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## Analysis of European Union Foreign Direct Investment (FDI) in China

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## European Union FDI Overview in China

### General Outlook

Recovering rapidly from global economic crisis in 2008, companies across industries experienced gradual improvements in performances in China. According to EUCCC Business Confidence Survey 2011, 78% of respondents report an increase in revenue and 71% report an increase in net profit. Furthermore, Chinese government recently announced 12<sup>th</sup> Five Year Plan, which emphasizes on upgrading industries, growing domestic consumption, developing the service sector, reducing income disparities and increasing health, education and social welfare coverage, therefore, by creating more demand, the Chinese government lifts the FDI inflow expectation even further.

On the other hand, the growing scale of Chinese market also means increase in competition, which many European companies perceived a bit

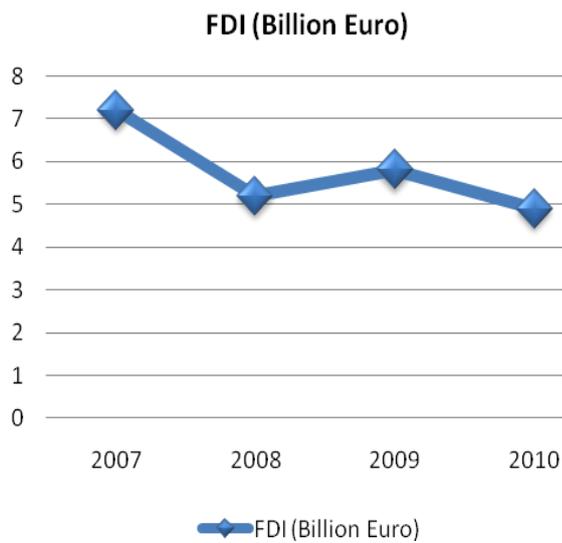
of struggle both from global companies and from domestic firms. Chinese companies are catching up with their foreign competitors. In particular, vast improvements have been seen in brand recognition, marketing and sales capabilities, and product quality. Consequently, the intensified competition greatly increased performance of industry in China.

It is crucial to note that there is a substantial increase over the concern of Chinese regulatory environment; EUCCC's Business Confidence Survey stated that the need for transparency and well-regulated market is more important than ever than before, an overwhelming 83% of respondents believe the promotion of fairer competition in Chinese market is important for China's future.

## FDI Data

Year	2007	2008	2009	2010
FDI (Billion Euro)	7.2	5.2	5.8	4.9

Source: Eurostat news release



In 2010, the total EU FDI outflow decreased 62% due to EU debt crisis, the suffering being continued and dragged growth rate of many EU economies to negative, the overall EU GDP growth rate was 1.7% in 2010.

Whereas, the debt crisis did not impact the FDI outflow to China as serious as to other countries. The

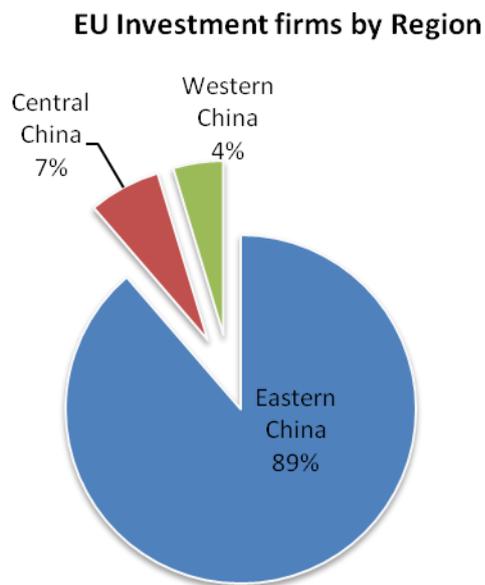
FDI inflow to China, where is EU's second largest investment destination, declined from 7.2 Billion Euros in 2007 gradually to 4.9 Billion Euros in 2010.

Since the establishment of diplomatic relationship between European Union and China, the accumulated Foreign Direct Investment (FDI) inward to China has exceeded USD 70 billion. Recent data showed more than 976 newly opened firms from EU own factories or stores in China from January to July 2011, an increase by 7.14%, while the FDI increased 1.36% to 4.08 Billion during this period.

## Investment Characteristics and Strategies

### Proportion of EU industries investment in China

	2004	2005	2006	2007	2008
Agriculture Industry	1.01	0.26	0.31	0.33	0.31
Manufacturing Industry	69.11	78.05	68.26	66.18	63.11
Service Industry	29.88	21.69	31.43	33.49	36.58



### EU FDI to China by sectors

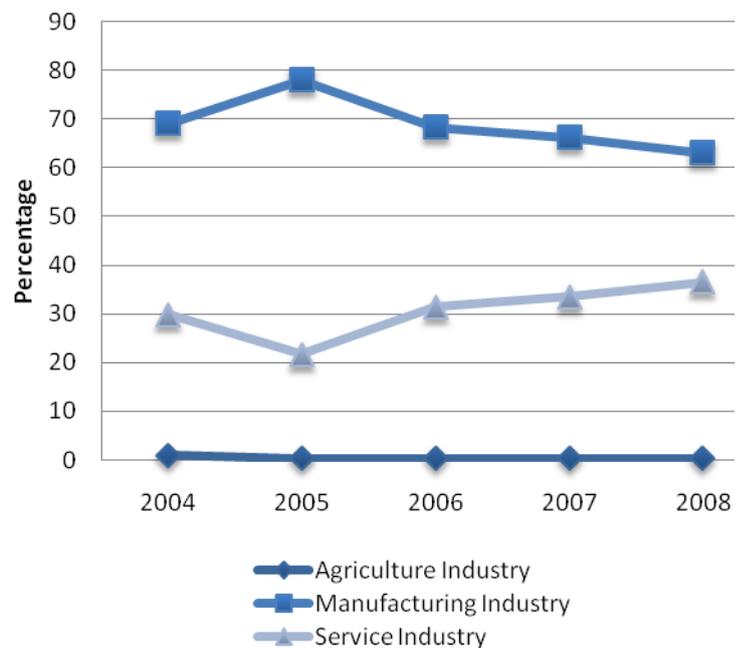


Figure from Eurostat

More than 60% of EU's investment were spend on manufacturing industry, however, the trend has

been decreasing since 2005; this is as result of booming investment in service industry, which accounted for

approximately 1/3 of total direct investment. In addition, China already has enormous Agriculture resources and most companies from EU are specializing in manufacturing and providing services, so it is unnecessary to precede a further investment in Agriculture in China, which account only 0.3% and it is very likely to maintain at this level in the near future.

of investment, this region is considered as relatively more open and more developed than other areas. Although Central and Western China only undertake 7% and 4% respectively, the percentages are expected to increase because the Chinese 12th 5 years plan specifically aimed to improve trade and investment in Central and Western area.

Most of EU FDIs are located in Eastern China, which covered 89%

### EU's Main FDI in China

Total (million USD, 2010)

UK	France	German	Spain	Italy	Total 5 Countries	Total EU FDI to China
710.3	1,238.2	888.4	254.5	396.1	3,487.5	5,921.8

According to OECD statistics, China's total FDI inflow, which hit USD 185,000 Million in 2010, ranks the second largest country receiving FDI in the world only behind US. More and more European countries consider China as their first priority

in term of investment destination. Each has its own characteristics and focuses, UK, France, Germany, Spain and Italy are the five main European countries that invest in China, the level of FDIs to China are mainly influenced by its domestic

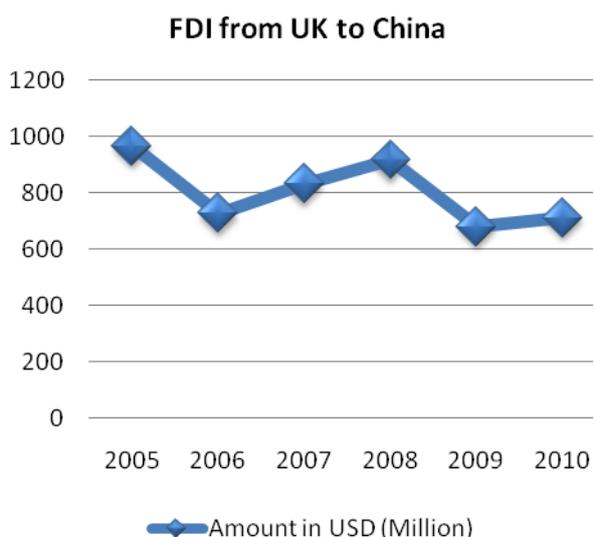
economy as well as Global economy, more specifically, the vicious circle of Euro debts crisis leads to lower confidence to invest globally, causing EU FDI disturbances and sharply reducing in the amount of investment, for example, Spain total FDI in 2010 is only 1/3 that of in 2008.

Moreover, the Chinese economy is continuously been strong with the top growing GDP., however, the appreciation of RMB and rising cost of raw materials and labor costs in China made it seems loss some competitiveness, but it still perceived as a long term strategic location by many large international corporations.

### United Kingdom

#### FDI Data:

Year	2005	2006	2007	2008	2009	2010
USD (Million)	964.7	726.1	830.9	914	679	710.3



79,995 million USD, reaching the highest of 325,473 million USD in 2007, to only 11,016 million USD during the period of 2005 to 2010, declined more than 80%.

However, the FDI to China only took 0.67% in 2010, it has remained relatively stable during 2005 to 2010.

The total amount of UK FDI outflow has decreased significantly from

Since then, the FDI has slightly decreased from 964.7 million USD to

710.3 million USD during this period. The main reasons are that, UK is one of the world financial centre, although the financial sector in China was booming in the past few years, the financial market is still underdeveloped compared with most of the western countries, and that the economy in UK has worsened since 2005, GDP growth rate down to - 4.9% in 2009, which had serious impact on FDI.

### **Investment Characteristic and Strategy**

The rapid growing of urbanization and workforce mobilization in China create an immense potential opportunity for many foreign countries, especially for UK, and therefore the long term british business strategies must follow with fast changing pace. One outstanding strategy is that, UK companies are not only binding with the major first tier cities such as Beijing, Shanghai and Guangzhou; they also have started to focus on second and third tier cities. Currently, 45% of the total

population lives in the cities, but by the year of 2020, the percentage is expected to increase to 55%-60%, this bring new opportunity for British products and services to target at China. The Chinese government just released a fund of 850 Billion RMB in medical reform; many English medical firms can gain a huge market in providing medical equipment, medical research services, hygiene information technology, and other relevant fields. In addition, by the year 2030 the workforce of the population will reduced from 60% to 55%, the shortage of supply will boost average salary, this will increase average level of consumer goods spending. One of the largest supermarket chains Tesco already has established 93 branches in China and it is expected to open more in second and third tier cities. Moreover, Chinese government spend large amount of money in transportation and infrastructures, including high speed railway, airports and highway as well as building

constructions. This also attracts many English firms to invest in China. E.g. ARUP helped 2008 Beijing Olympic Games to design and construct the Bird's Nest and many projects.

more investment will be put in commercial services, IT, public services, construction and advanced manufacturing, however, traditional manufacturing tend to be less favorable.

In the near future, the FDI from UK tends to recover, and specifically,

### Major companies in China:

Company	Region	Industry	Products
Sony ericsson	Beijing, Shanghai	Telecommunicati ons	Mobile phones
Vodafone group	Beijing	Telecommunicati ons	3g, internet services, it and network services
Anglo american	Beijing, Shanghai, Inner Mongolia, Zhejiang, Gansu, Xinjiang and Shanxi	Utilities, energy, resources	Gold, silver and other rare material exploitation, paper, packaging, logging
Bp amoco	Beijing, Shanghai, Ningbo, Zhuhai, Fujian	Utilities, energy	Oil prospecting, oil refinery, nature gas, electricity power, mineral, computer, transportation, insurance
Royal dutch shell	Beijing, Shanghai, Guangzhou,	Utilities, energy	Oil refinery, petro chemistry, aviation oil supply, investment,

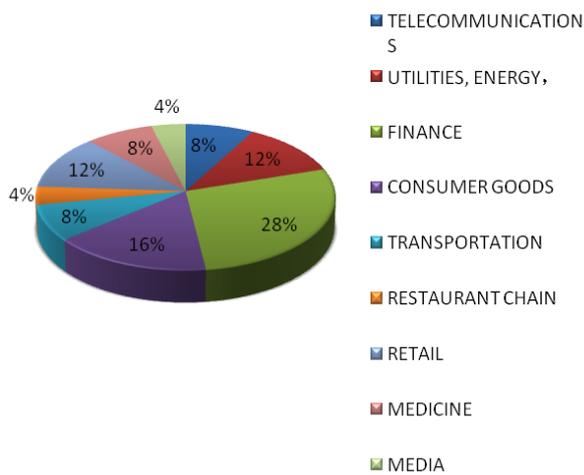
Standard chartered		Shenzhen		nature gas	
		Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Xi'an, Hangzhou, Nanjing, Qingdao, Suzhou, Zhuhai, Chongqing, Ningbo, Inner Mongolia	Finance	Commercial, retail and private banking,	
	Hsbc	Beijing, Chengdu, Chongqing, Dalian, Guangzhou, Hangzhou, Qingdao, Shanghai, Shenzhen, Suzhou, Tianjin, Wuhan, Xiamen and Xi'an	Finance	Investment, commercial, retail and private banking, asset management	
	Prudential group	Beijing, Shanghai, Guangzhou	Finance	Insurance	
	The royal bank of scotland group	Beijing, Shanghai	Finance	Commercial bank, risk management, consulting	
	Standard assurance	life	Beijing, Shanghai	Finance	Insurance, investment, fund management.
	Aviva		Beijing	Finance	Insurance, fund management
	Lloyd's		Shanghai	Finance	Insurance, consulting services

<b>Rsa group</b>	Beijing, Shanghai	Finance	Insurance,
<b>Unilever</b>	Shanghai	Consumer goods	Food, daily necessities
<b>Cadbury</b>	Beijing	Consumer goods	Candy, chocolate
<b>British american tobacco</b>	Guangzhou, South China Sea, Wuhu	Consumer goods	Cigarette
<b>Burberry</b>	Beijing, Shanghai, Hangzhou, Suzhou, Shenzhen, Kunming, Qingdao, Wuhan, Guangzhou, Dalian	Luxury Goods, Consumer goods	Fashion accessories, clothing, luxury goods
<b>British airways</b>	Beijing, Shanghai	Transportation	Delivery, transportation
<b>Virgin atlantic airways</b>	Beijing, Shanghai, Guangzhou	Transportation	Delivery, transportation
<b>Compass group</b>	Shanghai, Wuxi, Ningbo, Suzhou, Tianjin, Beijing, Wuhan, Qingdao, Fuzhou, Changsha	Restaurant chain	Restaurant chain
<b>Tesco</b>	Beijing, Shanghai, Guangzhou, Tianjin	Retail	Supermarket chain
<b>Marks &amp; spencer</b>	Shanghai	Retail	Supermarket

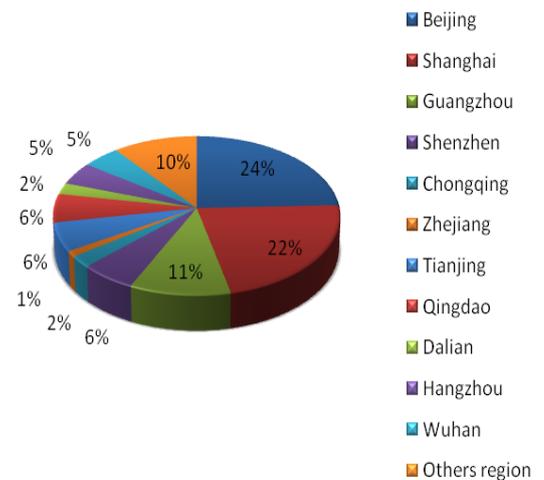
<b>Kingfisher group</b>	Beijing, Shanghai, Hangzhou, Suzhou, Shenzhen, Kunming, Qingdao, Wuhan, Guangzhou	Retail	Furniture and retail wholesale
<b>Glaxosmithkline</b>	Beijing, Tianjin	Medicine	Medicine
<b>Astrazeneca</b>	Shanghai, Wuxi	Medicine	Medicine
<b>Reuters</b>	Beijing, Shanghai	Media	Broadcasting publishing media services

**Industry:**

**ENGLISH COMPANIES SECTORS**



**ENGLISH MAJOR COMPANIES' LOCATION**



## Investment sectors

English finance companies, E.g. banks and insurance firms, are taking the largest proportion in types of companies invested in China covering 28%, however this number may shrink in the next decade because UK's economy is not yet fully recovered from the recession and existed of financial bubbles, and because generally increasing competitiveness of domestic financial intermediaries. The second largest is the consumer goods industry, covering 16%, and it is expected to grow as the increasing in demand of consumer products and spending power in China.

Accumulated investment in manufacturing has exceeded 2100 items during 2001 to 2010, in term of investment amount; 5.8 Billion USD has been taking 70.1% within these years

## Regional Distribution

English firms have established many branches and agencies all over the China, but most of them are located

in first tier cities and second tier cities. Out of top 25 English companies in China, 21 companies have branches or offices in Beijing, and 19 choose Shanghai, these two cities and Guangzhou nearly taking 54% of the locations in China. In 2010, the top five utilized investment locations are: Jiang Su province, Liao Ning province, Shanghai, Zhejiang and Shandong, each absorbs 38.4%, 16.4%, 12.7%, 9.5% and 5.9% respectively.

## Case Study: Standard Chartered

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**Business:** Finance

**History in China:** First branch since 1858

**Size in China:** 49 branches covered over 17 cities

**Product or services:** Commercial, retail and private banking

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## Introduction

Standard Chartered Bank is a multinational financial services company headquartered in London, United Kingdom, with operations in more than seventy countries. It

operates a network of over 1,700 branches and outlets (including subsidiaries, associates and joint ventures) and employs around 80,000 employees worldwide. It is a universal bank and has operations in consumer, corporate and institutional banking as well as treasury services. Despite of being a British bank, around 90% of its profits come from Africa, Asia and the Middle East.

### **Experience in China**

Standard Chartered bank was one of the first foreign banks developed in China, and it has been continuously expanding since 1858. After the forming of PR China in 1949, Shanghai branch has permitted to stay and assist the new government to provide financial services. During 1950s, the bank focused on providing loans on chemical plant and steel industry at beginning. With the Chinese openness policy, the bank has rebuilt its network and now became one of the largest foreign banks in China.

### **Strategies in China**

#### ➤ **Warming up stage:**

The Chinese headquarter of Standard Chartered Bank is located in Shanghai, where is considered as financial centre in China, since joining the World Trade Organization (WTO) on 1 January 2002, China had its so called “5-year transition” period, none of the foreign banks are entitled to enter into the Chinese market during this period. Obviously Standard Chartered Bank could not wait long to let domestic banks and other foreign banks to share this big golden cake once the transition period is ended. What Standard Chartered Bank did was to set more branches in Hong Kong and Taiwan, because those two regions reveal many characteristics in common with Chinese market. Then, after this “warming up” strategy, Standard Chartered Bank simply moved some of its employees and operations to the mainland, the already enriched experiences from Hong Kong and Taiwan, made the bank started ahead of other foreign major competitors

➤ **SME focus**

Standard Chartered Bank has shifted its target toward Small to Medium Enterprises (SME), according to the statistics, currently the bank provided financial services to SMEs is overweighed 50% of its total services, Standard Chartered Bank managed SME loans by the principles of the “five Cs” of credit, which are:

- Character
- Capacity
- Capital
- Collateral

-Conditions

➤ **Specialization in China**

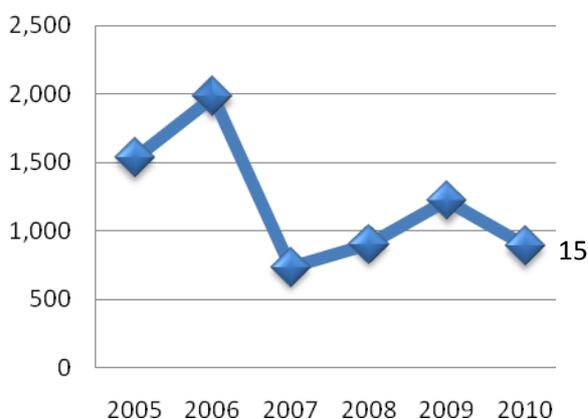
Standard Chartered Bank has designed a unique rating system that can qualitatively evaluate clients' cash flow and balance sheet based on its experiences on 56 countries around global, hence to target Chinese market more effectively, also, the bank has established market research team, product development team and trade transaction consulting team to undertake one to one mode in order to specialize to meet different client's requirement and to follow the rapid changing Chinese financial industry.

**GERMANY**

**FDI Data**

Year	2005	2006	2007	2008	2009	2010
USD (Million)	1,530	1,978.7	733.9	900.4	1,216.5	888.4

**FDI from Germany to China**



Germany is the second largest FDI outflow country in the world; FDI to China has been recovered to

approximately 2006's level in 2010, roughly USD 104,863 Million. However, it remained low and steady in last four years, in 2010 FDI amount stayed at 888.4 Million USD, amounting to only 0.84% of total German FDI. The reason behind the paradox is that most of German investment goes to Europe and US as those countries have higher quality of production techniques and more qualified labor resources, which are required by most of German companies. Unlike the many large companies from developed countries, Chinese companies most of the times only produce low tech products and daily products, but experts believe China will transfer to a more advanced manufacturing centre, which is also specifically targeted by the Chinese 12th five year plan.

### **Investment Characteristic and Strategy**

Most of the FDI from Germany are in second industry or manufacturing industry, but the FDI in third industry

or services industry is generally increasing. Since the world economic recovery in 2008, the German companies modified its long term investment strategy and expanded investment scope in China. Currently, around 5,000 German companies arranged operation in China, the main types of the companies include environmental, machinery, transportation and automotive. Most of the German companies now consider China as the most important production, manufacturing and supply base. According the survey from German Chamber of Commerce in China, out of top 9,000 German companies, more than 50% plans to invest in China and explore the new market or increase the investment level if they already have operation in China.

Most of the German investments are associated with high tech or with sufficient funds. For example, Volkswagen plan to spend a further 10.6 billion Euro in China to upgrade its plant, the company now has taken roughly 50% of the sedan

market share in China and has produced a total number of more than 2.6 million cars in China only.

In addition, German electronic products have reached everywhere in Chinese people's life. Siemens has established many branches in all major cities around China, provided 21,000 job opportunities, its varied

products range include telephone, bulbs, refrigerator as well as engineering, automation technology, electricity, transportation and so on. The German made product often considered as high quality and prestige; the prices, however, are usually much higher than most of the products made in China.

### Major companies in China:

Company	Region	Industry	Products
Volkswagen Group	Shanghai Beijing	Automotive	Motor vehicles
Daimler Motor Company Limited	Beijing Fuzhou	Automotive	Motor vehicles
Bayerische Motoren Werke Ag (BMW)	Beijing, Liaoning	Automotive	Automobiles, motorcycles, bicycles
Robert Bosch Gmbh	Shanghai	Automotive, automation, major appliances, packaging, security	Automotive parts, power tools, security systems
Continental Ag	Tianjin, Shanghai, Jiangsu and Zhejiang	Automotive, manufacturing	Tires, brake systems, automotive safety and communications systems

<b>E. On Ag</b>	Beijing, Shanghai	Energy	Electrical power natural gas
<b>Total</b>	Beijing, Shanghai	Utilities, energy	Electrical power natural gas,oil
<b>Rwe Ag</b>	Shanghai Shenzhen	Utilities, energy	Electricity generation and distribution, renewable energy, natural gas exploration, production, transportation and distribution
<b>Basf Se</b>	Shanghai Jiangsu Chongqing	Chemicals, manufacturing, energy	Chemicals, plastics, performance chemicals, catalysts, coatings, crop technology, crude oil and natural gas exploration and production
<b>Bayer</b>	Beijing, Shanghai, Guangzhou, Chengdu, Nanjing	Chemicals, medicine,	Medicine, chemicals
<b>Haniel Group</b>	Beijing, Shanghai	Chemicals, medicine, building, construction, clothing	Chemicals, medicine, building, construction, clothing

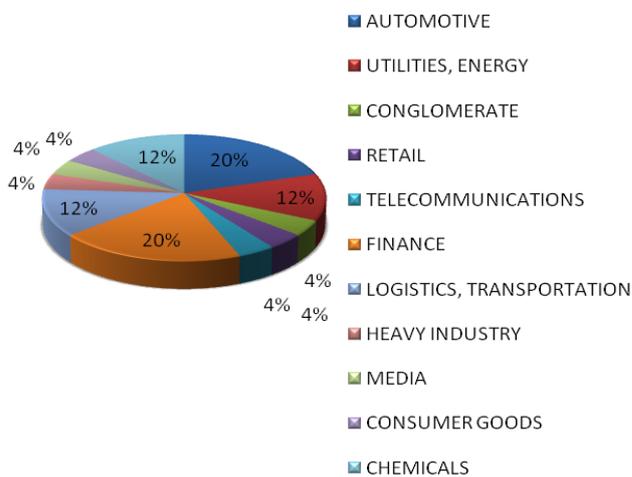
<b>Siemens Ag</b>	Beijing, Xi'an, Conglomerate Chengdu, Shenyang, Shenzhen, Wuhan, Jinan Shanghai Zhejiang		Communication systems, power generation technology, industrial and buildings automation, lighting, medical technology, railway vehicles, water treatment systems, home appliances, fire alarms, plm software
<b>Metro Ag</b>	Beijing, Tianjin, Retail Shandong, Shanghai and Jiangsu, Zhejiang, Fujian, Anhui Jiangsu Guangdong, Henan and Hunan Hubei, Liaoning and Heilongjiang, Chongqing, Chengdu Shaanxi and Yunnan		Supermarkets, hypermarkets, consumer electronics and appliance retail, department stores
<b>Deutsche Telekom</b>	Beijing Shanghai	Telecommunication s	Fixed-line and mobile telephony, broadband and fixed-line internet services, it and network services
<b>Deutsche Bank Ag</b>	Beijing Shanghai	Finance	Investment,

			commercial, retail and private banking, asset management
<b>Allianz Group</b>	Beijing, Shanghai	Finance	Insurance, asset management, risk management
<b>Munich Re Group</b>	Beijing, Shanghai	Finance	Reinsurance, primary insurance, asset management
<b>Dz Bank</b>	Beijing, Shanghai	Finance	Investment, commercial, retail and private banking, asset management
<b>Commerzbank Ag</b>	Beijing, Shanghai	Finance	Retail, commercial and commercial real estate banking
<b>Deutsche Post Ag</b>	Beijing, Shanghai, Guangzhou, Shenzhen	Logistics, distribution	Post delivery, express mail, freight forwarding, third-party logistics
<b>Thyssenkrupp Ag</b>	Beijing Shanghai Guangdong	Heavy industry, Steel, engineering, capital goods	Steel, stainless products, automotive technologies, plant technologies, elevator systems, marine systems, shipbuilding, services
<b>Deutsche Bahn Ag</b>	Beijing Shanghai	Transportation	Rail transport, cargo transport, services

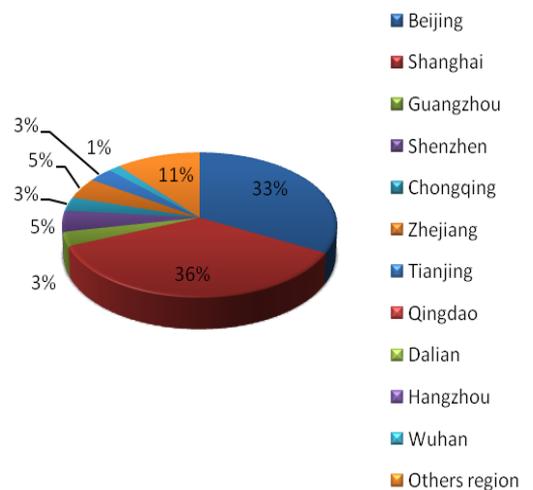
Deutsche Lufthansa Ag	Beijing, Shanghai,	Transportation	Air service
	Bertelsmann Ag	Beijing Shanghai	Media Broadcasting publishing music media services
Henkel Ag & Co. Kga	Shanghai Shandong, Guangdong and Jilin Beijing, Jiangsu and Shaanxi	Chemicals, consumer goods	Personal care, laundry and cleaning products, adhesives and sealants

## Industry

### GERMAN COMPANIES SECTORS



### GERMAN MAJOR COMPANIES' LOCATION



### Investment sectors

Obviously Automotive is the key industry and has taken 20% over

types of companies that Germany invest in China, German made cars often associated with durability and

luxury, as a result the demand is expected to growth. Although financial sector also taking 20%, the total investment, the total investment amount is considerably less than the investment amount of automotive industry. In addition, Chemical and logistics and transportation each contributes to 12%, which is much higher compared with other countries.

The amount of cumulative manufacturing investment, thus the most competitive investment, during 2001 to 2010 is 7.7 billion USD, and with 2,701 investment items, contributing to 59.7% of total FDI in this period. The amount spend on manufacturing industry mainly focus on chemical plant, machine and utility, and heavy industry.

### **Regional Distribution:**

Interestingly, most of the German companies set up their headquarters in Shanghai, which occupied 36%, 3% higher than Beijing. Most of its operations are located in Beijing and Shanghai.

Most amount of investment are located in Yangtze River Delta region and Bohai region. Shanghai, Jiang Su Province and Beijing are the three top investment locations, absorbing 41.2%, 30.2% and 11.7% of total FDI from Germany respectively in the period of 2001 to 2010.

### **Case Study: BMW**

<b>Business:</b>	Automotive
<b>History in China:</b>	First branch since 1994
<b>Size in China:</b>	192 4S branches
<b>Product or services:</b>	Motor vehicle, repairing services,

### **Introduction**

BMW (Bayerische Motoren Werke) was found in 1916, Munich, the company was mainly manufacturing airplane engine, now it became the one of the most famous car producers in the world, it sells vehicle to more than 120 countries. The cars of BMW symbolize

exclusivity and success, the company continuously pursuit to fascinate design, performance and technology.

### **Experience in China**

There is a old saying in China, “drive BMW and seat in Benz”, meaning that Chinese people perceive the two companies as the best car producers, and BMW provides top Maneuverability and driving experinence. The company came to China in 1994, quickly it saw the huge potential in Chinese market, but exporting was rarely to meet dramatic increasing in demand, then it decided to have strategic management alliance with Hua Chen Car Holding ltd, and formed a new joint venture company called Hua Chen BMW.

### **Strategies in China**

#### ➤ **Sponsorship**

Unlike most of the companies that only sponsor the people who have direct link with the company, BMW announced to sponsor Chinese

Olympic Committees for the next two Olympic Games including London Olympic Games. Out of 50 gold medal champions in China, more than a third of athletes have chosen BMW as their primary drive since Beijing Olympic Games. This is all because of the splendid driving scene and word of mouth passed by the athlete cycle. The sponsor to the Olympic Committees enshrines the company's image by implying that “gold medal people with gold medal car”, hence to improve its brand and to increase its sales.

#### ➤ **“Yue” program**

BMW also initiated the “Yue” program to improve its branding. As the Chinese character “Yue” indicates “excitement”, “Yue” program emphasizes on passion, dream and dynamic, and it is the extension of the brand. The program linked “excitement” with high performance of the vehicle, therefore, to target young people very effective.

#### ➤ **Domestication**

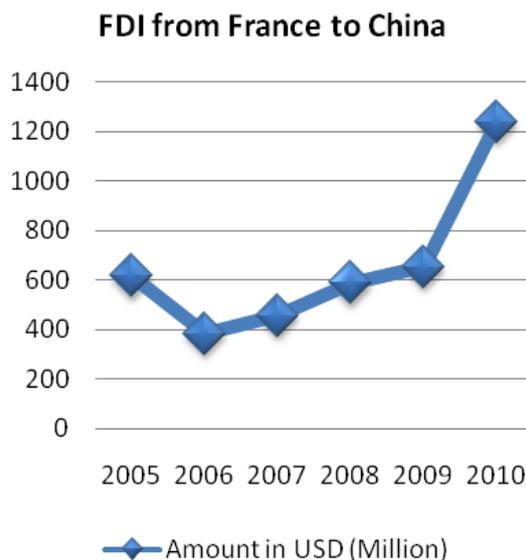
Currently, more than 40% of components of Hua Chen BMW are made in China; the production in China will not restrict on engine and other key components in the near future. BMW is so sticky with the Chinese culture that it integrated Chinese element into the company, for example, the introduction of

Chinese limited edition new 7 Class vehicle to celebret the 60th Chinese national anniversary , even most the board meeting is spoken in Chinese although most of board members are foreigners. By promoting the Chinese culture, the company will gain better insight about Chinese market

## FRANCE

### FDI Data:

	2005	2006	2007	2008	2009	2010
USD (Million)	615	382.7	456	587.7	653.6	1,238.2



The French FDI to the world remained relatively constant during 2005 to 2007, since the recent

financial crisis, however, it has dropped to half of its previous level to almost \$ 84,117 in 2010. One of the most important reasons is domestic economy in France- its GDP growth rate was -2.6% in 2009 and slightly recovers to 1.4% in 2010. On the other hand, gradually increasing investment amount to China and reaching more than 1.2 Billion USD, France has already set up many of it Asia Pacific operation in Wuhan, a

city in south China, the city is now may regard as a French investment base. In 2010, France was the top FDI contributor to China among EU 27 countries.

**Investment Characteristic and Strategy**

Besides manufacturing industry as a key in FDI, many French companies paid unprecedented attention to central part of China, and they believe that this area contains the most valuable resources and most potential growing market. In particular, the city of Wuhan already been classified by many major French enterprises as their headquarters in Asia pacific region.

Many French retail companies have noticed that the significant increases on spending of consumer goods,

specifically, Purchasing Power Parity (PPP) per capita in China is growing around 10% annually during 2005-2010 from \$4,102 to \$7,518, the number strongly indicates that the unbeatable grow of demand. Many retail giants came a long way to China to feed their appetite, during, past 15 years; Carrefour has expanded to 130 stores in China with annual sales of 42 billion RMB in 2010. The strategy is simple but effective, quickly dominate the market share and surpass other competitors before they came to China.

**Major Companies in China:**

Company	Region	Industry	Products
Peugeot	Wuhan, Beijing, Chengdu, Chongqing, Dalian, Guangzhou, Hangzhou, Qingdao, Shanghai,	Automotive	Motor vehicles

<b>Renault</b>	Shenzhen, Suzhou, Tianjin, Wuhan, Xiamen and Xi'an		
	Beijing, Chengdu, Chongqing, Dalian, Guangzhou, Hangzhou, Qingdao, Shanghai, Shenzhen, Suzhou, Tianjin, Wuhan, Xiamen and Xi'an	Automotive	Motor vehicles
<b>Areva</b>	Hainan	Energy	Nuclear energy.
<b>Framatome</b>	Hainan, Guangdong	Utilities, energy	Electrical power, nuclear, solar power, offshore wind power, biomass power, hydrogen power storage and distribution
<b>Gdf Suez</b>	Beijing, Shanghai	Utilities, energy	Natural gas, transportation, storing, distribution, consulting.
<b>Edf</b>	Hainan	Utilities, energy	Electrical power, nuclear power, heat energy, renewable energy, investment
<b>Paribas</b>	Beijing, Shanghai, Guangzhou, Tianjin, Chengdu	Finance	Investment, commercial, retail and private banking, asset

			management
<b>Societe Generale</b>	Beijing, Shanghai, Tianjin, Wuhan, Guangzhou	Finance	Investment, commercial, retail and private banking, asset management
<b>Credit Agricole</b>	Shenzhen, Shanghai, Guangzhou	Finance	Commercial bank, asset management
<b>Bnp Paribas</b>	Shanghai, Beijing, Guangzhou	Finance	Commercial, retail and private banking,
<b>Cnp Assurances</b>	Beijing	Finance	Insurance
<b>Axa</b>	Beijing, Shanghai, Guangzhou, Wuhan, Chengdu, Dalian	Finance	Insurance, asset management, investment
<b>Legrand</b>	Shanghai, Wuxi	Manufacturing	Electricity switch, air switch
<b>Nexans</b>	Guangzhou	Manufacturing	Cable manufacturing, undersea cable, public infrastructure.
<b>Saint-Gobain</b>	Beijing, Shanghai, Guangzhou	Manufacturing,	Housing glass, car window shield glass, building materials
<b>Schneider Electric</b>	Beijing	Manufacturing, eco-friendly products and services	Automation control, power distribution, consulting on life space, efficient building design, renewable

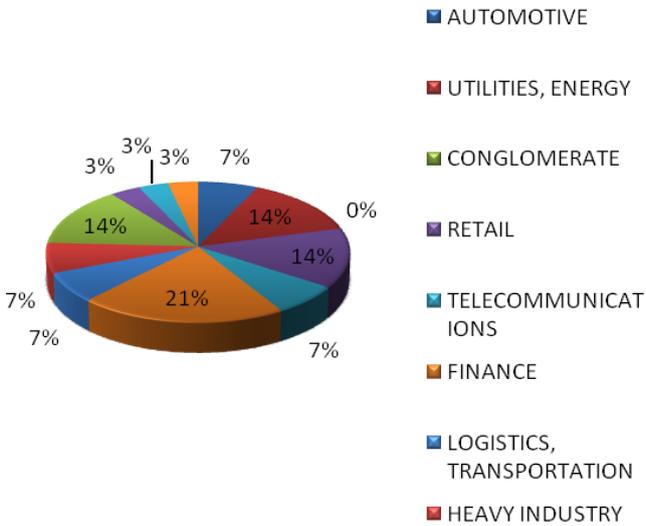
			energy, training, customers services, critical power & cooling
<b>Alstom</b>	Beijing, Tianjin, Shanghai, Wuhan, Dalian, Guangzhou, Xi'an, Chengdu	Heavy industry	Energy supply, transportation, industry equipment manufacturing, ship building, nuclear
<b>Thales</b>	Beijing, Shanghai	Heavy industry	Military equipment, aviation, it,
<b>France Telecom</b>	Beijing, Shanghai, Guangzhou	Telecommunications	3g, broadband internet services, it and network services
<b>Alcatel-Lucent</b>	Beijing, Tianjin, Shandong, Shanghai and Jiangsu, Zhejiang, Fujian, Anhui Jiangxi Guangdong, Henan and Hunan Hubei, Liaoning and Heilongjiang, Chongqing, Chengdu Shaanxi and Yunnan	Telecommunications	Communication systems
<b>Sodexo</b>	Beijing, Shanghai, Tianjin, Shenyang, Dalian, Nanjing, Yangzhou, Hangzhou	Consulting	Consulting

<b>Air France</b>	Wuhan Guangzhou Shenzhen, Zhuhai		
	Beijing, Shanghai, Guangzhou	Transportation	Transportation
<b>Bax Global</b>	Beijing Shanghai Tianjin Shenyang Dalian, Nanjing, Yangzhou, Hangzhou Wuhan Guangzhou Shenzhen, Zhuhai	Logistics , transportation	Delivery freight forwarding, third-party logistics
<b>Auchan</b>	Shanghai, Beijing, Jiangsu, Zhejiang, Anhui, Sichuan	Retail	Retail chain
<b>Carrefour</b>	Beijing, Chengdu, Chongqing, Dalian, Guangzhou, Hangzhou, Qingdao, Shanghai, Shenzhen, Suzhou, Tianjin, Wuhan, Xiamen and Xi'an	Retail, e-business,	Supermarket .hypermarket
<b>Kingfisher Group (B&amp;Q)</b>	Beijing, Shanghai, Shenzhen, Guangzhou	Retail	Retail chain
<b>Decathlon</b>	Beijing, Shanghai	Retail	Retail
<b>Danone</b>	Beijing, Shanghai,	Consumer goods	Food, drinks, dairy

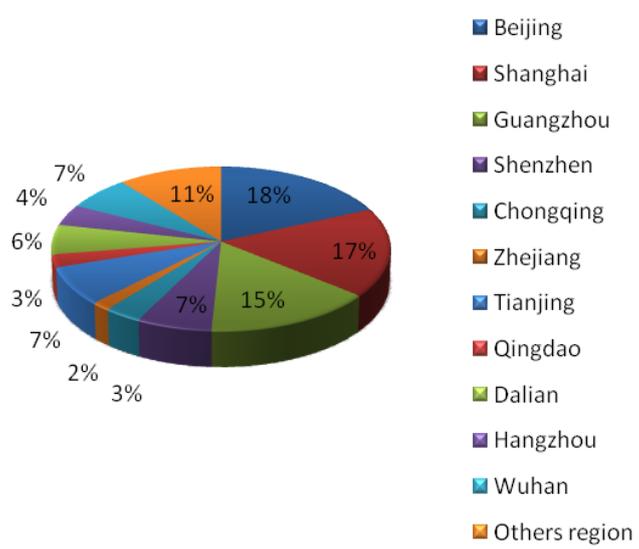
<b>Suez Group</b>	Shenzhen, Guangzhou, Chengdu		
	Zhuhai, Hong Kong, Macau	Water supply	Water supply, water purify

**Industry:**

**FRANCE**



**FRANCE MAJOR COMPANIES' LOCATION**



**Investment sectors**

Finance companies accounted for the largest proportions in types of French businesses in China, but the percentage is likely to decrease as result of financial crisis, especially Societe Generale, the recent debt crisis of this bank has made its credit rating down from AA2 to AA3. The utilities and energy as well as retail section are both taken 14%.

Same way as other European countries invested in China, French investment mainly spend on manufacturing industry, especially on textile, automotive, telephone or communication device. The amount of investment in manufacturing industry exceeded 4.2 Billion USD during 2001 to 2010, 66.6% of total FDI. Furthermore, retail service is the fastest growing sector among the

services industry, taking 13.6% of total FDI.

### Regional Distribution:

French companies are mainly located in Beijing, Shanghai and Guangzhou, taking 51% of all locations of French companies in China. Schneider Electric currently employs more than 22,000 employees and it provided many major energy solutions that comply with 12th 5 years plan to improve efficiency and low carbon emission in eastern China, and the company is planning to expand to central and western China.

In term of investment amount, from 2001 to 2010, Yangtze River Delta absorbed most of the investment capital, in particular, Shanghai 19.6% and Jiangsu Province 19.3% of total FDI. Also in recent years, the rate of Guang Dong province utilised french capital rapidly, increased from 7 million USD in 2001 to 536 million USD in 2010. Moreover, it is important to notice that the city of Wuhan absorbed

largest amount of French investment, approximately a third of total direct investment in China.

### Case Study: Danone

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**Business:** Consumer Goods

**History in China:** First branch established in 1988

**Size in China:** 70 Factories

**Product or services:** Dairy, Drinks, Food

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### Introduction

Danone was founded 1966 in Paris. With nearly 90,000 employees worldwide, the company is one of the largest food and drink producers, ranking 338 among world top 500 businesses. The company distributes products to 120 countries. Major product range includes dairy products, biscuits, spring water and beer. However, the fortune did not last long in China, because the some of the Danone's strategies had been investigated as unmoral and

unethical, soon the company lost its reputation to the ground.

### **Experience in China**

First came to China in 1980s, Danone perceived that getting into Chinese Market is it's the most important global strategic management target, it has build nearly 70 factories in China. In 2006, the company moved its Asia Pacific Headquarter in Shanghai so that it can follow up with greatly increases of Chinese demand on consumer goods.

### **Strategies in China**

#### ➤ **Acquisition**

In 1996, many companies in China fall into to the edge of bankruptcy as result of tightening financial policy during that time. However, this could be the best time for Danone to explore the Chinese market with the lowest possible acquiring price, Danone had acquired Xi Hu Beer-one of the famous brewage companies, and Shen Zhen Yi Li food group-one of the largest food

producers in South China during that time, as well as one of the largest driking water company - Robust Ltd. By acquiring and restructuring those firms, Danone not only gained substantial quick profit, but also successfully move on its first step to occupy the whole Chinese food and drinks industry.

#### ➤ **Strategic alliance**

The most important movement for Danone in China is to form strategic alliance with Wahaha Group – currently the largest drink producer in Asia, and with Guang Ming ltm and Meng Niu group, - the two top dairy producers in China. Strategic alliance allows Danone to expand its business empire and share all of the goodwill from the existed brand instead spend money to create a new one. The strategy worked really well until 2006, unfortunately, Danone offered 5.6 Billion RMB to acquire Wahaha because Danone believe it was the right time to do so, but it failed and quickly ended strategic alliance with Wahaha, the

failure of buyout made Danone suffered from lost its entire public image, due to the acquisition was considered as unmoral and unethical. Soon or latter, Guang Ming Ltd and Meng Niu group also terminated their cooperation with Danone.

➤ **Product innovation**

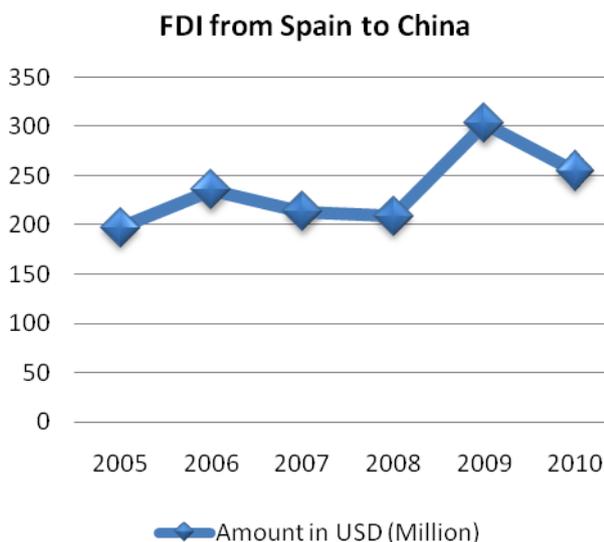
Quickly embraced young people's demand, one of Danone's subsidiary company Robust designed a new product Mizone vitamin drink, which

was first and only vitamin drink in China at that time. Mizone contains vitamin nutrition in the water, which exactly meets the need of many young people who want to reenergized themselves after sports. Also Mizone drinks have variety of tastes including cherry, orange, and lichee tastes that many children and adults prefer. Danone launched this product as the best move to target new market and soon dominate the vitamin drinks market.

**SPAIN**

**FDI Data:**

	2005	2006	2007	2008	2009	2010
USD (Million)	196.9	235.1	213.2	208.9	302.8	254.5



The amount of Spain FDI outflow largely decreased from 104 Billion USD in 2006 to about 9 Billion USD in 2009, then slightly recovered to 22 Billion USD in 2010, the down flow results of worsening economic condition in Spain. However, the

FDI to China showed opposite trend, it maintained at approximately 2.1 Billion USD each year until 2008, then hit more than 3 Billion USD in 2009, lower to 2.5 Billion USD. This fact is caused by the deteriorated debt crisis in EU and especially in Spain, many Spanish companies may shifted their investment originally from domestic as well as Europe to China.

### **Investment Characteristic and Strategy**

The internal economic condition has a significant impact on FDI. Like all Euro-zone economies, Spain underwent a brutal recession following the collapse of Lehman Brothers: GDP declined by almost

5% from its peak in 2008 to 2009. However, while the Euro-zone has embarked on a solid recovery path since the middle of 2009, the Spanish economy has only managed stabilization. Leading to a question of whether the Spanish government can repay its debt. Spain with a good starting position for the public sector, but large debt for the private sector and a challenged banking system, make the country to suffer a public debt nearly 90% of GDP. Consequently, without support of domestic economy in Spain, it is hardly to see any Improvement in FDI outflow to China.

### **Major companies in China:**

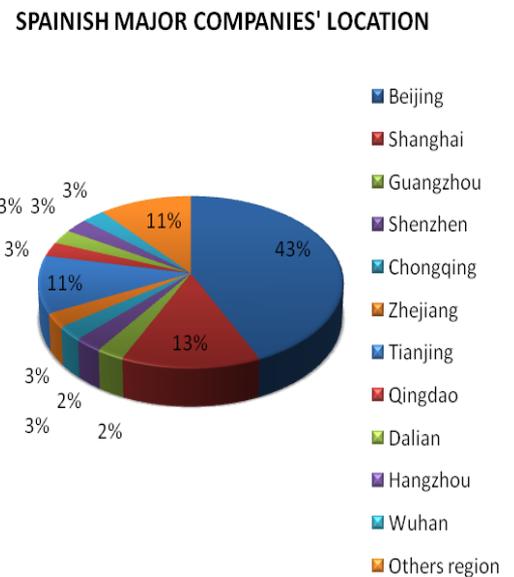
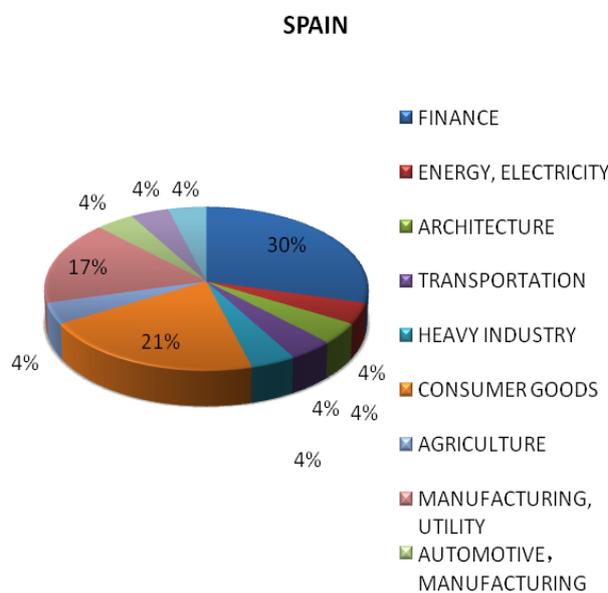
Company	Region	Industry	Products
Santander Hispano	Central Beijing	Finance	Commercial bank
Bbva	Beijing	Finance	Commercial bank,

<b>Bancsabadell</b>	Beijing	Finance	Commercial bank
<b>Santander Group</b>	Beijing	Finance	Commercial bank
<b>Boxinves</b>	Tianjin	Finance	Investment, consulting
<b>Bancaja</b>	Shanghai	Finance	Commercial bank
<b>Excem Group</b>	Beijing	Finance	Investment, trading, and consulting
<b>Gamesa</b>	Tianjin	Energy, electricity	Wind power, electricity utility
<b>Actividades De Construcciones Servicios</b>	Beijing	Architecture, investment	Architecture, building design, stock holding
<b>Spanair S.A</b>	Beijing, Shanghai	Transportation	Aviation
<b>Atera</b>	Beijing	Heavy industry	Machine utility, industry plant
<b>Ayecue</b>	Shandong	Consumer goods	Can food
<b>Colacao</b>	Tianjin	Consumer goods	Powder for drinking
<b>Panrico</b>	Beijing	Consumer goods	Food
<b>Fesca</b>	Beijing	Consumer goods	Daily clothing, working clothing, protective

<b>Inditex-ZARA</b>			clothing,	
	Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Xi'an, Hangzhou, Nanjing, Qingdao, Suzhou, Zhuhai, Chongqing, Ningbo	Consumer goods	Clothing, Accessories	Fashion
	<b>Azud</b>	Hebei	Agriculture	Irrigation system
	<b>Eurosemillas</b>	Beijing	Agricultural	Seed, plant, genetically modified foods
	<b>Telstar Group</b>	Beijing	Utility	Machine, industry equipment, lathe
	<b>Ceramica Saloni, S.A</b>	Shanghai	Manufacturing	Ceramics
	<b>Danobat Group</b>	Beijing	Manufacturing, utility	Machine manufacture, industry equipment, lathe
<b>Emex S.A</b>	Beijing	Manufacturing, utility	Machine manufacture, industry equipment, lathe	
<b>Internacional Hispacold</b>	Tianjin	Automotive manufacturing	, Motor vehicles, car air conditioning	

Mcc	Shanghai	Conglomerate	International trade, finance, manufacturing product, consumer product, industry plant
	Beijing	Telecommunications	3g, net work

**Industry:**



**Investment sectors**

Most of the FDI to China from Spain is in relatively small amount compared with many euro zone countries. Finance is taking the largest proportion of 30%, in fact, the investment scale is quite small as many financial intermediaries only provided very limited services. Followed by Consumer Goods and

Manufacturing, Utility, which are covering 21% and 17% respectively. Spanish green energy and utility giant Gamesa recently announced that the company will spend 130 Million Euro in China for next three years to generate electricity from wind power and the company believes China has the largest potential green energy market.

## Regional Distribution:

Many Spanish companies only set one branches in China, thus in the capital, roughly taking 43% of the total locations in China, whereas Shanghai and Tianjin both take up 13% and 11%, it is very unlikely to see any Spanish companies in third tier cities.

## Case Study: ZARA

**Business:** Consumer Goods

**History in China:** First Store opened in 2006

**Size in China:** 75 stores

**Product or services:** Clothing and Fashion Accessories

## Introduction

ZARA is subsidiary company of Inditex Group, which is world number three clothing retailer, distributing fashion products to 52 countries. ZARA, located in Deportivo, Spain and it has 2,000 stores with average annually sale of 90 million cloths worldwide. ZARA

currently gains 35% of medium to high end market share and ranks top 100 famous brands.

## Experience in China

ZARA first came to China in 2006 and it quickly stand on the market as a top lead foreign clothing retailer. Within in only a few years, ZARA opened 75 stores in Chinese major cities; most of its stores are located in CBD or downtown area next to LV, Gucci and other famous brands, the prices, however, are quite low. ZARA targets very effective at young people who love fashion but not willing to pay more.

## Strategies in China

### ➤ OEM

Although ZARA has some its own factories, most of its cloths are manufactured through OEM, additionally, ZARA holds share of the OEM suppliers in order to improve the design and quality of cloth and to foster the efficiency of the production line, ZARA often shifts OEM business really fast to follow up

with the changing fashion trend and to reduce cost. Most of OEM factories in China are in Fujian, Zhejiang and Jiangsu province.

➤ **Unique supply chain model**

Usually, clothing companies need at least 6 months to produce to the final products. Surprisingly, all of the ZARA products can be done, from absolutely nothing, then pick the materials, and then design and produce to the final products, often around 12 days, (7 days to maximum of two weeks); Most of its products can ship to anywhere in Europe within 2 days, and 4 days to rest of world. This strategy is so amazing that no any other businesses can compete with, even if other competitors know how ZARA works but they still cannot simply by copy it because they don't have sufficient amount of capital to restructure their production line and to develop the similar distribution

system. As a result, ZARA become even more aggressive to expand.

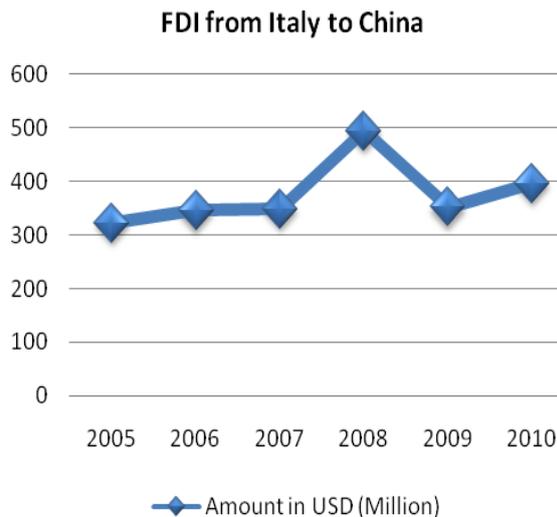
➤ **Unbeatable design team**

400 designers flying all over the world to attend each fashion show, ZARA hire them not because they are very experienced and spend decades in this industry, in fact, the average age of the design team is 25 years old, and many of them are fresh graduates, because ZARA believes the new and fast is the goal. The work is very tough for the design team as they need to design 120,000 different styles of cloths every year. Of course, the lawsuit cost millions of Euro every year sued by its competitors, which saying that the product of ZARA similar to their products and poentially breached the property right. However, the lawsuit cost of pocket changes is nothing for ZARA, and the company still encourage the design team to make the most of they can.

## ITALY

### FDI Data:

	2005	2006	2007	2008	2009	2010
USD (Million)	322	344.9	347.9	493.2	351.6	396.1



Italian total FDI to the world also experienced a huge decline, down from 90 Billion USD in 2007 to only 21 Billion in 2010, which was caused by the EU debt crisis. However, investment to China did not change much, generally increasing from 322 Million USD to 396 Million USD during 2005 to 2010.

### Investment Characteristic and Strategy

Outward FDI in Italy performance is quite modest compared with that of most other EU countries. Several structural characteristics of the Italian companies that invested in China, include the low number of large firms, specialization in “traditional”, low- and medium-technology manufacturing industries and the almost negligible activity in advanced service sectors. In subsequent years, the decline in cross-border M&As of large Italian companies was counterbalanced by increasing outward investment by small and medium-sized enterprises (SMEs). Most of its FDI is invested within Europe, only 0.2% of total FDI allocated to China.

## Major companies in China:

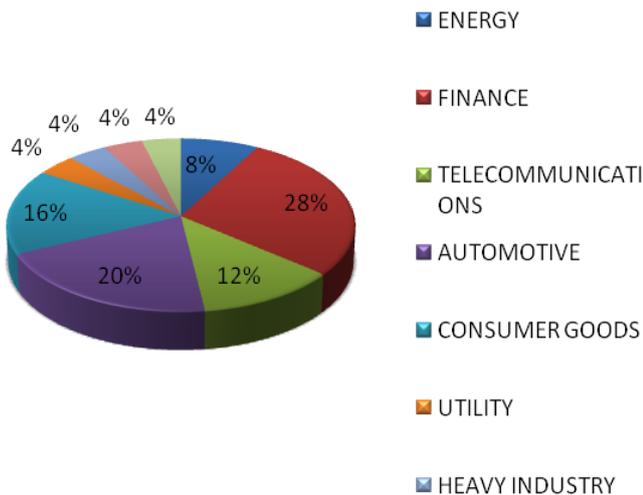
Company	Region	Industry	Products
Eni	Beijing, Shanghai, Shenzhen	Energy	Oil
Enel	Beijing, Hubei	Energy, utility	Electricity power, eco company, utility
Banca Di Roma	Beijing, Shanghai,	Finance	Commercial bank
Banca Intesa	Beijing, Shanghai,	Finance	Commercial bank, investment
Banca Monte Dei Paschi Di Siena S.P.A	Beijing, Shanghai, Guangzhou	Finance	Commercial bank
Assicurazioni Generali	Beijing, Guangzhou	Finance	Insurance, asset management
Banca Nazionale Del Lavoro S.P.A.	Beijing, Shanghai,	Finance	Commercial bank
Sanpaolo Imi	Beijing,	Finance	Commercial bank
Unicredito Italiano	Beijing,	Finance	Asset management, investment, commercial bank
Telecom Italia	Beijing,	Telecommunications, manufacturing	Internet services, IT and network services, computer appliance, mobile phone

<b>Italtel S.P.A</b>	Beijing,	Telecommunications,	Communication, software, IT, consulting
<b>Alitalia - Linee Aeree Italiane</b>	Beijing, Shanghai, Guangzhou	Transportation	Aviation
<b>Fiat</b>	Nanjing, Guangzhou, Hunan	Automotive	Motor vehicles
<b>Pirelli &amp; C. Spa</b>	Beijing, Tianjin, Shandong	Automotive	Tyre
<b>I.De.A. Institute</b>	Shanghai,	Automotive, Architecture	Automotive design, Architecture, robot technology
<b>Cobra Automotive Technologies</b>	Beijing,	Automotive	Car electronic systems
<b>Logosystem</b>	Beijing,	Automotive	Large truck, gps system
<b>Donelli Vini S.P.A.</b>	Beijing, Shanghai,	Consumer goods	Wine, drinks
<b>Parmalat</b>	Beijing, Tianjin	Consumer goods	Milk, yoghurt, food
<b>Itema Group</b>	Beijing,	Consumer goods	Fashion, clothing, textile
<b>Giorgio Armani</b>	Beijing, Shanghai, Hangzhou, Suzhou, Shenzhen,	Luxury goods, Consumer goods	Luxury goods,

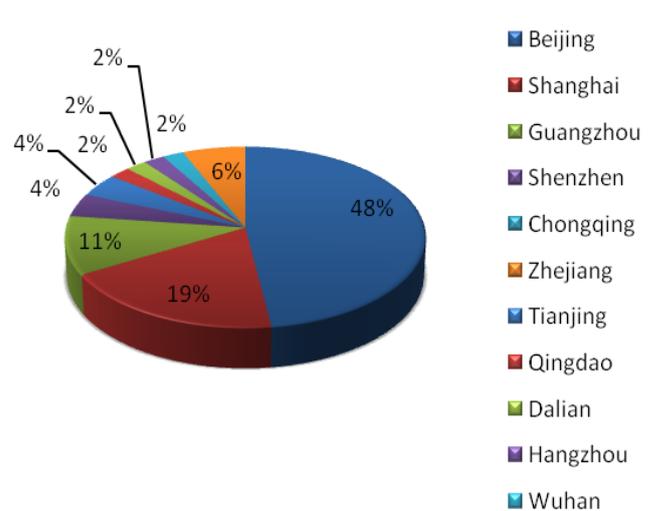
<b>IMMERGAS</b>		Kunming, Qingdao, Wuhan, Guangzhou, Dalian		
		Beijing,	Utility equipment	Boilers, solar system, storage tanks, radiators
	<b>Danieli Metallurgical Equipment</b>	Beijing,	Heavy industry	Steel
	<b>Gold Bond Enterprises</b>	Beijing,	Consulting	Fashion products consulting
	<b>Iguzzini Illuminazione</b>	Beijing,	Manufacturing	Litght bulb, lithting system, led

**Industry:**

**ITALY**



**ITALIAN MAJOR COMPANIES' LOCATION**



## Investment sectors

28% of Italian companies are in financial industry, but services provided in China are limited compared with UK and France, generally no retail financial services for individual customers, the sector then follow by Automotive companies of 20%, Italy is the most famous country to produce luxury and sportive cars, but the amount of spending is not significant as German companies do. Noticeable that, although Heavy industry and Utility only take 4% each on number of Italy companies in China, it is more than 70% of the spending amount.

## Regional Distribution:

Most of headquarters of the Italian companies are located in the first tier cities, Beijing is the first priority, dominating 48%, follow by Shanghai, taking 19%, few of them invest in other cities. But many manufacture plants are located in Jing Su province where more efficient labor and raw material are of abundance.

## Case Study: Pirelli

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**Business:** tyre

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**History in China:** First came into China in 2005

**Size in China:** 2 operation base

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**Product or services:** Tyre

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## Introduction:

Pirelli & C. SpA is a diverse multinational company based in Milan, Italy. The company, the world's fifth largest tyre manufacturer, is present in over 160 countries, has 20 manufacturing sites around the world and a network of around 10,000 distributors and retailers.

Founded 1872 in Milan, Pirelli is today the fifth operator in the world in the producing tyres in terms of sales, and it is a leader in the "Premium" quality with a high level of technological content

## **Experience in China**

In 2005, Pirelli established its first factory in Shandong province, China, indicating that Pirelli officially open the “door” of China. Now it has two production lines in the country located in Yanzhou and Shandong to produce tyre for truck and car. The brand of Pirelli in China is very popular as the company has been undertaking many effective market promotions.

### **Strategies in China:**

#### ➤ **Joint venture with Chinese company**

Coming a long way from Italy to China was not easy, the best way to minimum the uncertainty is to form a Joint venture with the company that is an expert in the Chinese market and rich in experience, thus, Pirelli chose Lu Tong tyre manufacturing company - subsidiary of Yin He Group - because Lu Tong was newly founded so that it needed to rely on Pirelli’s technology and management experience, and also because Lu tong has good potential and great ambitions. The two companies

joined together and would point to a new star. Not only assisting Pirelli to develop in China, but also a strategic goal to develop the whole market in Asia.

#### ➤ **Sports perspectives**

Operating 24 factories globally, supplying products to more than 160 countries and managing more than 10,000 retail stores, is not a surprise, Pirelli needs a reason to sustain its operation. In China, although it built its factory in Shandong, the brand was still not being recognized at the beginning. However, it has become popular since the company sponsored the International Milano in Europe Cup football championship, because so many Chinese football fans watched the game regularly. In order to further expand the market in China, the Company not only printed its Chinese name in Milano team’s uniform, but also became the title sponsor for CHINA FOOTBALL ASSOCIATION SUPER LEAGUE. This tactic is so explosive that the branding effect went up as skyrocket and became one of the most

prestige tyre companies in China. Besides football games, today, Pirelli sponsored Motor race, Formula 1, World Rally Championship and others .

➤ **Upgrading production line**

Pirelli is upgrading its factory in Shandong to make a largest factory in the world. The new factory will be

the production base in Asia-Pacific region. Currently, the factory can produce 5 million car tyres and 1.2 million truck tyres. Once the upgrade finalize by the year 2012, the capacity is expected to double and also to produce 1 million more motorcycle tyres. 60% of the tyre will be delivered to Asia pacific region and 40% ship to America.

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