China's Corporate View on FDI in the EU

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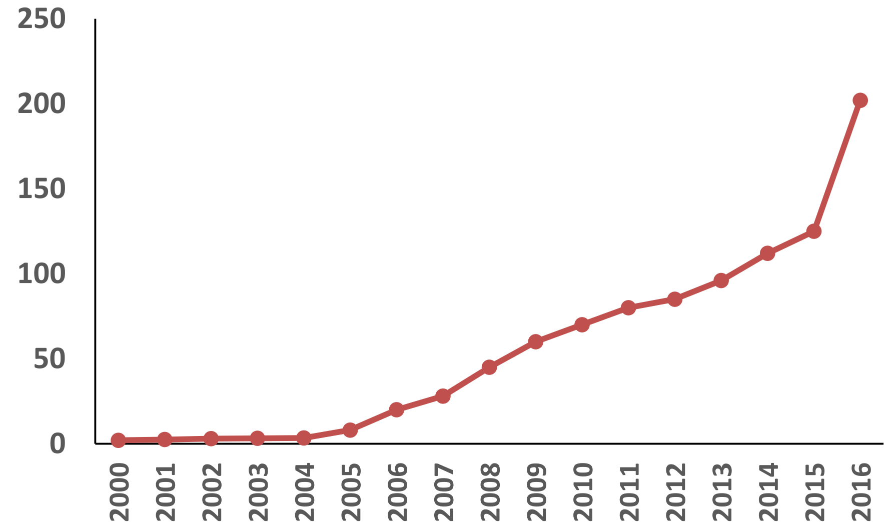
Chinese Overseas Direct Investment (ODI)

- Record high reached in 2016
- SOEs still account for the majority of ODI
- SOEs controlled by central SASAC are curbing their investments
- Regional SOEs have participated strongly in the 2016 boom
- Private companies have been strong in overseas acquisitions
- From 2015 – 2020 an ODI of USD 1 trillion has been projected (2)



Sources: *(1) MOFCOM (2017)*
(2) MERICS (2015)

Why do Chinese Companies Invest Overseas

- To gain access to technology (IP)
- To enter to new markets, or increase market shares and distribution capabilities
- To integrate overseas assets into a global operation
- For generating price premiums through acquisition of brands (and copyrights)
- Infrastructure investments strengthen overseas footholds and bargaining power for future projects
- To strengthen trade routes, e.g. in context of the “One Belt, one Road”-Strategy (“The New Silk Road”)
- For industrial diversification
- To hedge existing or potential trade barriers
- To gain experience how to operate in foreign markets
- To relocate assets
- Etc.

Macro Effects of ODI Boom

- Large capital outflow (Chinese currency reserves are down to USD 3.12 trillion, which is the lowest since 2011)
- Currency effects (down to 0.145 USD/CNY from 0.165 USD/CNY in 2013, -12 %)
- Diversification of assets
- Increase of corporate debt levels
- Exposure to corporate overseas risk
- Political leverage
- Etc.

Increasing the Efficiency of ODI

- Expected that by end 2017 new regulations will come in place
- Pao Gongsheng, The Central Bank Vice Governor of the People's Bank of China, at the National People’s Congress on 10.03.2017:
  - “Overseas mergers and acquisitions can sometimes resemble a rose with thorns. You must be careful and do your due diligence”
  - “A lot of Chinese companies already have high levels of debt and then borrow large sums to make overseas purchases. Others pretend to be investing, but are actually just moving their assets”
  - “It was irrational for a Chinese steel factory to acquire a food and beverage company, or for a Chinese restaurant Business to buy an online gaming company abroad”

“One Belt, one Road” - Routes of the 21st Century Silk Road

THE EU&FDI LOVE LOST?

Jiayuguan - Connecting point to Central Asia

Source: *Own photo, exhibited in "China's Empty Quarters", 46 Fengjia Hutong, Beijing (2014)*

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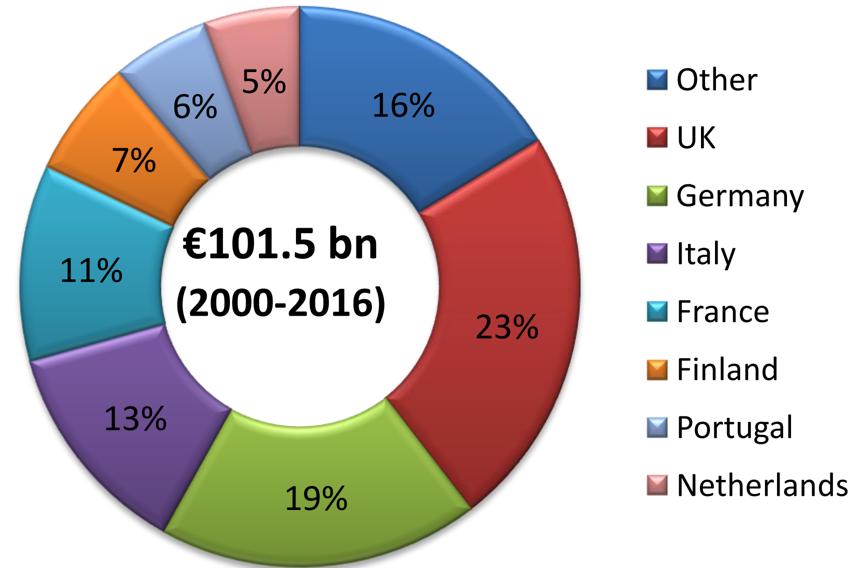
Chinese ODI in the EU by Country

- Different EU Countries attract Chinese FDI for different reasons.
- Southern Europe increased its share in Chinese FDI in recent years (e.g. State Grid is investing heavily into the power grid of Mediterranean Countries).
- Some target companies are notoriously loss making and it is not always clear how the new owner will turn them profitable under local conditions.
- Investments in Real Estate are slowing down



Source: *Rhodium, Merics (2016)*

Recent Examples of Chinese Acquisitions in the EU

Buyer	Target	bn. EUR	Industry	Country
China Nat. Chem. Corp.	Pirelli	7.1	Tires	Italy
Tencent	Supercell	6.7	Gaming	Finnland
Midea	Kuka	4.4	Robotics	Germany
Consortium	Global Switch	2.8	Telecom	UK
HNA	Avolon	2.3	Aviation	Ireland
Ctrip	Skyscanner	1.7	Travel	UK
Beijing Enterprise	EEW Energy	1.4	Energy	Germany
Shandong Ruyi	SMCP Group	1.3	Fashion	France
Wanda AMC	Odeon & UCI	1.1	Entertainment	UK
COSCO	Piraeus port	0.4	Shipping	Greece
Fujian Grand Chip	Aixtron	Approval withdrawn after U.S. intervention, that products may be of dual use		Germany

China’s Corporate View on FDI in the EU: A Bucket List

- Investments in EU countries are generally attractive, but it is difficult to find good targets
- Valuation of deals is complex, because they have to be seen also in the context of non-tangible values for the mother company
- Chinese companies have a low management competence for European companies. Given that some targets are loss making, this exposes the buyer to large risks
- Experience how to best utilise acquired technology and IP has to be developed
- “Exotic” diversification moves are unlikely to have a positive outcome
- If you don’t know the country, at least you should know the industry
- Anticipation of new regulatory environment in China, which will improve the efficiency of Chinese overseas investments
- If the investment is meant also to serve other EU markets, then stay away from the UK until trade terms become clear
- Etc.

Thank You