

THE BIG READ. CHINA IN EUROPE

A bridgehead in Italy

In the second part of a series, *Rachel Sanderson* looks at how Chinese capital has been flowing into Europe since the financial crisis, and visits Prato, the Italian textile town transformed by the trend

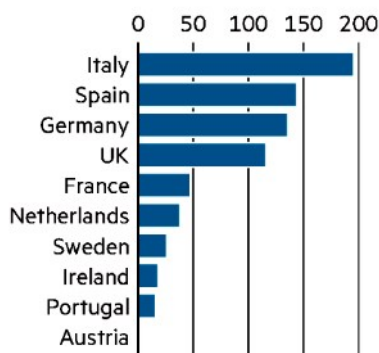


Silk Road Redux

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Chinese-born population

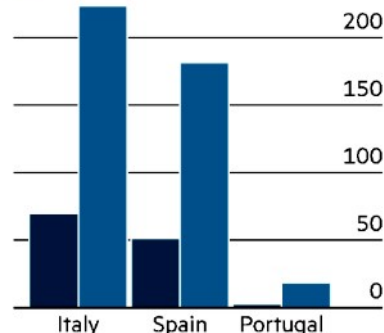
2012 ('000)



Source: UN DESA

'000

■ 2003 ■ 2013



Source: National statistics agencies

'A period of economic stress in Europe and the fact that Chinese companies have tons of money mean there are a lot more opportunities'

200,000

Chinese population in Italy has tripled since 2003

\$104bn

China's investment in Europe to mid-2014

Italy's business elite - senior executives from blue-chip companies such as Telecom Italia and Vodafone plus high-ranking government officials - filled a renaissance palazzo across from Milan's gothic cathedral this summer to court one of the country's biggest foreign investors.

Huawei, the Chinese telecoms equipment maker, opened its only research and development centre outside China in Milan in 2008. The company, whose name means "splendid achievement" in Chinese, had brought people together to announce plans to double in size to 1,700 employees across Europe by 2017.

The company, which is effectively excluded from doing business in many

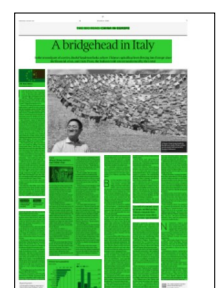
sectors in the US because of lawmakers' concerns over its technology and potential national security implications, has invested €500m in Europe and there is a hunger for more, says William Xu, a Huawei board member in charge of marketing and strategy. Matteo Renzi's Italian government is particularly "open and collaborative", he says. For China, the country offered an evocative base.

"Six hundred years ago it was Marco Polo who built the bridge [between Europe and China]," Mr Xu says. "Two thousand years ago it was the Silk Road. Now the road is paved with telecoms. We are building the Silicon Road to bring the west and east closer together."

In recent months - to follow Mr Xu's

metaphor - the road from China to Europe has become swollen with cash.

Chinese investors have snapped up assets across the continent, from a concession to build and operate container terminals at Greece's port of Piraeus, to the Three Gorges Corporation's acquisition of a fifth of Portugal's national energy company Energias de Portugal and China Investment Corp, the coun-



Una testa di ponte in Italia

try's sovereign wealth fund, purchasing a 9 per cent stake in Thames Water.

For 15 years the Chinese state has sought to expand its markets and labour opportunities.

But with the 2010 debt crisis, China adjusted its focus from mostly natural resource-related deals in Asia, Africa and Latin America. It trained its sights instead on struggling Europe to realise a once-in-a-century opportunity to buy world-class brands and shares in pivotal national infrastructure assets.

The eurozone's periphery is benefitting from some of those deals, with Italy this year reaping the most in large-scale contracts: almost €3.5bn worth, according to the Heritage Foundation, a conservative think-tank.

The phenomenon has been described as the dawn of a second Marshall Plan. Luigi de Vecchi, chairman of continental Europe for Citigroup, says the historic shift in investment is severing some relationships formed in postwar Europe.

Government officials and diplomats explain the change in approach as partly driven by necessity but say it also reflects Europe's response to changes in the balance of global economic power.

The Marshall Plan supported investment in periphery Europe - and especially Italy - after the second world war. That balance has changed with the eurozone crisis, says Mr de Vecchi, and the flight of US capital. "It destabilised the historic links of European governments, especially in Italy, with the US. So they looked east and have opened up to China as a way of diversifying their risk."

The buying spree has allowed the Chinese to adjust their horizons.

"Chinese companies used to be only interested in buying European-listed resource companies with assets elsewhere like Latin America or Africa but now they are much more interested in buying things that are actually based in Europe," says Derek Scissors, compiler of an independent database on Chinese outbound investment at the American Enterprise Institute, the think-tank.

"An extended period of economic stress in Europe combined with the fact that Chinese companies have tons of money mean there are a lot more opportunities for Chinese purchases than before."

But the attention of the Chinese investors is provoking some anxiety. "Is China nibbling at Europe's soft underbelly?" asks Francesco Galietti, founder of the Rome-based think-

tank Policy Sonar, hinting that some believe Europe is giving up too much.

The answer is unclear. But investment in the country has spiralled over the past two years and appears to be part of a deliberate Chinese strategy, say bankers and government officials.

Investors have swooped on symbols of Italian elegance - acquiring majority stakes in luxury yachtmaker Ferretti, a company that defaulted on its debt in 2009 - as well as buying into the country's vast power grid.

In July China's State Grid, the world's largest utility with 2m employees, bought a 35 per cent stake in CDP Reti, a subsidiary of Italy's state financing agency that controls the country's electricity grid operator and gas distribution. It also picked up a 25 per cent stake in Portugal's grid operator REN and is looking to buy into the Greek grid operator ADMIE, bankers familiar with the deal told the FT.

European utilities offer Chinese state-owned investors safe, long-term investments that provide steady, predictable returns and strong legal protections. But the infrastructure deal with Italy is one that officials admit would have been unthinkable before the crisis since they would have balked at selling shares in a strategic asset to a foreign investor.

"The CDP Reti deal is but the latest episode of China's 'charm offensive' in the Italian energy sector," wrote Policy Sonar in September, "and arguably gives State Grid unprecedented access to Italy's energy technology and networks, as well as a chance to gain first-hand knowledge of how [partly] deregulated power markets function."

The consultancy went on to say that: "Italy represents a gateway to the pan-European electricity grid."

A statement on State Grid's website described the Italian purchases as good deals, saying: "When we make overseas investment, we are not doing charity."

China's interest shows no sign of waning. The State Administration of Foreign Exchange, which manages the country's \$4tn in reserves, snapped up 2 per cent stakes in Italian blue-chip companies Fiat Chrysler Automobiles, Telecom Italia and Prysmian, worth a total of about €670m in July.

Those deals came after Safe had invested an estimated €2bn to buy stakes in state-controlled energy groups Eni and Enel earlier this year.

Pier Carlo Padoan, Italy's finance minister, says the country is well placed to act as a link in the process of "the internationalisation" of the communist country's economy. The relationship will be on full display next week when Li

Keqiang, China's premier, attends the Asia-Europe summit in Milan.

The US and resource-rich countries in Africa and South America remain the primary recipients of Chinese investment. By the middle of this year, total Chinese investment in sub-Saharan Africa was worth \$150.4bn, investment into North America totalled \$124bn while Europe received \$104bn, according to the Heritage Foundation.

But European bankers who have negotiated deals say Chinese investors are keen to reassure that theirs is a collaborative approach, seeking large minority stakes - such as the 35 per cent in Italy's grid network - rather than controlling ones. Or, as with private companies such as Huawei hiring Italians at a time when the jobless rate among young people hovers at 40 per cent, to emphasise that they are contributing rather than just "buying" in to the country.

Individual Chinese businessmen, interviewed by FT reporters across Italy, Spain and Portugal, say they are heading to Europe armed with better skills and intent on buying companies.

At the end of 2012, 195 small and mid-sized Italian companies, with combined total revenues of €6bn and 10,000 employees, had been wholly or partly taken over by Chinese or Hong Kong investors, according to Fondazione Italia-Cina, a not-for-profit group that promotes relations between the two countries.

Such enterprises are predominantly in the classic "Made in Italy" manufacturing sectors of clothing, furnishings, motorcycles and yachts. Hong Kong Chinese investors largely acquired telephone and perfumery businesses, according to data from the organisation.

The Chinese move into Europe has not just involved money and acquisitions. An EU Commission-funded report in 2013 suggested that Chinese low-income and illegal migration may have slowed after the eurozone crisis as entry-level opportunities dried up. But national statistics from individual countries show that legal Chinese migration, especially in the periphery, appears to be on the upswing, if at a slower pace.

Official data from Italy's national statistics agency shows the Chinese population tripled to more than 200,000 between 2003 and 2013. The interior ministry puts the figure higher at over 300,000. Spain and Portugal have seen similar increases.

Alfonso Giordano, an expert in migration at the University of [LUISS](#) in Rome, says that Chinese workers are still finding opportunities in Italy because they are "young and work hard". They took

up the slack from an ageing population and, he says, they are willing to do what some Italians have refused to do: accept lower pay and fewer benefits during the downturn.

"Italians need to lower their expectations about the labour market. And they have not done this. The Chinese have therefore come in to take their place, particularly in the lower wage market," says Mr Giordano.

Carlo Calenda, Italy's vice-minister for economic development, describes the Chinese as "serious investors" who did not flinch at the economic woes spilling across Europe. "I don't have any problem with the Chinese coming in to buy," he says. "We have had many industrial crises and the solution has come from outside of Italy".

Nonetheless, China's push into Europe is causing tension. Lorenzo Stanca, managing partner for Mandarin Capital, which advises Italian and German companies on entry to China, says Chinese companies have found it difficult to make European acquisitions.

"The culture gap means there are problems with handling human resources, and also in dealing with banks," he says. "It is not easy for Chinese companies to have success in Europe."

Furthermore, bankers and business leaders complain that a lack of governance and transparency in Chinese actions causes tensions in deal making. But their main concern is that the new Silk Road is going just one way.

Safe is now the second-largest shareholder after the Italian state, which owns 30 per cent, in Enel.

Patrizia Grieco, Enel's chairman, says Chinese investors are welcome - "*benvenuti*", she says - with a caveat, widely shared in Europe: "They are welcome, but . . . they should improve their transparency and governance in order for Europeans to invest in China, too."

Prato Where Chinese workers meet Italian style



Hu Jian-bing and Yang Guang are the new Europeans. They work in Prato, a city of 200,000 people just outside Florence in Italy that has the largest Chinese population in Europe. Residency records show about 16,000 Chinese live in the city known for its textiles industry but officials estimate the number could soar to 50,000 when counting illegal labourers.

Mr Hu, a factory owner, settled in the Tuscan city 20 years ago as part of the influx of Chinese attracted by its history as Europe's textile capital and its stock of empty warehouses for rent.

"When we arrived we worked for the Italians. Now they work for us," says Mr Hu. Chinese-owned ready-to-wear factories in Prato, which flourished as traditional and high-end Italian textile makers were driven out of business, have supported Chinese communities all over Europe.

Mr Hu has two children - a daughter, 21, who lives in Italy and a son in Los Angeles who is about to go to university. He recently bought his son an \$80,000 BMW. "Money is rolling in," he says, explaining his largesse.

"I tell my son the important thing is for him to use his brain and figure out his own way. I have the money to help him start a business if he wants . . . I want [my children] to have to slave away for years before they have enough money to get their feet on the ground," he says.

Wearing shorts, and flipflops Mr Hu surveys the factory floor at Macrolotto 1, a warehouse area on the outskirts of the city. He says it is unlikely he will ever return to China. "People like us, who have come abroad, we can't catch up to the pace of life in China any more," he says.

EU data suggest that low-wage Chinese workers are heading back home where economic opportunities are opening up. But as they go, a more educated generation is arriving in Italy and seeing opportunities amid the transition.

Yang Guang, 27, from Qingdao, came to study in Florence on an Italian government grant in 2007. Smart and personable, Mr Yang is intent on assimilating where previous generations of Chinese have not. He calls himself "Lucio" in an effort to fit in more easily. "It means the same - light - as my name does in Chinese," he says.

Mr Yang studied international economics at Florence University and eventually earned a master's degree, again fully funded by the Italian government. He is fluent in Italian and English as well as Mandarin Chinese and says there are plenty of jobs for young Chinese working in the luxury goods malls - he has a part-time position at Burberry - but he wants a more fulfilling career.

So he has taken a job with the Prato council as an outreach officer, visiting factories to help owners and their workers assimilate. He believes a private sector market is emerging across Europe for people like him who can help Chinese entrepreneurs make sense of European customs and corporate rules. Prato, rooted in Italian tradition, is a perfect training ground, he says.

"Italy is like a cake. And, maybe, China is like five cakes. But in Italy, there are just five people competing to eat that cake while in China there are millions. So I'm taking my chance in Italy."