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# Chinese foreign direct investment in the EU

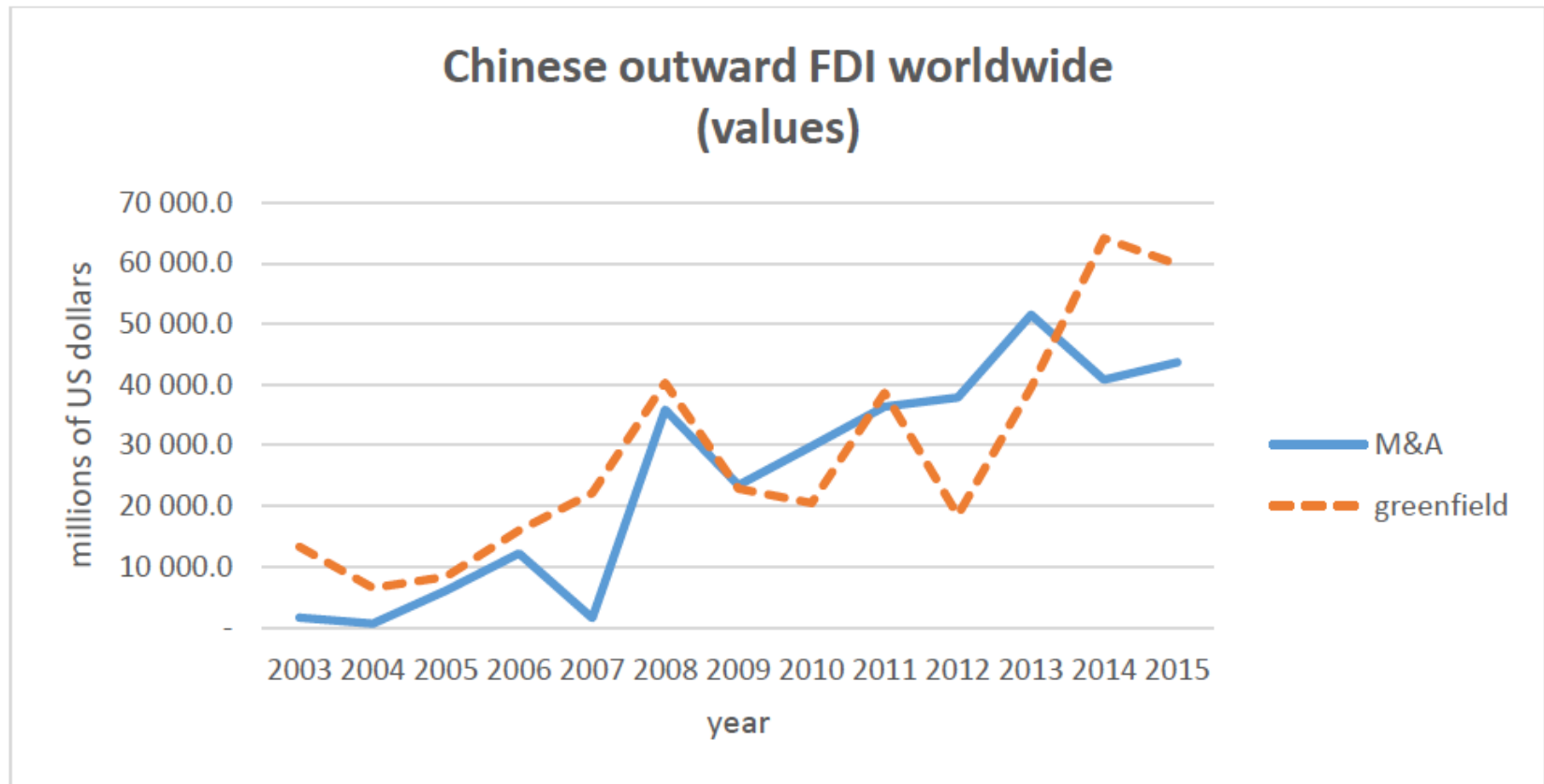
**Roberta Rabellotti**

Department of Social Sciences, University of Pavia,  
Department of Business and Management, Aalborg University

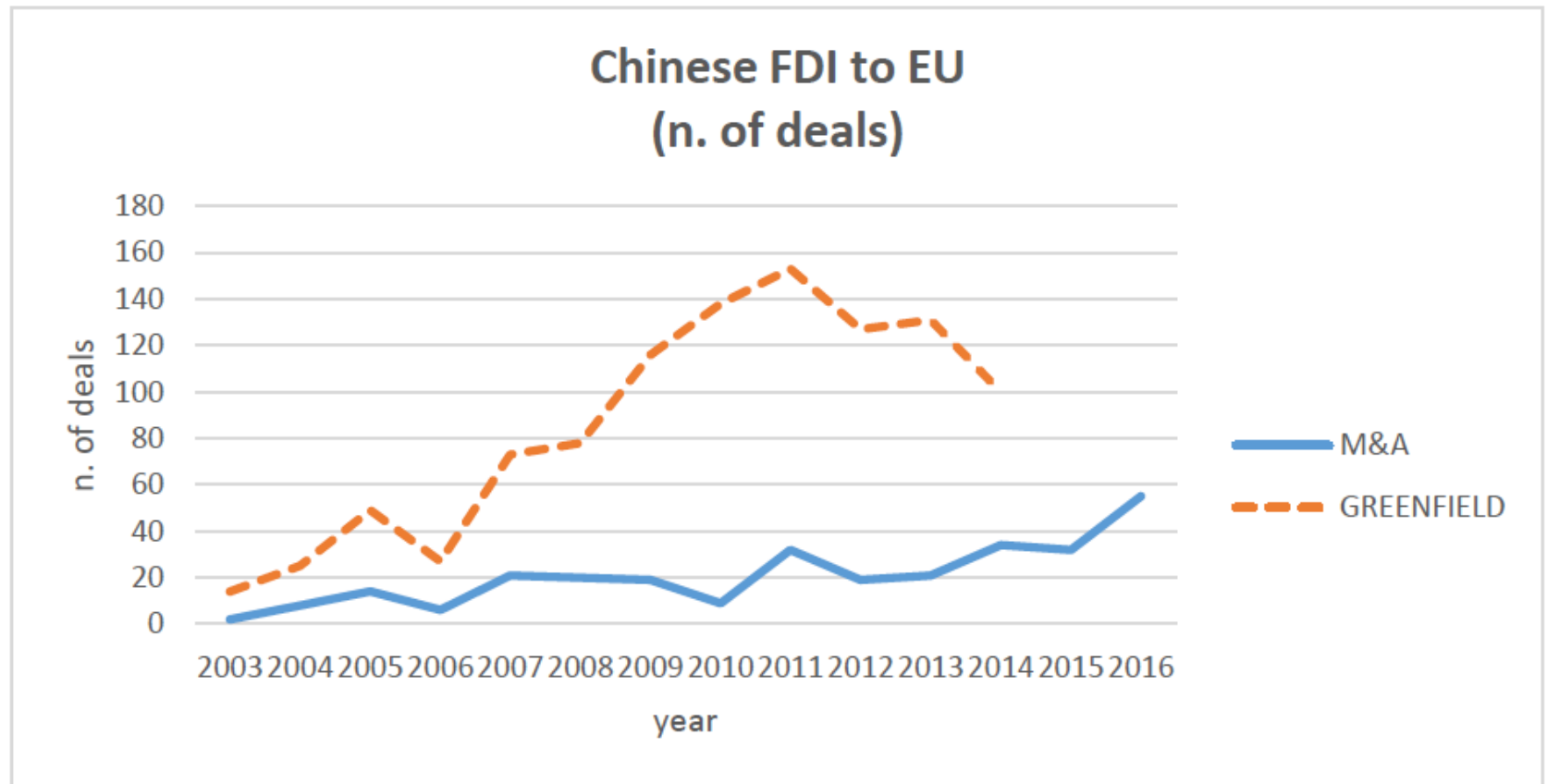
Brussels, March 22<sup>nd</sup> 2017



# Chinese FDIs are rising worldwide



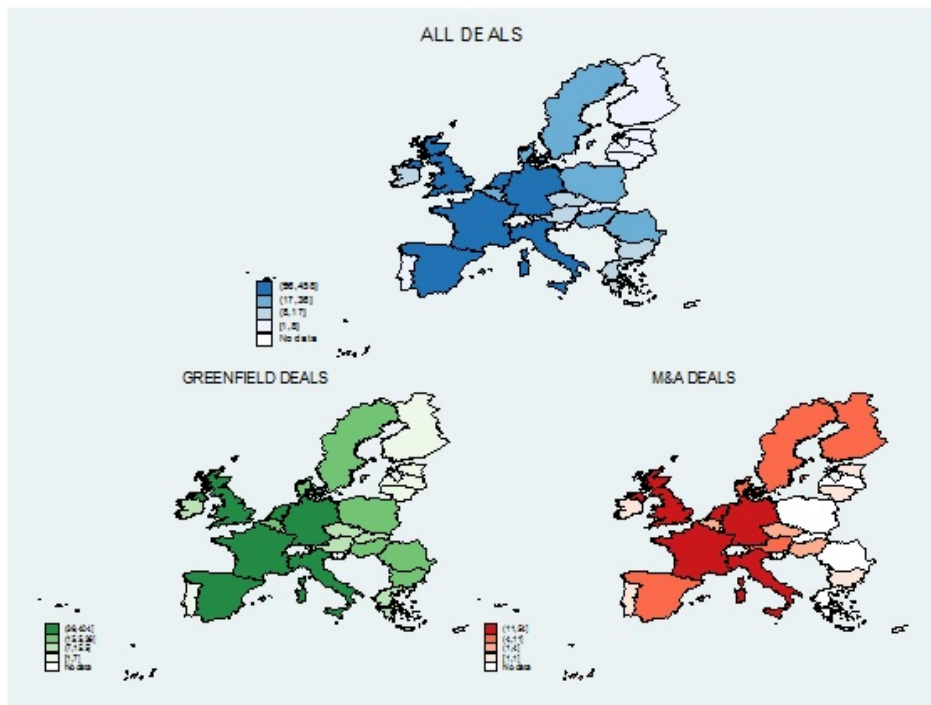
**And they are also rising towards the EU-27**



# Chinese FDI in Europe

- Data sources: **Greenfield investments** (*fDiMarkets* - FT) + **M&As** (*Zephyr* - BvD and *SDC Platinum* – Thomson Reuters) from 2003 to 2016;
- Information include: a) entry mode; b) sector of specialization; c) financial information; d) patents of the investors and the subsidiaries; e) activities undertaken and f) location of the subsidiaries.

# Where do Chinese investments go in the EU-27?



**Tab. 1 Top destinations in the EU (# of deals and %)**

	<i>M&amp;A</i> (%)	<i>GREENFIELD</i> (%)	<i>TOTAL</i> (%)
Germany	54 (26.3)	404 (39.3)	458 (37.1)
United Kingdom	41 (20)	161 (15.6)	202 (16.3)
France	27 (13.2)	77 (7.5)	104 (8.4)
Netherlands	24 (11.7)	42 (4.1)	66 (5.3)
Italy	16 (7.8)	41 (4)	57 (4.6)
Spain	6 (2.9)	43 (4.2)	49 (4.0)
Total above	168 (82)	768 (74.6)	936 (75.8)
Total EU	205 (100)	1029 (100)	1234 (100)

Data source: fDi Markets and BvD Zephyr

# Which are the main destinations sectors in the EU-27?

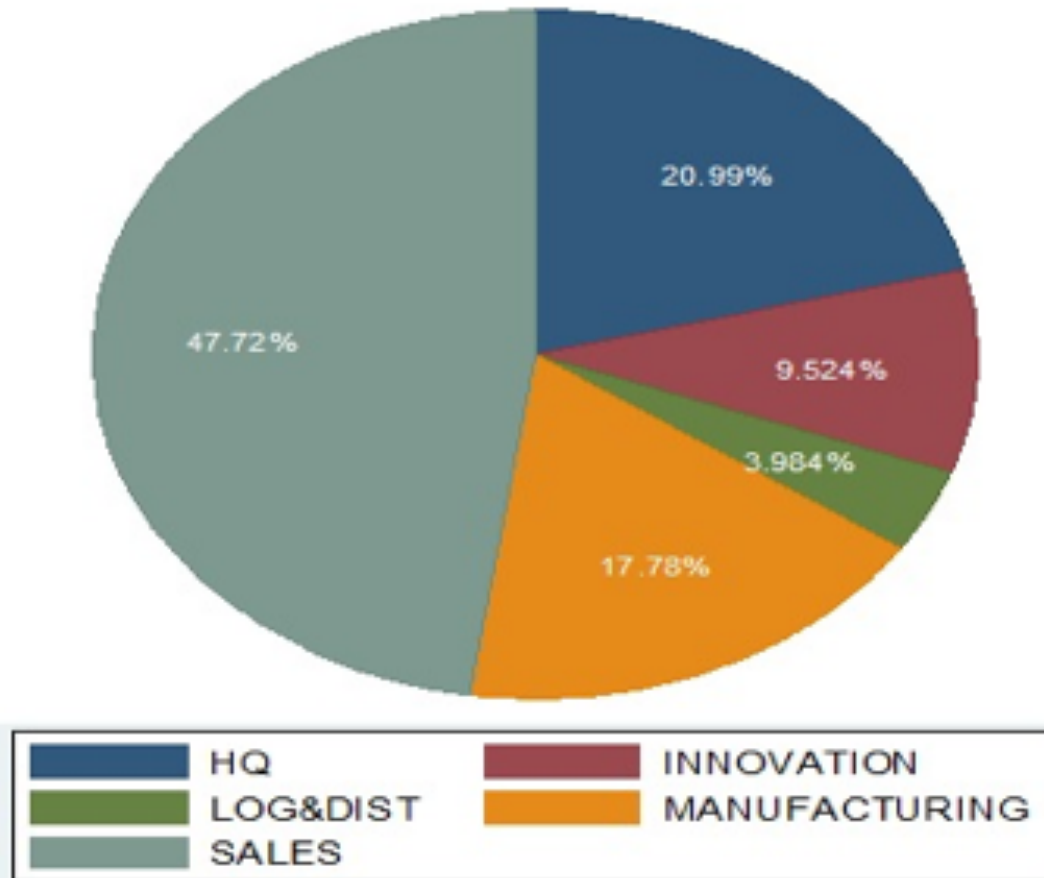
SECTOR	M&A (%)	GREEN (%)	TOT. (%)
Electronics	14 (8.3)	114 (16.9)	128 (15.2)
Machinery & engines	35 (20.8)	79 (11.7)	114 (13.6)
Communications	0 (0.0)	97 (14.4)	97 (11.5)
Automotive	13 (7.7)	49 (7.2)	62 (7.4)
All sectors	168 (100)	673 (100)	841 (100)

Data source: our elaborations on fDi Markets and BvD Zephyr

# Which industry in which country?

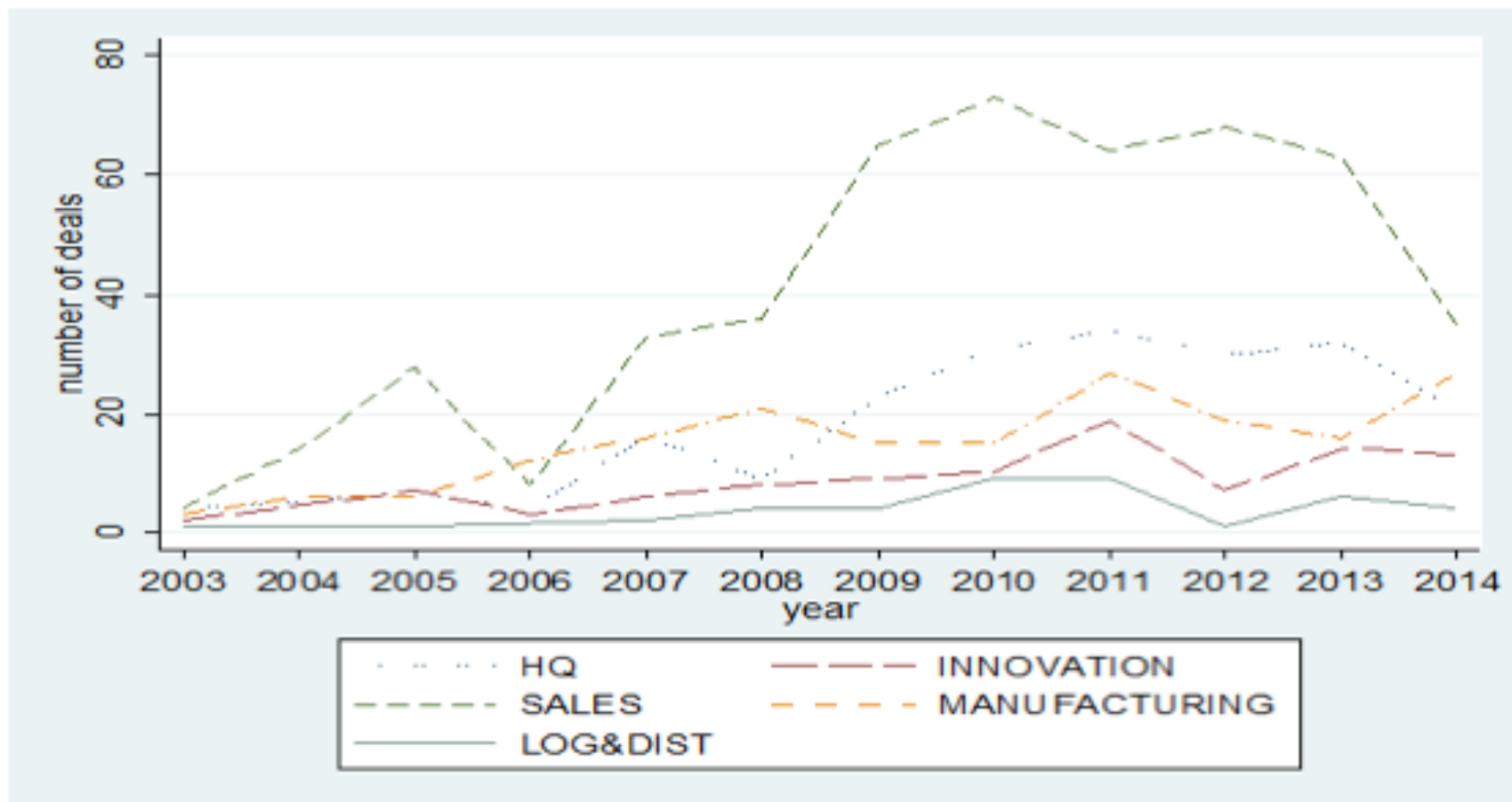
	France	Germany	Italy	Netherlands	Spain	UK	Total
<b>Automotive</b>	0 (0.0)	19 (12.7)	8 (29.6)	3 (21.4)	0 (0.0)	16 (34.8)	46 (16.7)
<b>Communications</b>	12 (48.0)	17 (11.4)	8 (29.6)	4 (28.6)	5 (35.7)	16 (34.8)	62 (22.6)
<b>Electronics</b>	4 (16.0)	45 (30.3)	9 (33.3)	4 (28.6)	9 (64.3)	5 (10.9)	76 (27.6)
<b>Machinery &amp; Engines</b>	9 (36.0)	68 (45.6)	2 (7.5)	3 (21.4)	0 (0.0)	9 (19.5)	91 (33.1)
<b>Total</b>	25 (100)	149 (100)	27 (100)	14 (100)	14 (100)	46 (100)	275 (100)

# Greenfield investments by value chain stage

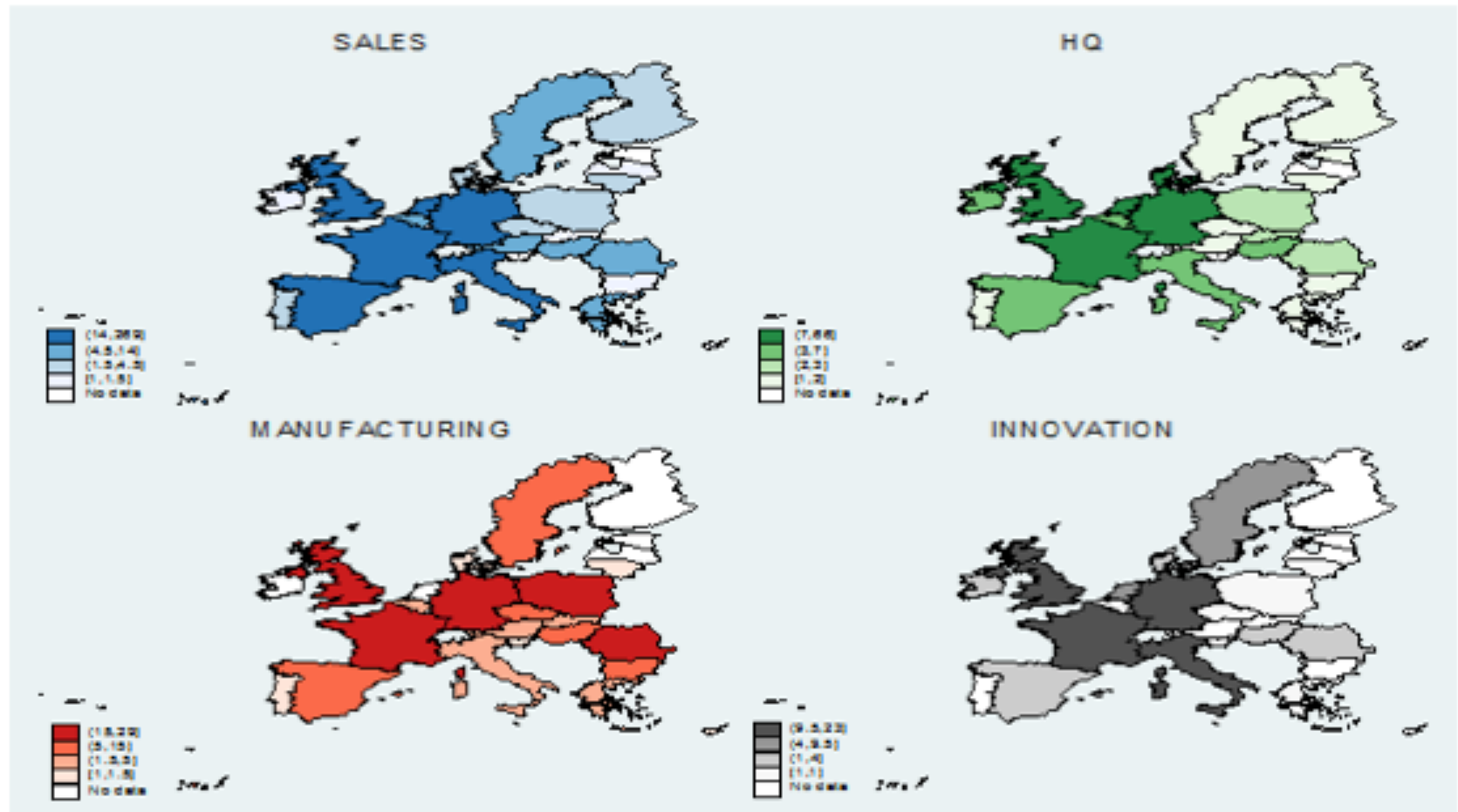




# Greenfield investments by value chain stage: trend

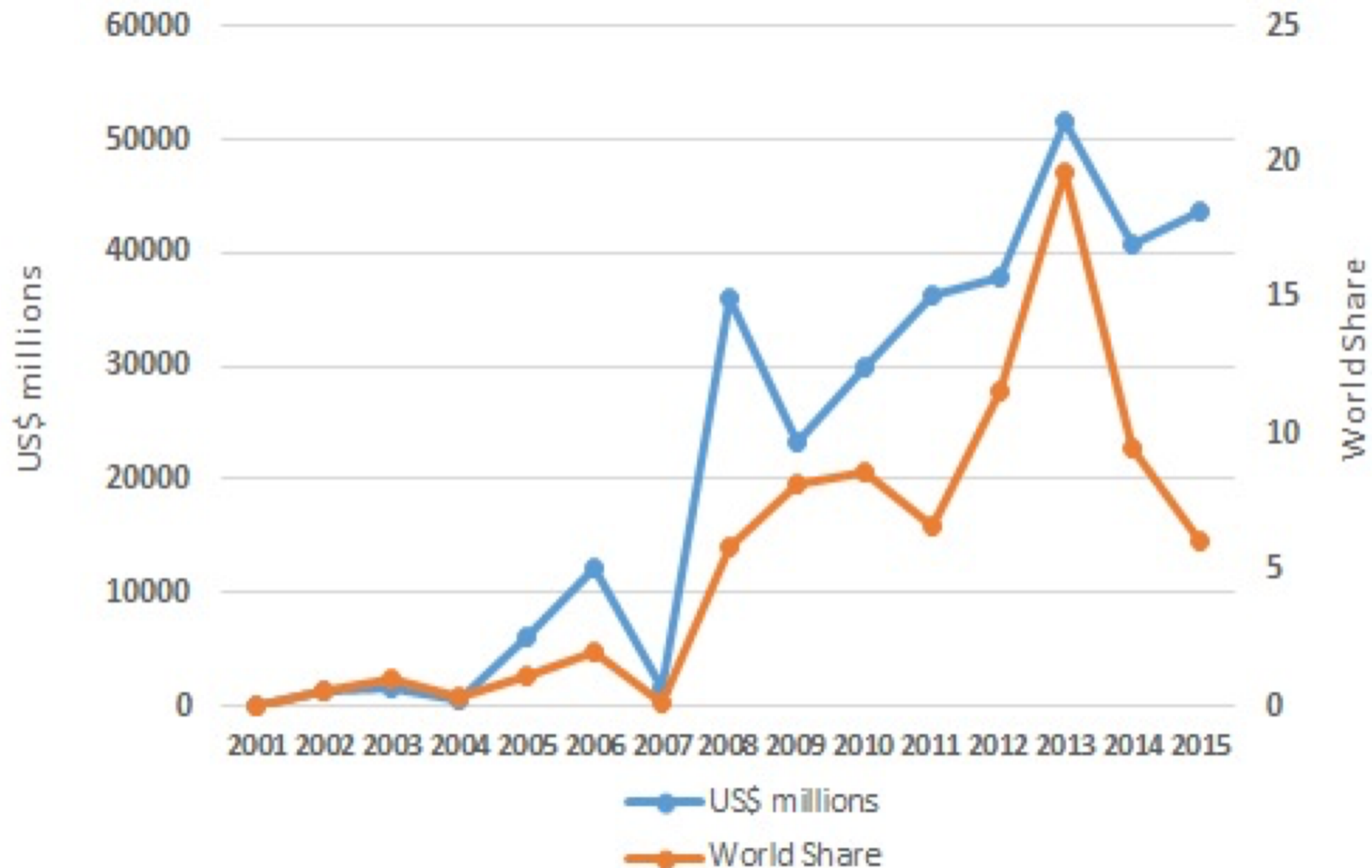


# Geographical distribution of greenfield investments by value chain stage



# Acquisitions

Chinese Cross-Borders Acquisitions (value and %)



Source: UNCTAD, 2016

# The shopping spree of Chinese MNEs

## Mega deals:

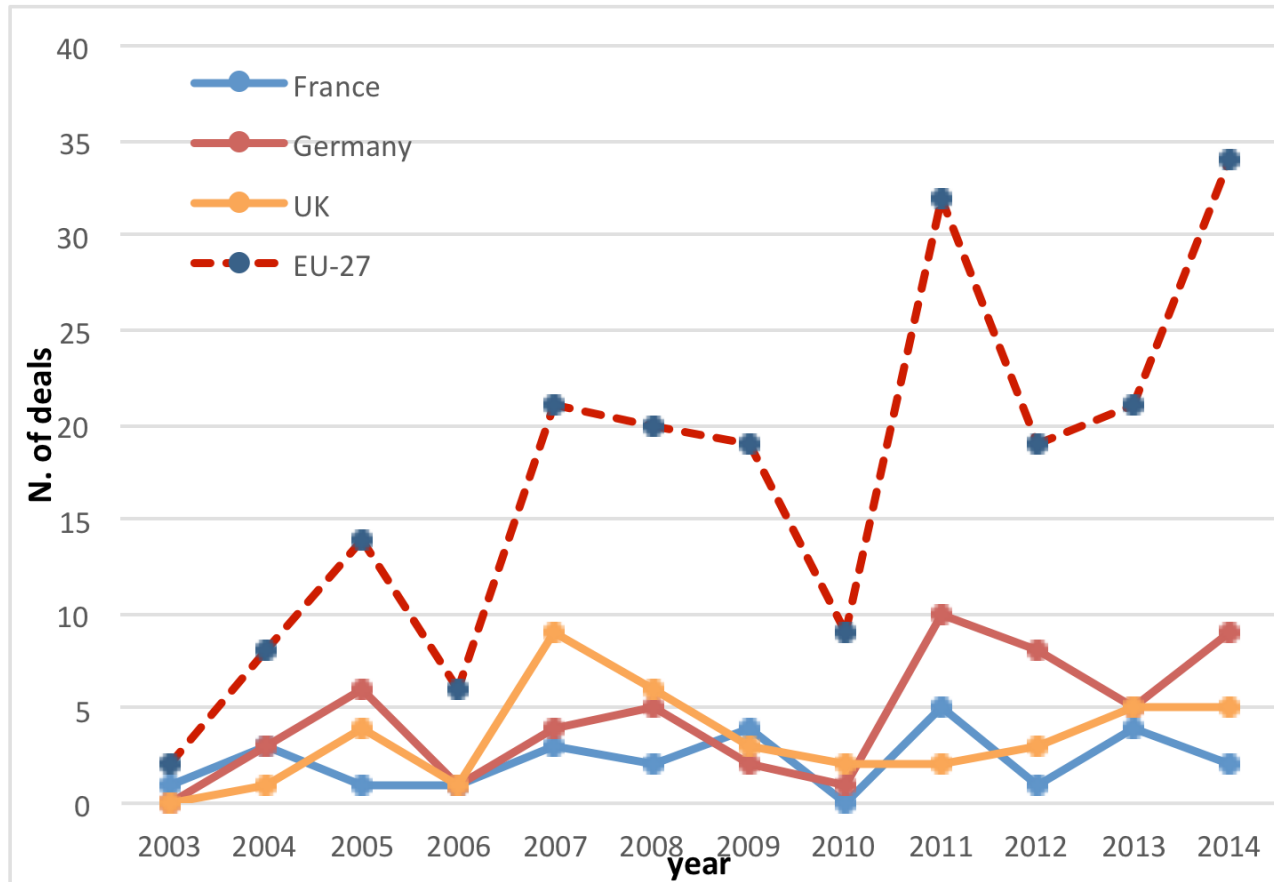
- in the USA: Haier's acquisition of GE Appliances and Dalian Wanda has acquired Legendary Entertainment Group and AMC the second largest movie chain;
- ChemChina's purchases of Pirelli in Italy and Syngenta in Switzerland;
- Cosco's deal for Piraeus Port.

Table 1: Chinese acquisitions in Europe: Largest deals since January 2015

Target	Buyer	Seller	%	Location	Industry	Value (estimate)	Date
Syngenta	ChemChina	Listed	100 <i>offer</i>	Switzerland	Agricultural chemistry	€ 40 bn	2016 02
Pirelli	ChemChina	Listed	100	Italy	Automotive supplier	€ 7.1 bn	2015 11
Swissport	HNA Group	Private Equity: PAI	100	Switzerland	Airport services	€ 2.6 bn	2015 08
Avolon Holdings	HNA Group	Listed (87% Private Equity)	100	Ireland	Aircraft leasing	€ 2.3 bn	2015 08
Tnuva	Bright Foods	Private Equity: Apex & others	56	Israel	Dairy	€ 2.2 bn	2015 01
RF Power unit of NXP	Jinyin Investment	Corporate (NXP)	100	Netherlands	Semi-conductors	€ 1.6 bn	2015 11
EEW Energy from Waste	Beijing Enterprise	Private equity: EQT	100	Germany	Waste recycling	€ 1.4 bn	2016 02
Opera Software	Qihoo 360, Kunlun & PE	Listed	100 <i>offer</i>	Norway	e-commerce	€ 1.4 bn	2016 02
WMF	Haier	Private Equity: KKR and Fiba	100 <i>bid</i>	Germany	Household goods	Expected € 1.4 bn	2016 03
Madriñena Red de Gas	Gingko Tree (jointly with PGGM & EDF)	Private Equity: Morgan Stanley Investments	100	Spain	Utilities	€ 1.3 bn	2015 04
Groupe Du Louvre	Jinjiang Hotels	Private Equity: Starwood	100	France	Hotels	€ 1.2 bn	2015 01
Infront Sports & Media	Dalian Wanda	Private Equity: Bridgepoint	68.2	Switzerland	Sports marketing	€ 1.1 bn	2015 02
Punch powertrain	Yinyi Investment	Private Equity: Grmv & others	100	Belgium	Automotive supplier	€ 1.0 bn	2015 02
Club Med	Fosun	Listed	100	France	Tourism	€ 939 m	2015 01
KraussMaffei Machines	ChemChina & P.E.	Private equity: Onex	100	Germany	Machine tools	€ 925 m	2016 01

# Main European destinations of Chinese acquisitions

Top country target of Chinese M&As



Source: Bvd Zephyr and SDC Platinum

# Is investing in the EU worth for Chinese MNEs?

- Econometric study (Cozza, Rabelloiti & Sanfilippo, CER, 2015) comparing the performance of MNEs having undertaken greenfield or acquisitions with similar (e.g. size, age, sector of specialization) Chinese companies with no investments abroad;
- MNEs register higher productivity than non-investing firms, but this effect materializes only some years after the initial investment;
- Greenfield investments show a stronger and faster impact on sales, confirming the importance of market-seeking motives;
- Acquisitions result in negative financial performance, although facilitate early access to intangible assets, somehow confirming their orientation to the strategic asset seeking motivations.

## Are Chinese MNEs able to upgrade their innovation capacity through acquisitions?

- Working in progress (Amendolagine, Giuliani, Martinelli & Rabbellotti, 2017) measuring the output of innovation (# of patents) of Chinese MNEs after medium, high tech acquisitions;
- Only MNEs with strong knowledge base and high status (well reported in the media) **before the acquisition** have a positive impact;
- Otherwise, Chinese MNEs suffer of *liability of emergingness*: acquired companies resist to knowledge transfer.

# Conclusions

- Chinese investments in Europe are increasingly **strategic asset seeking**, through **acquisitions**;
- Nevertheless, **acquisitions are not a quick fix** for EMNEs' lack of technological capabilities at home;
- Policy makers in the EU will need to find ways to ensure that these investments are equally beneficial and asset-augmenting for the taken over firms and for the regions where they are located;
- They should try to minimize the probability of predatory behaviors and attract investors interested in embedding in the local contexts where their acquired companies are located;
- Acquisitions and the arrival of new entrepreneurial forces from China may open up opportunities for mutual learning, which could be exploited to bridge the cultural and market distance between the EU and China.



**Thank you**

[roberta.rabellotti.it](http://roberta.rabellotti.it)

[roberta.rabellotti@unipv.it](mailto:roberta.rabellotti@unipv.it)