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The case of Portugal

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MIGRATION POLICY CENTRE (MPC)

The Chinese Business Community at a crossroads between crisis response and China's assertive global strategy

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The Migration Policy Centre (MPC)

Mission statement

The Migration Policy Centre at the European University Institute, Florence, conducts advanced research on global migration to serve migration governance needs at European level, from developing, implementing and monitoring migration-related policies to assessing their impact on the wider economy and society.

Rationale

Migration represents both an opportunity and a challenge. While well-managed migration may foster progress and welfare in origin- as well as destination countries, its mismanagement may put social cohesion, security and national sovereignty at risk. Sound policy-making on migration and related matters must be based on knowledge, but the construction of knowledge must in turn address policy priorities. Because migration is rapidly evolving, knowledge thereof needs to be constantly updated. Given that migration links each individual country with the rest of the world, its study requires innovative cooperation between scholars around the world.

The MPC conducts field as well as archival research, both of which are scientifically robust and policy-relevant, not only at European level, but also globally, targeting policy-makers as well as politicians. This research provides tools for addressing migration challenges, by: 1) producing policy-oriented research on aspects of migration, asylum and mobility in Europe and in countries located along migration routes to Europe, that are regarded as priorities; 2) bridging research with action by providing policy-makers and other stakeholders with results required by evidence-based policy-making, as well as necessary methodologies that address migration governance needs; 3) pooling scholars, experts, policy makers, and influential thinkers in order to identify problems, research their causes and consequences, and devise policy solutions.

The MPC's research includes a core programme and several projects, most of them co-financed by the European Union.

Results of the above activities are made available for public consultation through the website of the project: www.migrationpolicycentre.eu

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Abstract

This paper assesses the transformation of the Chinese business community in Portugal in result of the interaction between China's 'Go Global' policy and the impact of the 2008/2009 global crisis. It analyses the small-business community's coping strategies; the impact of recent large-scale Chinese direct investments; and changes to Portuguese immigration laws. It concludes that the small-business community adopted pro-active coping strategies and re-assessed its insertion patterns in the local and global economy. Within the large-scale business segment, a dualistic community structure emerged. The community became more heterogeneous and complex, less cohesive, and more internationalised beyond the single European market.

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1. Introduction[*]

The Chinese overseas community, and especially its business communities, have emerged as a strategic informal factor in China's integration into the global economy and as a fundamental dimension of China's soft power. These communities are performing three functions that are different but complementary, namely acting as: catalysts of economic flows and entry points for Chinese exports, producers and providers of economic intelligence; and informal 'ambassadors' of Chinese provinces' and cities' paradiplomacy. The environment in which these communities operate has however undergone significant changes over recent years, most notably as a result of China's 'Go Global' strategy, its growing weight in the global economy, and the impact of the 2008-2009 global economic and financial crisis. At the European Union (EU) level, increasing economic inter-linkages with China have given rise to trade and investment-related tensions, which have been made more acute by the crisis context.[1] Prior to the crisis, the EU was not a chief destination for Chinese inward investment. But since 2010, there has been both a qualitative and a quantitative change. The EU has become a prime destination for Chinese direct investment, especially for large Chinese enterprises. This fact has in turn added scale and complexity to the existing local Chinese business communities in Europe, Portugal being a case in point.

This paper aims to contribute to the literature on the Chinese diaspora by shedding light on the dynamics of the Chinese business community in Portugal in the context of the recent crises – the global 2008-2009 economic and financial crisis, aggravated in Portugal by the sovereign debt crisis – and its interaction with the intensification of China's 'Go Global' policy. It sets out to analyse the process and outcome of the transformation that the community underwent in the changed context and considers dilemmas brought about by China's increasing influence. The paper focuses on the three fundamental factors with impacts on the transformation of the Chinese overseas community in Portugal: first, the existing community's coping strategies in the face of the crisis and its involvement with China's 'Go Global' policy; second, the impact of recent large-scale Chinese direct investments, driven by China's globalisation strategy, which take advantage of crisis-induced investment opportunities; and, last but not least, the consequences of the (similarly crisis-induced) changes to Portuguese immigration policy, which facilitate migration inflows and promote inward investments.

The paper is organized as follows.

Section 2 frames the discussion by providing some background information on the Chinese community in Portugal.

Section 3 focuses on the dynamics in the established small-scale Chinese business community in Portugal, analysing the different coping strategies that Chinese businesses have adopted in the crisis context. It considers the short and long-term nature of actions taken as well as factors that condition the choice of strategy, taking into account both crisis-related and other factors. The section is based on fieldwork on small-scale Chinese family firms typically found in Portugal.

Section 4 looks at the recent and novel phenomenon of large Chinese direct- investments in Portugal. It considers whether and to what extent direct inward investments by large Chinese firms lead to a transformation of the local Chinese business community, notably in terms of its structure and cohesiveness. It evaluates the kinds of linkages and the potential impact of those large investments on the typically rather small-scale businesses of Chinese entrepreneurs in Portugal – e.g. in terms of

[*] The authors presented a previous version of this paper at the joint conference "6th Chinese in Prato and 4th Wenzhouese diaspora symposia", organised by Monash University, the RSCAS/EUI and the University of Florence, held in Prato on 29-30 October 2013.

[1] I.e. the issue of competitiveness and of possible distortions, rooted in a variety of factors, including trade reciprocity, intellectual property right protection, exchange rate policy.

supply chain relations or the attraction of other small or medium-scale Chinese investments with a complementary logic – and on Chinese immigration flows.

Section 5 looks into the impact of crisis-induced changes to Portuguese immigration policy on the Chinese business community, set against the continuing inflow of Chinese entrepreneurs into Portugal despite a declining Portuguese economy marked by stagnation and more recently, by recession. It considers the extent to which the existing diaspora has contributed to the attraction of new investment inflows.

Section 6 presents the main conclusions and highlights challenges for the Chinese business community and for the European Union which arise from China's global strategy.

2. The Chinese community in Portugal

Chinese migration flows to Portugal have been increasing continuously since the late 1990s. According to official government statistics (SEF [Serviço de Estrangeiros e Fronteiras – Portuguese Border police] 2005, 2009, 2013), the increase in inflows has led to an almost six-fold rise in the Chinese immigrant stock, from 3,062 Chinese immigrants in 1999 to 17,447 in 2012; representatives of the Chinese community present estimates that are even higher.[2] This outcome can be seen to result from a complex interplay of various factors, notably the saturation of ethnic consumer markets in Northern Europe, which prompted re-emigration towards Southern European countries (Beltrán 2000), a new wave of immigration from Mainland China, and the evolution of Portuguese immigration policy, namely the legalization of irregular immigrants in 2001 and 2004.

The recent evolution of the Chinese community is characterised by a trend of rather stable inflows and an increase in total numbers in the face of the economic crisis (the global financial and economic crisis as well as the subsequent Portuguese sovereign-debt crisis), which stands in sharp contrast with the other immigrant communities in Portugal. While the inflows of Chinese to Portugal have stabilized and total numbers have increased, Portugal has seen a general decline in the numbers of immigrants (from 451,742 in 2009 to 414,610 in 2012), accompanied by a decline in the total numbers of all the other main immigrant communities. The weight of the Chinese community in the statistics on the total immigrant population in Portugal has increased from 3.2% in 2009 to 4.2% in 2012, as a result.[3]

Chinese immigrants came to Portugal during three different periods and were driven by different motivations, which gave rise to a rather heterogeneous Chinese business community in Portugal (see Bongardt and Neves 2006 for a more detailed analysis). The community is composed of three main sub-groups who arrived in three successive waves. First, Chinese business people from Mozambique came to Portugal after de-colonisation in the mid-1970s looking for safety. They were already well-integrated in the Portuguese culture and most possessed Portuguese nationality. Their ties with China were mainly with the Guangdong Province; Second, a smaller group from Hong Kong and Macau came in the early 1990s, before the handover of the territories to the People's Republic of China (PRC), looking for an 'insurance policy', i.e. an alternative location for their business as a risk reduction strategy in the face of uncertainty about the 'one country, two systems' regime's future. These immigrants, in general, had a reasonable level of international experience; Third, the Chinese from Mainland China, dominated by immigrants from the Zhejiang province (from both Wenzhou and Qingtian), primarily arrived in Portugal from the late 1990s onwards, in the context of China's

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[2] Some representatives have argued that the real numbers are between 40-50 percent higher, thereby accounting for irregular immigrants and for Chinese nationals registered not in Portugal, but in another EU country (on this issue see Rocha-Trindade *et al.* 2006: 77-8). More recently, Mr. Y Ping Chow, president of *Liga dos Chineses em Portugal*, estimated that the size of the Chinese community in Portugal amounted to 22,000 people (cited in *Sol*, 25 May 2013, available on: http://www.sol.pt/noticia/76760 [Accessed 10 October 2014]).

[3] Our analysis, based on official data, differs from Latham and Wu's (2013: 28) insofar as they estimate a slowing-down trend and stabilisation of stocks for Portugal during the crisis.

increasing integration into the global economy. This group, motivated chiefly by economic opportunity, took advantage of the *guanxi* network within Europe, especially in communities in Spain, Italy, and France, thereby making use of the scale and opportunities of the single European market although they lacked any previous international experience.

In 2009,[4] the geographical distribution of Chinese migrants in Portugal showed a concentration in four main districts, Lisbon (37.2%), Porto (13.6%), Faro (9%) and Setúbal (7.9%), which together amount to 67.7% of the total. This figure represents a reduction in comparison with 2005, when those districts jointly accounted for 79.8% (whereas in 2000 they had accounted for 82%). Over the years, the relative importance of the Portuguese capital, Lisbon, declined from 58.3% in 2000 to 37.2% in 2009, while the other districts remained relatively stable. The figures therefore suggest a geographical diversification out of Lisbon during the pre-crisis period, which can be explained by intensifying competition in the ethnic economy during the expansion of the Chinese community.

The Chinese community is characterized by a young age profile, which is also below the overall age structure of immigrants in Portugal.[5] Four fifths of its members are under 39 years old and more than two thirds are in the 'active age' group (20-64 years). In 2005, the 0-19 age group accounted for 28.2% of total Chinese immigrants, the age group of 20-39 years for 51.6%, the 40-64 year old age group for 16.4%, and the age group of above 65 years for 2%.

As for the size of the Chinese business community, in the absence of official statistics on the numbers of entrepreneurs and firms in the community, one can only recur to estimates. Based on information provided by Chinese business associations, estimates indicate a minimum of 4,000 Chinese shops, 300 restaurants and 500 warehouses in Portugal in 2009;[6] in 2012 a reduction by 20-25 percent is said to have occurred in the number of shops/restaurants/warehouses, which brought the total number down to 3,800.[7] As for entrepreneurs, the only available official data pertains to requests for residency status, in which a distinction is made between workers and the self-employed. In 2005 one in six Chinese applicants indicated 'entrepreneur' status (SEF 2005: 69). A conservative estimate of 2,000-2,500 entrepreneurs looks credible, taking into account that many entrepreneurs have more than one shop/facility.

The business community operates predominantly in the service sector, especially in retail and wholesale trade. In 2006 the sector accounted for more than 75% of the business community and represented a high level of internationalisation in the pre-crisis period, especially as far as trade and investment links with China are concerned (Bongardt and Neves 2006).

The composition of the community, thus far characterised by small family-run businesses, has recently started to undergo changes as a result of both the impact of economic crisis and China's globalisation strategy. It has resulted in the restructuring of existing businesses but also in the emergence of the new phenomenon of Chinese large-scale direct investment in Portugal. On top of that, recent changes in Portuguese immigration policy, which aim to attract foreign investment, have so far been made use of primarily by Chinese nationals. The dynamics and interplay of those changes will be discussed below.

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[4] Data on the geographical distribution of immigrants by nationality was discontinued after 2009.

[5] Based on data from SEF 2005 (the last available year concerning the pre-crisis period). There is no available data for the crisis period, since the 2006 official statistics no longer present disaggregated data on age structure by nationality.

[6] Interview with Mr. Y Ping Chow (Agência Lusa 2009).

[7] Interview with Mr. Y Ping Chow, president of *Liga de Chineses em Portugal*, Ponto Final 2012 (newspaper from Macau).

3. The dynamics of the Chinese small business community in the crisis context

3.1 Methodology of fieldwork

The fieldwork involved the collection of primary data through a questionnaire directed at Chinese business people in Portugal,[8] administered between July and September 2013 by a team of researchers.[9] The questionnaire was modelled and followed-up on a previous questionnaire – tested and administered in 2005 on the Chinese business community in Portugal (see Bongardt and Neves 2006) – and to which new questions were added to obtain information on entrepreneurs' responses to the crisis and on the possible development of links with large Chinese firms investing in Portugal. The 2006 study served as a reference for the pre-crisis situation. A series of interviews were conducted with the main Chinese business associations with a view to ensuring the representativeness of the sample in regional and sectoral terms. The questionnaire was prepared in Portuguese and Chinese (bilingual), in order to facilitate access to interviewees and to promote trust and confidence, thereby encouraging responses. Respondents were assured of anonymity with respect to the treatment of the filled-in questionnaires, which was well received and seen to promote cooperation. The same applied to the inclusion of a native Chinese speaker in the team, a fact that, moreover, elicited additional interview evidence beyond the questionnaire. The questionnaire for the Chinese small-business community in Portugal was composed of six sections, each with a different focus, featuring mostly closed questions.[10]

The team of researchers applied the questionnaires *in loco* to a random sample of Chinese businesspersons located in different regions in Portugal, namely in the Greater Lisbon area, in Coimbra, Setúbal, Porto, and Northern Portugal.[11] The choice of these districts followed, on the one hand, the pattern of geographical distribution of Chinese immigrants that is reflected in official statistics and, on the other, indications of Chinese business associations in Portugal as well as the results of the authors' previous research.[12]

A second set of data was obtained through semi-structured interviews (30). The interviewees were chosen based on their specific and wider knowledge of the reality and evolution of Chinese businesses in Portugal. They included: representatives of Chinese business associations, namely the three main associations – *Associação dos Comerciantes e Industriais Luso-Chinesa* (Greater Lisbon); *Liga dos Chineses em Portugal* (Porto and Northern region); and *Associação Luso-Chinesa em Portugal* (South) – as well as representatives of accountancy firms that provide services to a large number of

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[8] For the English version of the questionnaire for Chinese business persons in Portugal 2013 ("inquérito aos empresários chineses em Portugal 2013" in the Portuguese original), see the Appendix.

[9] We are grateful to Ngai In Kuan, a Macanese citizen and lawyer who joined the Portuguese Bar Association and who is currently practising in Portugal, for her help in translating the questionnaire into Chinese and for her valuable cooperation during the interviews with Chinese business people.

[10] The sections were organised as follows: (i) profile of the entrepreneur (place of origin in China; length of stay in Portugal; motives for choice of Portugal); (ii) firm (location of headquarters; sector of activity; size); (iii) firm's strategy against the background of the economic crisis to understand how Chinese business people coped with the impact of the crises; (iv) sources of financing during the (previous three) crisis years; (v) Chinese small businesses' links with large Chinese enterprises that have recently started to invest in Portugal; (vi) existence and characteristics of links that Chinese business people maintain with China.

[11] The only exception was the Algarve region, where the questionnaire could not be administered.

[12] According to official SEF statistics in 2009, Lisbon was the first location for Chinese immigrants with 37.2% of the total Chinese immigrant population, followed by Porto with 13.6% (thus accounting together for more than half of the total), Setúbal 7.9%, Braga 3.4% and Coimbra 2.9%. The districts covered in the sample together represent 65% of all Chinese immigrants (see SEF 2009, Annex "População Estrangeira residente em território nacional – 2009"). This is the last official data on the geographical distribution of Chinese immigrants from 2009 onwards; official statistics ceased to present the distribution of immigrants by region, disaggregated by nationality.

Chinese businesses, and the director of the main Chinese newspaper in Portugal (Sino). In addition, 20 of the entrepreneurs (all of whom responded to the questionnaire) were selected for more in-depth interviews on the basis of different criteria, such as the complexity of their response strategy to the crisis or new kinds of ties with China. They were chosen due to their specific and wider knowledge of the reality and evolution of Chinese businesses in Portugal.

The fieldwork aimed to conduct approximately 80 questionnaires. Of those, after an analysis of the responses, 64 questionnaires were validated for the survey sample. The qualitative information that resulted from the interviews with Chinese business owners and associations provided important indications regarding the consistency of findings and complemented statistical data, allowing for a synthesis of quantitative and qualitative information. The results of the statistical analysis were compared with the authors' previous research on the topic (Bongardt and Neves 2006).[13]

3.2 Profiles of the entrepreneur and the business

This section analyses the principal features of Chinese entrepreneurs in Portugal and their businesses, as shaped by the crisis context, and compares them with their pre-crisis situation (analysed in Bongardt and Neves 2006).

The vast majority of Chinese entrepreneurs in the present sample (93.7%) come from Mainland China, with only a minority originating in other places in Asia (i.e., Hong Kong, Taiwan, and Southeast Asia). In turn, more than three quarters of those Mainland Chinese business persons (76.6%) originated in the Zhejiang province, with other provinces (Shandong, Shanghai, Fujian, Sichuan) being of little importance. The predominance of the Zhejiang province as the region of origin is consistent with pre-crisis data (74%, see ibid: 29-30), showing that the crisis did not affect migration patterns. The relevance of the Zhejiang immigration networks explains why the majority of respondents indicate that family ties were the main factor for having chosen Portugal. The relevance of Zhejiang province is in line with patterns observed in other Southern European countries – such as Italy, where more than 70% of immigrants originate from the Zhejiang province particularly from the city of Wenzhou,[14] and Spain, where the majority originates from the city of Qingtian (Latham and Wu 2013, Beltrán 2000). This reflects both the specialisation of Zhejiang in Chinese emigration to Europe and the importance of well-developed immigration networks for facilitating new immigration flows.

As for the length of stay in Portugal, there has been a shift when compared to 2006 results; the predominant length of stay has changed from less than ten years in 2006 to more than ten years in 2013. The majority of Chinese entrepreneurs (56.3%) have been in Portugal for more than a decade (see Table 1).

[13] The administration of the questionnaire did (and could) not take into account the identity of sampled firms in the previous study, where the questionnaires were directly administered by Chinese business associations to their members. This was not the case in the present study, where the majority of respondents were not members of business associations. The firms sampled in the two studies – pre-crisis as compared to the crisis-context – are hence different, with a possible marginal overlap in the case of Lisbon. There is some overlap in the group of interviewees, particularly as far as business associations are concerned.

[14] The city of Prato in Tuscany is a case in point, being one of the most important locations of Chinese immigrants in Italy, with a majority originating from Wenzhou in Zhejiang province. For a discussion of the prevalent business model, namely the development of a Chinese version of an industrial district based on *pronto moda*, see Dei Ottati (2013).

Table 1. Profile of Chinese Entrepreneurs in Portugal

	Absolute Frequency	**Percentage**
Length of Stay (years)		
< 5	15	23.4
5-9	12	18.8
10-14	17	26.6
+ 15	19	29.7
Origin		
Mainland China	60	**93.7**
from Zhejiang province	*49*	*76.6*
from other provinces	*11*	*17.1*
Asia	3	**4.7**
N/A	1	1.5
Total sample	64	100

Source: interview evidence, July-September 2013

The findings suggest a certain stability in the Chinese community, to the extent that longer stays in Portugal are the result of both the passing of time since the 2006 survey (immigrants' medium length of stay rose) and the absence of a crisis-induced exodus. It is also worth noting that short-term stays (less than five years) have remained stable at the same level (almost a quarter of the sample) when compared to pre-crisis levels, which suggests that immigration flows have not been interrupted by the crisis. In fact, according to official immigration data, Chinese immigration flows have slightly diminished since 2009 but have remained at a relatively high level (immigration from China ranking fifth in Portuguese immigration flows in 2012); the stock of Chinese immigrants in Portugal has in fact increased notwithstanding the crisis (SEF 2013).

The survey allowed for comparing data sets on two variables, namely a Chinese person's length of stay in Portugal and the number of years it took him or her to set up a business (in a total of 40 cases). Recent Chinese immigrants appear to be quicker at starting their own businesses, with time lags below one year, than immigrations with longer stays. While the data is compatible with the well-known cycle of immigration – according to which an immigrant starts working for a Chinese business and, after acquiring the necessary knowledge and savings, he/she starts his/her own business – it suggests that the duration of the cycle has shortened with recent immigration inflows, probably due to immigrants' different profiles and motivations.

The survey data depicts firm size-patterns in line with those observed before the crisis. Businesspersons did not disclose information on sales volumes, so that the only indicators that could be obtained regard the number of employees and the number of establishments per firm. All firms in the sample are in the small and medium-sized enterprise (SME) category. About 90% of those can be qualified as micro-enterprises, considering that the most common combination found in Chinese businesses is a business with a single establishment (71.4%) with fewer than 5 employees (73%) (see Table 2). Interview evidence revealed differences between entrepreneurs within the micro-segment, as larger entrepreneurs tend to own firms with several establishments (allowing for some geographical diversification) or several micro- firms in different sectors (sectoral diversification) as a risk reduction strategy. Although the micro-enterprise pattern did not change in relation to the pre-crisis period, the interviews captured a less visible change, namely, downsizing within the micro-segment.

With respect to the localisation of the business, the sample covered the principal centres of Chinese immigration in Portugal, with the majority of businesses being located in three main locations of Greater Lisbon (57.8%), in Setúbal (18.8%) and Porto (9.4) (see Table 2).

Table 2. Profile of Chinese-owned Businesses Operating in Portugal

	Absolute Frequency	Percentage
Number of establishments		
1	45	71.4
2-3	15	23.8
4-5	2	3.2
Number of Employees		
< 5	46	73
5-10	13	20.6
11-20	3	4.8
Location		
Lisbon	37	57.8
Setúbal	12	18.8
Porto	6	9.4
Coimbra	5	7.8
Other	4	6.3
Total Sample	64	100

Source: interview evidence, July-September 2013

As for the sector of activity, all businesses in our sample (64) were in the service sector, a finding in line with 2006 results which showed also a predominance of that sector. In the present sample, within the service sector, most businesses are in the retail trade sub-sector (84.3%), followed by restaurants (15.6%), wholesale trade (4.7%), and tourism (1.6%). Chinese entrepreneurs tend to be active in just one single sub-sector. Only in 6.3% of the cases was the business person involved in more than one sub-sector. The results therefore confirm the pre-crisis dominance of retail and wholesale trade and the decline in the relevance of the restaurant sub-sector (the present sample includes several cases of a change of business from restaurants to retail trade).

3.3 Chinese small entrepreneurs' coping strategies in the crisis

Chinese small-scale enterprises, as with small businesses in Portugal in general, have been strongly affected by the decline in Portuguese domestic demand in the context of the crisis. The Portuguese economy shrank in 2009 (-2.9%), recovering in 2010 (growth of 1.9%) and entered into recession in 2011. Over the period 2011-13 Portuguese GDP contracted (- 6%) (Bank of Portugal 2013), mainly driven by a sharp decline in domestic consumption and an even greater one in investment, whereas exports of goods and services performed relatively well (expanding by 5.7% in 2013).[15]

The main hypothesis underlying the study was that one would find diverse responses by Chinese business persons in the face of adverse market conditions and that some would be rather pro-active.[16]

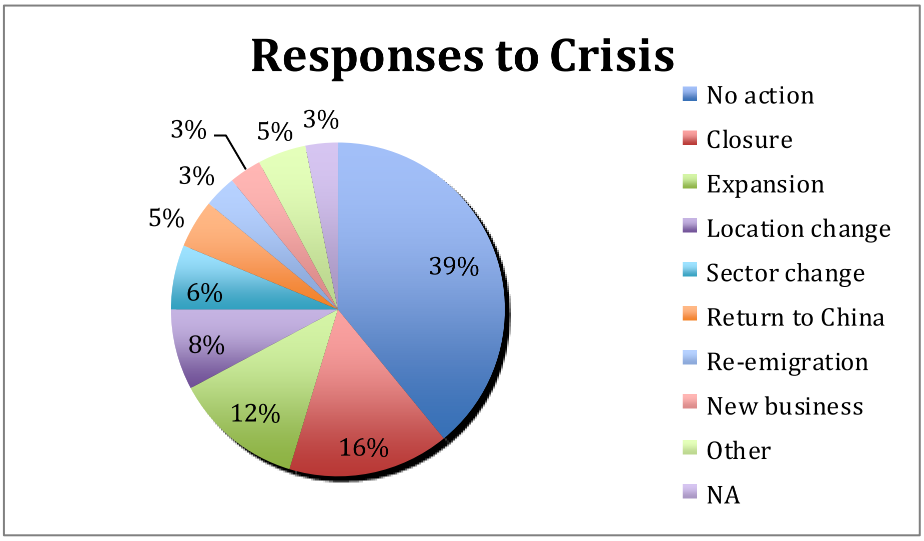
[15] Data from Bank of Portugal 2013 (Table 5.1), and Bank of Portugal 2012 (Table 1). In 2011 Portugal registered negative growth of -1.3%, which worsened in 2012 to -3.2%, while the forecast for 2013 indicated a decline of -1.6%.

[16] In order to identify Chinese entrepreneurs' coping strategies in the face of the effects of the 2008/9 global economic and financial crisis and the subsequent Portuguese sovereign debt crisis, the questionnaire presented the following nine options: closure of the business (if yes, in which year); change of sector (if yes, indication of initial and current sectors); change of geographical area of the business within Portugal (if yes, from where to where); expansion of the business; starting a new business; return to China; re-emigration to another country; no action; other (if yes, which). Chinese entrepreneurs were asked to only indicate one – the

Survey results largely confirm this hypothesis, evidencing a wide range of coping strategies, with pro-active ones accounting for a remarkable share of the total.

Looking at Chinese entrepreneurs' responses to the crisis, one can discern two basic responses: a passive one, in which no more fundamental action is taken, and a pro-active one, meaning a search for ways to reverse the decline in the business (see Figure 1).

Figure 1. Chinese entrepreneurs' strategic responses in the face of the crisis



Source: questionnaire evidence (period July-September 2013)

While about 39% of business owners assumed a passive stance,[17] it is evident that a majority (58%) took a more pro-active stance, adopting a variety of strategies.

The group of Chinese entrepreneurs with a passive stance essentially attempts to survive during the crisis, accepting a decline in profits and margins while competitors close down, hoping to recover in the aftermath of the crisis. To this effect, business owners tried to cut costs while maintaining their business along the same lines, for instance by reducing the number of employees, extending opening hours, and/or increasing the time owners spent in the establishment.[18] The survey evidence captured change within the micro category, which was not visible in the statistics, by showing that the crisis triggered some downsizing within a specific group of micro-sized firms.

The dominance of pro-active strategies in the sample (which exceeded initial expectations) raises the question about the factors that account for this result.

The more pro-active group may be divided into two sub-groups: one group (15.6%) that decided to shut down operations and a second group (42.4%), that resorted to more complex, differentiated strategies to survive and prosper. As for the latter group, different patterns emerge from an analysis of the sample such as expansion of the business, starting a business, changing sectors, and changing geographical location.

(Contd.)

dominant – strategic option. The interviews revealed that those dominant options were sometimes combined with other strategic options to tailor them to specific needs and circumstances. Also, there were 3 cases of "other" strategies, which respondents however did not specify. They counted as pro-active because the option "no action" was not chosen.

[17] Note: two non-responses in the sample.

[18] Interview evidence (Lisbon, 18 July 2013).

Business closure, re-emigration, and return to China

Business closure needs to be put in a context reaching beyond the crisis, related to Chinese entrepreneurs' prevailing business model. Since the early years of 2000, there had been a rapid increase in the numbers of Chinese restaurants and bazaar-type shops in Portugal. Towards the end of the decade, this fact had generated some saturation and decline in the business due to what was felt to be 'excessive competition' by some of the business persons The crisis was therefore not the only factor but rather one that added to already existing strong competitive pressures facing the predominant business model, which cumulatively led to the above-mentioned estimated 20-25% reduction in the number of shops.

The sub-group of business owners that decided to close down operations qualified as pro-active because entrepreneurs took drastic actions to extinguish their business. The businesspersons either (re-)entered the labour market or in other cases, acted in order to rebuild their business abroad, through re-emigration to another country or by returning to China[19] to open a business.

The shutting-down option was found to be rooted in essentially two motivations for Chinese businesses. First, in what may be characterized as "closure by necessity": the business is not viable, losses have been accumulated or are anticipated, and the business is seen as not capable of generating the necessary income for the family. In this case, the business person tends to return to the labour market and work for another (usually Chinese) business. Second, "closure due to opportunity": the main drive is the existence of a better business alternative, mostly but not exclusively abroad. With respect to this option, supplementary questionnaire interview evidence showed that closing down does not necessarily imply cutting ties with Portugal. This fact was illustrated by two cases of re-emigration (to France and Brazil) and three cases of return-to-China in our sample. Interview evidence also captured another phenomenon, which involves a different kind of temporary circular emigration related to Chinese businesspeople who have been investing in Portuguese-speaking countries, notably Angola and Brazil. In doing so, they have kept residence and some business in Portugal so as not to lose residency rights.

Some cases of return to China look particularly interesting. One case is a Chinese businessman in the wine import/export business who, after negative results from his operation in Portugal, decided to move to China, where he opened three shops (one in Zhejiang, one in Shanxi, and a third one in Beijing) to sell exclusively Portuguese wines. The case represents an emerging new tendency among Chinese entrepreneurs to set up wine shops in Zhejiang to sell Portuguese wines; it conveys a rational strategy to explore the strong personal and institutional ties that Chinese business people maintain with their province of origin. In another case a businessman, who had been involved in traditional Chinese bazaar-type shops and restaurants in Lisbon and Almada (just south of Lisbon) decided to diversify into the wine sector, setting up several shops in 2011, which included one in downtown Lisbon and another in Shanghai which also specialized in Portuguese wines.[20] In addition, the businessman has been collaborating with a Portuguese producer in order to adapt the characteristics of the product to Chinese taste (dry wines).

In sum, in the midst of the Portuguese crisis some Chinese business owners have started to export and sell Portuguese wine directly to China, with a product range adapted to Chinese taste and in line with the pattern of demand of the rising Chinese middle class for prestige goods. By doing this, the business persons maintained a direct link with the Portuguese economy, employing their knowledge and *guanxi* to sell Portuguese goods (and thereby promote Portuguese exports).

[19] The phenomenon of returning Chinese immigrants has also been identified in other EU countries such as Italy and Spain. On Italy see Pedone 2013 (see also Financial Times 2013). On Spain see for instance, El Confidencial 2013.

[20] Interview with the director general of Ruoao Wines in Lisbon on 26 July 2013.

Differentiated strategies: expansion, change of location, change of sector, and opening a new business

The other sub-group of Chinese business people adopting pro-active strategies remained in Portugal and were involved in some restructuring of their businesses. Rather than resorting to mere cost-cutting (a more passive strategy), they reacted by means of a range of differentiated strategies. Contrary to what might be expected at times of crisis, the strategy that was most often adopted, in almost a third of the cases, was expansion of the business (12.5%). Expansion consisted of expanding establishments and opening new ones. In many cases it followed a rationale of diversifying and of acting by anticipation.

Several factors work in support of the expansion strategy. First, financing based on family sources – which constitutes the dominant source for Chinese small-business entrepreneurs, as evidenced by the survey results (93.5%) –[21] means not only that there is very little dependency on the banking system, but also that there are resources available for small businesses in a context of a credit squeeze and/or high interest rates. Second, the existence of business deals in or with China, a growing economy, is likely to yield positive results and make resources available for finance expansion. It is noteworthy that 40% of the business owners who were involved in expansion of their business had economic deals with China in the form of either trade (import-export, such as exports of marble blocks to China) or direct investment. Third, there is a need for risk reduction, insofar as expansion is also driven by the objective of diversification into other sectors. This has been a consistent strategy of Chinese business owners to manage and reduce risk, as already highlighted in the authors' 2006 study.

Henceforth a couple of cases will be presented that illustrate the Chinese entrepreneurs' search for viable market niches and for taking well-pondered risks in difficult sectors. In one case, a businessman operating in the fruit and vegetables sub-sector, who already had a successful shop in Lisbon (Arroios) before the crisis, decided to open a second one in Algés (adjacent to Lisbon) in 2011 to explore business opportunities that had arisen in the crisis. The opportunity consisted of selling mature fruit and vegetable produce with fast shelf rotation at low prices at a site just in front of a large supermarket outlet (Pingo Doce supermarket chain) in Algés. According to the businessman,[22] many customers switched to his shop for their fruit and vegetable needs, given that prices were lower across the board but also that produce and prices were more differentiated. An interview conducted with customers on the spot confirmed that prices are perceived as lower and quality higher in comparison with the next-door supermarket, and also as being the result of shorter and more regional supply chains. It is noteworthy that this type of Chinese fruit and vegetable shop only sells Portuguese produce, in contrast to conventional supermarkets that source more internationally. Two factors were seen to determine the businessman's capacity to compete with the supermarket chain: on the one hand, wholesalers sell this kind of produce (mature produce) at a discount to retailers; on the other hand, the businessman had established business ties with local producers that supplied him without intermediaries, which opened up an opportunity for a mutually advantageous commercial relationship with higher producer prices and lower retail costs.

This above strategy is also noteworthy insofar as it constitutes a first move out of the ethnic economy.[23] Thus far, the businesses in which Chinese entrepreneurs have been generally active have been characterized by a strong Chinese presence all along the supply chain, with a high degree of dependency on *guanxi* networks. A Chinese shop or restaurant would typically source mainly from China or from other Chinese entrepreneurs and wholesalers in Portugal or in other EU countries. In the

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[21] According to interview evidence, these family sources were not restricted to Portugal but extended to China.

[22] Interview evidence (Lisbon, 5 August 2013).

[23] The concept of an "ethnic economy consists of co-ethnic self-employed, employers, and their co-ethnic employees" (Light and Gold 2000: 4). The authors distinguish this concept from an ethnic-controlled economy based on *de-facto* control, on the basis of clustering and organization and not on property rights and ownership. One of the key assumptions is that ethnicity is economically advantageous and not neutral. On ethnic entrepreneurship see Volery 2007.

case of the new fruits and vegetables business, however, there is a predominance of local Portuguese suppliers (wholesalers or producers), which has led to a greater degree of interaction with the Portuguese business community. Along the same lines, it is worth noting that the Chinese bazaar-type shops started to include Portuguese products and that changes in the restaurant sector – namely new 'Japanese' restaurants owned by Chinese entrepreneurs (which implies sourcing fresh fish locally) or the case of the businessman who shifted from Chinese food to doner kebab – all point to a diversification of sourcing that extends beyond the ethnic community. Hence, one of the interesting consequences of the crisis is that it has brought about a greater degree of integration of the Chinese small business community with the host economy, which to some extent runs counter to expectations, given the Portuguese economy's recession. At the same time, this finding is consistent with above-mentioned results which indicate that the ties that Chinese business persons in Portugal maintain with the Chinese economy have declined (when comparing 2006 and 2013 survey results). The effects of the economic crisis in Portugal are likely to be the main factor behind this change.

Another case is characterized not by the expansion of a well-functioning business but rather by an expansion aimed at diversification of the business into a more promising area once the initial business got into difficulties.[24] The businessman in question had a bazaar-type shop in Lisbon and decided to open a new fruit and vegetable shop in Algés in 2011 to diversify into a more promising sector, while maintaining the initial business. In other cases, "expansion with diversification" aimed at taking advantage of new business opportunities – such as the case of a travel agency in the centre of Lisbon, which expanded in 2011 by setting up a new branch in Porto, or the case of a businessman operating in the restaurant and bazaar-type shop sector, who expanded into a travel agency in 2012.[25] In both cases, the businessmen were responding to the increasing flows of Chinese tourists to Europe who were visiting Portugal for short spells (in general two days) within packages that included Spain and Italy.

Another facet of expansion regards the establishment's dimensions. Two cases are illustrative:[26] a Chinese bazaar-type shop in the centre of Cascais (a seaside town about 30 km from Lisbon), which expanded its shop area and increased its product range (notably by adding garments and shoes); and another one that augmented its shop area three-fold and became one of the largest shops in the city centre (selling garments of all kinds, from bathing suits to evening dresses).

A somewhat related phenomenon observed in downtown Lisbon (and possibly applicable to other main Portuguese cities) is that many traditional establishments, owned by Portuguese retailers and which closed down in the crisis, were taken over by Chinese businesspersons. According to interview evidence, this started in 2010, when many Chinese shops were opened, and has recently stabilized, with some of these new shops already closing down. Some of these were linked to an expansion of wholesale businesses (e.g., garments, suitcases, shoes), which entered the retail sector, thereby augmenting their channels of distribution and counteracting lower demand in the crisis by adding direct sales.

The strategy of changing the business's geographical area was adopted by 7.8% of respondents in the sample. In all cases, this implied moving the business from smaller towns (Torres Vedras, Portalegre, Almada, Leiria, Coimbra) to the capital, Lisbon, or to the second-largest Portuguese city, Porto. The authors' 2006 study revealed the opposite tendency, in the sense that Chinese business was moving out of the big centres. The crisis seems to have thereby triggered some reversal of this trend. Supplementary interview evidence suggests that the main explanation rests on the decline of business opportunities in smaller cities, with lower income levels and fewer consumers, giving rise to a move to larger centres with a higher *per capita* income and larger numbers of consumers in order to gain a sufficiently large market (niche). The decrease in the cost of rents in the big centres brought about by

[24] Interview evidence (Lisbon, 5 August 2013).

[25] Evidence from interviews (Lisbon, 31 July 2013).

[26] Evidence from interviews (Cascais, 2 August 2013).

the aggravation of the crisis might have facilitated this process. Chinese business people are thus prepared to take on some risk to meet the challenge of already established and rather concentrated competitors.

There was also a combination of the strategy of geographical change with downsizing of business / exploration of market niches in order to reduce costs and risks. In one case a businessman, operating in the restaurant sector in Torres Vedras, responded to the decline in demand by moving his business to one of the main avenues of Lisbon (characterised by high immigration and recently becoming fashionable with young people), where he set up a small snack bar to sell doner kebab.

In the change of location category, the study evidenced a predominance of business people with shorter stays (less than ten years) in Portugal. This may be explained by the fact that these entrepreneurs opened their establishments in smaller cities upon their arrival in Portugal, given already saturated markets in larger centres. When this proved no longer commercially viable due to changed market conditions, these business owners decided to move their businesses to larger centres.

The strategy of sector change implies abandoning one sector and entering another, as opposed to diversification, which implies that business owners remain in the same sector and expand into another one. In our sample, 6.3% of respondents adopted this strategy. There were changes out of the restaurant sector into bazaar-type retailing and switches from garments and bazaar-type shops into fruit and vegetable shops. The first group reflects a move out of restaurants already identified in the 2006 study, which is linked to saturation of the sector. The second group reflects an adaptation to changes in the pattern of demand in the context of crisis and declining income. As might be expected, sector changes are more closely associated with Chinese entrepreneurs who have had longer stays in Portugal (more than ten years). This finding stands in contrast with the information that emerged with regard to changes of geographical area. Interview evidence suggests that the concern with preserving the investment made into building up economic ties and a client network over time and the risk of losing this investment explains the preference for this strategy rather than the change of location option.

In the sample, change always occurred as a one-off change from one sector to another, with the exception of one case of a two-fold change. In that case, a businessman from Lisbon changed from a restaurant to a garment shop around 2008/09 and then to a fruit and vegetables shop in 2012. The last sector switch occurred on the same premises in order to maintain clients. For the same reasons, Chinese business owners were careful to remain in the same area of the city to preserve their client network, even in the event of a change of shop location (to lower rent).

The strategy of opening a new business for the first time was of marginal importance, accounting only for 3.1% in the sample. The two cases in point were Chinese businesspersons who were in Portugal for less than five years. One case regarded a small, more up-market garment shop – the owner had been an employee previously and set up her own business in 2012;[27] the other one involved the setting up of a larger-scale and also more up-market shop in Algés. Both adopted a different business model from the traditional Chinese bazaar-type shop, a fact that suggests some innovation potential on the part of the traditional business model and its ability to attract more and/or different clients.

Comparing the available data showed that the choice of strategy was related to an entrepreneur's length of stay in Portugal. It is the Chinese entrepreneur with very short stays who tends to start new businesses. Those with short stays (less than ten years) tend to prefer a strategy of change of geographical location, while those with longer periods of stay in Portugal (more than ten years) tend to prefer a strategy of sector change.

[27] Interview evidence (Cascais, 2 August 2013).

Economic ties with China

As far as economic ties with China are concerned, the fieldwork indicated that the economic crisis led to a significant decline in economic ties as compared to the pre-crisis period (from 50% in the authors' 2006 study to 16.4%). While this is true for both commercial and investment ties, it is more pronounced in the trade area. One can only hypothesize about the reasons. They may reflect, on the one hand, the impact of a decline in Portuguese domestic demand, reducing demand for imports from China. However, this phenomenon could also be due to increased sourcing from Chinese producers established within the European Union (such as *pronto moda* from Prato), or from Chinese large-scale traders / importers located in certain EU countries (where imports are accounted for), who import from China for Chinese entrepreneurs operating in various EU countries. Those traders can thereby explore economies of scale and obtain lower prices, rather than conducting separate small-scale import operations, a trend already noted in 2006.[28]

On the other hand, demand reduction during the crisis can be expected to have led to depressed profits and therefore diminished resources to be invested in China. Several of the interviews conducted with Chinese business owners confirmed the decline in profits and the entrepreneurs' chief concern: to get through the crisis covering their cost in order to ensure the survival of the family. In spite of the general decline in economic ties, however, evidence suggests that in cases where economic ties with China were sustained they became more relevant as a strategic variable, with a new role and working in an outward direction. Those business people who cultivated economic ties with China and used them strategically were involved in business expansion and were found to have coped better with the crisis in Portugal. The main explanation would be that profits generated by their successful operations in China were used to support operations in Portugal, in clear contrast to (and reversing the traditional trend of) profits obtained in Portugal being used to finance investment in China. For Chinese businesspersons their ties with China have thereby gained a new dimension related to the reinvestment of profits obtained through their business in China in the expansion of their business in Portugal.

Adaptation patterns to the crisis and impacts on the small-business community

In conclusion, the impact of the crisis on the Chinese small-business community can be analysed at two different levels: the more short-term strategic response to the crisis; and the longer-term positioning in the domestic and global economies along with the changing internal structure of the community. As for the former, the majority of Chinese business people in our sample were found to act pro-actively rather than passively in the face of the crises. They adopted a range of strategies to adapt their businesses, some of which were rather sophisticated. The choice of a specific strategy seems to have been influenced by two variables in particular: the entrepreneur's length of stay in Portugal and the existence of economic ties and business deals with China. As a consequence of their more pro-active stance, and of a more flexible structure of costs, these business owners seem to have coped relatively well with the crisis and to have resisted better than similar host-economy SMEs.

As far as the longer-term impact is concerned, two trends could be identified: on the one hand, a new emerging pattern of integration in the host economy, associated with some degree of exit from the ethnic economy; on the other hand, a pattern of internationalisation that is changing as a result of both qualitatively different (denser and bi-directional) ties with China and greater diversification of ties with other Portuguese-speaking countries that take advantage of Chinese business networks from the

[28] Based on an interview with the main Chinese travel agency in Lisbon, specialising in business travels for the Chinese community, it was possible to map the main business destinations, which included Paris (for food for supermarkets and restaurants), Madrid (also for food imports), Florence/Prato (for textiles and garments), and Bologna (for leather goods) (see Rocha-Trindade *et al.* 2006: 141-142).

same Zhejiang region.[29] The findings confirm the networks' role as a key factor of internationalisation[30] despite the fact that the part of the business community involved in internationalisation activities has been shrinking over time. For those who preserved international ties, these became a more strategic variable and a factor of differentiation from other entrepreneurs.

The majority of the community seems to have resisted the crisis relatively well. Still, the community already displayed some degree of heterogeneity before the crisis (three successive waves of immigration with different characteristics) and a number of factors have exacerbated its level of heterogeneity. On the one hand, the variety of coping strategies in the context of the crisis highlighted different capacities to take advantage of economic opportunities, which is likely to generate a divide in performance. The same applies to increasing asymmetries in internationalisation. On the other hand, the profile of the more recent flows of Chinese immigrants from the Mainland shows greater mobility, higher propensity for entrepreneurship, and higher qualifications than previous inflows. In fact, it is the recent immigrants that account for the cases of new business creation during the crisis in the sample.

The existing small business community became more heterogeneous and less cohesive due to differentiated coping strategies, different levels of integration with the host economy, and asymmetries in the degree of internationalisation and ties with China. During the crisis, the structure of the community changed as a result of the recent addition of a new large-scale segment and changes in Portuguese immigration policy, both of which will be analysed below.

4. The emergence of a Chinese large-scale business segment in the crisis

4.1 Overview of large-scale Chinese investment in Portugal

The crises in Portugal also saw, and partly facilitated, the emergence of a new kind of Chinese investment in the country, namely, large-scale investment by big Chinese firms in the Portuguese economy (see Table 3 below). This new phenomenon is in line with a similar development going on in the EU as a whole.

In the last few years, the EU has become the leading destination for China's direct investment abroad, which in 2012 reached a total of US$ 12.6 billion and accounted for 33% of all Chinese outbound investment (A Capital 2013b; The Economist 2013).[31] This seems to be the result of the interaction between different factors, in particular the opportunity for good deals in troubled European economies, strategic access to brands and technology, or China's new strategy to counteract protectionism and improve its image by changing perceptions in Europe. Since 2011, and to a large extent triggered by the privatization process in the context of the Portuguese adjustment programme, this investment has occurred in different sectors in Portugal, with a special emphasis on the energy and public utilities sectors.

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[29] For instance, in March 2014 the largest Chinese wholesale supermarket in Brazil was inaugurated in Rio de Janeiro (Chinatown Atacado), owned by immigrants from Zhejiang (a business family from Qingtian county) (see Conselho Empresarial Brasil-China and Xinhua (see http://cebc.org.br/pt-br/dados-e-estatisticas/clipping/chinese-wholesale-supermarket-debuts-rio-de-janeiro [Accessed 30 March 2014]).

[30] Various authors have underlined the key role, in which access to networks plays a factor in Chinese entrepreneurs' internationalisation. See Guercini *et al.* 2013 on the case of Italy, while a similar phenomenon has also been identified in France, namely a 'French connection' of Chinese migrants from Wenzhou who first lived in France and then re-emigrated to French-speaking African countries (Mung 2008: 99). On Chinese migration to Africa see Park 2009.

[31] See also Zhang *et al.* 2013.

Table 3. Large-scale Chinese investment in Portugal (per year and by sector)

Year	Investor	Target	Sector	Amount (in €)	Form of investment
2012	SINOPEC	PETROGAL Brasil	Oil	€ 3.9 billion	M&A; Minority share (30%)
2012	China Three Gorges	EDP	Electricity	€ 2.69 billion	M&A; Privatisation; Minority share (21.35%)
2012	China Three Gorges	EDP Renováveis	Renewables (wind)	€ 359 million	M&A; Minority share (40%)
2012	China State Grid	REN	Energy Grid	€ 287.15 million	M&A; Privatisation; Minority share (25%)
2013	Beijing Enterprises Water Group (BEWG)	VEOLIA Portugal Concession 4 municipalities	Water and sewage	€ 95 million	Takeover
2012	Huawei	Set-up of technical support centre	IT	€10 million	Wholly owned
2013	Bank of China	Set-up of office and one branch	Banking	N/A	Wholly owned
2012	Industrial and Commercial Bank of China (ICBC)	Office	Banking	N/A	Wholly owned
2014	China's Fosun International Ltd	Caixa Seguros Saúde (CSS), Insurance arm of Caixa Geral de Depósitos Group	Insurance	€ 1 billion	M&A; Privatisation; majority share (80%)

Source: newspaper clippings and company reports

In 2011 China Three Gorges initiated a new cycle when it successfully bid for a 21.35% stake in the Portuguese electricity company EDP (a former state-owned monopolist, electricity producer, and provider) for 2.69 billion euros – defeating EON (from Germany), Eletrobras (Brazil) and Cemig (Brazil) in the context of the Portuguese privatisation programme (Financial Times 2011). The investment in question corresponded to the Portuguese state's stake in EDP. According to information provided by the Portuguese government, under the EDP-CTG strategic partnership agreement Three Gorges is committed to providing EDP credit lines that amount to 4 billion euros and to invest up to 2 billion euros toward the acquisition of minority stakes in Portuguese wind farms until 2015 (ibid). EDP's considerable operations in the Brazilian energy sector were one of the critical motivations for this investment.

Under the general agreement with EDP, China Three Gorges also bought 49% of the capital of EDP Renováveis for 359 million euros in December 2012, thereby entering renewable energies in the wind energy sub-sector. Under the same agreement, the Development Bank of China provided a loan of 1 billion euros to EDP, which will be followed up by another loan of the same magnitude in 2014. EDP Renováveis owns Horizon Wind Energy, which builds and operates wind farms throughout the US, a market in which access limitations exist for large Chinese firms in strategic sectors. Besides the US market, the investment seems to be inserted into a more global strategy. According to the assessment of Global Finance, the key objective of China Three Gorges is to turn EDP into a leading firm in renewable energy markets in Europe, North America, and Brazil, while China Three Gorges would lead in the Asian market (Platt 2012).

In 2012 China State Grid Corporation acquired 25% of the Portuguese electricity grid company REN, in the context of a Portuguese privatisation programme, for 287.15 million euros. As a result of this acquisition, REN gained access to a credit line of 160 million euros from the Chinese bank ICBC, which allowed for a reduction of its debt service costs (Jornal Económico 2013). Also in the energy sector, Sinopec, the Chinese leading petrol company, acquired 30% of Petrogal Brasil for 3.9 billion euros in 2012. Formerly Petrogal Brasil was wholly owned by the Portuguese oil company GALP, which kept the remaining 70% share after privatisation. The deal was the largest one made in 2012 by any Chinese investor. At present there is an on-going debate among GALP shareholders about the possibility of Sinopec acquiring a stake in the capital of GALP.

In the information technology sector, Huawei of China opened its technical support centre in Portugal in 2012, which involved a 10 million euro investment. It has had a cooperation agreement with Portuguese Telecom (PT) on technology development since 2009.[32]

In the financial sector, Chinese banks started to operate in Portugal in 2012, albeit on a small scale. In February 2012, Industrial and Commercial Bank of China (ICBC) opened its first office. In February 2013 Bank of China opened its first office (in Lisbon) as well as a branch. The relevance of Chinese financial investors was strengthened thereafter as a result of the entry of the Chinese private conglomerate Fosun in the insurance sector, which also took place in the context of a privatisation process.

China's Fosun International Ltd was one of the two candidates (the other was Apollo Management International LLP from the US) bidding in the privatisation process of the insurance business of Caixa Seguros Saúde (CSS) of Caixa Geral de Depósitos (CGD), the largest Portuguese bank (state-owned). The announcement in early January 2014 that it won the bid implies a strong presence of the Chinese conglomerate in the Portuguese insurance sector; Fosun has a controlling stake in CSS (80% of the capital), which in turn accounts for 26% of the Portuguese insurance market, turning Fosun into the largest player in this market (Jornal de Negócios 2014a). It marks the biggest acquisition of European financial institutions by a Chinese firm since 2008.[33]

In March 2013, there was an investment in the water sector by Beijing Enterprises Water Group, the leading water company in China. It acquired French Veolia Portugal (Compagnie Générale des Eaux (Portugal) – Consultadoria e Engenharia S.A.) for 95 million euros. The acquisition included three different businesses: four concessions for operating water supply systems and treatment of waste water of four municipalities (Valongo, Paredes, Mafra, Ourém), which together account for more than 670.000 clients; services for waste water treatment plants in two areas in the Algarve region and maintenance of drinking water plants for the entire Algarve region; maintenance of sewage and

[32] Huawei reinforced its technical centre by 10 million euros in 2012, which thereby increased the total investment to 50 million euro (see http://www.portugalglobal.pt/PT/InvestirPortugal/CasosSucesso/Paginas/Huawei.aspx [Accessed 10 October 2014]). Huawei pursues a EU-wide R&D strategy, having established an increasing number of national research centres since 2000 (see Huawei 2013).

[33] Morgan Stanley, quoted in the Financial Times 2014b.

drainage networks and waste storage for several private enterprises.[34] This investment represents the first internationalisation of Beijing Water and the first investment in Europe by a Chinese firm in this sector.

Chinese companies have reportedly also shown interest in the Portuguese marble sector (namely in the Alentejo region), involving a possible acquisition of 35% of EDC Mármores. The same can be said about ports and logistics infrastructure, in particular the port of Sines, with its potential strategic importance for Chinese shipping and trade with Europe once the Panama canal opens to mega container ships in 2015. Sines is a landlord port, and therefore operations are carried out by licensed entities or by concessionaires. The two new container terminals will be built and operated under a public-private partnership, thus opening a range of interesting opportunities for Chinese investment (The Economist 2012). There are also rumours in regard to Beja regional airport. Other areas of interest mentioned in the press include waste treatment (within the privatisation of Empresa Geral de Fomento) and the food sector (for instance, dairy products, meat, and wine).

4.2. Patterns of large-scale Chinese investment in Portugal in the light of European trends

In 2012 Portugal was involved in the two largest investments (Petrogal Brasil and EDP) of the top 10 deals in the world concluded by big Chinese investors. Chinese companies have taken advantage of the particular Portuguese situation, i.e. privatisation and capital needs in the context of economic crisis, which enabled them to buy assets (at a discount). This allowed them to gain access to infrastructure in the country and to know-how in the service sectors. In addition, the targeted sectors are characterised by high rates of return.

Different aspects stand out as far as the investment pattern is concerned. To start with, most of the large investment deals that are referred to in Table 3 above were carried out by large state-owned enterprises (SOEs); the only large deal by a private Chinese conglomerate was the acquisition in 2014 by Fosun of an insurance business (the investment by the also private company Huawei was small). This finding is in line with the results of a study by A Capital (2013a), which shows that SOEs tend to account for a large share of investment in Europe, as opposed to in the US.[35] However, Hanemann and Rosen (2012: 45) pointed out that global Chinese investment between 2000-2011 has been dominated by SOEs but that this was not true for Europe. In that period, the majority of investment deals in Europe (63%) were carried out by privately owned companies. The apparent contradiction is explained by the fact that the new trend (investment flows into the EU since 2012) differs from the past (stocks). In 2012 and 2013 (first nine months of fiscal year), the share of SOEs (both in terms of value and number of deals) has increased and surpassed private investment, accounting for the large majority of investments (A Capital 2013a e 2013b, The Economist 2013).

The investment pattern of Chinese large firms in Portugal shows a large focus on energy – oil and electricity production and distribution, renewable energy (wind) – complemented by (comparatively smaller) investments in telecommunications, water and sewage, and the financial sector (banking and insurance). Studies on Chinese investment in Europe have identified four top industries (Hanemann and Rosen 2012): utilities, chemicals, automotive and coal, and oil and gas. In Portugal, investment by large Chinese firms is concentrated in the utilities (electricity, telecommunications, and water and sewage) and oil sectors; there is no incidence of industrial investment. Although the Portuguese market is of small size in many of these sectors, they are often associated with market power-positions that generate monopoly rents and hence make them attractive for investment. This is for instance the

[34] BEWG press release, 25 March 2013 (available on: http://www.bewg.com.hk/eng/news/press/p130325.pdf [accessed 10 October 2014]).

[35] SOE investment in Europe accounted for 87.4% of total Chinese merger and acquisition (M&A) investment in industry and services in the first 9 months of 2012, compared with 95.6% of private investment in North America in the same period.

case of China Three Gorges / EDP. In addition, its participation in EDP Renováveis allows the Chinese firm to enter the US market in an indirect way – direct access being restricted – and provides access to technology. Huawei's experience in Portugal follows the approach that Chinese firms have been taking in other European countries, by operating several research and development (R&D) centres across Europe. This fact suggests that tapping human talent and research infrastructure in Europe is an important motive for investment.

As for the form that Chinese investment takes in Portugal, the pattern shows a preference for mergers and acquisitions (M&A), with no incidence of greenfield investments. This finding is in line with Zhang *et al.*'s observation (2013) that M&As are the preferred form of entry in the EU. It is noteworthy that while Chinese investors are increasingly entering the European market through greenfield investments (Hanemann and Rosen 2012), this has not happened in Portugal to date.

Chinese large-scale direct investment in Portugal seems to be motivated by three different factors, in different combinations: (i) rent-seeking; (ii) the aim to become a global player; (iii) and to desire to move upmarket. The first case, rent seeking, refers to investors taking advantage of market power positions in order to reap and ensure a high rate of return, for instance through firms with monopoly rents. The second case means that Chinese investors take advantage of acquired firms' links and presence in different regional markets in order to consolidate their global standing (for instance, a Chinese conglomerate position in Brazil and Angola). The cases of EDP and Petrogal Brasil would fit these two first categories. In the third case, a Chinese firm seeks access to technology, brands, skilled labour, distribution channels, etc. in order to move into higher value-added activities. This move is driven by a desire to compete with foreign conglomerates for the Chinese market in order to meet (rising) middle-class demand as well as to learn from more sophisticated markets and firms and thereby improve competitiveness in the international arena. Fosun would fit this latter category, having invested in insurance not only to enter the European financial market but also to sell more sophisticated products back in the Chinese home market (healthcare insurance, pension funds). Similarly, Beijing Water's takeover of Veolia Portugal also allows it to gain experience in the sector (constituting the first Chinese investment in the water sector in Europe) and to acquire technology and management know-how with regard to water and sewage systems. Huawei's investment targets R&D skills and market entry.

The Chinese large scale investments in Portugal (with the exception of the case of China's Fosun) also confirm another feature identified in the studies on Chinese investment in Europe, namely, the option to take minority stakes in large emblematic companies as a strategy to prevent local hostility to outright takeovers and thereby avoid tensions (The Economist 2013).[36] By the same token, the rising importance of Chinese private investment – motivated by increasing competition in China and promoted by Chinese authorities – can be perceived as a strategy aimed at attenuating concerns about excessive Chinese State influence in host economies.

While the observed motivations for Chinese large-scale investment in Portugal confirm the general pattern observed in Europe, the Portuguese experience is restricted to services investment and hence, does not capture other possible motivations that are important for industrial investment (such as countering trade barriers or protectionism). In addition, the adjustment-programme context strongly conditioned investment opportunities in Portugal through the privatisation programme. Significant investment opportunities arose in those sectors where the state had been an important player (infrastructures, utilities) and where revenue maximisation was an important factor. Controlling shares, combined with financing packages and reinforced by multiple investments in the same sectors may lead to increased market concentration or dominant positions, which highlights the need for effective competition policy and regulation at the national and European level.

[36] *The Economist* (2013) reports that A Capital estimates that 58% of Chinese deals in the EU now involve minority stakes.

Finally, the new inflows of Chinese large-scale investment had another important impact, not yet analysed in the studies on Chinese investment in Europe, which are related to the pattern of immigration flows, insofar as they have generated a new kind of temporary immigration flow of highly-skilled immigrants into Portugal. They include Chinese managers who became members of boards of directors, intermediate staff, and trainees (technical staff) of some of the firms that were acquired by large Chinese firms. Although there is no official data on that very recent phenomenon, based on publicly available information on firm sites it is possible to estimate that since 2012 inflows have involved a minimum of fifteen high-level management staff.[37] In addition, there is another more informal inflow of qualified operational staff who have been coming in for more short-term training – which for instance in the case of EDP involved an estimated 50-70 trainees. Considering the various recent large-scale Chinese investments, an estimate of a total of at least 100 Chinese qualified immigrants, who arrived in the wake of the large-scale Chinese investments in the course of last year, seems reasonable.[38] This trend in immigration inflows is likely to intensify in the future as a result of the large Chinese firms' twin objectives of actively participating in the management of firms in which they took a share and taking advantage of this opportunity to train Chinese human resources for their global operations. These facts add to the already increasing diversification of Chinese migration inflows.

4.3 Dualism and (potential) inter-linkages

Chinese large-scale investment in Portugal, concentrated in high-technology sectors and in knowledge-intensive services (energy, information technology, and financial sectors), stands in stark contrast with the hitherto typical small, family-run Chinese firms that focus on low-technology and non-knowledge-intensive sectors (retail and wholesale trade, restaurants). The pattern is in line with the one observed in Europe (Zhang *et al.* 2013: vi). This study revealed a dualistic structure of Chinese businesses in Portugal, characterised by a strong correlation between the size of the firm and the nature and sector of its activities. This dualism raises the question about whether and to what extent these two segments may (come to) interact and develop synergies or complementarities.

The survey addressed the question about whether any linkages exist between the large Chinese firms and the Chinese business fabric in Portugal, as well as the potential impact of those large investments on the businesses of the existing Chinese small business community in Portugal, namely in terms of supply chain relations or the attraction of other, complementary smaller Chinese investments. An analysis of sample data demonstrated that the typical Chinese businessperson in Portugal, who possesses a small and retail-type establishment, has no links with large Chinese firms investing in Portugal.

Still, there was one exception: a travel agency, which has been working as a service supplier for three large Chinese enterprises (China Three Gorges in the context of EDP, China State Grid in the context of REN, and Sinopec in the context of GALP). The travel agency was chosen on the basis of its specialisation and experience in organising travel to various parts of China for Chinese business people in Portugal. Chinese ethnicity also played a role. The interesting feature is that the travel agency, which expanded in 2013, was asked to step up the scale of its operations, handling all travel of the staff of those large Chinese firms in Portugal. However, the business owner was reluctant to accept due to the risk and costs involved (such as having to pay up-front for a large number of tickets while waiting for reimbursement). The case of the travel agency is also relevant as it provides evidence of

[37] For instance four Chinese administrators who sit on the *Conselho Geral e de Supervisão* (Supervisory Board) of EDP, two managers who sit on the board of directors of Be Water, and three managers who sit on the Board of Directors of REN. (See: www.edp.pt/pt/aedp/governosocietario/orgaosgovernosocietario/Pages/default_new.aspx; www.bewater.com.pt/pt/gestao; www.ren.pt/investidores/estrutura_societaria [Accessed 18 May 2014]).

[38] In relative terms the inflows of one hundred or more highly-skilled immigrants are significant within the context of total inflows of 1,362 Chinese immigrants in 2012 (according to official statistics).

the fact that large-scale investments are inducing some new inflows of highly-skilled Chinese human resources staff (namely managers), either on a temporary or on a more permanent basis, as mentioned above.

Whereas the case of the travel agency indicates Chinese investors' willingness to source locally to Chinese businesses it also shows the kinds of practical difficulties which still have to be overcome (dimension, type of business etc.). Although it is but one single case, it is nevertheless meaningful with regards to the potential for cooperation that might emerge over time, for two main reasons. On the one hand, the absence of links in the other cases reflects, above all, an objective mismatch between the types of business and sectors rather than a lack of interest in establishing links; as it stands, the nature of the typical Chinese business – retail of food and garments – renders links very unlikely for the time being because they do not fit in with the type of activity that large Chinese firms are involved in. On the other hand, the investments of large-scale Chinese firms are very recent, in some cases dating back less than one year, but nevertheless ties developed very rapidly when the opportunity arose.

There also seems to be some untapped potential that might be developed in the future to the extent that Chinese business owners manage to exploit complementarities with Chinese SMEs from China. The evolution of China's growth model and the tensions that developed, leading to rising labour costs, over-capacities in production, and declining profits, have built up pressure on Chinese SMEs to invest abroad. It gave rise to a two-fold strategy: lowering costs while countering trade protectionism through direct investment (see China Daily 2013). Another hypothesis is that Chinese large firms will bring along their suppliers back in China (i.e. SMEs) at a later stage when they take over the firms in the host economy, in which they presently have minority stakes. They did so in the context of investments in Africa, namely in Angola. Operating with their suppliers in Portugal would help them overcome some of the cultural distance problems.

Besides firm-to-firm ties, Chinese business associations in Portugal are the other potential catalyst of linkages between the small and large segments in the Chinese business community. They have proliferated in the last decade to more than fifteen associations at present. The three main influential associations, each with a different geographical focus, are *Associação Luso-Chinesa em Portugal* (Southern Portugal); *Associação dos Comerciantes e Industriais Luso-Chinesa* (Greater Lisbon); and *Liga dos Chineses em Portugal* (Northern Portugal) (see Bongardt and Neves 2006: 41-46).

Most strikingly, the associations' main objectives are external rather than domestic, and are geared to the facilitation of relations with China, in particular with provinces and cities (Bongardt and Neves 2006). The presidents and vice-presidents of those associations enjoy a special status in China with access to political circles and preferential treatment in business matters in terms of investment in the PRC, which includes better access conditions to credit and land. In several cases they have been players in the paradiplomatic process of Chinese provinces and cities; they have institutional ties with provincial and county governments and assume the role of 'informal economic ambassadors' promoting exports of Chinese regions, attracting direct investment to China, and more recently, facilitating Chinese direct investments in Portugal.[39] In this light, and although the associations provide economic intelligence and information about the local business culture to all large-scale Chinese investors, they are likely to be more active in linking with large provincial firms rather than with the global SOEs conglomerates controlled by the central government.

In the past, Chinese business associations have played an active role as facilitators of small and medium-scale Chinese investments in Portugal, identifying opportunities for Chinese investors and providing economic intelligence on market conditions and the business culture. Even before the outbreak of the crisis, members of the *Liga dos Chineses em Portugal* and of the *Associação de*

[39] For instance, Mr. Y Ping Chow, president of *Liga dos Chineses em Portugal*, is an 'ambassador' of the city of Qingdao from Zhejiang province.

Comerciantes e Industriais luso-chinesa were actively trying to attract Chinese investments.[40] This role has grown in the crisis context, associated with the 'golden visa' process, to the extent that the associations' leaders are perceived by potential Chinese applicants/investors as middlemen who may provide information and help in negotiations (thus contributing to the reduction of risks and transactions costs).

So far, the Chinese business associations and their leaders have not played any similar role in relation to recent large-scale Chinese investments. By and large, Chinese SOEs have used direct channels. However, the associations constitute a potential platform for interaction and articulation between big firms and small-scale businesses provided the new Chinese large firms are interested in joining in. Past experience shows that associations have played such a role: the largest Chinese group in Portugal before the crisis, the Estoril-Sol group owned by Hong-Kong based tycoon Stanley Ho, which operates in the tourism and gambling sectors, has been an active member of *Associação de Comerciantes e Industriais Luso-Chinesa* for a long time, interacting closely with medium and small-scale entrepreneurs.

5. The golden visa regime and the possible emergence of a new segment of the Chinese community

As far as economic factors are concerned – that is, taking into account the effects of the economic and financial *cum* sovereign debt crisis in Portugal from 2008/09 onwards (preceded by scant growth over the first decade of 2000), which triggered a decline in demand and squeezed profits – the above-mentioned arrival of new Chinese immigrants / entrepreneurs in recent years looks like a paradox. It raises the question as to why Portugal still attracts Chinese businesspersons, despite appearing less attractive for investment than other (notably EU) countries, in particular for small investments.

One hypothesis is that Chinese entrepreneurs regard the crisis as an opportunity for starting a business and gaining a foothold in the market, in the hope that recovery will bring about better opportunities. In this light, family ties in Portugal would serve as a stepping-stone. Such a strategy implies a long-term view, which downplays shorter-term difficulties. Another hypothesis considers the relevance of non-economic reasons for choosing Portugal. One of those possible factors is the relative ease of obtaining a residency permit in Portugal, which in turn grants access to the European Union and a range of associated market and non-market benefits.

In Portugal there seems to be a discrepancy between the law and administrative practice as far as the granting of permits is concerned. The law states that, exceptionally, a residence permit can be granted to someone who has entered the country legally, is integrated in the labour market, and has no debt to the tax and social security systems. However, in practice this seems to have become the rule rather than the exception, making entry and residence easier to obtain in Portugal than in other countries.[41] In 2013 this factor became even more relevant and explicit.

Interestingly, in one of the interviews conducted as part of this research project, a Chinese businesswoman referred to another kind of non-economic factor which had not been mentioned before: educational factors. This was presented as being important to explain her decision to remain in Portugal in spite of adverse economic conditions and a decline in business. In her view, she would have better economic prospects returning to China. However, she felt that for her children, the quality

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[40] This was the case of Mr. Y Ping Chow, president of *Liga dos Chineses em Portugal*, who visits China three to four times per year, and Mr. Zhou Long, Director of *Associação dos Comerciantes e Industriais Luso-Chinesa*, who since 2005 has promoted a project to create a special industrial zone where Chinese industrial SMEs could invest and operate alongside Portuguese firms.

[41] Jornal de Leiria (2013), quoting an anonymous source from SEF (Serviço de Estrangeiros e Fronteiras – Portuguese Borders Police).

of education and educational opportunities were higher in Portugal, so the family decided to stay in Portugal and make use of savings.[42]

A new Portuguese government policy openly targets medium-sized foreign investors through the creation of the golden residence permit for investment activity ('golden visa' regime) of August 2012. It constitutes a new mechanism under the "authorisation of residence for investment activities" system, aimed at attracting foreign investors from outside the EU. According to this regime,[43] a foreign investor can obtain a two-year visa that can be transformed into a permanent residence permit if he/she keeps capital in the country for a minimum period of five years. There are three alternative pre-requisites: (i) invest a minimum amount of one million euros; or (ii) create at least ten new jobs; or (iii) buy an asset, such as a house, with a minimum amount of five hundred thousand euros.

The most important group of beneficiaries of the golden visa regime were Chinese individuals. The number of granted golden visas increased from 250 in September 2013 to 535 by 23 January 2014, 80% of which (416 visas) were for Chinese (see Jornal de Negócios 2014).[44] The rise in the number of visas to Chinese in January 2013 demonstrates increasing interest in the regime. The visas in question allow for free movement in the Schengen space. It stands out that most Chinese investment under the golden visa regime falls into the third category above, that is, the purchase of real estate rather than productive investment or job creation. Chinese investors have therefore seized opportunities in the housing market where prices in Portugal were depressed in the crisis years. Therefore one can hardly refer so far to the emergence of a new segment of the Chinese business community in Portugal; although of course, this could potentially still be an effect of the visa regime should the number of visas associated with productive investment increase in the future. However, there has arguably been an impact on the existing business community, some of whose members have seized opportunities to be facilitators for investment, organizing visits and meetings for potential Mainland Chinese investors.[45]

The conspicuous absence so far of productive investment under the golden visa regime so far might be explained either by the crisis impact, with productive investments in Portugal not being perceived as attractive as a business opportunity, or by the delay due to the longer time frame involved in reaching a decision on investment (need for information, business plan, financing, locational issues, etc.) and in setting up operations. The Chinese economy is facing up to increased pressures (economic slow-down and poor quality of growth, a decline in exports, rising distribution costs, uneven access to credit) (see Financial Times 2014a) and needs to promote the internationalisation of Chinese SMEs. The Portuguese golden visa regime, together with the Portuguese authorities' positive attitude towards Chinese investments, provides conditions that would facilitate this process of internationalisation,

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[42] Interview evidence (Lisbon, 26 July 2013). Interestingly, there seems to be an opposite trend in Prato, Italy, where parents send their children back to China to be educated in Chinese culture and maintain ties with their economically growing homeland (Krause *et al.* 2013); see also the documentary *L'Occupazione Cinese: Made in Prato* by Massimo Luconi, D4 with RAI Cinema.

[43] Portuguese law (Law 27/2007, of 4 July) already foresaw a system of authorisation of residence for activities of investment but it was recently modified and simplified (Law 29/2012, of 9 August). The pre-requisites and procedures of the "regime de autorização de residência para investimento (ARI)" were spelled out in despacho nº 11820-A/2012 of 4 September, recently modified by despacho 1661-A/2013, which simplified conditions and procedures. An English version of the most recent legal requirements is available at http://www.sef.pt/documentos/35/11820-A-2012.pdf [Accessed 10 October 2014].

[44] Until January 2014, these visas led to total capital inflows of 334.26 million euros. Most of these (90%) correspond to the purchase of real estate (Agência Lusa, cited in *Sol*, available on: http://sol.sapo.pt/inicio/Economia/Interior.aspx?content_id=95745 [Accessed 4 February 2014]).

[45] To give but two examples, the leader of the Chinese business association in Northern Portugal, Y Ping Chow, has been active in matching potential Chinese investors with investment opportunities in Portugal, putting its *guanxi* at their service. Another case in point is the director of the Chinese-language newspaper *Sino*, who has developed the same kind of activities in the region of Lisbon.

potentially leading to an increase of productive investment inflows, which could in turn trigger the emergence of a new middle segment in the Chinese business community.

One may argue that two factors motivate Chinese golden-visa related investment in Portugal. One is the opportunity to gain access to the single market and the advantages enjoyed by insiders (such as freedom of movement, non-discrimination, as well as the right to family re-grouping and a possible avenue to Portuguese citizenship). The second aspect, possibly as or even more important, is the legal security issue. The members of the rising Chinese middle class wish to secure their assets abroad given high political risks and a weak legal system in China, which does not guarantee the legal enforcement of their rights and the protection of their newly acquired wealth.[46] The latter political factor would appear to remain relevant in the foreseeable future, thereby reinforcing the above-mentioned more economic factors that may account for increasing inflows of Chinese direct investment. Of course, investment in real estate property in Europe is also seen as a status symbol that contributes to prestige back in China. Investment in luxury real estate (such as investing in the wine industry) is also a symbol of prestige.[47]

Small-scale entrepreneurs from the existing Chinese business community have been acting as catalysts, performing a relevant role in facilitating the attraction of Chinese investment related to the golden visa system. The interviews conducted with leaders of the Chinese community revealed that at least 40-50 entrepreneurs in Portugal are acting as consultants to potential visa applicants, that is, to middle class investors seeking to acquire real estate in Portugal.[48] These Chinese entrepreneurs in Portugal, who possess market know-how, Portuguese language skills, and the knowledge of the local culture that applicants require, perform a number of different roles: (i) organising trips for potential investors using their networks in China; (ii) helping in negotiations, thereby keeping in check the risk of speculative prices; (iii) monitoring legal aspects by hiring a Portuguese lawyer to advise the client; (iv) monitoring the administrative process to obtain a visa to overcome bureaucratic hurdles. They are naturally perceived as trustworthy interlocutors by other Chinese investors and have therefore developed a new business which takes advantage of crisis-induced opportunities.

One may expect more medium-sized investments from China to take place in the future by means of two different processes, driven by different rationales. Firstly, Chinese SOEs and large firms might bring along their SME suppliers. Given the recent nature of those large-scale investments, it is still uncertain whether and when this might happen. In any case, it is not likely to happen before a consolidation of the firms' market positions. However, one may argue that the recent inflow of investments by Chinese large firms produced a 'demonstration effect' and might thereby have already played a role in inducing golden-visa related investments in Portugal. Those investments have contributed not only to enhancing Portugal's visibility in China but also to sending the message that the country is a good and safe investment destination.

Secondly, the rising Chinese middle class is starting to invest abroad for the reasons outlined above. The choice of location (country and region) seems to be influenced by the existence of institutional links between European local governments and Chinese cities and local governments. The recent report by Zhang *et al.* (2013: ix) found a strong correlation between the Sino-European sister-city agreements and China's foreign direct investment stock in Europe. Bongardt and Neves (2006) concluded that the paradiplomacy of Chinese provinces and cities was crucial for the expansion of

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[46] There has been reference to other factors, namely the desire of wealthy Chinese to escape environmental degradation (air and water pollution) and food safety problems in China, as well as concerns over the impact of anti-corruption policies. The moving-out process is said to be accelerating and is increasingly organized by specialised agencies such as the Shenzhen-based China Business Immigration (CBIEC), which is operating in Portugal (The Straits Times 2014).

[47] Zhang *et al.* (2013: iv-v).

[48] Interview with the Director of the Sino newspaper, Mr. Liang Zhan, on 20 April 2014. He has specific knowledge on this segment as he has set up his own firm to organize visits for potential Chinese investors.

exports and the attraction of foreign direct investment to China. The study by Zhang *et al.* (2013) confirms that the same factors also play an important role in the locational choice of Chinese outward investment. The paradiplomacy ties contribute to lowering transaction costs as well as investment risks and to bridging the cultural gap. At the same time, they provide a more reassuring environment for firms that start to operate in an unfamiliar market.

In the case of Portugal, paradiplomacy ties with Chinese provincial and local governments are little developed, as efforts have been chiefly directed at building ties with the central government in Beijing. As a result, while the golden visa regime intends to attract productive investment, the low density of institutional ties might constitute an impediment, particularly in a context in which the perceived risk of investment is high. In this context, the development by Portuguese cities of 'sister-city' relations with Chinese regions/cities emerges as a key instrument for attracting new Chinese investment flows on a sustainable basis.

6. Main findings and conclusions

This paper sets out to analyse the joint impact of the (global economic and financial *cum* sovereign debt) crises and of China's intensification of its 'Go Global' strategy on the dynamics and structure of the Chinese business community in Portugal, looking both at economic and non-economic factors and at short and long-term processes. The crisis had a complex impact on the Chinese business community through a variety of channels. Declining consumption and market conditions created constraints and risks that the existing business community had to cope with – a dimension that the survey tries to capture by looking at the different kinds of coping strategies.

Moreover, the crisis facilitated the intensification of China's globalisation through the Portuguese privatisation programme, which opened the door to a novel inflow of large-scale Chinese investments, but also through changes in Portuguese immigration policy aimed at attracting foreign investment and generating inflows of medium-scale Chinese investment. These processes have jointly contributed to changing the structure and the options of the Chinese business community in Portugal, leading to a more heterogeneous and complex community – both within the traditional small-scale segment and by adding a new segment of large-scale firms – and to new types of Chinese immigration flows.

The above analysis points to five main conclusions.

Firstly, the crises had a significant impact on the existing Chinese small business community, not only by stimulating the adoption of a variety of coping strategies, which generated disparities in performance, but also by triggering some changes and new trends that touch on the very insertion of the community in the domestic and global economy. The latter are related to increasing signs of exit from the ethnic economy and to a more diversified pattern of internationalisation to countries other than China. In function of the crisis impact, the small business community became more heterogeneous and less cohesive.

The fieldwork showed a diversity of coping strategies in response to the negative impact of the crises. It stood out that the majority of business owners in the sample reacted by adopting what can be qualified as a pro-active rather than passive stance, implementing a strategy to restructure their business in Portugal (through change of location, change of sector, expansion of the business, or opening a new business) or to restructure their business abroad, either by returning to China or re-emigrating to another country. As a result, the majority of business owners seem to have coped relatively well with the crisis. Among the variables that influenced the choice of a specific strategy, two stand out as possibly having a greater influence on the type of strategy adopted. One is the entrepreneur's length of stay in Portugal. Here a strong correlation emerged between the strategy of change of sector and longer stays (more than ten years), between the strategy of change of geographical location and shorter stays (less than ten years), and between starting a new business and very short stays. The other variable is the existence of economic links and business deals with China or in China. This was more associated with the strategy of expansion of the business, most likely financed by profits from operations in China.

At first glance, the crisis appears to have had a somewhat contradictory impact, with economic ties with China shrinking in quantity but being qualitatively transformed in terms of their functions. On the one hand, the crisis is found to have triggered a reduction of economic ties between the Chinese business community in Portugal and the country of origin. On the other hand, for those entrepreneurs who did maintain ties with China, those became more important insofar as profits obtained in China are used as a source of finance for business expansion in Portugal and some business owners use the knowledge they have acquired in their host economy for internationalisation beyond the internal market.

The fieldwork also showed that while Chinese business persons maintained their business model, focusing on market needs and countercyclical products (already identified in Bongardt and Neves 2006), the crises triggered new trends regarding the insertion of the community into the domestic and the global economy. In the domestic context, there is a re-location trend to larger cities to search for viable market niches and an (albeit still timid) exit from the ethnic economy, which results from a re-direction of market segments to new products (the primary sector), and implies a greater integration in the Portuguese economy. With regards to the global economy, the most pro-active business persons enhanced the internationalisation of their business, not limited to China as in the past but expanding more widely to Portuguese-speaking countries such as Brazil and Angola, and thereby making use of products and knowledge from the host economy. With respect to Chinese investment under the Portuguese golden visa regime, some members have seized new business opportunities by assuming the role of facilitators, bridging the cultural gap and employing their *guanxi* and knowledge of the host economy (real estate, tourism).

Secondly, the new wave of large-scale Chinese investments has brought about greater complexity. This applies to the Chinese business community in Portugal due to the addition of a new layer, i.e., large-scale global businesses. It also holds true for Chinese immigration flows, where a new type of temporary inflow of highly-skilled immigrants has been observed.

This new inward investment has been dominated by large Chinese SOEs that have entered the Portuguese market through mergers and acquisitions, mostly concentrated in the energy sector and in other utilities, and taking minority stakes. The investments have been driven by three main motivations: rent seeking; to enhance the global profile of Chinese multinationals; and to move up-market by acceding to technology, brands and human talent. The concern was to learn from more sophisticated markets and firms and thereby improve competitiveness in the international arena but furthermore to thereby be able to compete with foreign conglomerates for the Chinese market by satisfying (rising) middle class demand. Generally speaking, the observed patterns are in line with the trends identified by recent studies on Chinese investment in Europe. However, the Portuguese case also presents specific aspects, namely the strong association with the privatisation programme, the strong concentration in knowledge-intensive services, and the building up of strong market positions in what are often considered strategic sectors (i.e., electricity grids and electricity production and distribution).

As for links between the large Chinese private firms and SOEs on the one hand and the local Chinese business fabric on the other, they are not (yet) visible, mainly due to a mismatch of activities and lack of complementarity. Judging from a single but paradigmatic case there is some potential for links to be developed in the future due to a clear willingness of large Chinese firms to cultivate such ties. Therefore the development of these links would mean that the decline of economic ties with China on the part of the small-business community, as noted above, could be reversed or rather revitalised through new types of ties – namely with global Chinese players from the large-scale segment. In addition, the Chinese business associations can play a potentially positive role in functioning as a linking platform between the two segments, not only to explore business opportunities but also to pursue common institutional interests.

These large-scale investments have also led to a new pattern of Chinese immigration, which is associated with a new kind of temporary immigration flow into Portugal of highly-skilled Chinese immigrants, i.e. Chinese managers who became members of boards of directors; intermediate staff; and trainees (technical staff). The most striking aspect is the use of the structures, staff, and know-how of the large firms where the investments were made to train young Chinese skilled-workers on the job. Since 2012 these inflows, which are directly associated with large-scale investments, can be estimated to involve at least one hundred qualified Chinese immigrants. Of course the phenomenon is recent and further research will be needed. However, these inflows are likely to intensify in the future as a result of the large Chinese firms' twin objectives of actively participating in the management of firms in which they took shares and of taking advantage of this opportunity to train Chinese human resources for their global operations.

Thirdly, the existing small business community has played a significant role with regards to attracting new small to medium-sized Chinese investment flows, working as facilitators and middlemen, and bringing together their *guanxi* networks in China and in Portugal. This has not been the case for large-scale investments so far.

The community's role has been visible in the context of the recent 'golden visa' process – that is, changes in Portuguese immigration policy aimed at attracting immigrants with a capacity to invest or create employment. The golden visa process has thus far benefitted Chinese nationals above all. The operations have been dominated by real estate operations, with marginal incidence of the productive investment clause and no use of the employment creation clause. The regime has come to provide business opportunities for established Chinese business people in the real estate sector (for instance as facilitators), but so far has had no impact on the business community's structure. Should this category of productive investment increase, this could lead to the emergence of a third, intermediate segment in the Chinese business community, comprising middle class entrepreneurs and Chinese SME suppliers of Chinese big conglomerates. These business people tend to be motivated by economic factors but also by political factors, such as the concern to secure abroad their recently acquired wealth to reduce the risk associated with China's limited legal security. The reality of the golden visa process confirms the relevance of non-economic factors and long-term perspectives related to access to residence status and free movement inside the EU, thus explaining the apparent paradox of continued inflows of Chinese immigrants / entrepreneurs in an *a priori* economically-adverse context.

A significant number of entrepreneurs from the existing Chinese small-business community have been acting as catalysts of Chinese investment inflows over the last two years, attracting Chinese investment related to the golden visa system. They act as consultants to potential visa applicants insofar as they possess market know-how, Portuguese language skills, and the knowledge of the local culture that applicants require, thereby filling the business culture gap. To that end, they organise trips for potential investors, help with negotiations, and monitor both the legal process of acquisition (in coordination with a Portuguese lawyer) and the administrative process to obtain a visa. In that way, being perceived as trustworthy interlocutors by other Chinese investors, they have created a new business opportunities, diversifying their activity and attempting to respond to crisis-induced difficulties.

Fourthly, the Chinese business community in Portugal has undergone change as a result of the interaction between China's global policy, the impact of the crisis, and Portuguese policy (adjustment programme, immigration laws). First of all, the existing small business community has not only often adopted more sophisticated coping strategies, but also reassessed its patterns of insertion into the local and global economy. In addition, the business community's structure has already changed with the addition of a new large-scale segment, although linkages between these two segments are as yet uncertain. Thus far, it has given rise to a dualistic structure of the business community with stark contrasts between the two segments in terms of sheer size and fields of activities. Furthermore, with Portuguese immigration policy encouraging economic immigration, a third intermediate segment might emerge in the future. As a result of these developments, the business community has already become more heterogeneous and complex, less cohesive, and eventually more internationalised beyond the single market.

Last but not least, the Chinese business community in Portugal is at a crossroads between crisis response and China's assertive global strategy, which is now having a visible impact in the country. The resulting dilemmas for the community include: (i) staying on in Portugal versus returning to China (or re-emigrating) in order to benefit from China's economic growth; and (ii) engaging in China's Go Global initiatives versus preserving autonomy.

On the one hand, observed crisis responses in some cases have already incorporated new opportunities associated with China's globalisation strategy, as in the case of re-emigration to Portuguese-speaking countries where China's influence is growing. Thus far, the crises have induced mainly pro-active coping strategies with no sign to date of an exodus of the community aimed at sharing in the Chinese economic boom. This might be explicable not only by a concern to avoid loss of face associated with 'failed emigration' but also by the increasing perception that China's economic success is fraught with vulnerabilities (given signs of economic slow-down and structural weaknesses, environmental degradation, problems of declining quality of life, or legal insecurity). Interestingly, these perceptions tend to be reinforced by the recent inflows of Chinese investors under the golden visa process who arrive in search of legal security for their wealth, but also a better and safer environment and higher food standards.

On the other hand, China's Go Global strategy has a dual and contradictory impact on the Chinese business community. The strengthening of China's economic and political influence is perceived as having a positive systemic effect by enhancing the community's overall standing and position in Portugal and by providing solutions and a way out of present crisis-induced difficulties which some sectors of the community are facing. By and large, both the existing Chinese business community and China have envisaged the crisis in Portugal as an opportunity. On the downside, China's globalisation strategy also poses potential problems for the existing small business community on two levels. First because China's global strategy also involves increasing Chinese migration inflows, which implies greater competition in the future in an already saturated ethnic economy. Second, as a mainly state-led process that involves strong political control, business people getting involved face the risk that the autonomy and rights that are formally guaranteed in a democratic rule-of-law system might be informally constrained. Considering that different members of the business community may respond differently to these dilemmas, China's global strategy and growing economic power and influence might paradoxically not make the Chinese business community stronger but rather less robust, more heterogeneous, and divided over (conflicting) interests. In addition, the Chinese business community might be negatively affected to the extent that China's global influence intensifies, raising concerns over any excessive influence in Portugal and other EU countries.

The new reality also poses challenges for the EU in various domains, notably in terms of competition policy and sectoral regulation, immigration policy, and the coherence of a common policy approach towards China. Chinese investment in Europe has increased in the crisis context, taking advantage of a diversity of bargains and opportunities in the absence of an EU-level common approach. For instance, the joint impact in Portugal of Chinese SOE investment in the energy sector at various levels in the supply chain might have an adverse impact on competition (subject to member-state level competition policy and regulation). Beyond that, it could also raise issues about the functioning of the single market of the European Union and condition the EU's capacity to create an EU energy policy in the future. Another case in point, not dealt with here, is increasing Chinese investment in the EU agricultural sector, particularly in some of the Eastern European member states such as Bulgaria, Poland, and Romania (with China exploring opportunities presented by low land prices and Common Agricultural Policy benefit mechanisms).[49] As far as immigration policy is concerned, the influx of Chinese immigrants has not led to major tensions to date. Entrepreneurs or investors and qualified human resources have constituted a significant fraction, although this may change in the future should growing Chinese investment in the EU go together with Chinese firms' high propensity to employ an ethnic Chinese labour force; major inflows of unqualified workers (which might be reinforced by the slowdown of economic growth in China) could then give rise to greater tensions. Similarly, the recent arrival of middle class ('golden visa') investors in Portugal, associated with refuge capital, is a politically sensitive matter and constitutes a potential source of tension with China.

The above-referred developments and their impact on individual member states raise important political issues – they risk fuelling divisions between EU members and render a common EU position not only on Chinese investment but also on global relations with China more difficult. To meet the challenges and counteract China's 'divide and rule' strategy, the European Union would need to have an EU-level approach that is more holistic, long-term, and coordinated between member states.

[49] This investment is conducted under a 'land grab' logic to supply the Chinese market, against the background of the twin risks of food insecurity and safety that China is confronted with, and raises complex questions for the countries concerned. In the case of Bulgaria, Tianjin State Farms Agribusiness Group Company controls 2 000 hectares of farmland in northwestern Bulgaria with the sole purpose of exporting the entire production to China (see FAO 2013: xiii).

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Appendix. Questionnaire to Chinese businessmen in Portugal 2013

2013年度对在葡萄牙营业的中国企业家问卷调查

1**. About the entrepreneur 关于企业家:**

1.1. Place of origin请问是来自哪个地区:

China (PRC) 中国 ☐ Southeast Asia东南亚 ☐ Taiwan台湾 ☐

Macao澳门 ☐ Hong Kong香港 ☐

Other其他地区: ___________________

1.1.1. If originating from PRC, from which province? 如果是来自中国,请指出是来自哪个城市? ________________________

1.2. For how long have you been in Portugal来葡萄牙已經有多久 (nº of years) 年:

< 5 ☐ 5-10 ☐ 10-15 ☐ +15 ☐

1.3. Reasons for choosing Portugal: 选择葡萄牙的原因:

Family ties 家庭关系 ☐ Business opportunities商业机会 ☐

Others其他原因: __________________

2. **The business关于业务**

2.1. Sede da empresa企业所属的地区:

Lisbon district 里斯本区 ☐ Porto district波尔图区 ☐ Faro district法鲁区 ☐

Others其他地区: __________________

2.2. Sector of activity行业种类:

Industry工业 ☐ Retail trade零售 ☐ Wholesale trade 批发 ☐

Restaurants餐饮 ☐

Others其他行业: _________________________

2.3. Firm size企业规模:

2.3.1. Sales volume销售量: ？

2.3.2. Nº of collaborators员工数量:

<5 ☐ 5-10 ☐ 10-20 ☐ 20-50 ☐ +50 ☐

2.3.3. Nº of establishments企业数量:

1 ☐ 2-3 ☐ 4-5 ☐ +5 ☐

3. Strategy in reaction to crisis that initiated in 2008-2009 对于经济危机开始所采用的策略从2008-2009年:

3.1. Closure of business结业 ☐ Year结业年份 _________

3.2. Change of sector更改行业种类 ☐ Initial sector原本的行业种类 _________

Present sector 现在的行业种类 _________

3.3. Change of geographical area 更改地域 ☐ Initial area原本的所处地区 _______

Present area现在所处的地区 _________

3.4. Expand dimension of business增加业务 ☐
(example: increased nº of establishments, bought new firms, 如:增加企业数量,购买新公司)

3.5. Return to China 返回中国 ☐

3.6. Re-emigration to another country 移民到另一个国家 ☐

3.7. No action 不作任何行动 ☐

3.8. Other 其他行动 ☐ Which one请指出是哪一种? ___________________

4. Source of financing over last 3 years 在过去三年的融资

4.1. Family 透过家属 ☐

4.2. Business network 透过商务网络 ☐

4.3. Portuguese banking system透过葡萄牙银行 ☐

4.4. Chinese banking system透过中国的银行 ☐ (in China or in Portugal; example: Bank of China in Portugal 在中国或葡萄牙,如在葡萄牙营业的中国银行)

4.5. Others其他情况: ______________________

5. Relations with large Chinese firms operating in Portugal:
与在葡萄牙营业的中国大型企业的关系:

(examples: China Three Gorges, China State Grid Corp, Beijing Enterprises of Water, Bank of China 如:中国长江三峡集团公司,国家电力公司,北控水务集团有限公司,中国银行)

5.1. Yes 是 ☐ No 否 ☐ Perspectives for future relations 展望未来关系 ☐

If yes, with which firm? 如果选择是,请指出是哪一家公司? ______________

5.2. Type of de relationship哪一种类型的关系:

Supplier 供应商 ☐ Client 客户 ☐ Partner 合作伙伴 ☐

Other其他类型的关系: ________________________

6. Relations with China与中国的联系:

6.1. Yes是 ☐ No否 ☐

6.2. If yes, what kind of relations? 如果选择是,请指出是哪一种类型的关系?

Commerce /Trade (Import-Export) 贸易（进出口）☐

Investment投资 ☐

Recruitment of collaborators 招聘手工劳动员工 ☐

Personal ties 个人关系 ☐

Institutional ties 机构关系 ☐

Others其他关系: __________________________

DATE日期: ____/____/______