Reassessing the Landscape for Chinese Investment in North America and Europe

Contents

Foreword

COVID-19 has slowed China's global deal making. Without a Chinese buying spree of distressed assets in 2020, the pace of outbound acquisitions by Chinese companies has decelerated. Completed Chinese outbound mergers and acquisitions (M&A) totaled just USD 29 billion in 2020, down 45% from USD 53 billion in 2019 — reaching the lowest level in a decade.

Although the outlook may not be robust, it is hopeful. Despite a low M&A pipeline in early 2021, moderation in political and macroeconomic headwinds at home and abroad could create a more constructive environment for Chinese outbound investment in North America, Europe and globally.

This report outlines the key activities in 2020 around China's global outbound trajectory and FDI into Europe and North America, including industry patterns and key investor characteristics.

It also analyzes major policy and regulatory developments expected to shape the landscape for 2021 and beyond. These include insights on foreign investment screening, export controls, procurement and supply chain rules, sanctions, competition policy as well as data privacy and security concerns.

Tracy Wut
Head of M&A for Hong Kong and Mainland China

2020 Key Findings at a Glance

2020

North American FDI increases slightly

In 2020, Chinese investors completed USD 7.7 billion worth of deals in the United States and Canada, up slightly from USD 5.5 billion in 2019.

Entertainment, health and biotech, and natural resources were the top sectors in North America. Billion dollar deals like **Tencent's stake in Universal Music** and **Zijin's stake in Canada's Continental Resources** drove high industry concentration in North America in 2020.

Canada, Poland, Sweden, Norway and Spain received relatively more investment than previous years

Canada accounted for a larger share of total Chinese FDI in North America than in previous years (17%), reflecting both momentum in mining deals and consistently low US investment.

In Europe, the United Kingdom, Germany and France have traditionally received the bulk of Chinese investment, but the United Kingdom barely made the top five this year, outpaced by Poland and Sweden.

Chinese FDI in Europe dropped by nearly half

In 2020, completed Chinese FDI in Europe continued its downward trajectory to USD 7.2 billion from USD 13.4 billion in 2019.

Chinese M&A transactions in Europe targeted medium-sized targets across a broader spectrum of industries. Chinese greenfield activity in Europe totaled nearly USD 1 billion in completed investment. There were more midsized transactions in Europe dispersed across industries such as real estate and hospitality, automotive and energy.

State-owned companies account for a larger share of total investment, but their investment also fell

While the proportion of total investment in Europe and North America attributable to state-owned players increased in 2020, this was mostly due to a drop in private Chinese investment. In absolute value terms, state-owned investment in 2020 remained close to the multi-year lows seen in 2019.

In North America, state-owned activity focused on Canada, while state-owned investment spread more evenly across several European countries.

All data in this report was compiled by Rhodium Group LLC and includes completed transactions only. The dataset covers acquisitions of stakes of 10% or more; greenfield projects (newly built facilities such as factories or offices); and the expansion of existing FDI operations Some figures in this may be rounded to percentage point, whole figures or one decimal place.

01 China's Global Outbound Investment Trajectory

China's global deal making activity contracted again in 2020, continuing the downtrend seen since 2017. Completed Chinese M&A in 2020 totaled just USD 29 billion, down 45% from USD 53 billion in 2019.

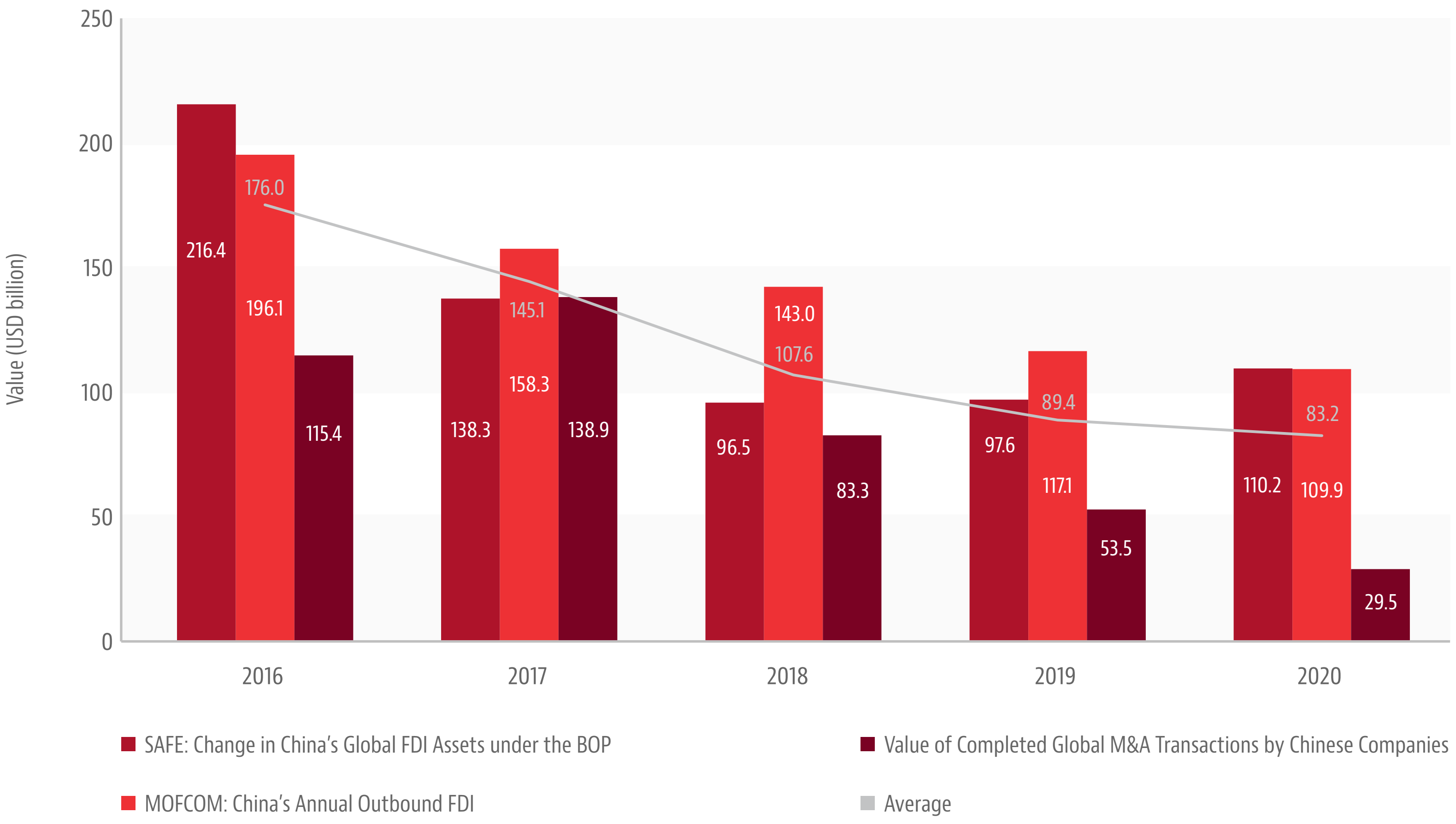
In 2020, most regions saw declines in Chinese M&A activity as compared to 2019. One notable exception was Latin America, where the completion of several energy and utilities acquisitions in Brazil, Chile and Peru kept year-over-year activity flat as compared to 2019.

> "Commodities and infrastructure continue to account for a significant amount of Chinese investment in Latin America, but the interest is broadening to other areas such as technology startups and security and surveillance. Tencent, the media and entertainment company, has, for example, become a player in the LatAm startup scene after its high-profile investments in Brazil's Nubank and in Argentina's Ualá. Similarly, in the security and surveillance sector, Chinese companies have provided facial recognition cameras and related technologies to several governments across the region including Brazil, Ecuador and Panama."
>
> **Federico Cuadra, Counsel, Miami**

The drop in completed Chinese outbound M&A in 2020 stands in contrast to M&A flows in the other direction. Cross-border acquisition activity slowed dramatically early in the year as the COVID-19 pandemic swept the globe. However, in the second half of 2020, most places witnessed a dramatic rebound in deal making.

This was true for announced foreign M&A in China, which approached USD 20 billion in 2020, falling not far below 2019 levels. China's relatively rapid recovery from the impact of COVID-19 has made it an attractive target for foreign investors looking for near- and intermediate-term economic growth.

Figure 1. China Global M&A 2016 to 2020 (USD billion)



Source: PRC Ministry of Commerce (MOFCOM); PRC State Administration of Foreign Exchange (SAFE); Bloomberg; Rhodium Group. (Includes completed transactions with stakes of at least 10%.) Data represents the value of all completed cross-border M&A transactions by Mainland Chinese companies that resulted in significant ownership control (>10% of equity). Data covers all countries across six geographic regions.

02 Chinese Direct Investment in Europe and North America

2.1 AGGREGATE FLOWS

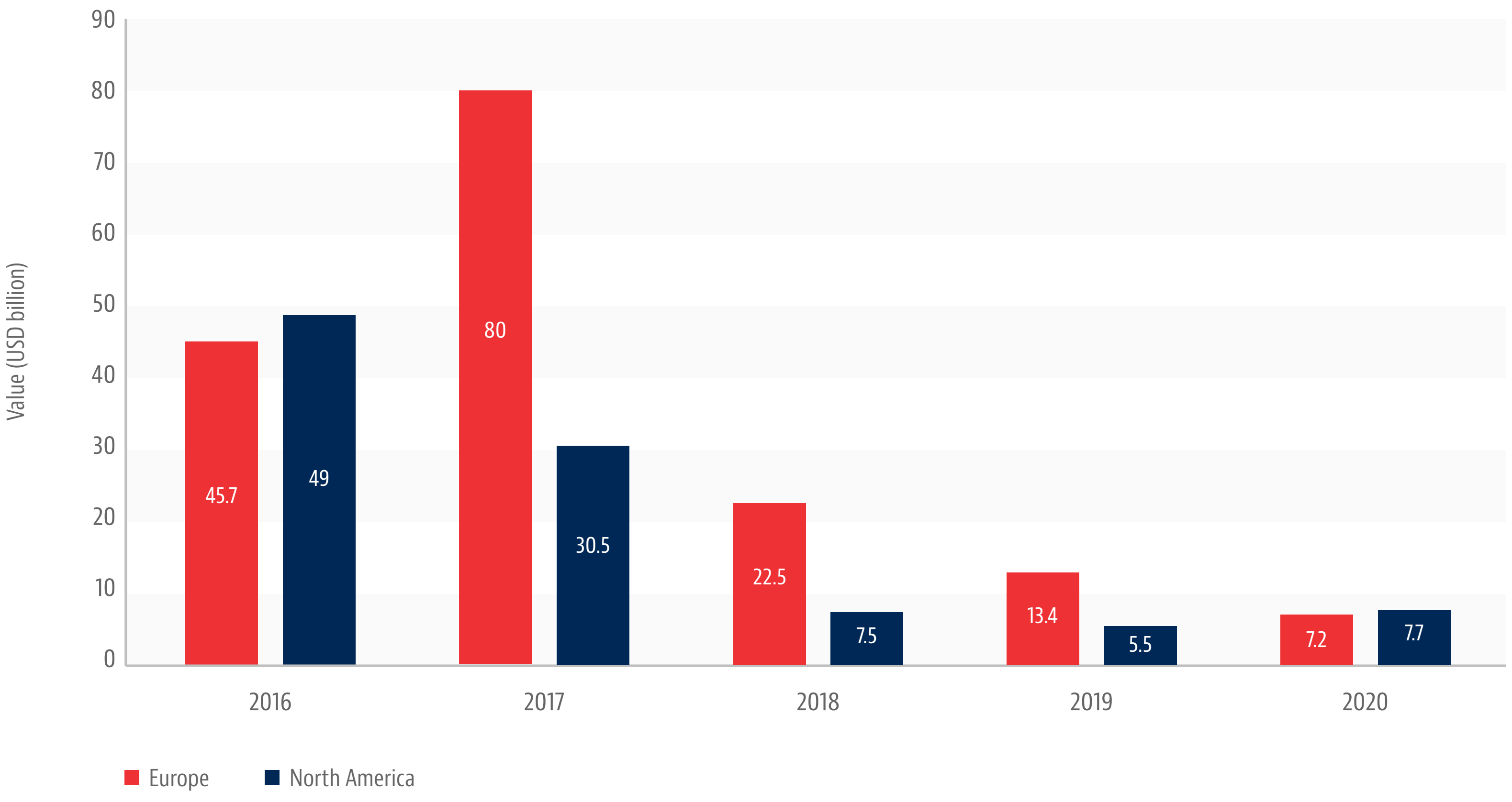
Over the last decade, Europe and North America both experienced secular growth in Chinese FDI, with investment booms peaking during 2015-2017. Since then, investment levels have dropped sharply in both regions.

China's re-imposition of outbound investment controls, greater scrutiny of Chinese investments amid rising geopolitical tensions and the COVID-19 pandemic all created headwinds for investment in recent years.

In 2020, combined investment in North America and Europe declined further as the pandemic restricted cross-border movement and triggered a global recession. Although at the start of the year, many predicted that depressed asset prices could trigger a buying spree by Chinese companies, this did not materialize.

While completed investment in North America outpaced completed investment in Europe, the higher North American totals were attributable to a couple of billion-dollar transactions. In Europe, investment consisted of smaller transactions spread across both geographies and industries.

Figure 2. Completed Chinese Direct Investment Transactions in Europe and North America (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.

NORTH AMERICA

In 2020, Chinese investors completed USD 7.7 billion worth of deals in the United States and Canada, up around 40% from USD 5.5 billion completed in 2019. Investment increased in spite of rising regulatory scrutiny and tensions with China in both countries.

In 2020, just two acquisitions broke the billion-dollar threshold, accounting for most of the total investment value during the year: **Tencent's purchase of a minority stake in Universal Music Group** (valued at more than USD 3 billion) and **Zijin Mining's acquisition of Canadian mining firm Continental Resources** (valued at more than USD 1 billion).

Chinese companies continued to make major asset divestitures in North America in 2020. For example, **HNA agreed to sell Ingram Micro** and **PetroChina dissolved its Alberta shale gas joint venture project** after putting up USD 2.2 billion for a 49.9% stake in the project in 2012.

Despite the continued souring of US-China relations, the United States attracted more greenfield investment from China in 2020 than Canada. However, total Chinese greenfield investment in the United States was still modest, around USD 700 million. The biggest greenfield deals in the US included the expansion of existing US footprints for companies like **Haier-owned GE Appliances** or **Fuyao Glass**. Greenfield activity in Canada consisted of a few smaller investments in new Canadian subsidiaries.

EUROPE

Completed Chinese FDI in Europe continued its downward trajectory, totaling USD 7.2 billion in 2020 compared to USD 13.4 billion in 2019. This was the first time since 2016 that Europe registered a lower total than North America.
As with investment in North America, outbound capital controls and increased scrutiny of Chinese investment in host countries weighed on Chinese deal making, as did the COVID-19 pandemic.

Chinese M&A transactions in Europe were focused on medium-sized targets across a broad spectrum of industries. The top deals by investment size included the purchases of a warehouse network in Poland and other central European nations (GLP, USD 1.1 billion); Germany's **Steigenberger Hotels AG** (Huazhu Group, USD 780 million); France's **Asteelflash** (Universal Scientific Industrial, USD 422 million) and **National Electric Vehicle Sweden** (Evergrande, USD 380 million).

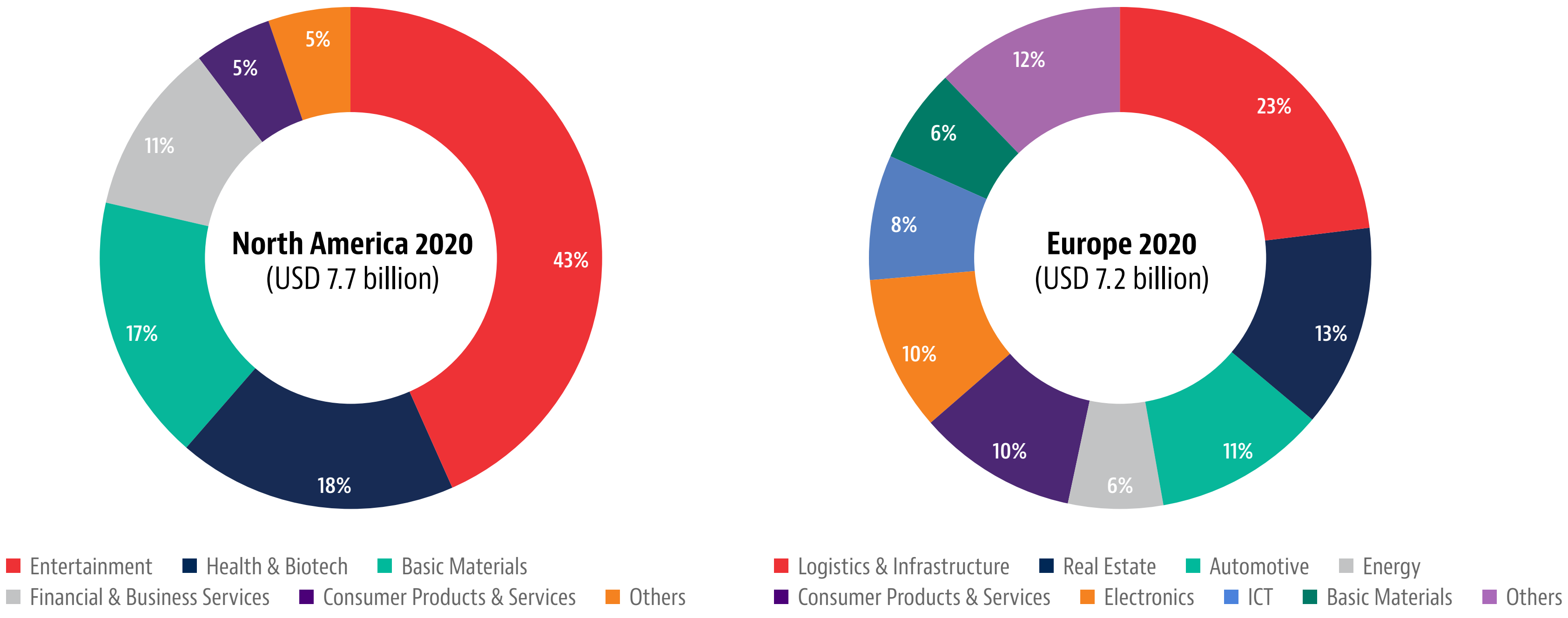
Chinese greenfield activity in Europe in 2020 was slightly more robust than in North America, with nearly USD 1 billion in completed investment during the year. In 2020, consumer goods companies like **Haier** and **Hisense**, IT equipment firms like **Huawei** and **Lenovo** were among notable greenfield investors in Europe. There were also large multi-year greenfield projects announced during the year such as **SVolt Energy Technology**'s plans for a USD 2.4 billion battery plant in Germany, slated to open late 2023.

2.2 INDUSTRY PATTERNS

During the Chinese FDI boom in 2016-2017, investments in Europe and North America were dominated by mega-deals that were concentrated in just a few industries.

Over the last three years, the industry distributions of Chinese FDI in Europe and North America have been more evenly spread over multiple industries — although 2020 proved to be an exception to this rule as entertainment took hold as the top sector in North America, due to **Tencent's stake in Universal Music.**

Figure 3. Chinese FDI Transactions in North America and Europe by Industry (% of total)



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. Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway and Switzerland.

NORTH AMERICA

The industry distribution of Chinese investment in North America in 2020 correlated closely with the top deals:

Tencent/Universal Music in the United States (Entertainment)

Harbin Pharmaceutical/GNC and **Pharmaron/Absorption Systems** in the United States (Health and Biotech)

Zijin Mining/Continental Resources in Canada (Basic Materials)

Binance/CoinMarketCap in the United States (Financial and Business Services)

Other industries saw only medium-sized investments in the tens or low hundreds of millions of dollars.

EUROPE

In contrast to North America, the industry composition of Chinese investment in Europe was less concentrated due to a lack of megadeals deals:

GLP/Goodman Group warehouse portfolio in Poland and other central European countries (Logistics & Infrastructure)

Huazhu Group/Steigenberger Hotels in Germany and other EU countries (Real Estate and Hospitality)

Evergrande/NEVS in Sweden and other countries (Automotive)

Tianjin Zhonghuan Semiconductor/Maxeon Solar Technologies in France and other countries (Energy)

CITIC Capital/Lelo in Sweden and other countries (Consumer Products and Services)

China Railway Construction/Aldesa Group in Spain (Transport, Construction and Infrastructure)

2.3 GEOGRAPHIC BREAKDOWN

In 2020, Chinese investment in the United States continued to outpace investment in Canada as it has over the last several years; however, the gap between the two has considerably narrowed due to contracting Chinese investment in the United States.

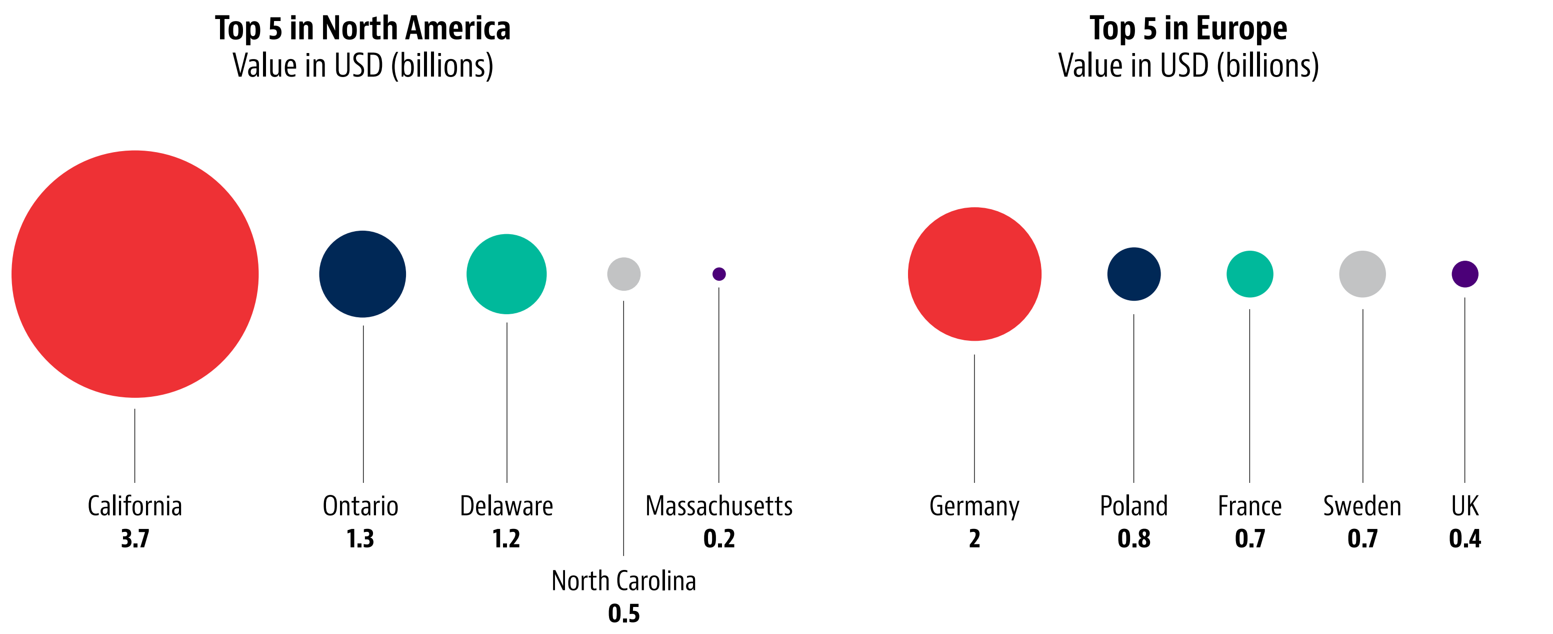
In Europe, the United Kingdom, Germany and France have traditionally received the bulk of Chinese investment, but the United Kingdom fell to fifth place, outpaced by both Sweden and Poland.

California led North America, with more than 70 transactions valued at USD 3.7 billion total. The second highest in value and the only Canadian province in the top five, Ontario drew deals totaling USD 1.3 billion. Other US states in the top five included Delaware, North Carolina and Massachusetts.

Germany led Europe with more than 40 transactions with a total value of USD 2 billion. Poland joined the top five this year in part due to **GLP's USD 760 million acquisition of the Goodman Group's portfolio**. France and Sweden each totaled about USD 700 million in transactions.

The United Kingdom barely made the top five, with the largest of its transactions **Guangzhou Hongsong Investment's acquisition of steel trading and services firm Stemcor** for USD 150 million.

Figure 4. Top Investment Locations in North America and Europe (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). North America includes the United States and Canada. Europe includes the EU-28 and the European Free Trade Association (EFTA) countries: Iceland, Liechtenstein, Norway, and Switzerland.

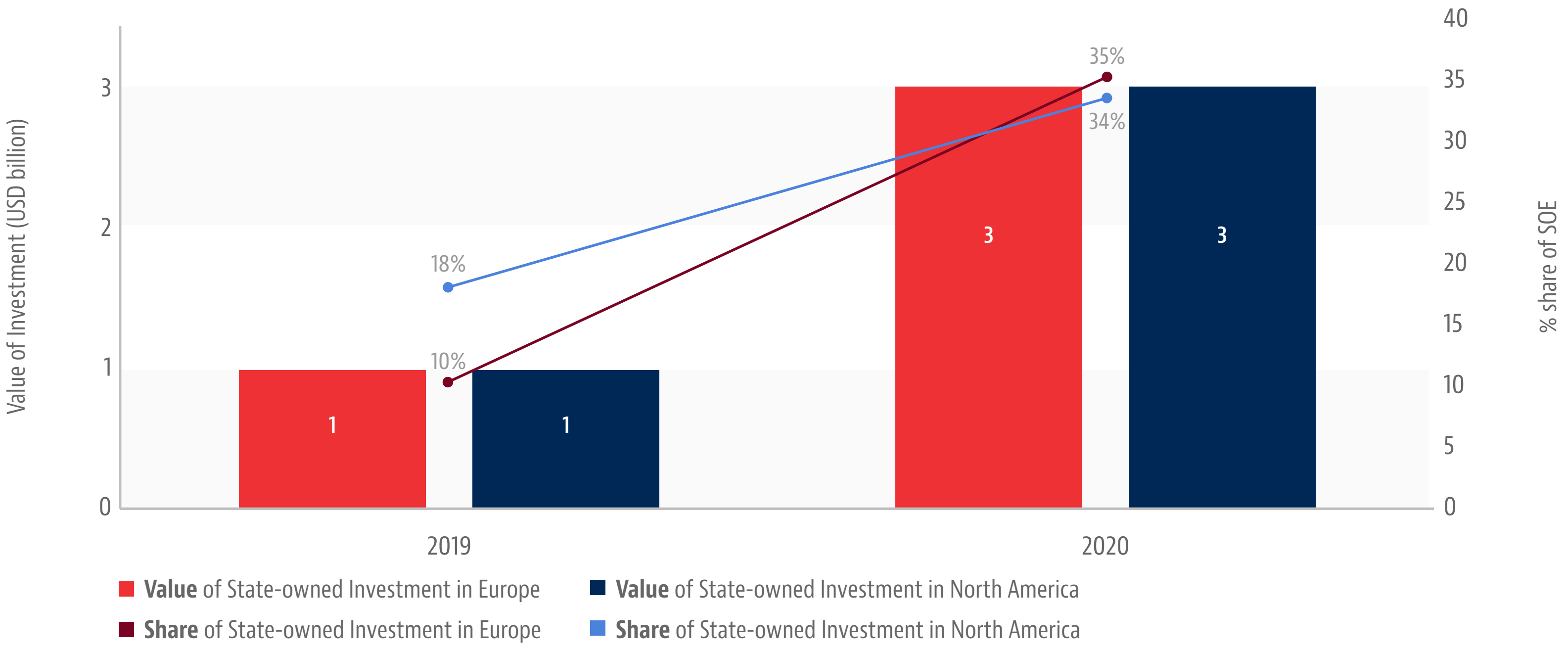
2.4 INVESTOR CHARACTERISTICS

Europe has traditionally welcomed more investment from Chinese state-owned investors due to its relative openness to foreign capital in industries such as infrastructure, energy and basic materials. From 2014 to 2017, state-owned investment typically made up more than half of the total in Europe.

However, investment by state-owned enterprises has been more muted since 2018. Over most of the last decade in North America, the share of state-owned investment has been lower, with occasional upticks often associated with large energy and mining deals in Canada.

While the proportion of total investment in Europe and North America attributable to state-owned players increased in 2020, this was mostly due to a drop in private Chinese investment. In absolute value terms, state-owned investment in 2020 remained close to the multi-year lows seen in 2019. In North America, the largest state-owned investments focused on Canada, while in Europe, state-owned investment was spread more evenly across several countries.

Figure 5. FDI Transactions by Chinese State-owned Investors in Europe and North America (USD billion, % of total)



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). The group of private investors includes companies that are at least 80% owned and controlled by non-state-related investors. 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.

NORTH AMERICA

State-owned investors made up 34% of total investment in North America. Several transactions with state-owned investors were among the largest deals, including **Harbin Pharmaceutical's acquisition of health and nutrition specialist GNC** for USD 780 million and **Zijin Mining's acquisition of gold mining company Continental Resources** for more than USD 1 billion. Other transactions with state-owned investors included **Biosino's greenfield investment in British Columbia** and **Syngenta's R&D Center in Illinois**.

EUROPE

State-owned investors accounted for 35% of the total investment in Europe. Among the largest transactions in Europe in 2020 was **GLP's acquisitions of Goodman Group warehouse portfolio** for more than USD 1 billion. Other notable investments made by state-owned investors included **CITIC Capital's investment in Sweden's lifestyle products developer Lelo** for USD 280 million, **China Three Gorges' acquisition of a stake in electric utilities company EDP** in Portugal for USD 260 million and **China Railway Construction's acquisition of construction engineering company Aldesa Group** for more than USD 275 million.

03 Major Policy and Regulatory Developments

In recent years, Chinese investors have faced a changing regulatory environment in Europe and North America. The COVID-19 pandemic and rising geopolitical tensions raised additional uncertainties in 2020. This section reviews key policy and regulatory developments in both regions over the last year and previews 2021 dynamics.

3.1 FOREIGN INVESTMENT SCREENING

Many governments have updated their foreign investment screening regimes in the past five years. Canada introduced the Investment Canada Act in March of 2018, followed by the Foreign Investment Risk Review Modernization Act (FIRRMA) in the United States in August of 2018.

Most major European economies have followed suit with new or modernized foreign investment reviews.

In 2020, governments continued to implement foreign investment review reforms, and several nations introduced temporary rules when asset prices fell following the COVID-19 outbreak.

NORTH AMERICA

In the US, there was greater enforcement of foreign investment controls in the tech space. In March 2020, the Trump administration ordered Beijing Shiji Information Technology to divest all its interests in hotel management software developer **StayNTouch**, 18 months after the Maryland-based company had been acquired. In October 2020, CFIUS published regulations revising the filing requirements for deals involving critical technologies. In response to the pandemic, Canada published a new policy with greater investment controls for public health and related businesses.

EUROPE

The biggest changes in foreign investment control regimes in 2020 occurred in Europe. The EU's investment screening mechanism became operational in October 2020, and several countries, including Finland, Latvia, Poland and Slovenia, subsequently introduced 10-20 percent review thresholds. Others, such as Spain, Italy and Hungary, adjusted their national FDI screening legislations. In November, the UK introduced a far-reaching new National Security and Investment Bill that would create a new regime for vetting foreign investment on national security grounds. New temporary rules to shield companies from pandemic-related distressed asset buying popped up across Europe, including in France, Germany and the Netherlands.

In 2021, we are likely to see a further refinement of foreign investment review regimes in several European countries. Changes could expand government scrutiny of transactions with certain characteristics.

> "Some of these seemingly small changes — for example a proposed overhaul of Germany's Aussenwirtschaftsgesetz (Foreign Trade and Payments Act) — could significantly expand the scope of governments to review transactions previously not under scrutiny."

Thomas Gilles, Chairman of the EMEA-China Group, Frankfurt

In North America, CFIUS will remain an important hurdle for foreign investors, but the process could become more transparent and predictable under the Biden administration.

> "Chinese and other foreign investors will continue to face a high level of national security scrutiny, but the historical balance that we have seen between the security agencies and the Treasury Department could be restored under a more structured inter-agency process."

Rod Hunter, Partner, Washington D.C.

3.2 EXPORT CONTROLS

Alongside more expansive investment reviews, we have also seen changes to export control regulations in North America and Europe, with the US leading the way with the Export Control Reform Act (ECRA) in 2018. European governments have been hesitant to introduce policies as far-reaching as those adopted in Washington, but they have opened the door to broader controls of sensitive emerging technologies.

NORTH AMERICA

In January 2020, the US added geospatial imagery AI software to the export control list. Six additional technologies, including materials critical to semiconductor production, telecommunications-related software and sub- orbital craft, were added to the Export Administration Regulations list in October 2020. In April 2020, the Commerce Department targeted China's Military Civil Fusion policy with stricter licensing requirements for exports to military-end users.

The US government has also expanded export restrictions targeting specific Chinese companies, including placing a "blanket ban" on **Huawei** to restrict their ability to buy semiconductors in August 2020 and adding several companies to the Commerce Department's Entity List, including **SMIC**.

EUROPE

After years of debate, the EU agreed to a reform of its dual-use export controls regime in late 2020 (approval by the European Parliament is expected in spring 2021)*, giving Brussels new powers to introduce controls on cyber surveillance technologies and greater flexibility to restrict exports of emerging technologies. The UK updated its Strategic Export Control lists in January 2020 to reflect updates previously made to the EU export controls list.

The EU once again updated its list of dual-use items subject to export controls in October, following decisions taken under the Wassenaar Arrangement.

Looking ahead... the Biden administration faces difficult decisions on whether to continue the aggressive export control policies of the Trump administration, which used a broad interpretation of national security to expand their use to new technologies.

Regardless of where the Biden administration lands, the EU is likely to face pressure from Washington to adopt a more restrictive, China-centric approach and work outside the multilateral regimes with like-minded partners. Transatlantic cooperation on export controls is likely to be an area where joint action is not straightforward, given the materially different approach to how export controls are administered.

"US export controls are much more expansive. For example, Europeans do not typically look to control the overseas re-export of sensitive items in an extra-territorial manner. That said, export control licence applications to China have typically been more closely scrutinised in Europe, and export control lists are forming a basis for many of the emerging foreign investment rules that are being introduced in response to the rise of China."

Sunny Mann, Head of EMEA and UK International Trade, London

*At the time of publication, the European Parliament has not approved reforms to its dual-use export controls regime.

3.3 PROCUREMENT AND SUPPLY CHAIN RULES

In addition to foreign investment reviews and export controls, Chinese investors have been confronted with new rules restricting their market access in several areas.

In 2020, several European countries moved to ban Chinese vendors of 5G and other telecommunications equipment, and the US government expanded restrictions to other areas.

NORTH AMERICA

The US has led the charge in banning Huawei from its ICT stack. In 2019, section 889 of the NDAA prohibited executive agencies access to related technologies from China. In 2020, Executive Order 13873, "Securing the Information and Communications Technology and Services Supply Chain," and rulemaking from the Department of Commerce continued this trend and further restricted access to ICT technologies from China.

EUROPE

European governments were slower to restrict or ban Chinese 5G equipment, but many moved to do so in 2020. The UK government announced in July 2020 that it would ban UK telecommunications operators from buying new **Huawei** 5G equipment from December 31, 2020 and that operators must remove all **Huawei** 5G equipment from their networks by 2027. Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia have all signed joint statements with the United States on 5G cooperation, indicating that they will exclude Chinese providers from their networks. In addition, several other EU countries introduced legislation threatening to restrict or phase out Chinese suppliers from their 5G networks.

In 2021, supply chain security will remain a major concern in the US, with the new administration prioritizing the rebuilding of US supply chains, securing critical equipment and increasing procurement of US-made components.

> "Supply chain security measures will impact Chinese firms seeking to invest in and sell to US businesses in technology and data intensive sectors."
>
> **Rod Hunter, Partner, Washington D.C.**

The EU is also taking a more restrictive approach when it comes to protecting critical infrastructure from foreign investors, but policies vary between countries and broad, coordinated action on supply chains has not yet taken place.

3.4 SANCTIONS

The US has enacted a wide array of sanctions, including through its extensive use of the Entity List, with a focus on national security and human rights.

During 2020, the EU and the UK introduced new human rights sanctions regimes and are now considering whether to use these rules in relation to China.

NORTH AMERICA

As part of a broader expansion of sanctions, the US government added several Chinese firms to the Entity List and issued Executive Order 13959, which limits investments by US persons in dozens of companies designated as having links to China's military.

EUROPE

The UK announced in July 2020 that it would extend its arms embargo to Hong Kong and change licensing rules for exports to Hong Kong. The EU announced in July 2020 that it would impose bloc-wide measures to restrict the export of equipment or technology that could be used for internal repression, interception of internal communications or cyber surveillance to Hong Kong. In addition, a new Magnitsky-style human rights sanctions regimes were adopted by the EU and the UK in December 2020, which could lead to targeted sanctions against individuals and companies.

The Biden administration has made clear that human rights will be a larger priority than they were under the Trump administration, pointing to greater use of targeted sanctions. However, we are unlikely to see the kind of broader sanctions that were applied to large numbers of Chinese companies under the Trump administration.

In the EU, officials face pressure to use their new human rights sanctions following criticism of the forced labor language in the investment agreement with China that they agreed to in principle in December 2020.

3.5 DATA PRIVACY AND SECURITY

Another emerging concern for Chinese and other foreign investors in Europe and North America is data privacy and security. Companies collect data globally, and the issue of where the data is stored, processed, and who gets to use it has become increasingly contentious. Access to personal data by Chinese companies has become a particular concern for foreign regulators, given broader national security concerns and differences between China's legal and political systems with those in Europe and North America.

NORTH AMERICA

Concerns about access to sensitive data drove several executive orders under the Trump administration in 2020, including bans on Tiktok and Wechat, which are now on hold. It also was a concern in several CFIUS interventions, including the forced divestiture **of Grindr by Beijing Kunlun Tech Co Ltd**.

EUROPE

After implementing its General Data Protection Regulation (GDPR) in 2018, the EU continued to refine its regulations on personal data. The EU's new foreign investment review framework explicitly mentions access to sensitive information, including personal data, as a reason to review foreign acquisitions.

In December 2020, the European Commission published a draft of its Digital Services Act and Digital Markets Act, which would oblige online platforms — including Chinese operators such as **TikTok** — to tackle illegal content and misinformation when operating in the EU.

Looking forward... data privacy and security will become an even more important area for investors to consider as they expand into foreign markets, both in terms of core data privacy regulations and as a cross-cutting theme that will impact other policy areas.

> "Governments around the world increasingly scrutinize the transfer of personal data, which makes cross-border M&A transactions more complex and challenging, as deal parties need to work through these new regimes for the first time."
>
> **Michael DeFranco, Global M&A Chair, Chicago**

3.6 COMPETITION POLICY

One emerging concern for Chinese investors is growing foreign scrutiny of subsidies and other potentially distortive practices arising from China's economic system.

European policymakers are leading the way in thinking about how to address these concerns.

NORTH AMERICA

In the United States, foreign industrial policies and other subsidies have fueled use of Section 301 tariffs. These debates continue but have thus far not resulted in major proposals for an overhaul of US antitrust policy.

EUROPE

In June 2020, EU Commissioner for Competition Margrethe Vestager presented a White Paper that set out ideas for tackling distortions from foreign firms that were operating, making acquisitions or competing for public procurement contracts in the EU. The blueprint could lead to an overhaul of existing competition policy tools to address concerns over unfair competition.

Looking ahead... concerns over Chinese companies receiving unfair state support remain strong and may complicate their expansion into foreign markets. However for the time being, there are no concrete legislative proposals in Europe or North America that would create a more systematic regime to address these concerns in the context of M&A transactions. This could change in 2021, however, if the EU decides to proceed with legislation.

04 Outlook

Moving into 2021, China's global outbound deal making momentum remains weak.

Newly announced M&A activity fell even more in 2020 than completed investment (down 62% compared to 2019 in value terms), which left both Europe and North America with low levels of pending Chinese deals.

2020 could be the bottom as political and macroeconomic headwinds moderate.

However, the commercial incentives for Chinese companies to invest in European and North America markets remain strong, and several factors point to greater outbound deal making in 2021.

- **China has a window to allow more capital outflows:** China's current account surplus ballooned in 2020 as global travel halted Chinese overseas tourism spending, while Chinese exports recovered before many other nations impacted by the COVID-19 pandemic. This has placed appreciating pressure on China's currency and is creating an opportunity for China to allow more capital outflows, including outbound M&A.

- **Chinese investors will have more transparency on "red lines" in overseas jurisdictions as new investment screening regimes settle:** The overhaul of investment screening rules has substantially increased regulatory risks and uncertainty for Chinese investors in recent years, especially in technology, infrastructure and other areas relevant to national security. Additional uncertainties were posed through ad-hoc tightening of review criteria in many nations during the height of the pandemic. Some of that uncertainty around new regulatory mechanisms is easing as legislation has been implemented and regimes went into operation.

- **Geopolitical risk could be moderating for Chinese investors:** In addition to regulatory risk, Chinese investors also faced headwinds from a deterioration of China's political relationship with the US, Australia and other major recipient nations. A more constructive and predictable global geopolitical environment would help improve investor sentiment and risk appetite among Chinese investors, especially private sector firms.

Snapshot of The EU-China Comprehensive Agreement on Investment (CAI)

The CAI came together in the final weeks of 2020, following a series of last-minute concessions from the Chinese side. While it has not yet been formally ratified, the conclusion of an agreement "in principle" has several important implications for Chinese investors.

Additional market opening will be marginal: Since the EU market is already very open, the agreement is asymmetric and provides little additional market access for Chinese investors beyond limited guarantees in the wind and solar sectors as well as in electricity trading.

The agreement does not impact defensive instruments: The agreement will not have any impact on existing FDI screening rules regarding critical infrastructure/sensitive sectors, nor does it prevent the EU from introducing legislation aimed at countering the impact of distortive subsidies in the Single Market.

Greater support for sustained openness to Chinese investment: If implemented, the agreement would provide European investors guarantees on access to certain sectors of the Chinese economy, which would partially address European concerns about asymmetries in market access. This increases the likelihood that Europe's market will remain open to Chinese investors, outside of certain sensitive sectors.

Tracy Wut, Head of M&A for Hong Kong and Mainland China sees positive momentum, especially for China's 'New Economy' sectors:

> "Deal momentum has been slower throughout 2020, but we are seeing M&A appetite picking up in sectors such as healthcare & life sciences, technology and media, consumer goods and consumer-focused technology."

Methodology and Key Contacts

Methodology

The FDI data presented in the report was compiled by Rhodium Group LLC and includes completed transactions only.

The dataset covers acquisitions of stakes of 10% or more; greenfield projects (newly built facilities such as factories or offices); and the expansion of existing FDI operations.

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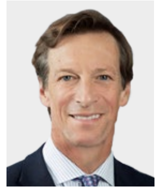

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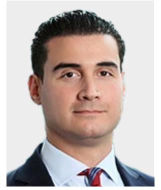

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