INTRODUCTION

EUROPE AS A STRATEGIC PRIORITY

Despite the disillusionment that accompanied China's first wave of investments on the European continent, prior to 2008–09,[1] Europe in 2016 has become a preferred playing field for China in the West. For several years now Europe has attracted both state-run and private Chinese enterprises looking for investment opportunities, despite the historical, geographic, legal, linguistic, societal, and cultural complexities of investing in Europe.

The European Union today has also become China's chief commercial partner, with €467 billion in bilateral trade in goods in 2014 (and a trade deficit of €137 billion in favor of China). China is thus the EU's most important trading partner after the United States, a situation that is of signal interest to officials at the European Commission in Brussels. But a major new subject garnering media attention in the years to come may well be Chinese foreign direct investment (FDI) in Europe. Unlike trade and tourism, investment is about long-term commitment, and Chinese companies are looking for a stable, legally secure environment. Whereas during the first decade of the twenty-first century there was little significant Chinese investment in Europe, the figures since 2010 show a real investment surge. According to a report published jointly by the law firm Baker and McKenzie and the New York–based Rhodium Group, Chinese investments in Europe went from $6 billion in 2010 to $55 billion in 2014.[2] And in 2014, annual investment doubled to $18 billion. “Europe is now into its sixth year of consistently high levels of Chinese FDI with investment averaging $10 billion annually over each of the past four years,” the report stated.[3] Bruegel, a Brussels-based economic think tank, estimates the distribution of Chinese outbound foreign direct investment (OFDI) flows as follow: 19 percent of total Chinese OFDI took place in Europe (stock: $13.9 billion) and 13 percent in North America (stock: $11.4 billion),[4] which has also become an important recipient. It should be noted that the United States remains by far the main holder of inward FDI in the EU: at the end of 2012, the United States held close to two-fifths (39 percent, or $1,683 billion) of total EU FDI stocks from the rest of the world, followed by Switzerland, Japan, Canada, Brazil, Russia, Singapore, Hong Kong, and China. Chinese FDI increased by 44 percent in 2012, but China held a relatively small share of the total, around 3 percent.[5] In France, for example, where there has been some resistance on the part of some local officials and communities, the share of Chinese FDI is still only around 2 percent of the total, with only 13,000 jobs created as a result of Chinese investments, according to French government figures.[6] Time matters: the first significant Chinese industrial investment contract in France was signed less than ten years ago, although the number of new projects has been on the rise ever since.[7]

The current wave of substantial and increasing Chinese investments in Europe has accelerated as a result of the 2008–09 global economic crisis, which ravaged several countries (for instance, Greece, Portugal, Ireland, Spain, Cyprus) and buffeted major European economies, including those of the United Kingdom, Germany, and France, the three largest EU economies as well as other recipients of Chinese FDI. Ranking fifth, after Portugal, Italy is also a particularly eloquent case: in 2014 alone, China invested more than $3.5 billion in various Italian projects, especially in the energy sector. The Italian companies with Chinese investors as owners number 322, give work to 17,800 people, and produce $9.2 billion (€8.4 billion) of Italy's GDP.[8] In 2015 the ChemChina Group bought up the Italian tire manufacturer Pirelli, one of the largest in the world and a well-known brand among Formula One racing enthusiasts.

Unsurprisingly, Chinese state banks—the China Development Bank, the Export-Import Bank of China, but also the Bank of China, the China Bank of Construction, and the Industrial and Commercial Bank of China (ICBC)—gave the starting signal for acquisitions five years ago by opening branches throughout Europe. Today, ICBC, China's largest commercial bank, maintains twelve European branches and anticipates more. Its global banking services are aimed primarily at a Chinese clientele interested in European products. As a result of credit facilities, a large number of properties have been acquired, including commercial ones, for example in France, where the managing director of ICBC, Victor Xiao, proudly proclaimed in 2014 that "no fewer than twenty châteaux in the Bordeaux region have been bought by our intermediary."[9]

Chinese banks serve as intermediaries between state-owned enterprises (SOEs) and investors throughout Europe for projects ranging from participation in key infrastructure projects (water, gas, port, and airport installations) to buying up corporations as varied as the British restaurant chain Pizza Express or the German manufacturer of machine tools Putzmeister, to the purchase of important structures, such as Madrid's landmark Edificio España, acquired from Grupo Santander in 2014 for $284 million (€260 million).

Until 2012, the sums in play were modest. One can speculate as to the difficulties that prevented the wave of Chinese investments from taking root faster in Europe. Companies such as ZTE, Haier, Huawei, or COSCO were among the pioneers but were content with opening sales offices and enjoying some commercial success, thanks to competitive products. ZTE and Huawei, for example, both managed to win important contracts with major European telecommunications operators such as Vodafone, BT, or SFR in 2006–10. But despite the triumphant statements from European agencies charged with attracting foreign capital, few long-term industrial installations or job-creating units were established by China until recently.

They were perhaps influenced by negative stories, shot through with cultural misunderstanding, such as the episode of the forty-one-kilometer stretch of the Warsaw A2 highway linking Warsaw and Berlin. In 2009, the state-owned China Overseas Engineering Group (COVEC) was awarded a contract to build the stretch through an EU tender. As a result of mutual incomprehension, the Chinese project was delayed and, two years later, having failed to deliver, COVEC had to retreat. The Polish government canceled the contract on the pretext of having to follow environmental laws about protecting animal species threatened with extinction. COVEC never got over this failure, which caused a stir in Beijing at the time and remains one of the worst experiences of a Chinese enterprise in Europe. On the other hand, sometimes the Chinese demonstrate an originality that seems blind to the host country's history and business practices: in Denmark, they offered to finance a tunnel linking the country with Germany, without taking into account the obvious strategic aspects of such infrastructure. A common cultural obstacle was that Chinese negotiators had learned their trade in China (or in Africa, where Chinese companies became active in the late 1990s), which led to embarrassing and illegal situations, such as the local head of a telecom group foolishly wanting to offer money to help convince a potential client.

THE COMING WAVE OF CHINESE INVESTMENT

What has changed to explain China's new craze for Europe? First, the Chinese central government began encouraging this investment drive toward Western countries only a few years ago: under the previous Chinese leadership of President Hu Jintao, Beijing gave priority to the development of the domestic Chinese economy, which led to the massive deployment of capital in Africa and Latin America, two important suppliers of natural resources. The "European wave" is clearly a continuation of China's "Zou Chu Qu" (走出去) or "Going Out" policy designed by Beijing in the late 1990s to encourage the international expansion of Chinese companies. Until 2008–09, Chinese entrepreneurs believed that European markets were too complex and overly regulated. On numerous subjects, a Sino-European dialogue of the deaf had long dominated, as all who were involved in transactions during the first decade of the twenty-first century could attest. For a long time, Chinese business executives could not adjust their practices to meet European standards and habits. In the Chinese business world, trust is like a treasure chest that cannot be opened with Western logic. Trust is the fruit of a long learning process, the product of social relations—if not familial and geographic ties, or those linked to shared student life. In Chinese enterprises, at headquarters or at subsidiaries abroad, the climate is often one of distrust between colleagues. Competition is also at play, with the promise of a yearly bonus for each successful yet obedient employee. Between Chinese and European businesses, intercultural differences likely played also a much larger role in damping down relations than people recognized. Now, the situation is starting to improve as investors realize the mix of cultures is sometimes a good thing. It will take time before the battalions of Chinese graduates of European universities and business schools find their place in this grand game of dominoes, but a handful of Westernized Chinese executives have been recruited. Some are even running European companies just acquired by Chinese investors, or (more rarely) the European subsidiaries of major Chinese corporations.

Diplomatically, relations with Europe have been rather good for the past decade—as long as controversial subjects are not raised. Chinese leaders have recently attached a special importance to European institutions. As pointed out in a recent report celebrating forty years of EU-China diplomatic relations, there is a permanent Sino-European dialogue in many fields.[10] Both China and the EU increasingly use the term "partnership" to define their relationship: in 2015, they celebrated four decades of diplomatic relations by announcing an "EU-China Comprehensive Strategic Partnership."[11] In addition to economic issues, the EU-China summit in June 2015 in Brussels took up new areas of concern, such as cooperation on security and in the fight against terrorism. The European Commission and the Chinese government signed a joint summit declaration on this occasion, and for once, Premier Li Keqiang, who was attending, publicly expressed a wish that Greece remain in the euro zone.[12] Interestingly, President Xi Jinping, who had a successful state visit to the United Kingdom in October 2015, also made a bold comment, pointing out that the UK as an important member of the EU "could play a more positive and constructive role in promoting in-depth development of China-EU relations."[13] Such statements are highly unusual for leaders of a regime that officially states it "does not interfere in other countries' politics."[14] Xi Jinping wanted to make the point that China cares a great deal about the EU's future.

Now that many European governments are clearly looking for more cash and foreign investors, the Chinese leadership has decided to engage Europe on multiple fields, especially economics and finance. Every Chinese state or high-level visit now includes an important delegation of Chinese CEOs and business leaders. A growing number of Chinese—mainly private—companies have started to adapt to the European way by hiring more Europeans and adopting EU standards. This has become more obvious since China launched its "One Belt, One Road" (OBOR) initiative focusing on infrastructure investments, and showed a strong interest in building or rebuilding some of the current European infrastructure—energy plants, utilities, airports, ports, highways, and the like. China even offered to take part in the European Commission's investment plan, raising expectations of a potential incorporation of OBOR's European destinations within a broader Chinese strategy.[15]

European FDIs are part of China's new policy, which also includes trade, culture, the media, education, and "people-to-people" exchanges. The Chinese leadership, which is nurturing contacts with individual European leaders through bilateral visits or multilateral forums, such as the "16 + 1" summit,[16] is keen to increase political and diplomatic exchanges with Europeans. During 2015, no fewer than twenty bilateral summits took place between Chinese and European leaders. Beijing believes that rivalry and competition with the United States will continue, as demonstrated during the past year: the strong participation of European countries in the China-backed Asian Infrastructure Investment Bank, as well as the multiple Sino-European joint declarations and memoranda of understanding on the future OBOR were ways for China to spread its wings in the western direction as twelve countries were negotiating the U.S.-designed Trans-Pacific Partnership (TPP), which was finally agreed to on October 5, 2015. One could also underline that China worries about another, not-yet-signed major potential trade agreement, the Transatlantic Trade and Investment Partnership (TTIP), still under discussion between the United States and the EU. Both trade deals could potentially isolate China, which has therefore initiated several major economic projects involving Europe in the fields of infrastructure or finance, including the internationalization of the renminbi, which in late 2015 was included in the IMF's basket of reserve currencies.

Many publications by eminent academics, among them Thomas Christensen's *The China Challenge: Shaping the Choices of a Rising Power* (W. W. Norton, 2015) and Lyle Goldstein's *Meeting China Halfway: How to Defuse the Emerging U.S.-China Rivalry* (Georgetown University Press, 2015), have reported in detail on the often tumultuous relations between China and the United States. Several books, including Howard French's *China's Second Continent* (Virago, 2014), have studied the growing Chinese presence in Africa. The role of China in Latin America also interests many scholars, among them R. Evan Ellis, author of a book titled *China in Latin*

America: The Whats and Wherefores (Lynne Rienner, 2009) or Kevin P. Gallagher, who wrote *The Dragon in the Room: China and the Future of Latin American Industrialization* (Stanford University, 2010). Relations between China and Europe, on the other hand, especially those connected to China's outbound investments, have thus far received little academic treatment. This book therefore seeks to address the lacuna by examining relations between these new partners, the Chinese and the Europeans, focusing mainly on investment flows, but also raising strategic issues.

China's Offensive in Europe aims to describe China's effort to spread its wings in Europe economically since 2009. Chapter 1 explores, through numerous examples and portraits, China's relationship with both the EU as a whole and a number of key European countries (Germany, France, the United Kingdom, Italy, Greece, Spain, Portugal), and how these countries are reacting to the deployment of Chinese investments. Chapter 2 reviews some of the sectors targeted by Chinese investors (including SOEs and private companies), from real estate to energy, including railways and automobiles. Chapter 3 then analyzes the most influential and global Chinese business groups, such as Huawei and Haier, and distinguishes various categories of corporations. Chapter 4 deals with relations between investors and Chinese finance, which is essentially state-run, and how that relationship affects their European businesses. Chapter 5 tackles the immense intercultural challenges that, twenty years after Japan's wave of foreign investments in the United States and Europe, surround the international deployment of Chinese investments. Certain issues appear to be common to most Chinese investors when they look abroad, including differences in the legal environment and in specific laws governing imports and exports, labor, and corporate behavior; marked differences in employer-employee relationships and in corporate decisionmaking; the quality and quantity of corporate communications, including communications with the press, shareholders, staff, and leading political figures; and relations with headquarters or with the Chinese government. On this last subject, chapter 6 describes the specific phenomenon of the interconnectedness of Chinese politics and business and what impact it may have on building a long-term corporate presence in Europe. Chapter 7 details the difficulties experienced on the ground by China as it attempts to improve its international image, one of the principal obstacles to the expansion of its companies in Europe and in the Western world in general. Closing the itinerary, chapter 8 looks at China as a new member of the international community, and offers thoughts for reflecting on in the future.