Baker McKenzie.

Trends and Spotlights of the Chinese Investment Landscape

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Contents

2021 China Outbound Investment Update

As global foreign direct investment (FDI) and mergers & acquisitions (M&A) show resilience following pandemic-related stressors and record-low activity in 2020, Baker McKenzie's eighth annual analysis of Chinese outbound investment trends, conducted in partnership with Rhodium Group, details China's movements in the ever-changing global market, driven by investors' desires for broader market entry, strategic synergy, access to resources and new energy, and expansion of technology and product portfolios.[1]

In 2021, Chinese outbound FDI held steady, while Chinese outbound M&A reached USD 23.7 billion, a slight decline from the previous year. While 2022 is likely to see continued economic pressures from COVID-19 and little significant uptick in Chinese outbound investments and acquisitions overall, sector- and industry-specific trends show cause for optimism. If 2021 trends continue, China is likely to invest more heavily in consumer products and the energy sector, as well as in telecommunications and infrastructure.

[1] *Throughout this report, "China" refers to Mainland China only and does not cover outbound investment from Hong Kong, Macau or Taiwan.*

Section 1: The Trajectory of China Outbound Investment

From 2016 to 2020, Chinese outbound FDI fell steadily due to greater domestic hurdles for outbound capital flows as well as a more complicated regulatory environment abroad.

The decline in mergers and acquisitions (M&A) was especially acute and China's strict pandemic measures have further weighed on outbound deal-making in 2020 and 2021, contrasting with a strong recovery in global cross-border M&A during the same period.

Outbound FDI

Outbound FDI boomed after 2014 and reached a high of nearly USD 200 billion in 2016. In following years, outbound FDI flows fell every year to reach USD 117 billion in 2019 before rebounding to USD 134 billion in 2020 and USD 138.4 billion in 2021.

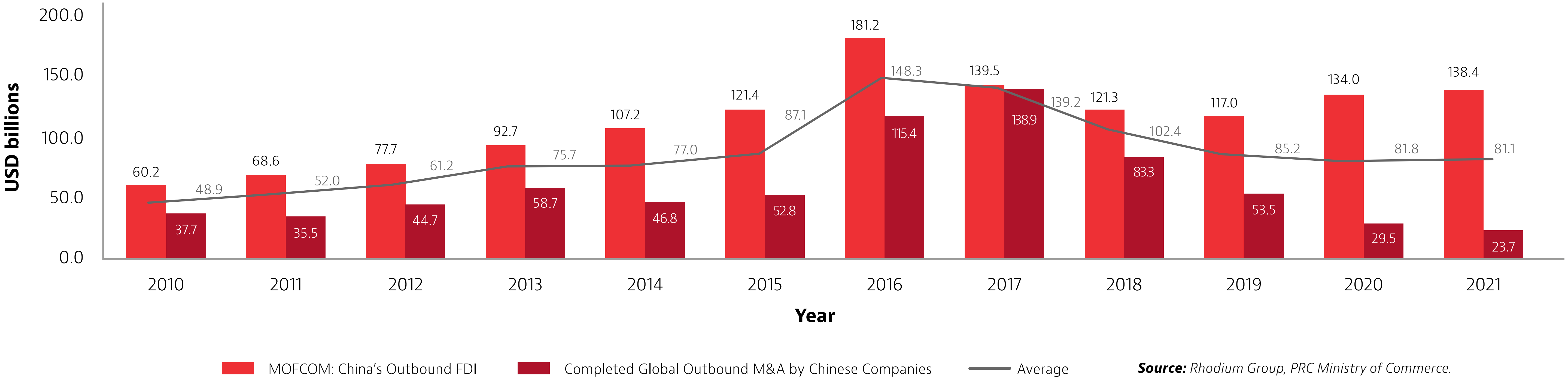
This downward trajectory was driven by domestic policies to control speculative capital outflows as well as greater regulatory scrutiny abroad towards foreign investment in certain jurisdictions and sectors.

M&A

M&A activity led the rapid growth in China's FDI from 2014 to 2017, making it a major player in global cross-border transactions; in 2016 it accounted for 11% of all global cross-border M&A by value. By 2020, this figure had fallen to 5%.

Since 2017, Chinese regulators scrutinized large M&A transactions in sectors such as property and overseas regulators slowed down deals in technology and critical infrastructure. The global pandemic outbreak in 2020 further slowed China's outbound M&A activity and complicated the completion of deals. China's global completed M&A fell to USD 29.5 billion.

Figure 1. China's Global Outbound Investment, 2010-2021



Source: *Rhodium Group, PRC Ministry of Commerce.*

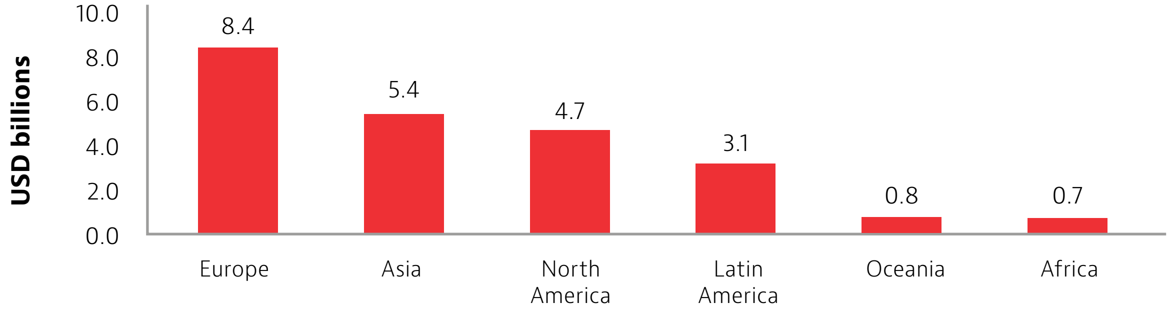
Section 2: China Outbound Investment Trends in 2021

In 2021, Chinese outbound investment held steady compared to 2020.

Based on official data from China's Ministry of Commerce (MOFCOM), we estimate that outbound FDI by Chinese companies totaled **USD 138 billion in 2021**, compared to USD 134 billion in 2020 and USD 117 billion in 2019. Completed M&A activity by Chinese companies dropped moderately to reach **USD 23.7 billion in 2021**.

2.1 Key M&A Trends 2021

Figure 2. Completed Chinese M&A Transactions by Region, 2021

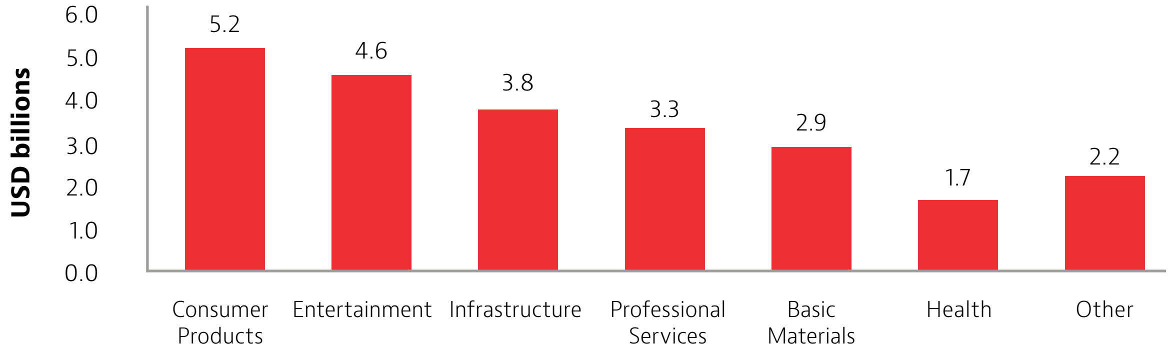


Source: *Rhodium Group.*

By Region

- Europe led the recovery with over USD 8.4 billion worth of completed Chinese deals
- Asia and North America were second and third with USD 5.4 billion and USD 4.7 billion
- Latin America continued to see significant Chinese M&A activity, with USD 3 billion in 2021
- Acquisitions in Oceania and Africa totaled approximately USD 1.5 billion

Figure 3. Completed Chinese M&A Transactions by sector, 2021



Source: *Rhodium Group.*

By Sector

- Less sensitive sectors like consumer products and services (USD 5.2 billion) and entertainment (USD 4.6 billion) were the top attractions for Chinese M&A globally, accounting for almost half of total investment.
- Transport and Infrastructure (USD 3.8 billion), Financial and Business Services (USD 3.3 billion), Basic Materials (USD 1.8 billion), and Health (USD 1.7 billion) made up the rest of the top six.

"Several factors have contributed to resilient Chinese M&A activity in Latin America. First, devaluation in Latin American countries has reduced the value of assets in USD terms. Second, there are an important number of governments who have expressed interest in working with China as a business partner over more traditional partnerships with the US. Third, China has more appetite for long-term investment in the region, as it is likely that economies improve in the mid-term to long-term, thus creating a good moment for selling. In 2022, we expect China to invest heavily in telecommunications and infrastructure, apart from a continuation of more traditional investments in commodities."

Alejandro Mesa
EMI Partner, Bogotá

"Chinese investors remain strongly interested in overseas expansion, and growth of outbound investments by Chinese investors would have been stronger if not due to continued disruption of global pandemic in 2021. Desire for broader market entry, strategic synergy, access to resources and new energy, expansion of technology or product portfolio are all key considerations driving Chinese investors' interests in looking abroad. Besides these commercial considerations, deal certainties are important too, and therefore there has been a shift of outbound FDI deals to Latin America in recent years where local regulators still mostly welcome Chinese investment."

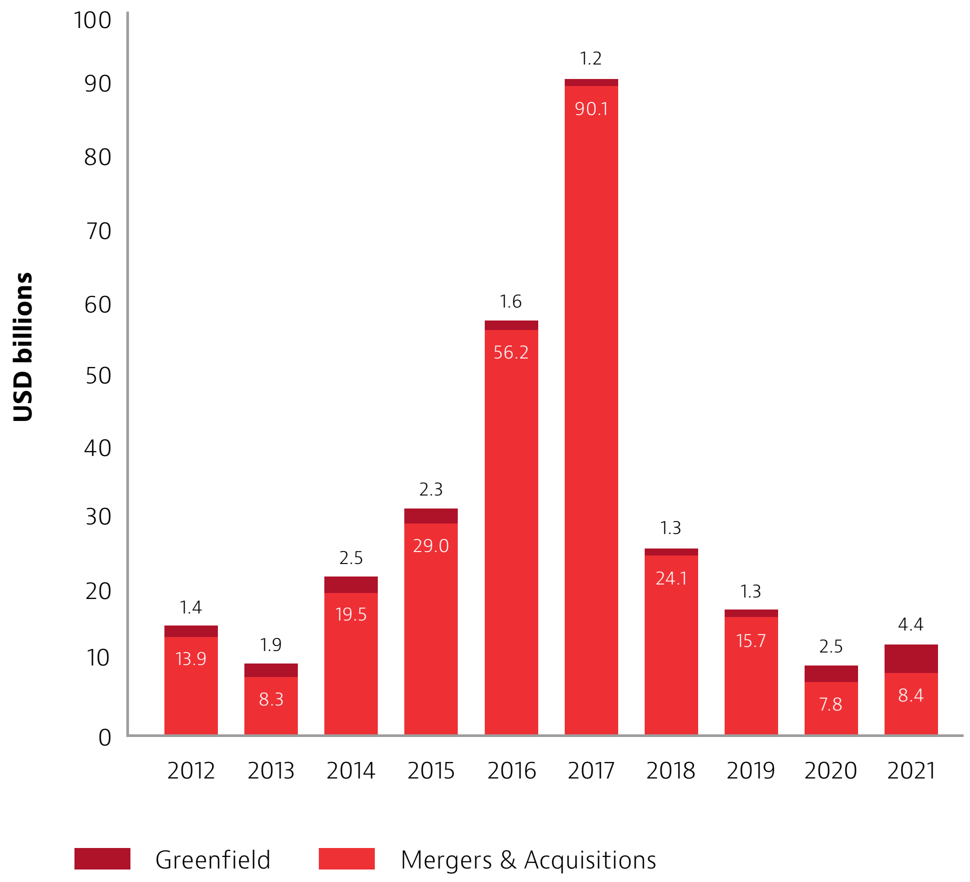
Zhang Hong
Head of Private Equity,
Baker McKenzie FenXun

Zhang Hong is the Head of Private Equity of Baker McKenzie FenXun, a joint operation established by Baker McKenzie in China and FenXun Partners, which was approved by the Shanghai Justice Bureau in 2015.

2.2 Chinese FDI in Europe and North America in 2021

China's stable outbound FDI contrasts with a strong increase in global FDI flows in 2021. According to data from the OECD, global FDI flows rebounded strongly in 1H 2021 to USD 870 billion, doubling from the second half of 2020. We estimate that global FDI flows topped USD 1.5 trillion for the full year 2021, exceeding pre-pandemic levels.

Figure 4. Completed Chinese FDI Transactions in Europe*

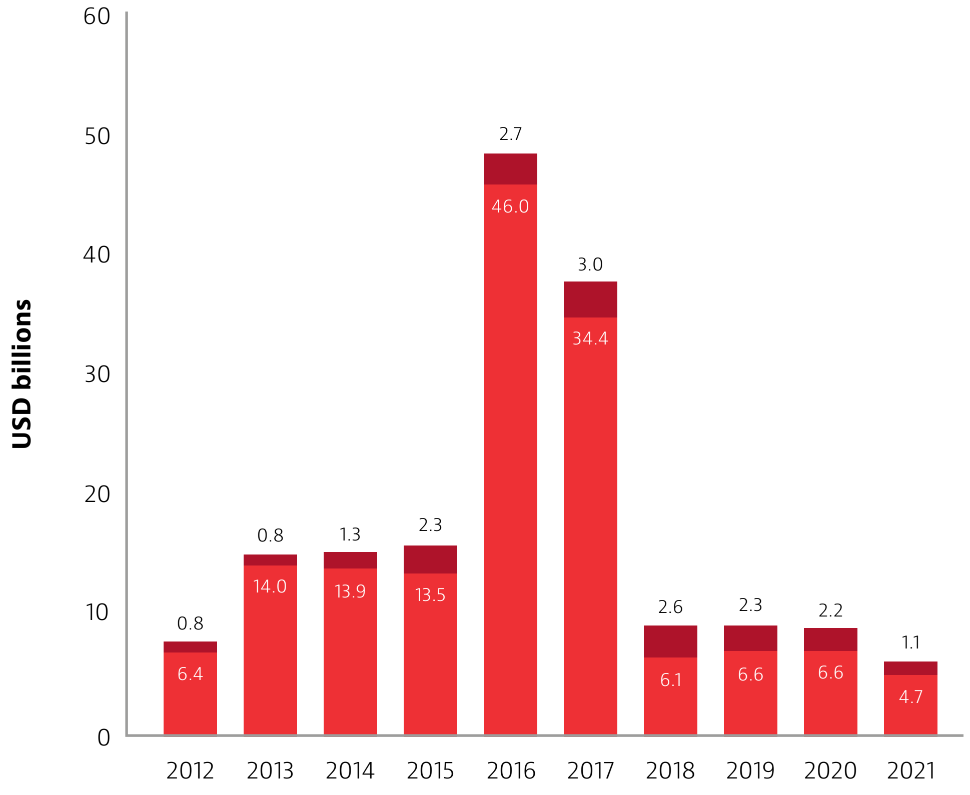


Source: *Rhodium Group.*
**(EU27 + UK, Switzerland, Lichenstein, Norway and Iceland)*

Chinese FDI in Europe:

- In 2021, Chinese FDI in Europe reached USD 12.8 billion, surpassing 2020's total of USD 10.2 billion
- M&A accounted for 66% of Chinese FDI in Europe (USD 8.4 billion). Greenfield investment totaled USD 4.4 billion, which is the highest value ever recorded
- Consumer products and services (USD 4.6 billion) and automotive (USD 2.8 billion) were the top industries in Europe
- The Netherlands (USD 4.5 billion), the UK (USD 2.6 billion) and Germany (USD 1.6 billion) were the leading recipients of Chinese FDI in Europe

Figure 5. Completed Chinese FDI Transactions in North America



Source: *Rhodium Group.*

Chinese FDI in North America:

- Chinese FDI in North America (US and Canada) totalled USD 5.8 billion in 2021, which is the lowest level since 2011
- Unlike Europe, North America has not seen much of a greenfield surge from Chinese investors (M&A accounted for USD 4.7 billion or 80% of the USD 5.8 billion total)
- For the second year in a row, entertainment (USD 3.5 billion) was the leading industry. Consumer products came in second place with USD 775 million
- The US accounted for over 90% of Chinese investment in North America

"

M&A is back with a boom: according to Refinitiv, global M&A hit USD 5.9 trillion last year, representing an impressive jump of 71% as compared with 2020 levels. These figures are underpinned by record deal-making in the technology sector, which alone reached USD 1.1 trillion in 2021.

Chinese outbound FDI aligned with this global trend and displayed a slight uptick in growth, with Chinese outbound FDI totalling USD 138 billion in 2021, compared to USD 134 billion in 2020 and USD 117 billion in 2019. Yet with increased foreign investment scrutiny from overseas regulators, particularly in the technology sector, many Chinese companies are also pursuing domestic options.

Additionally, while Chinese outbound FDI to Europe, North America and Asia has not come close to its 2017 peak, it will be interesting to see how other markets such as Oceania, Africa and Latin America are shaped by Chinese investment in 2022, and how this will in turn influence Asia-Pacific domestic investment flows. What is certain, however, is that we can expect a dynamic and exciting year for both Chinese and global M&A activity."

Jannan Crozier
Partner, London

Section 3: Trend Spotlight for 2022

3.1 Tech, Real Estate, Consumer Products and Entertainment

High-tech outbound M&A from China has further declined as overseas regulators have upped scrutiny in sensitive sectors and as China focuses on building out domestic alternatives.

Chinese FDI in the ICT sector in Europe fell from USD 8 billion in 2016 and 2017, to USD 5.3 billion in 2018 and 2019, to USD 3 billion in 2020 and 2021. FDI in the same sector in North America fell even more quickly, from USD 10 billion in 2016 and 2017 to less than USD 150 million in the four years that followed.

Regulatory scrutiny continued to affect Chinese acquisitions in 2021. For example, CFIUS blocked China's Wise Road Capital's attempted purchase of South Korea's Magnachip.

Chinese companies also continued to divest technology assets abroad, especially in North America. Examples include dating software Grindr, patient social media site PatientsLikeMe, and IT product and service provider Ingram Micro.

Overseas real estate investments have slowed to a trickle, and domestic financial pressures are accelerating property divestitures and asset restructuring.

Chinese outbound investment in real estate has fallen from USD 150 billion between 2015 and 2017 to just USD 8 billion from 2019 and 2021. Over the past five years, Chinese companies have also divested overseas property assets worth more than USD 10 billion. One of the most prominent was Wanda Group selling the One Beverly Hills Development in 2018.

In addition to divestitures, we are now also seeing asset seizures as the China property market faces mounting debt problems. In 2021, creditors seized Oceanwide's San Francisco development project after the company failed to make a debt payment. The exception to that general trend is Chinese investors' appetites for warehouses and logistics properties, especially in Europe. One of the most prominent examples of this in 2021 was COSCO announcing its acquisition of a 35% share in Hamburg's Tollerort Terminal.

Less politically sensitive sectors such as consumer products, entertainment, and online gaming continue to see significant interest, though still not reaching the levels seen during the boom of 2016 and 2017.

Consumer products and services and entertainment in 2021 accounted for 41% of total Chinese global outbound M&A value, up from 18% in 2020. This has been led by several large deals in the gaming industry.

3.2 Emerging Chinese Global Champions in the EV Sector Are Starting to Expand Globally Through M&A and Greenfield FDI Projects

Emerging Chinese global champions in the EV sector are starting to expand globally through M&A and greenfield FDI projects.

Over the last five years, Chinese EV companies have made a push for global expansion through M&A and smaller R&D operations worldwide. Now they have begun to expand further with factories and joint venture projects abroad. These greenfield projects have mostly been in Europe and include both battery and JVs for finished car manufacturing. Over the past three years, Chinese EV companies announced investments worth nearly USD 14.5 billion globally.

According to Reuters, half a trillion of investment into EVs and batteries are expected globally by 2030.

Notable greenfield projects include EV battery factories by SVOLT Energy and CATL in Germany worth a combined USD 4.4 billion over several years and EV startup Nio's announced plans to start selling cars in five new European countries in 2022.

The energy sector has seen a rebound in Chinese M&A interest, driven by new energy materials and utilities.

As global production of EVs ramp up, demand for lithium, cobalt, and nickel has increased. Over the last three years, Chinese companies have announced new energy minerals acquisitions worth over USD 4 billion globally. One notable example was Zijin Mining Group's pending agreement to acquire Canadian Neo Lithium, an Argentina-focused lithium mining company, for USD 737 million.

Energy utilities and renewable energy assets also continue to receive significant investment from China. Investment in these areas totaled over USD 13 billion in 2020 and 2021. Notable examples include State Grid's USD 3 billion purchase of Chile's CGE, and China Three Gorges' USD 607 million acquisition of renewable energy assets in Spain.

"Chinese state-owned enterprises (SOEs) have become important and respected players in Latin America's energy market. It is not about amassing market share volume only, but, mainly, running respected and dynamic companies in the field, which are expected to bring the whole sector to the next level."

José Roberto Martins
Chair, Latin America Projects Practice Group
Partner, Trench Rossi Watanabe*

**Trench Rossi Watanabe and Baker McKenzie have executed a strategic cooperation agreement for consulting on foreign law.*

3.2 Conclusion — Outlook for China Outbound Investment in 2022

While outbound FDI has held steady, the overall momentum into 2022 does not indicate a significant uptick in Chinese outbound investment. The pace of newly announced M&A transactions slowed from USD 18 billion in in the first half of 2021 to USD 16 billion in the second half.

Slowed deal-making since 2017 has resulted in a situation where China is under-invested in the world compared to its economic footprint, which suggests substantial catch-up potential if pandemic restrictions and policy headwinds were to subside. Several factors should be considered in assessing the pace of China outbound investment in 2022.

Low Investment Base and Structural Changes.

In 2020, China accounted for 18% of global GDP and 15% of global trade, but only 5% of global cross-border M&A transactions.

This low base combined with the structural changes in China's economy that requires Chinese firms to globalize to stay competitive suggest plenty of potential for future outbound investment.

Regulatory Shifts.

Another factor for a possible rebound is greater predictability of the regulatory environment abroad for Chinese investors.

In past 5 years, regulators in many advanced economies have re-drawn red lines for national security and other types of review processes. However, the pace of investment policy overhaul is slowing down, creating a more predictable environment for Chinese investors.

Pandemic Headwinds and Restrictions.

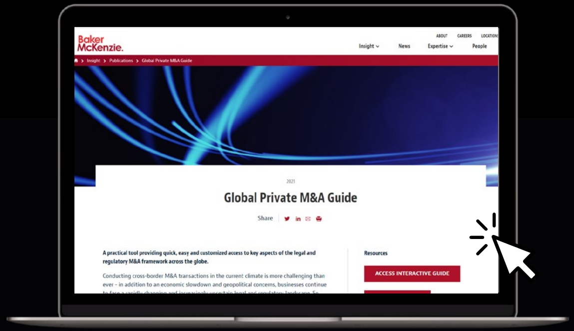
Short-term headwinds remain for 2022, including pandemic restrictions that complicate travel to and from China, which has led to a slowdown of Chinese economic growth that will make it more difficult to ease capital controls.

These factors and evolving geopolitical considerations are challenges which Chinese investors must navigate.

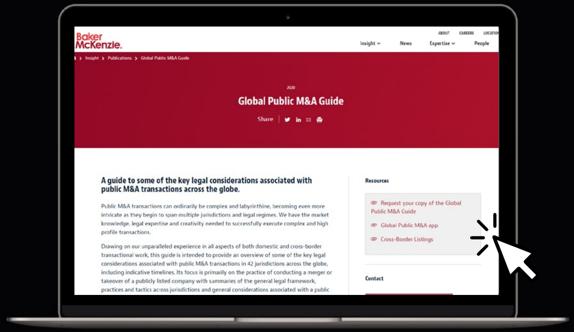
Data in this report was provided by the ***Rhodium Group****. Sources as listed for each figure.*

We invite you to explore additional related resources below

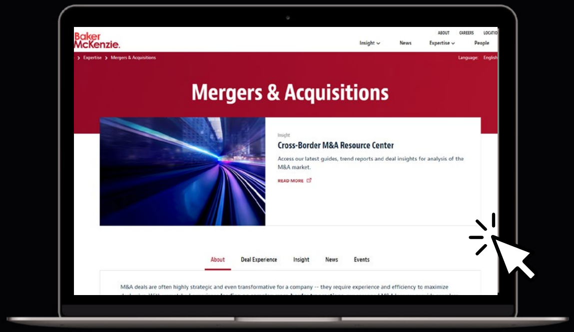
Global M&A Private Guide



Global M&A Public Guide



Cross-Border M&A Resource Center



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