The Role of Overseas Chinese in Europe in Making China Global: The Case of Portugal*

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ABSTRACT

This paper aims at analysing the characteristics and dynamics of the Chinese business community in Portugal in the context of the growing phenomenon of Chinese migration flows to Portugal and to Europe. By means of original research based on primary data obtained through questionnaires and interviews applied to Chinese entrepreneurs and business associations the paper provides an in-depth analysis of the role that this community plays both as a facilitator of China’s integration in the world economy and a potential bridge between the European Union (EU) and China.

The study concludes that the Chinese business community in Portugal is rather heterogeneous, dominated by immigrants from Zhejiang province, who operate predominantly in the service sector (retail and wholesale trade), taking advantage of the guanxi network within Europe so as to make use of the advantages of the European single market in order to consolidate competitive advantages. Moreover, this community plays a pro-active role in fostering China’s integration in the global economy by acting as windows for the penetration of Chinese exports on the one hand and by capturing and channelling foreign direct investment to China on the other hand.

(See Appendix 2 for a Portuguese summary of the paper)

Keywords: Chinese business community in Portugal; Overseas Chinese network (guanxi); EU Single Market; EU-China trade and investment relations.

1 This study is based on an outgrowth of the authors’ work for a project financed by the Portuguese Foundation for Science and Technology (FCT) – Project POCTI / SOC / 40827 / 2001 – (see Rocha-Trindade, Neves and Bongardt, INA, 2006). We are grateful to Tereza Ventura and Carlos Ho for their collaboration in this specific part of the study and to Paula Mouro Ferreira for institutional support along the various stages of the FCT project at the Institute for Strategic and International Studies (IEEI), where the authors carried out this research. We have also benefited from the institutional collaboration of Associação Luso-Chinesa em Portugal, Associação de Comerciantes e Industriais Luso-Chinesa and Liga dos Chineses em Portugal. We are indebted to all firms that have accepted to answer our questionnaire, especially to KMR, Guo Contabilidade, Sino newspaper and Orientur. We would also like to thank, without implicating, Kuo Yung Hui, Choi Man Hin, Zhu Long, Y Ping Chow, Yan Tien Kie, Guo Fei, Chen Jiang, Liang Zhan, Luisa Pon, Ho Ka Lang for their help and collaboration at different stages of the research, participants in the study’s presentation seminar in October 2005 and Anabela Correia and Francisco Torres and participants at the seminars at Centro de Informação Europeia Jacques Delors, Universidade de Aveiro and Universidade Aberta for comments and very useful suggestions. Last but not least our thanks go to DEGEI and to the Portuguese Institute for Public Administration (INA), where a longer version of this paper came out, for its interest in the dissemination of our studies on this topic.
1. INTRODUCTION

The internationalisation process of the Chinese economy, initiated by the end of the 1970s with the “open door policy”, entered into a new phase, marked by the accession of the People’s Republic of China (PRC) in the World Trade Organisation (WTO) in 2001; the consolidation of China’s position as a global trader associated with a strong export capacity, with China emerging in 2004 as the world’s third largest exporter of goods after Germany and the United States, but before Japan, with exports totalling US$ 593 billion; with the new phenomenon of Chinese foreign direct investment and China affirming itself as a global investor, in particular in sectors related to energy and commodities, following a logic of ensuring access to energy sources. Considering the dimension of its economy and its robust economic growth – 9.5 per cent in 2004 and an average rate of 8.7 per cent between 2001-2005 – the impact of the China factor in the global economy is growing, be it via the growth of competition, be it via its impact on the growth of demand of commodities and energy that has led to a rise in international prices of various products such as petroleum, soy beans or iron.

The integration of China in the global economy follows intrinsically domestic objectives: the maintenance of high economic growth rates and raising per capita income have a fundamental political function given that they constitute the essential basis of legitimisation of the Chinese regime. Thus the preoccupation of the Chinese government has been augmenting with respect to different points of vulnerability that could cause a slowing of growth - (i) the weakness of the financial system with high levels of bad loans; (ii) high levels of environmental degradation that imply direct costs of between 8-12 per cent of GDP; (iii) the rise in unemployment and social unrest aggravated by the fragility of the social security system; (iv) the rise in asymmetries in the distribution of income between the coastal and the interior areas and above all the cleavage between the average income in the rural and urban areas – and which were already reflected in the recent eleventh five-year programme proposal for 2006-2010 that accounts for the necessity to correct the negative side effects of the present model of growth.

Various factors explain the increasing weight and the dynamism of China in the global economy. Although a lot of attention is devoted to formal mechanisms, there are informal factors which also account for China’s successful integration in the global economy. One of these more relevant factors, albeit less visible and less studied, pertains to the functioning of the Overseas Chinese networks. Thanks to their international experience and know-how in regard to given markets, these networks have played a decisive role, first as investors and catalysts of foreign direct investment in the People’s Republic of China (PRC) and more recently as facilitators of the penetration of Chinese exports and Chinese direct investment in markets considered strategic by China. The high level of entrepreneurship that characterises the Chinese business communities implies a significant impact on their host economies, a factor that has not been studied in a systematic fashion.

\[\text{For a more profound analysis see Neves (2006), pp. 10-12.}\]
The present research pursues three main objectives:

(i) To study the structure and evolution of the Chinese business community in Portugal and of its respective associations;
(ii) to analyse the interaction of the Chinese business community in Portugal with the Portuguese business fabric on the one hand and with other Chinese business communities in the European Union (EU) on the other hand, so as to investigate the existence and relevance of European circuits within the Chinese community;
(iii) to analyse the relations of Chinese entrepreneurs based in Portugal with China and the Chinese market, notably their involvement as far as investment flows and trade are concerned which experienced a very significant evolution since the mid-90s.

In a broader sense, the study aims at contributing to close the gap of knowledge regarding the organisation and working of the Chinese business community, in particular in Europe, in a context in which the growing integration of China in the world economy constitutes a challenge for the European economy and especially for Portugal.

It should be noted that the concept of Chinese firms adopted in the study is rather broad, independent of the nationality of partners, including not only businessmen from China but also from Macau, Hong Kong, Taiwan and Chinese communities around the world, including the Chinese business community in Mozambique.

The study presented thereafter features three different parts: firstly, a brief analysis of the fundamental elements of the business model and culture of the Chinese family firm with special attention to the logic, function and different levels of *guanxi*; secondly, the presentation and discussion of the main results of the research based on questionnaires and interview evidence, addressing the issues of the profile of the Chinese entrepreneurs, the characteristics of their businesses, the functioning and role of Chinese associations, the relations with other Portuguese, Chinese and European firms, the relations with the Portuguese state, and the relations with China; lastly, the final conclusions and some reflections on future developments.

2. CHINESE BUSINESS CULTURE IN CONTEXT

2.1 The Chinese family firm

The discussion of the Chinese business firm model, shaped by a particular historical and cultural tradition, constitutes a key element in the analysis of the strategies of Chinese entrepreneurs and their way of doing business. Like in other domains, the family is the basis of Chinese organisation as well in the business sphere, assuming first priority in their business activities. One of the most notorious features is related precisely to the fact that in the Chinese culture, contrary to western culture, there is no rigid frontier or clear distinction between the network of professional, family or social relations, all of which interlink and intermingle in a creative synthesis. Thus, before starting to discuss Chinese
firms one needs to address the “business family” that generally involves a significant network of firms.

The Chinese business family has been associated with four main characteristics:\(^3\):

(i) Existence of a strong degree of family control and direction: in the sense that the family members occupy key positions in the organisation. Although the enlarged family may possess their own firms, they are integrated in a complex network with a unified logic of management and inter-firm coordination. In this context, the decision process tends to be informal, often in a setting of family meetings of a convivial nature and family dinners. Many business decisions are based on family and not on commercial reasoning only, making it at times difficult for external observers to understand the logic of decisions when only considering economic and business rationale.

(ii) Strong hierarchy, with the existence of a dominant family leader: a patriarch or matriarch who in many cases initiated the business and who has the last word in fundamental decisions.

(iii) Stability of roles and family obligations: businesses are continued by the closer family, with succession being guaranteed by the next generation even if there is no one with an adequate preparation or profile. Family leadership is always preferred to professional managers. The division of heritage by the children, for instance, does not lead to a weakening of the organisation but to a higher level of diversification, given that the different units continue to work according to the logic of the group.

(iv) Family financing and accountability: financing is predominantly guaranteed within the family, thereby reinforcing family bonds. On the other hand, people are informally evaluated and their personal reputation is more important than their performance.

2.2 The “Guanxi”

One of the essential aspects of the functioning of Chinese family firms is the “guanxi” networks in which they participate and which provide them with business opportunity, partnerships as well as support in difficult situations. The guanxi refer to personal connections that involve “mutual obligations, good will and personal affinity with particular emphasis on the family and on the sharing of common experiences”\(^4\). There are three different levels of guanxi: (i) The first and foremost involves the family, including the enlarged family and close friends; (ii) the second one involves people with shared common experience in crucial phases of life, such as former colleagues at school or of military service; (iii) the third one involves third persons with whom a trust relation is established after a long and demanding process of contacts.

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\(^3\) See table 1 in annex for a summary comparison between Western and Chinese business cultures.

\(^4\) Ming-Jer Chen (2001).
The *guanxi* relation presupposes a complex system of exchange of favours and information in which providing a favour brings about the expectation of reciprocity, albeit without a specific date, with some debts spanning generations and being effectively paid back many years later. The essential principle is that the favour has to be paid by means of slightly greater favours so as to make the relation sustainable.

It is important to stress that *guanxi* are established between people and not between firms, although they may serve the interest of the firm. One of the essential consequences is that when someone leaves a firm his or her substitute does not inherit the network of relations nor benefit from the same personal credit and trust, since according to the Chinese logic the contacts with people who lead a process are more important than institutional relations. Therefore, the exit of somebody from a firm with whom a personal trust relation existed affects institutional relations between firms.

Within the context of the Chinese business culture the *guanxi* constitute a central mechanism for inter-firm cooperation, being envisaged as an alternative mechanism to contracts and the law. For Chinese businessmen a written contract that defines rights and obligations of the parts has a limited value. The personal trust relation and loyalty with respect to the counterpart are more relevant, envisaged as the principal guarantee of compliance with the agreed terms. On the other hand, although the building-up and maintenance of *guanxi* imply significant costs, they as well mean the reduction of transaction costs, be it with the negotiation be it with the enforcement of contracts, as well as the reduction of risk.

The predominant business model in the families of Overseas Chinese, even in the case of tycoons, displays two chief characteristics: (i) The predominance of SMEs and of networks of small business units and the inexistence of large conglomerates; (ii) the physical dispersion of investments and of business units over different countries. These features are explained by two categories of reasons, one of social and the other one of historical-political nature.\(^5\)

One factor of sociological nature is related to the internal organisation of the Chinese family, characterised by the absence of a regime of succession of the eldest son with the children enjoying a position of equality that raises serious questions at the level of succession. In this context, the process of division of heritage of a large firm between various children involves a complexity and a level of conflict that brings about a large risk of dissolution and rupture with respect to the core of the business. On the contrary, the division between various successors of a number of autonomous SMEs that are part of the family network is easier and ensures the continuity and stability of the family business.

The historical-political factor is due to the long experience of persecution to which the Chinese business communities have been subject at various times in history, particularly in South-East Asia, involving massacres as well as the confiscation and physical destruction of their belongings. In this context the strategy of response has been the

\(^5\) See Haley et al. (1998a), chapter 3.
preference for small firms with less visibility, for sectoral diversification and physical
dispersion of business units between different countries to reduce political but also
commercial risk, and minimise the consequences of attacks on Chinese communities.
Working in a hostile context also exacerbated the importance of ties of personal trust, of
loyalty and interdependence of partners in the network, the only protection mechanism in
dangerous moments for a community that could not count on the protection of public
authorities. On the other hand, the creation of family networks and their cohesion was
also reinforced by the very geographical dispersion of businesses requiring complex
coordination based on local managers of absolute confidence.

The family firms of Overseas Chinese are also characterised by a high level of
centralisation of decision-making and by a significant concentration of power and
authority at the top. The remuneration system is based not so much on performance and
results but more on loyalty and seniority. The Chinese business model thus presents
some limitations, notably a relative rigidity that reduces flexibility and the capacity of
fast adaptation to changes in the market as well as incentives for intrapreneurship.

2.3 Clusters of Chinese firms and entrepreneurs

Clusters are defined as agglomerates made up by firms concentrated in a geographical
area, operating in the same sector or sub-sector, linked by strong relations of
interdependence in the value added chain and which set up relations of inter-firm
cooperation, sharing costs and risks, as well as by research institutions, universities and
local governments. The process of networking and the twin-concept of rationalised
competition – cooperation are two principal characteristics of clusters.

Clusters are held to contribute to the reinforcement of competitive advantage of
participating SMEs in function of different mechanisms:

In the first place, through the reduction of direct input costs as a result of joint bargaining
that strengthens the bargaining power of the set of firms in their input purchases,
allowing them to obtain lower prices and more advantageous payment conditions
(centralized purchasing). By the same token, it is possible to reduce indirect costs through
the reduction of per unit costs of various support services to management (accounting,
legal and tax consultancy) by means of joint services with economies of scale, freeing
also the management of SMEs from some administrative and bureaucratic burden for
them to deal with essential tasks such as strategic planning.

Secondly, clusters can significantly reduce transaction costs (the cost of obtaining
information, negotiate contracts and deal with contractual conflicts and inherent legal
processes) to which SMEs are particularly vulnerable, because of the trust relations that
develop between firms and their high level of interdependence. These relations allow
them to reduce contract negotiation costs by adopting standard contracts, as well as

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enforcement costs since there are mechanisms of dissuasion of opportunistic behaviour, in that non-compliance with contractual obligations implies immediate prohibitive costs.

Thirdly, clusters improve SMEs’ access to bank credit, at more favourable conditions and at lower interest rates, by means of joint credit, as well as recourse to venture capital that is essential for financing start-ups.

Fourth, clusters allow for realising economies of scale typical for large firms while maintaining economies of scope associated with small firms by means of splitting the production process and patterns of specialisation within the cluster, that is, they promote features that once again gained relevance in the context of the global economy.

Fifth, clusters facilitate the active involvement of participating firms in the innovation process and higher levels of innovation by means of: (i) promoting networks between firms, research institutes, universities, teaching and training institutions; (ii) sharing costs and risk in R&D activities and the creation of specialised sectoral technological centres, as in the case of Emilia Romagna; (iii) joint training initiatives of human resources and attraction of highly qualified personnel to the cluster; (iv) a high level of mobility and circulation of qualified staff between different firms and an intense interaction between different producers, augmenting the speed of diffusion of innovations; (v) a higher rate of entrepreneurship within the cluster than outside it, associated with a high number of start-ups, strategic agents for the promotion of the innovation process.

It is important to stress that the capacity of clusters to promote entrepreneurship and augment the number of start-ups is based on three structural mechanisms related to: (i) a splitting of the production process that reduces barriers to entry, permitting a new firm to enter at a limited stage of the process, associated with lower technological complexity and less demanding in terms of initial investment; (ii) a higher level of innovation within clusters that creates more opportunities for new firms to set up, exploring opportunities related to new products and services or technological processes; (iii) higher mobility and facility of workers of firms of the cluster to set up their own firms, adopting a complementary logic; in the context of clusters one notes a high rate of transformation of employees in entrepreneurs, as illustrated by the experience of Sakaki (Japan).

Finally, it is important to note that clusters contribute to improving the competitiveness of SMEs to the extent that they constitute an indispensable base and a decisive mechanism for the successful internationalisation of SMEs, be it in terms of external trade or of direct investment: by means of the reduction of risk levels of firms that by definition have a larger risk-aversion; the creation of an adequate size that reinforces bargaining power with external agents; and the fact that clusters constitute by themselves poles of attraction for SMEs or even for large foreign firms.

The experience of the Chinese family firm displays interesting parallels with the strategy of clustering. Although the concept of clustering implies a geographical concentration in a given region of a set of interdependent firms that cooperate with each other within the same value chain, the Chinese family firms functions according to a model of active
inter-firm cooperation with some ingredients of cluster logic despite the absence of physical proximity. In other words, when the Chinese firms of the family network work in different countries they function up to a certain point almost like “informal clusters at a distance”. As a matter of fact, the guanxi and existing mutual trust relations allow for the reduction of transaction costs, like formal clusters, as well as for obtaining more favourable conditions concerning the acquisition of inputs and the access of support services to management, with the family group working as well as a support mechanism for internationalisation.
It should be noted, though, that the experience of formal clusters is not totally strange to Chinese businessmen. The "Wenzhou model" is precisely based on the geographical concentration of firms of businessmen with family bonds between them and which operate according to a cooperation and complementarity logic in which family ties and proximity combine to create a particularly solid production structure. As far as Europe is concerned, the importance of the element “family ties” as a base for regional cluster relations has been diminishing and is today of limited relevance, being substituted by long-term relations and temporary coalitions as dominant elements. The analysis of the workings of formal clusters demonstrates the growing importance of “non-economic” factors, in particular social ones associated with institutions that promote informal and dense cooperation between the local actors who are essential for the development of clusters and their economic performance. The findings from the analysis of cluster experience allow for a better understanding of the competitive advantages of Chinese family firms whose philosophy of functioning is based since long on a social and economic synthesis and on promoting a network of dense informal ties.

There are, obviously, limits to the Chinese model of the family firm, competitive advantages that are more difficult to realise in the absence of geographical proximity. The entire process of the creation and exchange of knowledge requires direct interaction, face-to-face, and the transition of regional clusters towards a more complex way of functioning, to “regional systems of innovation”, implies the development of an interactive network of cooperation between firms, universities, research centres, business associations and regional and local governments. On the other hand, the model of the Chinese family firm can limit involvement in the innovation process and in regional innovation systems which are nowadays regarded as key for innovation and systemic competitiveness, given that it tends to restrict cooperation to the family group and resist the development of external links.

The capacity of integration in local clusters in the host economies and the expansion of the network of relations to third parties constitute, with no doubt, one of the big challenges for Chinese entrepreneurs when getting involved in the process of internationalisation. What is called for here is the successful promotion of the third level of guanxi that is the most complex, demanding and slowest one to achieve. The second fundamental challenge is of an internal nature and related to the Chinese family firm’s capacity to adopt a less hierarchical and more flexible structure, with more decentralisation of decision-making to thereby allow for an evolution towards a model of “intelligent organisation” that promotes intrapreneurship.

3. EMPIRICAL STUDY: THE CHINESE BUSINESS COMMUNITY IN PORTUGAL

3.1 Hypotheses

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In the initial phase of the investigation three hypotheses were drawn up, based on the results of the bibliographical research, the evidence obtained through preliminary contacts that were established with Chinese associations and some Chinese businessmen in Portugal, and the results of a previous research project carried out by the authors on economic integration in the South-China Triangle (small Pearl River delta – south of Guangdong, Hong Kong, Macao and Taiwan) and the position of Macao and the local firms in this context.\(^9\)

The first working hypothesis is that the Chinese business communities who are dispersed around the globe, including Europe, play a relevant role – albeit not necessarily a visible one – in the integration of China in the world economy and with respect to enhancing competitiveness, thereby constituting a unique instrument that other global actors do not possess. The second working hypothesis is that the Chinese business communities, given their tight links with China, could also function as facilitators in the relations between the EU and China, functioning as potential partners for European businessmen, in particular SMEs, allowing them to make better use of business opportunities in the Chinese market. The third hypothesis is that the high levels of inter-firm cooperation and the guanxi are one of the key factors in raising Chinese firms’ competitiveness.

### 3.2 Methodology

In order to test the above-referred hypotheses, a draft questionnaire was elaborated and subsequently evaluated and tested by some Chinese businessmen so as to ensure its global coherence on the one hand and the clarity of questions on the other hand. The test run showed that the questions that were initially formulated with respect to financial elements, notably business volume and size of investments, were particularly embarrassing for the Chinese community and that their inclusion could negatively affect the response to the other questions in the same questionnaire.

In the following phase the final version of the questionnaire was elaborated and the strategy and methodology of its application defined.\(^10\) In the final version, the questions about financial aspects were eliminated and other questions whose initial formulation had been considered ambiguous were reformulated. The questionnaire was first produced in a bilingual version, simultaneously in Chinese (hand-written) and Portuguese (printed), in order to reach more easily all sub-groups of Chinese entrepreneurs. Later on a second version was elaborated, exclusively in Chinese (printed), since experience that shown that the businessmen from China were more at ease with a questionnaire in Chinese, augmenting their confidence in the process and contributing thereby to a greater readiness to respond to the questionnaire.

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9 Project Praxis XXI “Macau no contexto das relações entre a União Europeia e a China – o espaço de integração do Triângulo do Sul da China” PRAXIS 2 / 2.1 / CSH / 794 / 95. See Neves, Bongardt, Ho and Boavida (2001).

10 See Rocha-Trindade, Neves and Bongardt (2006) for a Portuguese version of the questionnaire.
The questions were elaborated in a regime of closed questions that one would expect to lead to better-defined results. The choice of this formulation was intentional as information of qualitative nature would be collected via selected interviews.

The application of the questionnaire followed a strategy with two complementary components: the first one involved the indirect application through Chinese associations, due to the necessity to explore a channel with the easiest access to a Community that is relatively closed and preoccupied with the preservation of “business secrets”; the second component involved the direct application of the questionnaires by the research team. Another fundamental element in the application was the definition of a methodology that would grant anonymity to respondents.

The effective application of the questionnaires took place between November 2003 and January 2005. After some initial difficulties due to some resistance within the associations, it was possible to identify the most relevant Chinese business associations and to ensure coverage of the three principal localisation centres of Chinese entrepreneurs: the greater Lisbon area; the greater Oporto area and Northern region; the Algarve. Thereby a tight collaboration evolved between the research team and the Associação Luso-Chinesa em Portugal (Algarve), the Associação de Comerciantes e Industriais Luso-Chinesa (Greater Lisbon area) and the Liga dos Chineses em Portugal (Greater Oporto area and Northern region) which turned out to be very important for the successful conclusion of the application of the questionnaire.

The participation of the Associations contributed to attenuating suspicions by the community of businessmen as to the objectives of the project, in particular the fear that it might be an official study of government initiative, and to reinforcing the guarantee of anonymity in the questionnaire. Thereby the Associations as well as consultancy firms linked to the Associations applied via their channels about 60 per cent of the questionnaires to entrepreneurs within the universe of their members but also beyond to non-members.

The remaining 40 per cent of the questionnaires were directly applied by the research team. In these cases the application was generally combined with an interview, in particular of those entrepreneurs who are leaders of the associations and those with greater influence within the community. The questionnaires were as well applied directly to Chinese businessmen from Mozambique. As a matter of fact, the initial test trial of the questionnaire had already put into evidence the heterogeneity of the Chinese business community in which three sub-groups can be distinguished: (i) The Chinese business community from Mozambique; (ii) the Chinese business community from Macao, Hong Kong and Taiwan; (iii) the Chinese business community from the PRC.

The other component of research involved the realisation of interviews with the leaders of the main Chinese business associations in Lisbon, Oporto and the Algarve, and with some entrepreneurs selected on the basis of three main criteria: dimension of the firm and degree of business diversification; relevant experience of internationalisation, especially in regard to relations with China; new emerging sectors of activity of Chinese
entrepreneurs. The objective of these interviews was to clarify and further explore some of the questions in the questionnaire.

The interviews, considered a prime instrument to obtain data of qualitative nature, focused on two kinds of public and were conducted at two points in time. In a first phase that preceded the elaboration of the questionnaire, people from the Chinese business association universe were addressed who, besides contributing with valuable and diverse inside information of a specialised but general nature helped to define the target group that would constitute the sample (intentional choice) on which to conduct the interviews of entrepreneurs.

Therefore, the selection of interviewees was made, following indications supplied by the Chinese association milieu, on the basis of their knowledge of the issues studied. Their selection was made based on x. The structure of interviews assumed a semi-directive character that when possible always aimed, without interfering with the character of the supplied information, at r-conducting the interviewee towards the preoccupations of the research.

The care taken by the research team with a view to its approach, especially during the “field work”, respecting the social and cultural identity of the interviewees, contributed to the success in terms of the achievement of envisaged results. Anonymity was granted to respondents as had always been the intention of the research team, and the work was carried out in collaboration by the research team and the Associations because each part recognised the interest in obtaining data that would help to better get to know and enhance the value of the community. The questionnaire elaborated to study the Chinese business community in Portugal was prepared in two versions, a Chinese and a bilingual one (Chinese and Portuguese), as well as applied directly by the members of the research team to a set of entrepreneurs and indirectly through business associations. A number of semi-directive interviews were also realised whose qualitative results were analysed in an integrated manner with the results of the questionnaire.

The applied questionnaire features eight groups of questions, predominantly of a closed nature although there are some specific questions of open nature. The first group deals with the profile of the entrepreneur, his origin, length of stay in Portugal and reasons for choosing the country. The second group of questions relates to the business, including the localisation of the firm, the sectors of activity, the dimension of the firm, the origin of the employees and the assessment by the entrepreneur of the results obtained up to the present and his expectations in regard to future results.

The third group addresses the issue of associations, aiming at finding out whether the entrepreneur is a member of a Chinese business association, since when and what are the associated advantages.

The groups 4, 5 and 6 are concerned with the relations of the firm with the market, with the objective of determining the pattern and intensity of its relations with other firms. The fourth group addresses the relations with other Chinese firms operating in Portugal,
including questions about the intensity of relations and the characteristics of those firms (clients, suppliers or business partners). The fifth group deals with the relations between the firm and other Chinese firms operating in other EU countries, aiming at examining the firm’s stance in relation to the European single market and the structure of Chinese business networks in Europe. The sixth group looks at the relations with Portuguese firms in order to find out about the nature and the intensity of the relations with the Portuguese business fabric, as well as to identify the chief difficulties in the relations with Portuguese firms.

The seventh group addresses the firm’s relations with the Portuguese state and intends to identify the main problems in the relationship with Portuguese authorities. Finally, the eighth group deals with relations with China, in order to find out whether the entrepreneur has relations with China and if yes whether the relationship is of an economic (investment or import-export), personal or institutional kind.

The questionnaire was applied to a group of 200 firms in different regions of Portugal, with special emphasis on the areas of Greater Lisbon, Greater Oporto and Algarve. The relevant sample for the analysis presented hereafter consists of the 129 questionnaires that were effectively received and validated.

The last phase, presented hereafter, involved the integrated analysis of questionnaire data and of the qualitative information from the interviews, allowing for the formulation of the main conclusions of the research and of the recommendations with respect to the bilateral relations between Portugal and China.

3.3 Analysis and interpretation of the data

3.3.1 Features of the Chinese business community in Portugal

The analysis of questionnaires data\footnote{For more details see Rocha-Trindade, Santos Neves and Bongardt (2006).} allows for the conclusion that, in regard to the sample universe, the large majority of Chinese entrepreneurs, more than four fifth, come from the PRC (83%), followed at a large distance by entrepreneurs coming from Hong Kong (5%) and from Mozambique (5%) and Macao (3%). Taiwan and South-East Asia are rather insignificant.

It is also possible to identify three distinct sub-groups within the Chinese business community: (i) Entrepreneurs from the PRC; (ii) Chinese entrepreneurs from Mozambique; (iii) entrepreneurs from Macao and Hong Kong.

With respect to the entrepreneurs from the PRC the large majority stems from Zhejiang province south of Shanghai, accounting for 74 per cent or almost three quarters of the total number of entrepreneurs from the PRC, and 61 per cent of the total inquired. Within Zhejiang province there are two dominant cities/regions, first of all the harbour city of Wenzhou, accounting for 35 per cent of all entrepreneurs stemming from Zhejiang, and
secondly the rural area of Qingtian, with 22 per cent. However, the weight of these two regions should even be higher if one considers that of the total number of entrepreneurs who indicated being of Zhejiang origin, 26 only globally refer that province but not their city or region of origin within. Therefore, if one considers merely the universe of those inquired who indicate a specific city or region within the province, then Wenzhou accounts for 50 per cent and Qingtian for 32 per cent of entrepreneurs coming from Zhejiang, suggesting that there might be a similar tendency in the group of entrepreneurs who did not indicate their specific place of origin. Those two places constitute, indeed, according to different studies realised in other European countries, two traditional regions of emigration to Europe.12

These results therefore confirm and are in accordance with existing data on the rest of Europe, revealing that Zhejiang is one of the dominant places of origin of Chinese immigrants, although in the majority of other European countries there is a greater diversification and equilibrium between different regions of origin in China, with Guangdong and Fujian also having a significant weight. The larger weight of Zhejiang in the Portuguese case may be explained by two factors: Firstly, due to the fact that the phenomenon of “colonial emigration” of Chinese from former colonies in the process of de-colonisation was of limited relevance, be it with respect to Mozambique in the 1970s or later on Macao in the 1990s, contrary to what happened in countries like the Netherlands (Indonesia) and France (Vietnam). Only a reduced number of Chinese immigrants from the former colonies came to Portugal, having the majority chosen other destinations such as Brazil, the United States or Canada.

Secondly, the predominance of Zhejiang is explained by the fact that the phenomenon of Chinese immigration from the PRC is a recent one in Portugal, basically concentrated from the second half of the 1990s onwards, and to a good deal the result of re-emigration from within Europe from countries with more significant Chinese communities than Portugal, as well as to other countries of Southern Europe such as Italy and Spain. After the start of reforms in China, in particular after 1985 with the ratification of the new Chinese law on emigration, there is a revival of emigration from the traditional Chinese regions, including Zhejiang that had stagnated after 1949. The basic reason to explain that the traditional regions regained predominance with respect to new immigration flows to Europe is the fact that they had been at the origin of previous migratory flows during the first half of the 20th century, so that the Chinese citizens from Zhejiang already had relatives in Europe. The relatives of Overseas Chinese enjoy greater ease in leaving China and more favourable conditions and support for their integration in their destination country.

On the other hand, those regions, in particular Wenzhou e Qingtian, have a strategy of “specialisation in emigration” and an active policy of support and stimulus of emigration. The role of the Overseas Chinese is essential to their development not only in terms of trade and export growth but also in terms of foreign direct investment, given that the emigrants are a crucial source both as investors and as factors of mobilisation of non-Chinese investment. To this effect the local public authorities set up relatively

sophisticated support policies to emigration that involve in particular specific training of candidates to emigration, such as training in the language and culture of the destination country as well as in the field of management and entrepreneurship. Emigration is clearly envisaged as an investment of the region.\textsuperscript{13}

The presence of some relatives in Portugal stemming from Zhejiang should have facilitated the arrival of immigrants from that province, taking into account the importance of family bonds as a motive of choice as will be pointed out below. The family logic and the existing bonds of solidarity and proximity between people from the same region who share cultural references and specific dialects tend to cumulatively reinforce the dominance of this group within the Chinese entrepreneurs in Portugal.

It should still be referred that the Chinese emigrant community in Spain, like the one in Portugal, is by majority of Zhejiang origin, but with an interesting difference related to the fact that in the Spanish case their origin within the province is predominantly Qingtian and not Wenzhou. There are clear indications of a significant degree of circulation between the Chinese business community in Spain and in Portugal, partly explained by the increasing integration between the two Iberian economies but also by the fact that the communities stem from the same region in China.

In regard to the length of stay in Portugal the analysis of the questionnaires demonstrates that of the considered categories the dominant one is 5-9 years, accounting for 30 per cent of the total, followed by the category of less than 5 years with 26 per cent and the category 10-14 years with 16 per cent. It is thus possible to conclude that in terms of their length of stay the majority of Chinese entrepreneurs, 56 per cent, is based in Portugal for less than 9 years, having arrived during the second half of the 1990s. If one also takes into account the category of 10-14 years, one can conclude that almost three quarters of entrepreneurs have established themselves in Portugal after 1990.

If one looks at the entrepreneurs from the PRC only, the recent character of their arrival is even more pronounced, since the number of entrepreneurs who are in Portugal for less than 9 years augments to 59 per cent. If one also considers the category of 10-14 years, one arrives at the conclusion that almost four fifth (78 per cent) of entrepreneurs from the PRC established themselves in Portugal after 1990.

However, there is an interesting feature related to the existence of a group of entrepreneurs who are in Portugal for more than 15-20 years and that accounts for one fifth of the total. This fact seems to demonstrate the existence of a first wave of immigration from the PRC in the 1980s, of lower intensity and whose nature and motivation are very different from the second wave that occurred in the 1990s, in particular its second half.

\textsuperscript{13} The role of the provincial and local governments in actively promoting emigration has been clearly identified by Pieke (2004), p.4. In the context of his research on emigration from Fujian province, especially in the cases of the county of Mingxi, integrated in Sanming prefecture, and Fuqing, Pieke identified different concrete support measures that involve professional training of candidates to emigration, classes on destination countries covering questions like the legal system, culture and local habits, and training in the field of Chinese cuisine and trade.
That first movement in the 1980s is basically explained by the beginning of the opening of the PRC and its reform programme of the “4 modernisations” that implied a more open attitude and a new policy of relative liberalisation with respect to emigration, transposed into law in 1985. However, in this initial phase of reforms and as a result of the strategy of risk reduction adopted by Deng Xiaoping, they were initially geographically circumscribed to Guangdong, which surges as the leading region in the process, and to a lesser scale to Fujian, so that wealth and economic growth were concentrated in the South of China, in particular the regions next to Macao and Hong Kong in Guangdong and Fujian. The process of reforms and economic growth only gradually extended to other coastal regions more to the North at the end of the 1980s and the first half of the 1990s. The regions of origin of immigrants in that first phase, in particular Zhejiang, like Shanghai, did not take part in this initial phase of economic growth, but rather were still facing economic difficulties in the 1980s. Therefore, this migratory flow essentially constitutes a response to the economic difficulties and poverty that affected the majority of Chinese regions, which allows us to qualify it as “immigration of necessity”.

By contrast, the movement initiated in the second half of the 1990s may be qualified as “immigration of opportunity”, since its dominant motive resides in internationalisation and in exploring opportunities in external markets. As a matter of fact, in the second half of the 1990s the regions of origin of Chinese entrepreneurs in Portugal, in particular from Zhejiang, already featured significant prosperity associated with the emergence of Shanghai as a large economic centre. Thus, in 2000 Zhejiang ranked 8th among the Chinese provinces in terms of the human development index and 4th in terms of GDP per capita, a position that is maintains in 2003. In this context, the reasons for migratory flows are not any more economic difficulties, given that the immigrants come from the most developed places in Zhejiang, but rather the high level of human capital, the province’s pro-active emigration strategy and the objectives of economic internationalisation and integration in the global economy.

In the 1990s another specific cause related to the Chinese reunification process needs to be referred, namely the transfer of sovereignty of Hong Kong and Macao to the PRC and the “handover effect”. The crisis of confidence in the future of Hong Kong that characterised the final phase of the transition and the uncertainty concerning the willingness and capacity of China to respect its compromises and preserve the model “one country, two systems”, gave rise to an exodus of a number of businessmen and top executives from Hong Kong who looked for alternative centres to locate their businesses in a context of a risk management. Although the majority of those entrepreneurs chose Canada, the United States and Australia, and to a lesser extent Great Britain, there were also flows to other European countries.

One of the surprising results of the investigation is the conclusion that this phenomenon also affected migratory flows from China to Portugal, albeit marginally. Some businessmen from Hong Kong established themselves in Portugal, with a certain concentration in the Algarve, explaining why entrepreneurs from Hong Kong represent 5 per cent of the universe covered in the questionnaire. Strangely, and contrary to
expectations given the special ties between Macao and Portugal, this process seems to have been more significant with respect to Hong Kong than to Macao, being it interesting to note that the weight of entrepreneurs from Macao is almost insignificant. It may be explained not only by the fact that the transition of Hong Kong was more problematic and preceded the one of Macau but also by the lower degree of internationalisation and larger dependence on China which characterises the Macao business community.

In general terms, and in accordance with interview evidence from three businessmen from Hong Kong, the choice of Portugal is due to the fact that they, while localised in Hong Kong, had had contacts with Macao at the level of business or leisure visits which had provided them with some information and knowledge about Portugal. The climate and good standards of security were the reasons presented to justify the choice of Portugal that had been preceded by an exploratory evaluation trip that covered various European countries.

Generally speaking, these businessmen operate in the import-export sector with their base in the Hong Kong-China-Portugal triangle. In one of the cases, a retailer in suitcases and leather articles from Albufeira (Praia da Oura) purchases his merchandise from a Chinese plant close to Shenzhen with which he had had business relations when he had his business in Hong Kong and now imports via Hong Kong. At present he merely imports for retail sales in his shop but immediately after his arrival he tried to enter the wholesale trade, without success due to the systematic delays of payments and non-compliance with contracts of his Portuguese retail clients.

In another case, a businessman from Hong Kong operating in the restaurant sector, in import-export and in furniture, revealed that the number of entrepreneurs who wanted to invest in Portugal between 1993-1996 was not insignificant but that the majority gave up in the end without putting into place their investment projects because of the institutional complexity and excessive bureaucracy that foreign investment is subject to in Portugal.

In order to explain the immigration of Chinese entrepreneurs in Portugal another two factors related to the recipient community need to be taken into account: Firstly, the fact that the second half of the 1990 was a period of growth for the Portuguese economy with significant investment opportunities. Secondly, due to the phenomenon of intensification of competition, shrinking profit margins and excess supply and saturation in the Northern European countries which are traditional destinations of Chinese immigrants, with respect to some market segments in which the Chinese business community specialises, in particular in restaurants and retail trade of Chinese goods. There is hence a factor of geographic diversification of business by the Chinese entrepreneurs who decided to explore other European markets in the South of Europe, including Portugal, which feature smaller Chinese business communities and hence larger business opportunities. This explains why a part of the flows of Chinese entrepreneurs from the PRC corresponds in reality to a re-emigration process within Europe, for instance from France and the Netherlands to Portugal, as pointed out in various interviews.

14 Interview with John Lok on 30 October 2004.
In comparative terms, the Chinese entrepreneurs from places of origin beyond the PRC are in Portugal for longer, including notably the case of the Chinese business community from Mozambique that had arrived in Portugal in the second half of the 1970s in the sequence of the decolonisation process.

Our questionnaire data does not allow for capturing a very relevant phenomenon of Chinese immigration, normally not referred, that is seasonal immigration. Yet, the interview evidence points to the conclusion that the phenomenon of seasonal integration is increasingly important. In fact, there is very significant mobility of Chinese entrepreneurs within the European area so that some of them stay in Portugal for some periods of the year only, working in other European countries during the other months as a function of business opportunity. For instance, there is a set of entrepreneurs based in another European country, in particular from the retail sector, who come to Portugal exclusively for the Christmas period that begins at the end of November. Thereby they take advantage of Christmas sales campaigns and the rise in consumption that is characteristic of that period and thereafter go back to where they came from. It also happens that Chinese entrepreneurs based in Portugal, in particular in periods of greater economic difficulties, leave the country in order to take advantage of a business opportunity in another European country and come back later to Portugal. This system of seasonal immigration has for instance some expression in regard to the group of Chinese entrepreneurs in the tourism sector in the Algarve who close their establishments in the low season and leave Portugal for some months in order to develop their business activities in another country, often in a different sector, with more favourable economic conditions.

Therefore, the Chinese business community does not correspond to the tradition patterns of exclusive residence and operation in the destination market which characterise immigrant communities. On the contrary, there is a different approach that envisages naturally the circulation and flexible transfer between different markets in a regional European context, made possible by the functioning of family ties and of ties of proximity with other Chinese business communities in Europe, which do not only supply timely and quality information about opportunities but also provide local support for the development of businesses. This phenomenon corresponds to a strategy of maximisation of opportunities and reflects an uncommon level of flexibility by the entrepreneurs to ensure that business opportunities, even transitory ones, be taken advantage of in a quasi just in time logic as well as reducing risk, following the Chinese traditional strategy of geographic diversification of business.

Thus, interpretation of data on the length of stay in Portugal requires some qualification. In some cases the entrepreneurs, despite being based in Portugal, do not have any business activity during the entire year, so that their period of residence does not correspond to a period of activity. On the other hand, the number of Chinese businessmen who operate in Portugal tends to be superior to those based in Portugal and to the one in official statistics, given that those entrepreneurs are not included who, while based in another European country, have a seasonal business activity in Portugal.
With respect to reasons for choosing Portugal, the questionnaire provided three options: Family ties, business opportunity, or other. It was possible to select more than one of the options. The majority selected only one reason but in some cases two different reasons were chosen, generally “family ties” and “business opportunity”. The analysis of results demonstrates that the factor “family ties” is dominant in regard to the choice of Portugal, indicated by 62 entrepreneurs, with “business opportunity” ranking second, having been indicated by 51 entrepreneurs.

Therefore, “family ties” and the *guanxi* are the most significant factor for the choice of Portugal, in accordance with the predominance of immigrants from Zhejiang. One of the basic mechanisms is that immigrants who are already established in Portugal call their relatives or friends from the same region in China to work in their businesses. As a rule, in a first phase these new immigrants work for some time as employees in their relatives’ firms but, in a second phase, they create their own business, using partly own capital from their savings made during the first phase and partly drawing on financial support from family in Portugal and in China.

Contrary to what one might expect in a context of business projects, “business opportunities” only emerges as second motive, albeit with a significant weight. However, a further and more detailed analysis reveals a different situation from the one that the analysis of global data suggests and a clear contrast between the first and the second migratory flow. Considering both the data on the reasons of choice of Portugal and the data with respect to the length of stay in Portugal allows us to conclude that for the set of entrepreneurs with a shorter length of stay (less than 9 years) who are part of the second wave of Chinese immigration to Portugal, business opportunities constitute the dominant motive, with more than half of the responses (56%). In clear contrast, the set of entrepreneurs with a longer length of stay in Portugal (more than 10 but the majority with 15-20 years) who were part of the first wave of immigration, the dominant motive are family ties, accounting for more than two thirds of responses (71%), thus higher than the global figure. In other words, the relevance of business opportunity grows with shorter times of stay, being most relevant in the group with less than 5 years, while the relevance of the *guanxi* as a motive of choice decreases with shorter lengths of stay.

This difference can be explained by various factors. First, there were opportunities of investment due to the some prolonged growth of the Portuguese economy towards the second half of the 1990s and a relatively stable macroeconomic situation. Second, in this period the opportunities in Portugal associated with European integration and the completion of the internal market became more evident for potential investors, contrary to the early stages of the single market project in the second half of the 1980s. Third, the larger weight of the factor “business opportunity” is also explained by the fact that the re-emigration phenomenon within Europe (entrepreneurs who entered the EU and established themselves first in another EU country and transferred themselves to Portugal later on) is essentially a phenomenon of the 1990s. As a matter of fact, whereas the factor “family ties” had a larger phenomenon in the choice of the first immigration country in Europe, re-emigration within Europe to Portugal was essentially determined by identified opportunities. Finally, the nature of the two emigration flows from China is different as
explained above, contributing to reinforcing the relevance of the business opportunity motive.

The group “other” reasons was chosen by only 22 entrepreneurs and includes different factors: political ones, such as de-colonisation and political connections as pointed out by the members of the Chinese community from Mozambique, or the case of a Chinese political refugee from Shanghai subsequent to the Tiananmen events in 1989 who fled to Macao from where she later on continued to Portugal\(^\text{15}\); cultural ones, related to studies in Portugal, of entrepreneurs who initially came to Portugal as students with scholarships and who then decided to stay and set up their own business; and ad-hoc factors related to the mild Portuguese climate, low cost of living or good standards of security.

3.3.2 Business characteristics, performance and contribution to the Portuguese economy

The question was formulated as to elicit information from the Chinese business community about the characteristics of the business, namely on its geographical localisation (of the business’s centre), the sectors of activity, the size of the firm and the assessment by the entrepreneurs of business results, the nature of encountered obstacles as well as expectations regarding the future evolution of their business.

In regard to geographical localisation, the criterion applied was the localisation of the business centre and not of business units. This implies a single count only of what is considered the business centre by the entrepreneur in the cases in which there are various business units, localised in different regions (as is the case of various entrepreneurs from the restaurant sector in the Algarve who possess as well restaurants in the greater Lisbon area). The questionnaires were applied in three areas in Portugal, the North region, the greater Lisbon area and the Algarve/South region.

It emerges that the great majority of entrepreneurs who responded to the questionnaire have their business centre in the greater Lisbon area, about 70 per cent, followed by the North region (notably greater Oporto and Braga) with 18 per cent and, in the last place, the Algarve with 13 per cent. This distribution is in conformity with the general geographical distribution of resident Chinese immigrants according to the official immigration statistics of the *Serviços de Estrangeiros e Fronteiras* that, with respect to the year 2003, show a strong concentration in the district of Lisbon where almost half of resident Chinese (from the PRC, Hong Kong, Macao and Taiwan) were based (48.9%), followed in an almost tied position by the districts of Faro (13.9%) and Oporto (13.3%). However, when considering also the district of Braga with 2.7%, the global weight of the Northern region augments to 16%.

With respect to the most important sectors of activity, questionnaire data confirms the dominance of the tertiary sector as the sector “par excellence” of Chinese entrepreneurs. As a matter of fact, 94 per cent of the businessmen are involved in services (including the

\(^{15}\text{Business woman from the restaurant sector in the Algarve (Vilamoura), interviewed on 30 October 2004.}\)
“other” activities), although there are changes in the dominant sub-sectors within the service sector. In order of importance, retail and wholesale trade and restaurants emerge as the dominant sectors, followed by import-export activities and, in the last place, industry. There is, furthermore, a new and particularly significant feature: the first-time appearance of investment and entry of Chinese entrepreneurs in the secondary sector that accounts for 6 per cent of the total, materialising in Portugal notably in the manufacturing industry.

One of the most interesting conclusions is that the restaurant sector, dominant in the 1980s and 1990s, was overtaken by retail and wholesale trade, pointing towards a diversification of activities by the Chinese entrepreneurs. According to interview evidence, the saturation of the restaurant sector has contributed to that fact, being characterised by increasing competition and a drastic reduction of profit margins. That sector attracted the majority of investment from Chinese entrepreneurs who came from Mozambique in the 1970s as well as from Chinese entrepreneurs from the PRC in the 1980s. There is therefore a new pattern of investment that emerges with the third wave of Chinese immigration. The interviews indicate as well an exit process from the restaurant sector, be it on the part of the first or the second wave of Chinese immigration, benefiting other sectors, notably wholesale trade and import-export. The growth of the weight of retail trade is fundamentally due the more recent flows of immigrants (third wave), essentially stemming from Zhejiang province and associated with the proliferation of Chinese shops in various cities of the country that specialise in non-durable consumer goods at low prices. In this respect the strategy of those entrepreneurs was to make use of opportunities opened up by the economic cycle, to the extent that the recession and lower incomes raised the demand of goods with those characteristics. Contrary to the prevailing perception, the questionnaire data demonstrates that the diversification is not only associated with the expansion of retail trade but also with a significant rise in wholesale trade.

Trade overall adds up to 66 per cent of all sectoral activities, with retail trade featuring 26 per cent, wholesale trade 24.5 per cent and import-export activities 16 per cent. This data suggests a certain sophistication of trade activities, not limited to retail trade or to national trade. On the contrary, import-export activities reflect growing relations with China and with other countries in the EU. Wholesale trade is not limited to the Chinese community but increasingly supplies small Portuguese shops. There is a strong concentration of Chinese wholesale firms in Porto Alto, close to Lisbon, and in the greater Oporto region. On the other hand, wholesale trade is strongly associated with tight relations with Spain and the logic of an Iberian market, as suggested by some interviews. This logic is expressed notably by cross-shareholdings between Chinese firms in Portugal and in Spain, as in the case of the firm Ante, Comércio Internacional Lda, and by joint ventures to invest in China between Chinese entrepreneurs in Portugal and in Spain.

As far as investment in industry is concerned, questionnaire data shows the realisation of investments in labour-intensive sectors in which the entrepreneurs possess know-how,
with the great majority being localised in the North region, making use of their privileged access of inputs that they import from China. Interviews evidence identified cases of industrial investment in textiles and clothing (Vila do Conde in the North region and greater Lisbon area, Mem Martins e Charneca da Caparica), footwear (São João da Madeira), marble (Pero Pinheiro) and food stuffs (tofu production in Cacém). It should be noted that similar phenomena occurred in other European countries in the 1990s, notably in Italy, and in particular in the textile and clothing industry in Prato, close to Florence, where in 2003 there were 1278 Chinese enterprises in the clothing and apparel industry and 131 in the textile industry, representing 82 per cent of all Chinese firms in operation\(^\text{17}\). Generally speaking, there is a process of acquisition of firms in crisis sectors in the EU. Behind acquisition as an alternative to setting up new firms might be the benefit of preserving the investment that the firm presents in *latu sensu* (for instance, licensing – difficult and lengthy for foreigners -, already established supply and distribution relations, brands, technological and market know-how). Yet, the base strategy behind entering crisis sectors, normally qualified as sensitive in the EU with a propensity for higher levels of protection or protectionism, has not yet been clarified. One hypothesis that needs however to be subject to further analysis is investment as a way of overcoming trade barriers by producing in the destination market. In that case, similar to what happened in Macao and in Hong Kong in the 1990s, the businessmen would import almost finished goods from China and limit themselves to executing the last phase of labelling, packaging and commercialisation in Portugal. The final product would then be qualified as *made in EU*. A curious fact about the entrepreneurs involved in industry is that none of them stems from Zhejiang province but all from other provinces in China, notably Shanxi, Shandong and Henan, and from Southeast Asia and Hong Kong.

The interviews also evidenced a recent interest in the primary sector, in agriculture, on the part of some Chinese entrepreneurs, having been given the example of a firm in Tomar producing vegetables and chickens.

An analysis of the degree of diversification of the business was conducted with the aim to determine the number of entrepreneurs with simultaneous activities in more than one sector. It emerges that there is a reasonable degree of diversification, given that more than one fourth of entrepreneurs operate in more than one sector. It is noteworthy that 20 per cent of entrepreneurs operate in two sectors and 7 per cent even in three sectors. These findings indicate a diversification of business very unusual for micro firms that can be explained by a specific feature of Chinese business culture, its aversion to risk.

\(^{17}\) Statistics of Uffici Studi Centro Ricerca e Servizi per l’Immigrazione del Comune di Prato, Italia, 2003 (www.comune.prato.it/immigra/cinesi). In December 2003 there was a total of 1724 active Chinese firms in the province of Prato, concentrated primarily in Prato (85%) and in the localities of Montemurlo (6%) and Carmignano (5.9%). Industry is the dominant sector of activity, with 74% of firms in clothing and apparel, 7.6% in textiles, with the service sector being less relevant although the firms do operate in traditional sub-sectors, notably in retail trade (5%) and wholesale trade (4.5%) in final consumer goods. It is also noteworthy that the findings reveal a high number of Chinese firms that went out of business in 2003, a total of 1,400 essentially in the textile and clothing sector, suggesting the existence of a high rate of rotation with an intense pace of entry of new firms but also of exit from the market of others, and thus the existence of a high level of business mortality.
As to the size of Chinese firms, measured in terms of the number of employees only given that it proved to be extremely difficult to obtain information about their business volume, the conclusion is that all firms are SMEs, although three different groups can be distinguished. The dominant group is constituted by micro firms with 1-12 employees, with 70 per cent of the total, followed by small firms with between 11-50 employees ranking second with 28 per cent and last medium-sized firms with 51-250 employees with 1 per cent. Firms are typically family firms, not only because the capital and management are controlled by the closer family, but also because about 50 per cent of employees are family members of the entrepreneur. Those who are not relatives stem by majority from China, belonging to the circle of friends of the entrepreneur or originating from the same city/region in China.

More than half (55%) of the firms only feature one business unit, 35 per cent have 2-3 business units, 8 per cent 4-5 business units and 2 per cent more than 5 business units. The large weight of micro firms would suggest at the outset a large dominance of firms with only one business unit. However, there is a significant percentage of firms with two or more business units (45% of total). The existence of a significant number of micro firms with more than one business unit is remarkable, a situation that one may consider unusual. A possible explanation roots in a geographical and sectoral diversification of business activity, a strategy traditionally used by the Chinese entrepreneurs to control risk.

As far as self-evaluation of business results is concerned, the great majority of Chinese entrepreneurs make a positive assessment (80%). Within this group, the majority considers the results to be fair (51%), followed by the group that considers the results as good (23%) while a minority qualifies the results as very good (6%). It should be stressed that only 16 per cent of entrepreneurs consider the results to be negative. The assessment tends to be based mostly on the experience of the last couple of years. Interview evidence shows that Chinese entrepreneurs strike different balances with respect to different periods, with the period 1999-2000 being the most positive one. This overwhelmingly positive assessment is rather surprising insofar as it contrasts with the negative economic climate prevailing in Portugal. This apparent paradox is basically explained by the business strategy adopted by the Chinese entrepreneurs, oriented towards market niches characterised by a growing demand during recession periods, namely low cost non-durable consumption goods. The positive assessment of results seems to indicate that so far this strategy has been successful.

Regarding the prospects for the future evolution of their business, the large majority of entrepreneurs (79%) have positive expectations in the sense they are convinced that good results will continue into the future. It should be noted that the forecast is even more positive than the assessment of current results given that those who expect very good or good results increase to 9 per cent and 26 per cent, respectively, with the majority (44%) expecting only fair results.

18 The essential criterion for the classification of a firm as a family firm is that both the control of its capital and its management are in the hands of one or two families.
While it is not possible to identify the reasons behind this positive assessment of both current and future business results on the basis of questionnaire data, some explanations can be advanced. On the one hand, the growing liberalisation of EU trade, namely with China, and the end of the quota system on textiles and garments contributed to a positive view on the growth of external trade flows. On the other hand, the single market does not only foster the expansion of intra-community flows, including those of Chinese entrepreneurs operating within the EU, but also the business strategies of firms that operate according to a logic of integrated market, with namely of the Iberian market being a case in point. Moreover, there is a third factor which, although not directly related to the Portuguese or EU markets does have a positive impact on the formation of the entrepreneurs’ expectations: The excellent perspectives for China’s economic growth and market evolution seen in the context of the growing internationalisation of Chinese firms in Portugal, notably involving direct investment in China often in different sectors from those in which they operate in Portugal.

As far as the Chinese firms’ difficulties in operating in Portugal are concerned, the questionnaire presented a range of options requesting respondents to rate the relative importance of each factor and to put them in descending order from the most important (1) to the least important (4) obstacle. The main obstacles pointed out were the difficulties in contacts with the Public Administration; the cultural gap, mainly involving the question of language; legal problems, in particular the lack of knowledge of existing laws and regulations; and problems of access to credit.

“Contacts with the Public Administration” was identified as the most important obstacle, reflecting the complexity of bureaucratic procedures to initiate activity and the workload and costs for small firms to comply with complex administrative regulations and red tape. The cultural gap comes second, mirroring the fact that the language and cultural references of the majority of Chinese entrepreneurs are very different from the Portuguese culture and references. It should be noted that while the Chinese immigrants from Mozambique had been previously exposed to Portuguese culture, the more recent waves of immigrants coming from the PRC did not go through such a process of adaptation before coming to Portugal. Problems with the legal system are identified as the third most important obstacle. Contrary to expectations, problems involving access to credit are considered the least important difficulty. Interview evidence suggests that this can be explained by the relevance of informal credit and the decisive role family and friends, both in Portugal and China, play as sources of finance for Chinese firms. In some cases the entrepreneurs used their own capital obtained from the sale of real estate they owned in China.

Although the dominant perception tends to emphasise the negative impact associated with allegedly unfair competition on the part of Chinese firms, there is a positive impact of the Chinese business community on the Portuguese economy, often overlooked, in different domains. Firstly, Chinese entrepreneurs contributed to employment creation in Portugal. The questionnaire highlights the fact that Chinese entrepreneurs do not hire exclusively Chinese employees but also Portuguese employees. Secondly, they have contributed to increased competition in specific sectors of the economy with positive
effects for consumers. Thirdly, Chinese investment has been channelled to sectors in decline, buying enterprises that struggle to survive on the brink of bankruptcy and thus contributing to maintain productive capacity and preserve jobs in a given region.

The recent conflicts involving Portuguese and Chinese retailers in the Northern region of Portugal are to some extent the result of lack of knowledge about the competitive advantages of Chinese firms in Portugal which are based on the guanxi factor, an integrated approach to the single market, a strategic concentration in “counter-cyclical” markets that grow in times of economic difficulties and flexibility in responding to changing conditions.

The guanxi and trust relations contribute to reducing the level of commercial risk as well as transaction costs therefore allowing for a reduction of prices given that the social network guarantees the compliance with business obligations. In addition, these factors also facilitate the concession of commercial credit thus contributing to the reduction of financial costs to the benefit of Chinese wholesalers in Portugal, in relation to larger wholesalers from other EU countries, and retailers in relation to wholesalers in Portugal.

By the same token, the integrated approach to the single market facilitates access to more competitive and cheaper inputs in other EU countries, given limited competition in the Portuguese market, and an ability to take advantage of scale economies obtained by larger firms. Furthermore, the attitude of Chinese firms is very flexible enabling the entrepreneurs to take advantage of business opportunities through diversification. The concentration in a market segment of low price non-durable goods of mass consumption is an adequate strategy to adapt to the prevailing conditions of the Portuguese economy.

3.3.3 The role of business associations

The analysis of the significance of the phenomenon of associations and the degree of participation of Chinese entrepreneurs therein was one of the objectives of this research. To this end three questions were included in the questionnaire: Do you belong to any Chinese business association? For how long have you been a member of a business association? What advantages do you derive from your participation in a business association?

As far as the first question is concerned, the results indicate that a majority of entrepreneurs, 55 per cent, belongs to a Chinese business association although a still significant group, 43 per cent, does not participate in any association. This runs contrary to initial expectations, which pointed to a higher level of participation. If we consider only the Chinese entrepreneurs who came from the PRC, there is a slight reduction in the number of members of an association to 53 per cent, suggesting that the level of involvement in business associations is higher for entrepreneurs with origins other than the PRC.

One of the factors expected to possibly influence the participation in an association was the entrepreneur’s length of stay in Portugal. Yet, there is no strong correlation between
the two variables. However, it was possible to identify a tendency of a lower propensity for membership in the group with the shortest length of stay (less than 5 years), with around one-third who were members and two-thirds who did not participate. The groups with a longer length of stay, that is, 5–9 years, 15–20 years and more than 20 years, show a higher propensity to be involved in associations, with the proportion becoming exactly the reverse, given that two-thirds were members and one-third did not participate.

The interviews revealed that some entrepreneurs belong simultaneously to a Chinese business association and to a Portuguese business association. This was a rather frequent situation in the group of Chinese entrepreneurs operating in the tourism sector in the Algarve, including restaurants, who are members of the AIHSA (Associação dos Industriais de Hotelaria e Similares do Algarve). This involvement in Portuguese business associations is justified by the practical benefits that Chinese entrepreneurs derive for the development of their business, particularly at the level of technical support to comply with sanitary regulations, quality norms and legal aspects, namely information about the entry into force of new sector-specific laws and their implications.

Even admitting that entrepreneurs with a shorter length of stay in Portugal tend to have a lower propensity to be involved in associations, the explanation for the high level of non-participation is not related to the length of stay in Portugal, if one takes into account that nearly 42 per cent of entrepreneurs have been in Portugal for more than 10 years and 72 per cent longer than 5 years. It is then necessary to discover other causes. One potential explanation could be furnished by the relevance of the activities developed by the associations in furthering the entrepreneurs’ interests.

Looking at the entrepreneurs who are members of a Chinese business association, questionnaire results show that the majority has a membership of 2-3 years (41%), followed by the group with a longer than 5 year membership (23%) and the group with 4-5 year memberships (19%). One can then conclude that three quarters of Chinese entrepreneurs are members of a business association for less than 5 years (73%) and 54 per cent for less than 3 years. Hence, for the great majority of entrepreneurs, membership of an association is a recent experience, was started in the beginning of the decade (2001-2002) despite the fact that the associations started back in the early 1990s.

The creation of Chinese business associations is a relatively recent phenomenon initiated in the early 1990s and led by immigrants who had already been in Portugal for some time. The first association to emerge was the Associação Luso Chinesa em Portugal created in 1990 in the Algarve region (Albufeira). Although it was formed by entrepreneurs, interestingly enough its main objectives were not commercial but of a cultural and social nature, related to the promotion and diffusion of the Chinese culture, sports activities and teaching of the Chinese language. This last objective constitutes one of the central motivations in order to ensure the knowledge of the putonghua by the new generations of the Chinese community. In fact, one of the concerns expressed by various entrepreneurs in the course of the interviews was the fact that the majority of children and the second generation do not speak Chinese, given that language is a fundamental factor of identity in the community. In order to overcome this problem the associations set up
two schools for teaching Chinese to children and youths in the community: One in Lisbon, operating since 2000 in the premises of *Ateneu Comercial de Lisboa*, with on average 200 students\(^{19}\) and another one in Oporto, created in 1998–1999 thanks to the initiative of the *Liga dos Chineses em Portugal* and operating in a building lent by the local council, but discontinued in the meantime.

During the 1990s the number of associations grew rapidly, reaching at present 13 organisations. However, there are three main associations with greater influence and level of participation, acting in different geographical areas:

a) *Associação Luso Chinesa em Portugal*, created in 1990, with around 60-80 members, operating in the Algarve and the South of Portugal, headquartered in Almada\(^{20}\);

b) *Associação de Comerciantes e Industriais Luso-Chinesa*, created in 1997, with more than 110 members, covering the region of Greater Lisbon and Setubal and with headquarters in Lisbon;

c) *Liga dos Chineses em Portugal*, created in 1997, operating in the Northern region and headquartered in Oporto, that constitutes a mini federation of three associations: a business association, the *Associação Comercial e Industrial dos Chineses em Portugal* which has 8 members representing 22 enterprises; a cultural wing, the *Associação dos Artistas Chineses*; a political wing, the *Associação para a Promoção da Paz e a China Única*.

Three main features characterise these Associations. Firstly, in terms of objectives and motivation the interesting aspect is that their objectives are predominantly external and not domestic, involving the relations with China and the facilitation of relations with Chinese authorities. In fact, the creation of associations is aimed at obtaining a special status granted by the Chinese government which confers special advantages onto the associations’ leaders. In the context of the policies of preferential treatment attributed to Overseas Chinese, the presidents and vice-presidents of Chinese associations abroad have special access to political circles and are officially invited to visit China. In addition, they have access to preferential treatment in business matters benefiting from more favourable conditions to invest in China namely in terms of access to credit and to land at low prices. The motivation to secure access to this special status is the main reason behind the proliferation of associations and the fact that in general the number of members is low. The external motivation also explains the existence of two parallel processes, one formal and another informal one to create and register the associations. The informal process is clearly the most important one and involves the registration at the Chinese Embassy in Lisbon. This registration constitutes a necessary condition to obtain Beijing’s recognition and gain access to the preferential treatment status. The second process is a formal one which involves the creation of the association and registration according to Portuguese law and procedures. The first process precedes the second one and there are even cases

\(^{19}\) Interview with the director, Mrs Chen Xiao Hong, on 25 March 2004. The school started its activities in 2000. It operates on Saturdays. In 2003 it had a total of 126 students between 5 and 15 years, taught in seven groups. Chinese classes are taught by six teachers whose salaries are paid by the families’ contributions. The Chinese government supports the school by providing books and other teaching materials.

\(^{20}\) Interview with the president Mr Kuo Yung Hui on 30 October 2004.
of associations registered with the embassy which were never created under Portuguese law and therefore do not have any legal existence.

Secondly, the associations are characterised by a low level of participation and a limited number of members. This is the result of two factors. On the one hand, the external political objectives pursued by the associations raise the interest of the leadership in ensuring control of the organisation and restrict the access of potential competitors to preserve their positions. The reduced frequency of elections and the violation of the internal statutes are relatively widespread practices. On the other hand, those entrepreneurs who are not involved in associations do not have practical advantages and incentives to get involved, given that the main purpose of the associations is neither the provision of services to members nor the representation and defence of their interests vis-à-vis the Portuguese authorities. As a result, when an entrepreneur reaches a phase of maturity and expansion of his business and has a greater motivation to promote his interests, he is more likely to create a new association than to join an existing one. This fuels the tendency of proliferation of associations which might become more intense in the near future, the result not so much of the increasing number of Chinese immigrants in Portugal but rather a consequence of the expanding ties of the community with China, the high growth of the Chinese economy and its attraction force for investment flows.

Thirdly, there is a deficit of coordination between the different associations which tend to compete with each other rather than to cooperate. Therefore they have no common agenda for relations with Portuguese authorities as far as the promotion of common interests is concerned.

The questionnaire also addressed the issue of the kind of advantages that Chinese entrepreneurs derive from their participation in Chinese business associations. For the majority of entrepreneurs (45%) the main advantage lies in socio-cultural interaction, thus reflecting the role of associations as meeting points for the members of the community and as instruments for the expression and consolidation of its identity and values. Next come, in decreasing order of priority, “opportunity for new business”, “support for relations with the authorities”, “support for investment”, which indicates the existence of an informal role as a system of informal collective credit by means of which members provide loans to other members on a rotation basis, and largely “technical support” in particular in legal and accountancy matters. In sum, some entrepreneurs recognise that associations do provide at times some services to members but this tends to be sporadic and not a systematic activity. Associations are mainly meeting points and not organised structures to pursue members’ common interests, a finding which is in line with the motivations mentioned earlier.

One of the most remarkable phenomena that took place in the EU during the 1990s was the emergence of a Pan-European Chinese association that pursues three main objectives: mutual support for the members of different European associations; political pressure on the EU authorities in Brussels in regard to matters related to immigration and trade policies; exchange of information on the situation of Chinese communities in different countries. As far as this last aspect is concerned, that Association functions as a true
centre of “economic intelligence” based on updated and good quality information provided by experienced entrepreneurs with relevant field experience and knowledge. It organises monthly coordination meetings where each national association shares information about the dimension and characteristics of the Chinese community as well as on the macroeconomic situation, the panorama of specific sectors of the economy and the short and medium-term business and investment opportunities in the respective country.

The Chinese business associations in Portugal have also been involved in this pan-European process since the early 1990s, through the participation of different associations in the absence of a national coordinated platform. The Associação Luso-Chinesa was the first to join the European Association through the connections of Mr. Kuo Yung Hui who has been for a long time one of its Vice-Presidents.

Regarding Chinese firms’ relations with other Chinese firms operating in Portugal, more than four fifth of the entrepreneurs declare to have business relations with other Chinese firms although only 39 per cent qualify those relations as very intense while 45 per cent consider them not intense. Only 16 per cent of the entrepreneurs do not have relations with other Chinese firms operating in Portugal. In terms of the type of relations, the great majority of Chinese firms to which they relate are suppliers, emerging the position as clients in second place. Only a limited number have relations with other Chinese firms as business partners.

As far as their relations with Portuguese firms are concerned, the results confirm the existence of a good level of interaction. In fact, 85 per cent of the entrepreneurs maintain relations with Portuguese firms and half of them qualify those relations as intense. In comparison with Chinese firms it is interesting to note that the Portuguese firms tend to be more clients than suppliers to Chinese firms while the opposite was true in relation to other Chinese firms. There is, however, an important difference: Contrary to what happened in the case of relations with Chinese firms, the Portuguese firms are not business partners, suggesting that there is not enough confidence yet to build closer relationships.

Particularly interesting are the results that point to the existence of a considerable level of relations with Chinese firms from other European countries. More than half of the firms (58%) have business relations with Chinese firms from other EU countries, with 27 per cent stating that contacts are frequent and intense and 31 per cent that contacts are sporadic. This indicates that many Chinese entrepreneurs have an integrated approach to the EU single market. The Chinese firms from other EU countries are mainly suppliers to Chinese firms in Portugal confirming the preference for Chinese suppliers already detected with respect to Chinese firms in Portugal, explainable by the associated special advantages that translate into more favourable payment conditions, better prices and access to commercial credit. Interestingly enough there are signs of an emergence of relations of business partnership with Chinese firms in Europe. Relations are concentrated in three European countries, namely France, Spain and Italy. Chinese firms from these countries are wholesale suppliers of consumer goods whose levels of consumption in Portugal are below a level regarded as efficient as to justify direct
imports from China. That is the case of France for the import of food stuffs for supermarkets and restaurants (Tang Frères case), Spain, namely Madrid, for the import of food stuffs, of Italy, namely Florence, for the import of textiles and Bologna for the import of leather bags and wallets. The interview with the manager of Orientur travel agency\textsuperscript{21} provided relevant information to draw a map of business trips of the Chinese entrepreneurs within Europe which confirms the importance of the above three countries as destinies: in 2003 there were 400 trips to Paris, 200 to Italy, 100 to Spain and 50 to the Netherlands and Brussels. In the same period, Orientur sold around 1500 trips to China, mainly to Shanghai.

3.3.4 The Chinese business community’s connections with China

The nature and intensity of the ties which Chinese businessmen in Portugal maintain with China was one of the main aspects of this research, given that this dimension is rarely addressed in the majority of studies on the Chinese communities in Europe that tend to focus attention on their structure and integration in the host country.

Questionnaire results reveal that the vast majority of entrepreneurs, 93 per cent, maintain relations with China and only a minority of 5 per cent have no links with their country of origin. The high intensity of ties with China is explained not only by the recent nature of the Chinese community in Portugal that favours stronger links, but also by the dynamism of China’s economy and the opportunities associated with the Chinese market.

With respect to the kind of ties with China the most interesting, and to a certain extent surprising, findings is the complexity and sophistication of the network of connections. In fact, if the personal ties are dominant as we could expect, reflecting the ties with the family back in China and the contacts especially during the Chinese New Year, the significance of economic links is impressive and growing. Trade links were referred by 40 per cent of the entrepreneurs and involve not only imports of products from China to be sold in the Portuguese market but also exports to China. In this context the case of the firm Fei Long is illustrative. It is involved in a growing business of exports of marble blocks to China that in 2003 amounted to more than 70 containers, the expectation being that the level of marble exports to China might surpass the level of imports from China within 2-3 years. In general, the imports from China are composed of final goods while exports to China are composed of raw materials and commodities.

However, the most noteworthy development is the new phenomenon of direct investment by Chinese entrepreneurs in China. Questionnaire data demonstrates that around 20 per cent of the entrepreneurs already have investment projects in China. The interviews also revealed that another group of entrepreneurs has the intention to invest in China in the medium term so that this phenomenon is likely to grow even further in the coming years should China’s economy continue to prosper.

These investments follow two main streams of logic. The first one reflects a “business expansion” logic according to which investments in China are made in the same sectors

\textsuperscript{21} Interview with Luisa Pon, manager of Orientur, in Lisbon on 14 February 2004.
in which the entrepreneur operates in Portugal, taking advantage of the virtuous synthesis between accumulated know how, contacts in Europe and opportunities in China. A good example of this logic is the investment in an industrial unit carried out by the above-referred firm Fei Long in Shanghai with a local partner, to transform marble using advanced technology to produce both for the Chinese market and for export. The second logic implies that investments in China serve as a strategy of “business diversification” directed at sectors different from those in which the entrepreneur operates in Portugal. Those investments tend to be concentrated in the real estate and industrial sectors.

Different factors account for this increase in investment flows to China. Firstly, the high performance of China’s economy fuels the emergence of an increasing number of business opportunities. Secondly, the more favourable treatment granted by the Chinese authorities, particularly at the regional and local levels, to Overseas Chinese investors creates strong incentives. This involves advantages in terms of better conditions of access to loans in China, access to land at low prices, and simplification and reduction of bureaucracy in terms of the administrative procedures required for investment project approval. In this respect business associations play a very important role and various entrepreneurs have institutional ties with provincial and county governments in China and belong to consultative bodies at the provincial (three cases) and municipal (one case) levels. This reflects the new strategy of provincial and municipal governments, more active internationally, that promote the specific interests of their regions using the networks of Overseas Chinese entrepreneurs with origin in that region as the main instrument of their “paradiplomacy” activities.

In Portugal a few Chinese entrepreneurs play the role of “informal economic ambassadors” of certain Chinese cities. That is the case of the President of the Liga dos Chineses in Portugal who is an “ambassador” of the city of Quingdao from Zhejiang province. One of the roles these informal ambassadors perform is the mobilisation of foreign investment from European investors, in particular from SMEs, to China. So far no example could be identified of a partnership between Portuguese and Chinese entrepreneurs to invest in China that has been successfully implemented. This might be explained to a certain extent by the predominance of risk-averse behaviour and a very low propensity to cooperate with other firms of many Portuguese SMEs, as well as by barriers rooted in differences in business cultures and language. Nevertheless these partnerships can constitute a valuable potential instrument to foster the internationalisation of Portuguese SMEs insofar as these could take advantage of the guanxi networks of their Chinese partners, thus reducing risk and improving knowledge about the market.

The ties Chinese entrepreneurs in Portugal have with China are strong and actively used and promoted by the Chinese Central Government and, above all, by the regional and local authorities in China. There are clear signs of an emergence of a structured policy in relation to Chinese entrepreneurs abroad, namely in Europe, which is part and parcel of the development strategy of China and its efforts to integrate itself in the global economy. In the context of globalisation of trade flows and investments, the Chinese entrepreneurs in Europe, and in Portugal, play a strategic role at three different levels, as: (i) entry
points for Chinese exports; (ii) investors in China through the reinvestment of the profits from their activities in Europe and catalysts of investment flows from European businessmen; (iii) facilitators of the process of Chinese direct investment in Europe.

The rate of internationalisation of Chinese SMEs in Portugal is very high especially for SMEs standards. In fact, taking into account the various forms of internationalisation (import, export, partnership with foreign firms concerning trade, foreign direct investment) one can conclude that 50 per cent of the enterprises have experienced one or various forms of internationalisation. In comparative terms, it is worthwhile to stress that the rate of internationalisation of Chinese enterprises in Portugal, predominantly micro enterprises, is clearly higher than the average rate of internationalisation of SMEs in the EU of 36 per cent\(^2\) and a lot higher than the rate for Portuguese SMEs which is around 20 per cent.

4. CONCLUSIONS

The Chinese business community in Portugal is rather heterogeneous and involves three sub-groups of Chinese entrepreneurs: Those from Mozambique who arrived in Portugal in the 1970s; those from the People’s Republic of China (PRC) that constitute the dominant group and who chiefly stem from Zhejiang province (like in other European countries, in particular in Southern Europe); and those who came from the South China triangle in the 1990s (Pearl River delta, Macau, Hong Kong and Taiwan). These three groups do not only differ in terms of their geographical origin but above all their language, cultural references and the width of their network of international contacts. Therefore, they have different identities and function separately with a low level of interaction.

The group from the PRC can be divided according to its two phases of emigration. The first sub-group emigrated from mainland China in the 1980s in a context of an “immigration of necessity”, motivated by the economic difficulties in the PRC and chose Portugal fundamentally because of existing family ties with resident immigrants. The second sub-group is characterised by an “immigration of opportunity”. They immigrated from the second half of the 1990s onwards, taking advantage of the process of Chinese economic integration in the world economy and choosing Portugal based on business opportunities. That latter sub-group does not look at Portugal in an isolated manner but as part and parcel of the European market. Those immigration flows, mostly driven by the search for opportunity, have been playing a pro-active role in fostering China’s integration in the global economy: both as windows for the penetration of Chinese exports and also by capturing and channelling foreign direct investment to China.

With respect to business characteristics, the Chinese firms are typically micro and small family-based enterprises (with a centralised decision structure). However, this does not imply the absence of entrepreneurs with an international dimension. Those entrepreneurs,

\(^{2}\) European Commission, Observatory of European SMEs, ENSR Enterprise Survey 2003, p.18
in line with the Chinese organisational business model, opt for a number of SMEs rather than a large firm, which allows them to reduce visibility and better control risk. Two distinct mechanisms are made use of to that end: geographical dispersion of business, involving different establishments in different regions of the country, and sectoral diversification with different firms operating in different sectors but in a coordinated way. There is high flexibility in terms of speed of entry and exit into given businesses and market segments. The response to changes is more associated with the exist of a given sector (and entry in another one) than with adjustment to market changes in the same sector, rendered more difficult by the centralisation of decision processes which are controlled by the leader of the family group.

In terms of sector of activity, the Chinese firms operate above all in the service sector, with particular incidence in trade, that is, retail and wholesale trade as well as import-export. This fact reflects an evolution to the extent that the weight of restaurants – their traditional sector – decreased. Moreover, in general terms the Chinese firms function on a scale that is larger than the national Portuguese market, i.e. Iberian or European, and with a certain level of sophistication given that they adopt a perspective of enlarged value chain that also starts to include the secondary sector. It should be noted that one of the innovative tendencies consists in the emergence of Chinese investment in industry, above all in the textile and clothing sector, a phenomenon that had taken place already before in other European countries such as Italy and Spain. The Chinese entrepreneurs in Portugal thus display an integrated approach towards the European single market, taking advantage of more competitive supplies in other member states, and seizing opportunities to enter new segments or markets on a European scale.

The Chinese business community in Portugal explores its guanxi network that extends beyond Portugal to other communities in the EU to obtain more favourable conditions, including commercial credit. The mutual trust in these networks allows for lower transaction costs. Chinese firms relate to other Chinese firms in Portugal above all as customers and suppliers, but contrary to expectations their relationship is more complex and far-reaching. One of the more notable features is the number of firms with relations to other Chinese firms that operate in other countries of the European Union, with Spain, France and Italy being the most important ones, in particular as suppliers, thus suggesting the existence of a relatively well developed network of a European scale. This network reflects privileged guanxi relations that in turn allow the Chinese entrepreneurs in Portugal to improve their competitiveness by obtaining commercial credit and more favourable prices and payment conditions. Taking advantage of business opportunities in other European countries also indicates a European approach to business. In this context it needs to be emphasised that it is above all the group of more recent immigrants that depict great mobility within Europe; in some cases their entry in Portugal has even been the result of re-emigration from some other European country. One may thus conclude that the Chinese entrepreneurs have a more pronounced European vision, and that they take advantage of opportunities in function of that logic, than many Portuguese entrepreneurs at the SME level whose focus is still very much restricted by the national or even the local market.
The relationship of Chinese entrepreneurs with the PRC is intense, especially so in regard to their regions of origin. The most significant result is that these relations are not limited to a social but ever more take on an economic dimension, be it at the commercial level or be it, even more importantly, at the level of direct investment in China. In effect, about 20 per cent of Chinese entrepreneurs have investments in China, motivated by business opportunities associated with the growth of the economy and by diversification into business sectors different from those in which they operate in Portugal. This intensification of economic ties with China represents a convergence of interests of the Chinese entrepreneurs in Portugal and of the regional authorities in China, given that the former are strategically placed to act as windows for Chinese exports to Europe and as catalysts of foreign investment.

The network of Chinese associations has a tight relation with and an instrumental function regarding the promotion of economic relations between the Chinese entrepreneurs in Portugal and China. It is interesting to note that Chinese associations in Portugal have essentially external objectives rather than internal ones. They are being used fundamentally to strengthen privileged relations with the Chinese central government and with Chinese local authorities and confer on their representatives a special statute and a more favourable treatment when investing in China.

The Overseas Chinese business communities play a strategic role in facilitating the integration of China in the global economy. Contrary to the initial hypothesis this role is not restricted to trade and investment flows but is rather more complex and sophisticated, featuring three different dimensions.

i) Catalysts of economic flows: entry points for Chinese exports, of particular relevance in terms of diversification of exports to non-traditional markets; investors in China through the application of their profits, in particular in their regions of origin; catalysts of foreign direct investment to China through the mobilisation of capital and entrepreneurs, in particular SMEs, from their host countries; catalysts of Chinese foreign direct investment in their host economies, reflecting the application of China’s trade surplus.

ii) Producers and providers of economic intelligence to China, as illustrated by the functioning of the network of business associations, notably the Pan-European association, so that the Chinese entrepreneurs in Europe provide China with know-how about business cultures, specific markets, consumer preferences and business opportunities on the basis of their field experience (thus providing critical information for the diversification of markets and the rapid response to changes).

iii) Agents of “paradipomacy” strategy of the Chinese regional and local governments, functioning as informal “ambassadors” and pro-actively building institutional links between Chinese regions and their host countries, thus contributing for China to explore and take advantage of informal channels that complement the formal ones explored by the Central Government.
As the knowledge economy, a complementary though distinct process from globalisation, deepens the role of the Overseas Chinese might gain new relevance as they become integrated in the knowledge regions both in Europe and in China as active participants in the networks that generate and diffuse knowledge. Still, while the very functioning of Chinese firms and especially their networking are one of the bases for their present competitiveness, there are also inherent limitations in regard to innovation. The future challenge for Chinese firms will be to promote innovativeness within firms and to insert their networking in a logic of regional innovation systems which in turn requires their integration in local clusters.

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APPENDIX 1 - Table 1: Western and Chinese business cultures in comparison

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<th>Western</th>
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<tr>
<td>Prime objective of firm</td>
<td>Maximisation of shareholder value</td>
<td>Serve family interests</td>
</tr>
<tr>
<td>Financial transparency</td>
<td>Public financial reports</td>
<td>Financial information kept secret</td>
</tr>
<tr>
<td>Sources of financing</td>
<td>Formal, market</td>
<td>Family and friends of family</td>
</tr>
<tr>
<td>Transfer of property</td>
<td>Mergers and acquisitions</td>
<td>Firms not sold due to family obligations</td>
</tr>
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<td>Advertising</td>
<td>Marketing and advertising essential to promote brand and assure sales</td>
<td>Little relevance, sales made via the family network</td>
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<tr>
<td>Management</td>
<td>Professional management, recruitment based on qualifications</td>
<td>Senior managers exclusively recruited from within the family circuit</td>
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<td>Time horizon</td>
<td>Emphasis on short run and profit</td>
<td>Emphasis on long run, with special attention to prestige of family</td>
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Source: Adapted from Ming-Jer (2001).
APPENDIX 2 – Summary of the paper in Portuguese / Sumário

O presente estudo analisa a comunidade de negócios chinesa em Portugal com base numa investigação original. A análise desta comunidade é feita quer na perspectiva da sua interacção com o tecido empresarial português quer da sua integração no mercado internacional, em particular as suas ligações com redes de Overseas Chinese na Europa e com a China.

O estudo pretende contribuir para colmatar o défice de conhecimento relativamente ao funcionamento das redes de Overseas Chinese na Europa bem como as bases das suas vantagens competitivas tendo como pano de fundo a integração da China na economia global através do comércio e do investimento e as suas repercussões locais e sectoriais.

A análise baseia-se em fontes primárias obtidas a partir de questionários e entrevistas realizadas com empresários chineses e associações empresariais no período entre Novembro de 2003 e Março de 2005. O estudo integra-se num projecto mais amplo financiado pela FCT que aborda igualmente as questões da política de imigração e dos fluxos migratórios chineses para a Europa.

A comunidade de negócios chinesa em Portugal é heterogénea. Relativamente às características do negócio podemos afirmar que as empresas chinesas são tipicamente microempresas e pequenas empresas (com uma estrutura de decisão centralizada) de cariz familiar. Contudo, tal não implica que não existam empresários com alguma dimensão até internacional. O modelo empresarial chinês explica a dispersão geográfica do negócio envolvendo diferentes estabelecimentos em diferentes zonas do país bem como a diversificação sectorial com diferentes empresas a operar de forma articulada em sectores diferenciados, como forma de gestão do risco.

Quanto ao sector de actividade, as empresas chinesas operam sobretudo no sector dos serviços, com particular incidência no comércio quer de retalho quer grosista, bem como no import-export. Uma das tendências inovadoras consiste na emergência do investimento chinês na indústria, sobretudo no sector têxtil e vestuário, repetindo-se assim em Portugal um fenómeno já verificado anteriormente noutros países europeus como em Itália e Espanha. Os empresários chineses têm uma abordagem integrada do mercado europeu, tirando partido de fornecedores mais competitivos noutros países membros e aproveitando oportunidades de entrada em novos segmentos ou mercados à escala europeia.

A comunidade de negócios chinesa explora a sua rede de guanxi que se estende para além de Portugal abrangendo outras comunidades na União Europeia (UE) para obter condições mais favoráveis, incluindo crédito comercial. A confiança mútua nestas redes permite reduzir os custos de transacção. Um dos traços mais notáveis é o número de empresas com relações com empresas chinesas que operam noutros países da UE, surgindo Espanha, França e Itália como os mais importantes, essencialmente como fornecedores, o que sugere a existência de uma rede à escala europeia relativamente
desenvolvida. Esta rede traduz relações privilegiadas de guanxi que por sua vez permitem aos empresários chineses em Portugal reforçar a sua competitividade através da obtenção de crédito comercial e de preços e condições de pagamento mais favoráveis.

O nível de relacionamento dos empresários chineses com a República Popular da China (RPC) é intenso, privilegiando as zonas de origem. O resultado mais significativo é que essas relações não se limitam a um plano social mas têm cada vez mais uma dimensão económica quer ao nível comercial quer, ainda mais relevante, ao nível do investimento directo na China. Com efeito, cerca de 20% dos empresários chineses têm investimentos na China, motivados pelas oportunidades de negócio associadas ao crescimento da economia e pela diversificação num sector de negócio diferente daquele em que operam em Portugal. Esta intensificação dos laços económicos com a China traduz uma convergência de interesses dos empresários chineses em Portugal e das autoridades regionais na China, uma vez que aqueles desempenham funções estratégicas como portas de entrada de exportações da RPC na Europa e como angariadores de investimento estrangeiro.

Os empresários chineses mantêm relações privilegiadas com a China e desempenham um papel estratégico no plano informal, como agentes de “paradiplomacia” de províncias e governos locais da China, no processo de integração e consolidação da posição competitiva da China na economia global. A comunidade de negócios chinesa em Portugal pode ser encarada pelas empresas portuguesas como facilitadora das oportunidades de exportação e investimento directo nos respectivos mercados (regionais) de origem. O seu know-how e as ligações pessoais e institucionais podem contribuir para reduzir o risco e os custos de transacção criando assim condições mais favoráveis para uma internacionalização das pequenas e médias empresas (PMEs) portuguesas.