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Chinese investment in Europe: corporate strategies and labour relations

Edited by Jan Drahekoupil

The ETUI has a new publication; **Chinese Investment in Europe: corporate strategies and labour relations.**

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 (Drahekoupil et al. 2016).



European Trade Union Institute,
2017
Book
275 pages



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Key findings

- 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.
- 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. In 2014, China established the USD 40 billion Silk Road Fund. The Belgrade-Budapest high-speed rail and the investment in the Piraeus port terminal are supported within this framework.
- 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 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. 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).
- 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.
- 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.



- 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 chapter by Bian and Emons 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.

A key list of Recommendations

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 a Chinese investors enter a company. Starting with a brief consideration of the situation in greenfield plants, the bulk of the chapter focuses on the individual stages involved in a takeover. (A German version of this chapter is also included.)

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.

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 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 Wu, Bbeke et al. 2016).



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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