



BRI Pulse

China-Europe Q1 2019

The world's financial press in Q1 seems filled with stories about how Europe is pushing back on additional Chinese investment in Europe. While Chinese M&A/equity investment into Europe is clearly lower than amounts seen in 2016, 2017 and 2018 and even less to date in Q1, there is considerable development between China and Europe planned for 2019 as shown below.

European/CEEC Transportation Links 2019

One key 2019 focus we see is on projects which further increase transportation links between China and Europe. Such projects involve rail routes in Italy, Austria, Slovakia and Germany – which ultimately link into Scandinavia – and selected ports. For example, earlier this month Austrian Federal Railways (ÖBB) announced the launch of a direct Duisburg – Venice freight service operated by its Rail Cargo Group (RCG), which had already seen increasing volumes from the ports of Trieste (Italy), Koper (Slovenia), and Rijeka (Croatia) in 2018. We also anticipate China playing an important role in facilitating and possibly assisting in financing a developing logistics hub in Slovakia as well this year.

Key Port in Portugal – Another 2019 European Goal

The Portuguese were the first Europeans to arrive in China and thus can lay claim to have the first official Maritime Silk Road, dating back to the 16th century. We have calculated that since 2011, Portugal based corporates have attracted circa US\$40 billion in announced M&A transactions/equity investments from China based investors, initially in Energy and Transportation and then into Financial Services and Healthcare. These amounts do not include the purchases of Portuguese Government debt during the Portuguese Financial Crisis (especially in 2010-2012).

In 2019, the Portuguese Government plans to locate a partner to build a new container terminal at the Port of Sines, Portugal's busiest commercial port which handles circa 50% of Portugal's total cargo volume. Chinese parties have shown strong interest.

The Portuguese Government also plans to expand the railway link to Madrid – the Port of Sines operates more than 5,000 container trains/year to and from Europe- this will further enhance European volume into Sines.

Q1 2019 China into Europe M&A/Equity Investments

While this quarter is not yet finalised, to date we have seen and analysed Q1 Chinese M&A transactions/equity investments into the UK, Germany, Netherlands, France, Italy, Switzerland, Italy, Spain, Sweden, Finland, Norway and Greece. Key sectors remain Consumer and Technology. The average transaction size of investment/M&A has declined significantly from 2018 for all of the reasons already well publicised; however, volume remains relatively strong, especially in Chinese investments with amounts below US\$10 million.

Upcoming Chinese Leaders Visits to Europe

President Xi is visiting Italy commencing today, during which Italy is expected to sign an official MoU joining the BRI. Italy, which is the EU's 3rd largest economy, would thus be the first G7 country to officially join the BRI. For the reasons set out above, expect Italian ports to be on the agenda. Xi's visit to Italy will be followed by visits to Monaco and France.

Premier Li then follows with visits to Belgium and Croatia. It is worth noting that in 2018, the Croatian Prime Minister was the first to visit China in 13 years, ground was broken on a Croatian wind farm project and a Chinese corporate acquired majority control of the Zadar cargo terminal. In January 2019, China Road and Bridge Corporation won the bid for the Pelješac Bridge project, an important infrastructure project. Croatia will also host the 2019 16+1 summit this coming July.

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