



CrossBorder Monitor (CBM)

People's Republic of China < > European Union

Direct Investment

2Q 2019 Update: Public Version

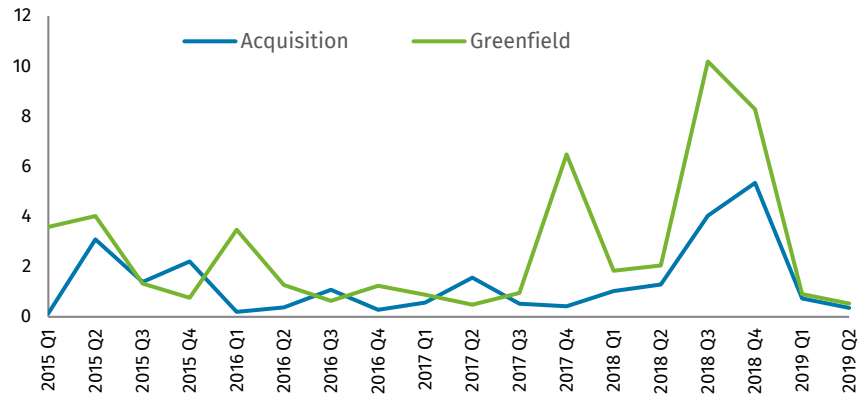
Release Date: **July 15, 2019**

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I. EU FDI in China

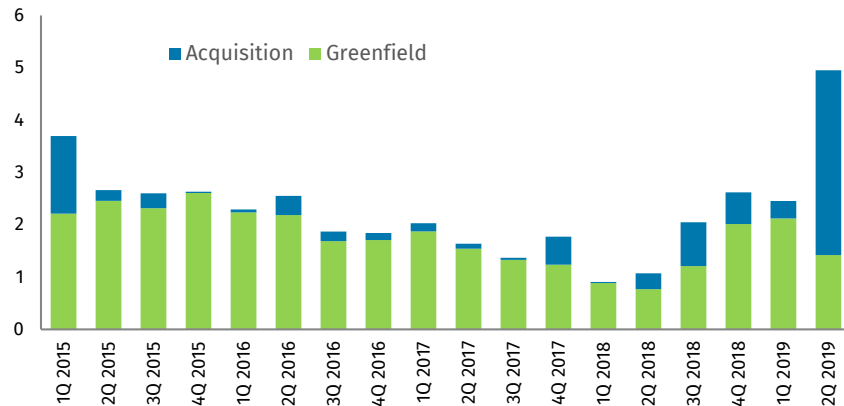
Momentum: New and Completed Transaction Value

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



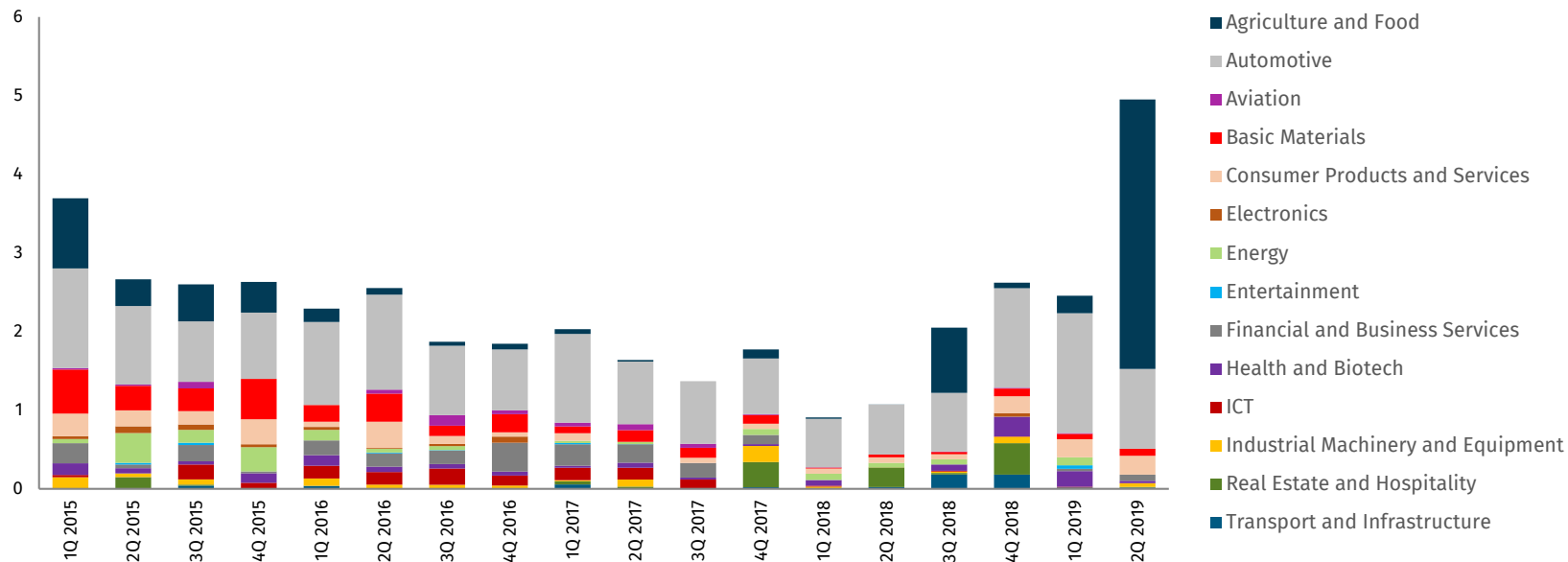
Source: Rhodium Group.

- Our **momentum** indicator shows significantly lower levels of newly announced acquisitions and greenfield transactions in 2Q 2019 compared to previous quarters. Following a peak in 3Q-4Q 2018, there were only \$888 million of newly announced FDI projects by European companies in China in 2Q 2019 – the lowest level in more than four years. The biggest newly announced projects was Volkswagen’s proposal to invest an estimated \$375 million in a new EV plant with JV partner JAC Motor.
- Completed** acquisitions and commenced greenfield investments by European companies have rebounded from a low level of \$0.9 billion in 1Q 2018 to over \$2 billion in 3Q 2018-1Q 2019. In 2Q 2019, this number further jumped up to \$5 billion. This was mainly due to one mega M&A deal, Heineken’s \$3.1 billion acquisition of 40% stake in CRH Beer. Other major completed deals include Diageo’s \$328 million takeover of remaining share of Sichuan Swellfun and Suez’s \$57 million acquisition of ALS China.
- We saw a few prominent European investors announcing their withdrawal from the Chinese market in 2Q 2019 through **divestitures**, especially in the retail sector (Germany’s Metro or France’s Carrefour). Nokia and Ericsson are also reportedly looking to set up new supply chains outside of China.

Industries

Value of Completed EU FDI Transactions in China by Industry

USD billion



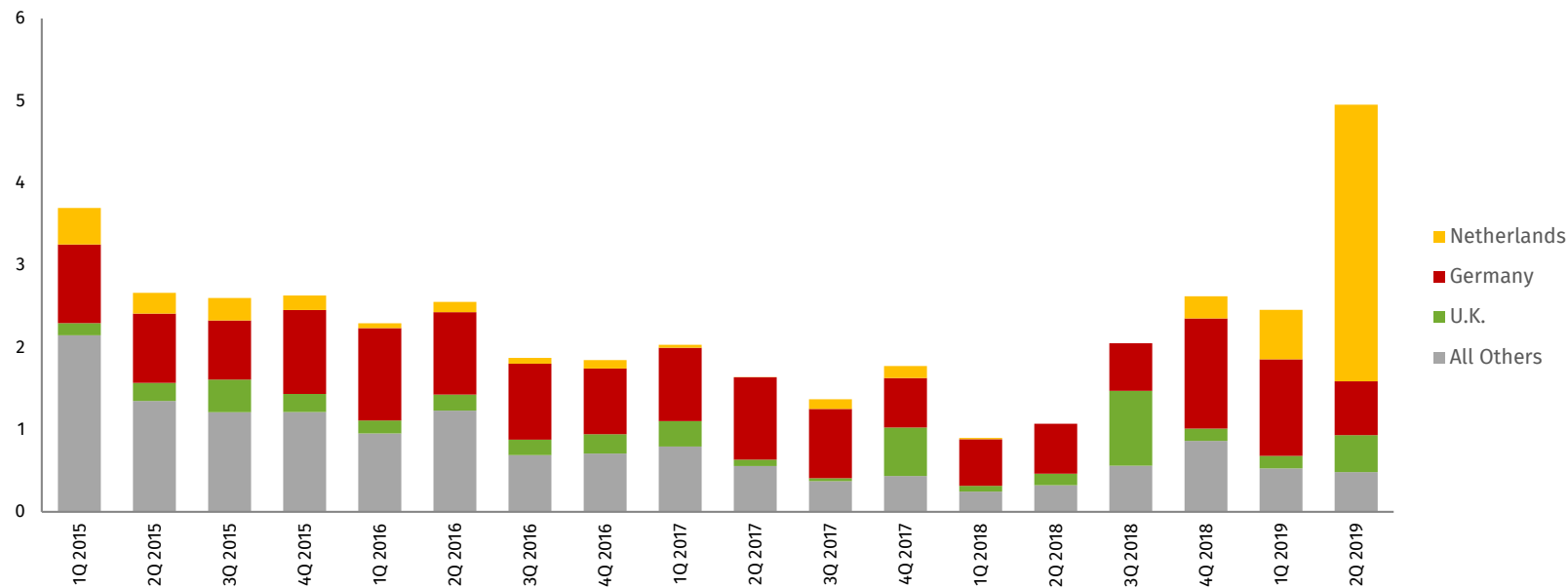
Source: Rhodium Group.

- **Agriculture and food (66%)** accounted for most of the EU FDI in China in 2Q 2019 due to two large M&A deals in the beverage sector: Heineken's \$3.1 billion acquisition of CRH Beer and Diageo's \$328 million acquisition of Sichuan Swellfun.
- Other sectors that continued to receive significant investment were **Automotive** (ongoing projects including Volkswagen's EV plant in Shanghai and BMW's new facility in Shenyang), **Basic Materials** (BASF's expansion in Nanjing) and **Consumer Products and Services** (ongoing constructions of multiple Ikea centers).

Geography

Value of Completed EU FDI Transactions in China by Source Country

USD billion

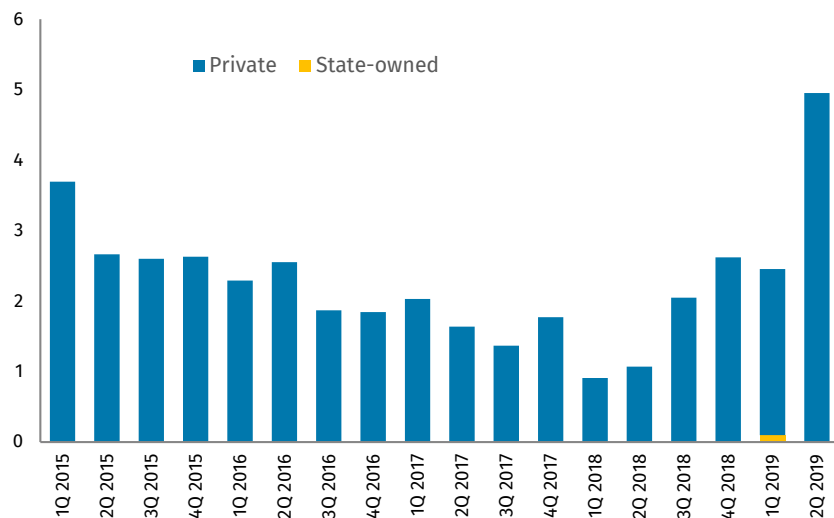


Source: Rhodium Group.

- **The Netherlands** (\$3.4 billion), **Germany** (\$907 million) and the **UK** (\$443 million) were the three biggest European investors in China in 2Q 2019. Together they counted for over 90% of completed investment in 2Q. **France** came in fourth: there were several smaller deals from France, such as Suez's acquisition of environmental testing firm ALS China and Air Liquide's hydrogen refueling stations JV in Chengdu.

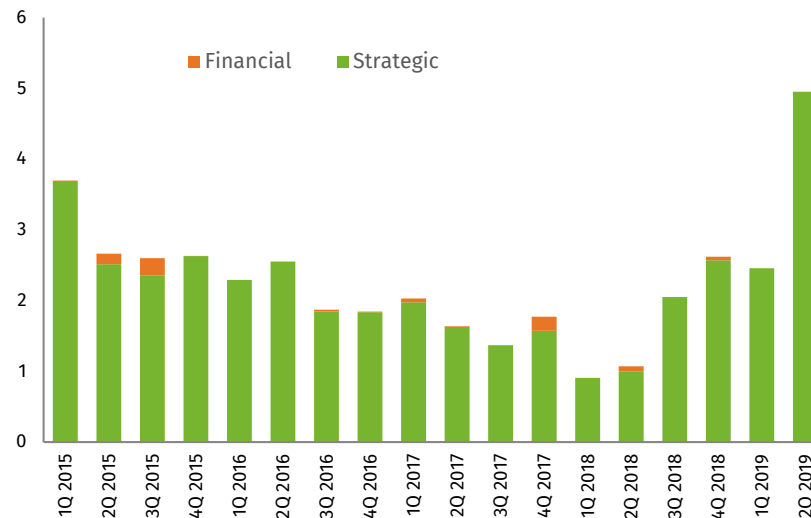
Investor Characteristics

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.

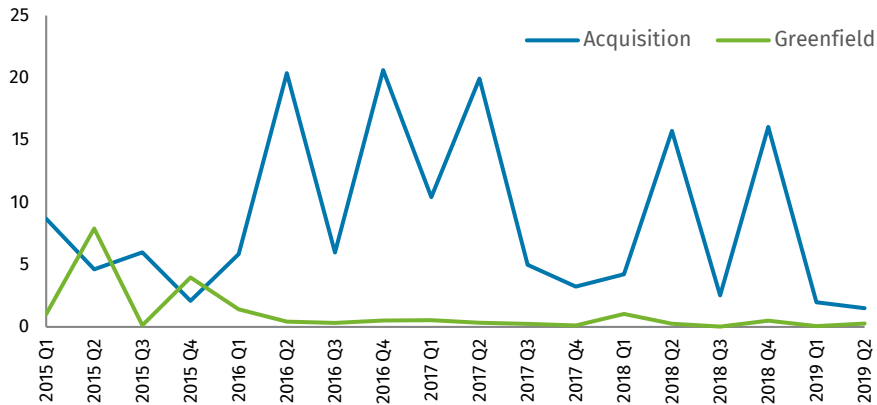
- EU FDI in China continues to be almost entirely comprised of **strategic investment** (real economy firms investing in their core areas of business) by private sector companies.
- We record no **financial investments** (transactions primarily aimed at financial returns) or investment by state-owned companies in 2Q 2019.

2. Chinese FDI in the EU

Momentum: New and Completed Transaction Value

Value of Newly Announced Chinese FDI Transactions in the EU

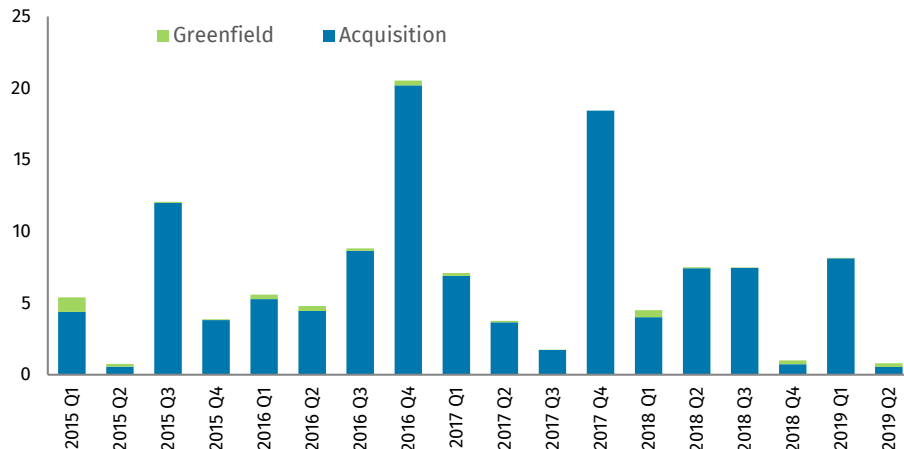
USD billion



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



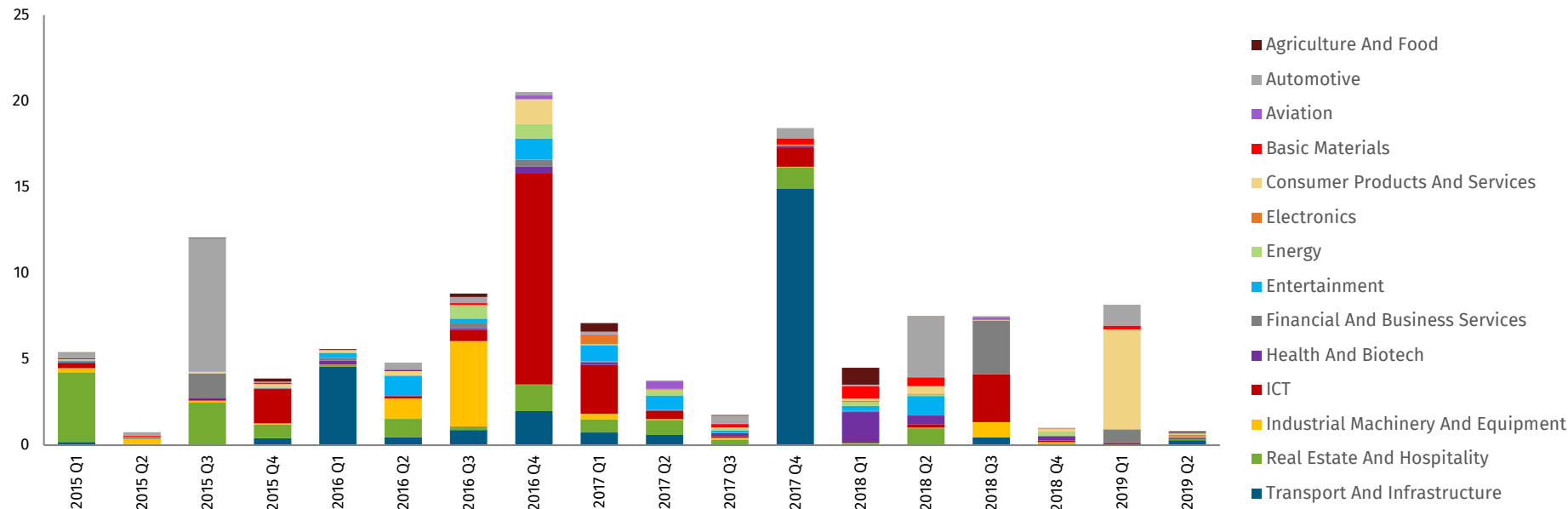
Source: Rhodium Group.

- The **momentum** for new Chinese investment in Europe declined to the lowest level in more than four years: In 2Q 2019, newly announced Chinese FDI in the EU totaled only \$1.7 billion due to the lack of any new big M&A deals. The biggest announced deals include JMU's acquisition of UK's Unicorn Investment and China National Complete Plant Import & Export's joint construction of a \$147 million waste-to-energy plant in Greece.
- The value of **completed** Chinese FDI transactions in the EU also dropped substantially, to just \$721 million from over \$8 billion in 1Q 2019. M&A activity made up 72% of the total, down from over 90% in previous quarters. Prominent deals include CIC's acquisition of additional shares in UK National Grid's gas distribution network (\$284 million), GreenTech Group's construction of an EV factory in Croatia (up to \$112 million), and Fosun's acquisition of FFT.
- This slowdown is in line with a further decline of China's **global outbound investment**: In 1H 2019, the value of China's announced global M&A dropped to \$20 billion, down from \$49 billion during the same period in 2018 and \$69 billion in 1H 2017. China's official statistics also show further drop in global outbound FDI but not as dramatic (down 8.4% yoy for January through May).

Industries

Value of Completed Chinese FDI Transactions in the EU by Industry

USD billion



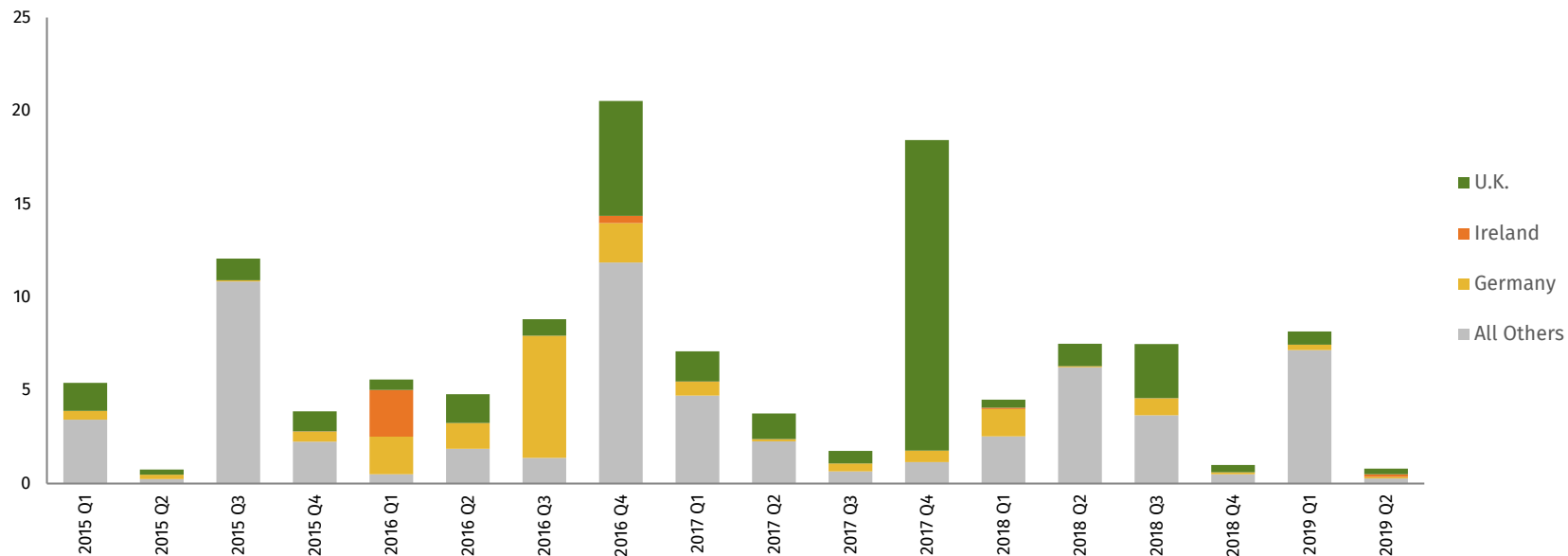
Source: Rhodium Group.

- **Transport and Infrastructure** (\$334 million) was the top sector receiving Chinese investment in 2Q 2019 due to CIC's acquisition of additional shares in UK's National Grid gas network unit.
- **Automotive** (\$128 million) received the second highest level of investment this quarter: GreenTech is setting up a joint EV factory in Croatia, Geely opened a new EV R&D center in Germany, Fosun acquired Germany's FFT and Zhejiang Yinlun Machinery acquired Sweden's Setrab.
- **Financial and Business Services** was the third highest (\$52 million) mostly due to China Reinsurance Group's acquisition of the rest of Chaucer Insurance assets.

Geography

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

USD billion

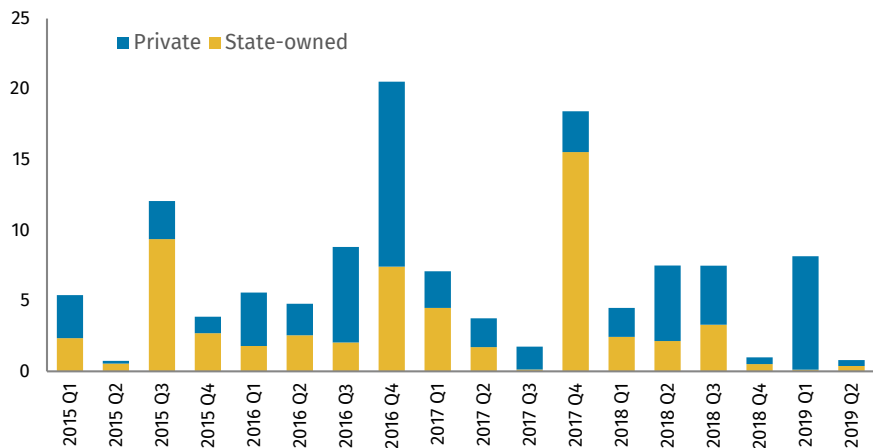


Source: Rhodium Group.

- **UK** was the top recipient of Chinese investment in 2Q 2019 due to CIC's acquisition of National Grid's gas distribution network unit.
- **Ireland** became the second biggest recipient country this quarter due to China Reinsurance Group's acquisition of the rest of Chaucer Insurance assets and Eurbest's Emeri dairy facility in Meath.
- **Germany** was the third biggest recipient of Chinese investment in 2Q 2019 mostly due to Fosun's acquisition of FFT.

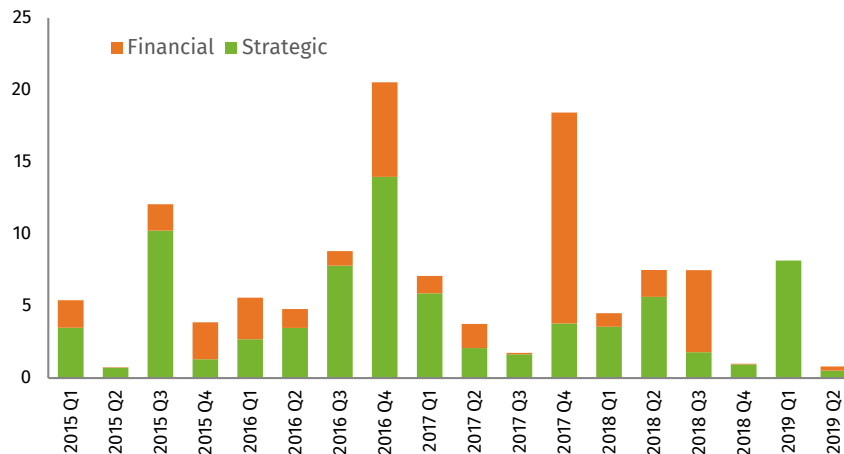
Investor Characteristics

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 investors** accounted for 57% of the total investment in 2Q 2019 due to CIC's acquisition of additional shares in UK National Grid's gas distribution network.
- While the CIC transactions pushed up the state-owned share in 2Q, activity by state-owned firms in the EU have dropped substantially. For the past three quarters, SOE investment totaled just \$1 billion, the lowest SOE investment value in three subsequent quarters in nine years. This mirrors a drop in state-owned investment globally.
- **Financial investments** (transactions primarily motivated by financial returns) totaled \$0.3 billion in 2Q 2019 (39% of the total investment), also mainly due to the CIC deal. This is down from a peak of \$14.6 billion in 4Q 2017.

Disclosure Appendix

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