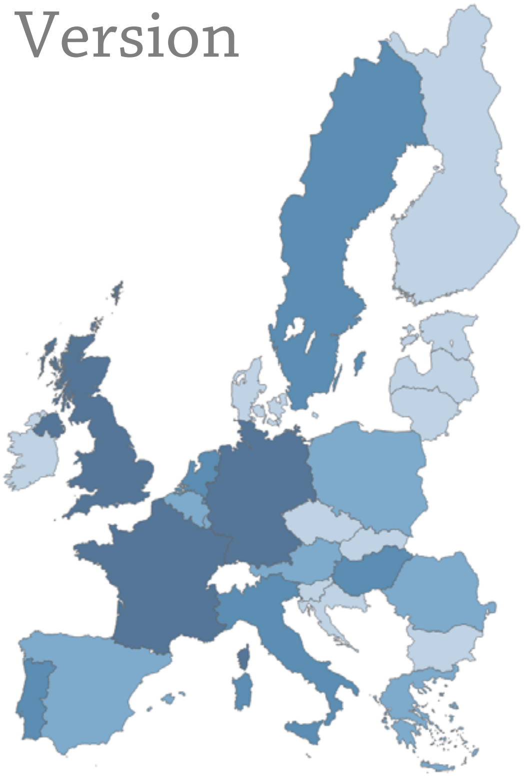
# EU-China FDI Monitor

## 1Q 2016 Update: Public Version



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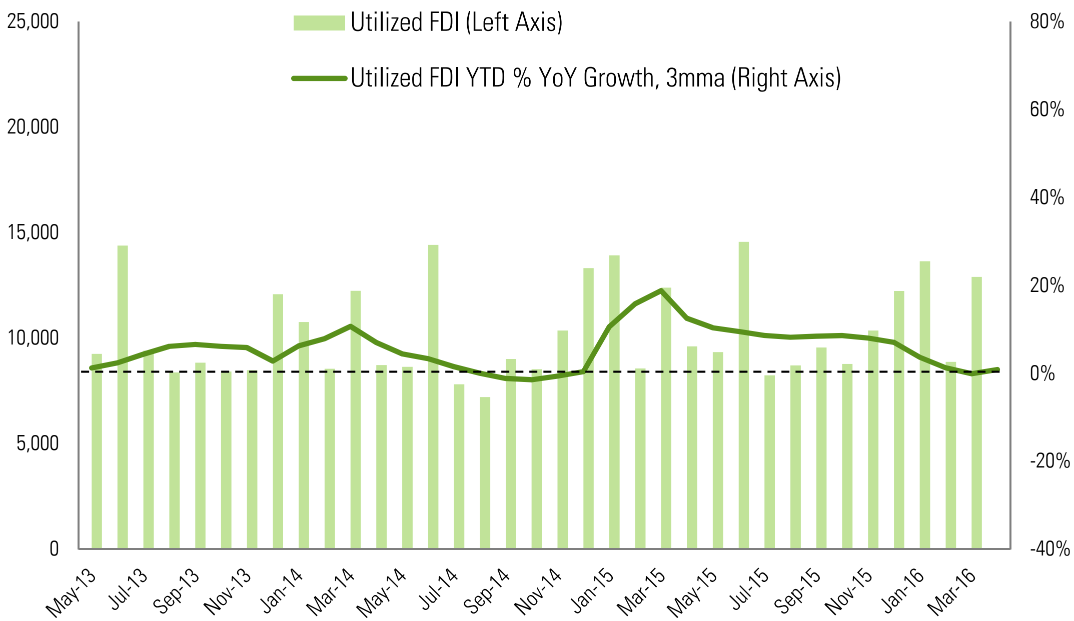
# Foreign Investment in China: Global Trends

**Utilized FDI into China, May 2013-March 2016**
**Monthly FDI flows in USD million*, percent year-on-year growth**




Source: MOFCOM.

- Official statistics from China's Ministry of Commerce (MOFCOM) show non-financial utilized foreign direct investment (FDI) into China reaching $35.4 billion in 1Q 2016. That's a 4.5% increase from the same period in 2015 in renminbi terms (the officially quoted figure), and a 1.5% increase in dollar terms.

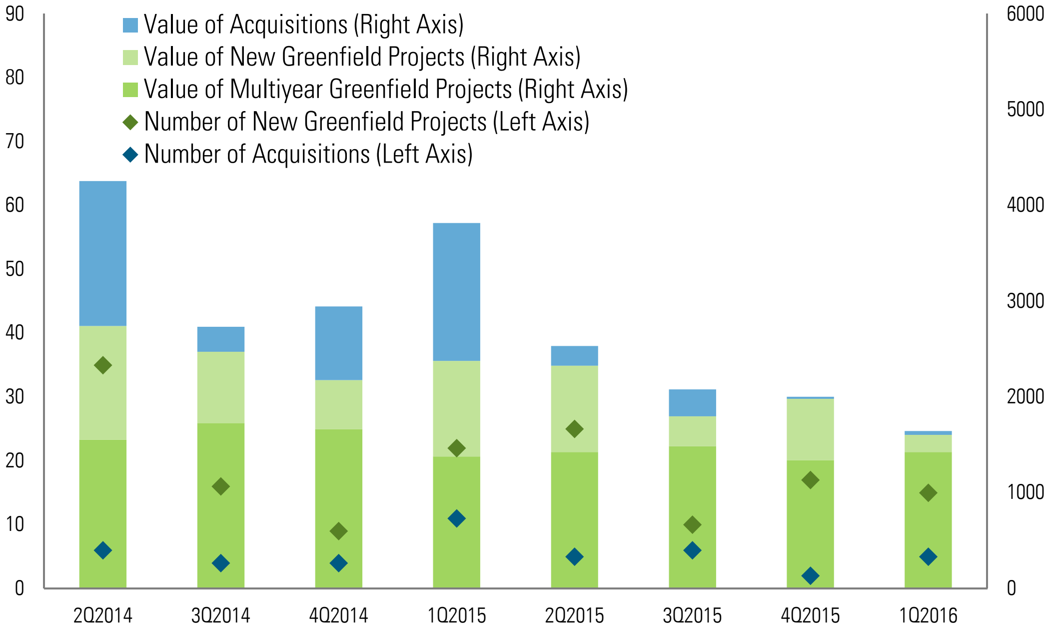
- Acquisitions accounted for $7.8 billion or 23% of total FDI in the period (a slight increase from 18% last year).

- Compared to previous year, FDI in manufacturing sectors declined 1.6% in 1Q to $10.7 billion (30% of the total). FDI into services on the other hand grew 7.6% compared to last year, reaching $24.4 billion (69% of the total). Within services, high-tech services such as IT and digital content services recorded the most dramatic growth.

# EU Investment into China: Transactions Data

**EU-28 FDI Transactions in China by Entry Mode, 2Q 2014-1Q 2016**

Quarterly number of transactions, investment value in USD million




Source: RHG EU-China FDI Monitor.

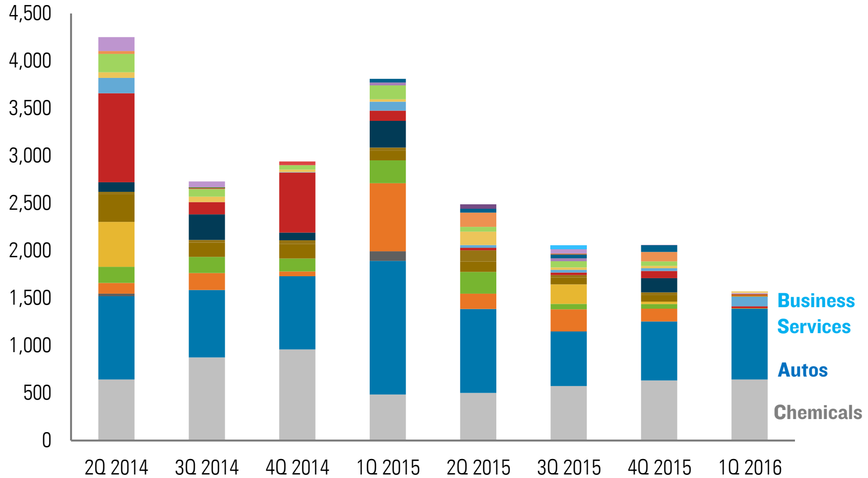
- The EU-China FDI Monitor data, which records spending of European companies on FDI transactions in China, shows a similarly anemic picture.
- The figure to the left shows completed M&A transactions (blue), new greenfield projects (dark green) and large multi-year greenfield projects (light green), which we log incrementally over time.
- The combined value of those transactions declined from around $2 billion in 3Q and 4Q 2015 to only $1.6 billion in 1Q 2016. Notable is the sharp drop of European M&A activity in China: Acquisitions by European firms have almost completely disappeared in the past two quarters.

- Investment from large, multiyear greenfield projects increased slightly from last quarter as several projects completed construction in 1Q, including Renault's assembly line in Wuhan, UPM's paper plant in Changshu, and Benecke-Kaliko's auto parts facility in Changzhou.
- The number of newly announced greenfield projects remained similar to last quarter (15), but the investment amount that we logged in 1Q remains low because many investments were either offices (Paragon Software Systems and Vector) or multiyear projects, for which the bulk of investment will be logged in coming quarters (for example Skoda's expansion).

# EU Investment into China: Transactions Data

**EU-28 FDI Transactions in China by Industry, 2Q 2014-1Q 2016**

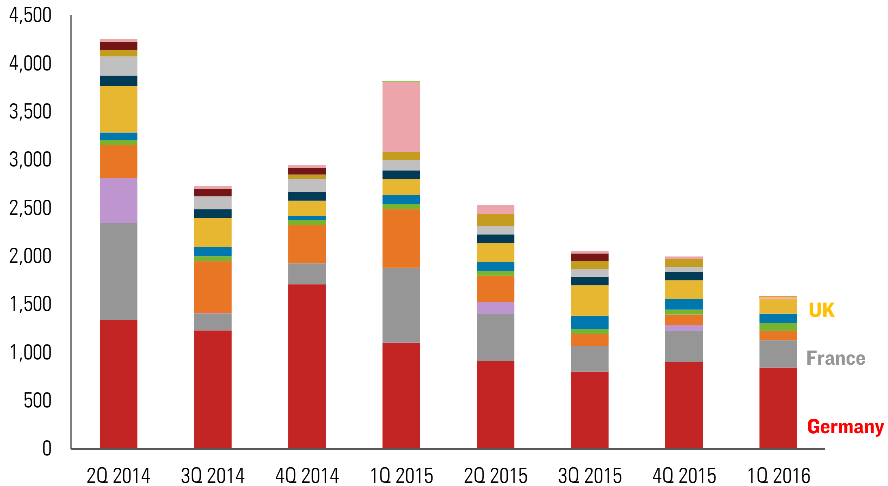
Quarterly investment value in USD million




Source: RHG EU-China FDI Monitor.

**EU-28 FDI Transactions in China by Country of Origin, 2Q 2014-1Q 2016**

Quarterly investment value in USD million




Source: RHG EU-China FDI Monitor.

- Automotive and chemicals continue to dominate European investment in China, thanks to multi-year greenfield projects with significant capital expenditures. Examples include Renault's new assembly plant in Wuhan, which is set to begin production later in 2016, and AkzoNobel's Specialty Chemical plant in Ningbo, which broke ground in 1Q 2015.

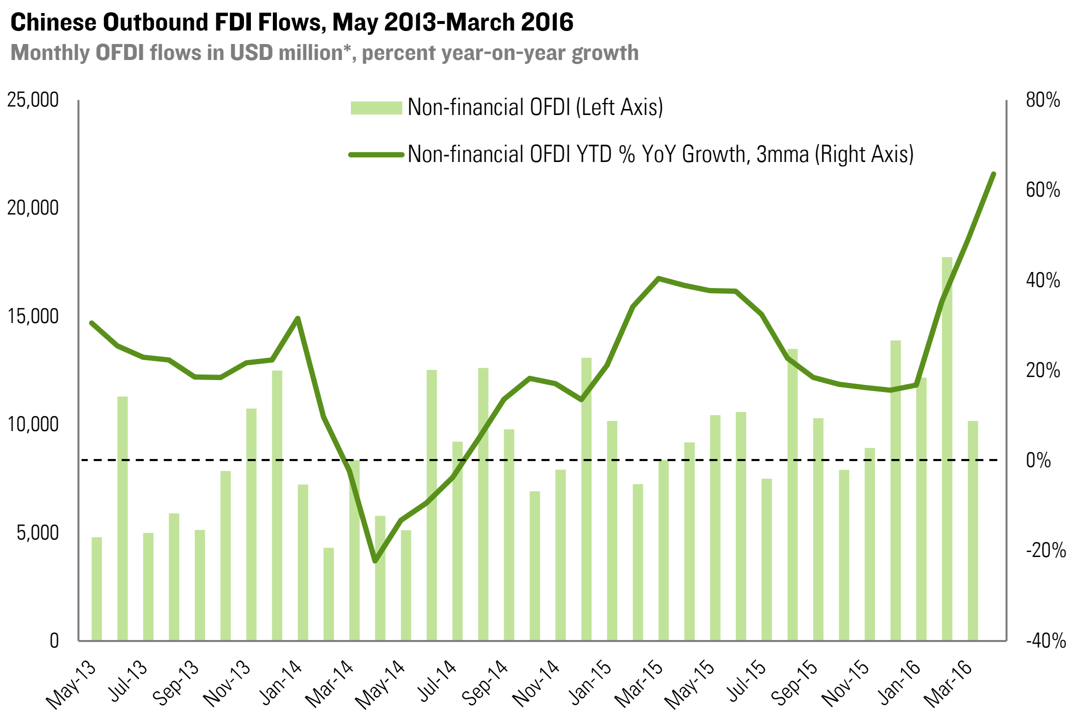
- The ranking of investor countries also remains similar to previous quarters, led by Germany and France, followed by the UK, Italy and the Netherlands.

- Looking ahead, we count 13 significant investments together worth more than $3 billion that were pending at the end of 1Q.

- The 7 pending M&A transactions include Vallourec's acquisition of Anhui Tianda Oil Pipe, Stora Enso's acquisition of additional stakes in Inpac International, and BASF's acquisition of Guangdong Yinfan Chemistry assets.

- The biggest pending greenfield projects are Skoda and Home Credit's plans to expand their China business (around $1 billion investment each).

# Chinese Outward Investment: Global Trends




Source: MOFCOM.

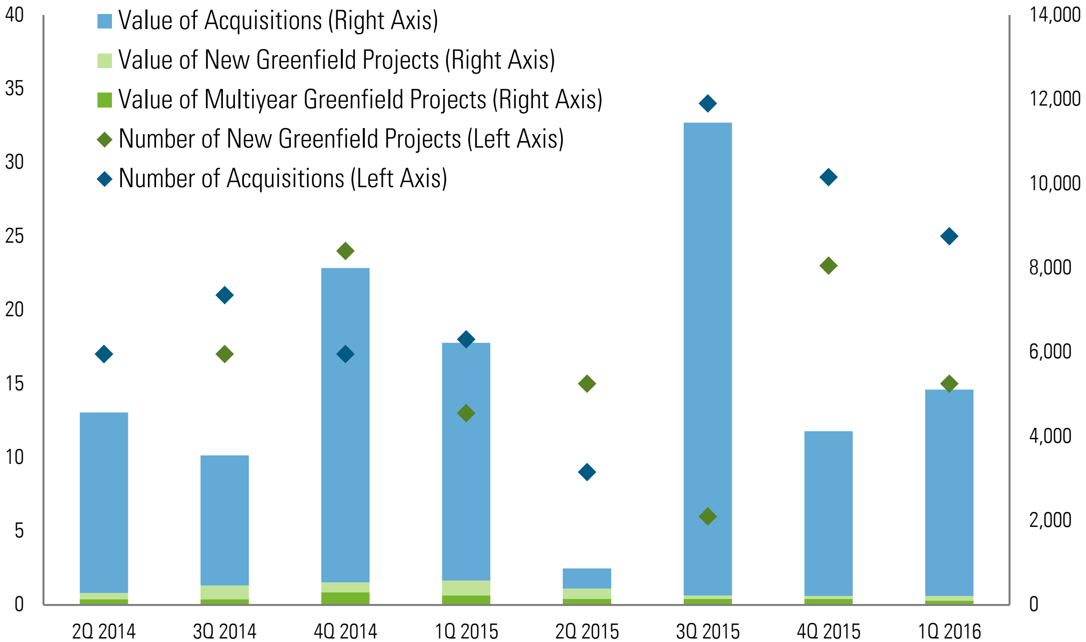
- Official data points by MOFCOM show that China's non-financial OFDI hit a new quarterly record high of $40 billion in 1Q 2016, a year-on-year increase of 55.4%.
- OFDI flows exceeded $10 billion each month since December 2015.
- Alternative proxies for China's global investment confirm that outbound investment activity has indeed reached new spheres in recent months: In the first quarter of 2016, Chinese companies announced more than $100 billion worth of M&A deals.
- This is an unprecedented level of global investment, which is stretching around the globe but primarily targeting Europe, North America and other high-income economies.

- These data points seem to have put the Chinese leadership on the defense. At MOFCOM's most recent press conference, bureaucrats refuted the idea that Chinese companies were on a global buying spree, stressing the low base that Chinese companies were starting from and that recent growth in OFDI was "appropriate and normal". State media quickly followed with op-eds that were based on similar story lines, downplaying the recent jump in overseas deal making.

# Chinese Investment in the EU: Transactions Data

**Chinese FDI Transactions in the EU-28 by Entry Mode, 2Q 2014-1Q 2016**

Quarterly number of transactions, investment value in USD million




Source: RHG EU-China FDI Monitor.

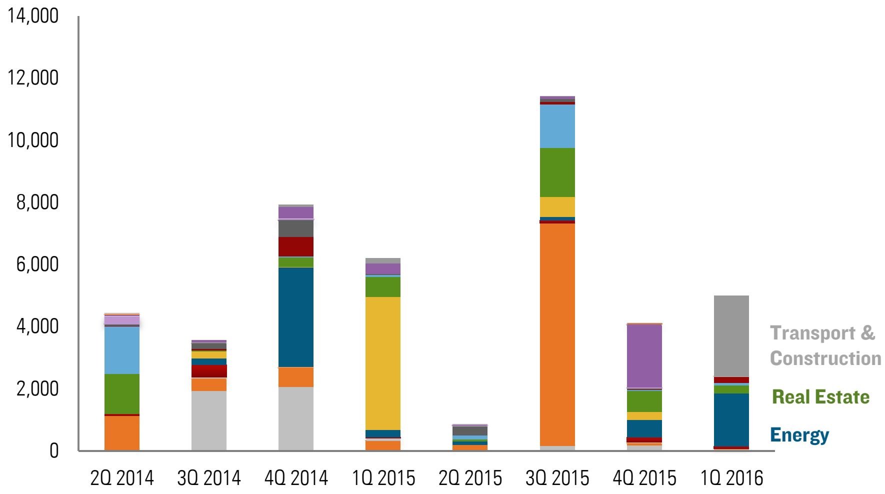
- Chinese FDI activity in the EU continues to be strong. The EU-China Investment Monitor records individual Chinese FDI transactions in the EU worth $5.1 billion in 1Q 2016, more than 20% increase from the previous quarter. On average, the value of Chinese FDI exceeded $5 billion for each of the last five quarters.

- In stark contrast to European FDI in China, Chinese FDI in Europe is dominated by acquisitions. In 1Q, Chinese companies completed 25 deals together worth $4.9 billion. The biggest transactions of the quarter were HNA Group's $2.5 billion acquisition of Irish aviation leasing firm Avolon, Beijing Enterprises Holdings' acquisition of Germany's EEW Energy for $1.6 billion, and HNA's acquisition of 17 Columbus Courtyard for around $189 million.

- Greenfield investment by Chinese companies remains at low levels, with only a few new projects in 1Q (including Tianshinong's $6.8 million factory in Bulgaria and banking branches by ICBC and Bank of China in Belgium and Austria). We recorded over $3 billion worth of announced greenfield projects, but most of those have not yet broken ground.

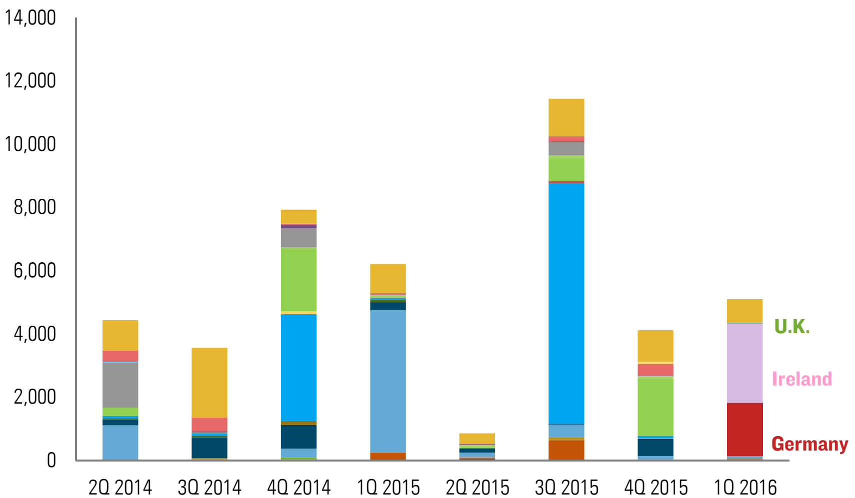
# Chinese Investment in the EU: Transactions Data

**Chinese FDI Transactions in the EU-28 by Industry, 2Q 2014-1Q 2016**
Quarterly investment value in USD million




Source: RHG EU-China FDI Monitor.

**Chinese FDI Transactions in the EU-28 by Recipient Country, 2Q 2014-1Q 2016**
Quarterly investment value in USD million




Source: RHG EU-China FDI Monitor.

- Transportation services (Avolon Holdings and Henry Bath & Son), energy (EEW Energy) and real estate (HNA in 17 Columbus Courtyard) were the major European industries targeted by Chinese investors in 1Q.
- Ireland (Avolon), Germany (EEW) and the UK (real estate acquisitions and developments) were the main recipients.
- Looking forward, COSCO has signed an agreement to buy a majority stake in the port of Piraeus at the beginning of April. Other big pending deals are Dalian Wanda's investment in Europa City in France ($3.3 billion), Shandong Ruyi's acquisition of French luxury group SMCP ($1.5 billion), China National Building Materials Company's solar energy joint venture project in the UK ($1.5 billion), ChemChina's purchase of KraussMaffei ($1 billon), Sunshine Kaidi's Bio-refinery project in Finland ($1.1 billion) and Ningbo Yinyi Group's acquisition of Punch Powertrain ($1.1 billion). This pipeline of Chinese M&A transactions suggests that 2016 will be another very strong year for Chinese investment in Europe.

# Disclaimer

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