



Department of Economics and Finance

Course of Market Law and Regulation

**Economic analysis of the impact of M&A,  
from Chinese companies and investors in  
European economies**

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## **Glossary**

BIT	Bilateral Investment Trade
BRI	Belt and Road Initiative
Brexit	Britain Exit
Covid-19	New Corona Virus
CP	Communist Party
EFSI	European Fund for Strategic Investments
EU	European Union
GDP	Gross Domestic Product
ICT	Information Communication and Technology
KTM	Kuomintang
M&A	Mergers and Acquisitions
OFDI	Outward Foreign Direct Investment.
PRC	People's Republic of China
R&D	Research and Development
UK	United Kingdom
USA	United States of America
WHO	World Health Organization
WTO	World Trade Organization

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# Introduction

In a world ruled by the USA in terms of economic importance on a global scale, China's 2019 GDP was lesser than USA's GDP by 7.3 trillion dollars, which is expected to be reduced to around 4.5 trillion dollars by 2024.<sup>1</sup> China's growing power has, in the most recent years, threatened USA's position. Its economy, with an astonishing growth since 1978, is starting to be recognized as a real challenger to overcome any other country in terms of resources, labor and mainly economic power.

With this picture in mind, it's without surprise that what we are experiencing in the last years is the expansion of Chinese companies in European soil, mainly through M&A, which describes a corporate action of purchasing the shares or assets of another company in order to create value for the acquiring company. Of course, this impacts greatly how things work in Europe, not only regarding employment but also in terms of regulations of such companies and their transparency to the market.

Being this a very interesting and important subject, I intend to make an economic analysis of all the implications and how impactful it is on the European economies, these investments, and M&A's from Chinese companies.

To reach the goal and to understand what makes China so powerful and fast paced, my study will go through its economic history and growth. I will also come up with possible explanations to what makes the European Union so attractive to Chinese investors and how this has been changing the economic view of such countries.

When focusing on the main theme, I want to expose the essential problems related to the increase of M&A and what EU did to overcome the Chinese emergence in European-led companies.

I will also focus on the hot topics that influence fluctuations of the Chinese M&A in Europe such as the Brexit, Trade war and current COVID-19 pandemic.

By the end of the dissertation, I would like to expose the impact of these M&A in the EU.

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<sup>1</sup> Bajpai, Prableen (2020). *The 5 Largest Economies in The World and Their Growth In 2020*. Nasdaq. Available in: <https://www.nasdaq.com/articles/the-5-largest-economies-in-the-world-and-their-growth-in-2020-2020-01-22>



# Chapter 1 – General Context: China and the EU

## China's political background

The People's Republic of China, the World's most populous country with over 1.4 billion inhabitants, is located in East Asia, becoming in 2010 the World's second largest economy by GDP, just behind USA making up a total of 14.14 trillion dollars 2019, which represents 16 per cent of the global economy.<sup>2</sup> Since 2013, China has been also the World's largest goods trading nation, being responsible for 11.4 per cent of global goods trade in 2017<sup>3</sup>, as well as the world's fastest-growing consumer market and the second-largest importer of goods. In 2016, China had surpassed the USA, becoming the World's largest assets acquirer, measured by the value of corporate takeovers completed in a single year.<sup>4</sup>

All these features made its economy increasingly large and powerful, making it able to influence the global economy, and that is what makes China so enticing to study.

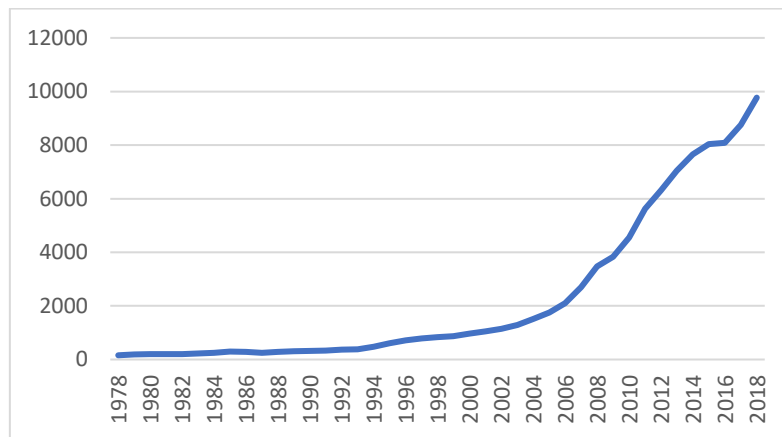
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<sup>2</sup> Bajpai, Prableen (2020). *The 5 Largest Economies in The World and Their Growth In 2020*. Nasdaq. Available in: <https://www.nasdaq.com/articles/the-5-largest-economies-in-the-world-and-their-growth-in-2020-2020-01-22>

<sup>3</sup> Woetzel, Jonathan at all (2019). *China and the world: Inside the dynamics of a changing relationship*. McKinsey Global Institute. Available in: <https://www.mckinsey.com/~media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside%20the%20dynamics%20of%20a%20changing%20relationship/mgi-china-and-the-world-full-report-june-2019-vf.ashx>

<sup>4</sup> Hellström, Jerker (2016). *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications*.

**Figure 1: China's GDP per Capita (current US dollars) 1978-2018**



Source: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2018&locations=CN&start=1979>

China differs from all the other developing countries, not only because of its economy but also its history and politics. China is a unitary one-party socialist republic and it is governed by the CPC since 1949 and holds a place in the United Nations since 1971. Nevertheless, it was not always like that. In 19<sup>th</sup> century, China's society was mostly rural, having 90 per cent living in the countryside and from agriculture, developing a complex and highly productive agricultural technology, not based in modern science, but on the trial and error of generations of farmers. Besides that, China had an export surplus supported by the silk, tea and porcelain paid with silver which explained the expansion of the money supply and the growth in the economy until the 1820s.

At that time, the dominant world power was Britain, and their merchants unhappy with the silver flow into China and for that reason they sought for a commodity that could be imported into China and by that, restore the trade balance. The commodity found was opium. By the 1830s China was facing both an economic problem – such as a slowdown caused by the increase of importations consequently leading to a diminishing supply of monetary metals- and a social problem, the opium addiction. The attempts to stop the inflow of opium led to the opium wars which ended with the British victory and the Chinese ceding of Hong Kong to Britain.

From 1839 to 1949 the Chinese population had experienced the “Century of Humiliation” characterized by several wars and defeats that forced China to pay reparations to the victors and open more the cities to foreign residence and control.

The end of the difficult times was after the Civil War between the KTM<sup>5</sup> and the CPC of China lasting intermittently between 1927 and 1949 divided in two phases.

From 1927 to 1937, during the Northern expedition<sup>6</sup>, the KMT-CPC alliance collapsed and led to the control of the Nationalists. The second period, from 1937 to 1945 the two parties together with the allies of World War II fought the Japanese invasion of China, ending with the Japanese defeat and CPC gaining the upper hand in the final phase of the war from 1945 to 1949 – usually called Chinese Communist Revolution – establishing PRC and forcing the Republic of China to retreat to Taiwan Island.<sup>7</sup>

This undesirable “Century of Humiliation” led to an increasing impact of foreign powers in politics, military and economy in China, making perceptible the need to industrialize and modernize in order to catch up with Western countries and to not be dependent from others, guiding China to become a closed economy.

Mao Zedong - revered communist revolutionary and the founding father of the PRC – ruled the country as the Chairman of the CP since 1949 – after the Civil War – until his death. The creation of the PRC in 1949, was an important step to leave the history of external oppression behind. Understandably, the “Century of Humiliation” can mainly explain the Zedong’s time as a chairman. As a national leader he was able to oppress all communist party’s opponents, leaving just one party in the country, CPC. When China became the PRC, most of the industries became Government’s property. The closed and planned economy, the fact that every industry was Government owned and Mao Zedong’s willingness to change and implement economic policies in line with his ideology, led the PRC to face a deep crisis during which, led to 45 million people starving to death<sup>8</sup>, and left the country with an overwhelming poverty rate (88 per cent of the population in 1978 lived with less than 2 dollars a day)<sup>9</sup>.

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<sup>5</sup> Often called by Chinese Nationalist Party (CNP),<sup>[a]</sup> is a major political party in Taiwan, i.e. the Republic of China.

<sup>6</sup> Military campaign launched by KMT in order to reunify China.

<sup>7</sup> Naughton, Barry (2006). *The Chinese Economy: Transitions and Growth*. The MIT Press

<sup>8</sup> Yu, Verna (2019). ‘Mao inspired me in 1949, but my dreams were soon shattered’. The Guardian. Available at: <https://www.theguardian.com/world/2019/sep/29/1949-china-communist-party>

<sup>9</sup> Roser Max; Ortiz-Ospina Esteban. *Global Extreme Poverty*. Available at: <https://ourworldindata.org/extreme-poverty>

One of those policies and movements was in 1966 and it was called “The Cultural Revolution”, having the goal of re-imposing Mao’s ideology. In order to reach that, was established the Red Guards<sup>10</sup>, to eliminate alleged enemies - Intellectuals, people deemed “class enemies” and those with ties to the West or the former Nationalist government were persecuted - resulting in widespread armed clashes between the extreme communist fraction and the moderate ones. Those fights froze society and the economy until 1976.<sup>11</sup>

At that time, China had tried three times already to succeed industrializing the country, but for different reasons such as the Government being deep in debt, the lack of democracy, political inclusiveness and pluralism, it wasn’t possible to achieve the goal of industrialization.<sup>12</sup>

In 1978, after Mao Zedong’s death, the country went through a wide range of economic reforms made by the top decision-making body, the Central Committee, which opened up China to the global market and foreign investment leading to China’s notable fast economic growth. This structural change in the country led to a wide debate about economic reforms and new policies that until that moment were not allowed.

Meanwhile most of the developing countries followed World Bank’s advices to reduce the Government intervention, China opted to follow an unique path by adapting the market to a Neoliberalism<sup>13</sup> under state-control in order to become efficient, creating some economy market-oriented conditions such as competition, new enterprises and jobs.<sup>14</sup>

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<sup>10</sup> Students who answered Mao’s call for continuing revolution, Red Guards formed large groups that targeted political enemies for abuse and public humiliation.

<sup>11</sup> Ramzy, Austin (2016). *China’s Cultural Revolution, Explained. The New York Times*. Available at: <https://www.nytimes.com/2016/05/15/world/asia/china-cultural-revolution-explainer.html>

<sup>12</sup> Wen, Yi (2016). *China, 's Rapid Rise: From Backward Agrarian Society to Industrial Powerhouse in Just 35 Years*. Federal Reserve Bank of ST. Louis. Available at: <https://www.stlouisfed.org/publications/regional-economist/april-2016/chinas-rapid-rise-from-backward-agrarian-society-to-industrial-powerhouse-in-just-35-years>

<sup>13</sup> Associated with policies of economic liberalization such as privatization, deregulation, globalization, free trade reductions in government spending in order to increase the role of the private sector in the economy and society.

<sup>14</sup> Wu, F., 2010. *How Neoliberal is China's Reform? The Origins of Change during Transition*. Eurasian Geography and Economics.

## **New era of reform and opening**

The Second Industrial Revolution that ended in the 1970s, brought the industry mechanization, which could be observed in the standardization of stages and in the use of efficient machines leading to an increase in productivity, know-how and willingness to find the most efficient component without caring about the geographical barrier, giving enterprises the possibility to search for the better practices, and more efficient processes.

After these findings and Mao's death, Deng Xiaoping (1904-1997) ruled PRC from 1979 to his death. In the Chinese economy, he represented innovation, given that he understood it was not possible to keep growing without having a wide range of trade agreements with the rest of the Globe, gaining synergies. Deng was responsible for the China's first reforms, also introducing the concept of socialist market<sup>15</sup>. These reforms took gradual steps characterized by partial institutional adjustments – relying on Incrementalism which means that planning is crucial to have an orientation. Deviations from the plan were seen not as disruption but as advanced adjustments – “Cross a river by feeling the stones<sup>16</sup>” – and some regional tests – if the experience had positive results then it should be implemented at nationwide – were widely agreed to be the biggest driver for China's path to prosperity. Deng Xiaoping believed that “some people should be allowed to get rich first” – certainly not a Maoist line of thought and for that reason, after Mao's death, public humiliation for capitalists was abolished. The implemented measures had positive effects on the country because China's priority was to make its economic system more efficient without jeopardize the political system.

Market reforms were applied in two different stages: a first on the late 1970s, and a second beginning in the 1990s. On the other hand, trade liberalisation took one further step in 2001.

The first stage of reform was driven towards de-collectivization of the agriculture<sup>17</sup>. Related with globalization reforms, national foreign trade corporations lost their

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<sup>15</sup> Market socialism is a type of economic system involving the public, cooperative or social ownership of the means of production in the framework of a market economy.

<sup>16</sup> Chinese proverb used by Deng Xiaoping.

<sup>17</sup> Before 1978 no private land existed and it was all collectively owned. The output produced by a production team was sold to the Government. After the reform, Chinese Government decided to divide the land into family plots, which made the productivity increase a lot.

monopolistic powers, giving the opportunity to each region to have their own agencies promoting their trading products. In July 1979, Special Economic Zones – regions chosen by the Government to offer foreign investors legal protection and tax exemption, not extended to Chinese enterprises – were created and helped opening up the country to foreign investment and taking down barriers to entrepreneurs to open businesses, although most industry was still state-owned<sup>18</sup>. Also, to foreign-funded companies was given the possibility to import raw materials and capital goods for their production. Between 1978 and 1986 the number of foreign companies in China grew from 12 to 1200. With these measures the Government wanted to attract foreign capital, new technologies, know-how and innovative processing sectors. From 1979 to 1984, 942 foreign investor deals were made making up a total of 6 billion dollars.

The second stage (1992-2000) includes the privatization and the abolishment of price controls and partially protectionist policies, such as import tariffs that decreased in 255 products from an average rate of 45 to 30 per cent. These reforms were successful not only because the GDP strongly grew – in 2017, the GDP was 24 times bigger than in 1978 –but also because the decreasing of poverty and inequalities among the people.<sup>19</sup>

For the third stage, the PRC introduced in the 10<sup>th</sup> Five-year Plan (2001-2005) a Go Global Policy, which was made to encourage domestic companies to intensify their presence in global market, promoting China's integration in the international economy, which led to new opportunities to develop, especially in technology and innovation.<sup>20</sup>

For more than 40 years China has changed from an almost closed economy into a global market-oriented economy and, in 2001, China finally became part of World Trade Organisation (WTO). The boundaries were open in various sectors such as banking, insurance and other financial services, allocating then 31 foreign banks, which until 2001 was not possible. It had the intention of liberalising external business and foreign investment. Gave foreign investors the possibility to access different markets previously

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<sup>18</sup> Zaniboni, Vittoria (2015). *International Trade Relations between China, Europe and Italy*. Luiss Guido Carli Library

<sup>19</sup> Naughton, Barry (2006). *The Chinese Economy: Transitions and Growth*. The MIT Press

<sup>20</sup> Davies, K. (2013). *China Investment Policy: An Update*. OECD Working Papers on International Investment, 2013/01, OECD Publishing. Available at: <http://dx.doi.org/10.1787/5k46911hmvbt-en>

restricted, creating a new wave of international investment. Chinese government advised companies to merge and specialize in order to become world leaders in some sectors.<sup>21</sup>

An increase in FDI was seen after 2001 and it can be considered as the main contribution for China's economic transformation. It boosted the mergers, acquisitions and joint ventures which was beneficial for China since it gave them access to new technology from wealthier economies, and from multinational companies that by investing in China brought capital and know-how into the Chinese domestic market. And foreign companies also had advantages in settling in China, giving that China could provide them lower costs of labour and tax benefits.<sup>22</sup>

## **What makes EU good to invest**

Europe is not an input source but possesses a wide range of technologies and know-how that are interesting to China. Also, for Chinese companies it is easier to enter in third markets, such as the USA, via European networks. Another important reason that makes this particular market so interesting to enter is the credibility of their brands that are able to improve the marketability of the Chinese products in the European Market. Besides that, some European countries, mainly southern Economies. need resources in the short-run and China has it.<sup>23</sup>

In 2003, after entering in WTO, the *EU-China Comprehensive Strategic Partnership*<sup>24</sup> established a good economic relationship between the EU and China. It is important to emphasize that the WTO provided Chinese enterprises with the same legal conditions as all other member-states of the WTO.

In 2013, President Xi Jinping announced the plan "Belt and Road Initiative", which aimed to strengthen the transportation network around the World, by building a unified large

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<sup>21</sup> Song, Ligang; Fang, Cai (2018). *China's 40 Years of reform and development 1978-2018*. The Australian National University.

<sup>22</sup> Bhattachali, Deepak; Li, Shantong; Martin, Will (2004) *China and the WTO. Accession, Policy Reform and poverty reduction strategies*. World Bank

<sup>23</sup> Bickenbach, Frank; Liu, Wan-Hsin (2018) : *Chinese Direct Investment in Europe – Challenges for EU FDI Policy*, CESifo Forum. Available at: <http://hdl.handle.net/10419/199017>

<sup>24</sup> The policy that has as a purpose the consolidation of EU-China relations beyond prosaic trade and investment issues to address some of the World's most pressing political and security challenges.

market and make full use of both international and domestic markets. The spreading of trust around partners, which are a vast number of countries, and different old projects, includes efforts to consolidate infrastructure and to get deeper integration such as in culture and structure. In 2018, the Belt and Road Initiative included 1/3 of world trade and GDP and over 60 per cent of the world's population.<sup>25</sup>

However, the USA does not belong to One Belt, One Road, but they feel the damage of the initiative, because China would achieve the requirements to be an economy able to end with the monopoly and become a duopoly with the biggest and strongest power economies.

Early into his Presidency, Trump started to launch and increase customs duties and trade tariffs to European goods, that eventually will make the EU and China to grow closer and farther away from USA.<sup>26</sup>

After all these reasons given above, there are other feature that makes Europe interesting to invest in, and it is the fact that EU countries don't follow a pattern in most of the important subjects such as economy, politics and also culture, making the countries attractive for different reasons, so it is possible to find 28 (after Brexit we count only with 27) legal and political systems. But the fact that there are a free movement of goods, services and people, let any Chinese enterprise that have invested in one country to also have plenty opportunities in all the others.

We can divide Europe in three areas of Chinese main interest: West, South and East that are characterize by different economic wealth, technological abilities and know-how, geographic location, and institutional framework.

Western Europe is seen as the wealthiest with countries such as UK, Germany, and France. In 2017 these countries together collected 75 per cent of the EU market made by China. These countries are China's targets in the matter that they can provide them strategic assets, research, and development networks.

As known, the 2008 crisis was specially devastating in southern Europe, making their economies weaker and with difficult recoveries. Privatization processes implemented in

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<sup>25</sup> World Bank (2018). *Belt and Road Initiative*.

<sup>26</sup> China Power Team (2019). *How will the Belt and Road Initiative advance China's interests?* 2019. Available at: <https://chinapower.csis.org/china-belt-and-road-initiative/>



these countries during the crisis became attractive to Chinese enterprises and helped those countries to diminish the crisis consequences.

As far as the East, it attracts Chinese enterprises because of its location: it is perfect for transportation network of the Belt and Road initiative and for future capital expansion across EU. Firstly because of their low-cost but skilled workforces compared to the rest of Europe and secondly for the low entry barriers for investments.<sup>27</sup>

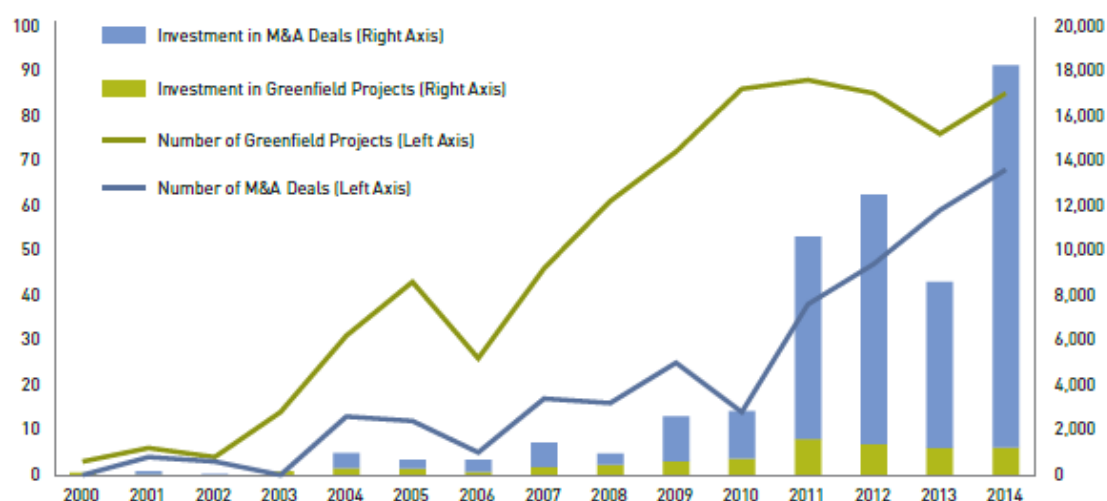
As proven, Europe is a good place to invest but we have to pay attention that it is not perfect. In all the EU we can identify a protective nonflexible labour law and a bureaucratic economy, which constitutes some trouble for Chinese investors, since in China the situation is not exactly as that in Europe.

Nowadays, we can understand that these two powers got closer not only for all the legal measures taken but also due to the fact that they couldn't control the USA's power, so any measure taken by Trump's administration such as imposing tariffs will affect directly the European Union and China, so it is better to work together and being able to get some synergies out of this situation growing bigger and to become less dependent of any other foreign powers such as the USA, bearing in mind WTO rules.

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<sup>27</sup> Zeneli, Valbona (2019). *Mapping China's Investments in Europe*. The Diplomat. Available at: <https://thediplomat.com/2019/03/mapping-chinas-investments-in-europe/>

**Figure 2:** Chinese OFDI in EU-28 by entry mode and Number of transactions and investment value in USD Mn



Source: *Rhodium Group. A detailed explanation of sources and methodology can be found in the Data Appendix.*

By analysing the graphic, we can understand that, in the presented period, Chinese OFDI is increasing as a consequence of the different stages of market reforms and globalisation taken from China, and mainly in the form of M&A.<sup>28</sup>

In 2014 and 2015, the EU was estimated to be the largest market for Chinese M&A<sup>29</sup> and Chinese OFDI in EU hit a record of 35 billion euros (39.67 billion dollars)<sup>30</sup> in 2016, according to data gathered by the Rhodium Group.<sup>31</sup>

## Features of the Chinese M&A

As we have observed, Chinese enterprises have grown continuously and exponentially, mainly because of alternative ways of growth such as mergers and acquisitions.

<sup>28</sup> Zhou, Shijia; Huang, Xueli (2014). *How Chinese “Snake” swallow’s Western “elephant”: a case study of Lenovo’s acquisition of IBM Pc division*. Journal of international business and economics.

<sup>29</sup> Hellström, Jerker (2016). *China’s Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications*.

<sup>30</sup> Conversion rate at June 2020. (1 euro = 1.13 dollars)

<sup>31</sup> European Think-tank Network on China (2017). *Chinese Investment in Europe A Country-Level Approach*. French Institute of International Relations (Ifri), Elcano Royal Institute, Mercator Institute for China Studies. Available at: [https://www.clingendael.org/sites/default/files/2017-12/ETNC\\_Report\\_2017.PDF](https://www.clingendael.org/sites/default/files/2017-12/ETNC_Report_2017.PDF)

We can ensure the Chinese investment in Europe pattern is not cyclical, but it follows a structural trend. Chinese emergence in Europe came at the worst economic moment for Europe in decades, during and after the 2008 financial crisis, leading some Europeans to think of it as an one-off cyclical spike and that Chinese investors were only seeking for cheap assets. The privatization gave market power to Chinese companies and more possibilities for continuous investment in Europe despite a significant recovery in asset prices.

### Industries

China's trade structure has been modified in the past 40 years, especially products exported and the target economies. They started to export resource-based products, then textile products, then mechanical and electric products and now high-tech products. Between 2010 and 2014 Chinese companies' business targets, were mainly concentrated in seven sectors: Energy, Real estate, manufacturing, agriculture, finance and telecommunications/software.

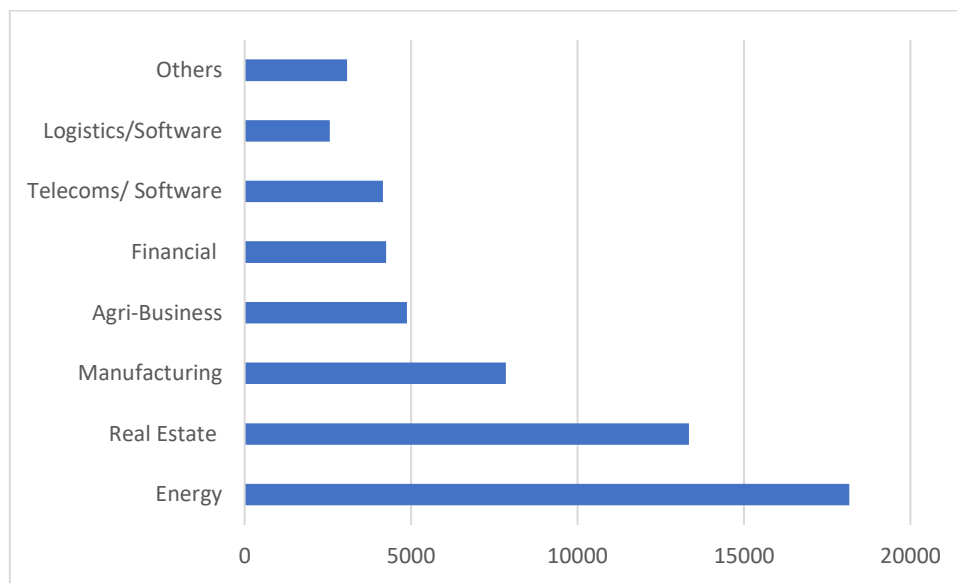
For Chinese enterprises, acquiring high-tech companies in high-income economies can be seen as a way to capture those countries advanced technologies, brands and markets, which gives them the proper know-how and we can interpret this as a way of growth.

The sector that attracts more Chinese direct investment is the energy<sup>32</sup> sector with 17 billion dollars. Then comes automotive as second leading recipient with 8 billion dollars followed by agriculture and food carrying 7 billion dollars (6.5 billion euros).

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<sup>32</sup> Including fossil fuel, utilities and renewable

**Figure 3: Main areas of Chinese investments in Europe in 2015**



Source: *Casaburi (2015) "Chinese Investment in Europe 2015-16"*

### Countries

The number of Chinese companies operating internationally has been increasing, reporting the numbers of 2010 as 10,167 to 2019's number of 37,164, according to China's Ministry of Commerce.<sup>33</sup>

In the first stage of the market reforms, the target economies were mainly the developed ones such as USA, Canada and Hong Kong.<sup>34</sup> Once in Europe, the main recipient of Chinese investment were the UK, Germany and France, as China was seeking for high-income economies, those have become the top recipients of Chinese investment, especially in acquisitions between 2014 and 2015.<sup>35</sup>

Until 2011 there were nine countries<sup>36</sup> that together collected 77 per cent of the Chinese investment. Since other opportunities were appearing and Chinese interests were

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<sup>33</sup> Woetzel, Jonathan et al (2019). *China and the world: Inside the dynamics of a changing relationship*. McKinsey Global Institute. Available in: <https://www.mckinsey.com/~media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside%20the%20dynamics%20of%20a%20changing%20relationship/mgi-china-and-the-world-full-report-june-2019-vf.ashx>

<sup>34</sup> Changqi, Wu; Ningling, Xie (2010). *Determinants of Cross-Border Merger & Acquisition Performance of Chinese Enterprises*. Elsevier Ltd

<sup>35</sup> Davies, K. (2013). *China Investment Policy: An Update*. OECD Working Papers on International Investment, 2013/01, OECD Publishing. <http://dx.doi.org/10.1787/5k46911hmvbt-en>

<sup>36</sup> Austria, Belgium, Denmark, France, Germany, Luxembourg, the Netherlands, Sweden, and the UK.

changing, we can observe some adjustments in their patterns of investment. After 2008, cash-strapped southern European economies, PIIGSC<sup>37</sup>, were the main targets of the Chinese investments resulting from the financial crisis. This is the main explanation for the appearance of Portugal in fourth place.

For the Eastern Europe, investment also increased in manufacturing and energy.

The investment in Europe has been diversified, not just geographically but also the industries in which they invested.

The top recipient of Chinese investment between 2000 and 2014 was the United Kingdom with more than 16 billion dollars. It is understandable due to the fact that London was the European financial centre.

Germany was the second more invested economy with 8.4 billion dollars. The sectors that received more Chinese investment, as hinted before, were industrial equipment, automobile components, telecommunications, and renewable energies. This can suggest the Chinese will go for advanced manufacturing interests. Moreover, Germany has a great number of small and medium-sized private enterprises which are desirable for some investors seeking for opportunities in high technology sectors.

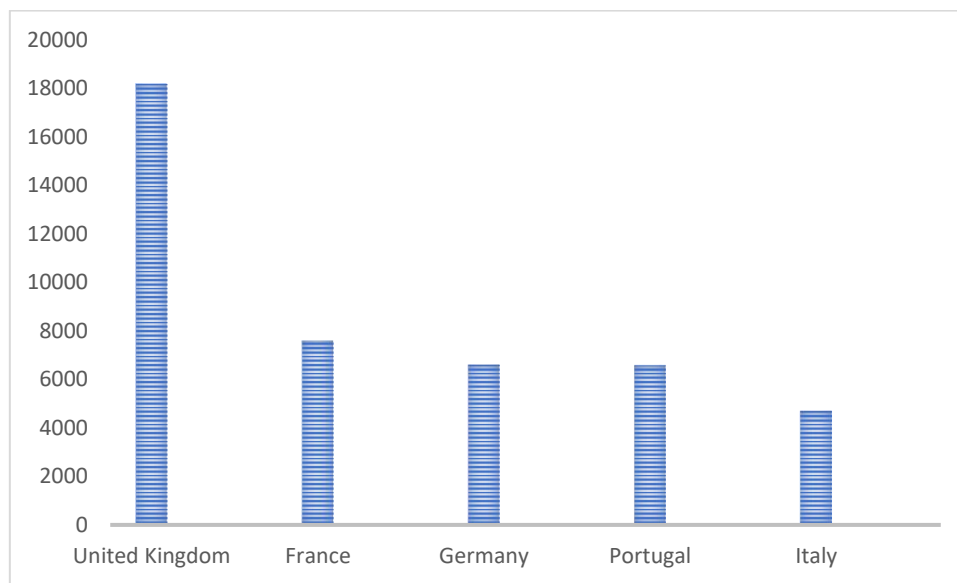
France comes in third with 8 billion dollars invested in distinct industries such as chemicals and telecommunications. The French Government, by selling strategic stakes to Chinese state companies, made France more attractive.

Portugal was the fourth biggest recipient of Chinese investment with 6.7 billion dollars, by the privatization of state-owned companies in utilities.

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<sup>37</sup> Portugal, Ireland, Italy, Greece, Spain, and Cyprus

**Figure 4: Recipient Countries of Chinese FDI in the EU 2010-2014**



*Source: ESADE China Europe based on Bloomberg*

### Investors behaviour

M&A by Chinese enterprises began after the application of Deng's policies specially after the second stage of market reforms that opened more doors for other Chinese companies to start acquiring. Until that point, it was mainly state-owned enterprises. After the WTO accession, domestic companies aggressively started acquiring, and the biggest M&A cases happened in the 21<sup>st</sup> century.

Another change we can observe over time in the Chinese investors' behaviour is that nowadays they often prefer to acquire part of a European company instead of taking full control, unlike before 2008, corresponding to 20 to 50 per cent of the target. The explanation for this phenomenon is the mitigation of risks that is just possible if there exists cooperation between domestic shareholders and the Chinese investors.

### Methods of payment

The purchasing method have extended, in the beginning it was mainly cash and nowadays we can see leveraged acquisitions and swap of equity shares.<sup>38</sup>

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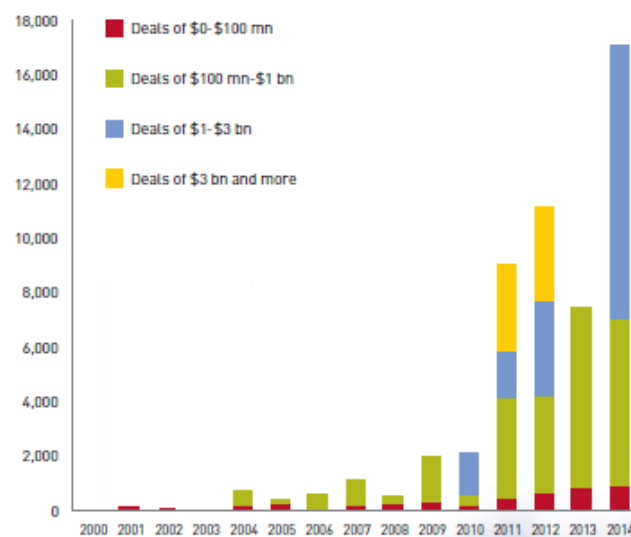
<sup>38</sup> Changqi, Wu; Ningling, Xie (2010). *Determinants of Cross-Border Merger & Acquisition Performance of Chinese Enterprises*. Elsevier Ltd

### Size and Value

As we can see the volume and transactions have increased over time, which means that there are more transactions and they involve more money.

The size of the M&A has also changed, mainly since 2011 when small - below 100 million - and medium-sized deals - between 100 million dollar and 1 billion dollars - increased their importance, however the megadeals - more 1 billion dollar - are still the biggest share of total Chinese investment in Europe. The fact that small and medium-sized deals are less exposed to big fluctuations, it ensures the structural expansion of Chinese private sector investing in Europe.<sup>39</sup>

**Figure 5: Chinese M&A transactions in Europe by size 2000-2014**



Source: *Rhodium Group. A detailed explanation of sources and methodology can be found in the Data Appendix*

## **Chapter 2: The Sino-European late year relationship**

### **The 2016 peak**

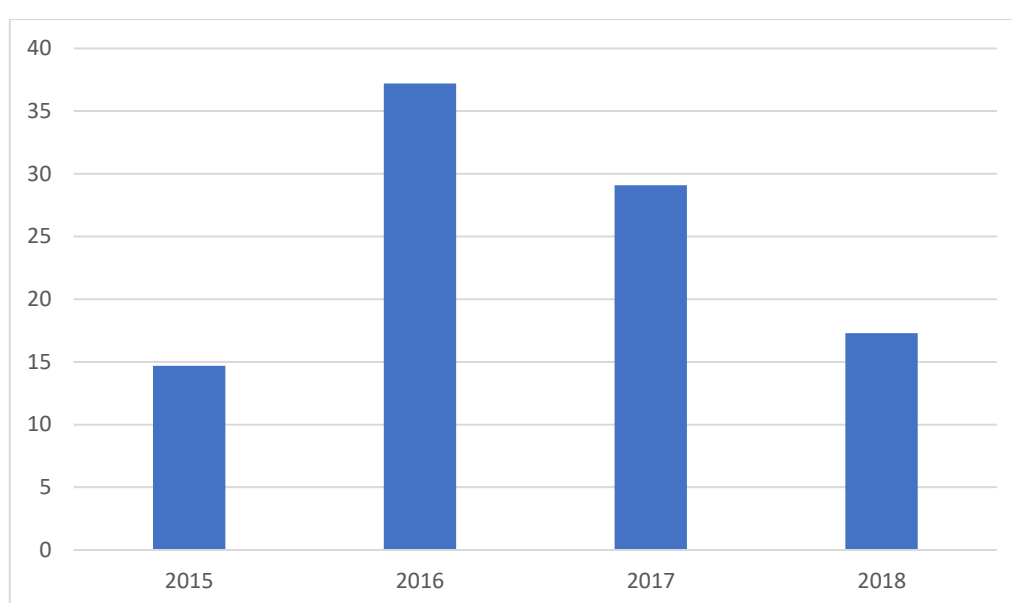
Since 1978, Chinese enterprises have been significantly increasing their pace in OFDI, with a growing efficiency in their own economy, creating an environment for a

<sup>39</sup> Baker & Mckenzie; CICC (2015). *Reaching new heights, An update on Chinese investment into Europe*. Rhodium Group

globalisation of products and services and deepening mutually beneficial cooperation with other countries.<sup>40</sup>

In the last decades Chinese OFDI in the EU has shown an impressive growth, and between 2005 and 2015 we have seen an average evolution of 30 per cent each year. Nevertheless, the peak was reached in 2016, with 35 billion euros, displaying an OFDI growth rate of 77 per cent when compared with the previous year.<sup>41</sup>

**Figure 6:** Chinese OFDI in EU-28, EUR billion between 2015 and 2018



*Source: Hanemann, Thilo, Huotari, Mikko; Kratz, Agatha (2019). Chinese FDI in Europe, 2018 Trends and Impact of new screening policies. Report by Rhodium Group (RHG) and the Mercator Institute for China Studies (MERICS).*

The deals completed in 2016 were more widely dispersed medium-sized deals, giving that the largest one the majority acquisition – 84.3 per cent - of the massively profitable Supercell, a Finnish gaming was company acquired by China's biggest gaming group

<sup>40</sup> The General Office of the State Council - Ministry of Commerce, National Development and Reform Commission, Ministry of Foreign Affairs, People's Bank of China (2017). *Guidelines on Further Guiding and Regulating Overseas Investments*. Available at: [http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)

<sup>41</sup> Baker & McKenzie (2018). *Rising Tension Assessing China's FDI drop in Europe and North America*. Rhodium Group. Available at: [https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising\\_tension\\_china\\_fdi.pdf?la=en](https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en)



Tencent by 8.6 billion dollars<sup>42</sup>, weightily smaller than the biggest deal of 2015 which was a 7.7 billion dollars acquisition of the Italian tire producer Pirelli by ChemChina.<sup>43</sup>

The Chinese OFDI in Europe in 2016 also showed that investors are intensively seeking to upgrade technologies, brands, and mainly strategic assets such as important branches of each country they invested in. Similarly to the year before, advanced manufacturing assets accounted for one third of the total Chinese deal value in the EU, with more attention to machinery, exposed in the Midea's acquisition of German robotics company Kuka for 5 billion dollars, as well as the German's industrial machinery maker KraussMaffei Group acquired by the leading chemical company ChemChina for 925 million euros (1 billion dollars).

In 2016, the Information Communication and Technology sector has received more attention than in 2015, specially because of deals as the "Elegant Jubilee" consortium acquisition of 49 per cent of the British Global Switch by 2.4 billion pounds (3.06 billion dollars), the Scotland-based flight-search company Skyscanner acquired by Chinese online travel giant Ctrip for 1.4 billion pounds (1.78 billion dollars)<sup>44</sup> and the Finish Supercell, referenced above.

The energy sector also got a great focus in 2016, with deals made mainly in the renewable energy sector, such as the investment in Meerwind, one of Germany's largest offshore windfarms acquired by China Three Gorges, from Blackstone, a USA buyout firm by 1.6 billion euros (1.8 billion dollars).<sup>45</sup>

The Chinese investment in utilities, transportation and infrastructure was highlighted mainly by two acquisitions. Firstly, the aircraft leasing arm of the Irish firm Avolon by 2.3 billion euros (2.61 billion dollars) by HNA Group, and secondly, the Greek Piraeus

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<sup>42</sup> Carsten, Paul; Ando, Ritsuko; Rosendahl, Jussi (2016). *Tencent buys 'Clash of Clans' maker Supercell for \$8.6 billion*. Reuters. Available at: <https://www.businessinsider.com/r-tencent-to-buy-finnish-gaming-firm-supercell-from-softbank-others-in-86-billion-deal-2016-6>

<sup>43</sup> Arosio, Paola ; Masoni, Danilo (2015) *ChemChina to buy Italian tire maker Pirelli in \$7.7 billion deal*. Reuters. Available at: <https://www.reuters.com/article/us-pirelli-chemchina/chemchina-to-buy-italian-tire-maker-pirelli-in-7-7-billion-deal-idUSKBN0MI0PQ20150322>

<sup>44</sup> Russell, Jon (2016). *China's Ctrip is buying flight search company Skyscanner for 1.74\$ billion*. Tech Crunch. Available at: <https://techcrunch.com/2016/11/23/ctrip-skyscanner/>

<sup>45</sup> Berry, Freya (2016). *China Three Gorges to buy German wind park Meerwind from Blackstone*. Reuters. Available at: <https://www.reuters.com/article/us-blackstone-group-wind-farm-china-thre-idUSKCN0YZ1DC>

Port Authority by 280.5 million euros (318 million dollars) from COSCO Holding, a case detailed later in this chapter.<sup>46</sup>

The last sector covered able to explain the increase of Chinese OFDI in 2016 was entertainment, where London-based European leading cinema chain Odeon & UCI was acquired by AMC Entertainment Holdings with a transaction value of 1.2 billion dollars as well as the acquisition of 65 per cent of Italian MP & Silva by Everbright and Beijing Baofeng Technology for 916 million euros (1,04 billion dollars).

It is important to enhance an observed shift in the targeted countries of investment from China. After a long period investing in cash-strapped southern economies, Chinese enterprises turned more than a half – 60 per cent - of their investment into the “Big Three” economies, with 11 billion euros invested in Germany, 7.8 billion euros (8.84 billion dollars) in the UK and 2.2 billion euros (2.5 billion dollars) in France.

The second most invested group of countries were the northern economies due to Supercell and Avolon acquisitions that totalled approximately 10 billion euros (11.4 billion dollars).

Southern Europe came in third place with the Greek Port of Piraeus and the Italian MP & Silva being the two largest transactions.<sup>47</sup> As seen previously, the importance of the investment in these economies is slowing its pace.

## **Chinese Regulation over OFDI**

After 2017, it is possible to observe a change in the Chinese M&A pattern worldwide for several reasons. First of all, back in China, there was a change in the regulatory environment, mainly through restrictions by the Government, creating a shift from Chinese investors towards different industries and geographies.

The rapid growth of global investment activity by Chinese companies has made Chinese leaders nervous and has caused a contraction of administrative controls to crack down on certain types of transactions. In early 2016, the Chinese central bank first informally

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<sup>46</sup> Guerrero, Dorothy (2017). *Investment in Europe in the Age of Brexit and Trump*. Transnational institute.

<sup>47</sup> Hanemann, Thilo; Huotari, Mikko (2017). *RECORD FLOWS AND GROWING IMBALANCES Chinese Investment in Europe in 2016*. Rhodium Group. Merics. Available at: [https://www.merics.org/sites/default/files/2017-09/MPOC\\_3\\_COFDI\\_2017.pdf](https://www.merics.org/sites/default/files/2017-09/MPOC_3_COFDI_2017.pdf)

reached out to banks and local bureaucrats and asked them to increase their scrutiny over outbound investments.

The Chinese National Development and Reform Commission, the Ministry of Commerce, the People's Bank of China, and the Ministry of Foreign Affairs composed by a set of guidelines to tight control on Chinese investment abroad.<sup>48</sup> The first restrictions were placed in the late 2016, to discourse concerns about large-scale capital outflows and to mitigate apparent risks to China's financial system from rapid overseas investment.<sup>49</sup>

The tightening of controls was a response to growing capital outflows under China's balance of payments, which are diminishing China's foreign currency reserves and putting growing pressure on Chinese currency.<sup>50</sup>

In order to stop money moving out of the country and to stabilise its currency, banks were obliged to limit the conversion of Chinese Yuan into foreign currencies in order to stop large capital outflows depleting China's reserves.<sup>51</sup>

These guidelines were formalized in August 2017 in the *Guiding Opinions on Further Directing and Regulating the Direction of Overseas Investments*, introducing a new OFDI regime based on encouraged, restricted and prohibited sectors and projects of investment.

*Overseas investments to be encouraged:*

1. Focus on promoting overseas infrastructure investment that facilitates the "Belt and Road" construction and the interconnectivity of peripheral infrastructure.
2. Steadily carry out overseas investment to promote export of advantaged capacity, high-quality equipment, and technical standards.
3. Strengthen investment cooperation with foreign high-tech and advanced manufacturing enterprises and encourage the establishment of R&D centers abroad.

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<sup>48</sup> Zhang, Laney (2017). *China: New Rules on Overseas Investment Released*. Library of Congress. Available at: <https://www.loc.gov/law/foreign-news/article/china-new-rules-on-overseas-investment-released/>

<sup>49</sup> Baker MaKenzie (2018). *Rising Tension Assessing China's FDI drop in Europe and North America*. Rhodium Group. Available at: [https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising\\_tension\\_china\\_fdi.pdf?la=en](https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en)

<sup>50</sup> Coppola, Frances. *How China's Capital Controls Help Manage its Foreign Exchange Rate*. American express. Available at: <https://www.americanexpress.com/us/foreign-exchange/articles/china-capital-controls-to-manage-foreign-exchange-rate/>

<sup>51</sup> Nienaber, Michael (2019). *Chinese FDI in Europe drops, investment screening will cut it more - survey*. Reuters. Available at: <https://www.euronews.com/2019/03/06/chinese-fdi-in-europe-drops-investment-screening-will-cut-it-more-survey>

4. On the basis of prudent assessment of economic benefits, steadily participate in the exploration and development of overseas oil and gas, minerals and other energy resources.
5. Expand cooperation on agriculture with other countries and carry out mutually beneficial and win-win investment cooperation on agriculture, forestry, animal husbandry, fishery and other areas.
6. Facilitate overseas investment in business and trade, culture, logistics and other areas of services in an orderly manner and support qualified financial institutions to establish branches and service networks abroad and to conduct business according to the laws and regulations.

*Overseas investment to be limited*

1. Overseas investment in sensitive countries and regions that China has not established diplomatic ties with, are in war, or are restricted by bilateral or multilateral treaties or agreements of which China is a signatory.
2. Overseas investment in real estate, hotels, film studios, entertainment, sports clubs and others.
3. Overseas establishment of equity investment fund or investment platform without actual, specific industrial projects.
4. Overseas investment using outdated production equipment that does not meet the technical requirements of the investment recipient country.
5. Overseas investment that does not meet the environmental protection, energy consumption and safety standards of the recipient country.

*Overseas investment to be prohibited*

1. Overseas investment involving export of core technology or product of the military industry without the approval of the Country.
2. Overseas investment involving the use of technology, techniques or products that are banned from export by the Country.
3. Overseas investment in industries such as gambling and sexual services.
4. Overseas investment that is banned by international treaties concluded with or signed by China.

5. Other overseas investments that endanger or may endanger national interests and national security.<sup>52</sup>

After launching this regulation form, as expectable, there was a drop in OFDI coming from the restricted sectors, such as real estate and hospitality, and we can observe that the deal flow became stronger in sectors endorsed by governments, such as investments under the BRI - in transport, utilities and infrastructure – with the intention of deepening the EU-China cooperation through investment, trade and construction projects.

An important achievement for the Chinese Government that was accomplished due to the new Chinese regulatory restriction was that it changed the composition of investors, making possible the reduction of investors with an history of aggressive overseas deal making and leaving mainly state-related and qualified private investors.<sup>53</sup>

## **European Union Concerns on China and OFDI**

For long, economies across Europe have been seeking for Chinese investment as an opportunity of development and growth. An investment in an economy is able to create jobs, opportunities for research, which results in innovation and wealth for those countries. However, it can also have some side effects for the EU on economic, political, and relational terms, such as the decrease of GDP, the political influence that China might have when investing in several EU countries, and the possible fragmentation of the EU as a block.

The first concern from EU about the increasing Chinese investment is the fact that it might also bring political influence and might shake European cohesion. OFDI coming from China is often following a *Divide and Conquer* strategy.<sup>54</sup> This means that, instead of focusing on EU as a whole, Chinese investment framework targeted individual EU

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<sup>52</sup> The General Office of the State Council - Ministry of Commerce, National Development and Reform Commission, Ministry of Foreign Affairs, People's Bank of China (2017). *Guidelines on Further Guiding and Regulating Overseas Investments*. Available at: [http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)

<sup>53</sup> Nienaber, Michael (2019). *Chinese FDI in Europe drops, investment screening will cut it more - survey*. Reuters. Available at: <https://www.euronews.com/2019/03/06/chinese-fdi-in-europe-drops-investment-screening-will-cut-it-more-survey>

<sup>54</sup> Hellström, Jerker (2016). *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications*.

countries such as Greece, Portugal and the 16+1 group<sup>55</sup>, a group created by China and sixteen Eastern and Central European countries<sup>56</sup> in 2011, making it possible then to control somehow not only the country's policies but also influencing country's stance in the EU decisions. Those are flagrant examples of this dividing tactic. There was also an intention to establish a similar structure with Southern European and Nordic countries, but it was not achieved.

The Chinese ability to influence other countries is considerable but it grows as Europe seems to be weakened, a divided Union makes it easier to be meddled with, as they tried to do with 16+1 and BRI.<sup>57</sup> The movements towards Europe, the significantly acquiring capacities, but specially the fact that several EU member states were seeking for investments with all the opportunities that came along, made China's role easier to pursue and left some countries falling into the easy money trap.

Brussels and many European capitals fear that China might exercise their political influence in the countries they invested the most, in order to create pro-China lobbies with influence in policymaking.<sup>58</sup>

The second concern is related to the fact that China is acquiring strategic assets that shake the national security and other strategic sectors of member states.

We can consider strategic assets, the technologically advanced companies which have an essential role on economic growth and international competitiveness for a member state. So, as expected, since it has an important value for a country it shouldn't be in the hands of another, for the damage it may cause to the nation's economy and also giving that China could transfer the value of these companies such as the technology, to develop themselves and getting the ownership of important patents.

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<sup>55</sup> Grieger, Gisela (2016). *One Belt, One Road (OBOR): China's regional integration initiative*. European Parliamentary Research Service.

<sup>56</sup> Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

<sup>57</sup> Browne, Andrew (2016). *China's Offensive in Europe; 'Is There a Master Plan in Beijing?* The Wall Street Journal.

<sup>58</sup> Seaman, John; Huotari, Mikko; Otero-Iglesias, Miguel (2017). *Chinese Investment in Europe. A Country-Level Approach*. ETNC Report. Available at: [https://www.ifri.org/sites/default/files/atoms/files/etnc\\_reports\\_2017\\_final\\_20dec2017.pdf](https://www.ifri.org/sites/default/files/atoms/files/etnc_reports_2017_final_20dec2017.pdf)

In 2016, Chinese enterprises announced or completed collective take-overs of German firms worth 11.3 billion euros (12.8 billion dollars) which attracted much attention, not because of the deal values but because of the technologies they possessed and the potential involvement of some Chinese government programmes in these acquisitions, particularly those of hi-tech companies.<sup>59</sup>

The takeover of German leading industrial robot maker, Kuka, by Chinese Midea by 4.5 billion euros (5.1 billion dollars), proved to be a watershed in Europe.

For the first time, the German government expressed concern that key know-how was falling into foreign hands and could become a strategic threat to the country's industrial leadership. Along with no possibilities to block the deal, the German Government attempted to limit Midea's ownership to 49 per cent, but it was not effective since the majority stake was still obtained with ease after a significant number of shareholders sold their shares to Midea.

Under German law, the government can block takeovers only if they jeopardize energy security, defence, or financial stability, and for that reason they called for a Europe safeguard in order to block the foreign deals on firms where the companies are considered strategic for the economic success of the country and the EU.<sup>60</sup>

Another definition for "strategic assets" is the potential importance to national security of the assets. Assets fitting in energy or other scarce natural resources, military production, and critical infrastructure, can be considered as a strategic asset.<sup>61</sup>

National security concerns in relation to foreign investment are felt mainly in France and the UK.<sup>62</sup> The two case examples are the Point C nuclear power station in the UK, where a stake in the project by China General Nuclear Power Group had to come under scrutiny

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<sup>59</sup> Freshfields Bruckhaus Deringer. *China Outbound. A blueprint for Chinese outbound investment. Midea-Kuka case study*. Available at: <https://www.freshfields.com/en-gb/what-we-do/case-studies/midea-kuka-case-study/>

<sup>60</sup> Sheahan, Maria; Copley, Caroline (2016). *Germany stalls Chinese takeover of Aixtron, citing security worries*. Reuters. Available at: <https://www.reuters.com/article/us-aixtron-m-a-fujian-germany/germany-stalls-chinese-takeover-of-aixtron-citing-security-worries-idUSKCN12O13G>

<sup>61</sup> Zhang, Jianhong and Haico Ebberts (2010). *Why Half of China's Overseas Acquisitions Could Not Be Completed*. Journal of Current Chinese Affairs, 39, 2, 101-131.

<sup>62</sup> Sauvan, Karl P; Nolan, Michael (2015). *China's Outward Foreign Direct Investment and International Investment Law*. Journal of International Economic Law.

in order to not let China gain capacity over the UK energy sector.<sup>63</sup> As said by Zha Daojiong, professor of non-traditional security studies, “The question is not whether your nuclear technology is safe or not, it’s a question of politics. To be blunt, most countries think: ‘Anybody but China.’ This kind of thinking is becoming more and more popular among western countries. It’s a serious problem” (2018).<sup>64</sup>

Also, a French airport in southwestern France, was acquired by a Chinese-led consortium and was concluded despite the opposition from politicians concerned about the security issues it could bring.<sup>65</sup>

Until now, there is no definition on the EU level of what can be considered a critical infrastructure.

The latest case of a blocked deal was months after the Kuka’s deal being completed, a potential 670-million-euro acquisition of Aixtron, a chip maker’s technology by Fujian Grand Chip Investment Fund LP was not concluded in Germany after Obama intervention regarding security concerns coming from USA, because the targeted company was responsible for the upgrade of USA missile defence system.<sup>66</sup>

These acquisitions deals have shown that it is urgent, not only at a national level, but also by policymakers in the EU to take actions towards regulations in order to safeguard member states and the cohesion of the EU.

It is also of relevance the Chinese corporate governance and business practices. When a deal is made, the acquirer company can also bring their trustable managers and top positions to manage the acquired company, and this change can carry some problems into the business. An explanation of these problems can be introduced with a real case of COSCO. It happened, back in 2010, when Chinese state-owned shipping and logistics company COSCO, assumed control of the Greek shipping terminal Piraeus with only months later, the Chinese company managers being accused of suppressing wages and

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<sup>63</sup> Hellström, Jerker (2016). *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications*.

<sup>64</sup> Vaughan, Adam; Kuo, Lilly (2018). *China's long game to dominate nuclear power relies on the UK*

<sup>65</sup> Stothard, Michael (2014). *France to sell airport stake to Chinese*. Financial Times. Available at: <https://www.ft.com/content/05d84b74-7c6e-11e4-9a86-00144feabdc0>

<sup>66</sup> Sheahan, Maria (2017). *China's Fujian drops Aixtron bid after Obama blocks deal*. Reuters. Available at: <https://www.reuters.com/article/us-aixtron-m-a-fujian/chinas-fujian-drops-aixtron-bid-after-obama-blocks-deal-idUSKBN13X16H>



undermining collective bargaining with unions which constituted a labour legislation's violation in the EU. The lack of familiarity with EU norms, standards and regulations can cause some difficulties to the management of a company and for that reason, sometimes they fail to respect local legislation and display a general disregard for local authorities. Such lack of knowledge often increases the risk and the cost of investing in Europe.<sup>67</sup>

The fourth concern related to Chinese OFDI in EU is linked with the lack of investment reciprocity. The fact that China is still considered as an emerging market, it will often show some protectionism in their regulations, and consequently imbalances in two-way FDI patterns.<sup>68</sup>

Furthermore, sectors that are open to be invested in, are then still subject to an approval system on a case-by-case basis, which makes the OFDI less likely to be completed.

The balance between economies is something desirable and if China wants to take advantage of free market access, which gives them the opportunity to contact with better technology and brands the West has to offer, it needs to take reciprocity more seriously and open way for European investment, especially in a time when Chinese GDP is decelerating, China recognises that there is a need to cooperate with the other great potencies in order overcome this situation.<sup>69</sup>

The unsustainable credit growth and overcapacity of acquisition led Chinese companies, especially SOEs, to be able of buying foreign assets and export their extra-capacity to foreign markets. It also should be a concern to the EU. The fact that Chinese business is characterised by active state involvement, in terms of ownership as well as regulation, the fact that Chinese state-owned companies are able to secure funding from the state for their acquisitions are also regarded as challenging from the perspective of fair competition. State support carries with it a risk of distorting the M&A market, giving these companies an unfair competitive advantage.<sup>70</sup> The Chinese targeting of economic sectors in Europe

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<sup>67</sup> Forchielli, Elena (2015). *Chinese Investment in the EU: A Challenge to Europe's Economic Security*. Stockholm China Forum. The German Marshall Fund of United States. Available at: <http://www.gmfus.org/publications/chinese-investment-eu-challenge-europe%E2%80%99s-economic-security>

<sup>68</sup> Hellström, Jerker (2016). *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications*.

<sup>69</sup> Resistance to China's acquisition spree stiffens (2017). Financial times. Available at: <https://www.ft.com/content/3bf09194-9aa8-11e6-b8c6-568a43813464>

<sup>70</sup> Hellström, Jerker (2016). *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications*.

may give the member states and Europe as a whole a competitive advantage, but if it easily acquired through China's increasing financial power it could become a strategic threat to EU's positioning between the major potencies and to the standards of living of each member state.<sup>71</sup>

As perceived by all, there is a lack of transparency on the part of Chinese investors, mainly related to security concerns, which makes it an important issue to discuss.

Several member states, especially France, Germany and even Hungary have worked in new national legislation to safeguard their interests, such as the national security and strategic areas.

In EU, policy makers are becoming more aware of the risks linked to foreign companies or even governments, taking control of some important assets for the national economies or even for the EU.

## **European Regulations on OFDI**

Chinese OFDI has been exposed to a growing regulatory scrutiny by host economies such as the EU markets.

By seeing persistently high levels of Chinese investment in Europe and Chinese new regulation over the M&A as a way of upgrading technology and consequently displacing foreign companies both in China and globally there is a new consciousness of the potential long-term risks of the OFDI in EU. The Chinese regulation were made in order to increase access to key technologies and critical national infrastructures - but diverging national interests and security assessments - while they had their own economy protected.<sup>72</sup> Because of the lack of reciprocity by the EU, the member states individually started to think about a solution to counter this threatening situation to EU economy. In February 2018, reports showed that Germany, France, and Italy launched an initiative in order to speed up an approval of EU law that would tighten rules for foreign acquisitions

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<sup>71</sup> Seaman, John; Huotari, Mikko; Otero-Iglesias Miguel (2017). *Chinese Investment in Europe: A Country-Level Approach*. The European Think-tank Network on China (ETNC). Available at: [https://www.ifri.org/sites/default/files/atoms/files/etnc\\_reports\\_2017\\_final\\_20dec2017.pdf](https://www.ifri.org/sites/default/files/atoms/files/etnc_reports_2017_final_20dec2017.pdf)

<sup>72</sup> Nienaber, Michael (2019). *Chinese FDI in Europe drops, investment screening will cut it more - survey*. Reuters. Available at: <https://www.euronews.com/2019/03/06/chinese-fdi-in-europe-drops-investment-screening-will-cut-it-more-survey>

in EU. If approved, Chinese acquisitions in the EU that could fall under regulatory scrutiny amount to more than 40 billion dollars.<sup>73</sup>

By February 2019, EU launched a tool to screen any OFDI in the member states, in order to preserve security, public order and strategic interests. It was the first EU level tool and will cover critical sectors and technologies made by opaque, state-owned companies with government ties, OFDI impacting EU programmes and projects.<sup>74</sup> It works just under member states' cooperation mechanism which includes exchange of information between EU member states and the European Commission, which can demand additional information to each country and issue an opinion to the countries where the investment is planned. Nevertheless, the decision whether to approve the deal or not, remains a national responsibility.

Researchers from MERICS and Rhodium Group predicted a particular impact in Chinese enterprises, estimating that 82 per cent of 2018 Chinese M&A transactions in Europe would fall under at least one of the new criteria of the EU's new screening framework.<sup>75</sup>

The only way to have a win-win situation with China is if China makes real progress on reforms that increase the role of markets and level the playing field for foreign companies in China.

## **Initiatives for EU-China cooperation**

The combination of EU-China reaches one third of the global economy, and their daily trade amounts to one billion dollars just between them.<sup>76</sup>

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<sup>73</sup> But, Karl (2018). *Europe puts the brakes on Chinese outbound acquisitions*. Dealogic Available at: <https://www.dealogic.com/insight/europe-puts-brakes-chinese-outbound-acquisitions/>

<sup>74</sup> Balázs, Eszter (2019). *EU to scrutinise foreign direct investment more closely*. European Parliament. Available at: <https://www.europarl.europa.eu/news/en/press-room/20190207IPR25209/eu-to-scrutinise-foreign-direct-investment-more-closely>

<sup>75</sup> Nienaber, Michael (2019). *Chinese FDI in Europe drops, investment screening will cut it more - survey*. Reuters. Available at: <https://www.euronews.com/2019/03/06/chinese-fdi-in-europe-drops-investment-screening-will-cut-it-more-survey>

<sup>76</sup> Brown, Ronald C. (2019). *China-EU BIT and FTA: Building a Bridge on the Silk Road Not Detoured by Labor Standard Provisions*. Washington International Law Journal. Available at: <https://digitalcommons.law.uw.edu/wilj/vol29/iss1/4>

The Sino-European<sup>77</sup> bilateral relation has started in 1975 between the Europe community and PRC, aiming for cooperation in the areas of peace, prosperity, sustainable development and people-to-people exchanges.

In 2003, when China became a member of the WTO, the European Commission launched a framework to guide EU policy towards China and the priority points for a deeper cooperation, the *EU-China Comprehensive Strategic Partnership*, resulting in a highly interdependency between these two economies.<sup>78</sup>

In fact, international environment was changing, new types of concerns came across such as terrorism or the proliferation of weapons of mass destruction, and thus there was the need for the EU and China to work as strategic partners in order to safeguard and promote sustainable development, peace and stability.

The Policy Paper contains several concrete proposals in different fields. For Global Governance, it incites the efficiency of the political dialogue in order to better address global and regional governance and security affairs. It also stresses the need to increase the efficiency of the human rights dialogue, which is an essential component of the political agenda, and to enhance its visibility and transparency. The paper also enhances the need for economic openness of China and the dialogue with Chinese administration in order to succeed in areas like investment, competition, trade facilitation and transparency in government procurement, suggesting the reinforcement of the dialogue on the bilateral trade and investment issues.<sup>79</sup>

In order to facilitate investment and other ways for trade with Europe, China launched sub-regional platforms aiming to manage Europe by regions. This decision was not made in cooperation with the EU, but it was a way to reach an understanding with each country separately.

In 2013, as already addressed above, China established with sixteen central and eastern European states, a platform called 16+1.<sup>80</sup> China has also proposed these platforms to

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<sup>77</sup> Relations between the European Union (EU) and China.

<sup>78</sup> European commission (2016). *EU-China 2020 Strategic Agenda for Cooperation*. Available at: [http://eeas.europa.eu/archives/docs/china/docs/eu-china\\_2020\\_strategic\\_agenda\\_en.pdf](http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf)

<sup>79</sup> European Commission (2003). *EU-China: Commission adopts new strategy for a maturing partnership*. IP/03/1231. Available at: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_03\\_1231](https://ec.europa.eu/commission/presscorner/detail/en/IP_03_1231)

other organised groups of economies such as southern, with 6+1, and the Nordic countries with 5+1.<sup>81</sup>

Since the establishment of 16+1, some different theories about the Chinese real intentions behind the platform were raised - some think that it can be a way for political influence and others see it as a purely economic cooperation fostering investment and trade relations.<sup>82</sup>

In the same year, China introduced a strategy of *12 Measures* - China's 12 Measures for Promoting Friendly Cooperation with central and eastern European countries - with the intent of obtaining a recognition of cooperation between this group of economies and China. Its deepened cooperation since it created credit lines in a value of 10 billion dollars and currency swap deals with Hungary and Albania. Until 2014, 90 per cent of the trade deals were made with the five non-EU countries in this agreement, mainly from the fact that the EU member states are much stronger and with less dependency from China, notwithstanding that some conditions attached to this agreement may conflict with EU regulations.<sup>83</sup>

With this platform China is mostly seeking for infrastructures construction projects<sup>84</sup>, while the 16 European nations are looking forward to getting investments in order to create jobs and industrial production.<sup>85</sup>

These types of platforms create issues when the countries do not show a strategy line towards China. It happened, as is now recognized by both parts that the economic outcomes for the 16+1 platform were not as good as initially expected.<sup>86</sup>

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<sup>81</sup> The six southern European countries are Greece, Italy, Spain, Portugal, Cyprus, and Malta. The five Nordic countries are Denmark, Finland, Iceland, Norway, and Sweden.

<sup>82</sup> Hellström, Jerker (2016). *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications*.

<sup>83</sup> Turcsányi, Richard Q. (2015) *The Limits of China's Cooperation with Central and Eastern Europe*. The Diplomat. Available at: <https://thediplomat.com/2015/12/the-limits-of-chinas-cooperation-with-central-and-eastern-europe/>

<sup>84</sup> European Parliament (2018). *China, the 16+1 format and the EU*. Available at: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/625173/EPRS\\_BRI\(2018\)625173\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/625173/EPRS_BRI(2018)625173_EN.pdf)

<sup>85</sup> Turcsányi, Richard; Matura, Tamas; Fuerst, Rudolf (2014). *The Visegrad Countries' Political Relations with China*. Available at: [https://www.researchgate.net/publication/274834960\\_The\\_Visegrad\\_Countries'\\_Political\\_Relations\\_with\\_China](https://www.researchgate.net/publication/274834960_The_Visegrad_Countries'_Political_Relations_with_China)

<sup>86</sup> Turcsányi, Richard Q. (2015) *The Limits of China's Cooperation with Central and Eastern Europe*. The Diplomat. Available at: <https://thediplomat.com/2015/12/the-limits-of-chinas-cooperation-with-central-and-eastern-europe/>

The Chinese attempts to reach the Nordic countries with 5+1, has been subject to special attention from the Nordics, seeking for a partnership. In 2016, ministers for Nordic co-operation, started assessing the possibility of accepting Chinese requests of a closer relationship, since they have seen a great potential in this cooperation in sectors such as research and innovation, green growth, environmental solutions, as well as health and social issues. An important point of this agreement is that it comes with trade and market access balance and also mutual interest in development of environmental technology.<sup>87</sup>

In 2014, it was announced by the President of the European Commission, Jean-Claude Juncker, the new European Fund for Strategic Investments (EFSI), that aimed to invest at least 315 billion euros in long-term projects and in financing small and medium-sized enterprises from 2015 to 2017. The EFSI or the Juncker Plan was in part targeting to support “strategic investments in key areas such as infrastructure, education, research and innovation, as well as risk finance for small businesses.”<sup>88</sup>

EFSI was launched after the wave of Chinese OFDI in EU infrastructure, consequence of the Euro-debt crisis when China had the opportunity to invest in EU infrastructure projects. In 2015, at the High-level Economic and Trade Dialogue, cooperation moved to a new level when China ensure a contribution to the Juncker Plan, making it the first non-EU country to announce its contribution to EFSI, and later also the biggest non-EU contributor.<sup>89</sup>

Other initiative on this collaboration were the Bilateral Investment Treaty (BIT) which can be defined as an agreement establishing the terms and conditions for private investment by nationals and companies of one state in another state. China, since 1982 realized a BIT with the majority of the EU-28, making up a total of 26 treaties (Ireland does not have a BIT with China and Belgium and Luxembourg have a joint agreement).

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<sup>87</sup> The Nordic Council (2016). *Investigation into increased co-operation between China and the Nordic Council of Ministers*. Available at: <https://www.norden.org/en/news/investigation-increased-co-operation-between-china-and-nordic-council-ministers>

<sup>88</sup> European Commission (2016). *Investment Plan*. Available at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L\\_.2015.169.01.0001.01.ENG](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2015.169.01.0001.01.ENG)

<sup>89</sup> Le Corre, Philippe (2018). *Chinese Investments in European Countries: Experiences and Lessons for the “Belt and Road” Initiative*. Rethinking the Silk Road. Available at: <https://carnegieendowment.org/files/RethinkingtheSilkRoad.pdf>

The main focus of the BIT are the investment protection and dispute settlement.<sup>90</sup>

**Table 1:** BIT between EU member-states and China

Short title	Date of signature
China - Malta BIT	22/02/2009
China - France BIT	26/11/2007
China - Portugal BIT	09/12/2005
China - Czech Republic BIT	08/12/2005
China - Spain BIT	14/11/2005
BLEU (Belgium-Luxembourg Economic Union) - China BIT	06/06/2005
China - Finland BIT	15/11/2004
China - Latvia BIT	15/04/2004
China - Germany BIT	01/12/2003
China - Netherlands BIT	26/11/2001
China - Cyprus BIT	15/01/2001
China - Romania BIT	12/07/1994
China - Lithuania BIT	08/11/1993
China - Slovenia BIT	13/09/1993
China - Estonia BIT	02/09/1993
China - Croatia BIT	07/06/1993
China - Greece BIT	25/06/1992
China - Slovakia BIT	04/12/1991
China - Hungary BIT	29/05/1991
Bulgaria - China BIT	27/06/1989
China - Poland BIT	07/06/1988
China - United Kingdom BIT	15/05/1986

<sup>90</sup> Sprich, Christoph (2020). *The EU-China Investment Treaty*. BDI. Available at: <https://english.bdi.eu/article/news/the-eu-china-investment-treaty/>

Austria - China BIT	12/09/1985
China - Denmark BIT	29/04/1985
China - Italy BIT	28/01/1985
China - Sweden BIT	29/03/1982

Source: <https://investmentpolicy.unctad.org/international-investment-agreements/countries/42/china>

The main focus of BITs has been mainly the protection of already done investments, and the assurance that these investments receive fair, equitable, and non-discriminatory treatment. This was what EU member states and China's BITs tried to do, although European companies are still facing several forms of unfair and discriminatory treatment, such as the protection of intellectual property rights, or the targeted enforcement of regulation and competition law.

These unfair practices are still possible to be implemented even though there are the BITs in current use, mainly because of lack of regulation on foreign investors' protection in China, and the BITs do not mention this particular point.<sup>91</sup>

EU and China are two of the biggest traders in the World, being the latter the second biggest trade partner after the USA.

In order to pursue the openness of economies to each other, there was a need from the EU to ensure fairly trade practices, respecting intellectual property rights and WTO obligations.<sup>92</sup>

Back in 2014 the Chinese President, Xi Jinping, tried to show to the EU that a bilateral free trade agreement between these two powers would be revolutionary given the size of their economies, with the possibility of reaching one trillion dollars annual in bilateral trade by 2020.<sup>93</sup>

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<sup>91</sup> Bickenbach, Frank; Liu, Wan-Hsin (2018) *Europe – Challenges for EU FDI Policy*, CESifo Forum, ISSN 2190-717X, ifo Institut – Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 19, Iss. 4, pp.15-22. Available at: <https://www.ifo.de/DocDL/CESifo%20Forum-2018-4-bickenbach-liu-chinese-FDI-december.pdf>

<sup>92</sup> European Commission (2020). *China*. Available at: [ec.europa.eu/trade/policy/countries-and-regions/countries/china/](https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/)

<sup>93</sup> Donnan, Shawn; Byrne, Andrew (2014). *China courts EU on bilateral trade agreement*. Financial Times. Available at: <https://www.ft.com/content/77dc2efc-b9b4-11e3-a3ef-00144feabdc0>



In 2015, the European Commission proposed a new trade and investment strategy, as one of that a bilateral investment treaty (BIT) with China, even though the majority of the member states already had one individually with China, being the first one signed with Sweden, although they generally lack requirements for and restrictions on market access. It could be especially beneficial to the EU since they would start having access to Chinese sectors closed to EU investors.<sup>94</sup>

The *Comprehensive Agreement on Investment* is predictable due for negotiations by the end of 2020 and it has as main idea a traditional investment protection agreement, also covering market access for investment and a number of important disciplines.

Since China's market is considerably less open than the EU's, by launching this agreement the EU primarily wants to improve EU investors' access to the Chinese market by eliminating quantitative restrictions and requirements made by China's regulations to foreign investors, and consequently ensure equal rights when operating in China, forbidding discriminatory laws and practices such as performance requirements - measures requiring investors to behave in a certain way or to achieve certain outcomes.

In a world where the USA is increasingly questioning its commitments to free trade and the global openness, with the Brexit, there is a need for deepened cooperation between the EU and China in order to act more strategically.<sup>95</sup>

There are some good reasons to pursue the agreement, mainly because of its potential of trade expansion, as well as new agreements with countries that already have some agreements with both economies.

The great positive impact this treaty can have in both economies, makes expectable to be concluded, but there are some trade related and sustainable development issues to be addressed, such as the differences in judicial and political systems, the labour practices and consistency in law enforcement. So, the agreement contemplates adequate

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<sup>94</sup> Pelkmans, Jacques, at all (2016). *TOMORROW'S SILK ROAD ASSESSING AN EU-CHINA FREE TRADE AGREEMENT*. CEPS; WTI. Available at: [https://www.wti.org/media/filer\\_public/92/59/92591824-dce9-4077-9d3d-8a6112a9a23d/euchina\\_fta\\_final.pdf](https://www.wti.org/media/filer_public/92/59/92591824-dce9-4077-9d3d-8a6112a9a23d/euchina_fta_final.pdf)

<sup>95</sup> Reuters (2018). *China open to talks on free-trade deal with post-Brexit Britain, visiting Foreign Minister Jeremy Hunt says*. South China Morning Post. Available at: <https://www.scmp.com/news/china/diplomacy-defence/article/2157389/free-trade-agenda-britains-new-foreign-minister-jeremy>

commitments regarding labour market and the environment, in order to diminishing the concerns of the EU.<sup>96</sup>

An important issue that the agreement requires to be overcome is the transparency in the Chinese market, making sure that European companies do not suffer from information asymmetry in their business sectors as well as in licensing and authorisation procedures.

Further difficulties remain in the preferential trade practices, such as dumping. In 2016, due to Chinese trading practices on dumping, the European Parliament voted against deepening cooperation with China: “a fair partnership is only possible if China plays by the rules of free and fair international trade and honours its WTO obligations”.<sup>97</sup>

There is yet another point that complicates the agreement to come to the light of day, which is the fact that it isn't an agreement between two countries, but of a country and a union of 27 countries, which already had their own agreements with China that fulfilled the needs of each individual country. But while living in a union of countries there is a need to act as one when approaching the non-EU countries. Nevertheless, an EU-China BIT leads to divergences among member-states' interests because each of them has different reasons to work in a bilateral agreement, having no motivation to modify their economic relation with China. Therefore, only unambiguous economic incentives can entice the EU out of its current highly nationalized tactic to China, approaching China as a unified block.<sup>98</sup>

## **Chapter 3: Case study: The impact of the new influences**

### **China Nowadays**

As seen in the first chapter, after the social and economic reforms, China had speed up the growth pace of the Chinese economy and its importance in the global order.

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<sup>96</sup> European commission (2020). *EU-China Comprehensive Agreement on Investment*. Available at: <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2115>

<sup>97</sup> Prag, Nick (2016). *MEPs defend EU industry against China's unfair trade practices*. EU Business. Available at: <https://www.eubusiness.com/Members/nickprag/china-trade-mes>

<sup>98</sup> Brown, Ronald C. (2019). *China-EU BIT and FTA: Building a Bridge on the Silk Road Not Detoured by Labor Standard Provisions*. Washington International Law Journal. Available at: <https://digitalcommons.law.uw.edu/wilj/vol29/iss1/4>

Nowadays seeing all the problems that are coming to the world's economy such as the trade war, Brexit and the COVID-19, China may have an important role on rescuing the economy with their funds availability to acquire or invest in several countries with strategic industries, as it had on the 2008 financial crisis. The question that arises is: Can China repeat that feat again? It can be done mostly from the Chinese M&A strong activity, which can be beneficial in the short term for the whole world's economy. However it gives a power to China with these 3 situations that is not possible to predict the influence in the global order and in the ranking of the superpower economies.

Comparing China's importance in the past with what it is now, it is important to bear in mind some factors like the following.

In 1978, China was responsible for 2 per cent of the global GDP. Nowadays it represents 19 per cent, while US and EU only represent respectively 15.2 and 16.3 of the global gross domestic product.

In Deng Xiaoping's time the Chinese GDP reached 150 billion dollars, but 40 years later it was already 94 times bigger reaching 14.2 trillion dollars, which dividing by the population at the time gives a GDP per capita of 194 US dollars in 1980, and a value of 10,000 dollars to the GDP per capita in 2019.

China is also the global leader of exportations with 12 per cent in the world's market.

Other important factor that determines their importance on rescuing the world from these turbulent times, is the number of companies on the 500 biggest companies in the world. In 2000 china represented 2 per cent with 10 companies, while nowadays this number grew almost 600 per cent to 119 companies representing China within the world's biggest companies.

This data can show that China is getting an important role in the world's economy and the predictions to become the greatest potency in the world by 2025 seems very likely.

What is important to understand in here is if this power that china is near to conquer will be beneficial to the world. For that reason, we should study the recent situations that can lead to a turbulent time in different places in the world but affecting the economy in general.

These situations are likely to give some space to growth for China and mainly via Europe, since all of them, as analysed in this chapter, are possible drivers for a European fragility.

## Brexit influence in Chinese outflows

At 11 PM GMT, on January 31<sup>st</sup>, 2020, the UK stopped being part of the EU. A public vote held in June 2016, gave citizens the possibility to choose between leaving the EU – Brexit – or remaining. Brexit won with 52 per cent.

Even though the UK formally left after Brexit's day, there are a lot of subjects waiting for negotiations and agreements, leaving an undefined relationship between both parts.

As seen in the other chapters, the UK was the main recipient of Chinese investments, and for that reason it is important to study the impacts of Brexit on Chinese M&A in the EU. By now, it is not possible to conclude what will be the UK's future and EU relationship, because until December 31<sup>st</sup>, 2020, it will be a transitory period, in which until its end, the UK is still following all the EU's rules and its trading relationships will remain the same.<sup>99</sup> The end of this period will bring more conclusions about its impact on M&A market but by now we can only assess the impact on EU markets since the 2016 referendum and the prediction of what can happen after the transitory period.

It is understandable that the uncertainty caused by Brexit since 2016, kept some deals in standby or "wait and see" mode, especially the long term decision making, such as M&A, which means investors are waiting for the post Brexit era in order to understand if this can be beneficial for their deals, having the need of assessing the new financial environment.<sup>100</sup> Therefore, it is important to analyse the different possible Brexit outcomes and the reasons that can explain them.

Firstly, we should consider a possible drop of the M&A in the UK after Brexit transitory period and a decrease in the economy pace in general. Many companies looked at the UK as a bridge to European market and they invested in the UK's financial and infrastructure projects, setting up R&D centres in London and also undertook acquisitions of British companies or British brands in order to be connected and to have open doors to the EU market.

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<sup>99</sup> BBC (2020). *Brexit: All you need to know about the UK leaving the EU*. Available at: <https://www.bbc.com/news/uk-politics-32810887>

<sup>100</sup> Deloitte. *Plotting a new course: The impact of Brexit on M&A activity*. Available at: <https://www2.deloitte.com/uk/en/pages/global-markets/articles/impact-of-the-eu-referendum-on-ma-activity-in-the-uk.html>

London has made great efforts to promote the construction of Yuan offshore market, which gives Chinese banks much greater lending and financing capacity, Yuan treasury bonds were issued in London, and several bilateral currency agreements were made between UK and the Chinese government. Also, the National Bank, People's Bank of China, issued 5 billion yuan of central bank bills in London. Due to the Brexit, the promoting costs of Yuan in the rest of the EU will be higher, which will make China seek for alternatives to London and pay some adjustment costs.

London will remain attractive to Chinese investment, but they will also focus on new European financial centers such as Frankfurt, Paris or Luxemburg, making London losing its impact because it is not the European financial center anymore, and receives much less attention than the 450-million consumer European market.

The French finance minister Bruno Le Maire announced that the future EU-UK will not bring any weakness to the EU single market<sup>101</sup>, meaning that cutting the biggest Chinese bridge within the EU, leaves just the possibility to switch the approach to strengthen cooperation with the EU.<sup>102</sup>

For China, it is important to get the market economy status, which means a country that is an economic system and where economic decisions and pricing of goods and services are guided by interactions of a country's citizens and the businesses.<sup>103</sup> China was not recognized by now as a market economy because their dumping practices on cheap goods. The reason they want to be recognized by WTO as a market economy is that, if otherwise the USA and the EU can keep imposing duties on cheap imports from China while disregarding its claim that they are fairly priced.<sup>104</sup>

In China's view it is important to find a strategic partner, that in this case could be the EU or the UK able to influence next to the WTO in order to let them be considered as a market

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<sup>101</sup> Cheng, Xia (2020). *How will Brexit affect China and the yuan's global campaign?* CGTN. Available at: <https://news.cgtn.com/news/2020-01-31/How-will-Brexit-affect-China-and-the-yuan-s-global-campaign--NHUYo5gEve/index.html>

<sup>102</sup> Zhang, Lishan (2018). *The Impacts of Brexit on China*. 2nd International Conference on Management, Education and Social Science.

<sup>103</sup> Chappelow, Jim (2020). *Market Economy*. Investopedia. Available at: <https://www.investopedia.com/terms/m/marketconomy.asp>

<sup>104</sup> Miles, Tom (2019). *China pulls WTO suit over claim to be a market economy*. Reuters. Available at: <https://www.reuters.com/article/us-usa-china-wto-eu/china-pulls-wto-suit-over-claim-to-be-a-market-economy-idUSKCN1TI10A>

economy. Even with all the weaknesses coming from Brexit, the EU is a robust and organized trade block, which can give China the market economy status as they want, making unclear if the UK will remain in Chinese top OFDI destinations.<sup>105</sup> If the EU allows China to reach the market economy status, most trade restrictions imposed by China will be lifted.

Among the several types of financial flows, China used to drill the EU mainly by OFDI, but in a way to level up the economic relationship, it is possible that they consider loans and bonds. This is a step further in trustfulness scenario with China, since it is possible to see the advantage taken when using these financial flows, but not meddling with the EU's trade environment. The deeper cooperation of these two potencies might influence the way the USA looks at the global trade, and possibly promoting the multilateralism and peaceful competition, in order to get more efficient production.

Secondly, another possible path, comes from the "acquisition oriented" Chinese investors, taking advantage of the post-Brexit time. With the drop of the Pound's value, it is possible to easily seek for bargains in the UK, possibly seen as a short-run phenomenon.<sup>106</sup>

Some economists believe that Brexit will not make London and the UK in general less attractive, and the reason of these thoughts is that London is more complete than other European competitors in terms of accounting and legal services as well as financial education.<sup>107</sup> A poll conducted by Deloitte shows that great number of companies are considering incremental M&A opportunities from Brexit than those looking away from the UK as a target destination.<sup>108</sup>

Despite the 2019's uncertainty on UK's future economic and trade relations, Chinese enterprises were still investing in the country, being the second largest recipient inside

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<sup>105</sup> Browne, Andrew ; Le Corre , Philippe ; Sepulchre, Alain (2016). 'China's offensive in Europe;' *Is there a master plan in Beijing?* Brookings. Available at: <https://www.brookings.edu/on-the-record/chinas-offensive-in-europe-is-there-a-master-plan-in-beijing/>

<sup>106</sup> Zhang, Lishan (2018). *The Impacts of Brexit on China*. 2nd International Conference on Management, Education and Social Science.

<sup>107</sup> Cheng, Xia (2020). *How will Brexit affect China and the yuan's global campaign?* CGTN. Available at: <https://news.cgtn.com/news/2020-01-31/How-will-Brexit-affect-China-and-the-yuan-s-global-campaign--NHUYo5gEve/index.html>

<sup>108</sup> Deloitte. *Plotting a new course: The impact of Brexit on M&A activity*. Available at: <https://www2.deloitte.com/uk/en/pages/global-markets/articles/impact-of-the-eu-referendum-on-ma-activity-in-the-uk.html>

the EU, in that year.<sup>109</sup> The major cause for this result comes from the fact that UK is turning companies into cheaper acquisition targets in order to remain Europe's biggest M&A market, with 6.4 per cent share of Global M&A. It will be possible to observe a trend of increase in cross border M&A transactions, since the decline in the value of pound, the UK becomes a more attractive target to overseas buyers.

The impact of the currency devaluation on M&A in the last few years is unclear, so it is difficult to give this as a condition correlated with the change in market activity. Between 2007 and 2009, with the global financial crisis, when the value of sterling dropped 19 per cent against the US dollar it was complemented with a 42 per cent decline on UK's M&A activity.<sup>110</sup>

Therefore, between 2013 and 2015, there was an appreciation of the US dollar against the UK sterling, which led to a 11 per cent decline of the British currency, inciting opportunistic activity by overseas buyers in the UK M&A market, reflecting in a 20 percent increase in the UK's M&A activity.

With this example it is possible to understand that the weakness of the currency is not the only requirement, but is very important, to have an increase of the M&A activity. It is also crucial to have a stable and robust market, in order to show confidence to the investors. Combining the ambitious growth prospects with the weaker currency will make the deal look more attractive.<sup>111</sup>

Analysing the data available and the agreements made between both parties, it is possible to understand the attractiveness of the UK as an investment destination for Chinese companies for M&A deals. The "Golden era" policy, created by the UK in order to make China their second biggest trade partner until the end of 2025, stated the intention to

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<sup>109</sup> Muze, Attila (2018). *Cross-border M&A soars to new record*. Dealogic. Available at: <https://www.dealogic.com/insight/cross-border-ma/>

<sup>111</sup> Deloitte. *Plotting a new course: The impact of Brexit on M&A activity*. Available at: <https://www2.deloitte.com/uk/en/pages/global-markets/articles/impact-of-the-eu-referendum-on-ma-activity-in-the-uk.html>

become the western country that is most open to China<sup>112</sup>, also has an important role in encouraging Chinese investment into the UK.<sup>113</sup>

Some economists believe that Brexit will make the UK more dependent on China, and thus more likely to support China's interests in international conferences and promote Yuan internationalization.<sup>114</sup>

In the next two years, the UK is expected to seek for foreign investment from China to balance the negative economic aspects of Brexit.<sup>115</sup> Even if this scenario reveals to be true in the UK, it is not necessarily a bad scenario for the EU.

Thirdly, any occurrence able to shake the economy such as a financial or social crisis where we might include Brexit, can have as a consequence the fragmentation of the EU, giving more negotiation space and additional opportunities to foreign countries, as China, making the EU's position weaker on its own values, softening their stand in terms of Chinese human rights' abuses.<sup>116</sup>

If this comes to a reality, it is important to re-think the Sino-European relationship in order to have mutual benefits. For China, to achieve the market economy status, which can be simpler with the EU's support, and for the EU to have a more open and transparent Chinese market to European investments with an optimization of the market structure and trade policies.

Overall, we can conclude that the Sino-European relationship can get better with Brexit, mainly because the EU is a robust and solid system and China will always need the EU more than the EU needs China. This can be perceptible on the acquisition of the market economy status and with the willingness to pursue with the biggest trade partners.

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<sup>112</sup> Phillips, Tom (2015). *Britain has made 'visionary' choice to become China's best friend, says Xi*. The Guardian. Available at: <https://www.theguardian.com/uk-news/2015/oct/18/britain-has-made-visionary-choice-to-become-chinas-best-friend-says-xi>

<sup>113</sup> Deloitte. *Plotting a new course: The impact of Brexit on M&A activity*. Available at: <https://www2.deloitte.com/uk/en/pages/global-markets/articles/impact-of-the-eu-referendum-on-ma-activity-in-the-uk.html>

<sup>114</sup> China's currency.

<sup>115</sup> Baker McKenzie (2018). *Rising Tension Assessing China's FDI drop in Europe and North America*. Rhodium Group. Available at: [https://www.bakermckenzie.com/media/files/insight/publications/2018/04/rising\\_tension\\_china\\_fdi.pdf?la=en](https://www.bakermckenzie.com/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en).

<sup>116</sup> Godement, François (2016). *China and Brexit: what's in it for us?* European Council on Foreign Relations. Available at: [https://www.ecfr.eu/publications/summary/china\\_and\\_brexit\\_whats\\_in\\_it\\_for\\_us7112](https://www.ecfr.eu/publications/summary/china_and_brexit_whats_in_it_for_us7112)



Even in the worst-case scenario for the EU, which would be if UK and China strengthen their cooperation, London-based companies would not feel the need to reallocate, the EU would have also some income coming from the costs of entering in the EU.

A study from Deloitte shows that once uncertainty dissipates, M&A activity tends to recover quickly, and this certainty needs to come mainly from politicians and their policies.<sup>117</sup>

Uncertainty is considered the biggest impact of Brexit in the economy. But instead of excluding the UK's market as OFDI recipient, most investors prefer to wait and see the outcome from this situation. The positivity must be something to keep in mind in order to pass through the turbulent time.<sup>118</sup>

Brexit means uncertainty and will continue to cast some shadows over M&A and investment decisions in the UK. However, companies should not simply wait and see. Because unique M&A opportunities can arise from these times, and market conditions need to be closely monitored.<sup>119</sup>

The possible economic competition between UK and the EU for foreign investment, specially the Chinese, will probably bring better benefits for Chinese enterprises. It means than it is not Chinese predictions of less economic damage to UK with Brexit, but rather that it sees itself better placed to take advantage of the UK and Europe's future weakness.<sup>120</sup>

## **Implications of the USA-China Trade War in the EU**

A trade war is recognizable when countries try to attack other's trade with taxes and quotas. If a country raises tariffs, it might cause a response from the other country, in a tit-for-tat escalation. This war can also hurt other countries' economies and trade

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<sup>118</sup> Bibko, Suzy (2019). *Brexit: Uncertainty and Opportunity for M&A*. Merrill Corp. Available at: <https://www.lexology.com/library/detail.aspx?g=99f11e39-c4e6-49b9-b89b-f64ab0dba8e9>

<sup>119</sup> Deloitte. *Plotting a new course: The impact of Brexit on M&A activity*. Available at: <https://www2.deloitte.com/uk/en/pages/global-markets/articles/impact-of-the-eu-referendum-on-ma-activity-in-the-uk.html>

<sup>120</sup> Godement, François (2016). *China and Brexit: what's in it for us?* European Council on Foreign Relations. Available at: [https://www.ecfr.eu/publications/summary/china\\_and\\_brexit\\_whats\\_in\\_it\\_for\\_us7112](https://www.ecfr.eu/publications/summary/china_and_brexit_whats_in_it_for_us7112)

relations, leading to an increase of political tensions between both countries, and uncertainty to the general market.

Another important reason for the change on Chinese OFDI pattern and lower liquidity in the economy was the geopolitical tension between China and host economies, one of them being USA.

The described trade war is what the American and the Chinese economies have been living, since 2018 when the USA's President Donald Trump imposed tariffs in imported goods coming from China making up a total of 50 billion dollars off it. As a response, the Chinese government-imposed tariffs in 232 USA's products, including soya, an important American exportation to China.<sup>121</sup> These tariffs have the intention to encourage consumers to buy national products by making imported goods more expensive.<sup>122</sup>

For President Trump, it is very important to cut the trade deficit the USA has with China, in order to have more Chinese exports than what China has to the USA. The main reasons for this is the fact that China has been accused of unfair trade practices and intellectual property theft since Mr Trump became the USA's president, but specially for the fact that China is considered the second global potency, just behind the USA, showing that it is trying to curb Chinese rise as a global economic power.

The table below reflects the tariffs imposed by USA on Chinese products and the retaliation of the Chinese government on American products.

Table 2: Chinese and American Tariffs during Trade-War

<i>Tariffs</i>	<i>USA</i>	<i>China</i>
<i>July 2018</i>	34 billion dollars at 25 per cent	34 billion dollars at 25 per cent
<i>August 2018</i>	50 billion dollars at 25 per cent	50 billion dollars at 25 per cent

<sup>121</sup> P. Bown, Chad (2020). *US-China Trade War Tariffs: An Up-to-Date Chart*. Peterson Institute for international economics. Available at: <https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart>

<sup>122</sup> BBC (2020). *A quick guide to the US-China trade war*. Available at: <https://www.bbc.com/news/business-45899310>

<i>September 2018</i>	50 billion dollars at 25 per cent	50 billion dollars at 25 per cent
<i>September 2018</i>	200 billion dollars at 10 per cent	60 billion dollars at 10 per cent
<i>May 2019</i>	250 billion dollars at 25 per cent	110 billion dollars at 25 per cent
<i>June 2019</i>		60 billion dollars at 25 per cent
<i>September 2019</i>	250 billion dollars at 30 per cent	110 billion dollars at 25 per cent
<i>September 2019</i>	400 billion dollars at 15 per cent	75 billion dollars at 10 per cent

Source: <https://www.bbc.com/news/business-45899310>

Between October and December 2019, both parties have threatened to impose new tariffs and increasing existing ones. The increase of the tariff rate either from the USA or China, and the announced threats of levying some more to come, have significant potential to disrupt global growth.

The trade conflict between these two parties has created some uncertainties throughout investor's confidence which postpones some deals to occur, leading to a concern of a potential short-run disruption although the long-term problems are related with the health and integrity of the global system.<sup>123</sup>

The magnitude of the trade war between China and the USA ensures that the risks are high for the whole Globe, mainly because the agglomerate of both economies' GDP makes 40 per cent of global GDP, showing that the weight of both economies is too

<sup>123</sup> Plummer, Michael G. (2019). *The US-China Trade War and its implications for Europe*. Intereconomics. Available at: <https://www.intereconomics.eu/contents/year/2019/number/3/article/the-us-china-trade-war-and-its-implications-for-europe.html>

significant for the development and for the good environment of the World's economy. In 2019, some warnings came from the Organisation for Economic Cooperation and Development (OECD) about the uncertainties that the trade war might bring, mainly in the global business investment.<sup>124</sup>

In the M&A market, the uncertainty that trade war brought, was responsible for the low performance of the deal making, even though debt financing for acquisitions remained cheap.<sup>125</sup> "M&A volumes have dissipated because there are concerns that risks may be rising in several spots, in markets and elsewhere" said Michael Carr, global co-head of M&A at Goldman Sachs Group Inc.

The trade War stands for a bigger emerging risk than Brexit. As emerging risk, we mean trade tensions, tariffs, and potential erosion of the global GDP as the biggest emerging business risk on their due diligence checklists this year.

EY reports revealed that global investor sentiment for M&A decline to a four-year low, with worries over Brexit and the US-China trade battle affecting companies' appetite for deal making.<sup>126</sup>

Objectively speaking, we assisted to a decrease in the Chinese OFDI of 40 per cent in 2019 comparing to 2018, the lowest since 2010.<sup>127</sup>

Comparing December 2018 with the same period in 2017, the deal volumes into the USA coming from China was down 26 per cent, and 29 per cent when comparing to the same period in 2016.<sup>128</sup>

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<sup>124</sup> Plummer, Michael G. (2019). *The US-China Trade War and its implications for Europe*. Intereconomics. Available at: <https://www.intereconomics.eu/contents/year/2019/number/3/article/the-us-china-trade-war-and-its-implications-for-europe.html>

<sup>125</sup> Strauss, Daniel (2019). *Global M&A activity tumbles to 3-year low as Trump's trade war rages*. Markets Insider. Available at: <https://markets.businessinsider.com/news/stocks/trade-war-impact-on-global-mergers-q3-volume-3-year-low-2019-9-1028564563>.

<sup>126</sup> Downey, Sarah (2019). *US-China trade war greater threat to M&A than Brexit*. ICLG. Available at: <https://iclg.com/ibr/articles/9020-us-china-trade-war-greater-threat-to-manda-than-brexit#>

<sup>127</sup> Baker MaKenzie (2018). *Rising Tension Assessing China's FDI drop in Europe and North America*. Rhodium Group. Available at: [https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising\\_tension\\_china\\_fdi.pdf?la=en](https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en)

<sup>128</sup> Chen, Angela (2019). *Quarterly update on the M&A market in China*. Oaklins. Available at: <https://www.oaklins.com/news/en-NL/184430-how-is-china-planning-to-circumvent-the-impact-of-a-potential-currency-war>

### Trade War and the EU-USA relationship

The deterioration of EU-USA trade relations began when President Trump came to power and declared a war against the trade deficit with the EU. USA imposed the first measures in response to EU subsidies for European aircraft maker Airbus. In order to balance the trade and to not make European Airbus planes more attractive, it was necessary to impose 10 per cent tariffs on airbus planes. WTO choosing USA's side, stated that the subsidies were illegal, because it gives to the European aircraft producer an unfair advantage over American competitor Boeing.

USA's government alleged that they were relying on other countries for its metals, making them dependent on others if a war broke out, because they could not make enough weapons or vehicles using its own industry and resources. The two main industries suppliers of steel are Canada and the EU. If the USA taxes foreign steel and aluminium will mean US companies will buy local steel instead. The boost that this situation might bring to that USA industries, may attract more buyers to their goods.<sup>129</sup> The USA received a response from the EU taxation on iconic products such as motorcycles and Demin jeans. Several EU countries, such as France, Italy and the UK, by that time, have also proposed a digital services tax on large technology companies, many of which are headquartered in the US, this could obviously escalate the threats of tariffs coming directly to EU products.

USA used the same strategy, imposing new taxes able to hurt several economies, mainly in regional specialities, such as the ones with a protected name status. The explanation of these tariffs is mainly because it will give an advantage to the American copycat products.<sup>130</sup>

At the World Economic Forum, that happened on January 2020, USA President Donald Trump approached European Commission President Ursula Von der Leyen with a threat of imposing huge tariffs on European cars if the two sides cannot reach a trade agreement soon, keeping his "America First" economic, highlighting the difficulties Europe will face

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<sup>129</sup> BBC (2019). *Trade wars, Trump tariffs and protectionism explained*. Available at: <https://www.bbc.com/news/world-43512098>

<sup>130</sup> DW (2019). *US imposes record \$7.5 billion tariffs on European goods*. Available at: <https://www.dw.com/en/us-imposes-record-75-billion-tariffs-on-european-goods/a-50880622>

this year in taming Trump's unilateralist and protectionist instincts<sup>131</sup>. This was mainly justified because European automakers export over six times as many cars by value to the United States as U.S. automakers export to Europe, many threats came from Mr Trump's side since 2018 to European vehicle justifying the threat on national security grounds. This is all about pressuring the EU in order to make it take away with the subsidies on aircraft-maker.

Facing the offensive approach of the USA imposing tariffs in the EU, the latter has revealed its willingness to negotiate. "I've taken notice of the recent announcement by the U.S. regarding potential tariffs. I am very open to engage, to discuss and to find solutions" the European Commission President said during a press conference.

Mr Altmaier, a European diplomat has said that "Despite all the constraints we face from countries like China and the U.S., we have an interest in keeping markets open," he said. "We are not answering protectionism with protectionism from our side, we're not answering state interference with state interference from our side."<sup>132</sup>

Also in the beginning of 2020, was signed the phase one of the trade agreement between the USA and China, approving a cut demand of almost 11 billion dollars in European goods, hitting hard particular sectors in Germany and France, two of the biggest European economies. Another measure applied in phase one is the promise of buying 200 billion dollar more of American-made goods and services in the next two years above the 2017's level, concentrating the Chinese purchases on USA and away of all other regions in the globe, where Europe is included. With the phase one we also have the USA agreeing on to halve some of the new tariffs it had imposed on China.

Other important point that kept China and great potencies far from agreements is that China is usually accused of stealing intellectual property. With the Sino-American agreement it was possible to make China promise to strengthen intellectual property rules. The effects of the trade war will be felt in Europe just in this year of 2020, exacerbating the growing impact of tariffs being levied by the US on the EU.

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<sup>131</sup> Johnson, Keith (2020). *Europe Is the New Front in Trump's Trade War*. Foreign Policy. Available at: <https://foreignpolicy.com/2020/01/23/europe-new-front-trump-trade-war-davos-wef/>

<sup>132</sup> Moens, Barbara; Cokelaere, Hanne; Hanke Vela, Jakob (2019). *If you want to protect Europe, prepare for trade war*. Politico. Available at: <https://www.politico.eu/article/if-you-want-to-protect-europe-prepare-for-trade-war-tariffs-sanctions/>

After closing the trade agreement with China, and as he said, Mr Trump will focus his attention on the EU, but he wants to finish with China in order to get through an agreement with EU. However, the USA treasury secretary Steven Mnuchin advice the EU that USA will continue with the threats on tariffs if Europeans go through with a digital tax that targets major U.S. tech firms. “If people want to arbitrarily put taxes on our digital companies, we will consider putting taxes arbitrarily on car companies”, he said.<sup>133</sup>

In order to strength the system, the EU is stepping up into the Asia-Pacific, having already concluded bilateral agreements with Canada, Chile, Colombia, Japan, Korea, Mexico, Peru and Singapore, and has negotiations ongoing with India, New Zealand, the Philippines, Thailand and Vietnam. The EU needs to work with its Asia-Pacific partners, as well as the USA, in order to update trade rules, cut border obstacles and lay the foundation for a prosperous 21st century global marketplace.<sup>134</sup>

This situation makes the USA-EU relationship weaker and in a critical situation for both potencies. It is important to build a positive agenda for the trans-Atlantic relationship, and to not waste time on unilateral actions, tit-for-tat measures, or new barriers to trade.<sup>135</sup>

“The tense relations between the US and China, and their high degree of economic interdependence, create an operating environment that companies are finding increasingly challenging,” says Jon Shames, EY Global Geostrategic Business Group Leader. “Tariffs and increasing scrutiny of cross-border deals are impacting M&A timelines.”

On the third quarter of 2019, M&A activity in Europe reached 249 billion dollars, more than 45 per cent over the same period in 2018. The reason for this phenomenon is that Europe consists in different kind of deals, different sectors, and geographies. Although, the volume of Chinese-led deals in Europe in 2019 was down from highs set in 2016,

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<sup>133</sup> Agence France-Presse (2020). *Trump Relaunches Trade War with Europe*. CNS. Available at: <https://www.courthousenews.com/trump-relaunches-trade-war-with-europe/>

<sup>134</sup> Plummer, Michael G. (2019). *The US-China Trade War and its implications for Europe*. Intereconomics. Available at: <https://www.intereconomics.eu/contents/year/2019/number/3/article/the-us-china-trade-war-and-its-implications-for-europe.html>

<sup>135</sup> Knowler, Greg (2020). *Europe faces \$11 billion hit from US-China 'phase one' deal: study*. JOC. Available at: [https://www.joc.com/regulation-policy/europe-faces-11-billion-hit-us-china-%E2%80%98phase-one%E2%80%99-deal-study\\_20200327.html](https://www.joc.com/regulation-policy/europe-faces-11-billion-hit-us-china-%E2%80%98phase-one%E2%80%99-deal-study_20200327.html)

before the Chinese government began a deleveraging campaign that has cut into investment outside China.<sup>136</sup>

With these trade disputes, the M&A market, that have been characterized by the large cross-border deals, have now some difficulties in closing these same deals. In 2018, 16 mega deals that worth more than 10 billion dollars, took more than one year to be completed.

As seen before with Brexit, all situations causing uncertainty, will make the investors rethink about their choices and apply a “wait and see” strategy, in order to understand if the deal will be still beneficial for them in the future. As the London-based Steve Krouskos, EY Global Vice Chair — Transaction Advisory Services, says: “Geopolitical, trade and tariff uncertainties have finally caused some dealmakers to hit the pause button.”.

Our January 2019 Trade Survey revealed that 78 per cent of US C-level executives believe that a trade dispute would likely push the US into recession. Nearly all respondents (93 per cent) believe that tariffs will impact their company’s M&A plans.<sup>137</sup>

There are several challenges inherent to the trade war that other countries, such as the European ones, must face. First of all, the fact that with this protectionism coming from the USA and then the EU, it is very difficult for an economy to have a place where to it can grow, which can be seen as a real problem when speaking about weaker economies that can easily enter in a recession. This is way more important than it looks because with the recession not only the economy can become more fragile, but also bring back some political tension within the EU member states.<sup>138</sup>

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<sup>136</sup> Chen, Angela (2019). *Quarterly update on the M&A market in China*. Oaklins. Available at: <https://www.oaklins.com/news/en-NL/184430-how-is-china-planning-to-circumvent-the-impact-of-a-potential-currency-war>

<sup>137</sup> EY (2019). *How escalating tension between the US and China impacts the deal market*. Available at: [https://www.ey.com/en\\_gl/tax/how-escalating-tension-between-the-us-and-china-impact-the-deal-market](https://www.ey.com/en_gl/tax/how-escalating-tension-between-the-us-and-china-impact-the-deal-market)

<sup>138</sup> Basedow, Robert (2019). *The US-China trade war: Risks and opportunities for the EU and the United Kingdom*. London School of Economics. Available at: <https://blogs.lse.ac.uk/euoppblog/2019/10/17/the-us-china-trade-war-risks-and-opportunities-for-the-eu-and-the-united-kingdom/>



EU must not choose sides no matter the subject, it should just defend the norms and principles on which the liberal international order, including the multilateral trading system occurs.<sup>139</sup>

## **Corona Virus influence in the M&A market**

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus<sup>140</sup>, which affects the respiratory system. Until June 2020, it has sickened more than 6,380,200 people and at least 380,300 people have died, and the virus has been detected in nearly every country.<sup>141</sup> It was firstly detected in the city of Wuhan, China, in late 2019 and it rapidly spread across the whole world in the first months of 2020.<sup>142</sup>

The official COVID-19 Chinese numbers are 4600 deaths from 84000 confirmed cases even though critics have questioned whether the country's official numbers can be trusted.<sup>143</sup>

On March 11<sup>th</sup> it was declared a Global pandemic by the World Health Organization (WHO), which happens when a disease is passing easily from person to person in many parts of the world at the same time. This made necessary, the imposition of some restrictions on social distancing and travel by 140 Governments. Those restrictions had a catastrophic impact on the global economy and the International Monetary Fund (FMI) has warned that it could possibly be the worst recession since the Great Depression of the 1930s.

This situation can bring bigger problems than just health. As United Nations consider, the COVID-19 pandemic could almost double the number of people suffering acute hunger.

Some countries are already seeing their number of cases and deaths decrease, because of the implemented measures, but some others, such as the Latin American countries, have

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<sup>139</sup> Casarini, Nicola (2019). *US-China Trade war: Why the EU should take sides and favour the rules-based order*. Istituto Affari Internazionali (IAI). Available at: <https://www.iai.it/en/pubblicazioni/us-china-trade-war-why-eu-should-take-sides-and-favour-rules-based-order>

<sup>140</sup> World Health Organization (2020). *Corona Virus*. Available at: [https://www.who.int/health-topics/coronavirus#tab=tab\\_1](https://www.who.int/health-topics/coronavirus#tab=tab_1)

<sup>141</sup> The New York Times (2020). *Corona Virus maps*. Available at: <https://www.nytimes.com/interactive/2020/world/coronavirus-maps.html>

<sup>143</sup> BBC News (2020). *Coronavirus pandemic: Tracking the global outbreak*. Available at: <https://www.bbc.com/news/world-51235105>

felt a sharp increase in the cases on the second half of May 2020, which led the WHO to assume South America as the centre of the pandemic.

In Europe, the worst-hit countries were the UK, Italy, France and Spain, however with the slowly ease of restrictions, brought in to decelerate the spread of the virus, which makes possible to think the peak has passed.<sup>144</sup>

Every country is looking to join the few others that have controlled the epidemic and are focusing on preventing a resurgence. However, for that prevention there are some factors to bear in mind.

First of all, it is important to consider the effect of the climate in the virus, evidence on how much of a mitigating effect heat and humidity will have on the coronavirus. If the virus proves to be seasonal, countries such as Singapore that have achieved rapid control, can be shown as getting bias results since they have more tropical climates. If this is the case, Europe and the USA will be the major drivers of outcomes.

The second factor that should be considered is the possibility to obtain herd immunity, which happens when a sufficient portion of the population - 65 per cent – is not susceptible to get an infectious disease, which means that the transmission becomes impossible to propagate for the lack of hosts. It can occur through either widespread exposure or immunization. By May 2020, even the hardest-hit cities, such as New York, are far from the herd immunity, and the majority of the population still remain vulnerable to the virus.

In the economic sphere, corporations are mainly focused on keeping their employees and business safe throughout the unstable times they are living, such as no-travel and work-from-home policies for some workers and physical-distancing-at-work measures for others. This makes the challenge of reaching goals more difficult, which gives them the need to increase communication, balancing the needs of the business with expectation setting and morale building, so employees know that their well-being is top priority.<sup>145</sup>

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<sup>144</sup> BBC News (2020). *Coronavirus pandemic: Tracking the global outbreak*. Available at: <https://www.bbc.com/news/world-51235105>

<sup>145</sup> Deloitte (2020). *COVID-19 – a global M&A legal perspective*. Available at: <https://www2.deloitte.com/ch/en/pages/legal/articles/m-and-a-legal-during-covid-19.html>

Since we have large-scale quarantines all over the globe, as well as travel restrictions, sharp fall in consumer and business spending is expectable, making a loss in companies' revenue and an increase of the unemployment rate. This precedes to a Business investment tightening, and corporate bankruptcies escalate, putting significant pressure on the banking and financial system. Right before the COVID-19 expanded into Europe, global equity indices, such as S&P 500 reached historic peaks. However, in March, the indices deeply changed followed by high volatility to a level last time seen in the 2008 financial crisis.

The instability on capital markets often reflect what will take place on the real economy, so it is possible that the countries that suffer the most with COVID-19, can experience a recession still this year, only expecting a recovery in Q2 2021, even though some considered the effects unforeseeable because it only hurt low-income emerging economies such as Brazil or Indonesia latter than Europe, so it is more difficult to evaluate how the situation will evolve.

As referred before, the threat of COVID-19 to human life and businesses will be fully resolved only when countries reach herd immunity to cease the virus transmission, either from a vaccine or direct exposure. However, until then, it is important to restart the economic activity, and for that it is necessary to have public-health systems strong enough to detect and respond to cases, in order to not have a collapse.

As the pandemic is seen as dynamic and a constant evolving challenge, it is not possible to assume a "one size fit all" approach in the law-making side nor in the companies' side to start operating again in the different areas or regions they have been working before. It is important to see each situation as a different case and study itself as a location or industry specific approach to ensure it is fulfilling the requirements of local employment and health and Osafety standards.

Until 2020, it was impossible to think of a shutdown of the modern economy because of a pandemic and then reopen it while the virus is still present. This led to some changes in the way things were done, somewhat transforming works and ways of behaviour in society, that until that moment were done differently.

The pandemic has exposed the world's dangerous dependence on susceptible nodes in global supply chains. China, for example, accounts for about 50 to 70 per cent of global demand for copper, iron ore, metallurgical coal, and nickel. We could see a massive

reorganization as production and sourcing move closer to end users and companies localize or regionalize their supply chains.

Innovation is one of the few “gains” of the pandemic situation since it was necessary to adapt people and businesses to the new reality. There was obviously an unprecedented surge of global pharmaceutical R&D due to COVID-19. Nowadays, we can identify 80 different vaccine candidates under consideration across a range of modalities and use cases. If a treatment already approved for other diseases proves effective curing COVID-19, it could be implemented easily, but by now our hopes lie almost entirely on new treatments still not arising.

This crisis has driven new technology across all features of life, from e-commerce to remote-working and learning tools. New working and shopping practices will probably become a long-lasting feature of the next normal.<sup>146</sup>

The performance of the global sectors such as M&A market, depend on the interconnectedness of the financial system. This means that, a slowdown in international markets, due to the COVID-19 pandemic, can change the way buyers and sellers complete and approach M&A transactions, leading to a deceleration on M&A's activity pace globally.<sup>147</sup> The main reason for this decline is the massive uncertainty and volatility caused by the virus, which makes difficult to complete a deal, since both parties need to consider all the possible effects and restrictions that a pandemic brings to a specific transaction.<sup>148</sup> This uncertainty hits the investors' confidence and expectations, making the gap between the value of a company and the investors' willingness to pay bigger. Most of the sellers would not accept distress-type valuation, choosing to wait the markets to recover.<sup>149</sup>

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<sup>146</sup> McKinsey & Company (2020). *COVID-19: Implications for business*. Available at: <https://www.mckinsey.com/business-functions/risk/our-insights/covid-19-implications-for-business>

<sup>147</sup> Colizzi Pier Luigi (2020). *How the European M&A market is responding to the COVID-19 crisis*. Barclays. Available at: <https://www.investmentbank.barclays.com/our-insights/3-point-perspective/covid-19-crisis-how-the-european-ma-market-is-responding.html>

<sup>148</sup> Casben, Tim; Franchetto, Stephen; Palm, W. Ian (2020). *COVID-19: Impact on International M&A - Updates from the UK, EU, Middle East, China and Canada*. Lexology. Available at: <https://www.lexology.com/library/detail.aspx?g=9fcf65c0-0404-4f91-b96c-08229156a2c2>

<sup>149</sup> Kengelbach, Jens et al (2020). *COVID-19's Impact on Global M&A*. BCG. Available at: <https://www.bcg.com/publications/2020/covid-impact-global-mergers-and-acquisitions.aspx>

After a decade of record on M&A activity, deal makers are facing unprecedented disruption, mainly because of the virus short-term effects, and it is evident in the deals that were delayed in March. Some deals are still being complete mainly between companies from the same industries that are facing similar restrictions. In some cases, the deal process was accelerated in order to take some pandemic outcome, such as the synergies. Others are on hold due to valuation and financing issues and uncertainty, and then also, as expected, some deals have been cancelled.<sup>150</sup>

The deals are large dependent on the stage of transaction when the effects of COVID-19 were initially felt by the company being acquired. Early-stage deals are being put on hold until receiving some signs of recovery from the market. With employees not working, owners in quarantine, and operations suspended, it is especially difficult to complete confirmatory due diligence.<sup>151</sup>

The valuation of the deals is also more difficult now during COVID-19 time. The M&A parties that had already established a given value for the transaction, need to count now with the uncertainty living in order to reassess the deal's value, to see whether the worth agreed before is fair, considering the new conditions.<sup>152</sup>

It is obvious that the lack of liquidity is also a great driver for a decrease on M&A activity. First, most of the potential acquirors are themselves facing reduced cashflow. The majority of the industries are facing considerable drops in sales and consequently in revenue, so then deals will compete with other company priorities since cash is not unlimited. Second, it is more difficult to have a bank credit, regarding the unpredictable future for the company, so the risk for the creditor is higher.<sup>153</sup> To pursue with a M&A deal it is necessary that the companies behind this transaction have adequate capital and the right deal strategy and both are challenging in the COVID-19 months.

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<sup>150</sup> Kengelbach, Jens et al (2020). *COVID-19's Impact on Global M&A*. BCG. Available at: <https://www.bcg.com/publications/2020/covid-impact-global-mergers-and-acquisitions.aspx>

<sup>151</sup> BDO (2020). *Mid-Market M&A: Impact of Covid-19*. Available at: <https://www.bdo.ca/en-ca/insights/advisory/valuations/mid-market-ma-impact-covid-19/>

<sup>152</sup> Casben, Tim; Franchetto, Stephen; Palm, W. Ian (2020). *COVID-19: Impact on International M&A - Updates from the UK, EU, Middle East, China and Canada*. Lexology. Available at: <https://www.lexology.com/library/detail.aspx?g=9fcf65c0-0404-4f91-b96c-08229156a2c2>

<sup>153</sup> Kengelbach, Jens et al (2020). *COVID-19's Impact on Global M&A*. BCG. Available at: <https://www.bcg.com/publications/2020/covid-impact-global-mergers-and-acquisitions.aspx>

Companies will face issues such as the evaluation of the acquisition costs, synergies coming with this deal and the liquidity needed for this environment. It is also important to highlight that companies operating are facing more cost than before, because they had to adapt to the virus environment, since have expenses of sanitization, inventory loss or unused facilities. All this cost should be considered from the buyer's point of view, towards ensuring their own viability.<sup>154</sup>

With this uncertainty some options will arise in form of bargain and possibly some options previously available will disappear. For this reason, it is important companies use robust and disciplined approach to forecast scenarios, in order to get the possible scenarios of deals' value creation. The majority of the deal makers have not dropped their original investment or business plans, although it is necessary to adapt them, including discussions on timing and force majeure clauses.<sup>155</sup>

For healthy balance sheet companies, which means companies that have liquidity or have a stable situation possible to ask for a loan, have an opportunity to create long term value during these turbulent times, because it is possible to take advantage of the environment to execute its strategic acquisition agenda. It is also possible to integrate an acquired company during the downturn.

The effects of the virus are not still certain, but merger activity could be effective passing through crisis periods by sharing resources and providing access to capital, even though merger deals will still face traditional challenges, such as valuation or integration, in irregular times. However, in the other hand, we have banks looking for opportunities to place capital, and Governments willing to provide some help to companies with credit lines that will make companies guarantee access to cash.<sup>156</sup>

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<sup>154</sup> Wittmer, Colin (2020). *COVID-19 and deals: A sudden shift in M&A dynamics*. PWC. Available at: <https://usblogs.pwc.com/deals/covid-19-and-deals/>

<sup>155</sup> Zhang, Anna (2020). As COVID-19 Spreads, Deal Lawyers Await Its Impact on China's Markets. The American Lawyer. Available at: <https://www.law.com/international-edition/2020/04/01/as-the-coronavirus-spreads-deal-lawyers-await-its-impact-on-chinas-markets-378-138371/?slreturn=20200429080809>

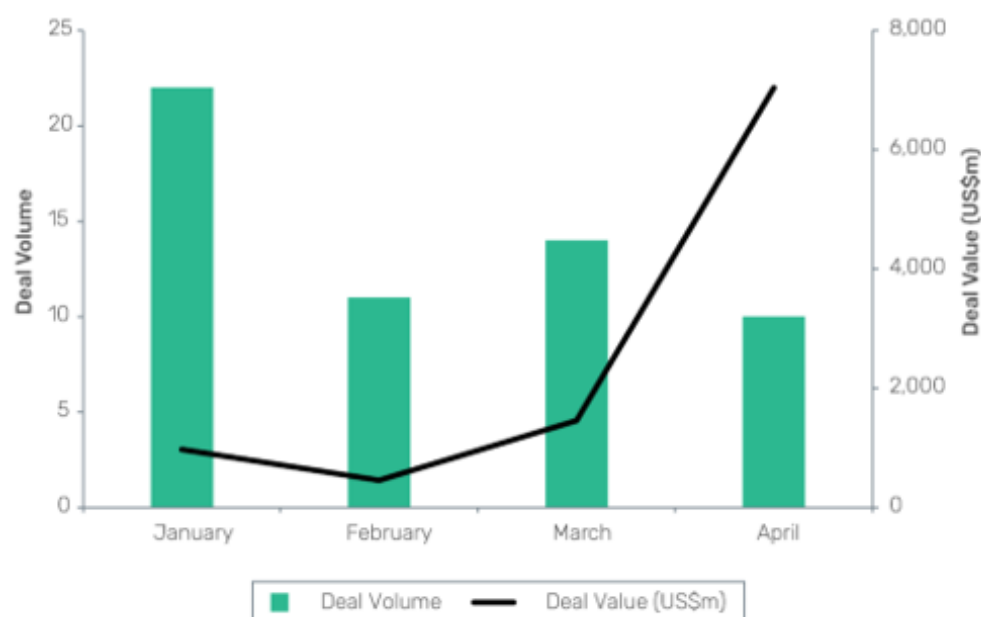
<sup>156</sup> Wittmer, Colin (2020). *COVID-19 and deals: A sudden shift in M&A dynamics*. PWC. Available at: <https://usblogs.pwc.com/deals/covid-19-and-deals/>

In turbulent times, such as the COVID-19 pandemic that affects the economy as a whole, for previous experiences, it is possible to ensure that Chinese enterprises have upped their willingness to acquire or invest in troubled foreign assets in strategic locations.

The Chinese M&A activity slowdown in 2019 after the new phase of contentious trade, economic and diplomatic relations between them and the USA. Chinese investment into Europe totalled 13.4 billion dollars in 2019, the lowest since 2013. The Chinese acquisitions in the advanced European economies such as Germany and France fell drastically, not from lack of attempts but mainly from unsuccessful major deals, as the state-owned power company Three Gorges Corp.'s failed 10.3 billion dollars bid for Portugal's largest utilities company, Energias de Portugal.<sup>157</sup>

From January to April 2020, 57 Chinese outbound M&A deals worth 9.9 billion dollars and 145 Chinese outbound investments worth 4.5 billion dollars were announced. The key M&A target destinations for Chinese firms were Hong Kong, the US, the UK, Germany, France, Canada, and India.<sup>158</sup>

**Figure 7: Chinese Outbound M&A Deal Volume and Value in 2020**



<sup>157</sup> Zhang, Anna (2020). *As COVID-19 Spreads, Deal Lawyers Await Its Impact on China's Markets*. The American Lawyer. Available at: <https://www.law.com/international-edition/2020/04/01/as-the-coronavirus-spreads-deal-lawyers-await-its-impact-on-chinas-markets-378-138371/?sreturn=20200429080809>

<sup>158</sup> Global Data (2020). *China's acquisitions and investments in foreign firms amid COVID-19 raise eyebrows*. Available at: <https://www.globaldata.com/chinas-acquisitions-and-investments-in-foreign-firms-amid-covid-19-raise-eyebrows-says-globaldata/>

Source: <https://www.globaldata.com/chinas-acquisitions-and-investments-in-foreign-firms-amid-covid-19-raise-eyebrows-says-globaldata/>

We can also compare the environment lived in 2020 as the one lived in the 2008 financial crisis, where many Chinese companies acquired cheap assets around the Globe while the market was down outside China, which makes some investors predicting similar opportunities emerging soon. By May 2020, the companies are not yet actively seeking for bargains, because it is possible to see too many fluctuations in the market. When Chinese investors consider the market have bottomed, they can start trying to grab assets on the cheap, especially in crucial markets for a country such as energy, natural resources and mainly, high tech industries.<sup>159</sup>

In resume, in the short run, it is expected a slowdown in M&A activity, as companies focus on shoring up liquidity and cost efficiencies. the implementation of the remote working led to a slowdown on regulatory activity. Once the crisis ends, we can expect a traditional merger activity to resume on the back of rising share prices, increasing confidence, and improved financing conditions.<sup>160</sup>

Another reality COVID-19 pandemic brought was reasons for the USA to stay far from China, which will probably make Chinese investors to get closer from EU, in the attempt to acquire technologies in more advanced European economies, as Germany, France. Also, the UK, for other reasons expressed above, is also within the top targets of Chinese investments. However, there are two things that should bear in mind. Firstly, those countries are also beginning to follow the U.S. example in instituting more rules around technology-focused deals. Secondly, those countries are also fragile because of the times living, which will make them more open than what they want, to receive foreign investors, because of their need of money in the moment.

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<sup>159</sup> Xu, Liang (2020). *China: Early emergence from the COVID-19 crisis may spark an M&A boom*. Hogan Lovells. Available at: <https://dealdynamics.hoganlovells.com/china-early-emergence-from-the-covid-19-crisis-may-spark-an-m-a-boom>

<sup>160</sup> Colizzi Pier Luigi (2020). *How the European M&A market is responding to the COVID-19 crisis*. Barclays. Available at: <https://www.investmentbank.barclays.com/our-insights/3-point-perspective/covid-19-crisis-how-the-european-ma-market-is-responding.html>



If the trend continues, it is expectable to see Chinese investors to shift their attention to crucial infrastructures in Europe and to emerging markets in Asia, since Asian countries are leaving this pandemic better than any other country. In order to pursue the Belt and road initiative, it is possible to add Eastern Europe, Latin America, and potentially Russia.<sup>161</sup>

This period is predictable to be beneficial for China, since it is financially stable, and it gives the possibility to China to grow as a consumer-led economy and feel its effects in the trade balance.<sup>162</sup>

## **Conclusion - The future of China and the EU's response**

In 2019, China's outbound investment dropped. Similarly, in 2020 is likely to follow this pattern since it was a period where too many unexpected challenges raised and were object of uncertainty around the world. The decisions made by the greatest potencies of the world in the present, will influence the way the world will evolve in years to come.

All the subjects approached in the third chapter have shown that there are several ways where China can go forward, and all of them will have an impact, which can be positive or negative, in the European economy.

When the developed countries understood that China was not only made of the exportations of cheap goods with lower quality, but also the biggest acquirers of tech and crucial industry's companies, they understood that was not possible to ignore them anymore. It was not possible to disregard that in a few years they will be able to take USA's place as the world's biggest economy. To step back China's increasing gain of power, the only possible way is to increment international regulatory obstacles, such as barriers to make the acquisition by Chinese companies more difficult or even impossible.

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<sup>161</sup> Xu, Liang (2020). *China: Early emergence from the COVID-19 crisis may spark an M&A boom*. Hogan Lovells. Available at: <https://dealdynamics.hoganlovells.com/china-early-emergence-from-the-covid-19-crisis-may-spark-an-m-a-boom>

<sup>162</sup> Global Times (2020). *China-EU economic cooperation increasing amid COVID-19*. Available at: <https://www.globaltimes.cn/content/1188851.shtml>

Studies point at 2025 as the year that China can surpass the USA if it continues with the same economic growth rates. However, I believe that this is only possible if China finds a partnership with the West, which could be the USA, the EU, or the UK.

My conclusions about any of these partnerships were achieved by the in-depth study of the three main topics discussed before, Brexit, the USA-China trade war, and the COVID-19 pandemic.

If in the beginning of 2020 we thought it would be possible to reach a bilateral trade agreement between USA and China, even though the high uncertainty caused by the trade war, nowadays it does not look like a possibility anymore. Even though we know that China is leaving this pandemic stronger than other countries, they have had other reputational problems emerged. Firstly, in December 2019, when the virus (COVID-19) first appeared in Wuhan, China concealed relevant facts, such as the severity of the consequences and secondly they allowed the virus to spread around the world because they failed to block immediately the borders, and cancel international flights. Also comparing Chinese official numbers of infected people and deaths with the rest of the world, we can see some discrepancy, which led people to believe that its numbers might not be trustworthy, making it possible to consider China as the main responsible for the virus propagation around the world. It will also give them less room to negotiate with the other great powers unless they are tremendously fragile, and in great foreign aid need, which will leave them with more difficulties to pursue the trade and the investments in foreign countries.

President Donald Trump, as expected, has criticized China a lot, when speaking about the measures applied to combat the virus, and for that reason it is possible to conclude that an agreement between these two countries is not likely to happen.

If China and the USA reach an agreement, which it does not look plausible nowadays, it would tremendously affect Europe as a whole. The agreements between the USA and China will pass through the annihilation of European economies in the markets, to make a “duopoly”.

This would greatly affect Europe, not just because it would stop both parties to import from the old continent, supporting each other's on the products they supply, but also because together they would be able to acquire several important industries in European countries.

The only way, a partnership between China and the USA would not destroy Europe, is if European countries stand together and create regulations in order to forbid the acquisition of the most important industries, even if they are short on cash, because the long-run consequences of these potential acquisitions would be much higher.

The second possible partnership is with the UK, which became an independent runner for this partnership in the beginning of 2020, with Brexit.

As explained before, China is ready to take advantage of a divided Europe and a weakened UK after Brexit. The losses from Brexit will mainly harm the EU and the UK or possibly both, while China will get most of the gains. Analysing a partnership between the UK and China, the latter can benefit from the fact that the UK is now more fragile than before and for that reason it is simpler to get through an agreement, that might be more beneficial to China, since it is easier to deal with countries separately rather than as a block, because of its much larger economy. On the other hand, the EU's great trade advantage comes from acting together as a block.

As highlighted before we know that the UK is having cheap assets, which can be considered as bargains, and this makes it possible that the two countries get closer via acquisitions. Although, we know the UK has seen good cooperation from China, both in terms of the repatriation of British nationals from Wuhan and also in terms of medical supplies during the pandemic, Dominic Raab, who was standing in for Boris Johnson as the prime minister recovered from COVID-19, said "There's no doubt we can't have business as usual after this crisis (...) We'll have to ask the hard questions about how it came about and how it could have been stopped earlier".<sup>163</sup> The trustable issues with China has made any country, more less the ones in a weak financial position, less willing to make an agreement, which makes us believe that even though China and the UK may possible create a partnership in the future, we know that probably it won't happen in the short-run.

It is also likely that China loses some willing to invest in the UK because it is no longer the European financial centre. Even though, the UK and the EU will pursue with a bilateral agreement in the end of 2020, it is difficult to believe that the EU will let the UK with several benefits that does not make them lose the status.

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<sup>163</sup> Donaldson, Kitty; Mayes, Joe (2020). *It won't be 'business as usual' with China after Covid-19, UK says*. The print. Available at: <https://theprint.in/world/it-wont-be-business-as-usual-with-china-after-covid-19-uk-says/403503/>

As far as the EU, it appeared that it was the only possible partner that was affected from all the analysed topics.

Firstly, from Brexit, it gave China the need to acquire companies in the EU, to have access to the EU market, since London's doors are not open anymore.

Secondly, the fact that China and the USA grew more distant, it could be a signal of any interest from Chinese companies to approach and invest in the EU. However, the fact that China became even less trustworthy on the eyes of any potential partner, because of the COVID-19 issue, it made the EU also consider if they should open their doors to Chinese outflows.

Most economists believe that China is not able to secure the economy as they did in 2008 financial crisis with acquisitions around the world, due to the debts it has run up, mostly as a result of the debt issued in that time. The difference is that, back in 2009 China's debt levels to GDP were modest, and nowadays they are excessive, mainly because of Chinese bank loans equivalent to almost half of global GDP, which can be explained from the fact that Chinese bank lending is used merely to cover interest payments on existing debts. This situation leaves fewer opportunities to possible new investments. A solution would be China developing policies to reduce indebtedness. In the long-term it is possible to predict a partnership between China and the EU, but by now China is not seen as trustworthy, which makes us believe that no agreement is possible. Furthermore, some European leaders have shown their displeasure with the way China handled this situation, to quote France's President, Emmanuel Macron on China's COVID-19 containment success: "Let's not be so naive as to say it's been much better at handling this. There are clearly things that have happened that we do not know about".<sup>164</sup>

We should not discard the moment when China will be able to reduce their debt and start increasing their M&A activity again. In this moment if the European is not fully recovered, it is possible that the acquisitions of the industries that make more money to the country, specially the tech one will still be attractive and Europe will be left with little negotiation skills. Europe needs to have a more concise response and not leave the decision for the country but as a union, after some consideration of each M&A deal, having the possibility to block the deal if it threatens any European country's economy. We could also consider a potential partnership between the EU and the USA since they are

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<sup>164</sup> Financial Times (2020). FT Interview: Emmanuel Macron says it is time to think the unthinkable. Available at: <https://www.ft.com/content/3ea8d790-7fd1-11ea-8fdb-7ec06edeef84>

more similar in terms of their western culture and the way they make business. In the moment China is raising their economy and is about to take control of the global trade, it is important to analyse which are the factors that make Europe far from reaching an agreement with the “still” biggest world’s economy.

It is possible to be considered as an important factor, the uncertainty that President Trump proposals caused in the World.

Until the mid-2020, lots of questions arise that influenced M&A activity, but there are some others coming in the second semester of 2020, such as the US elections looming in November, and some Brexit details that should be agreed until the end of the year. It is important to highlight that a nation as big as the USA should not cause the panic that has been causing in the World, and this there is possibly the main reason to explain the fact that EU doesn’t find a partner on them. However, a different approach after the USA’s presidential elections, would make EU less septic to work with them.

The conclusions I have reached from the impact of the Chinese M&A activity in the European economy is that it will be always willing to invest in the EU, but possibly if not correctly and strongly regulated, can cause some disruption not only in the EU, but also in the global economy. It is important to have acquisitions from countries outside the EU, but not able to interfere in some important subjects such as national security, otherwise if the EU doesn’t act as a unified block it does will not take much until China becomes able to take control of crucial industries.

It is necessary to have investments from foreign companies, but it is more important to have investors operating in the EU that respect and follow the norms and regulations.

In the other hand, and as exposed before, EU does not need, and should not be dependent on China to receive investments overseas, so more bilateral agreements, mainly with other Asian emerging countries is crucial

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## **Summary**

### **China's political background**

China, the World's most populous country with over 1.4 billion inhabitants, was considered, in 2010, as the World's second largest economy by GDP, just behind the USA. In 2019, representing 16 per cent of the World's GDP. Even though China is considered as a developing country, it is usually seen as a threat for developed economies positioning as the biggest potency in the world.

However, China was not always a foreign-oriented nation, especially since 1949 when China became a communist country. In order to understand China's growth path through the years, it is important to enhance the history influence. Since the 19<sup>th</sup> century, China was mostly composed by rural population and had an export surplus supported by the silk, tea and porcelain paid with silver which explained the expansion of the money supply and the growth in the economy until the 1820s. Because of that, China counted with several foreign invasions with the purpose of making it weaker. From 1839 to 1949 the Chinese population had experienced the "Century of Humiliation", which led the 1949 leader, Mao Zedong, to create PRC as a closed and planned economy. The industries became Government's property and he was able to oppress all communist party's opponents, leaving just one party in the country, CPC.

Mao Zedong's policies and ideologies led China to face a deep crisis during which 45 million people died from starve, and left the country with an overwhelming poverty rate (88 per cent of the population in 1978 lived with less than 2 dollars a day), freezing the society until 1976.

There was a need to industrialize and modernize in order to catch up with Western countries and to not be dependent from others, guiding China to become a closed economy. After several failed attempts, in 1978 after Mao Zedong's death, China went through a wide range of economic reforms which opened up China to the global market and foreign investment leading to China's notable fast economic growth. This structural change in the country led to a wide debate about economic reforms and new policies that until that moment were not allowed.

Meanwhile most of the developing countries followed World Bank's advices to reduce the Government intervention, China opted to follow an unique path by adapting the

market to a Neoliberalism<sup>165</sup> under state-control in order to become efficient, creating some economy market-oriented conditions such as competition, new enterprises and jobs.

### **New era of reform and opening**

The Second Industrial Revolution that ended in the 1970s, brought the industry mechanization, which could be observed in the standardization of stages and in the use of efficient machines leading to an increase in productivity, know-how and willingness to find the most efficient component without caring about the geographical barrier, giving enterprises the possibility to search for the better practices, and more efficient processes.

From 1979 to 1997, Deng Xiaoping ruled China in an innovation-oriented way, understanding that it was not possible to keep growing without having a wide range of trade agreements with the rest of the Globe, gaining synergies.

The first stage of reform was driven towards de-collectivization of the agriculture<sup>166</sup>. In July 1979, Special Economic Zones – regions chosen by the Government to offer foreign investors legal protection and tax exemption, not extended to Chinese enterprises – were created and helped opening up the country to foreign investment and taking down barriers to entrepreneurs to open businesses, although most industry was still state-owned<sup>167</sup>. With several measures the Government wanted to attract foreign capital, new technologies, know-how and innovative processing sectors. From 1979 to 1984, 942 foreign investor deals were made making up a total of 6 billion dollars.

The second stage of reform includes the privatization and the abolishment of price controls and partially protectionist policies.

For the third stage, the PRC introduced in the 10<sup>th</sup> Five-year Plan (2001-2005) a Go Global Policy, which was made to encourage domestic companies to intensify their presence in global market, promoting China's integration in the international economy.

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<sup>165</sup> Associated with policies of economic liberalization such as privatization, deregulation, globalization, free trade reductions in government spending in order to increase the role of the private sector in the economy and society.

<sup>166</sup> Before 1978 no private land existed and it was all collectively owned. The output produced by a production team was sold to the Government. After the reform, Chinese Government decided to divide the land into family plots, which made the productivity increase a lot.

<sup>167</sup> Zaniboni, Vittoria (2015). *International Trade Relations between China, Europe and Italy*. Luiss Guido Carli Library

## **What makes EU good to invest**

There are good reasons that make China wanting to have deeper cooperation with the EU, mainly because of the wide range of technologies and know-how they have but also, it makes easier the entrance in another markets such as the USA, via EU.

Another important reason that makes this particular market so interesting to enter is the credibility of their brands that are able to improve the marketability of the Chinese products in the European Market. Besides that, some European countries, mainly southern Economies, need resources in the short-run and China has it.<sup>168</sup>

In 2013, President Xi Jinping announced the plan “Belt and Road Initiative”, which aimed to strengthen the transportation network around the World, by building a unified large market and make full use of both international and domestic markets. In 2018, it already included 1/3 of world trade and GDP and over 60 per cent of the world's population.<sup>169</sup>

After all these reasons given above, there are other feature that makes Europe interesting to invest in, and it is the fact that EU countries don't follow a pattern in most of the important subjects such as economy, politics and also culture, making the countries attractive for different reasons, so it is possible to find 28 (after Brexit we count only with 27) legal and political systems. But the fact that there are a free movement of goods, services, and people, let any Chinese enterprise that have invested in one country to also have plenty opportunities in all the others.

## **Features of the Chinese M&A**

We can ensure the Chinese investment in Europe pattern is not cyclical, but it follows a structural trend. Chinese emergence in Europe came at the worst economic moment for Europe in decades, during and after the 2008 financial crisis, leading some Europeans to think of it as an one-off cyclical spike and that Chinese investors were only seeking for cheap assets. The privatization gave market power to Chinese companies and more

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<sup>168</sup> Bickenbach, Frank; Liu, Wan-Hsin (2018) : *Chinese Direct Investment in Europe – Challenges for EU FDI Policy*, CESifo Forum. Available at: <http://hdl.handle.net/10419/199017>

<sup>169</sup> World Bank (2018). *Belt and Road Initiative*.

possibilities for continuous investment in Europe despite a significant recovery in asset prices.

China's trade structure has been modified in the past 40 years, especially products exported and the target economies. They started to export resource-based products, then textile products, then mechanical and electric products and now high-tech products. Between 2010 and 2014 Chinese companies' business targets, were mainly concentrated in seven sectors: Energy, Real estate, manufacturing, agriculture, finance, and telecommunications/software.

For Chinese enterprises, acquiring high-tech companies in high-income economies can be seen as a way to capture those countries advanced technologies, brands, and markets, which gives them the proper know-how and we can interpret this as a way of growth.

The sector that attracts more Chinese direct investment is the energy<sup>170</sup> sector with 17 billion dollars. Then comes automotive as second leading recipient with 8 billion dollars followed by agriculture and food carrying 7 billion dollars (6.5 billion euros).

The number of Chinese companies operating internationally has been increasing, reporting the numbers of 2010 as 10,167 to 2019's number of 37,164, according to China's Ministry of Commerce.<sup>171</sup>

The investment in Europe has been diversified, not just geographically but also the industries in which they invested.

The top recipient of Chinese investment between 2000 and 2014 was the United Kingdom with more than 16 billion dollars. It is understandable due to the fact that London was the European financial centre.

M&A by Chinese enterprises began after the application of Deng's policies specially after the second stage of market reforms that opened more doors for other Chinese companies to start acquiring. Until that point, it was mainly state-owned enterprises. After the WTO accession, domestic companies aggressively started acquiring, and the biggest M&A cases happened in the 21<sup>st</sup> century.

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<sup>170</sup> Including fossil fuel, utilities and renewable

<sup>171</sup> Woetzel, Jonathan et al (2019). *China and the world: Inside the dynamics of a changing relationship*. McKinsey Global Institute. Available in: <https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside%20the%20dynamics%20of%20a%20changing%20relationship/mgi-china-and-the-world-full-report-june-2019-vf.ashx>

## **The 2016 peak**

Since 1978, Chinese enterprises have been significantly increasing their pace in OFDI, with a growing efficiency in their own economy, creating an environment for a globalisation of products and services and deepening mutually beneficial cooperation with other countries.<sup>172</sup>

In the last decades Chinese OFDI in the EU has shown an impressive growth, and between 2005 and 2015 we have seen an average evolution of 30 per cent each year. Nevertheless, the peak was reached in 2016, with 35 billion euros, displaying an OFDI growth rate of 77 per cent when compared with the previous year.<sup>173</sup>

## **Chinese Regulation over OFDI**

After 2017, it is possible to observe a change in the Chinese M&A pattern worldwide for several reasons. First of all, back in China, there was a change in the regulatory environment, mainly through restrictions by the Government, creating a shift from Chinese investors towards different industries and geographies.

The rapid growth of global investment activity by Chinese companies has made Chinese leaders nervous and has caused a contraction of administrative controls to crack down on certain types of transactions. In early 2016, the Chinese central bank first informally reached out to banks and local bureaucrats and asked them to increase their scrutiny over outbound investments.

The Chinese National Development and Reform Commission, the Ministry of Commerce, the People's Bank of China, and the Ministry of Foreign Affairs composed by a set of guidelines to tight control on Chinese investment abroad.<sup>174</sup> The first restrictions were

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<sup>172</sup> The General Office of the State Council - Ministry of Commerce, National Development and Reform Commission, Ministry of Foreign Affairs, People's Bank of China (2017). *Guidelines on Further Guiding and Regulating Overseas Investments*. Available at: [http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)

<sup>173</sup> Baker & McKenzie (2018). *Rising Tension Assessing China's FDI drop in Europe and North America*. Rhodium Group. Available at: [https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising\\_tension\\_china\\_fdi.pdf?la=en](https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en)

<sup>174</sup> Zhang, Laney (2017). *China: New Rules on Overseas Investment Released*. Library of Congress. Available at: <https://www.loc.gov/law/foreign-news/article/china-new-rules-on-overseas-investment-released/>

placed in the late 2016, to discourse concerns about large-scale capital outflows and to mitigate apparent risks to China's financial system from rapid overseas investment.<sup>175</sup>

The tightening of controls was a response to growing capital outflows under China's balance of payments, which are diminishing China's foreign currency reserves and putting growing pressure on Chinese currency.<sup>176</sup>

In order to stop money moving out of the country and to stabilise its currency, banks were obliged to limit the conversion of Chinese Yuan into foreign currencies in order to stop large capital outflows depleting China's reserves.<sup>177</sup>

These guidelines were formalized in August 2017 in the *Guiding Opinions on Further Directing and Regulating the Direction of Overseas Investments*, introducing a new OFDI regime based on encouraged, restricted and prohibited sectors and projects of investment.

After launching this regulation form, as expectable, there was a drop in OFDI coming from the restricted sectors, such as real estate and hospitality, and we can observe that the deal flow became stronger in sectors endorsed by governments, such as investments under the BRI - in transport, utilities and infrastructure – with the intention of deepening the EU-China cooperation through investment, trade and construction projects.

An important achievement for the Chinese Government that was accomplished due to the new Chinese regulatory restriction was that it changed the composition of investors, making possible the reduction of investors with an history of aggressive overseas deal making and leaving mainly state-related and qualified private investors.<sup>178</sup>

## European Union Concerns on China and OFDI

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<sup>175</sup> Baker MaKenzie (2018). Rising Tension Assessing China's FDI drop in Europe and North America. Rhodium Group. Available at: [https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising\\_tension\\_china\\_fdi.pdf?la=en](https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en)

<sup>176</sup> Coppola, Frances. *How China's Capital Controls Help Manage its Foreign Exchange Rate*. American express. Available at: <https://www.americanexpress.com/us/foreign-exchange/articles/china-capital-controls-to-manage-foreign-exchange-rate/>

<sup>177</sup> Nienaber, Michael (2019). *Chinese FDI in Europe drops, investment screening will cut it more - survey*. Reuters. Available at: <https://www.euronews.com/2019/03/06/chinese-fdi-in-europe-drops-investment-screening-will-cut-it-more-survey>

<sup>178</sup> Nienaber, Michael (2019). *Chinese FDI in Europe drops, investment screening will cut it more - survey*. Reuters. Available at: <https://www.euronews.com/2019/03/06/chinese-fdi-in-europe-drops-investment-screening-will-cut-it-more-survey>



For long, economies across Europe have been seeking for Chinese investment as an opportunity of development and growth. An investment in an economy is able to create jobs, opportunities for research, which results in innovation and wealth for those countries. However, it can also have some side effects for the EU on economic, political, and relational terms, such as the decrease of GDP, the political influence that China might have when investing in several EU countries, and the possible fragmentation of the EU as a block.

The first concern from EU about the increasing Chinese investment is the fact that it might also bring political influence and might shake European cohesion. OFDI coming from China is often following a *Divide and Conquer* strategy.<sup>179</sup>

The Chinese ability to influence other countries is considerable but it grows as Europe seems to be weakened, a divided Union makes it easier to be meddled with, as they tried to do with 16+1 and BRI.<sup>180</sup> The movements towards Europe, the significantly acquiring capacities, but specially the fact that several EU member states were seeking for investments with all the opportunities that came along, made China's role easier to pursue and left some countries falling into the easy money trap.

The second concern is related to the fact that China is acquiring strategic assets that shake the national security and other strategic sectors of member states.

We can consider strategic assets, the technologically advanced companies which have an essential role on economic growth and international competitiveness for a member state. So, as expected, since it has an important value for a country it shouldn't be in the hands of another, for the damage it may cause to the nation's economy and also giving that China could transfer the value of these companies such as the technology, to develop themselves and getting the ownership of important patents.

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<sup>179</sup> Hellström, Jerker (2016). *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications*.

<sup>180</sup> Browne, Andrew (2016). *China's Offensive in Europe; 'Is There a Master Plan in Beijing?'* The Wall Street Journal.

Another definition for “strategic assets” is the potential importance to national security of the assets. Assets fitting in energy or other scarce natural resources, military production, and critical infrastructure, can be considered as a strategic asset.<sup>181</sup>

The latest case of a blocked deal was months after the Kuka’s deal being completed, a potential 670-million-euro acquisition of Aixtron, a chip maker’s technology by Fujian Grand Chip Investment Fund LP was not concluded in Germany after Obama intervention regarding security concerns coming from USA, because the targeted company was responsible for the upgrade of USA missile defence system.<sup>182</sup> Some deals have shown that it is urgent, not only at a national level, but also by policymakers in the EU to take actions towards regulations in order to safeguard member states and the cohesion of the EU.

The balance between economies is something desirable and if China wants to take advantage of free market access, which gives them the opportunity to contact with better technology and brands the West has to offer, it needs to take reciprocity more seriously and open way for European investment, especially in a time when Chinese GDP is decelerating, China recognises that there is a need to cooperate with the other great potencies in order overcome this situation.<sup>183</sup>

As perceived by all, there is a lack of transparency on the part of Chinese investors, in part related to security concerns, which makes it an important issue to discuss.

In EU, policy makers are becoming more aware of the risks linked to foreign companies or even governments, taking control of some important assets for the national economies or even for the EU.

## **China Nowadays**

Nowadays seeing all the problems that are coming to the world’s economy such as the trade war, Brexit and the COVID-19, China may have an important role on rescuing the

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<sup>181</sup> Zhang, Jianhong and Haico Ebberts (2010). *Why Half of China’s Overseas Acquisitions Could Not Be Completed*. Journal of Current Chinese Affairs, 39, 2, 101-131.

<sup>182</sup> Sheahan, Maria (2017). *China’s Fujian drops Aixtron bid after Obama blocks deal*. Reuters. Available at: <https://www.reuters.com/article/us-aixtron-m-a-fujian/chinas-fujian-drops-aixtron-bid-after-obama-blocks-deal-idUSKBN13X16H>

<sup>183</sup> Resistance to China’s acquisition spree stiffens (2017). Financial times. Available at: <https://www.ft.com/content/3bf09194-9aa8-11e6-b8c6-568a43813464>

economy with their funds availability to acquire or invest in several countries with strategic industries, as it had on the 2008 financial crisis. The question that arises is: Can China repeat that feat again? It can be done mostly from the Chinese M&A strong activity, which can be beneficial in the short term for the whole world's economy

In 1978, China was responsible for 2 per cent of the global GDP. Nowadays it represents 19 per cent, while US and EU only represent respectively 15.2 and 16.3 of the global gross domestic product.

In Deng Xiaoping's time the Chinese GDP reached 150 billion dollars, but 40 years later it was already 94 times bigger reaching 14.2 trillion dollars, which dividing by the population at the time gives a GDP per capita of 194 US dollars in 1980, and a value of 10,000 dollars to the GDP per capita in 2019.

China is also the global leader of exportations with 12 per cent in the world's market.

Other important factor that determines their importance on rescuing the world from these turbulent times, is the number of companies on the 500 biggest companies in the world. In 2000 china represented 2 per cent with 10 companies, while nowadays this number grew almost 600 per cent to 119 companies representing China within the world's biggest companies.

This data can show that China is getting an important role in the world's economy and the predictions to become the greatest potency in the world by 2025 seems very likely.

What is important to understand in here is if this power that china is near to conquer will be beneficial to the world. For that reason, we should study the recent situations that can lead to a turbulent time in different places in the world but affecting the economy in general.

### **Brexit influence in Chinese outflows**

At 11 PM GMT, on January 31<sup>st</sup>, 2020, the UK stopped being part of the EU. A public vote held in June 2016, gave citizens the possibility to choose between leaving the EU – Brexit – or remaining. Brexit won with 52 per cent.

Since the UK was the main recipient of Chinese investments, and for that reason it is important to study the impacts of Brexit on Chinese M&A in the EU.

It is understandable that the uncertainty caused by Brexit since 2016, kept some deals in standby or “wait and see” mode, especially the long term decision making, such as M&A, which means investors are waiting for the post Brexit era in order to understand if this can be beneficial for their deals, having the need of assessing the new financial environment.<sup>184</sup> Therefore, it is important to analyse the different possible Brexit outcomes and the reasons that can explain them.

Firstly, we should consider a possible drop of the M&A in the UK after Brexit transitory period and a decrease in the economy pace in general. Many companies looked at the UK as a bridge to European market and they invested in the UK’s financial and infrastructure projects, setting up R&D centres in London and also undertook acquisitions of British companies or British brands in order to be connected and to have open doors to the EU market. London will remain attractive to Chinese investment, but they will also focus on new European financial centers such as Frankfurt, Paris or Luxemburg, making London losing its impact because it is not the European financial center anymore, and receives much less attention than the 450-million consumer European market.

Secondly, another possible path, comes from the “acquisition oriented” Chinese investors, taking advantage of the post-Brexit time. With the drop of the Pound’s value, it is possible to easily seek for bargains in the UK, possibly seen as a short-run phenomenon.<sup>185</sup> The major cause for this result comes from the fact that UK is turning companies into cheaper acquisition targets in order to remain Europe’s biggest M&A market, with 6.4 per cent share of Global M&A. It will be possible to observe a trend of increase in cross border M&A transactions, since the decline in the value of pound, the UK becomes a more attractive target to overseas buyers.

Thirdly, any occurrence able to shake the economy such as a financial or social crisis where we might include Brexit, can have as a consequence the fragmentation of the EU, giving more negotiation space and additional opportunities to foreign countries, as China,

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<sup>184</sup> Deloitte. *Plotting a new course: The impact of Brexit on M&A activity*. Available at: <https://www2.deloitte.com/uk/en/pages/global-markets/articles/impact-of-the-eu-referendum-on-ma-activity-in-the-uk.html>

<sup>185</sup> Zhang, Lishan (2018). *The Impacts of Brexit on China*. 2nd International Conference on Management, Education and Social Science.

making the EU's position weaker on its own values, softening their stand in terms of Chinese human rights' abuses.<sup>186</sup>

### **Implications of the USA-China Trade War in the EU**

A trade war is recognizable when countries try to attack other's trade with taxes and quotas. If a country raises tariffs, it might cause a response from the other country, in a tit-for-tat escalation. This war can also hurt other countries' economies and trade relations, leading to an increase of political tensions between both countries, and uncertainty to the general market.

The described trade war is what the American and the Chinese economies have been living, since 2018 when the USA's President Donald Trump imposed tariffs in imported goods coming from China making up a total of 50 billion dollars off it. As a response, the Chinese government-imposed tariffs in 232 USA's products, including soya, an important American exportation to China.<sup>187</sup> These tariffs have the intention to encourage consumers to buy national products by making imported goods more expensive.<sup>188</sup>

Objectively speaking, we assisted to a decrease in the Chinese OFDI of 40 per cent in 2019 comparing to 2018, the lowest since 2010.<sup>189</sup> Comparing December 2018 with the same period in 2017, the deal volumes into the USA coming from China was down 26 per cent, and 29 per cent when comparing to the same period in 2016.<sup>190</sup>

Also in the beginning of 2020, was signed the phase one of the trade agreement between the USA and China, approving a cut demand of almost 11 billion dollars in European goods, hitting hard particular sectors in Germany and France, two of the biggest European economies. Another measure applied in phase one is the promise of buying 200 billion

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<sup>186</sup> Godement, François (2016). *China and Brexit: what's in it for us?* European Council on Foreign Relations. Available at: [https://www.ecfr.eu/publications/summary/china\\_and\\_brexit\\_whats\\_in\\_it\\_for\\_us7112](https://www.ecfr.eu/publications/summary/china_and_brexit_whats_in_it_for_us7112)

<sup>187</sup> P. Bown, Chad (2020). *US-China Trade War Tariffs: An Up-to-Date Chart*. Peterson Institute for international economics. Available at: <https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart>

<sup>188</sup> BBC (2020). *A quick guide to the US-China trade war*. Available at: <https://www.bbc.com/news/business-45899310>

<sup>189</sup> Baker MaKenzie (2018). *Rising Tension Assessing China's FDI drop in Europe and North America*. Rhodium Group. Available at: [https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising\\_tension\\_china\\_fdi.pdf?la=en](https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en)

<sup>190</sup> Chen, Angela (2019). *Quarterly update on the M&A market in China*. Oaklins. Available at: <https://www.oaklins.com/news/en-NL/184430-how-is-china-planning-to-circumvent-the-impact-of-a-potential-currency-war>

dollar more of American-made goods and services in the next two years above the 2017's level, concentrating the Chinese purchases on USA and away of all other regions in the globe, where Europe is included. With the phase one we also have the USA agreeing on to halve some of the new tariffs it had imposed on China.

On the third quarter of 2019, M&A activity in Europe reached 249 billion dollars, more than 45 per cent over the same period in 2018. The reason for this phenomenon is that Europe consists in different kind of deals, different sectors, and geographies. Although, the volume of Chinese-led deals in Europe in 2019 was down from highs set in 2016, before the Chinese government began a deleveraging campaign that has cut into investment outside China.<sup>191</sup>

### **Corona Virus influence in the M&A market**

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus<sup>192</sup>, which affects the respiratory system. Until June 2020, it has sickened more than 6,380,200 people and at least 380,300 people have died, and the virus has been detected in nearly every country.<sup>193</sup> It was firstly detected in the city of Wuhan, China, in late 2019 and it rapidly spread across the whole world in the first months of 2020.<sup>194</sup>

On March 11<sup>th</sup> it was declared a Global pandemic by the World Health Organization (WHO), which happens when a disease is passing easily from person to person in many parts of the world at the same time. This made necessary, the imposition of some restrictions on social distancing and travel by 140 Governments. Those restrictions had a catastrophic impact on the global economy and the International Monetary Fund (FMI) has warned that it could possibly be the worst recession since the Great Depression of the 1930s.

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<sup>191</sup> Chen, Angela (2019). *Quarterly update on the M&A market in China*. Oaklins. Available at: <https://www.oaklins.com/news/en-NL/184430-how-is-china-planning-to-circumvent-the-impact-of-a-potential-currency-war>

<sup>192</sup> World Health Organization (2020). *Corona Virus*. Available at: [https://www.who.int/health-topics/coronavirus#tab=tab\\_1](https://www.who.int/health-topics/coronavirus#tab=tab_1)

<sup>193</sup> The New York Times (2020). *Corona Virus maps*. Available at: <https://www.nytimes.com/interactive/2020/world/coronavirus-maps.html>

This situation can bring bigger problems than just health. As United Nations consider, the COVID-19 pandemic could almost double the number of people suffering acute hunger.

The performance of the global sectors such as M&A market, depend on the interconnectedness of the financial system. This means that, a slowdown in international markets, due to the COVID-19 pandemic, can change the way buyers and sellers complete and approach M&A transactions, leading to a deceleration on M&A's activity pace globally.<sup>195</sup> The main reason for this decline is the massive uncertainty and volatility caused by the virus, which makes difficult to complete a deal, since both parties need to consider all the possible effects and restrictions that a pandemic brings to a specific transaction.<sup>196</sup> This uncertainty hits the investors' confidence and expectations, making the gap between the value of a company and the investors' willingness to pay bigger. Most of the sellers would not accept distress-type valuation, choosing to wait the markets to recover.<sup>197</sup>

All of these topics approached in the thesis are possible explanations for the behaviour of the M&A activity in EU by Chinese enterprises.

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195 Colizzi Pier Luigi (2020). *How the European M&A market is responding to the COVID-19 crisis*. Barclays. Available at: <https://www.investmentbank.barclays.com/our-insights/3-point-perspective/covid-19-crisis-how-the-european-ma-market-is-responding.html>

196 Casben, Tim; Franchetto, Stephen; Palm, W. Ian (2020). *COVID-19: Impact on International M&A - Updates from the UK, EU, Middle East, China and Canada*. Lexology. Available at: <https://www.lexology.com/library/detail.aspx?g=9fcf65c0-0404-4f91-b96c-08229156a2c2>

197 Kengelbach, Jens et al (2020). *COVID-19's Impact on Global M&A*. BCG. Available at: <https://www.bcg.com/publications/2020/covid-impact-global-mergers-and-acquisitions.aspx>