German Government Restriction on Chinese Investment

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Introduction

- The 'Going Out' strategy in 2000, Chinese enterprises also began to invest more in the global market. The volume of FDI from China has grown from USD 28 billion in 2000 to around USD 1,500 billion in 2017.
- The relations between the two countries are good, both Germany and China which many Chinese companies invest in High-Tech sector or technology and machine gain much equity from Germany's firms.
- German is toughening rules on share purchases in strategically important sectors by non-EU firms by the fear of Chinese corporate giants taking over German industry titans.

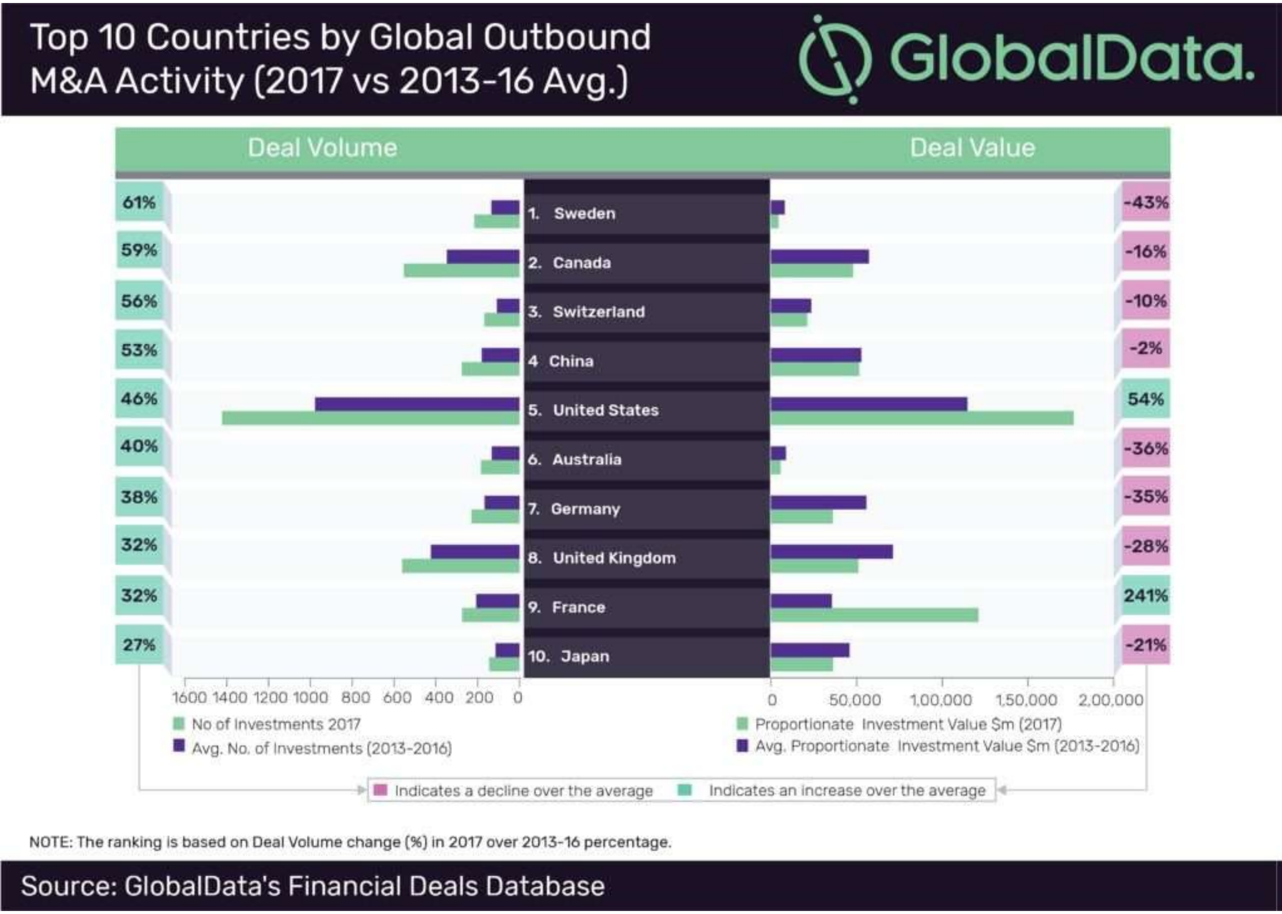
Introduction — Cont.

- According to the new regulations that are in force immediately, based on public interest, the government can lower the shareholding threshold for non-European entities to invest in German-invested transactions in specific sectors, from the previous 25% to 10%.

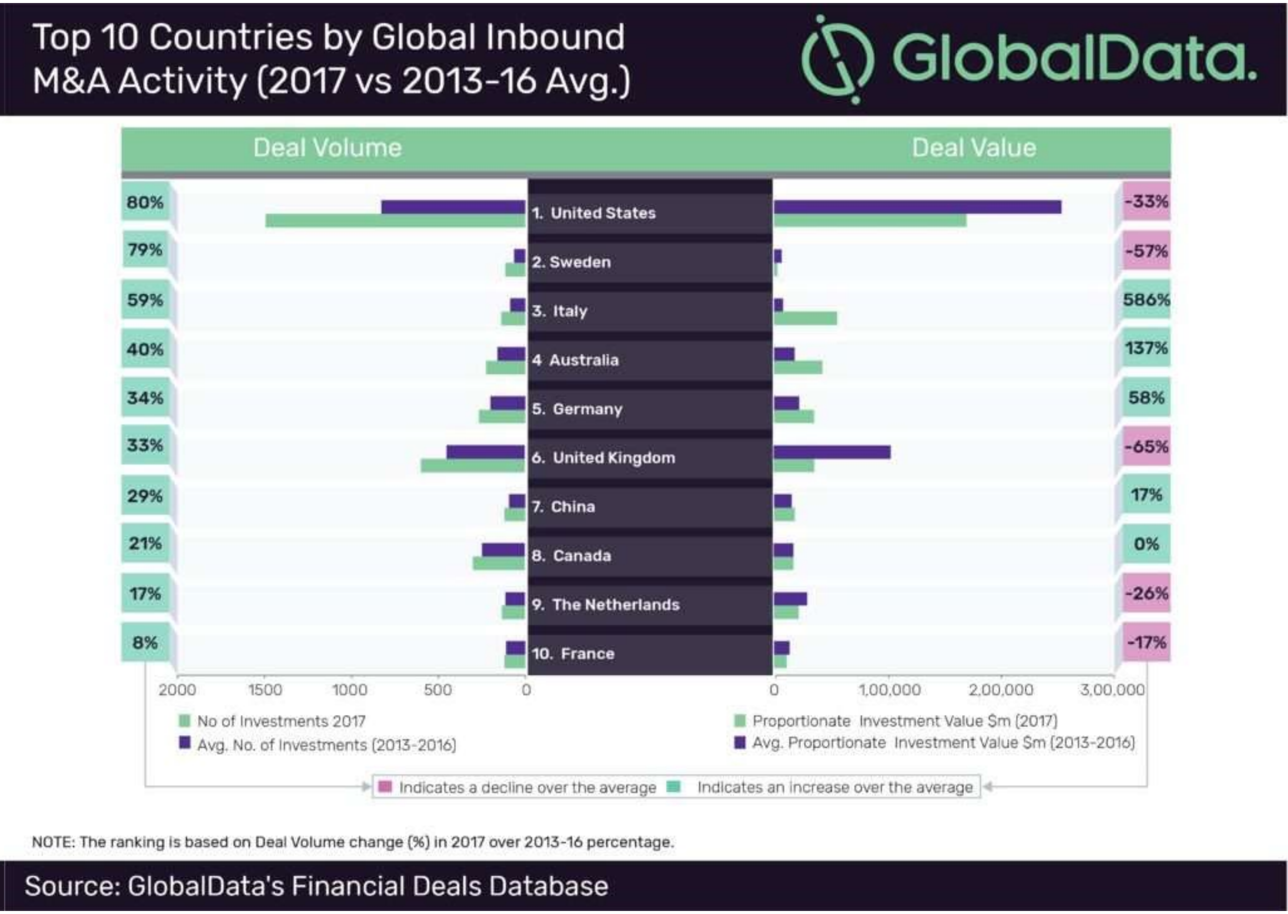
Li Keqiang & Angela Merkel, © EPA

The Reason

- In their M&A transactions between 2005 and 2017, Chinese enterprises preferred to acquire complete businesses (48 % share) and majority shareholdings (18 %). Chinese acquirers took over German SMEs that were in-solvent exceptionally often compared with investors from other countries (14 %).
- The US has already done so with the reform of its Committee on Foreign Investment in the United States (CFIUS) which means that Chinese companies are facing increased scrutiny there.“
- The value of Chinese mergers and acquisitions (M&A) in the US is decreasing while that in Europe (and especially Germany) remains very robust and most of the M&A in Europe is directed at high-tech industrial sectors.



Top 10 Countries by Global Outbound M&A Activity (2017 vs 2013-16 Avg.)
GlobalData.
Deal Volume
Deal Value
61% 1. Sweden -43%
59% 2. Canada -16%
56% 3. Switzerland -10%
53% 4 China -2%
46% 5. United States 54%
40% 6. Australia -36%
38% 7. Germany -35%
32% 8. United Kingdom -28%
32% 9. France 241%
27% 10. Japan -21%
1600 1400 1200 1000 800 600 400 200 0
0 50,000 1,00,000 1,50,000 2,00,000
No of Investments 2017
Avg. No. of Investments (2013-2016)
Proportionate Investment Value $m (2017)
Avg. Proportionate Investment Value $m (2013-2016)
Indicates a decline over the average
Indicates an increase over the average
NOTE: The ranking is based on Deal Volume change (%) in 2017 over 2013-16 percentage.
Source: GlobalData's Financial Deals Database



Top 10 Countries by Global Inbound M&A Activity (2017 vs 2013-16 Avg.)
GlobalData.
Deal Volume
Deal Value
80% 1. United States -33%
79% 2. Sweden -57%
59% 3. Italy 586%
40% 4 Australia 137%
34% 5. Germany 58%
33% 6. United Kingdom -65%
29% 7. China 17%
21% 8. Canada 0%
17% 9. The Netherlands -26%
8% 10. France -17%
2000 1500 1000 500 0
0 1,00,000 2,00,000 3,00,000
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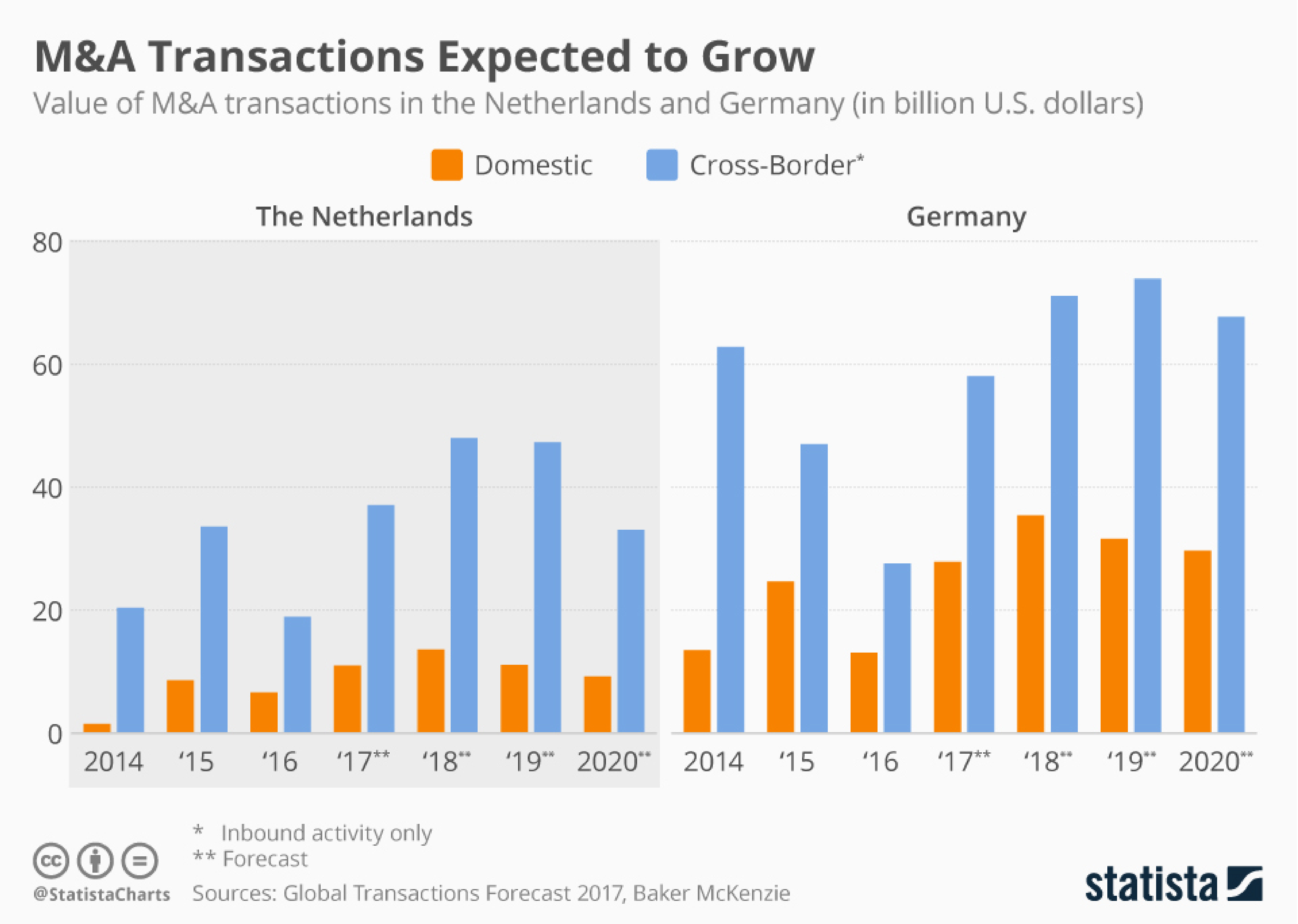
M&A Transactions Expected to Grow
Value of M&A transactions in the Netherlands and Germany (in billion U.S. dollars)
Domestic
Cross-Border*
The Netherlands
Germany
80
60
40
20
0
2014
'15
'16
'17**
'18**
'19**
2020**
* Inbound activity only
** Forecast
@StatistaCharts
Sources: Global Transactions Forecast 2017, Baker McKenzie
statista

Team A

- If Germany tightens the draft of foreign investment, the stock is lower than the threshold, and the security review time is extended, the investment difficulty of Chinese enterprises will increase invisibly. But it does not mean that enterprises should avoid investment in key infrastructure areas. Instead, be cautious and let the German acquirer do the work of the German government.
- In recent years, Chinese companies have increased their investment in German mergers and acquisitions year by year, but they will develop slowly. In the future, they will be slower and return to rationality. There will be more investment mergers and acquisitions suitable for their own development needs." Many interviewed experts believe that since last year, Germany the amendments to the Trade Regulations were promulgated, and Chinese companies have been more cautious in investing in Germany.

Team B

- Politicians have criticized that Germany's new regulations may have a negative impact, making foreign investors feel that Germany does not welcome them.
- The Chinese acquisition has caused concern among European corporate executives and officials. A key issue is that China has not provided equal access. They believe that China uses the anti-monopoly system to prevent Western buyers from acquiring the Chinese industry. The lack of transparency in China's regulations and the intricate structure of corporate ownership have also discouraged Western investors.
- Chinese state-owned enterprises will continue to look for M&A opportunities around the world, but China must make changes to achieve mutual benefits.
- EU countries such as Italy have seen some high-quality companies in the country being acquired by China, such as tire manufacturer Pirelli. Although Italy is striving to protect the interests and technology of its own companies, on the other hand, the country cannot afford the consequences of closing the door to Chinese transactions.