Baker McKenzie.

BIRD'S EYE VIEW

Comparing Chinese Investment into **North America** and **Europe**

RHODIUM GROUP

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Three decades of Chinese economic modernization and globalization have transformed the global economy. Now China has entered a new stage of economic development which will accelerate its financial integration and give China a greater role in global capital flows. Chinese outbound foreign direct investment (OFDI) has grown rapidly in recent years and is increasingly flowing to high-income economies. This report analyzes transactional data to compare the growth of Chinese investment in Europe and North America, the world's two largest economic regions, including investment patterns and drivers as well as economic and political risk factors that could impact future investment flows.

Europe and North America have emerged as major destinations for Chinese investors, with Europe slightly in the lead: Before 2008, both regions received, on average, less than $1 billion of Chinese OFDI per year. In 2015, the combined value of Chinese acquisitions and greenfield projects in Europe and North America totaled $40 billion. The levels of Chinese investment in both regions have grown in tandem, but Europe ($23 billion) was slightly ahead of North America ($17 billion) in 2015.

The shift of Chinese OFDI toward mature economies is driven by changes in the Chinese economy that are propelling interest in new types of overseas assets: Europe and North America are attractive destinations as Chinese firms seek to tap into advanced technology and manufacturing capabilities, strengthen brands and know-how in services, and diversify into safe-haven assets to hedge against economic risks in China.

While drivers are similar, Chinese investment patterns in Europe and North America clearly reflect the economic strengths of each region: Europe has been a greater attraction for Chinese investors seeking advanced manufacturing assets, given the abundance of leading small and medium-sized manufacturers. North America has received greater investment in advanced services sectors including entertainment, health and software.

Differences in policy and regulations also matter: Europe's need for infrastructure and transportation investment and its active pursuit of Chinese participation have attracted $10.5 billion of Chinese investment in airports, power generation, water supply and other infrastructure assets. This is nearly three times the amount recorded in North America.

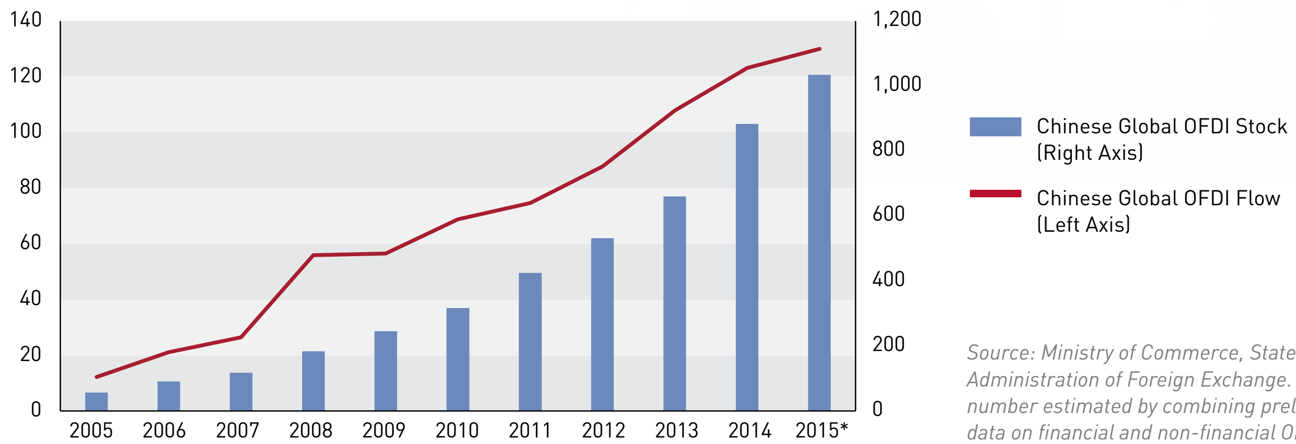
The mix of Chinese investors is evolving, with significant differences between both regions: Private sector companies now drive Chinese investment in North America, accounting for 80% of total investment in 2015. Private sector investment in Europe has also increased, but state-owned enterprises still account for the majority of Chinese investment (more than 65% in 2015) due to large deals in the industrial sector, privatization bids and greater investments from sovereign funds. The role of financial investors such as insurance companies, financial conglomerates and private equity firms is growing in both regions.

2016 will likely be another record year for Chinese investment in Europe and North America: The economic slowdown in China, uncertainty about the renminbi exchange rate, and other factors have further boosted Chinese deal-making activity since the second half of 2015. The first quarter of 2016 was the busiest period on record for Chinese outbound deal making, with announced acquisitions of more than $60 billion in Europe and $30 billion in North America.

INTRODUCTION

More than 15 years ago, China's government openly embraced outbound investment by Chinese companies for the first time as a cornerstone of modernization and development.[1] Today, Chinese outbound foreign direct investment (OFDI) has become a megatrend that is shaping global deal making, international value chains, and China's political relationships abroad. Chinese OFDI has grown an average of 15% per year since 2005, lifting China's OFDI stock to more than $1 trillion by 2015 and catapulting China into the top three of FDI exporters globally.

FIGURE 1: CHINA'S GLOBAL OFDI FLOWS AND STOCK, 2000–2015
USD billion



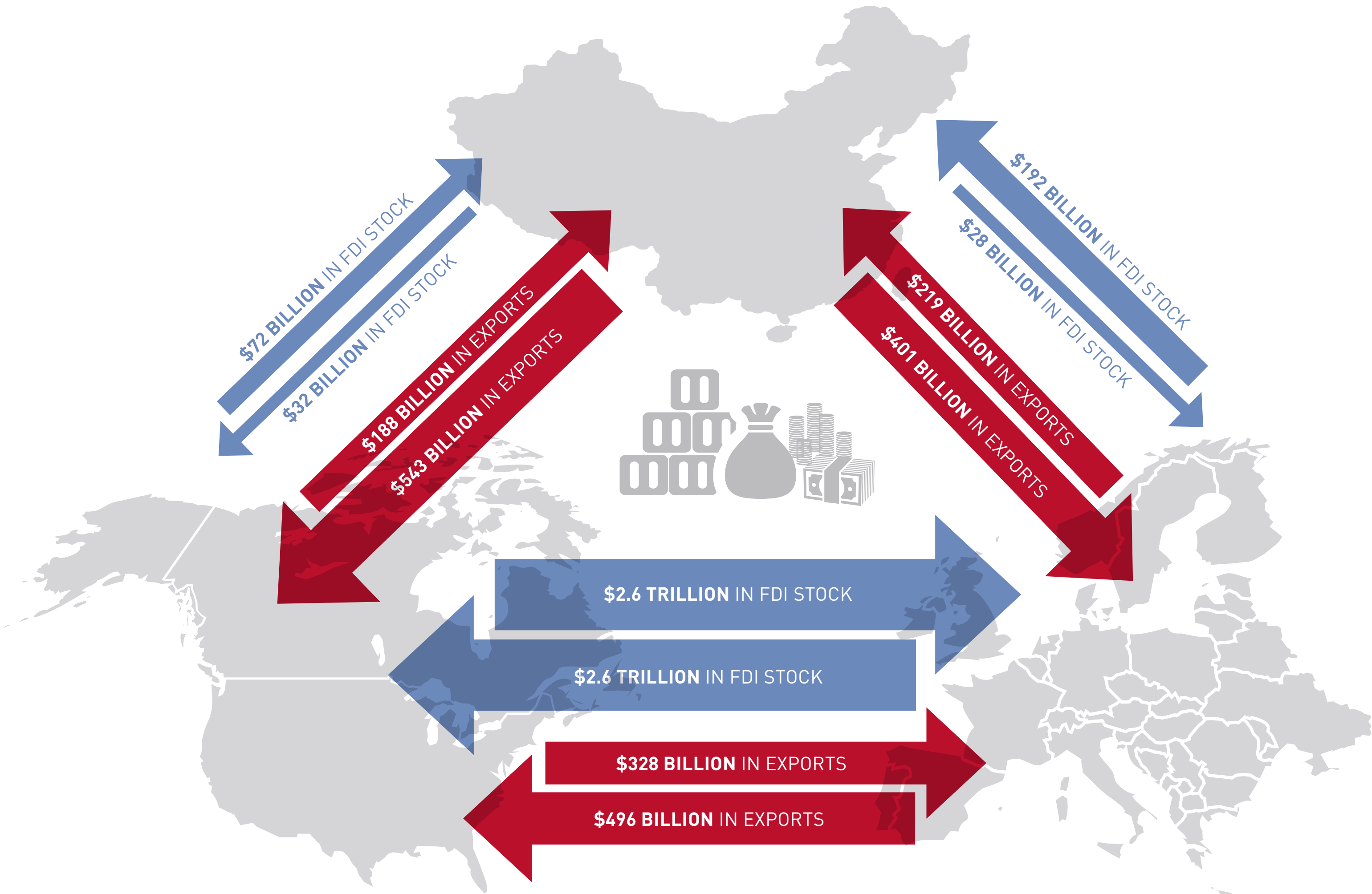
*Source: Ministry of Commerce, State Administration of Foreign Exchange. *2015 number estimated by combining preliminary data on financial and non-financial OFDI.*

The mix of Chinese OFDI is evolving rapidly. In the early years, China's OFDI boom was marked by large projects, dominated by SOEs and focused on energy and natural resources. This push brought China all over the world, but mostly to developing countries with an abundance of such resources. In recent years, however, the overhaul of China's growth model, the drop in resource demand, and a significant liberalization of outward investment regulations have transformed the nature of Chinese OFDI.

One of the most visible trends of this new era of Chinese OFDI is a sharp increase of investment in advanced economies, driven by the growing desire to purchase brands, technology and safe-haven assets. A 2015 Baker McKenzie report examined how this shift is increasingly bringing Chinese companies to the economies of the European Union.[2] This report builds on that research, evaluating Chinese OFDI in the two largest

1. See Daniel H. Rosen and Thilo Hanemann (2009): "China's Changing Outbound Foreign Direct Investment Profile: Drivers and Policy Implications," Peterson Institute for International Economics.
2. See "Reaching New Heights: An update on Chinese investment into Europe," Baker & McKenzie (2015).

FIGURE 2: EUROPE, NORTH AMERICA AND CHINA IN THE GLOBAL ECONOMY*, 2014



*Source: Eurostat, BEA. *In this chart, Europe refers to the EU-28 only. Export figures represent annual flows in 2014.*

high-income regions in the world, Europe and North America.[3] These two regions are still the major poles of the global economy, accounting for nearly 50% of global GDP, 50% of global trade and more than 60% of the global FDI stock. They are also deeply integrated. Over the past two decades, both regions have invested billions of dollars and built extensive trade links with the third emerging pole of the global economy, China. And while westward OFDI from China has been small in the past, China is catching up rapidly.

This report provides the first comprehensive and comparative assessment of China's OFDI catch-up in Europe and North America. It is built on a unique transactions dataset that allows a granular and comparative analysis of Chinese investment patterns, describing the similarities and differences in both regions.[4]

3. The report covers the United States and Canada in North America, and the EU, Switzerland and the remaining EFTA economies (Norway, Iceland and Liechtenstein) in Europe. These countries are considered advanced economies with similar development levels.

4. For a detailed description of the dataset used for this report, please see the Appendix.

A CHINESE INVESTMENT BOOM

China has not been a major investor in Europe and North America for the past three decades. In the past five years, however, Chinese OFDI has grown rapidly in both regions, representing a broader shift of Chinese OFDI away from developing countries and toward high-income economies. Before 2008, both regions received, on average, less than $1 billion of Chinese OFDI per year. In 2015, the combined value of Chinese acquisitions and greenfield projects in Europe and North America totaled $40 billion. While Chinese investment levels grew in tandem in both regions, Europe ($23 billion) was slightly ahead of North America ($17 billion) in 2015.

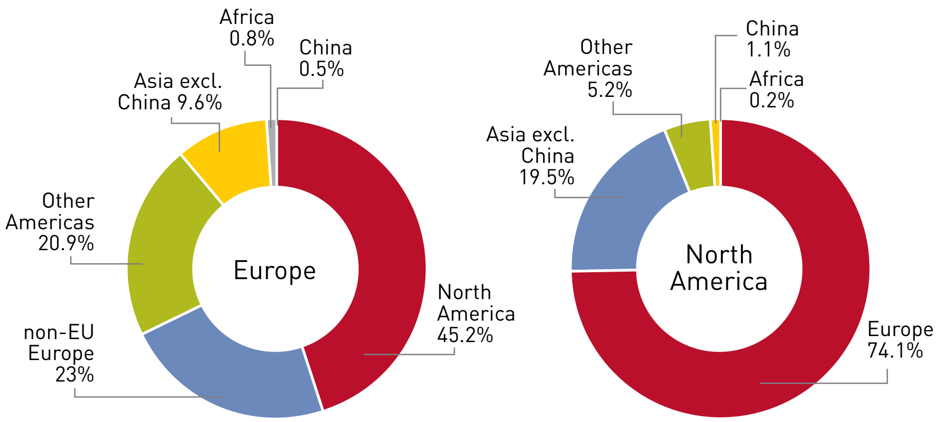
CHINA WAS LARGELY ABSENT FROM EUROPE AND NORTH AMERICA UNTIL RECENTLY

For decades, North America and Europe have been the world's biggest recipients of foreign direct investment due to their size, economic diversity, political stability and openness. Together, the two regions host more than 60% of the world's total FDI stock. This partially reflects their deep transatlantic economic ties, with Europe accounting for around two-thirds of North America's FDI stock, and vice versa. Investors from other parts of the world, including Asia Pacific, have also become significant investors in Europe and North America since the 1980s.

China, however, has not been a significant investor in either region until recently. Chinese companies did not have the motive, the capacity or the political permission to invest in mature market economies. Chinese presence in Europe and North America was limited to small greenfield projects, such as trading or representative offices, and a handful of larger operations by state-owned enterprises in shipping and other export-related industries. According to official statistics, China accounted for less than 1% of total FDI stock in Europe and North America in 2014.[5]

FIGURE 3: FDI STOCK IN THE EUROPEAN UNION AND NORTH AMERICA BY REGION AND COUNTRY OF ORIGIN, 2014*

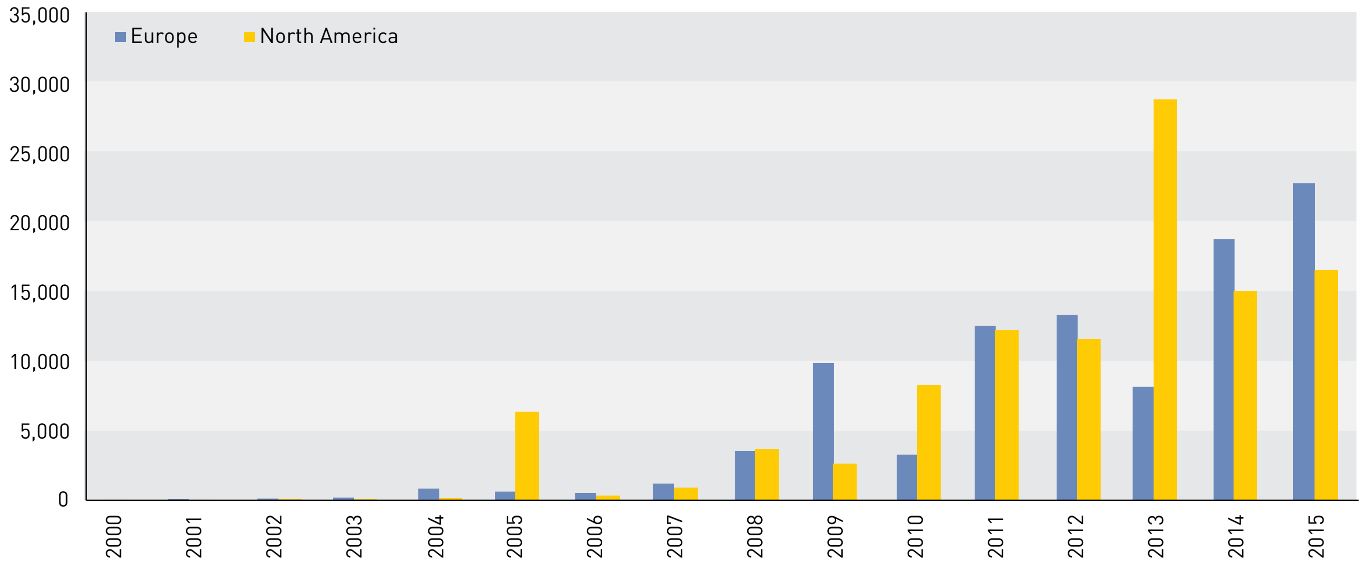
Percent of total



*Source: BEA, Eurostat and Statistics Canada. *In this chart, Europe refers to the EU-28 only. Canada and the US are grouped together as North America and their FDI stocks from each other are excluded.*

5. While we argue that official statistics do not adequately capture the extent and patterns of Chinese OFDI in both regions (see Appendix), this assessment still holds true even if we use transactional data.

FIGURE 4: CHINESE OFDI TRANSACTIONS IN EUROPE AND NORTH AMERICA, 2000–2015
Annual aggregate values, USD billion



Source: Rhodium Group.

CHINA IS PLAYING CATCH-UP IN BOTH REGIONS

While China's share of both regions' FDI stock remains miniscule, its importance in new annual flows is growing rapidly. Chinese OFDI in Europe and North America has expanded steadily since the mid-2000s and particularly accelerated in the past five years. Up until 2008, the annual transaction value remained below $1 billion in both regions with the exception of a handful of larger deals.

Largely shielded from the financial disruptions in the West, Chinese investors further expanded their overseas investments after the financial crisis, against the global trend. Annual investment in Europe and North America climbed to $10 billion in 2011 and 2012, driven by continuous interest in natural resource assets, opportunities arising from privatization efforts in Europe, and growing interest in technology, brands and other mature assets.

The years 2014 and 2015 marked a new stage, with Chinese investment levels in both economies exceeding $15 billion each year despite an almost complete disappearance of investments in energy, metals and other resource assets. The plunge in extractive sector investment was made up for by a robust and broad-based increase of OFDI across all other industries and asset classes and the emergence of new investors not previously active in Europe and North America.

From 2000 to 2015, the value of Chinese OFDI transactions in North America totaled $108 billion, compared to $97 billion in Europe. While North America is slightly ahead of Europe in terms of cumulative investment value over the entire period, Europe had a small lead over North America in all but one of the past five years. In 2015, Europe received $23 billion of OFDI from China, compared to $17 billion in North America.

While China's share of both regions' FDI stock remains miniscule, its importance in new annual flows is growing rapidly.

CHINA'S BROADENING GEOGRAPHIC PRESENCE

The OFDI boom of the past five years has broadened the footprint of Chinese companies across Europe and North America. In North America, Chinese firms have extended their presence from major coastal cities and industry clusters to most of the larger urban areas, as well as an increasing number of rural economies. In Europe, Chinese investors used to be focused on "core" European economies (Germany, France and the UK) but have now become significant investors in Southern, Northern and Eastern Europe as well.

COMING TO AMERICA

Before 2008, meaningful Chinese investments in North America were largely concentrated in big coastal states such as California and New York, a few states with singular pioneering investments, such as North Carolina, and Canadian provinces hosting the first Chinese investments in oil and gas.

Chinese presence broadened significantly in the period from 2008 to 2012, driven by large investments in unconventional oil and gas assets in Texas, Oklahoma, Colorado and Wyoming. Alberta, Quebec and British Columbia also received large inflows of Chinese capital in energy, metals and other extractive sectors. Chinese investment also began to reach regions hosting industry clusters of interest to early Chinese globalizers. Michigan's auto cluster, which recorded over 20 deals worth nearly $1 billion in this period, is one example. Local economies with existing ties to China saw a big increase in medium and small-sized investments across a range of industries, most notably big urban areas in California.

The geographic mix of Chinese investment broadened further from 2013 to 2015. A big jump of investment in commercial real estate gave Chinese companies a foothold in most major US and Canadian cities. Growing interest in advanced manufacturing capabilities, research and development (R&D), and other services has increased Chinese presence in other industry clusters, including Silicon Valley's tech scene, Hollywood's movie production industry, North Carolina's research triangle and Maryland's pharmaceutical cluster. Finally, the purchase of the biggest US pork producer and processor, Smithfield Foods, and a few other transactions have led to Chinese presence in rural areas in the Midwest and elsewhere. By the end of 2015, 48 out of 50 US states and 10 of 13 Canadian provinces were hosting Chinese investments.

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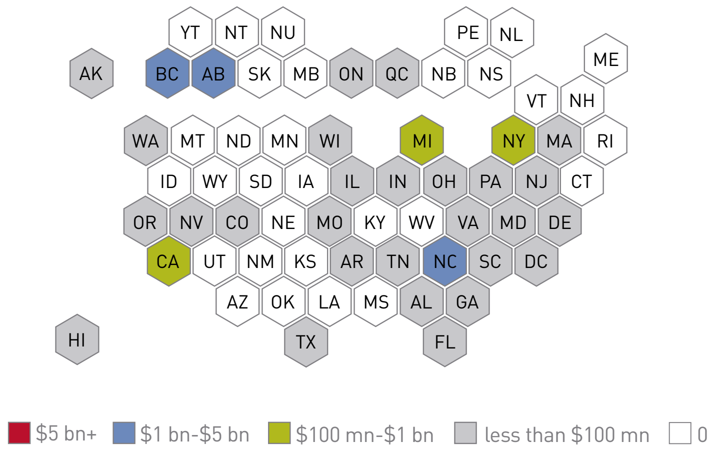
FIGURE 5: GEOGRAPHIC DISTRIBUTION OF CHINESE OFDI TRANSACTIONS IN NORTH AMERICA OVER THREE DIFFERENT PERIODS | USD billion

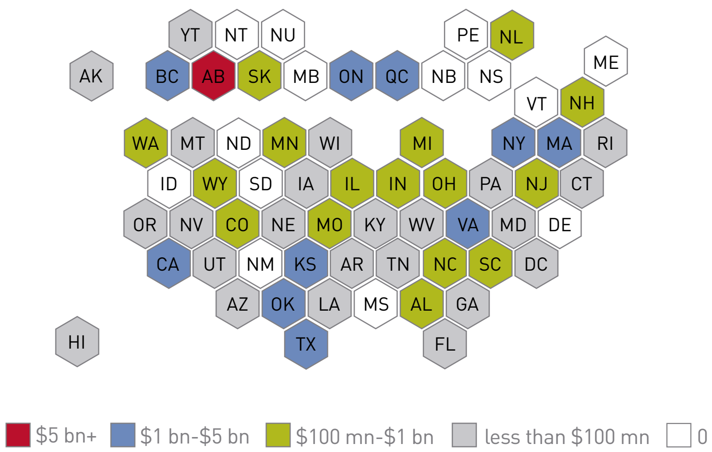
2000–2007



Cumulative Value: $8.5 billion

Top 5 Deals			
Target	Value	Location	Date
PetroKazakhstan	$4.2	Alberta	2005
IBM PC division	$1.8	North Carolina	2005
Peru Copper	$0.8	British Columbia	2007
MEG Energy stake	$0.1	Alberta	2005
Balas mine	$0.1	British Columbia	2006

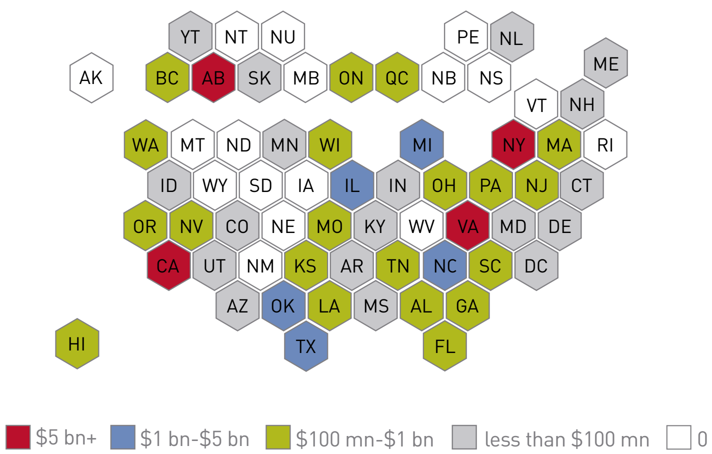
2008–2012



Cumulative Value: $38.3 billion

Top 5 Deals			
Target	Value	Location	Date
AMC	$2.6	Kansas	2012
Devon Energy stake	$2.5	Oklahoma	2012
EnCana stake	$2.2	Alberta	2012
Daylight	$2.1	Alberta	2011
OPTI Canada	$2.1	Alberta	2011

2013–2015



Cumulative Value: $60.3 billion

Top 5 Deals			
Target	Value	Location	Date
Nexen*	$13.6	Alberta	2013
Smithfield	$7.1	Virginia	2013
Motorola Mobility	$2.9	Illinois	2014
IBM x86 server division	$2.0	North Carolina	2014
Luxury New York City hotel	$2.0	New York	2015

*Source: Rhodium Group. *Deal value is split between Nexen's Canadian assets in Alberta and its US assets in Texas. This value is only for Canada.*

TABLE 1: TOP RECIPIENT US STATES/CANADIAN PROVINCES FOR CHINESE OFDI, 2000–2015

Cumulative value, USD billion

US State/Canadian Province	Value of OFDI Transactions	Top Industry	Largest Investment
Alberta	$32.94	Energy	Nexen ($13.6)
New York	$9.88	Real Estate and Hospitality	Luxury New York City hotel ($1.95)
California	$9.11	Real Estate and Hospitality	Integrated Silicon Solutions ($0.8)
Virginia	$8.85	Agriculture and Food	Smithfield ($7.1)
Texas	$7.04	Energy	Nexen Gulf of Mexico assets ($1.5)
British Columbia	$4.73	Metals and Minerals	Teck Resources stake ($1.5)
North Carolina	$4.65	ICT	IBM x86 division ($2.0)
Illinois	$3.91	ICT	Motorola ($2.9)
Oklahoma	$3.67	Energy	Devon energy assets ($2.4)
Michigan	$3.04	Automotive	Henniges Automotive ($0.6)

Source: Rhodium Group.

EUROPEAN EXPANSION

In Europe, Chinese investment followed a similar trajectory with several important differences. Before 2008, Chinese companies generally had a broader geographic presence in Europe than in North America because language barriers and national borders necessitated a greater number of local operations.[6] However, most of these operations remained small. Significant investments were concentrated in the big European economies, most importantly France, Germany and the UK. From 2000 to 2007, these three countries hosted more than half of total Chinese investment in Europe.

These patterns evolved from 2008 to 2012 due to shifting Chinese interests as well as opportunities resulting from the European financial crisis. Germany remained a focus of attention, with investment growing steadily from around $250 million in 2008 to over $2 billion in 2012. Coinciding with the global push for natural resources investment, Chinese investors deployed capital in European economies that were hosting firms with extractive assets and related technological capabilities, most importantly the UK, Norway and Switzerland. In crisis-stricken Southern Europe, Chinese investors took advantage of the privatization of state assets in utilities and other sectors. Chinese companies also made their first major forays into Eastern European economies.

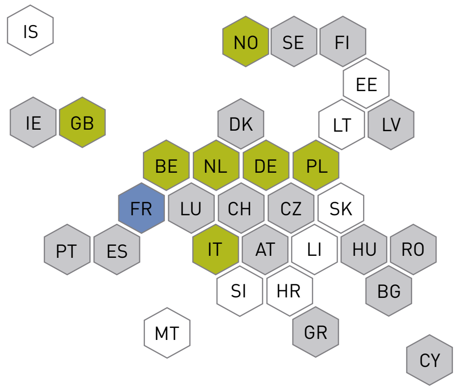
China's investment footprint in Europe further broadened from 2013 to 2015. The "Big Three" economies of France, Germany and the UK continued to register elevated levels of Chinese investment, driven by strong interest in high-tech manufacturing and demand for safe-haven assets such as commercial real estate. Switzerland also became a major target, through a mix of industrial and service sector investments. After a brief dip in 2013, Southern Europe attracted large

Receiving just 2% of total Chinese investment from 2013–2015, Eastern Europe continues to play a small role in China's European portfolio, but several large pending projects and the "One Belt, One Road" initiative could further boost Chinese presence in the region in coming years.

6. One such example is ICT giant Huawei, which set up more than 30 offices across 16 countries between 2000 and 2008.

investments from China in the past two years, accounting for nearly 40% of total Chinese investment in Europe in 2015. Investments in the Benelux countries also increased markedly in this period, focused on agriculture, advanced technology and financials. Receiving just 2% of total Chinese investment from 2013–2015, Eastern Europe continues to play a small role in China's European portfolio, but several large pending projects and the "One Belt, One Road" initiative could further boost Chinese presence in the region in coming years.

FIGURE 6: GEOGRAPHIC DISTRIBUTION OF CHINESE OFDI TRANSACTIONS IN EUROPE OVER THREE DIFFERENT PERIODS | USD billion

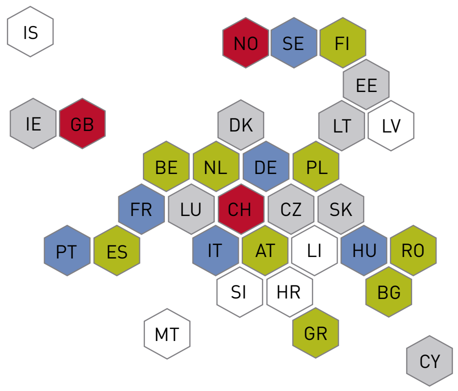


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

2000–2007

Cumulative Value: $4.4 billion

Top 5 Deals			
Target	Value	Location	Date
Drakkar Holdings	$0.5	Belgium	2006
Rhodia Silicones division	$0.5	France	2007
TTE joint venture	$0.3	France	2004
Antwerp Gateway stake	$0.2	Belgium	2004
Monterrico Metals	$0.2	UK	2007

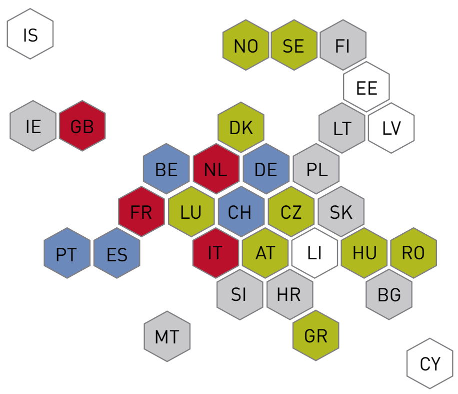


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

2008–2012

Cumulative Value: $42.5 billion

Top 5 Deals			
Target	Value	Location	Date
Addax	$7.2	Switzerland	2009
Energias de Portugal stake	$3.5	Portugal	2012
GDF Suez stake	$3.2	France	2011
Awilco Offshore	$2.5	Norway	2008
Elkem	$2.2	Norway	2011



$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

2013–2015

Cumulative Value: $49.1 billion

Top 5 Deals			
Target	Value	Location	Date
Pirelli	$7.7	Italy	2015
CDP Reti stake	$2.8	Italy	2014
Nidera stake	$2.0	Netherlands	2014
NXP Semiconductors RF division	$1.8	Netherlands	2015
Louvre Hotels	$1.6	France	2015

Source: Rhodium Group.

TABLE 2: TOP EUROPEAN RECIPIENT COUNTRIES OF CHINESE OFDI, 2000–2015

Cumulative value, USD billion

European Country	Value of OFDI Transactions	Top Industry	Largest Investment
UK	$19.52	Real Estate and Hospitality	Weetabix ($1.9)
Italy	$12.79	Automotive	Pirelli ($7.7)
France	$11.65	Energy	GDF Suez stake ($3.2)
Germany	$10.01	Industrial Machinery and Equipment	Kion Group ($1.7)
Switzerland	$9.38	Energy	Infront Sports ($1.2)
Portugal	$7.13	Transport and Infrastructure	Energias de Portugal ($3.5)
Netherlands	$6.51	Agriculture and Food	Nidera ($2.0)
Norway	$6.02	Energy	Awilco Offshore ($2.5)
Hungary	$2.70	Basic Materials	BorsodChem ($1.9)
Sweden	$2.11	Automotive	Volvo ($1.5)

Source: Rhodium Group.

NEW DRIVERS OF OUTBOUND INVESTMENT

The recent growth and diversification of Chinese investment in Europe and North America can be traced to changes in China's growth model, which are incentivizing Chinese companies to buy into advanced technology and manufacturing capabilities, strengthen brands and know-how in services, and diversify into safe-haven assets. At the same time, the patterns of investment in both regions clearly show distinct differences that reflect local economic strengths and specific opportunities in host countries.

CHINA'S TRANSITION TO A NEW GROWTH MODEL

After more than three decades of rapid economic modernization, the drivers of China's old growth model—abundant low-cost labor, high returns to basic investment, and massive economies of scale and scope—are weakening. Demographic dividends propelled China from the 1980s to the 2000s, but the labor force is poised to shrink. Over the past decade, capital formation and financial suppression powered investment-led growth, but it is increasingly difficult to find productive uses for debt financing and investments are showing diminishing returns in many sectors. Total factor productivity gains are also fading as dividends from export-oriented reforms and economies of scale in manufacturing are drying up.

These challenges require China to fundamentally overhaul its growth model to successfully manage the transition from a middle-income to a high-income economy. In November 2013, China's new leadership laid out an ambitious overhaul plan that pledges to make market forces decisive, to promote industrial upgrading and services sector growth, and to further open up to international trade and investment flows.[7] These reforms will transform the Chinese marketplace in many areas and force Chinese companies to rethink their business models. The transition to a new growth model is a catalyst for the greater international ambitions of Chinese companies and a major driver of Chinese investment patterns in Europe and North America.

THE BOOM AND BUST IN NATURAL RESOURCES INVESTMENT

The first important trend is a sharp drop in Chinese outbound investment in natural resources, partially in response to a decline in global commodity prices, driven by the outlook of a lower resource intensity of economic growth in China.

Energy, metals and minerals were primary targets of the first wave of Chinese outbound investment, and they account for more than one-third of combined Chinese investment in Europe and North America from 2000 to 2015 ($70.9 billion, or 35%). North America received twice as much Chinese extractive OFDI as Europe ($43 billion compared to $20.8 billion) due to geographic abundance and the boom in unconventional oil and gas extraction since the mid-2000s. China's energy and metals OFDI in Europe can be attributed to investments in global commodity firms headquartered in Europe and a few investments in local assets in Norway and the UK.

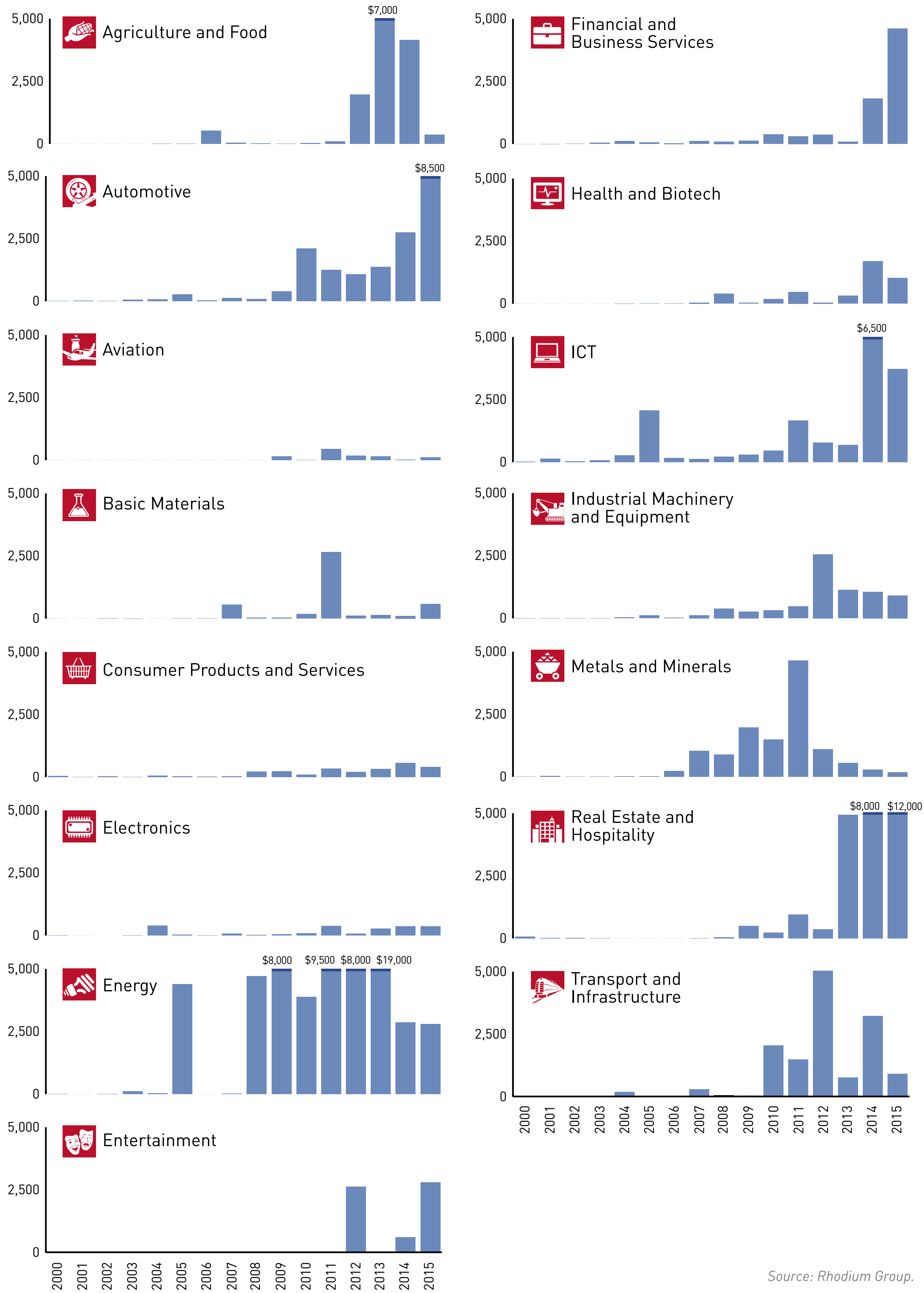
The bulk of this investment occurred in a five-year period (2008–2013), driven by soaring Chinese demand and strong policy support for upstream resources investment. State-owned enterprises and government-owned investment funds accounted for virtually all investment in this sector. Starting in 2013, China's quest for extractive assets changed radically, and investment in Europe and North America shrunk to less than $2 billion for 2014 and 2015 combined. The appetite of Chinese investors was shaken by sweeping changes to the resource-intensive growth model and a fierce anti-corruption campaign, which led to the detention of several executives at major SOEs.[8] The steep drops in energy prices and company valuations since 2013 have not yet spurred meaningful opportunistic buying by Chinese investors, but secular demand growth and declining domestic production suggest a rationale for expanding and diversifying stakes in overseas upstream oil assets in the long run.

7. See Daniel H. Rosen (2014): Avoiding the Blind Alley: China's Economic Overhaul and Its Global Implications, Rhodium Group.

8. Chinese Corruption Probe Stretches into Canada, Wall Street Journal, July 28, 2014. http://www.wsj.com/articles/chinese-corruption-probe-stretches-into-canada-1406588882

FIGURE 7: SECTOR BREAKDOWN OF CHINESE OFDI IN EUROPE AND NORTH AMERICA, 2000–2015

Cumulative value in both regions, USD billion



Source: Rhodium Group.

MOVING UP THE VALUE CHAIN

One critical driver of Chinese investment activity in North America and Europe since the mid-2000s, and particularly over the past three years, is a strategic push for upgrading technology and know-how. Rising factor input costs (especially labor and environmental compliance) and local impediments to greater economies of scale are putting unprecedented pressure on Chinese manufacturers to escape their focus on low-end production and move up the value chain and transition to a new growth model. The majority of manufacturing firms facing these pressures are private entities, but state-owned companies in industries like automotive and aviation are facing similar challenges. North America and Europe offer an abundance of companies with world-class technology, know-how and talent, and Chinese investors are increasingly tapping those assets through both acquisitions and greenfield investment in R&D facilities.

With a high number of small, privately owned companies with world-class technology, Europe is a preferred geography for Chinese investors trying to access advanced manufacturing capabilities. The most attractive sectors are automotive, industrial machinery, renewable energy and information technology equipment. In North America, Chinese companies are mostly looking for information technology equipment, automotive parts, biotechnology, semiconductors and aviation.

> Switching from exporting electronics, toys and underwear to selling cars, machinery and higher-end consumer goods will require Chinese companies to build out local servicing capabilities, brands, and distribution and retail networks.

GETTING CLOSER TO THE CUSTOMER

In addition to upgrading their technology and product mix, Chinese manufacturers need to build out local capacities for selling more sophisticated products and services to their European and North American consumers. Switching from exporting electronics, toys and underwear to selling cars, machinery and higher-end consumer goods will require Chinese companies to focus on brands, as well as distribution and retail networks.

The significant Chinese investment activity in both North America and Europe reflects these long-term goals. In recent years, Chinese investors have largely focused on acquiring Western consumer brands. Brand-building activity is particularly high in industries where manufacturing margins in China are most at risk, including furniture, textiles and fashion, consumer electronics and major appliances. Another trend is the acquisition of American and European household brands that give Chinese companies a competitive edge with the fast-growing middle class at home, including food, luxury goods and automotive. While Chinese retail presence is still small in both regions, Chinese investors have started to dip their toes into retail markets in large European and US cities. Private companies are leading the way, leveraging their consumer-oriented dominance in China.

> In 2015 alone, Chinese investors poured a combined $4.6 billion in banking, insurance and asset management investments, which is more than the total Chinese OFDI in this sector in the previous 14 years.

GEARING UP FOR A SERVICES BOOM

In addition to investments aimed at upgrading industrial technology, Chinese capital is also increasingly flowing to advanced service assets as Chinese companies try to ramp up their competitiveness and seize opportunities from a new era of service sector growth in China. Most of these investors are private companies, with the exception of service sectors with a significant presence of state-owned firms such as financial services and hospitality. North America beats Europe in attracting investment in these areas based on its world-leading assets and brands.

Software is a key sector, with $2.8 billion of investment from 2000 to 2015, 70% of which flowed to the US. Investment in the entertainment industry has also jumped over the past two years, hitting a record $2.9 billion in 2015. North America received the bulk of Chinese investment in entertainment targeting movie production and theaters, sports, and performing arts. North American healthcare and pharmaceuticals sectors are also attracting Chinese capital, ranging from pharmaceutical ingredients to diagnostics and drug development.

The growing Chinese appetite for financial services and hospitality assets is apparent in both North America and Europe. In 2015 alone, Chinese investors poured a combined $4.6 billion in banking, insurance and asset management investments, which is more than the total Chinese OFDI in this sector in the previous 14 years. Combined Chinese investment in hotels and other hospitality assets exceeded $6 billion in 2015, as investors bet on the rapid growth of Chinese outbound tourism.

ASSET DIVERSIFICATION AND INTERNATIONALIZATION

Another driver for Chinese OFDI in Europe and North America in recent years is the growing desire among Chinese companies to diversify their asset base in response to slowing economic growth in China. Most Chinese companies currently hold the vast majority of their assets in China, as they did not have the permission or capability to invest overseas. More freedom to invest overseas through the OFDI channel now allows them to diversify their assets, and safe-haven economies with strong protection of property rights are attractive targets.

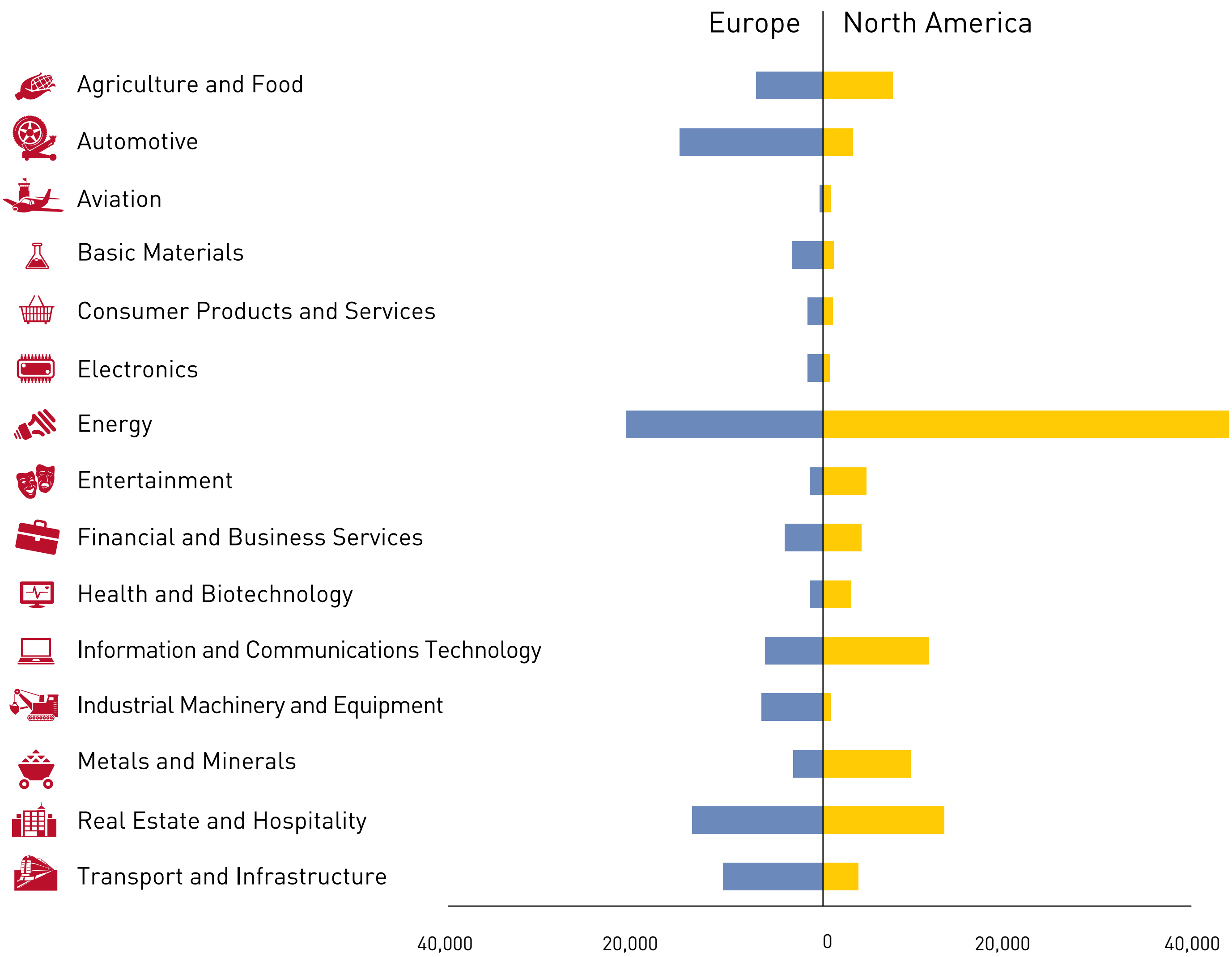
Both North America and Europe have experienced a gradual increase of Chinese investment in sectors that promise relatively stable long-term returns. The most visible trend is the increase in commercial real estate investments in major European and American cities. Private investors, state-owned enterprises and sovereign entities have put nearly $18 billion into real estate in both regions over the past five years, compared to less than $1 billion from 2000–2010. Investment has been split evenly between the two regions. Growing Chinese investment in European infrastructure assets such as utilities, ports and airports also reflects the desire to move into stable assets with long-term returns. Investment in safe-haven assets has increased markedly since the first half of 2014, driven by a slowdown in Chinese economic growth and fears about a further weakening of the Chinese currency.

Private investors, state-owned enterprises and sovereign entities have put nearly $18 billion into real estate in both regions over the past five years, compared to less than $1 billion from 2000–2010.

CHINESE PRESENCE ACROSS INDUSTRIES

China's OFDI reached a broad range of industry sectors in Europe and North America from 2000 to 2015. Below we offer an overview of investment in 15 sectors followed by individual sector snapshots, including total investment, annual investment patterns, geographic location, investment drivers and key transactions.

FIGURE 8: AGGREGATE VALUES OF CHINESE OFDI TRANSACTIONS BY INDUSTRY IN EUROPE AND NORTH AMERICA, 2000–2015 | USD million



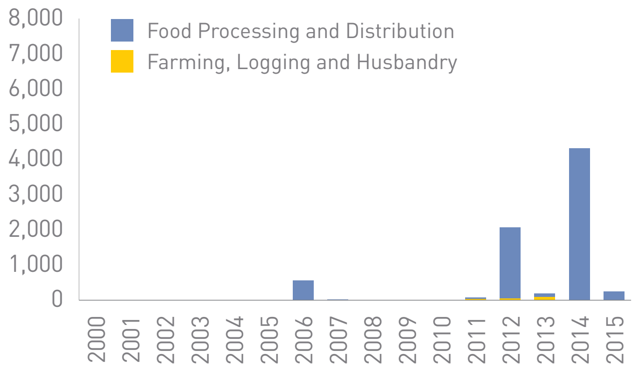
Source: Rhodium Group.

Agriculture and Food

Europe

Total: **$7.13 bn**
7% of Chinese OFDI in Europe

Annual Investment Value | USD million

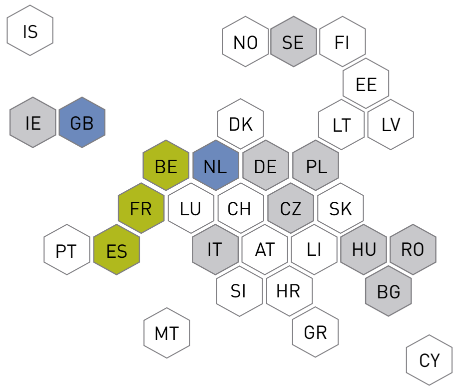


North America

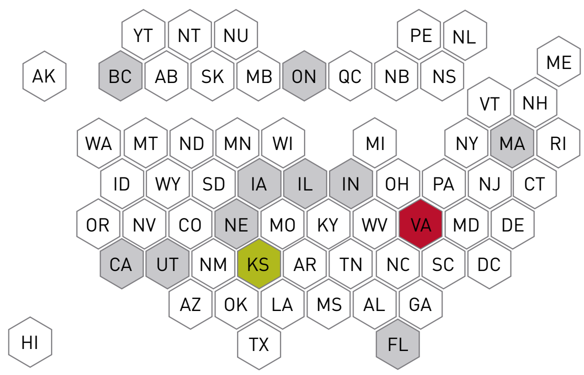
Total: **$7.42 bn**
7% of Chinese OFDI in North America

Annual Investment Value | USD million

Geographic Distribution



Geographic Distribution



$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Food sectors have attracted $14.5 billion in transactions across both regions. The majority occurred after 2012, and patterns have been volatile. Nearly 90% of total value can be attributed to just four mega deals: Hony Capital's acquisition of British chain PizzaExpress ($1.5 billion), Bright Food's $1.9 billion stake in British cereal maker Weetabix, COFCO's stake in Dutch grain trader Nidera ($2 billion), and Shuanghui's $7.1 billion purchase of US pork producer Smithfield. Smaller transactions have been notably absent, but a handful of greenfield projects in recent years signal growth in the coming years, for example Synutra's milk drying facilities in France and Ausnutria's milk powder processing plant in the Netherlands.

Chinese investors have focused almost exclusively on food processing and distribution, with lower interest in primary production. This shows a strong desire to learn from the Western food industry and leveraging existing assets in the Chinese market. Western expertise is particularly relevant for modernizing food value chains in China, and food safety know-how can help companies win back consumers' trust after a series of food safety scandals. Another emerging investment driver is access to global trading and pricing of agricultural commodities, as demonstrated by COFCO's stake in Nidera.

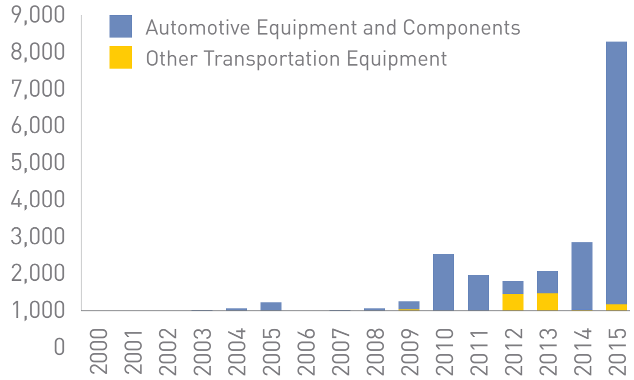
Almost 70% of investment originates from private investors, reflecting commercial opportunities and the competitive landscape in China's food industry. Changing food consumption habits of China's middle class and a strong asset base in the West suggest continued interest in European and North American food investments in coming years.

Automotive

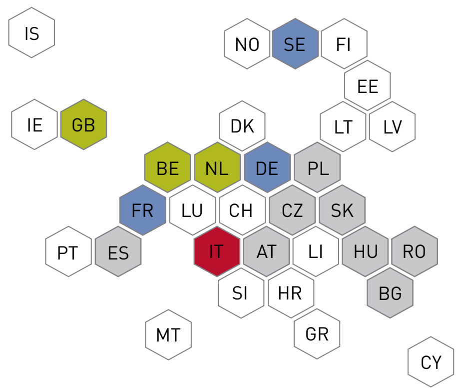
Europe

Total: **$15.14 bn**
16% of Chinese OFDI in Europe

Annual Investment Value | USD million



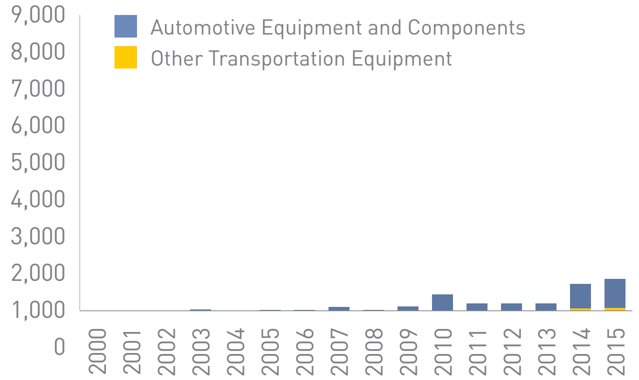
Geographic Distribution



North America

Total: **$3.16 bn**
3% of Chinese OFDI in North America

Annual Investment Value | USD million



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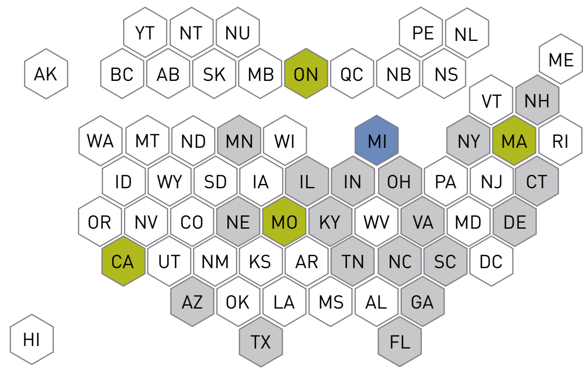


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

The automotive and transportation equipment sector is one of the earliest recipients of Chinese investment in both Europe and North America. Trickling in since the early 2000s, investment started to take off in the wake of the global financial crisis, which offered opportunities to purchase automotive assets at low prices. From 2000 to 2015, Chinese companies invested more than $18.3 billion across both regions, accounting for nearly 9% of total Chinese investment. Europe has attracted four times as much investment as North America.

Investment is primarily concentrated in small- and medium-sized automotive component manufacturers and suppliers. Traditional centers such as Germany and Michigan have attracted the majority of investment, all through deals of less than $600 million. However, some big exceptions stand out, including ChemChina's purchase of Italian tire maker Pirelli for over $7 billion, Geely's acquisition of Volvo for $1.5 billion, and Dongfeng's $1 billion minority stake in Peugeot. Investments in other transportation equipment remained comparably small and were mostly concentrated in niche luxury industries like yacht-building (Weichai's purchase of Ferretti and Wanda's acquisition of Sunseeker).

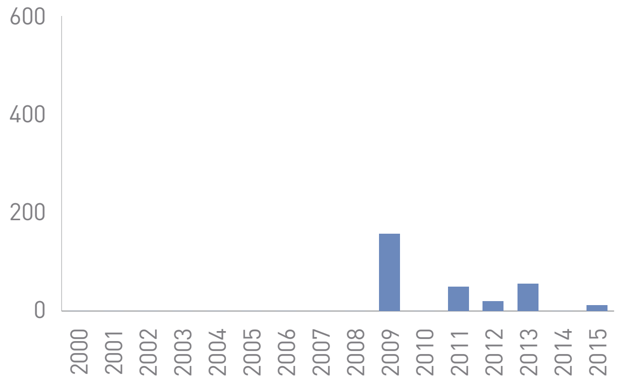
State-owned enterprises account for more than 85% of total investment across both regions, reflecting their dominance in China's auto industry. Recently, private investors have become more important players, especially in high-technology areas such as electric vehicles, where private companies such as Wanxiang, BYD and Faraday Futures have been very active in the North American market. Another important recent development is the construction of the first Chinese-owned auto factory in the US market—a greenfield facility by Geely-owned Volvo in South Carolina, scheduled to begin production in 2018.

Aviation

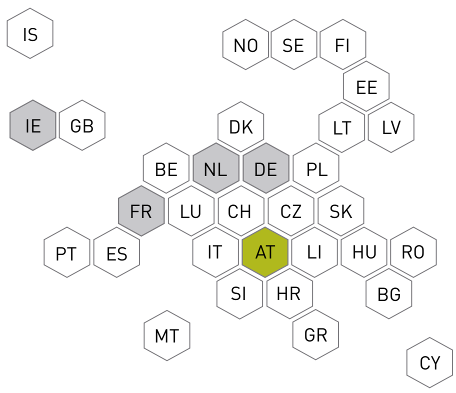
Europe

Total: **$0.28 bn**
0.2% of Chinese OFDI in Europe

Annual Investment Value | USD million



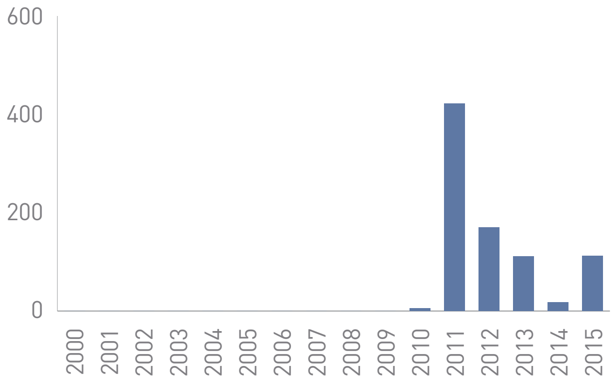
Geographic Distribution



North America

Total: **$0.80 bn**
1% of Chinese OFDI in North America

Annual Investment Value | USD million



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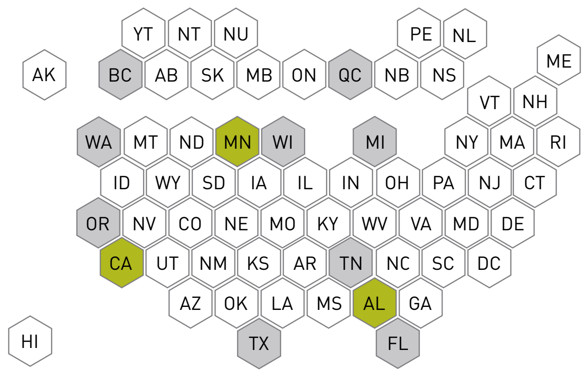


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

China has invested in both regions' aviation industries, but the scale is comparably small. From 2000 to 2015, cumulative investment amounted to $1.1 billion, only 0.5% of the regions' total. Practically all investments occurred after 2009 and can be attributed to acquisitions by state-owned aviation giant AVIC. North America has attracted almost three times more investment than Europe.

Due to political sensitivities related to the dual application of aviation technology for civil and military purposes, Chinese investment to date has been mostly limited to smaller civil aviation and component-manufacturing firms without dual-use technology. The biggest acquisitions include aircraft components manufacturer FACC in Austria ($150 million), commercial aircraft manufacturer Cirrus in Minnesota ($210 million), aircraft engine manufacturer Continental Motors in Alabama ($186 million), and helicopter manufacturer Enstrom in Michigan ($60 million). One motive for buying into overseas value chains is an anticipated boom in small general aviation, fueled by the opening of Chinese airspace for private aircraft.

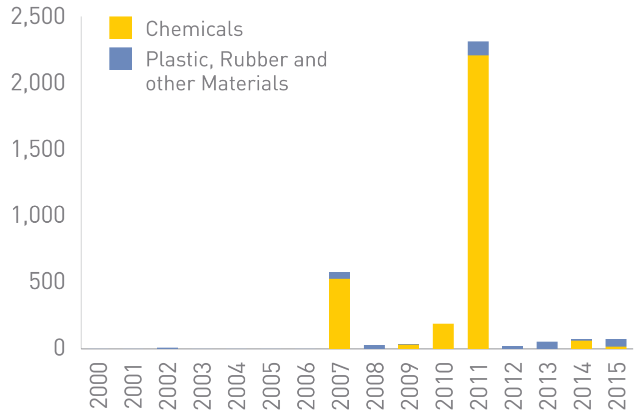
With more than 85% of total value, investments are dominated by state-owned entities, most of them subsidiaries of AVIC. At the same time, private firms and other state-owned companies are also investing in aviation-related services, including air transportation, aviation financing, airport services and transportation infrastructure (which are not captured in this category).

Basic Materials

Europe

Total: **$3.23 bn**
3% of Chinese OFDI in Europe

Annual Investment Value | USD million



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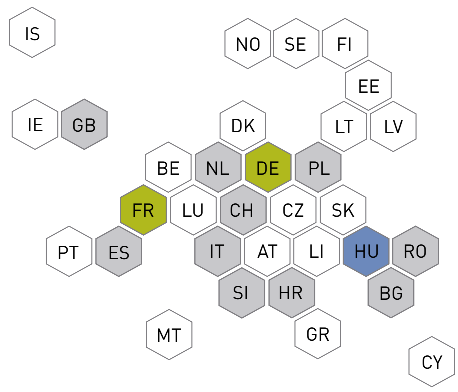
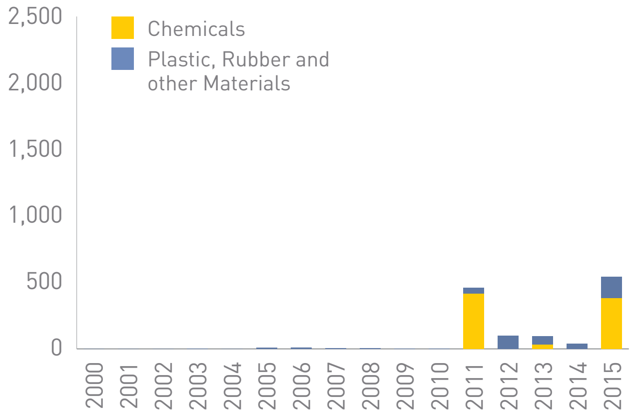


North America

Total: **$1.22 bn**
1% of Chinese OFDI in North America

Annual Investment Value | USD million



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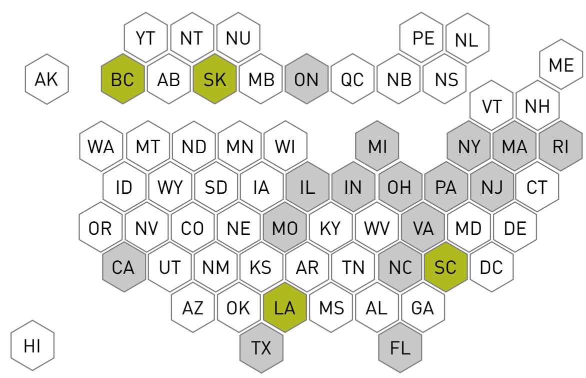


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Chinese investment in basic materials across Europe and North America totaled $4.5 billion from 2000 to 2015, accounting for approximately 2.5% of total Chinese investment. Europe has attracted more than two-thirds of this investment to date due to two significant acquisitions. However, North America has attracted greater interest in recent years on the back of cheap natural gas.

The chemicals industry accounts for over 80% of basic materials investment, as Chinese interest in plastic, rubber and other materials has remained small. The two biggest transactions were ChemChina subsidiary Bluestar's acquisition of French firm Rhodia's silicones business in 2007 for $500 million and Wanhua's $1.8 billion acquisition of Hungarian chemicals manufacturer BorsodChem through two investments in 2010–2011. Those transactions were largely motivated by the desire to build know-how and local manufacturing capabilities in Western markets.

More than 75% of the investment to date originates from state-owned enterprises. One important recent trend is the strong interest of Chinese companies in greenfield facilities in North America, driven by lower natural gas prices. In 2015, Yuhuang Chemicals broke ground on a $2 billion chemical complex in Louisiana. Other significant Chinese greenfield projects currently planned include investment in two $1.8 billion methanol plants in Washington and Oregon by a consortium of Chinese investors.

Consumer Products and Services

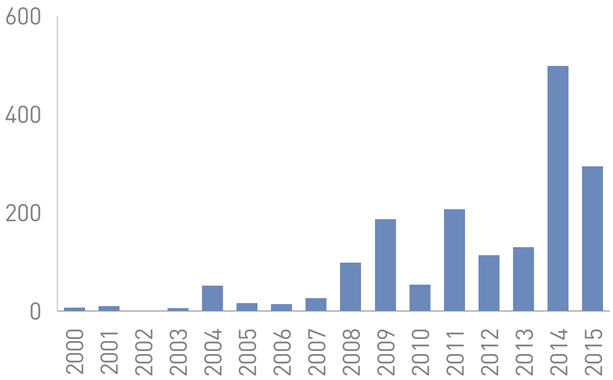
Europe

Total: **$1.62 bn**
2% of Chinese OFDI in Europe

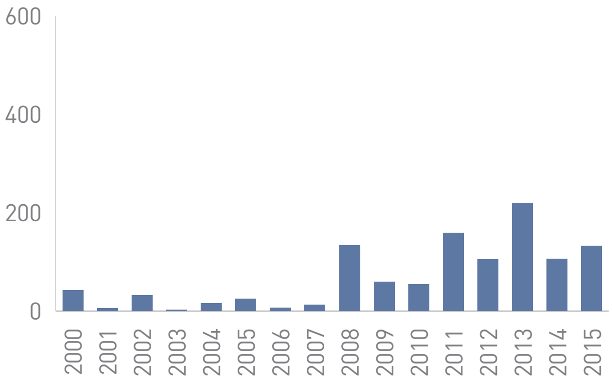
North America

Total: **$1.06 bn**
1% of Chinese OFDI in North America

Annual Investment Value | USD million



Annual Investment Value | USD million



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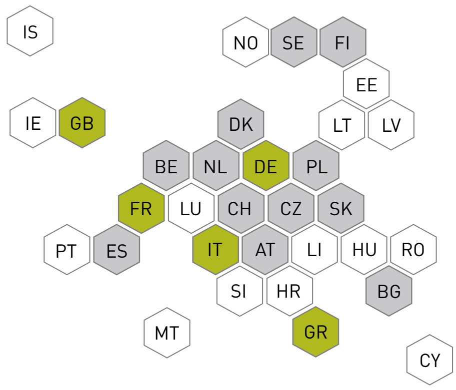

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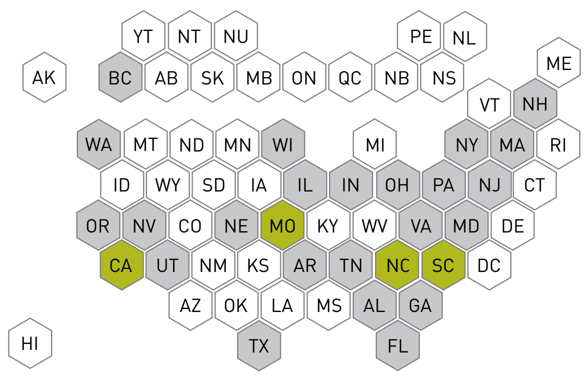


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Chinese investment in consumer products and services has remained small in both regions but is expanding quickly as Chinese companies ramp up their capabilities to serve consumers more directly. Cumulative investment in Europe and North America since 2000 totals $2.7 billion, or 1.2% of total Chinese OFDI. Europe has received higher levels of investment than North America. The average deal size remained under $20 million, with no medium or large-scale acquisitions.

Almost all investment (89%) originates from private sector companies.

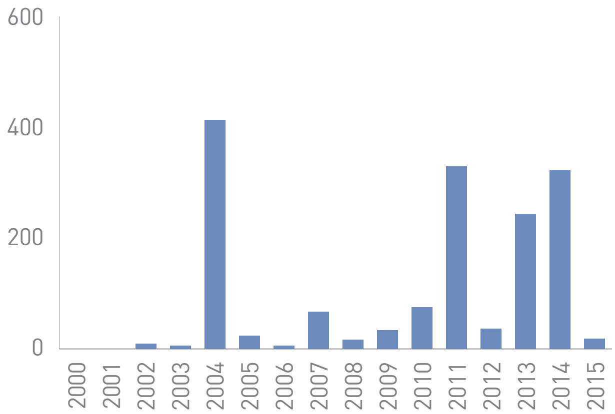
Clothing, home appliances and furniture have attracted the most attention from Chinese investors. One goal of investors in these industries is to localize production and build "Made in the USA" products. Examples are the operations of appliance maker Haier, one of the first Chinese greenfield investors in the US with its plant in South Carolina in 2000. Another focus is to acquire existing US consumer brands to leverage overseas and at home. Fosun, for example, has purchased a number of smaller clothing brands in Europe and North America, including Folli Follie, Tom Tailor and St. John. Investments in retail activities have also grown, for example department store group Nanjing Xinjiekou's stake in the holding company of UK clothing chain House of Fraser in 2014. Haier's announced $5.4 billion acquisition of GE's appliance unit indicates that deal activity and values could soar higher in 2016 and beyond.

Electronics

Europe

Total: **$1.53 bn**
2% of Chinese OFDI in Europe

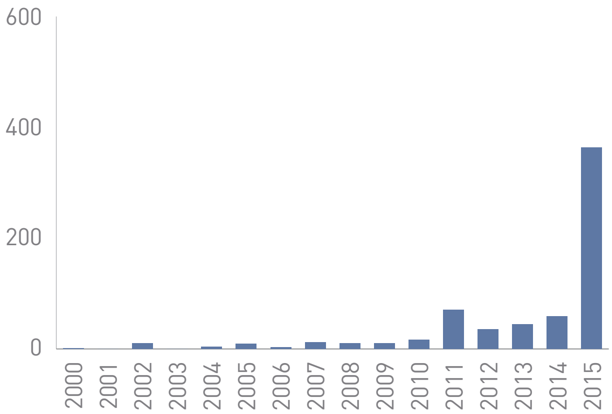
Annual Investment Value | USD million



North America

Total: **$0.62 bn**
1% of Chinese OFDI in North America

Annual Investment Value | USD million



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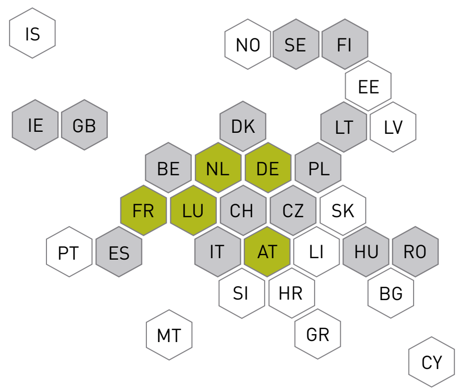

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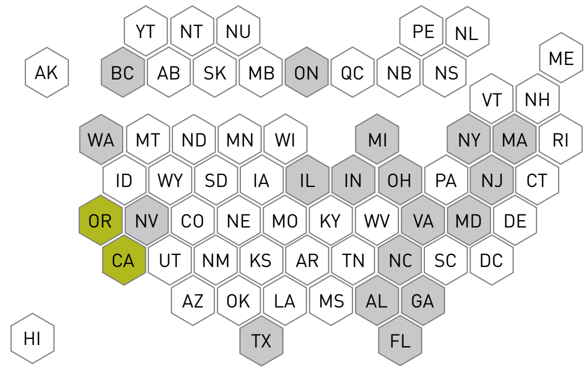


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Chinese companies have invested $2.2 billion in Europe's and North America's electronics sectors. Europe accounts for 75% of this investment, concentrated in France, the Netherlands, Germany and Austria. North America had virtually no investment until 2015, when three medium-sized acquisitions closed, bringing investors to California, North Carolina and Oregon. Private companies are responsible for more than half of the investment (60%), and the majority of deals are small in size. Greenfield OFDI accounts for 20% of total investment.

One potential driver for investment is Chinese interest in tapping advanced R&D capabilities and talent in Western economies. Joyson acquired Preh, a German electronics developer and manufacturer for cars, in 2011 to access talent and technology. In 2015, China Electronics Corporation acquired Bridgelux, a cutting-edge startup developing LEDs. Some Chinese companies have acquired or built manufacturing assets in the two regions to move closer to their customer base. For example, Leyard Optoelectronics acquired digital signage manufacturer Planar in 2015 to utilize its manufacturing bases in the US, with multiple facilities in Oregon.

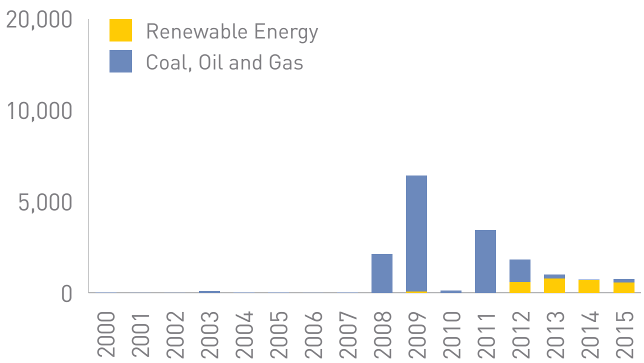
The growing pressure on Chinese light manufacturers to move up the value chain should lead to greater investment levels with a focus on R&D capabilities and human capital.

Energy

Europe

Total: **$20.75 bn**
22% of Chinese OFDI in Europe

Annual Investment Value | USD million



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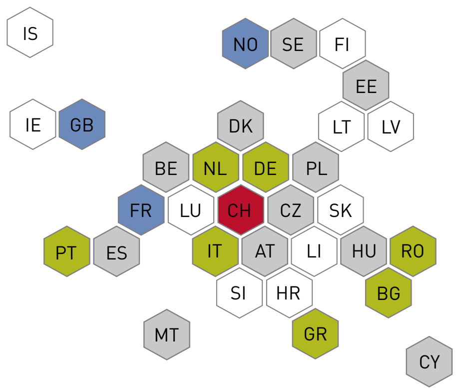
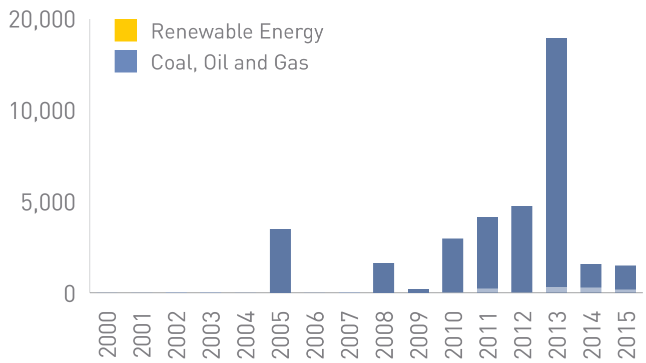


North America

Total: **$42.99 bn**
40% of Chinese OFDI in North America

Annual Investment Value | USD million



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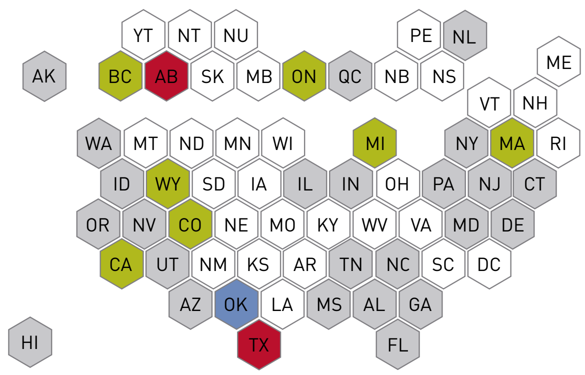


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Energy has been the most important recipient of Chinese OFDI across Europe and North America over the past 15 years. Combined investment in both regions in energy assets totals $64 billion, accounting for 31% of total Chinese OFDI. The majority of Chinese investment can be attributed to large transactions in the capital-intensive oil and gas sector. Renewables account for a small share of total investment.

North America has attracted twice as much energy OFDI as Europe, concentrated in Alberta, Oklahoma and Texas. Norway, the UK and Switzerland have received the most investment in Europe. The biggest transactions were China National Offshore Oil Corporation (CNOOC)'s 2013 acquisition of Canadian firm Nexen ($15.1 billion), and Sinopec's $7.2 billion purchase of Swiss-based Addax in 2009. State-owned companies account for more than 90% of cumulative energy investment from 2000 to 2015.

Energy investments have fallen in the past two years, as changes in the growth model, China's anti-corruption campaign, and big write-downs on prior overseas ventures have dampened the appetite of state-owned energy firms for overseas assets. Cheap valuations and declining domestic production could revive Chinese interest in acquiring global upstream oil and gas assets, if SOEs manage to regain support for overseas investments. Several recent transactions in North America also suggest that private sector entities are looking into opportunities in global oil and gas markets, but the scale of these transactions remains small. Chinese investment in renewable energy has been more stable in past years. Utilities and other energy infrastructure also continue to attract Chinese capital (see Transport and Infrastructure).

Entertainment

Europe

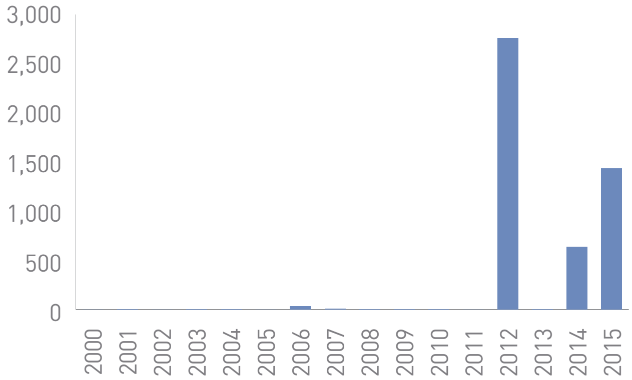
Total: **$1.45 bn**
2% of Chinese OFDI in Europe

North America

Total: **$4.65 bn**
4% of Chinese OFDI in North America

Annual Investment Value | USD million

Annual Investment Value | USD million



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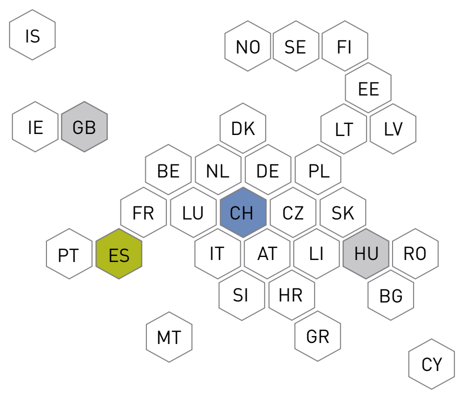

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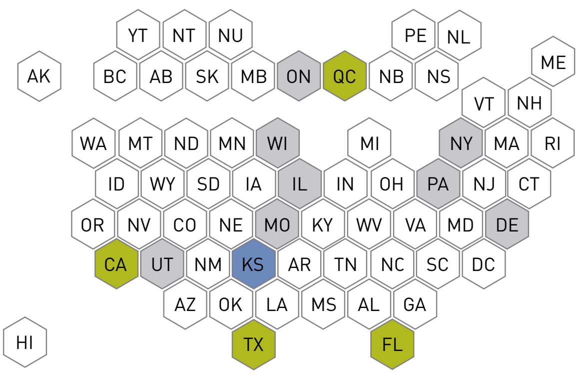


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Entertainment received virtually no investment before 2012 in either region, but has attracted great interest in the past three years. Over this period, Chinese investors have spent $6.1 billion on entertainment deals. Acquisitions are the dominant entry mode, with North America attracting 75% of total investment.

Entertainment is the sector most heavily dominated (96%) by private company investment. The biggest player is real estate and entertainment conglomerate Dalian Wanda, with its purchase of US theater chain AMC for $2.6 billion and the acquisitions of Swiss sports marketing group Infront for $1.2 billion and Florida-based "Iron Man" triathlon operator World Triathlon Corporation for $650 million. Chinese interest has also extended to gambling (World Poker Tours), sports (a stake in Manchester City FC's parent company), and performing arts (Cirque du Soleil).

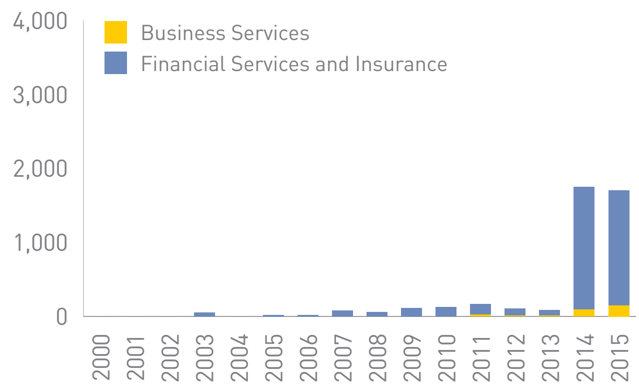
Recently announced transactions point to even greater momentum in 2016. Wanda plans to acquire US film studio Legendary Pictures for $3.5 billion and US movie theater chain Carmike for $1.1 billion. In Europe, Chinese firms are showing interest in football and other traditional sports assets. Film and sports are attracting attention as Chinese companies seek to invest in established Western entertainment ventures and to leverage Western brands and content in the rapidly growing Chinese market.

Financial and Business Services

Europe

Total: **$4.08 bn**
4% of Chinese OFDI in Europe

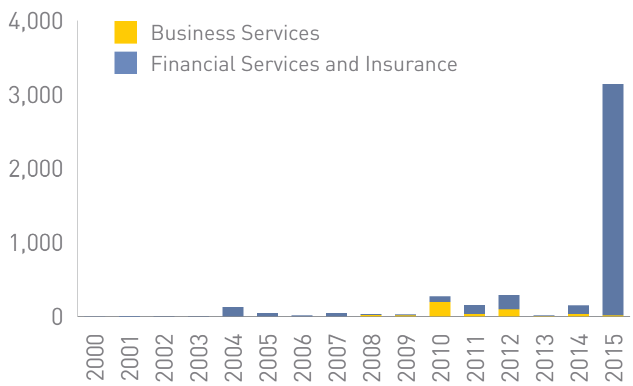
Annual Investment Value | USD million



North America

Total: **$4.09 bn**
4% of Chinese OFDI in North America

Annual Investment Value | USD million



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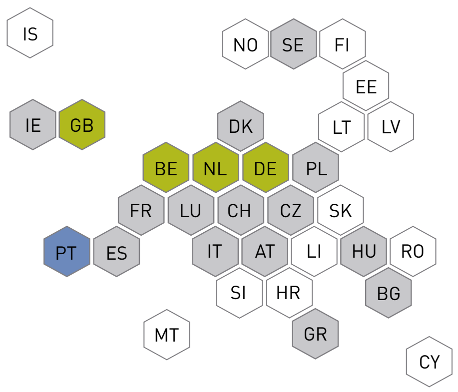

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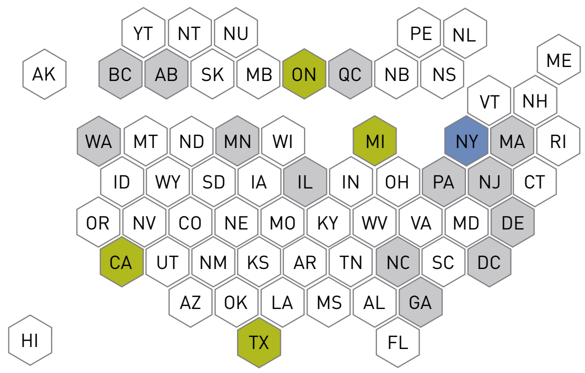


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Chinese investment in European and North American financial and business services was small for most of the past two decades, but has grown rapidly in recent years and expanded into new areas. Combined investment reached $8.2 billion by the end of 2015, accounting for 4% of total FDI in both regions. Nearly 80% of that investment took place in the past two years.

For many years, Chinese presence in developed financial markets was limited to greenfield branches by major state-owned Chinese banks. More recently, new players such as financial conglomerates and insurance companies have expanded into overseas markets, including Europe and North America. Financial conglomerate Fosun is responsible for the two largest transactions: the acquisition of US property and casualty insurer Ironshore for $2.3 billion in 2015 and the takeover of Portuguese insurer Cia de Seguros for $1.4 billion in 2014.

These transactions have moved the needle from greenfield projects to acquisitions (85% of total transaction value from 2000 to 2015) and from state-owned to private investors (now 81% of the total value). The stability and expertise in European and American financials will continue to attract Chinese investors. Anbang Insurance's bid for US insurer Fidelity & Guaranty points at continued Chinese investment activity in developed financial markets in 2016.

Health and Biotechnology

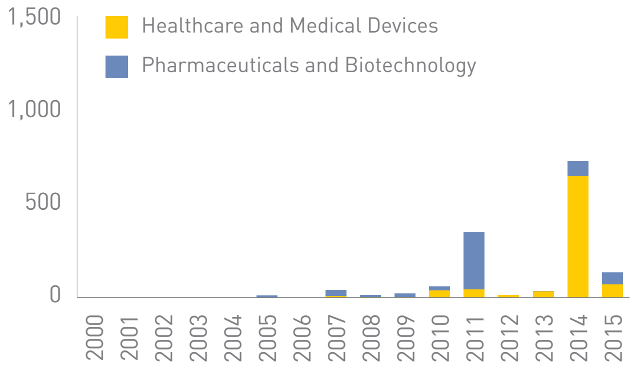
Europe

Total: **$1.33 bn**
1% of Chinese OFDI in Europe

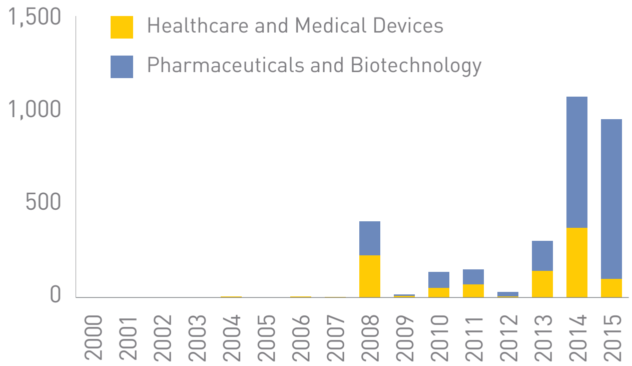
North America

Total: **$2.91 bn**
3% of Chinese OFDI in North America

Annual Investment Value | USD million



Annual Investment Value | USD million



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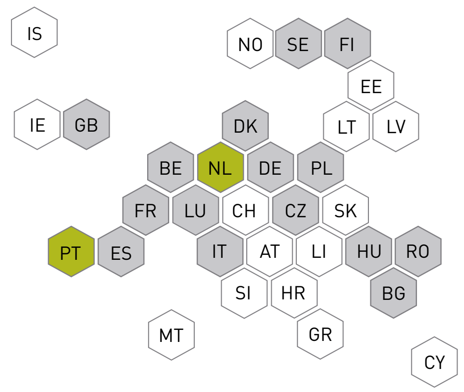

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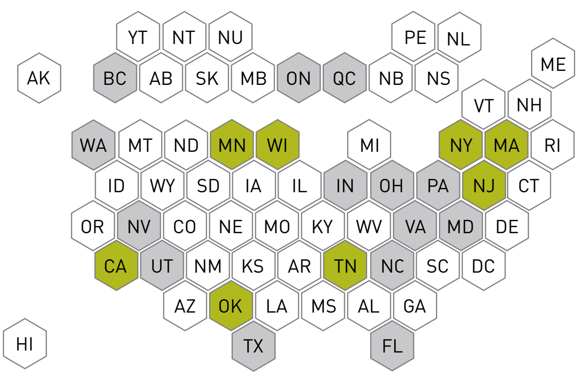


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Health and biotechnology is emerging as an important sector for Chinese investment in both regions. Cumulative Chinese OFDI from 2000 to 2015 amounts to $4.2 billion. Most of the investment occurred after 2008, with particularly fast growth in the past two years. While the growth trajectory is similar, North America has received more than twice the investment of Europe. Most acquisitions are focused on small and medium-sized companies, with the largest transaction being Fosun's purchase of Portuguese healthcare provider Espirito Santo Saude in 2014 for $610 million. In 2015, Chinese entities also visibly expanded their role as financiers for early-stage growth companies such as AltheaDx (Wuxi PharmaTech), Cynvenio Biosystems (Livzon Pharmaceutical), and CliniCloud (Ping An and Tencent).

Investment is relatively evenly split between pharmaceuticals and biotechnology (60% of total investment) and healthcare and medical devices (40%). Investment in healthcare and medical devices has been similarly divided between the two regions, but activity in Europe can be attributed to one large deal (Espirito Santo Saude). In pharmaceuticals, North America has been the preferred destination, attracting more than 80% of total investment from 2000 to 2015. M&A activity accounts for over 90% of that investment. An aging population, an inefficient healthcare system, and strong interest in advanced technology should continue to draw Chinese investors to North American and European health and biotech assets.

ICT

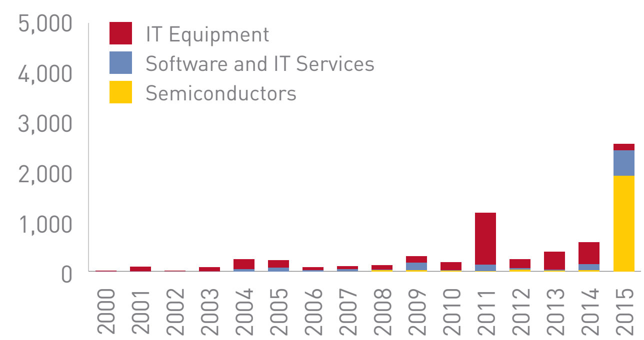
Europe

Total: **$5.99 bn**
6% of Chinese OFDI in Europe

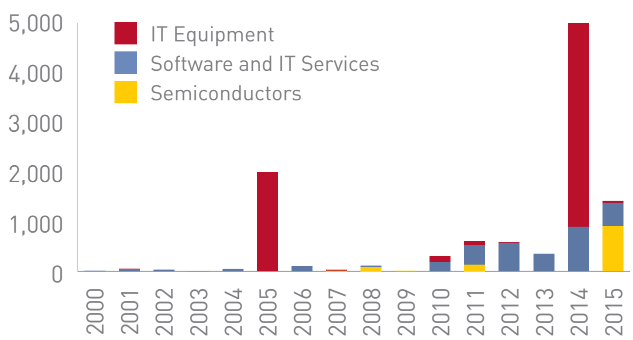
North America

Total: **$11.17 bn**
10% of Chinese OFDI in North America

Annual Investment Value | USD million



Annual Investment Value | USD million



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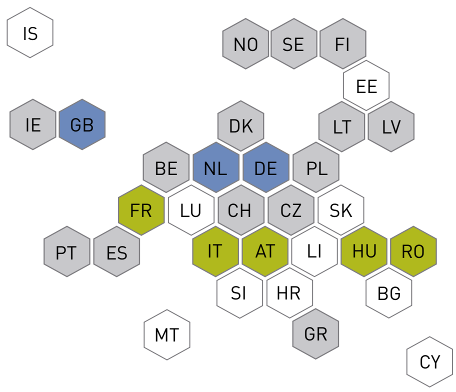

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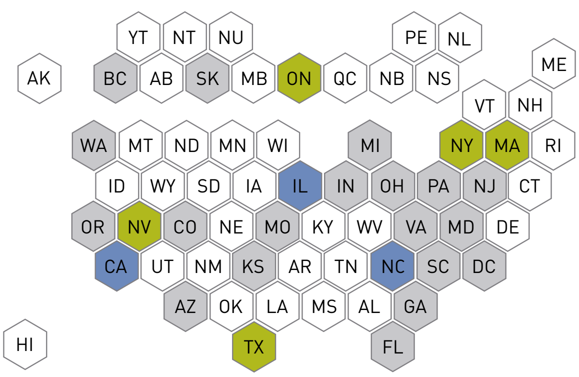


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Information and communications technology (ICT) is a key sector for Chinese investors on both sides of the Atlantic. Cumulative investment exceeded $17 billion at the end of 2015, accounting for more than 8% of combined Chinese OFDI in both regions. With the exception of Lenovo's acquisition of IBM's PC business in 2005, most investment occurred from 2011 to 2015. North America accounts for more than 70% of investment.

Chinese investment was initially concentrated on IT equipment, as major companies such as Huawei and ZTE expanded their presence through greenfield investments. With more than $3 billion invested since 2000, ICT has the highest level of greenfield investment of any sector in the two regions. The US IT equipment sector also has attracted a handful of major acquisitions from China. Lenovo is a key player, with three large acquisitions in the US and one in Germany in the past decade for a combined $7.4 billion (IBM's personal computer and x86 server divisions, Motorola Mobility and Medion).

Software and IT services have become attractive targets for Chinese investors in recent years, mostly through smaller-scale acquisitions and greenfield investments. More than 70% of all IT services and software investment occurred in North America, with particularly strong growth in venture capital and early-stage financing in recent years. For example, in 2015, Chinese investment grew quickly in the booming technology sector in the San Francisco Bay Area, with Chinese firms increasingly taking stakes in startups (e.g., Didi Kuaidi's investment in taxi app Lyft). In California alone, Chinese investors closed a record 21 deals in software and IT services in 2015. In addition to these FDI stakes, Chinese technology companies and funds have also become significant players in early stage financing.

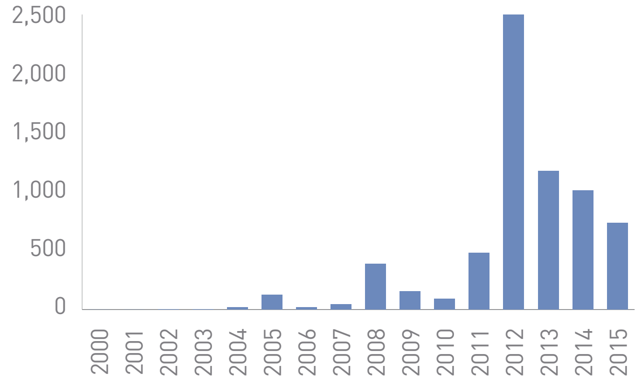
Another emerging trend is strong Chinese interest in semiconductor assets in both the United States and Europe, fueled by Beijing's goal to promote a domestic semiconductor industry.

Industrial Machinery and Equipment

Europe

Total: **$6.54 bn**
7% of Chinese OFDI in Europe

Annual Investment Value | USD million



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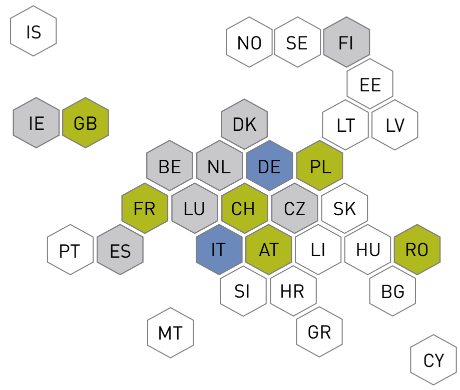
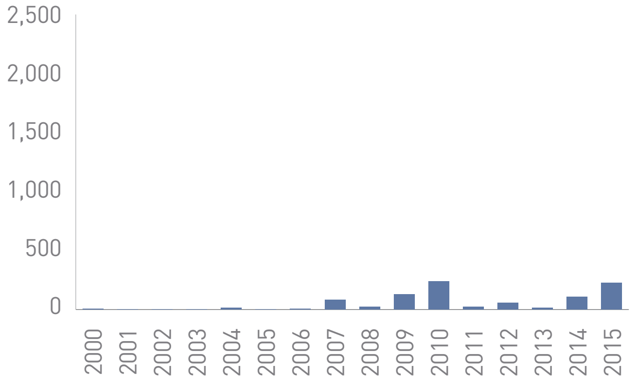


North America

Total: **$0.89 bn**
1% of Chinese OFDI in North America

Annual Investment Value | USD million



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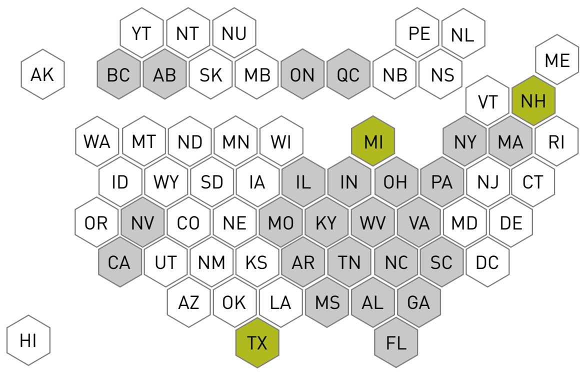


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

With more than $7 billion of cumulative investment since 2000, industrial machinery and equipment is an important attraction for Chinese OFDI. Europe accounts for nearly 90% of that investment, highlighting its competitive strengths in this sector and the abundance of smaller and medium-sized private companies that are technology leaders.

Most investment occurred after 2011, with Germany and Italy accounting for the lion's share of investment (nearly 75%) on the continent. In North America, investment is concentrated in Michigan and New Hampshire. The largest transactions in industrial machinery were Weichai's acquisition of German forklift manufacturer Kion for $1.7 billion (between 2012-2015), Jinsheng's acquisition of the textile division of Swiss machine manufacturer Oerlikon for $700 million in 2012, and Shanghai Electric's stake in power generation equipment manufacturer Ansaldo for $530 million in 2014. The vast majority of acquisitions in the industry across both regions were small and medium-sized transactions below $1 billion.

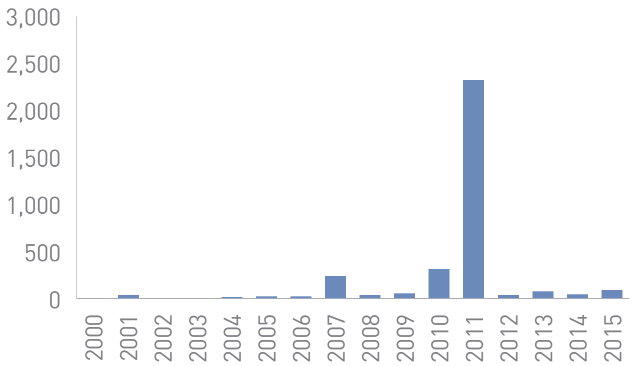
More than 60% of all investment in the machinery industry originated from state-owned enterprises, reflecting the strong position of state players in China's domestic machinery industry. Growing pressure on Chinese manufacturers to move up the technology ladder will continue to make overseas acquisitions in Europe and America an attractive proposition.

Metals and Minerals

Europe

Total: **$3.1 bn**
3% of Chinese OFDI in Europe

Annual Investment Value | USD million



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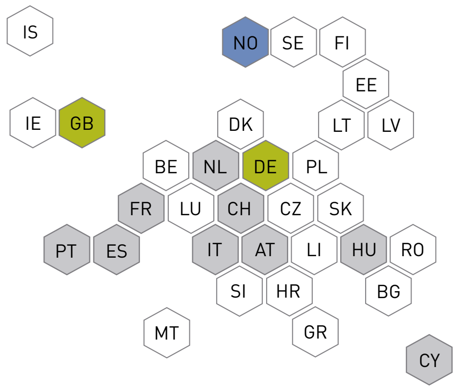
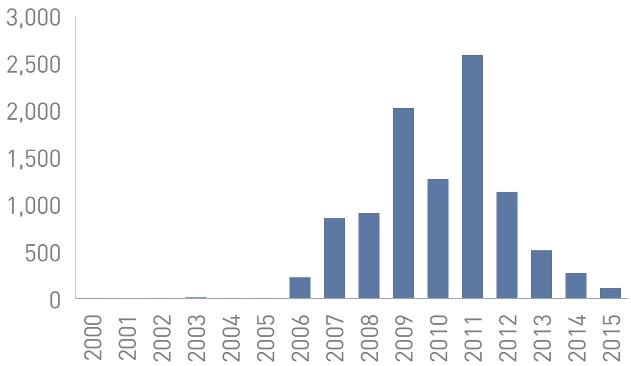


North America

Total: **$9.38 bn**
9% of Chinese OFDI in North America

Annual Investment Value | USD million



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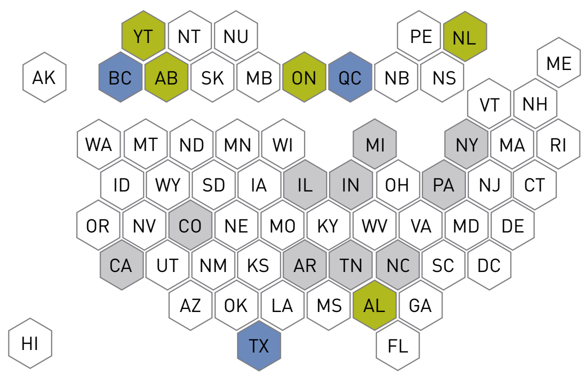


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Over the past 15 years, China invested $13.3 billion in metals and minerals assets across the two regions. Most of this investment was concentrated between 2007 and 2012, with Chinese interest declining dramatically in the past three years.

Canada received more than 70% of Chinese metals and minerals investment from 2000 to 2015, reflecting its abundance of resource deposits and its position as host for global mining companies. The largest deals in North America include China Investment Corporation's investment of $1.5 billion in Teck Resources in 2009, Minmetals' acquisition of Anvil Mining in 2011 for $1.3 billion, and Chalco's acquisition of Peru Copper for $770 million. The biggest transaction in Europe was the acquisition of Norwegian aluminum and silicon producer Elkem by ChemChina through its subsidiary Bluestar for $2.2 billion in 2011.

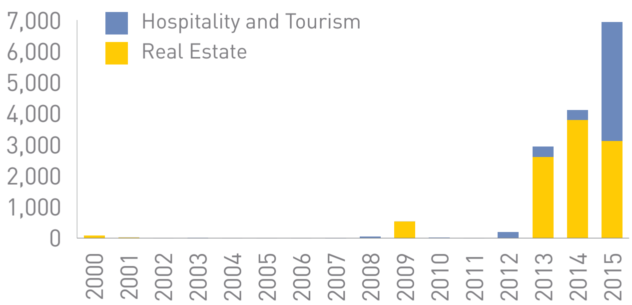
Changes in China's growth model, a large drop in global metals prices, and a problematic track record of past overseas investments have dampened China's appetite for global metals assets in recent years. Opportunities arising from consolidation in the mining industry and growing demand for gold and other precious metals due to China's growing middle class could catalyze investments in the near future; however, a return to pre-2012 investment patterns is unlikely.

Real Estate and Hospitality

Europe

Total: **$13.76 bn**
14% of Chinese OFDI in Europe

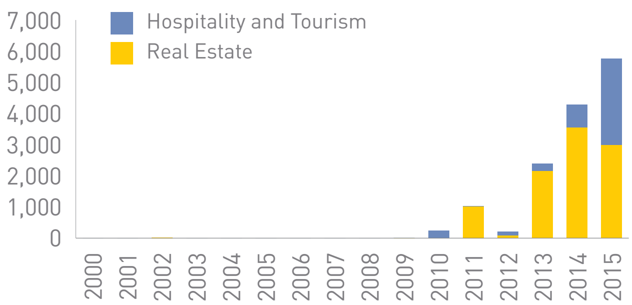
Annual Investment Value | USD million



North America

Total: **$12.90 bn**
12% of Chinese OFDI in North America

Annual Investment Value | USD million



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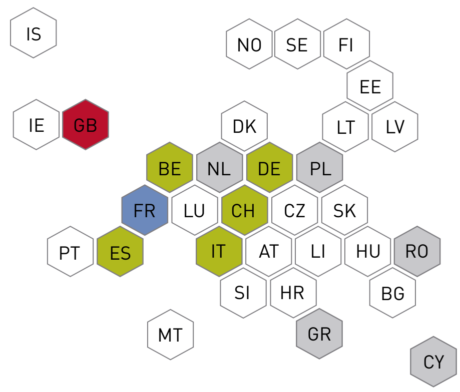

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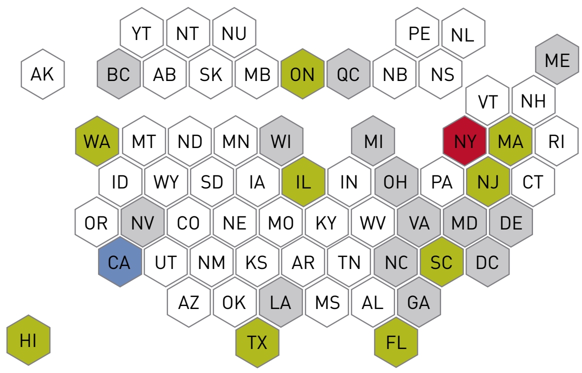


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Real estate and hospitality are major attractions. Chinese investment from 2000 to 2015 adds up to $26.6 billion (13% of total Chinese OFDI) and is evenly split between both Europe and North America. Most investment has occurred since 2013 and is primarily concentrated in tier-one cities such as London, Paris, New York and Los Angeles. The sector attracts private (60% of total investment) as well as state-owned and sovereign capital investment (40%).

Commercial real estate in safe havens is a primary target for Chinese companies and financial investors as they diversify their holdings globally. The largest deals include China Investment Corporation's investment in the Chiswick Park development in London for $1.3 billion, China Life's stake in 10 Upper Bank Street (also London) for $740 million, and Fosun's purchase of 1 Chase Manhattan Plaza in New York for $725 million. A recent trend is the strong growth of Chinese investment in new developments, with major projects underway in New York, Boston, Chicago, San Francisco, Los Angeles, Toronto, London, and Madrid.

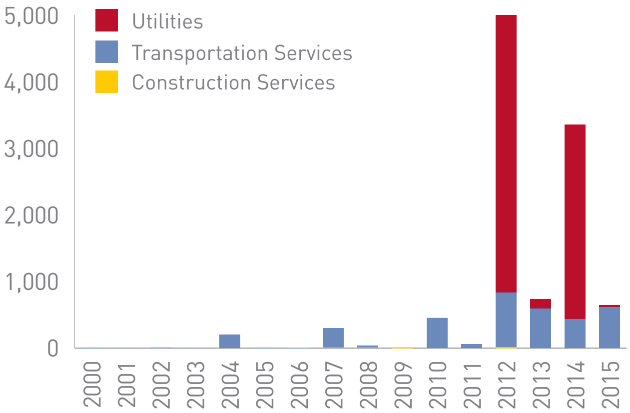
Chinese investors have also turned to hotels and other hospitality assets, both as a real estate play and to tap revenues from booming Chinese outbound tourism. Investments took off in 2015, with more than $6 billion invested across the two regions. The largest deals include Anbang's purchase of a luxury New York City hotel for $1.95 billion, Jinjiang's acquisition of French hotel group Louvre Hotels for $1.6 billion, and Fosun's purchase of vacation resort operator Club Med for $1 billion. Hotel investments continued to make headlines in early 2016 with Anbang's bids for US-based Strategic Hotels and Starwood Hotels. Continued investment in the industry is likely as China's middle class is large and increasingly eager to travel overseas. The number of outbound trips to the US surpassed 2.5 million in 2015 and the US Department of Commerce projects Chinese tourist arrivals to exceed 5 million by 2020. In addition to hospitality, Chinese investors are also ramping up their FDI in travel logistics and infrastructure.

Transport and Infrastructure

Europe

Total: **$10.52 bn**
11% of Chinese OFDI in Europe

Annual Investment Value | USD million



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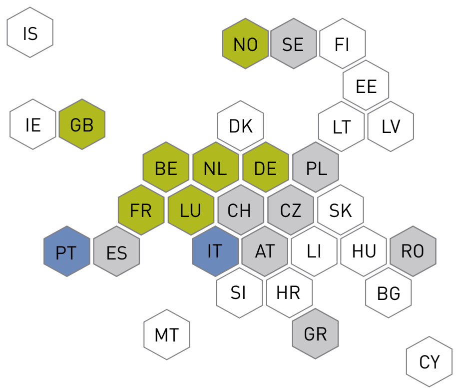
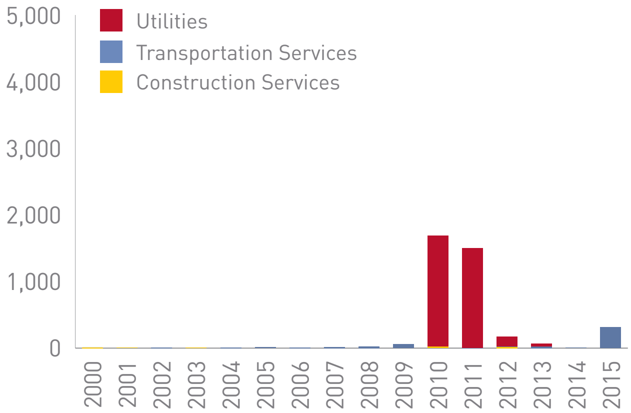


North America

Total: **$3.75 bn**
3% of Chinese OFDI in North America

Annual Investment Value | USD million



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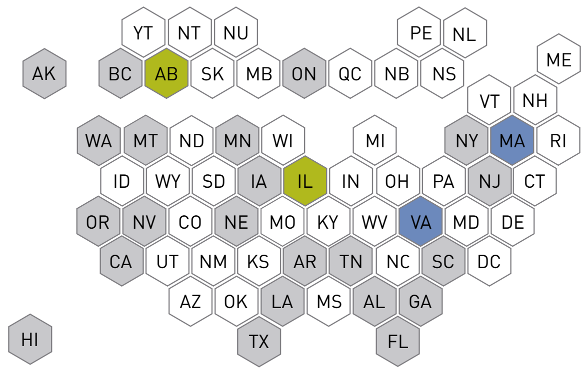


$5 bn+ | $1 bn-$5 bn | $100 mn-$1 bn | less than $100 mn | 0

Along with real estate, Chinese long-term investors are increasingly interested in infrastructure assets in the Western world. Investment is concentrated in Europe, which accounts for over 73% of the $14.3 billion invested since 2000. Crisis-driven privatization efforts and lower national security sensitivities have contributed to Europe's lead in attracting Chinese capital in these areas. More than 90% of investment in this sector originates from state-owned firms.

Utilities have become a preferred asset for Chinese investors, accounting for more than 70% of total OFDI in this category. Italy and Portugal are the main recipients due to Three Gorges' $3.5 billion stake in Portuguese utility EDP in 2012 and State Grid's $2.7 billion stake in Italian utility CDP Reti in 2014. France, Germany and the UK have all attracted investment as well. The biggest investments in North America were stakes in Virginia-based AES in 2010 and Massachusetts-based InterGen in 2011. Chinese participation in infrastructure projects, such as the UK's Hinkley Point nuclear plant, could further boost Chinese investment in Europe.

DEAL STRUCTURES AND INVESTOR MIX

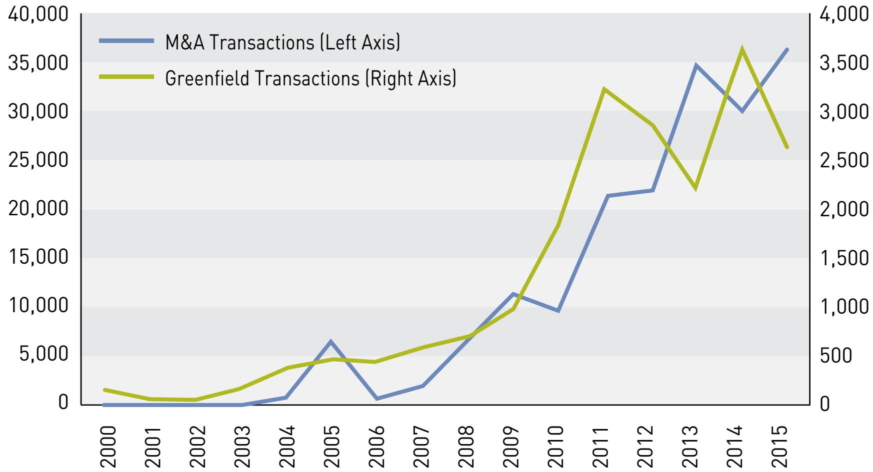
The recent growth of investment levels and the shift in the industry mix have transformed deal structures and the landscape of Chinese companies in both regions. Acquisitions account for the majority of Chinese capital entering Europe and North America, but greenfield OFDI has jumped in recent years. Similarly, while multibillion-dollar deals grab the headlines, transactions below $1 billion have accounted for the majority of Chinese capital entering both regions in the past two years. Privately owned companies are now driving outward investment growth in many sectors. The role of state-owned companies remains more prominent in Europe than in North America, but it varies across sectors. One trend visible in both regions is the growth of financial investors such as insurance companies, financial conglomerates and sovereign entities. At the same time, surprisingly few Chinese companies have a strong presence on both sides of the Atlantic.

ACQUISITIONS STILL DOMINATE, BUT GREENFIELD INVESTMENT JUMPS

Keen on rapid catch-up, Chinese investors have primarily focused on acquisitions for the past decade. Mergers and acquisitions account for more than 90% of the total value of Chinese OFDI transactions in North America and Europe from 2000 to 2015. Greenfield investments dominate the number of transactions, but have remained small in size for the most part.

FIGURE 9: VALUE OF CHINESE OFDI TRANSACTIONS BY ENTRY MODE IN EUROPE AND NORTH AMERICA, 2000–2015

USD million, both regions combined



Source: Rhodium Group.

Investments announced over the past three years suggest a more pronounced increase in greenfield OFDI spending in the coming five years.

At the same time, Chinese investment in greenfield projects has increased in both regions. Greenfield investment has moved up from under $1 billion per year in 2009 to nearly $3 billion per year in 2015, showing a similar growth trajectory as acquisitions over the 2000–2015 period, albeit at a much lower scale. This trajectory reflects greater confidence and capability to grow organically in highly regulated overseas markets, along with Chinese investors' interest in new areas such as real estate development.

Investments announced over the past three years suggest a more pronounced increase in greenfield OFDI spending in the coming five years. As of early 2016, the announced combined value of pending and ongoing greenfield projects across North America and Europe exceeds $20 billion.[9]

MEGA DEALS CAPTURE HEADLINES, BUT SMALL AND MEDIUM-SIZED INVESTMENTS DRIVE GROWTH

While large billion-dollar deals still command the most attention, transactions with a value of $1 billion and below account for the majority of Chinese investment in both regions in the past two years.

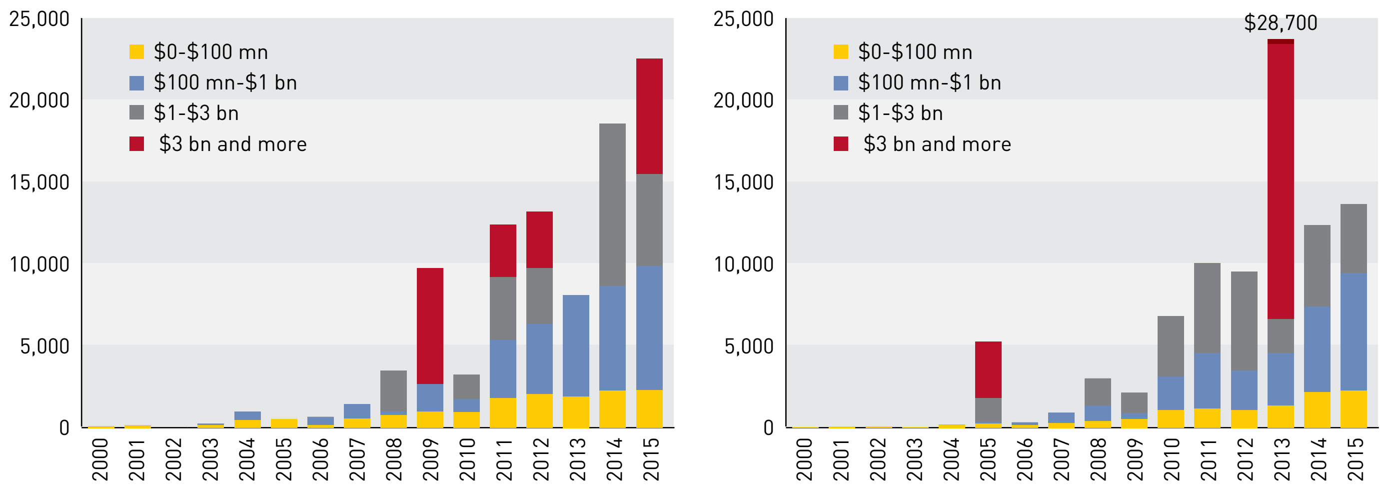
Investments below $100 million made up almost 90% of transactions from 2000 to 2015, but only a small share of the total annual transaction value. The total value of those transactions increased in parallel in both regions, reaching an average of $5 billion in 2014 and 2015. The biggest growth in both regions occurred in deals of $100 million to $1 billion, jumping from an average of only three per year before 2011 to 66 deals in 2015. The value grew from virtually zero to more than $3 billion in 2010, jumped to $8 billion in 2011 and 2012, and doubled to more than $16 billion in 2015.

Transactions in the $1 billion to $3 billion range also helped push investment to unprecedented levels. From 2011 to 2015, we recorded an average of six deals in this range every year, adding more than $10 billion in each year except 2013. Large-scale acquisitions over $3 billion have shaped deal flow in certain years (2005, 2009, 2013), but have declined in importance over time as deal flow in other categories has become more stable.

FIGURE 10: VALUE OF CHINESE OFDI TRANSACTIONS BY TRANSACTION SIZE IN EUROPE AND NORTH AMERICA, 2000–2015 | USD million

EUROPE

NORTH AMERICA



Source: Rhodium Group.

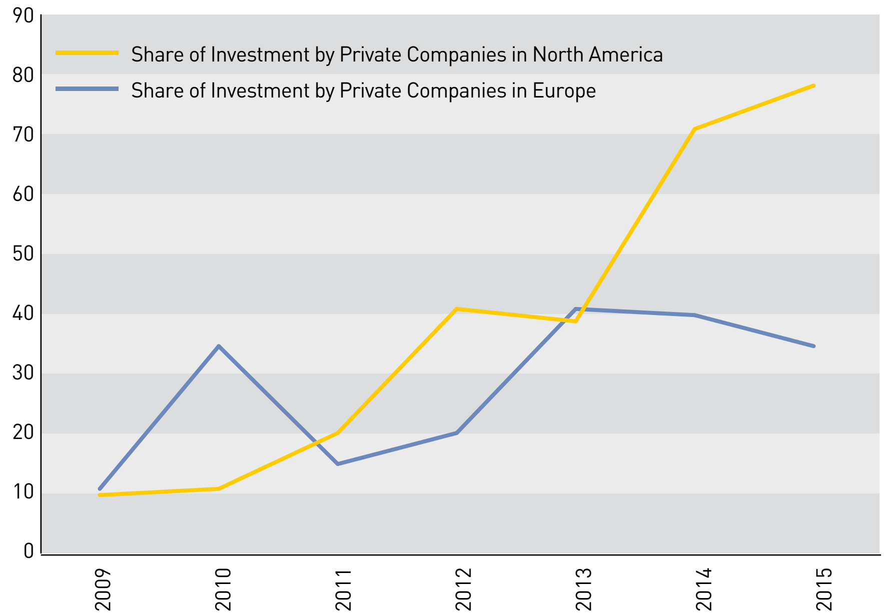
9. For greenfield investments, the dataset records investment incrementally over time, as opposed to full values at announcement. See the Data Appendix for details.

THE UNEQUAL RISE OF PRIVATE INVESTORS

State-owned enterprises have dominated China's global OFDI activities for most of the past decade, accounting for more than 70% of Chinese OFDI in Europe and North America from 2008 to 2013. Private investment has been growing however, reflecting greater confidence and capability of those entities to invest in larger overseas deals, as well as a less onerous approval process for outbound investment. Private investors' share of total combined investment in both geographies has gradually increased from 12% in 2009 to 53% in 2015.

In the past two years, however, divergent paths have emerged between the two regions: in North America, private companies' share of total investment jumped from 40% in 2013 to almost 80% in 2015, driven by a boom in high-tech, advanced manufacturing, and services investments. In Europe, private investment continued to grow, but was outpaced by strong growth in acquisitions by state-owned and sovereign investors. As a result, private investors' share of total investment declined from 41% in 2013 to 35% in 2015.

FIGURE 11: SHARE OF PRIVATE CHINESE INVESTMENT IN EUROPE AND NORTH AMERICA,* 2009–2015
Percent of total



*Source: Rhodium Group. *Private companies" refers to entities with less than 20% ownership by the government, sovereign entities and/or central SOEs.*

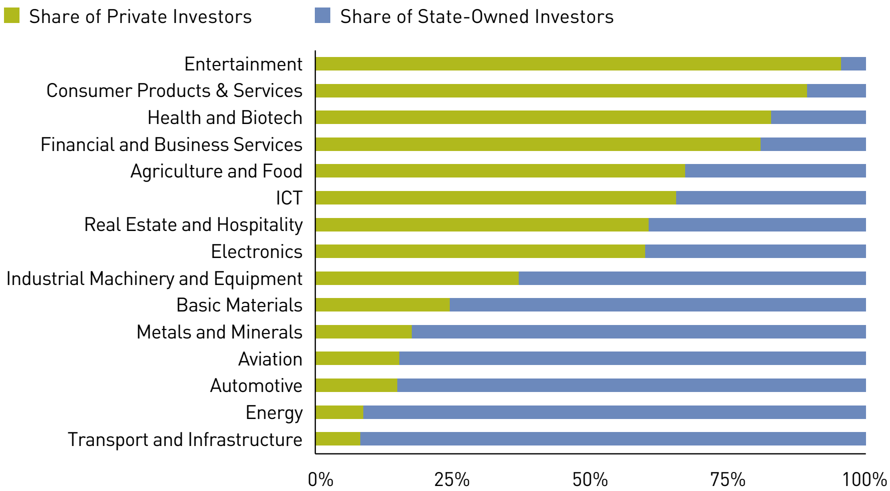
The presence of SOEs and private companies also strongly diverges across sectors, and in most cases mirrors the ownership structures in those sectors in China. Private companies account for more than two thirds of Chinese capital invested in consumer-facing industries, including entertainment, consumer products, and healthcare. Private companies also account for the majority of investment in agriculture and food, ICT, real estate, and electronics, but state capital also plays an important role in those industries. In agriculture and food, SOE interests are focused on grain trading, while food processing and retail elicit greater interest from private investors. Similarly, while private investors dominate investment in software and IT equipment, state players are driving investment in semiconductors.

Investment in capital-intensive industries such as energy, infrastructure, metals or basic materials is dominated by state-owned investors. SOEs also account for the majority of investment in a handful of manufacturing industries with a legacy of state ownership in China, including aviation, automotive and industrial machinery. One notable outlier is financial and business services. While China's financial sector continues to be dominated by state-owned players, more than two thirds of cumulative investment in North America and Europe originates from private companies. This reflects the relatively modest FDI presence of Chinese banks in both regions and the recent surge in large-scale acquisitions by private players such as Fosun and Anbang in the insurance sector.

Looking forward, China's private sector will drive the secular growth of OFDI, but SOEs will remain important players in Chinese outbound investment activity, particularly in energy, industrials and other capital intensive sectors. ChemChina's proposed $43 billion takeover of Syngenta and other pending transactions suggest that SOEs will account for a significant share of China's 2016 OFDI.

FIGURE 12: SHARE OF STATE-OWNED AND PRIVATE COMPANIES IN CHINESE FDI TRANSACTIONS IN EUROPE AND NORTH AMERICA, 2000–2015

Percent of total cumulative investment from 2000 to 2015



Source: Rhodium Group.

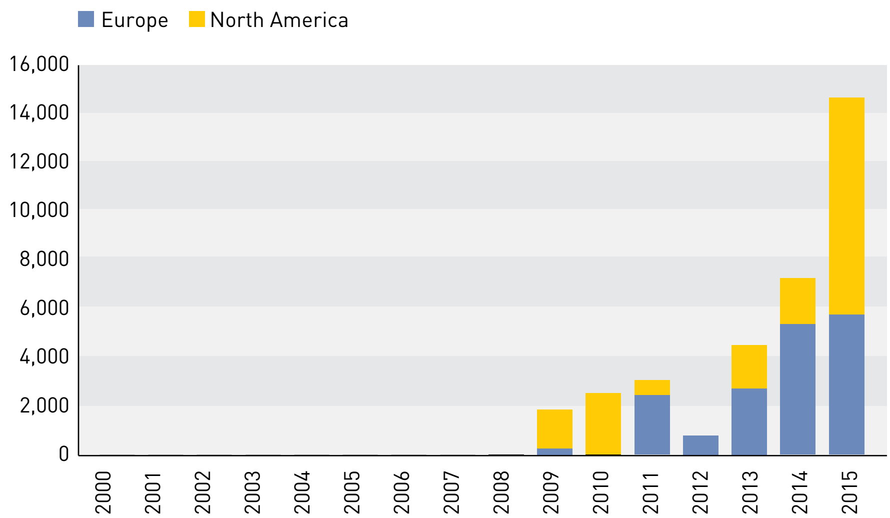
THE EMERGENCE OF FINANCIAL INVESTORS

Another important development in both markets is the growing role of financial investors. For most of the past decade, strategic investors—real economy companies making long-term investments to exploit advantages, access markets or increase competitiveness—accounted for the vast majority of Chinese outbound deals. In the past two years, financial investors (companies and funds investing primarily for financial returns) have emerged as important players in the China outbound space, including private funds and state-owned or sovereign entities.

The greater role of financial investors in China's OFDI can be attributed to growth in China's domestic non-bank financial services and greater uncertainty about future investment returns in China. The maturation of China's financial services industry beyond commercial banks and the rapid expansion of credit have created new Chinese financial players managing large pools of capital, including financial conglomerates, trust companies, wealth management firms, insurance companies and private equity funds. Declining returns for investments at home and new policies that reduce regulatory impediments for global investment have incentivized these new players to look outward for opportunities in North America, Europe, and elsewhere.

FIGURE 13: CHINESE OFDI BY FINANCIAL INVESTORS IN EUROPE AND NORTH AMERICA, 2000–2015

USD million



Source: Rhodium Group.

In Europe, OFDI by Chinese financial investors climbed from virtually zero to $6 billion in 2015, or 26% of the total. Sovereign entities such as China Investment Corporation and various entities affiliated with the State Administration of Foreign Exchange (SAFE) were early investors in Europe and now have a significant portfolio of direct investments in the region. In recent years the mix of financial investors has broadened to include financial conglomerates, private equity firms and other players. They mostly target real estate, consumer brands and financial services assets.

In North America, financial investors spent $8.7 billion in 2015, accounting for 52% of total Chinese OFDI. In contrast to Europe, private companies make up the majority of big financial investors. However, state-owned activity has increased in the past two years. Key target industries resemble those in Europe, except for the big increase in venture capital and private equity investments targeting US companies in high-tech hubs such as Silicon Valley and Massachusetts.

TABLE 3: TOP CHINESE FINANCIAL INVESTORS IN EUROPE AND NORTH AMERICA, 2000–2015
USD billion

Investor	Ownership	Total Investment	Largest Investment
Europe			
China Investment Corp. (CIC)	State	$5.9	GDF Suez exploration assets ($3.2)
Fosun	Private	$3.3	Fidelidade ($1.4)
Jianguang Asset Management	Private	$1.8	NXP Semiconductors RF assets ($1.8)
SAFE	State	$1.6	UPP Group Holdings stake ($0.9)
Hony Capital	Private	$1.5	PizzaExpress ($1.5)
North America			
China Investment Corp. (CIC)	State	$1.6	AES stake ($1.6)
Fosun	Private	$3.5	Ironshore ($2.3)
Anbang	Private	$2.5	Luxury New York City hotel ($2.0)
Yantai Xinchao	Private	$1.3	Texas oilfields ($1.3)
Zhang Xin Family	Private	$1.3	GM building ($0.7)

Source: Rhodium Group.

A TRANSATLANTIC DIVIDE?

Most Chinese companies are still focused on one region or the other. Only a few truly global companies have been able to build a strong presence on both sides of the Atlantic. Plotting all 34 Chinese investors with a combined investment of more than $1 billion in Europe and North America against the relative distribution of their investment across both regions shows that 15 companies have a clear preference for Europe, 12 companies have the vast majority of assets in North America, and only 6 companies have a relatively even split of investments between the two regions.

Those preferences are partially attributed to industry clusters or resource deposits drawing investors to one of the two regions. Mining company Minmetals, for example, is largely focused

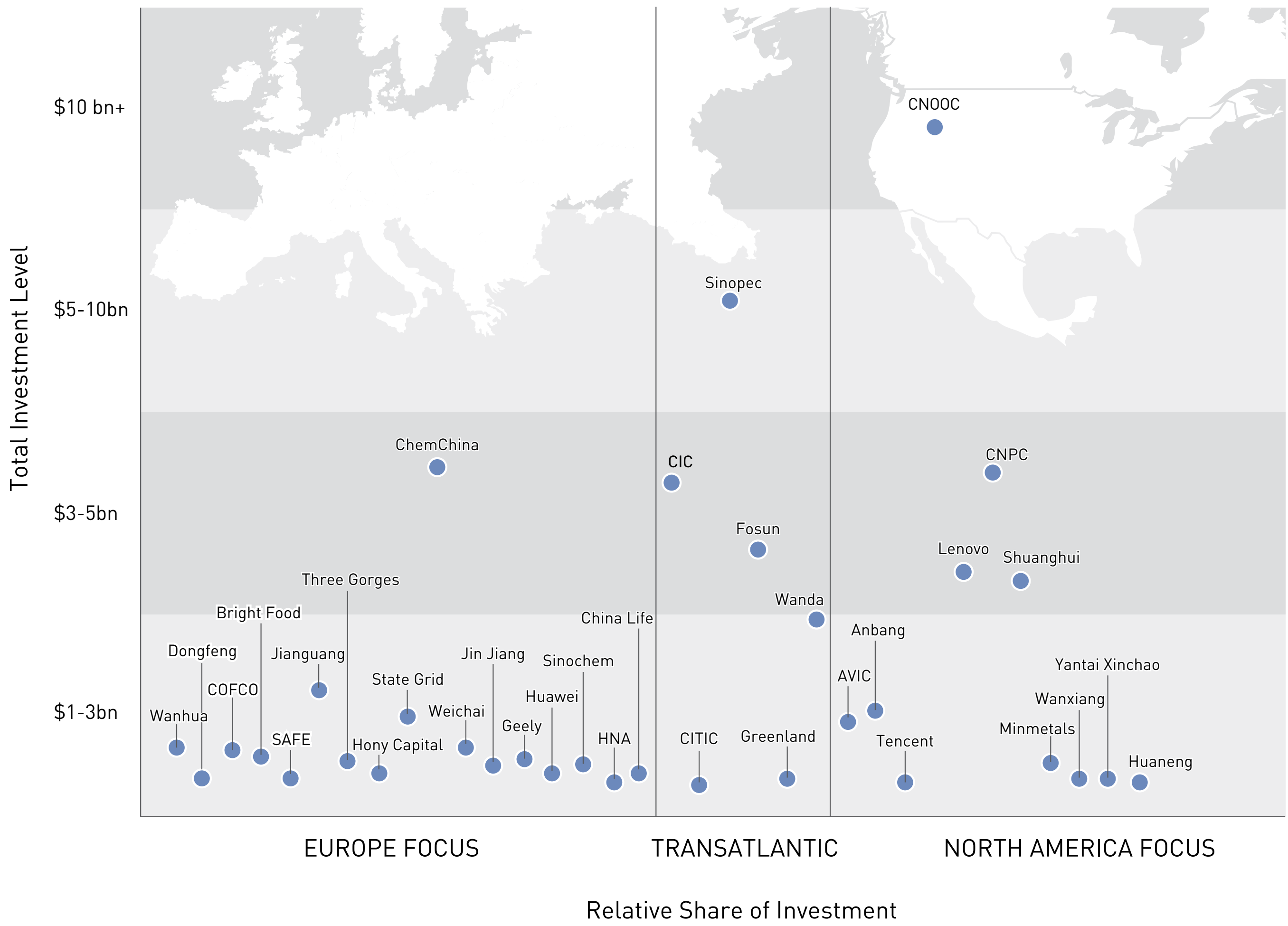
Only a few truly global companies have been able to build a strong presence on both sides of the Atlantic.

on Canada because of metal endowments and attractive acquisition targets in its core industry. ICT and software investors such as Lenovo or Tencent are drawn to the abundance of talent and industry clusters in the US. Political and regulatory dynamics also play a role: for example, Huawei's preference for European expansion, or the greater presence of utilities such as State Grid or Three Gorges in EU economies.

At the same time, this snapshot highlights that China Inc. is still in the early stages of its global expansion. Many companies that should have a strong position on both sides of the Atlantic have only dipped their feet in the water through deals in one region rather than taking a plunge in both. More than half the companies that have invested more than $1 billion in the two regions have done fewer than 10 deals in both regions combined. Companies like Fosun with more than 20 deals are a rare exception.

FIGURE 14: CHINESE INVESTORS' PREFERENCES FOR EUROPE OR NORTH AMERICA, 2000–2015

USD billion



Source: Rhodium Group.

THE ROLE OF POLICY AND REGULATIONS

While the growth of Chinese OFDI in Europe and North America is primarily driven by commercial motives, government policy and regulations are also shaping investment patterns. On the Chinese side, the liberalization and streamlining of OFDI regulations are important prerequisites of the recent boom. Industrial policies and the behavior of sovereign funds can also explain certain trends in outbound investment. On the recipient side, the policies, regulations and attitudes of European and North American countries are shaping the inflow of Chinese capital. While governments generally have been very welcoming and open toward Chinese investment, differences in the efforts to attract Chinese investment, as well as in the defensive policies to screen investment for security and economic risks, account for some of the observed differences in China's footprint in the two regions.

POLICY LIBERALIZATION IN CHINA AS PREREQUISITE

Growing government support for outbound FDI and the gradual removal of administrative barriers were key prerequisites for China's OFDI boom. During the early decades of Chinese economic reforms, China largely prohibited outbound investments due to fears about capital flight and the loss of much needed foreign exchange. Since 2000, this attitude changed as leaders and bureaucrats recognized the importance of outbound FDI for economic development, the competitiveness of Chinese companies, and the structure of China's international investment position.

In recent years, the process of policy liberalization has accelerated and China has moved from a regime that required multiple approvals to a system under which most investments can go through a simpler and quicker recordal (备案) process.[10] Those reforms were critical to overcome past patterns of state-dominated investment in extractive industries, and give the private sector a greater role in China's outbound investment—a key factor for the continued growth and diversification of Chinese investment in North America and Europe.

The current status of the Chinese OFDI regime continues to be in flux. In April 2016, the National Development and Reform Commission (NDRC) issued draft amendments to the current rules which—if enacted—could remove the pre-approval selection process by the NDRC ("road pass system" - 路条) and enable competing Chinese investors to bid for the same overseas asset, a significant step in further liberalizing China's OFDI regime. At the same time, the Chinese government is reluctant to give up its ultimate control over OFDI flows, which remains one of the main downside risks for the growth of Chinese outbound investment in certain assets (see Outlook section).

10. For the latest update of China's foreign investment review regime, see *Catalog of Investment Projects Requiring Government Approval*, State Council, October 31, 2014, http://www.gov.cn/zhengce/content/2014-11/18/content_9219.htm. Though approvals have been lifted for most investments except for those in sensitive industries and countries, uncertainties remain about how these reforms are implemented in practice, particularly in recent months as China experiences record-level capital outflows.

CHINESE REFORMS AND INDUSTRIAL POLICY AS PUSH FACTORS

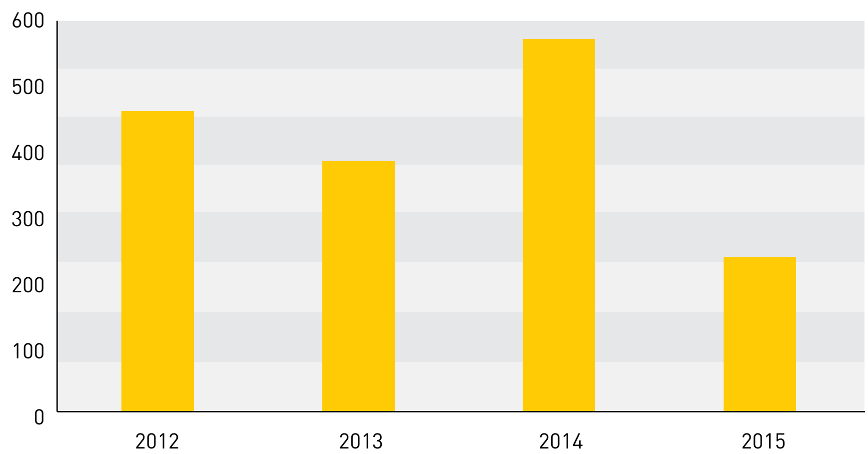
As noted earlier, the government's ambitious agenda to overhaul China's growth model and transition to a consumption, service and innovation-driven economy is a key driver of Chinese OFDI growth. Chinese companies face increased pressure to reinvent their business models, which is linked to greater interest in advanced economy assets, including technology, brands and human talent.

Some of the observed investment patterns in both geographies can also be traced to China's industrial policies: in particular in the past decade, strong support for Chinese state firms buying equity stakes in global upstream oil and gas, driven by energy security concerns. More recently, industrial policy initiatives have translated mostly into outbound investment in European and American technology assets, including electric vehicle technology and semiconductors. The draft of the 13th Five Year Plan released in March 2016 puts forward a number of new initiatives that have the potential to shape future outbound investment patterns, including "Internet Plus" and "Made in China 2025," which aim to accelerate the technological upgrading of China's manufacturing capabilities through integration with Internet and advanced robotics.[11]

SOVEREIGN ENTITIES AND NEW INVESTMENT INITIATIVES

The Chinese government's role in shaping OFDI flows also extends to the behavior of sovereign entities and specific policy initiatives that encourage investment in certain geographies. In the past, the most relevant vehicles were China Investment Corporation (CIC) and various investment arms under the State Administration of Foreign Exchange (SAFE). The overseas investment activity of those vehicles is mostly focused on portfolio investment (debt instruments and equities), but they have also expanded direct investments as part of their alternative investment portfolio. While their holdings are not fully transparent, both CIC and SAFE have generally favored Europe over North America for disclosable FDI stakes. Together they have invested nearly $8 billion in direct investment assets in Europe, compared to just under $4 billion in North America. The Chinese government is also an indirect limited partner in a number of Western private equity funds and is indirectly invested in a series of specific funds set up by China Development Bank targeting European assets (for example the China-Belgium Fund, the China-Ireland Fund and the China-France Fund). However, the role of those funds in outbound FDI patterns remains marginal.

FIGURE 15: CHINESE OUTBOUND FDI TRANSACTIONS IN EASTERN EUROPEAN OBOR ECONOMIES*
USD million



*Source: Rhodium Group. *Includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.*

11. See "Li Keqiang: 'Internet+' can be an engine of economic transformation," June 24, 2015, http://www.gov.cn/xinwen/2015-06/24/content_2883554.htm; "State Council Announcement on 'Made in China 2025'," State Council, May 8, 2015. http://www.gov.cn/zhengce/content/2015-05/19/content_9784.htm.

China also recently announced a major strategic initiative aimed at strengthening China's commercial ties with economies along the ancient Silk Road. The "One Belt, One Road" (OBOR) program is projected to catalyze hundreds of billions of dollars of investment in many European economies.[12] This may give Europe another edge for attracting capital from China, as there is no similar program for North America. At the same time, the impact the OBOR initiative will have on investment patterns is unclear.

To date, big announcements have paired with relatively few executed investments, and the value of Chinese investment in Eastern Europe's OBOR economies has not materially increased from its historical trend line.

EXCEPTIONAL AMERICAN AND EUROPEAN OPENNESS AND STABILITY

On the recipient side, the most important prerequisites for the recent growth of Chinese investment are the openness and political stability of Europe and North America. After more than a decade of extractive investments in politically unstable developing economies, Chinese investors are increasingly looking for high-quality assets in politically safe destinations.

Europe and North America not only have a huge and diverse stock of these assets but also a long history of embracing foreign direct investment and a more welcoming stance on OFDI than Asian economies with similar income levels and industrial structures, such as Japan or Korea. Moreover, European and American countries generally offer mature legal systems and strong protection of property rights to foreign investors.[13] These characteristics—which are acknowledged by Chinese assessments of global openness and investment risk—make Europe and North America natural destinations for Chinese capital.

After more than a decade of extractive investments in politically unstable developing economies, Chinese investors are increasingly looking for high-quality assets in politically safe destinations.

TABLE 4: A CHINESE PERSPECTIVE ON OVERSEAS INVESTMENT RISK*, 2015

Ratings of overseas investment risks for Chinese companies ranging from B (most risky) to AAA (least risky)

	Western Europe	North America	APAC	Africa	South America
AAA	Germany				
AA	United Kingdom, Netherlands	United States, Canada	Australia, New Zealand, South Korea, Singapore		
A			Japan, Israel, United Arab Emirates, Saudi Arabia, Kazakhstan		
BBB	Romania, Bulgaria, Greece	Mexico	Malaysia, Indonesia, The Philippines, Sri Lanka, Cambodia, Thailand, Iran, Uzbekistan, Pakistan, India, Laos, Mongolia, Myanmar, Vietnam, Turkmenistan, Tajikistan	South Africa, Kenya	
BB			Bangladesh, Kyrgyzstan	Ethiopia, Nigeria, Angola, Zambia, Egypt	Brazil, Argentina
B			Iraq	Sudan	Venezuela

*Source: Chinese Academy of Social Sciences. *Table shows the results of an exercise by researchers at the Chinese Academy of Social Sciences with the goal of assessing overseas investment risks for Chinese companies. Not all countries were rated. See Zhang Min (2016).*

12. The list of European OBOR countries is Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. See *Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road*, National Development and Reform Commission, Ministry of Foreign Affairs, Ministry of Commerce, March 28, 2015. http://news.xinhuanet.com/world/2015-03/28/c_1114793986.htm.
13. Mira Wilkins, *the History of Foreign Investment in the United States*, 1914–1945, Harvard University Press (1989).

DIFFERENT ROLES OF GOVERNMENTS AS FACILITATORS OF INVESTMENT

While countries in both regions have similar levels of openness, there are distinct differences in the government's role in the economy and in facilitating foreign investment. European federal governments have been more proactive in promoting the inflow of Chinese OFDI in past years compared to the United States, where the federal government has primarily delegated that responsibility to the 50 states.

However, what really moved the needle in terms of aggregate investment values was the readiness of European leaders to sell assets to Chinese investors, forge strategic partnerships, and award them public contracts. Since 2008, the financial and fiscal crises in Europe have pressured governments to privatize existing assets or add new strategic investors to state-owned companies to raise capital. This opened up opportunities for cash-rich Chinese investors to step in, and European governments were open to Chinese participation (or were forced to sell to the highest bidder due to existing tender rules). In the past five years, Chinese companies have spent $8.6 billion on newly privatized assets in Southern Europe (Portugal, Italy, Greece), as well as in the European core, including France and the Netherlands. In North America, federal government ownership remained limited despite crisis bailouts, and the US government largely chose public markets to exit its stakes.

European governments have also shown more willingness to award large and high-profile public procurement contracts to Chinese companies, often connected to project financing or greenfield OFDI to set up local operations. Recent examples include China General Nuclear's bid to construct (and take a stake in) the Hinkley Point nuclear power plant in the UK at a total cost of $26 billion, a Chinese Rail Group-led consortium's $1.6 billion contract to build a high-speed rail line between Budapest and Belgrade, and China Harbour Engineering Company's $440 million contract to build the Swansea tidal power plant in the UK. Chinese companies have recently been able to win contracts in North America as well, for example China CNR's contract to supply subway cars in Boston and BYD's electric bus contract with the City of Los Angeles.

TABLE 5: CHINESE INVESTMENT IN PREVIOUSLY GOVERNMENT-OWNED ASSETS IN EUROPE

Year	Target	Country	Industry	Investment	Stake	Motivation
2012	Energias de Portugal	Portugal	Utilities	$3.5 billion	21%	Privatization
2014	CDP Reti	Italy	Utilities	$2.8 billion	35%	Privatization
2014	Caixa de Seguros	Portugal	Financial Services	$1.4 billion	100%	Privatization
2014	Peugeot	France	Automotive	$1.1 billion	14%	Capital injection
Pending	Port of Piraeus	Greece	Transportation Services	$0.7 billion	67%	Privatization
2015	Vivat	Netherlands	Financial Services	$0.7 billion	100%	Privatization
2013	EDP Renovaveis	Portugal	Utilities	$0.5 billion	49%	Privatization
2012	REN	Portugal	Utilities	$0.5 billion	25%	Privatization

Source: Rhodium Group.

NATIONAL SECURITY SENSITIVITIES AND REVIEWS

Most open economies reserve the right to review foreign investment for potential threats to their vital security interests, but the design, process and application of review processes varies greatly across North America and Europe.[14]

In the US, the Committee on Foreign Investment in the United States (CFIUS) has a mandate to review foreign acquisitions for potential national security risks. While many Chinese investors have successfully navigated through the CFIUS process, some Chinese companies have had difficulties in obtaining approval for their investments, including several transactions involving technology assets with potential military use or operations with close proximity to US military installations. A few failed transactions have created the perception that Chinese companies are subject to a higher scrutiny by CFIUS, which can work as impediment for greater investment levels in specific industries. Europe, on the other hand, does not have a coherent European framework to review foreign investment for national security risks, and the screening of investment for security risks depends on geopolitical interests and sensitivities of national government. As a result, investment reviews can vary greatly among European economies, but they are generally perceived as less onerous than in the US.[15]

These realities and perceptions are visible in the observed patterns of Chinese investment: Europe has attracted more than $10 billion of Chinese investment in infrastructure assets including airports, utilities and ports, compared to only $3.8 billion in North America. Europe has also received more greenfield investment from Chinese telecommunications equipment makers Huawei and ZTE, reflecting the difficulties those entities have accessing certain segments of the US market. More recently, actual and perceived CFIUS challenges have also impacted Chinese M&A activity in US high-technology sectors, most notably in semiconductors.

Recent cases highlight that Chinese investors increasingly face security reviews in the US for transactions in Europe. For example, the intended Chinese acquisition of Philip's LED business, Lumileds, fell apart due to CFIUS concerns, which asserted jurisdiction because the company had significant assets in the United States. CFIUS is also expected to review ChemChina's $43 billion acquisition of Swiss agriculture company Syngenta, which has R&D operations and other assets in North America. In short, the heavy presence of European companies in North America makes it increasingly important for Chinese buyers to assess CIFIUS-related risks for potential acquisitions of European companies.

OTHER RULES TO ADDRESS ECONOMIC CONCERNS

Mechanisms in place to address potential economic concerns also differ across the two regions. The most common framework in major European and North American economies (as well as the EU level) is the review of deals by competition authorities for potential threats to fair competition and consumer welfare. The methods and depth of merger review processes vary, but are generally perceived as more stringent in Europe than in North America.[16] Moreover, European competition authorities are closely watching acquisitions by state-owned Chinese entities and have considered counting all SOEs as one entity when calculating market share.[17] To date these reviews have not materially impacted Chinese deal-making in either region because Chinese firms have a miniscule market share; however, they could become important in the near future, particularly in light of the recent jump in Chinese outbound M&A activity.

14. See OECD Investment Policy Reviews, available at: http://www.oecd.org/investment/countryreviews.htm, and UNCTAD-OECD Reports on G20 Investment Measures, available at http://unctad.org/en/Pages/DIAE/G-20/UNCTAD-OECD-reports.aspx.
15. Recent cases such as the intended Chinese acquisition of Philip's LED business, Lumileds, which was not seen as problematic by European governments but fell apart due to CFIUS concerns, reaffirm the notion of different sensitivities.
16. See the Global Merger Control Index for a comprehensive comparison, available at http://www.mergerdata.net/.
17. See European Commission case document of China Bluestar and Elkem merger: http://ec.europa.eu/competition/mergers/cases/decisions/m6082_20110331_20310_1967334_EN.pdf.

The methods and depth of so-called merger review processes vary but are generally perceived as more stringent in Europe than in North America.

Countries also have certain restrictions for foreign investment and/or additional regulatory checks applicable to certain industries, which is visible in the data. In the US, for example, the Federal Reserve must approve acquisitions in the banking sector, and the Federal Communications Commission must approve certain telecommunications investments. Other examples for industry restrictions include fisheries in Norway, real estate in Hungary and electricity generation in Switzerland.[18]

Canada is an outlier and has an expansive mandate for reviewing foreign investment. Under the Investment Canada Act, Canada can review and block foreign investments of any size for potential security threats. It also applies a "net benefit" test to the approval of all large investments that examines, among other factors, employment effects, the impact on domestic decision-making, R&D and capital investment, effects on competition, indirect demand generation and trade effects.[19] It also places special requirements (including lower financial thresholds and additional "net benefit" criteria) on state-owned companies, which it tightened in 2012 in reaction to two takeovers in the Canadian oil and gas sector – one by a Chinese investor.[20] Chinese investment overall, and by SOEs in particular, subsequently plunged. While causation is difficult to assess (commodity prices and deal volumes collapsed globally in this period), the lack of major investment activity by Chinese SOEs since 2013 suggests that the new rules have deterred potential state investors.[21]

THE THREAT OF POLITICIZATION

Aside from formal regulations, the politicization of specific transactions may also impact Chinese investment patterns. Europeans, Americans and Canadians often have a skeptical attitude toward foreign acquisitions, and China's special economic and political systems elicit particular fears about Chinese takeovers among parts of the electorate in those countries. This has given politicians, competitors and special interest groups fertile soil to politicize individual transactions. The frequency and impact of such politicization varies depending on the political system and the ability of elected politicians and outsiders to influence the investment screening process.

The United States has a long history of politicization of Chinese investments, and several transactions have fallen through because of strong public opposition. The most notable example was CNOOC's bid for California oil company Unocol in 2005, which the company abandoned after Congress threatened legislation to slow down and impede the transaction. Other high-profile controversial cases include Lenovo's acquisition of IBM's personal computer division in 2005, the 2013 acquisition of Smithfield Foods by Shuanghui, and most recently, Chongqing Casin's proposed acquisition of the Chicago Stock Exchange.

China's special economic and political systems elicit particular fears about Chinese takeovers among parts of the electorate.

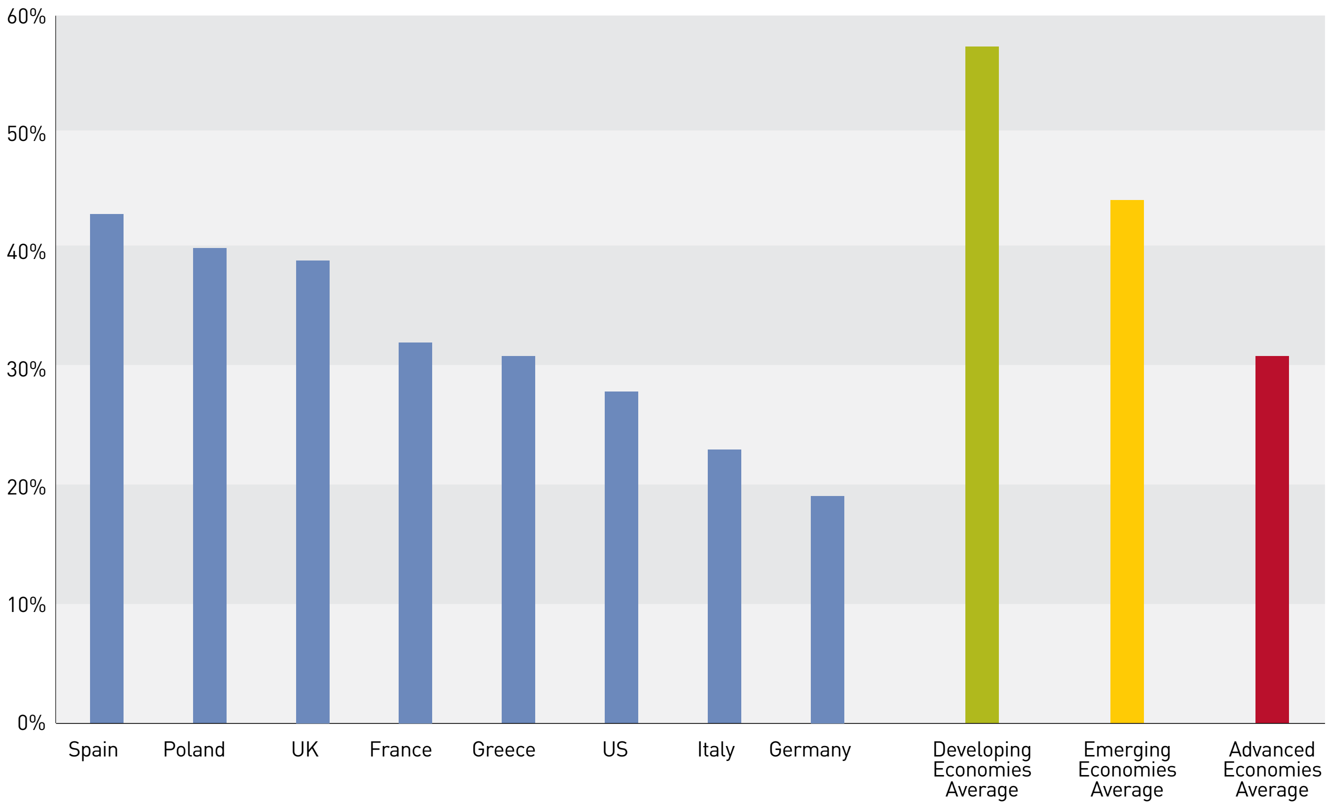
18. See OECD FDI Regulatory Restrictiveness Index, http://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#.
19. Investment Canada Act (1985), last amended on 2015-04-24. http://laws-lois.justice.gc.ca/eng/acts/I-21.8/FullText.html.
20. Guideline of Investment Canada Act: Statement Regarding Investment by Foreign State-Owned Enterprises (2012). http://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/lk81147.html.
21. It remains to be seen whether Canada's new Liberal government, elected in late 2015 after 10 years of Conservative governments, will have a more welcoming attitude toward Chinese state-owned investment.

In Canada, CNOOC's 2012 acquisition of oil producer Nexen (coupled with Malaysia-based Petronas' contemporaneous acquisition of natural gas producer Progress Energy) sparked fierce public debate on state-owned investment, which resulted in the Canadian government tightening its review process. The acquisitions ultimately went through, but the debate illustrates the vulnerability of investment reviews to political sentiment.

Europe also has its fair share of controversial Chinese deals, but the degree of politicization of individual investments has been limited compared to North America. No high-profile deals have failed because of politicization, which may partially explain Europe's small lead in attracting investment from China in recent years, and in particular the somewhat larger presence of state-owned and sovereign entities (which are the subject of controversy more often than private companies).

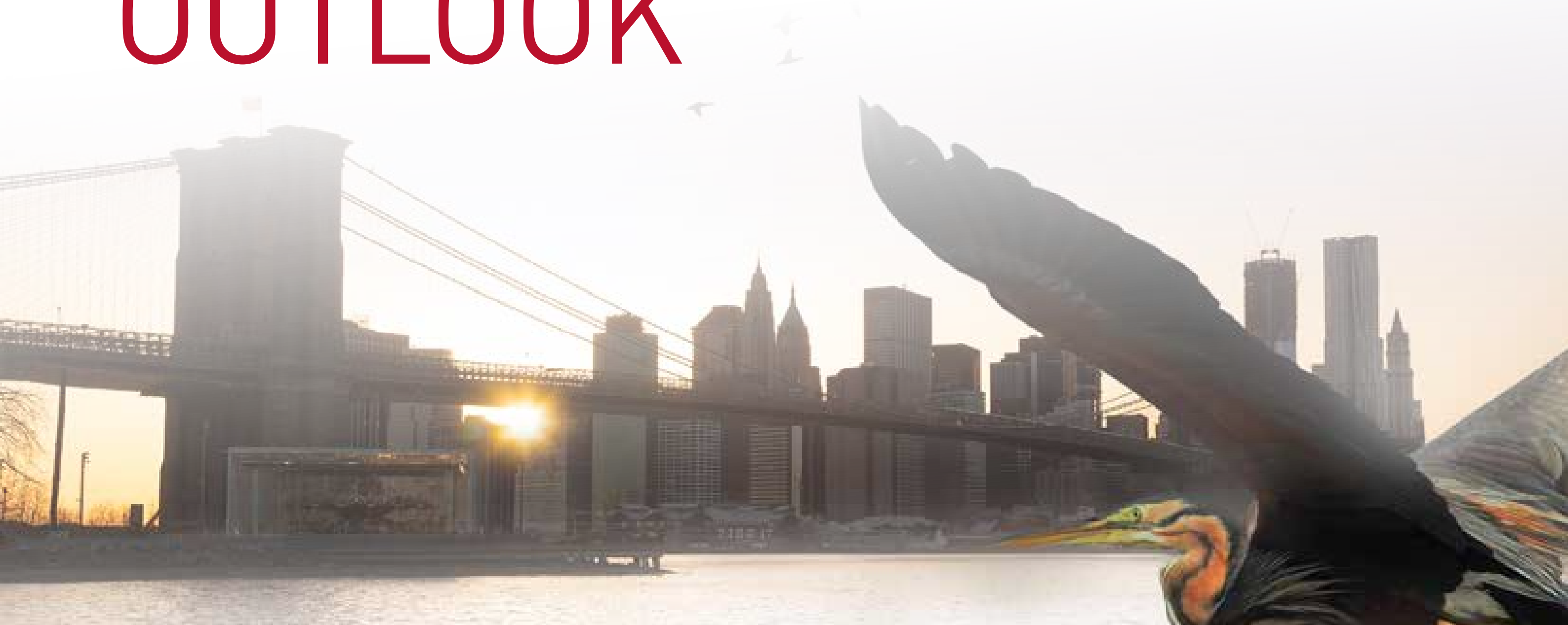
FIGURE 16: SHARE OF CITIZENS WHO HAVE A POSITIVE VIEW OF FOREIGN ACQUISITIONS OF DOMESTIC COMPANIES, 2014

Selected countries and country groups; percent



Source: Pew Research Center, Spring 2014 Global Attitudes Survey.

OUTLOOK

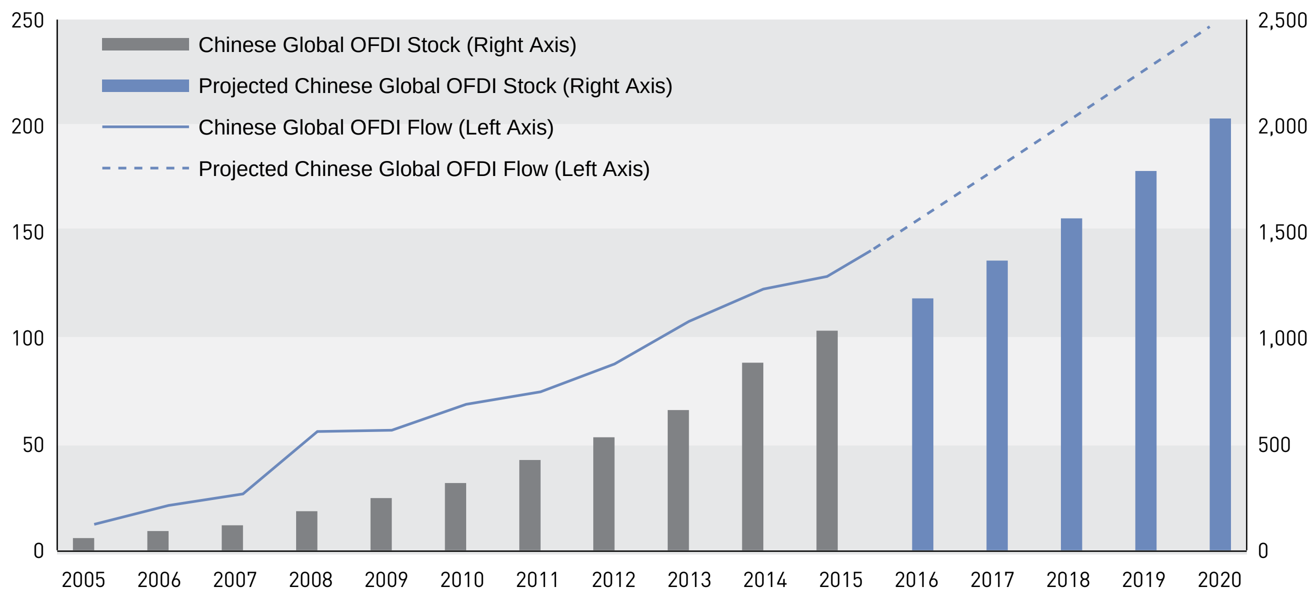


CHINA'S OFDI BOOM IS GOING STRONG

China's OFDI boom is still in its early stages and promises many more years of high activity. The fundamental changes in China's domestic economy support this outlook, as a slowdown in growth, shrinking margins and structural reforms will further pressure Chinese companies to go global and seek assets abroad that increase their competitiveness and profitability. Volatility and slower growth in China will also fuel desires to diversify its asset base beyond domestic holdings. Recent reforms to implement a registration-based outbound investment regime have cemented a more liberal policy stance, and China's leaders remain supportive of outbound investment. Recent projections by high-level officials see Chinese outbound FDI growing by another $1 trillion by 2020, which translates into average outflows of $200 billion per year.[22]

FIGURE 17: PROJECTIONS FOR CHINA'S GLOBAL OUTWARD FDI FLOWS AND STOCK TO 2020*

USD billion



*Source: State Administration of Foreign Exchange, Ministry of Commerce, Rhodium Group; *2015 estimated by combining financial and non-financial OFDI. 2016–2020 data based on projections by Li Keqiang, see Footnote 22.*

22. See "李克强：中国未来五年海外投资可望超1万亿美元 [Li Keqiang: China's foreign investment over the next five years could exceed $1 trillion]," Sina Finance, http://bit.ly/1ODFP0s.

EUROPE AND NORTH AMERICA SHOULD REMAIN AT THE CENTER OF THE BOOM

If those projections hold, Europe and North America can expect to land hundreds of billions of dollars of Chinese OFDI in the coming decade. The economic and political factors currently shaping Chinese investment patterns on both sides of the Atlantic will be important to watch: namely, the relative attractiveness of specific industry segments in the context of China's development trajectory, the long-term outlook for economic growth and competitiveness, the evolution of the regulatory and legal environment, and the public attitude toward Chinese investors.

The first three months of 2016 suggest continued strong growth of Chinese investment activity in both economies this year. The economic slowdown in China, uncertainty about the renminbi exchange rate, and the threat of additional capital controls have boosted Chinese deal-making activity in the past six months. The first quarter of 2016 was the busiest period on record for Chinese M&A activity in Europe and North America, with nearly $6 billion new deals completed and more than $80 billion currently pending—the strongest pipeline ever. Among them is the biggest-ever Chinese takeover attempt: ChemChina's $43 billion bid for Swiss agrochemical and seed producer Syngenta. Chinese investors also had a heady start to 2016 in North America, with more than $20 billion worth of deals currently pending, including Anbang's acquisition of Strategic Hotels for $6.5 billion, HNA's $6.1 billion purchase of Ingram Micro, Haier's acquisition of General Electric's appliance division for $5.4 billion, and Wanda's purchase of film studio Legendary Pictures for $3.5 billion.

> The first three months of 2016 suggest we will see strong growth of Chinese investment activity in both economies this year.

A FEW RISK FACTORS EXIST

Conversely, the recent jump in Chinese overseas deal making also highlights the biggest downside risks to a bullish outlook for Chinese OFDI. Growing OFDI is amplifying already significant levels of capital outflows. If those trends continue in the remainder of 2016, the government may need to impose additional capital controls to slow down outflows. While these efforts will mostly target portfolio and other investment flows, they could affect the ability of Chinese companies to access foreign exchange for overseas investment. Similarly, the reforms that are needed to reinstill confidence in China's long-term growth prospects pose short-term risks to outbound investment. For example, reducing the levels of debt and reforming the system of credit allocation must be considered key pillars of reform. However, if implemented, those steps could seriously disrupt domestic and global financing channels for already over-leveraged Chinese firms, weighing on their ability to finance overseas investments.

The reactions to the latest wave of Chinese overseas acquisitions also point to growing political risks for Chinese investment in host economies. In Europe and North America, the most important question will be whether growing public concerns about equal market access can be addressed through bilateral investment agreements and other policies. If Chinese investors continue to ramp up investments in industries that are heavily restricted to foreign investment in China but reforms to level the playing field are further delayed, the risk of a broader political backlash against Chinese OFDI in Europe and North America will increase substantially.

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APPENDIX: DATA METHODOLOGY

The data presented in this report build on Rhodium Group datasets on Chinese FDI transactions in the United States and the European Union, which have been available since 2011 and 2012, respectively. For this report, those datasets were augmented with data on Chinese FDI transactions in Canada and non-EU European countries (the EFTA economies: Iceland, Liechtenstein, Norway and Switzerland), compiled with the same methodologies and standards. The result is a dataset that allows an in-depth and apples-to-apples comparison of Chinese investment patterns in North America and Europe from 2000 to 2015.

COVERAGE

The data captures all investments by ultimately Mainland Chinese–owned firms since 2000 with an investment value exceeding $1 million. The dataset covers greenfield projects (newly built facilities), acquisitions that results in at least 10% stake (which is the common threshold for direct as opposed to portfolio investment), and the expansion of existing establishments.

The data captures those transactions for the US, Canada, the 28 member states of the EU, and the EFTA economies. For acquisitions, each transaction is attributed at full value to the location of the target firm's headquarters location, even if the company has substantial assets outside of the covered economies (for example mining companies headquartered in the West but with assets in other parts of the world). Within the covered countries, however, we try to attribute investment to the location of the main operations. For example, if a mining company is registered in Vancouver, British Columbia, but all substantial assets are in the Yukon Territories, it is counted in the latter.

COMPILATION METHODOLOGY

The data are compiled from a transactional approach, where single transactions are counted and then aggregated to quarterly or annual totals. The data compilation relies on a research strategy that includes a wide range of different channels including company reports, regulatory filings, commercial databases, media reports, industry associations, investment promotion agencies, industry contacts and other sources. Each transaction is coded for a number of relevant variables including investment value, geographic location, industry, business activity and investor characteristics. All information either comes from official company sources or is estimated based on the type of operation, revenue, number of employees and other criteria.

DATA USE AND CAVEATS

The data resulting from this transaction-based approach are not directly comparable to FDI statistics compiled according to Balance of Payments (BOP) principles. The transactions data capture the total value of investment projects by Mainland Chinese companies in the coverage countries, but do not distinguish between financing from China and domestic sources. The data also do not take into account any intra-company flows between Chinese parent and coverage country subsidiary. Any cumulative figures reflect the aggregation of annual transaction values, without any adjustments for inflation, exchange rate changes and divestitures. As such, the data cannot be used to analyze BOP-related problems and other issues that require a national accounting perspective.

Conversely, the transactions approach avoids the problems commonly related to BOP data: for example, the distortions caused by the extensive use of pass-through locations. Moreover, it is able to avoid the significant time lags and gaps in official data, supporting the public debate with real-time information on aggregate investment patterns, as well as the distribution of those investments by industry, modes of entry, geographical spread and ownership.

GLOSSARY OF TERMS

TWO-LETTER COUNTRY CODE ABBREVIATIONS

European Union

Austria	AT
Belgium	BE
Bulgaria	BG
Croatia	HR
Cyprus	CY
Czech Republic	CZ
Denmark	DK
Estonia	EE
Finland	FI
France	FR
Germany	GB
Greece	GR
Hungary	HU
Iceland	IS
Ireland	IE
Italy	IT
Latvia	LV
Lithuania	LT
Liechtenstein	LI
Luxembourg	LU
Malta	MT
Netherlands	NL
Norway	NO
Poland	PL
Portugal	PT
Romania	RO
Slovakia	SK
Slovenia	SI
Spain	ES
Sweden	SE
Switzerland	CH
United Kingdom	GB

North America

Canada - Alberta	AB
Canada - British Columbia	BC
Canada - Manitoba	MB
Canada - New Brunswick	NB
Canada - Newfoundland and Labrador	NL
Canada - Northwest Territories	NT
Canada - Nova Scotia	NS
Canada - Nunavut	NU
Canada - Ontario	ON
Canada - Prince Edward Island	PE
Canada - Quebec	QC
Canada - Saskatchewan	SK
Canada - Yukon Territories	YT

US - Alabama	AL
US - Alaska	AK
US - Arizona	AS
US - Arkansas	AZ
US - California	CA
US - Colorado	CO
US - Connecticut	CT
US - Delaware	DE
US - District of Columbia	DC
US - Florida	FL
US - Georgia	GA
US - Hawaii	HI
US - Idaho	ID
US - Illinois	IL
US - Indiana	IN
US - Iowa	IA
US - Kansas	KS
US - Kentucky	KY
US - Louisiana	LA
US - Maine	ME
US - Maryland	MD
US - Massachusetts	MA
US - Michigan	MI
US - Minnesota	MN
US - Mississippi	MS
US - Missouri	MO
US - Montana	MT
US - Nebraska	NE
US - Nevada	NV
US - New Hampshire	NH
US - New Jersey	NJ
US - New Mexico	NM
US - New York	NY
US - North Carolina	NC
US - North Dakota	ND
US - Ohio	OH
US - Oklahoma	OK
US - Oregon	OR
US - Pennsylvania	PA
US - Rhode Island	RI
US - South Carolina	SC
US - South Dakota	SD
US - Tennessee	TN
US - Texas	TX
US - Utah	UT
US - Vermont	VT
US - Virginia	VA
US - Washington	WA
US - West Virginia	WV
US - Wisconsin	WI
US - Wyoming	WY

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