Quarterly Flash Note, December 2013

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Transactions up to September 30, 2013

Next database update and Quarterly Flash Note in February 2014

Key Messages

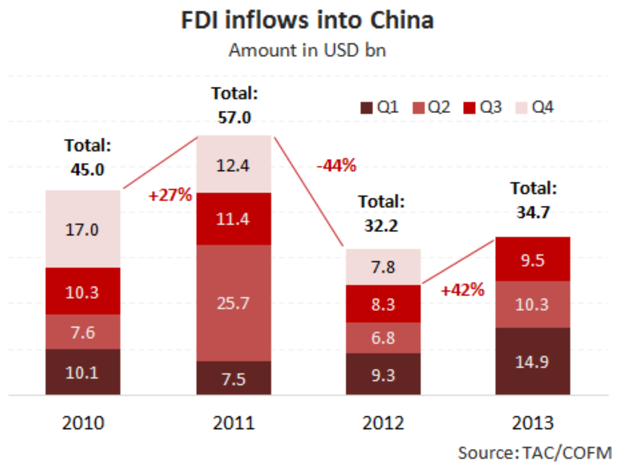
- FDI into and out of China continued to increase in 2013Q3 at USD 8.5bn (+14% y/y) and at USD 13.5bn (+30% from a year ago) respectively, mainly through M&A. Overall, China attracted USD 34.7bn over the first three quarters of 2013 (excluding reinvested earnings) while investing USD 48.5bn abroad, meaning that China FDI outflows continued to overtake FDI inflows. In addition, both FDI into and out of China have already exceeded 2012 amounts over the first three quarters of 2013. We expect a record level of China FDI abroad this year, mainly based on mega projects in the energy and food sectors.
- FDI between EU28 and China show clear asymmetries in 2013. While the EU28 continued to be a main investor (investing USD 6.3bn), China FDI into the EU28 have sharply declined (by 56% in 2013Q1-Q3) to reach USD 3.5bn. This is explained mostly by the absence of large deals. Indeed, EU28 members attracted a large number of small deals, particularly in Germany and UK.
- Conversely, China continued to invest massively in the US over 2013Q1-Q3 (USD 9.2bn), more than US FDI into China in 2013Q1-Q3 (USD 8.6bn), representing respectively a +6% and +26% increase compared to the same period in 2012. The difference between China FDI destined for EU28 members and that going to the US over the 2013Q1-Q3 period is mainly explained by the targeted sectors wherein FDI has focused mostly on the automotive and transport sectors for the EU28 compared to the agriculture & food sectors for the US.
- China mainly attracted FDI into the agriculture & food, the automotive and the real estate & construction sectors in 2013Q1-Q3. In addition, increasing FDI goes to the business & financial services and the retailing sector to meet increasing domestic demand.
- In parallel, China's overseas acquisition appetite seems to move beyond natural resources to financial services, agriculture & food, chemicals and utilities. Both China FDI inflows and outflows increased in financial services in 2013, with the main objective to facilitate trade and investments between China and its trade partners.

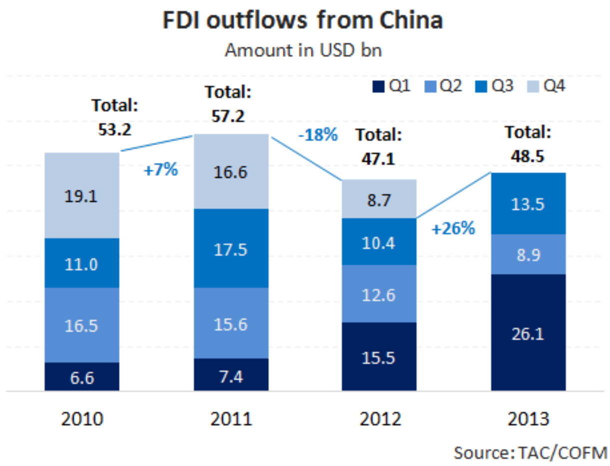
This Flash Note aims at informing on recent foreign direct investment (FDI) trends into and out of China based on a bottom-up approach. Our methodology is based on a monitoring of individual operations by distinguishing M&A and Greenfield investments, the former based on external information provided by Thomson Reuters and our own proprietary tool for Greenfield investments. It is worth noting that our data focuses on new foreign capital invested in and out of China, they do not take into account neither reinvestments of earnings or disinvestments.

Record expected on China FDI outflows in 2013

After a positive first half, FDI into and out of China continued to rise in 2013Q3 reaching USD 9.5bn and USD 13.5bn respectively according to COFM figures, a +14% and +30% increase from a year ago. Foreign and Chinese investors clearly favoured M&A in 2013Q1-Q3 (73% of FDI inflows and 94% of FDI outflows in 2013Q1-Q3). This represents a significant shift in the type of investment, particularly inflows, as the historical share of M&A were closer to 30% of total FDI inflows over the 2005-2011 period (and 60% of total FDI outflows).

Overall, China already attracted USD 34.7bn (a +42% growth year-on-year) while investing USD 48.5bn in 2013Q1-Q3 (a +26% growth year-on-year), revealing two important messages: (1) China FDI outflows continued to overtake FDI inflows into China over the first nine months of this year (when omitting reinvestments of earnings), a trend visible since 2010; (2) both China FDI abroad and FDI into China have already exceeded (in three quarters) amounts reached through 2012. Consequently, we expect a record level of Chinese investments abroad this year in line with Chinese authorities' incentives to invest abroad. However, such a record level will be based on mega projects. Indeed, Chinese firms have declined the number of operations abroad (year on year) by 21%.

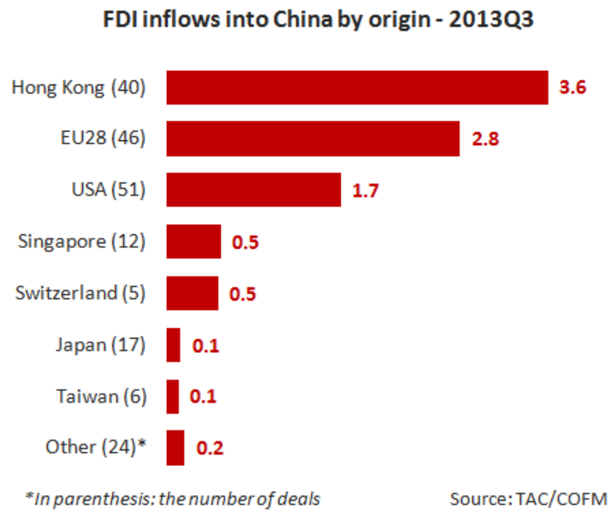


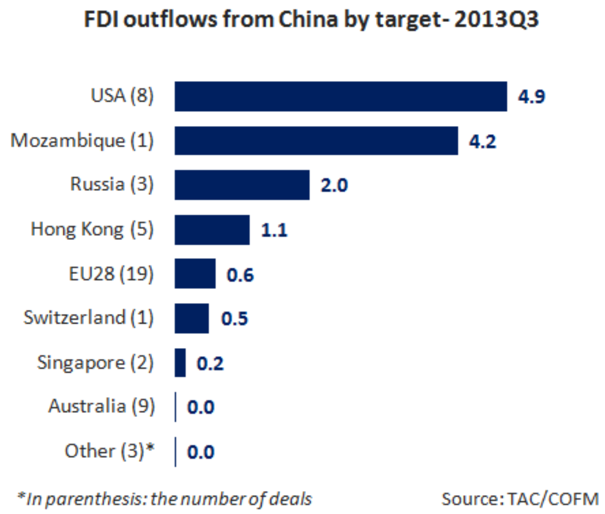


Figures in blue and red : annual growth, except for 2013q1-q3 (compared to the same period in 2012)

Three big projects in the energy and agriculture/food sectors were operated by Chinese firms during the third quarter of 2013: USD 4.7bn acquisition by Shuanghui International Holdings Ltd of the US producer and wholesaler of pork meat products Smithfield Foods; USD4.2bn M&A by PetroChina in ENI Spa, a Maputo-based oil and gas exploration and production company in Mozambique; and Chengdong Investment Corp., a unit of Chinese state-owned China Investment Corp. (CIC), acquired a stake for USD 2.0bn in OAO "Uralkaliy", a Russian-based manufacturer of potash fertilizers.

In the third quarter, only one significant deal (higher than USD 1.0bn) was operated by foreign investors into China, a USD 1.4bn M&A by China Mengniu Dairy Co Ltd of Hong Kong of Yashili International Holdings Ltd, a China-based producer and wholesaler of nutrition foods. Overall, Hong Kong, the EU28 and the USA remained the main investors in China in 2013Q3.





EU28 left behind, North America the leading favourite in 2013

Over the 2013Q1-Q3 period, Thailand remained the main investor into China with one mega M&A transaction of USD 9.4bn of Ping An Insurance Group, a provider of insurance services, by an investor group (comprised of All Grain Trading, Bloom Fortune Group Ltd, Business Fortune Ltd and Easy Boom Developments Ltd). In parallel, Canada was the main destination for China with a record deal at USD 19.1bn of Nexen Inc., an oil and gas exploration and production company. However, the USA and EU28 have been the main actors in China with the largest number of operations. Among European countries, Germany, UK, France, Sweden and Italy invested the largest amounts into China, mostly concentrated in the automotive sector. Conversely, US investors targeted more diversified sectors such as business services, healthcare equipment, tourism, and automotive.

Top 5 origins of FDI into China in 2013Q1-Q3

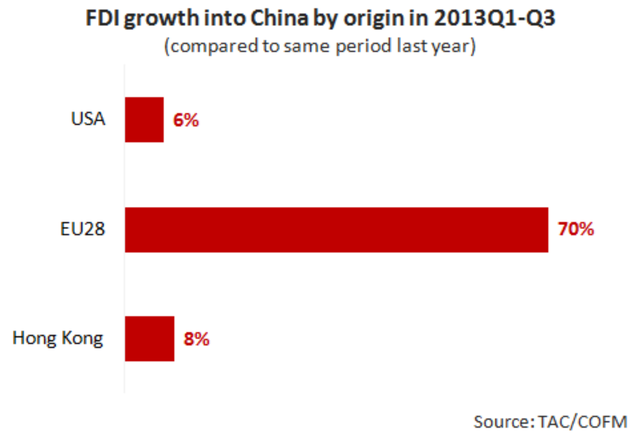
	Amount (USD bn)	Number of deals
Thailand	9.4	4
USA	8.6	140
EU28	6.3	143
Hong Kong	5.3	90
Singapore	0.8	31

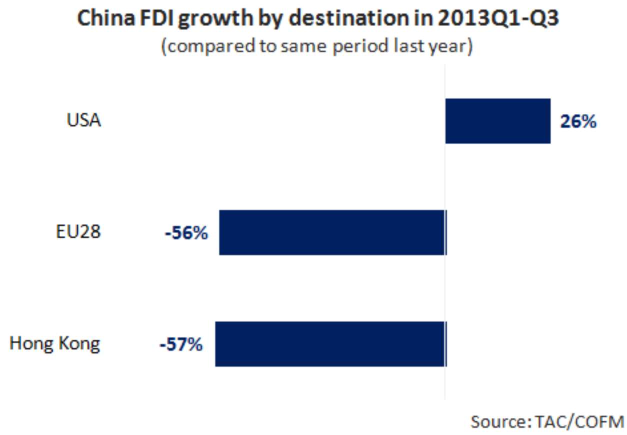
Top 5 targets of FDI from China in 2013Q1-Q3

	Amount (USD bn)	Number of deals
Canada	19.4	9
USA	9.2	27
Mozambique	4.2	1
Australia	3.6	27
EU28	3.5	46

EU28-China FDI in 2013Q1-Q3 revealed clear asymmetries with a +70% increase in EU28 FDI inflows into China while Chinese investments into the EU28 have sharply declined by 56%, mostly explained by the absence of large deals (higher than USD 1bn). Meanwhile, they have attracted a large number of small deals, particularly in Germany and UK.

An opposite FDI trend is observed between the USA and China. Indeed, China invested massively this year in the USA, reaching USD 9.2bn, while American investors invested USD 8.6bn in China over the 2013Q1-Q3 period. It has resulted in a +6% increase in US FDI into China compared to a +26% increase in China FDI into the US. The difference behind such FDI trends in the US and the EU28 this year is explained mostly by the targeted sectors. Indeed, while Chinese firms mainly operated in the EU28 within the automotive and transport sectors, they invested massively in the agriculture & food and energy sectors in the US.





Main FDI operations in & out of China in 2013Q1-Q3

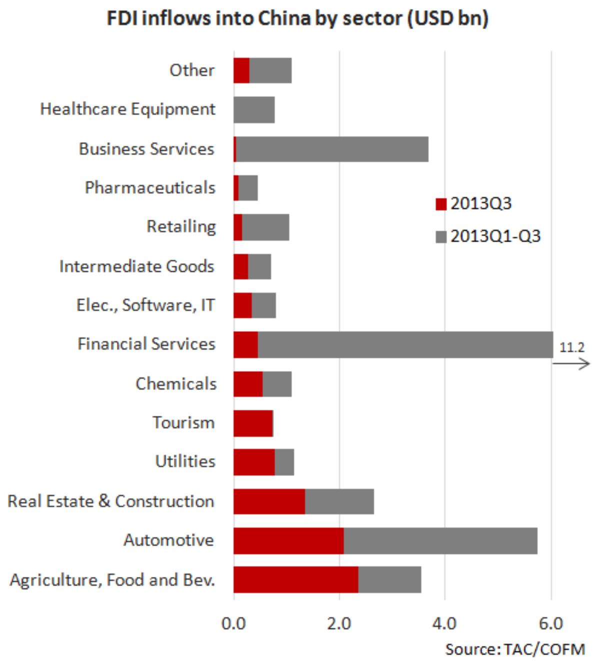
Type:	Investor:	Target:	Sector:	Value (USDmn):
FDI inflows into China:				
		EU28		
GF	Michelin Group (France)	Greenfield investment	Automotive	1,500
GF	Volvo (Sweden)	Greenfield investment	Automotive	745
GF	Fiat (Italy)	Greenfield investment	Automotive	774
GF	European Batteries Oy (Finland)	Greenfield investment	Automotive	325
GF	Volkswagen (Germany)	Greenfield investment	Automotive	325
		USA		
M&A	Giovanna Acquisition	Focus Media Holding	Business Services	3,569
M&A	Stryker Corp	Trauson Holdings	Healthcare	764
M&A	Keystone Lodging Co	7 Days Group Holdings	Tourism	679
M&A	GE Smallworld	China XD Electric Co	Utilities	536
GF	Ford Motor	Greenfield investment	Automotive	500
FDI outflows from China:				
		EU28		
M&A	Gingko Tree Investment Ltd	UPP Group Holdings (UK)	Others	820
M&A	China Merchants Hldgs	Terminal Link SA (France)	Transport	539
M&A	Dalian Wanda Group Corp	Sunseeker Int. Ltd (UK)	Automotive	495
M&A	CITIC CWEI Renewables	EDP Renovaveis (Portugal)	Utilities	479
M&A	Weichai Power Co Ltd	KION Group GmbH (Germany)	Transport	427
		USA		
M&A	Shuanghui Intl Ldg Ltd	Smithfield Foods Inc	Agriculture, Food	4,752
M&A	Sinochem Petroleum USA	Pioneer Natural Res.	Energy	1,700
M&A	SIPC	Chesapeake Energy	Energy	1,020
GF	Mossi & Ghisolfi	Greenfield investment	Chemicals	1,000
M&A	Wanxiang Group Corp	A123 Sys Inc-Auto Grid	Equipment	257

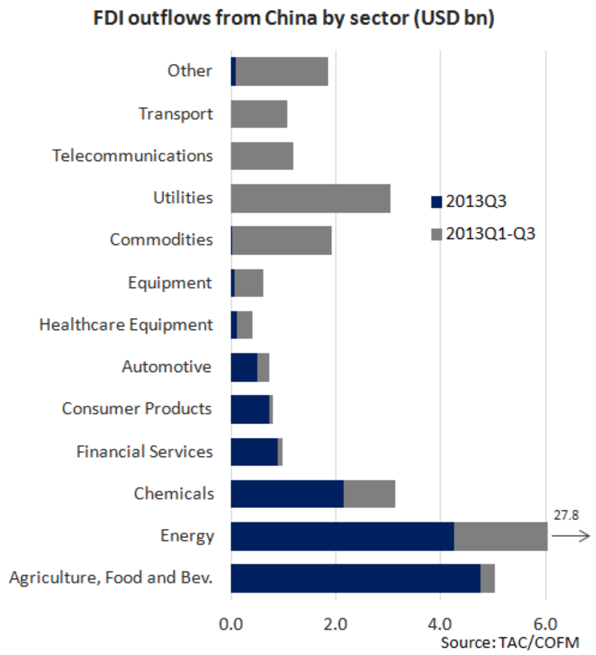
Source: TAC/COM

More diversification of FDI into and out of China

China mainly attracted FDI into the agriculture, food & beverages, the automotive and the real estate & construction sectors in 2013Q3. Moreover, a large number of deals continued to operate within the retail sector in line with the expansion of the middle class in China. More operations have also been transacted in the business services sector, particularly to meet the increasing demand for professional Intellectual Property (IP) management services and IP software in the country, both from domestic Chinese corporations and law firms, as well as overseas companies that are focusing on the China market.

In parallel, even if the energy sector remained by far the main targeted sector (equalling USD 27.8bn in 2013Q1-Q3), China's overseas acquisition appetite seems to move beyond natural resources to financial services, agriculture, food & beverages, chemicals and utilities. Looking at the banking sector, both China FDI inflows and outflows increased in financial services, with the main objective to strengthen trade links and facilitate investments between China and its main partners. Among others, Bank of China, ICBC, China Construction Bank and Agricultural Bank of China invested in the UAE, Russia, and Brazil in 2013, but also in Asian countries, such as Cambodia, Malaysia, Taiwan, Hong Kong and South Korea while the State Bank of India invested in China.





About this report

The Quarterly Flash Notes aim at providing a rapid update and broad comments every quarter on foreign direct investment flow into and out of China, on the basis of the COFM database (www.chinaobs.eu). The document is a complement to the bi-annual report, which broadens the scope of analysis to cyclical and trade developments.

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