Budapest Fashion Center, Budapest China Mart⁴ – support the distribution of different Chinese (or other Asian) products⁵ in central and eastern Europe and also supply Hungarian customers. Retail shops run by the Chinese community can be found not only in these centres, but also throughout Budapest and other Hungarian cities and towns. Besides retail, Chinese immigrants often choose to operate restaurants in Hungary.

In addition to manufacturing, the investment of Chinese companies in Hungary covers industries such as chemicals, telecommunications, trade, wholesale or retail, banking, hotels and catering, logistics, real estate and consultancy. According to the data of the Hungarian Investment and Trade Agency (HITA) more than 5,000 Chinese companies operate in Hungary, including several multinationals, but most are small businesses operating in the service or retail sector: restaurants, perfumeries and so-called ‘Chinese shops’, selling everything from shoes and clothes to plastic toys. According to the Hungarian Central Statistical Office, the number of Chinese-controlled foreign affiliates increased steadily between 2008 and 2010 and then decreased slightly in 2011.

In addition to Wanhua, the major investors are Huawei, ZTE Corporation, Lenovo, Sevenstar Electronics Co., BYD Electronics and Comlink. Regarding entry mode, there are examples of quasi-greenfield⁶ investments (Huawei, ZTE, Lenovo), as well as mergers and acquisitions (Wanhua) and joint ventures (Orient Solar, BBCA). Another significant investment is the China Brand Trade Center (an investment by the Chinese company Genertec), which is a market platform for branded and competitive Chinese products and their suppliers. Typically, while Hungary would prefer greenfield investments (as they create jobs), Chinese investors tend to choose the forms of mergers and acquisitions and joint ventures when investing in Hungary.

The national-level institutional factors are the most prominent in case of Hungary. In Hungary the combination of traditional economic factors with institutional ones seems

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⁴ Asia Center and China Brand Trade Center are owned by Strabag SE. Budapest Fashion Center and Budapest China Mart are owned by Chinese investors.
⁵ For example, entertainment electronics, household electronics, IT products, bags, gifts, crafts, accessories, jewellery, shoes, footwear, textile, home textile and garments.
⁶ The parent companies Huawei, ZTE or Lenovo have not built new operational facilities (as they chose the form of contract manufacturing) but created new long-term jobs by hiring new employees.
to play an important role in attracting Chinese investors. Hungary has had historically good political relations and earlier than other central and eastern European countries, from 2003, intensified bilateral relations in order to attract Chinese FDI. Hungary is the only country in the region that introduced special incentives for foreign investors from outside the EU, which is a possibility to receive a residence visa when fulfilling the requirement of a certain level of investment in Hungary. Furthermore, Hungary has the largest Chinese population (diaspora) in the region, which is an acknowledged attracting factor of Chinese FDI. Based on the extant literature the diaspora is a relational asset in terms of ownership advantage (for example, Buckley et al. 2007). An example is Hisense’s explanation of the decision to invest in Hungary as motivated, besides traditional economic factors, by ‘good diplomatic, economic, trade and educational relations with China; big Chinese population; Chinese trade and commercial networks, associations already formed’ (CIEGA 2007).

Poland

Although Poland is the leading recipient of FDI in central and eastern Europe it has attracted little Chinese FDI. This may be partially explained by the rather cool political relations between the two countries since the early 1990s, when Polish politicians often criticised Beijing for violating human rights and supported the case of Tibet (Palonka and Szczypa 2009). Only from around 2009 did the Polish government start to make efforts aimed at improving relations between Warsaw and Beijing, referred to by some as ‘making up for lost time’ (Heiduk and McCaleb 2014). Before Poland’s entry into the EU Chinese investments were almost insignificant; in 2000 they amounted to USD 10 million and by 2003 had increased only slightly to USD 17.8 million (National Bank of Poland website). According to Polish data, by the end of 2012 Chinese FDI stock in Poland had increased more than sixteen times to USD 288.1 million. However, their importance is still low, representing only 0.1 per cent of Poland’s total FDI stock.

According to MOFCOM, at the end of 2012 China’s FDI stock in Poland amounted to USD 208 million. However, as already mentioned, statistics on China’s outward FDI differ between MOFCOM’s and host countries’ national sources (for example, Apoteker 2012; Clegg and Voss 2012). In addition to intermediaries or subsidiaries these differences may result from the limitations of Chinese data.

There are about 700 firms with Chinese capital in Poland but the majority of them (574 firms in 2011) are small companies employing fewer than nine persons. Most investors are private companies; state-owned companies include ZTE, LiuGong Machinery and Nuctech. By 2004 Chinese investors were mainly small companies in wholesale and retail trade. The years since the global financial crisis have seen the emergence...

7. Third-country nationals are allowed to acquire Hungarian permanent residency status through investing in Special Hungarian Government Bonds that have a minimum five-year maturity. The minimum initial investment by each subscriber is 250,000 EUR.

8. MOFCOM data are underreported as they include investments approved by MOFCOM. Thus, in practice investment projects (especially small projects) that do not require approval or unauthorized projects are not included. The recent administrative reforms decentralized the approval system of smaller investment projects, which may enhance under-reporting (Apoteker 2012: 34; Korniyenko and Sakatsume 2009).
of mergers and acquisitions and a wider representation of sectors in Chinese FDI in Poland. By 2016 the major investors from China were China Everbright International, Liu Gong Machinery, Haoneng Packaging, Shanxi Yuncheng Plate-making Group, Sino Frontier Properties Ltd., Suzhou Victory Precision Manufacture Co. and TPV Technology Ltd (Heiduk and McCaleb 2014; Forsal 2016).

Chinese investment in Poland is mainly in electronics, production of TV sets and LCD monitors (TCL Corporation, Victory Technology Polska, Chung Hong Electronics Poland, Digital View), electro-machinery (Nuctech), heavy machinery (LiuGong Machinery), ecology, such as municipal waste processing and alternative gas production (China Everbright International), publishing and printing (Haoneng Packaging), manufacturing of metals and metal products (Shanxi Yuncheng Plate-making Group), hospitality and real estate (Min Hoong Development Co., Sino Frontier Properties Ltd.), distribution of goods (GD Poland Investments Sp. z o.o.) and IT (Huawei, ZTE) (Heiduk et al. 2012).

In recent years Chinese FDI in services has increased with the establishment of branches of Bank of China (2012) and Industrial and Commercial Bank of China (2012), as well as offices of the largest law firms in China, Yingke (2012) and Dacheng.

Most of the Chinese firms investing in Poland engage in greenfield investments. According to Hanemann and Rosen (2012) at the end of 2011 there were 15 greenfield projects. However, recently there were four cases of mergers and acquisitions in construction machinery (Liu Gong), aviation (Lantian Aerospace Industrial Park), ecology in the form of municipal waste processing and alternative fuel production (Everbright International, the biggest Chinese investment in Poland by the end of 2016) and automotive parts (Tri Ring) (PAIZ interview; Forsal 2016). The latter is said to be the result of Wen Jiabao’s visit in 2012.

Chinese FDI enters the Polish market also through their mergers and acquisitions in third countries. For example, Beijing West Industry (BWI) Group (a joint-venture of Shougang Corp., Bao’an Investment Corp. and Fangshan State-Owned Asset Management Corp.) in November 2009 acquired the Chassis Division of former Delphi Corporation (USA), together with its subsidiaries, which included Polish production plant in Krosno and an R&D centre in Cracow that employs 200 engineers (AutomotiveSuppliers.pl, 24.11.2009; Deloitte 2012). In 2013, Chinese Shuanghui International acquired the American Smithfoods along with its Polish subsidiary, which is one of the most recognised meat producing companies in Poland, Animex.

A further factor playing a role in the case of Chinese FDI in Poland is EU membership, which makes it possible to avoid tariff barriers. Besides electronics companies such as TCL, Victory Technology and Digital View, another example is Dalian Talent. Dalian Talent Polska was established in 2009 in response to anti-dumping sanctions imposed by the EU. Dalian Talent is among the top three candle producers in China, with portfolio customers such as IKEA, Wal-Mart and Metro AG (Zhang 2016). Nuctech sells large-scale cargo-scanning equipment used for inspections at seaports, border crossings, airports and railways. The company established its subsidiary in Poland in
2004 (with EU membership as a supra-national factor) with the aim of targeting mainly the western European market. In the period 2004–2008 Nuctech increased its market share in the EU by 140 per cent (Castle 2010). In 2011 the company stated that the old EU market had become saturated and that it would now focus more on central and eastern European countries, which benefit from EU aid for infrastructure. Due to the nature of the products it sells (mainly to public entities) Nuctech needed a subsidiary located within the EU to be eligible to take part in public procurement in EU member states. Nuctech’s Warsaw subsidiary also benefitted from the EU’s neighbouring country policy as it also sells to Turkey. Another example of a company using the EU’s free trade agreements and neighbouring country policies is Liugong Machinery’s subsidiary in Poland, which targets the EU and CIS, as well as North American markets.

As for the national-level factors, Poland started actively promoting itself with Chinese firms from the EXPO 2010 in Shanghai. Since 2010 the Polish Information and Foreign Investment Agency (PAIZ) has made its website available in Chinese and in 2011 it set up an overseas office in Shanghai. In 2013, PAIZ launched the website GoPoland.gov.pl in Chinese with the goal of attracting Chinese investors to Poland. Recently, the Polish Ministry of Foreign Affairs established a working group for economic cooperation between Poland and China. Moreover, in Poland there are two special economic zones with support services dedicated to Chinese investors (in Kielce and Koszalin). However, in most of the analysed countries there are voices complaining about their government’s lack of a unified strategy towards Chinese investors.

Poland also offers a possibility to acquire state-owned enterprises, as the privatisation process there has not been completed. Poland still has about 400 state companies to be privatised that might be attractive to Chinese investors. For example, in early 2012 Liugong Machinery bought Huta Stalowa Wola’s construction equipment division and its distribution subsidiary, Dressta. Until 2005, Dressta was a joint venture between Komatsu America and Huta Stalowa Wola and has sales offices around the world. Secondly, in 2013 China’s Tri Ring Group Corporation acquired Polish Fabryka Łożysk Tocznych, producer of bearings for automotive sector.

Czechia

Czechia is one of the most successful central and eastern European countries in attracting foreign direct investment, although Chinese investments were negligible till 2012. According to Chinese statistics Chinese FDI in Czechia started to increase from 2006 (in 2005 it was USD 1.38 million, compared with USD 14.67 million in 2006) and reached USD 66.83 million in 2011, which was still the lowest amount of the six selected countries. The turning point was 2012 when Chinese statistics showed USD 202.45 million investment in Czechia. However, there is an inverse discrepancy here as, according to data from the Czech National Bank, Chinese FDI in Czechia was USD 76.6 million in 2012.10

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9. Total FDI to Czechia was 10.6 billion USD according to UNCTAD.
10. The official statistics explain this huge increase with the recalculation of stock for 2012 after adjustment of historical data. Experts in Czechia had no information on the components of this growth.
The main companies include electronics production facilities (Shanxi Yuncheng Plating Group, Changhong, Noark), IT (Huawei, ZTE Corp) and a manufacturer of transport equipment (CITIC Marmes Bicycles), as well as a food producer (Shanghai Maling). But there are planned FDI projects in Czechia in the textile, food, automotive and machinery sectors. With the exception of CITIC Marmes Bicycles, which is a joint venture founded in 2007, all of these are greenfield investments.

So far the biggest Chinese investment project in Czechia, before the launching of the Warsaw Initiative, is Changhong Europe Electric, the LCD and LED TV manufacturer (approximately USD 330 million) in the Nymburk Industrial Zone (central Czechia). The other important Chinese investor is Shanghai Maling Aquarius, food producer, which established a factory nearby Teplice (northern Czechia) with assets of USD 22.5 million in 2007; 90 per cent of its production is exported to the EU and the United States. The IT giants Huawei and ZTE also opened offices in Czechia; so far they employ about 350 local staff and their annual turnover in the Czech market exceeded USD 80 million in 2010. Huawei and ZTE cooperate with local mobile phone operators in Czechia and established their own sales outlets for mobile phones and smartphones. Besides, numerous small Chinese companies sell consumer electronics in Czechia (Fürst 2014).

Although Chinese investments in Czechia are associated mainly with manufacturing, in the long term Czech officials are planning to attract larger and more long-term investments through cooperation in higher value-added projects, such as technology and development centres in cooperation with universities. Negotiations are being held on establishing the first Czech-Chinese industrial zone in northern Moravia, and also on establishing direct flights between Prague and Beijing. Some new investment plans were announced recently as a result of the diplomatic rapprochement of the Czech government. China’s sixth largest private company CEFC would buy a majority stake in a top brewery group (Pivovary Lobkowicz Group) and a share in an airline company (Travel Service, operator of airline Smartwings), two buildings in central Prague and double its stake in J & T Finance Group to 9.99 per cent, aiming to increase that to 30 per cent. Acquiring minority stakes in communications firm Medea Group and media company Empresa Media (which owns television channel TV Barrandov and publishes the weekly magazine Tyden) is also among Chinese plans.

Slovakia

The amount of Chinese investments was insignificant in Slovakia prior to 2007. Since 2007 we can observe varying levels of Chinese investments in the country. According to Turcsányi (2014: 97) ‘while little can be asserted due to large fluctuations, we can note the start of investment even before the crisis. Subsequently, investments increased, but it is difficult to establish whether this was the result of the crisis or some other factors, which may include the natural development of Chinese investors’ increasingly available sources and willingness to penetrate new destinations.’

According to Chinese statistics Chinese outward FDI stock in Slovakia was below USD 100 million in 2014. The number of Chinese investments is hard to tell, but according
to available sources it can be established that it is relatively modest – compared with both neighbouring countries and other investors in Slovakia, including other Asian companies. According to Turcsányi’s estimates (2014: 98), ‘if also companies owned by a non-China based but Chinese-owned subsidiary are counted, we can estimate current Chinese investments in Slovakia to be up to EUR 100–200 million.’

The main companies operate in the automotive industry, including SaarGummi (production of sealants for the automotive industry), ZVL Auto (production of controlling stakes), Inalfa Roof Systems (special roof windows for cars) and Mesnac (research and development centre focused on development of the tyre machinery). IT companies such as Lenovo and Huawei are also present in the country. There are planned FDI projects in Slovakia in shoe production (Flame Shoes) and the automotive sector (Zhuzhou).

Romania and Bulgaria

Chinese FDI in Romania was the highest among all central and eastern European countries until 2005; now – according to Chinese statistics – Romania is only the fourth largest recipient after Hungary, Poland and Czechia, with Chinese FDI worth USD 161.09 million.

Investment is basically greenfield, covering mainly manufacturing in industries such as IT, tobacco, machinery, motorcycles and transportation. The main Chinese investors are Huawei, ZTE Corp., Shantuo Agricultural Machinery Equipment, China Tobacco International Europe Company SRL, DHS (motorcycles), China Shipping, COSCO, Yuncheng Plate-Making and F&J Group, an international investment company, which helps Chinese companies to invest and carry out mergers in Europe. The number of firms with Chinese capital is around 10,000, the highest in the region, although most are small firms operating in the service or retail sectors.

An example of a Chinese company benefitting from Romania’s EU membership is machinery producer Shantuo Agricultural Machinery Equipment, whose main export markets are Canada, Russia and the United States.

Chinese FDI in Bulgaria started to become noticeable from 2007 when Bulgaria joined the EU. According to Chinese data, it increased sevenfold from USD 18.6 million in 2010 to USD 126.74 million in 2012.

The investments are mainly greenfield with some mergers and acquisitions, mainly in agriculture and energy. The targeted industries – telecommunication, television, IT, agriculture, machinery – are similar to those of Romania, with two exceptions: car...
assembly (Great Wall Motors) and desulfurisation (Insignia Tech.). Chinese investors are also planning further investments in agriculture (production of tobacco and yoghurt). In addition, they are about to invest in Bulgarian firms active in the processing and preservation of foods, which will be then exported to the Asian market, which may be related to EU food and agricultural product standards and certification.

The main investors are Huawei, ZTE Corporation (telecommunication), Shanghai Video and Audio Electronics Group, Great Wall Motors, Tianjin State Farms Agribusiness Group and Insignia Technology, which operates desulfurisation facilities.

### 3. Conclusion

While the majority of investors in central and eastern Europe have usually been motivated by relatively low labor and land costs, the well educated labor force necessary in manufacturing and access to rich EU markets, the authors of this chapter found that in the case of Chinese multinationals’ motives in central and eastern Europe – besides the aforementioned macroeconomic factors – a significant role is played by institutional factors and other less-quantifiable aspects, such as good political relations and diplomatic gestures.

Chinese investments started to flow to central and eastern Europe after the countries of the region became EU member states. A significant increase in Chinese outward FDI occurred after the global financial crisis for two reasons: on one hand, the crisis adversely affected central and eastern European countries and most of them (not only the selected ones) started to seek new opportunities for recovery from the recession. For example, Hungary’s ‘Opening to the East’ policy was initiated after (and partly as a result of) the crisis, but the crisis also made other central and eastern European countries look eastward. On the other hand, despite the crisis China’s outward FDI continued to expand, not only to gain access to the necessary natural resources, but even more so for market seeking reasons in developed countries, not only in the core EU member states but also on the periphery. Another reason for this higher representation may be China’s diversification strategy; recent Chinese global investment strategy places great emphasis on diversification in all respects.

Investigation of the motivations of Chinese outward FDI in central and eastern Europe shows that they mostly seek markets in the region and CEE countries’ EU membership allows them to treat the region as a ‘back door’ or assembly base of products (greenfield) to be sold on the affluent EU markets (tariff-jumping FDI). Chinese investors are attracted by the relatively low labour costs, skilled workforce and market potential. It is characteristic that their investment pattern in terms of country location resembles that of total global FDI in the region. Chinese companies in central and eastern Europe are mainly private entities establishing greenfield production. However, there are also Chinese investors actively seeking technologies and distribution channels owned by local companies, which are cheaper than their EU15 or North American counterparts.
Besides macroeconomic factors, when choosing a location in central and eastern Europe Chinese companies seem to be motivated by a number of institutional factors, such as the size and feedback of the Chinese ethnic minority, investment incentives and subsidies such as special economic zones, possibilities of acquiring visas and permanent residence permits (in exchange for a given level of investment), privatisation opportunities, the quality of political relations and the government’s willingness to cooperate. A clear example of this is Hungary’s good relations and very high level of Chinese FDI compared with other CEE countries, while it is said that Liu Gong’s acquisition of HSW in Poland might have been delayed because of China Overseas Engineering Group (COVEC)’s problems with building part of the Polish highway.

The study does not touch upon the push factors of home country institutions that emerged recently and may enhance Chinese investments in the region. This is especially the case with regard to Poland becoming China’s strategic partner (at the end of 2011) and the establishment of the China-Central and Eastern Europe Cooperation Secretariat in September 2012. Also significant is that in 2010 the China Investment Promotion Agency (CIPA) opened its European office in Budapest.

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Chapter 7
Chinese investment in Romania and Bulgaria

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The Chinese government’s 2004 ‘Outbound Foreign Investment Catalogue’ ranked Romania and Bulgaria, along with Poland and Hungary, among the European countries offering the best opportunities for Chinese companies. Textiles, leather goods and luggage, TV sets, communication equipment, computers and other electronic equipment were the recommended sectors for investments in Romania, all of them industries in which China enjoys considerable export strength but has faced barriers because of its trade surplus (MOFCOM 2004; Pencea and Sincai 2014b). With regard to Bulgaria, the recommended sectors included agriculture, automotive and energy. Moreover, Bulgaria and Romania, weaker economies with a low quality of governance, can be assumed to be particularly attractive to Chinese investors with comparative advantages in low-cost product segments and experience in behind-doors negotiations and personal lobbying (Jacoby 2014).

In fact, Chinese foreign direct investment in Romania and Bulgaria was relatively modest also 10 years after the publication of the foreign investment catalogue. Romania was the largest recipient of Chinese FDI in Central and Eastern Europe in the early 2000s, but its share declined after 2005 as Chinese investors shifted to Poland, Czechia, Hungary and other countries in the region. In 2015, Chinese FDI inflows amounted to 209 million EUR, about 0.3 per cent of total FDI inflows, and Chinese FDI in Romania accounted for less than 0.3 per cent of total FDI stock (Central Bank of Romania, 2016). Chinese investment in Bulgaria picked up only after 2007. China is a relatively more important investor in Bulgaria, where the overall FDI inflows are smaller. In 2014, Chinese FDI in Bulgaria amounted to 8 per cent of total inflows. In 2015, the absolute value increased, but the share in FDI dropped to 3 per cent of the total (National Bank of Bulgaria 2016).

In any case, individual investments with Chinese involvement tend to receive a lot of media attention in these countries. Politicians and officials tend to present Chinese investors as having important developmental potential for the two countries, which have received relatively little FDI and lack infrastructure investment. The media thus often report new large investment projects, including greenfield investments, as well as investments in public infrastructure that eventually are not realised.2

1. http://www.novinite.com/articles/157260/China+to+Expand+Investments+in+Bulgaria%27s+Agriculture+-+President
http://usa.chinadaily.com.cn/business/2012-04/24/content_15123410.htm
2. The information released to the public reports on signing unbinding and general memorandums of understanding rather than on specific contracts, which typically require institutional support from both countries involved. See, for example, http://www.capital.bg/politika_i_ikonomika/bulgaria/2016/08/26/2817906_velikata_kitaiska_investiciia/
At the same time, Romania and Bulgaria have been home to high profile cases of Chinese involvement in Europe. First, there are Huawei and ZTE investments in highly skill intensive operations in telecommunications that serve European markets (for the Huawei case, see Chapters 1 and 11 of this volume). Second, there is Litex Motors, the Bulgarian-Chinese project to relaunch automotive production with the assembly of Great Wall Motors cars from 2012. The factory was expected to produce 50,000 cars per year and employ 2,000 people. Both of these cases seemed to take advantage of the low-wage environment to bring Chinese technology to European markets.

The low wage profile is characteristic of Romania and Bulgaria. Central and Eastern Europe lacks companies that control leading technology and brands of the kind that attracted much of Chinese investment in Western Europe. Romania and Bulgaria also rank poorly with regard to the quality of governance and corruption. In this chapter, we investigate the extent to which Chinese investors have exploited these endowments and with what results. We also consider the extent to which the poor quality of governance might affect investment prospects. More specifically, it has been argued that local politicians tend to be sensitive to economic lobbying and to favour clientistic politics (see Mares et al. 2016). Moreover, these countries lack policy continuity as national-level politics is characterised by adversarial and polarised electoral competition (see Muntean et al. 2010). The frequent changes in regulation can increase the barriers for investors.

In this chapter we present case studies of Chinese investment in Romania and Bulgaria. In Romania, the cases represent 90 per cent of Chinese investment stock. We also consider high-profile cases of strategic energy investment under negotiation. In Bulgaria, where the overall investment stock is much smaller, we consider the case of Litex Motors, an investment project with a plan for a global breakthrough for a Chinese automotive company (compare Chapter 2).

The cases under consideration can be classified by distinguishing between market- and resource-seeking investment strategies (cf. Dunning 1993). It should be noted, however, that the majority of the resource-seeking investments considered in this chapter also have strong market-access aspects, allowing Chinese companies to enter EU and/or local markets, while exploiting some of the resources found in Romania and Bulgaria. Analysed in the two sections that follow, the market-seeking investments include simple retail activities as well as strategic energy infrastructure. The resource-seeking investments are motivated by low labour costs, natural resources and access to strategic resources (highly-skilled workforce). The respective case studies include DHS Manufacturing and the Friendly & Joy conglomerate that exploit low costs and natural endowments (Section 3), Great Wall Motors (Section 4), the telecommunication-equipment provider Huawei (presented in Chapter 11) and ZTE (Section 5).

The successful asset-seeking investors involve both relatively simple activities (low-end bicycles, wood and agriculture) and, as in the case of telecommunication equipment, highly complex services. In the latter context, Chinese investors can successfully exploit local engineering expertise as they are able to integrate them into production and innovation networks that support their leading position on the world market.
In contrast, the case of Great Wall Motors shows the limits of low-cost development where there is an absence of local expertise and capabilities and where the investor does not control frontier technology. Finally, market-seeking investments show that a lack of policy continuity in the region is not supportive of more complex involvement in strategic assets that requires long-term political commitment. However, the failures in infrastructure and energy sectors may relate to a limited ability of Chinese firms to cope with a degree of political unpredictability and public scrutiny, features that are not necessarily related to a low quality of governance.

1. Simple market-seeking investments: the Red Dragon trade centre

The first Chinese investments in the region constituted largely of individual- or family-owned companies involved in retail, selling cheap Chinese goods (Pencea and Sincai 2014b). The Red Dragon (Dragonul Rosu) Centre is the best-known of the trade hubs that have been established in Romania. A bazaar-like mall, the Red Dragon is rented on a long-term basis only to Chinese small entrepreneurs. A large proportion of commercial activities in the Red Dragon Centre apparently involved tax evasion and other illegal activities, however, such as dealing in counterfeit products (Nagy 2011). Many of the family-owned retail companies in fact do not qualify as ‘foreign direct investors’, but their apparent involvement in the shadow economy conforms to the expectation that Chinese companies come with an experience that allows them to operate in a corrupt environment. However, in the case of Red Dragon, dealings with local politicians were taken care of by a Romanian individual. There are also question marks about the extent to which these practices are specific to Red Dragon, as the shadow economy and corruption are relatively widespread.

The Red Dragon Centre is run by the Nero Group, which is owned by Nicolae Dumitru, a colourful individual who has been convicted in a number of corruption cases. Nicolae Dumitru has links to Chinese companies via the Romanian-Chinese House, an NGO aimed at developing economic collaboration between Romanian and Chinese companies. An anti-corruption campaign by the National Anticorruption Directorate (DNA) and the National Anti-Fraud Authority (ANAF) put pressure on economic activities in the Red Dragon. In April 2010, ANAF closed a majority of the six thousand shops in the Red Dragon on the grounds of tax evasion. In addition, recent investigations organised by the National Anti-Fraud Authority and prosecutors in 2015 and 2016 found numerous cases of undeclared income and many goods sold without documents (Nicolescu 2016; Liu 2016). A total of 80 per cent of the investigated shops were breaking tax laws to a greater or lesser extent, leading to the closure of some of them (Matei 2015).

Some claimed that illicit activities on such a scale had to benefit from political backing (Poenariu and Vanghele 2016). In any case, the Romanian-Chinese House, linked with the Nero Group, was associated with a number of high-ranking officials, including a former prime minister, governor of the central bank, the speaker of the Senate, the speaker of the lower house of the parliament and former presidents of Romania (Poenariu and Vanghele 2016).
2. **Complex market-seeking investments: strategic assets in infrastructure and energy**

Energy and other strategic infrastructure has been a major target of Chinese investment in the EU. That has been the case also in Romania. However, none of the cases have been able to progress beyond memoranda of understanding (MoU). The requirement of a long-term political commitment to address the complexity of such deals makes such investments very demanding and prone to failure in the unstable institutional environment.

A number of projects were negotiated between Chinese and Romanian officials already in the early 2000s. Many planned investments were also announced in the media, including the construction of nuclear reactors 3 and 4 at the Cernavoda Nuclear Power Plant, the construction of the hydro-electric plant at Tarnita, the SE Doicești carbon plant, the Rovinari Thermal Power Plant, the modernisation of the Dimitrie Leonida power plant in Bicaz, the modernisation of the port of Constanța, the construction of a bridge in Braila and the construction of river canals on the Danube (Chiriță and Zoukui 2016). However, none of the projects were developed because of the lack of government policy continuity in Romania.

In 2012, the ET Solar Group, the world’s leading one-stop provider of solar power solutions, announced that it would take over Romania’s largest 50 MW photovoltaic power plant project and one year later completed the construction of an 18.5 MW power plant in Giurgiu county in southern Romania (Jiayuan 2016). The visit by the Chinese premier Li Keqiang in November 2013 revived Romanian-Chinese cooperation in the energy sector. The Industrial and Commercial Bank of China (ICBC) signed a memorandum of understanding on financial operation with the Romanian government in 2014 to provide financial services to Chinese companies with investments, projects and import or export businesses in Romania (Jiayuan 2016). The terms assumed that the Romanian government would play an organisational and coordinating role in creating a favourable business environment for the ICBC.

Subsequently, a number of bilateral agreements and MoUs have been signed for projects that were to be supported by the ICBC. Most importantly, there was the 6.4 billion euro projected in the Cernavoda plant projects, signed between Nuclearelectrica and China General Nuclear (CGN), for the development, construction, operation and decommissioning of units 3 and 4 of the Cernavoda nuclear power plant (World Nuclear News 2015a). The two companies were supposed to form a joint venture project in which the Chinese company would own at least 51 per cent of the joint stock (Pirvoiu 2016b).

Since some important politicians do not support Romanian collaboration with the Chinese companies, the successful conclusion of the deal is by no means guaranteed (Chiriță and Zoukui 2016). Significant political commitment would also be needed to overcome legal challenges, such as the use of Canadian technology in the existing plants (Economica.net 2016). There are also security concerns. For example, China General Nuclear Power has been accused of nuclear espionage, allegedly conspiring to develop nuclear material without UN approval between 1997 and 2016 (La Ganga 2016). The
project also involves state support that would need to be approved by the European Commission (Pirvoiu 2015).

The development of the Rovinari coal-fired power station represents another large project, involving a major investment by the Romanian government. In 2014, China Huadian Corporation set up a joint venture with Oltenia Energy Complex involving a planned investment of about 1 billion euros and installed capacity of 600 MW with an estimated 400 new jobs. In 2015, China Huadian and the Romanian government announced that it would build a 600 MW coal-fired power plant (Jiayuan 2016), but the project is still on stand-by because of political disagreements on the Romanian side.

A number of other infrastructure projects were announced some time ago, including the Tarnita hydro power station, a wind power plant, as well as high-speed rail (Jiayuan 2016). However, the resignation of the Ponta government in November 2015 put this energy project at an indefinite standstill. The PSD-led coalition government formed after the 2016 parliamentary elections did not express any interest in continuing the projects of the Ponta government.

3. Resource-seeking investments: exploiting low costs and natural endowments

Romania and Bulgaria have also attracted Chinese investors that exploit their endowments. Low labour costs, low taxation and natural resources (wood and agriculture) play major roles in this context. In agriculture and forestry, the local resources can be utilized for sale on Chinese markets. However, the strategies of industrial investment combine exploiting local resources with gaining access to European markets.

DHS Manufacturing is a prime example of a company that takes advantage of low costs in Romania in order to serve European markets. It started in 1999 as a local reseller of bikes manufactured in China. Aiming to be one of the biggest players on the European market, it established a production plant in Deva in 2006, with total investment reaching USD 20 million. Employee numbers have averaged 250 since 2006 (and a maximum of 313 employees in 2013). The company produces all types of bikes and parts, but specialises in the cheaper segment, assembling about 1,200 bikes per day, or about 350,000 per year. Most of the parts used in assembly, including the frame, are imported from China. However, local activities include also more advanced functions, most notably product design, development and marketing. The company controls about 60 per cent of Romanian market exports to more than eighteen countries in Western and Eastern Europe. In 2013, it recorded turnover of more than 38 million euros.3

The multi-sectoral conglomerate Friendly & Joy Europe (F&J) represents an investor that exploits the low-cost environment as well as the natural resources. The conglomerate includes both greenfield activities as well as units that grew from local smaller companies acquired in the mid-1990s. It includes companies such as Sinoroma

in the tobacco industry, Lemnking Industry in wood processing, Vortex in electronics and Centrade in food and textiles (Alexandrescu and Mica 2006). The most important activities are in the wood industry, with turnover of about 50 million euros in 2005 (David 2006).

One of the oldest Chinese actors in Romania, Lemnking Industry, is one of the biggest wood exporters (China Radio International 2004). It employs about 500 people in the Buzau region. In 2003, around 70–80 per cent of the total amount of exported wood was from F&J. China is an important export market for the company. It plans to build a furniture factory in partnership with another Chinese company (David 2016; Zafiu 2015).

Sinoroma is a cigarette factory built in 1997 with an investment of 3 million euros (David 2006), increasing to 15.7 million euros in 2006 (Alexandrescu and Mica 2006). Another unit of the factory was opened in 2007 after an investment of 36 million euros. A total of 80 per cent of production is exported to European markets, using raw materials from the United States, Brazil and China (Curierul National 2007). The locally sourced materials are used only for packing (David 2006). F&J has subsidiaries also in Hungary, Serbia, the United Kingdom and Brazil, but the company officials cite low labour costs, low taxes and cheap land as reasons for preferring production in Romania (David 2016; Daily Business 2007).

F&J is active also in electronics, operating under the low-cost Vortex brand. The company started its activity in Romania in 1998, producing small electronics appliances for Eastern European markets. The company’s products were initially not received with positive attitudes and trust by consumers, but they attempted to improve their image by hiring a former director of Electrolux Romania (China Radio International 2004). The company was targeted by investigations on suspicion of tax and VAT evasion of up to 9 million euros in 2013 by making use of a chain of multiple companies (Neferu 2014).

4. Great Wall Motors/Litex: the limits of low-road development

The joint venture of Great Wall Motors and Litex in Bulgaria stands out from other Chinese industrial investments in the region that exploit the low-cost environment in relatively simple activities. The car producer Great Wall Motors (GWM) operates in a technology-intensive sector dominated by Western car makers (see Chapter 2). A successful launch of the Litex venture would allow them to challenge European car makers in their home market. It would also revive the tradition of automotive production in a country that became marginal to the automotive value chains that dominate industry in Central and Eastern Europe and eventually also in Romania. Litex Motors’s total investment plans amount to 70 million euros, including new premises for welding, metalworking and painting. However, it is not clear at what stage implementation of this project stands and whether it will happen soon.

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4. The GWM is among the smaller car producers in China. It has the largest output in the 4x4 segment.
The Bulgarian-Chinese project to relaunch automotive production with the assembly of Great Wall Motors cars in 2012 was thus perceived by policymakers and public opinion with enthusiasm and attracted large media coverage also in Europe and the United States. The factory was expected to experience significant and rapid growth, in terms of output, markets and employment in the following years, namely 50,000 cars per year and 2,000 jobs. Five years after the launch of the project, Litex Motors is still there and growing, but far from the optimistic forecasts and ambitious objectives.

GWM started talks with its Bulgarian partner Litex – a company established at the beginning of the 1990s with a range of business activities outside the metal sector\(^5\) – in late 2009.\(^6\) The Bulgarian partner is the main investor, contributing 90 per cent of the capital. GWM thus contributes mainly technology and knowhow. In practice, Litex is completely dependent on GWM technology as it re-assembles imported kits – only batteries are produced locally. There are no signs of importing HRM systems from GWM.

Litex Motors opened its plant for the production of Great Wall vehicles in February 2012, using a greenfield site outside Bahovitsa, a small village near Lovech in northern Bulgaria. GWM cited low production costs, cheap labour, the flat tax rate of 10 per cent and access to the EU market as a reason to invest in Bulgaria. The company intended to sell the assembled vehicles on the local market and throughout Europe, but mainly and firstly in South-eastern Europe. In 2016, Litex cars were available in Italy, Serbia, Macedonia, Romania and Montenegro.\(^7\) Plans include expansion to other markets in Eastern Europe and the Middle East.

In the first year of its existence, Litex Motors produced more than 1,000 units of the Great Wall Voleex C10 (a small five-door hatchback powered by a 1.5-litre engine).\(^8\) Two other models were added, the pick-up Steed 5 and the 4x4 vehicle Hover H6 (a pickup truck and a sports utility vehicle). Early in 2016, car assembly stopped temporarily. About half the staff were released, also temporarily, without specifying the duration. The reason provided by the company was the adjusting of production lines for the production of new models and sufficient stock.\(^9\) There was speculation – which the company denied – that the GWM motors had difficulty complying to Euro 6 standards.\(^10\)

In October 2016, the company announced that it would stop production of two models – the crossover Haval H2 (Great Wall’s luxury brand) and the pickup ‘Steed’ 6.

\(^5\) Great Wall has hedged its bets by working in partnership with a local businessman, the Bulgarian oligarch Grisha Ganchev. Ganchev, who made a fortune from Bulgaria’s transition to a market economy after the fall of communism there in 1989, owns a string of businesses, including a football club, sugar refineries, filling stations and Litex Motors, which reportedly put up 90 per cent of the nearly €160 million investment in the Lovech plant.


\(^8\) [http://bit.ly/2eO0Hi](http://bit.ly/2eO0Hi) Prices started at 15,000 Bulgarian lev (7,500 euros), including large number of extras, 5 years warranty and low-cost financing.


\(^10\) [http://www.capital.bg/biznes/kompanii/2016/01/13/2685168_zavodut_na_great_wall_v_bahovica_vremenno_spria_rabota/](http://www.capital.bg/biznes/kompanii/2016/01/13/2685168_zavodut_na_great_wall_v_bahovica_vremenno_spria_rabota/)
While the automotive component industry is rapidly developing in Bulgaria, there are no indications of integration in the assembly of GWM/Litex. Almost all components are thus imported, with few exceptions, such as batteries.

According to some estimates, GWM/Litex needs to sell 15,000 vehicles per year in order to be viable. In 2012–2015, Litex Motors sold out about 3,500 cars, mainly in Bulgaria, but only one-third of them were actually produced there, with a majority being imported from China. In 2016, Litex sold only 436 cars in Bulgaria. In 2014, the last year for which financial reports could be found, revenues were driven by exports, with turnover increasing from 30 to 71 million leva. The company also, for the first time, recorded a profit of 8 million leva. However, in 2017, the company entered into a bankruptcy procedure, although the management stated that it intends to continue producing as planned.

At full capacity the plant is expected to employ about 2,000 people, but for the moment this seems overambitious. At the beginning of its operations Litex Motors hired about 120 employees. Their number peaked at 200, but fell to about 150 in 2016.

The company claims on its website to ‘put into practice one of the most advanced management systems for the production of vehicles in the world’, but the reality seems to be rather different. The management team consists of foreign consultants and managers with long experience in the manufacturing of the world’s leading car brands. However, the workers and engineers seem to need very little training and experience. The average age of the operators is only 19 years and of engineers just 25 years. The newly hired workers require only a short training in order to be operational, which suggests that operations are rather simple. HRM practices seem to be developed within the local company, with little influence from the Chinese shareholder.

The company’s social policy includes free meals and free accommodation near the factory. The company also organises training courses for engineers and designers. The opportunities for employees’ voice are limited, as there are no trade unions in the company. According to Bulgarian trade union officials, the company ‘does not cooperate’ with trade unions and is even hostile to trade unions (a situation common in multinationals active in Bulgaria). A trade union federation made an attempt to organise employees in Litex, but they did not succeed as the management insisted that they needed permission from the owner. The unions also tried to meet workers outside the plant, but they were not able to find employees willing to join a trade union. In general, as for the other union respondent, unionisation seems to be very difficult in subsidiaries of multinationals, especially in greenfield companies (see also Daskalova et al. 2009). People are afraid, especially in small towns where job opportunities are limited.

5. Strategic-resource seeking investment: telecommunications equipment

Chinese investment in the telecommunications-equipment sector in Romania is an example of a successful investment that exploits local engineering skills (hence an asset-seeking investment). These are exploited by Huawei (analysed in Chapter 11) and ZTE in providing services to European mobile network operators. The strategic value of the engineering knowhow is in the extremely favourable price/quality ratio, given the low wages of engineers in Romania relative to the rest of Europe. The European strategy of these Chinese telecom-equipment providers combines the use of Romanian engineers in technical support for deployment services around Europe, the innovation network that relies on engineers employed at the Chinese sites and financial support for market expansion through Chinese industrial policy (see also Chapter 1 for discussion of the overall business strategy of Huawei and ZTE).

ZTE set up a subsidiary in Romania in 2004 with the aim of creating, in partnership with the Romanian National Postal Company (Posta Romana), an alternative landline operator to Romtelecom, the state-owned monopoly provider. The joint venture was to be funded by Import-Export Bank of China through a USD 130 million loan (Alexandrescu and Mica 2006; Lebedencu 2004). The venture enjoyed the political backing of the left-wing PSD government led by Prime Minister Adrian Nastase. However, the project came to a halt: a political commitment in the form of state guarantees for the loan could not be guaranteed given the lack of a broader political support and opposition to the project from the EU, the IMF and the World Bank. In addition, there were plans to build a manufacturing plant, but the company eventually opened only a logistical support centre employing about 150 workers and continues to source hardware from Asian plants.

ZTE eventually found itself pursuing a similar strategy to Huawei: since 2014, it has used Romania as a technical support hub for its European operations, particularly in serving telecommunications networks in Germany and Romania. ZTE Services in Timisoara employs about 200 workers (Deaconescu 2016). Apart from Germany (where it won contracts from Telekom and E-plus), ZTE has been successful also on the Romanian market. It controls about 30 per cent of the market for telecommunication equipment, focusing on the public sector (Vasilache 2011).

In 2015 the employees from ZTE Services tried to organise collectively with the help of the IT Trade Union from Timisoara. However, the union failed to achieve the 50 per cent coverage required by Romanian law. Management, both Chinese and Romanian, took a hostile approach to the union. Nevertheless, a works council operates in the company and negotiates a collective agreement (with a Romanian manager who needs approval from Chinese superiors). Interviewed employees reported the working conditions and pay to be comparable to other companies in the sector.
6. Conclusions

The flows of Chinese investment into Romania and Bulgaria have been modest, contrasting somewhat with the expectation that the countries could serve as a gateway for Chinese companies to Europe. Two types of companies have been able to take advantage of the low-cost environment and access to European markets. First, Huawei and ZTE established European hubs for technical support for communication network equipment. Apart from the low cost, they take advantage of the Romanian education system that is able to produce engineers that the company can use to serve European customers. This high-road strategy can be successful as these companies are market leaders and control frontier technology in their sector. They are clearly beneficial to the local economy as the companies employ highly skilled engineers and pay wages that are high by local standards. Expansion by these companies may also support the formation of technology clusters in the region. However, relying on the comparative advantage of lower costs than in Western Europe raises questions about the low value retention in the region (cf. discussion in Chapter 11). Moreover, there are questions about the sustainability of such development as the technical support activities may be vulnerable to automation.

The second type of successful investment exploiting local resource endowments includes the relatively simple industrial activities, centred on assembly, that benefit from low wages and proximity and access to European markets (for example, DHS Manufacturing and the affiliates of the F&J group). The risk of such low-road strategies is that they lock the region into activities that compete primarily on low costs.

The joint venture of GWM and Litex, attempting to launch production in a complex industrial sector, highlights the limits of combining a local partner that, apart from capital, cannot offer much more than the ability to employ workers at low cost and provide access to the EU market with a Chinese investor that apparently lacks the technological capabilities that would allow it to compete with the leaders in the sector, most notably Renault/Dacia in the lower-cost segment.

Finally, there were no signs of Chinese investors taking advantage of their apparent ability to cope with more challenging institutional environment. On the contrary, a lack of policy continuity or an ability to guarantee long-term political backing for complex investment projects effectively prevented Chinese involvement in energy infrastructure projects. In fact, Chinese infrastructure companies may be less experienced in dealing with political unpredictability and public scrutiny, features that are not specific to a low quality of governance but to democratic politics.

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All links were checked on 25.04.2017.
Part 3

Chinese investments in Europe: capability developments, competition strategies and employment relations
Chapter 8
Chinese investments in Germany: increasing in line with Chinese industrial policy

Shuwen Bian and Oliver Emons

1. Introduction

‘China is buying up Germany’ (FOCUS Magazin 2011), ‘China’s company purchases in Germany are hotting up’ (Lange 2016). It is not just because of headlines like these that Chinese investors have been making a name for themselves in Germany of late. In the first half of 2016 alone 37 Chinese stakes in German companies were completed or announced, amounting to just under 9.7 billion euros, more than the previous ten years put together (Gaetzner 2016). There have been record deals aplenty: right at the beginning of the year state-owned enterprise the National Chemical Corporation bought the venerable specialist mechanical engineering company KraussMaffei for 925 million euros, the most expensive takeover by a Chinese company in Germany to date. In June the private group Midea made an attractive takeover bid for shares in the market-leading robot manufacturer Kuka. Almost two months later just under 95 per cent of the company, the first (former¹) MDax firm, were in the hands of a Chinese concern. In the meantime, the pace of acquisitions has accelerated such that, on average, one German company falls into Chinese ownership each week. Insiders talk of a takeover frenzy among Chinese investors in Germany and expect more acquisitions.

In the German economy and political realm the takeover wave has given rise to some concerns. As Emons shows in his study ‘Selling Off the Hidden Champions’, apart from individual headline deals Chinese takeovers mainly involve SMEs (Mittelstand firms) that are world leaders in their area (Emons 2013). If one recalls the first Chinese investment projects in Germany and their outcomes the worries are not surprising. As early as the 1990s a series of failed investments drew the attention of the German media and politicians. In 1998 the first factory built by a Chinese investor in Germany – the Northern German Pencil Factory in Neustadt-Glewe, Mecklenburg – had to go into liquidation. The state government of Mecklenburg-Western Pomerania suffered a loss of 4.5 million DM in subsidies. In 2003 came the closure of Hirschfelder Leinen und Textil, with 60 employees, which only eighteen months previously had been taken over by the Chinese D’Long group. In 2004 the parent company itself got into major financial difficulties and collapsed. The other D’Long affiliate in Germany – aircraft manufacturer Fairchild Dornier in Oberpfaffenhofen, Upper Bavaria – also had to declare insolvency. In Türkheim, only 60 kilometres away, there was another bankruptcy only two months later, when Schneider Electronics ceased production after parent company TCL built a new plant in Poland. All the production workers were made redundant (Bian 2016).

¹ According to the rules of the German Börse, freely traded shares may not fall below a 10 per cent threshold. As a result of the takeover Kuka’s shares were excluded from the mid-cap index.
In retrospect the instances between the late 1990s and the early 2000s were only pilot projects. After several quiet years Chinese interest in German companies picked up again around 2009/2010 and has remained strong ever since. Are Chinese investors better prepared this time than in the past? Is Germany a particularly attractive target country for them? What in particular interests the new owners in their German affiliates: returns, sustainable development, technology transfer? What are relations like between German employees and Chinese employers in the acquired firms? These are issues that, against the background of heightened investment efforts from China will become increasingly important in the future.

In the present chapter we shall try to provide some first answers to these questions. It is structured as follows. In Section 2 we begin with a review of current Chinese investments in Germany. We go beyond summarising the findings of the various studies and, on methodological grounds, look into the various data sources behind the studies carried out so far. Even though all data sets confirm the rapid increase in Chinese foreign investments in Germany there is no unambiguous data pool on the exact number of transactions and total investment volume. By analysing the pros and cons of the relevant data gathering system we show which surveys come closest to the actual situation.

In Section 3 we go into the reasons and motivations of the increasing Chinese stakes in German companies. The government has pushed the international expansion of Chinese companies since 2000 as a national strategy. That is in line with the economic interests of these companies, which for a number of reasons are ever more urgently seeking new production locations and markets outside China. German companies appear to enjoy a high reputation among Chinese investors.

In Section 4 our focus shifts from the economic policy dimension to the company level. Hitherto, the view has generally been that the experiences of German workforces with Chinese owners have been largely neutral or positive. Looking more closely at the Chinese side, however, it seems that the conflict-avoiding behaviour of Chinese multinationals in relation to German workers’ representatives has partly emerged from a learning process concerning the nature and functions of foreign trade unions which took place outside Europe and was supported by the Chinese authorities.

Section 5 is a practically oriented list of questions for trade unions, works councils and all other codetermination actors who find themselves facing Chinese investors. The list of questions is suitable for both examining company bids if Chinese investors come knocking with the intention of buying the company, and for evaluating the new owners if the takeover has already been concluded. We end with a cautious look at the future development of Chinese investments in Germany.
Chinese investments in Germany: increasing in line with Chinese industrial policy

2. Overview of Chinese investments in Germany

2.1 General developments

The first Chinese transaction in Germany came as early as 1995. Before 2011 Chinese investments were not particularly substantial in quantitative terms. In 2010 Chinese capital stock invested in Germany constituted less than 0.3 per cent of all foreign investments. It began to rise sharply in 2011. According to the estimates of US think tank Rhodium Group (see Figure 1) Chinese capital inflows into Germany rose from 186 million euros in 2010 to 1.4 billion in 2011. While they remained relatively stable at 1.5 billion euros a year between 2011 and 2015, Chinese investments in Germany reached a new peak in 2016 (Hanemann and Huotari 2015; Hanemann and Huotari 2017).

It is not surprising that Chinese multinationals engage in both greenfield and brownfield investment projects in Germany. However, greenfield investments are much more frequent. By country comparison China was ranked first in both 2014 and 2015 with regard to quantity of new investments in Germany (see Figure 2). According to the statistics of the German Länder’s economic development agencies in these two years Chinese companies undertook 190 and 260 greenfield projects in Germany, respectively (Bozoyan 2016). The majority of new investments were carried out by Chinese companies founding their first establishments in the country. Such smaller commitments represent the first entry points of the parent companies in the German market, preparing themselves for subsequent further and larger investment projects.

Figure 1 Outward FDI flows of China to Germany, 2010-2016

Source: Rhodium Group.
In comparison with new investments there is a smaller number of company stakes, mergers and takeovers. As a rule, however, the latter involve much higher transaction volumes, more employees and generally speaking much greater economic and social effects. In 2011 only 16 companies were acquired in Germany, whereas in 2015 there were 36 company acquisitions and stakes purchased. Thus within four years the number of companies concerned more than doubled (see Figure 3). The abovementioned record total in this year is largely due to the brownfield deals.

Source: Bruche and Wallner (2013); sps (2014); Landgraf and Köhler (2016).
If one breaks down the Chinese investments in Germany by branch, machine building, automotive and information and communications technology take the first three places (Hanemann and Huotari 2015: 23). In the eyes of Chinese investors German machine building and automobiles are favourites in two respects: first, these two branches attract by far the most Chinese capital; second, by European comparison the most Chinese investments in machine building and automotive go to Germany.

2.2 Discrepancies in the data sources

In the previous subsection we presented the big picture of Chinese investments in Germany. We have drawn selectively on three data sources, including the Chinese National Bureau of Statistics, the database of the think tank Rhodium Group and the data gathering of the economic development agency Germany Trade and Invest. In the literature one occasionally finds a fourth data source, namely commercial company data bases, which we have disregarded due to their considerable inaccuracy. Although all four sources confirm the same rising tendency with regard to Chinese investments they sometimes come up with very different results concerning transaction figures and volumes. In what follows we compare all sources with one another and look into the differences in their data gathering systems.

In China the official OFDI statistics are gathered by the Ministry of Commerce and worked up by the National Bureau of Statistics. Since 2006 outward direct investment flows and outward direct investment stocks have been published on an annual basis. The Ministry of Commerce uses mainly three sources to determine the Chinese OFDI data: figures from Chinese companies in their applications for foreign investments, local government registration data on investment projects of local companies abroad and the State Administration of Foreign Exchange’s statistics on cross-border foreign exchange transactions. At the time of writing (September 2016) the latest available data come from 2014. The investment streams are broken down by target country and divided into two groups (investments in the financial sector and in the non-financial sector).

According to official Chinese statistics Germany had received a total of 5.79 billion US dollars of Chinese investments by the end of 2014, putting it fifteenth among 186 recipient countries (see Table 1).

Apart from the fact that the data publication time lag of 8–18 months makes it difficult to keep up to date it is nonetheless evident that offshore capital hubs have attracted strikingly high capital flows from China. Hong Kong, the British Virgin Islands and the Cayman Islands are the three premier target regions for Chinese OFDI and together have received more than three-quarters of Chinese capital. Such offshore hubs – especially Hong Kong – because of their historical development and geographical position serve as the favourite capital hubs of Chinese companies. It can be assumed that a considerable portion of the 509.92 billion US dollars used Hong Kong merely as a waystation and ultimately has flowed into the real target investment countries. Thus real investments in Germany will probably turn out to be higher than what is reflected in the Chinese statistics.
The think tank Rhodium Group estimates higher Chinese FDI flows to Germany. As its basis for calculation it identifies individual Chinese transactions using the so-called bottom-up approach. Transactions comprise new establishments and company stakes above 10 per cent, in both cases with a minimum value of 1 million euros. A variety of channels are used to identify the transactions: ‘among others, commercial databases, online search algorithms, media reports, notifications to the authorities, business reports, business associations, official sources, investment development agencies and sectoral contacts’ (Hanemann and Huotari 2015: 60). As a result, the Rhodium Group comes up with a higher Chinese capital stock in Germany than the official Chinese statistics.

In contrast to the data gathering of the Chinese authorities, which look at the first direct target countries of Chinese capital, the Rhodium Group’s data system is based on sources from the ultimate recipient countries of Chinese OFDI. This makes it possible to correct for the distortions caused by the use of offshore hubs. Their breakdown of investments by economic sector is another advantage of the Rhodium studies.

Besides the breakdown by economic sector the Rhodium Group’s database also divides up Chinese transactions into greenfield and brownfield investments. However, the minimum transaction value of 1 million euros makes it inevitable that transactions below this threshold were neglected. The resulting distortion affects above all

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Table 1  
Top 20 destination countries (regions) for China’s OFDI stock by the end of 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country (region)</th>
<th>Stock (in bn. $)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hong Kong (China)</td>
<td>509.92</td>
<td>57.8</td>
</tr>
<tr>
<td>2</td>
<td>British Virgin Islands</td>
<td>49.32</td>
<td>5.6</td>
</tr>
<tr>
<td>3</td>
<td>Cayman Islands</td>
<td>44.24</td>
<td>5.0</td>
</tr>
<tr>
<td>4</td>
<td>United States</td>
<td>38.01</td>
<td>4.3</td>
</tr>
<tr>
<td>5</td>
<td>Australia</td>
<td>23.88</td>
<td>2.7</td>
</tr>
<tr>
<td>6</td>
<td>Singapore</td>
<td>20.64</td>
<td>2.3</td>
</tr>
<tr>
<td>7</td>
<td>Luxembourg</td>
<td>15.67</td>
<td>1.8</td>
</tr>
<tr>
<td>8</td>
<td>United Kingdom</td>
<td>12.81</td>
<td>1.5</td>
</tr>
<tr>
<td>9</td>
<td>Russia</td>
<td>8.70</td>
<td>1.0</td>
</tr>
<tr>
<td>10</td>
<td>France</td>
<td>8.45</td>
<td>1.0</td>
</tr>
<tr>
<td>11</td>
<td>Canada</td>
<td>7.79</td>
<td>0.9</td>
</tr>
<tr>
<td>12</td>
<td>Kazakhstan</td>
<td>7.54</td>
<td>0.8</td>
</tr>
<tr>
<td>13</td>
<td>Indonesia</td>
<td>6.79</td>
<td>0.8</td>
</tr>
<tr>
<td>14</td>
<td>South Africa</td>
<td>5.95</td>
<td>0.7</td>
</tr>
<tr>
<td>15</td>
<td>Germany</td>
<td>5.79</td>
<td>0.6</td>
</tr>
<tr>
<td>16</td>
<td>Norway</td>
<td>5.22</td>
<td>0.6</td>
</tr>
<tr>
<td>17</td>
<td>Laos</td>
<td>4.49</td>
<td>0.5</td>
</tr>
<tr>
<td>18</td>
<td>Netherlands</td>
<td>4.19</td>
<td>0.5</td>
</tr>
<tr>
<td>19</td>
<td>Macau (China)</td>
<td>3.93</td>
<td>0.4</td>
</tr>
<tr>
<td>20</td>
<td>Myanmar</td>
<td>3.93</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>787.26</td>
<td>89.2</td>
</tr>
</tbody>
</table>

Source: 2014 Statistical Bulletin of China’s Outward Foreign Direct Investment
greenfield projects which, experience shows, involve less capital. The share capital required by law to establish a GmbH – a form of association often chosen by Chinese investors – in Germany is 25,000 euros, far below the 1 million euro threshold. There are thus likely to be substantially more Chinese new establishments than the Rhodium Group estimates. A useful means of correction in this respect are the data provided by the economic development agencies of the German Länder and their umbrella organisation, Germany Trade and Invest. The economic development agencies are tasked, among other things, with touting for greenfield investments internationally and with supporting and advising interested investors in the establishment process. They are informed about Chinese new establishments, regardless of level of investment, at first hand.

In the international management literature commercial company databases are often used in order to identify companies with foreign participation in a particular economy. Such databases as a rule contain figures on the direct or global parent companies and their countries of origin. In our own investigation we were able to establish that their data gathering methods are not accurate enough. Many known cases of Chinese company stakes in Germany are not identified as such. Whenever there is a holding company not registered in China between the Chinese parent company and the German affiliate it appears as if the parent company does not come from China. We therefore assume that the studies that rely solely on these data sources identify a lower number of Chinese company stakes than there really are.

We are aware that the pros and cons of the various data sources analysed above are not limited to Chinese investments abroad. Rather it proves the general methodological difficulties caused by the nowadays common practice of nested structures in the case of cross-border foreign investments. Discrepancies between the various FDI statistics represent a general challenge to scholars and practitioners in their quantitative evaluations (World Bank 2011: 320).

3. Reasons for the increase in Chinese investments in Germany

The increase in Chinese interest in German companies described in the previous section is certainly taking place against the background of China’s gradual transformation from an FDI import country to an FDI export country. However, the tempo and intensity are remarkable. Analytically the rapid increase can be understood in terms of the interaction of two kinds of forces: (i) in China there is a driving force that pushes Chinese companies to expand abroad; (ii) at the same time, Germany is particularly attractive for Chinese companies. In this section we look into these two different forces.

3.1 Driving force of expansion

The internationalisation of Chinese companies, which in China is described vividly as ‘going out’ (zouchuqu) has been a full-fledged policy in Chinese reform and opening-up policy since 2000. At the fifth plenum of the fifteenth Central Committee of the
Communist Party of China in October 2000 the so-called ‘Going-out Strategy’ (sometimes referred to as the ‘Going Global Strategy’) was included for the first time in the proposal for the tenth Five-year Plan (2001–2005) and thus embedded in national economic policy (Jungbluth 2014: 102). The Going-out Strategy was included in all three subsequent five-year programmes – the eleventh (2006–2010), twelfth (2011–2015) and thirteenth (2016–2020). As in the case of all major policy drafts in China the Going-out Strategy, after its principles and guidelines were adopted by the state leadership, was implemented and coordinated by the various government departments. The Ministry of Commerce is responsible overall, but other relevant authorities include the Ministry of Foreign Affairs, the National Development and Reform Commission and the State Administration of Foreign Exchange. Between 2000 and 2010 the authorities worked out a policy framework comprising 38 rules, regulations and guidelines, of which 12 measures concern overseas investment and asset management, eight measures financial and taxation support, 14 measures foreign exchange and four documents general services offered by the authorities (Bernasconi-Osterwalder 2013; Yuan et al. 2016).

Before the introduction of the Going-out Strategy in 2000 Chinese companies invested only sporadically abroad and required special approval in each instance. The majority of the considerable body of papers and regulations concern the establishment of a standardised approval procedure for foreign investments and various promotional measures. The intention is clear: the government would like to make ‘going out’, first, easier for companies and, second, more attractive. We shall not go into more details about the ways in which the approval procedure was made easier or the financial and tax concessions. The question that particularly interests us is whether the government offers guidance concerning the orientation of investment. And indeed that turns out to be the case: with the Catalogue of Countries and Industries for Guiding Investment Overseas the authorities indicate the desired regional, country and sectoral foci for expansion abroad. Companies that invest in accordance with the list receive preferential treatment in relation to public support, including financial assistance, foreign currency approval and tax and duty concessions. The list of countries and sectors was produced for the first time in 2004 and listed 67 countries with selected sectors. In 2005 and 2007 it was revised twice and other countries were added. Germany was included in the first version, with eight focal sectors: electric appliances and equipment manufacturing, medicinal and pharmaceutical product manufacturing, chemical raw materials and chemical product manufacturing, electronic equipment manufacturing, trading and distribution, transportation, banking, research and development (Ministry of Commerce of the People’s Republic of China et al. 2004).

The attempt on the part of the Chinese government to guide foreign investment towards particular sectors in certain countries is evident. But to what extent does it influence companies’ actual investment decisions. In a recent study Yuan et al., on the basis of a sample of 1460 Chinese companies, show that after the issue of the Catalogue of

2. From the eleventh period onwards the five-year plan (wunianjihua) was replaced by the five-year programme (wunianguihua). The name change reflects the switch from binding planning to indicative planning. A five-year programme does not lay down detailed plans and implementation is not compulsory. Nevertheless the Chinese government uses it to communicate its goals and priorities.
Countries and Industries for Guiding Investment Overseas there was marked increase in foreign investment on the part of Chinese companies (Yuan et al. 2016). Unfortunately, however, the study contains no information on whether the geographical and sectoral distribution of the heightened foreign investment activities was in line with the goals set out in the list.

Having presented the system of state economic policy incentives we shall now look at the business motives of Chinese companies. In retrospect we can establish that the foci of Chinese foreign investments since the introduction of the Going-out Policy have shifted twice. First of all, Chinese companies invested almost exclusively in developing countries in Asia, Africa and Latin America with a clear focus on raw material extraction and infrastructure projects (Brautigam 2009). In the mid-2000s they began to take an interest in the raw materials sector in some industrialised countries, such as Australia and Canada. From 2010 their appetite for investment finally took in the industrial sector and services in the United States and Europe (Shambaugh 2013). In this dynamic and complex expansion of Chinese capital needless to say the forms of investment have differed from region to region and business considerations from sector to sector (Cardenal and Araújo 2014). Here we shall concentrate on the motives of Chinese companies in the third wave mentioned above, that of Chinese investors in industrial and service companies in the developed countries. The following five reasons are most often presented in both the scholarly literature and by the firms themselves:

1. **Growing bigger**
Sometimes Chinese companies are no longer able to grow any further in the domestic economy. Cut-throat competition, which sometimes goes together with overcapacity in many areas, reduces company profit margins. Inflation and, in particular, rising wage levels are increasing general workforce costs. The protectionism widespread among local governments results in restrictions for economic dealings between regions (Herrmann-Pillath 2015: 194) and thus imposes a growth cap on the domestic expansion of many companies. In these circumstances expansion abroad seems an attractive solution.

2. **Acquiring technology and know-how**
In the Chinese economy the realisation dawned quite a while ago that Chinese firms need more than a favourable cost structure in the face of domestic and international competition. They have thus been trying to make up ground on the developed economies with regard to technological backwardness and management know-how. The idea is to wean themselves off technological dependence on foreign contract manufacturers and to acquire technological leadership, on the principle ‘if you can’t beat ‘em, join ‘em’. And indeed it is much quicker and cheaper to acquire technology and know-how by buying an existing company than to develop them from the ground up. That puts takeover candidates from the industrialised countries in the frame.
3. **Building brands**

Despite the size of the Chinese economy, the country has comparatively few international brands. Those Chinese companies that have managed to establish an international reputation are also those that have been investing actively abroad. Lenovo’s purchase of IBM’s PC division, Geely’s takeover of Volvo and Haier’s takeover of Sanyo’s white goods business have all helped to raise the purchasing company’s profile on the North American, European and Asian markets, respectively. ‘Manufacturing competence or technology are not enough for brand expansion. It is more effective to take over established foreign brands’ (Song and Kang 2012). While in 2006 the only Chinese company on Millward Brown’s ranking list of the Top 100 Most Powerful Brands was China Mobile, there are now 15 companies on the list (Millward Brown Optimor 2006; Schept 2016).

4. **Diversifying risk**

Another reason for Chinese economic actors, whether private companies, state-owned companies or sovereign wealth funds, such as the China Investment Corporation, to invest abroad is risk diversification, which takes place in the form of distribution of risk across various investment vehicles (Meier and Reisach 2008: 49). Purchasing real estate and companies abroad offers investment opportunities on top of the US Treasury Bonds that China has acquired in vast quantities for monetary policy reasons. Chinese companies and funds seeking takeover targets have struck gold in Europe since the European financial and economic crisis, as a consequence of which demand for additional capital has risen, leading to a greater readiness on the part of European governments and enterprises to accept investments from China (Fallon 2014; Meunier 2014; Ma and Overbeek 2015). While before the crisis the main targets were companies in difficulties, today healthy companies are also on Chinese investors’ shopping lists. Such companies may find themselves in temporary financial difficulties due to the crisis or are on sale because of problems of succession, which are increasing in relation to family companies.

5. **Circumventing trade barriers**

Chinese companies also invest in Germany and Europe in order to circumvent EU tariffs on their products. Fifty six out of 73 current EU anti-dumping measures concern Chinese imports. Hitherto, higher tariffs on imports of steel, solar modules and other products have been possible because the EU does not recognise China as a market economy. Only this year China’s request to be recognised as a market economy was rejected by a majority in the European Parliament. Given the EU’s trade protection instruments, it is not surprising that the solar industry was one of the earliest target sectors in Germany. Chinese investors have either taken a stake in German solar farms or have taken them over (Emons 2013: 20).

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3. The relevant transitional rule adopted 15 years ago when China joined the World Trade Organisation expires on 11 December 2016.
3.2 Attractions of Germany

The five business goals cited above can generally be achieved by purchasing technology-leading European firms. It doesn’t really matter which European country the takeover candidate comes from. However, at the moment no other European country is attracting anything like as much investment from China as Germany. Is Germany a particular favourite among Chinese investors? The answer is an unequivocal ‘yes’, at least according to an authoritative Chinese ranking of the best investment target countries. In the *China Overseas Investment Country Risk Rating Report* the Institute of World Economics and Politics at the Chinese Academy of Social Sciences annually evaluates 57 main target countries or regions in accordance with their investment risks for Chinese companies. The evaluation criteria include more than 60 economic, social and political measurements in five categories: general economic health, public debt and creditworthiness, social stability, political security and bilateral relations with China. For three years in a row (2013–2015) Germany was rated the target country with the lowest risks for Chinese foreign investments. In 2015, indeed, Germany was the only country put in the highest evaluation class (IWEP 2017).

Apart from the strength of the economy, general stability and good diplomatic relations with China there is another important factor that explains the constant Chinese interest in German companies: the favourable position of German companies with regard to Industry 4.0 by international comparison. China’s newest industrial strategy, whose main features are internationalisation and digitalisation, is conceptually based on Germany’s Industry 4.0 model. By means of internationalisation worldwide sales markets are to be secured and expanded for Chinese industry. Digitalisation is supposed to make Chinese industry competitive in high technology sectors in relation to the industrialised countries. According to the most important strategy paper in this context, *Made in China 2025*, manufacturing industry in China in general and key industries in particular are supposed to achieve significant improvements in relation to ‘innovation competence’, ‘quality and efficiency’, ‘integration of industrialisation and informatisation’ and ‘sustainability’ (State Council of the People’s Republic of China 2015). In order to bring the plan to fruition the government promised comprehensive financial, fiscal and legal support measures, including measures on the internationalisation of Chinese companies by opening up new markets and investments abroad. The paper explicitly mentions four areas as foci of foreign takeovers and mergers: (i) high-speed rail transport, (ii) electricity generation, (iii) automotive and (iv) machine building. In the course of putting *Made in China 2025* onto a more concrete footing major projects are being launched, such as the Chinese-European Investment Fund. At the first China-EU roundtable conference on digital cooperation, which took place in Brussels in July 2015, the head of the Cyberspace Administration of China, Lu Wei, spoke of building a ‘digital silk road’. In order to bring this into being he expressed the wish that more Chinese internet firms expand their business in Europe. It is thus not surprising that Chinese investments are increasingly flowing into German companies that are either drivers or suppliers of Industry 4.0. Besides Kuka

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4. *Made in China 2025* is the first part of a far-reaching plan that is supposed to help China become the leading industrial nation by 2049. Published in May 2015 the paper contains in particular the development goals and strategies for the next 10 years, the first of three stages leading up to 2049.
another current example of the purchase of a technology company is the takeover bid by the Fujian Grand Chip Investment Fund worth 676 million euros for the Aachen based Aixtron SE, which specialises in manufacturing metalorganic chemical vapour deposition equipment for clients in the semiconductor industry.

Finally, we can summarise the main reasons motivating those Chinese investors who have already made Germany an investment target country. The summary is based on a survey carried out in 2015 by the Chinese Chamber of Commerce in Germany among its member companies concerning their satisfaction with Germany as a location (Chinesische Handelskammer in Deutschland 2015: 9):

— Stable political and economic relations between China and Germany
— Better access to other European markets from a central position
— Germany’s leading international position and competitiveness
— Relatively well-developed economic and tax system
— The good reputation of the ‘made in Germany’ label
— Relatively well-developed infrastructure and logistical network
— Part of the internationalisation strategy of the parent company
— Strong innovation capacities
— Highly qualified workforce

4. Company-level labour relations

4.1 Labour relations in German companies that have been taken over

It is important to take due note of the fact that every takeover raises the question of the future cooperation between the new owners and the workforce. In German companies with Chinese investment a new situation has arisen for all labour relations actors. The Chinese investors are having their first experiences with the German working world, in particular the dual structure of labour relations. At the same time, German workforces and interest representatives are encountering Chinese employers and managers for the first time. A mutual rapprochement is thus taking place. The following remarks thus represent something of a snapshot.

The experiences with the new owners among the interest representatives of companies that have been taken over are fairly similar. The same takeover pattern can be discerned across Germany. After purchase no drastic changes are made to the existing personnel structure. Personnel changes generally take place only at the level of central management. The former German central management is supplemented by a new Chinese CEO, in many cases also with a new CFO from China. Operationally the management of the affiliate retains considerable decision-making autonomy. The company that has been taken over retains its membership of the employers’ association so that all collective

5. There has not yet been a systematic and representative investigation of company-level labour relations and interest regulation in German affiliates with Chinese owners. The experiences made use of here derive primarily from the authors’ conversations with works councils, managers and investors from companies taken over, whom the authors met in the course of their research and practical activities over the past few years.
agreements continue. On the side of the Chinese investors new growth targets are often announced. In the eyes of interest representatives these targets appear achievable to the extent that the Chinese investors in most instances invest in the German location, whether by expanding research and development or boosting production capacities. In the course of this either production plants are modernised or production capacities are expanded. Furthermore, agreements are often reached on safeguarding employment or the location itself. That means that various concessions are made to works councillors. Such investors can appear like knights in shining armour to a company in economic difficulties. Above all it seems that subsequent to the takeovers the takeover target has been left to operate independently. On this basis, takeovers by Chinese investors to date can be described as positive. To be more precise, they are more positive than was originally feared.

However, the outcomes are not solely positive. Often a certain transparency and integration are lacking. This can be concluded from the fact that after a purchase has gone through the works councils often have no contact with the new owners. Although the new owners often carry out inspections, regular exchanges with employee representatives in the firm are rare. Either the present management remains in place and reports directly to China or someone from the new parent company is appointed to act as intermediary between the German and Chinese managements. The new owners thus remain ‘invisible’ to the workforce, which does not go down well with the employee representatives, who previously in some instances had direct access to the owners in SMEs. The high degree of autonomy of the affiliate company, however, also means that the main guarantees of success for each M&A deal (Fleischer 2008) – post-merger integration in the new company group and adaptation of corporate culture – are not really implemented.

The report outlined here of the experiences of company-level interest representatives is in line with our observations on the ground. The usual dealings between Chinese managers and owners and German works councils and trade unions can best be characterised in terms of three ‘nots’:

1. they do not contact interest representatives on their own initiative;
2. they do not reject interest representatives’ efforts to make contact out of hand;
3. they do not enter into direct confrontation with the trade unions.

Furthermore, we can say that the Chinese management tends to have only minimal previous knowledge of labour relations and employee interest representation structures in Germany. Very few Chinese managers can really tell the difference between works councils and trade unions. Those Chinese managers who were involved in the takeover negotiations register the existence of German trade unions, but not their tasks and responsibilities. Often the dominant view is that dealings with the trade unions cease the moment the contract is signed. The fact that in their new company there is a body called a works council is realised by many Chinese managers only when the works council initiates contact or when the first conflict arises.
4.2 Learning by buying

Despite their lack of previous knowledge Chinese investors in Germany to date have taken a cautious approach to employee representatives, avoiding conflict, as expressed in the agreements safeguarding locations and employment in many instances. However, that is in sharp contrast with the behaviour of Chinese multinationals in other countries. In our research we found many instances in which Chinese investors clashed with local interest representatives, not infrequently ending in scandal. Chinese research on labour relations identifies cases in which Chinese owners have been confronted by labour disputes in their foreign affiliates, under the term ‘union-gate’ (gonghuimen). Nothing exemplifies this better than the mining company Shougang Hierro in Marcona, Peru. In what follows we shall present the history of labour disputes at Shougang Hierro in brief to illustrate how, during the first decade of their international expansion, Chinese investors unthinkingly exported domestic labour relations to other countries and what lessons they learned from this.

In 1992 Chinese state-owned enterprise Shougang, now the tenth largest steel producer in the world, took over the iron mine in Marcona for 118 million US dollars from the Peruvian state-owned enterprise Hierro Peru. This was the first takeover by a Chinese state-owned enterprise abroad. The history of Shougang Hierro over the past 20 years or so is one of uninterrupted tensions between the Chinese owner and the workforce. Protests, strikes, court proceedings – employer-employee relations at Shougang Hierro have been the worst in the whole Peruvian mining sector (ECLAC 2010: 117). It all began quite innocently, at least from the standpoint of the Chinese management. Right after the takeover Shougang’s enterprise trade union at the behest of the company management invited their Peruvian colleagues to company headquarters in Beijing. It was intended to be a friendly gesture. The Peruvian trade unionists were supposed to get to know the Chinese staff and trade union activities at the parent company (Wang 1997). In the early years both the management in Beijing and the Chinese managers on the ground firmly expected that their relations with the Peruvian trade union would be similar to those they enjoyed at home, harmonious. They were not counting on confrontations. When the first demand for a wage rise came in 1996 and a strike was organised after it had been rejected the Chinese managers felt caught off guard. In their eyes strike action was a provocation that had to be met with corresponding harshness (Wang 1997). The four strike leaders were dismissed. At the same time they were characterised as provocateurs in Chinese media coverage. Although the dismissal was later declared illegal by a Peruvian labour court Shougang did not revoke the decision. Company representatives still insist that it is legitimate to dismiss employees who do not act in the interests of the firm. They also manifested their utter incomprehension with regard to the Peruvian government: ‘How could the government permit the impairment of production through such a strike?’ (Hongxiang 2013)

Despite the tough stance on the outside, within the firm the Shougang managers drew the for them bitter conclusion that cannot be summarised better than the original words of an internal report from 1996:
‘Difficulties with trade unions will be one of the biggest challenges with which Chinese companies are confronted abroad. In other countries trade unions do not behave anything like how they do in China, where they function as a transmission belt or bridge between workforce and management. The sole task of foreign trade unions is to protect the legal position and material interests of the employees across the board’ (Che 1996: 55; own translation).

In view of the growing Chinese investments abroad the abovementioned report predicted, more than 20 years ago, that difficulties with foreign trade unions would be one of the major challenges facing Chinese firms. So it has proved. In another prominent case in 2009 the long-standing tensions between the Chinese management and the South Korean workforce at Ssangyong Motors – an affiliate of Shanghai Automotive Industry Corporation (SAIC) – boiled over into a widespread plant occupation. Between May and August the 1,000 employees at the main location Pyeongtaek protested against the planned dismissal of 1,700 workers. This was the last straw, causing SAIC to sell its majority holding in Ssangyong. The Chinese media reported uniformly on the ‘500 million dollar lesson’ for China’s biggest car manufacturer, which in 2004 had been the first Chinese automobile company to invest in a foreign car maker.

The extent to which the continual news stories about labour disputes in foreign affiliates have unsettled Chinese managers can also be seen from proposed investments that have been withdrawn. In 2006 the Jianlong Group, after months of investment-planning, decided not to go ahead with building a steelworks in India, based on fears of possible strike action (Zhao 2006). In 2007 the First Automotive Works reluctantly withdrew its takeover bid for Chrysler at the last minute, even though every other consideration indicated it was a good deal. The Chinese company had reservations about its ability to handle the US trade union the United Auto Workers, which pursues its members’ interests extremely diligently (Gong 2007). At the height of the strike and protests in Marcona in 2004 Shougang considered selling Hierro. However, they did not pursue this course of action due to the lack of potential buyers.

Labour conflicts in Chinese foreign affiliates have not gone unremarked in China. The Ministry of Commerce not only plays a key role in preparatory and approval procedures for foreign investments, but it is also active in collecting and summarising the experiences and feedback of Chinese companies. When more and more Chinese companies were complaining about losing millions due to work stoppages and the subsequent uncertainty abroad the Ministry investigated the causes. The companies concerned were asked about their experiences, Chinese researchers were tasked with producing studies on foreign labour relations and Chinese diplomatic representations were asked for technical support in terms of regional and cultural studies. Authorities and experts rapidly agreed that Chinese companies had misjudged the nature and function of foreign trade unions. The assumption that workers’ representatives would be cooperative was so firmly fixed in the minds of Chinese companies that they were not ready for coping with organised labour resistance abroad. At home the companies had never had to face confrontational trade union activities. Before appropriate strategies for dealing with foreign interest representatives could be developed, first of all a new awareness had to be inculcated in Chinese companies that ‘foreign trade unions are
totally different from Chinese ones. Trade unions abroad do not inevitably clash with management; peaceful dealings are also perfectly possible. But ultimately they are an opponent of the employer’ wrote Zheng, a renowned Chinese scholar (cited in Gong 2007: 71; own translation). According to Professor Zheng, an expert on US and European labour relations at the China Institute of Industrial Relations, the university of the All-China Federation of Trade Unions, the principal error that Shougang made is to attempt to transfer employer-employee relationship familiar from China to Peru without further ado.

As detailed in the previous section the responsible authorities in China regularly indicate to companies their desired investment foci in Germany. But it is not only the economic aspect that interests the Chinese government. The authorities also have something to say about dealing with German trade unions. In an article with the admonitory title Chinese companies have to tread carefully when it comes to labour relations if they invest in Germany the then economic attaché to the Chinese general consulate in Munich explained German employee rights and trade union organisations:

\[\text{In Germany employee representation is different from at home: it is independent and has certain codetermination rights in such areas as overall company development and social affairs [...] German trade unions are dialogue partners of the employer on an equal footing. They are economically independent from the company and defend the interests of the employees by means of collective bargaining, strikes and so on. This is a profound difference compared with most trade unions at home, which function as companies’ internal department for social affairs} \] (Gao 2005; own translation).

Published in October 2005 in International Business Daily, the Chinese Ministry of Commerce’s official organ for international issues, the article reads like a crash course in German workers’ rights. It conveys to its target group – Chinese companies that want to invest in Germany or have already done so – among other things basic knowledge about collective bargaining, codetermination, job security, employment protection and maternity rights. At the end of the article comes a list of specific recommendations to be followed by Chinese investors in their new role as employer in Germany. Recommendations number 1 and 2 are: ‘Learn about German labour law and comply with it’ and ‘Heed German law on establishing employee interest representative organs, such as trade unions and works councils’. And if the call to obey the law were not sufficient, the diplomat at several points adds that investors should also take care not to damage China’s image in Germany.

And indeed to date China’s image has not been damaged. Not only have there been no major negative headlines about Chinese employers, but some have even been held up as exemplary investors. Uncertainty about future development cannot be dismissed, however: will any agreements that have been concluded be honoured if the Chinese economy weakens further? Will German production locations continue to enjoy generous expansion if the Chinese parent company finds itself in financial

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6. The NRW-Invest Award, a prize offered by the Land of North Rhine Westphalia for exemplary foreign investors, was given to XCMG in 2013, Huawei in 2014 and ZCC Cutting Tools in 2015.
difficulties? Will the Chinese commitment be maintained if Germany’s technological lead is reduced by knowledge transfer? The ultimate answers to these questions remain to be seen. What can be said is that employee representatives will have to cope with uncertainty in such instances. M&A transactions are already complex procedures; the involvement of an investor from China increases this complexity substantially, which makes it difficult for employee representatives on executive and supervisory boards to estimate the economic consequences of a buyout by Chinese investors and the resulting effects on security of employment and the future of the production location. We want to help the employee representatives concerned by providing a list of questions, which we present in the next section, to enable them to obtain more transparency about the Chinese owners and investment interests and to get an overview of the situation as a whole.

5. Guide for practitioners

In this section we gather a few key questions designed to help employee representatives in their control and monitoring activities. The list of questions is based on a study initiated by the Hans Böckler Foundation (Reisach 2016), which we have supplemented with a number of current considerations. It can be used both in the run-up to a pending takeover bid and to evaluate the investor subsequent to a done deal.

Economic policy framework

Which sector does the Chinese owner or prospective investor belong to? Is it among the sectors and programmes being promoted by China and thus of national strategic interest from the standpoint of the Chinese state?

Political networking

In which city and province in China is the headquarters of the Chinese owner or prospective investor located? Is the investor politically well connected in their homeland? Do the owners or their close relatives hold political offices? How substantial is the official support for the investment in China? Do representatives of the Chinese Embassy or the Chinese General Consulate come to the signing of sales contracts or partnership agreements?

Financial capacity and transparency

Is the investor’s announced investment amount so high that their investment plan has to be examined separately on the grounds of currency restrictions by the State Administration of Foreign Exchange? Do the investment volumes and plans indicate a realistic business strategy? How transparent is information on the investor? On what stock exchanges is it listed? What information – business reports, ad hoc reports, analysts’ opinions – is available in the media (for example, Bloomberg, Reuters) and at ratings agencies?
International management experiences

Is the investor active internationally? How diverse and international is its ownership structure? What about the technical competence and experience of the investor in the target sector? Where does it stand in the international rankings with regard to quality and brand image? Which international companies does it cooperate with and how long has this cooperation been going on? Is some sort of cultural integration envisaged in this present instance?

Innovation prospects

What is the technological status of the Chinese investor? How strong is their research in comparison with us? What know-how that we possess is not available to them? How quickly could this know-how be transferred by means of plans and training? Is our innovation potential big enough to make it worthwhile for the investor to keep it in Germany and expand it?

Dealings with employee representatives

Has the investor already carried out takeovers in other countries? If so, how are they regarded in those locations? Have they been sensitive to the concerns of the employees, society and environmental protection? How well acquainted is the investor with German labour relations? To what extent do they accept German codetermination? Are employee representatives accepted as partners and their activities supported?

Network of employee representatives

Has the investor taken over other companies in Germany and Europe? What are the experiences of other enterprises with this investor? Is there a network of colleagues from other firms?

6. Summary and outlook

We have provided a quantitative and qualitative overview of Chinese investments in Germany. It is clear that in order to understand the phenomenon of Chinese investments in Germany and Europe it is not enough to put the research focus on Europe alone. Rather explanations of the increase in investment and the sectoral distribution, as well as of dealings with codetermination actors depend closely on the politico-economic situation in China and the previous investment experiences of Chinese companies in other regions of the world. Given the Chinese government’s current industrial policy orientation and the open dealings with Chinese investors in Germany we take the view that investment flows out of China into German industrial companies will remain stable or increase slightly. While Chinese investors value legal certainty and protection of intellectual property in Germany and largely have a free hand to make investments, foreign companies that want to invest in China have to contend with investment restrictions (Germany Trade & Invest 2014) and greater legal uncertainty. At this point
the question arises of what that would mean for ongoing negotiations on an investment agreement between the EU and China. Whether such an agreement is reached or not, for employee representatives in Germany it is evident that a large number of takeover negotiations are in the pipeline. At the same time, in many of the companies that have already been taken over the existing agreements on location and employment security will shortly expire. They must therefore be renegotiated. How would the Chinese owners react if they were confronted with labour disputes in Germany? To what extent, when faced with a stressful situation as employers, will they heed the advice of their own government to avoid labour disputes as far as possible? Will the Chinese investment supervision authorities once more revise their recommendations on dealing with employee representatives? Many questions remain open.

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Chapter 9
Experience with acquisitions of German *Mittelstand*
companies – a case study

Xiling Zhu

1. Introduction

‘China’s global shopping tour has just begun.’ Felix Lee¹

According to KPMG, China is expected to continue being the largest contributor to world GDP – in purchasing power parity terms – and is expected to account for nearly 20 per cent of world GDP by 2020, compared with 15.5 per cent for the European Union and 14.9 per cent for the United States (KPMG 2016).

Based on KPMG’s figures, Chinese companies conducted 502 overseas takeover deals in 2015, compared with 325 in 2014. The value of announced deals – USD 87.7 billion – rose by 40 per cent, year on year (KPMG 2016). Continuing this sharp growth, Chinese outbound mergers and acquisitions, including announced transactions, already hit the USD 100 billion mark in the first quarter of 2016, according to data provider Dialogic. This was one-third of the global cross-border mergers and acquisitions volume of USD 302.6 billion in the first three months of 2016 (Gätzner 2016).

Germany is one of the favoured target countries for Chinese outbound mergers and acquisitions investment. According to EY, China became the second biggest foreign investor in Germany from outside Europe, following the United States (EY 2016). In terms of number of deals, worldwide Germany ranked fourth as a target country for Chinese cross-border acquisitions in 2015 (KPMG 2016). In 2016 Chinese investors increased their takeovers in Germany even more dramatically.

This breath-taking development implies a significant economic and social impact on the receiving country.

This chapter is based on a study of a 2005 takeover of a listed German company with a global leadership position in the machine industry (company A) by a Chinese state-owned conglomerate (group B).

The goal of this case study is to throw light on the post-merger integration strategy and process with a focus on communications between the acquired company and the Chinese parent concerning the integration strategy. It explores the development of the target company before and after closing of the transaction for a period of ten years, asking the following questions:

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¹ China Correspondent of *Zeit Online*, TAZ and NZZ media group; keynote speech at the Bavaria-China Spring Festival, 3 March 2014.
What are the motives for Chinese investors to acquire German *Mittelstand* companies?

How do Chinese investors integrate their acquired German targets and what are the results?

How does the Chinese acquirer manage communications and interaction, in particular with regard to decision-making structure, and how does the Chinese owner integrate employee relations?

How are communications between Chinese acquirer and works council, as well with the target management?

The situation described in this investigation is presented from the point of view of a Chinese representative, a German manager and an employee representative and internet research. To ensure anonymity, all relevant information related to the names of both companies and persons is left out.

Although a single case study is not able to present the current situation of Chinese takeovers in Germany in general, it does provide an insight into the target company and its development after the closure of the takeover transaction. This gives an impression of the opportunities and risks characterising Chinese acquisitions in Germany.

The main motivation for selling the target company was to find a strong cooperation partner to access the Chinese market. For the Chinese investor, globalisation, market pressures from domestic and international competitors, upgrading to high-end manufacturing and brand were the main motives for acquiring the German target.

The target company has not been integrated into the parent group, and has kept its name and brand. Both acquirer and target have developed well from the standpoint of sales and operating results. However, no significant operating synergies from the merger can be identified.

The Chinese parent, together with works council representatives, makes strategic decisions. The local management team possesses considerable autonomy in operating decisions. Communications are limited between top managers from parent and target company. There have been no changes for employees since the transaction.

While communications between the Chinese owner, their representative and the works council are running smoothly, more challenges characterise cooperation between the local German manager and the top manager of the Chinese parent.

Section 2 presents the profiles of the acquirer and the target company. Section 3 describes the background, motives and process of acquisition. In Section 4 the integration strategy and its results are presented, while Section 5 depicts the decision-making structure, integration of employee relations and communications between the acquirer, works council and local management. Section 6 concludes.
2. Profile of acquirer and target

2.1 Profile of the acquirer

The history of the Chinese acquirer company – ‘B’ – started in 1965 in Shanghai, the first group in that industrial area of China and wholly state-owned at that time. In 1993, the group was partially privatised by the state and brought to the Shanghai Stock Exchange as the first listed company from this industry. Control has remained in the hands of the Shanghai government, however.

During the 1990s B became number one in its industry. After China’s economic opening it faced increasing competition from private and foreign companies, especially from the beginning of the twenty-first century. It lost its position in the top 10 companies in China and faced a crisis. To cover its losses, it depended on selling land and premises to survive.

To turn this situation around, there were two solutions: either merge, a measure that would have resulted in the disappearance of the oldest Chinese brand in the sewing machine industry, or actively pursue China’s ‘Going Out’ strategy, changing the situation through internationalisation by acquiring companies abroad. The second solution was chosen.

After acquiring the German company A in 2005, B successfully completed restructuring by 2013. In that year, too, all its subsidiaries turned losses into profit. In the same year B completed two additional 100% acquisitions in Germany through its European investment subsidiary B Europe.

Today Group B has more than 30 branches and subsidiaries, including 15 overseas enterprises and is headquartered in Shanghai.

With its domestic and overseas subsidiaries, the conglomerate operates in a number of areas, especially in industrial and household sewing technology, foreign and domestic trade of sewing machines and parts, asset and investment management, office equipment and accessories, logistical services and management consulting.

Group B, including its German subsidiaries, has increased sales and operating results in recent years. Figure 1 shows developments from 2010 to 2015.

B is a state-controlled stock corporation (Reisach 2016: 5; Ten Brink 2014: 691ff.). This is a state-owned enterprise brought to the stock exchange by the government, with the State Asset Supervision and Administration Commission (SASAC) or its organisations at the provincial or municipal level as controlling shareholder.

B’s controlling shareholder is the municipal State Capital Control and Administration Committee (SCCAC) with more than 16 per cent of total shares, followed by China Great

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2. Group homepage and internet resources, anonymised.
Wall Asset Management Corporation with 4.05 per cent and Shanghai International Group Asset Management Corporation with 2 per cent.

Figure 1  
Sales and operating results of group B 2010–2015

Source: Group annual financial report.

The State Capital Control and Administration Committee (SCCAC) is the SASAC in the municipality. China Great Wall Asset Management Corporation is a 100%-owned subsidiary of the Ministry of Finance of the People’s Republic of China. Shanghai International Group Asset Management Corporation is financed by the Ministry of Shanghai and monitored by SASAC. These three state organisations together hold more than 25 per cent of the shares in Group B. No other shareholder holds more than 1 per cent.

According to JRJ Stock, a Chinese online stock news service, in February 2016 B applied for a one-month trading pause on B stock. The reason was that B had received notice from their controlling shareholder SCCAC that its equity will be significantly reorganised. To avoid price fluctuations, trading of the stocks should be paused for less than one month. The application was approved by Shanghai Stock Exchange. By the end of May 2016, however, trading had still not been resumed.

In April 2016, B published a resolution by its current board of directors which resulted in a continuation of the halt on trading. Moreover, millions of shares held by SCCAC were to be sold to an investor. The search for a potential investor was announced publicly in mid-April. This reorganisation of ownership and equity is another step towards reforming stated-owned capital in the company. The capital gained from selling the shares is planned to be reinvested in additional major overseas acquisitions.

The Shanghai Government hailed the internationalisation of Group B as a transformation ‘from crow to phoenix through overseas acquisitions’ on its homepage.
By 3 March 2016 Group B had 4,626 employees, 49 per cent of them overseas. Such a high degree of internationalisation is rare for Chinese state-owned enterprises.

In 2005, more than 90 per cent of A, a world renowned German brand, was acquired by B’s 100% European subsidiary (BE) which was founded for this transaction. The purchasing price was almost 36 million euros, mainly debt financed.

Having gained experience from the takeover of A, the acquisition of Group B in Germany was carried out at a rapid pace.

In March 2013 BE acquired Target 2, the largest rival of A for more than 150 years. Target 2, a worldwide leader in this industry, specialises in automation. The transaction saved Target 2 from its third insolvency, the previous one having occurred in 2009.

In July 2013, BE took over another automation specialist Target 3, established in 1964, which is an innovative leader in this industry worldwide with its 3D robot technology. The acquisition of Target 3 allows Group B to enter other industries, in particular aerospace which is expected to develop into a huge potential market in China. The Chinese manager, chair of the supervisory board enthused about the innovative advances of Target 3: ‘It is totally beyond the imagination in terms of conventional technology. This is the future.’

In 2016, B acquired a holding in another strategic company (target 4) in this industry with a minority share of 26%. A share increase is expected. Figure 2 provides an overview of BE’s current investments.

Figure 2  Group B’s acquisition activities in Germany

With these acquisitions group B has upgraded itself to become a world-leading high-end company in the fashion, automotive and aerospace industries and has completed its product portfolio. Its automation products are used for most European luxury brands and for 90 per cent of high-end cars worldwide. Since B entered aviation and space travel, almost all Chinese airplane manufacturers buy sewing machines from B, a market with the largest potential next to the automotive sector.
The high-end technology and automation solutions have led B to achieve ‘Industry 4.0’, the foundation of ‘Made in China 2025’, which the CEO of B calls ‘AMS’: automation, modulation and smart solutions.

B’s goals are: to double its sales from 5 billion to 10 billion yuan; to become number one in its industry worldwide; to accede to Industry 4.0 by developing the only robots in this sector; and to realise the ‘Made in China 2025’ strategy.

The strategy for achieving this plan is to continue growing through overseas acquisitions. Germany with its manufacturing processes and automated control systems meets expectations for a place of investment. There are many attractive targets in Germany for B.

The next major deals are expected in the near future. At the latest board of directors meeting, an increase in B’s debt was announced. Additionally, the sale of shares by the controlling shareholder is planned to fund overseas acquisitions.

### 2.2 Profile of the acquired company A

Group A has a very different origin and background from its Chinese parent, although it has similar experiences in terms of mergers.

The history of A, a traditional German Mittelstand (SME) company, goes back to 1860. In 2005 A and its subsidiaries were sold to B.

During the world financial crisis in 2009, A suffered from a deep crisis and was facing insolvency. With financial support from Group B and selling its cash cow in the group, A has overcome the crisis successfully. Today, as a public company listed in Germany, A specialises in high-end technology, operating with seven direct subsidiaries worldwide and two joint ventures in services, distribution network and manufacturing. More than 90 per cent of its shares are in the hands of Group B; the rest are free-floating.

After acquisition, the company kept its legal form, name, brand and most locations in Germany.

### 3. Acquisition background, motives and process

#### 3.1 Acquisition background and motives

In 2005, A was the first listed company acquired by a Chinese investor, one of the first mergers and acquisitions deals with Chinese strategic investors in Germany.

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In 2002, the German managing director (2002–2006 and 2009–2011) started the restructuring of group A. The former owner had been taken over by an automotive group in 2001. As a private company, the automotive group did not want a listed public company in their portfolio due to the very strict publication regulations. Also, the business of group A, not the key business of the new parent, was making a loss. The new owner decided to sell A and its management had a chance to look for a new owner themselves. For the management team at that time, it was clear from the very beginning that the acquirer should be a Chinese company with existing structure and understanding of this industry because in their sector 80 per cent of the machines worldwide were sold in China at that time. With a Chinese partner, A would not only receive the cash needed to continue restructuring, but more importantly gain access to the Chinese and Asian markets. In addition, the Chinese partner could access high-end German technology and the European market. There were many possible candidates, but group B was ideal and met the expectations of both the management of A and its owner.

There were various motives for the acquisition of group B. The decision was not triggered solely by the government’s call for internationalisation ‘Zou chu qu’ (Going out), but mainly by economic pressures. For a typical state-owned company, overseas acquisition is the quickest and most efficient way of going global, reforming and restructuring the company to become future-oriented.

Second, B was driven by market pressure from national and international competition. National pressure came primarily from growing private companies in the provinces. The technology and products are easy to copy. Labour costs in the provinces are much lower than in Shanghai. The structure of these private enterprises is more efficient and flexible. International pressure came first of all from Japan. In 2005, the year of acquisition, B achieved annual sales of 141 million euros, but losses of 26 million euros. B was facing the most difficult time in its history: it had to sell plants and land in order to survive. With the acquisition of A, B expected to upgrade itself from a low-end sewing machine supplier to a high-end leading technology provider and thus to differentiate itself from its competitors and win back its leading position in the Chinese market.

Third, accessing A’s worldwide distribution and service channel was another motive for this acquisition. Essential for this deal is Germany as an R&D centre and production location for high-end products.

Last but not least, to have an internationally-known German brand and its products with the favoured seal ‘Made in Germany’ increases its competitiveness, according to group B’s CEO, in an interview with a German institute.

3.2 Acquisition process and challenges

As the purchase price had to be financed by issuing new stocks and additional loans for A were requested, the negotiations took almost three years. The representative of group B, also the chairman of A’s supervisory board, was appointed CEO of B just before the
signing of the contract. The negotiations were conducted by his precursor and the CEO of A, who remained CEO. According to A’s German CEO, his precursor’s approach to Chinese strategy was not continued by the new Chinese manager.

After the signing of the share purchase agreement, it took seven months to close the deal. It was a major challenge to fulfil one closing condition, a credit line of 9 million euros for working capital. Due to the loss-making situation of both companies, almost no banks – including affiliates of Chinese banks – were willing to provide this credit line. In the end, a Chinese bank issued a guarantee and the transaction could be closed.

Major challenges also existed on the Chinese side: At that time, overseas acquisitions were so new that the Chinese government had to decide how to process the approval. In particular, it was a case of ‘a snake eating an elephant’: in 2005, the target was, in terms of sales volume and international presence, bigger than the buyer group B. A was a world leader in this industry, B was unknown. Above all, B had no experience in overseas acquisitions. B’s CEO was appointed in the late phase of the negotiations in 2004 and was not entirely confident about the acquisition decision. But he decided it was worth the risk. Five board of directors’ meetings were called to make the final decision.

In this deal, group B engaged one of the so-called ‘big four’ accounting firms as their transaction advisor and a German law firm in Hamburg as their lawyer.

4. Integration strategy and results

4.1 Integration strategies

No integration into the Chinese mother group was planned: A enjoys a major degree of freedom. The German brand remains independent, in any case. The company is led mainly by a German management team.

The control exercised by group B takes the form of deeper involvement on the part of group B’s CEO as chairman of the supervisory board and the appointment of Chinese managers in charge of finance/controlling, HR, legal and IT. Structures for reporting to Shanghai head office were set up.

Different locations of group A, also acquired by B in 2005, have taken over different tasks according to their different specialisations: Romania concentrates on the labour-intensive production of parts delivered to Europe and China; Czechia on parts and complete machines. In future, Czechia will produce more high-tech products, especially the new developments, which are high-class and well-priced. The German location continues the assembly of premium machines and is being developed into an R&D centre for the whole group B, not only for group A. Also, sales and services remain in Germany as A’s main markets are Europe and the United States. These tasks can be carried out only by highly-qualified employees speaking more than one language.
For the most employees located in Germany there have been few apparent changes. Visible, however, is the Chinese flag hanging in front of the company – and A has an additional Chinese name.

This takeover can be seen as a successful and satisfying transaction by Chinese investors from financial point of view. Both acquiring and acquired company have benefited.

4.2 Integration results

Target A

Table 1 documents the positive development of group A since acquisition: both sales and operating results increased until the financial crisis. After recovery from the crisis, the company's operating results increased to 20 per cent of total sales in 2015, compared with 1 per cent in 2005, the year of acquisition. Also the stock price in 2015 is almost six times the price in 2005.

Table 1  Sales, operating results and stock price development of group A, 2002–2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Group sales, million euros</th>
<th>Operating results, million euros</th>
<th>In %</th>
<th>Stock price high</th>
<th>Stock price low</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>155</td>
<td>-1</td>
<td>-1%</td>
<td>5.1</td>
<td>3.1</td>
</tr>
<tr>
<td>2003</td>
<td>146</td>
<td>-5</td>
<td>-3%</td>
<td>4.0</td>
<td>2.2</td>
</tr>
<tr>
<td>2004</td>
<td>133</td>
<td>-2</td>
<td>-2%</td>
<td>3.7</td>
<td>2.4</td>
</tr>
<tr>
<td>2005</td>
<td>129</td>
<td>1</td>
<td>1%</td>
<td>3.9</td>
<td>2.3</td>
</tr>
<tr>
<td>2006</td>
<td>146</td>
<td>6</td>
<td>4%</td>
<td>4.8</td>
<td>2.9</td>
</tr>
<tr>
<td>2007</td>
<td>151</td>
<td>7</td>
<td>5%</td>
<td>8.1</td>
<td>4.4</td>
</tr>
<tr>
<td>2008</td>
<td>135</td>
<td>1</td>
<td>1%</td>
<td>6.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2009</td>
<td>82</td>
<td>-22</td>
<td>-27%</td>
<td>6.9</td>
<td>3.3</td>
</tr>
<tr>
<td>2010</td>
<td>90</td>
<td>3</td>
<td>4%</td>
<td>7.4</td>
<td>3.4</td>
</tr>
<tr>
<td>2011</td>
<td>97</td>
<td>6</td>
<td>7%</td>
<td>6.1</td>
<td>4.6</td>
</tr>
<tr>
<td>2012</td>
<td>76</td>
<td>12</td>
<td>12%</td>
<td>10.0</td>
<td>3.8</td>
</tr>
<tr>
<td>2013</td>
<td>103</td>
<td>14</td>
<td>14%</td>
<td>14.6</td>
<td>5.9</td>
</tr>
<tr>
<td>2014</td>
<td>119</td>
<td>24</td>
<td>21%</td>
<td>14.6</td>
<td>8.1</td>
</tr>
<tr>
<td>2015</td>
<td>142</td>
<td>29</td>
<td>20%</td>
<td>25.0</td>
<td>13.6</td>
</tr>
</tbody>
</table>


The positive results come, on one hand, from successful restructuring processes in 2002–2006 and the global economic recovery 2009–2010, and on the other hand from the confidence of the management team and employees in the cooperation with group B. From 1990, A’s former owner replaced 18 leading managers. The continuity of the company is guaranteed by the current owner, however. This motivates the staff. In particular, the acquisition of A’s competitors Target 2 and other two targets is a strong sign of long-term investment in Germany by group B. It provides management and employees of A with new prospects.

B was involved in both rounds of restructuring: in the first round as negotiating partner as negotiations started in 2002 and in the second round, B waived its shareholder loan to A, which was crucial for the success of the restructuring.
A’s stock price increased from 3.91 euros in 2005 to 25 euros in 2015. In 2014, for the first time for eleven years, group A distributed dividends of 15 cents per share: a small amount, but a significant sign. In 2015, the dividend increased to 50 cents per share.

Looking into the figures more deeply, there have been some interesting developments during the past 10 years. In 2005 group B acquired over 90 per cent of A’s shares. In 2010, during the world financial crisis, group A sold off its cash cow, a profitable subsidiary to an Austrian group to finance the restructuring of A, while, as already mentioned, group B waived its shareholder loan of 12 million euros; group B sold almost 30 per cent of its shares in A to a Chinese competitor C to enable group A to enter the Chinese market more easily. In 2014 group B bought back all the shares from C.

**Acquirer B**

Group B, too, has benefited substantially from this deal. With the acquisitions of Target 2 and Target 3 in 2013, group B became number one in China again and in the top three worldwide.


Table 2 presents the development of the sales, operating results and stock price of group B from 2010 to 2015, including group A.

**Table 2 Development of sales, operating results and stock price of group B, 2011–2015, including group A**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales group in m€</td>
<td>204.0</td>
<td>192.0</td>
<td>183.1</td>
<td>220.6</td>
<td>239.7</td>
<td>281.4</td>
</tr>
<tr>
<td>Operating result in m€</td>
<td>n.a.</td>
<td>4.0</td>
<td>11.1</td>
<td>17.6</td>
<td>23.7</td>
<td>25.5</td>
</tr>
<tr>
<td>in %</td>
<td></td>
<td>2%</td>
<td>6%</td>
<td>8%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Stock price in CNY+A7 (1st working day 15:00)</td>
<td>12.2</td>
<td>15.5</td>
<td>6.8</td>
<td>6.8</td>
<td>10.2</td>
<td>13.1</td>
</tr>
<tr>
<td>Exchange rate Ø 2010-2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Group B’s Business Reports; Group A’s Business Reports.

The sales and operating results of group B show a similar trend to those of group A (Table 1).

As reflected in its stock price, the business development of group B seems still to be facing operating challenges. Only with the acquisition of Target 2 and Target 3 in 2013 and Target 4 in 2015 was it able to win the confidence of investors on the stock exchange. A Chinese financial analyst rated group B’s stocks as a buy for the first time in 2015, indicating the risk of a further government reform, which could impact group B at the same time.
In Table 3, the sales and operating results of group B are presented excluding group A. Without group A, the results of group B would be negative. It is to be assumed that group B would not have come out of its business crisis without its overseas investments. It also helps us to understand the motives for the acquisitions from 2013 on.

Table 3  Sales, operating results and stock price development of group B excluding group A

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales group in m€</td>
<td>127.6</td>
<td>102.5</td>
<td>86.4</td>
<td>118.0</td>
<td>120.8</td>
<td>139.5</td>
</tr>
<tr>
<td>Operating result in m€</td>
<td>-</td>
<td>-1.9</td>
<td>-0.9</td>
<td>3.4</td>
<td>-0.7</td>
<td>-3.2</td>
</tr>
<tr>
<td>in %</td>
<td>n.a.</td>
<td>-2%</td>
<td>-1%</td>
<td>3%</td>
<td>-1%</td>
<td>-2%</td>
</tr>
</tbody>
</table>

1) The intercompany transaction is not considered as it is not significant
2) Including Target 2 and Target 3 with assumption that the effect is not significant
Source: Group B’s Business Reports; Group A’s Business Reports.

Synergies from acquisition

No significant synergies from sharing purchasing or customer resources and no operating synergies in this acquisition can be observed.

From the purchasing point of view, it is very difficult to find suitable high quality Chinese suppliers for group A’s products other than for large quantities for the Chinese market. If there were adequate suppliers, the purchase price might be higher than in Europe. Manufacturing in Romania and Czechia provides more price-competitive products with regard to price, logistics and quality, as one group A insider commented.

From a sales point of view, there have been no changes since acquisition.

Figure 3  Regional sales distribution of group A, 2002–2015

Source: Group B’s Business Reports; group A’s Business Reports.
Synergies from knowledge transfer are limited, based on the available data. With the involvement of group B’s CEO in the supervisory board and a Chinese expat as managing director at group A, it can be assumed that managerial transfer has occurred. The restructuring of group B in mainland China from 2005 to 2013 can be interpreted as one result of the managerial knowledge transfer, inspired by group A’s turnaround measures.

No further knowledge transfers and synergies can be determined from the research conducted.

The difficulties with regard to synergies can be seen as resulting from the difficulties experienced in the merger of two ‘cultures’, not only Chinese and German in general, but the different cultures and capabilities of the two organisations.

For entry into the Chinese market, knowledge of how to build up sales and a service channel is needed. Even in the aerospace industry, services and sales channels are indispensable. Moreover, past experience shows that the capabilities needed to set up these sales and service networks for high-end products does not exist in China. This is the major challenge faced by group B and its subsidiaries in Germany.

5. Communications in post-merger integration

Communications are extremely important at the beginning of post-merger integration. A well-considered and appropriate organisational and decision-making structure is crucial for setting up harmonious and constructive communications.

5.1 Organisational and decision-making structure

A was the first cross-border acquisition by group B. Experience of international cooperation were very limited within group B’s management team and trust in Chinese investors was not generally high in Germany at that time. Therefore, group B handled the cooperation with the German organisation and management team very carefully. For the CEO of group B, one of the key factors in the successful takeover of A was to have a German management team leading a German company. They sent only two Chinese managers to Germany. Their task was not to control German management but to improve communications between the parent company and the local management team.

Accordingly, a two-in-the-box system was formed. Strategic decisions are made between the CEO of B as president of the supervisory board (Aufsichtsrat) and the German CEO, the spokesman of the board of executives (Vorstandssprecher) and his Chinese colleague. There are six members of the supervisory board: three from B, two from A’s works council and one external member from a tax consultancy firm. The supervisory board meets four times a year and decides on major topics, such as business plans, high level management, major investments or mergers and acquisitions.
Operational decisions are made by the German CEO and his Chinese colleague, while the German CEO is in charge of operations, sales and R & D and the Chinese CEO is responsible for commercial functions: finance, controlling, HR, legal affairs and IT. There is a monthly meeting between the CEOs with the involvement of the company lawyer and sometimes also the chief financial officer. The minutes are copied to the chairman of the supervisory board, the CEO of B.

In this way, the operational and strategic involvement of the mother company is guaranteed. Moreover, managerial knowledge could be transferred from A to B.

A kept the same decision-making structures after the takeover. Cooperation between the supervisory board and the board of executives has been intensified so that the CEO of B is more involved in strategic decision-making. It was clear from the beginning that the CEO of B would be the chairman of the supervisory board (Aufsichtsratsvorsitzender).

The responsibility of the supervisory board and the board of executives are defined by the law and the company statutes.

Decisions made by the board of executives alone are defined in the statutes and all other decisions need the approval of the supervisory board or its chairman. The decisions of the board of executives have to be approved by the supervisory board as they are laid down in the business plan which is to be approved each year.

As the majority of supervisory board members are from group B, final decision-making power is in the hands of B. On the other hand, all decision proposals come from the CEOs: local management in Germany has maintained its operational decision-making autonomy. The German CEO is usually able to reach agreement with the Chinese owner.

Proposals for strategic decisions are mainly prepared by the board of executives. Operational decisions – for example, investment, hiring within the business plan, changing suppliers – are made solely by the CEOs.

Until March 2016, B had three votes in the supervisory board, the chairman of the works council and his proxy as employee representatives two and an independent board member one. The independent member is a Chinese-German tax advisor, a senior female partner of a German tax and consulting firm.

From April 2016 on, the German CEO was proposed as a member in the supervisory board of A, while one member from B left. He gave up his position as CEO at group A to focus on his tasks in B’s European holding BE to coordinate the acquired German targets and to expand BE through further acquisitions.

How BE is to be involved in A’s decision-making structure is not clear based on the available data. According to an insider, most of A’s managers have been appointed managers in BE as well to give them a bigger picture than A and thereby to obtain more synergies with the other acquired German targets.
5.2 Integration of employee relations

Today, group B (not including its German subsidiaries) has more than 2,000 employees in China. In 2013, B completed its restructuring and achieved an internal turnaround: 6,500 employees were laid off, more than 60 subsidiaries and branches shut down and manufacturing was relocated to low cost areas.

B has a group trade union organisation. The current president of the group trade union held several positions within the Communist Party of China in B’s subsidiaries. The last position was vice president and secretary of the CPC committee in B’s office equipment subsidiary. In December 2012, she became president of the trade union and also member of the CPC committee, director of the CPC office and employees’ representative on the board of directors of group B. She is also a member of the general trade union of the commune. B’s subsidiaries also have their own sub trade unions.

No information on the handling of labour relations and labour disputes are publicly available. No accessible information on collective bargaining exists either.

There have also been relocations of production from Germany to Romania and Czechia in recent years. This was an economic decision, also made by other German and Western European companies.

The fear of A’s employees in Germany that the Chinese investor would transfer all knowledge and relocate production to China and lay off workers in Germany was not realised. In his first speech to German employees at a Town Hall meeting, B’s CEO emphasised that the Chinese owner would keep the German location as a technology centre and keep investing in it. He repeated this statement at A’s annual shareholder meetings during the following years. In 2009, when A was facing insolvency and urgently needed financial liquidity for restructuring, group B waived a part of its shareholder loan of 12 million euros to A. This, combined with other measures by the German CEO, saved A and its jobs. Since then, the works council members and employees have changed their opinion and have been won over by the Chinese owner. The acquisition of the other three German targets strengthened the confidence of group A’s employees in group B’s intention to keep German factories as important strategic locations. It is clear that the German location has become the R&D centre for both group A and group B.

No integration of labour relations and also no changes in the existing labour relations are intended by group B. A remains, as before, a member of trade union IG Metall and is integrated in IG Metall’s collective agreement. B has agreed to all IG Metall’s tariff increases. The company’s bargaining agreements have not been changed.

Two employee representatives are members of the supervisory board, the president of the works council and his proxy, according to the legal regulations for listed companies in Germany.
Business trips were organised for works council representatives to visit the Chinese headquarters. Meetings with a trade union leader, also head of human resources, took place. No further contact between employee representative organisations took place.

The language barrier, the geographical distance, the cultural differences and the distinct systems and understandings of labour relations make it almost impossible for the two organisations to have much contact.

### 5.3 Communications between shareholder and works council

Although the distinction between the works council, employee representatives and the trade union seems unclear to the Chinese managers, both the Chinese CEO of A, responsible for HR and communications with the works council, and the chairman of the works council, describe their cooperation as friendly and constructive.

For the works council members, one of the biggest barriers in working with their Chinese managers and shareholders is language. They have a Chinese colleague who translates between German and Chinese at the supervisory board meetings and for communications between the works council and the Chinese managing director, who does not speak German. A translator is always present at the meetings and memos are in the two languages, but spontaneous discussion, as in the past with the former owner, is no longer possible. Discussions and contacts of a more informal character than official meetings are difficult.

During the restructurings and relocations, it was very difficult for the chairman of the works council, who has been working at the company for more than 36 years, to accept the lay-off plan. After the important financial support of B in 2009 to save A from insolvency, however, he is convinced that the Chinese owner is serious about the German location and has thus supported decisions taken by management and shareholders. He could see that there is no other option: either A survives through reorganisation or it will disappear.

The Chinese managers have had to learn to deal with a strong trade union organisation. The unions in Germany are more powerful than in China, commented the CEO of group B. The Chinese CEO of A has learned that she has to convince colleagues by reasonable arguments. Reasonable means to show the trade union representatives that the decisions taken not only benefit the shareholder but also the company and the employees as well.

In 2006, the second year after the takeover, there was a change in the IG Metall tariff system. It was the first big challenge the Chinese manager faced in dealing with works councils. Communications to help the works council to understand the intention behind management proposals were crucial.

Another example: in the crisis, the works council and the Chinese shareholder were able to find a common solution: during the financial crisis of 2007–2009, IG Metall
demanded a 2.7 per cent wage increase for all its members, including A. At that time, B was working with the management team on cost reductions and restructuring in order to prevent insolvency. Therefore, this wage increase could not be agreed by B. After several discussions, they reached agreement on postponing the wage increase until A was back on a profit path. In 2010, A made a profit and paid the increase and interest on it.

5.4 Communications between owner and local management

The engagement of a gatekeeper at the beginning of post-merger integration to enable smooth and constructive communications played a key role in its successful execution.

Figure 4 Gatekeeper at the beginning of post-merger integration

A key person in the initial communications after the deal was concluded is the Chinese CEO sent by B to A. Her most important function is to bridge the huge geographical and cultural gap between China and Germany, said her German counterpart (in 2005–2006 and 2009–2011). She has a good relationship with the CEO of group B who is both representative of group B and the president of A’s supervisory board. He trusts her. That has made things much easier, especially at the beginning of the cooperation. If there was any misunderstanding or conflict – for example, increasing budgets or hiring – she cleared it up. She has been very helpful in setting up functional communications and collaboration. The Chinese CEO had experience in state owned and foreign invested companies in China for almost 20 years before she was sent to Germany by the CEO of group B with whom she had worked in another company.

From 2005 to 2016, B changed the CEO of A five times. The reason for the change in 2006 was the differing opinions between the German CEO and the management of B regarding China strategy. The German CEO did not agree with mass production by A in China. His intention was to utilise A’s leading technological position to differentiate...
it from its and B’s Chinese low end competitors in China. The CEO of B insisted on expanding and quickly capturing the Chinese market by low end products with Chinese common quality.

According to B’s understanding, the German manager insisted on focusing on European and American markets. That was not acceptable for the chairman of the supervisory board, the representative of group B.

The second CEO was a former CFO of A. There were no different directions in the China strategy, but they had differences on how to restructure during the financial crisis in 2007 and 2008.

When the economic crisis happened in 2006–2008, the total industrial market was reduced by 50 per cent. Group A faced the most difficult time in its history. CEO of B, chairman of supervisory board, asked the first German CEO to come back and replace the second CEO. After restructuring, operating results increased from –27 per cent of sales in 2009 to 4 per cent in 2010.

After successful restructuring, the difference regarding the China strategy became the point of conflict between the German CEO and the shareholder again. At the end of 2011, the German CEO left the company once more.

A Chinese insider sees this conflict as resulting from two strong personalities. In China, CEO is translated as ‘zhì xíng dòng shì’, word for word ‘implementing senior manager’. In China, the owner is the decision-maker and takes the liabilities. For a German listed company, the CEO is responsible and more or less independent of the shareholders (§76 AktG). He is also legally responsible for the company and has to bear the consequences of his or her actions.

A sales responsible was appointed CEO in 2011 until he was appointed a member of the supervisory board in 2016. The fifth CEO was assigned to replace him.

As analysed in Section 4.2, entry into the Chinese market has failed to date. The main increase of sales in recent years, especially in 2015, came from Europe and the United States. The new German CEO of A has long experiences with China and comes from manufacturing and R&D. It is expected that he will bring new impetus to the China strategy.

For the CEO of B, managing the German managers has been a major challenge since closing the deal: The big challenge for the Chinese owner is to have a senior manager who can understand their intentions and be able to implement them.

Both the German and the Chinese managers see the cultural difference as a barrier, but one not to be overemphasised. The Chinese CEO and her boss are well aware they are operating in a foreign environment. They respect the rules of the country and the company and fit into them. Also the German CEO’s past experiences allow him to understand and work with different cultures. The problems are not insuperable.
Another challenge is language, as the Chinese manager does not speak German and the German managers do not speak Chinese. They communicate in English. The fact that the two parties cannot use their mother tongue does not make communications easier. Having learned from her own experiences, the Chinese manager communicates very directly. If the two sides fail to express their opinions or decisions straightforwardly, there is no way to achieve understanding in a foreign language.

6. Conclusion

In the case presented here, the acquirer B was aware of its lack of experience with regard to cross-border mergers and acquisitions and the significant differences between the two cultures. Consequently, they consciously decided to limit their control over the acquired company. On the other hand, this meant that the knowledge transfer that was one of B’s acquisition goals was limited.

Although the target management team is not completely intact, with the Chinese CEO sharing decision-making power with her German counterpart, the local management can still make decisions in cooperation with the Chinese partner with considerable freedom. The fact that the Chinese CEO sees herself as part of the local team is a crucial factor in preserving the identity of the acquired company, which makes this transaction successful.

German managers are also involved in strategic decisions. This is due to the Chinese owner’s need to learn. It enables the transfer of managerial knowledge to the Chinese managers, who can subsequently disseminate it within the parent organisation.

The acquiring company not only provides strategic advice to the target company, but is also deeply involved in decision-making. Using its position in the supervisory board and the power to hire or fire the CEO, the Chinese owner has the final say in strategic decision-making. However, the Chinese acquirer is highly dependent on the competence and support of the German management to implement decisions made. This dependence forces the Chinese owner to hold back somewhat in terms of control and interaction.

The major question is how to realise the planned synergies at operational level. They have not been observed during the ten years since the deal was concluded.

The cultural differences between Germany and China have been a hurdle, but should not be overemphasised. The crucial factor is whether the persons involved possess the adaptiveness or the cultural intelligence to deal with this difference. This adaptiveness or cultural intelligence is very individual and depends strongly on attitude but also experiences with diverse cultures, as is the case for both gatekeepers.

It is similar with language. It is a hurdle, but once it is accepted and an openness to change is there, a solution can be found.
Not to be ignored is the Chinese CEO who acts as a bridge between the two worlds to minimise the cultural and geographic distance and to improve communications between the two units.

Conflict between the Chinese owner and the German managers can be assumed to arise from the organisational and cultural differences identified by Sarala’s research (Sarala 2010). However, understanding the conflict requires deeper investigation.

With two seats on the supervisory board based on German law on listed companies, employee representatives are involved in the decision-making process. The existing employee agreements and regulations have been accepted and respected by the acquiring company; to date, employee relations remain intact.

The commitment of the Chinese parent to maintain Germany as a strategic location has been conserved for the past 10 years. Job cuts in recent years has resulted from economic necessity rather than ownership by a Chinese investor.

Language is a barrier in communications between the works council and the Chinese managers.

The main challenges identified in this case study are (i) bridging the different interests and aligning business strategies, including bridging the different understandings and approaches to accessing the Chinese market, which is one of the key aims of the takeover; (ii) finding a suitable match between the German and the Chinese managers, characterised by difficulties in recruiting and retaining the right candidates; and (iii) setting up a bridge by means of the right candidate.

The number of Chinese mergers and acquisitions in Germany has increased rapidly in the past two years. The impact of such acquisitions on Germany is growing. However, the integration performance, cultural considerations and communications characterising such transactions remain relatively unstudied. This case, investigating the ten-year development after the acquisition of A by B, gives us deep insight into the integration approach and results, opportunities and challenges in a cross-border acquisition by a Chinese investor in Germany. The main standout features of this case are the type of acquirer (a state-owned enterprise), the nature of the target (a German Mittelstand company with global leading technology), the particular sector and the acquisition motives of the two parties.
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Chapter 10
Boarding the high-speed train of China: the upgrade journey of a British engineering firm after acquisition by a Chinese train company

Shaowei He and Zaheer Khan

1. Introduction

There has been a surge in recent years in the study of emerging-economy multinational enterprises and their swelling outward foreign direct investment (outward FDI) activities (Mathews 2006; Luo and Tung 2007; Hennart 2012). Most of the research has focused on understanding the internationalisation of emerging-economy multinational enterprises. However, we still know very little about the impact of these companies’ outward FDI on the businesses of their host countries (Clegg and Voss 2012). Indeed what emerging-economy multinational enterprises tend to face, particularly when they invest in developed countries, is a combination of the so-called ‘liabilities of foreignness and the liabilities of emergingness’. The public tend to be fairly dubious about their investment intentions and impact, as expressed, for example, by the vice-president of the German-British Chamber of Industry and Commerce in a mainstream newspaper:

‘I think there’s every reason to be worried. Very often the R&D goes abroad and the rest follows … It’s a recipe for disaster and a slow hollowing out of our industrial base here’ (Sharman 2013).

This typical worry about investment from emerging economies, however, is not supported by solid research evidence. We therefore think there is an urgent need to study the impact of emerging-economy multinational enterprises on host country businesses. In light of China’s increasing engagement in acquiring firms in developed economies (UNCTAD 2014), we chose a recent Chinese acquisition in the United Kingdom in order to examine the influence of Chinese firms on the capability upgrading of their acquired subsidiaries.

Given the lack of research on this topic, we chose a single-case-study approach to examine the evidence on and process of upgrading. We managed to build a good relationship with the companies that we are studying and therefore were able to undertake ‘elite interviews’ (Welch et al. 2002) with senior managers, which provided very rich data. Additional data were collected from publicly available secondary sources including media reports in both English and Chinese, as well as news archive and company reports. In this chapter we focus on the capability upgrading of the acquired British subsidiary and discuss the implications.

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2. **Chinese investment in the United Kingdom**

China has been one of the leading emerging economies in terms of outward FDI activities over the past decade. It recorded USD 124 billion outward FDI in 2014, becoming the second largest investor after the United States (UNCTAD 2015). The United Kingdom is one of the leading destinations for Chinese outward FDI in developed countries (Clegg and Voss 2012). According to figures from the Chinese Ministry of Commerce, in 2014 there was a mere USD 0.84 billion Chinese investment stock in the United Kingdom. However, the rapid increase in 2015 saw that figure rise to USD 12.4 billion.

The surging outward FDI from China has progressed in tandem with the rapid rise of many Chinese firms to become global leaders in their respective industries. Huawei, for example, is now the world’s largest telecom-equipment maker, while Lenovo is the largest PC maker and Haier the largest household appliances manufacturer. Similarly in the railway equipment industry, CSR China and China North Locomotive have both surpassed Siemens to become the world’s third and fourth manufacturers by sales (BCG 2014). One of the most dramatic changes has happened in the wind turbine sector, in which no Chinese firm made its way into the top 10 in 2005, after which four did, occupying second, fourth, seventh and tenth places (Lema et al. 2013). Many of these Chinese lead firms are now in the position to lead global value chains and have substantial investment and operations in developed countries such as the United Kingdom, much of which aims to acquire knowledge and access and develop strategic assets (Chen et al. 2012; Rabbiosi et al. 2012).

In the past few years there have been a number of acquisitions by Chinese firms in various UK industries, including Shanghai Automotive Industry Corporation’s (SAIC) takeover of MG Rover, Bright Food’s acquisition of the cereal maker Weetabix and Dalian Wanda’s purchase of the yacht maker Sunseeker International. In many of these cases, the acquired British firms were internationally well-known and renowned brands. Many had a long and proud tradition and they were technology leaders in their sector. Most were medium-sized enterprises, considerably smaller than their Chinese suitor. This is also the case with the acquisition of Dynex in the UK by CSR China, the focus of this chapter.

3. **Boarding the high-speed train of China**

3.1 The expansion of CSR China

CSR China is a state-owned enterprise that has become renowned for its design, engineering and production of electric multiple units (EMUs) for China’s high-speed railway network. The company was formed in 2000 as a spin-off of China South Locomotive and Rolling Stock Industry Corporation (Group) and renamed CSR China in 2007. It is a major force behind China’s impressive expansion of its high-speed railway network, producing EMUs that run at a speed of 350 km/hour. In December 2010, its CRH380A EMU set a world record of 486.1 km/hour in trial operations
Boarding the high-speed train of China

(Chuang and Johnson 2011), powered by an EMU convertor with the highest powered single unit in the world.

The history of CSR China can be traced back to the establishment of China’s first locomotive and rolling stock manufacturer in 1897 and this has since remained its core business despite a number of restructuring programmes. Working with a number of other firms and research institutions with coordination by the then Ministry of Railways, CSR China managed to design and manufacture China’s own high-speed train – the ‘China Star’ – that set a Chinese record of 321 km/hour (New Financial Observer 2011). But this indigenous innovation was quickly called to an end as the Ministry of Railways turned its sights on foreign technology.

Following an import, assimilate and re-innovate strategy regarding technological development, the Ministry of Railways solicited bids from Chinese–foreign business partnerships to make high-speed train sets that could travel at 200–250 km/hour with specific requirements on technological transfer to Chinese companies. CSR China has since partnered with Japan’s Kawasaki Heavy Industries and Canada’s Bombardier, respectively, and gained access to foreign technologies, which significantly enhanced CSR China’s technological development in high-speed trains. CSR China has also made enormous efforts to assimilate foreign technologies, deciding that on top of every dollar spent on these technologies, they would invest an additional three dollars to help assimilate and apply them (McKinsey 2015).

Within a few years, CSR China was able itself to design, engineer and produce EMUs that ran at a speed of 350 km/ hour. The company has also further developed and strengthened its core technological capabilities in engineering and producing high-speed EMUs, particularly in the areas of propulsion and control. For example, in 2010 it developed an EMU convertor with the highest single unit power in the world, helping it to propel the CRH380A.

Feeling confident about its technologies and design capabilities, CSR China felt the need to conquer foreign markets after becoming the biggest supplier of train sets for China’s high-speed railways. The company already exported electric locomotives to the Middle East and Central Asia in 1997 and 2001–2002, respectively. Being able to use fast domestic developments in supplying China’s domestic high-speed railway and urban transit markets as a reference point, CSR China won contracts to supply modern underground trains to India in 2010. In 2013, it went on to sign a near-USD 1 billion contract to supply EMUs to Argentina, followed by a subsequent contract for technological support and training. From 2011 to 2014, the value of CSR China’s overseas contracts increased over 300 per cent from USD 0.89 billion to USD 3.7 billion (Science and Technology Daily 2015). The past few years have seen a series of CSR China’s major overseas investments, including its acquisition of Dynex in the United Kingdom in 2008, Emprendimientos Ferroviarios in Argentina and Boge in Germany in 2014, as well as E+M in Germany and SMD in the United Kingdom in 2015. The company has also established joint innovation centres in America and Germany in recent years.
3.2 The struggling Dynex

Dynex can be traced back to AEI Semiconductors in 1956 in Lincoln, which manufactured some of the first silicon-based semiconductor components in the world. The past few decades have seen the ownership of the company being changed a few times under the names of Marconi Electronic Devices, GEC Plessey Semiconductors and Mitel Semiconductors. In 2000, Dynex Power Inc, a small, publicly quoted Canadian company, formed Dynex Semiconductor Ltd to purchase the assets of Mitel Semiconductors. Following the acquisition, all operations of Dynex Group are in Lincoln as part of Dynex Semiconductor Ltd.

Dynex Semiconductor Ltd initially had about 400 employees and five different product lines without much synergy between them. There was therefore a lack of business focus; the company even produced microwave sensors at one stage. In 2003–2004, Dynex decided to focus on power products/semi-conductors, and its workforce was reduced to 140. Nevertheless, the company managed to maintain its expertise in designing and manufacturing high power bipolar discrete semiconductors, power modules including insulated-gate bipolar transistors (IGBTs), and high power electronic assemblies.

IGBTs are today’s state-of-the-art power electronics modern traction power control systems. Compared with conventional transistors, IGBTs can achieve higher switching frequency and reduce the current required and therefore the heat generated, giving rise to smaller and lighter units. The high switching frequencies also smoothen the acceleration process and reduce the traction noise. In addition to rolling stock, IGBTs have been used in other traction power control systems.

Despite Dynex’s technological expertise in IGBTs, the company struggled to survive in this investment-hungry business and by 2004 it was very close to bankruptcy. The sale of its IGBTs was maintained at a small volume, despite their potential use in the railway industry. Dynex’s CEO admitted during the interview that, before the acquisition by CSR China and Times Electric, no train company wanted to use its IGBTs because they have no reference in the markets (no track record of application in the railway industry, which attaches enormous importance to reliability and safety). With little growth, Dynex found it difficult to continuously invest in R&D and develop new products, which became a vicious circle.

‘So we [were] looking for a strategic investor who can help us connect to the market, provide additional technological support and provide the capital investment to invest in plant machinery and R&D’ (Interview, Dynex’s CEO).

3.3 Acquisition and post-acquisition integration

CSR China is one of the two main suppliers of China’s railway equipment alongside its home rival CNR China. One of its subsidiaries, Times Electric, is a leading player in China in electric traction drive technology and used to proudly present itself as the driving force behind the production of the ‘heart’ of Chinese locomotives. However, it
was not able to design and manufacture its own IGBT modules and silicon chips – the ‘heart’ of electric traction drives – and had to rely on imports. This constrained not only Times Electric and CSR China’s expansion in the railway industry, but also their more recent penetration into the urban transit, wind power and electric vehicle industries. CSR China and Times Electric have endeavoured to extend the application of their core technologies (in propulsion and controls) to develop products in these industries but once again IGBT and its modules are also widely used in these industries.

In 2007, CSR China and Times Electric initiated an ‘acquisition – integration – innovation’ strategy in order to develop a core competence in IGBT technology. Once they learned that Dynex’s owner wanted to sell the company, they acted quickly and bought a 75 per cent stake in 2008. Their strategic asset-seeking motive and the competence-creating mandate they assigned to Dynex is clear from, for example, the following comments of the president of CSR China after the completion of the acquisition:

‘We expect Dynex to develop high power technology, R&D capability, and proven reliability and quality, thus to complement the rapidly growing manufacturing capability and power electric system know-how of Times Electric’ (Dynex 2008).

Associated with this competence-creating mandate is the great operational autonomy that Dynex has enjoyed since the acquisition. In a recent interview with a Chinese newspaper, the CEO of Dynex greatly appreciated the fact that he is trusted by Zhuzhou CSR Times Electric to run Dynex as he sees fit.

‘What surprised all of us is the high level of employee care. They genuinely want to make us a part of the company, so they try very hard to make sure they’re always very thoughtful in dealing with the people here ... They give us a high degree of autonomy, and they did not place a Chinese manager at the top after the acquisition’ (China Daily 2013, emphasis added).

Indeed, among the eight board members after the acquisition, only four were from Times Electric, despite its majority stake in Dynex. Dynex kept its name and structure after the acquisition. The only senior manager in Dynex that CSR China and Times Electric parachuted in is the sales manager. This autonomy indeed encouraged Dynex to greatly expand its R&D team and improve its engineering skills, which has not only helped to quickly develop new sophisticated products, including the recent 3300v IGBT modules, but also led to significant advances in the fundamental research for thyristors and IGBT technology, which we discuss in more detail in the next section.

It is of course not CSR China and Times Electric’s intention to develop Dynex as a separate entity and many integration mechanisms have been put in place since the acquisition. There is, for example, an R&D agreement between Dynex and Times Electric renewed every three years that steers the direction of Dynex’s innovation activities. There has been regular staff/engineer exchange between the two sides working on specific projects (for example, when Times Electric arranged and completed field trails to ensure compliance of Dynex’s high power IGBT modules with required standards
and therefore suitability for the Chinese railway market). In addition, every year CSR sends to the United Kingdom a team of about 30 managers for training (spending a few weeks in a British university, followed by another few weeks at Dynex). Moreover, there has been an effort to bring together both sides’ technologies and know-how in order to develop new products. Dynex’s CEO reflected that there has been a change in the balance of flow of knowledge: the initial few years were characterised predominantly by knowledge flow to its parent firm but more recently Dynex also started to learn from Times Electric:

‘this relationship we have, the win-win, the symbiotic relationship between Dynex and our parent company [means] that the information [know-how] is becoming more and more two directional’ [Dynex’s CEO, emphasis added].

This symbiotic relationship has started to create a favourable mutual learning environment, so that both the parent and the subsidiary firm are learning from the other’s expertise, as well as from third-party organisations, such as universities. What we have observed is the formation of ‘recursive, multidirectional, mutual learning relations based in joint reflection and experimentation’ (for example, Herrigel et al. 2013). Despite being in its early stages, this mutual learning has seen both companies working together, as well as with external institutions (such as UK universities) to produce a prototype of an electric vehicle model, diversifying into industries beyond railway equipment.

4. Upgrading in Dynex after the acquisition

One of the most significant effects of Times Electric’s acquisition on Dynex is financial stability and key design know-how related to power converters and electronic design. The acquisition gave Dynex a much improved access to the Chinese market, which has been less affected by the financial crisis. With financial support from Times Electric and CSR China, Dynex built a new GBP 12 million R&D centre to develop IGBT technology. Times Electric also helped Dynex to secure financing to build two new IGBT fabrication lines with GBP 12 million investment, upgrading its production facilities. In addition, the parent company helped to acquire the freehold of land and buildings used by Dynex in Lincoln, giving it greater flexibility for future development of the operational facilities and reducing long-term overhead costs. All these have proved to be transformational for Dynex. The number of employees at Dynex has grown, from below 250 in 2008 to 315 in 2013. Its sales revenues have grown from USD 30.2 million in 2007 to USD 39.6 million in 2012, despite the unfavourable economic environment. Strong demand in China has seen the country’s share of revenue increase from less than 10 per cent in 2007 to 38 per cent in 2012, while the share of Europe dropped from 68 per cent to 38 per cent in the same period.

Below we focus on further development or upgrading of Dynex’s capabilities after the acquisition. For this purpose we adopt the ‘upgrading’ concept from global value chain studies and particularly from Humphrey and Schmitz (2002) and colleagues. They specify four types of upgrading: product upgrading, where firms move into
more sophisticated product lines increasing unit values; process upgrading, so that firms produce more efficiently by re-organising the production system or introducing superior technologies; functional upgrading, in which firms move up new functional areas in the value chain such as design or marketing; and inter-sector upgrading, which represents a horizontal move into new sectors with firms moving into new productive activities applying existing competences (Humphrey and Schmitz 2002; Giuliani et al. 2005). In this section we present evidence of upgrading in Dynex since the acquisition.

4.1 Process upgrading

Since the takeover in 2008, Dynex has been able to upgrade its production facilities with significant help and investment from Times Electric. Dynex installed a new 6-inch bipolar thyristor wafer fabrication line in 2009, which enabled it to produce high power thyristor products. These products are suitable for use in high voltage direct current (HVDC) converter valves, which are preferred for use in long-distance electric power transmission and for the interconnection of national grid networks (Dynex 2011).

In 2011 Dynex completed a GBP 12 million project to install two new 6-inch IGBT wafer fabrication production lines to upgrade and expand its fabrication facility for silicon chips to be used in IGBT modules. The new IGBT lines replaced its existing production line, which was originally set up over 20 years ago and processed 4-inch diameter silicon. With increased technological capabilities, they enabled Dynex to increase production capacity approximately tenfold, resulting in large volume chip manufacturing for the first time in the company’s history.

4.2 Product upgrading

Product upgrading was also evident in Dynex. The 6-inch bipolar thyristor wafer fabrication line installed in 2009, for example, has helped the company to increase capacity and extend power rating of its i2 thyristor products, leading to the release of the larger 125mm 8.5kV HVDC thyristors. The extension of the i2 range of thyristors continued through 2011 with the development of a 150 mm thyristor, which will lead the company into a new generation of high performance products. With the new wafer fabrication facility, the improved thyristor technology and new purpose-built high voltage test centre, Dynex is well positioned to develop leading edge thyristor technology for many years to come (Dynex 2013).

During the second half of 2011, Times Electric transferred production of lower power (and therefore lower margin) bipolar products from Dynex to the parent company. This enabled Dynex to concentrate its bipolar business on the production of higher power, higher margin parts in future (Dynex 2012).
4.3 Functional upgrading

At first glance, functional upgrading seems impossible for Dynex as the company has already had a decent record in R&D and design and already performed functions such as marketing and designing before the acquisition. However, the takeover by Times Electric has also brought changes into how R&D is undertaken in Dynex. A detailed examination of the company’s annual reports suggests that prior to the acquisition the company struggled to maintain strong and consistent investment in R&D. The takeover has seen not only the establishment of a brand-new R&D centre, but also significant and stable growth in R&D expenditure. The company spent 3.9 per cent of its revenue on R&D in 2009, but this had increased to 10.6 per cent by in 2012 (Dynex 2012, 2013). Since then the company has also expanded its R&D team, from 12 in 2008 to 40 in 2012.

The company’s expanded R&D team has not only developed new sophisticated products such as the 3300v IGBT modules and prototypes of a 250 mm x 89 mm module but has also made significant advances in fundamental research on thyristors and IGBT technology for HVDC applications. Research is also being undertaken on new materials for power devices (Dynex 2013).

The investment in R&D not only helped the company to sustain and strengthen research and development activities, but also reflects the parent firm’s ambition to develop Dynex into a world leading industrial high power semiconductor manufacturer. In a recent interview, the president and CEO of Dynex commented that Dynex is now able to compete on an equal footing with the world’s top semiconductor makers, including Infineon of Germany, ABB of Switzerland and Mitsubishi of Japan (China Daily 2013).

4.4 Intersectoral upgrading

Historically Dynex’s power modules mainly found application in the marine drive sector. The acquisition by Times Electric, however, has meant that Dynex is increasingly applying existing competences in new sectors. We reported earlier the staggering growth in the IGBT modules, which itself is a result of Dynex’s shift to the railway industry. In 2011, the company successfully qualified and demonstrated, through field trials, the suitability of Dynex high power IGBT modules for use on China national locomotives and urban metro systems. This will open a massive market for the company to exploit for years to come.

The past few years have also seen the strategic focus of the company’s R&D activity shift to develop new applications in low carbon sectors, such as railway transportation, renewable energy, smart grids and electric cars. For example, with the support of Times Electric, Dynex now plans to produce IGBT and diode processes and designs using the 8-inch silicon production base recently established in Times Electric. The intention is to increase capacity in order to service higher volume markets, such as electric vehicles, wind turbines and solar power systems (Dynex 2012).
5. Conclusion

Using a recent acquisition in the United Kingdom by a Chinese firm as a case study, this chapter aims to examine the impact of emerging-economy multinational enterprises on their newly-acquired subsidiaries in developed countries, particularly regarding the latter’s capability upgrading. Our findings are to some extent counter-intuitive: despite the seemingly obvious knowledge-seeking motive of the acquisition and therefore the expected knowledge flow from the subsidiary to the parent firm, we observed multiple types of upgrading (product, process, functional and inter-sector) in the Chinese firm’s newly-acquired subsidiary. One of our main messages is, therefore, that upgrading is not a phenomenon exclusive to developing countries when developed market firms invest in the former, as implied in many extant studies. As emerging-economy multinational enterprises become increasingly competitive and a major force in outward FDI in developed countries, it is important to consider the potential impact of emerging-economy multinational enterprises on the upgrading or ‘redevelopment’ of some firms and industries in developed countries. We would therefore like to call for more studies of emerging-economy multinational enterprises as lead firms in global value chains and global production networks in order to understand their impact on host countries. We would also call on governments in developed countries to recognise this upgrading potential associated with investment from emerging economies, keeping in view the positive impact of emerging economy investment in developed markets.

Governments and the public in developed countries tend to view emerging-economy multinational enterprises, when they invest in developed countries, simply as finance providers with little to offer to the companies these firms acquire. Our analysis, however, demonstrates that their role could go well beyond that to also include knowledge provision (for example, when Times Electric transferred their knowledge of train traction systems to Dynex and helped the latter to develop and improve their IGBT modules for Chinese railways) and co-learning (for example, their joint experiments in the area of electric vehicles). It is therefore important, first, for governments and businesses in developed countries to appreciate the wider benefits of emerging-economy multinational enterprises’ investments and, in particular, the potential depth and breadth of knowledge spillovers and mutual-learning opportunities. Our case study suggests that, in order to maximise these benefits, it is particularly important for the subsidiary to strike a good balance in its relations with the parent firm and develop a symbiotic relationship: on one hand the subsidiary should embrace the parent firm’s integration and therefore market and technological development opportunities arising from the parent firm’s strategies (leading to product, process and functional upgrading opportunities); on the other hand it is also important for the subsidiary to maintain a certain degree of autonomy so that it can keep exploring new technology frontiers and therefore further functional upgrading opportunities.
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Chapter 11
Huawei in Europe: strategic integration of local capabilities in a global production network

Jan Drahokoupil, Agnieszka McCabe, Peter Pawlicki and Ágnes Szunomár

1. Introduction

Chinese outward foreign direct investment (outward FDI) started only in the late 1990s but has experienced very dynamic growth and diversification since then. Initially, Chinese firms focused on investments in emerging economies where they sought markets and natural resources, with the aim of providing a secure supply of the required raw materials as well as sales opportunities for the country's explosively growing industries. Within only a few years Chinese outward FDI started to diversify towards the developed economies of Europe and the United States as these regions offered not only mature markets for Chinese products but also capabilities that Chinese firms lack necessary to pursue an upgrading strategy. Advanced technologies, managerial knowledge and distribution networks became the focus of Chinese outward FDI. Chinese firms are also increasingly investing in semi-peripheral regions, such as central and eastern Europe (CEE), for example, to take advantage of relatively low labour costs, skilled workforce, developed manufacturing capabilities and market potential.

In this chapter we analyse the European operations of Huawei, a Chinese telecommunications equipment manufacturer. The case of Huawei demonstrates the complex ways in which Europe has so far been affected by Chinese high-tech outward FDI as the region has been integrated in the company's global production network (Henderson et al. 2002). Since its initial investment in Europe in 2000, Huawei has integrated 18 European countries, 16 of which are EU members, into its global production network through various investments and business ties. Using developed local capabilities in particular locations – ranging from R&D, university ties and standardisation initiatives to management knowledge and manufacturing and distribution networks – Huawei has built up a regional network that supports its entire global production network in research, manufacturing and distribution.

The goal of this analysis is to further develop an understanding of high-tech investments through Chinese outward FDI and enable a better assessment of their impact on Europe's economic and social development. The global production network approach (Hess and Coe 2006; Coe et al. 2008) shows that there is a dialectical relationship between global and local factors, and multinational companies have to take local conditions into account. However, the local impact of multinational companies' investments on the social level – especially in terms of labour conditions and employment relations – have significant ramifications. These analyses can thus provide a starting point to formulate suggestions for national and European regulations aimed at stabilising and further developing the ‘European social model'.
A descriptive approach was used to identify the most important characteristics of Huawei’s European operations, its cooperation with host country institutions, relations with competitors and employment relations in its European affiliates. These issues are examined here by relying on firm-level data available from the Amadeus Database, qualitative data from desk research and expert interviews with current and former Huawei employees, competitors and other experts dealing with the telecommunications sector in Europe.

The chapter reveals the complex and dynamic global production network that Huawei has established in Europe in recent years. The company has utilised local resources while optimising its pay structure. It locates functions in lower-cost markets when possible, while paying wages competitive on local labour markets as necessary. While Western European operations focus on R&D, Polish activities are focused on sales and marketing for CEE and Nordic countries, the Hungarian operations specialise in manufacturing and logistics (through EMS providers) and the Romanian affiliates specialise in technical support for European customers.

This allows the company to access engineering expertise in Romania and other central and eastern European countries at a fraction of the cost in France or Germany. Upgrading processes become visible in the analysis of Huawei’s global production network strategy as several European locations have been developed in recent years. The company is also pursuing an active role in the development of local labour markets through various talent programmes. The company’s culture includes pressure for hard work and a rather negative position towards unions.

Huawei’s global production network strategy is linked to its business model. It is globalising certain company standards, such as a high customer orientation in its business model and labour-cost advantages of its global production network. Adding to its cost advantage, Huawei also benefits from financing through various Chinese sources, e.g. the Bank of China, at low interest rates. The ability to offer network operators competitive technological solutions at low cost underpins Huawei’s growing market share in telecommunications equipment.

The chapter is organised as follows. The next section analyses Huawei’s expansion in telecommunication equipment in Europe through greenfield investments, supplier networks and customer relations. Section 3 provides information on its business strategy in the mobile phone business. Section 4 focuses in more detail on activities in individual countries across the EU. Finally, Section 5 provides an overview of working conditions and employment relations in Huawei’s European operations.

2. Huawei’s European expansion: telecommunications equipment

Huawei is a privately owned company founded in 1987 in Shenzhen, China. While the company is not publicly traded it has become increasingly transparent in recent years. However, financial details are not verifiable and have not been available for long. Huawei designs and manufactures telecommunication carrier class equipment, smartphones
and data and storage solutions for business customers. Currently, Huawei is considered the largest telecommunications equipment supplier worldwide, with revenues of more than USD 60 billion in 2015.\(^1\) It generates two-thirds of its revenues outside China and Europe is its largest overseas market (Osawa and Zekaria 2014). The company states that it provides equipment to 37 of the world’s biggest 50 operators. Around 50 percent of the equipment in the European market for 4G networks is provided by Huawei (Yoshida 2015). In contrast, the United States has effectively blocked Huawei from its network infrastructure market, citing concerns that its technology could be used to spy on Americans.

Being a latecomer from an emerging market, Huawei’s expansion in the European market seemed unlikely. The European market for telecommunications equipment is one of the most sophisticated worldwide. Investment decisions by network operators are not only based on the technical specifications of equipment but also entail long-term and trust-based relations with the supplier. To develop both capabilities Huawei took a route through emerging markets in Africa and Latin America, building up its technological prowess and developing a reputation as a trustworthy equipment supplier able to deliver on agreed contracts (Pawlicki 2015). Huawei prides itself on its strong orientation towards the needs of its customers, especially in providing quick technical support through a dense network of local offices, as well as by incorporating customer requirements in its development process (Ahrens 2013; Pawlicki 2017). In central and eastern Europe, Huawei has 25 offices, large and small, providing consumer support, which differentiates it from competitors such as Ericsson and Nokia.

Providing favourable credit lines for cash-strapped network operators is another pillar of the company’s business model. The Chinese government’s policy of supporting the internationalisation of Chinese companies provides them with huge credit lines that enable their foreign investment as well as support for their future customers, especially in emerging markets (in general see: Gill and Rilly 2007; for telecoms see: Low 2007). In Europe Huawei used the same strategy, entering the European market through relations with smaller network operators in small markets, providing favourable credit lines and establishing a dense customer support network.

Huawei won its first major contract in Europe with the Dutch mobile operator Telfort in 2004. In 2005 Huawei was selected as one of the strategic suppliers for British Telecom’s twenty-first century network programme. While Huawei cooperated with BT and industry leaders on the development and setting of new standards\(^2\) the company’s contribution was very limited. However, this was the first time that Huawei supplied a first-tier network carrier, boosting the company’s market reputation. By the end of 2007 Huawei was able to secure contracts with all major network operators in Europe and in 2014 Vodafone announced that it had awarded Huawei the contract to upgrade its networks in 15 countries in Europe and Africa.

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1. However, the claim is sometimes disputed by experts who point out that Huawei’s revenues are not only derived from network equipment operations but also from its terminal device business.

2. Standard setting is based on close cooperation between the particular vendors and as Huawei was one of the strategic partners in this process it enabled the company to build up capabilities in next-generation technologies, enabling Huawei to move away from its position as a technology follower and to become one of the global leaders in next-generation network technology.
In central and eastern Europe Huawei started by carrying out single projects and without officially establishing offices, which were set up only later when business in a given country became more mature and the company was able to secure more projects and clients (Huawei Warsaw office interview, 05.04.2016). In July 2005, Huawei won its first contract worth 9.5 million złotys (2.37 million euros) for Telefonia Dialog, a small Polish operator. Its next big contract of 150 million euros was with P4, Play network operator, to provide complete UMTS solutions. Play was a start-up which experienced financial constraints. With the help of China Development Bank Huawei was able to secure funding for equipment purchase and agreed to staggered payments (interviews 13.09.16 and 3.10.16; Pivotl 2008). In 2016 Huawei signed a strategic partnership with P4 for 10 years that encompasses infrastructure projects, development of the 4.5G network, construction of a wireless network, a transmission network, an IP network and provision of mobile devices (Telepolis 2016). Currently, Huawei is cooperating with the key telecommunication operators (T-Mobile, Orange, Polkomtel, P4) active in Poland in the area of transmission networks and access devices.

The favourable credit conditions offered by Chinese banks played a major role in Huawei’s Polish expansion – operator Play P4, for instance, paid only after several years. Favourable financing gives Huawei an edge over competitors. Initially, Huawei’s business model in central and eastern Europe was firmly based on price competition, offering similar equipment for 30 per cent lower prices, but at least since 2009 the price difference between Huawei and incumbents has been smaller, at around only 3–5 per cent (Rabij 2009; interview with a Huawei employee 3 October 2016).

A 2011 investigation by the European Commission found evidence of ‘significant Chinese government support’ for Huawei and ZTE, including ‘massive’ lines of credit from state controlled banks. A threat of import tariffs was dropped in a 2014 deal with the Chinese government that included measures aimed at helping Ericsson and Nokia to secure market share in the Chinese market. That, however, failed as Ericsson saw its market share in China drop from 26.5 per cent in 2011 to only 6.9 per cent in 2016.

3. **Cracking the market for mobile phones**

Huawei entered the market for mobile phones and smartphones relatively late. Although the company had been designing and manufacturing mobile phones for several years (Osawa and Kim 2014), it entered the market for smartphones as a brand name only in 2010. Since then Huawei has been able to grow in this market very dynamically and was the third biggest smartphone vendor worldwide in 2016.

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4. Interview with a Huawei employee, 11 June 2016.
Huawei’s growth on the Polish market illustrates the rapid expansion. Huawei started selling its phones, smartphones and tablets on the Polish market in 2011. As of April 2016, Huawei’s share of the Polish market for smartphones amounted to 20 per cent. According to a report by GfK of September 2015 Huawei’s Polish smartphone market share amounted to 7.7 per cent in terms of quantity and 7.3 per cent in terms of value, an impressive sevenfold increase over 2014 (Piechocki 2015). In 2015 Huawei sold 1 million smartphones on the Polish market, while in the central and eastern European and Nordic regions sales in the same period exceeded 3 million, which makes Poland a key market in the region for Huawei’s smartphones (Piechocki 2015). Currently Huawei enjoys second position (17 per cent of the market in terms of value) on the smartphone market in Poland after Samsung, which has 33 per cent of the market, but ahead of Sony, LG and Apple (Media Marketing Polska 2016: 61; Wyborcza Biz 2016). The strong push for the consumer market is in line with the Huawei worldwide strategy to obtain a 25 per cent share of the global market by 2021 (Kosinski 2016).

At the end of 2016, Polish Orange introduced Huawei Nova, an exclusive offer resulting from cooperation between Huawei and Orange (Ormaniec 2016). Huawei’s smartphones first are sold on the market and only later are sold by operators. For example, Orange was the exclusive seller of the P9 Plus till the end of June 2016, while the smartphone was on the market from the last day of May 2016 (Pura 2016).

4. Huawei’s operations in Europe

Of Huawei’s 150,000 employees worldwide about 45 per cent, or 67,500 people, work in R&D (Huawei 2015). The telecom equipment specialist was one of the first high-tech Chinese companies to look abroad for markets and started as early as the late 1990s to set up sales offices on the African continent and provide telecommunications equipment. By 2010 Huawei and ZTE, the second big Chinese telecom equipment supplier, were active in 50 African countries (Pawlicki 2015).

Huawei’s first investment in the EU was the establishment in 2000 of an R&D centre in Kista, Sweden, the European region for mobile technology development. In central and eastern Europe, Huawei established its first operations in Romania (2003), Poland (2004) and Hungary, Czechia and Latvia (2005). Huawei developed a complex and extensive part of its global production network in Europe, comprising R&D, manufacturing, logistics and management operations. Besides its numerous R&D centres Huawei established two regional technical assistance centres, 10 training centres, five local network operation centres, 41 sales branches, two logistics centres and 46 country-level spare parts centres in Europe by 2014. Overall Huawei employed about 9,000 people in the EU in 2015 (see Table 1). It also operates in Ukraine (94 employees in 2015) and in Russia (331 employees in 2015, but falling in 2016 due to a disinvestment). These operations provide functions that are focused on Europe.
alone, as well as globally and strategically important services, especially for Huawei’s technology and mobile standard development projects.

The geography of Huawei’s European activities suggests a specific division of labour along functional lines of research, sales and marketing, technical support, manufacturing and logistics. The last three functional areas are located in particular in CEE countries, while R&D related activities are spread around western Europe – the only research centre in central and eastern Europe is located outside the EU, in Russia. The company’s sales and distribution activities for this region operate out of its regional headquarters, Warsaw and Düsseldorf. Poland specialises in sales and marketing for CEE and Nordic countries. Hungary focuses on manufacturing (through EMS providers) and logistics (European Supply Centre). Finally, Romania is a substantial hub that provides technical support for deployment services around Europe. It is designated as Huawei’s Global Service Centre, financial centre and Global Network Operation Centre. The division of labour is reflected in the employment and turnover figures presented in Table 1.

Table 1  Huawei: 2015 employment and operating revenue (turnover)

<table>
<thead>
<tr>
<th></th>
<th>Employment</th>
<th>Turnover '000 €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1929</td>
<td>1,319,509</td>
</tr>
<tr>
<td>Romania</td>
<td>1101</td>
<td>201,331</td>
</tr>
<tr>
<td>UK</td>
<td>1007</td>
<td>951,558</td>
</tr>
<tr>
<td>Spain*</td>
<td>893</td>
<td>530,990</td>
</tr>
<tr>
<td>Italy</td>
<td>664</td>
<td>899,176</td>
</tr>
<tr>
<td>Netherlands</td>
<td>650</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>643</td>
<td>507,206</td>
</tr>
<tr>
<td>Poland*</td>
<td>425</td>
<td>258,818</td>
</tr>
<tr>
<td>Sweden</td>
<td>396</td>
<td>307,588</td>
</tr>
<tr>
<td>Czechia</td>
<td>375</td>
<td>155,293</td>
</tr>
<tr>
<td>Denmark</td>
<td>253</td>
<td>139,353</td>
</tr>
<tr>
<td>Hungary</td>
<td>225</td>
<td>220,514</td>
</tr>
<tr>
<td>Norway</td>
<td>150</td>
<td>120,365</td>
</tr>
<tr>
<td>Belgium</td>
<td>113</td>
<td>263,093</td>
</tr>
<tr>
<td>Greece</td>
<td>100</td>
<td>109,063</td>
</tr>
<tr>
<td>Finland</td>
<td>88</td>
<td>99,798</td>
</tr>
<tr>
<td>Portugal</td>
<td>76</td>
<td>117,616</td>
</tr>
<tr>
<td>Slovakia</td>
<td>75</td>
<td>45,686</td>
</tr>
<tr>
<td>Austria**</td>
<td>74</td>
<td>43,260</td>
</tr>
<tr>
<td>Ireland*</td>
<td>53</td>
<td>40,525</td>
</tr>
</tbody>
</table>

Notes: * 2014; ** 2014 turnover, 2013 employment.
Source: Amadeus Database; information on Huawei’s website was used for the Netherlands.9

This division of labour seems to be linked, at least partially, to existent local capabilities, where Huawei plays the role of a follower by integrating already existing local capabilities into its global production network. This strategy can be linked to 9.  http://www.huawei.com/en/news/2015/12/Huawei%20Netherlands%20celebrates%2010th%20anniversary%20and%20brings%20100%20Dutch%20students%20to%20China%20until%202020
Huawei’s position as latecomer looking for opportunities to both further upgrade its technological capabilities and take advantage of existing industrial and managerial capabilities developed in previous development cycles.

4.1 Research focus: Western Europe

The research-oriented part of Huawei’s global production network comprises 18 R&D centres in Europe, making it the region with the most Huawei R&D centres worldwide. Although these European R&D centres are quite small compared to the company’s huge centres in China, they are quite important for Huawei’s R&D capabilities as they often focus on fundamental research and highly innovative projects. Huawei is also very well integrated into the European institutions and organisations working on the development of future standards for mobile communications.

Already in 2000 Huawei opened its first European R&D centre in Kista, Sweden, the location of Ericsson’s headquarters and a region that has become a global centre for telecommunications technology research and development. In the following 16 years Huawei has expanded its research activities in Europe considerably, establishing 18 R&D centres in 11 western European countries and Russia, employing around 1,570 researchers (for detailed information on Huawei’s European R&D strategy see Chapter 1 in this volume). In addition and in line with Huawei’s strategy of customer orientation the company operates 19 joint innovation centres in Europe to sustain cooperation with its main customers, such as Vodafone or British Telecom, focusing in particular on joint application development.

For comparison, Huawei employs the largest numbers of engineers in China and India, at huge R&D campuses. The company’s main R&D campus in Shenzhen, where its headquarters are also located, houses 40,000 people. Huawei’s only Indian R&D centre in Bangalore employs around 5,000 engineers. With overall around 1,570 employees the 18 European R&D centres are very small – ranging from 10 employees in Paris, to 350 in Kista and 500 in Moscow. The size of Huawei’s European R&D centres suggests that they are research oriented, developing and acquiring new knowledge, with the help of a small number of highly trained specialists working on leading-edge technologies and often focusing on fundamental research. Product development arising from such research results requires various functions and departments and a massive number of employees.

Huawei developed the research-oriented part of its global production network in Europe in three movements. Its first movement into Europe, the Kista R&D centre, originally employed 70 people but has been developed over the years and now employs more than 350 engineers and 100 people working in the marketing department. Between 2008 and 2009 R&D centres in Brussels, Copenhagen, Bonn, Munich, Milan and Gothenburg were opened. Since 2011 Huawei has opened almost two R&D centres per year in Europe, in Nürnberg, Ipswich, Helsinki, Banbury, Dublin, Sophia-Antipolis.

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and Bristol. Huawei’s biggest European operations are in Moscow, Russia, where the company expanded employment to around 500 software engineers in 2013. All but one of its European R&D centres are greenfield investments. With researchers and engineers working on wireless, wireline and optical projects for network equipment and mobile phones the 18 European R&D units take part in all major technology fields and products of the company.

Not only has Huawei established important research-focused operations in Europe but it has also upgraded some of them substantially, developing their responsibilities and role in its global production network. Huawei developed its Munich location to become the European Research Centre and Central Research Institute by expanding the centre’s research focus, especially towards 5G mobile telecommunication technologies, with fundamental and applied research projects. Additionally, Munich has become the regional management centre for Huawei’s European research operations. Only three years after establishing its Milan operations global R&D activities in microwave and optoelectronics have been located here, as well as service, marketing and sales support, making the centre a Microwave Competence Centre and the first competence centre of the company outside China.

Through its research activities in Europe, Huawei has built up a strong presence in the development of future mobile telecommunications standards that are heavily based in and driven by European institutions and networks. The company was able to become a central actor in these processes, which will allow it to develop first-mover advantages on future markets for mobile technologies (see Chapter 1).

With each of its research-oriented activities Huawei has been able to successfully embed itself in an already developed specialised local innovation system comprising education and research institutions, labour markets, competing companies and supplier networks, as well as policy-based support structures. This has allowed Huawei relatively easy access to already existing capabilities in the form of the skilled manpower, institutions and support necessary for the company in its dynamic development.

4.2 Technical support focus: Romania

Cost advantage played a major role in Huawei’s rise to become a major telecom equipment vendor in Europe. Huawei obtains such advantage by serving its European clients from its regional hub in Romania, where in 2007 it created a centre specialising in technical support for deployment services and network monitoring and maintenance. The company established a Global Service Centre and a Global Network Operation Centre in Bucharest and it plans to open a second global support centre in Timisoara, Romania’s ITC hub. More specifically, the Romanian centres solve opened technical-support cases, offer parameter setups, software upgrades and troubleshooting. They cover a range of activities from mobile to IP and fixed access.
Huawei employs (as of 2016) 1,100 workers in Romania, mostly engineers. They are paid wages that are competitive on the Romanian labour market. These employees are often posted to other European countries to serve clients there directly. The posting periods last 1–6 months during which the employees are paid the Romanian wage and a daily allowance (35 euros in 2016). This makes them substantively cheaper than engineers employed directly in Western Europe. In this way, Huawei is able to hire fewer people in higher-cost locations and do as much technical support as possible by using the Romanian workforce. Romania is particularly well suited as a location to be exploited through this strategy as its education system has a good record of producing software engineering expertise (cf. Pawlicki 2012).

4.3 Sales and marketing focus: Poland

Huawei Poland was originally established to serve the local telecom equipment market. However, from 2008 the company started to concentrate its sales and marketing activities in Warsaw. In 2008 Huawei CEE & Nordic was established, making it the regional centre for central and eastern Europe and Scandinavia. Since 2004 Huawei’s Polish office has grown from a small team to over 500 employees (as of 2016). Huawei’s CEE & Nordic subsidiary is one of its regional centres, employing approximately 285 workers. According to one interviewee currently employed by Huawei CEE & Nordic the region is growing in terms of sales/revenue but not necessarily in terms of importance within Huawei’s global structure. Huawei’s operations in Warsaw have been upgraded in recent years, as the focus on sales-related functions – such as technical support engineers, sales and logistics – was increasingly broadened towards finance, administration and HR as the location was assigned control and management of the CEE & Nordic region; marketing and purchase functions were also transferred there by 2016.

Huawei provides research-dedicated IT solutions and offers programmes for students at Polish universities. Huawei was a supplier and consultant for the Poznań Supercomputer-Network centre and maintains the cooperation in the form of a joint research innovation centre that was inaugurated at the beginning of 2016. Huawei has also carried out similar projects in Scandinavia and in the Balkans (Huawei website, 26.05.2015). Warsaw University of Technology and Poznań University of Technology are partners in Huawei’s Authorized Information and Network Academy, a training programme aimed at improving students’ skills in the latest information and telecommunication technologies. Huawei Poland also supports technical universities and students through its global ‘Telecom Seeds for the Future’ programme, which aims to provide top students with practical knowledge on ICT.

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11. In 2016, the starting salary for an engineer was in the range of 500–600 euros, rising to 800–1000 euros for those with five or more years of experience and 1500–2000 euros after eight years of experience.

4.4 Manufacturing and logistics focus: Hungary

Huawei serves all the top operators (including Telenor, Vodafone, Deutsche Telekom) in the country, as well as 70 per cent of Hungarians through their products and services. In 2009, it launched its European Supply Centre in Hungary. With enlarged warehouse capacity of 30,000 square meters, serving three thousand trucks each month, Huawei’s Hungary-based supply centre is the second biggest operation of its kind in its global production network and serves as a production and logistics centre for 55 countries in Europe, North and West Africa, Russia, Central Asia and the Middle East. Huawei expanded the Supply Centre in 2011. According to Chinese diplomats, the creation of the logistics centre in Hungary shows that Chinese-funded enterprises were confident about Hungary and its investment environment, even after the global financial crisis and its impact on the country (Xinhua 2013).

The company has built up manufacturing and logistics capabilities throughout Hungary by relying on outsourcing to other companies. Electronics manufacturing service (EMS) companies Flextronics and Foxconn engage in manufacturing. DHL and Westlog take care of logistics. At Foxconn’s Komárom and Flextronics’s Pécs operations Huawei’s telecom equipment is assembled, with almost all devices in the company’s portfolio destined for markets in Europe, North and West Africa, Russia, Central Asia and the Middle East, including optical transmission units and wireless communication server products. DHL and Westlog operate Huawei’s logistics centre in Biatorbágy, providing a complete service package including transportation and storage activities, packaging, customs services, road transportation and ocean freight forwarding of the products. Overall between 2500 and 2700 employees work at Huawei’s suppliers in Hungary. In line with the EMS business model both permanent and temporary workers are employed.

Huawei’s location choice can be related to Hungary’s well developed supplier capabilities. Since the late 1990s Hungary has become an important manufacturing location for the electronics industry as EMS companies started to offshore their activities increasingly towards so-called low cost locations. EMS companies manufacture electronic products for brand name companies, such as Apple, HP, Huawei or Dell, providing manufacturing with many activities directly linked to manufacturing, such as engineering, parts purchasing and logistics as a service. In the past 20 years Hungary has experienced a dynamic upsurge in EMS activities followed by a stagnation, as China became the biggest manufacturing location for electronics, relegating Hungary and other locations – such as Mexico – to merely regional status (Lüthje et al. 2013).

Finally, similar to Poland, Huawei established a Laboratory and Academy at István Széchenyi University in Győr, which opened in 2016. The investment is of approximately 300,000 USD, Huawei provides education materials, makes presentations and has donated a supercomputer to the university. Since 2011 Huawei has invested 200 million HUF (around 730,000 USD) in Hungarian education. Students from Hungary are also participating in Huawei’s ‘Seeds for the Future’ programme; some have also been hired by Huawei.
5. Management methods and employment relations

Huawei’s management methods and control strategies at its Chinese R&D centres do not differ from those familiar in its Western competitors. Work organisation and employment relations seem to be in line with the ‘global standard’ set by companies from Silicon Valley: overtime, project-based work, formal and informal control and individualised labour relations that prevent the development of structures that would enable forms of collective representation, bargaining or action (Yu 2014).

Labour relations in the electronics industry are frequently characterised by problematic work organisation, as well as strained relations between management and workers. This holds true for both blue- and white-collar workers. Electronics manufacturing is characterised by inhumane working conditions and highly fragmented work organisation (for example, Chan and Pun 2010; SACOM 2010; Drahokoupil et al. 2016; for EMS in central and eastern Europe see also Maciejewska 2012; Lüthje et al. 2013). However, white-collar workers face a quite different reality in the sector, given their high level of education and expertise and associated bargaining power. At the same time, the increasingly internationalised character of innovation work also has detrimental effects on the work and labour relations of both engineers and technicians. Standardisation and automation of work, international teams, international competition and cross-cultural frictions are the main problems they have to face (Boes and Kämpf 2011; Feuerstein 2013; Kämpf 2008; Mayer-Ahuja 2011; Pawlicki 2014). In general, the labour conditions of white-collar workers in the electronics industry seem to be driven heavily by the situation in Silicon Valley, where highly individualised relations between management and engineers has developed, further amplified by the very competitive relations within the engineering workforce.

Huawei seems to have developed a locally specific company culture in China that is distinct from other global electronics companies. It has established a culture based on ‘plain living and hard work’ that requires employees to endure high workloads and continuous overtime and underlines their important role in China’s economic development. Yu (2014) is able to document this by referencing the so-called ‘fighter’s contract’ through which employees pledge to work overtime voluntarily, give up all paid annual leave and renounce maternity/paternity leave or marital leave.

Huawei’s labour relations in China share many similarities with the worldwide situation of engineers in the electronics industry. Very individualised, fragmented and competitive groups of highly skilled engineers that do not develop an understanding of their collective interest. This is coupled with possible considerable financial gains through stock options. Such a model has been the quasi-standard that Silicon Valley companies have exported throughout the world. Huawei’s model is different in two very important aspects. First, the lack of transparency that has been a central feature of the company extends towards the relations between management and engineers. The lack of transparency in Huawei’s stock option programme is very different from those of US-based high-tech companies, where open communication about stock option programmes is the basis of market-oriented incentive schemes for engineers. Huawei not only fosters a competitive culture between its employees, but also encourages direct
dependence and control. Second, the nationalistic undertones of Huawei’s company culture are generally not found, at least openly, in other global electronics companies.

Information is scarce on labour relations at Huawei’s European R&D operations. Müller (2014) reports that there are no works councils and no collective agreements at Huawei’s R&D centres in Germany (see also Fehr 2014). As all but one of Huawei’s and ZTE’s European R&D centres are greenfield investments, they do not have to take into account already established labour relations, but only have to abide by the local legal framework. Interview data support this, while sketching an even more problematic situation at the suppliers. There are strong indications that employees who tried to organise works councils at Huawei’s German operations were laid off on various grounds.

Research and engineering staff at Huawei’s West European R&D operations report a complex picture with regard to working conditions.13 Technical professionals at Huawei’s European R&D centres are relatively well paid and are offered the chance to work in a highly dynamic environment with leading-edge technologies. However, working hours and work pressure are high, while there seems to be little ability to influence decisions regarding technical aspects of projects. There are also indications of a division between local staff and Chinese employees at Huawei’s R&D centres.

In central and eastern Europe, Huawei has implemented a centralised management structure, with varying reliance on Chinese workers. A trade union (OS ZPTNS) operates in Huawei Technologies Czech, where they organize about a third of Czech white-collar employees (technical support for network equipment) and negotiate a collective agreement, but the Czech affiliate represents an exception. In general, working conditions for Huawei’s white-collar workers seem to correspond to the standards in the industry. It is the hierarchical management style that makes the company different from its competitors.

The local and Chinese staff seem to work in separate worlds. In Romania, where 22 per cent of employees were Chinese in 2014, key management positions in local operations were held by Chinese employees. A Romanian programme manager worked with a Chinese ‘ghost’ who reported periodically to headquarters in Shenzhen. Romanian employees found it difficult to engage with their Chinese colleagues, who worked as a separate group. In Hungary, 60 per cent of employees are Hungarian and the rest are Chinese nationals (working there with work permits). In Poland, 60–65 per cent of employees in Huawei’s CEE & Nordic subsidiary are Polish and the rest are Chinese nationals. Following the centralised model, Huawei CEE & Nordic controls and manages all country offices in the two regions, with all projects having to be approved by the Warsaw centre. Serving the local market, the Huawei Poland subsidiary employs predominantly Polish workers (84 per cent) (Huawei Warsaw office interview, 05.04.2016). The general feeling among employees within Huawei Poland is

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13 The data used in this section were compiled from extensive searches on employer rating websites. While such data has to be used very cautiously – comments and ratings in the internet tend to produce a highly polarised picture – currently there is no possibility to generate data on this topic in another way, as both employees as well as Huawei are not very supportive of academic research on the topics of working conditions and employment relations.
that there are in fact two companies, one comprising Polish employees and the other Chinese ones. An example is that Chinese staff have meetings after 6 pm, when the Polish employees have left the office.

Decisions are typically made by Chinese managers, who may seek the opinions of local staff. As suggested by employees interviewed in central and eastern Europe, management style, rather than working conditions, make Huawei distinct from other IT multinationals. The high share of Chinese workers in the Hungarian subsidiary reinforces the importation of practices from headquarters in China. Managers are mostly Chinese and meetings sometimes take place in the Chinese language, which is not favourable for local workers. Hierarchy in the decision-making process, communication and manners are the aspects with regard to which employees can feel the difference between Western and Chinese business cultures the most. The company organises training to introduce Chinese culture to non-Chinese employees, Chinese language courses are offered for local workers and Chinese colleagues get some coaching, too, before leaving for a European destination. However, there is no cross-cultural training although – according to interviews – it would be necessary for new entrants.

Decisions about working conditions and pay are also highly centralised, but they are likely to involve also local managers. In Hungary, they are made by a team of five managers, including the managing director and HR manager; in other words, by both Chinese and Hungarian managers. They evaluate all employees every six months and decide on bonuses, wage increases and promotions. Their decision is then submitted to the regional headquarters for approval. In Romania, the HR department in the Chinese headquarters has a final decision on all job candidates.

Local employees in central and eastern Europe are normally hired directly on standard contracts. Agency workers are used in Czechia where it is a common practice in the industry. According to a Czech trade union leader, working conditions for agency workers, which represent about 50 per cent of Huawei’s workforce in the country, are identical to workers employed directly. Trade unions organize also the agency workers, who are also covered by the collective agreement. Some Chinese employees rely on a combination of a local employment contracts (typically 1,000 euros in Hungary and Poland) and separate work contracts in China. Chinese employees who come to work for a short time (for example, engineers working on specific projects) enter on business or tourist visas (depending on their length of stay). Chinese workers are replaced regularly, after two or three years. In Hungary, which hosts a significant Chinese minority of about 20,000, there are some local Chinese workers.

Working conditions and pay for Huawei (white-collar) workers in central and eastern Europe broadly correspond to the standard in the industry and that of competitors, such as Ericsson. The main issue reported by Romanian employees was the unpaid overtime, a practice apparently common, especially during the first six months of employment, and extensive work time and travel.14 In Poland, the salaries of administrative staff are relatively lower than those at local competitors, while engineers and staff generating

income are remunerated relatively higher. There might be differences in conditions between Chinese and local staff. Local staff in Hungary, for instance, reported that Chinese colleagues often work overtime on weekdays and sometimes also work during the weekend, so they deserve higher salary grades.

Finally, there are some indications that Huawei’s management is particularly hostile to unions, but the lack of unionisation is by no means exceptional in the sector in central and eastern Europe. In Czechia, where trade unions are active in some of the major telecommunication providers, employees started to organize as a reaction to excessive work time and violation of respective regulations. At the time, employees were also asked to sign a statement that they will not get involved in any civil activities. The first collective agreement was signed in December 2013. In 2017, trade union leadership perceived employment relations in Huawei positively and interpreted the initial dispute as a learning process on the side of the Chinese management. In contrast, establishing a trade union in Huawei seemed unthinkable to the interviewed Romanian engineers, who thought that there would be interest among the employees but management would resist.¹⁵ There are no trade unions or collective bargaining processes in Poland and Hungary. If disputes between Chinese and Polish/Hungarian staff occur the management appoints local employees, often graduates of Chinese Studies.

Conclusions

Huawei’s global production network in Europe – that is, its own operations and its customer relations with network operators and suppliers in this region – are impressive. Huawei was able to integrate Europe in its global production network by establishing a complex division of labour between its various ever-expanding operations that show distinct signs of specialisation. Europe is the most important region for Huawei as it is not only an important market for its network, business and consumer products, but provides the company with highly trained workers for its R&D activities; stable and distinguished institutions for mobile technology standard development; as well as mature manufacturing infrastructure.

Huawei uses its global production network and business model to internationalise its own standards with only limited regard for local standards, especially when it comes to employment relations. The company has established a highly complex and dynamic global production network in Europe, drawing on existing local resources. Currently, there is a distinct division of labour along functional lines: R&D, engineering, marketing and sales, manufacturing and logistics. However, as upgrading occurs, these specialisations will possibly shift in the future. With its talent development programmes Huawei is not only developing technical personnel for its future customers but also specialists for its own strategic plans. While these initiatives are small and limited they can provide a further dynamic boost for the company’s global production network development.

¹⁵. Trade unions are not common in the IT sector in Romania. However, the Timisoara IT Trade Union (SITT) represents more than 3,000 employees in Alcatel Lucent Romania, Accenture Managed Services Romania and Wipro Technologies.
With its global production network Huawei is facilitating the spread of the 'Silicon Valley model' of industrial organisation and employment relations, where polarised workforces are organised in fragmented value chains (Lüthje et al. 2013). One of the mainstays of this model is a rejection of positive and developed employment relations, based on employee representation and collective bargaining. As Huawei is mostly developing through greenfield investments, the company does not have to cope with existing company unions and/or works councils. However, as shown in the Czech case, the management is likely to accept local institutions, including collective bargaining, if enforced through collective action and underpinned by good regulation of employment relations.

Against the background of Huawei’s exploitation of high-quality local assets that are spatially ‘sticky’ (Pavitt 1999) and hence cannot be easily offshored and replicated in other localities, it needs to be questioned whether the respective regions are able to extract sufficient value from these activities. This question of value retention is not only relevant regarding Huawei’s or Chinese investments in Europe, but also more generally regarding companies in this region. However, with the influx of Chinese investors there seems to be a chance to put this question forward again and reformulate it for this new phase of globalisation, in which multinational companies from emerging markets are increasingly becoming investors in mature markets, such as Europe.

The value needs to be captured by raising social standards in depth and breadth, as well as their upward harmonisation across the EU. Value retention in the form of good work is supported by fully developed employment relations, which are supported by clear and firm regulation. A regulatory model based on this idea can not only provide a foundation for sustainable growth in Europe, but can also develop Europe into the leading export region for social standards, through the global production network.

To sustain its already crumbling social model and to try to develop it further Europe has to get a grip on how it wants to use its existing local resources as a lever to convince especially multinational companies that fully developed employment relations are one of the pillars of sustained economic development based on a high rate of innovation. Employees, both blue- and white-collar, that work in a stable environment with a high level of participation – both financially as well as organisationally – have a long-term motivation to develop ideas and suggestions that form the basis of innovation processes.

Finally, Huawei’s expansion underlines the EU’s failures with regard to increased technological competition. The goal of China’s integrated industry policy strategy is the upgrading of substantial parts of its industry, driving the current wave of outward FDI geared towards technology acquisition. While these investments are currently positive for locations in developed economies, they may lead to growing competitive pressures in the mid to long term as Chinese companies succeed in becoming technology leaders or at least fierce competitors beyond price competition. China’s integrated and complex industrial policy measures, the ‘Made in China 2025’ strategy in particular, thus puts substantial pressure on developed industrial countries (see Wübbeke et al. 2016). As a result it is becoming essential for Europe to quickly develop and put in place industrial
policies that help counter these challenges, while further developing employment relations.

Together with Chapter 1, this chapter shows how important Chinese telecommunication suppliers have become both in European markets as well as within the region’s industrial structure. One of the main drivers of this development has been Europe’s central role as a location for setting telecommunication standards. Standard-setting is also a focal strategy of China’s industrial policies (see Wübbeke et al. 2016). Europe is equipped with the required market size, industrial base, institutions and experience for technology standard-setting processes. However, to ensure that new technology standards translate into sustainable industrial and economic development, an integrated approach is necessary to establish value retention institutions. Public investment projects that help to create local and regional markets – for example, for technology fields around smart cities, resource efficiency/green tech, digital government, infrastructure for new concepts for mobility, aeronautics – local sourcing guidelines, public private technology investments and social standards for products and services based on the newly set standards would be necessary to accompany such developments. As surprising as it may sound Europe can learn a lot from China with regard to sustainable industry development, while developing its strategy further by extending it with a social model based on participation.

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Chapter 12
New voyages in search of treasure: China Ocean Shipping Company (COSCO) in Europe

Yu Zheng and Chris Smith

1. Introduction

The rapid growth of Chinese investment in Europe has given rise to debates on the power of emerging capitalist firms over employment rights, workplace safety and workers’ welfare in the host societies (Drahokoupil et al. 2016). The aim of this chapter is to examine what contributes to the employment practices adopted by Chinese state-owned enterprises in Europe, using the case of China COSCO Shipping Corporate Limited (COSCO)’s investment projects at the Greek port of Piraeus. Choosing COSCO allows us to focus on a powerful state controlled firm, which is actively engaged in expanding its international networks and facilitating the state-sponsored internationalisation of Chinese firms. This means that both the economic and political pressure faced by this emerging player will have substantial influence over their choice of employment policies for their global workforce.1

In the section following the methodological remarks we present the history of COSCO as an international employer. The focus then moves to examining the ownership structure of the firm’s various projects in Europe. Employment practices adopted by COSCO echo some general changes in the shipping industry: shipping companies are trying to mitigate competition through international mergers and acquisitions, standardisation in transition time modelled by logistic software, automation of cargo handling equipment on ships and in ports and development of infrastructure integrating shipping and inland logistics, all of which have contributed to the simplification, casualisation and intensification of work (Bloor and Sampson 2009; Turnbull 2012; Rossiter 2016). More importantly, employment policies and practices in Piraeus show characteristics of those adopted by Chinese state-owned enterprises after the state-led reform. These characteristics can be understood in terms of the fact that COSCO is one of the key players in the Chinese state’s attempt to promote national economic growth and upgrade the capability of Chinese firms through outward foreign direct investment. Despite its ownership status as a publically listed company, the de facto governance structure of COSCO and the state–firm links maintained through such a governance structure are equally important in informing employment practices in Piraeus.

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1. Data reported here are mostly based on authors’ analysis of the documentation obtained from the company, unless otherwise referred to.
2. Research methodology

The chapter is based on analysis of published material and documents. Interviews conducted with current and former employees were used as supplementary sources. Names and positions are kept anonymous as agreed with the informants. In order to cross-check the credibility of primary data, company documentation, internal (published by the firm) reports and interview memos (current and former employees) are compared with secondary sources, such as union documentation, industrial reports and academic publications. Given that the focus of this chapter is to assess the influence of the state policies on structural, strategy and employment policies, the authors negotiated access through management. While this means that direct access to the local workforce is missing, the workers’ side of the drama is analysed using secondary data.

3. Company background

The China COSCO Shipping Corporate Limited (COSCO), commonly known as COSCO Group, is the largest shipping and logistics firm in China and is among the top 10 shipping companies in the world. It ranked second behind Maersk Group in terms of number of vessels and shipping capacity. COSCO is the largest Chinese state-owned marine transport provider and runs a consortium of complex networks made up of branch offices, subsidiaries, affiliate companies and collaborative alliances. The Group has been through several rounds of state-directed restructuring since the mid-1990s, which as a result makes its structure seem opaque to outsiders.

The Group’s international expansion is associated with China’s growing international trade in the past 30 years, state guided mergers and acquisitions in the shipping sector and deregulation of the financial market, allowing state-owned enterprises to source funding from public markets. In recent years, the Group has been moving from being a regional player (mainly focusing on China-Southeast Asia and Asia-African shipping lines) towards a transnational player (connecting Asia-Europe-America shipping lines) in the global shipping market. They are relatively less developed in terms of foreign direct investment (FDI), although they have become more active in recent years. In terms of operating revenue, however, the Group still falls behind their major international counterparts, with a sales turnover of USD 10.4 billion in 2014 (see Figure 1 below).

COSCO’s business has been diversified into seven clusters: shipping, logistics, finance, equipment manufacturing, shipping services, social services and information services (see details in Figure 4 below). The domestic and international shipping cluster controls 649 commercial vessels, among which 404 were wholly-owned by the Group and 245 were charter ships. Of the ships wholly-owned by COSCO, 149 are registered in China, 136 in Hong Kong, 112 in Panama and seven in other countries. The logistics division is actively engaged in foreign direct investment. In 2016, the Group controlled over 46 port terminals, either through direct investment or lease agreements. Seven terminals with COSCO Group’s direct investment are located outside China and three are in Europe (see Table 1 below).
COSCO’s shipbuilding and ship repairing business is mainly focused on China, with one wholly-owned subsidiary in Singapore. Shipbuilding outside China is mainly done by collaborative alliances. COSCO is in discussion with a number of international shipbuilders for potential investment projects in the coming years.

COSCO Group reported total employment of just over 130,000 people across the world, among whom 30,079 were reported as ‘staff’, who receive remuneration, welfare and insurance from COSCO or its associated subsidiaries. This leaves nearly 100,000 people working on fixed-term contracts or as ‘self-employed’ contractors.

Those working on COSCO ships are not included in the distribution of staff figure. This is because maritime crews are employed under a separate system. Senior ranking
officers (the captain, chief officers and chief engineers) are often appointed by COSCO. Recruitment of the majority of workers is often arranged through specialised operational agencies, which is a common practice in the international shipping industry (Bloor and Sampson 2009). Overseas, the Group was reported to have hired 4,679 non-Chinese workers, mainly working in the subsidiaries. This number looks small, given COSCO’s scope of activities. This is explained by the fact that in the company employment is decentralised and managed at the subsidiary level.

### Table 2  Number of staff in COSCO Group and distribution of staff in various functions

<table>
<thead>
<tr>
<th>Number of staff</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of working staff in the parent firm</td>
<td>384</td>
</tr>
<tr>
<td>Number of working staff in major subsidiaries</td>
<td>29,695</td>
</tr>
<tr>
<td>Total number of working staff</td>
<td>30,079</td>
</tr>
<tr>
<td>Retired staff receiving retirement benefit from the parent firm and major subsidiaries</td>
<td>16,569</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Staff distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>12,647</td>
</tr>
<tr>
<td>Sales</td>
<td>1,812</td>
</tr>
<tr>
<td>Technicians</td>
<td>680</td>
</tr>
<tr>
<td>Accounting</td>
<td>1,122</td>
</tr>
<tr>
<td>Administration</td>
<td>1,283</td>
</tr>
<tr>
<td>Others</td>
<td>12,535</td>
</tr>
</tbody>
</table>


3.1 History of domestic and international expansion

COSCO Group’s history can be traced back to the incorporation of China Ocean Shipping Company in 1961, which was directly controlled by the Ministry of Transport. Until the late 1980s, COSCO was the sole domestic and international shipping operator in China. During the 1990s, public sector restructuring and the slimming down of government ministries saw a separation between business entities and government administrative offices. COSCO Group was created in 1993, integrating the China Ocean Shipping Company, PENAVICO, the China Automobile Transportation Company and the China Ship Fuel Supply Company, to create the COSCO of today.

The monopoly held by COSCO ended as a result of China’s deregulation in the shipping sector, allowing private and foreign invested companies to enter the domestic market. However, COSCO continued to receive state subsidies in the form of preferential port usage, tax rebates and bank loans. COSCO was selected to be one of the 53 national elite enterprise groups (Central Nomenclature or Yangqi), as part of the Chinese state initiative to build a cadre of ‘internationally competitive modern enterprises’ (Nolan and Wang 1999). These state-owned enterprises are often large corporate groups such as COSCO and are classified as of high national security value. COSCO was able to continue expanding by acquiring state-owned enterprises in the shipping industry. In 2005, the China Ocean Shipping Tally Company was integrated into COSCO Group. In 2015, China Shipping was merged into COSCO Group. A potential deal to integrate China
Shipping Development (CSD) Company into the Group next year is under negotiation. These measures are believed to be taking COSCO a step further to achieve its goal of 2 million twenty-foot equivalent unit (TEUs) operational capacities by the end of 2018.

COSCO’s dominant position in China also has to be accredited to the personnel system that connects the Group with the central and regional government offices. Top management is either directly appointed by the state council or recommended by the relevant ministry and approved by the state council (Brødsgaard 2012). Representatives of the ruling Chinese Communist Party (CCP) are also appointed to take part in management decision-making and the power of the party representative varies across companies. Since COSCO is partially public owned, the chief party representative is also the chair of the board of directors. The current CEO assumes the role of deputy party representative. Combining managerial roles and party representation role, the executives are given access to government decision-making but maintain some autonomy in translating state policies into Group management practices. This personnel system puts large-scale state-owned enterprises, such as COSCO, in an advantageous position in securing resources needed to conduct FDI.

3.2 Ownership structure

The ownership structure of the Group is a hybrid of state owned and public company. China’s enterprise reform launched in 1994 allows state-owned enterprises to diversify sources of funding and to make firms more responsive to market pressure. At same time, the state links are maintained in an umbrella holding company, acting as an investment entity. The state maintains majority ownership control over COSCO Group, while investment is conducted through an umbrella financing body, China COSCO Holdings Company, which acts as the headquarters of the three operational divisions: COSCO Container Lines (COSCON), COSCO Bulk and COSCO Pacific. COSCON is a container liner operation but also conducts container leasing. COSCO Bulk’s main business range is dry and bulk commodity shipping. COSCO Pacific runs the terminal investment, management and port logistics. It is jointly owned by a number of independent shareholders (55.46 per cent) and COSCO Holdings Company (44.54 per cent). COSCO Group’s publically listed arms are on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, which control 21.9 per cent and 25.3 per cent of the Group’s ownership, respectively. Outside China, there are another two publically listed subsidiaries, which are located in Hong Kong and Singapore (see Figure 2 for the Group’s ownership structure in China and Figure 3 for the Group’s ownership structure overseas).
Figure 2  COSCO Group’s ownership structure in China (as of March 2016)

China COSCO Shipping Corporation Limited

Wholly-owned subsidiaries in China

- Guangshou Ocean Shipping Company
- Dalian Ocean Shipping Company
- Xiamen Ocean Shipping Company
- COSCO Shipbuilding Industry Company
- China Ocean Shipping Tally Company
- COSCO Manning Cooperation Inc.
- China Auto Transport Foreign Forwarder
- Guangshou Ocean Shipping Investment
- Dalian Chang Sheng International Freight & Forwarding Company
- Qingdao Ocean Shipping Vocational School
- Maritime China Magazine
- COSCO Real Estate Co., Ltd.
- Beijing Seafaer Service Centre

Holding companies in China

- China Marin Bunk Co., Ltd. (50%)
- COSCO Shipping Co., Ltd. (50.52%)
- Hainan Bo’ao COSCO Co., LTD (99.38%)
- China COSCO Holdings Co., Ltd. (52%)
- COSCO Container Lines Co., Ltd.
- COSCO Build Carrier Co., Ltd.
- COSCO Hong Kong Shipping Co., Ltd.
- COSCo Logistics Co., Ltd.
- COSCO Pacific Co., Ltd. (42.72%)

Associated subsidiaries in China

- China Merchant Bank
- Guoan Security Co., Ltd.
- Suzhou Industrial Park Co., Ltd.
- Ping'an Insurance Co., Ltd.
- Xingfu Mansion Ltd.
- China Fuel Co.

Note: numbers in brackets show shareholding ratio; coloured boxes mean public companies.
Source: company documents.
Figure 3  COSCO Group's ownership structure overseas (as of March 2016)

- **Wholly-owned subsidiaries overseas**
  - Cosco Hong Kong Group Co., Ltd.
  - COSCO America
  - COSCO Europe Co., Ltd.
  - COSCO Logistics Europe Co., Ltd.
  - COSCO Container Lines Europe GmbH
  - COSCO Europe Bulk Shipping GmbH
  - COSCO Singapore Co., Ltd.
  - COSCO Japan Co., Ltd.
  - COSCO Korea Co., Ltd.
  - COSCO West Asia Co. Ltd.
  - COSCO Thailand Co., Ltd.
  - COSCO Australia Co., Ltd.
  - Cosco Cayman Fook Hing Co., Ltd.
  - COSCO Africa Co., Ltd.

- **Holding companies overseas**
  - COSCO International Holdings Co., Ltd (59.87%)
  - COSCO Investment Singapore (53.35%)
  - COSCO Shipyard Group Co., Ltd (51%)

- **Associated subsidiaries overseas**
  - COSCO Long Beach
  - Newman Shipping & Agency N.V.
  - COSCOS S.r.l. (Italy)
  - Penta Shipping
  - Cosfim Oy
  - Piraeus Container Terminal S. A.
  - Chinese-Tanzanian Joint Shipping Co.
  - Five Star Shipping

Note: numbers in brackets show shareholding ratio; coloured boxes mean public companies.
Source: company documents.
3.3 Operational structure

COSCO Group has an operational cluster-based operational structure (see Figure 4 below). Corporate operations are separated from financing and administrative functions. Subsidiaries are managed by the operational clusters and the functional divisions within the clusters. Domestic subsidiaries generally report to the functional divisions.

Outside China, the Group has divided their overseas operations into five regions, with the regional headquarters located in Hong Kong, Germany, the United States, South Africa and Australia. The Hong Kong base is also the parent company of COSCO Pacific and COSCO International, both listed on the Hong Kong Stock Exchange. Besides these regional headquarters, 32 country-based branch offices have been set up. The overseas subsidiaries report both to regional headquarters and the parent firms in various functional divisions. This structure can cause confusion because it is not always easy to pin down the controlling ‘parent’ firm. However, structural complexity has also allowed the influence of the state to be perpetuated as subsidiaries seek guidelines and consistency in management.
3.4 Cross-shareholding among Chinese state-owned enterprises

Cross-shareholding is one of the key financial devices used by state-owned enterprises to sponsor internationalisation and mitigate the risk of state assets being taken over by foreign firms. As explained earlier, 47.2 per cent of COSCO’s ownership is publicly listed. However, this does not mean that 47.2 per cent of COSCO is owned by public and independent shareholders. Rather six different companies, including China COSCO, COSCO Pacific, COSCO International, COSCO Shipping, COSCO Container Lines and the recently merged China Shipping Lines (a public company before merging into COSCO Container Lines), each takes a share of the investments sourced through public markets. (For an illustration, see Figure 2 under ‘holding companies in China.’) Notably, the Group also holds shares in one of China’s leading banking groups, China Merchant Bank, a leading insurance company (Ping’An Insurance), one industrial park (Suzhou) as well as a stock broker (Guotong Security), all of which are state-owned enterprises (see Figure 2, under ‘associated subsidiaries in China’). Equally noticeable is that approximately 15 per cent of COSCO’s ownership is controlled by Chinese commercial banks and insurance companies, although these shares are not traded in any public stock exchange. This structure of cross-shareholding was believed to be effective in terms of introducing ‘market principles’ into management while maintaining control over the state-owned asset. In the event of hostile takeover attempts, the state-owned shareholders with a collective ownership majority can coordinate and maintain control over the subsidiary firms.

Cross-shareholding relations between state-owned enterprises bears some resemblance to the Japanese keiretsu, or conglomerate, which is argued to have played the role of cushioning transaction costs when Japanese companies started international expansion in the 1980s (Miyashita and Russel 1994). While the share owned between members in cross-shareholding relations is often less than 10 per cent, member firms are able to draw on collective resources. COSCO’s acquisition of the third largest Turkish port, Kumport, in September 2015 was jointly funded with the China Merchant Bank. While the problem of cross-shareholding as a source of bad debt has been acknowledged by the Group, they also emphasise the benefits of risk sharing and financial stability at the time when the global shipping industry is undergoing substantial structural change (UNCTAD 2014). For COSCO, whose Chinese headquarters and subsidiaries are still struggling with productivity improvement and cost control, cross-shareholding has allowed them to compete with the more developed (and often resource-rich) multinational shipping companies.

3.5 ‘Go global’ and strategic restructuring

COSCO Group has been through several rounds of major strategic restructuring. In relation to the Group’s investment overseas, one of the key milestones is the strategic initiative launched in 1998. Following the financial crisis in South East Asia, COSCO was forced to reevaluate its Asia-centred business focus and broaden its shipping lines to Europe and America. The Group named ‘two transformations’ as their business priorities, which translate into the ‘shift from a global shipping operator to a shipping-based

[Output truncated due to length restrictions]
logistics operator and from transnational operations to a multinational corporation’ (Lorange et al. 2008: 2). This strategy involves the expansion of international shipping routes, the acquisition of logistic and storage infrastructure projects, as well as foreign investment in a number of ports. Details of the international expansion of COSCO will be further elaborated in the next section.

For shipping companies, mergers between large firms are often seen as an effective way to integrate shipping routes and share transportation networks and logistic centres. The most recent merger between COSCO Holdings and China Shipping Container Lines Company Limited (CSCL) was aimed at enhancing the Group’s global competitiveness by integrating the container shipping networks. The deal was agreed in December 2015 to merge Group's container shipping branch COSCON with CSCL. The series of agreements include detailed plans to integrate the two firms’ business in container shipping and inland container transportation. Through the merger, the newly integrated COSCO Group is effectively closing the gap with the top four container terminal operations in terms of their share in the goods and services handled annually.

Table 3  Share of goods and services handled by the top 10 global container terminal operators

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2009</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSA</td>
<td>9.3%</td>
<td>PSA</td>
<td>PSA</td>
</tr>
<tr>
<td>APMT</td>
<td>7.3%</td>
<td>HPH</td>
<td>HPH</td>
</tr>
<tr>
<td>HPH</td>
<td>7.0%</td>
<td>DP World</td>
<td>6.7%</td>
</tr>
<tr>
<td>DO World</td>
<td>5.9%</td>
<td>APMT</td>
<td>DP World</td>
</tr>
<tr>
<td>Evergreen</td>
<td>1.8%</td>
<td>COSCO</td>
<td>2.3%</td>
</tr>
<tr>
<td>COSCO</td>
<td>1.8%</td>
<td>MSC</td>
<td>1.7%</td>
</tr>
<tr>
<td>Eurogate</td>
<td>1.5%</td>
<td>Evergreen</td>
<td>1.5%</td>
</tr>
<tr>
<td>HHLA</td>
<td>1.4%</td>
<td>SSA Marine</td>
<td>1.3%</td>
</tr>
<tr>
<td>OOCL</td>
<td>1.1%</td>
<td>Eurogate</td>
<td>1.3%</td>
</tr>
<tr>
<td>APL</td>
<td>1.0%</td>
<td>CMA-CGM</td>
<td>1.0%</td>
</tr>
</tbody>
</table>


As already discussed, the Chinese state has been able to maintain operational control through ownership control and cross-shareholding. This means that the state can force mergers between state-owned enterprises in order to mitigate international competition, despite scepticism from the public shareholders. While the prospect of integrating the two firms' global shipping networks can potentially improve the Group’s operational efficiency and financial performance, the task of restructuring two very complex organisations has cast doubt on the potential benefits claimed by COSCO (De Trenck 2015). Despite these criticisms of the Chinese state's involvement in pushing through the merger of two public companies, it is believed that the deal is among a number of high profile mergers agreed between Chinese state-owned enterprises over the past year as part of the Chinese state's 'One-belt, one-road' initiative (see Figure 5), aimed at restraining competition between Chinese state-owned enterprises in winning bids in investment projects overseas (Tan 2015).
4. Employee relations and categories of workers in COSCO

COSCO has adopted the language of human resource management to claim that ‘talented, empowered and loyal staff’ are their key asset, which reads like a standard motto of any multinational corporation today. COSCO is also among the few Chinese state-owned enterprises that have signed the United Nation’s (UN) Global Compact, which requires firms to follow key principles to address corporate social responsibility and adopt procedures to monitor labour relations in their organisations and supply chains. Following signing, COSCO started to publish corporate social responsibility reports from 2005. The move is part of the Group’s efforts to promote the image of a modernised and international company. Despite its projected image as a global firm, state influence is maintained through the links between the firm-level personnel system and the civil servant selection system.

In practice, employment policies reflect these characteristics: state control of the top management personnel system, combined with stratification of operational and administrative jobs and externalisation of project-based employment through outsourcing. As part of the government led reform to ‘promote efficiency by reducing

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2. For details of United Nation’s Global Compact, please see unglobalcompat.org.
personnel outlay \([\text{jian yuan zeng xiao}]\)\), COSCO has increasingly operated with a divide between managers and workers, top managers and management staff, and employed and outsourced contracted workers. This segmentation based on the terms of employment is subject to a number of factors. The top tier in the Group headquarters and in the six major domestic subsidiaries are employed under the same system as Chinese civil servants \((\text{shiye bianzhi})\). This group are all permanent employees. Managers in key posts at COSCO are on the state payroll and are given rankings under a system compatible with that of central and regional government officers. Their pay is decided by the Group and promotion is normally internal, although state approval is needed for appointments in key posts. The top expatriates are often from this group of managers, although there are a number of exceptions. The second tier is the management staff group, who are administered under an enterprise system \((\text{qiye bianzhi})\). They enjoy permanent employment but very few have the chance to be selected for the top management level. The third tier of employees are workers on fixed-term contracts \((\text{hetong gong})\). The terms of such contracts vary across the different location sites of work (land-based or ship-based), types of ship (container, dry bulk, tanker and various specialised vessels), type of port (sea, river or off-shore), residential status (local or migrant workers), and types of qualification certified by domestic or international bodies. The fourth and final tier – and this is the majority of workers in the COSCO operated ports – is supplied by employment agencies \((\text{waibao renyuan})\). This group of workers are not on the employee payroll and are administrated outside the formal employment system. For individual workers, understanding why a certain type of contract is offered can be a challenging task and moving between different categories of employment contracts is very difficult.

5. An overview of COSCO’s investment in Europe

5.1 Mapping the investment projects

COSCO reported that their overseas assets exceeded 50 per cent of the Group’s total assets in 2012. COSCO’s European headquarters was set up in 1989 in Hamburg, Germany. In terms of investment scale and number of projects, Europe is the largest recipient of investment from COSCO outside Asia. Today, COSCO Group branch offices are found in most European countries and administer shipments and coordinate inland logistics.

COSCO Group’s direct investment projects in Europe mainly involve shipping services providers. By the end of 2015, a total of 22 entities had been set up by the Group, 11 of which are wholly owned subsidiaries and the rest are joint venture projects (see Table 4).

Until the late 1990s, most investment in subsidiaries was carried out by the functional divisions within the Group. The container line business division’s European headquarters, COSCO Container Lines Europe, was set up in January 2005 in Hamburg, Germany. It is the administrative hub of COCSCN’s offices and has subsidiaries in European and North African countries. There are 34 branch offices located around Europe. The bulk shipping division and the inland logistics division of COSCO both located their European
Table 4  COSCO’s subsidiaries in Europe

<table>
<thead>
<tr>
<th>Name of subsidiary</th>
<th>Parent firm within COSCO Group</th>
<th>Entry mode</th>
<th>Year established</th>
<th>Employment scale</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross Ocean B.V.</td>
<td>COSCO Group</td>
<td>Joint venture</td>
<td>1980</td>
<td>50-99</td>
<td>Rotterdam, Netherlands</td>
</tr>
<tr>
<td>Newman Shipping &amp; Agency</td>
<td>COSCO Group</td>
<td>Joint venture</td>
<td>1980</td>
<td>20-49</td>
<td>Antwerp, Belgium</td>
</tr>
<tr>
<td>Furness Shipping Ltd.</td>
<td>COSCO Group</td>
<td>Joint venture</td>
<td>1983</td>
<td>10-19</td>
<td>Zurich, Switzerland</td>
</tr>
<tr>
<td>COSCO Logistics (Europe) GmbH</td>
<td>COSCO Logistics</td>
<td>Wholly-owned subsidiary</td>
<td>1987</td>
<td>20-49</td>
<td>Hamburg, Germany</td>
</tr>
<tr>
<td>COSCO Europe GmbH</td>
<td>COSCO Group</td>
<td>Wholly-owned subsidiary</td>
<td>1989</td>
<td>20-49</td>
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<td>1989</td>
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<td>Joint venture</td>
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Source: COSCO’s Company Documents.
headquarters in Germany. To pilot the so-called ‘Shipping-Railway Transport Bundle [Hai Tie Lanyun]’ model, COSCO Bulk Carrier and COSCO Logistics used shared offices in seven Central and Eastern European countries: Poland, Romania, Austria, Hungary, Czech Republic, Slovakia and Romania. As COSCO’s clients, many of whom are ODM factories, have relocated production sites to Central and Eastern European countries, these shared branch offices allow COSCO to link up container ports with the production sites through bulk shipping, railways and inland transport (Zhai 2015). Likewise, the investment in two terminals in Piraeus is intended to shorten transport time from Asia, which used to go through Rotterdam. In particular, this may create a new hub as manufacturers, such as HP, choose to relocate logistic centres in Piraeus. Such a move has increased the demand for swift shipping of semi-finished parts from the Asian suppliers to the assembly plants in Central and Eastern Europe (Lyridis and Stamatopoulou 2014). COSCO Pacific, the Group’s Hong Kong based division, acts as the principal investor of all port development and operation projects.

5.2 Key stages of COSCO investment in Europe

COSCO’s investment in Europe started as early as the 1980s. Most projects have taken the form of joint ventures and the subsidiaries are mainly shipping agencies, which provide customer services such as ship scheduling, freight forwarding and customs clearance. Both Holland Transocean Company, a joint venture with the Dutch Parker Boat Group in Rotterdam and Newman Shipping & Agency Company in Antwerp, Belgium were set up in 1980s. These were the first overseas joint ventures created by COSCO. In 1989, COSCO set up its first wholly owned subsidiary in London, acquiring a subsidiary from their American joint venture. The 1980s can be seen as a pilot phase of FDI, when investment in Europe was largely decentralised, conducted by the functional divisions and financed by the Group’s Chinese headquarters.

Throughout the 1990s, COSCO Group consolidated business divisions in China and overseas, while COSCO Europe established its role as a regional headquarters. This subsidiary initially assumed the function of business coordination and was later transformed into a holding company providing financing services to the Group’s investment projects in Europe, Middle East and North Africa. Strengthening COSCO Europe’s regional headquarters function is in line with the Group’s ‘Go Global’ strategy, which was ahead of the Chinese state’s announcement of ‘Go Global’ in 2001. COSCO’s focus in the 1990s was to expand business outside China by effectively integrating its various business entities in shipping, transportation and logistics, and port management. The invested projects are typically small in scale. For example, COSCO Europe invested in a joint venture with a Danish shipping agency Penta Shipping Group in 1996, which recruited only 50 employees in three countries. Taking an experimental approach in industrial policies, the Chinese state selects a small number of state-owned enterprises to conduct pilot projects (Zhang and Edwards 2007). COSCO’s integration of its logistics networks and distribution routes (barge, railways and road transport) can be viewed as such a pilot project, prefiguring the promulgation of the state’s ‘Go Global’ initiatives.
Since the 2000s, COSCO Group’s investment in Europe has grown substantially in terms of project value, largely due to the state funding allocated to promote the internationalisation of Chinese state-owned enterprises (Wei et al. 2014). COSCO Pacific, the Group’s international terminal operator, has been actively seeking the acquisition of a number of terminals since the 2000s. These projects include the acquisition of 50 per cent of the port of Naples, Italy in October 2002 and 20 per cent ownership of the port of Antwerp, Belgium in November 2004, and 67 per cent ownership of the port of Piraeus, Greece in January 2016. Terminals often have a number of investors and control is normally allocated to the one with the largest stake. The partial acquisition of Piraeus is therefore the first project that has given COSCO majority control. This deal has caught much public attention, due to a large extent to the political tensions that followed the acquisition.

5.3 Piraeus: an acquisition amid political tensions

COSCO’s investment in two container terminals has been through ups and downs and was completed in three stages. While the negotiations started as early as 2004, real progress was made during Greece’s debt crisis in 2008, when COSCO Pacific assigned a 35-year concession agreement with Piraeus Port Authority for the operation and development of two of the three commercial piers. Following this concession agreement, an acquisition deal was negotiated and agreed in 2014, which allows the setting up of a distribution centre and the building of a railway link to connect the container terminals with the local national railway transport system. While the initial deal for acquisition was suspended in January 2015, a renegotiation started in late 2015 and a deal was signed in January 2016. The new agreement allowed COSCO to acquire 67 per cent ownership (a total of EUR 1.5 billion in value), of which an initial 50 per cent was to be completed by the end of 2016. The remaining 17 per cent of the investment is expected to come from the operational incomes of the port and to be completed by the end of 2020.

Investment in Piraeus is COSCO’s largest project overseas in terms of investment value and was seen as a key milestone in the Group’s international expansion. However, the scale of investment and the area of concession given to a Chinese firm has sparked substantial controversy in Greece, Europe and in the United States as well. Especially because another Chinese state-owned enterprise is in negotiations to construct the Hungary-Serbia railway, some have warned that the advancement of the Chinese state’s influence over Europe will undermine the collective power of the European Union (Meunier 2014). In the wider context, privatisation of Piraeus and COSCO’s investment is one of many cases in which shipping companies have entered the territory of terminal construction and management (Notteboom and Rodrigue 2011). And in COSCO’s case, ports in China continue to account for more than 80 per cent of their global container throughput.

COSCO management presented their role in Piraeus as an ‘investor’, emphasising continued shortened cargo turnover time, increased docking capacity and job restoration and creation brought by the renewed terminals. This role is consistent with
the language adopted by both the Chinese state, which is financing the project, and
the recipient state privatising the port (Grappi 2015). However, this microeconomic
impact of COSCO investment in Piraeus is not a simple matter. COSCO’s investment
in upgrading infrastructure, connecting the port with the railway transport system and
bringing multinational companies to use the port’s logistic centres has substantially
improved the volume of shipping traffic in and out of the port. Nonetheless, given the
slow recovery of the Greek economy, the increase of traffic in Piraeus has not generated
spillover effects on the nearby ports, as some may have hoped for (Meunier 2015). It
is also possible that having one very dominant terminal operator in an individual port
can potentially restrain freedom of choice for the customer (Notteboom and Rodrigue
2011), which will extend COSCO’s power over selecting or prioritising trade partners in
Piraeus.

The strongest opposition to COSCO’s construction and operation of terminals in Piraeus
arises over the governance of employment relations, which, as some union members
and activists have reportedly suggested, are being undermined. This has led to further
concerns over the erosion of wage levels, job security and workers’ wellbeing as a
consequence of privatisation (Grappi 2015). As will be discussed in more detail in the
following section, COSCO introduced ambiguity to the governing bodies dealing with
employment in the port. Integration between shipping, terminal operation and inland
logistics opens up bargaining on work and employment relations. In COSCO’s case, the
power of relocation is reinforced by its monopolist status as the marine transport agent
of the Chinese state’s initiative ‘One belt, one road’. Amid the suspension of negotiations
with the Greek government over the Piraeus takeover, COSCO started the process of
acquiring 65 per cent of the Turkish Kumport container terminal. Investing in Turkey
was strategised as supplementary and an alternative ‘inland’ route in the ‘One belt, one
road’ initiative to promote trade and business links between Asia and Europe. Political
economy, as reflected in the links between firms and states, is key to understanding
practices at the firm level. What is highlighted here is that the intersection between firm-
level strategy (the experimentation and extension of a ‘Shipping-Railway Transport
Bundle’ business model) and state policy (The ‘Central Europe Express’ project as part
of the ‘One belt, one road’ policy) is the key to understanding employment relations as
globalisation drives greater integration in the transportation and logistics sectors.

5.4 Expatriation and employment in the overseas subsidiaries

COSCO group’s employment policy on expatriation favours management stability.
Expatriation policies have been applied to workers despatched from China. The
majority of expatriated employees are on indefinite terms of employment. This also
means that at any time an expatriate may be called back or reassigned to another post
in another country, although in most cases most remain in overseas positions on a long-
term basis. Chinese workers working overseas on a short-term basis are generally not
classified as expatriates. They are often recruited by specialised employment agencies,
which offer training and preparation of the paperwork required to send the workers to
the site where they work. These dispatched workers are managed by the operational
agencies on site (such as chartered ships, infrastructure projects or shipyards). In terms
of local employment, agency workers make up the majority of the workforce in COSCO’s invested projects overseas. In Piraeus, 261 workers are classified as local employees among the 1,200 workers working on various projects. The increased number of agency workers is one of the changes that has occurred since COSCO took over the port of Piraeus. While admitting that extensive use of recruitment and operational agencies causes delays in response to an emergency, the benefits of a flexible workforce are such that shipping companies, port terminal operators and port-base logistic centres have all increased the use of non-standard employment. Integration and standardisation of the logistics business is achieved through segmentation and casualization of logistics work. This is not something particular to COSCO, but more a generic sectoral trend.

5.5 Social conflict and industrial action: looking beyond single employers

The privatisation of Piraeus has met with strong social protests in Greece. The dockworkers’ unions have organised several rounds of strikes and walk-outs since 2011 and have been supported by a number of national unions (Vassilopoulos 2014). The frequency of industrial action has increased in recent months (2016–2017), before and after the deal was publically announced. The Dockworkers Union’s two-day strike in February 2016 and the nationwide federation of port employees OMYLE’s demonstration in April 2016 were organised to protest against the selling of Piraeus and Thessaloniki port (Koutantou 2016). The ‘anti-Chinese’ sentiment in these strikes may have been exaggerated by the media. The objectives of industrial action over the past two years has changed to become more specific to workplace issues and not around the ownership question: enforcement of safety measures, settlement of overdue overtime pay, shift working arrangements, staffing numbers and, most recently, newly imposed taxation (World Maritime News 2016). However, what is highlighted from these strikes is the erosion of employment conditions following privatisation – something common to many sectors in the 1980s and 1990s (Pendleton 1999; Colling and Clark 2006; Barton and Fairbrother 2007) although there are always firm and country level particularities in these processes (Arrowsmith 2003; Tuman 2007). At the centre of the Piraeus conflict is the casualisation of employment relations, intensification of work without adequate training and protection procedures and undermining the collective power of unions.

At firm level, COSCO’s response to labour disputes has been criticised for being offhand (Vassilopoulos 2014), partly due to a management lacking experience in dealing with organised confrontations. Management’s emphasis on increasing traffic into the port, its contribution to local employment and even the invitation to workers to visit the terminals seem to be tactically aimed to exclude the unions and avoid resolving the collective issues that concern the workers. COSCO Group’s general principle is ‘host country legal compliance’. Such a bottom line approach shows COSCO’s lack of corporate level employment relations policies in Europe. In an attempt to offer to create coherent pay policies across its European offices, COSCO’s European headquarters started to coordinate its subsidiaries and developed common guidelines in 2015. Under this general framework, the average monthly pay at Piraeus, for instance, is around 1,200 euros. Putting this figure in context, the pay is similar to that at the terminal run by
the Piraeus Port Authority, and higher than national average pay in the transportation and logistics sector, which has gone down since the Greek debt crisis. Such ‘market competitiveness’ needs qualification given that the economic crisis in Greece has blocked wage growth. Overall, COSCO management has promoted a developmental discourse of continued growth, improved productivity and an increased number of jobs, which is in line with the marketisation the Chinese managers experienced at home. COSCO’s union avoidance stance is unlikely to change. The management preference for negotiations mediated by government administrative bodies is more likely to prevail as way in which collective employment issues will be resolved.

We need to question whether COSCO can address the employment issues all on its own. COSCO’s overseas investment and the scale of employment are still relatively small compared with their European and Japanese rivals. For example, APM, the terminal operation arm of Maersk Group, controls 70 terminals and employs over 100,000 people around the world. Putting COSCO’s case in a wider context, the shipping industry is shifting towards a just-in-time business model. Shipping companies, terminal operators and logistics providers have all been under pressure to shorten turnaround time, stretch productivity and repress logistics costs. This competitive pressure is often passed down to the workforce, leading to less job security, longer working hours and squeezed unit process time. Such pressure was well articulated in the lengthy negotiation of collective contracts between the Pacific Maritime Association (PMA) and the International Longshore and Warehouse Union (ILWU) in 2014/2015 (Stevens and Ziobro 2015). In January 2016, the outsourced workers in APT’s Indian terminal organised a month-long strike, calling for the port authority to recognise workers’ right to form unions (Manoj 2016). Ups and downs in multilateral trade volumes have further undermined workers’ collective power in the bargaining of employment terms. The dockworkers’ 24-hour strike in Rotterdam in January 2016 was in protest against the employer’s decision to lay off workers and effectively withdraw from a long-term collective contract due to over-expansion of the port. Together with the strikes at the Greek ports, these industrial actions are miniature examples of the widespread social tensions in the shipping industry voiced by workers’ representative bodies. To address the deteriorating working conditions industry-wide, what is needed is effective institutional infrastructure to facilitate social dialogue between workers’ representative bodies and multiple employers in the shipping industry.

Conclusions

As a large-scale Chinese state-owned enterprise, COSCO’s international expansion reflects both the Chinese state’s policy of promoting outward FDI, as well as the firm’s strategic choice in the face of growing competition in the global marine transport industry. The structures are of importance as they allow the state–firm link to be maintained and state policy to be reflected in employment practices. The patterns of COSCO’s overseas investment, in particular, reflect the strategic planning of the Chinese state to promote national economic growth by supporting FDI in a number of key sectors. However, COSCO’s ties with the Chinese state should not overshadow the fact that the Group is experiencing increasing pressure to speed-up transit time,
control operational costs and meet rising productivity standards. When we examine employment relations in the European subsidiaries of Chinese state-owned enterprises, these industrial characteristics are very much underpinned by changes experienced by workers in the shipping, transportation and logistics sectors overall.

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All links were checked on 13.03.2017.
Annex

Chinese investors: what do works councils and trade unions need to be aware of?

Wolfgang Müller

When Chinese investors start setting their sights on European companies, concerns quickly arise that jobs will be cut or relocated, that know-how will be exported and that production plants will be closed down. Such commonly-held preconceptions are the result not only of the negative experiences of globalisation gained by many employees over the past few decades. Also fuelling such fears is the indisputable fact that China is the country that has benefited most from globalisation, developing from an overpopulated country with a peasant economy to the world’s second largest economy within a period of just 30 years.

Yet many studies show that most Chinese investments in Europe are not aimed at achieving short-term profits, but are instead long-term, strategic projects, whether in the form of investments in or acquisitions of companies. In great contrast to certain private equity firms which often brutally restructure the companies they take over, Chinese investors tread very cautiously, generally making no changes to corporate and management structures. Management teams are left in place and retain their room for manoeuvre. Chinese investors are not out for quick profits, and respect existing supplier relationships and contracts. The same holds true for collective agreements.

This leads to the conclusion that, from an employee perspective, Chinese investors should be assessed positively, as they tend to want to further develop the companies they acquire (as industrial investors) and not to destroy them.

What can works councils and trade unions do to achieve an optimal outcome when a Chinese investor steps in?

1. Greenfield investments of Chinese companies

Chinese companies, especially ones in the ICT sector, have established not just sales and service points in their attempts to gain a foothold in the European market, but also research centres and even production plants. Examples include Huawei, Lenovo and ZTE. And it obviously won’t be long before the three big Chinese Internet companies Baidu, Alibaba and Tencent (collectively known as ‘BAT’) follow in their footsteps. In addition, Foxconn and other contract manufacturing companies from China and East Asia have built up assembly lines, mainly in Central and Eastern Europe. We can expect

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1. This chapter is based mainly on personal experiences, discussions and interviews with trade union and works council members in companies in which the Chinese have invested.
that the investments of Chinese IT companies in Europe will continue to increase, resulting in large numbers of new jobs.

Unfortunately, experience up to now shows a dearth of employee representation bodies in these Chinese greenfield projects. Trade unions often have no access. With regard to workers’ rights, co-determination and collective agreements, Chinese IT companies resemble their Silicon Valley competitors: In the ideology of today’s world of work, elected works councils and trade unions have no place.

This is a dilemma for trade unions in Europe, given the importance of these Chinese greenfield investments. Apart from not being given any access, the European employees of Chinese IT companies are slow in calling for unions. One possible approach for unions to organise these greenfield sites is to involve political bodies, for example Chinese embassies and consulates in Europe. Backed by a wealth of experience, their representatives are very interested in having at least large Chinese companies operate in line with European regulations – also in the field of labour law.

2. When Chinese investors acquire existing companies in Europe

Employees are often faced with uncertainty when the ownership structure of the company they work for changes. This is especially the case in family-owned companies where the ownership structure has remained stable over many years. The situation is different when a company has been in the hands of a series of private equity firms or when it is insolvent.

The increasing appearance of Chinese investors in the European M&A marketplace is thus to be seen as just one variant of the general problem faced by employees when an ownership structure changes. However, brows are often raised in cases of Chinese foreign direct investment (FDI), as hardly any experience in dealing with Chinese investors exists. Moreover, there are language and cultural barriers to be overcome, and the public at large often has reservations vis-à-vis Chinese investors.

However, initial assessments (e.g. Däubler-Müller: Chinesische Arbeitgeber in Deutschland/Chinese employers in Germany, in: Arbeitsrecht im Betrieb 2/2015) show that when the Chinese invest in existing companies they honour co-determination and collective standards, in great contrast to Chinese greenfield companies e.g. in the IT branch. Employee representatives thus have opportunities to uphold the interests of employees during the takeover process. The following section looks at how works council and trade unions can conduct successful negotiations in the individual stages of a takeover by Chinese investors.
3. **Anticipating a takeover. Checking whether a ‘go-it-alone’ approach is better**

Generally speaking, works councils and trade unions should make use of the increased interest and possible workforce uncertainty vis-à-vis an impending Chinese investment to exert pressure to ensure that working conditions are upheld. This is best done via a proactive information policy on the part of employee representation bodies and through the early participation of the workforce in shaping future conditions.

The earlier works councils and trade unions start working on this, the better they can have workers’ interests taken into account in any takeover. Whether they can anticipate the impending move of a new investor is greatly dependent on the type of company, its legal form (incorporated/non-incorporated; one-tier/two-tier board system), statutory framework conditions, but above all on the existing corporate and co-determination culture. Possible indications of an investor lining up to take up a holding in a company include:

- Attractive technologies and products, but currently negative business levels or inadequate financial resources for necessary investments;
- unclarified successor issues, especially in family-owned companies;
- the unclarified position of a subsidiary in a company’s strategy;
- the current owners want to sell their holding (private equity firms generally sell their holdings after three years);
- increasingly frequent visits of Chinese delegations, inspecting production facilities, offices, the accounting department and/or the patent department.

In most cases, works councils and trade unions are only officially involved after the final decision has been taken, as was the case with a co-determined German company producing construction machines. The board of the family-owned company did not inform the works council until after the takeover negotiations between the family and the Chinese investor had taken on concrete form.

Yet the employee representatives were supposed to check whether there was any need for an investor to step in to secure the company’s future and the associated jobs. When the previous owners or shareholders want to sell up, but when works councils and trade unions hold the well-founded opinion – based on their assessment of the company’s situation and future prospects – that the company has better prospects with a go-it-alone approach than under the control of a new (Chinese) principal shareholder, the latter should quickly start campaigning against the proposed takeover. Where necessary, publicly.

This was the case with Osram, previously a 100%-owned subsidiary of Siemens. In January 2017, Siemens still had an 18% shareholding in the company. Media reports stated that it was conducting talks with Chinese investors, who wanted to purchase the Siemens holding and use it as a base for putting in an offer to buy all remaining Osram shares. A few months earlier, the Osram works council had given the green light for the takeover of the “traditional” Osram lighting business with its 9,000 employees by
Chinese LED producer MLS, i.e. it had no general reservations about Chinese investors. However, in its view Osram would have better prospects as an independent company producing highly-specialised optical semiconductors. This was the reason why it started publicly campaigning against the takeover by Chinese investors (the only bidders) (see i.a. Die Zeit, 9.1.2017). The investors subsequently withdrew their offer.

As the press had already been discussing whether and when Siemens would sell its Osram holding, the employee representatives had no problem involving the media. They wanted to prevent an investor putting in an official takeover bid for Osram. Had the works council only reacted during the official negotiations with Siemens and Osram, it would have been too late: no side could have withdrawn from the negotiations without losing its face. Current experience with Chinese takeovers in Europe show that once an official Chinese bid has been submitted, shareholders often succumb to the temptingly high Chinese prices.

While the Osram case is not easily transferable on account of the German co-determination rules, when works councils and trade unions see no future for a company and its workforce when in Chinese hands, they should start campaigning against the takeover as early as possible. This has a good chance of success, as the experience gained in the past few years has shown that Chinese investors in Europe are very sensitive to public discussions about their acquisitions.

4. Prior to the takeover: collecting information on the (potential) investors!

In practice, this can prove to be a big problem for works council members and trade unionists, as in most cases they do not have the necessary economic and sector-specific know-how. Moreover, massive language problems exist. Relevant information is generally only available in English, and in some cases just in Chinese. Though the Internet now also provides information on smaller Chinese companies, one has to know what one is looking for – and that generally requires knowledge of the Chinese language.

Employee representatives thus require in-depth expert information on potential Chinese investors. Trade union headquarters organisations can help in providing the necessary contacts. But as far as possible, works council members and union representatives should urge their companies to let them engage the help of experts when a Chinese investor looms on the horizon. In doing so, they can make it clear to management that, in the interest of a good working climate and a smooth transition, it is best for the employee representatives themselves to draw their own picture of the potential investors. Should this not be the case, they can threaten to mobilise the workforce, saying: ‘Help, the Chinese are coming. We’re about to be sold out!’.

While this may have little effect on top management and the current owners wanting to sell the company, it will very probably have an effect on the potential Chinese investors, who want at all costs to avoid negative publicity in Europe where Chinese
FDI has become a top political issue. This aspect is backed by critical reports in the Chinese press criticising the negative effects of certain Chinese FDI projects (see also the comments of Bian and Emons in Chapter 8).

One positive example of collecting information is the takeover of Osram’s lighting business by the Chinese company MLS (agreed in 2016, the deal will be finalised in 2017). The employee representatives on the Osram supervisory board were quick off the mark, getting the board to oblige bidders for Osram’s lighting business (there was one other bidder alongside MLS) to back up their bids with in-depth written and in-person presentations in board meetings, explaining their plans for the lighting business.

A further example involved the 2016 takeover of German mechanical engineering company KraussMaffei Technologies by ChemChina, China’s leading state-owned chemical company. Between 2003 and 2016, KraussMaffei, a company also with a co-determined supervisory board, was controlled by various private equity firms. Before the board’s final decision, two employee representatives travelled to Peking to meet ChemChina’s corporate management and have it present to them its plans for the German company.

When the Chinese state-owned company Weichai Power, China’s leading manufacturer of large diesel aggregates, wanted to purchase a majority holding in Kion AG from the private equity firms Goldman Sachs and KKR, the employee representatives on the Kion supervisory board urged management to provide in-depth information on the purchaser. This included early direct contacts with Weichai Power representatives.

Current experience points to state-owned Chinese companies targeting long-term investments in Europe and not quick returns on investment (ROI). In certain cases, they are willing to inject cash to help overcome longstanding company crises, and to finance not just current operations but also future-oriented investments. Insofar as private Chinese investors pursue strategic industrial interests in acquiring European companies, they generally act in a similar way. But this needs to be checked on a case-by-case basis.

Without doubt: when a co-determined supervisory board exists, it is easier to demand information on potential Chinese investors. But in most cases, all works councils and trade unions need to get company bosses to allow greater transparency pointing to the concerns and worries of the workforce and the possibility of making these public. Yet regardless of whether owners and management are cooperative or not, employee representatives should always form their own opinion of the potential Chinese investor.

The appearance of a Chinese investor during insolvency proceedings constitutes a special case. As the employees concerned generally have claims against the insolvent company, under European legal systems the employee side is also represented in the proceedings. This means that it has a vote in any decision on an investor willing to rescue the insolvent company.
5. Prior to the takeover: What are the plans of the Chinese investor?

This is the decisive question with regard to working conditions and jobs. What are the investor’s goals? Does he intend to further expand his business through the acquisition internationally and perhaps even in China? Does he intend to build up the company as a springboard for developing his international business? Does the investment improve the company’s chances to develop its Chinese business? Do synergies exist between the acquired company and the investor’s Chinese companies? Are the lines of business complementary or overlapping – possibly impacting jobs? What are the long-term plans for the European production plants? How does the investor intend to implement the presented plans? Are they realistic? Is there sufficient capital available to finance the plans?

What will happen to the European know-how? How quickly can it be transferred and/or copied? It is an indisputable fact that the Chinese (majority) owner has full access to the know-how and can use it as he deems best, for instance in similar products and production processes in China. Does the Chinese investor want to continue investing in R&D in Europe? Will the European sites remain the base for certain product groups and processes?

How will the company’s operations be managed? When, as is generally the case with Chinese investors, the current managers retain their jobs, will they be given new sales and profit targets? Are these targets realistic? Does the investor intend to inject further capital into the company, not just to cover current capital requirements but also to finance future investments?

The answers to all these questions are the key to properly assessing the interests of the Chinese investor, and whether jobs are threatened in the short or medium term or whether new jobs will be created.

When a state-owned Chinese company wanted to take over an insolvent German SME manufacturer of special-purpose vehicles, the works council members involved in the insolvency proceedings were worried about the future of the jobs in the company. In reply, the investor representatives stated that the whole point of buying the company was to gain access to the ‘Made in Germany’ label, a label much more highly valued internationally than ‘Made in China’.

A totally different case involved the takeover of Gigaset by Pan Sutong, a Hongkong billionaire with business interests in electronics, property, wine-making and polo. On taking over Gigaset, a German manufacturer of cordless phones, in 2013, it was already quite clear that ‘asset stripping’ was behind the move. The assets in question were the company’s R&D facilities, its patents and technologies, and the Gigaset brand-name (well-established in Asia). The brand-name was further boosted by a company-financed sponsoring contract with Bayern Munich. The intention was to make Gigaset a global brand for smartphones – naturally produced in Asia. On the other hand, Gigaset’s German cordless phone business (hived off by Siemens in 2005) was a ‘cash cow’ in a
mature and steadily shrinking market. Production would obviously stop once the cow could no longer be milked.

6. Prior to the takeover: Demanding communication and transparency when assessing the bidders!

European stakeholders need first to know the intentions behind a potential Chinese investment, checking its plausibility and reading between the lines of any bid. Directed at the management of the targeted company, this is primarily a demand for early communication and transparency.

In previous cases of Chinese takeovers in Europe, as long as the reasons behind the bid and the new opportunities open to the targeted company have been openly communicated and explained, there were few problems with the workforce. What will happen to the company? What will happen to jobs? Can one rely on the Chinese investor?

The greatest workforce concerns are whether jobs will be relocated to China. The Chinese investor should explain its long-term interest in the planned takeover in a plausible manner. In most cases, Chinese investors are characterised by their strategic, long-term investment plans.

In the case of Sternauto, the German regional sales and service organisation of a car manufacturer, employees were very worried. The company wanted to sell their secure jobs to a private Chinese investor with sales branches throughout Asia. That was all they knew about the investor. The German management had the obligation to explain the reasoning behind the planned transaction and the investor’s goals to the works council and the workforce. It was able to plausibly explain that, in the field of car sales and service, no jobs would be relocated from Germany to China. By contrast, the private Chinese investor expected to learn from German sales and service approaches and to use this new knowledge to develop its network in China and East Asia.

In the case of more than one potential investor, the price should not be the sole factor deciding who wins the bid. Works councils and trade unions should compile lists of concrete requirements tailored to the company’s needs, such as the respect of co-determination and existing collective agreements and job guarantees. The potential investors should then present their views on these. At the same time, they should provide credible documentation that for instance minimum labour standards are respected in their Asian plants and that the ILO Core Conventions are complied with.

In the above-mentioned Osram case, the Chinese LED producer MLS provided detailed information that comparatively high labour standards applied in its plants in South China. This was checked by an independent expert.
7. During the takeover: demanding commitments and guarantees!

Works councils and trade unions objectively have great weight as workforce representatives, and they need to make the most of this. Unfortunately, many employee representation bodies are unaware of this. In companies with a co-determined supervisory board, the board is normally responsible for discussing and deciding on a takeover bid. This constitutes a strong statutory platform for putting forward workforce demands.

But even without such a statutory supervisory board lever, works councils and trade unions have a strong position in any takeover process, as the current owners – whether the founding family, a private equity firm or a corporation wanting to divest certain subsidiaries – are reliant on workforce acceptance and peace. Rumours, unrest in offices and on the shop-floor, and negative publicity could otherwise threaten the whole transaction.

Experience shows that the Chinese purchasers – whether a state-owned company or a private investor – generally take a long-term view of their investments. They want access to European quality and European know-how and highly value experienced and highly-skilled workers. They are well aware that a company's know-how consists of its accumulated experience, something that they can't put on a USB stick and send back to China. They thus want highly motivated employees to go with the company they are acquiring. A long phase of uncertainty and lacking motivation is not in their interest.

For these reasons, works councils and trade unions are in a strong position when demanding concrete commitments and guarantees for employees. Such guarantees refer to maintaining a company's plants, to ruling out redundancies, to investing in the company. Such commitments and guarantees also need a binding timeframe, and they need to be given as early as possible. Once the takeover has been finalised, works councils lose nearly all their leverage to put pressure on the new owner. It is also a good idea to enshrine these commitments and guarantees in the takeover contracts.

In the now finalised €4.5 billion takeover of over 90% of the shares of robot manufacturer Kuka AG (currently the largest takeover by a Chinese investor in Germany), the new Chinese owner Midea, a manufacturer of household appliances, signed an agreement with the Kuka AG supervisory board, stipulating that Midea would not make any changes to headcount levels, plant and headquarters locations (including R&D departments) before 2023. As a result of this agreement, the Kuka board recommended its shareholders to accept the Midea takeover bid.

8. Establish contact with the purchaser as early as possible, at the latest after the takeover

In some cases, this can be difficult, especially in the case of listed companies and when the Chinese investors wants to avoid everything able to get in the way of the takeover. In most cases, however, the investor also has great interest in early contact with the works council and trade union, even if initially on just an informal basis.
But at the latest after the takeover has been finalised, works council and trade union should attempt to establish direct and officials contacts with the Chinese investor or its representatives. This is best done by letter or e-mail. You should welcome the new owner in a friendly manner, informing him that the employees of the company just taken over are very much interested in meeting the new owner or his representatives. Obviously, it is a problem when the works council needs to contact the Chinese investor. Under the previous ownership structure, it was clear who had to contact the works council. But suddenly there is also the cultural aspect about how one goes about dealing with Chinese businesspeople.

In the cases where works councils or trade unions have officially established this contact in writing, the Chinese side has – as yet – always reacted positively. Apparently Chinese managers are not in danger of losing face when they communicate with a works council. Communication functions under the principle of mutual respect and recognition. The employee representatives are respected by Chinese managers as the representatives of people developing and producing quality products. Such respect is often missing in the Anglo-Saxon management culture.

In one case, the CEO of a large state-owned Chinese steel company, which had already taken over several companies in Europe, was very surprised that the German trade union had contacted him and at the same time expressed its positive attitude towards the takeover. That had never before happened to him in Europe.

Moreover, the CEOs – at least of state-owned Chinese companies – hold trade unions in high respect. In such state-owned companies, unions play a privileged role, de facto belonging to corporate management (see below). This respect is mirrored in the companies taken over in Europe. One automotive supplier in Germany reported that the board representatives from China always request the opinion of the IG Metall representatives when a decision has to be taken. On account of these special features, trade unions in companies with Chinese holdings objectively have a strong position. Sadly, this is not always understood.

The establishment of direct contact means that the works council has done everything right. It now knows that it can, in critical situations – e.g. when massive problems arise in the company or with local management – turn directly to the Chinese CEO or his representatives.

Building up such contacts involves inviting such people to works council or site meetings. The representatives of the new Chinese owner should regularly put in an appearance at the new subsidiaries and also present themselves at site meetings. At site meetings chaired by the works council, a board representative will usually speak. It is a good idea for the new Chinese owner to say a few words to the staff – possibly with the help of an interpreter.

This is all about trust-building and mutual respect. As found in many reports of managers from the West on their dealings with Chinese business partners, this is much more important in the Chinese culture than written contracts. Obviously, guarantees
and commitments should be also agreed in writing. Yet these are a result of mutual trust and respect. When these are missing, contracts and legal means are of little use in upholding employee interests. This is also a reason why works councils and trade unions should avoid pointing to the European legal system and labour law in their dealings with the Chinese side. What is more, the Chinese representatives run the risk of losing face. This has nothing to do with giving up legal rights. Instead, the sense and practical use of such rules and laws should be explained on a case-by-case basis.

9. **After the takeover: establishing contact with the Chinese company trade union**

Chinese trade unions cannot be compared with the independent trade unions found in Europe and elsewhere. They are part of the country’s administration and obliged to uphold the goals of the Chinese Communist Party. Representing the interests of employees is not their primary duty. While the role of trade unions in the Chinese private sector is quite weak in parts, employees of state-owned companies are for all intents and purposes automatically union members. In most cases, the head of the company trade union and the head of the party organisation are one and the same person. It is considered natural that the company trade union and the party are involved in all important decisions in a state-owned company.

On account of this special role played by Chinese trade unions, works councils and unions in Europe should, once a company has been taken over by a Chinese investor, do everything to develop contacts to the Chinese trade unions at site and company level. This will always be successful in state-owned companies, and is to be seen as a way of better representing employee interests in China. Whether this will ultimately lead to international union solidarity within a company is however questionable.

That such contact can be successfully established was seen following the Weichai Power’s takeover of a majority shareholding in Kion AG. Kion works council and trade union representatives were quick to establish contacts with the trade union in the state-owned company’s corporate headquarters. The contact was established via the Weichai Power representatives in the Kion headquarters. On account of the role of trade unions in state-owned Chinese companies, it was obvious to the Chinese representatives in Germany that this contact should be established. Since then, close links between the union organisations at Kion and Weichai have existed, though they have not yet been put to the test – for instance a crisis situation at Kion.

10. **Communication in the supervisory board with Chinese representatives**

Insofar as the company taken over has a supervisory board, representatives of the Chinese investor will take seats on the board once the deal has been finalised. How should the employee board representatives react to this situation? Future board meetings will be more complicated for several reasons: because they will naturally be
Chinese investors: what do works councils and trade unions need to be aware of?

held in at least the corporate language and Chinese; because it will be more difficult – just due to the different languages – to understand the other side; and because board meetings will sometimes be held in China.

In such a situation, employee board representatives should also develop contacts to a translator. This should be someone whom they can trust and who explains to them the actual meaning of certain statements and who can ‘read between the lines’. But even in companies without a supervisory board, works councils and trade unions need to have a translator they can rely on for the desired communication with the Chinese owners. This trust may however take years of working together to develop.

Despite all the language problems, employee board representatives should also personally approach the Chinese board delegates, attempting to establish contact with them. In most cases, the Chinese delegates will speak a little English, meaning that at least low-level communication is possible. Such personal contact also involves going out for a meal together, a key feature of the Chinese culture.
Chinesische Investoren: Was müssen Betriebsräte und Gewerkschaften beachten?

Wolfgang Müller


Die Schlussfolgerung liegt nahe, dass aus Arbeitnehmersicht Investoren aus China durchaus positiv zu bewerten sind, weil sie als industrielle Anleger die übernommenen Unternehmen in der Regel weiterentwickeln und nicht zerstören.

Was können Betriebsräte und Gewerkschaften tun, um bei einem eventuellen Einstieg chinesischer Investoren das Beste für die Beschäftigten zu erreichen?

1. Neugründungen von chinesischen Unternehmen (greenfield investments)

Chinesische Konzerne vor allem aus der IT- und Telecom-Branche haben zwecks Eroberung des europäischen Marktes nicht nur Niederlassungen für Vertrieb und Service aufgebaut, sondern auch Forschungszentren und teilweise auch Produktionsstätten. Beispielhaft dafür sind die Unternehmen Huawei, Lenovo und ZTE. Es dürfte nur eine Frage der Zeit sein, bis auch “BAT”, nämlich die drei großen chinesischen Internet-Konzerne Baidu, Alibaba und Tencent folgen. Zudem haben Foxconn und andere

1. Das folgende Kapitel basiert vor allem auf persönlichen Erfahrungen, Diskussionen und Interviews, insbesondere mit Gewerkschaftern und Betriebsräten aus Unternehmen mit chinesischem Kapital.
Auftragsfertiger aus China und Ostasien Montagelinien vor allem in Mittel- und Osteuropa aufgebaut. Es ist davon auszugehen, dass die Investitionen von Chinas IT-Konzernen in Europa weiter zunehmen werden mit einem erheblichen Aufbau von Arbeitsplätzen.


2. Wenn chinesische Investoren etablierte Unternehmen in Europa kaufen


Insofern ist das immer häufigere Auftreten chinesischer Investoren auf Europas Marktplatz für Unternehmenskäufe und Beteiligungen nur eine Variante des generellen Problems, das ein Eigentümerwechsel für die Beschäftigten bedeuten kann. Allerdings sorgen chinesische Auslandsinvestitionen oft für besondere Aufregung, weil es bislang kaum (systematisierte) Erfahrungen mit chinesischen Investoren gibt, weil es spezielle sprachliche und kulturelle Barrieren gibt und weil in der Öffentlichkeit vielfach Vorbehalte gegenüber chinesischen Investoren bestehen.

Beschäftigten zur Geltung zu bringen. Im Folgenden wird dargestellt, wie Betriebsrat und Gewerkschaft in einzelnen Stadien einer Übernahme durch chinesische Investoren erfolgreich handeln können.

3. **Investoreneinstieg antizipieren. Prüfen, ob Alleinstellung besser ist**

Generell sollten Betriebsräte und Gewerkschaften das gesteigerte Interesse und ggf. die Verunsicherung der Beschäftigten angesichts eines vielleicht bevorstehenden Einstiegs chinesischen Kapitals als Druckmittel nutzen, um die Arbeitsbedingungen optimal zu sichern. Das geht am besten durch eine proaktive Informationspolitik der Arbeitnehmervertretungen und durch die frühzeitige Einbeziehung und Partizipation der Beschäftigten an der Gestaltung der Zukunftsbedingungen.

Je früher Betriebsräte und Gewerkschaften aktiv werden, desto besser können sie auch die Interessen der Beschäftigten in einem möglichen Übernahmeprozess zur Geltung bringen. Ob sie aber rechtzeitig abschätzen können, dass der Einstieg eines neuen Investors auf der Tagesordnung steht, hängt stark vom Unternehmenstyp und der Gesellschaftsform ab (Personen- oder Kapitalgesellschaft? Existiert ein Aufsichtsrat?), von den gesetzlichen Rahmenbedingungen, vor allem aber von der konkret existierenden Unternehmens- und Mitbestimmungskultur. Anhaltspunkte für den Einstieg eines Investors können sein:

- Attraktive Technologien und Produkte, aber aktuell schlechte Geschäftslage, zu geringe Kapitaleinsätze für nötige Investitionen;
- ungeklärte Nachfolgefragen speziell bei Familienunternehmen;
- ungeklärte Stellung einer Konzernzweig in der künftigen Konzernstrategie;
- bisherige Anteilseigner wollen aussteigen;
- Finanzinvestoren machen in der Regel nach drei Jahren Kasse.
- Besuche chinesischer Delegationen mit Inspektionen in Produktion und Büros, der Finanzabteilung oder der Patentabteilung häufen sich.


Dabei sollten die Arbeitnehmervertreter gleichzeitig prüfen, ob der Einstieg eines Investors überhaupt nötig ist für die Zukunft des Unternehmens und der Arbeitsplätze. Wenn die bisherigen Eigentümer oder Anteilseigner Kasse machen wollen, aber Betriebsräte und Gewerkschaften aufgrund ihrer Bewertung der Unternehmenssituation und der Zukunftsaussichten zu der gut begründeten Ansicht gekommen sein sollten, dass das Unternehmen eigenständig eine bessere Zukunft hat als unter der Kontrolle eines neuen (chinesischen) Hauptaktionärs, sollten sie frühzeitig Front machen gegen potentielle Übernahme-Aspiranten. Wenn nötig, auch öffentlich!


4. Vor der Übernahme: Informationen beschaffen über die (potentiellen) Investoren!


Die Arbeitnehmervertreter brauchen also unbedingt Fachexpertise über potentielle chinesische Investoren. Hier können die Gewerkschaftszentralen helfen und die nötigen Kontakte herstellen. Aber sofern möglich, sollten Betriebsräte und betriebliche
Gewerkschaftsvertreter bei ihrem Unternehmen darauf dringen, dass sie Experten einschalten können, wenn ein chinesischer Investor am Horizont erscheint. Sie können gegenüber dem Management deutlich machen, dass im Interesse des Betriebsklimas und eines reibungslosen Ablaufes der geplanten Transaktion die Arbeitnehmervertreter sich am besten selbst ein Bild über die potentiellen Investoren machen. Dass sie sich sonst gezwungen sehen könnten, die Belegschaft zu mobilisieren nach der Devise: “Hilfe, die Chinesen kommen! Wir werden ausverkauft!”

Das wirkt vielleicht nicht bei der Unternehmensspitze und den Alt-Eigentümern, die unbedingt verkaufen wollen. Aber es wirkt wahrscheinlich bei den chinesischen Interessenten, die um jeden Preis negative Publicity in Europa vermeiden wollen, seit chinesische Auslandsinvestitionen Thema der großen Politik geworden sind. Dafür spricht auch die ausführliche kritische Berichterstattung in chinesischen Medien über die negativen Auswirkungen mancher chinesischer FDI-Projekte (siehe dazu die Hinweise von Bian und Emons in Kapitel 8).


Kein Zweifel: Wenn ein mitbestimmter Aufsichtsrat existiert, ist es einfacher, Informationen über die Investoren aus China einzufordern. Doch in der Regel sollte der Verweis auf die Ängste und Sorgen der Belegschaft und der Wink mit der Einschaltung der Öffentlichkeit reichen, um auch Unternehmenspatriarchen zu etwas Transparenz und Information zu bewegen. Aber egal, ob Eigentümer und Management in dieser Frage kooperativ sind oder nicht: In jedem Fall müssen die Arbeitnehmervertreter sich selbst ein Bild machen vom potentiellen chinesischen Investor.

Ein Sonderfall ist das Auftreten eines chinesischen Unternehmenskäufers in einem laufenden Insolvenzverfahren. Da auch die betroffenen Arbeitnehmer meistens Forderungen gegen das insolvente Unternehmen haben, ist auch die Arbeitnehmerseite nach den europäischen Rechtssystemen im Insolvenzverfahren vertreten. Sie hat folglich auch Mitsprache bei der Entscheidung über den Investor, der das insolvente Unternehmen weiterführen will.

5. Vor der Übernahme: Was will der Investor aus China?


Was passiert mit dem Know-how? Wie schnell kann das Know-how abgezogen und kopiert werden? Unstrittig ist, dass der chinesische Eigentümer oder Mehrheitseigner über das Know-how verfügen kann und es auch z.B. für entsprechende Produkte und Produktionsprozesse in China nutzen kann. Will der chinesische Investor weiter in Forschung und Entwicklung in Europa investieren? Bleiben die Standorte in Europa weiter die Basis für bestimmte Produktgruppen und Prozesse?

Wie soll das übernommene Unternehmen operational geführt werden? Wenn – wie bei chinesischen Investoren die Regel – die bisherigen Manager ihren Job behalten, bekommen sie neue Vorgaben für Umsatz und Gewinn? Sind diese Vorgaben realistisch? Welche weiteren Mittel will der chinesische Investor in das Unternehmen stecken, damit nicht nur der laufende Finanzbedarf gedeckt ist, sondern auch Zukunftsinvestitionen getätigt werden können?

Als ein chinesisches Staatsunternehmen einen insolventen mittelständischen Hersteller für Spezialfahrzeuge übernehmen wollte, waren die im Insolvenzprozess vertretenen Betriebsräte besorgt über die Zukunft der Arbeitsplätze. Darauf deuteten die Vertreter des Investors an, sie wollten das Unternehmen gerade wegen des Labels “Made in Germany” kaufen, das international viel angesehener sei als “Made in China”.


6. Vor der Übernahme: Kommunikation und Transparenz bei der Bewertung der Bieter einfordern!

Für die Stakeholder in Europa geht es beim bevorstehenden Einstieg eines Investors aus China zunächst darum zu erfahren, was hinter dem Angebot steckt und dass es plausibel erklärt werden kann. Das ist in erster Linie eine Forderung an das Management des Ziel-Unternehmens nach frühzeitiger Kommunikation und Transparenz.

Sofern in den vergangenen Jahren bei chinesischen Übernahmen in Europa die Hintergründe und die Chancen für das Ziel-Unternehmen offen kommuniziert und erklärt wurden, gab es bei den Belegschaften wenig Probleme. Was wird aus dem Unternehmen? Was wird aus den Arbeitsplätzen? Kann man sich auf den chinesischen Investor verlassen?

Die größten Sorgen bei den Belegschaften sind, ob künftig Arbeitsplätze nach China verlagert werden. Der chinesische Investor sollte das langfristige Interesse an der geplanten Übernahme plausibel darlegen. In der Regel zeichnen sich die chinesischen Investoren durch eine strategisch angelegte, langfristige Investitionsplanung aus.

Bei Sternauto, dem deutschen Regionalvertrieb und Service eines Autokonzerns, waren die Mitarbeiter sehr verunsichert. Der Konzern wollte ihre sicheren Arbeitsplätze an einen chinesischen Privatinvestor verkaufen, der Vertriebsniederlassungen in ganz Asien hatte. Aber mehr wussten sie nicht über den Investor. Da war die deutsche Unternehmensführung in der Pflicht, den Betriebsrat und die Belegschaft über den Sinn der geplanten Transaktion und die Ziele des Investors aufzuklären. Es konnte dann plausibel erklärt werden, dass im Vertrieb und Service von PKWs die Verlagerung von Arbeitsplätzen von Deutschland nach China kein Thema ist. Sondern dass sich der chinesische Privatinvestor von den Autohäusern in Deutschland fruchtbare
Anstöße für Vertrieb und Kundendienst in Ostasien und China erwartet, also einen Erfahrungsaustausch und gegenseitiges Lernen.


7. **Im Übernahmeprozess: Zusagen und Garantien verlangen!**


Dabei ist es wichtig, Zusagen und Garantien für die Beschäftigten frühzeitig einzufordern. Wenn die Übernahme fertig ausverhandelt ist, haben Betriebsräte kaum noch Druckmittel. Sinnvoll ist es, auch die Zusagen und Garantien für die Beschäftigten zum Bestandteil der Verträge zur Übernahme zu machen.


8. Frühzeitig Kontakt zum Erwerber suchen, spätestens aber nach der Übernahme

Manchmal kann sich das schwierig gestalten, besonders wenn es um börsennotierte Unternehmen geht und der chinesische Erwerber alles vermeiden möchte, was die Übernahme gefährden könnte. In der Regel hat aber auch der Erwerber großes Interesse an dem frühzeitigen Kontakt mit Betriebsrat und Gewerkschaft, auch wenn der Kontakt zunächst informell ist.


In einem Fall zeigte sich der Chef eines großen chinesischen Staatskonzerns, der bereits mehrere Unternehmen in Europa übernommen hatte, sehr erstaunt darüber, dass die Gewerkschaft aus Deutschland ihn kontaktiert und gleichzeitig auch die Übernahme positiv bewertet hatte. Das sei ihm sonst in Europa bislang nicht passiert.
Im Übrigen haben die Chefs zumindest von Chinas Staatskonzernen hohen Respekt vor den Gewerkschaften. Denn die Gewerkschaften spielen in den Staatskonzernen eine privilegierte Rolle und gehören faktisch zur Unternehmensführung (siehe unten). Dieser Respekt äußert sich auch in den in Europa übernommenen Unternehmen. Von einem Autozulieferer in Deutschland wird berichtet, dass die Vertreter der Konzernspitze aus China bei anstehenden Entscheidungen immer fragen, welche Meinung der Vertreter der IG Metall dazu hat. Aufgrund dieser Besonderheiten haben die Gewerkschaften in vielen chinesisch investierten Unternehmen in Europa objektiv eine starke Position, was noch nicht überall verstanden ist.


9. **Nach der Übernahme: Kontaktaufnahme mit der Betriebsgewerkschaft in China**

versteht sich damit, dass Betriebsgewerkschaft und Partei an wichtigen Entscheidungen in einem Staatskonzern beteiligt sind.


10. Kommunikation im Aufsichtsrat mit den Vertretern aus China


In dieser Situation sollten die Arbeitnehmervertreter im Aufsichtsrat unbedingt Zugang zu einem Übersetzer aufbauen, dem sie vertrauen können. Der sie aufklärt über die tatsächliche Bedeutung mancher Aussagen und über die Zwischentöne. Aber auch in Unternehmen ohne Aufsichtsrat brauchen Betriebsräte und Gewerkschaften für die anzustrebende Kommunikation mit den chinesischen Eigentümern Übersetzer, auf die sie sich verlassen können. Dieses Vertrauen kann sich aber erst im Laufe einer Zusammenarbeit entwickeln.

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