



CHATHAM HOUSE

Chatham House, 10 St James's Square, London SW1Y 4LE
T: +44 (0)20 7957 5700 E: contact@chathamhouse.org.uk
F: +44 (0)20 7957 5710 www.chathamhouse.org.uk
Charity Registration Number: 208223

IE Programme Paper IE PP 2010/02

Chinese Direct Investments in France: No French Exception, No Chinese Challenge

Françoise Nicolas

Senior Researcher, Centre Asie, Institut Français des Relations Internationales (Ifri) and
Assistant Professor, Paris-Est University

January 2010

The views expressed in this document are the sole responsibility of the author and do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author and Chatham House should be credited, preferably with the date of the publication.

KEY POINTS

- China's direct investment in France remains surprisingly low even compared to other EU states although the targets are quite similar, being heavily biased towards export-support and services rather than industrial activities. Even in the manufacturing sector, sales and distribution functions dominate and genuine industrial operations remain the exception rather than the norm.
- In terms of motivations, Chinese companies are primarily seeking access to the French and European market, although strategic asset seeking considerations also prevail in some cases.
- In terms of performance, Chinese investors have seen mixed results, at best, with a number of spectacular failures and a more limited number of success stories. The latter tend to occur in industries where there are substantial complementarities between the two partners and when the Chinese partner is already a large, established firm with international experience.
- Some acquisitions have been win-win deals, with Chinese investors building up international competitiveness and the French firm also benefiting, not only by surviving but also by gaining better access to the booming, but often difficult to penetrate, Chinese market.
- The modest presence of Chinese firms in France is not surprising given domestic comparative advantages in many manufacturing activities. But country-specific characteristics also account for this relatively poor position. France appears to be overshadowed by Germany's strength in key industrial sectors and by the UK's attractiveness. Most importantly, bilateral trade between France and China remains below potential and is therefore failing to help stimulate commercial relationships and investment growth.
- As a result, it is no doubt in the interest of the French government to take appropriate steps to improve opportunities for both bilateral trade and Chinese investment. Enhancing the country's reputation for openness in trade and investment relations should rank high on the policy priority list.

AUTHOR

Françoise Nicolas is Senior Researcher at Centre Asie at the Institut Français des Relations Internationales (Ifri) and Assistant Professor at Paris-Est University.

The paper has greatly benefited from comments from Stephen Thomsen, Andrea Goldstein and participants at the seminars in London, September 2008 and January 2009, and in Brussels, June 2009.

The support of Compagnia di San Paolo is gratefully acknowledged.

This paper forms part of a collaborative research project between Chatham House and CASCC, the Centre of Advanced Studies on Contemporary China, at the University of Turin. This innovative project brings together researchers, market practitioners and policy-makers to counter exaggerated media reactions and explore how far the EU economy is really benefiting from, or being buffeted by, the current rise in Chinese outward direct investment. It sheds light on the decision-making process in China, and considers longer-term consequences for the European economy, and possible EU policy responses. The project includes in-depth case studies of the UK, France, Italy, Spain and other European countries.

1. INTRODUCTION

Since the opening up and reform process was launched in China at the end of the 1970s, its economy has been booming continuously and it has emerged as one of the growth engines of the world economy. Inward foreign direct investment (FDI) was part and parcel of the Chinese economic miracle, with foreign-invested firms as the most prominent exporters.¹ As a result, inward investment into China has been widely examined. However, in line with the so-called investment development path hypothesis developed by Dunning (1993), China has graduated from being a major magnet for direct investment to being a direct investor in its own right. The first wave of Chinese overseas direct investment (ODI), which started in the late 1980s, targeted primarily developing countries in Asia, but the destinations became increasingly diversified over time. Today, although the bulk of Chinese investment abroad is still directed to developing economies, in particular to neighbouring Asian economies and to natural resource-rich African countries, a sizeable share of its outward investment is targeted at industrial economies, namely the United States and the European Union.

The phenomenon of FDI flows from developing economies, especially those arising from multinational corporations (MNCs) from India and China, has generated significant interest in policy-making circles, academia and the popular press in recent years. Of the top 100 MNCs from developing economies that have the potential to become global players, 65 are from mainland China and India (Boston Consulting Group, BCG, 2008). The expansion of Chinese firms over the past few years has come under particular scrutiny because of uncertainty about the actual nature of and motivations behind such investments. Chinese firms are often thought to be in the hands of the state and to be mere instruments of foreign policy. The establishment of China's Sovereign Wealth Fund (China Investment Corporation–CIC) in 2007 also raised suspicions about China's intentions. For example, overseas investments by the CIC as well as by the State Administration for Foreign Exchange (SAFE) have served to fuel concerns about potential hostile takeovers by Chinese interests.

Such suspicions are particularly strong in France where memories of the 'Japanese challenge' of the 1980s are still very much alive. A major fear is that Chinese firms will set cost-reduction as their primary goal ahead of job

¹ FIEs are generally reported to account for more than 50% of Chinese exports, according to MOFCOM statistics.

creation (or preservation). On the other hand, the presence of Chinese firms is sometimes viewed more positively as they may be in a position to help ailing firms financially. This ambivalent stance suggests that the precise nature of these flows, as well as their impact, is still poorly understood.

The objective of the paper is to provide a candid and detailed account of the actual presence of Chinese firms in France, to suggest explanations for this presence and assess in detail the push and pull factors influencing their activities and, finally, to provide a tentative assessment of possible impacts and future prospects.

Chinese ODI in France will be shown to be modest and to be still heavily biased in favour of export-supporting or service activities rather than industrial activities. Even in the manufacturing sector, sales and distribution offices dominate and genuine industrial activities remain the exception rather than the norm. Chinese companies are primarily seeking access to the French and European markets, although strategic asset-seeking motivations also prevail in some cases.

In terms of performance, Chinese investment can be shown to have, at best, mixed results, with a number of spectacular failures and a more limited number of success stories. The few major success stories tend to occur in industries where there are substantial complementarities between the two partners, when the Chinese partner is big and experienced enough to succeed. In these cases, the acquisition can be a win-win deal with Chinese investors building up their competitiveness while the French firm also achieves gains, not only by surviving, but also by getting easier access to the booming, but often difficult to penetrate, Chinese market. Another positive feature is that Chinese investments sometimes provide an opportunity for French firms to discharge underperforming assets.

The remainder of the paper is organized in two parts. The first part starts by providing a general background to Chinese ODI in France by highlighting global trends in China's internationalization strategy through ODI. As a next step, the current state of play of Chinese ODI in France is examined in detail with regard to function, sector and mode of entry in particular. The second part of the paper provides a critical assessment of the rationale for Chinese firms' expansion in France as well as of their performances. It then turns to explaining the apparent 'French exception' by examining the strengths and weaknesses of the country as perceived by Chinese investors. The concluding section offers an analysis of future prospects.

2. THE CURRENT STATE OF PLAY

Setting the stage

General trends and patterns of Chinese ODI

China's ODI has grown dramatically over the last thirty years, from almost nothing in the early 1980s and less than a billion dollars in 1990 to as much as \$56 billion (non-financial sector ODI) in 2008,² making China the third largest source of investment in Asia after Japan and Hong Kong. The cumulative ODI stock amounted to about \$184 billion by the end of 2008, and more than 12,000 Chinese enterprises³ have engaged in ODI in about 174 countries and regions (MOFCOM 2009). The real take-off dates back to the early 2000s. It is worth remembering that outward investment was more or less actively discouraged by the central Chinese authorities until the late 1990s, when the government made a sudden shift and embarked on the so-called 'go global' (*zou chu qu*) policy. However, in contrast to most other countries, China's ODI is still highly regulated, even as policies have shifted from outright prohibition to gradual opening up and finally to resolute and active promotion, at least for 'strategic' state-owned enterprises (SOEs).

Despite this dramatic rise, by any measure China's ODI remains negligible in relative terms. According to statistics from the United Nations Conference on Trade and Development (WIR 2009), China's ODI reached \$52 billion in 2008, ranking 13th in the world and accounting for only 2.8% of the world total. Chinese ODI is also marginal when compared to that of the major industrial economies. In terms of flows, it is a mere 16.7% of the comparable US figure. While outpacing India and Brazil and on a par with Russia, it is well behind European countries such as Spain or the Netherlands. In terms of stock, China accounted for 0.91% of the cumulative world ODI at the end of 2008,⁴ well behind Russia and even Brazil. Chinese ODI also remains dwarfed by the amount of investment that goes into China itself. Cumulative inward FDI exceeded \$378 billion in 2008 and annual inward flows reached \$108 billion that same year. Lastly, with an ODI performance index of 0.24,

² Increasing by 111% compared to 2007 on the basis of MOFCOM data. According to UNCTAD, Chinese ODI flows totalled \$52 billion in 2008.

³ Twice as many as at the end of 1999 when 5976 Chinese-invested firms operated abroad, according to the MOFTEC, the predecessor to MOFCOM.

⁴ Up from 0.24% in 1990, however.

China ranked only 59th over the period 2005–07, far behind countries such as France (2.38), the United States (0.50) or India (0.37).⁵

Figure 1: China's cross-border acquisitions and ODI flows 1982–2008

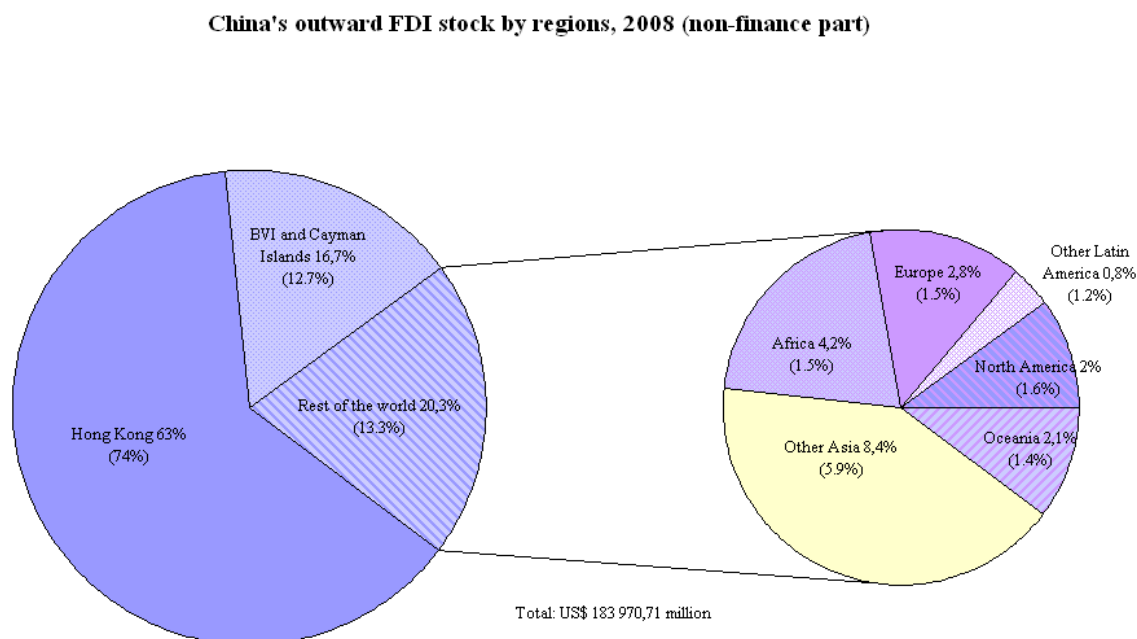


Until the early 1990s, outside Asia China's ODI was highly concentrated in North America and Oceania (primarily Australia), with government-dominated resource-seeking investments being clearly dominant. Over time, although the resource-seeking ODI continued its expansion, it was gradually complemented by market and strategic asset-seeking ODI, as reflected in the rise in ODI flows into industrial countries such as the United States and the EU (Figure 2).⁶ However Asia and Africa have kept attracting large amounts of Chinese ODI. Chinese investments tend to be primarily efficiency- and market-seeking in the former case and natural resource-seeking in the latter.

⁵ The outward FDI Performance Index captures a country's relative success in investing globally. If a country's share of global outward FDI matches its relative share of global GDP, the country's Outward FDI Performance Index is equal to one. A value greater than one indicates a larger share of outward investment relative to GDP, and a value less than one indicates a smaller share of outward investment relative to GDP. The index is calculated using three-year periods to offset annual fluctuations in the data.

⁶ According to Cheung and Qian (2008), the share of Chinese ODI in industrial countries declined consistently over the period 1980-2004, and then started to pick up again.

Figure 2: China's ODI stock by regions, 2003-08



Source: MOFCOM, 2008 Statistical Bulletin of China's Outward Foreign Direct Investment

Note: Values for 2003 are shown in brackets.

The main sectors attracting Chinese ODI are business activities, trade and mining. However, the share of manufacturing has tended to rise over the past few years.

Concerning the mode of entry of Chinese firms, there has been a gradual shift over time which is also related to the policy shifts highlighted earlier. Transnational M&As have gradually gained in importance, accounting for more than a third of the total during 2002–06, according to MOFCOM. The value of outbound M&A from China reached \$20.7 billion in 2006, up from \$1.5 billion five years ago, while the number of transactions jumped to 103 from 36, according to Dealogic. M&As are particularly common in the energy industry but they are also increasingly important in technologically advanced manufacturing, as exemplified by BOE Technology's acquisition of Korean Hydis (the Hynix Semiconductor's TFT-LCD division) or China Electronic Corporation's acquisition of the Netherlands-based Philips Electronics' mobile handset division. In industrial countries, however, Chinese ODI took the form of M&As very early on, as a way of getting access to brands, management talent, R&D capabilities, distribution and sales channels (Innovation Center Denmark 2008). Lenovo's acquisition of IBM's PC division and Nanjing

Automotive's acquisition of UK's Rover Group in 2005 are typical examples of such a strategy. M&As are particularly attractive for a latecomer like China because it is one of the quickest means of entering a market. It provides immediate access to technology, brands, customers, a skilled workforce and managerial experience with local knowledge, language and understanding. Greenfield investments typically involve manufacturing facilities and are more common in developing countries with relatively low-cost locations, but they may also include the opening of representative offices or branches in industrial economies.

A final salient characteristic of China's ODI is the prominent role still played by its state-owned enterprises (SOEs). By way of illustration, the 2008 BCG list of the top-100 global contenders from emerging economies includes 16 companies controlled by the State Assets Supervision and Administration Commission (SASAC).⁷

At this stage of the discussion, it is important to highlight an important point regarding state ownership. While many observers define a Chinese state-owned company as one of the 150 or so corporations that report directly to the central government, thousands more fall into a grey area, including subsidiaries of these 150 corporations, companies owned by provincial and municipal governments, and companies that have been partially privatized yet retain the state as a majority or influential shareholder. The oil company China National Offshore Oil Corporation (CNOOC) and the Chinese utility State Grid corporation of China (SGCC), for example, are clearly state-owned enterprises under the first classification, while the computer maker Lenovo and the appliance giant Haier are less clear-cut cases where the state is the dominant shareholder but shares ownership with other investors, including foreign MNEs and private equity firms. Given the heterogeneity prevailing among so-called SOEs, it should not come as a surprise that they are dominant outward investors.

The influence of the state on firms' strategies is easy to exaggerate in an economy like China and the foregoing observations should not lead to the conclusion that the Chinese government is strongly influencing ODI. The fact that SOEs dominate Chinese ODI has less to do with explicit measures in the 'go global' policy and more to do with the general favouritism of government policies towards the public sector within the Chinese economy. State-owned firms still enjoy privileged access to loans from the 'Big Four' state-controlled

⁷ SASAC was established in 2003, with a mandate to turn the country's top SOEs under its control into 50 global MNEs, all featuring on the global Fortune 500 list (Pamlin and Baijin 2007, p.19).

banks and profit retention is much higher than in the private sector. It is worth stressing, however, that SOEs are increasingly managed like private enterprises according to the principle 'state-owned but not government-run'. The direction of government policy is in line with the economic objectives of those firms seeking to move up the value chain from a manufacturing base to an integrated manufacturing and branded platform that will allow them to move into higher-margin business.

*Chinese ODI in Europe*⁸

Chinese investment in Europe is both very recent and still relatively insignificant, although it has shown a clear upward trend over the past few years (Figure 3). From Europe's perspective, China does not rank among the most important foreign investors. According to the French Agency for International Investments (AFII), Chinese firms accounted for a mere 0.5% of all manufacturing projects and 0.9% of jobs created in Europe over the period 2002–05.⁹ Despite its modest level, Chinese ODI into Europe has been rising lately from only 900 jobs created in Europe in 2001–03 to over 7,000 in 2004–06.¹⁰ According to other sources, China accounted for 1.2% of greenfield investments in Europe over the period 2004–06, on a par with Korea but behind India (with 1.9%)¹¹.

From China's perspective, the EU does not loom large either. Other destinations were preferred by Chinese firms and the EU emerged as a target only after 2003.¹² According to some sources, the EU accounted for merely one percent of Chinese outbound M&A in value terms (and 6% in number of deals) over the period 1999–2005.¹³

In terms of motivations, Chinese ODI in Europe seeks both market access and strategic assets (Battat 2006). Strong domestic growth is traditionally thought to fuel the need to expand overseas and to seek new markets. With competition becoming increasingly fierce on the domestic market, Chinese companies have a powerful incentive to move abroad to upgrade their manufacturing and compete in more profitable areas such as distribution, design and branding. Through M&As, Chinese investors are primarily seeking access to brand names and distribution networks or to engineering know-how

⁸ For more details, see Nicolas and Thomsen (2008).

⁹ Hatem (2006).

¹⁰ Mathieu (2006).

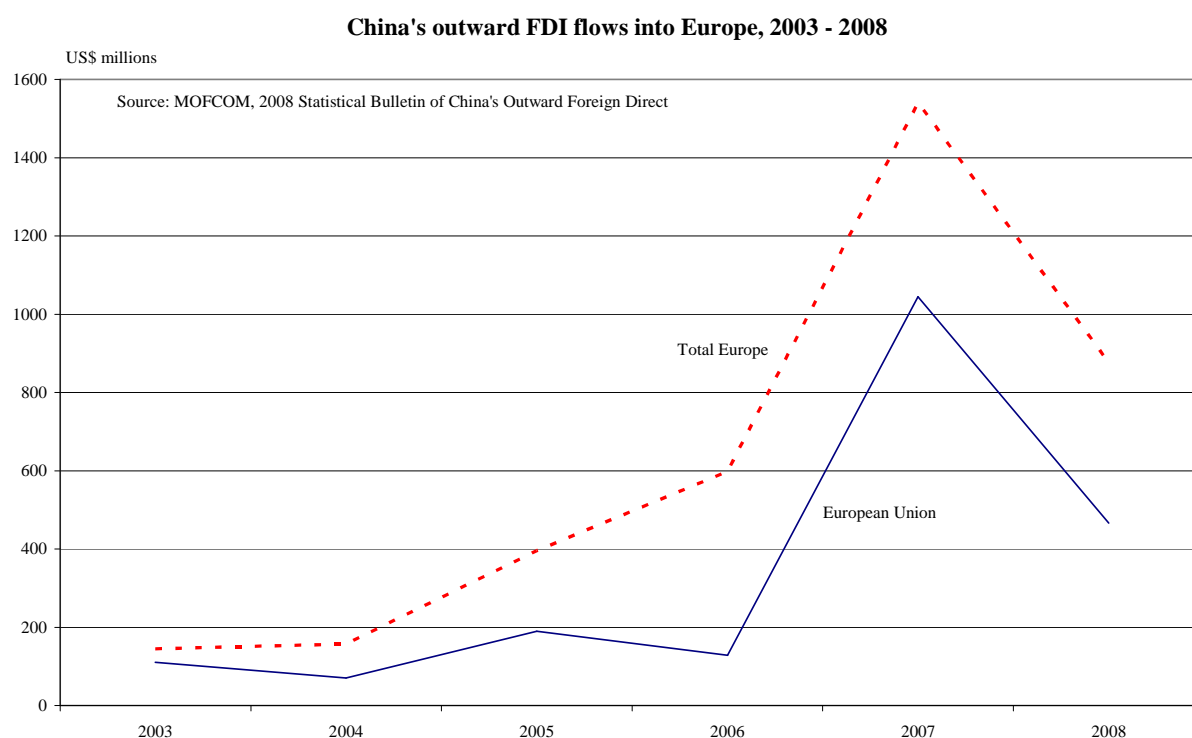
¹¹ The figures presented do not include acquisition of businesses with sound finances or minority interests, although this is the preferred method for BRIC investors to set up in Europe. They thus tend to understate the presence of these firms in Europe.

¹² The EU is reported to be a more difficult destination for outward direct investment than the United States (Kang Rongping 2008).

¹³ Dealogic, quoted in Schüller and Turner (2005).

and customer networks, while greenfield investments are aimed at facilitating Chinese firms' access to the European market and helping them customize their products for the local market. Greenfield investments also tend to be more common in the new EU Member States.

Figure 3 China's ODI flows into Europe, 2003–08



The choice of country is partly opportunistic – such as when an acquisition target becomes available – and partly a reflection of the different strategies behind Chinese ODI in Europe. There seems to be a tendency for Chinese firms to invest in those sectors in which the host country has a particular strength. This suggests a desire on the part of investors to obtain strategic assets from their European acquisitions. In such cases, the deals result from the coincidence of a supply of know-how and financial difficulties on the one hand (acquisition target) and financial strength and demand for technical expertise on the other (the acquirer).

China's ODI in France: A macroeconomic overview

France does not loom large on Chinese investors' radar screens

As can be seen in Tables 1 and 2, Chinese ODI to France has been rising sharply, although irregularly, over the past few years. As a result of the latest surge, Chinese ODI stock in France increased more than 10 fold between 2003 and 2008 according to MOFCOM data. Despite the rise, Chinese investments in France are still marginal compared to Germany and the United Kingdom, destination countries of equivalent size. In terms of ODI stock, France ranks third among the EU destinations of Chinese investors, lagging far behind the United Kingdom and Germany. However, there appears to have been an unusual surge in Chinese ODI into France in 2008 while other major countries' ODI fell as did total ODI (this surge in France also contrasts with the fall in job numbers discussed below). This data for 2008 now puts France just ahead of Sweden, Spain, the Netherlands and Italy¹⁴ in terms of ODI stock. All these ODI data are clearly erratic and rankings may shift from year to year although a similar picture emerges from other data sources, such as Ernst and Young or FDI Market Intelligence databases, with France ranking well behind Germany and the United Kingdom (Rabellotti and Sanfilippo 2008).

Table 1: Chinese outward FDI flows to the EU (non-financial sector, \$million)

	2003	2004	2005	2006	2007	2008
Total EU	112,54	73,08	189,54	128,73	1044,12	466,7
Germany	25,06	27,5	128,74	76,72	238,66	183,4
Netherlands	4,47	1,91	3,84	5,31	106,75	92,0
Other EU	2,63	0,77	1,72	0,27	7,65	45,3
Ireland	0,14			25,29	0,2	42,3
France	0,45	10,31	6,09	5,6	9,62	31,1
United Kingdom	2,11	29,39	24,78	35,12	566,54	16,7
Czech Republic		0,46		9,1	4,97	12,8
Romania	0,61	2,68	2,87	9,63	6,8	12,0
Poland	1,55	0,1	0,13		11,75	10,7
Sweden	0,17	2,64	1	5,3	68,06	10,7
Italy	0,29	3,1	7,46	7,63	8,1	5,0
Hungary	1,18	0,1	0,65	0,37	8,63	2,2
Denmark	73,88	-7,78	10,79	-58,91	0,27	1,3
Spain		1,7	1,47	7,3	6,09	1,2
Greece		0,2			0,03	0,1

Source: MOFCOM (2009)

¹⁴ France ranked seventh in 2007.

Table 2: Chinese ODI stock into the EU, 2003–08 (non-finance part, \$million)

	2003	2004	2005	2006	2007	2008
EU	425.81	553.17	768.01	1274.51	2942.1	3173.9
Germany	83.61	129.21	268.35	472.03	845.41	845.5
United Kingdom	75.15	108.46	107.97	201.87	950.31	837.7
France	13.12	21.68	33.82	44.88	126.81	167.1
Sweden	6.07	6.44	22.46	20.02	146.93	157.6
Netherlands	5.9	8.97	14.85	20.43	138.76	145.0
Spain	101.81	127.67	130.12	136.72	142.85	145.0
Italy	19.18	20.84	21.6	74.41	127.13	133.6
Poland	2.72	2.87	12.39	87.18	98.93	109.9
Ireland	0.24	0.04	0.04	25.3	29.23	107.8
Hungary	5.43	5.42	2.81	53.65	78.17	88.8
Romania	29.75	31.1	39.43	65.63	72.88	85.7
Denmark	74.43	67.2	96.59	36.48	36.75	38.1
Belgium	0.41	1.64	2.34	2.67	33.98	33.3
Czech Republic	0.33	1.11	1.38	14.67	19.64	32.4
Bulgaria	0.6	1.46	2.99	4.74	4.74	4.7
Memo item						
Total world	33 222.2	44 777.3	57 205.6	75 025.6	117 910.5	183 970.7

Source: MOFCOM (2009)

In fact, the top rankings are unlikely to change in the near future. Firstly, the slowdown triggered by the current global economic crisis can be expected to affect France particularly negatively. Secondly, according to preliminary data, Germany proved more resilient to the crisis-induced slowdown in ODI than both the United Kingdom and France. The main reason quoted for this is that Germany attracts new regional headquarters for both the domestic and East European markets (Ernst and Young European Investment Monitor 2009).

Interestingly enough, according to a survey issued by the Economic Information department under the China Council for the Promotion of International Trade,¹⁵ France is not mentioned among the potential destinations for future investments. East and Southeast Asia remain the top destinations (with 35% of responses¹⁶), ahead of North America, Africa and Western Europe (with 11–12% each). Among EU member countries, Germany ranks first (with 7%), ahead of the United Kingdom (with 4%).

The insignificance of Chinese ODI is confirmed from the French perspective

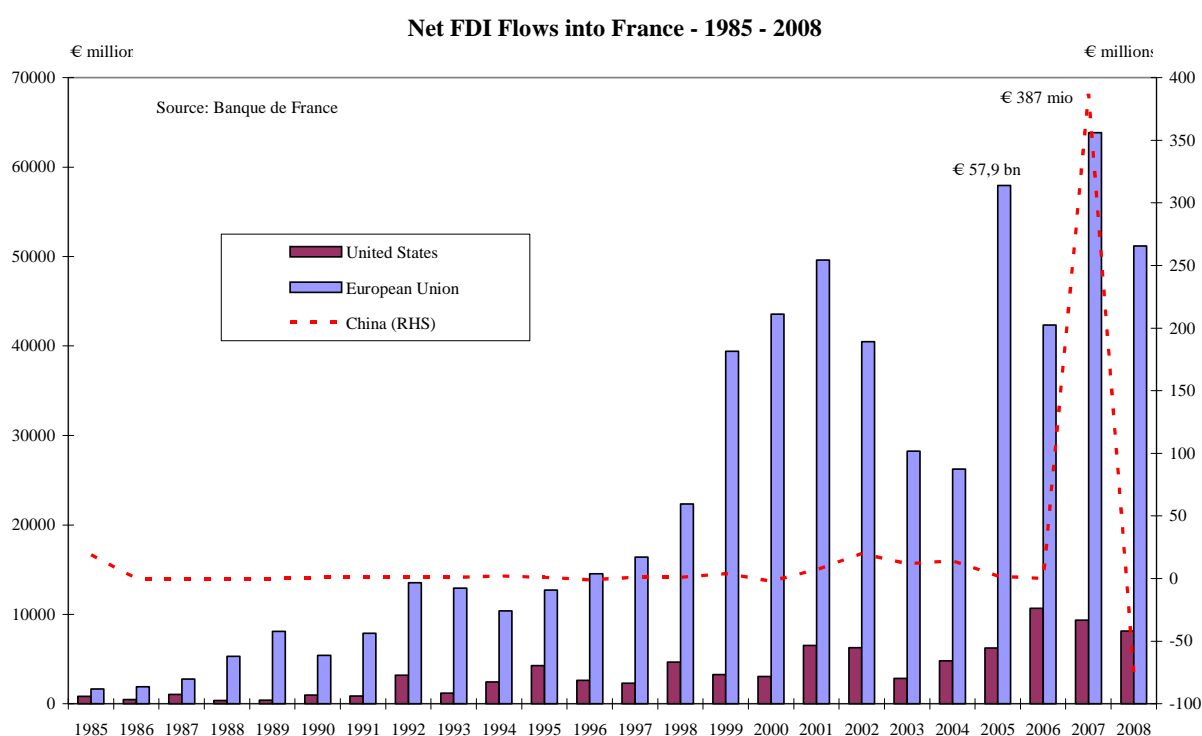
From the French perspective, Chinese investments also appear relatively insignificant. European firms rank first among foreign investors in France, with

¹⁵ The results of the survey can be found at: <http://www.asiapacific.ca/en/survey/china-goes-global-2009>

¹⁶ Out of a total of 303 responses.

close to 70% of the total (AFII data 2008), ahead of North America (21.4%) and Asia (10.9). Within Asia, China is still a minor player. By individual country, the United States ranks first (with 19% of all jobs created), ahead of Germany (14.8%) and Italy (11.3%). Balance-of-payments data confirm the predominance of European investors over all other foreign investors operating in France, as can be seen in Figure 4.

Figure 4: Net FDI Flows into France, 1985-2008



Although Chinese investments have been rising sharply over the past couple of years, they still remain modest. Overall, France fails to attract as many BRIC (Brazil, Russia, India and China) investment projects as its major European competitors such as the United Kingdom or Germany. Out of the 156 investment projects by the four BRICs in 2007, France attracted only 15, against 53 for the United Kingdom¹⁷ and 20 for Germany (Ernst and Young France attractiveness report 2008)¹⁸. In terms of number of projects, Chinese invested projects accounted for less than 2% of the total in 2008 and 2.6% of the total in 2007 (AFII data).

¹⁷ 28 of these projects were of Indian origin.

¹⁸ Réinventer la croissance – Baromètre attractivité du site France 2009, Paris, 2009

When job creation is used as a measure of foreign influence, China seems to be playing a rising role with about 1,500 jobs created or maintained in 2007, but this is small in comparison with traditional investors from neighbouring countries. Mainland China is not mentioned among the major foreign job generators, in contrast with other emerging economies such as India (which ranks 15th) and Hong Kong (which ranks 10th).¹⁹ According to AFII (2009), Chinese firms accounted for 4% of all the jobs created (or maintained) by foreign firms in 2007. However, the number of jobs they created in 2008 plummeted to 210, which seems to contradict the data pointing to a surge in the ODI inflow in 2008.

Further indicators also point to China having only a modest presence. Greenfield investments from Mainland China accounted for merely 1.4% of total foreign investment projects in France over the period 2004–06 (Mathieu 2006). Finally, in terms of number of firms, Chinese investors rank only 13th (with 80 enterprises, according to the ORBIS database), ahead of Korea or India but far behind the United States, Germany and the United Kingdom.

Chinese ODI in France is also dwarfed by French ODI in China. France is the 10th largest foreign direct investor in China and the third European. Some 850 firms are reported to be present with 1,800 investments. French firms' turnover in China is twice as large as the value of French exports to China.

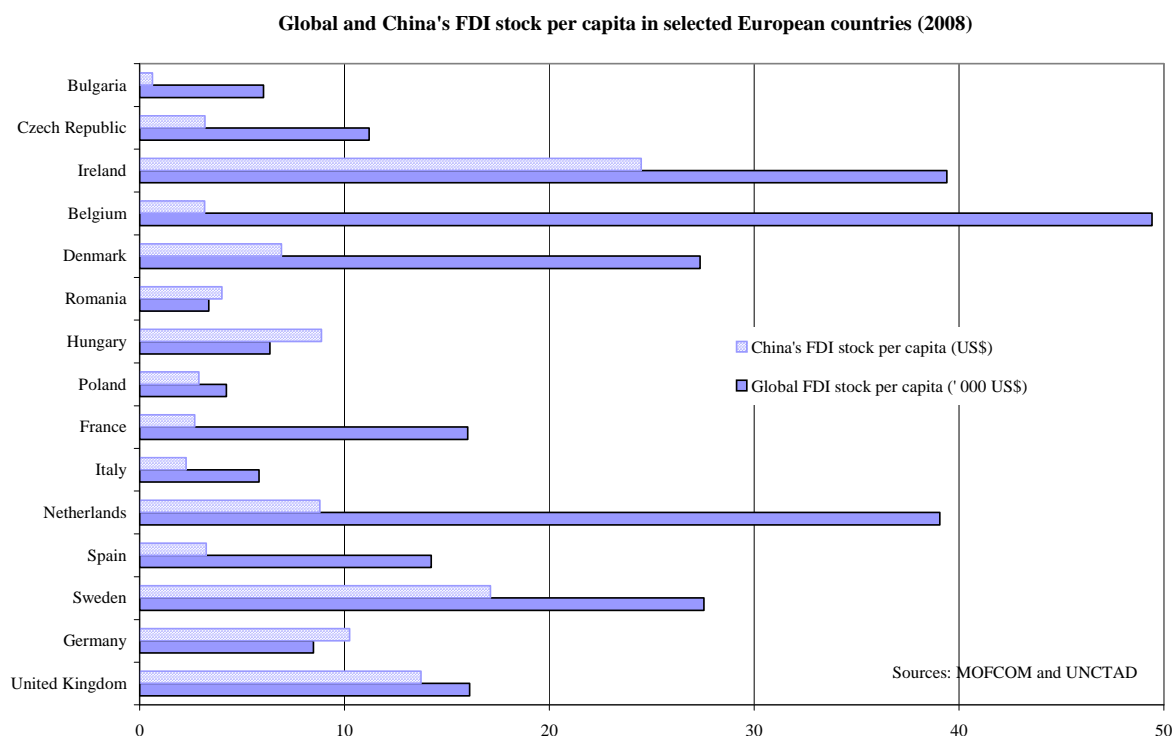
Another French exception?

The apparent lack of attractiveness of France for Chinese investors is in sharp contrast to the overall situation as France ranks systematically among the most attractive destinations for FDI. According to UNCTAD, France was the third largest destination for FDI flows in 2007 (with \$157.9 billion)²⁰ and in 2008 it ranked second (with \$117.5 billion), behind the United States, and ahead of China. In Europe, France overtook the United Kingdom for the first time in 2008, albeit this was a poor year given the sharp drop in total FDI.

In terms of stock per capita, Chinese ODI in France appears to be below its potential. A comparison between the magnitude of global FDI stock per capita and that of Chinese FDI stock per capita suggests that France is clearly less attractive to Chinese investors than to other foreign investors (Figure 5). Moreover, while the stock of global FDI per capita is higher in France than in Germany and comparable to that in the United Kingdom, the stock of Chinese FDI per capita in France is much lower than in the two other countries.

¹⁹ When Mainland Chinese investors and Hong Kong investors are combined, China ranks seventh in terms of job creation.

²⁰ This reflects a sharp rise compared to \$73 billion in 2006 (UNCTAD).

Figure 5: Global and Chinese FDI stock per capita in Europe (2008)

In a study by Gaublotte and Hens (2008), France is also shown to widely 'underperform' as a recipient for Chinese FDI. The study is based on a gravity model that seeks to identify the main determinants of Chinese ODI in the world and uses nominal GDP, unweighted geographical distance, and cultural distance as explanatory variables.

The fitted values of the gravity equation can be thought of as the 'normal' or 'potential' stock of Chinese foreign direct investment. As a result, the countries whose actual stock exceeds the fitted stock are deemed to 'overperform' while those with an actual stock well below the fitted stock are said to 'underperform'. Overperformers are reported to include China's regional neighbours (Macao, Mongolia, South Korea, Thailand, Vietnam,), countries rich in primary resources (Algeria, Iraq, Nigeria, Peru, Saudi Arabia, South Africa, Sudan, Zambia), countries that are both neighbours and resource-rich (Australia, Indonesia, Kazakhstan, Russia), and Germany. The European Union is found to underperform as a whole, while Germany appears to be an attractive host. Actual Chinese FDI in France is found to be far below its calculated potential.

Major characteristics of Chinese ODI in France: a microeconomic perspective

The first Chinese investments in France date back to the late 1970s. Indeed, the Bank of China, which has been operating in Paris for 33 years, is said to be one of the very first Chinese investors. From 1980 to the end of 2005, €126 million were invested and more than 10 firms opened representative offices. The trend has accelerated ever since and total Chinese investments amount today to about €600 million, according to the Association of Chinese Firms in France.²¹

Interestingly enough Chinese investment in France has been gradually changing over time, be it in terms of function, sector or mode of entry.

By function

Initially, a substantial number of Chinese investments corresponded to sales and marketing activities (commercial and liaison offices) or headquarters operations and most of these investments involved very little job creation. Investments with very limited staff numbers are still very common. For instance, Chinese high-tech firm Ixento (a 100% subsidiary of Sanguine Microelectronics, which specializes in semi-conductors and circuit analysis software) established itself in Montpellier in 2004 with only two employees. In 2005 Utstarcom²² (telecoms and IT services), Wenzhou Yeuhua Locks, and Beijing Huaqi Information Digital Technology and Brilliance Group (diversified distribution) set up sale units in various parts of France (Mathieu 2006).

However, as is usually the case, Chinese ODI in France has gradually moved away from mere trade representative offices with a very limited number of staff, to production, manufacturing, assembly and R&D activities. Chinese investments are now almost equally distributed between production sites and service activities (see Table 3). At the same time, the number of jobs created by Chinese investors has been rising fast over the past few years, as the number of jobs created or maintained is much larger in production activities than in service activities.

R&D labs are also becoming increasingly important in France, with firms such as Huawei, ZTE, BBKA being particularly active in this area. Huawei has R&D

²¹ The Association, which was founded in 2007, has about 40 corporate members.

²² Utstarcom, a Sino-American firm headquartered in the United States, is a global leader in the manufacture, integration and support of IP-based, end-to-end networking and telecommunications solutions. Utstarcom's customers include the largest and most respected service providers in emerging and established telecommunications markets worldwide.

centres in France (Lannion and Cergy Pontoise), Sweden, Germany (Bonn), the Netherlands and Spain. These aim at customizing the goods and services in order to better target the local market. Huawei has technical assistance centres in the United Kingdom and in Germany, as well as training centres in the United Kingdom, France and Hungary. It also has call centres in France and Hungary.

Table 3: Chinese ODI in France: breakdown by function (number of projects), as of early 2009

	Author's database	AFII database
Production	22 (41%)	20 (31%)
Services	24 (45%)	38 (58%)
<i>Sales and marketing</i>	12 (23%)	23(35%) <i>t</i>
<i>Business services</i>	1 (2%)	3(4%)
<i>Logistics</i>	4 (7%)	4 (6%)
<i>Headquarters</i>	7 (13%)	8 (12%)
R&D	5 (9%)	6 (8%)
Waste management	2 (4%)	1 (1.5%)
Total	53 (100%)	65 (100%)

Source: Author's database

Table 4: Jobs created or preserved by Chinese investors (by function)

Jobs created or preserved by Chinese investors (by function)								
Type of projects	2000	2002	2003	2004	2005	2006	2007	2008
Sales office	15		30	55	40	122		60
R&D centre				100	210	20	40	
Distribution, logistics	15				132		15	12
Service provision						300	20	
Production/manufacturing/assembling		64	90	529	200	1086	1064	108
Headquarters				8		44	320	30
Waste management				60				
Total	30	64	120	752	582	1572	1459	210

Source: AFII database

Starting from the export of its expanding variety of products, ZTE, the leading Chinese manufacturer and installer of mobile phone technology, made its first foreign investment in 2000. ZTE's ODI projects include overseas customer service centres, sales representative offices, factories, and several R&D centres, including in the United States, Sweden, France, India and Pakistan (OECD 2008). In 2005 ZTE set up a research, training and maintenance

center at the Futuroscope technology park near Poitiers in western France.²³ It has another R&D center in Boulogne-Billancourt.

By sector

In the case of France, Chinese firms are present in a wide variety of sectors, spanning chemicals (China Bluestar), textiles (Weihai Textiles), electronics and telecommunication equipment (Huawei and ZTE), consumer electronics (Haier, Hisense), automobile (Greencool, Airtac), machinery and mechanical equipment (SHMG, Hebei Honghye), air transport and freight (Air China, China Eastern), as well as electrical home appliances (Haier). In terms of value, however, the ICT sector (electronics and telecommunication equipment) and the chemical sector are clearly dominant (whatever database is used).²⁴ These are the only two sectors (together with the machinery and mechanical equipment industry) in which Chinese investors engage in genuine manufacturing activities.

Over the period 2000–08, the chemical sector ranks first with more than 40% of the jobs created by Chinese firms (see Table 5). This is primarily due to the acquisition by China Bluestar of large production capacities in silicone as well as in animal feed industries. The electrical, electronic and office equipment sector comes second, ahead of the automobile industry and machinery and mechanical equipment industry.

The picture is slightly different when investments are ranked by number of projects. The chemical sector still ranks number one and electrical, electronic and office equipment second, but consumer electronics now ranks third on a par with the transport and construction sector.

In the most recent period, the machinery and mechanical equipment sector has attracted a number of investments, as was the case with Hebei Honghye, Shenyang Heavy Machinery Group (SHMG) or Tianshui Spark.

²³ The company, which aims to create at least 200 jobs at the site, will receive almost 300 trainees per month.

²⁴ This sectoral concentration is perfectly in line with what is observed at the global level, where most of the Chinese companies investing overseas are shown to belong to the high-tech sector (Di Minin and Zhang 2008).

Table 5: Breakdown by sector (number of projects, 2000–09)

Communications equipment	8
Consumer electronics	8
Chemicals	5
Transport services	5
Fabricated metals	4
Machinery equipment	4
Plastic and rubber / Recycling	3
Software & Information technology	2
Textiles	2
Automotive	2
Construction	1
Consumer goods	1
Financial and business services	1
Food production	1
Financial services	1

Source: Author's database

Table 6: Jobs created or preserved by Chinese investors (by sector)

Jobs created or preserved by Chinese investors (by sector)								
Sectors	2000	2002	2003	2004	2005	2006	2007	2008
Agriculture, Agro-food business				250	10			
Furniture and home equipment						20		
Other service activities, commercial and financial				8	10	325		
Chemicals		64		76		1014	880	15
Electronic components					200			
Engineering and business services					10			
Automotive industry				263			15	
Consumer electronics						115		40
Energy and other services								25
Electrical, electronic and office equipments	15		30		210	40	240	
Medical equipment								10
Machinery and mechanical equipment							240	10
Aeronautics, railways and ship equipment						10		
Medicines and biotechnology						20		
Metals, recycling				5			64	83
Telecommunication and internet access providers				100	10			
Textile and clothing	15		90			10		10
Transport and construction				50	132	18	20	17
Total	30	64	120	752	582	1572	1459	210

Source: AFII database

In the service sector, a number of Chinese airlines (Air China, China Eastern and China Southern) have opened an office in the Paris area, while various logistics companies such as COSCO and Coscon are present in large French harbours or airports with a view to helping Chinese firms access the European market. COSCO Logistics has established a subsidiary in the United Kingdom and two subsidiaries in France (Le Havre and Marseille).

China Shipping, the second largest Chinese container liner company (or carrier), quickly followed suit. It has had a presence in Le Havre and Marseille since 2006.

The major Chinese firms present on French territory are ZTE, Huawei, Cosco, Watchdata, China Bluestar, Shenyang Heavy Machinery Group (SHMG), Hebei Honghye or Lenovo. After the acquisition in January 2007 of Rhodia's silicone division, China Bluestar has become the largest Chinese investor in Europe.

By mode of entry

At first, most Chinese investments resulted from organic growth and took the form of greenfield investments. Such was the case with the establishment of sales and representative offices, headquarters or R&D centres. The creation of research centre is also part of the most recent trend.

As noted earlier Chinese ODI in industrial countries took the form of joint-ventures or acquisitions very early on, as a way of gaining access to brands, management talent, R&D capabilities, and distribution and sales channels.²⁵ France is no exception in this respect, and Chinese companies are increasingly expanding in France through external growth and acquisitions (AFII 2008). This evolution also squares with the rise of production activities since takeovers are more common for the latter functions.

At first, Chinese firms tended to resort to joint ventures (JVs), focusing on the ICT sector. The first JV was initiated by Ningbo Bird, one of the largest mobile phone companies in China, and Sagem in 1999 with the objective of producing, developing and selling mobile phone handsets. The JV was further enhanced in 2002 but was terminated in 2008.

In 2003, TCL set up a JV creating the TTE Corporation²⁶ with France's Thomson Group, giving TCL control of the RCA brand and making it the global leader in television manufacturing. At the time, TCL was hailed as the first Chinese company to compete on the international stage with large international corporations. Analysts cited the company's willingness to cooperate with competitors as an asset. Investors in TCL include former competitors: Toshiba, Sumitomo, Kingsoft, Nanda, Pentel, and Schneider.

One year later, in April 2004, TCL Mobile set up a majority-owned cellular phone JV (TCL Alcatel Mobile Phones–TAMP) with the French loss-making

²⁵ Innovation Centre Denmark (2008).

²⁶ TCL had a 67% share and Thomson the remaining 33% .

mobile phone company Alcatel, with a view to engaging in development, production, sales and relevant services. TCL Mobile held 55% of the JV and Alcatel 45%. TCL Mobile acquired Alcatel Mobiles in 2005 (but without the research activities).

In 2007, Hisense, the largest professional telecommunications enterprise in East China's Shandong Province, set up a JV with French SEPEP (Société Européenne de Production d'Ecrans Plats) to produce flat-screen TV sets for the expanding European market.

Another JV took place in the automotive industry with Chinese Airtac establishing a JV with French Automax (a specialist in high-tech automation) to operate in the field of robotics and automation.

In addition, Chinese firms sometimes acquire minority stakes as a way of strengthening their relationship with European partners. This was the case for Chinese Neo Neon Holdings Limited, which bought a 20% stake in LCX Leblanc Chromex (a firm specialized in public lightning), and for Erdos, which holds a minority stake in Eric Bompard (the French specialist in cashmere sweaters).

Large majority acquisitions started in 2006, with the chemical sector as a major target. In 2006, China National Bluestar acquired Drakkar, the parent company of Adisseo (a world-leading animal nutritional feed²⁷ firm based in France), for \$560 million to extend BlueStar's product line. Later in 2006, China National Bluestar also bought French company Rhodia's organic silicone business including its patents, manufacturing equipment and distribution channels as well as the company's sulphide business. The purchase allowed China to raise its silicone monomer production capacity to 250 000 tons a year, making it the third biggest producer in the world. The new entity, called Bluestar Silicones, has its worldwide operational headquarters based in Lyon. Bluestar Silicones also has downstream production units throughout the world and in particular in the Rhone-Alpes region (Saint-Fons) as well as leading positions in key markets such as speciality elastomers, paper and textiles coatings, dental and paramedical applications. The new group will have two centres of excellence; one in Europe (with a world-scale research centre in Lyon and a large number of production units) and one in Asia. After these M&A deals, BlueStar became the world's second and third largest producer of methionine (an animal feed

²⁷ [The world's third largest methionine producer.](#)

additive) and organic silicone, respectively, and the largest Chinese investor in France.

Among other minor acquisitions, it is worth mentioning Euro-Auto Hose (or Tuyaux de Nevers), a French producer of rubber pipes for the auto industry, which was taken over by China's Yangzhou Greencool in 2004.

Chinese investments can take the form of outright acquisitions or may begin with a strategic investment that is eventually followed by a complete takeover. This was the case with Chalkis, the number one Chinese tomato product manufacturer, which acquired a 55% stake of French Le Cabanon–Conserves de Provence in 2004, and raised its participation to 100% in 2005.

The latest wave of acquisitions has been concentrating on the machinery industry (SHMG–NFM Technologies, Tianshui Spark–Somab, Hebei Honghye–Two Cast, Weichai Machinery–Moteurs Baudouin).

In August 2007, Northern Heavy Industries Group (NHI), which owns Shenyang Heavy Machinery Group (SHMG), took over the financially distressed French tunnel-builder NFM Technologies²⁸ by acquiring 70% of Wirth Group Holding which controls the firm. The French group had been in financial difficulties for many months when SHMG decided to inject capital. NFM was under the protection of the commercial court since experiencing financial difficulties and its recovery plan required legal approval following consultations with creditors. Under the plan, approved by the court in July 2007, the payments due to creditors are to be resolved by 2010, which will then enable NFM to exit legal protection. The recovery plan has been facilitated by a cash injection of €20 million from the new majority owner.

In 2008, Tianshui Spark Machine Tool Co. Ltd, a major manufacturer of the numerical-controlled machine tool sector in China, successfully acquired an 81% stake in France-based SOMAB (Société Mécanique du Bourbonnais), a machine tool arm owned so far by the European group CATO. The remaining 19% stake in SOMAB is held by the employees of the target company.

Similarly, Hebei Hongye Machinery Co., a Chinese enterprise with 1,800 employees in China specializing in the production of capital goods, has recently acquired a majority participation in Two Cast Europe. As a result, it operates three foundries in France; one, Two Cast Auvergne, located in the

²⁸ Ranked amongst the most important tunnel-boring machine (TBM) manufacturers on the world market, NFM Technologies provides its customers with excavation machines suited to all types of geology and acknowledged for their reliability and robustness. Beyond TBM design and manufacture, NFM provides all services required for correct work site operation: technical assistance, maintenance, regular cutting tool inspections and replacements.

Auvergne region (St Eloy-les-Mines), (a 100% affiliate of Two Cast Europe); the second, Two Cast Isère,²⁹ located in the Rhône-Alpes region (Villefontaine); and the third in Bourges (Two Cast Berry).³⁰ These acquisitions targeted ailing enterprises: in particular, Fonderie et ateliers de Saint Satur- FASS-, which was to become Two Cast Berry, was in receivership when Hebei Honghye decided to take it over.

Lastly, in February 2009, Weichai Power Ltd, one of China's leading diesel engine manufacturers, acquired the French Cassis-based diesel engine and gearbox maker Société des Moteurs Baudouin (SMB),³¹ which had been in receivership since October 2008.

Other recent acquisitions are also worth mentioning. First, in January 2008 the Chinese Qingdao-based trading company Longhai International acquired in January 2008 Château Latour-Laguens, a wine property to the southeast of Bordeaux – the first Chinese purchase in the region. Investing in winemaking is nothing new in France; as far back as 1983, the Japanese Suntory Group of Osaka acquired Château Lagrange in St-Julien, and, over the past few years, large numbers of Russian and Indian buyers have also been taking stakes in various properties in the region. Although this type of investment is marginal, it certainly fuels concerns about Chinese investors taking over French interests because of the highly symbolic nature of the wine industry in France.

Secondly, in April 2009, two Chinese firms (Shangdong Longsheng Import and packing company Honest Timber) were given the green light to acquire Plysorol SAS, a French plywood producer³² which had been in receivership since November 2008. The company has three sites in France (Lisieux, Fontenay-le-Comte and Epernay) and production facilities in Gabon. The new Chinese-owned operation, which was approved by the commercial court of Lisieux, northern France, was also backed by Plysorol's workers and the local authorities. Apart from promising to retain Plysorol's 470 or so staff for the next three years, the new owners have pledged a €20 million investment to update and modernize much of Plysorol's machinery in order to improve the group's efficiency. Other targets include ensuring the reliability of supply and the quality of raw materials (Plysorol now has access to 1.1 million hectares of concessions in Gabon); the development of new commercial outlets in

²⁹ 32 jobs were preserved in the former case and 80 in the latter.

³⁰ *La Montagne*, September 15, 2008.

³¹ Moteurs Baudouin SA (MB) is a manufacturer and wholesaler of marine diesel engines, gearboxes, propeller shafts and related products with a registered capital of €13.82 million.

³² Its products include okoume, poplar and exotic panels.

Europe, Africa and the Middle East; and the implementation of an active third party certification policy.

By destination

For obvious reasons, Chinese enterprises have tended to focus on two regions: Ile de France (or rather the wider Paris area, including Normandy) and Rhône-Alpes. Many Chinese enterprises have established their headquarters or their strategic decision-making centres in or around Paris (Huawei, ZTE, Cellon Communications Technology, China Aerospace Science and Industry Corporation – Casic, or Lenovo).³³ One exception is Sanguine Microelectronics, which established itself in Montpellier.

In contrast, industrial activities are geographically more diversified according to the location of potential targets as well as the availability of technical expertise. Several factory buyouts (including those by Bluestar) have occurred in the Rhône-Alpes region, that is an industrially active area. Chinese investment in the Rhône-Alpes region obviously takes advantage of the presence of technological expertise in the chemical industry.

Table 7: Breakdown by region (number of projects), as of early 2009

	Author's database	AFII database
Ile de France	19	24
Rhône-Alpes	8	13
Ouest (Bretagne, Charentes-Poitou, Pays de Loire)	6	2
Sud-Ouest (Aquitaine, Midi Pyrénées)	4	3
Normandie	3	6
Nord-Pas de Calais		2
Champagne-Ardenne		1
Languedoc-Roussillon/Alpes	4	4
Côte d'Azur		
Centre	3	5
Lorraine	2	3
Auvergne	2	2
Total	51	65

Source: Author's database

³³ The choice of Paris as the location for its headquarters was not Lenovo's, but IBM's.

Table 8: Chinese investments by region

Chinese investments by region								
Region	2000	2002	2003	2004	2005	2006	2007	2008
Auvergne						1	1	
Basse-Normandie								1
Bourgogne				1			1	1
Bretagne							1	
Centre	1							1
Champagne-Ardenne			1					
Haute-Normandie					1	2	1	1
Ile-de-France	1		1	2	4	9	2	5
Languedoc-Roussillon							1	
Lorraine					1	1		
Midi-Pyrénées		1		1		1		
Nord-Pas-de-Calais				2				
Picardie							1	
Poitou-Charentes					1			
Provence-Alpes-Côte d'Azur				1		2		
Rhône-Alpes				2	1		8	2
Total	2	1	2	9	8	16	16	11

Source: AFII database

The next regions in the ranking are Auvergne, Centre, and Brittany and the Loire Valley area. While the first two are home to investments in the chemical and heavy machinery industries (China Bluestar in Commentry, Hebei Honghye in Saint-Satur and Saint-Eloy, Tianshui Spark in Moulins), the last two have attracted primarily investments in the telecommunications sector (Huawei in Lannion, ZTE in Poitiers).

The coincidence between sectoral and geographic concentration suggests that Chinese firms tend to invest in industrial clusters, which are defined by Porter as 'geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region'.

Major players

Not unexpectedly, most Chinese investments taking place in France are by government-controlled enterprises. This should not come as a surprise since outward investment requires financial capacity that private firms are usually lacking.³⁴ As explained earlier, this does not mean, however, that the firms are under the full control of the Chinese government.

As for investments by Chinese sovereign wealth funds, the fear of a takeover of French assets by the CIC is also misplaced, at least so far. Only the SAFE

³⁴ See Huang Yasheng (2008) for more details on this point.

(which operates under China's central bank) has reportedly taken a 1.6% stake in Total's capital.³⁵

This may possibly change in the coming years, however. At the Boao Forum held in April 2009, Lou Jiwei, chairman of China Investment Corp (CIC), said the CIC had not invested at all in eurozone countries in the previous year because of financial protectionism, but that now, with European countries easing scrutiny over investments by sovereign wealth funds, it was more of an option. Moreover, there are long-term investment opportunities emerging from the current global financial crisis. However, while both the CIC and the SAFE can be expected to make cross-border forays, they are more likely to do so as minority shareholders 'aiming for capital gains consistent with their mandates and stated intentions as investors rather than as active shareholders' (Luedi 2008, p. 81).

Table 9: Major acquisitions by Chinese investors in France

Acquirer	Acquired	Activity	Year	Participation (%)
Greencool Co.	Euro-Hose Tuyaux de Nevers	Automobile parts	2004	100%
TCL	Thomson TV division	TV assembly	2003	JV 67 - 33
Chalkis	Le Cabanon– Conserves de Provence	Tomato products	2004	55 then 100%
TCL	Alcatel mobile handset division	Mobile handset production	2004	JV 55–45 then 100% (2005)
Neo Neon	LCX-Leblanc Chromex	Professional lightning	2004	20%
China National Bluestar	Adisseo	Manufacturing animal nutritional additives	2005	100%
China National Bluestar	Rhodia Silicones	Manufacturing of silicone products	2006	100%
Shenyang Heavy Machinery Group	NFM Technologies	Manufacturing of tunnel boring machines, handling and lifting equipment	2008	70%
Tianshui Spark Machine Tool Company	Somab	Manufacturing of numerical-controlled machine tools	2008	81%
Hebei Hongye Machinery Co	Two Cast Europe	Foundry	2008	
Weichai Power Ltd	Moteurs Baudouin	Manufacturing of diesel engines	2009	100%
Longsheng Shandong Export and Import Corp. + Honest Timber Gabon	Plysorol SAS	Plywood production	2009	100%

Source: author's database

³⁵ It has been reported lately to be in talks with GDF-Suez and Areva for instance (*China Daily*, 21 September, 2009).

Table 10: Major Chinese direct investments in France

Investor	Sector/activity	Type of operation	Year
ERI	Plastic and rubber	Plastic recycling plant	2004
China Southern Airlines	Air transport	Sales and marketing office	2004
ZTE	ICT and electronics	Headquarters, R&D center	2004, 2005
Sanguine Microelectronics	ICT and electronics/technical data services	Headquarters	2004
Duoling	Metal products	Logistics centre	2005
Beijing Huaqi Information Digital Technology Co Ltd	Consumer electronics	Sales and marketing office	2005
Airtac (JV with French Automax)	Automation and robotics	Sales and marketing office	2005
China Exim Bank	Financial services	Office	2005
Cellon Communications Technology Shenzhen	Business services	Headquarters	2006
CBMI Construction	Construction	Commercial subsidiary company	2006
BBCA	Biochemistry	R&D	2006
Hisense	TV assembly	Acquisition of a factory	2007
CSCL	Logistics	Expansion of maritime transport company	2007
Midea Holding	Household appliances	Sales and marketing office	2007
Huawei	ICT equipment	R&D centres	2007
Haier	TV assembly	Takeover of an existing plant	2007
Cosco	Logistics	Representative offices	2008

Source: author's database

These remarks should not lead to the conclusion that the state does not have a say in Chinese investment plans. For instance the Bank of China failed recently to receive approval from the Chinese government for its 20% stake acquisition of French bank Compagnie Financière Edmond de Rothschild (\$340 million or €236 million) (Rosen and Hanemann 2009). Initiated in September 2008, the agreement was postponed at the end of 2008 and finally abandoned in March 2009. The decision reflects increasing wariness among Chinese regulators³⁶ about giving lenders free rein to invest in Western financial institutions following several catastrophic investments that have cost China and its state-run lenders billions of dollars. Such was the case with investments in foreign financial firms including Morgan Stanley and

³⁶ The CBRC, the financial industry watchdog, has recently stepped up regulation of Chinese banks' overseas acquisitions and investment.

Barclays, which led to about \$13 billion in paper losses in 2007³⁷, or with Ping An's failed investment in Belgian-Dutch financial services firm Fortis NV and CIC's high-profile losses on stakes taken in Blackstone.

³⁷ Bloomberg.com, December 2008

3. AN ASSESSMENT

What are Chinese investors seeking in France?

As is the case for all kinds of ODI flows, the motivations for Chinese investment in France are multidimensional in nature. The primary objective is access to new growth and profit streams, but beyond that, Chinese firms may also seek to develop complementary skills, such as R&D expertise, and to acquire intangible assets such as brands. The two major motivations for Chinese ODI in Europe, and in France, are market penetration and the quest for strategic assets, be they technological assets, brands, distribution networks, etc.

When looking at Chinese ODI in France in more detail, the motivations are obviously different for greenfield investments and for M&A activity. Greenfield investments tend to focus on the establishment of headquarters, subsidiaries, trade representative offices, trading companies and R&D centres, with a view to facilitating Chinese firms' access to the European market and to helping them customize their products for the local market.³⁸ This pure market-seeking strategy is common for firms having some form of competitive advantage in their home market and seeking to strengthen their market share abroad.

As for acquisitions, while they may be purely opportunistic, they tend to combine market-seeking and strategic asset-seeking motivations. As detailed earlier, Chinese firms have systematically acquired financially distressed firms in France. It is worth stressing here that emerging country multinationals often view acquisition targets differently from the way companies in industrial countries view them. While the latter may shy away from what appears to them as a high-cost enterprise that is losing market share and operating in a declining home industry, emerging market MNCs may see an opportunity to acquire assets that their firms need or want (BCG 2008). Since a number of Chinese companies now nurture global ambitions and would like to own their own advanced technologies and well-known brands, buying a foreign company is a logical way to reach those goals quickly. As explained below, the 'strategic' assets targeted by Chinese investors in France include brands,

³⁸ In this respect, it must be noted that R&D centres are more focused on development than on research activities.

reputation, and control over natural resources, technologies, customers, distribution channels and market expertise.

Market-seeking investments

As analysis has shown in the case of Chinese investment in Germany (Schüller and Turner 2005), investing in France undoubtedly constitutes an opportunity to provide quicker delivery and servicing, and to respond more accurately to local demand.

Five different kinds of investment reflect such a market-seeking strategy. Among these investments, some aim at facilitating market entry (and can be referred to as offensive market-seeking investments), while others constitute a way of preserving market-shares or consolidating existing market positions (defensive market-seeking investments).

The first kind of investment is greenfield, where Chinese firms establish a production unit in France to supply the local and regional market. To accompany strong growth in the European market, Hisense established two factories producing television sets, one in France (Lorraine) and one in Hungary. A similar strategy was followed by Haier when taking over the former TCL-Thomson TV factory in Angers. In very much the same vein, through its French subsidiary, Novel Vision, the Chinese Electronic group Xoxeco bought the old Grundig/Continental Edison factory in Creutzwald (Lorraine), with the objective of producing flat-screen television sets, LCD and plasma screens for the European market under the Prima brand.³⁹

The second are acquisitions of market leaders. The obvious example of this strategy was the acquisition of Thomson TV division by TCL. Because of the persistence of protectionist measures against Chinese TV manufacturers since the 1990s (primarily through the imposition of heavy anti-dumping duties), TCL thought it had to rely on acquiring companies operating in the EU to avoid the heavy import tariffs. The company felt that it was easier to expand using an already existing brand rather than introducing and establishing a new brand, especially in complex markets like the United States and EU.

Other more modest acquisitions, such as the takeover of SOMAB by Tianshui Spark, also aim to facilitate the Chinese firm's access to the French (and possibly wider European) market.

³⁹ PRIMA occupies the eighth place in the world's manufacturers of TV LCD/PDP, with 1.6 million TVs produced.

The establishment of sales offices in France provides a further example of this market-seeking strategy. By opening up a sales office in France, Airtac France (a JV between Chinese Airtac and French Automax) seeks to facilitate the sale of Chinese products on the French (and European) market. A similar strategy has been adopted by Midea, a producer of household appliances, Wenzhou Yuehua Locks, Weihai Textiles and garment manufacturer.

To some extent R&D centres also follow a market-driven strategy. The establishment of R&D activities are often a way of customizing products and facilitating the penetration of the foreign market. As explained by Di Minin and Zhang (2008), when acting as 'market gatekeepers', R&D subsidiaries seek to adapt knowledge for a distant market. To that end, close interaction and cooperative development with important customers are necessary. Alternatively, R&D subsidiaries may act as 'market colonizers'. In this case the adaptation of production for remote markets remains the main mission of the subsidiary, but rather than interaction with key customers, the headquarters are requesting the subsidiary to directly experience and learn from the new market, codifying and transferring new knowledge, which is necessary for market access. The role of R&D centres is to make plans for product development and to communicate with global operators to gain a deep understanding of the different demands of the operators. Both Huawei and ZTE's strategies correspond to these two definitions.

Lastly, investments in logistic operations aim at facilitating exports and providing general support to Chinese exporters. The presence of Chinese firms in maritime transport and logistics services (COSCO and CSCL among others) is indicative of their desire to keep control over the logistics chain. Moreover, Chinese investors also contemplate the development of 'commercial hubs', the objective of which is to help small and medium-sized Chinese investors to gain access to the European market.

Strategic asset-seeking investments

Technology-seeking

In some cases, there is evidence that Chinese investors have been specifically interested in acquiring patents and engineering expertise, a motivation that is in line with the official objective of industrial upgrading set by the NDRC. According to the *Overseas Investment Industrial Guidance Catalogue*, overseas investment projects 'capable of substantially enhancing the technological research and development capacity of China, and capable of utilizing international leading technology, advanced management and professionals' belong to the 'encouraged' category.

With the acquisition by Chinese TV producer TCL of France's Thomson TV production units, and the establishment of a JV between Chinese TCL and France's mobile handset producer Alcatel, the objective was to acquire a foreign firm that possessed its own distribution network and a locally known brand. In these two cases the ambition was not simply to be a larger company but to become a major global player.

With the acquisition of SOMAB, along with market access, Tianshui Spark admits it sought access to technology. The Chinese group's management revealed after the acquisition that it would make use of the advanced technologies and management expertise, as well as the mature sales network of SOMAB, to improve its product quality and expand in the international market.

In some cases, the decision to invest in France can also be traced back to the acknowledged competence of French firms. Chinese companies tend to invest in France in those sectors or projects in which they can usefully combine the strengths of French companies with their own. The acquisitions by China Bluestar of French animal feed producer Adisseo and of Rhodia silicone division are excellent examples of such a technology-cum-efficiency-seeking strategy. Through these two acquisitions, Bluestar obtained hundreds of patented technologies, enabling the firm to solve a series of technical problems, although the objective was also to create synergies for both parties.

As explained by Ren Jianxin, the President of ChemChina (the chemical conglomerate that resulted from the 2004 merger between Bluestar and other companies affiliated with the former Ministry of Chemical Industry), China's chemical industry has long suffered bottlenecks due to a lack of technology, insufficient funding and the low level of industrial capability. In particular, while China has a huge market for methionine (an animal feed additive), it did not have sufficiently mature technology to produce enough to meet demand. This was the main driver behind the acquisition of the French firm Adisseo. Moreover, Bluestar was positioned as a latecomer and follower in the international industry and viewed global M&As as a shortcut for the firm to catch up with world leaders (Koch and Ramsbottom 2008).

According to Robert Lu, a vice-president at China National Bluestar, 'overseas acquisitions were made to enhance our competitiveness and improve our current technology and management. By gaining a better

understanding of international business practices, Blue Star can upgrade its own operations.⁴⁰

The acquisition of the French diesel engine producer Moteurs Baudouin by Weichai Power is part of a broader strategy of international expansion. Prior to this, Weichai's presence outside China came basically through engines and powertrains sold to Chinese equipment manufacturers, which then exported the machines. In recent years Weichai Power has been particularly aggressive in expanding internationally. In 2008 it announced a three-way joint venture with Westport Innovations Inc. and Hong Kong Peterson (CNG) Equipment Ltd. to develop alternative fuel engines for use in cars, trucks, power generation and marine applications. Weichai Power also established an office in Chicago in the same year. The acquisition of Moteurs Baudouin⁴¹ is a clear case of technology-cum-market-seeking acquisition. According to Weichai management, this acquisition will help Weichai obtain the technologies and brands of the century-old French company, and thus develop its overseas market.

The acquisition by SHMG of NFM Technologies is another case where the primary objective is to make more of the existing complementarity between the two partners. Interestingly enough, as explained by L. Devaux, the French executive director of NFM Technologies, the capital injected by SHMG in NFM Technologies is meant to finance not only the manufacturing of tunnel-boring machines to be exported to China and the rest of the world but also the preservation and expansion of other activities by NFM Technologies' 'Mechanical systems' division. While this division designs and manufactures equipments for major French players in the nuclear, steel, defence and aeronautics industries, the Chinese partner has a definite interest in its expansion because it could also help meet the extraordinary demand in the Chinese market as well.

In the case of the acquisition by Longhai International of Chateau Latour-Laguens, the property makes wine in the AOC and Bordeaux Superieur categories, so the attraction was obviously not the appellation itself, but gaining a foothold in one of the most prestigious wine regions in the world. The property produces 160,000 bottles per year, a large proportion of which is now expected to be exported to China.⁴² Moreover, since Qingdao has a

⁴⁰ The deal.com, 'Outward bound', 15 June, 2007

⁴¹ At the time of writing, Weichai was reported to have won a deal to pay €2.99 million (\$3.79 million) for assets of Moteurs Baudouin with a book value of €13.82 million on 23 January, 2009, but the acquisition still needed government approval.

⁴² China is already France's 11th largest market for wine exports.

rapidly growing wine centre, with several vineyards, the aim of the investment is probably also to acquire technical expertise in winemaking.

Lastly, the establishment of R&D centres by companies such as Huawei and ZTE also reflects a technology-seeking motivation (in addition to the market-seeking strategy highlighted earlier).⁴³ The location of the R&D centres in areas with substantial pools of technical expertise clearly confirms this hypothesis. The lack of both international experience and core technologies encourages Chinese companies to learn by doing as well as by cooperating. As explained by Di Minin and Zhang (2008), Chinese R&D units located in Europe have established some degree of cooperation with the external technological network. Through the process of cooperation, overseas R&D units get access to local knowledge pools and can take advantage of advanced technologies that the company had not previously mastered.

Brand and distribution network-seeking

Sometimes the choice of partner is dictated more (or at least equally) by its distribution network than its proprietary technology. Teaming up with a well-established firm is seen as a way of gaining quick access to the EU market. The most well-known example of this strategy was the acquisition of Thomson TV division by China's TCL, which allowed the latter to get control of the RCA brand. A further illustration of this strategy is the acquisition of Le Cabanon/Conserves de Provence by Chinese tomato product manufacturer Chalkis, in which the latter was seeking access to the 'made in France' label, as well as to a well-developed distribution network in the European market.

Natural resource-seeking investments

Surprisingly enough, one recent Chinese investment in France can be classified as a natural resource-seeking investment. Through the acquisition of ailing Plysorol SAS in April 2009, Chinese Shandong Longsheng Export-Import Ltd sought to gain control over large exotic wood plantations in Gabon.

Although the investor committed to maintain all existing production units in France and to inject fresh capital at the time of the acquisition, it has not yet delivered on these promises and the presumption is that the major goal was actually to acquire the French firm's plantations in Gabon.

A final word on Chinese investors' motivations

In most cases, Chinese investments in France are the result of a mix of motivations rather than the reflection of a single strategy. Rather than pure

⁴³ In other words, they combine technology exploration and technology exploitation.

technology-seeking investments one can observe technology-cum-efficiency-seeking investments, as in the case of China Bluestar, as well as technology-cum-market-seeking strategies as with Weichai Power. Similarly, the investment by Chalkis is both market- and strategic asset-seeking as the Chinese firm seeks to acquire a brand and strengthen its position on the French market at the same time.

Lastly, behind the market-seeking and technology-seeking motivations, in some cases Chinese firms actually sought to 'leapfrog to a leadership position'. The real objective was thus to quickly become a global leader. This was the case with the various acquisitions made by TCL (Thomson and Alcatel Mobile) and those made by China Bluestar (Adisseo and Rhodia silicones). Such a view is confirmed in a declaration by TCL's Chairman Li Dongsheng, who announced in 1999 that TCL's goal was 'to create a world-class Chinese enterprise'; and TCL's first step in this direction was to enter the United States and EU, two of the world's premier markets.

How successful is Chinese investment in France?

According to a survey report on the outward investment situation and investment plans of Chinese enterprises that was recently issued by the Economic Information Department under the China Council for the Promotion of International Trade, only one-third of Chinese enterprises' overseas investment projects turned out to be successful.⁴⁴

The report identified five major investment risks: the first results from insufficient research into the destination country; the second relates to financing; the third is operational and relates to inter-cultural management; the fourth involves cross-border property rights and the fifth relates to difficulties in review and approval procedures in foreign countries. All these reasons help account for the still modest level of Chinese ODI, relative to the state of development of the Chinese economy.

This section of the paper attempts to assess how Chinese enterprises have performed in France.

⁴⁴ People's Daily online, 24 April.2009. Also see footnote 18.

Failures

The facts

The first and probably most widely publicized failure of Chinese investors in France was the TTE JV, which quickly ran into difficulties. TCL was unable to re-energize the brand and turn its operations around. After the acquisition of Thomson TV, TCL reported a loss of \$5.7 million in the first quarter of 2005 and particularly heavy losses in the European market in 2006. As a result, TTE had to downsize its activities and, despite efforts to retain the company's operations in France, production had to be completely stopped there in 2006.⁴⁵

Similarly, by the end of the first quarter of 2005, the JV between TCL and Alcatel Mobile had already lost over 660 million yuan (\$79.71 million) more than TCL's original investment of €55 million (\$68.15 million). In May 2005, TCL Mobile purchased the 45% stake of Alcatel to take full control of the venture, putting an end to the partnership.

When ailing French enterprises have been acquired, most of the time they could not be revived, and failures seem to be particularly common in the TV production industry. The takeover of French SEPEP by Hisense also failed, with SEPEP placed in compulsory liquidation in October 2008. Similarly, Novel Vision, the French subsidiary of the Chinese group Xiamen Overseas Chinese Electronics Co (Xoxeco), which specialized in assembling flat-screen televisions, filed for bankruptcy in March 2008 as a result of a strategic shift by Xoxeco, which had acquired the firm a year earlier. Because local production costs were deemed to be too high, Xoxeco (which had meanwhile been taken over by a Korean investor in the meantime) chose to move its production back to China and to import finished products from there.

But examples of failures can also be found in other sectors. For instance, Euro-Auto Hose (or Tuyaux de Nevers), a French producer of rubber pipes for the auto industry, which was taken over by China's Yangzhou Greencool in 2004, had to stop production in July 2007, with the loss of 300 job losses.

Similarly, Chalkis's acquisition of Conserves de Provence—Le Cabanon did not deliver the expected results and the group, which is currently facing financial difficulties, had to downsize its activities and lay off part of its staff. After it was placed in receivership in April 2008, the firm has been allowed to

⁴⁵ Since October 2007, Haier has resumed production of television sets in the former TCL site in Angers.

continue production, but it remains to be seen whether the proposed programme will succeed in keeping it afloat.

More recently, Hebei Honghye has also run into difficulties after it acquired Two Cast Europe. The firm was placed in receivership in March 2009 and two of the foundries it acquired are expected to discontinue production. At first only Two Cast Isère (with a foundry in Villefontaine) was to be closed in 2009 and all its activities transferred to the two other foundries. But Two Cast Berry is now also for sale. It may be acquired by an Italian investor (B4 Italia), which has been operating in France under the name Metal Temple.

Accounting for the failures

As explained by Kwan and Sauvant (2009), 'at the most basic level, successfully engaging in outward foreign direct investment (OFDI) is about managing complex, integrated cross-border production systems, consisting not only of parent companies and foreign affiliates but far-flung customers and suppliers as well. This is an extremely difficult task for well-established and aspiring multinationals alike, especially in today's competitive world market. To a great degree, success is predicated on an organization's ability to attract, develop, and retain middle and top-level managers with international experience across all key corporate functions. Moreover, these managers need to be able to work in a multicultural environment and have a familiarity with the regulatory framework of host countries, how they function politically, and the contours of their business culture.' A major difficulty for Chinese firms is that they lack experience in all these areas.

The first key explanation of the numerous failures therefore lies with the lack of experience of Chinese investors and their *inability to deal with standard post-acquisition difficulties*.

While firms in Western countries have gained substantial cross-border acquisition experience during the last decades, China's first cross-border acquisition deal was carried out in 1986, and it therefore has little history of cross-border acquisitions. As a result Chinese enterprises have often both underestimated the difficulties associated with such deals (in particular the impact of East-West cultural differences) and overestimated their ability to manage multinational companies.

Lack of managerial expertise (with cultural differences as major sources of difficulty), inexperience in international brand management, weak innovative capability and poor knowledge of local business attitudes and the specifics of the local market provide further explanations for Chinese companies' difficulties in addressing post-merger integration challenges, and therefore for

the many observed failures. Regarding the TCL–Thomson deal, for instance, a widely held consensus view is that TCL was not well equipped to manage such an ambitious joint venture.

In the case of Hebei Honghye, the group's lack of experience with cross-border investments and, more generally, with international activities was seen as compounding the difficulties resulting from the acquired firm's poor financial health as well as from the bleak economic environment.

Understanding the regulatory and competitive environment in another country is essentially complex and time-consuming. Thorough due diligence, using local advisors, is critical to understanding the local market, but Chinese firms did not always go through such steps. As a result, they were not in a position to identify potential challenges properly and ensure that these were appropriately reflected in integration plans.

The second explanation lies with the *underestimation of the risks and difficulties involved in acquisitions and the overestimation of potential gains*. In particular, it is believed that Chinese investors often failed to identify and assess their targets appropriately.

Most acquisition targets have been problem-ridden companies that seemed to be a good bargain at first sight but turned out to require much more complex management than a company in good shape. In France, Chinese investors apparently often underestimated the severity of the difficulties encountered when acquiring financially distressed firms in ailing or sunset industries. By way of illustration, Alcatel had been in the red since 2001, so it was inevitably extremely hard to make such a purchase profitable, yet these problems were apparently poorly assessed by TCL Mobile. The JV's difficulties stemmed from the many internal and external problems that existed before its creation. These included Chinese-manufactured mobile phones' lack of competitiveness with their international counterparts and poor anticipation of the costs of integrating business internationally. These factors apparently contributed more to the failure of the joint venture than problems of communications and cooperation between TCL and Alcatel⁴⁶.

When the acquired firm is under financial stress, a capital injection is not always sufficient. In some sectors, such as banking, an injection of capital from China may allow the bank to overcome a temporary crisis which might otherwise have proved fatal. Even manufacturing firms that have over-extended themselves by taking on too much debt may be resuscitated by a

⁴⁶ 'The disillusion of TCL and Alcatel', *Caijing*, 30 May 2005

foreign takeover. But in many cases, the financial difficulties of acquired French firms actually pointed to deeper problems than corporate liquidity.

In addition, in some cases, the acquired French firms turned out to be less technologically advanced than expected. It is reported, for instance, that Thomson had not mastered flat-screen technology in accordance with TCL's expectations. Technology transfers may have been limited, as occurred when TCL obtained only a limited portion of Alcatel's patent rights. In particular, Third Generation telecommunications technologies, which had arrived in Europe but had not in China, were not incorporated into the T&A deal, crippling the enterprise in the long run on the European market.

The failures can be blamed on the acquirer's difficulty in properly identifying a suitable 'investment target'. There are a number of different aspects to successful target identification, but the most important is that acquirers must be able to assess the acquisition from the target's point of view, as well as from their own. In this respect Chinese companies appear to have performed particularly badly in France.

Lastly, Chinese investors have found it difficult to weather the recent economic slowdown, which was perceived as particularly problematic for relatively weak and vulnerable firms.

Overall, more often than not, the strategic decisions of Chinese ODI pioneers turned out to be overly ambitious, and the harsh reality experienced after their acquisitions has left many with painful memories and hard-learned lessons.

Success stories

The facts

While failures are fairly easy to identify, it is much harder to determine when an investment is a success. In this section, we will simply assume that expansion of activities can be taken as an indicator of success. Two categories of investments will be examined in turn: greenfield investments and M&As.

In the first group, the investments by the two Chinese telecommunication operators, Huawei and ZTE, have proved extremely successful so far and both firms have regularly expanded their involvement in the French and wider European market. Their success can be largely attributed to their competitiveness in the Chinese market. Both enterprises own strong technological assets and have proved able to adapt to the local market, probably owing to the experience already gained in other overseas ventures, particularly in developing economies.

More importantly perhaps, further success stories are also found among acquisitions, China Bluestar and SHMG being the most telling examples. A number of other acquisitions also appear promising, such as those by Tianshui Spark and Weichai Motors, although it is still too early to determine whether they will ultimately be successful or not. In this respect, the example of Xoxeco–Novel Vision, which appeared to do well at first but eventually ran into difficulties, suggests that extreme caution is needed.

Adisseo is clearly very successful, the proof being its recent expansion of capacity, although some activities have also been downsized recently, as with the discontinuation of Vitamin E production in the Commeny plant.

BlueStar's acquisition of Rhodia's silicone activities is another example of a successful venture by a Chinese investor. The strategy of external growth adopted by the firm with the strong support of the government has helped it to develop its technological capacities and has led to the expansion of production units in Europe as well as in China itself. However, even in this case, the jury is still out as the recent economic slowdown has taken its toll on operations, imposing short-time working measures, for instance.

Some acquisitions have allowed firms previously under financial stress to expand. This has been the case so far for NFM Technologies. Since it was taken over by SHMG, NFM Technologies has managed not only to survive but even to expand its activities and establish itself in the booming Chinese market. It has won a number of contracts with Chinese municipalities (Shenzhen, Shenyang, Wuhan). NFM Technologies was in charge of excavating a section of Line 2 of the Wuhan underground and further contracts have been awarded to the group by Shenzhen and Shenyang municipalities: four tunnel boring machines (TBM) have been ordered for the underground network of the two cities.

As a result, NFM Technologies has opened a branch in Shenzhen⁴⁷ for its service provision business on sites in the southern part of the region, between Shenzhen and Wuhan. The objective is to ensure that machines are operational and to reduce lead times. A local office had become essential for a region in which the group has continued to grow.⁴⁸ Obviously the participation of Chinese SHMG in the group's capital has been instrumental in helping the firm gain access to the still relatively closed Chinese market.

⁴⁷ The NFM-SHMG TBM Shenzhen Service Centre is already manned by a mixed team of more than ten European and Chinese technicians.

⁴⁸ NFM Technologies is currently overseeing 18 projects in Guangdong province.

As a result of this successful expansion, NFM technologies has become a member of the Bourgogne Nuclear Cluster (Pôle Nucléaire Bourgogne–PNB), which is a competitiveness cluster representing the metallurgy and mechanical engineering sectors for nuclear energy in Bourgogne. With its globally unique concentration of nuclear mechanical engineering skills, the PNB develops its members' activity over a range of fields (R&D, training, collaborative tools), enabling them to enhance their expertise and strengthen their competitiveness.

Accounting for the success stories

Getting to know each other first

Long-standing experience with foreigners is usually deemed to be a key factor in successful M&A. This was undoubtedly the case for both China Bluestar–Adisseo and SGMH–NFM Technologies. A common feature among the successful experiences described above is the existence of a trust-building process between the two partners, which probably accounts for the success of these Sino-French ventures.

In the case of Adisseo, China Bluestar initially contacted the French company in 2003, with the intention of buying its technology, but the request was rejected. China Bluestar then closely monitored the French firm so as to gain a good understanding of its capacity, technology, markets, potential, and corporate culture and history. In January 2006, Bluestar finally acquired 100% of Adisseo and became a world-class manufacturer in the production of methionine.

As for Rhodia, China Bluestar had enjoyed close ties as a joint-venture partner ever since the early 2000s.

Similarly, the fact that the two partners had been industrial partners for more than two years before the takeover also turned out to be an essential asset in the NFM–SHMG deal.

Although it is too early to tell, similar success stories can be expected with regard to the takeover of Somab by Tianshui Spark and Moteurs Baudouin by Weichai Motors. In both cases the two parties to the deal had been cooperating for some time before the acquisition. The takeover of Somab in 2008 took place after a four-year JV experience between the two firms. Technological cooperation was already in place, so technology transfer has not generated any difficulties so far. A similar success story can therefore be expected for the takeover of French Moteurs Baudouin by Weichai Motors.

A further success factor lies in the existing complementarity between the two parties. In this respect, pre-existing relationships certainly help ensure that there is a good match between the two partners, in terms of converging interests and complementary assets.

Ability to avoid traditional post-acquisition difficulties

Moreover, post-acquisition problems associated with differences in corporate cultures or in management techniques were typically avoided by retaining the local management and most of the local staff. In the case of Adisseo, Bluestar clearly stated in the acquisition contract that all of Adisseo's employees could stay on if they chose to.

Similarly, a further reason for the success of the NFM–SHMG deal has to do with the post-acquisition strategy adopted by the Chinese partner, which decided to maintain the French CEO at the head of NFM, with a Chinese appointed as president.⁴⁹ In this process, the French manager has been given more responsibilities than before the takeover and he reports directly to the Chinese chairman of NHI and NFM, Hongchen Geng.

Another important explanation lies with the rising M&A expertise acquired by some Chinese firms. This is undoubtedly the case for China National Bluestar, which gained strong skills in M&A management through its many acquisitions of ailing domestic state-owned companies.⁵⁰

In this respect, large firms are obviously in a better position to engage in an internationalization strategy. The difference in size and in the associated M&A expertise explains to some extent why China Bluestar and Hebei Honghye fared so differently in their acquisition ventures in France.

Implications of Chinese ODI for the French economy

Given the relatively recent experience of Chinese ODI in France, as well as its still modest size, any judgment on its impact on the host economy can only be tentative at best.

First of all, concerning job creation or preservation, any effect on the acquired firm must be assessed against an appropriate counterfactual: what would have happened to production and jobs in France if the acquisition has not taken place? In many cases, the acquired firm was either bankrupt or facing severe financial difficulties, thus jobs were already under threat.

⁴⁹ In a statement, NFM said its would be managed by Hongchen Geng, as president, and the chief executive directors will be MM Luc Devaux and Dong Wang. NFM added that Devaux would remain as CEO.

⁵⁰ See Koch and Ramsbottom (2008) for more details on this point.

The impact of Chinese ODI will also be very limited at the aggregate level because of its small scale, although local implications may not be negligible. In this respect, as explained above, the picture is rather mixed – with a combination of disastrous failures (involving plant shutdowns and job losses) on the one hand and, on the other, success stories associated with plant expansion and job creation. In addition, the overall impact in terms of jobs will be relatively modest because Chinese ODI tends to be concentrated in sectors which are not labour-intensive. As highlighted earlier, the bulk of Chinese ODI is in the tertiary sector, with trading activity and representative offices aiming to provide support for exports but creating few jobs. R&D centres tend not to create many jobs either.

The available evidence suggests that Chinese firms have not been particularly successful at turning French companies around. The major lesson is that the chances for the revival of sunset industries are rather bleak, as exemplified by the repeated failures in the acquisition of TV production units (Thomson, Novel Vision, Hisense). According to Hay, Milelli and Shi (2008), the impact of Chinese ODI differs across countries, with German industries seemingly emerging stronger thanks to Chinese investment, while, in contrast, French industrial weaknesses are only deepened.

Nevertheless, as explained above, some firms were not only kept afloat thanks to Chinese capital injections but also made more competitive. Successful takeovers can exist where there are synergies between the two partners, with the Chinese investor providing not just cash but a boost to competitiveness in a specific sector and access to the Chinese market.

Besides the usual commitment to preserve jobs, Chinese firms generally also promise not to relocate production to China. But there is always a risk of dismantlement and shipping of entire production lines back to China, with Chinese firms leveraging low-cost manufacturing on a larger scale, or acquiring a company in a developed country only to bring the acquired company's manufacturing orders back to their own cheaper domestic production base.

There is no evidence that French industrial activities taken over by Chinese investors have been systematically relocated in China, at least so far. In the case of SHMG–NFM Technologies, although the partnership has proved extremely successful so far, it remains to be seen whether the two French sites (Lyon and Le Creusot) will be maintained over the long term or whether the Chinese group will choose to relocate production back to China. Such concerns have been expressed by French trade unions.

Chinese investors have committed to maintain operations in France (at the Le Creusot site) but only under certain conditions. NFM has also committed to become the number one TBM manufacturer in China in the very near future, and to further expand worldwide. Quantitative targets have apparently been set and, by 2011, NFM Technologies should reach a total turnover of €250 million, with €150 million generated in the Chinese market and the rest outside of the Chinese market.

In yet other cases, Chinese investors have opted for the duplication of production in Europe and China, because having a presence in Europe is a way for Chinese investors to acquire expertise that can eventually be exploited in the fast expanding Chinese market. This has been the case for China BlueStar, which recently decided to build a plant to produce methionine in China (Tianjin).

Among the positive impacts of Chinese investment in France, it is worth remembering that this has sometimes provided an excellent opportunity for French firms to sell off underperforming assets. This was obviously the case for Alcatel when it decided to sell its loss-making mobile phone division to TCL.

As for Chinese firms, the major positive impact of expanding abroad is to help them enhance their international competitiveness and even reach a global leadership position in some cases (China Bluestar) or to strengthen their market shares in others (Huawei, ZTE).

A closer look at the 'French exception'

Let us now return to the 'French exception', that is the French underperformance in terms of share of Chinese ODI flows as highlighted at the beginning of the paper. The main issue is to examine the reasons for the apparent lack of attractiveness of France for Chinese investors. We will examine first France's assets and weaknesses as perceived by Chinese investors, and then turn to an assessment of France's alleged underperformance.

France's assets and weaknesses as perceived by Chinese investors

France's assets

Among the many factors typically identified as assets attracting potential investors to France as an investment destination, Chinese investors often

mention its geographic location and its quality of life as well as the quality of its infrastructure.⁵¹

According to the CEO of Huawei France, while France was in competition with the United Kingdom, Germany, Italy and other European sites, France was chosen for the following reasons:

- The French telecommunications market has registered very high growth in the past four years and is one of the most competitive in the world.
- Huawei had very good long-term partnerships with French telecom operators.
- France has the necessary telecommunications expertise. In the IT sector, France boasts internationally renowned research bodies – for example CNRS, CEA and the French National Institute for Research in Computer Science and Control – and also globally recognized top French schools (Polytechnique, les Mines, TELECOM Paris Tech).
- France has a reliable supply of leading-edge technological skills. Nearly a third of IT sector employment is composed of engineers and managers.
- France offers convenient geographic access to the European market, which is the first in the world, with 493 million consumers.⁵²

The quality of infrastructure is regularly mentioned as a factor attracting investment in administrative and commercial services where it is a key component of competitiveness. The headquarters of several Chinese companies (BBCA, Hisense, China Unionpass, Watchdata) were set up in France as a result, rather than in neighbouring European countries (AFII website).

... and weaknesses

According to a survey report of Chinese firms' investment intentions (Asia Pacific Foundation of Canada, 2009), France is not perceived by Chinese firms as being particularly closed to Chinese ODI. Its ranking is very similar to Germany's and the United Kingdom's, although a little less positive.⁵³ Interestingly, however, Chinese firms without any experience of ODI have a

⁵¹ Based on an interview with the President of the Association of Chinese Firms in France.

⁵² Reproduced from AFII (2008).

⁵³ Europe as a whole is reportedly perceived by Chinese investors as a harder nut to crack than the United States.

slightly more negative perception of France than those with existing ODI experience (be it in France or elsewhere). This may suggest that misperceptions and preconceptions about the French business environment still prevail.

France is apparently still perceived by Chinese investors primarily as a country of culture and arts rather than as a competitive industrial site and this image seems to be difficult to shake off. In this respect, France is seen as very different from Germany, which is systematically praised for the quality of its labour force, for its industrial tradition and for its technological excellence (Sohm, Linke and Klossek, 2009).

Beyond these preconceptions, major obstacles to investing in France often mentioned by Chinese firms⁵⁴ are the language, the complexity of French bureaucracy (in particular, immigration policies) as well as the rigidity of labour regulations and notoriously difficult industrial relations. In particular, the costs associated with possible lay-offs in the event of relocation of production activities (to China or elsewhere) are perceived as a deterrent.

Is France really 'underperforming'?

France's alleged lack of attractiveness to Chinese investors and its resulting 'underperformance' need to be kept in perspective. After all, the relatively low level of Chinese FDI is not surprising given the persistently high level of costs prevailing in Europe in general and in France in particular. As mentioned earlier, Chinese firms still primarily target the local or regional market when they invest abroad and, for the time being, they are still better off accessing the French market through exports rather than through FDI. Because the costs incurred are rightly deemed to outweigh the potential benefits, the decision to limit ODI in France is a perfectly rational economic choice and business decision. As a result, Chinese ODI is still largely restricted to support activities for the export sector, while locating production units in France is not perceived as particularly attractive.

As for strategic asset-seeking investment, inherent weaknesses (e.g. related to bureaucracy, labour laws and relations) certainly account for part of France's disappointing performance, but additional factors also contribute to deter Chinese investors.

Certainly, France does not perform as well as its most important competitors, namely Germany and the United Kingdom. As noted earlier, France does not

⁵⁴ Based on an interview with the President of the Association of Chinese Firms in France.

show up in the list of Chinese firms' potential destinations for future investments.

A very plausible explanation relates to trade. France's relatively poor performance regarding Chinese ODI is in line with France's poor trade record. In 2008 for instance, French imports from China amounted to about €19 billion (and exports to China totalled about €9 billion), compared with €51 billion for German imports (and €34 billion for exports).

As illustrated by Hay, Milleli and Shi (2008) among others, there is usually a strong correlation between trade and FDI flows. Because of the existence of a much more intense trade relationship between China and Germany than between China and France, the superior German performance in terms of FDI attractiveness should therefore come as no surprise.

The links between exports and FDI are related to the development of networks and connections between countries. In such a context, investment targets can be more easily identified. Moreover, trade links also facilitate the emergence of economic partnerships, which often constitute a first step before an acquisition.

As explained above, a number of technology-seeking investments are opportunistic, as when a firm comes up for sale. Thanks to the prevailing strong trade connections with Germany, Chinese firms are in a better position to take over German firms with which they may have been collaborating for some time before the acquisition.

This presumption is confirmed by the survey of Chinese firms' investment intentions, according to which past experience with the target company and general experience with the host country are given as important reasons for choosing a location. The relatively modest bilateral trade relationship between France and China thus creates a natural barrier to ODI and can plausibly account for the low level of Chinese ODI in France. This explanation is all the more convincing since target identification was shown to be a major weakness of Chinese firms.

4. CONCLUSION

A major lesson from this paper is that France is not yet facing a 'Chinese challenge', comparable to the 'American challenge' of the 1960s.⁵⁵ Concerns expressed about the rise of Chinese investors sound to some extent like a re-orchestration of those expressed in the 1980s about the explosion of Japanese direct investment. These fears are wholly misplaced so far.

The relatively modest presence of Chinese firms in France is not all that surprising given the obvious comparative advantages that China has in numerous manufacturing activities. In this respect, Chinese direct investment in France is perfectly in line with economic rationality and sound business practice. Chinese companies must carefully consider what if any advantages can be gained from ODI in France.

In addition, Chinese enterprises are still at a trial and error stage in their foreign ventures. They are still learning, sometimes the hard way, and cross-border acquisitions must remain daunting to many Chinese companies. Most of their executives have little experience of M&A and even less have ever tried to manage businesses across cultures. They also lack experience in assessing the potential costs and benefits of cross-border acquisitions.

Although France's apparent 'underperformance' should not be exaggerated, given the overall limited scope of Chinese ODI in Europe, country-specific characteristics also account for this state of play. Firstly, in contrast to Germany, France's image tends to be blurred and it does not appear to have an obvious strength in a key industrial sector. Secondly, and more importantly, the low intensity of bilateral trade relationships further accounts for France's disappointing performance as an investment location for Chinese firms.

Empirical evidence suggests that Chinese investments may lead to win-win situations. In particular, French firms can benefit from Chinese ODI by selling off underperforming assets and/or by gaining access to the Chinese market. As a result, it is no doubt in the interests of French industry and the government to take the appropriate steps to facilitate and maximize such opportunities. Preserving the country's openness should rank high on the policy priority list.

⁵⁵ To use the expression coined by Jean-Jacques Servan-Schreiber in his book *Le défi américain* (Denoël, 1967). The 'American challenge' referred to the rising competition resulting from the wave of investments by American companies in the 1960s and the risk of Europe becoming merely an economic colony of the United States.

Given its still limited scale, there is ample scope for further Chinese ODI expansion in France. In this respect, the impact of the current crisis on future flows remains uncertain. On the one hand, the financial difficulties faced by a number of European and French firms as a result of the current economic crisis may provide interesting opportunities for Chinese investors. On the other hand, the relatively high risk taken by Chinese investors in the past may backfire, sending companies into retreat or bankruptcy. For instance, some Chinese firms that have undertaken risky acquisitions in France may retreat to their domestic market if the acquired firm fails. In addition, the Chinese government may choose a wait-and-see approach and even intervene to hold up acquisition plans or block them, as was the case with the Bank of China's attempt to buy a share in French Compagnie Financière Edmond de Rothschild.

Once this period of turbulence is over, Chinese expansion through ODI will no doubt resume and it will be interesting to see whether Chinese firms will take a different approach. An important issue is what standards of corporate governance and business conduct Chinese investors will adopt. These questions are likely to be of critical importance for the assessment of the impact of China's investments on the French economy in the future and should be subject to further analysis as additional data and experiences become available to improve assessments.

A note on measurement issues

Analysts are often confronted with a number of difficulties when dealing with FDI issues. One major difficulty is the lack of consistency between different data sources (with different databases referring to different FDI definitions, for instance); another problem is the excessively high degree of aggregation of some data sources.

This paper uses a combination of sources and definitions allowing it to obtain a more complete picture of FDI outflows from China.

The first part of the paper uses mainly aggregate balance of payments data (from MOFCOM, UNCTAD and Banque de France) because these allow for international comparisons and are easily available over long periods of time. But a major drawback is the high level of aggregation of the data. In particular there is no breakdown by industry.

When focusing on the French case, in order to get a more complete understanding of outward investments by Chinese firms, the paper uses multiple data sources providing more disaggregated data. Those include FDI Market Intelligence, Ernst and Young Investment Monitor, Zephyr and Orbis databases (Bureau Van Dijk) and Invest in France Agency (AFII) database. Because of unexplained omissions, existing data sources were complemented by personal research.

A preliminary remark is in order: in general, the Chinese presence tends to be underestimated because the databases do not encompass all the small-scale investments. This remark holds true for the AFII database, which excludes firms with fewer than 10 employees.

The AFII/IFA database provides a summary of all FDI projects creating long-term employment in France and calculates the corresponding number of jobs created. It provides detailed statistics per sector, function, type of development project, size, originating country and host region.

Ernst & Young's European Investment Monitor (EIM) database tracks FDI projects that have resulted in new facilities and/or the creation of new jobs. By excluding portfolio investments, mergers and acquisitions, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent.

This paper makes use of two databases, author's own (making use of Ernst and Young data, Financial Times data as well as data from press - including regional press), and the AFII database (which includes details of the creation and expansion of production sites, excludes M&As and focuses on 'employment impacts').

According to the author's database there are approximately 55 Chinese operations/projects in France. According to AFII, there were 65 projects (over the period 2000–08).

According to the French Ministry of Economics and Finance, there are about 50 Mainland Chinese firms operating in France, and 40 are members of the Association of Chinese Enterprises in France.

References

Asia Pacific Foundation of Canada (2009), *China Goes Global 2009—Survey of Outward Investment Intentions of Chinese Firms*, September.

Battat, Joseph (2006), 'China's outward foreign direct investment: FIAS/MIGA Firm Survey', Foreign Investment Advisory Service, World Bank.

Buckley, Peter, Jeremy Clegg, Adam Cross, Hinrich Voss, Mark Rhodes and Ping Zheng (2008), 'Explaining China's outward FDI: an institutional perspective', in Karl Sauvant (ed.) *The Rise of Transnational Corporations from Emerging Markets: Threat or Opportunity?* (Edward Elgar: Cheltenham)

Cheng Shaoming and Roger Stough (2007), 'The Pattern and Magnitude of Chinese Outward FDI in Asia', *mimeo*, ICRIER, April.

Cheung, Y.W. et C.W. Qian (2008), 'The Empirics of China's Outward Direct Investment', *CESifo working paper*, No 2621, February.

Deng, Ping (2004), 'Outward Investment by Chinese MNCs: Motivations and Implications', *Business Horizons*, 47/3, May–June.

Di Minin, Alberto and Jieyin Zhang (2008), 'Preliminary evidence on the internationalization of R&D by Chinese Companies in Europe', *mimeo*,

Dunning, John (1993), *Multinational enterprises and the global economy* (New York: Addison Wesley).

Filippov, Sergiey and Tina Saebi (2008), 'Europeanization of Chinese Companies—Its Perils and Promises', *UNU-Merit working paper*, No 2008-055, Maastricht.

Freeman, Duncan (2008), 'China's outward investments: Challenges and opportunities for the EU', *BICCS Policy Paper*.

Gaublomme, Gunter and Luc Hens (2008), 'What makes a country more attractive for China's outward foreign direct investment? Evidence from a gravity model', *mimeo*, May 22, 2008.

Hatem, Fabrice (2006), 'Les grandes tendances des investissements internationaux par fonctions en Europe 2002 - 2005 : Une analyse à partir des données AFII', *Notes et études de l'AFII*, No 10, August.

Hay, Françoise, Christian Milelli and Yunnan Shi (2008), *Présence et stratégies des firmes chinoises et indiennes en Europe - une perspective dynamique et comparative* (Ministère de l'Economie, des Finances et de l'Emploi, Direction Générale des Entreprises, Paris).

Hirt, Martin and Gordon Orr (2006), 'Helping China's Companies Master Global M&A', *The McKinsey Quarterly*, August.

Huang, Yasheng (2008), *Capitalism with Chinese Characteristics—Entrepreneurship and the State*, (Cambridge University Press).

Innovation Center Denmark (2008), *Chinese Investment - The Development and the Current Status of Chinese Outward Direct Investment*, Shanghai.

Kang, Rongping (2008), 'Overseas Development by Chinese Enterprises', in Wang, Wei and Jean-François Huchet (eds), *Chinese Firms in the Era of Globalization* (China Development Press, Beijing).

Koch, Thomas and Oliver Ramsbottom (2008), 'A growth strategy for a Chinese state-owned enterprise : An Interview with ChemChina's president', *The McKinsey Quarterly*, July.

Kwan, Clarence and Karl Sauvart (2009), 'Chinese direct Investment in the US — The challenges ahead' (Deloitte).

Luedi, Thomas (2008), 'China's track record in M&A', *The McKinsey Quarterly*, no. 3.

Mathieu, Edouard (2006), 'Investments from Large Developing Economies in France and Europe', *IFA Research papers*, No 11, AFII, Direction des Etudes et du Marketing, Paris, October.

Morck, Randall, Bernard Yeung and Minyuan Zhao (2007), 'Perspectives on China's Outward Foreign Direct Investment', *mimeo*, August.

MOFCOM (2009), *Statistical Bulletin of Chinese Outward Direct Investment*, Beijing.

Nicolas, Françoise (2009), 'Chinese Direct Investment in Europe – Facts and Fallacies', *Chatham House Briefing Paper*, May 2009.

Nicolas, Françoise and Stephen Thomsen (2008), 'The Rise of Chinese Firms in Europe: Motives, Strategies and Implications', *mimeo*, November.

OECD (2008), *Investment Policy Review - China*, OECD, Paris.

Pamlin, Dennis and Long Baijin (2007), *Re-think—China's outward investment flows*, WWF, April.

Rabellotti, Roberta and Marco Sanfilippo (2008), 'Chinese ODI in Italy', *mimeo*, September.

Rosen, Daniel H. and Thilo Hanemann (2009), 'China's Changing Outbound Foreign Direct Investment Profile: Drivers and Policy Implications', *Policy Brief*, No 09–14 (Peterson Institute for International Economics, Washington, DC)

Schüller, Margot and Anke Turner (2005), 'Global Ambitions: Chinese Companies Spread Their Wings', *China aktuell*, No 4.

Sohm, Stefanie, Bernd Michael Linke and Andreas Klossek (2009), *Chinesische Unternehmen in Deutschland—Chancen und Herausforderungen* (Bertelsmann Stiftung/Deloitte, Gütersloh).

UNCTAD (2009), *World Investment Report*, Geneva.

Woetzel, Jonathan (2008), 'Reassessing China's State-Owned Enterprises', *The McKinsey Quarterly*, July.