Rising Tension
Assessing China’s FDI drop in Europe and North America
2018
INTRODUCTION

KEY TRENDS IN 2017

1. China’s global outbound investment dropped in 2017 for the first time in more than a decade

2. New Chinese investment activity in Europe and North America sharply decline

3. The completion of mega deals pushed combined Chinese investment in both regions to a record $111 billion

4. Europe attracted more Chinese investment than North America in 2017

5. Greater political scrutiny is changing the industry mix

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7. An overview of locations that received the most Chinese capital in 2017

8. Overseas regulators and political backlash sank more Chinese deals than ever before

OUTLOOK FOR 2018
INTRODUCTION
In 2017, China’s global outbound investment dropped for the first time in more than a decade as policy changes in China and host economies cooled M&A activity and created a shift in the industries and geographies targeted by Chinese investors.

Even the deal sizes and types of Chinese investors changed. Just a few years ago, a handful of private companies including HNA, Wanda, Fosun and Anbang were responsible for more than 25% of the total value of Chinese deals targeting assets in Europe and North America.

But since the Chinese government began placing greater restrictions on outbound investment in late 2016, this group of investors has taken a backseat to sovereign wealth funds and state-owned players with missions to advance China’s development strategies such as the Belt and Road Initiative.

As part of these measures, the Chinese government also placed restrictions on outbound investment in sectors such as real estate, hospitality, sports and entertainment that until recently were major drivers of Chinese acquisitions in Europe and North America.

As a result, Chinese investment in North America fell 35% in 2017 to $30 billion, down from $48 billion in 2016. Chinese investment in Europe would have declined 22% but the delayed completion of ChemChina’s $43 billion takeover of Swiss agribusiness company Syngenta – China’s largest foreign acquisition to date – pushed up the 2017 figure to $81 billion.

These drops follow a steady and steep rise in Chinese outbound investment since 2006. From 2015 to 2016 alone, Chinese investment in Europe and North America more than doubled, from $41 billion to $94.2 billion.

The primary disruptor of this upward trend is regulation. In addition to tougher controls in China itself, growing regulatory scrutiny in target countries like the US and Germany also put a dent in FDI as the geopolitical climate becomes increasingly protectionist.

This report provides insight into how and why China’s outbound investment patterns are changing in the world’s two highest income regions: Europe and North America. It compares patterns of Chinese investment, analyzes the major shifts in its geographic and industry composition, and presents an outlook for Chinese outbound investment in 2018.
KEY TRENDS IN 2017
China’s global outbound investment dropped in 2017 for the first time in more than a decade because of a changing regulatory environment in China as well as greater scrutiny abroad.

- Chinese outbound investment declined 29% to 53% in 2017, according to official Chinese figures that vary by government agency (the Ministry of Commerce vs. the State Administration of Foreign Exchange).

**VALUE OF ANNOUNCED CHINESE GLOBAL M&A TRANSACTIONS (USD million)**

![Graph](image)

*Source: Rhodium Group. Includes acquisitions of over 10% stake by ultimately mainland Chinese companies.*

- Although the value of completed Chinese FDI transactions in Europe and North America increased by 18% in 2017 to $111 billion, it would have dropped by more than 30% discounting the completion of ChemChina’s $43 billion acquisition of Syngenta and other pending transactions carried over from 2016.

- In line with this downward trend, the total value of newly announced global M&A transactions by Chinese companies in 2017 also fell 39%.

- The main reason for this drop was Chinese government policies that imposed additional restrictions on outbound investment to address concerns about large-scale capital outflows and to mitigate perceived risks to China’s financial system from rapid overseas investment.
In late 2016, Chinese regulators began to tighten outbound investment controls, mostly through guidance for banks to limit the conversion of Chinese Yuan into foreign currency for the purpose of overseas acquisitions and an informal crackdown on “irrational” outbound investment to contain large capital outflows that were depleting China’s reserves.

**ENCOURAGED, RESTRICTED AND PROHIBITED SECTORS UNDER CHINA’S NEW OFDI MANAGEMENT REGIME**

<table>
<thead>
<tr>
<th>ENCOURAGED</th>
<th>RESTRICTED</th>
<th>PROHIBITED</th>
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<tbody>
<tr>
<td>• Infrastructure investments under the Belt and Road initiative</td>
<td>• Investments in regions with no diplomatic relations with China, war or conflicts, and investment restrictions from international agreements</td>
<td></td>
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<tr>
<td>• Investments that promote export of competitive production capacity and high-quality equipment or promote Chinese technical standards abroad</td>
<td>• Investments in real estate, hospitality, movie theaters, entertainment, and sports clubs</td>
<td>• Businesses that export unapproved military industrial core technology or products</td>
</tr>
<tr>
<td>• High-tech and advanced manufacturing investments, overseas R&amp;D centers</td>
<td>• Equity investment funds or investment platforms with no physical projects abroad</td>
<td>• Companies that use technology or products prohibited from being exported</td>
</tr>
<tr>
<td>• Oil and gas, mining, and other energy investments (after evaluation of economic benefits)</td>
<td>• Companies using old equipment not in compliance with the target country’s technical standards and regulations</td>
<td>• Investments in gambling and pornography</td>
</tr>
<tr>
<td>• Agricultural investments</td>
<td>• Businesses not in compliance with the target country’s environmental requirements, energy use, and safety standards</td>
<td>• Investments prohibited by international agreements</td>
</tr>
<tr>
<td>• Service sector investments (business services, logistics and certain types of financial investments)</td>
<td></td>
<td>• Other investments that may harm China’s interests and security</td>
</tr>
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Source: Published jointly by the National Development and Reform Commission (NDRC), the Ministry of Commerce (MOFCOM), the People’s Bank of China, and the Ministry of Foreign Affairs.

These controls were formalized in August 2017 in the Guiding Opinions on Further Directing and Regulating the Direction of Overseas Investments which introduced a new outbound investment regime based on lists of encouraged, restricted, and prohibited outbound investment projects (Table 1). This led to a drop of investment in restricted sectors like real estate and hospitality, which had accounted for 22% of total Chinese investment in Europe and North America from 2013 to 2016.

In May 2017, Chinese regulators also began scrutinizing outbound investment activities by large private outbound investors as part of a broader effort to mitigate risks and reduce leverage in China’s financial sector. This scrutiny slowed the investors’ overseas investment activities and forced some to sell off overseas assets to reduce debt.
New Chinese investment activity in Europe and North America fell sharply in 2017 in line with China’s overall drop in outbound investment

- The total announced value of Chinese M&A transactions in Europe and North America dropped 76% to $50 billion in 2017, compared to $215 billion in 2016. The number of newly announced transactions plummeted from 560 to 211.

- The decline in deal activity was sharper in the US, with the total value of newly announced acquisitions dropping by 89% compared to 60% in Europe. Similarly, the number of newly announced transactions fell 75% from 315 to 78 in North America and from 245 to 133 in Europe, a 46% drop.

ANNOUNCED ACQUISITIONS BY CHINESE INVESTORS IN EUROPE AND NORTH AMERICA (USD BILLION; NUMBER OF DEALS)

Source: Rhodium Group; includes disclosed value of announced M&A transactions by Chinese-owned firms, aggregated by date of announcement. Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
The completion of mega deals carried over from 2016 pushed Chinese investment in Europe and North America to a new record of $111 billion in 2017.

- The closing of ChemChina’s $43 billion takeover of Syngenta was the primary reason for the new record, up 18% from the previous record of $94 billion in 2016. Without this deal, which was delayed pending regulatory approval in multiple jurisdictions, total Chinese investment in both regions would have dropped to $68 billion, down 28% from 2016.

- Other big transactions carried over from 2016 include HNA’s $10.4 billion acquisition of CIT’s aircraft leasing unit and its purchase of a 25% stake in Hilton Worldwide for $6.5 billion.

**VALUE OF CHINESE FDI TRANSACTIONS IN EUROPE AND NORTH AMERICA 2011-2017 (USD billion)**

Source: Rhodium Group. Data represents the combined value of direct investment transactions by Mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
<table>
<thead>
<tr>
<th>Investor</th>
<th>Target</th>
<th>Value</th>
<th>Industry</th>
<th>Investor</th>
<th>Target</th>
<th>Value</th>
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<tr>
<td>ChemChina</td>
<td>Syngenta</td>
<td>$43.0</td>
<td>Agriculture and Food</td>
<td>HNA</td>
<td>CIT Aircraft Leasing Business</td>
<td>$10.4</td>
<td>Transport, Logistics and Infrastructure</td>
</tr>
<tr>
<td>CIC</td>
<td>Logicor</td>
<td>$14.0</td>
<td>Transport, Logistics and Infrastructure</td>
<td>HNA</td>
<td>Hilton Hotels</td>
<td>$6.5</td>
<td>Real Estate and Hospitality</td>
</tr>
<tr>
<td>China Jianyin Investment, Wise Road Capital</td>
<td>Standard Products Business of NXP Semiconductors</td>
<td>$2.8</td>
<td>ICT</td>
<td>Tencent</td>
<td>SNAP</td>
<td>$1.7</td>
<td>ICT</td>
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<tr>
<td>HNA</td>
<td>Dufry stake</td>
<td>$1.4</td>
<td>Consumer Products and Services</td>
<td>HNA</td>
<td>245 Park Avenue</td>
<td>$1.1</td>
<td>Real Estate and Hospitality</td>
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<tr>
<td>Wanda</td>
<td>Nordic Cinemas</td>
<td>$0.9</td>
<td>Entertainment</td>
<td>Anbang</td>
<td>Retirement Concepts</td>
<td>$1.0</td>
<td>Real Estate and Hospitality</td>
</tr>
</tbody>
</table>

Source: Rhodium Group. Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
Europe attracted more Chinese investment than North America in 2017, although the Syngenta deal accounted for most of the difference

- Chinese companies closed $30 billion in transactions in North America, compared to $81 billion in Europe. ChemChina’s $43 billion acquisition of Syngenta accounted for more than half of Europe’s total. Without Syngenta, Chinese investment in Europe would have been $38 billion.

- In both regions, investment was largely driven by the completion of large transactions announced in 2016: 55% of the total value of Chinese FDI in Europe in 2017 is attributable to deals announced in 2016 (e.g., Syngenta), and 56% of FDI in North America came from deals announced in 2016 (e.g., Hilton Hotels and CIT’s aircraft leasing business). The carryover deal values were much larger in 2017 ($61 billion) than in 2016 ($8 billion) or 2015 ($6 billion).

VALUE OF CHINESE FDI TRANSACTIONS IN EUROPE VS. NORTH AMERICA, 2000-2017 (USD billion)

Source: Rhodium Group. Data represents the combined value of direct investment transactions by Mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
Greater political scrutiny is changing the industry mix toward sectors that are encouraged by Beijing and not sensitive to host economies

■ Both Europe and North America attracted high levels of Chinese investment in transport, utilities and infrastructure; information and communications technology (ICT); and real estate and hospitality sectors.

■ Europe’s agriculture sector drew the highest levels of Chinese investment, whereas North America captured more investment in its health and biotech sector.

■ New investment activity has fallen dramatically in sectors that are being scrutinized by regulators on both sides. Deal flow is stronger in sectors endorsed by governments, for example investments related to China’s Belt and Road Initiative (BRI) such as those in transport, utilities and infrastructure. The BRI intends to promote economic connectivity among Eurasian economies through investment, trade, construction projects and cooperation initiatives.

VALUE OF CHINESE FDI TRANSACTIONS IN “BELT AND ROAD”-RELATED INDUSTRIES (TRANSPORT, UTILITIES AND INFRASTRUCTURE) (USD billion)

Source: Rhodium Group. Data represents the combined value of direct investment transactions by Mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
<table>
<thead>
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<th>Target</th>
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<th>Region</th>
<th>Industry</th>
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<tr>
<td>CIC</td>
<td>Logicor</td>
<td>$14.0</td>
<td>Europe</td>
<td>Logistics</td>
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<tr>
<td>Avolon, HNA</td>
<td>CIT Aircraft Leasing Business</td>
<td>$10.4</td>
<td>North America</td>
<td>Transportation Services</td>
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<tr>
<td>CIC</td>
<td>UK National Grid Gas Distribution Business stke (10.5%)</td>
<td>$0.7</td>
<td>Europe</td>
<td>Utilities</td>
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<tr>
<td>HNA</td>
<td>Glencore Petroleum Products Storage and Logistics Unit stke (51%)</td>
<td>$0.6</td>
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<td>Logistics</td>
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<td>CIC, China Life</td>
<td>Interpark</td>
<td>$0.4</td>
<td>North America</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>China Eastern Airlines</td>
<td>Air France-KLM stke (10%)</td>
<td>$0.4</td>
<td>Europe</td>
<td>Transportation Services</td>
</tr>
<tr>
<td>State Grid</td>
<td>ADMIE stke (24%)</td>
<td>$0.4</td>
<td>Europe</td>
<td>Infrastructure</td>
</tr>
</tbody>
</table>

Source: Rhodium Group. Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
Agriculture and food, transport and infrastructure, ICT and real estate and hospitality were the top four sectors in Europe. All received multibillion-dollar investments from China.

Midway through 2017, Chinese investors shifted gears. M&A activity dropped in newly restricted sectors like real estate and hospitality, with no deals over $500 million being announced in the second half of 2017. However, state-owned entities and private investors with access to funding outside of China continued to invest.

Investment was relatively stable in transport, utilities and infrastructure and ICT. The typical investors in these sectors – private firms without excessive debt and state-related investors – were not the primary target of Chinese regulatory scrutiny.

TOP 7 INDUSTRIES IN EUROPE

Agriculture and Food ($43.5 bn)

ChemChina’s $43 billion takeover of Swiss pesticide maker Syngenta catapulted the agriculture and food sector to the top of rankings in 2017. Other sector deals included COFCO’s acquisition of the remaining stakes in Nidera and Smithfield’s (owned by WH Group) acquisition of Pini Group’s packaged meats companies in Poland. The need to improve the efficiency and quality of agricultural value chains in China to feed the growing middle class continues to drive deals in the industry.

Transport, Utilities and Infrastructure ($17.3 bn)

Europe’s transport and infrastructure sector has historically attracted significant Chinese investment, and the BRI has sustained that interest. The single most important driver of Chinese investment in the sector in 2017 was China Investment Corporation (CIC)’s acquisition of European warehouse firm Logicor for $13.8 billion. Large greenfield projects - such as the Hinkley power plant in the UK - are under construction; however, they are moving forward slowly. While Europe remains far more open to Chinese infrastructure investment than the United States, the debate about protecting “critical infrastructure” is picking up in Europe and may impact future deal-making.
Information and Communications Technology (ICT) ($5.4 bn)

For the second year in a row, Europe attracted more Chinese capital to its ICT sector than North America, despite the United States’ well-publicized role in the global ICT industry. This divergence can be explained by greater European openness to Chinese takeovers in the hardware and IT equipment sectors. The largest transaction was the $2.75 billion acquisition of NXP Semiconductors’ Standard Products business by a Chinese consortium consisting of a subsidiary of China Jianyin Investment and Wise Road Capital. Total investment would have been higher if the Committee on Foreign Investment in the United States (CFIUS) had not impacted several deals such as the acquisition of HERE Technologies by a group of Chinese investors led by NavInfo (CFIUS asserted jurisdiction because the EU companies had major operations in the US).

Chinese companies are also boosting their investments in consumer-oriented software and IT services, for example Zhejiang Jinke’s investment in Outfit7, the maker of the Talking Tom app, and JD.com’s acquisition of a stake in luxury marketplace Farfetch.

Real Estate and Hospitality ($3.2 bn)

Despite being one of the restricted sectors under China’s new OFDI regime, Europe’s real estate and hospitality sector received $3.2 billion of Chinese investment in 2017. The biggest deals included Zhonghong’s acquisition of a stake in tour operator Abercrombie & Kent Group for $413 million and Anbang’s acquisition of DoubleTree by Hilton at Amsterdam Central Station for $392 million. Beijing’s tighter outbound rules led to a relative shift toward state-owned players in this area, while private investors cut back. While not included in the data, Hong Kong investors were also active in Europe in 2017, acquiring several landmark buildings in the UK such as the “Cheesegrater” skyscraper in London (acquired by Hong Kong-based CC Land for $1.4 billion).

Entertainment ($2.0 bn)

Europe’s entertainment sector received $2 billion in direct investment from Chinese companies in 2017, down from $2.9 billion in 2016. While the entertainment sector (specifically movie theaters and sports clubs) was also put on the restricted list, two of the biggest investments in 2017 were completed shortly before the new OFDI rules were implemented: Wanda-owned AMC acquired Nordic Cinema Group for $929 million, and Rossoneri Sport Investment Lux closed its takeover of soccer club AC Milan for around $820 million. In the second half of 2017, investment activity dropped markedly and is likely to remain low for the near future.
Consumer Products and Services ($1.6 bn)

Europe’s consumer products and services sector received $1.6 billion in Chinese investment in 2017, slightly down from $1.7 billion in 2016. Most of the investment can be attributed to one big deal: HNA’s acquisition of a 20% stake in Swiss duty-free retailer Dufry (estimated at $1.4 billion). Chinese interest in this sector remains strong as Chinese manufacturers are eager to build out their consumer-facing capabilities and financial investors try to leverage overseas brands in the domestic market.

Automotive Equipment and Components ($1.4 bn)

Europe continues to be a top destination for Chinese automotive equipment and components investment, due to the abundance of globally-minded technology leaders with a strong growth focus on China. Chinese FDI in this sector reached $1.4 billion in 2017 and was particularly driven by a record number of small- and medium-sized transactions. The most prominent deal was Zhengzhou Coal Mining Machinery Group and China Renaissance Capital Investment’s acquisition of Robert Bosch’s starter and generator business for $595 million. Greenfield investments also picked up, with the biggest new project being Geely’s $400 million factory in the UK to produce new electric taxi cabs for London.
NORTH AMERICA

- The biggest sectors for Chinese investment were real estate and hospitality; transport, utilities and infrastructure; ICT, and health and biotech.

- Similar to Europe, investments in restricted sectors dropped in the second half of 2017. However, investment appetite in technology (ICT) and certain service sectors (health and biotech) held up well or even increased compared to 2016.

- CFIUS also contributed to lower investment levels, as it slowed down or even prevented the completion of several Chinese acquisitions. Slower and tougher security screenings mostly impacted transactions in financial services, semiconductors and other high-tech sectors.

TOP 7 INDUSTRIES IN NORTH AMERICA

Real Estate and Hospitality ($12.0 bn)
Real estate and hospitality remained the biggest sector for Chinese FDI in North America in 2017 based on the completion of one mega transaction (HNA’s $6.5 billion stake in Hilton Hotels) in March 2017.

Beijing’s new rules slowed down the announcement of new transactions in 2017 and shifted the momentum toward sovereign and state-owned entities, which have proven better able to navigate the current environment. Chinese government restrictions on offshore investment also affected several Chinese greenfield real estate construction projects, resulting in delays or in some cases even divestitures.

Transport, Utilities and Infrastructure ($10.8 bn)
Chinese investment in the transport sector rebounded in 2017 on the back of one mega deal: HNA’s $10.4 billion takeover of CIT’s aircraft leasing unit (through its Irish subsidiary Avolon). Several state-related investors also purchased infrastructure assets, such as CIC and China Life’s investment in parking operator Interpark. Beijing’s support for infrastructure and logistics deals under the BRI has sustained deal activity in this sector despite an otherwise more restrictive outbound investment policy. A major pending deal is CCCC’s $1.2 billion bid for Canadian construction firm Aecon. This trend will likely continue though Chinese firms will find it difficult to participate in large-scale US infrastructure projects.
Information and Communications Technology (ICT) ($2.8 bn)

ICT continued to be a top sector for Chinese investment in North America. Most large deals were in the software industry, including Tencent’s estimated $1.7 billion stake in SNAP and Toutiao’s acquisition of Flipagram. Investment in the hardware industry was suppressed by persistent concerns about Chinese acquisitions in high-tech manufacturing sectors, particularly in the semiconductor value chain. Significant deals in the hardware space included Beijing Shanhai’s acquisition of Analogix Semiconductor and Hytera’s controversial purchase of Canadian satellite technology company Norsat International. Abandoned transactions included Canyon Bridge Capital Partners’ acquisition of Lattice Semiconductor and HNA’s investment in Global Eagle Entertainment.

Health and Biotech ($2.5 bn)

Chinese investment in North America’s health and biotech sector jumped to an all-time high of more than $2.5 billion in 2017. Both the number of deals and the average deal size increased as Chinese companies bet on leveraging US technology and other assets in a rapidly growing Chinese healthcare market. The biggest deal was Sanpower’s acquisition of Dendreon Pharmaceuticals for $820 million. To date, CFIUS has not had a significant impact on deal activity in this sector, but growing concerns about personal data integrity could weigh on future deal-making.

Financial and Business Services ($1.3 bn)

Chinese interest in traditional and new North American financial and business services assets has grown rapidly over the past three years. The biggest completed transactions in 2017 included HNA’s acquisition of Old Mutual’s OM asset management for $446 million and China Oceanwide’s acquisition of International Data Group for over $500 million. Investment would have been significantly higher if it were not for regulatory hurdles, which derailed several prominent acquisitions worth at least $4.5 billion. Key concerns include the protection of private data (CFIUS), transparency regarding ownership structures (New York state financial regulators) and adequate regulatory supervision from Chinese regulators (SEC).
**Entertainment ($0.5 bn)**

Chinese investment in North America’s entertainment industry dropped from more than $5 billion in 2016 to only $500 million in 2017, mostly because of Beijing’s crackdown on irrational outbound FDI. One medium-sized deal – Zhonghong Zhuoye’s $429 million stake in theme park operator SeaWorld Entertainment – accounted for the majority of the 2017 activity. Several announced deals fell through due to regulatory scrutiny in China, such as Wanda’s $1 billion acquisition of Dick Clark Productions.

**Automotive ($0.5 bn)**

While Europe has traditionally received more Chinese investment in the automotive sector, North America has been gaining ground. In 2017, headline investment dropped to $0.5 billion (from $1 billion in 2016) due to the absence of large acquisitions. However, Chinese greenfield investment in the auto sector boomed, notwithstanding capital controls. Examples included Volvo raising total investment to $1 billion in its South Carolina assembly plant, Triangle Tyre’s planned $580 million North Carolina plant and BeijingWest Industries’ planned new facility in Indiana ($80 million). In addition to traditional auto markets, Chinese investors also poured money into research and development operations and other greenfield projects in the electric vehicle space. Chinese electric vehicle and self-driving technology companies that expanded operations in the US in 2017 include NIO, Haval Motor and TuSimple.
CHINESE FDI TRANSACTIONS IN EUROPE AND NORTH AMERICA BY INDUSTRY, 2011-2017
(USD MILLION)

Agriculture and Food

Consumer Products and Services

Automotive

Electronics

Aviation

Energy and Power Generation

Basic Materials

Entertainment
RISING TENSION: ASSESSING CHINA’S FDI DROP IN EUROPE AND NORTH AMERICA

Financial and Business Services

Industrial Machinery and Equipment

Health and Biotechnology

Real Estate and Hospitality

ICT

Transport, Utilities and Infrastructure

Source: Rhodium Group. Data represents the combined value of direct investment transactions by Mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
China’s regulatory crackdown has changed the composition of investors, elevating certain state-related and qualified private investors while restraining private companies with a track record of aggressive overseas deal making.

State-owned Chinese investors have also faced tougher risk controls for overseas investments; however, certain sovereign and qualified state-owned players have been able to better navigate the current political environment. The overall share of state-owned investment in total Chinese OFDI in Europe and North America climbed to 64% in 2017 (compared to 42% on average for 2014-2016).

Private companies with a healthy balance sheet and no history of highly-leveraged aggressive overseas expansion were still able to get approval for overseas transactions in their core areas of business, especially acquisitions intended to modernize technology and increase competitiveness. Private companies with access to funding outside of China (e.g., listed in Hong Kong, previously active in “real economy” expansions abroad) are also weathering the storm better.

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VALUE OF ANNOUNCED OUTBOUND M&A TRANSACTIONS BY HNA, WANDA, FOSUN, AND ANBANG (USD MILLION)

Source: Rhodium Group. Includes acquisitions of over 10% stake.
The share of financial investments (those made primarily for financial returns, outside of a company’s core business) in total Chinese investment in Europe and North America declined to 23% in 2017 (compared to 30% on average for 2014-2016). The biggest deals made for financial returns were CIC’s acquisition of Logicor, HNA’s investment in 245 Park Avenue in New York City and Anbang’s investment in Canadian retirement homes operator Retirement Concepts.

One common trend across all industries and investor types is the decline in the average size of announced transactions: $282 million for North America in 2017 (compared to $626 million in 2016), and $162 million for Europe in 2017 (compared to $346 million in 2016 excluding Syngenta).

VALUE OF CHINESE FDI TRANSACTIONS IN EUROPE AND NORTH AMERICA BY OWNERSHIP (USD MILLION)

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

Source: Rhodium Group. Data represents the combined value of direct investment transactions by Mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
In 2017, Switzerland closed with the highest value of Chinese FDI due to the completion of ChemChina’s acquisition of Syngenta. Otherwise, Chinese investors continued to focus on the largest European economies, particularly the UK and Germany.

The Netherlands jumped to third place in 2017 due to Jianyin Investment’s acquisition of NXP Semiconductors’ standard products business. Sweden also had a significant increase in investment compared to 2016 driven by two large deals: Wanda’s acquisition of Nordic Cinemas and Shanying’s acquisition of Nordic Paper.

France and Germany saw a decline in total investment inflows compared to 2016. This was partly because 2016 was a big year for both countries as they hosted several large investments (Shandong Ruyi’s acquisition of SMCP in France and Midea’s acquisition of KUKA in Germany). While the value of completed deals dropped, both countries have a large pipeline of announced deals set to close in 2018.

### TOP RECIPIENT LOCATIONS OF CHINESE OFDI IN EUROPE, 2000–2017 (USD billion)

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<tr>
<td>UK</td>
<td>28.8</td>
<td>Switzerland</td>
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<tr>
<td>Germany</td>
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<td>Netherlands</td>
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<tr>
<td>France</td>
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Source: Rhodium Group. Data represents the combined value of direct investment transactions by Mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland.
The US continued to be the principal draw for Chinese investors in North America, accounting for more than 90% of investments in 2017. The top recipient states were New York, Virginia, and California. Notably, big states in the South and West of the United States (South Carolina, Washington) received significant investments in 2017 as Chinese investors increased investment in advanced manufacturing and service sectors such as health and biotech. South Carolina is seeing large greenfield investments in the Automotive sector.

Chinese investment in Canada remained at low levels, except for Anbang’s stake in retirement home operator Retirement Concepts worth an estimated $1 billion. However, momentum picked up in the second half of 2017, with the announcement of several large deals not yet counted in our data (China Communications Construction Company’s $1.2 billion takeover of engineering company Aecon and Nextview New Energy’s $265 million acquisition of Lithium X, an exploration and development company with lithium assets in South America).

### TOP RECIPIENT LOCATIONS OF CHINESE OFIG IN NORTH AMERICA, 2000–2017 (USD billion)

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<tbody>
<tr>
<td>Alberta</td>
<td>33.1</td>
<td>New York</td>
</tr>
<tr>
<td>California</td>
<td>25.9</td>
<td>Virginia</td>
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<tr>
<td>New York</td>
<td>15.7</td>
<td>California</td>
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<tr>
<td>Illinois</td>
<td>9.4</td>
<td>British Columbia</td>
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<tr>
<td>Kentucky</td>
<td>9.3</td>
<td>Massachusetts</td>
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<td>Virginia</td>
<td>9.1</td>
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<td>Texas</td>
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<td>British Columbia</td>
<td>5.5</td>
<td>South Carolina</td>
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<tr>
<td>North Carolina</td>
<td>4.7</td>
<td>Florida</td>
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<tr>
<td>Michigan</td>
<td>4.0</td>
<td>Ohio</td>
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Source: Rhodium Group. Data represents the combined value of direct investment transactions by Mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). North America includes the United States and Canada.
While Beijing’s crackdown on “reckless” deal-making led to a decline in the number of terminated and withdrawn Chinese deals, overseas regulators and political backlash sank more Chinese deals than ever before.

Chinese investors cancelled or withdrew 19 deals worth over $12 billion in North America and Europe in 2017, which is a significant decline from 2016 (30 deals worth $75 billion). Beijing’s tougher regulatory stance on outbound investment resulted in a lower number of deals being announced and weeded out deals with high closing risks.

CANCELED AND WITHDRAWN CHINESE FDI TRANSACTIONS IN EUROPE AND NORTH AMERICA, 2005-2017

Source: Rhodium Group. Includes transactions that were publicly announced by the buyer but then withdrawn or canceled. Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
Within the sample of abandoned transactions, some casualties are directly related to Chinese regulatory action impacting the ability of Chinese investors to finance deals or meet other commitments. This was especially true with respect to deals in sectors on Beijing’s new list of restricted and prohibited sectors for overseas investment (e.g., Wanda’s bid for Dick Clark Productions).

Chinese investors also faced greater scrutiny by foreign regulators and politicians, which contributed to delays and the cancellation of several pending transactions.

In North America, a significant number of deals were held up or derailed by CFIUS, which screens foreign takeovers of US assets for potential national security risks. Prominent transactions abandoned due to unresolvable CFIUS concerns included Ant Financial’s acquisition of Moneygram, Zhongwang’s takeover of aluminium producer Aleris and Canyon Bridge Capital Partners’ acquisition of Lattice Semiconductor. In Canada, several Chinese transactions came under intense public fire (see NorSat and Retirement Concepts) but were ultimately allowed to proceed.

In Europe, incidents of regulators blocking Chinese deals remain rare. However, the European Commission and several national governments are debating tighter security screenings. The long arm of CFIUS also reached Europe, delaying or shutting down several Chinese acquisitions of European companies with significant operations in the United States (HERE, Biotest). In addition to national security debates, European regulators in other areas are also stepping up scrutiny of Chinese takeovers, for example the Swiss Takeover Board (post-closing review of HNA’s acquisition of Gategroup for errors in the disclosure of HNA’s ownership structure), the European Central Bank (Legend-Banque Internationale a Luxembourg) and the Danish Financial Supervisory Authority (Geely-Saxo Bank).
OUTLOOK FOR
2018
After a sharp drop in announced deals in the first half of 2017, Chinese outbound investment activity stabilized in the second half of 2017. Fading concerns about China’s capital outflow and clarification of Beijing’s outbound investment stance through a formal OFDI regime have supported that recovery.

Although deal activity remains far from the highs in 2015 and 2016, the appetite of Chinese companies for acquisitions seems to have recovered. The deal pipeline increased in both regions in the second half of 2017, and activity continued to rise in the first quarter of 2018. But the recovery is not even. Europe had more than $8 billion of pending M&A transactions at the end of 2017, while North America’s pipeline was only $5 billion.

ANNOUNCED ACQUISITIONS BY CHINESE INVESTORS IN EUROPE AND NORTH AMERICA (NUMBER OF DEALS; USD BILLION)

Source: Bloomberg, Rhodium Group; includes disclosed value of all announced M&A transactions by Chinese-owned firms irrespective of the size of the resulting stake, aggregated by date of announcement. Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland. North America includes the United States and Canada.
The stronger rebound of Chinese investment in Europe is because of the region’s more permissive regulatory stance on high-tech acquisitions, the attractiveness of its infrastructure projects, and the abundance of small- and medium-sized industrial companies that remain attractive targets even under Beijing’s new outbound investment regime.

Although Chinese investor appetite remains high, political sensitivities and regulatory restrictions will remain a major drag on Chinese outbound investment in Europe and North America in 2018.

**CHINA**

In China, capital controls will likely continue throughout 2018 and beyond. The fundamentals that triggered large-scale capital outflows in 2015 and 2016 have not changed, and China remains vulnerable to changes in the global macro environment. Likewise, China’s new OFDI regime will likely remain in place for the foreseeable future, giving regulators the room to control outflow levels in phases with macroeconomic pressures by adjusting the list of restricted industries and intervene in individual transactions.

These Chinese regulatory realities suggest that 2017 patterns will likely persist: fewer multi-billion dollar mega deals in favor of small and medium-sized transactions, greater focus on technology and sectors promoted by government policy, a larger role for state-owned and sovereign players with outbound investment mandates, low levels of investment or even divestures in real estate and similar assets popular among financial investors, a declining role for large conglomerates, and greater government support for real economy firms with healthy balance sheets.

**UNITED STATES**

In the US, President Trump issued a memorandum in March 2018 directing his Administration to take several actions related to the investigation by the Office of U.S. Trade Representative into China’s technology transfer policies under Section 301 of the Trade Act of 1974 (Section 301). On investment, President Trump directed Treasury Secretary Steve Mnuchin to develop an investment regime “to address concerns about investment in the United States directed or facilitated by China in industries or technologies deemed important to the United States.” The Secretary is to report “progress” by May 21, 2018.
This new regime will be in addition to the national security-focused investment screening conducted by the Committee on Foreign Investment in the United States (CFIUS). It remains unclear what the scope and structure of this new investment regime will be. For example, will it exclude Chinese investment from certain sectors (perhaps mirroring Made in China 2025 priorities), or will it create reciprocity conditionality, which could be challenging given the often informal nature of the Chinese system where guidelines may be set out in unofficial documents. However, it appears likely that the new regime will be based on the International Emergency Economic Powers Act (IEEPA) of 1977, the same legislation currently supporting US export controls and a number of sanctions. IEEPA authorizes the President to regulate commerce after declaring a national emergency in response to any unusual and extraordinary threat to the US which has a foreign source.

The memorandum also instructs the United States Trade Representative to publish a proposed list of products and the intended tariff increases by April 6, 2018. The proposed tariffs are expected to target aerospace, information communication technology and machinery, among others. It is unclear whether this announcement represents an effort to punish a bad actor, shorten supply chains, or produce a negotiated deal to level the playing field. However, senior officials who have President Trump's ear - newly appointed National Security Advisor John Bolton, Trade Advisor Peter Navarro, Secretary of Defense James Mattis, Secretary of State Mike Pompeo, etc. - increasingly view China as a national security threat.

Proposed reforms to CFIUS could further complicate Chinese investments in high-tech assets, critical infrastructure and companies with large troves of personal data. The proposed Foreign Investment Risk Review Modernization Act (FIRRMA) continues to enjoy bipartisan support and has a good chance of being passed (with modifications) before the end of 2018. FIRRMA would expand CFIUS' jurisdiction to include certain minority investments in critical technologies, real estate transactions near critical infrastructure and other sensitive facilities; and certain outbound FDI and non-FDI transactions that include the transfer of US technology abroad. FIRRMA also includes a provision to specifically scrutinize transactions of buyers from a "country of special concern" (which would presumably include China).

The US is also moving to encourage alignment across advanced markets on how to manage Chinese investment that may present national security risks. Similar to the increased cooperation among regulators on export control and competition issues, investors are likely to see more cooperation among advanced market regulators on national security concerns going forward.

Apart from proposed actions by the Trump Administration and possible legislative changes, the tightening of the CFIUS process already seen in 2017 is likely to persist. Despite these headwinds, Chinese investors have the same impetus to go out and the US will still import capital, leaving an aperture for M&A activity. The question is how big it will be in the face of rising tensions and uncertainty.
Individual countries are stepping up their investment reviews. In July 2017, Germany’s cabinet approved an expansion of security reviews for foreign takeovers, specifying greater scrutiny for several industries including critical infrastructure and related software. In September the UK takeover panel, an independent body that reviews M&A deals, released proposals for a new regime that would require more detailed information disclosures and statements of intention from takeover parties.

The European Commission is also eager to create a more coordinated European approach to investment screening. At his State of the Union Speech on 13th September 2017, President Juncker introduced a new Commission proposal to build an EU framework to regulate and better coordinate the screening of foreign acquisitions for potential security risks including foreign ownership of critical technologies, investment in critical infrastructure and protection of critical inputs and sensitive information. Under the proposal, member states would still carry out the screening process on the national level, but there would be greater exchange among Member States and between states and the Commission.

Several European leaders have also drummed up their rhetoric demanding greater reciprocity from China in trade and investment relations, including German Chancellor Merkel and French President Emmanuel Macron during recent state visits. While not as acute as in the United States, political risk for Chinese investors in Europe is also gradually increasing and will likely persist if China does not pursue bolder steps toward market-oriented reforms.
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If you have questions about this report or would like to know more about our China Outbound Practice, please contact:

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