

Chinese investment in The Netherlands

Patterns and drivers

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Authors



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Enterprise Governance Structure

- Social capital
- Managerial vision
- Diversification strategy
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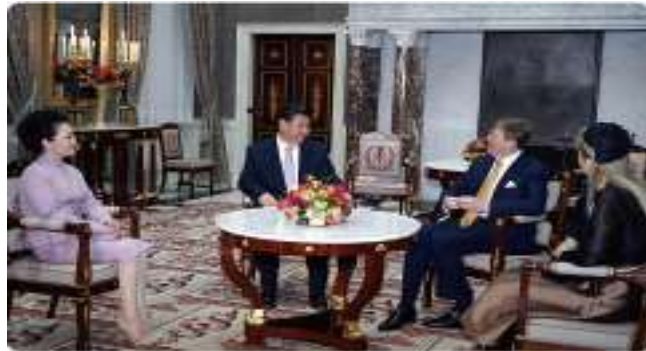


Ona Akemu

Developing country MNEs

- Corporate social responsibility
- Entrepreneurship
- Impact on host country
- Oakemu@rsm.nl

China and the Netherlands



- NL: the 2nd largest trading partner of CN for 11 years, and the 3rd largest direct investor.
- CN: the largest trading partner of NL outside EU and the 2nd largest investor.

China and the Netherlands



Major Cooperation Areas



Roadmap of my talk

1



Background

Types of Chinese outward investment
Where does investment go?
Policy debates in Europe

2



In NL

Key figures and patterns
The pull factors – why NL attractive?
Success and failure

3



In China

Push factors
The domestic situation

4




Trends

What's in it for you?

What do I mean by China?

Types of Chinese *investment* abroad

1



Portfolio investment

- Liquid investment
- China holds \$1.3trln T-bills
- Total reserves \$3.4trln

2



'Retail' investment

- Owned by immigrants
- Small scale
- Not tracked by investment agencies

3



Real estate investment

- High net-worth individuals
- Residence permit, passport key drivers

4



Foreign direct investment

- Purpose is control of Dutch enterprise
- Encouraged by investment agencies

Now, *some* definitions...

Foreign direct investment (FDI)



‘Cross-border investment associated with lasting interest/control in company’

FDI stock



‘Net value of all FDI held by foreign firms (Chinese) in country (Netherlands) at year end’

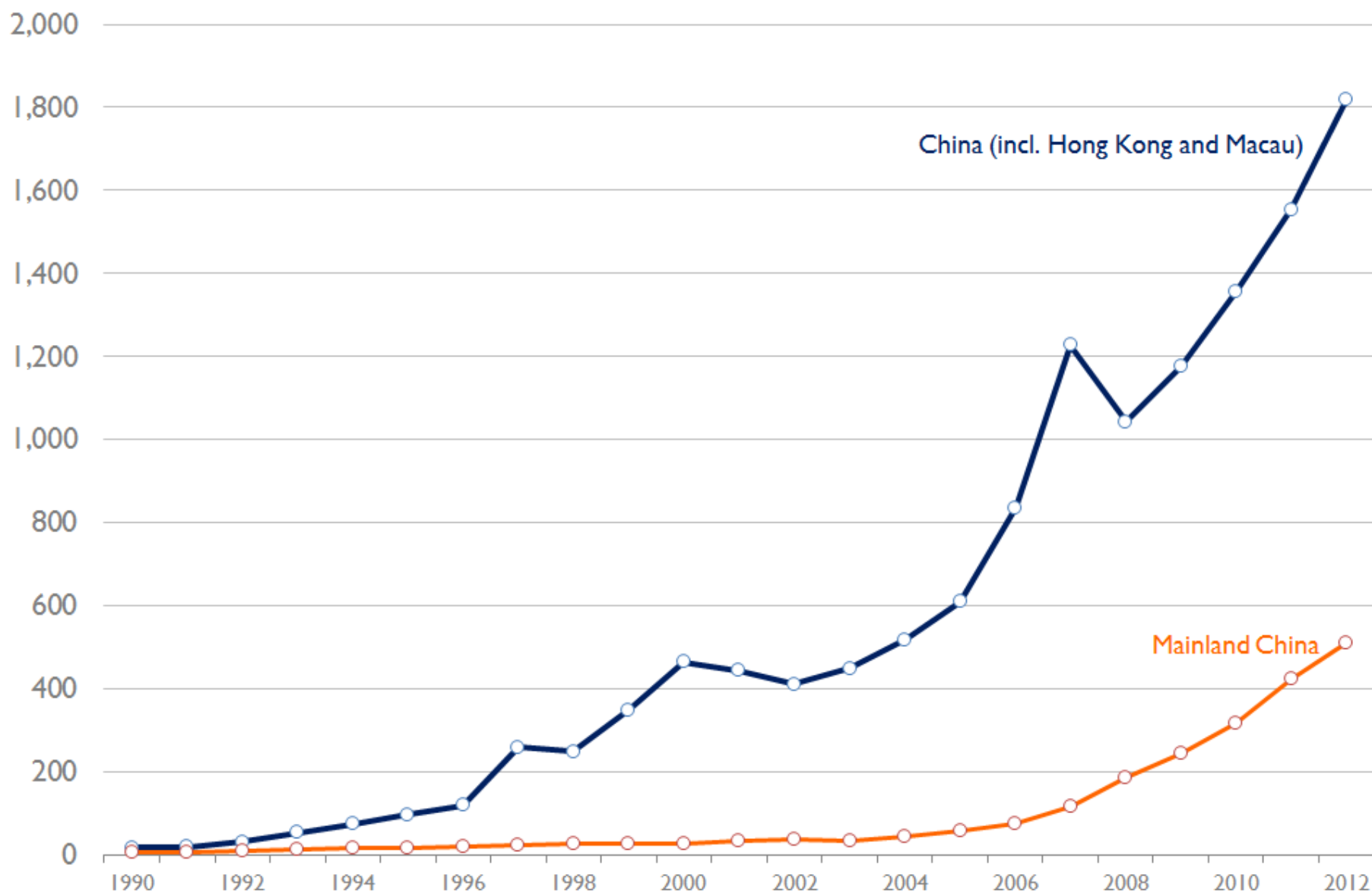
FDI flow



‘Net amount of FDI that flows into a country in a year.’

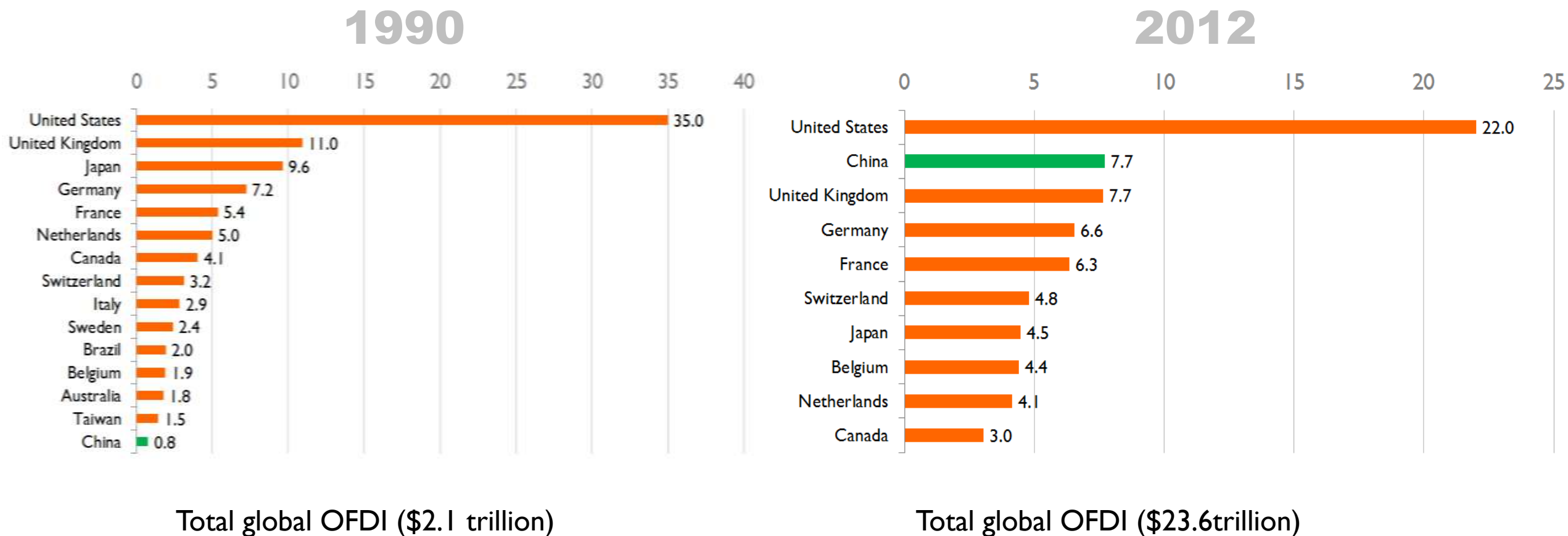
China rising in *absolute* terms: FDI stock nears \$2trln

Chinese outbound foreign direct investment stock, 1990-2012 (\$billion)



China rising in *relative* terms – contributing larger share

Outbound FDI stock of top investing countries as percentage of total global OFDI (1990, 2012)



Recent Trends

Chinese outbound FDI will accelerate

- In 2013: China's outbound FDI is \$107.84 billion, a 23% increase YoY. Total FDI stock reached \$660 billion.
- In the first 9 months of 2014, outbound FDI increases 22% YoY.
- China's outbound FDI may exceed inbound FDI in 2014.

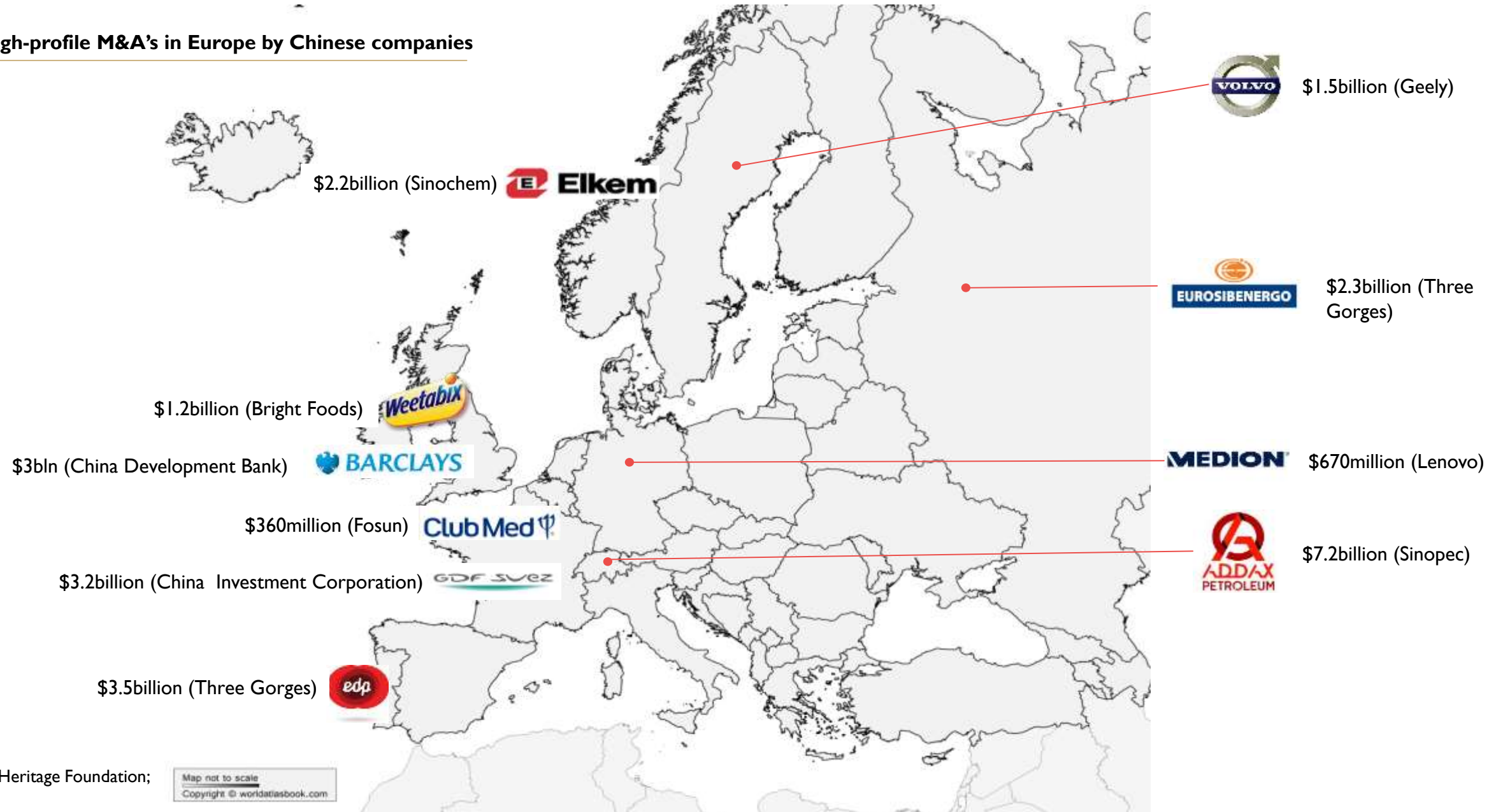


‘China's outbound foreign direct investment over the next decade is expected to reach \$1.25 trillion’

Looking at Europe...

Where *some* of the investment goes

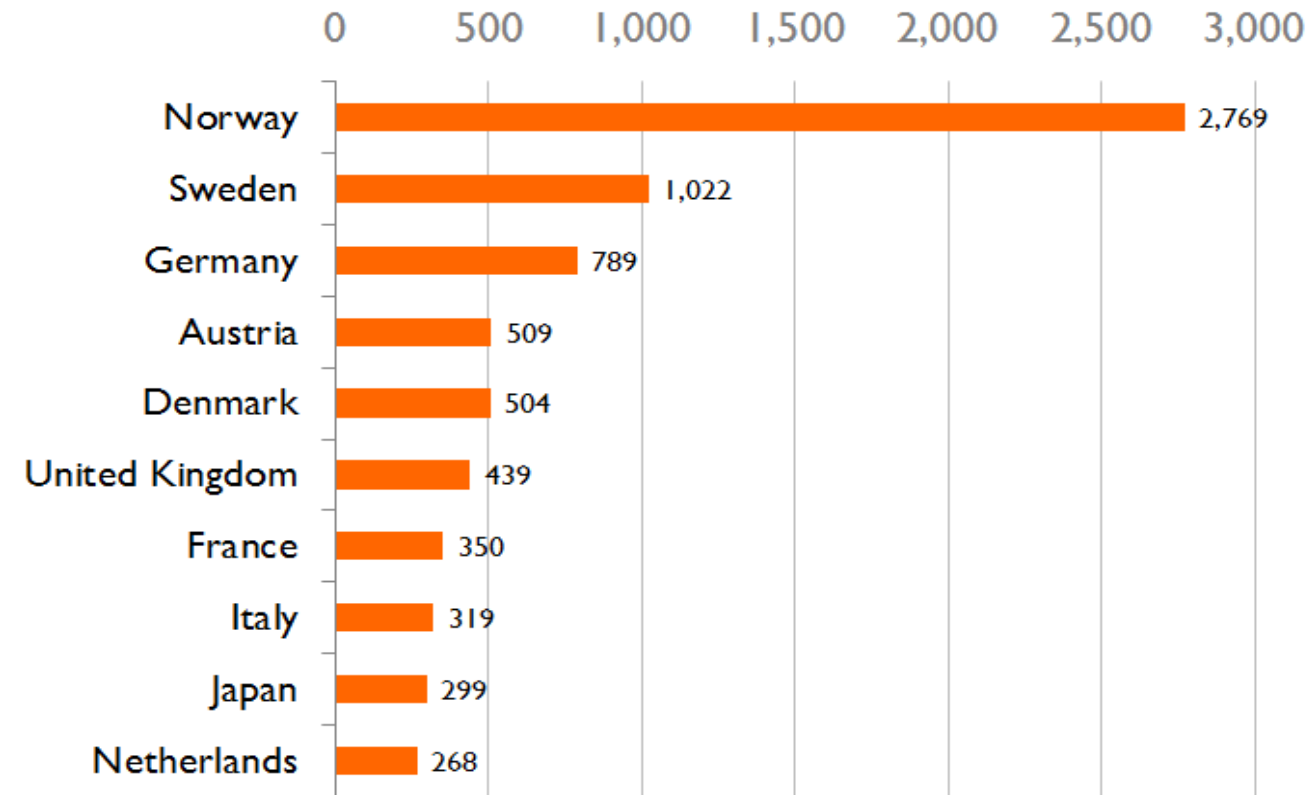
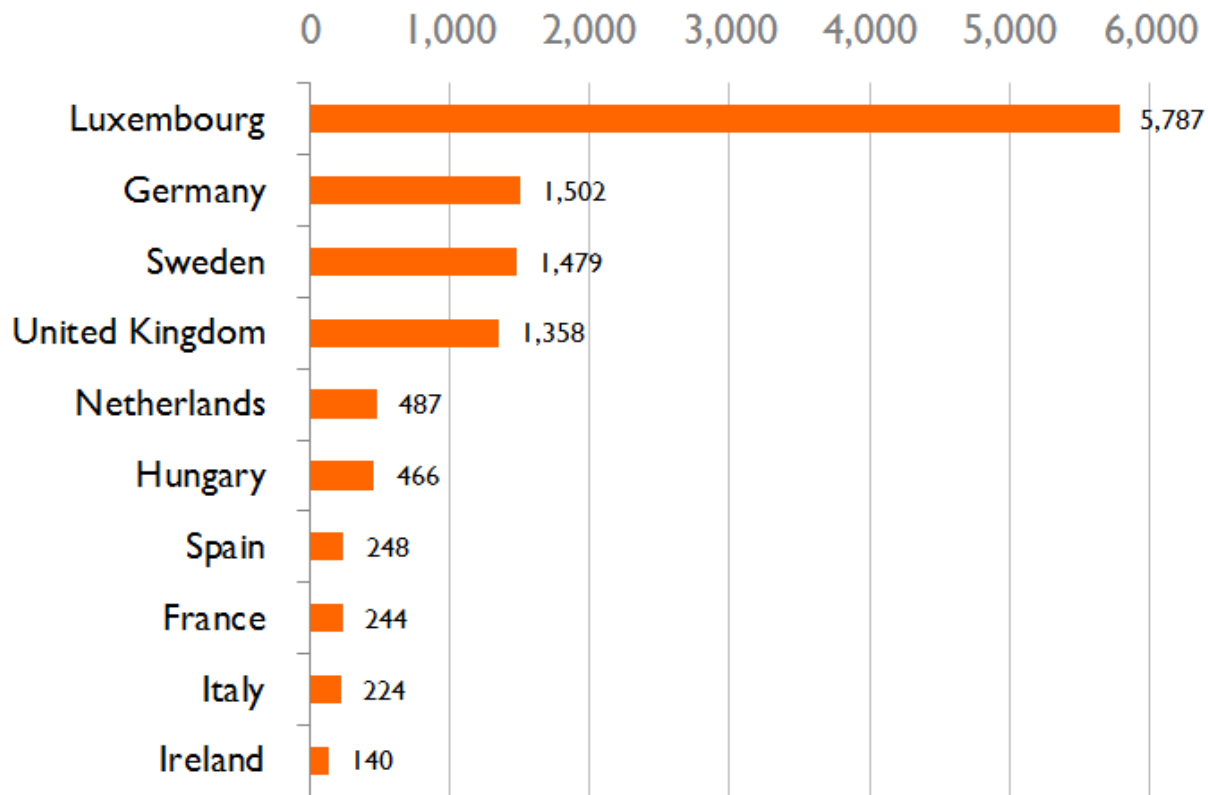
High-profile M&A's in Europe by Chinese companies

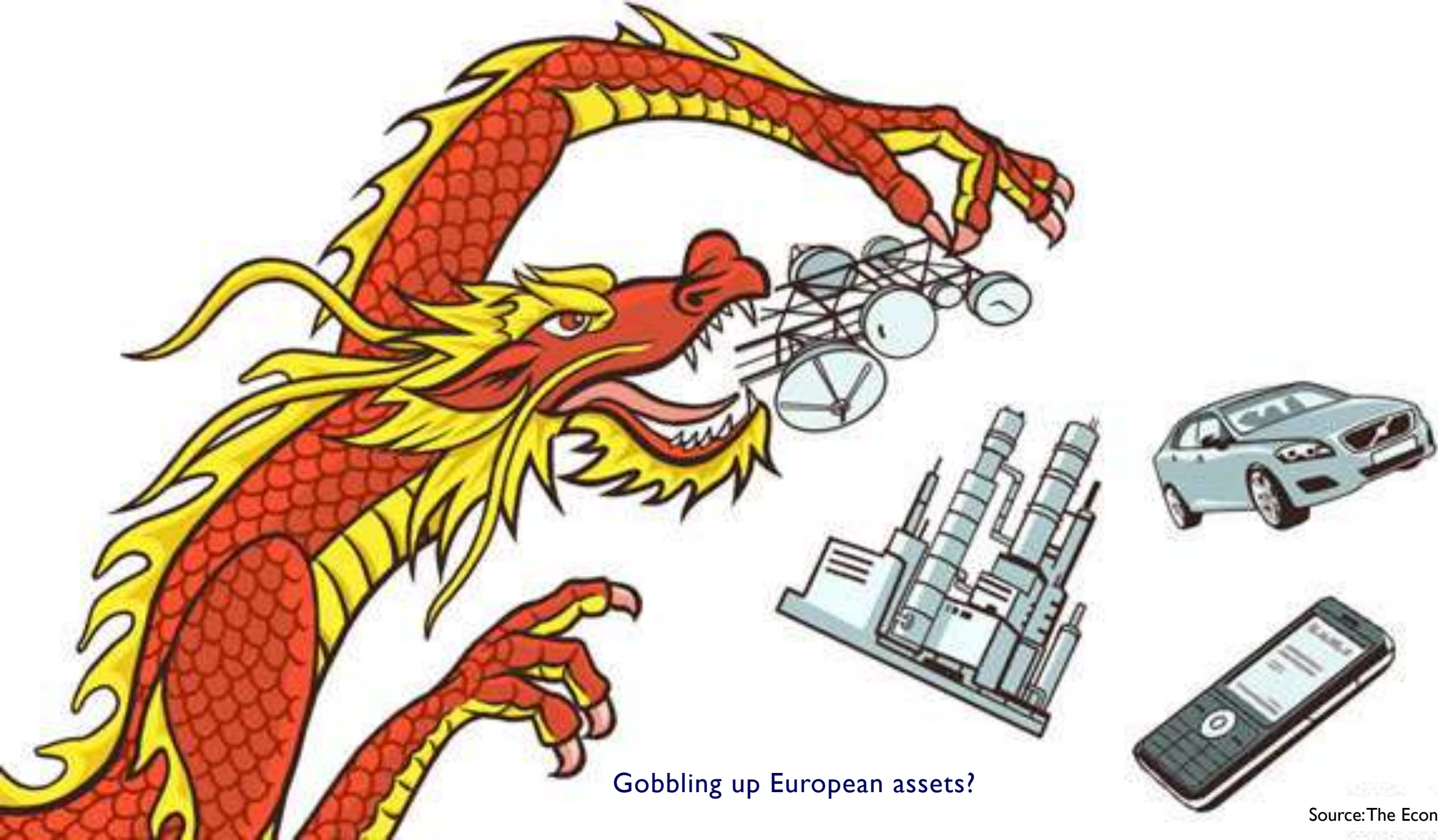


Where does *the rest* go?

It depends on who you ask

Top ten recipient countries of Chinese OFDI in Europe 2010 stock (€million)





Gobbling up European assets?

Chinese ‘stealing’ European know-how?



‘I am in favour of foreign investments ...but the question is if the Chinese company will invest in Europe or if this is a camouflage to bring know-how to China’

Antonio Tajani, EU industry commissioner (2010) speaking on Xinmao’s failed bid for Dutch firm, Draka. Italian company Prysmian finally bought Draka for €900million

Em, no evidence of that...



‘We see vanishingly few [Chinese investments] , which seem senseless from the perspective of commercial logic... (page 68)

Fuelling Europe or...



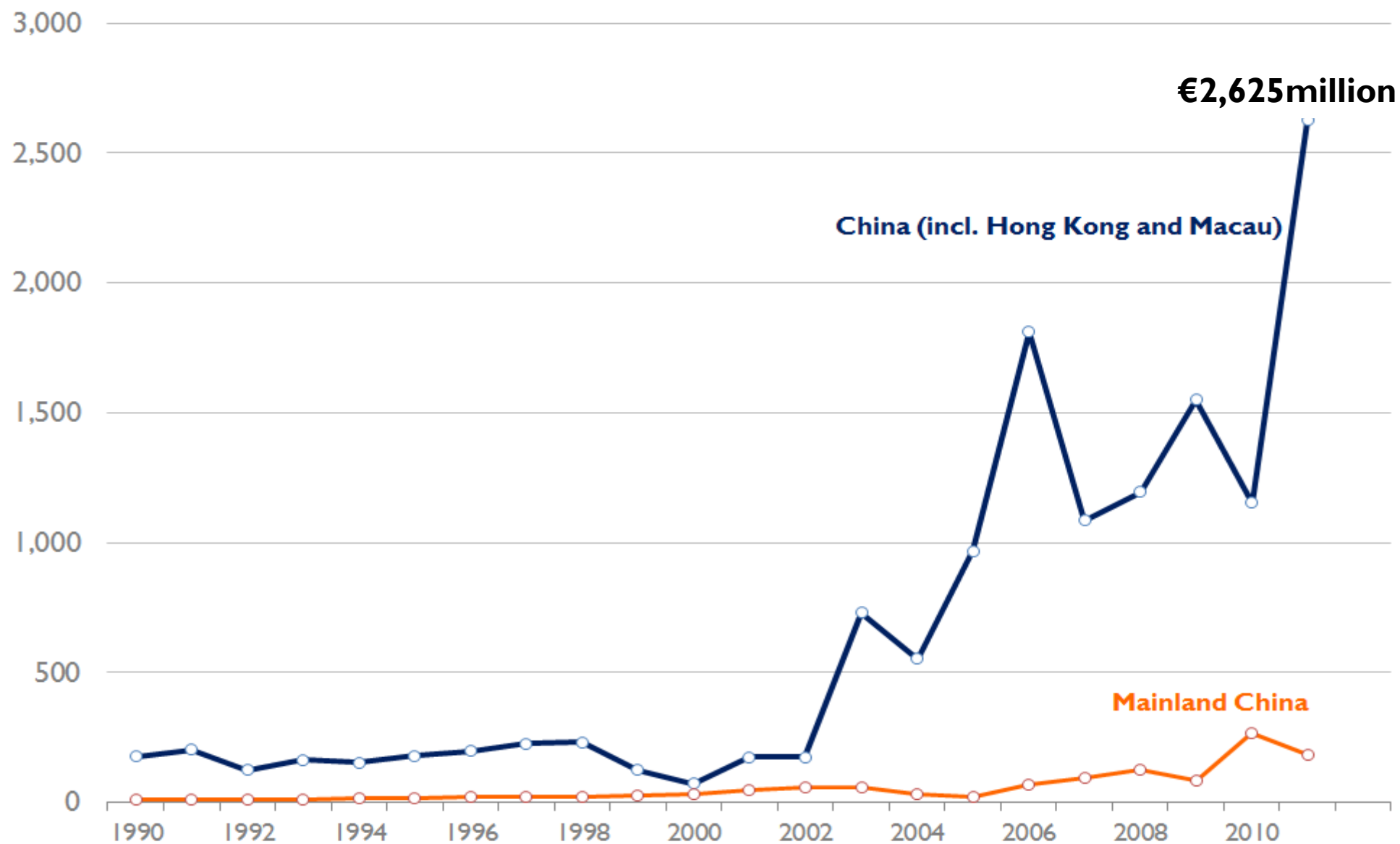
LI MIN / CHINA DAILY



Let's take a closer look at the Netherlands...

Chinese FDI in NL has also increased markedly

Chinese outward FDI stock in The Netherlands 1990-2011 (€million)



Source: De Nederlandse Bank, Extracted 16.08.2013.

Excludes special financial institutions (SFIs)

You've probably heard about these



Li Ka-Shing (85), Chairman Hutchison Whampoa

2002



€1.3billion

2003



€10.4million*

2013



€944million

*Transaction recording increased stake from 79 to 98%

How about these?

Acquirer	Target	Date	Consideration	Stake
		2011	€1.4million	40%*
	 (Anti-infectives business group)	2011	€210million	50%
		2011	€7million	100%

* To invest additional 3.5million raising stake to 70%

Source: company websites, press releases, Zephyr database

You'd be smiling too...



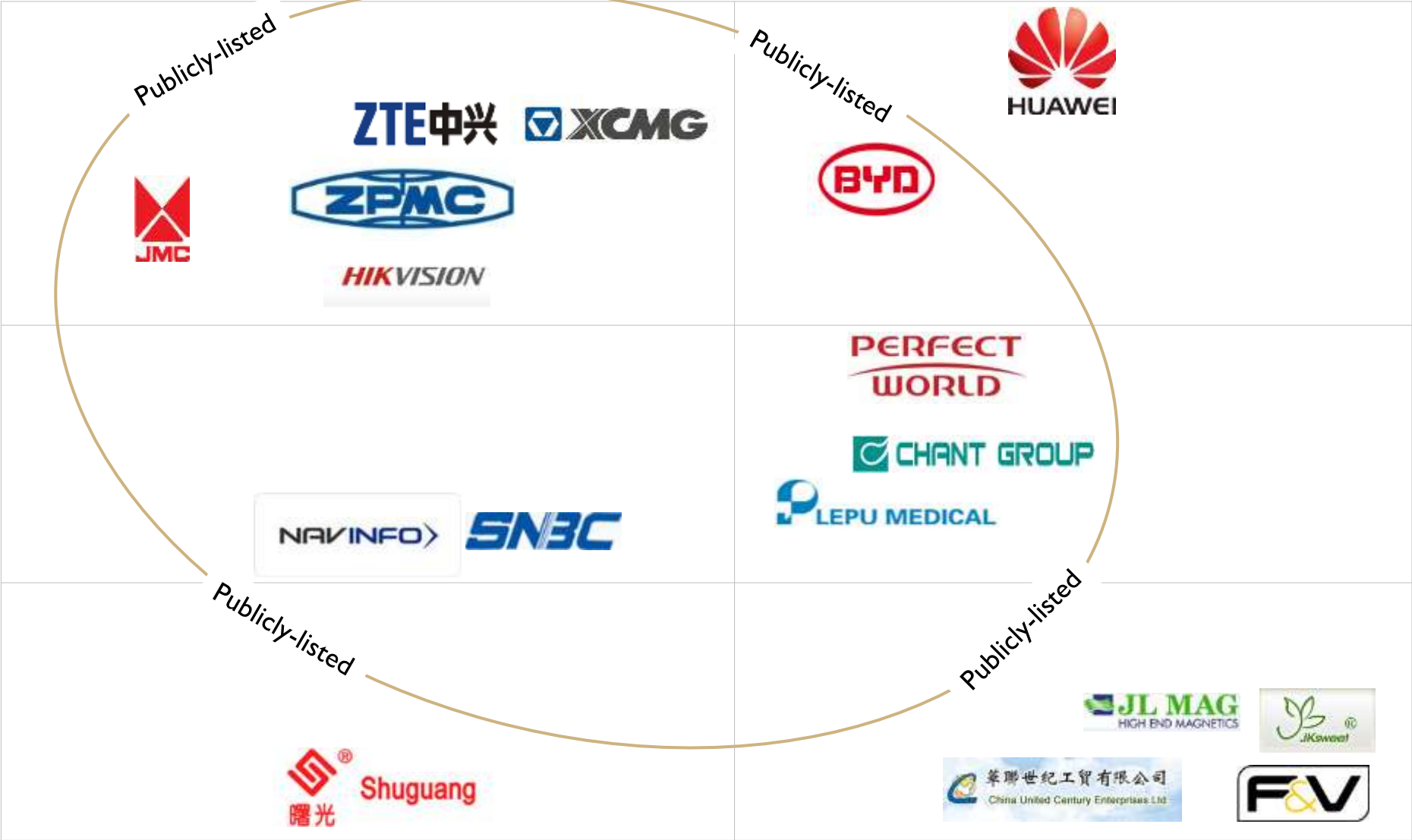
A feel for range of 'parents'

Size of parent company

Very large
(>\$500mIn)

Large
(\$50-500mIn)

Small, medium
(\$1-50million)



State-controlled

Privately-controlled

Controlling party

Source: Company websites, annual reports; Orbis database;

Active in sectors from automotive to travel

Automotive



Communication equipment



Conglomerates



Dairy products



Financial services



Industrial computer systems



Medical devices



Mining & construction machinery



Telecommunication equipment



Toys, juvenile vehicles



Transportation equipment



Travel



Wholly-owned and brownfield investments

Ownership

Wholly owned subsidiary



HUAWEI



HIKVISION



中國銀行
BANK OF CHINA

ICBC



中国工商银行
INDUSTRIAL AND COMMERCIAL BANK OF CHINA



mapscape



XEMC DARWIND



GINAF



Europe
Container Terminals



陆风汽车
LANDWIND



A COMPANY OF
CIMC
BURG

Greenfield

Brownfield

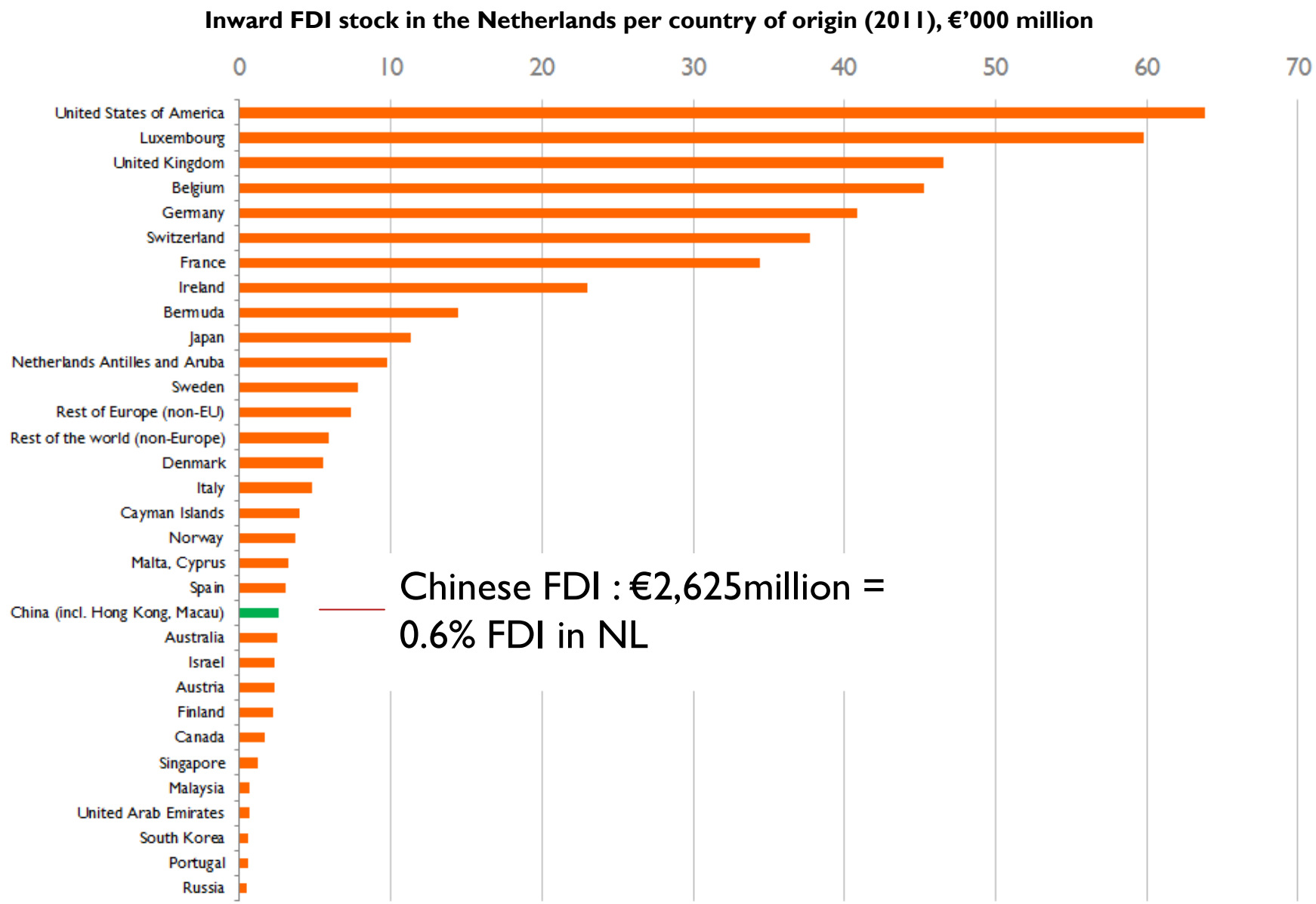
Establishment mode

Put it in perspective...

What percentage of Dutch inward FDI is \$2,625million?

Reality check

Chinese FDI in NL still a drop in the bucket. US is still our most important foreign investor



Source: De
Nederlandse Bank,
Extracted 16.08.2013.
Excludes SFIs

How many Chinese companies in NL?

It depends on what you mean by Chinese-owned companies



Parents registered in China (mainly mainland).

Sectors focus - life sciences, creative industries, agri-business.

Do not track investment by Chinese individuals or in retail, 'horeca'.



**Netherlands Foreign
Investment Agency**

Similar to regional investment agencies. Help companies set up in NL.

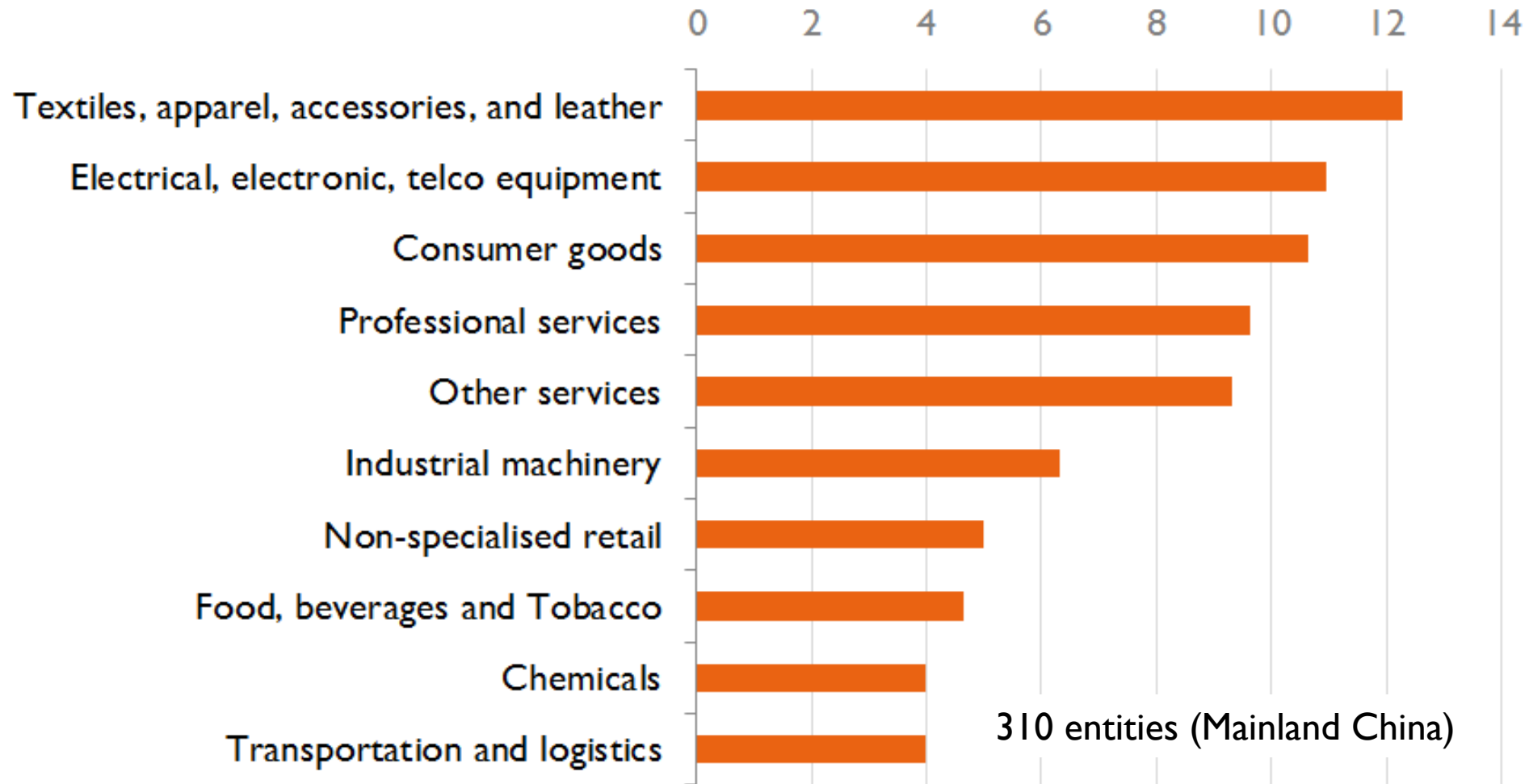
I amsterdam.

Companies owned by first-generation, second-generation Chinese from mainland China, Hong Kong, Macau, Taiwan.

670 in Amsterdam MRA. Predominantly in 'horeca', financial services

Sectoral spread

Textile, apparels is the dominant sector for mainland Chinese firms



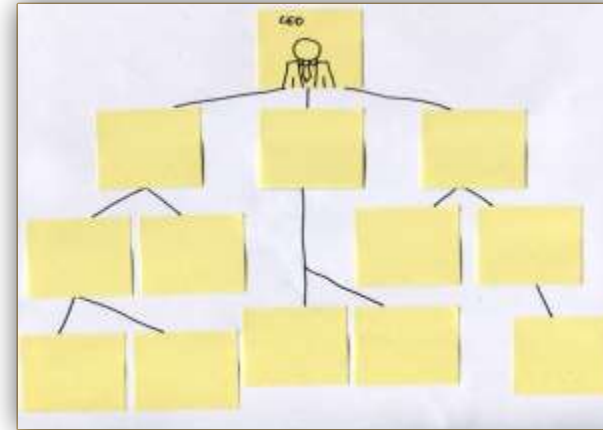
Functions

Wholesale & retailing (often a.k.a. marketing, sales) main functional activity of mainland Chinese companies



Wholesale & retail

69%



Finance/holding companies

9%

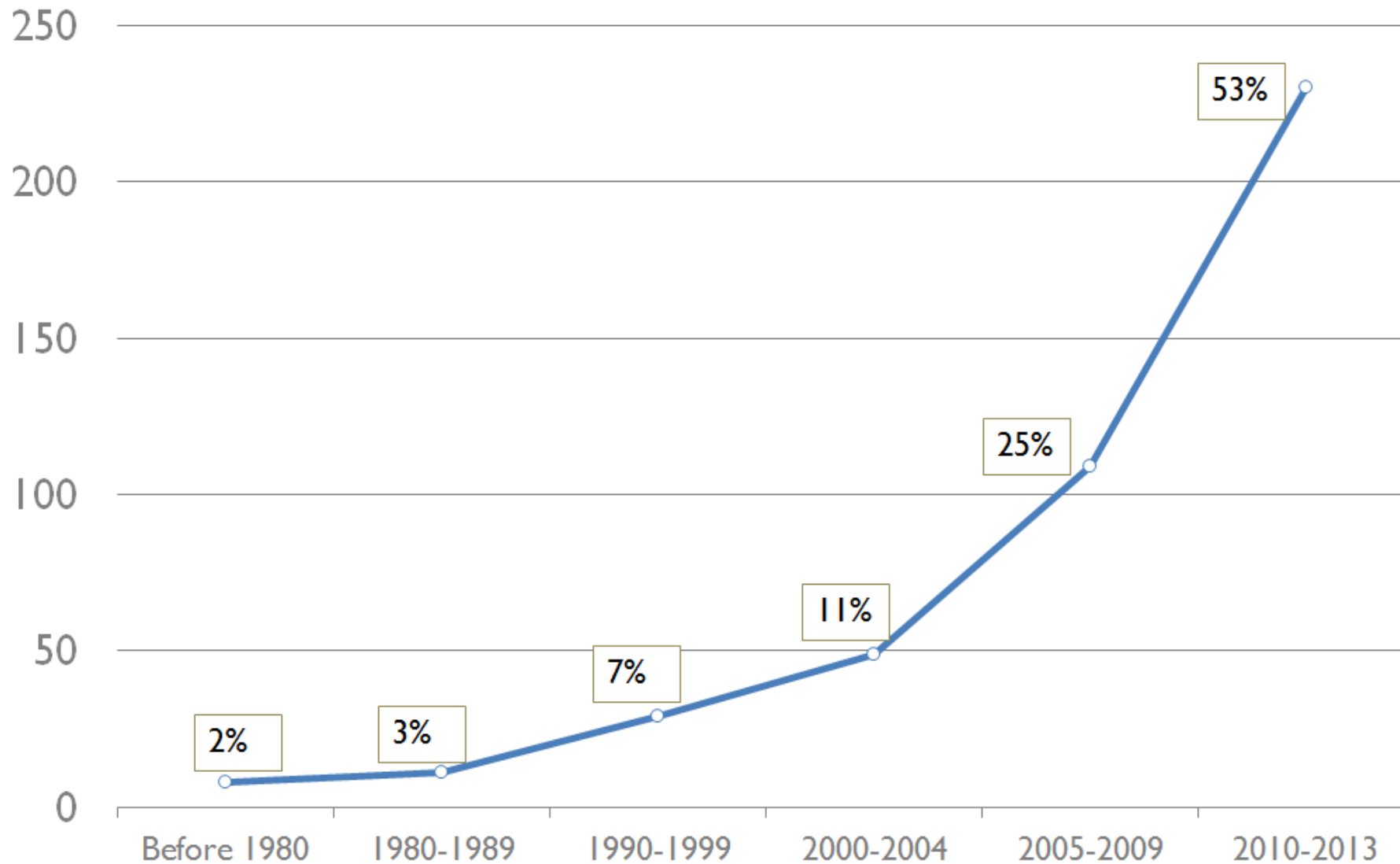


Professional services

13%

53% of Chinese firms less than 5 years old

Number of Chinese subsidiaries established in Netherlands per five-year period between 1980 and 2013



Source: own analysis of 441 NL firms with Chinese ultimate owners in Orbis database

Many, many small companies; located in Randstad

30

Percentage of Chinese-owned firms employing only one person

35

Percentage of Chinese-owned firms employing more than five people

50

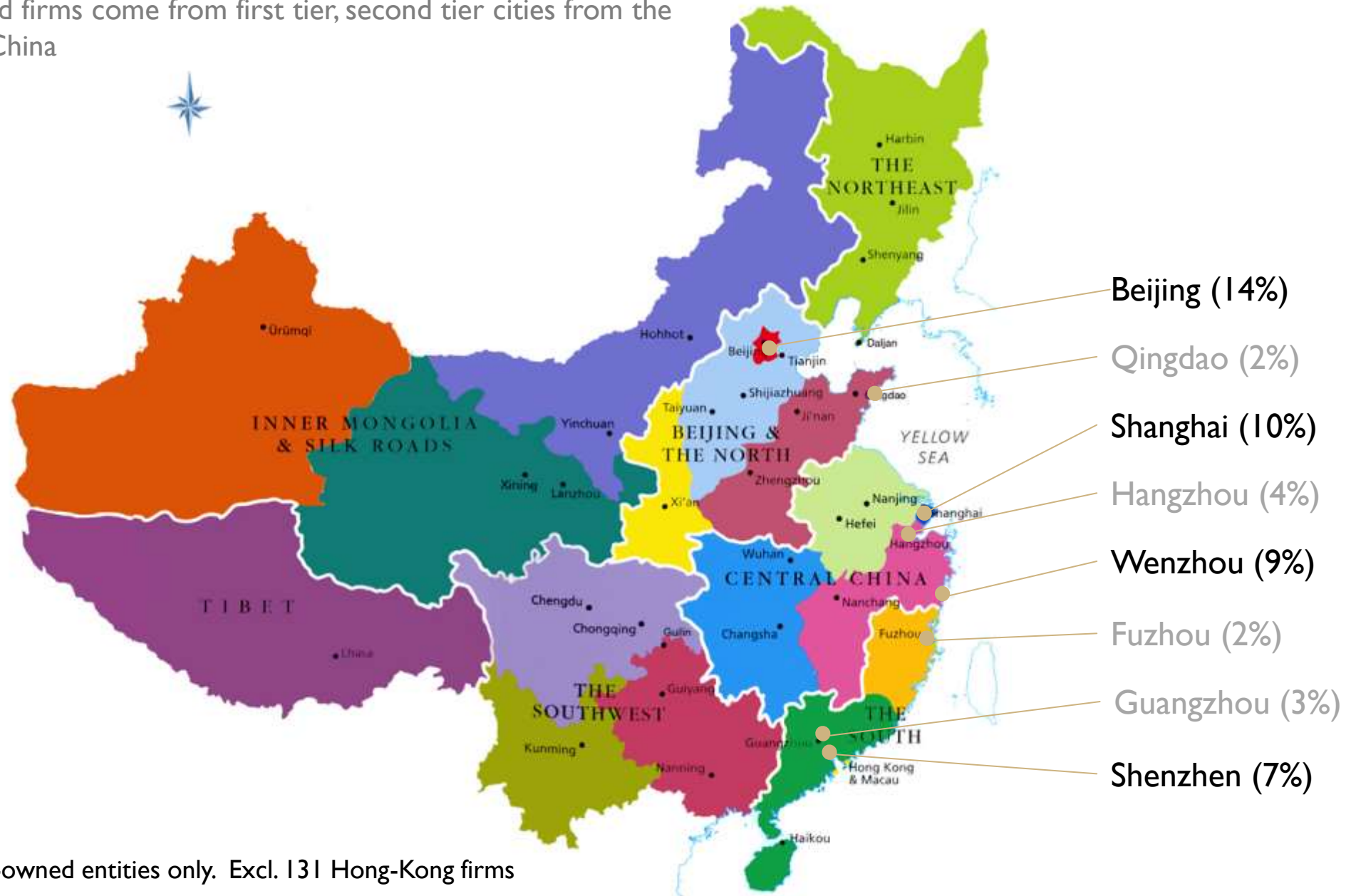
Percentage of Chinese-owned firms located in Amsterdam, Rotterdam, Den Haag, and Schiphol areas

519

Highest number of employees at Chinese-owned firm (Huawei, 2011)

Where do they come from?

40% of mainland firms come from first tier, second tier cities from the East Coast of China



310 mainland Chinese-owned entities only. Excl. 131 Hong-Kong firms

So far...

1

Most firms are less than five years old

2

Predominantly in 'wholesale & retail'

3

Textile, apparel dominant sector

4

Mostly 1-5 person operations

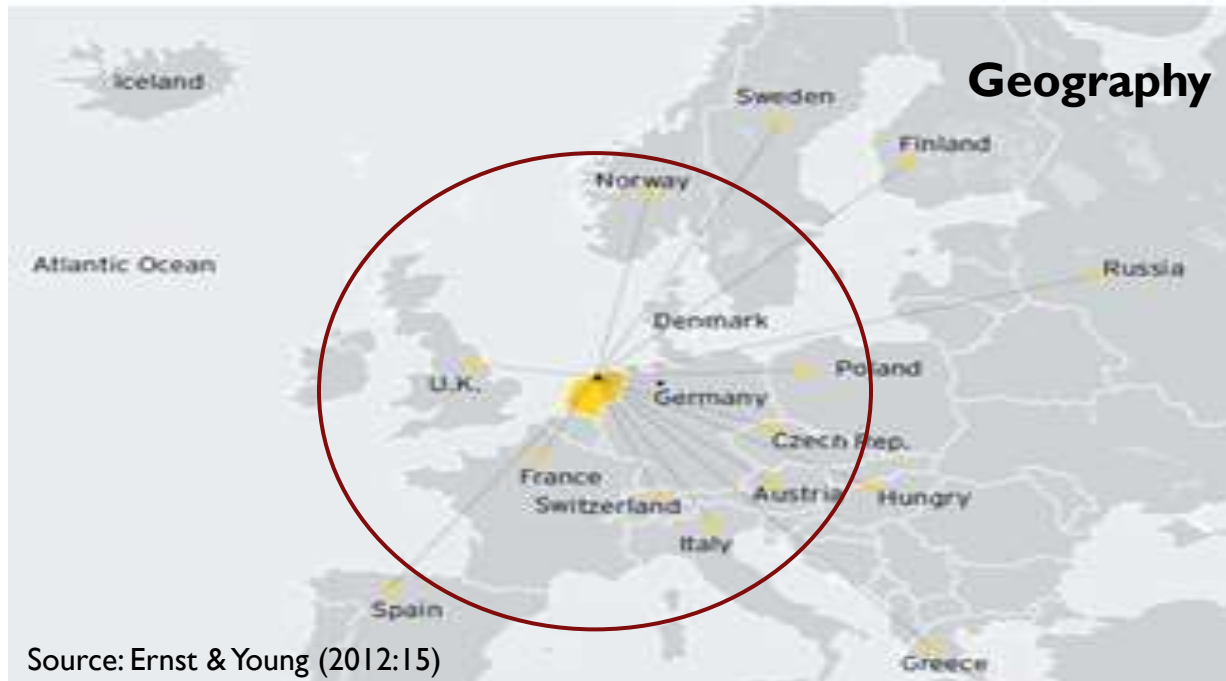
5

Mostly from 4 cities on the east coast

Why do they come to The Netherlands?

- Country factors
- Access to markets
- Access to technology
- Other?

Country factors



Sure, taxes?

Belastingdienst

Access to market

They target Dutch and proximate European markets

HIKVISION



Founded 2001. Sales (2012) -
\$1.1bln

Set up 2009 in Hoofddorp

Sales, marketing, European HQ

LIUGONG



Founded 1958. Sales (2011) –
\$2.9bln

Set up 2012 in Almere

Sales, marketing, European HQ

 陆风汽车
LANDWIND



First Chinese vehicle to
obtain complete European
type-rating

Set up 2011 in Helmond.

Research, test, sales,
marketing



‘Holland is traditionally a strong country in the dairy industry. Their quality of milk resources and techniques is one of the best in the world. The environment of milk resource is *unique and can't be copied.*’

Yuanrong Chen, CEO of Chinese company Ausnutria on the 2011 merger between his company and Dutch dairy firm, Hyproca. Source: PRNewswire (June 2011)

**A study of *nine* R&D Dutch firms which
were acquired by Chinese parents**

Tom Hoorn, RSM (2012)

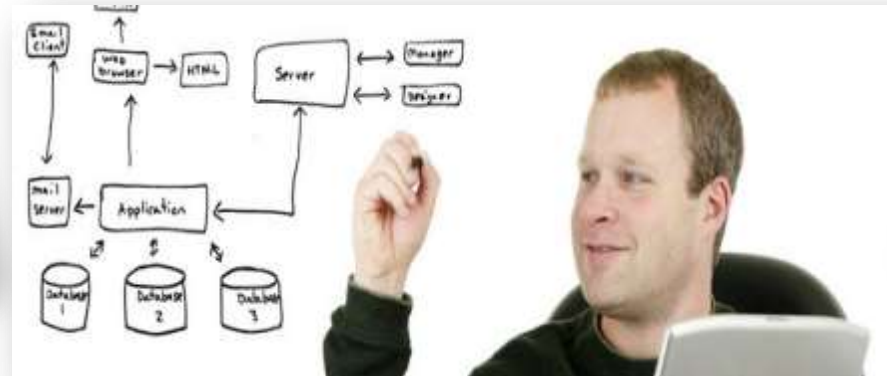
Managers speak

Why was your company acquired by Chinese parent?



‘It is about the *hard* technologies...it is also about organisational expertise and financial management, so the *soft* side of innovation’

Managing Director, Company A



‘They saw what we could provide for them and they were very interested in our *competencies* to develop products ready to be applied in their systems’

Managing Director, Company F



‘They really bought company for *knowledge* and development competencies that we have here’

R&D Manager, Company H



‘The quality level of industrial vehicle development is higher in Europe... China lags twenty years behind us, but they see that they have to develop. Integrating our local development capabilities and know-how helps them solve problems they face’

Managing Director, Company C

Getting some ‘special punch’

Examples of acquisitions of tech companies in NL by Chinese parent

	2007	2009	2011	2011	2012
					
	CIMC acquires 80% of Burg	XEMC acquires Darwind	Beijing Hainachuan Automotive acquires Inalfa Roof Systems	China Hi-Tech Group acquires GINAF	Navinfo acquires Mapscape
Sum	€108mln	€10mln	Undisclosed	Undisclosed	€7 mln
Assets					

Source: AAC Capital Partners (2011); China Daily (2011); Zephyr; company websites

Institutional quality

‘I feel good to pay taxes here [in Netherlands]’

‘In China, local government does not care about us because we are small company. But here they welcome us’

‘...here I don’t need guanxi with tax authorities’

Chinese entrepreneur speaking about tax office, NFIA support in doing business in The Netherlands. Name undisclosed for confidentiality reasons

OK, it is not always that simple

Mixture of strategic asset-seeking and seeking new market/customers

Examples

1 Deepen design capacity

Company has existent R&D capability. Invests in NL to deepen capacity for European market



2 Follow existing customer

Company targets Chinese customers 'going global', Dutch companies going to China



3 Always strategic?

Not sure, but...

?

Yep...



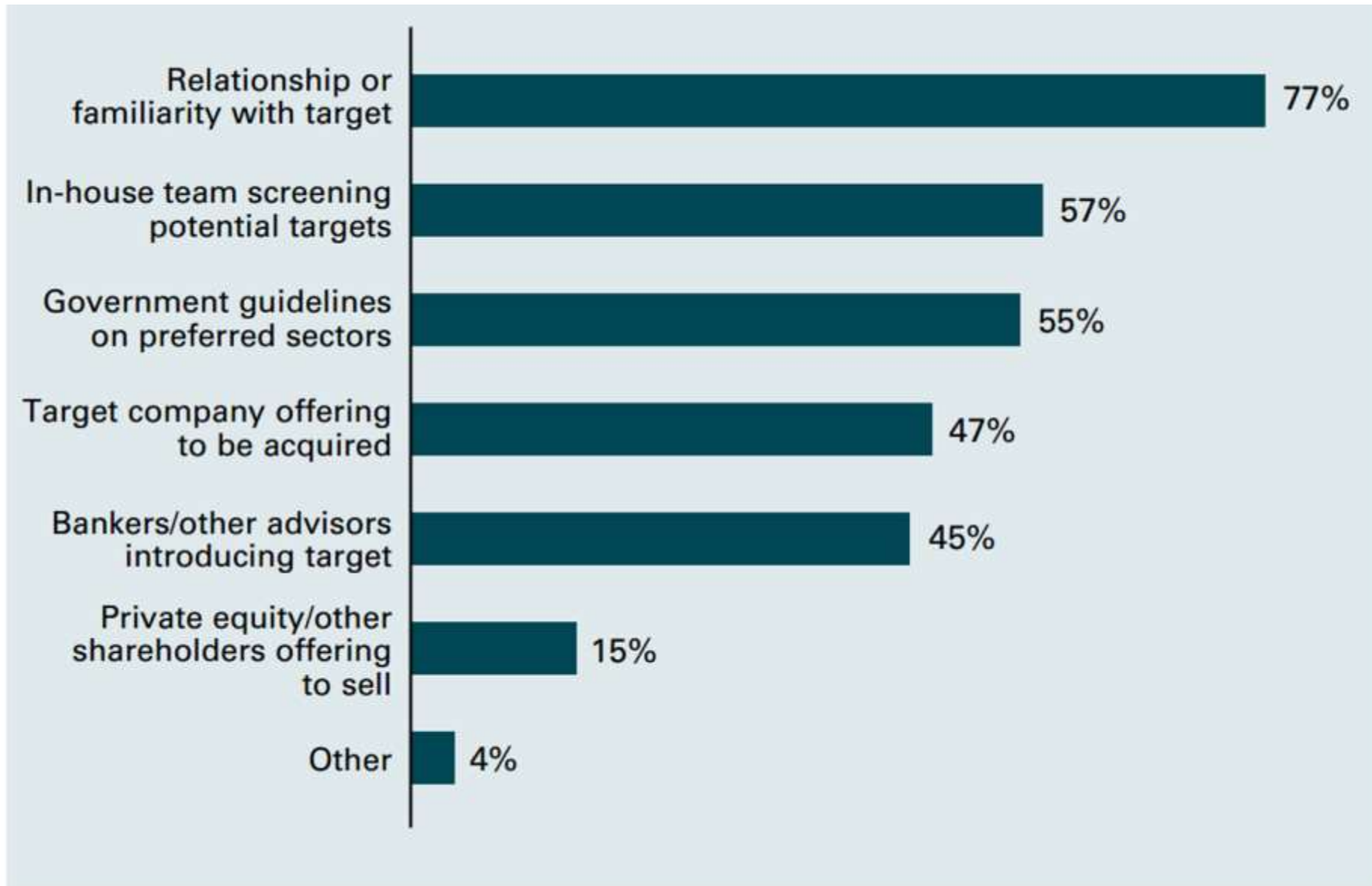
Source: Rotterdambusinessschool.nl

Don't discount copycat behaviour



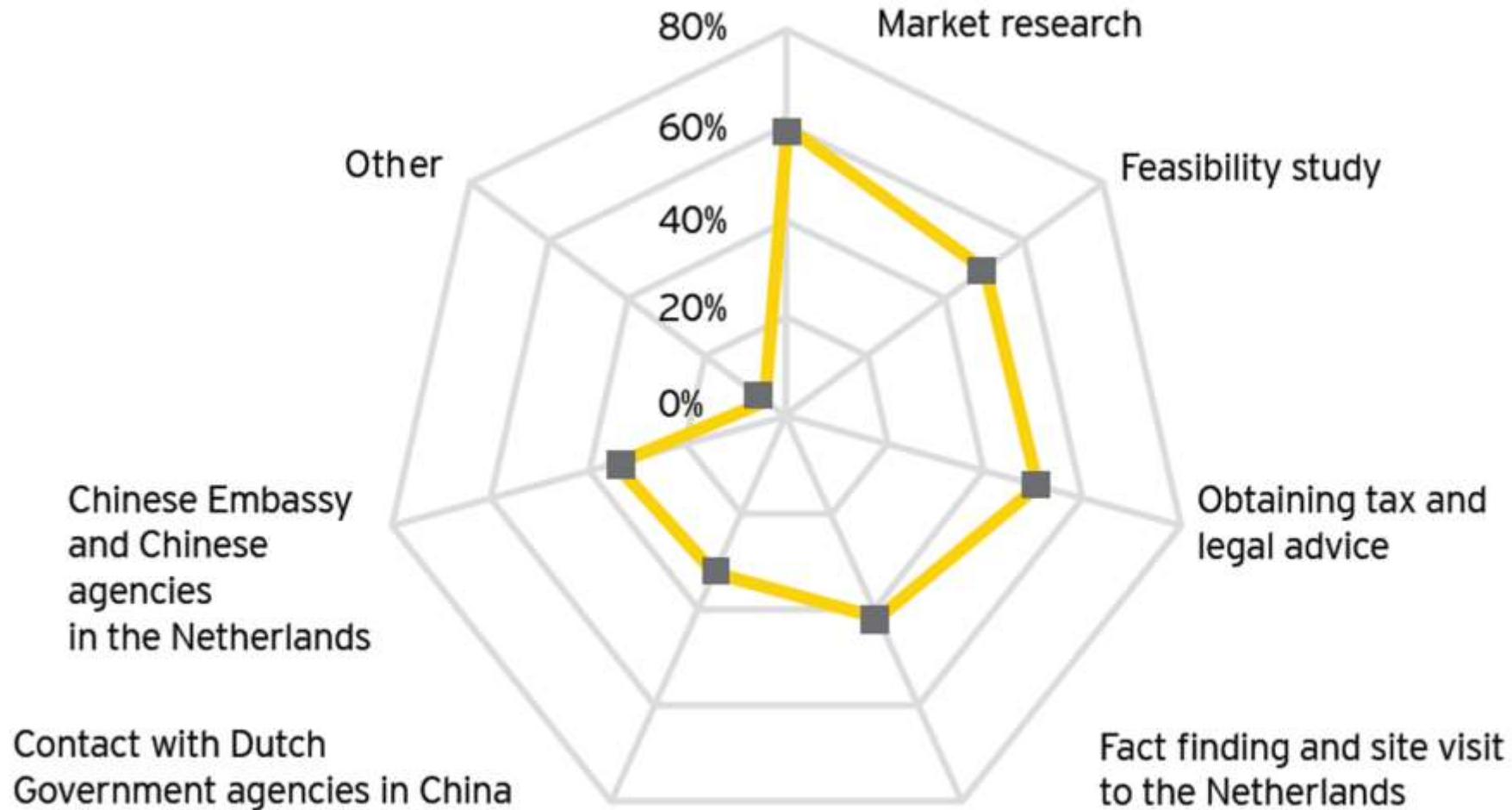
How do they come?

Most important factor in identifying target for acquisition?



Pre-investment preparation channels

How did you prepare before investing in the Netherlands?



Beware of the frogs!



Are the SMEs well-prepared?



What do Chinese firms bring to NL?

Listen to managers *again*

What is the benefit of being acquired by the Chinese parent?



‘They teach us about requirements for many applications in larger systems in Chinese market. We are specialised in a very small niche. By doing joint projects, it helps us grow.’

Managing Director, Company B



‘We gain practical experience in applying our technology in the Chinese market. We need lab tests and research before building a prototype...they have hundreds of installations running in China so they have a lot of practical experience.’

Managing Director, Company G

How successful are Chinese-owned firms?

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[WEBCAST: Drive operational efficiency come rain or shine](#)

CHINA

XEMC invests EUR20 million in Darwind

28 September 2012 by Wu Qi | [Be the first to comment](#)

CHINA: XEMC is to invest €20 million in its European subsidiary XEMC Darwind with the aim of increasing its turbine R&D.



An XEMC 115 being installed

XEMC said the new investment will increase the registered capital of Netherlands-based Darwind from €90,000. The aim is for Darwind to use the money on the development of offshore turbines. (update 2 October - there have been reports XEMC has been in talks with offshore manufacturer BARD).

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Source: Windpower; BNR.nl

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NIEUWS

Inalfa haalt voor miljarden aan opdrachten

Door Noud Broekhof
15 maart 2013 07:28 PM

Vind ik leuk 24 Tweet 12 +1 0 Share



De Nederlandse toeleverancier Inalfa Roof Systems heeft de afgelopen elf maanden ruim 2,5 miljard euro aan nieuwe opdrachten binnengehaald. Dat laat de topman Marcel Schabos weten op BNR.

<http://www.bnr.nl/?service=player&type=fragment&articleId=1829720&audiold=1829727>

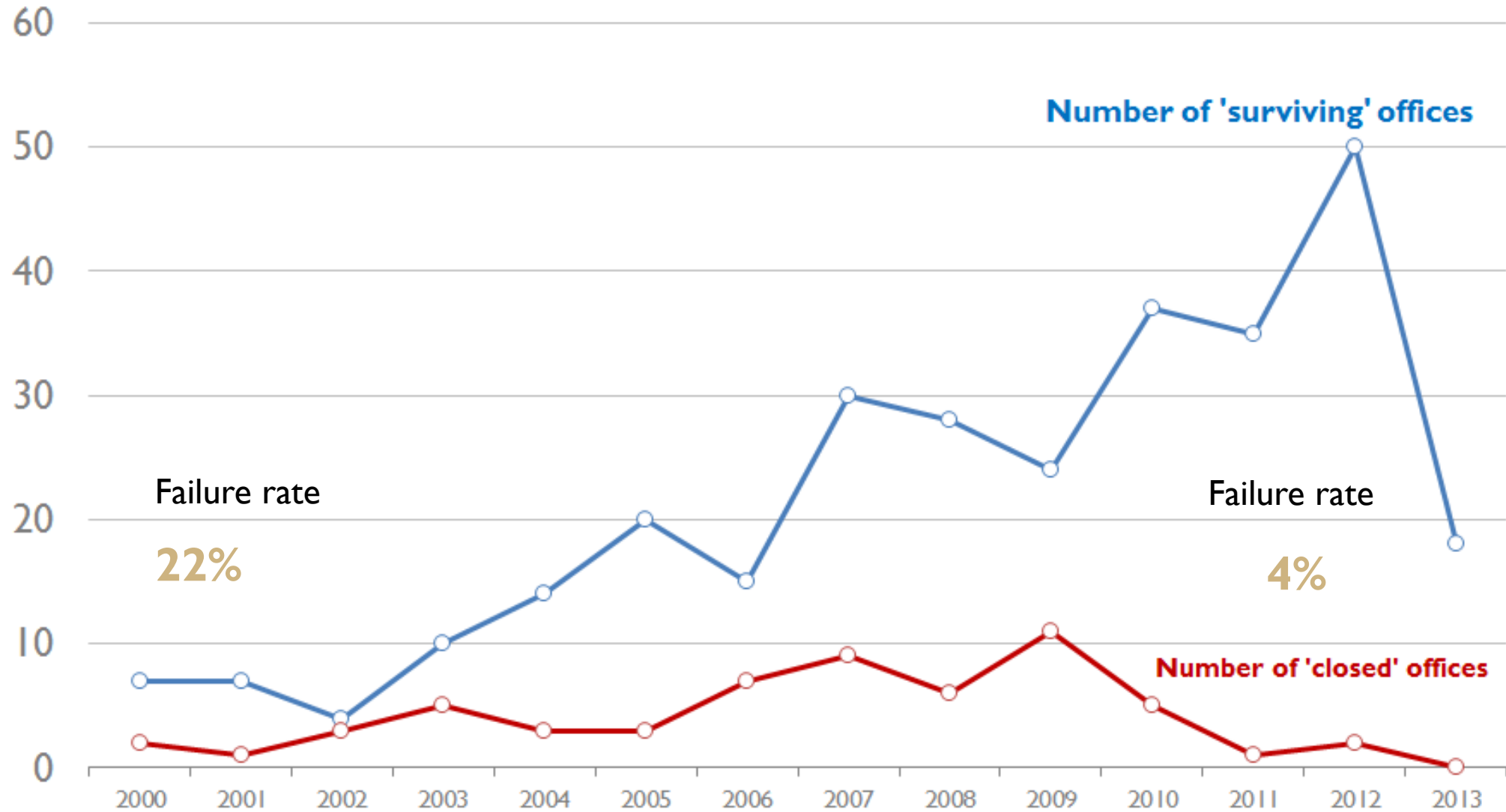
SMEs also have their stories

How successful have you been in NL? Two Chinese SMEs tell their stories

Industry	Wood products	Studio equipment
Why did you invest in NL?	Decline of U.S. business	Proximity to customer; new customer
Business performance since start	 30%	 10%
What else?	Main market is Germany, but Dutch market also good. Need additional employee	Market better than expected. Need more employees 'New world open for me'

How about failure?

Annual number of net 'surviving' and closed Dutch subsidiaries of Chinese parent firms (2000-2013)



38% of Chinese firms *disappeared* after two years



Source: One of the investment agencies
(Confidential)

Chinese companies attracted to Netherlands by...

1

**Access to European
market**

2

**Access to know-how
(Dutch 'special sauce')**

3

**Follow competition
(copy-cat, SMEs?)**

4

***ahem*, immigration
benefits (applies to
some SMEs)**

Do they succeed or fail?




Now, China

What pushes Chinese firms to internationalise?

Differentiation

Technology	  <p>Internationalise to gain technology, but focus largely on Chinese market</p>	  <p>Internationalise to gain technology, develop innovative capability, open channel to 'sophisticated' European market.</p>
Linkages with other firms		 <p>Internationalise as part of diversification</p>
Build relationship (brand, marketing)	  <p>Chinese consumers more 'demanding'. Firms internationalise to acquire established brands principally for Chinese market</p>	  <p>Acquire, build own brand internationally. Move beyond being 'Chinese' company</p>

Cost

Price	 <p>Many Chinese companies compete here</p>	  <p>Internationalise to NL to sell essentially same product as in China. Many SMEs do same</p>
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Chinese market

International market

Market focus

Trend of OFDI?

WALL STREET JOURNAL

MONEY BEAT

MARKETS ▼ VERIZON WIRELESS MICROSOFT-NOKIA ASIA

DEALS BANKS SAC CAPITAL APPLE THIS

HOT TOPICS: 3:09 pm May 8, 2013

CNPC in Talks to Acquire Brazil's Barra Energia for \$2 Billion

Oil & Gas

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Energy ▼ Financials ▼ Health ▼ Industrials ▼ Luxury 360 Media Retail & Consumer ▼ Tech

February 25, 2013 6:06 pm

Sinopec acquires stake in Chesapeake asset

By Ajay Makan in London

Sinopec, the Chinese state-owned oil and gas group, will pay \$1bn for a 50 per cent stake in Chesapeake Energy's Mississippi Lime oil and gasfield.

REUTERS

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CNPC completes buy of stake off Mozambique

07/29/2013 By OGJ editors

EXPLORATION & DEVELOPMENT DRILLING & PRODUCTION

FINANCIAL POST

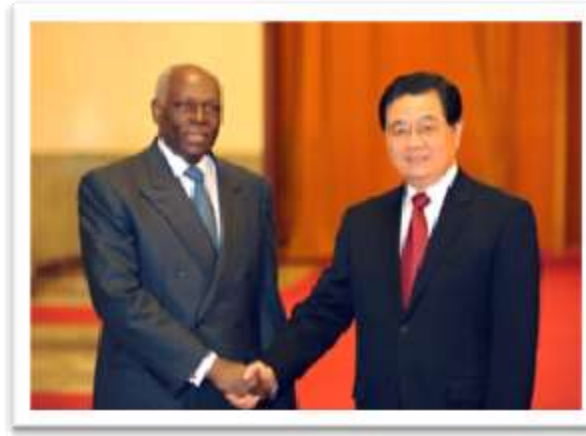
NEWS

Sinopec to buy some Devon shale assets for US\$2.2B

Government supports drive for resources...



In Zambia (copper)



Angola (oil)



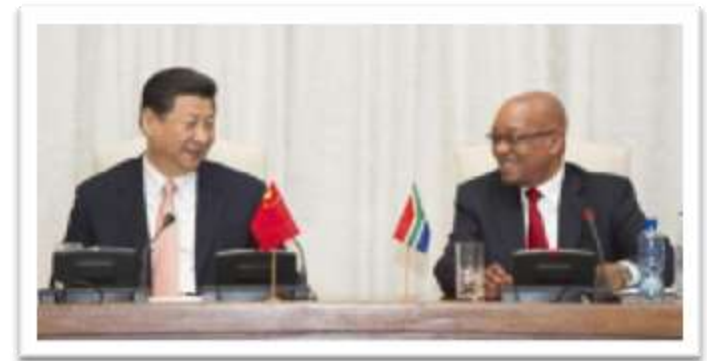
Congo DR (pretty much everything)



In Nigeria (oil, lots of it)



In Ghana ('new kid on the oil block')



South Africa (Iron ore, gold, diamonds)

Does Li Ka-Shing know something we don't?



Sell China



Park & Shop \$4billion (July 2013)



Shanghai OFC RMB6billion (Aug 2013)



Guangzhou Metropolitan Plaza
RMB 2.6 billion, (Aug 2013)

Buy Europe



UK: HKD 7.8 billion (July 2013)



AVR Afvalverwerking : €944million
(Jun 2013)



O2: €850million (June 2013)

Recap

1

Picture in NL

Chinese FDI in NL on the rise. Miniscule compared to traditional foreign investors

Chinese companies predominantly in sales, marketing

Small operations (1-5 employees)

2

What attracts them to NL

Access to Dutch and proximate markets

Technology, 'soft' innovation capabilities

Infrastructure, English-speaking workforce, tax regime?, residence permit opportunities?

3

What 'pushes' them out

Domestic competition

Response – find new markets, upgrade capabilities, acquire more sophisticated technology

Government support

Industry upgrade – change development model

Resource-seeking

WORLD
ECONOMY
FORUM

中国·大连
Annual Meeting
of the
New Champions 2014
Dalian, 11-13 September

WORLD
ECONOMIC

We support Chinese companies to
"go out"!

新领军者年会
中国·大连

Annual Meeting
of the

LI KEQIANG



Industry upgrade

Firms improve technology, capabilities by acquiring high-end companies



Boost domestic consumption

Firms acquire brands to differentiate products



Reduced restrictions on FDI

SMEs become bolder, better organised to venture abroad



Resource scarcity

Demand for (new, clean?) energy. Active government support

Thank you for your attention