

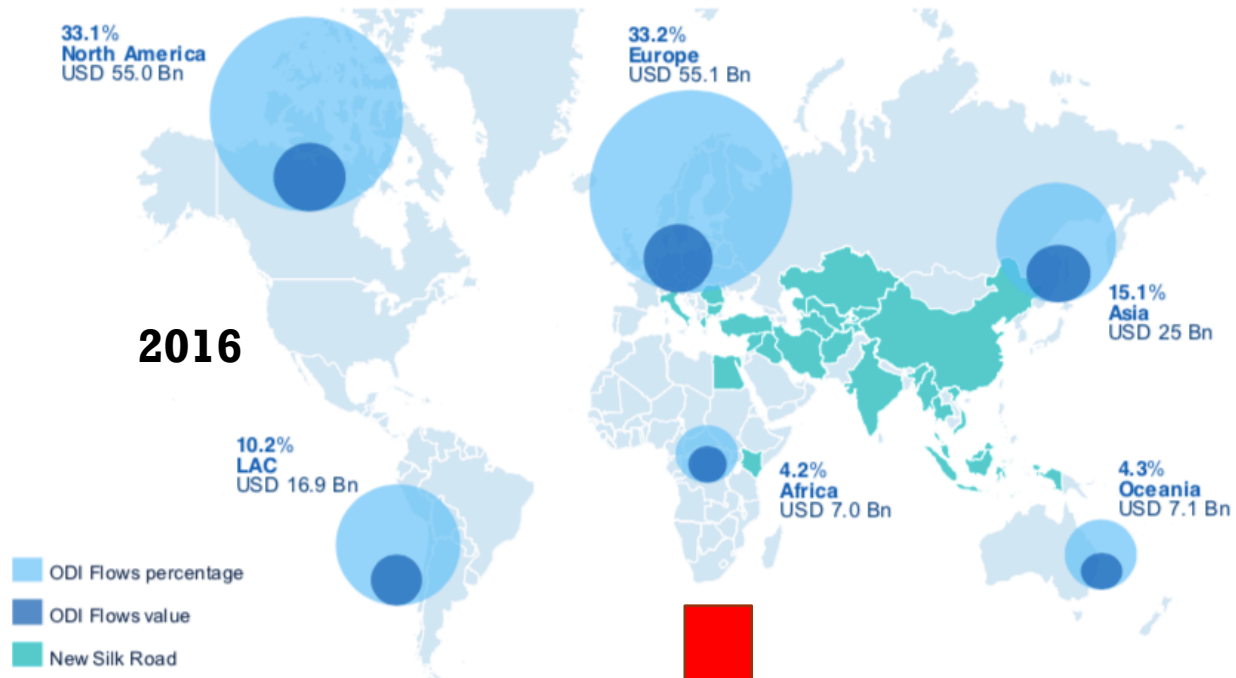
EUROPE & THE US-CHINA TRADE WAR



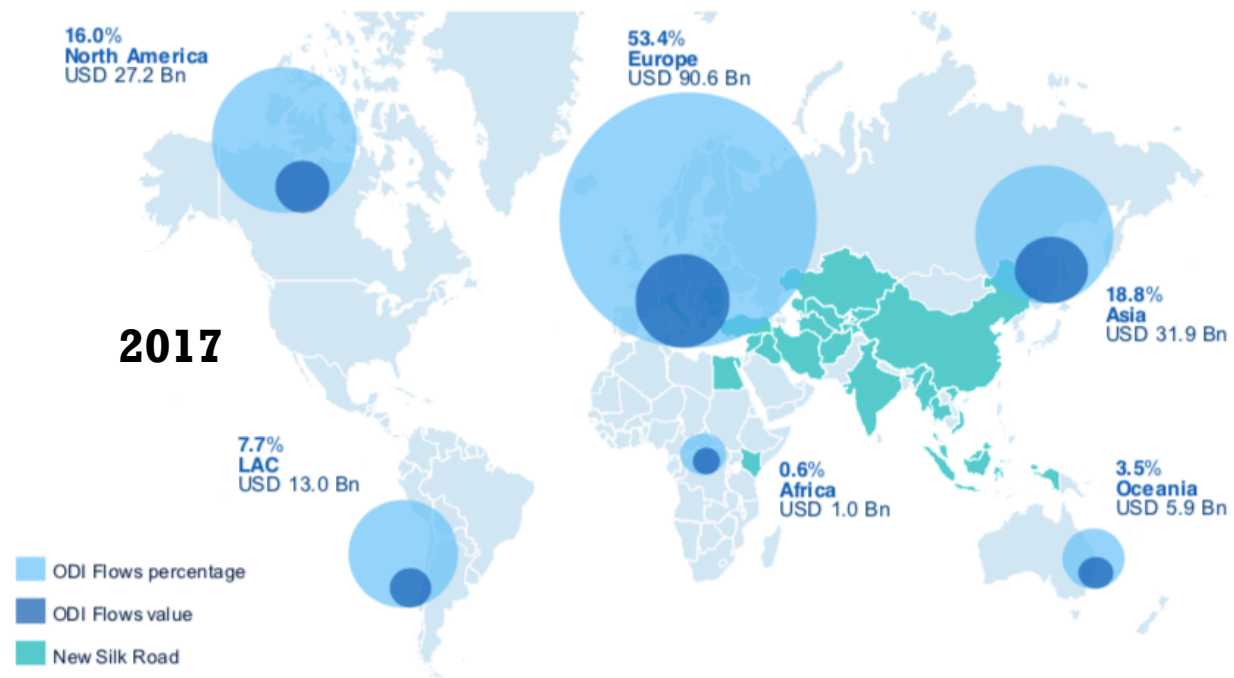
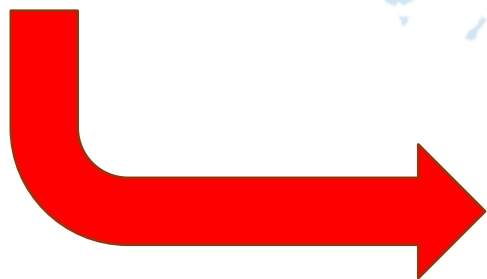
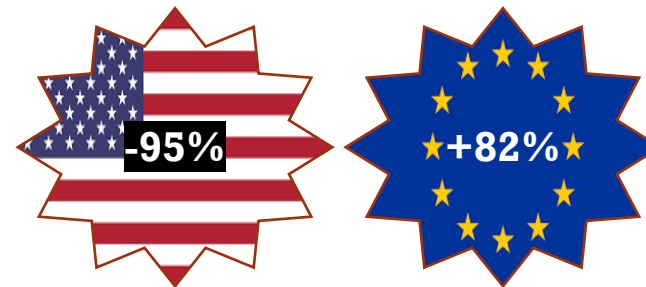
The European
response to China's
attempt at
purchasing
strategic assets

Presented by Nicolas MICHELON, Asia Intelligence Advisory
at the Japan Society of Competitive Intelligence, Tokyo
on January 18, 2019

THE US-CHINA TRADE WAR IS RESHAPING CHINA'S ODI TRENDS



2018:

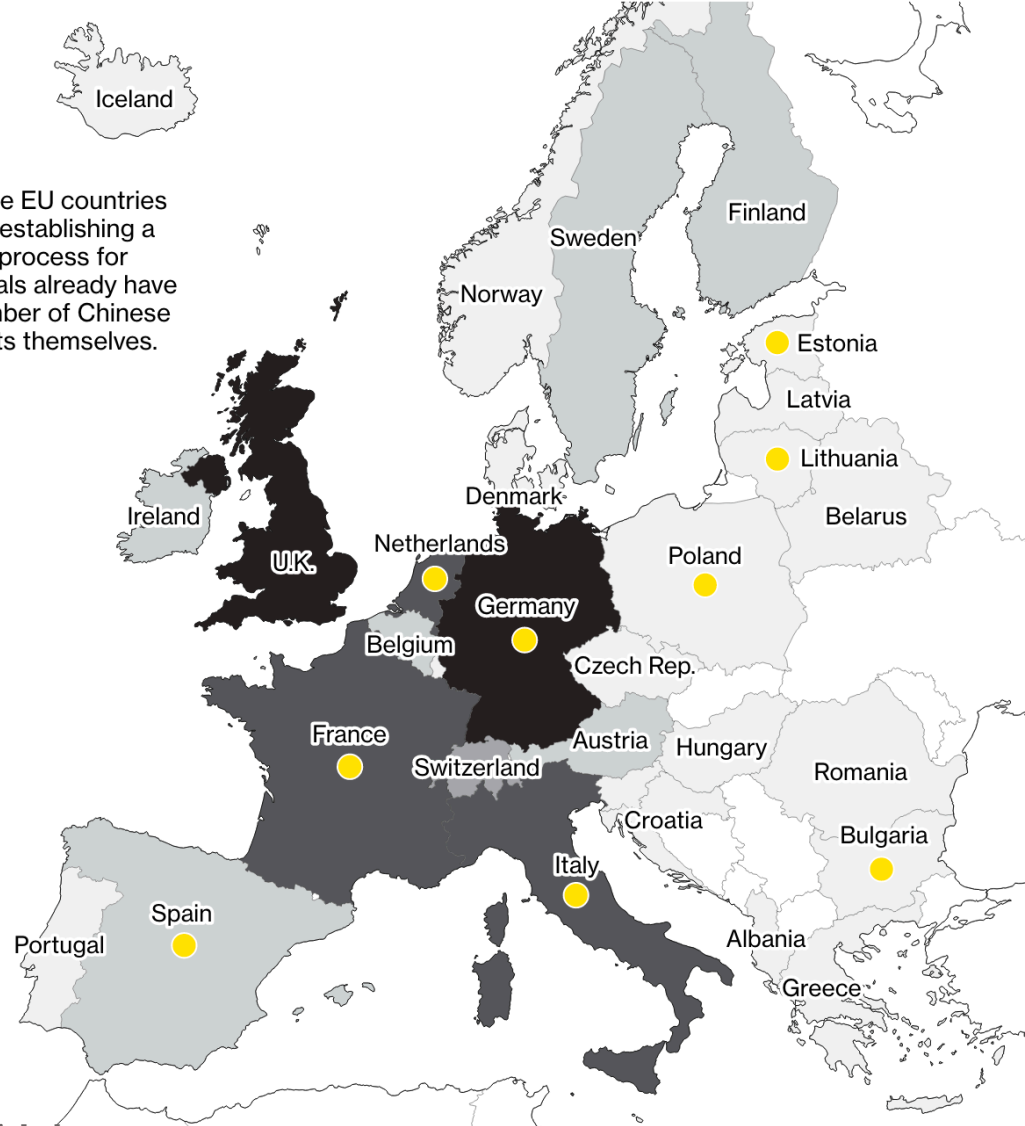


Source: BBVA Research



CHINA ODI BY COUNTRY & BY SECTOR

0 20 40 60 80 100+ deals, 2008-2018



Many of the EU countries **in favor** of establishing a screening process for foreign deals already have a high number of Chinese investments themselves.

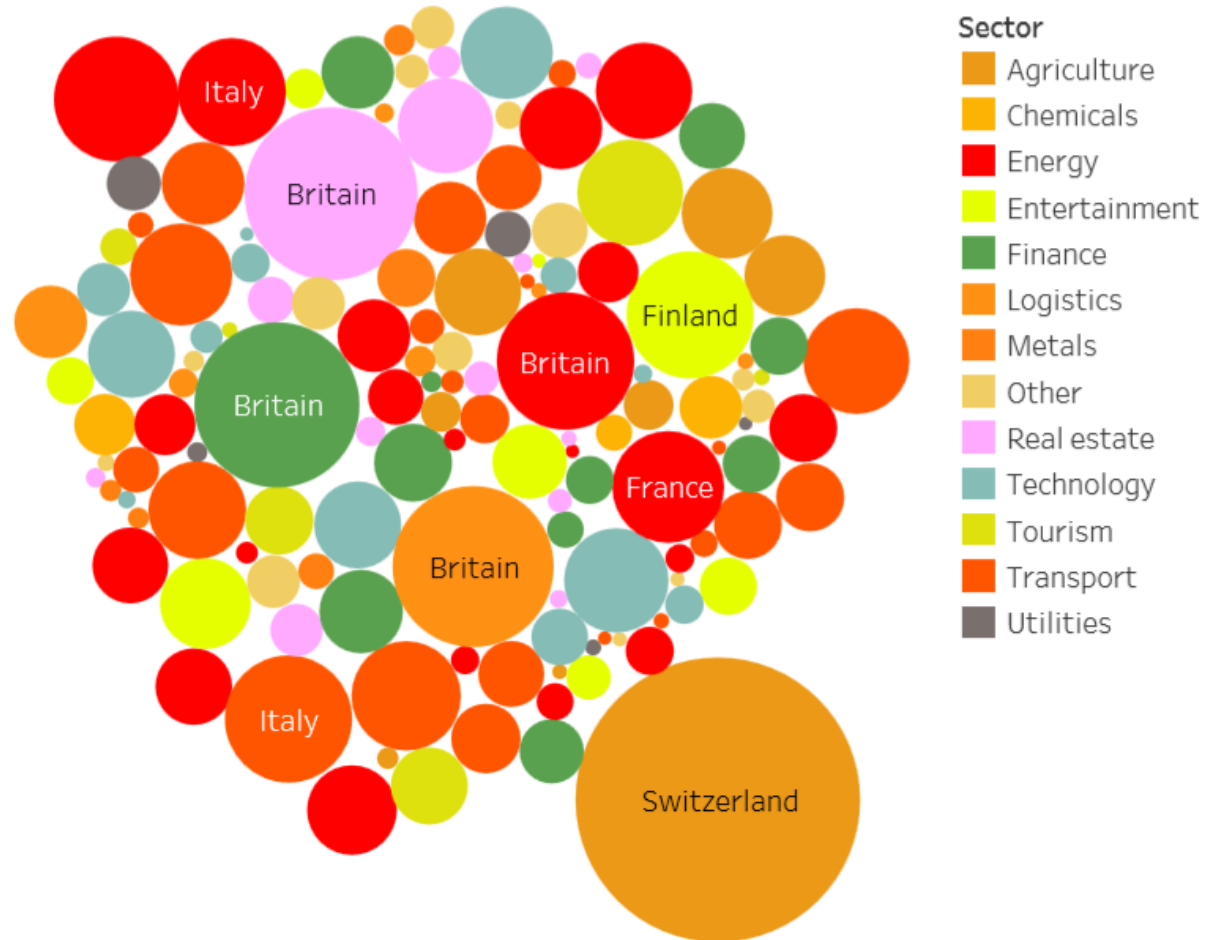


Source: Bloomberg



PREFERRED ENTRY POINTS FOR CHINESE ODI IN EUROPE

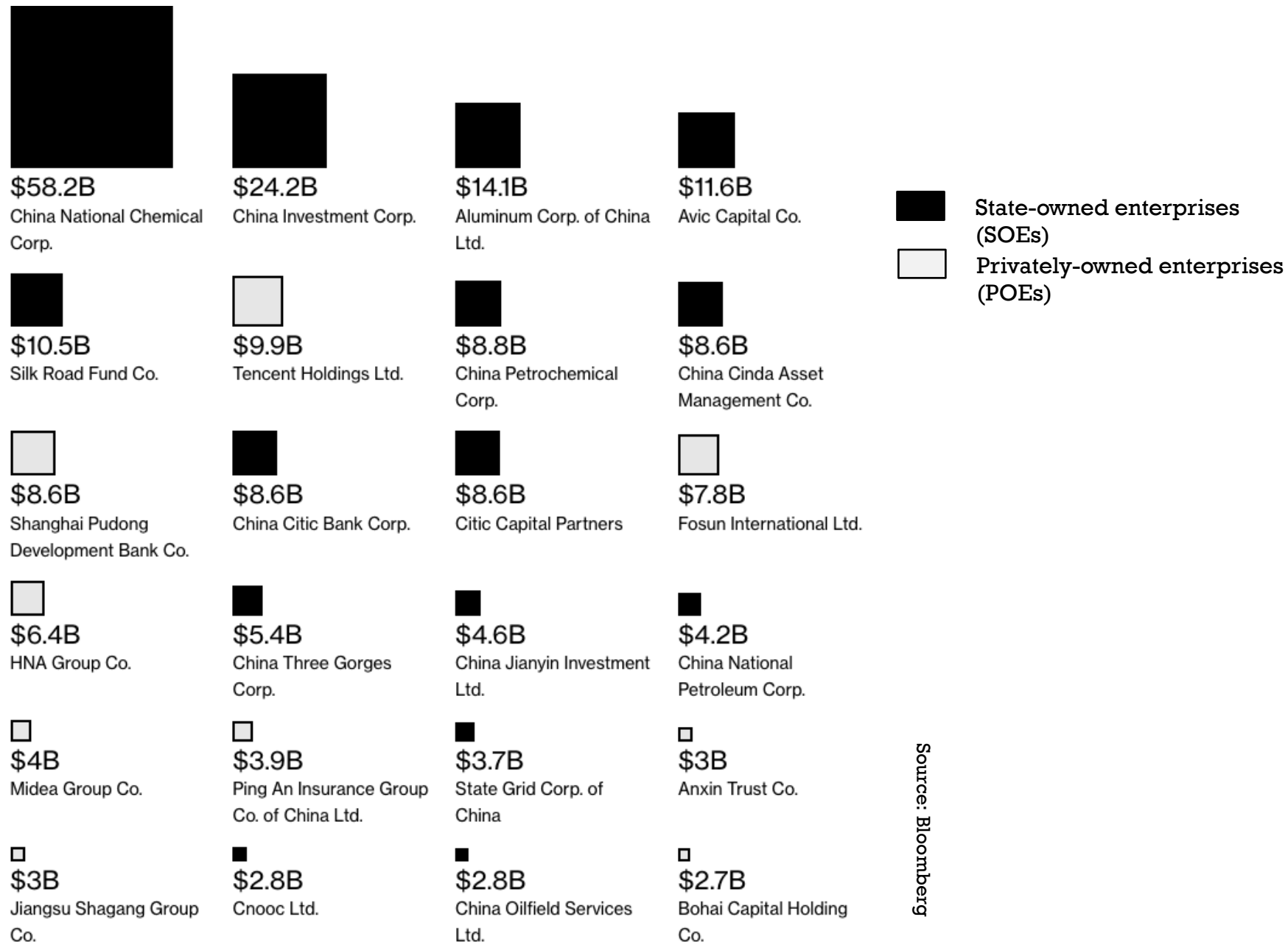
- UK: finance, real estate, energy & chemicals
- Germany: no sector preference, investments highly fragmented
- France: transports & agriculture
- Italy: transports & energy



Source: American Enterprise Institute, The Heritage Foundation



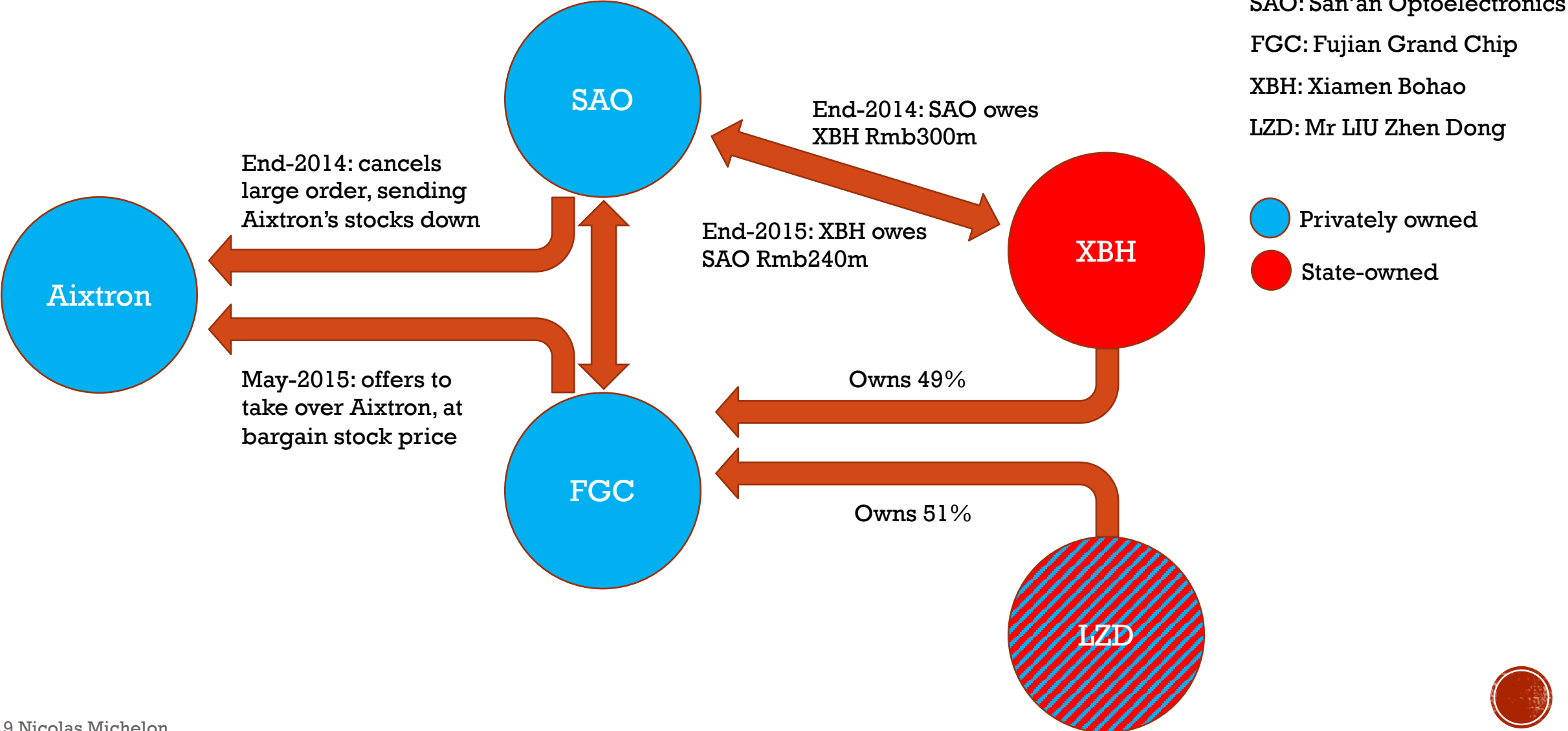
STATE-OWNED ENTERPRISES LEAD THE WAY FOR CHINESE ODI IN EUROPE



Source: Bloomberg



PRIVATE BUYERS CAN IN FACT BE STATE-BACKED: THE CASE OF AIXTRON



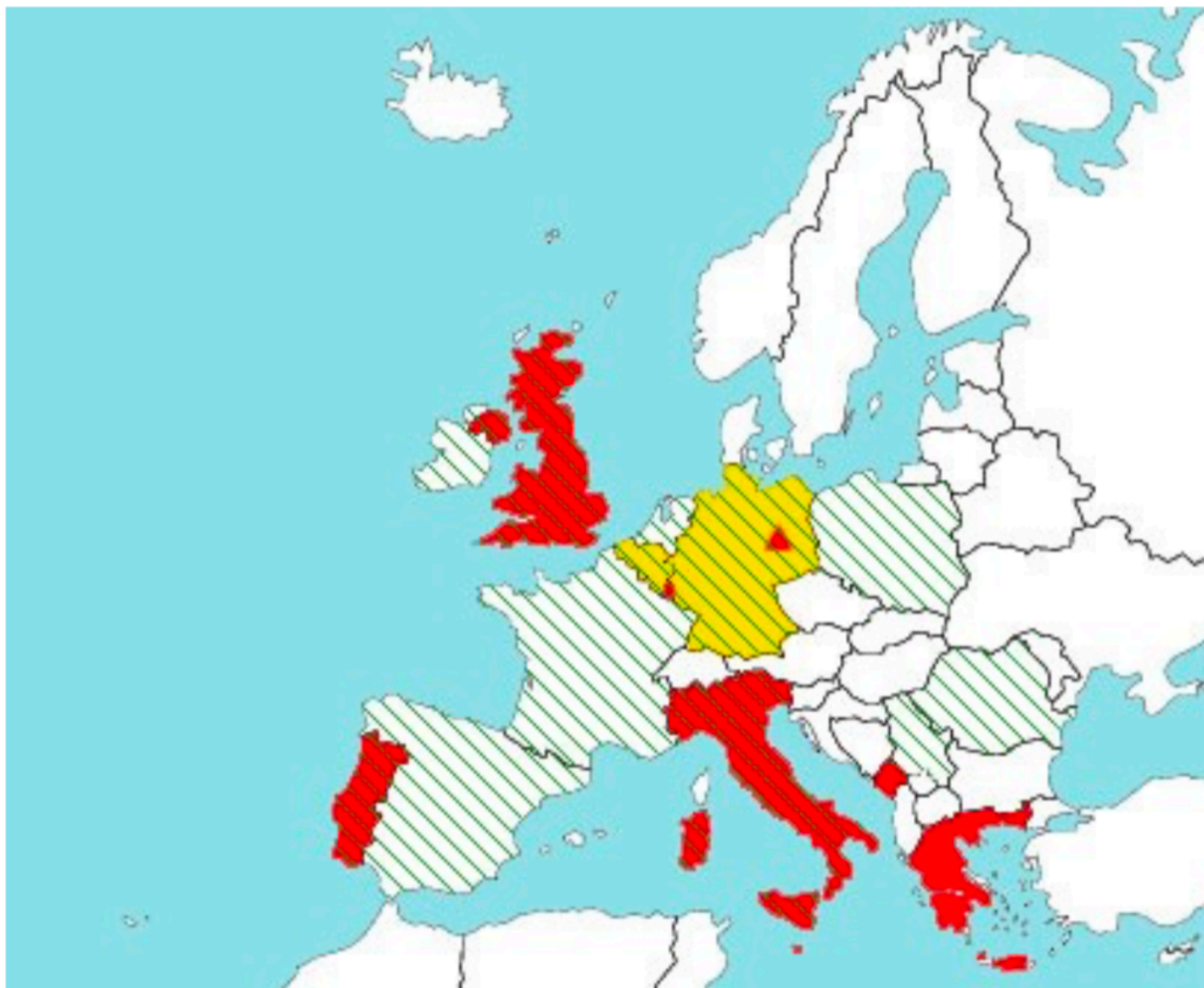
THE CASE OF UTILITIES





Date	Target company	Country	Buyer	Amount
2012	REN	Portugal	State Grid Corp.	25%
2014	CDP RETI	Italy	State Grid Corp.	35%
	ENEL	Italy	SAFE	3%
	EneMalta	Malta	China Power Investment	33%
2016	National Grid	UK	CIC	11%
	Public Power Corp.	UK	State Grid Corp.	24%
2017	Copelouzos	Greece	State Energy Investment	75%
	EDP	Portugal	Three Gorges Corp.	100%
2018	Encevo	Luxembourg	China Southern Grid	24,9%

Source: American Enterprise Institute, The Heritage Foundation



THE CASE OF UTILITIES



-  Presence of Chinese players
-  Failed purchase attempt
-  Presence of other Chinese public power companies
-  GEIRI Europe headquarters

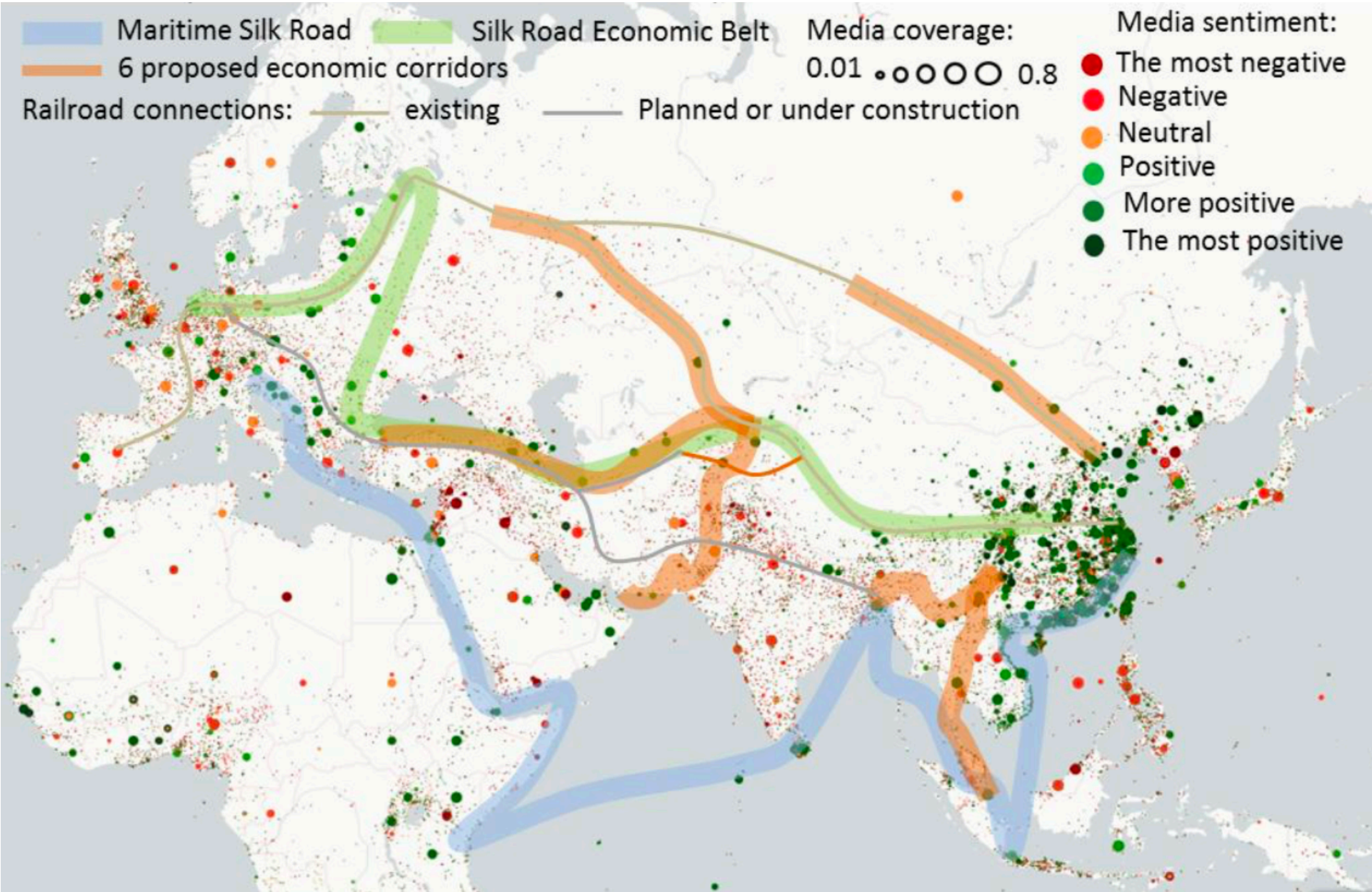


THE CASE OF TELCOS: HUAWEI & 5G DEVELOPMENT

Country	Measures towards Huawei
EU-level	<ul style="list-style-type: none">• EC says Europe should be « worried », but asks for proof of Huawei risk
UK	<ul style="list-style-type: none">• Regular audit by GCHQ of Huawei's code for possible backdoors• British Telecom phasing out Huawei hardware for core network
Germany	<ul style="list-style-type: none">• Gov. asks US for proof of Huawei risk• Deutsche Telecom (DT), Telefonica Deutschland & Vodafone initially excluded banning Huawei from 5G development, DT now hints at possible ban
France	<ul style="list-style-type: none">• Gov. calls for « prudence » in future procurements• Orange blocks Huawei hardware for 5G network, but CEO calls anti-Huawei campaign a « witch -hunt »
Belgium	<ul style="list-style-type: none">• Center for Cybersecurity advises PM on Huawei risk
Czech Rep.	<ul style="list-style-type: none">• Gov. bans Huawei & ZTE hardware from all public procurement
Poland	<ul style="list-style-type: none">• Police arrests Huawei sales manager for spying• Gov. calls for coordinated response by EU & NATO



THE CASE OF THE « BELT & ROAD INITIATIVE »

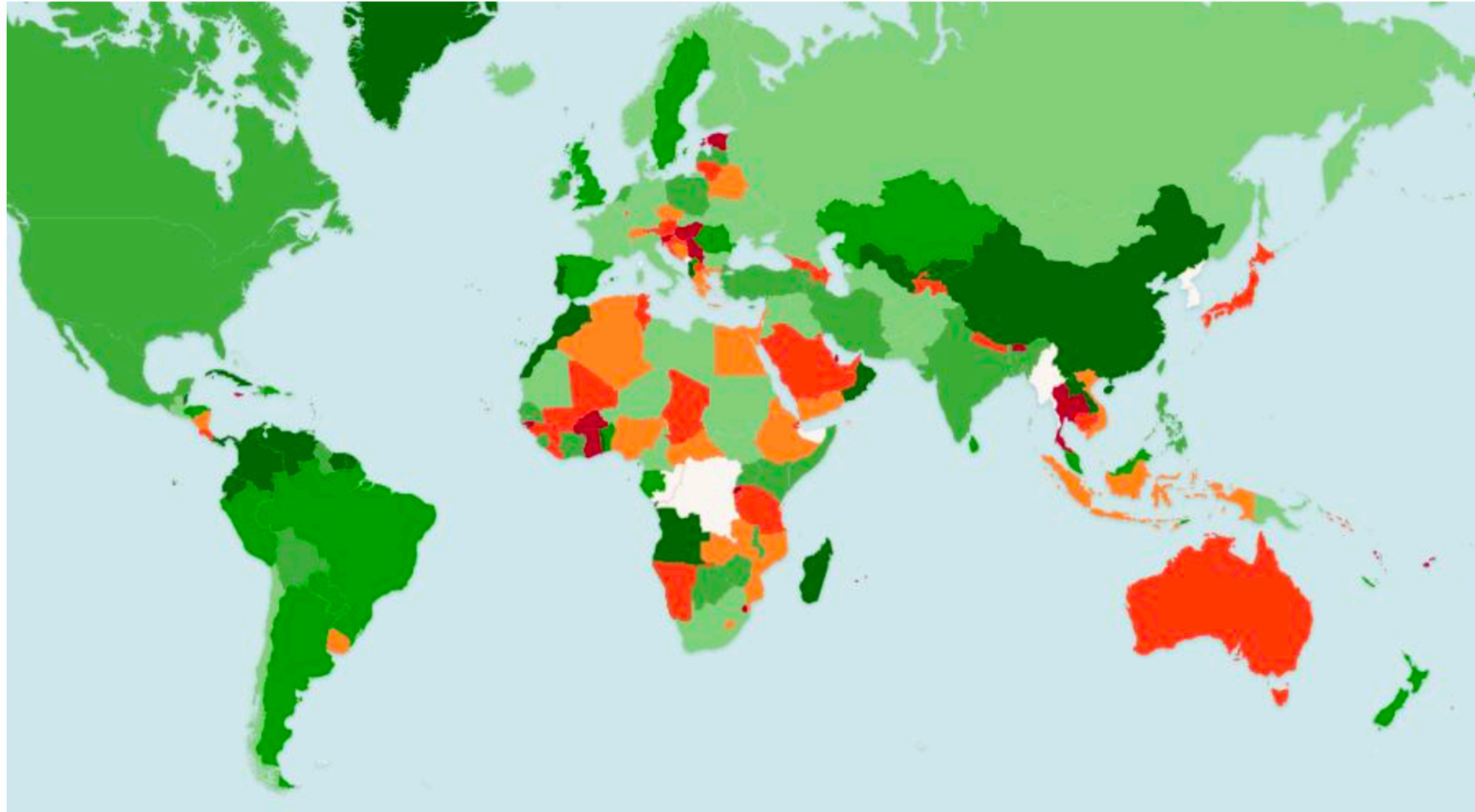


Source: BBVA Research, The GDELT Project



THE CASE OF THE « BELT & ROAD INITIATIVE »

Changes in media sentiment towards BRI, between 2015 & 2017



Source: BBVA Research, The GDELT Project



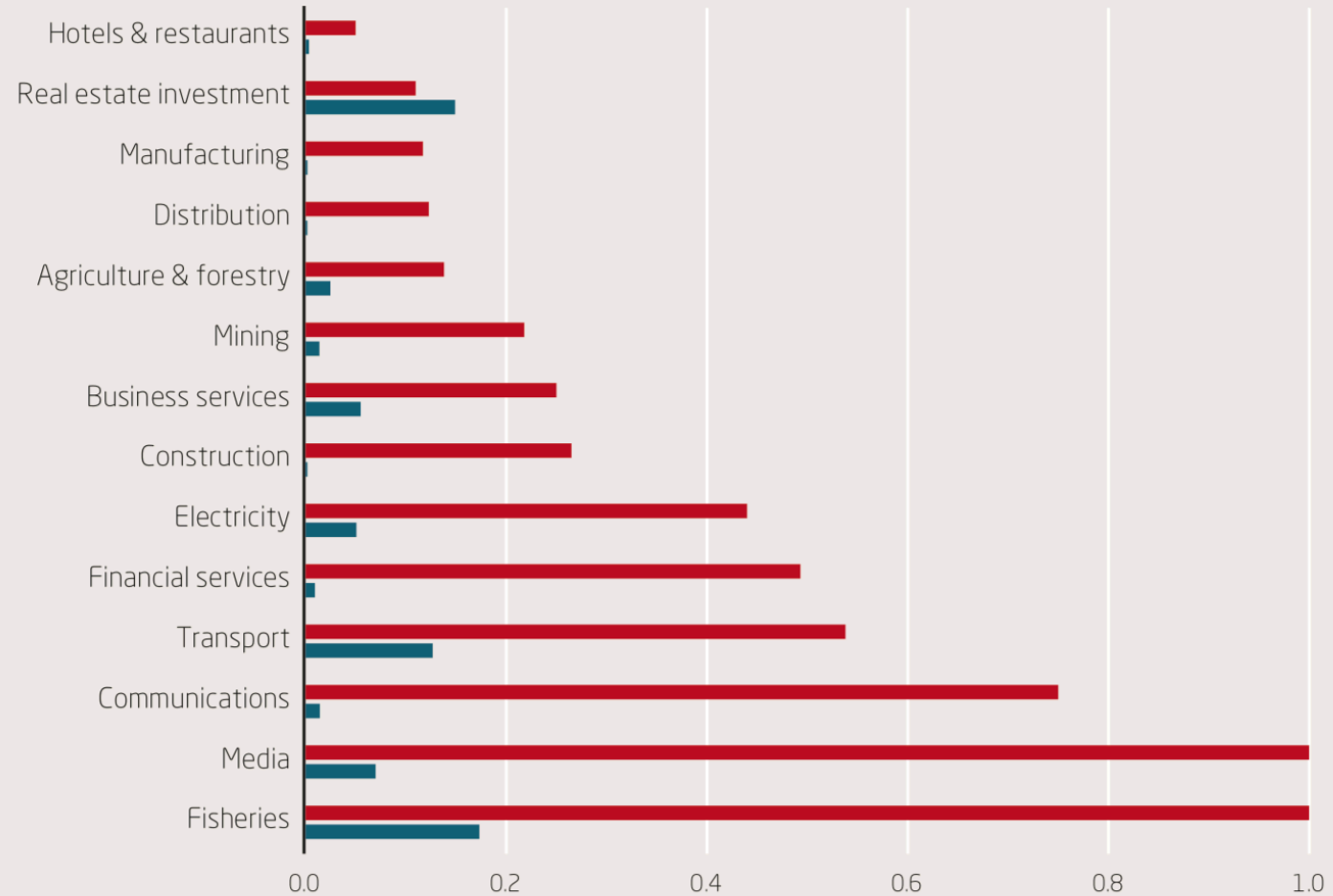
EUROPE CALLING FOR RECIPROCITY

Chinese restrictions are higher than in the EU in every single sector except real estate

FDI Restrictiveness Index (1=Closed / 0=Open), EU vs. China, sector by sector, 2016



■ China ■ EU*



Source: Rhodium Group, Mercator Institute for China Studies (MERICS)



EUROPE CALLING FOR RECIPROCITY

Date	EU target	Sector	Chinese buyer	If the tables were turned...
Oct 2015	Tank & Rast	Infrastructure	CIC	Legally possible, but unlikely
Dec 2015	NXP Semicon. (1)	Semiconductors	Jianguang AM	Legally possible, but unlikely
Jan 2016	Avolon	Aircraft leasing	HNA	Legally possible, but unlikely
Apr 2016	KraussMaffei	Indus. Machinery	ChemChina	Legally possible, but unlikely
Aug 2016	KUKA	Indus. Machinery	Midea	Legally possible, but unlikely
Nov 2016	Odeon/UCI Cinemas	Media / Entertain.	Wanda	Foreign majority ownership restricted
Dec 2016	Supercell	Software	Tencent	Foreign ownership prohibited
	Global Switch	IT services	Consortium	Foreign ownership prohibited
Feb 2017	NXP Semicon. (2)	Semiconductors	Jianguang AM	Legally possible, but unlikely
Mar 2017	UK National Grid	Utilities	CIC	Legally possible, but unlikely

Source: Rhodium Group, Mercator Institute for China Studies (MERICS)



LEGISLATIVE RESPONSES AT THE COUNTRY LEVEL

- EU countries with screening mechanisms for foreign investments
- EU countries without screening mechanisms for foreign investments

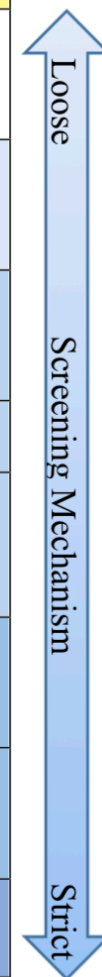


Source: Rasmussen Global



LEGISLATIVE RESPONSES AT THE COUNTRY & EU LEVELS

Country	Presence of an FDI scrutiny procedure	Prohibition/Restriction of FDI in selected sectors	Scope of FDI Reviews	Scrutiny Procedure	Turnover threshold	Share/ownership threshold	Plans to Strengthen Scrutiny Procedure
EU proposal	Authorises (not requires) MS to have one/ EC can screen projects of EU interest	No	Security and Public order	Case-by-case	No	No	Draft regulation in EP
Canada	Yes	No	Defence & security, "cultural industries," financial sector, aviation, mining, telecomm., fishing, energy, real-estate	Case-by-case	\$5m (non-WTO) \$300m (WTO)	No	N/A
France	Yes	No	Public order and security, defence, energy, water supply, transport, communications, public health protection	Automatic	No	33.33 %	N/A
Germany	Yes	No	Defence, critical infrastructure, telecomm., IT, transport	Case-by-case	Sector-specific	25 %	Strengthened legislation already as of July 2017.
UK	Yes	Yes	Defence and security, electricity, communications, broadcasting and newspapers, financial-sector, dual-use and advanced-tech	Case-by-case (proposed to Automatic for certain sectors)	£ 70 million (proposed £ 1 million for defence, dual-use and advanced tech)	25 %	ongoing
Italy	Yes	Yes	Defence & security, energy, transp., communications, shipping, financial services, research, public service, tourism, agro-food, cult. assets	Case-by-case	Sector-specific	Sector-specific	N/A
Japan	Yes	No	Def., nuclear, dual-use, energy, telecom, transp., pharma., agriculture, forestry, aerospace, petroleum, leather manufacturing	Automatic	¥ 5 billion	10 %	Strengthened legislation already as of Oct 2017.
US	Yes	No	No specific sectors. Broad mandate, including various joint-vent. & tech. transfer, intellect. prop.	Case-by-case	No	10%	ongoing



Source: Rasmussen Global



RECENT CHINA DEALS BLOCKED OR ABORTED

Date	Target company	Country	Sector	Initial Chinese buyer	Eventual buyer
Mar 2011	Sodiaal	France	Agriculture	Bright Foods	General Mills
Oct 2016	Aixtron	Germany	Technology	Fujian Grand Chip	Restructuring
Oct 2016	Eandis	Belgium	Utilities	State Grid Corp. of China	Consolidated
Jul 2018	Leifeld Metal Spinning AG	Germany	Machinery	Yantai Taihai Group	Public listing
Jul 2018	50Hertz Transmission GmbH	Germany	Utilities	State Grid Corp. of China	KfW



WHERE THE EU POLITICAL ELITE STANDS...



David Cameron
Prime Minister
(2010-2016)
Heads \$1 billion
China-U.K. fund
supporting Belt and
Road Initiative (BRI)



Dominique de Villepin
Prime Minister
(2011-2013)
Advises Chinese
companies on
international
expansion via Villepin
International



Jean-Pierre Raffarin
Prime Minister
(2002-2005)
Board of Boao
Forum for Asia (BFA),
member of France
China Foundation
strategic committee



Romano Prodi
Prime Minister
(1996-1998,
2006-2008)
EC President
(1999-2004)
Board of BFA and
China Europe
International
Business School

China



Danny Alexander
*Chief Secretary to the
U.K. Treasury*
(2010-2015)
Vice-president of
Asian Infrastructure
Investment Bank (AIIB)



Philipp Roesler
*Economy Minister
and Vice-Chancellor*
(2011-2013)
CEO of HNA Group
Co.'s New York-
based charity

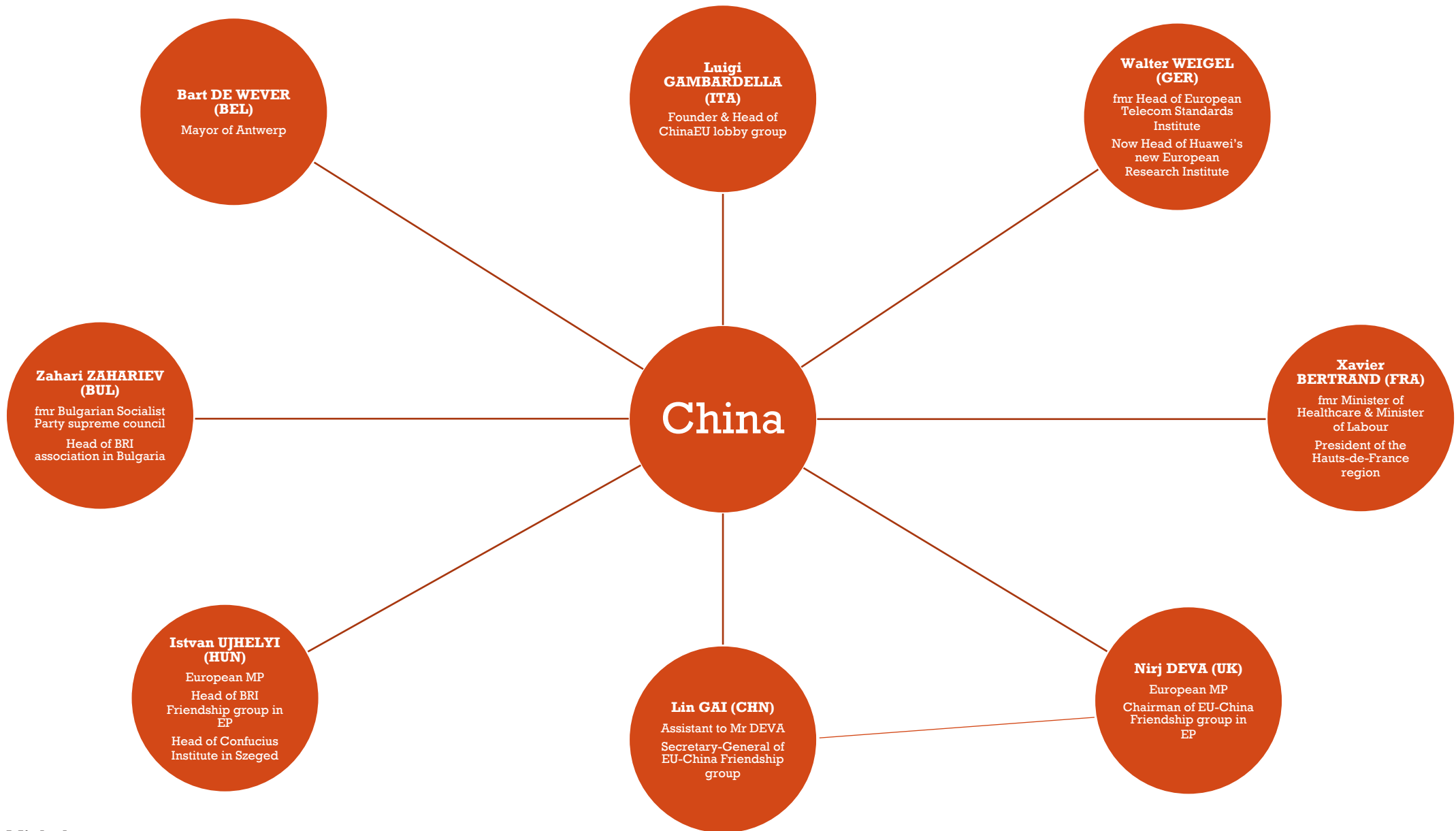


Rudolf Scharping
Defense Minister
(1998-2002)
Advises Chinese
companies on
investing in
Germany

Source: Bloomberg



WHERE THE EU POLITICAL ELITE STANDS...



EUROPE BETWEEN A ROCK AND A HARD PLACE...

US extra-territorial legislative arsenal:

- FCPA
- ITAR
- EAR
- FATCA

CHN snapping up of strategic assets & growing influence on EU institutions & FDI legislation



US control on FDI

- CFIUS, EEA

CHN control on FDI

- MOFCOM « negative lists »

