

THE WALL STREET JOURNAL.

China Turns Eye to Europe

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Direct Investment in the Region Doubled Last Year; A Way to Move Up Value Chain

By **AARON BACK**

Chinese companies more than doubled their investment in European firms last year, according to a new study, a welcome development for Continental policy makers looking for new sources of capital and growth.

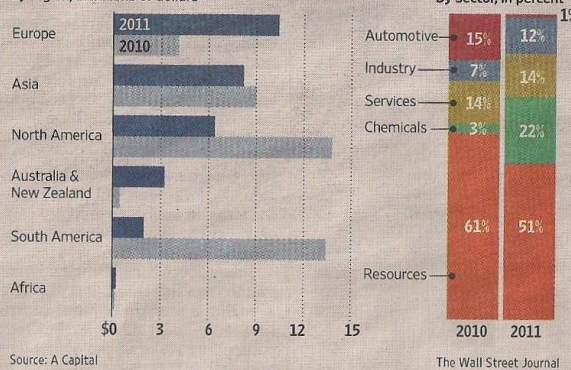
China's total overseas direct investment slipped in 2011 from a year earlier, and investment in the U.S. fell sharply, but investment in European firms surged to \$10.4 billion, from \$4.1 billion in 2010, according to estimates by A Capital, a private-equity firm based in China and Paris that takes stakes in European companies alongside Chinese investors.

Europe became the leading destination for Chinese firms investing abroad in 2011, accounting for 34% of all outbound merger and acquisition activity, according to A Capital's new Dragon Index, which was scheduled to be launched Tuesday and will track China's overseas investment on a quarterly basis.

The report comes as top European and Chinese leaders, including

Going Shopping | China's outbound M&A

By region, in billions of dollars



Chinese Premier Wen Jiabao and European Commission President José Manuel Barroso, are to meet for an annual summit in Beijing on Tuesday. The summit will also be attended by companies such as France's **GDF Suez SA**, in which

China Investment Corp., China's sovereign-wealth fund, invested around \$4 billion late year, taking a stake in two of its units.

European leaders are likely to press Mr. Wen to increase China's investment in Europe's sovereign

bailout fund, the European Financial Stability Facility. China has stated that it has bought EFSF bonds at auction but the exact amount of the purchases is unknown.

Chinese investment in Europe's private sector, while still relatively small, is becoming a bigger source of support for corporate Europe.

The increased investment in Europe is partly opportunistic, given tempting valuations for assets amid the euro-zone debt crisis. But rising interest in Europe also heralds fundamental changes in the character of Chinese investment abroad, André Loeseckrug-Pietri, the founder and managing partner of A Capital, said in an interview.

The initial wave of overseas investment was led by the purchase of mining and energy companies by China's state sector, and therefore was concentrated in resource-rich regions like Australia and Latin America. Increasingly, however, private Chinese companies consider overseas investment as a way to move up the value chain by gaining access to foreign brands and tech-

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Chinese Investments In Europe Double

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ology, Mr. Loeseckrug-Pietri said. "Private companies are investing overseas as a survival strategy to protect their margins," he said, helping them respond to rising cost pressures at home as labor and other inputs become more expensive.

Chinese companies invest in assets abroad that position them better at home, Mr. Loeseckrug-Pietri said.

One example is private Chinese conglomerate **Fosun Group**, which in 2010 bought a 71% stake, since increased to 10%, in French resort operator **Club Méditerranée SA**, which has its eye on China's growing domestic tourism market. A Capital advised Fosun on the deal and took a small stake alongside Fosun.

Club Med is now opening resorts in China in partnership with Fosun, Mr. Loeseckrug-Pietri said.

In 2011, Fosun took a 10% stake in **Folli Follie Group SA**, a high-end global retailer of jewelry, watches and fashion accessories, based in Greece and with outlets in China. A Capital wasn't involved in that deal.

In 2010, 61% of overseas mergers and acquisitions by Chinese companies were in the resources industry, but this fell to 51% in 2011, as investment in high-end manufacturing and chemical industries rose, according to A Capital's index. The share of investments made by state-owned companies also declined to 72% in 2011 from 82% in 2010.

The largest takeover of a European company was **China National**

Bluestar Group's acquisition of Norway-based **Elkem**, which produces silicon for solar cells, for \$2.35 billion.

Total Chinese investment abroad came to \$68 billion in 2011, according to the report, down slightly from \$68.8 billion in 2010. A Capital attributes the decline, in part, to caution on the part of Chinese investors amid volatile markets.

Of the \$68 billion total, 44% was in the form of M&A, while 56% was greenfield investment, or construction of new plants and facilities in foreign countries, A Capital said.

A Capital's estimate of Chinese investment abroad was somewhat higher than the official figures from China's Ministry of Commerce, which said direct investment by Chinese companies abroad rose 1.8% in 2011 to \$60 billion. It wasn't clear what specifically accounts for the discrepancy between the two sets of data.

A Capital's estimates are based on a combination of data from official sources in China as well as the U.S. and Europe, who use different calculation methods, plus commercial databases and the firm's original research.

Relative to the size of its economy, China's overseas investment remains quite modest. The total stock of investment abroad rose to 5.3% of gross domestic product in 2011 from 2.6% in 2001, but it remains well below the average of over 27.7% for developed countries in the Organization of Economic Cooperation and Development, Mr. Loeseckrug-Pietri said.