Introduction

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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).

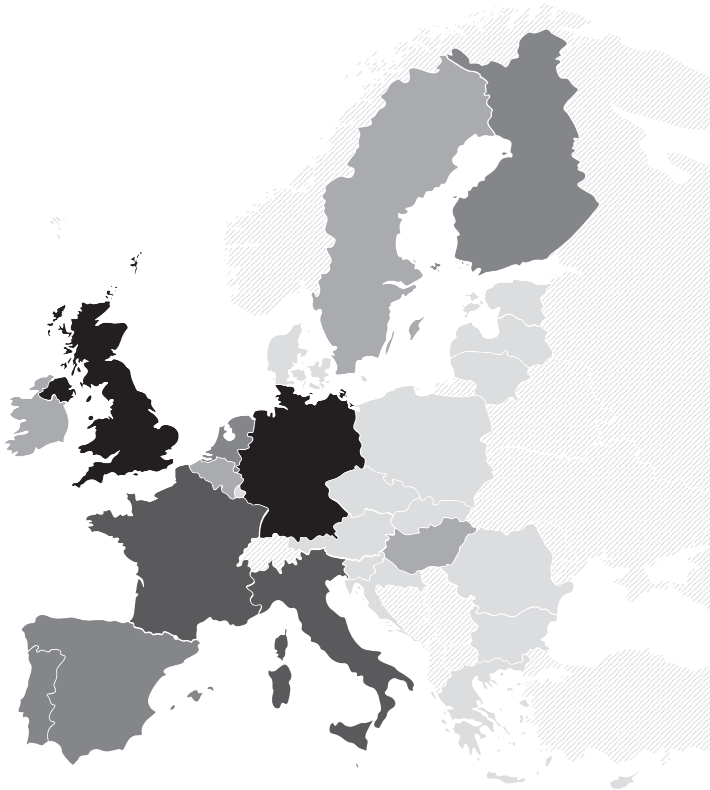
1. China goes out

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 company Supercell by a Tencent-led consortium). There were further deals in energy (mostly renewable energy investments such as Meerwind); utilities, transportation and infrastructure (HNA's acquisition of aircraft leasing firm Avolon for EUR 2.3 billion, Beijing Enterprises' purchase of Germany's EEW Energy for EUR 1.4 billion and COSCO's investment in Piraeus Port Authority); and entertainment (Odeon and UCI, MP and Silva). In 2016, there was a drop in real estate investments, probably reflecting the beginning of a curb on financial outbound investment by the Chinese authorities (Haneman and Huotari 2017).

Figure 1 **Chinese FDI in the EU, 2000–2016 (EUR million)**



United Kingdom	23,633
Germany	18,817
Italy	12,839
France	11,459
Finland	6,854
Portugal	5,726
Netherlands	5,598
Spain	3,015
Ireland	2,723
Hungary	2,051
Belgium	1,808
Sweden	1,592
Poland	936
Romania	889
Greece	840
Czechia	569
Austria	551
Luxembourg	499
Bulgaria	337
Denmark	209
Malta	70
Slovakia	49
Cyprus	45
Lithuania	33
Estonia	23
Slovenia	8
Croatia	4
Latvia	3

Source: adapted from Rhodium Group (Haneman and Huotari 2017).

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 caveat that a shift to electronic vehicles may threaten the position of the European automotive industry.

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.[1] 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.

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 emergingness': 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 benefitted 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.

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