2017

Rising Influence

Assessing China's Record FDI Surge in North America and Europe

Contents

Introduction

Chinese outbound investment hit another record high in 2016, rising to $200 billion globally. Nearly half of this investment targeted assets in North America and Europe, a reflection of China's shift from commodity to technology and services sector acquisitions as it transitions to a middle-income economy.

In 2016, Chinese direct investment nearly tripled in North America and doubled in Europe, reaching a combined value of $94.2 billion in both regions, up 130% from $41 billion in 2015. Before 2008, both regions received less than $1 billion in Chinese investment per year.

Although the total number of completed deals in both regions remained consistent with previous years at 330 transactions (155 in North America and 175 in Europe), the average deal value more than doubled to $290 million, up from $120 million in 2015, as Chinese investors pursued more medium and large-sized deals.

> "Well over half of all Chinese direct investment into North America and Europe since 2000 has taken place in the last three years, marking the continued influence of globalization and the rapid development of China's economy."
>
> **MICHAEL DE FRANCO,** Chair of Baker McKenzie's Global M&A Practice

Privately-owned Chinese companies led the investment trend, outpacing state-owned enterprises to close deals accounting for 70% of total deal value in 2016. This signals the continued rise of corporate China in the global economy as the government pursues a new growth model that incentivizes Chinese companies to acquire advanced technology, consumer brands and safe haven assets.

Chinese FDI would have been even higher in 2016 if not for a record number of canceled transactions. In 2016, Chinese investors canceled or withdrew 30 deals (10 in the US and 20 in Europe) worth an unprecedented $74 billion. Some of this increase can be attributed to a much higher number of attempted transactions since mid-2015. However, Chinese investors also faced greater challenges with China's recent measures to slow capital outflows and closer screening of inbound deals in the US and Europe.

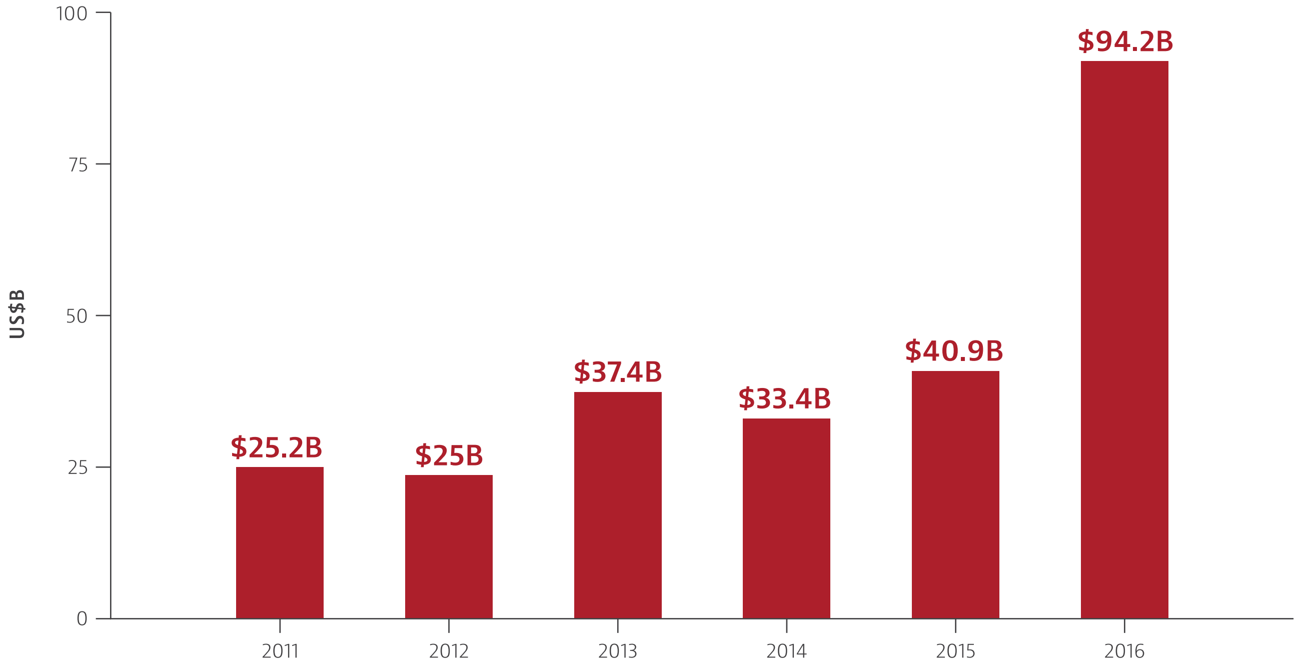
This report provides an update of our **2016 study** comparing Chinese FDI patterns in North America and Europe. We review Chinese investment trends in both regions over the last year, providing insight on deal values and volumes, target industries and geographies, investor type and canceled transactions. We also present an outlook for Chinese investment in 2017.

Key trends in 2016: Another record year

#1 CHINESE DIRECT INVESTMENT IN NORTH AMERICA AND EUROPE MORE THAN DOUBLED IN 2016.

- The combined value of completed Chinese FDI transactions in both regions totaled more than $94.2 billion, up 130% from the previous benchmark of $41 billion in 2015. A growing appetite for cutting-edge technology, consumer brands and safe haven assets in advanced economies drove this huge rise as Chinese companies sought to diversify out of their slowing home market.
- Acquisitions fueled the increase, accounting for 97% of total investment in 2016. Greenfield investment in offices, warehouses, manufacturing operations and R&D facilities comprised 3% of total investment, down from an average of 10% in the past five years.
- The total number of completed deals remained flat at 330 transactions, with 155 deals in North America and 175 in Europe. By comparison, Chinese investors closed 347 deals in 2015 (186 in North America and 161 in Europe) and 363 deals in 2014 (184 in North America and 179 in Europe).
- The average deal value of Chinese investment in both regions more than doubled to $290 million, up from $120 million in 2015. The average deal size in North America was $310 million (up from $90 million in 2015), compared to $260 million in Europe (up from $150 million in 2015).
- Chinese FDI would have been even higher if not for a significant rise in canceled, withdrawn or delayed transactions, such as ChemChina's $43 billion acquisition of Swiss agribusiness giant Syngenta, which was put on hold because of pending antitrust reviews in multiple jurisdictions. In 2016, 30 deals worth $74 billion were canceled (10 in the US and 20 in Europe).

TOTAL VALUE OF CHINESE FDI TRANSACTIONS IN NORTH AMERICA AND EUROPE

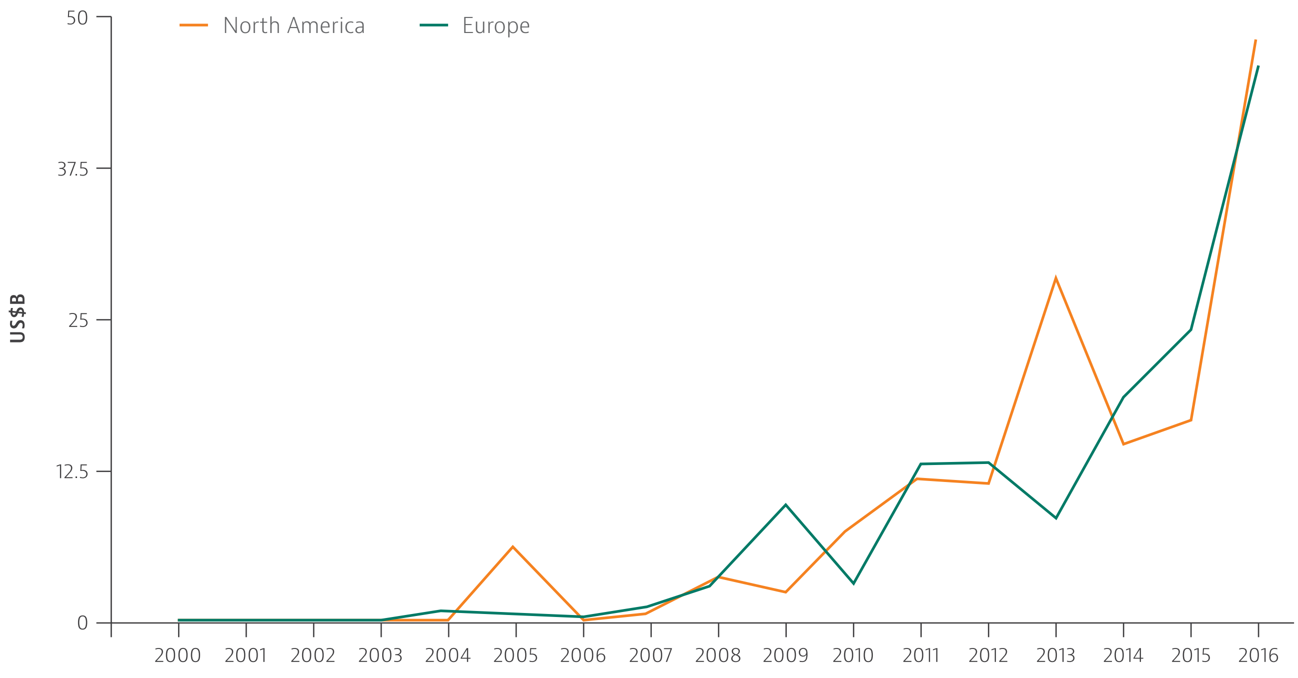


Source: Rhodium Group. Data represents the combined value of direct investment transactions by Mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.

#2 NORTH AMERICA OVERTOOK EUROPE AS THE TOP TARGET MARKET FOR CHINESE INVESTORS BY DEAL VALUE.

- While Europe attracted more Chinese investment in 2014 and 2015, North America took the lead in 2016 with investment of $48 billion, compared to $46 billion in Europe. Chinese deals targeting US assets accounted for 94% of the North American total.
- At $2.8 billion, Chinese investment in Canada rose 120% in value to reach a three-year high, but accounted for only 6% of total investment in North America and remained far below deal totals during the energy investment boom from 2007 to 2013.
- Overall, the growth trajectory of Chinese investment in North America and Europe since the early 2000s has been remarkably similar, with large transactions tipping the balance from year to year. Since Chinese investment took off in 2007, the difference in Chinese FDI in the two regions has averaged only $630 million per year.

VALUE OF CHINESE FDI TRANSACTIONS IN NORTH AMERICA VS. EUROPE



Source: Rhodium Group

TOP CHINESE FDI TRANSACTIONS IN NORTH AMERICA AND EUROPE IN 2016

NORTH AMERICA			EUROPE		
Investor	Target	Value	Investor	Target	Value
HNA	Ingram Micro	$6B	Consortium led by Tencent	Supercell	$7.4B
Haier	GE Appliances	$5.6B	Midea	KUKA	$4.7B
Anbang	Strategic Hotels portfolio	$5.5B	Chinese Consortium	Global Switch	$3B
Apex Technology	Lexmark	$3.6B	HNA	Swissport International	$2.8B
Wanda	Legendary Entertainment	$3.5B	HNA	Avolon	$2.5B

Source: Rhodium Group

"Chinese companies are sophisticated buyers, using varied structures to access new markets and sectors."

CRAIG ROEDER, M&A Partner in Baker McKenzie's Chicago office

#3 IN NORTH AMERICA, CHINESE INVESTORS TARGETED REAL ESTATE, TRANSPORT AND CONSUMER PRODUCTS; IN EUROPE, THEY PURSUED INFORMATION TECHNOLOGY, INFRASTRUCTURE AND INDUSTRIAL ASSETS.

INDUSTRY HIGHLIGHTS IN NORTH AMERICA

- Chinese investors' largest targets were real estate ($17.4 billion); transport, utilities and infrastructure ($6 billion); consumer products and services ($5.7 billion); and entertainment ($4.8 billion). Together these industries accounted for nearly 70% of Chinese investment in the region.

- Chinese investment in electronics ($4.3 billion) also rose sharply, primarily because of Apex Technology's $3.6 billion purchase of computer printer maker Lexmark — the largest US electronics acquisition by a Chinese company to date.

- With total deal value of $1 billion, Chinese M&A activity in the health and biotechnology sector had another record year, compounding the rapid growth of Chinese investment in the industry since 2014.

- The biggest drops in Chinese investment were in energy ($600 million compared to $1.9 billion in 2015), a reflection of China's shift away from the large commodities deals that dominated Chinese outbound investment from 2008 to 2013, and financial services ($1.9 billion compared to $3 billion in 2015). Although Chinese interest in the financial sector remains healthy, no large transactions closed in 2016.

- North America far surpassed Europe in attracting Chinese real estate investment, driven by several large hotel acquisitions, including Anbang's $5.5 billion purchase of Strategic Hotels, HNA Group's $2 billion acquisition of Carlson Hotels and China Life Insurance's $2 billion investment in a Starwood select-service hotel portfolio. China's outbound travel boom has fueled Chinese acquisitions of hotel and travel businesses, while US commercial real estate has become a popular safe haven for Chinese investors seeking diversification.

- North America also remained slightly ahead in consumer products (Haier's $5.6 billion acquisition of GE Appliances) and entertainment (Wanda's $3.5 billion purchase of Legendary, a top Hollywood movie production company), a reflection of the US's strength in these sectors.

TOP INDUSTRIES TARGETED BY CHINESE INVESTORS IN NORTH AMERICA (US$B)

	Investment in 2016	Investment in 2015	Investment 2000-2016
1. Real estate and hospitality	**$17.4**	$5.3	$30.2
2. Transport, utilities and infrastructure	**$6.0**	$0.3	$6.5
3. Consumer products and services	**$5.7**	$0.1	$6.7
4. Entertainment	**$4.8**	$1.6	$9.6
5. Electronics	**$4.3**	$0.4	$5.0
6. Information and communications technology	**$3.4**	$1.3	$14.6
7. Financial and business services	**$1.9**	$3.0	$6.0
8. Automotive	**$1.0**	$1.0	$4.2
9. Health and biotechnology	**$1.0**	$0.9	$3.8
10. Agriculture and food	**$0.8**	$0.2	$8.6
11. Basic materials	**$0.8**	$0.5	$2.0
12. Energy and power generation	**$0.6**	$1.9	$46.8
13. Aviation	**$0.5**	$0.1	$1.3
14. Industrial machinery and equipment	**$0.2**	$0.2	$1.1
15. Metals and minerals	**$0.2**	$0.1	$9.6

Source: Rhodium Group

INDUSTRY HIGHLIGHTS IN EUROPE

- Chinese investors' biggest targets were ICT ($13.7 billion); transport, utilities and infrastructure ($12.2 billion); and industrial machinery ($6.2 billion). In 2016 these three sectors accounted for 70% of total Chinese investment in the region as Chinese buyers targeted assets like Finnish video game developers (Tencent's $7.8 billion acquisition of Supercell), Irish aircraft fleets (HNA's $2.5 billion acquisition of Avolon) and Swiss luggage and cargo handlers (HNA's $2.8 billion acquisition of Swissport International).

- Chinese investment in Europe's entertainment ($2.9 billion, up from $1 billion in 2015) and consumer products and services sectors ($1.9 billion, up from $300 million in 2015) also rose significantly as Chinese investors targeted Europe's strong fashion brands, soccer clubs and related assets.

- Chinese investment dropped in real estate ($2.9 billion compared to $7.4 billion in 2015), particularly in the UK where the Brexit referendum heightened uncertainty about the pound sterling exchange rate and the UK's economic outlook. It was also down in automotive ($1 billion compared to $8.4 billion in 2015), largely because of a megadeal in 2015 (ChemChina's $7.7 billion takeover of Italian tire maker Pirelli) that spiked total deal value that year.

- For the first time, Europe surpassed North America in Chinese ICT investments because of major acquisitions of software companies, including Tencent's $7.4 billion purchase of Supercell and online travel company Ctrip's $1.7 billion takeover of British ticketing website Skyscanner. Technology acquisitions such as a Chinese consortium's $3 billion purchase of UK data center operator Global Switch also pushed Europe ICT deal values higher.

- Europe continued to attract more Chinese investment in industrial machinery and technology than North America, such as Midea's $4.7 billion acquisition of German robot manufacturer KUKA and ChemChina's $1 billion purchase of German industrial machinery maker KraussMaffei.

- Europe also attracted more investment in transport, utilities and infrastructure, including HNA's three acquisitions in air logistics, Beijing Enterprise's $1.6 billion investment in German waste utility EEW Energy, and Firion Investments' $1.6 billion acquisition of Spanish utility company Urbaser.

- Renewable energy assets were also big targets, such as China Three Gorges' $700 million acquisition of BCP Meerwind and China General Nuclear's $400 million purchase of 14 wind farms from Gaelectric in Ireland.

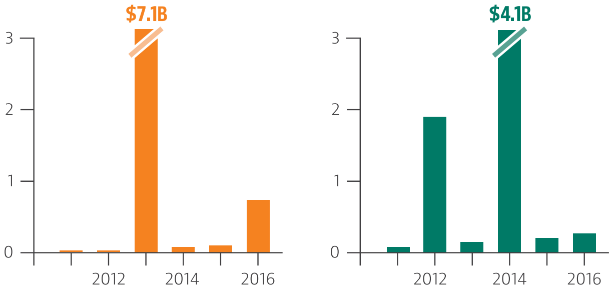
TOP INDUSTRIES TARGETED BY CHINESE INVESTORS IN EUROPE (US$B)

	Investment in 2016	Investment in 2015	Investment 2000-2016
1. Information and communications technology	**$13.7**	$2.4	$19.7
2. Transport, utilities and infrastructure	**$12.2**	$0.6	$22.7
3. Industrial machinery and equipment	**$6.2**	$0.7	$13.3
4. Entertainment	**$2.9**	$1.2	$4.4
5. Real estate and hospitality	**$2.9**	$7.4	$17.3
6. Energy and power generation	**$2.1**	$1.0	$23.1
7. Consumer products and services	**$1.9**	$0.3	$3.5
8. Automotive	**$1.0**	$8.4	$17.0
9. Financial and business services	**$0.9**	$1.6	$5.0
10. Health and biotechnology	**$0.8**	$0.1	$2.1
11. Metals and minerals	**$0.5**	$0.1	$3.6
12. Agriculture and food	**$0.3**	$0.2	$7.4
13. Aviation	**$0.3**	$0.0	$0.6
14. Basic materials	**$0.1**	$0.1	$3.3
15. Electronics	**$0.1**	$0.0	$1.6

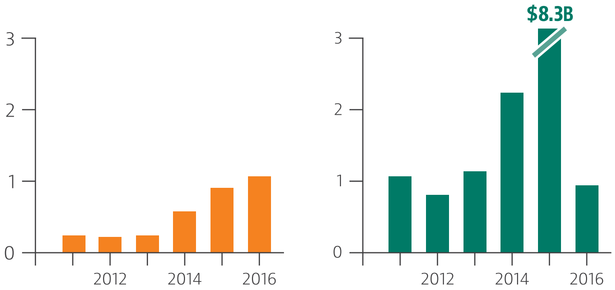
Source: Rhodium Group

CHINESE FDI TRANSACTIONS IN NORTH AMERICA AND EUROPE BY INDUSTRY (US$B) 2011-2016

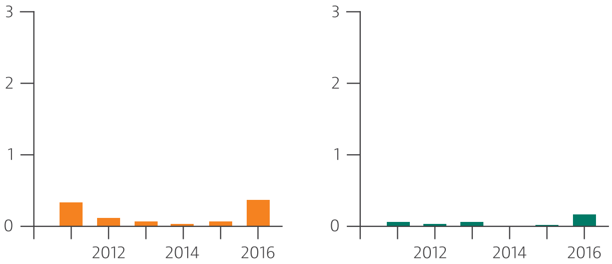
Agriculture and food



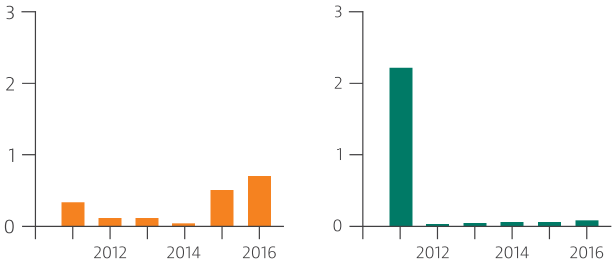
Automotive



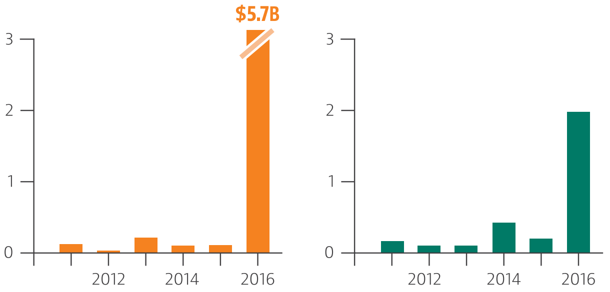
Aviation



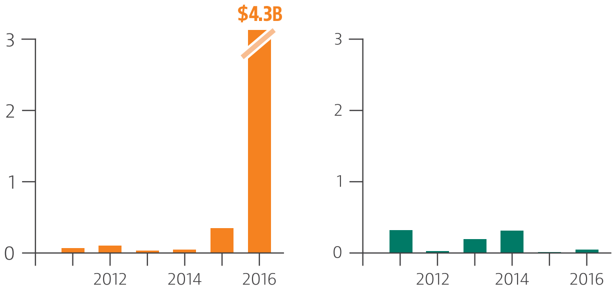
Basic materials



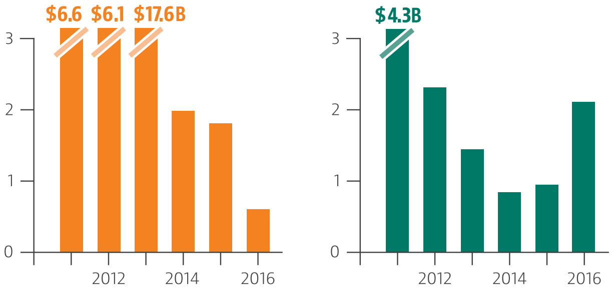
Consumer products and services



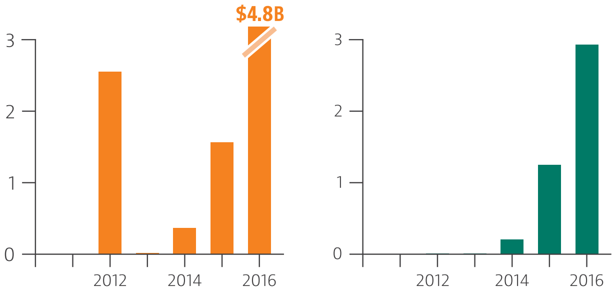
Electronics



Energy and power generation



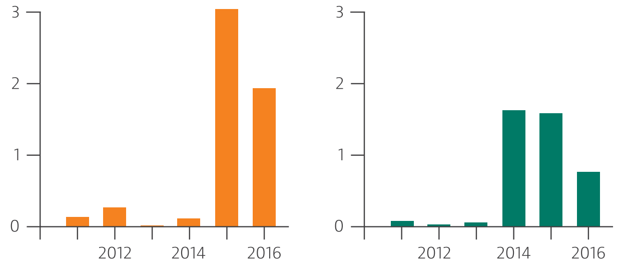
Entertainment



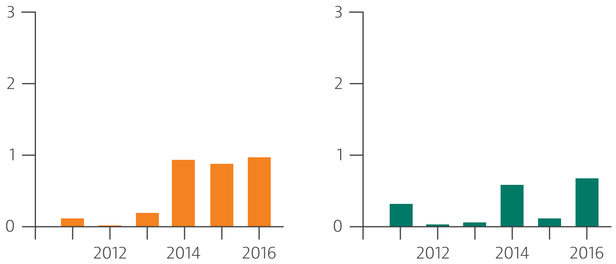
Source: Rhodium Group

NORTH AMERICA EUROPE

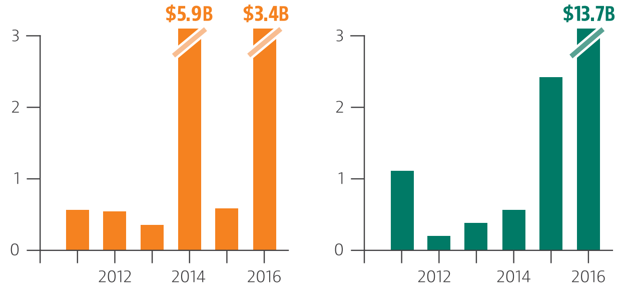
Financial and business services



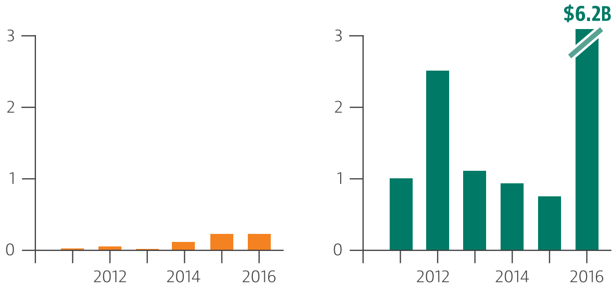
Health and biotechnology



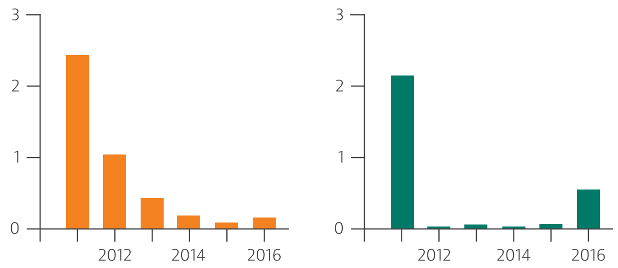
Information and communications technology



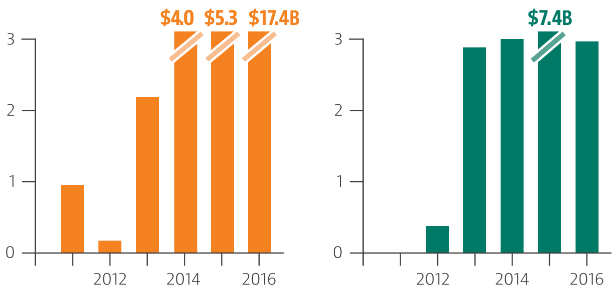
Industrial machinery and equipment



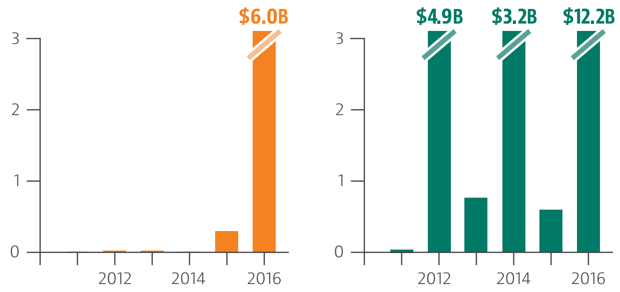
Metals and minerals



Real estate and hospitality



Transport, utilities and infrastructure

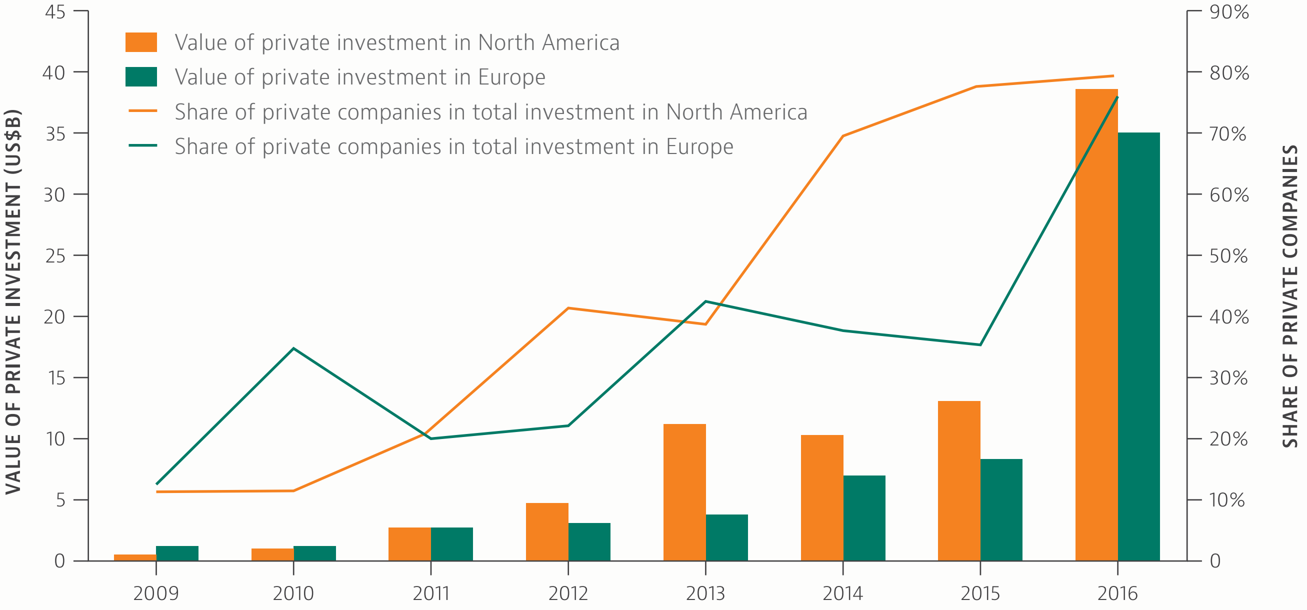


#4 PRIVATELY-OWNED CHINESE COMPANIES DROVE ACQUISITIONS IN NORTH AMERICA AND EUROPE.

- Private corporations accounted for 70% of Chinese investment in both regions in 2016, rising to $67 billion from $21.4 billion in 2015. This rise in private investment vastly outpaced the increase in state-owned investment, which grew to $27.5 billion, up from $19.4 billion in 2015. The dominance of private sector acquisitions represents the continuation of a recent trend, as well as greater scrutiny of SOEs in the US and Canada.
- The most active Chinese buyers in 2016 included veteran investors such as HNA Group, Haier, Tencent, Anbang and Wanda, as well as newcomers like Chinese appliance giant Midea, printer cartridge maker Apex Technology and Ctrip, China's largest online travel company.
- State-owned enterprises continued to invest more in Europe, accounting for 24% of total Chinese FDI in the region in 2016, versus 20% of Chinese FDI in North America. This is largely because Europe has more attractive assets in sectors dominated by SOEs in China, such as machinery, automotive, infrastructure and utilities.
- The percentage of acquisitions by Chinese financial investors, companies that primarily invest for financial returns such as sovereign funds and private equity firms, dropped in 2016, bucking a growing trend. Since 2013, transactions by Chinese financial investors had grown rapidly, accounting for 53% of total deal value in North America and 27% in Europe in 2015. In 2016, however, these investments accounted for only 29% of total deal values in North America and 26% in Europe, reflecting the impact of the Chinese government's recent efforts to curb capital outflows of investments of a primarily financial nature.
- More than half of acquisitions by Chinese financial investors in 2016 targeted the real estate and hospitality sector. Other big targets included ICT, transport and infrastructure, and entertainment. Although investment by Chinese consortiums and private equity firms has risen in recent years, particularly in the ICT sector, most of the large deals continue to involve individual investors.
- Meanwhile strategic FDI investments by Chinese companies pursuing acquisitions to grow their core business areas more than doubled in both regions, rising to $34.2 billion in North America and $33.3 billion in Europe, up from $14.3 billion and $12.4 billion respectively in 2015.

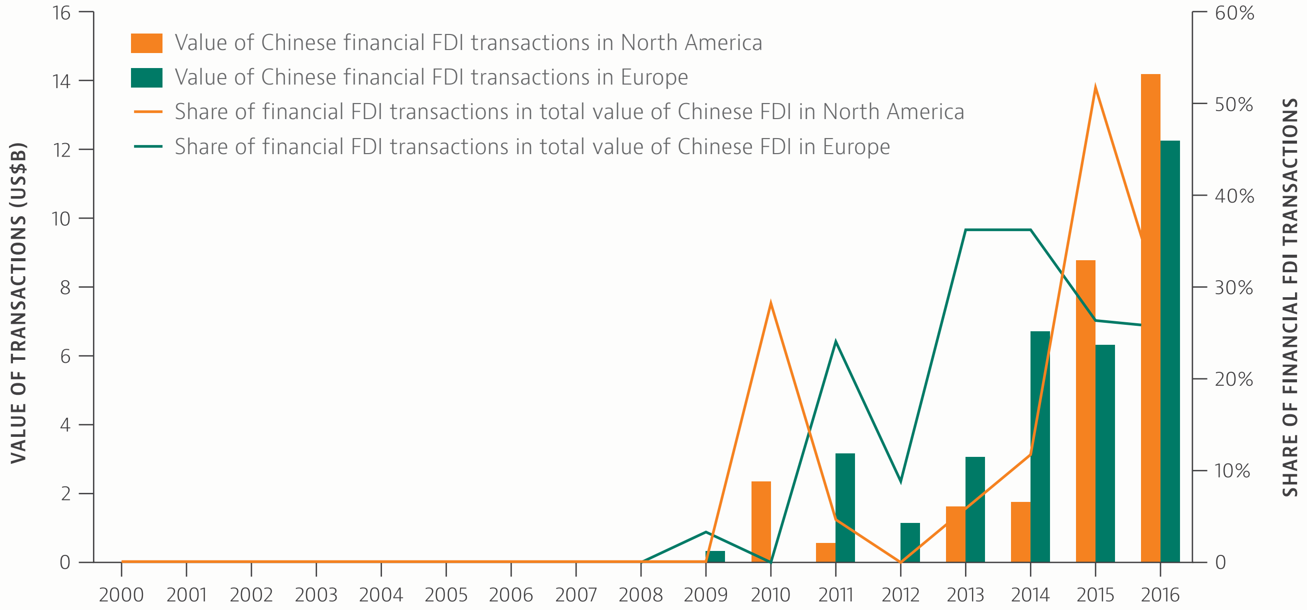
> "Chinese companies are growing market share, moving up value chains and investing in knowhow to drive domestic and international demand for their goods and services."
>
> **DANIAN ZHANG,** Chief representative of Baker McKenzie's Shanghai office

FDI TRANSACTIONS BY CHINESE PRIVATE INVESTORS IN NORTH AMERICA AND EUROPE



Source: Rhodium Group. Private investors include companies that are at least 80% owned and controlled by non-state-related investors.

FINANCIAL INVESTMENTS BY CHINESE INVESTORS IN NORTH AMERICA AND EUROPE



Source: Rhodium Group. Financial investments are investments that are made for the purpose of financial returns, in contrast to strategic investments made in the investor's primary area of business.

#5 ASSETS IN CALIFORNIA, KENTUCKY AND ILLINOIS WERE THE BIGGEST TARGETS IN NORTH AMERICA; ASSETS IN GERMANY, THE UK AND FINLAND TOPPED THE LIST IN EUROPE.

GEOGRAPHIC HIGHLIGHTS IN NORTH AMERICA

- With more than $16 billion in transactions in 2016, California was the leading recipient of Chinese capital in North America, reflecting Chinese interest in key sectors such as ICT, transport and infrastructure, entertainment and real estate.
- New York also continued to receive a large proportion of Chinese capital, with deal values totaling $5.3 billion. Commercial real estate transactions accounted for 90% of that value, including hotel portfolios and office towers such as 1221 Sixth Avenue and 1285 Avenue of the Americas.
- Several US states attracted major investment from China for the first time, primarily because of large acquisitions of companies headquartered in those states. With $9 billion, Kentucky was the second-largest recipient of Chinese capital in North America, driven by Haier's $5.6 billion acquisition of GE Appliances (consumer products) and Apex Technology's $3.6 billion purchase of Lexmark (electronics).
- Other top emerging states include Illinois (Anbang's $5.5 billion acquisition of Strategic Hotels), Minnesota (HNA's $2 billion purchase of Carlson Hotels) and Georgia (Wanda's $1.1 billion acquisition of Carmike Cinemas).

California and New York were leading recipients of Chinese investment.

TOP 10 RECIPIENT LOCATIONS OF CHINESE OUTBOUND FDI IN NORTH AMERICA (US$B)

	Top industry in 2016	Largest target in 2016	Investment in 2016	Investment in 2015	Investment 2000-2016
1. California	Transport, utilities and infrastructure	Ingram Micro ($6.0)	$16.0	$3.6	$25.3
2. Kentucky	Consumer products and services	GE Appliances ($5.6)	$9.2	$0.0	$9.3
3. Illinois	Real estate and hospitality	Strategic Hotels portfolio ($5.5)	$5.5	$0.1	$9.4
4. New York	Real estate and hospitality	1221 Sixth Avenue ($1.0)	$5.3	$5.4	$15.1
5. Minnesota	Real estate and hospitality	Carlson Hotels ($2.0)	$2.3	$0.0	$2.8
6. Connecticut	Real estate and hospitality	Select service hotel portfolio ($2.0)	$2.0	$0.0	$2.0
7. Georgia	Entertainment	Carmike Cinemas ($1.1)	$1.1	$0.1	$1.4
8. Ontario	Agriculture and food	Iovate Health Sciences ($0.7)	$1.1	$0.2	$3.5
9. Michigan	Automotive	Key Safety Systems ($0.9)	$1.0	$1.4	$4.0
10. Alberta	Energy and power generation	Long Run Exploration ($0.6)	$0.9	$0.6	$33.1

Source: Rhodium Group

GEOGRAPHIC HIGHLIGHTS IN EUROPE

- In 2016, Chinese transactions in Germany and the UK accounted for 46% of total investment in Europe. Chinese acquisitions in Germany rose nearly tenfold to $12.1 billion, up from $1.3 billion in 2015, driven by large acquisitions of German industrial machinery, real estate and infrastructure assets. Despite a drop in real estate acquisitions, the UK attracted $9 billion in Chinese investment, more than double the total investment in 2015 as Chinese buyers pursued ICT and entertainment assets.
- Finland and Switzerland were also major investment destinations in 2016, attracting $7.6 billion and $4.8 billion respectively. Tencent's $7.4 billion acquisition of gaming developer Supercell accounted for most of Chinese FDI in Finland. HNA's purchases of Swissport ($2.8 billion) and Gategroup ($1.4 billion) drove deal values in Switzerland, which would have been by far the largest recipient of Chinese investment last year if ChemChina's $43 billion takeover of Syngenta had not been delayed by pending regulatory approvals.
- For the first time, Ireland became one of the top five European destinations for Chinese investment, with a total of $2.9 billion in transactions. This rise was driven by HNA's $2.5 billion acquisition of Dublin aircraft leasing company Avolon and China General Nuclear's $400 million acquisition of Irish wind farms.
- The biggest declines in Chinese investment were in Italy (down 85% from 2015) and France (down 40%). The drops in 2016 were primarily because of large transactions in 2015 that spiked deal values that year, such as ChemChina's $7.7 billion takeover of Italian tire maker Pirelli and Fosun's $1.1 billion acquisition of French holiday company Club Med.

Chinese transactions in Germany and the UK accounted for 46% of total investment in Europe.

TOP 10 RECIPIENT LOCATIONS OF CHINESE OUTBOUND FDI IN EUROPE (US$B)

	Top industry in 2016	Largest target in 2016	Investment in 2016	Investment in 2015	Investment 2000-2016
1. Germany	Industrial machinery and equipment	KUKA ($4.7)	$12.1	$1.3	$22.4
2. UK	Information and communications technology	Global Switch ($3.0)	$9.2	$4.0	$29.3
3. Finland	Information and communications technology	Supercell ($7.4)	$7.6	$0.0	$7.7
4. Switzerland	Transport, utilities and infrastructure	Swissport ($2.8)	$4.8	$1.3	$14.1
5. Ireland	Transport, utilities and infrastructure	Avolon ($2.5)	$2.9	$0.0	$3.1
6. France	Consumer products and services	Groupe SMCP stake ($1.5)	$2.4	$3.8	$14.2
7. Spain	Transport, utilities and infrastructure	Urbaser ($1.6)	$1.9	$0.3	$3.6
8. Italy	Entertainment	MP & Silva stake ($0.7)	$1.2	$8.4	$15.2
9. Norway	Information and communications technology	Opera consumer business ($0.6)	$1.2	$0.8	$7.2
10. Poland	Energy and power generation	EDP Polish assets stake ($0.4)	$0.5	$0.0	$1.1

Source: Rhodium Group

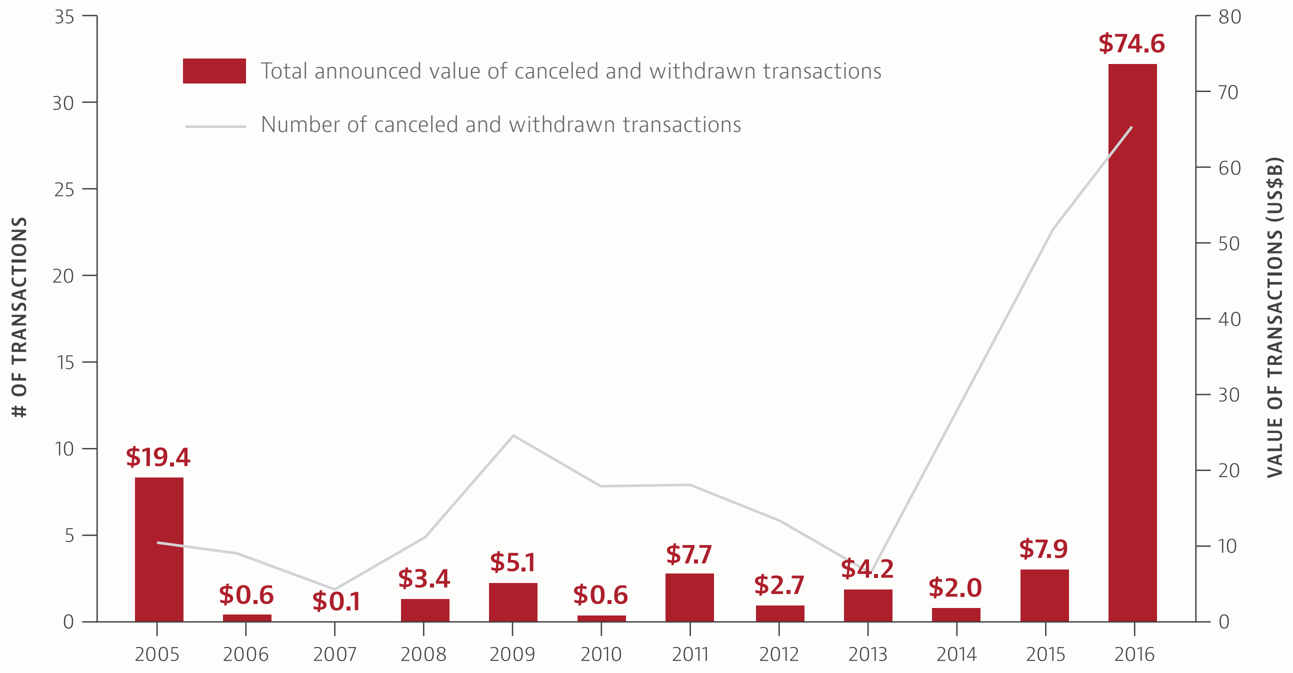
#6 THE NUMBER OF CANCELED AND WITHDRAWN TRANSACTIONS ROSE AMID NEW CHINESE MEASURES TO SLOW CAPITAL OUTFLOWS AND HEIGHTENED US AND EU SCRUTINY.

- Chinese investment in North America and Europe would have been even higher in 2016 if not for a significant rise in aborted transactions, which jumped to a record 30 deals worth $74 billion. By comparison, 23 transactions worth $7.9 billion were canceled in 2015 and 13 deals worth $2 billion were canceled in 2014.
- In Europe, Chinese investors canceled or withdrew 20 deals worth $16.3 billion. In North America, Chinese investors walked away from 10 deals worth $59 billion.
- Although the rise in canceled transactions can be partially attributed to a much higher volume of announced transactions in 2015 and 2016 as well as purely commercial reasons, greater regulatory and political scrutiny in China, North America and Europe also contributed to the increase.

> "While CFIUS has been consistent in its approach, the volume and nature of the deals have produced more challenging transactions, with US officials coordinating with counterparts in other advanced economies."
>
> **ROD HUNTER,** Policy and regulatory partner in Baker McKenzie's Washington, DC office

- In China, regulators tightened administrative controls on outbound investments in 2016 to stabilize capital outflows as changing exchange rate expectations encouraged Chinese investors to use outbound investments to move capital out of China. This greater scrutiny, although expected to be short-term, has already hindered the ability of Chinese companies to exchange local currency into foreign exchange for certain types of deals, including real estate, entertainment and primarily financial investments.
- In both North America and Europe, government authorities have intervened to block technology acquisitions by Chinese investors because of national security concerns. The most high-profile examples are in the semiconductor industry, where Chinese buyers had to abort several transactions because of regulatory concerns about the transfer of sensitive technology to China.
- Record levels of Chinese investment have also fueled concerns about a growing imbalance of two-way investment flows between both regions and China, with some policymakers calling for reciprocity of access. For example, the US Congress is expected to consider legislative proposals to tighten the Committee on Foreign Investment in the United States' reviews for technology deals and to consider whether an investor's country of origin provides reciprocal access as part of the review process.

CANCELED AND WITHDRAWN CHINESE FDI TRANSACTIONS IN NORTH AMERICA AND EUROPE



Source: Rhodium Group

"The increase in canceled deals is primarily a function of the huge growth in Chinese investment as well as the fact that Chinese companies are pursuing more megadeals. Deals of that size and complexity are always more challenging from a regulatory perspective regardless of the nationality of the buyer. That said, greater political and regulatory scrutiny has made Chinese investment more challenging in the near term."

THOMAS GILLES, Chair of Baker McKenzie's EMEA-China Group

Outlook for 2017: Strong fundamentals amid greater uncertainty

In the past five years, Chinese companies have ramped up investment in Europe and North America at a remarkably fast pace. Total Chinese FDI in both regions nearly doubled from $25 billion in 2011 to $41 billion in 2015. Then it doubled again in just one year, rising to $94.2 billion in 2016 and accounting for nearly half of all of China's global outbound investment.

Looking forward, 2017 is likely to be another strong year for Chinese FDI in both regions as large deals announced last year come to a close. If ChemChina's $43 billion acquisition of Syngenta goes through as expected in the second quarter, it will almost single handedly set a new record year for Chinese investment in Europe. Other pending acquisitions include HNA's purchase of a 25% stake in Hilton Hotels for $6.5 billion, Zhongwang's investment in US aluminum maker Aleris for $2.3 billion, and LeEco's acquisition of US television manufacturer Vizio for $2 billion.

At his speech at this year's World Economic Forum in Davos, President Xi Jinping projected that Chinese outbound investment will total $750 billion in the next five years. Europe and North America stand to attract a significant share of those future flows, given their strong economic fundamentals and attractive assets. Chinese companies are still underinvested globally, and their push to catch up is a secular trend backed by the government's pursuit of a new growth model.

> "Whilst Brexit clouds the outlook for 2017 in some sectors such as financial services, the fundamental drivers for Chinese FDI into the UK and Europe as a whole remain strong."
>
> **TIM GEE,** M&A partner in Baker McKenzie's London office

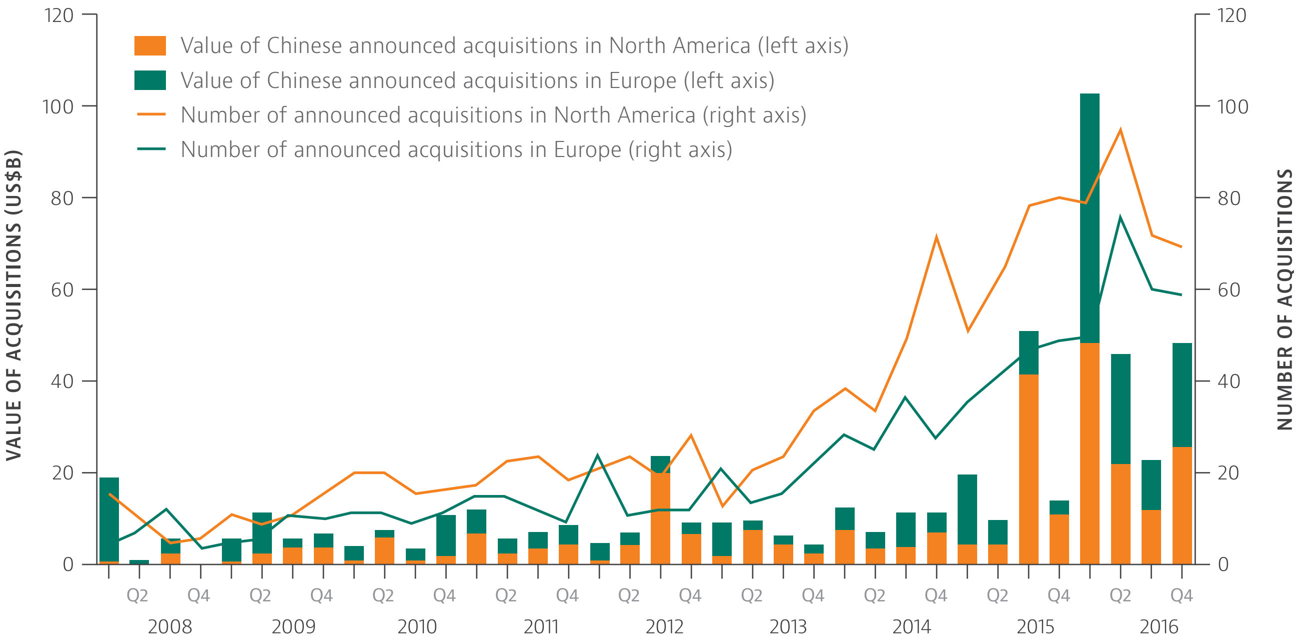
At the same time, political and regulatory uncertainties weigh on a bullish outlook for Chinese FDI in 2017. Although China's temporary measures to slow capital outflows don't appear to represent a fundamental break with its "going out" policy of encouraging Chinese companies to expand overseas, they increase uncertainty about the ability of Chinese companies to transfer funds offshore and complete transactions. China's short-term controls could also discourage new investments in areas targeted for greater government scrutiny, including megadeals over $10 billion, financial investments, real estate and entertainment transactions, and acquisitions in sectors outside an investor's core business.

In the US, the risk appetite of Chinese buyers may also be tempered by uncertainty about President Trump's foreign investment policy and the potential for new legislation that could expand CFIUS's mandate beyond its narrow focus on national security. Concerns about investment-related national security risks are not confined to the US, as demonstrated by a recent German government decision to withdraw its initial approval of a now-aborted bid by a Chinese investment fund to acquire Aixtron SE, a German chip equipment manufacturer with US operations.

Against this backdrop of closer scrutiny, it is clear that Chinese investors need to manage foreign investment review risks early in their transactions, even in sectors not typically associated with national security risks. In transactions involving assets in multiple jurisdictions, Chinese investors also need to develop coordinated regulatory strategies to account for increasing coordination among governments.

The number of newly announced Chinese acquisitions in North America and Europe has already declined in the second half of 2016 and early 2017 and is likely to remain subdued for the first half of this year. In the long run, however, the expansion of China's corporate footprint in North America and Europe should continue if growing concerns among government authorities, business leaders and the broader public about equal market access can be addressed through bilateral investment agreements and other policies. In the absence of reforms to increase the role of markets and level the playing field for foreign companies in China, the risk of a broader backlash against Chinese FDI in North America and Europe will continue to rise.

NEWLY ANNOUNCED CHINESE ACQUISITIONS IN NORTH AMERICA AND EUROPE



Source: Bloomberg, Rhodium Group

"While many Chinese companies have become astute buyers in navigating regulatory procedures such as CFIUS national security reviews, it will become increasingly important for Chinese investors in the US to develop a political risk assessment and regulatory plan as part of their overall deal strategy."

SYLWIA LIS, Trade compliance partner in Baker McKenzie's Washington DC office

Baker McKenzie has extensive experience advising Chinese clients from all industry sectors on their outbound activities.

With an unrivalled on-the-ground presence in 47 jurisdictions, clients benefit from our lawyers' deep understanding of the legal, regulatory and cultural frameworks that are critical for the successful execution of cross-border transactions. Our market-leading China outbound team focuses on helping Chinese clients from all industry sectors execute their business strategies in international markets.

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If you have questions about this report or would like to know more about our China Outbound Practice, please contact:

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