

Beijing sets up fund for outbound investment

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INVESTMENT COMPANIES

By Kathrin Hille in Beijing

Beijing's municipal government has agreed to set up China's first local currency fund for outbound investments with A Capital Asia, a European-owned private equity firm, in an attempt to support Chinese companies' overseas expansion.

Under the agreement to be announced today, the fund aims to raise Rmb3bn (\$456m) and partner with Chinese companies investing in technology, distribution channels and brands, especially in Europe.

The deal is one of several such tie-ups as foreign private equity groups seek to tap into the fast-growing Chinese market.

Last year, Carlyle teamed up with the Beijing municipal government and Fosun, which calls itself China's largest privately owned conglomerate, to set up renminbi-denominated funds.

But A Capital's fund is the first designed to raise local money to invest over-

seas. It comes as Beijing is growing increasingly frustrated with the hurdles its companies are facing in their attempts at global expansion.

In February, Huawei, the Chinese telecom network gear vendor, had to agree to cancel its \$2m acquisition of patents from 3Leaf, a US company, after the Committee on Foreign Investment (Cfius) refused to clear the deal for national

security reasons. However, in 2008, Huawei had to abandon a deal to acquire 3Com, a US router maker, over opposition from Cfius, although it had partnered with Bain Capital, a US private equity fund.

Andre Loeseckrug-Pietri, A Capital chairman, said given the risk of facing national security concerns in the US, Chinese companies would increasingly turn elsewhere.

"Europe is becoming more of a priority [for overseas expansion], and it is being seen as easier than the US," he said.

One target area for the new fund will be technology-intensive companies in the auto industry, the environmental and clean energy sector, and in aerospace.

The companies most likely to partner with the fund in these areas are state-owned enterprises.

The fund is already eyeing a deal with a Chinese state-owned power producer which has been set a target to invest more in renewable energy.

Rmb3bn

Amount that the fund aims to raise

security reasons.

It was only the latest in a string of failures by one of China's most global companies to either acquire assets in the US or get a sizeable contract to sell its equipment to local carriers.

A Capital said partnering with a fund backed by foreign investors might help Chinese companies allay national security concerns in their target markets.