The Expanded Presence of Chinese Companies on the European Market as a Practical Realization of the “Go Global” Strategy

Karolina Łopacińska
Wrocław University of Economics, Wrocław, Poland

The article presents the phenomenon of the Chinese companies’ expansion in Europe as a result of the implementation of the government’s strategy “Go Global”, including the nature of this expansion, the scale, premises, as well as the possible consequences. The first part of the article is devoted to the analysis of assumptions and instruments of “Go Global” strategy used to strengthen the government’s initiatives aimed at encouraging the national entrepreneurs to open up and conduct business internationally. Further in the article the dominant forms and directions of Chinese companies’ expansion on the European market have been presented, followed by the analysis of the impact of Chinese economy on its major foreign investment partners during the current economic slowdown. The basis of the analysis made by the author was data obtained from the statistical bases (Eurostat) and reports of the Research Institutes for China Studies (Rhodium Group, Thomson Reuters). This is allowed to illustrate the development of Chinese expansion on the European market during the years 1999-2015. A significant increase in the activity of the Chinese capital in Europe could be seen in recent years. The development of relations between European countries and China is taking place not only in economic, but also in political and cultural dimension. This was reflected, among others, in activating of the trade activities between EU and China, the level of which increased greatly in years 1990-1999 from EUR 15.9 bn to EUR 72.2 bn, to reach a value of EUR 428.3 bn in 2011, making EU the most important trading partner of China. It should be emphasized that the European market has become the largest after Asian market, in terms of industry diversification of Chinese investment, where Chinese companies are investing in industries such as: raw materials, infrastructure automotive, chemicals and renewable energy.

Keywords: “Go Global” strategy, Chinese companies’ expansion, European market

Introduction

The post-crisis economic predicaments to befall most of the European and the relatively robust development of the Chinese economy over the recent years have had the effect of greatly increasing the involvement of Chinese capital on the EU market. This trend of development seems to necessitate a redefinition of the existing model of economic cooperation between the EU member states and China. Up to the recent times, the “Middle Kingdom” was known to build their strategies of economic development on (principally) capital absorption and foreign direct investment (FDI), supported by a steady increase in the export of Chinese goods and commodities to the EU market. The present trend seems to involve increased presence of Chinese
capital as a source of direct investment in the EU area. This has been accompanied by a gradual change in the reception of Chinese investment among European entrepreneurs. The previous attitudes of scepticism and reserve have been replaced by that of hope and trust as a valuable relief with potential to solve some of the most profound problems faced by the crisis-stricken economies of the West.

The development of relations between the EU and the People’s Republic of China should be analysed both in its economic, political, and cultural dimension. The balance of bilateral trade exchange with EU area has grown from EUR 15.9 bn to EUR 72.2 bn in the years 1990-1999, and reached an astounding EUR 428.3 bn in 2011, thus marking the EU area as the largest trade partner for China. It must also be noted that the sectoral diversity of Chinese investments in the EU area is second only to that observed on the Asian market. Apart from their usual involvement in raw materials and infrastructural projects, the Chinese have also invested heavily in other EU sectors, most notably the automotive and chemical industry and the sector of renewable energy.

The “Go Global” Strategy as a Governmental Initiative Designed to Form Incentives for Domestic Entrepreneurs to Increase Their Investment on Foreign Markets

The process of opening up the “Middle Kingdom” to the world was set forth by the Chinese government authorities under General Secretary Deng Xiaoping in 1978. At the onset of his political rule, Xiaoping introduced a comprehensive program of socio-economic reforms designed to bring China back from the economic ruin brought about by the dubious experiments of his predecessor Mao Zedong. The reforms were successful in stimulating the development of China, both in the economic and social perspective. Deng Xiaoping’s policy of development is best described by his favourite maxim of “crossing the river by feeling the stones”, and focused on gradual opening up of large cities and regions to changes, based on the trial-and-error approach to the challenges of modernisation and consequently opening up of the country to the world (Nash, 2012; Pieczonka, 2012). In effect, within a span of only three decades, the People’s Republic of China managed to reconstruct their political and economic relations with numerous partners around the globe and to maintain an imposing pace of economic development which would take at least twice as long under normal economic conditions (Guthrie, 2008).

Originally, the decision to open China to the world was motivated not by the challenge of globalisation as such, but by the need to attract FDI with all its associated benefits of fresh capital, access to modern technologies, and more effective management methods (Pieczonka, 2012).

Within the last three decades, the above strategy has had the effect of stimulating and maintaining a steady trend of economic development, reciprocally influenced by the increased demand for foreign investment, the fast expansion of Chinese export, and the significant capital inflow. The year 1999 marked the breaking point in this process, with Chinese government pronouncing their national strategy “Go Global” to serve in support of the existing incentives for local companies to increase their involvement in global-scale operations and to seek investment opportunities on foreign markets, with main focus placed on the sector of state-owned enterprises.

Under the 12th Five-year Plan of Economic Development for the years 2011-2015, the Chinese authorities emphasised five processes considered to be of fundamental value for the development and modernisation of China, particularly in the social and economic context. These were: industrialisation, urbanisation, IT development, and continued internationalisation of Chinese economic relations supported by the increased role of the market in national economy.
The “Go Global” strategy designed by Chinese authorities and addressed effectively in the subsequent Five-year Plan, has always put the main emphasis on the following objectives:

1. Active participation in international exploration of natural resources. Due to the unprecedented domestic demand for natural resources, most importantly, the energy sources, the Chinese government forms incentives for local companies to invest in foreign exploration projects. To enable the realisation of the above, China needed to update and strengthen their investment relations, particularly with respect to trans-border transport of commodities, and to induce specific companies to invest in processing of the acquired resources (downstream processing).

2. Acceleration and intensification of technological advancement through FDI. This objective involves formulation of incentives for selected companies to relocate their research and development centres abroad and to provide them with support for the acquisition of know-how from their foreign partners. This takes the form of suggestions for domestic companies on investment strategies in advanced industrial projects in such sectors as high-tech, telecommunication, logistics, culture, and tourism.

3. Intensive exploration of foreign markets. Forming incentives for companies in various sectors and industries—such as textile, electronics, automotive, chemical equipment, metallurgy, construction materials—to expand to foreign markets. Various forms of support are directed to companies investing in on-site industrial processing of steel, non-ferric metals, timber, and crude oil to help them expand to areas and countries rich in those and other types of natural resources of real or potential market value.

4. Improving the competitive advantage of Chinese companies through FDI. Support is offered to companies willing to invest in expansion and development of foreign marketing networks, or acquisition of globally or locally recognised brands. In addition, small and medium-sized companies, including private entities, are offered incentives for cooperation with large state-owned enterprises in the realisation of FDI projects (Ernst Young Report, 2012).

The above strategic state policy approach has had the effect of stimulating many Chinese companies to increase their involvement in foreign investment, largely due to the fact that it offered potential for global expansion and company development. It seems that the recent progress of China as a global economic power can be largely contributed to the introduction of the “Go Global” strategy. At present, Chinese companies invest their capital in more than 132 countries and regions of the world. As suggested by the United Nations reports, total value of Chinese FDI rose from USD 2.7 bn in 2002 to as much as USD 84.2 bn in the year 2012. As a result, China has become a third global power in the ranking of the most active global FDI players, compared to the sixth place held by China in 2011 (Pinkerton, 2014).

Despite notable decrease of Chinese involvement in FDI projects following the recent financial crisis of 2008-2009, the volume of investment has increased at a fast rate. In effect, China managed to overtake Japan and Great Britain, and to take the fifth position in the ranking of global investors.

Based on statistical data presented in the 2012 report of the Chinese Ministry of Trade, total net value of FDI made by Chinese companies abroad in 2011 reached USD 74.65 bn, marking an increase of 8.5% compared to the previous year. In 2011 alone, Chinese investors founded 18 thousand foreign companies, with total employment of foreign nationals in the vicinity of 888 thousand. Analyses for the period under study show the joint value of new-found assets at nearly USD two tn.

Speaking of the scale of the 2011 FDI projects founded by Chinese companies, it must be noted that the above dynamics of FDI involvement was also observed in non-profit organisations. Total value of investments
funded by this segment reached USD 68.6 bn, representing an increase of 14% over the previous year. It should also be emphasised that, of all FDI projects realised in 2011, as much as 82% were directed to less-developed countries, but the associated dynamics were varied, with sizeable increase of FDI in Europe, Oceania, and Africa, and a marked decrease in the rate of investments directed to North America. In 2011, the EU market alone saw upwards of an increase of 22% in Chinese FDI compared to the previous reporting year.

Despite increased interest in foreign investment and the gradual opening of the Chinese economy to foreign capital, total value of Chinese investments on foreign financial markets decreased by nearly 30%, down to the level of USD 6.07 bn. It seems that this new-founded reservation of Chinese companies to invest on foreign capital markets was generated by the recent financial crisis and the associated increase of uncertainty among potential investors. However, regardless of the above, the EU market kept its second position (after South America) in the list of largest recipients of Chinese economic investment initiatives.

Currently the Chinese state authorities plan to increase the support for domestic companies to help them engage in investment projects on foreign markets. This is attested by the recent pronouncement (December 2014) of the State Council of People’s Republic of China, reinstating the state involvement in promotion of foreign investments among Chinese companies. The main premise behind this resolve is to utilise the potential of foreign investment projects to warrant substantial increases in the following areas: global competitive advantage of Chinese products, the level of structural modernisation of foreign trade, and the development of both production and financial sectors (Tiezzi, 2014).

Chinese companies perceive the “Go Global” strategy mainly from the viewpoint of its potential for overcoming the challenges of globalisation and for stimulating the economic development of China. The new economic conditions generated under pressure of globalisation, increased competition and market opening force the companies to face not only the mounting risk directly associated with foreign expansion, but also that resulting from their own inherent weaknesses, most importantly: poor institutional organisation, poor infrastructure, security constraints, and persistent corruption. Another important caveat is the intensive capital involvement on developing markets which—due to specific and difficult conditions of operation—require more careful risk calculations (Pinkerton, 2014).

To fully utilise the potential for international cooperation in foreign markets, China must also place proper emphasis (and expenditures) on education, research and development support, and technological improvements in production sectors (Pieczonka, 2012).

**Dominant Forms and Directions of Chinese Expansion on the European Market**

Analysing the directions of investments placed by Chinese companies on the European market from the onset of the “Go Global” strategy up to the present day, it must be noted that the observed development in this regard is shaped by three main groups of factors, namely: skillful exploitation of economic perturbations on the EU market by Chinese investors; China’s need to pursue alternative solutions for the allocation of the mounting foreign currency reserves; the necessity for Chinese companies to acquire new technologies and know-how from the West (see Table 1).

Among forms of Chinese capital allocation in Europe, the following seem of note in the context of this study:

1. Buyoff of bonds issued by European states, particularly those under economic stress, such as Spain or Greece. Chinese investors have shown great involvement in providing financial aid to the crisis-stricken
economies of the EU area, with an estimated 25% of the total foreign currency reserves presently held by China allocated for the purpose.

(2) FDI, including mergers, acquisitions, purchase of minority interests in European companies, and greenfield projects. It may be interesting to note the dominant position of the latter in the period of 2000-2011, since this type of investment was the best facilitator of access to the markets of the EU. In addition, they offered a more precise adjustment of product offer to local market requirements, helped build a desirable image and, most of all, opened up a way to sidestep certain EU barriers to trade. Lastly, this form of investment seems to be the most evident manifestation of the growing involvement of the Chinese capital on the European market.

(3) Participation in public tenders for infrastructural projects as an attempt to utilise the skills and experience of Chinese companies acquired in similar projects in the developing regions of Asia and Africa, at prices highly competitive against those typically quoted in Europe (Luzak, 2013).

Table 1

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<th>Main Groups of Factors to Influence Changes and Reinforcement of Relations Between the European Countries and China</th>
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<td>European economic problems</td>
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<td>Massive foreign currency reserves held by China</td>
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<td>The drive to acquire new technologies and know-how</td>
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Source: Own compilation based on (Luzak, 2013).

Analyses of FDI volume placed by Chinese companies on the European markets, presented in a report by an US consulting company Rhodium Group suggest that, in the period of 2000-2014, Chinese entrepreneurs were involved in 1,047 FDI projects in the EU area, to a total value of EUR 46 bn, including as many as 726 greenfield agreements and 321 acquisitions. The investment flow volume rose significantly in the years 2011-2012, passing a threshold of EUR seven bn annually, compared to EUR two bn in the years 2009-2010. Regardless of the subsequent drop to EUR six bn in 2013, the annual flow followed a rising trend, reaching a record value of EUR 14 bn in the year 2014 (Figure 1).

Half of all the agreements China had entered into over the analysed period were placed in the largest EU economies, most importantly: Germany, Great Britain, and France. The recent years, however, saw a distinct change in the placement of Chinese investments in Europe—they seem to follow a more geographically dispersed pattern, covering wider areas of the EU. This shift is particularly evident in the share of investments placed in such EU member states as: Ireland, Italy, Portugal, Spain, Greece and Cyprus. The share of Chinese investment in those countries rose from 10% prior to the year 2011 to more than 30% in the years 2012-2014. Chinese entrepreneurs seem to have noticed the potential for investment in state-controlled segments of those economies, particularly in transportation and utilities. Moreover, the Chinese have increased their involvement
in East European economies, especially in such areas as manufacturing, infrastructure and agriculture; in the period of 2000-2014, this area received eight percent of the total Chinese investment volume placed on the European market.

![Map of FDI projects placed by Chinese companies on the markets of the European Union, from 2000 to 2014 (EUR mln)](image)

Figure 1. FDI projects placed by Chinese companies on the markets of the European Union, from 2000 to 2014 (EUR mln)

Source: (Haneman & Huotari, 2015).

The gradual expansion of Chinese investment over the whole of the EU is mirrored by a similar expansion to new sectors of local economies. Analyses suggest (see Figure 2) that the most dynamic increase of Chinese investment in 2000-2014 was observed in the energy sector, with nearly EUR 13 bn placed. Other important sectors for Chinese investors included: automotive and machine industries, and information technology and
communications (ITC) technologies, corresponding to EUR six bn, four bn, and three bn, respectively. Investments in the sector of services were mainly focused on transportation (with EUR two bn placed) and high added value segment, such as biotechnology and finance, which received a joint value of EUR three bn. Agriculture and food processing were the most recent additions to the spectrum of Chinese economic involvement (from 2013 onward), with total of EUR five bn placed, and the real-estate business, also with EUR five bn placed (Haneman & Huotari, 2015).

**China’s Economic Slump and Its Effects on the Most Important Foreign Partners**

The imposing pace of economic development observed in China over the last few decades strongly contrasts with the recent downward trend, raising reasonable doubts as to the potential effects it may bring upon China’s most important investment partners.

As suggested by reports produced by the National Statistical Office, China’s economic growth rate dove from an average of 8.6% in the years 2010-2014 to the level of 6.9%, marking the largest decline registered in China in the last 25 years. Further decline of China’s GDP is forecasted for 2016, down to the level of 6.2%. It must be remembered, however, that in the year 2013 the Chinese GDP corresponded to as much as 12.5% of global product, therefore any economic decline for China must naturally be mirrored in global statistics. In fact, it may be found to largely contribute to a further decline, with the resultant decrease of both export and raw material prices, and the associated decline of trust towards the economy as a whole (Economics Help, 2015).

The scale of direct impact of China’s economic slowdown upon economic prosperity is, predominantly, a function of China’s share in the EU export volume. Thus, the most direct effects can be observed in countries with dense networks of relations and dependence from their Asian partner. Other areas, regardless of their lack or relative scarcity of direct economic relations with China, may suffer indirectly, since some of their major partners will surely be tied up in high capital/investment dependence from China.

It is expected that the present situation will have the effect of weakening the beneficial impact of those factors which, up to the recent times, were believed to be major stimulants of economic growth in the EU area (such as the falling oil prices or the relatively weak EUR), and will ultimately remove them from the equation. For the EU, the process of returning to full economic capacity after the recent financial crisis, will be further hampered by high public debt and unemployment rates observed in some of the largest EU economies.

At present, regardless of the continued effort on the part of the European Central Bank, consumer price based inflation index in the Euro zone is quite alarmingly approaching zero, despite being targeted at the level of two percent. It is expected that the economic growth rate for the EU area in 2016 will be in the vicinity of 1.8%, i.e. both below the target, and below the 2015 rate of two percent. Similar effects are also expected in production levels for the year 2017, forecasted at 1.9%, i.e. below the established target of two percent (Dendrinou, 2016).
For the time being, the heavily investment-driven economy of China seems to keep its focus on the stimulation of domestic consumption—a daunting task, given the present decrease in the household income growth rates. This is further enhanced by the present Chinese drive for new or more effective production facilities which—given the already low domestic demand, the excessive production capacity and high public debt (in excess of 280% GDP) and their detrimental effects on liquidity of local businesses—will also affect global economy to some extent (COFACE, 2016).

At the same time, it must be remembered that, irrespective of the potentially negative consequences for some countries of the EU or the world at large, the present economic downturn in China can be perceived as an unavoidable step on China’s path towards more sustainable growth, and as such will produce tangible benefits for global economic prosperity in the long run (Obserwator Finansowy, 2015; Bankier, 2015).
Conclusion

The increased presence of Chinese companies on European and global markets, following the realisation of the “Go Global” strategy, does have a strong impact on the increase of FDI and the associated inflow of fresh capital. In addition, by forming connections with global value chains and export markets, the FDI projects are directly influencing the increase of research and development expenditures, development clusters and employee training. Moreover, the scale and the pace of growth and the complementarity of China’s economy offer unmatched potential for the development of European economies. It must be remembered, however, that the present format of both economic and political systems in China may raise doubts and, as such, pose a challenge for the EU market. China is still regarded as an emerging market, and their financial system is still lacking in stability, which may pose a risk for the partnering countries due to volatility and instability of the associated capital flows. Chinese entrepreneurs attach great value to freedoms offered by the EU countries, but at the same time stick to their formal limitations of foreign investment, placing barriers to access for the European companies willing to make business on the Chinese market. It must also be noted that Chinese companies, particularly the state-controlled enterprises, still receive their financial support from the Chinese government to a large extent. This places them at an undue advantage over the remaining market participants, but at the cost of limiting the development of fair competition.

Facilitated access to new technologies and know-how remains one of the central motives for Chinese investments placed on the European markets. However, in its emphasis on the facilitated inflow of innovation, China’s industrial policy may be found—for all intents and purposes—to contravene the sheer logic of the market, and to aggravate the level of uncertainty with respect to potential effects of know-how exchange and production capacity for EU area. Lastly, it may be useful to point out the risk of diffusion of poor practices to countries targeted by Chinese investment projects.

Irrespective of the evident challenges posed by China’s involvement in direct investments on foreign markets, the partnering countries seem to perceive the process as beneficial for their local economies. However, in view of the drastic specificity of China’s political and economic system, their growing involvement in FDI may raise certain security reservations for the economies targeted by Chinese capital.

References


