Direct Investment of Chinese Enterprises on the European Market by Industries

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Abstract

The progressing expansion of the Chinese economy is strengthening China's position on the international market. China dominates the world in terms of export volume, and the number of direct investments by Chinese companies, addressed to developed European countries, has also increased significantly. The object of this paper is the development of direct investments in European countries, including in particular developed European countries, with a focus on countries such as France, the United Kingdom and Germany. These are the countries where Chinese investors expect to generate the highest revenue.

This paper presents the structure of Chinese direct investments in Europe by industries, with a focus on selected examples of agreements of this type concluded between investors from China and European countries. Based on the analysis of such agreements, an attempt is made to determine the impact of the finalised mergers on the position of given enterprises on the European market.
Keywords: foreign direct investment, mergers, acquisitions, Chinese expansion

I. Introduction

For most countries, foreign direct investment is a chance for importing new technologies as well as organisational and managerial skills required for increasing the productivity level, acquiring the proper know-how, and obtaining better access to global markets. The progressing expansion of the Chinese economy is strengthening China's position on the international market. China dominates the world in terms of export volume[1], and the number of direct investments by Chinese companies located in developed European countries has also increased significantly. The object of this paper is the development of Chinese direct investments in European countries, including in particular developed European countries, with a focus on countries such as France, the United Kingdom and Germany. These are the countries where Chinese investors expect to generate the highest revenue.

The aim of this paper is to presents the distribution of Chinese direct investments in Europe by industries, with a focus on selected examples of agreements of this type concluded between investors from China and enterprises from European countries.

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[1] K.A. Nawrot, *Kierunki inwestycji Chin. Jakich inwestycji chińskich może oczekiwać Polska*, Poznań 2012

On this basis, an attempt will be made to determine the impact of the finalised mergers on the position of enterprises on the European market. The basis for the analyses and discussions carried out in this paper is reports by Rhodium Group, Centre for European Reform, and financial statements of the companies subject to the analysis, as well as statistical data obtained i.a. from websites of the Institute of Mergers, Acquisitions and Alliances, European Chamber of Commerce in China, Reuters, and The Heritage Foundation.

II. The structure of Chinese investments on the European market by industries

Foreign direct investment has constituted a pillar of the European economic and political integration for ca. 50 years. It is to a large extent based on that and general trade that relationships have been established and developed between the European Union and China. Implementation of the reforms aimed at opening the Chinese economy to the world, and introduction of the "Go Global" strategy in 1999, as well as China's accession to the World Trade Organisation (WTO) in 2001 also exerted a significant impact on shaping mutual relationships. The relationships between the EU and China are developing in various dimensions, i.e. in economic, political and cultural dimensions. The increasing interdependence of those entities, which are striving for the highest possible economic growth and development as well as other profits involved in using mutual potential, has permitted them to establish the second largest economic partnership in the world[2].

The annual proceeds to China's budget from direct investments in the period 2006-2009 tripled and the growth rate was maintained until 2011. As an effect, the level of export of Chinese products and technologies was USD 10bn per annum. At the same time, the number of the transactions the value of which was more than USD 1m doubled – from ca. 50 to almost 100 transactions, both in 2010 and 2011.

The scale of direct investments by Chinese enterprises in the period 2005 – June 2014 is presented in Fig. 1[3]. What arises from the presented data is that, in the past decade, China invested most, that is nearly USD 400bn, in the fuel and power industry, followed by over USD 130bn allocated to transport, more than USD 120bn invested in the metallurgical industry, USD 85.5bn in real estate, and almost USD 30bn-40bn in sectors such as finance, agriculture and infrastructure. Hence, China's aspirations for quick implementation of the programme for the country's modernisation and change of

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[2] K.A. Nawrot, op. cit.; PWC Report, *China deals. A fresh perspective*, 2012, www.pwc.co.uk/china/./ (10/01/2015);
C. Grant, K. Barysch, *Can Europe and China shape a new world order?*, Centre for European Reform, London 2008

[3] T. Hanemann, D.H. Rosen, *China invests in Europe. Patterns, Impacts and Policy Implications*, Rhodium Group, 2012.

the major investment directions after the crisis of 2008 from emerging markets of Africa and South America to the strongest world economies is noticeable.[4] The slowdown of the Chinese economy, which was observed in 2012, enforced the necessary reforms and pursuit of a skilful urbanisation policy aimed at developing and reinforcing the service sector.[5]

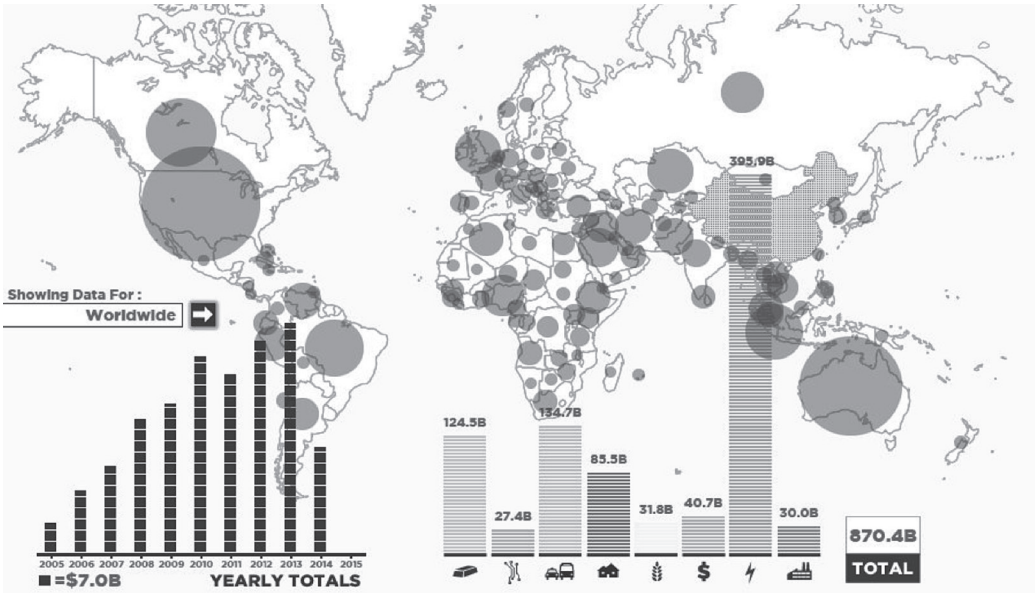

Fig. 1. Global reach of direct investments by Chinese enterprises by industries

Source: The Heritage Foundation, http://www.heritage.org// (12/01/2015)

As follows from the data included in Tab.1, the majority of the investments made by Chinese enterprises in the period 2000-2011 were directed to UE-15 countries, and in particular to the three largest European economies, i.e. the French, British and German ones. In that period in France, Chinese entrepreneurs concluded 70 agreements at the total value of USD 5.7bn, including as much as USD 3.2bn invested in Gas de France in 2011. In the UK, 95 agreements at the value of USD 3.7bn were concluded, mainly in sectors such as automotive, banking and real estate. Germany attracted more than one-third of all agreements concluded in Europe, the total value of which was USD 2.5bn. Hungary and Greece are also among the top countries in the ranking list of Chinese investments.

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[4] B. Góralczyk, *Chińczycy zwiększają zagraniczne inwestycje*, 2013, http://www.obserwatorfinansowy.pl/ (02/01/2015)

[5] J. Winiewski, Sztuka zwalniania, Polityka, issue 31 (2918), 2013., pp. 41-43

Table 1. Investments by Chinese enterprises in EU-27 countries in the period 2000-2011

Country	Investment value (in USD)	Number of greenfield projects	Number of acquisitions	Total number of agreements
France	5,722	46	24	70
The UK	3,683	69	26	95
Germany	2,543	113	33	146
Sweden	2,251	14	6	20
Hungary	2,065	14	4	18
The Netherlands	1,164	32	15	47
Belgium	847	12	3	15
Greece	714	5	0	5
Italy	554	31	16	47
Austria	391	6	5	11
Romania	299	13	1	14
Poland	190	15	1	16
Spain	187	22	1	23
The Czech Republic	76	10	1	11
Finland	48	1	4	5
Portugal	47	5	0	5
Bulgaria	47	6	1	7
Luxembourg	46	1	1	2
Ireland	44	6	1	7
Denmark	30	6	1	7
Latvia	3,8	1	0	1
Cyprus	3	0	1	1
Estonia	0	0	0	0
Lithuania	0	0	0	0
Malta	0	0	0	0
Slovakia	0	0	0	0
Slovenia	0	0	0	0
TOTAL	**20,957**	**428**	**145**	**573**

Source: T. Hanemann, D.H. Rosen, *China Invests in Europe. Patterns, Impacts and Policy Implications,* Rhodium Group, 2012

In Hungary, a Chinese company invested in the chemical sector by purchasing shares of BorsodChem, a Hungarian isocyanate producer, worth USD 1.9bn. Greece, in turn, beneficially leased its largest port in Piraeus to the Chinese COSCO for a long term, which contributed to quick development of the port as a result of numerous COSCO's investments worth millions of euro. Along with the development of its activity in Piraeus, the Chinese COSCO decided to make additional investments in 2013, the total value of which will be EUR 500m, and Piraeus will be capable of managing 6.2m TEU (container volume) annually in the coming years, i.e. three times more than in 2012[6].

[6] www.news.xinhuanet.com/ (26/12/2014)

Furthermore, high positions in the ranking list in terms of the number and value of the located Chinese investments were held also by countries such as Sweden, owing to the acquisition of Volvo Cars by Geely Automobile, a Chinese automotive group, which was worth USD 1.5bn, and further investments arising therefrom, and Romania – as a result of several greenfield production projects, including construction of a tractor production plant by Shantuo Agricultural Machinery Equipment, a Chinese company.

Countries with a considerably lower number of Chinese investments and, what follows, lower positions in the ranking list, are i.a. Spain, Luxembourg, Denmark and Ireland. Spain and Ireland used to be the main directions for foreign investment, yet unfortunately, their economies withered exactly at the time of the Chinese investment boom, which was why the countries came down in Chinese investors' estimation, like other smaller European countries facing fiscal and structural problems, with the exception of Greece. However, when looking into the future, privatisation of the state assets in countries which are fiscally insecure could ensure attractive opportunities to Chinese investors. This is because assets with a stable long-term return on investment, such as elements of infrastructure, are an object of interest to Chinese investors oriented towards long-term activities, which can be exemplified by the fact of selling shares of Portuguese public utility enterprises worth USD 2bn to Chinese companies in early 2012[7].

When analysing the data of the past decade presented in Fig. 2, it can be noticed that the dominant country in terms of value of investments by Chinese enterprises located there from 2005 to June 2014 is the UK, where as much as USD 23.6bn were invested at that time, mainly in sectors such as: real estate, power industry and finance. France, with more than twice lower investment value, is ranked second, and Italy (USD 6.9bn) climbed to third position. They left Germany behind (USD 5.9bn), where the value of Chinese undertakings is very close to the value invested in Greece (USD 5.5bn) and Portugal (USD 5.4bn) in that period.

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[7] *PWC Report, China deals. A fresh perspective 2012 , www.pwc.co.uk/china, (15/12/2014)*
T. Hanemann, D. H. Rosen, China Invests in Europe. Patterns, Impacts and Policy Implications, Rhodium Group, June 2012.

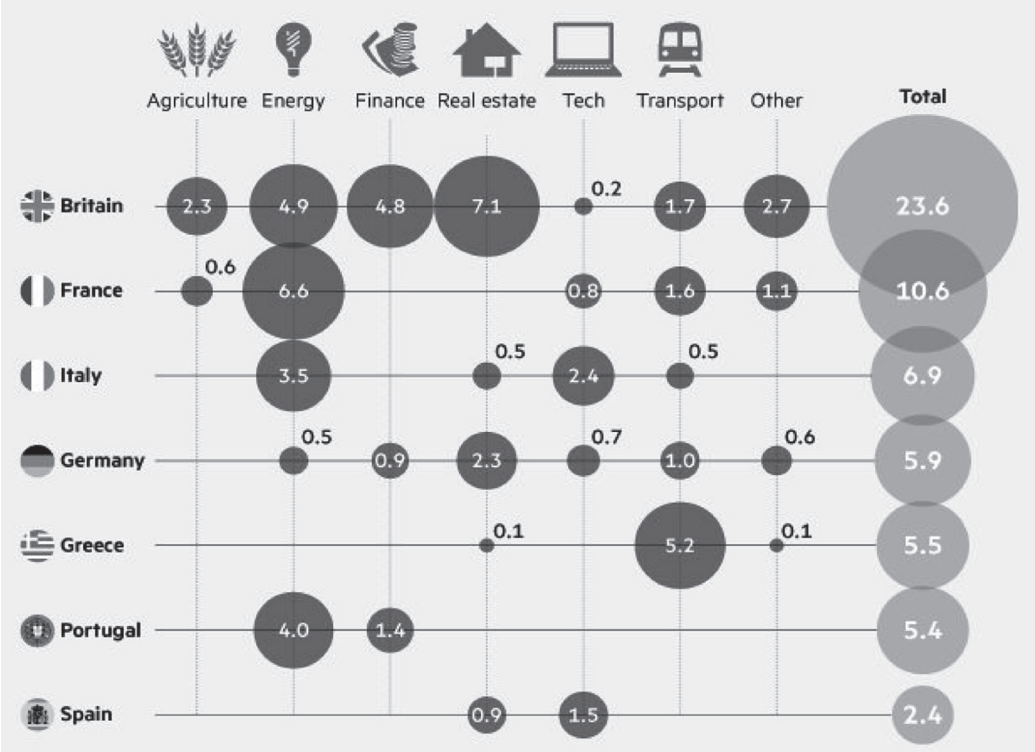

Fig. 2. Value of direct investments by Chinese enterprises by industries in selected European countries in the period 2005 - June 2014 (billion USD)

Source: http://www.ft.com/cms/s/2/53b7a268-44a6-11e4-ab0c-00144feabdc0.html#axzz3S71dsSXc based on data of The Heritage Foundation, http://www.heritage.org// (12/02/2014)

III. Premises for making foreign investments by Chinese enterprises on the European market

Enterprises have many motives for making investment on foreign markets. The major premises for Chinese enterprises' expansion in Europe include striving for facilitating Chinese export by overcoming trade barriers encountered by companies importing goods to the EU and most of all wishing to obtain strategic interest in companies from high and medium technology sectors. Apart from that, China's aspirations to become the largest technologically advanced economy in the world by 2020 are of particular importance. Distribution of investments made by Chinese companies in individual countries, with a special focus on greenfield projects, is presented in Tab. 1.

Yet the primary motive for expansion of Chinese enterprises is striving for competitive advantage since it is the key to increasing performance and generating higher profit.

It is also a confirmation of having a consistent concept and an effective strategy in the long term. Therefore, most enterprises endeavour to develop permanent competitive advantage on the market[8]. This is because competitive advantage permits achievement of higher value to both the consumer and the company.

Until recently, competitiveness of Chinese enterprises was based on producing labour-intensive goods of a low added value. Now, however, the competitiveness is not restricted to the traditionally used methods and areas. China successfully absorbs new foreign technologies, becoming a fierce competitor to companies from developed countries. Moreover, the Chinese government is aiming at using its innovation capacity, which is reflected in pursuing the goals set forth in the 12th Five-Year Plan for 2011-2015. The plan is oriented towards promoting domestic innovations and taking bolder actions for reforming and modernising the economy.[9]

The companies being global leaders assume specific strategies, which are seemingly different from each other in all respects, yet their nature and trajectory of actions are similar. Enterprises achieve competitive advantage through implementing innovations in the broadest meaning of this word. They include there both new technologies and new methods of action, as an effect creating new bases for competition. Hence, innovation might manifest itself in a new product design, in adoption of a new production process, marketing approach, or training method. It often develops the existing ideas that have not been implemented thus far. It always involves investment in skills and knowledge as well as reputation of the company and the funds it has at its disposal. Some innovations contribute to creating competitive advantage as they allow perception of new capabilities of a given market or interest in the market segment that is ignored by others. Yet when the company achieves competitive advantage through innovation, it can be maintained only through continuous improvement.

More and more Chinese enterprises face increasing challenges arising from internationalisation and globalisation. The dynamics of the continuously changing global market can be understood only through skilful market research and pursuit of its development trends. Adaptation of the common globally used models related to running business activities and quality of the offered products facilitates increase in the share of Chinese companies in international markets. This takes place due to growth in the sales volume and, in consequence, the earned profit and general improvement of Chinese companies' reputation. The skills of forecasting market trends are also important. Only such companies that are able to forecast behaviours of market actors and use the occurring chances can be competitive. Concern about efficient use of information is necessary for generating a higher value by Chinese companies, as a consequence increasing their competitiveness level on the market. It needs to be emphasised here

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[8] C. Ehmke , *Strategies for Competitive Advantage*, M.S. Extension Educator, Department of Agricultural and Applied Economics, University of Wyoming , Western Center for Risk Management Education, http://cals.arizona.edu/arec/wemc/nichemarkets/05competitiveadvantage.pdf

[9] http://csis.org/ (05/12/2014)

that competing exclusively through low prices is impossible for a long time and therefore it cannot be the basis for creating permanent competitive advantage on the market. Both financial support and market share depend strongly on confidence earned among customers and efficient implementation of the corporate strategy in compliance with the globally adopted standards. Hence, when striving for a strong competitive position on the global market, Chinese companies need to put more emphasis on intangible assets, such as being concerned about reputation, building brand trust, and increasing reliability. Ultimately, success depends on implementing an effective corporate strategy based on creating innovations and efficient communication. This requires investing in human capital as well as building and using knowledge resources. Actions based on such values will permit Chinese companies to reinforce their competitive strength, thus contributing to building their competitive advantage on the market in the long run. If Chinese enterprises closed to changes, they would risk losing customer confidence in their financial and operational reliability.

IV. Benefits and risks for enterprises arising from mergers and acquisitions on the international market

The form of Chinese companies' expansion that is gaining in significance is international mergers and acquisitions. Based on an analysis of various mergers, major benefits arising from merger or acquisition agreements concluded by enterprises can be identified:

- Increased economic growth of the company and expanding its scale of activities.
- Access to the capital, in particular to new funds enabling development to companies. Purchasing high-quality production or distribution equipment is frequently more cost-efficient than developing it. For instance, many companies that make investments with inconsiderable profitability have high unused potential, which can be bought for a small surplus with respect to the net asset value.
- Cost reduction through the common budget and increase in the purchasing power of the established corporation.
- Access to a broader customer base and increase in market share.
- Diversification of the product and service offer, which contributes to expanding long-term prospects of the company. The ultimate company might offer new products or services through its own distribution channels.
- Achievement of cost advantage over competitors since purchasing intellectual property, products or services is often cheaper than their development by the company on its own.
- Acquisition of qualified personnel and additional skills in and knowledge of the industry and sector as well as other business data. Such benefits are provided by a company which has good process management systems, which enables the

purchaser improvement of its company's operating system. The best situation would be merger of enterprises with complementary systems, enabling them mutual complementation and, in effect, maximisation of efficiency of the actions taken[10].

In effect, companies commencing a merger might achieve various market, technological, relationship and image advantages. They are presented in Tab. 2.

However, evaluation of mergers and acquisitions requires also looking from the angle of risks and costs involved in such forms of integration.

The main reason is that companies do not devote enough time to the required assessment of the impact a given merger will exert on the employees of the merging companies, and it is problems with personnel management that play an enormous role in forming conditions for merger success or failure. In most cases, the employees of the merging companies are not properly informed about the premises and course of the merger process until the whole transaction has been completed. No or insufficient information arouse anxieties about the changes and their effects for the employees. In consequence, their work efficiency and performance drop. A source of special risks can be merger of enterprises with completely different cultural backgrounds, which translates in diversities in corporate culture. Cultural differences are rarely subjected to a proper analysis; in fact, they are often completely ignored. This is because companies wrongly assume that cultural differences are an element that can be easily overcome without paying much attention to their significance for the success of the transaction and directions of the company's development in the long run.

Success of an agreement with such a high degree of complexity like merger or acquisitions is possible only when the companies show each other respect in terms of their respective cultures and professed values, at the same time focusing on using differences between each other for their joint endeavours to achieve what they would not be able to achieve separately. Unfortunately, it is frequently the case that the buyer fails to appreciate the synergy effect of cultures and attempts to dominate the acquired company on concluding the agreement by the parties thereto, which destroys its creativity and visionary potential.

Yet even in the face of a conflict of cultures, success is still achievable on condition that the company responds to the arisen problems quickly and efficiently enough and prepares a relevant concept for solving them. An indispensable element is engagement of specialists, who will identify the sources of the problems and point to appropriate directions for actions. It is extremely important that the acquired companies have the opportunity to present their expectations about organisational, developmental and employment issues. These issues should be touched upon as early as at the stage of drafting the agreement.[11]

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[10] Work based on www.mbda.gov / (28/12/2014)

[11] S Fister Gale., *Why Mergers Fail?*, 2003, www.workforce.com / (14/12/2014)

Table 2. Benefits and risks for enterprises arising from mergers and acquisitions

BENEFITS	RISKS
Economies of scale – gained when the larger company, which achieves higher performance indicators, can reduce total unit costs, which enables more beneficial prices offered to customers,	**High costs for the company's shareholders** – related to legal expenses, potential devaluation of equity, intangible costs, alternative costs, and purchase of a new company itself, which is not always profitable in the short run,
International competition – merger may help companies handle the risk of competition and prepare them for competing on the international scale,	**Inconveniences for consumers** – higher prices resulting from reduction of competition with simultaneous decrease in the quality and quantity of goods and services offered (reduction of the achieved consumer surplus), inefficient allocation, decrease in the scope of innovations offered, suppression of competing businesses (a smaller range of products offered=restricted choice), drop in the equity value and investment,
Strength on the market – one of the main goals for involving in mergers is to gain more market share, which in turn increases the company's dominance and enables application of higher prices (therefore mergers are frequently regulated by the government),	**Probability of lower business efficiency and discontinuation of production at the lowest point on the total average cost curve,**
Stimulation of investments in research and development – due to generation of higher profit, which permits production of higher quality goods for consumers,	**Risk of collusion with another entity,**
Achievement of higher performance,	**Increased barriers to entry, which reduces competition,**
Protection of the industry against collapse – mergers can be profitable in an industry being at risk of collapse, where companies struggle to survive on the market,	**Payment of lower prices to suppliers by the new strengthened company,**
Diversification – through merger of two companies from different industries, they can exchange knowledge useful in their industry,	**Risk of losing a job due to structural changes,**
Higher prestige for companies merging with stronger partners,	**Effects of overexpansion** – drop in efficiency, management difficulties, lack of appropriate economies of scale.
Risk reduction – through sharing it with the partner,	
Capability to increase the company's impact on other market entities and organisations.	

Source: Own work based on G. Kyriazopoulos, D. Petropoulos, What are the advantages and disadvantages that lead banks into mergers and acquisitions? Is Altman's score model for bankruptcy motivate banks for mergers and acquisitions? Evidence from the Greek banking system, International Conference On Applied Economics – ICOAE 2010, Technological Educational Institute of Western Macedonia

Therefore, success of the merger and hence maximisation of its potential benefits depend on adopting a careful approach based on a precise analysis of the company and market situation[12].

Apparently, concluding merger and acquisition agreements could bring companies numerous benefits, at the same time involving a multitude of risks.

There are various merger variants related to the companies' expectations from it. One of the variants is dominating the acquired company, i.e. the weaker one, by the acquiring company, i.e. the stronger one, which imposes its management style as well as its goals

[12] www.money.cnn.com/magazines/fortune/global500 / (18/12/2014)
www.forbes.com/global2000/list / (18/12/2014)

and assumptions. Another variant is cooperation in striving for mutual synergistic benefits. To make it possible, a similarity between the companies in terms of their potential and aspirations is required.

Effects of merger can be also extremely diversified and perceived differently by each of the companies being parties to this type of agreement. They may be related to emergence of new investments, greater operational efficiency, broader scale of activities, greater innovativeness, or introduction of a new more effective business model.

Therefore, it needs to be emphasised that the lack of a proper market analysis and underestimation of factors related to organisational culture of the companies commencing merger, as well as mistakes in human resource management are the major factors in a company's failure.

V. Types of merger as one of the forms of direct investment by enterprises on the European market by industries

The outbreak of the global crisis had an extremely adverse impact on many countries in the world. However, in the case of China, it contributed to significant growth in the number of foreign direct investments. Their value of USD 55.9bn doubled in 2008 compared to USD 26.5bn achieved in 2007, while USD 68.8bn in 2010 ensured China fifth position in terms of the scale of foreign direct investments made across the globe.

The highest number of Chinese investments diversified in terms of industries have been located on Asian and European markets. This is because investors are interested in investing in many fields, and in particular in the ones comprised by the 12th Five-Year Economic Plan as priorities. They include the following sectors: energy technologies, biotechnology, next generation information technologies, highly processed goods industry, as well as new materials, alternative energy sources, and biofuel-powered vehicles.

In 2008, Chinese investors became more interested in the European market in terms of locating foreign direct investment there and participating in public procurements as well as purchasing bonds. The value of foreign direct investments amounted to USD 876m and increased to USD 3,352bn in 2009, and then to USD 6,670bn in 2010. The highest number of Chinese direct investments were located in European countries such as Luxembourg (USD 5.8bn), Germany (USD 1.5bn), Sweden (USD 1.5bn), the UK (USD 1.4bn), the Netherlands (USD 487m) and Hungary (USD 466m). Poland was ranked among the top Central European countries with the value of Chinese investment equal to USD 140m.

The Eurozone crisis, which resulted in a significant reduction of the prices of European companies and a change in the investment policy of Chinese companies, caused another considerable growth in interest in the European market in 2011[13].

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[13] www.gochina.gov.pl/ (20/12/2014); www.imaa-institute.org/ (20/12/2014); www.euccc.com.cn/ (20/12/2014)

The list of the major direct investments made at that time by Chinese companies in Europe in individual sectors is presented in Tab. 3.

As is demonstrated in Tab. 3, Chinese investments are located in many different industry and service branches. In each of the four most important sectors in terms of value, at least one acquisition on a large scale was made. In the public utility sector, cooperation between CIC and Gas de France stands out, in the chemical industry – acquisition of BorsodChem by Wanhua, in the transport sector – acquisition of Volvo by Geely, while in the power sector – purchase of Emerald by Sinochem.

Data analysis proves a relatively high diversification of Chinese investments with respect to industries: from machine building, to telecommunication, to consumer goods. Yet given the number of the transactions concluded, it is the machine building industry and renewable energy sector that triggered highest interest in Chinese investors. However, due to high capital intensity of those sectors, the value of the investments made by Chinese enterprises is not highest in those sectors.

Table 3. Examples of the major investments by Chinese companies in the form of mergers by industries

	INVESTMENTS
POWER SECTOR	• acquisition of Addax Petroleum, with its seat in **Switzerland** by Sinopec (USD 7.2bn – the largest acquisition by a Chinese enterprise)
	• acquisition of Emerald Energy (**the UK**) by Sinochem
	• acquisition of Awilco Offshore (**Norway**) by CNOOC
	• purchase of shares in INEOS (**France**) by CNPC
	• purchase of 21.35% of shares in Energias de Portugal (**Portugal**) by Three Gorges Corporation
	• purchase of 1.6% of shares in Total (**France**) and 1% of shares in BP (**the UK**) by SAFE
TRANSPORT SECTOR	• acquisition of shares in Volvo Car (**Sweden**) from Ford by the Chinese Zhejiang Geely Holding Group
	• acquisition of the Bulgarian Litex Motors by Great Wall Motors
	• acquisition of Burg Industries (**the Netherlands**) by China International Marine Containers
	• purchase of shares in Spyker Cars (**the Netherlands**) by Zhejiang Youngman Lotus and Pang Da Auto
	• agreement on beneficial lease of the port in **Piraeus** with COSCO Holdings (investments in the port in **Naples** are intended)
INDUSTRIAL SECTOR	• purchase of shares in BorsodChem (**Hungary**), chemical companies
	• acquisition of Rhodia (**France**)
REAL ESTATE SECTOR	• **investments in the construction industry** by Sany Heavy Industries in **Germany**, Sinoma in **Ukraine**, Zoomlion in **Italy**
	• investments in the tourism industry by HNA in **Spain**, BCEGI in **Greece**
FINANCIAL SECTOR	• purchase of shares in Cheuvreux and CLSA (**France**) by CITIC
	• purchase of shares in Apax Finance (**the UK**) by CIC
	• purchase of shares in Fortis (**Belgium**) by Ping An
	• purchase of shares in Barclays (**the UK**) by China Development Bank
MODERN TECHNOLOGY SECTOR	• purchase of shares in the **Spanish** Telefonica by China Unicom
	• acquisition of the **German** Medion by Lenovo

Source: www.gochina.gov.pl/ (20/12/2014).

VI. Impact of merger on the position of enterprises on the European market

In accordance with the report prepared by the ING Corporate Finance Asia team, China maintains a strong trend of making mergers and acquisitions in Europe. It is evidenced by the results achieved by Chinese investors in HY1 2014. At that time, Chinese enterprises concluded as many as 43 agreements in the form of mergers and acquisitions at the total value of USD 13.8bn, disclosing an impressive increase relative to 27 agreements at the total value of USD 5bn concluded in the same period in 2013.

It needs to be emphasised that the significance of the industrial sector, which constituted as much as 29% of the total value of the mergers and acquisitions made in HY1 2014, is growing. It is followed by agriculture, financial sector and service sector in terms of investment by Chinese enterprises, which proves the increasing need for modernisation of technology[14].

Investments by Chinese enterprises in the form of mergers and acquisitions affect the structure of the markets on which they are made, and influence the position of the enterprises covered by such agreements. The change in the position can be inferred based on the percentage market share, the company's market value, the value of the revenue it generates, brand and image popularity.

In March 2010, a merger was finalised resulting in Geely Automobile, a Chinese company, purchasing Volvo, a Swedish brand, from Ford Group for USD 1.8bn. It was the greatest foreign transaction performed by this Chinese company.

Under a technology transfer agreement, Geely has now full access to Volvo technology, the use of which on the Chinese market will permit achievement of its strategic goals. By means of Volvo technology, Geely intends to create a new Gelly Automobile brand for the mass Chinese consumer. Relationships between these two companies are described as partnership. There is no competition between them as they are oriented towards different target markets. Geely sells cars dedicated to the mass consumer, while Volvo aims at the luxury goods market. Therefore, the technological cooperation between Gelly and Volvo has been developing relatively well to date. A significant progress was achieved in 2013, which permitted the Group to further optimise the used resources and accelerate implementation of the platform strategy as well as standardisation and joint modernisation of product development. Owing to that, the Group achieved a strong and unique advantage over competitors. Furthermore, the changing attitudes of consumers, who have recently become more and more demanding in terms of performance, environmental impact, energy consumption

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[14] Sino-Europe Outbound M&A Review 1H 2014, September 2014 , https://www.ingcb.com/media/972804/sino-europe-ma-newsletter_1h2014.pdf, (05/01/2015)

efficiency and safety expected of vehicles, undoubtedly has a positive effect and gives many opportunities for the future as regards development of the products offered by the Group. When observing the cooperation between the companies to date, it can be boldly said that, through the achieved synergy effects, Geely has solid grounds for fulfilling its long-term goal, which is achieving the position of the leading international vehicle manufacturer. So far, Geely has been improving the quality of its vehicles and thus enhancing its competitiveness on the market. In 2011, Geely Automobile recorded better growth than expected, i.e. 13% of net profit growth, followed by 19% in 2012 and 31% in 2013, disclosing constant growth of the company. The number of vehicles sold, that is 549,468, was higher by 14% in comparison to 2012, 22% (118,871 pcs) of which were sold to foreign markets, disclosing growth by 17% compared to the previous year. As a result of systematic improvement of the product range offered by the company, its 2013 financial results were far beyond its expectations, as they grew by 17%, reaching RMB 28.7bn (Fig. 3). What is worth emphasising is that the company managed to achieve so spectacular results despite increase in research and development expenditure related to the restructuring processes introduced to the company, which contributed to noticeable improvement of the product range offered in 2013[15].

The transformation of Volvo progressing in 2013, in turn, resulted in launching the largest renewable product line in the company's history, i.e. Drive-E units, which was reflected both in the net income growth by 4%, from SEK 272,6bn in 2013 to SEK 282,9bn in 2014, and the operating income level, which grew from SEK 7,9bn in 2013 to SEK 8,4bn in 2014. That result was a significant step towards the company's achievement of a sustainable profitability level. Owing to appropriate sales development and cost optimisation, Volvo managed to make up for the loss recorded in HY1 2013 and transform it into full-year profit. The company's retail sales, driven mainly by the growth achieved in China, was similar that year to the quantity of vehicles sold in 2012. Moreover, Volvo Car Group strengthened its long-term funding structure by concluding loan agreements with partners and financial institutions.

To date, the industrial expansion of Volvo Car Group has been progressing on the Chinese market in accordance with the adopted plan. The company concluded two joint venture agreements in Zhangjiakou and Daqing and established a plant in Chengdu, which commenced its operations in November 2013. It needs to be emphasised that the real turning point in the development of Volvo was its acquisition of 45% of Dongfeng, a Chinese company offering heavy or medium goods vehicles. This is because the strategic alliance proves a principal change in perceiving the company's potential on the Chinese heavy goods vehicle market, which – what needs to be emphasised – is the largest market in the world[16].

In 2015, Geely and Volvo are going to commence sales of jointly developed, safe and reliable vehicles. Geely hopes that this will let it enhance its reputation further by

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[15] Geely Automobile Holdings Annual Reports , www.geelyauto.com.hk, (16/12/2014).

[16] Volvo Group Annual Report 2014, http://www3.volvo.com/ (16/01/2015)
Geely Sweden ab Annual Report 2013, http://www.volvocars.com/ (16/01/2015)

climbing to the top position of passenger car exporter in the country. Volvo, in turn, wishing to double its sales volume to 800,000 vehicles in 2020, commenced test drives in its first factory in China. CEVT (China – Euro Vehicle Technology), an independent research and development centre opened in Gothenburg in Sweden in 2013, has become the key platform for facilitating cooperation between both companies[17]. At present, the centre employs 200 specialised engineers, who are supposed to develop a new modular architecture and a set of components for C segment cars, with both Volvo Car and Geely Group's needs taken into account. Such components will not only supply world class technology but also permit considerable reduction of development, testing and supply costs, ultimately leading to generation of significant economies of scale. This will not only be beneficial to Volvo but it will also allow Geely to compete on the automotive market. As a result, this will translate into profits of the established corporation.

GEELY AUTOMOBILE HOLDINGS LIMITED - 5 YEARS FINANCIAL SUMMARY					
	2013	**2012**	**2011**	**2010**	**2009**
Turnover (RMB'000)	28,707,571	24,627,913	20,964,931	20,099,388	14,069,225
Profit before taxation	3,304,182	2,529,077	2,183,208	1,900,323	1,550,460
Profit for the year (RMB'000)	2,680,248	2,049,786	1,715,849	1,549,711	1,319,028
Annual Sales Volume (Unit)	549,468	483,483	421,611	415,843	326,710

Fig. 3. Financial results following the merger of Geely Automobile and Volvo for the Chinese company

Source: Own work based on Geely Automobile Holdings Annual Reports, www.geelyauto.com.hk

[17] www.europe.autonews.com/ (01/02/2015).

Another example of mergers and acquisitions by a Chinese company refers to the power sector. In October 2009, Emerald Energy PLC, a power company, was acquired by Sinochem Corp, the leading seller of chemical products. The company purchased the crude oil and natural gas mining company listed on the London Stock Exchange for GBP 532m, i.e. 750p per share, which is by 11.1% more than the share price on closing. The agreement concluded by the parties was to enable the Chinese company i.a. optimisation of the crude oil and natural gas reserve structure, and facilitation of strategic distribution of their resource mining in South America (Columbia) and Middle East (Syria), and in effect establishment of a solid foundation for the future development of the company in these regions[18]. Despite insignificant dimensions of that acquisition, its major goal was to stimulate Sinochem's mining activity. Emerald's assets have a large growth potential and its introduction to Sinochem Group contributed to reinforcing its position both in Middle East and South America. Moreover, it is an extremely important step in the strategy of building a position with a global reach pursued by the Chinese power company[19].

When analysing Sinochem Group's progress over years, it can be easily noticed that 2013 was a year of crucial significance from the viewpoint of strategic transformation of the company. This is when it obtained increased access to both crude oil and natural gas resources and renewable reserves, and improved its mining capacities, which paved its way to long-term sustainable development in the future. Moreover, the company not only achieved but also maintained stability relative to its operating results and offered quality with revenue from sales amounting to RMB 466.9bn and profit before taxation of RMB 10.87bn. It needs to be emphasised that the company's profit had maintained above the level of RMB 10bn for 3 years at that time (Fig. 4).

Furthermore, crude oil and natural gas production was 25.13m barrels (crude oil equivalent) in 2013, disclosing growth by 8% with respect to the previous year. Acting in accordance with the professed "Creating Value, Pursuing Excellence" philosophy, Sinochem is accelerating the transformation rate of its key business segments, including the power and mining segment, thus not only increasing their corporate value but also intensifying its presence in related industries. The company focuses on two strategic mining regions, i.e. Middle East and both Americas, where contracts were concluded on 34 crude oil and natural gas block in countries such as the USA, Columbia, Brazil, Syria, United Arab Emirates, and the Chinese Bohai Bay.

The purchase of 40% of interest in natural gas and crude oil reserves obtained from shale in Wolfcamp from Pioneer Natural, an American company, by Sinochem had a critical significance for expanding the company's activities in North America. Cooperation with a Columbian crude oil group, in turn, permitted Sinochem Group to pursue mining activities in three blocks along the Caguan river in Columbia. It needs to be emphasised here that the Brazilian National Agency of Petroleum recognised the company as a top

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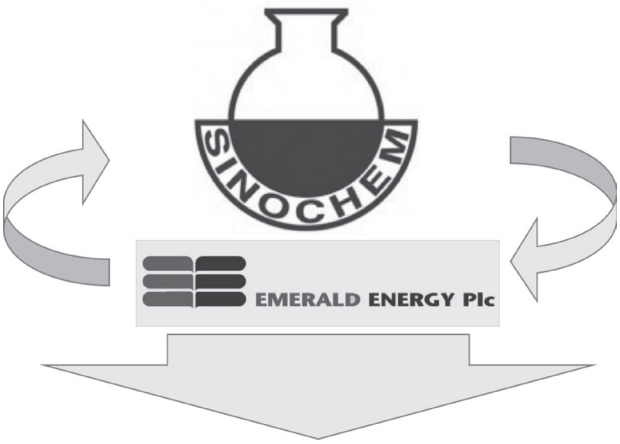
[18] www.english.sinochem.com / accessed on 01/03/2014); www.reuters.com/ (01/03/2014).
[19] www.bloomberg.com/ (01/03/2014).



SINOCHEM CORP - 5 YEARS FINANCIAL SUMMARY

	2013	2012	2011	2010	2009
Total operating income (RMB'0000)	46,690,479.68	45,315,859.76	45,895,329.18	33,532,679.83	24,178,816.19
Operating profit	937,197.04	987,773.80	1,281,584.29	897,035.33	564,324.62
Total profit	1,087,191.91	1,067,060.91	1,341,467.17	907,589.12	634,689.27

Fig.4. Financial results following acquisition of Emerald Energy by Sinochem Corp for the Chinese company

Source: Own work based on Sinochem Corp Annual Reports, www.english.sinochem.com /

class operator, i.e. A class, owing to which Sinochem can perform works on land, in shallow water and in the deep sea in Brazil. Moreover, at the same time, the company obtained qualifications permitting it to mine natural gas in China, thus creating bases for developing the domestic activity in the future.

It is worth stressing that the scope of Sinochem's activities has expanded its prevailing mining activity by a significant research profile in recent years. Currently, the company plays an important role in both industry modernisation and mining and development sector, slowly becoming an independent crude oil company.

When analysing Chinese enterprises' aspirations for dominance on various markets, it is worth pointing to another example of acquisition in the power sector. It regards the agreement concluded in 2011 between China Investment Corp (CIC), a monetary fund that is the largest in China and the fifth largest in the world, and Gas de France Suez (GDF), the top producer and distributor of electricity, natural gas and renewable energy, and at the same time the largest purchaser of gas and importer of liquefied natural gas in Europe.

At the end of October 2011, CIC and GDF Suez Gerard Mestallet signed an agreement under which CIC acquired 30% of shares in GDF Suez's mining and production for EUR 2,491m, and 10% of shares in liquidation of GDF Suez Atlantic's assets located in Trinidad and Tabago, at the value of EUR 672m. Gas de France Suez additionally undertook to supply China National Offshore Oil Corporation (CNOOC), i.e. the largest Chinese offshore crude oil producer, in ships enabling storage and regasification of liquefied natural gas. The contract was finalised in late 2011.

The main goal of partnership between GDF and China Investment Corp was to use the rapidly growing demand for liquefied natural gas in Asia and to establish close contacts with the Asian power industry as a result of the planned expansion[20]. The agreement between the companies changed the competitive power relations on the market, i.e. strengthened CIC's position and gave GDF an opportunity to generate high profits, enhancing the financial stability of the company and offering it new business development prospects worldwide[21]. When analysing the financial results presented in annual statements of China Investment Corp's activities, a considerable improvement is visible, followed by constant growth in investment income generated by the company, which increased from USD 48,589m, earned in 2011, to as much as USD 83,052m in 2012, and then to USD 92,500m in 2013. A similar upward trend in noticeable also in the case of the company's net revenue amounting to USD 86,901m in 2013 preceded by growth from USD 77,690m in 2012 and USD 48,422m in 2011 (Fig. 5).

A good example of changes on the international market resulting from expansion of Chinese enterprises is the acquisition of 100% of shares in BorsodChem Zrt, a Hungarian isocyanate producer, by Wanhua Industrial Group (Wanhua), the largest isocyanate producer in the Asia-Pacific region, which took place in 2011 in the chemical sector. The Chinese potentate bought out all shares of its previous majority owners, i.e. Permira and Vienna Capital Partners (VCP) Funds. That was an effect of the financial restructuring of the Hungarian company in 2010. Wanhua supported BorsodChem with funds at the amount of EUR 140m, which were used by the company to construct a new TDI-2 power station and nitric acid production plant. The total acquisition of BorsodChem by the Chinese investor, supported by a federation headed by the Bank of China, enabled further development of the Hungarian company in the long term, ultimately preventing mass redundancies.

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[20] www.chinadaily.com.cn / (18/02/2014); www.ft.com/ (18/02/2014).
[21] http://www.gdfsuezep.no/en/GDF_SUEZ_group/GDF-SUEZ-EP/

CHINA INVESTMENT CORPORATION - 4 YEARS FINANCIAL SUMMARY

	2014	2012	2011
Total investment income	92,500	83,465	48,589
Operating Income	91,258	82,377	47,409
Net income	86,901	77,690	48,422

Fig. 5. Financial results following the agreement between CIC and GDF Suez for the Chinese company

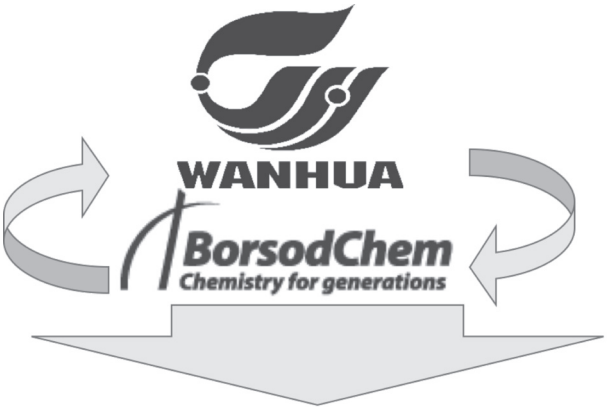
Source: Own work based on CIC Annual Reports, http://www.china-inv.cn/

The undertaking not only prevented BorsodChem from collapse but also, and foremost, caused transformation of two regional companies in a global corporation and achievement of the position of the third largest isocyanate producer in the world.

As an effect of the acquisition, Wanhua has become a modern company with efficient technology, serviceable production lines and a committed team of workers retained in the company. The company's success is reflected also in its financial results, and in particular in the total income value, which increased gradually from RMB 13,662m in 2011 to as much as RMB 22,088m in 2014 (Fig. 6)[22]. Operating within Wanhua Group's structure, BorsodChem is responsible for all transactions performed on the power market. Wanhua has gained favour with the former majority owners, i.e. the funds run by Permira and VCP, which supports the Chinese investor as a partner. President of Wanhua is planning to enlarge and enhance the acquired company until it becomes not only the largest employer in Hungary but also, and foremost, the largest isocyanate producer in Europe, ensuring it continuous development[23].

[22] http://www.bloomberg.com/research/stocks/financials/financials.asp?ticker=600309:CH

[23] www.borsodchem-group.com / (18/02/2014).



WANHUA INDUSTRIAL GROUP - 4 YEARS FINANCIAL SUMMARY

	2014	**2013**	**2012**	**2011**
Total Revenues (RMB'000)	22,088,4	20,238,0	15,942,1	13,662,3
Operating Income	4,602,1	4,519,1	3,896,3	2,879,6

Fig. 6. Financial results following the acquisition of BorsodChem Zrt by Wanhua Industrial Group for the Chinese company

Source: Own work based on
http://www.bloomberg.com/research/stocks/financials/financials.asp?ticker=600309:CH

When analysing the largest, in terms of value, agreements of Chinese companies on the European market, it is worth noticing the investment made by the biggest power company in China, which specialises in mining crude oil and natural gas, in 2013. China National Petroleum Corp (CNPC), which is referred to here, allocated USD 5bn for purchasing 8% of shares in Kashagan, a gigantic project pursued by KazMunaiGas, a Kazakh company, which has been the greatest discovery of crude oil at the Caspian Sea for 30 years. This is how it reinforced its position in this area and blocked attempts to gain access to this region by its major competitor, i.e. India.

The most significant investment made in HY1 2014, in turn, was the acquisition of the majority, i.e. 51%, of shares in Nidera Handelscompagnie BV, a Dutch company offering freight services and a supplier of solutions for global agricultural markets, by COFCO Group, the largest food processor and producer in China. This transaction is the biggest investment of this type for both COFCO and the sector of cereals and vegetable oils in China[24] and confirms the company's efforts to become a global producer and distributor

[24] http://www.bloomberg.com/news/articles/2014-10-29/china-grain-giant-cofco-planning-ipo-after-trader-acquisitions

of agricultural products, thus supplementing its role of the state food supplier for the largest rise, soya and wheat consumer in the world.

Conscious of the importance of ensuring development of strong relationships between each other, China and Europe concentrate their efforts on forming and building closer partnership. The sectors where the largest number of investments are to be located in the nearest future are mainly industry, real estate, power industry, including new energy sources, as well as creative sectors, focused on devising and developing new technologies, design and culture. Therefore, China's attention will be focused primarily on developed European countries, such as Benelux and Mediterranean Europe countries, but most of all still on Germany, France and the UK. Investments will increase along with the increasing awareness among Chinese entrepreneurs about the benefits than can be achieved[25].

VII. Conclusion

We are currently facing investment boom in Chinese enterprises. The rapid growth in China's interest in foreign markets is stimulated by commercial premises. However, a considerable role is played in this process by pressures from the continuously growing competition on the domestic market and perception of enormous development prospects on the European market. China's engagement in greenfield projects and conclusion of numerous merger and acquisition agreements with foreign partners contributed to growth in the generated annual average revenue from USD 1m in 2000 to USD 3m in 2009 and 2010, to as much as USD 10m in 2011. Even without smaller transactions, the number of Chinese investments was 573 at that time.

Activity of Chinese investors is intensified in OECD countries and in other developed economies. On the one hand, the Chinese see their chance for development on the European market, while on the other hand, Chinese investments constitute a great source of prosperity to Europe. It is estimated that the value of Chinese foreign direct investments will have reached USD 1tn-2tn by 2020, more than USD 250bn of which can be achieved by UE-27, which is ca. EUR 20bn-30bn per annum.

It is worth emphasising that regional diversification of Chinese investments made in Europe is gradually improving. Among the major European economies, Germany, the UK and France have still been concentrating the largest number of Chinese investments, yet their investment capacities have been decreasing due to excessively low rate of the economic recovery and complex business environment, like in the case of France. The

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[25] Sino-Europe Outbound M&A Review 1H 2014, September 2014, https://www.ingcb.com/media/972804/sino-europe-ma-newsletter_1h2014.pdf, (05/01/2015)

mature business environment of Benelux countries is favourable to Chinese investments, while Central European countries attract investments in production and real estate sectors, and Scandinavia has remained conservative with respect to Chinese investments, demonstrating occasional engagement, mainly as regards new energy and industrial technology[26].

Chinese investors ensure not only fresh capital but also work, taxes and side effects of innovations to Europe. Currently, Chinese companies are employing even more than 45k Europeans, and given complementariness of needs of Chinese investors and volume of the European labour force, it is assumed that this number will continuously grow.

The cases of acquisitions of European companies by Chinese companies presented in this paper are good examples of expansion by China, which is striving for development and enhancement of its position not only on the local but also on the global market. These undertakings show the joint effort made by Chinese and European companies towards developing successful cooperation with the best use of mutual potential. The progressing slowdown of the Chinese economy arouses a particular anxiety in Europe, which found Chinese investments helpful in recovering after the crisis. In 2014 alone, China invested as much as USD 18bn in European Union countries, mainly in sectors such as: production, agriculture, power industry, real estate, food, automotive and finance. European countries' weakening by the crisis and vulnerability to acquisitions created favourable conditions for investments by Chinese enterprises, whose value of the invested capital grew by as many as four times in the period 2010-2012, from more than EUR 6bn in 2010 to more than EUR 27bn in 2012. At present, that rate of the Chinese economy has slowed down to the early 1990s level, China has recorded the greatest weakening of the Chinese currency relative to dollar for over two years and has not fulfilled the adopted economic goal for the first time in 15 years. Taking advantage of the period of economic upturn for the purpose of investments and export maximisation has led to overinvestment with a too low internal demand, significant slowdown on the real estate market, and surplus of production capacity persisting in certain sectors. In order to minimise the risks, it is necessary to use the consumer potential, since the Chinese society can no longer be perceived as cheap labour force. This requires, however, firm actions, and in particular pay rise and substantial improvement in the quality of life.[27] China is currently entering a new stage of transformations, both in the political and economic sphere. This is facilitated by actions taken by the Chinese government, such as i.a. pursuing an accommodative monetary policy aimed at driving the economy through increasing consumption and liberating interest rates. The years of economic upturn in China led to overinvestment with a low level of internal demand and unused consumption potential. This gave rise to the need for changing the model based mainly on investments and focusing on driving

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[26] Sino-Europe Outbound M&A Review 1H 2014, September 2014 , https://www.ingcb.com/media/972804/sino-europe-ma-newsletter_1h2014.pdf, (05/01/2015)

[27] http://www.money.pl/gospodarka/wiadomosci/artykul/gospodarka-chin-zwalnia-nizsze-tempo-wzrostu,124,0,1728380.html

consumption. Despite apparent efforts of the government, the economic slowdown is expected to maintain for the time being, which is reflected by the decreasing trend in GDP growth rate from 7.7% in 2013 to 7.5% in 2014, and to 7% this year.

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www.imaa-institute.org
www.mbda.gov
www.money.cnn.com
www.news.xinhuanet.com
www.reuters.com