EU-China FDI Monitor
2Q 2017 Update: Public Version

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Foreign Investment in China: Global Trends

- Official statistics from China’s Ministry of Commerce (MOFCOM) show $64.8 billion of non-financial utilized foreign direct investment (FDI) from January to June 2017. This represents a 6.6% decrease in dollar terms from the same period in 2016.

- As in previous months, MOFCOM data show a big drop in FDI to traditional manufacturing industries and sectors with overcapacity, but growth in high-tech services (up 20.4% yoy) and other modern services such as utilities (up 100.2% yoy), agriculture services (up 76.8% yoy), and construction services (up 56.3% yoy).

- Interestingly, several data points released by local officials suggest that the FDI slump will aggravate in coming months. Shanghai’s local government recently reported that contracted FDI (which is a proxy for future utilized FDI) in China’s most advanced city dropped 47% in the first six months of 2017, which represents the biggest decline in seven years.

- Official MOFCOM statistics show that utilized FDI from EU economies (including investments routed through tax havens) increased 6.2% yoy in the period of January to May 2017. However, MOFCOM does not disclose the full breakdown of those numbers but only releases data on utilized FDI from a handful of EU economies. Those data points show anemic FDI inflows in the first six months of the year.

- Moreover, low-tax jurisdictions such as Luxembourg or the Netherlands still account for a significant amount of inflows. If those flows were taken out (because companies headquartered in those locations are not necessarily European but could be from other countries or China itself), the year-to-date FDI value would be lower.
EU Investment into China: Transactions Data

In 2Q, the value of multiyear greenfield projects was boosted by the completion of two major projects (BMW’s Shenyang plant upgrade and Airbus’ assembly line in Tianjin). New greenfield investments increased to $490 million. Major new projects include a new JV between Linde and a subsidiary of Sinopec to produce industrial gas in Ningbo, Volkswagen’s joint venture with JAC to produce electric vehicles, four new operations by Bosch in Chongqing, Sichuan, Jiangsu, and Guangdong, and a new research center from Shell. Airbus’ helicopter assembly line in Qingdao also started construction.

Major greenfield projects still under construction included Infineon’s semiconductors plant in Suzhou, Umicore’s battery materials plant in Guangdong, Mercedes-Benz’s engine plant in Beijing, Schaeffler Group’s plant in Hunan, and Volkswagen assembly lines in Tianjin and Guangdong. The combined value of acquisitions further decreased in 2Q 2017 to just $96 million, which represents the lowest value since 1Q 2016.

The RHG EU-China FDI Monitor, which avoids some of the distortions in official statistics by recording expenditures by European companies for FDI transactions in China, shows a more pronounced year-on-year drop. In 2Q 2017, the combined value of completed M&A transactions (blue), new greenfield projects (light green) and incrementally-logged multiyear greenfield projects (dark green) reached $1.9 billion, which represents a 23% drop compared to 2Q 2016. For the first six months of 2017 we recorded a drop of 23% compared to 1H 2016 ($3.6 billion vs. $4.7 billion). However, the quarter-on-quarter trend remains positive, with $1.88 billion of transactions in 2Q, up from $1.77 billion in 1Q.

Source: RHG EU-China FDI Monitor.
Similar to previous quarters, the automotive sector dominated EU FDI in China, mostly due to ongoing investments from big German automakers. A key trend is electrification in light of the strong push by the Chinese government to promote electric vehicles (EVs). Examples are Volkswagen’s third JV in China focusing entirely on EVs and Daimler’s planned EV plant with JV partner BAIC. Basic materials also received significant investment in 2Q due to a new joint venture between Linde and a Sinopec subsidiary. Aviation saw an uptick as Airbus completed its Tianjin factory this quarter and started construction on its helicopter assembly line. Financial services and ICT also received sizable investment from EU companies.

The ranking of EU investor countries remained similar to previous quarters in 2Q 2017, mirroring the described industry dynamics. Germany, France, the UK and the Czech Republic were the top European investors.

The pipeline of EU greenfield FDI in China remains stable as new multiyear investments in the auto sector continue to build a floor for future investment levels. One major new pending greenfield project is Volkswagen’s joint venture with Mobvoi ($180 million). The pipeline for M&A transactions is also picking up: one major rumored transaction currently is a potential investment in Wangfujing shopping center in Beijing by a UK investor ($321 million).
Chinese Outward Investment: Global Trends

- Official data show a large drop in Chinese outbound FDI. According to MOFCOM, China’s non-financial OFDI decreased 46% year-on-year in 1H 2017, totaling $48.2 billion. Outflows reached a low point from February to April but have recovered in May and June.

- MOFCOM data show that business services, manufacturing, and ICT services were the largest industries targeted by Chinese investors overseas in 1H 2017. Investment dropped particularly steeply in sectors that were subject to regulatory scrutiny, including real estate (down 82.1% yoy) and culture, sports, and entertainment (down 82.5% yoy).

- The significant drop in outward FDI shown in MOFCOM statistics is in line with most independent proxies. Compared to the same period in 2016, newly announced global outbound M&A transactions by Chinese firms dropped by about 20% in volume terms and more than 60% in value terms in 1H 2017. Proxy data also confirm that deal activity was the lowest in February to April, but has rebounded in May and June.

- It is worth highlighting that the rate of deal completion has been less affected by capital controls than the pace of new deals. While tightening of regulatory stance has derailed a few deals (for example the termination of the $1 billion sale of US movie studio Dick Clark Productions to Wanda in early March), most transactions that were in the pipeline from the deal boom in 2016 did close successfully, including large deals such as HNA’s $10 billion purchase of the CIT aircraft leasing business or ChemChina’s $43 billion acquisition of Syngenta.
Chinese Investment in the EU: Transactions Data

- RHG’s EU-China Investment Monitor shows that the drop in global outbound investment also impacted Chinese FDI in the EU-28.
- According to RHG’s transactions data, the combined value of Chinese FDI transactions in the EU totaled $3.87 billion in 2Q 2017, which is the lowest level since 4Q 2015.

- Acquisitions accounted for the majority of total Chinese capital flowing to Europe in 2Q, with 23 completed M&A deals worth $3.6 billion. The biggest deals were Rossoneri Sport Investment Lux’ acquisition of AC Milan ($818 million), Shaanxi Ligeance’s acquisition of Gardner Aerospace ($400 million), Anbang’s acquisition of DoubleTree hotel in Amsterdam ($390 million), State Grid’s investment in ADMIE ($360 million), and COSCO’s purchase of a stake in Spanish port Noatrum ($227 million).

- Greenfield investment remained generally stable in 2Q 2017 at around $250 million, broken down into $100 million in new projects and $151 million of expenditures for ongoing multiyear projects. Notable new projects include an electric car plant by Beijing WKW, an electric bus factory by BYD in Hungary, a new innovation center in Sweden by Geely, a train factory in Bulgaria by CRRC, a new ICBC branch in the Czech Republic, and real estate developments by Wanda and Zhongya in the UK and Croatia.
Chinese Investment in the EU: Transactions Data

- The major M&A deals during the quarter drove investment trends by industry, with aviation (Gardner Aerospace), entertainment (AC Milan), real estate and hospitality (Amsterdam, London) and transport, utilities, and infrastructure (ADMIE and Noatum port) attracting the most investment during 2Q 2017. M&A activity also drove trends in investment by country. The UK (aviation, real estate), Greece (ADMIE), Italy (AC Milan) and the Netherlands (hotels), were the top recipients of Chinese FDI in 2Q 2017.

- The outlook for Chinese investment in Europe is mixed. On the one hand, deal flow in Europe will be impacted by the general slowdown in newly announced Chinese outbound M&A. At the same time, several large pending transactions may push investment levels back up in the coming quarters. The value of pending Chinese M&A transactions in Europe is back to over $17 billion from $10 billion at the end of last quarter. The biggest pending deal is CIC’s acquisition of European logistics company LogiCor for $13.4 billion. Other major pending deals include Create Group’s acquisition of Biotest ($1.4 billion), HNA’s purchase of 51% stake in Glencore’s petroleum storage and logistics unit ($775 million), Zhengzhou Coal Mining Machinery’s purchase of Bosch starters and generators business ($595 million), and Geely’s acquisition of 26% in Saxo Bank ($350 – 400 million).

- Several rumored transactions in the financial sector could also prop up investments in coming quarters. China’s Legend is reportedly in talks to acquire a stake in Luxembourg bank BIL. We are also closely monitoring HNA’s investment in Deutsche Bank. According to latest filings, HNA currently holds 9.9% of total outstanding shares. If HNA buys more shares, it could cross the 10% threshold for FDI, which would add approximately $4 billion of investment to our database.

- Finally, greenfield investment is also poised to increase substantially if newly announced multiyear investments begin construction (such as electric vehicle plants by BYD and WKW) and ongoing projects make progress toward the construction phase (for example the Hinkley power plant in the UK).
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