PARTNERING OPPORTUNITIES BETWEEN **EUROPE** AND **CHINA** IN THE RENEWABLE ENERGIES AND **ENVIRONMENTAL** INDUSTRIES

OPPORTUNITIES AND OBSTACLES OF THE CHINESE MARKET TO FDI.

THE CASE OF SPANISH FIRMS OF THE GREEN SECTOR.

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SUMMARY

- Theoretical Background
- Objective
- Context of Reference
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THEORETICAL BACKGROUND — 緑

The internationalization process of firms

Barriers to internationalization

External barriers

THEORETICAL BACKGROUND — 緑

Entry strategies in foreign markets:

- Combination between control and commitment of resources preferences on the basis of contextual variables (Hill et al., 1990).
- Transaction costs - TCA (Ronald Coase, 1937).
- Search for resources, markets, efficiency and strategic assets (Dunning, 1998).
- Gradualist theory (Johanson and Vahlne, 1977).

THEORETICAL BACKGROUND — 緑

Foreign Direct Investment

Joint Venture: strategic partnership for cooperation or collaboration widely used for international expansion.

International joint venture with a local partner of the host country.

THEORETICAL BACKGROUND — 綠

Green Economy: "economic model of development focuses on promoting sustainable economic growth and prevent environmental pollution, global warming, exhaustion of resources and environmental degradation" (Globe Foundation, 2010).

OBJECTIVE

A better understanding of two different FDI strategies: a joint venture with a local partner, and a wholly foreign owned investment, to analyze what could be considered the best one for Spanish investors of the green sector, in order to overcome the obstacles of the Chinese market and to ensure the investment can be considered successful.

CONTEXT OF REFERENCE

緑

- Investment market: **China**.
- Firms: **Spanish capitals**.
- Economic sector: **renewable energy and environmental industries**.
- Type of investment: **Joint Venture** vs. **wholly foreign owned enterprise**.
- Background: **European Project POREEN as part of Marie Curie Action Program**.

CONTEXT OF REFERENCE

Opportunities and potential of the **Chinese market:**

- number of consumers, improvement of life’s quality and purchasing power;
- higher requirements of Chinese consumers;
- level of economic development in recent years;
- industrial restructuring towards the development of innovative capacities;
- gradual relaxation of restrictions on FDI norms in certain sectors (WTO accession in 2001).

CONTEXT OF REFERENCE

Institutional barriers "efficient markets depend on the support of institutions able to provide formal and informal rules of the game that profoundly influence the functioning and development of business" (North, 1990).

"China is not a market economy"

- **Regulatory restrictions**
- **Bureaucracy and Corruption**
- **Weak IPR protection**
- **Forced technology transfer**
- **Cultural barriers**
- **Opportunism**

CONTEXT OF REFERENCE

Each obstacle presented by the Chinese market, has its own particular **'behavior'** in front of each strategy:

- **bureaucracy and corruption; regulatory restrictions; cultural barriers:**

  ⇨ probably overcome with a strategy of joint venture with a local partner.

- **weak IPR protection; forced technology transfer; opportunism:**

  ⇨ probably overcome with a strategy with full control by the multinational firm.

CONTEXT OF REFERENCE 绿

Green industry in China: paradigm shift towards sustainable growth (low carbon development).

- serious pollution problems

  ➤ largest polluted country in the world in absolute terms since 2007 with 22% of global emissions;

- health problems on population;
- increasing environmental awareness;
- concerns on national energy security;
- several government plans with priority on environmental goals.

CONTEXT OF REFERENCE

Spanish Firms:

- weak presence in Asia
- large cultural gap with Asia
- stimulus plans of Spanish government towards China
- Spanish FDI on total FDI to China in 2010 → 0.6%

Of green industry:

- small important group of solid multinationals in the field of renewable energies and environmental activities
- high degree of development, presence and global success
- Eg. Gamesa, Abengoa, Acciona, Iberdrola

CONTEXT OF REFERENCE

Features of **Joint Ventures in China**:

- request of joint ventures with a local partner as a condition for access to certain economic activities ➨ **Complementarity vs Necessity**;
- economic policy instrument aimed to get contributions in terms of technology transfer and to prevent the displacement of domestic companies;
- research, negotiations and selection of local partner ➨ difficult task, long in time and expensive.

METHODOLOGY

- Qualitative approach;
- Multiple study cases;
- Methods: inductive, deductive and mainly abductive;
- Research type: descriptive, exploratory and explanatory;
- Holistic investigation perspective;
- Data collection tools: questionnaire, web sites, databases, data journalism, interviews.

SEARCH RESULTS

Spanish Firms:

Joint Ventures:

- GRI Renewables Industries
- Solarig
- Abengoa Water

Wholly foreign owned enterprises:

- MS-Enertech
- Gamesa

SEARCH RESULTS

Cultural Barriers:

- Both strategies argue that cultural differences are very important obstacles knowledge of Chinese culture is highly relevant.
- Mid-level impact on the investment to all firms except GRI Renewables Industries (JV).
- Total foreign control strategy difficulties on understand /interact the environment /market.

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SEARCH RESULTS

Cultural Barriers:
(...continues)

- Joint Ventures have found:
  - higher level of difficulty within the JV;
  - high importance of Chinese language knowledge.
- Staff structure made up by more than 95% of Chinese employees with different corporate hierarchies:
  - serious problems on local employees management of all companies beyond the strategy.
- Double-cultural problem within the Joint Venture:
  - with the partner and with the employees.

SEARCH RESULTS

Regulatory restrictions:

- All companies assess legal system obstacles with medium / large importance.
- Joint Ventures have found more problems on legal issues related the partner negotiations.
- All strategies have found problems in national incentives access,
    - Except Solarig (JV): only company involved with Chinese public research centers.
- There is not an obvious advantage for joint ventures with Chinese partners respect to legal treatment.

SEARCH RESULTS

Weak IPR protection, opportunism, forced technology transfer:

- Not observed any difference on IPR protection level using any investment strategies.
- The weak IPR protection worries and affects all foreign investors regardless the entry mode.
- Wholly foreign owned strategy founds higher risks associated to IPR.

SEARCH RESULTS

Bureaucracy and Corruption:

- The wholly foreign owned strategy has encountered greater obstacles:
  - in administrative and regulations permits and licensing authorizations;
  - in interacting with local authorities.
- Evident advantage for companies operating in Joint Ventures.

SEARCH RESULTS

Risk perception of investing in China:

- Both strategies alike have assessed the **most relevant risks**:
  - uncertainty of the investment return,
  - operational risks,
  - financial risks.
- About the **risk of investing in China** the two strategies show a medium / high level without showing a particular trend.

SEARCH RESULTS

There is not a better strategy for Spanish firms of the green industry in China in general terms. The choice, the performance and the success depend on several factors, internal and external to the company, more or less controllable.

SEARCH RESULTS

Each case requires a careful analysis considering the knowledge of the Chinese market functioning , the technological assets of the company, the special regulations of the economic activity, the connections in the market, but especially the adaptability and flexibility in a market characterized by high volatility and change.

SEARCH LIMITATIONS

- Impossibility to statistical generalization to the population under study.
- Wide diversity of the activities within the green sector.
- Difficulties to understand the moment in which the obstacle is presented at the strategy implementation (before or after the choice of the strategy itself).

THANK YOU VERY MUCH FOR YOUR ATTENTION!