



CrossBorder Monitor (CBM)

People's Republic of China < > European Union

Direct Investment

4Q 2018 and Full Year 2018 Update:

Public Version

Release Date: **January 16, 2019**

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I. EU FDI in China

Momentum: New and Completed Transaction Value

Value of Newly Announced EU FDI Transactions in China* USD billion



Source: Rhodium Group. *Chart is based on value of newly announced transactions. The remainder of charts in this report is based on completed acquisitions and consummated greenfield projects.

Value of Completed EU FDI Transactions in China USD billion

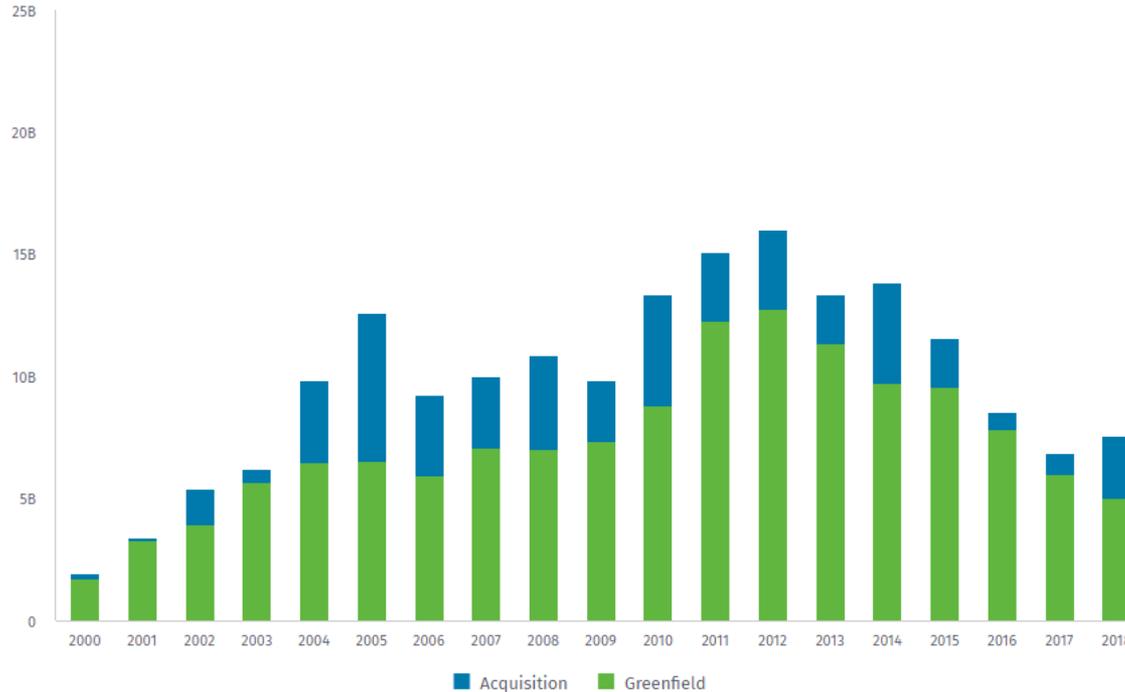


Source: Rhodium Group.

- Our **momentum** indicator shows more than \$10 billion of newly announced FDI projects by European companies in China in 4Q 2018. The biggest newly announced project was BMW's new plant and expansion in Shenyang. M&A activity also picked up as EU firms take advantage of China lowering restrictions on foreign ownership – for example BMW increasing the stake in its joint venture to 75%, or insurance firm AXA buying out its Chinese joint venture partner for \$662 million.
- This rebound in newly announced investment activity is now feeding into our main dataset that captures **completed investment**. The value of completed M&A transactions and consummated greenfield FDI reached \$2.8 billion in 4Q 2018, up from \$900 million in 1Q 2018. Most of this was attributable to greenfield investments but acquisitions are also showing strong growth compared to previous quarters.

Annual Data: Completed Transaction Value

Value of Completed EU FDI Transactions in China
USD billion

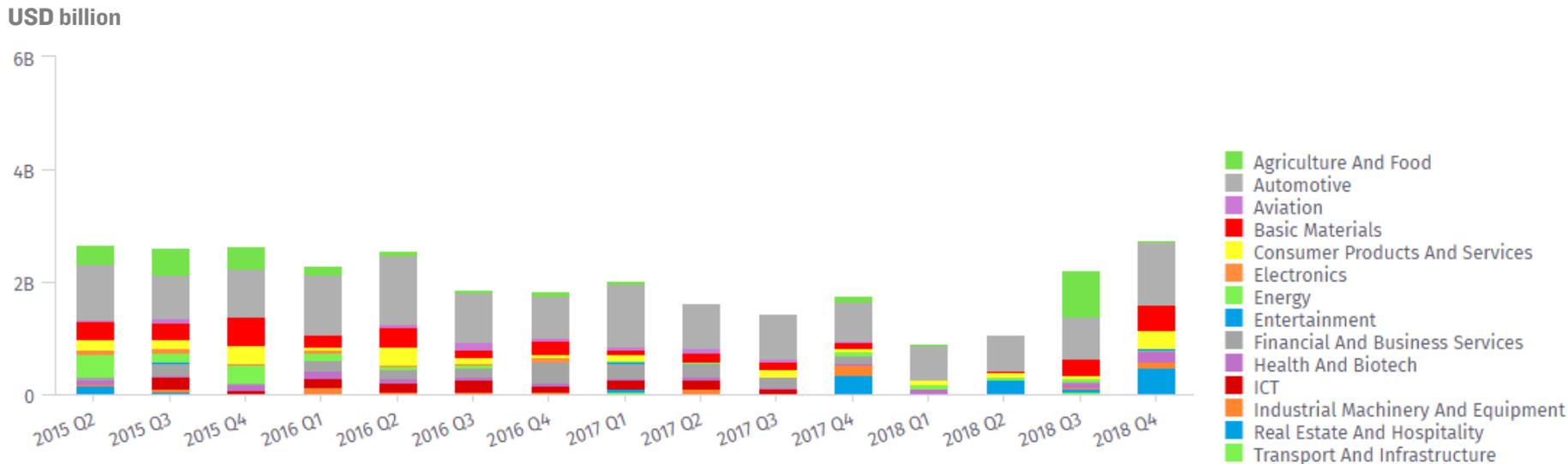


Source: Rhodium Group.

- For the **full year 2018**, the value of completed European FDI transactions in China reached \$7 billion, which represents a slight 3% increase from the \$6.8 billion registered in 2017. This is the first year-on-year increase since 2014.
- With a large pipeline of pending M&A deals and billion-dollar greenfield projects under construction, we expect this rebound to continue in 2019.

Industries

Value of Completed EU FDI Transactions in China by Industry



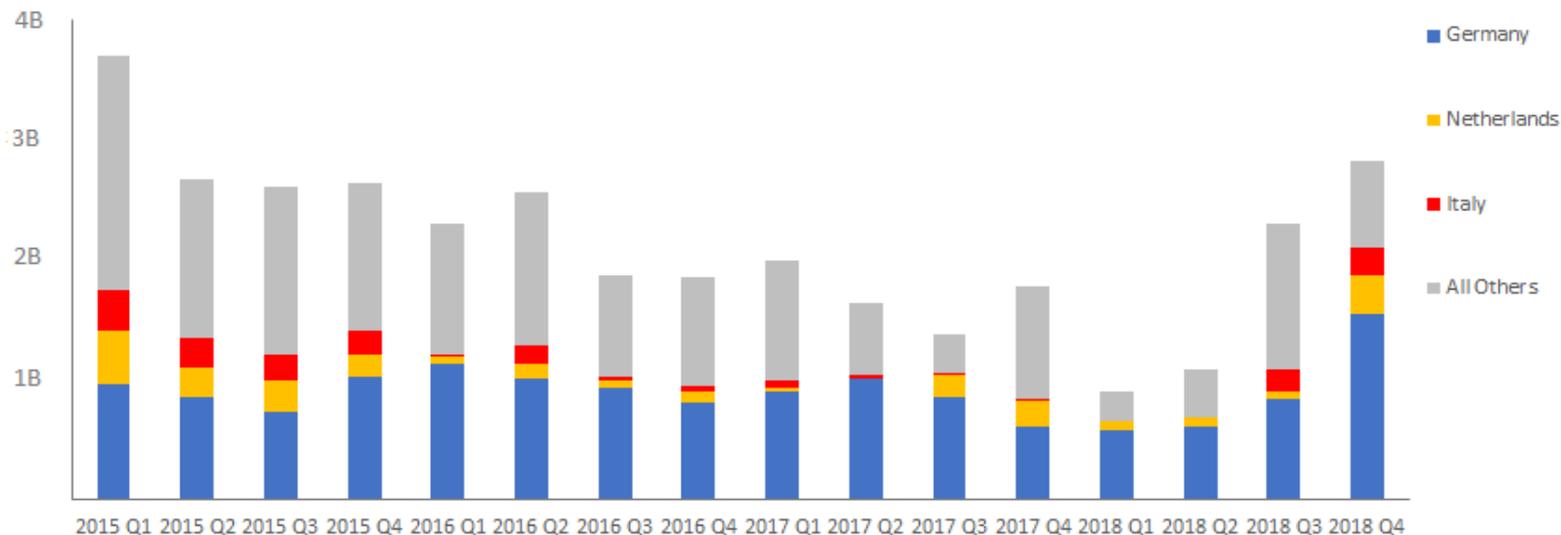
Source: Rhodium Group.

- **Automotive** accounted for the largest share of EU FDI in China in 4Q 2018 (45%) driven by both manufacturing (Volkswagen's Shanghai electric vehicle plant or BMW's new Shenyang plant) and other investments (Daimler's R&D center in Beijing and Aston Martin's first overseas design studio in Shanghai). Real estate was the second largest recipient in 4Q 2018 due to several deals (Allianz's acquisition of logistic assets and the Bay Valley C6 office building in Shanghai).
- For the **full year 2018**, the top sectors attracting EU investment were automotive (\$3 billion), agriculture and food (\$0.9 billion), and basic materials (\$0.7 billion).
- Looking forward, automotive investments will likely continue to make up a major share of European FDI in China. Two sectors that might be gearing up for more growth are consumer products and services and entertainment: Ikea has announced several new retail centers in the past year, and Merlin Entertainment is planning to expand Peppa Pig and Legoland attractions to China.

Geography

Value of Completed EU FDI Transactions in China by Source Country

USD billion

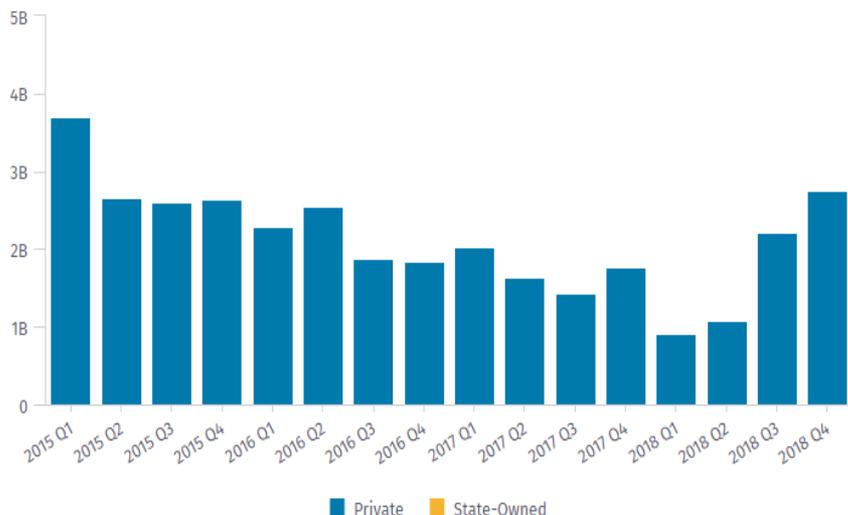


Source: Rhodium Group.

- **Germany** continues to dominate the ranking of EU investor countries, accounting for over 50% of completed investment in 4Q. With several automotive and basic materials investments under construction or pending, Germany's role will continue to be outsized in 2019 as well.
- Outliers in 4Q were **Italy** and the **Netherlands**. Italy investment was mainly driven by Vailog and Shanghai Tiandihui Supply Chain Management's joint development of 20 logistics hubs across China. Investment from the Netherlands jumped due to Lithium Werks' \$1.85 billion battery plant in Zhejiang and several new Ikea shopping centers under construction (the company is headquartered in Netherlands).
- For the **full year 2018**, the top five investor nations were Germany (\$3.5 billion or nearly 50% of total), UK (\$1.3 billion), the Czech Republic (\$0.6 billion), the Netherlands (\$0.5 billion), and France (\$0.5 billion).

Investor Characteristics

Value of Completed EU FDI Transactions in China by Ownership
USD billion



Source: Rhodium Group.

Value of Completed EU FDI Transactions in China by Type
USD billion



Source: Rhodium Group.

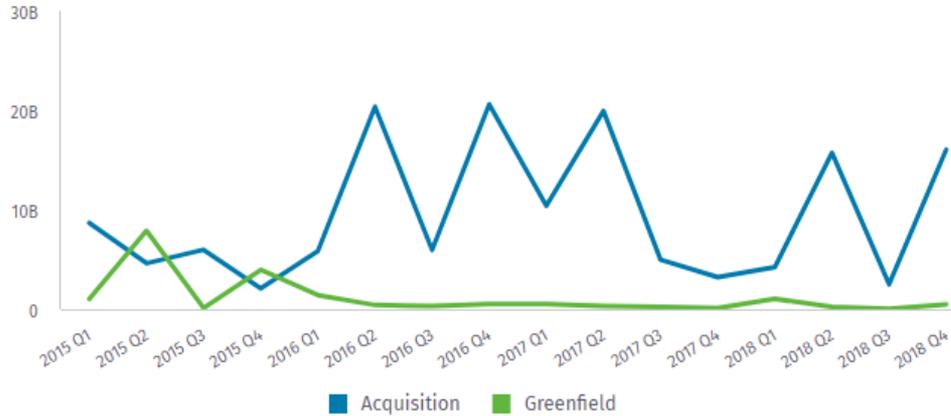
- EU FDI in China continues to be almost entirely comprised of **strategic investment** (real economy firms investing in their core areas of business) by private sector companies. We record no financial investments (transactions primarily aimed at financial returns) in 4Q 2018. This is also the case for full year 2018: Investment is dominated by strategic deals (more than 90%), and we only saw a few small deals by financial investors such as real estate investment funds.
- The **average size of transactions** has significantly increased from \$66 million in 2016 to 119 million in 2017 and 245 million in 2018. The past year has seen a greater number of larger deals over \$1 billion. The increase in average deal size is especially apparent for acquisitions: When completed, BMW's pending acquisition of an additional 25% stake in its Chinese joint venture will be the largest EU acquisition in China ever (announced at \$4.2 billion).

2. Chinese FDI in the EU

Momentum: New and Completed Transaction Value

Value of Newly Announced Chinese FDI Transactions in the EU

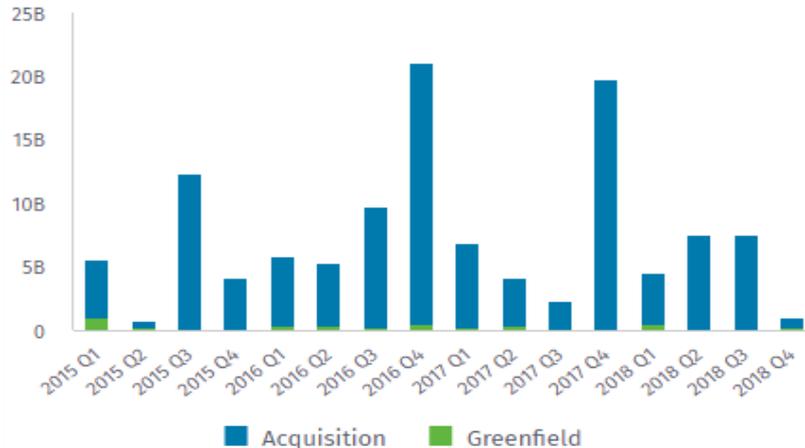
USD billion



Source: Rhodium Group. *Chart is based on value of newly announced transactions. The remainder of charts in this report is based on completed acquisitions and consummated greenfield projects.

Value of Completed Chinese FDI Transactions in the EU

USD billion



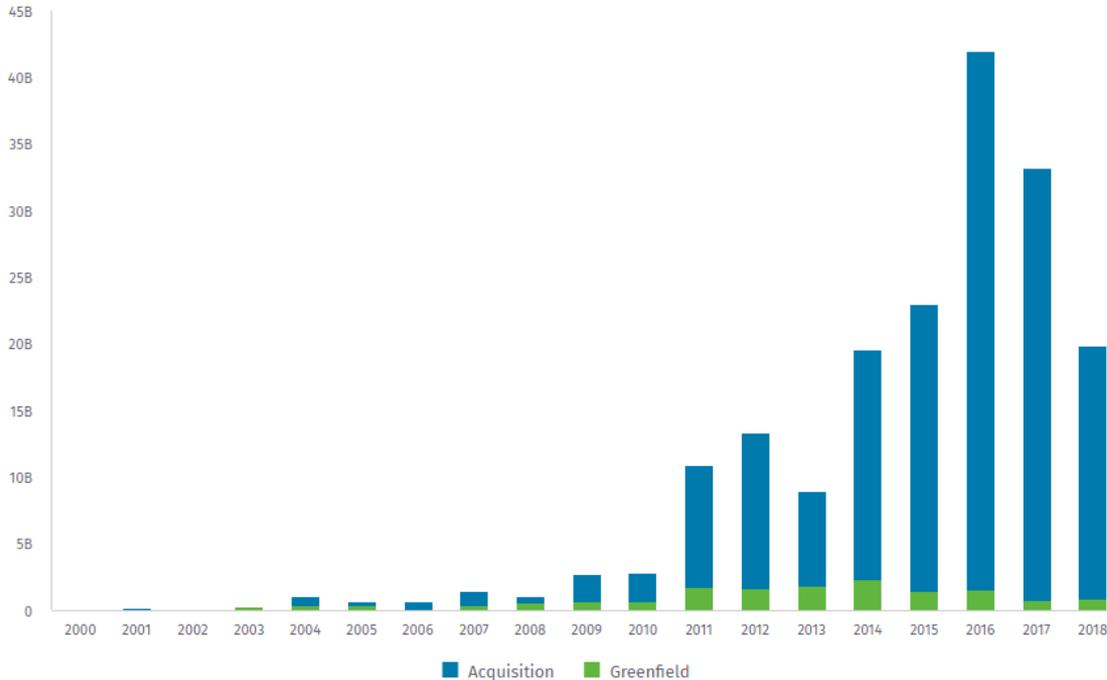
Source: Rhodium Group.

- After a weak 3Q, **momentum** for new Chinese investment in Europe has clearly picked up: In 4Q 2018, newly announced Chinese FDI in the EU reached over \$15 billion. This increase was mostly driven by a handful of newly announced mega deals, including Anta's planned acquisition of Finish sports good maker Amer for over \$6 billion, and Shanghai RAAS Blood Products' announced acquisition of Spain's Grifols Diagnostics Solutions for \$5.7 billion.
- The value of **completed** Chinese FDI transactions in the EU dropped to \$1 billion in 4Q 2018, a significant drop compared to previous three quarters. Sizable deals this quarter include SOE Huadong Medicine's takeover of British Sinclair Pharma for \$237 million and Zhejiang Semir's takeover of French apparel line Sofiza SASU at \$132 million.

Annual Data: Completed Transaction Value

Value of Newly Announced Chinese FDI Transactions in the EU

USD billion

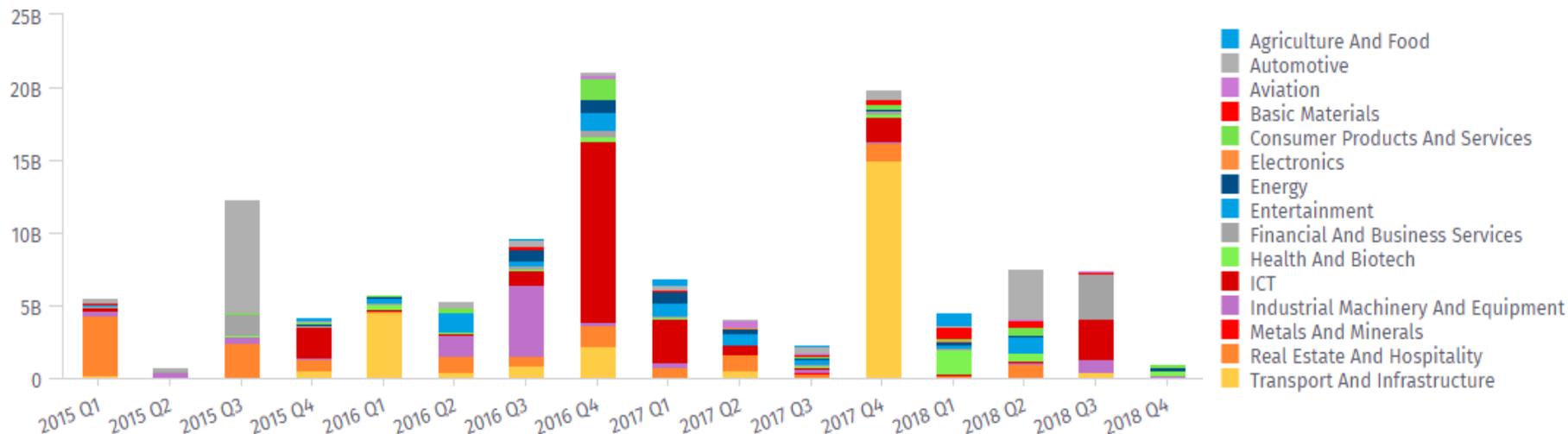


Source: Rhodium Group.

- For the **full year 2018**, the value of completed Chinese FDI in the EU reached \$21 billion, down 36% from the \$33 billion in 2017. However, the EU still fared well compared to the rest of the world and especially the United States (where Chinese investment fell over 80% this year to less than \$5 billion).
- Moreover, it is important to recognize that investment levels would be similar to 2017 if we included Chinese acquisitions resulting in **stakes of less than 10%** (such as Geely's \$9 billion acquisition of a 9% stake in Daimler). These transactions are not formally included in the dataset since they fall under the 10% threshold required to qualify as FDI.

Industries

Value of Completed Chinese FDI Transactions in the EU by Industry
USD billion



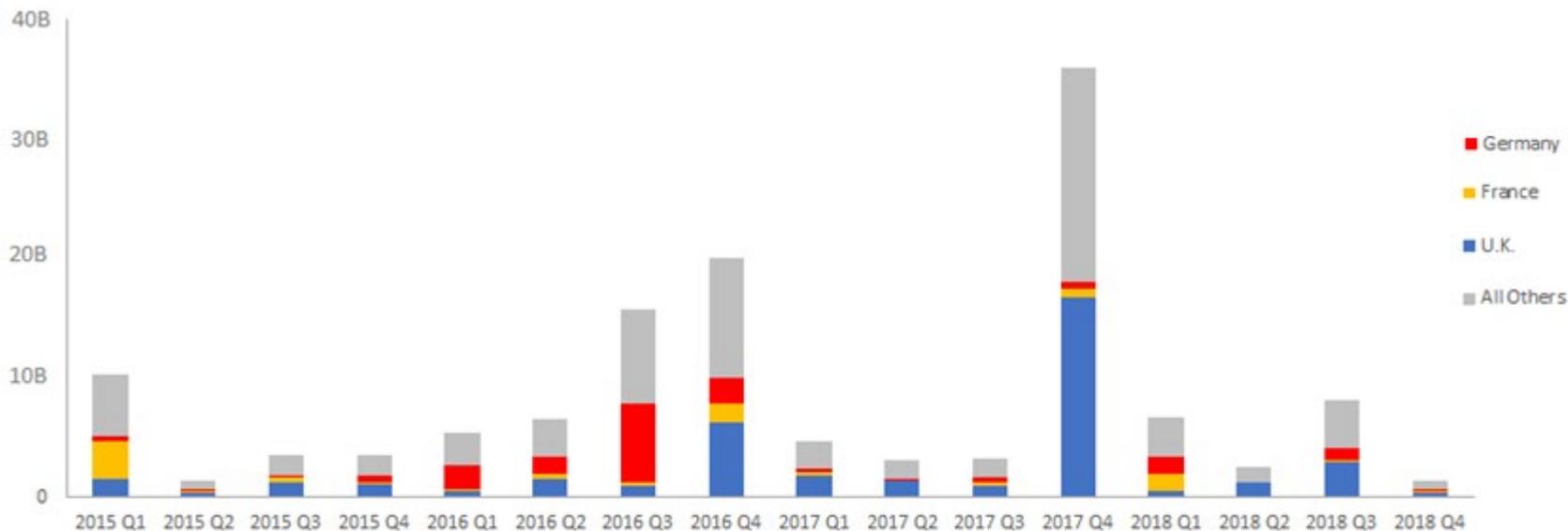
Source: Rhodium Group.

- **Health and biotech** was the top sector receiving Chinese investment in 4Q 2018 due to one large deal: Huadon Medicine's \$237 million acquisition of UK's Sinclair Pharma. Energy received the second highest level of investment this quarter. There is continued interest in renewable energy assets, especially in Central and Eastern Europe (Norinco's wind farm in Croatia and Unisun's solar farm in Hungary).
- For **full year 2018**, the top sectors were automotive (\$3.7 billion, driven by Geely's investment in Volvo AB), financial and business services (\$3.3 billion, Legend's acquisition of Banque Internationale a Luxembourg and Geely's acquisition of Saxo Bank), and ICT (\$3.2 billion, a Chinese consortium's investment in Global Switch).

Geography

Value of Completed Chinese FDI Transactions in the EU by Target Country

USD billion

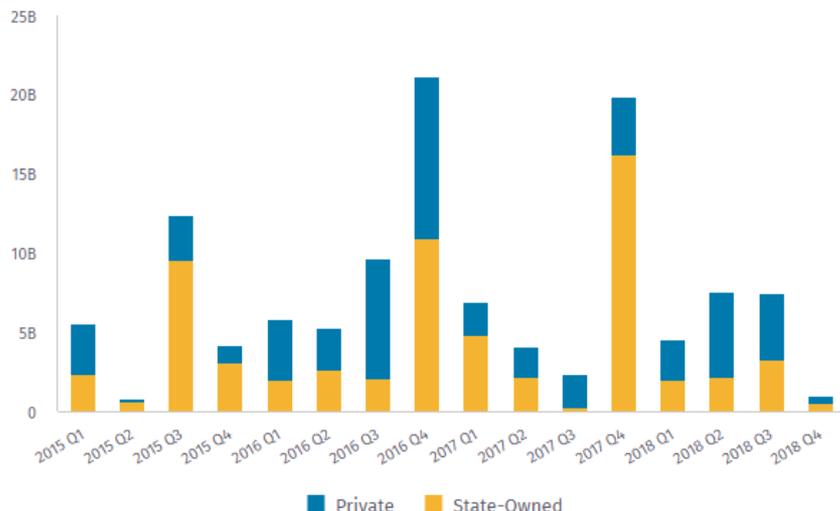


Source: Rhodium Group.

- The **UK** was the top recipient of Chinese investment in 4Q 2018 (Huadong Medicine's acquisition of Sinclair Pharma), followed by France (Zhejiang Semir Garment's acquisition of Sofiza) and Germany (Ping An's investment in FinLeap).
- For the **full year 2018**, the top five recipient countries for Chinese FDI were the UK (\$4.9 billion), Sweden (\$4 billion), Germany (\$2.5 billion), Luxembourg (\$1.9 billion), and France (\$1.8 billion).

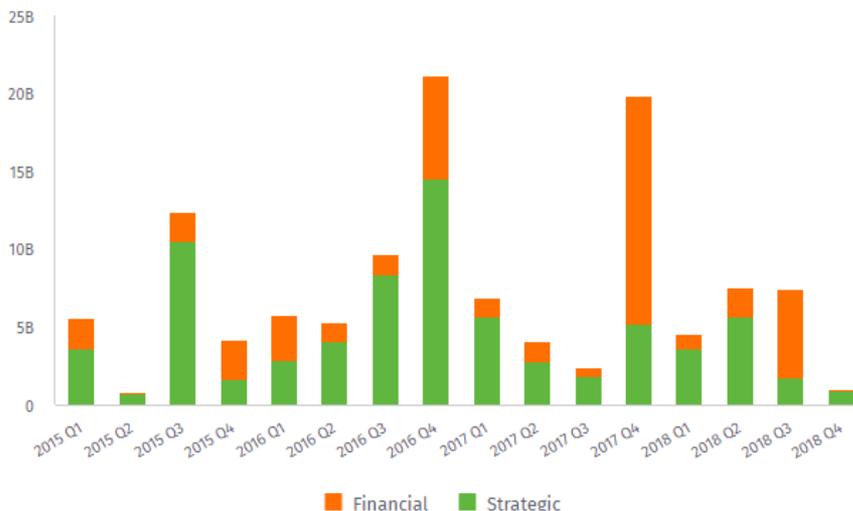
Investor Characteristics

Value of Completed Chinese FDI Transactions in the EU by Ownership
USD billion



Source: Rhodium Group.

Value of Completed Chinese FDI Transactions in the EU by Type
USD billion



Source: Rhodium Group.

- **State-owned entities** accounted for the majority of investment in 4Q 2018 (52%) because of three major deals (Huadong/Sinclair Pharma, Norinco in Croatia and SDIC Power in the UK). For full year 2018, state-owned investment made up 41% of the total, down from over 71% in 2017 (state-owned investment was particularly high last year due to one big deal, CIC's acquisition of Logikor).
- **Strategic investments** accounted for more than 90% of total investment in 4Q 2018. Financial investments (transactions primarily motivated by financial returns) have nearly disappeared as Beijing continues to crack down on these deals. The only major financial FDI transaction we record in 4Q 2018 is Ping An's investment in FinLeap. For full year 2018, strategic investment made up 58% of the total, up from 47% last year. Overall financial investments still had a significant role in Chinese FDI in the EU in 2018, as several major deals this year were outside of the investor's main operating industry or primarily done for financial returns (Legend's acquisition of BIL, a Chinese consortium's investment in Global Switch).

Disclosure Appendix

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