BRI Pulse

China Inbound FDI 2018 – China Opens Up

Throughout the past decade, China's aggregate inbound FDI has not seen much growth, growing only a 3.7% CAGR during the period of 2010-2017. From 2015-2017, the growth was only 0.3% CAGR. These growth totals were not aligned with the strong capital outflows which peaked in 2015/2016. As a result, China set into action a number of measures which had the effect of increasing capital flows via institutional and corporate investment.

The near term uplift has been seen in institutional investment. During 2018, there has been a substantial uplift in institutional investment, particularly in Chinese bonds (in renminbi) whose coupons are very attractive relative to many other markets. Despite the 33% uplift in purchases of such securities, FDI into China for the ten months ending 31st October was $101 billion, an increase of only 3.3% y-o-y from 2017.

On the corporate investment side, in August 2017, State Council implemented a number of measures designed to increase foreign investment into a number of sectors including banking, broking and insurance. This was followed by lifting ownership curbs in automotive, heavy industry and agriculture earlier in 2018. The result has been a significant increase in announced corporate investments in these industries by a number of multinationals.

We list below major investments/pledges by industry to date during 2018, with inbound totals by sector in (brackets):

Automotive/Industrial ($20 billion)

- March – Daimler (Germany) and BAIC agreed to invest $2 billion in modernizing a plant to build premium Mercedes-Benz cars including electric vehicles.
- April – Volkswagen (Germany) and its Chinese JV partners announced plans to invest $18 billion in China up until 2022 on developing electric and self-driving vehicles.
- July – Tesla (USA) announced plans to build an electric car plant after receiving approval from the Shanghai Government. Amounts of $5 billion are being discussed as well as funding from local Chinese financing sources.
- October – BMW (Germany) announced plan to increase its stake in its venture with Brilliance China Automotive Holdings Ltd from 50% to 75% for $4.1 billion. This transaction is not planned to close until 2022 when foreign majority ownership restrictions are lifted.
- October – Toyota (Japan) and its JV Partner FAW Group Corp, announced plans to invest an additional $257 million to expand its Tianjin base. Toyota is also actively considering moving its Lexus model production to China.

Industrials ($16.6 billion)

- July – BASF (Germany) announced plan to build a $10 billion chemical plant in southern China which would be wholly owned by BASF. Once completed by the proposed date of 2030, would be BASF's third-biggest production base in the world and employ circa 2,000 workers.

- July – BMW (Germany) also agreed to source $4.7 billion worth of battery cells from Chinese battery maker Contemporary Amperex Technology Ltd over the next five years.
- October – Lithium Werks BV (Netherlands) agreed to invest $1.85 billion in a lithium-cell factory in China.

Consumer ($3.1 billion)

- August – Heineken (Netherlands) agrees to acquire a 40% stake in China Resources Beer, the owner of Snow Beer, for $3.1 billion.

Financials (minimum $1 billion near term – substantially more over the next few years)

Insurance

- November – AXA (France) announced it has agreed to acquire the remaining 50% of its JV AXA Taiping for $664 million. This marks the 1st time a top 15 Chinese insurer will be owned by a foreign insurer.
- November – Allianz (Germany) received Chinese Government approval to set up a wholly-owned insurance holding company in Shanghai next year, a first foreign owned insurance company – four years earlier than promised. In China, Allianz's life insurance joint venture set up in 1999, in which it owns 51%, while Citic Trust owns 49%.

Banking/Securities

- December – UBS (Switzerland) received regulatory approval from China Securities Regulatory Commission (CSRC) to increase its shareholding in UBS Securities Co. Ltd from 25% to 51%. As part of this transaction, UBS said it would acquire the stakes in the JV currently owned by COFCO (14%) and China Guodian Capital (12%). We estimate a price of circa $100 million for these two blocks. UBS thus will become the first foreign bank permitted to do so under the new regulations.

JPMorgan (which exited its prior Chinese securities JV in 2016) and Nomura have applied to take majority stakes in Chinese securities groups, while Goldman Sachs and Morgan Stanley have also expressed interest to do so with their existing JVs.

As recently as November, Citigroup was making noises to sell its 33% stake in Orient Securities Co, as they have been unable to reach agreement to obtain its agreement to increase the stake to 51%. If it cannot acquire control, Citigroup is likely to acquire another China based vehicle.

In June 2017, HSBC (UK) received approval to acquire 51% of Qianhai Financial Holdings Co by investing $145 million into Qianhai Securities Ltd. HSBC Qianhai Securities Ltd, based in Shenzhen, became the first foreign majority-owned securities JV in China. At the time, it was thought that HSBC had been given a 3-4 year head start on its competitors – which has been reduced to one year- showing the increasing rate of change.

International Partnerships to Facilitate Chinese inbound investment ($1 billion)

In countries which have not yet made increased direct investments into China, China has agreed to partially seed funds which can make such investments. Recent examples include:

- In October, Nomura, Daiwa Securities, Mitsubishi UFJ, Sumitomo Mitsui and Mizuho signed a MoU with CIC to set up a fund management company as part of a much larger strategic alliance. The fund managers intend to raise between $0.9- $1.7 billion from institutional investors in Japan and China to help them invest in Japanese and Chinese companies with the aim of helping them launch businesses in both countries.

- Also in October, Hyundai Motor (South Korea) announced that it has agreed to jointly launch and invest in a fund focussed on hydrogen technology. Hyundai's partner is Tsinghua Industrial R&D, a unit within Tsinghua University. The Hydrogen Energy Fund will invest in start-ups in hydrogen and related technologies. Yield Capital and Hyundai plan to jointly raise $100 million from investors in Asia, Europe and North America.

- In November, it was reported that CIC and HSBC are in discussions to create a £1 billion fund to invest in UK companies that have business links with China. The fund would be managed by UK based Charterhouse Capital Partners.

As shown in the announcements above, China has secured an incremental $40 billion of inbound FDI just in 2018, and only across a handful of sectors. While the actual cash will not be fully invested for a few years, they have at least been announced. In addition the three regional co-investment funds can also be expected to produce additional inbound FDI corporate investment.

Finally, it is worth noting that the increasing level of inbound FDI comes at a time of decreasing Chinese ODI. The outbound capital controls introduced previously have already had an effect both in aggregate amount and in an increased focus on the BRI. In 2017 aggregate ODI decreased by 29.4% from $155 billion in 2016 to $120 billion, while ODI into BRI countries totaled $14.4 billion, or 12% of the aggregate versus only 8.5% during 2016. In light of current global trade conditions, expect this trend to continue.