

Overview of China outbound investment of H1 2023

China's outward direct investment maintains growth momentum, overseas M&A in Latin America and Oceania surges despite the total continues to decline

EY China Overseas Investment Network
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Since the beginning of this year, China's economic societies have resumed normal operations, and the economy has continued to recover, with a 5.5% economic growth in the first half¹, meeting expectations. The momentum for Chinese companies to go abroad has also strengthened, as outward direct investment (ODI) continues to grow. Upcoming events in the second half of the year, such as the third Belt and Road Forum for International Cooperation and the inaugural China International Supply Chain Expo, will provide further platforms for international cooperation and development for Chinese companies.

Additionally, the recent release of the Chinese government's Opinions on Promoting the Development and Growth of the Private Economy explicitly encourages private enterprises (POEs) to expand overseas operations and actively participate in the Belt and Road Initiative (BRI). It also outlines support for guiding and assisting private enterprises in countering external challenges such as trade protectionism, unilateralism, long-arm jurisdiction and enhancing coordination among relevant departments to establish risk prevention and resolution mechanisms for the safety of private entrepreneurs and their overseas interests. EY believes that these measures will give confidence and assurance for POEs to boldly go abroad. As China's economic development continues to accumulate momentum, Chinese companies' overseas expansion is expected to accelerate in the second half of the year. However, companies should remain cautious about external challenges, such as continuous slowdown in international market demand, weaker-than-expected global economic recovery, increasing scrutiny on foreign direct investments, and the recent volatility in the RMB exchange rate, which requires more attention.

Source: 1. China National Bureau of Statistics

Summary

Data reveals that in H1 2023,

ODI¹

China's overall outward direct investment (ODI) reached US\$75.4 billion, up 9.6% year-on-year (YOY); Non-financial ODI amounted to US\$62.3 billion, up 14.8% YOY, of which non-financial investment in Belt and Road (B&R) countries reached US\$11.6 billion, growing by 15.4% YOY.

Overseas M&As²

Chinese enterprises announced a total overseas mergers and acquisitions (M&A) value of only US\$11.7 billion, the lowest in a decade, declining by 14% YOY; there were 224 announced deals, dropping by 13% YOY, with a sharp decline of 33% quarter-on-quarter (QOQ) in the number of deals announced in the second quarter, reaching a new low for recent years.

- ▶ Sector-wise, power & utilities ranked as the top sector in terms of deal value, with financial services and advanced manufacturing & mobility ranking second and third, respectively. The top three sectors accounted for 54% of the total deal value, and power & utilities sector experienced a significant surge. In terms of deal volume, the top three sectors were TMT*, advanced manufacturing & mobility, and financial services, accounting for 58% of the total volume.
- ▶ Regionally, Latin America recorded the largest M&A deals in this period, with only Latin America and Oceania showing growth in deal value, while North America was the only region with an increase in deal volume.

Overseas EPC¹

Newly-signed contracts for China overseas engineering, procurement & construction (EPC) projects amounted to US\$94.7 billion, declining by 8.6% YOY; completed turnover was US\$70.7 billion, remaining relatively stable.



*The TMT sector refers to technology, media & entertainment and telecommunications

Sources: 1. China MOFCOM. 2. Refinitiv; Mergermarket, including data from Hong Kong, Macau and Taiwan, and deals that have been announced but not yet completed, data was downloaded on 5 July 2023; EY analysis

ODI

ODI continued to show stable growth, with a faster pace along the B&R

Data reveals that in H1 2023,

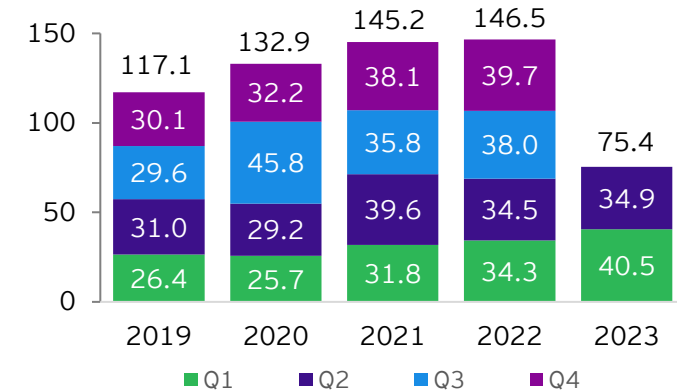
China overall ODI reached **US\$75.4b**, up **9.6%** ▲ YOY.

▶ China non-financial ODI reached **US\$62.3b**, up **14.8%** ▲ YOY.

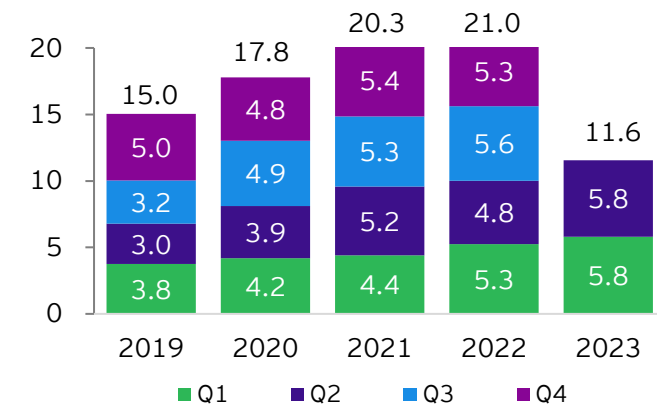
The B&R non-financial ODI reached **US\$11.6b**, up **15.4%** ▲ YOY.

- ▶ Accounting for 18.6% of the total.
- ▶ These investments were mainly directed toward countries and regions such as ASEAN, the UAE, Kazakhstan, and Russia.

China overall ODI (US\$ billion)



China non-financial ODI along the B&R (US\$ billion)



Note: Due to rounding, some totals may not correspond with the sum of the individual quarters.

Source: *Monthly Statistics in Brief*, China MOFCOM

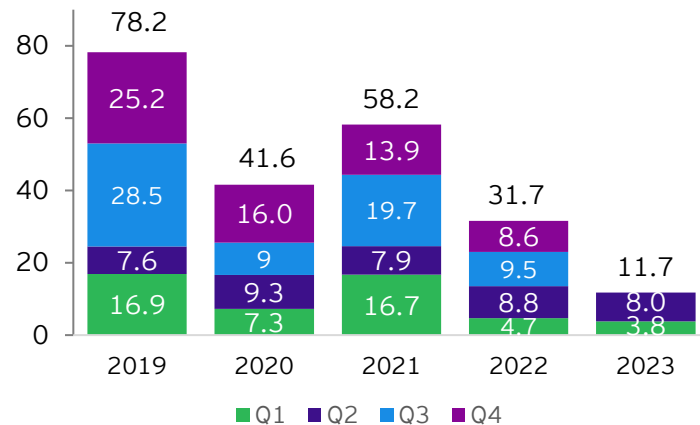
Overseas M&As

Latin America witnessed a significant surge in M&A deal value, while overseas deal volume in Q2 hit a new low

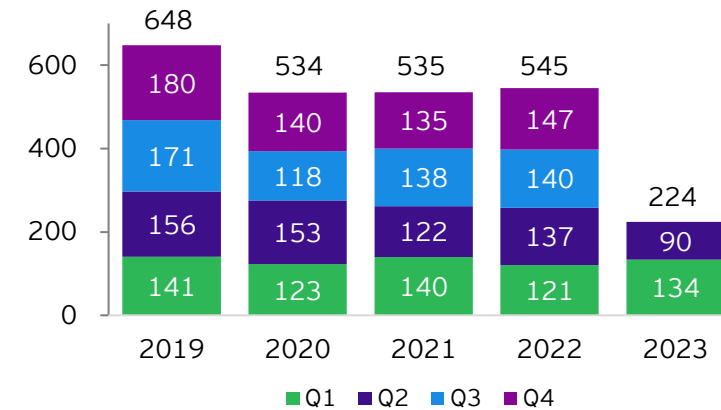
In H1 2023,

- ▶ The value of announced China overseas M&As deals was only **US\$11.7b**, down **14% ▼** YOY to a recent quarterly low. The volume of announced deals was **224**, declining by **13% ▼**.
- ▶ Moreover, deal volume announced in the second quarter dropped significantly by 33% QOQ, reaching a new low for a single quarter in recent years.

Value of announced China overseas M&As (US\$ billion)



Volume of announced China overseas M&As



Note: Due to rounding, some totals may not correspond with the sum of the individual quarters.

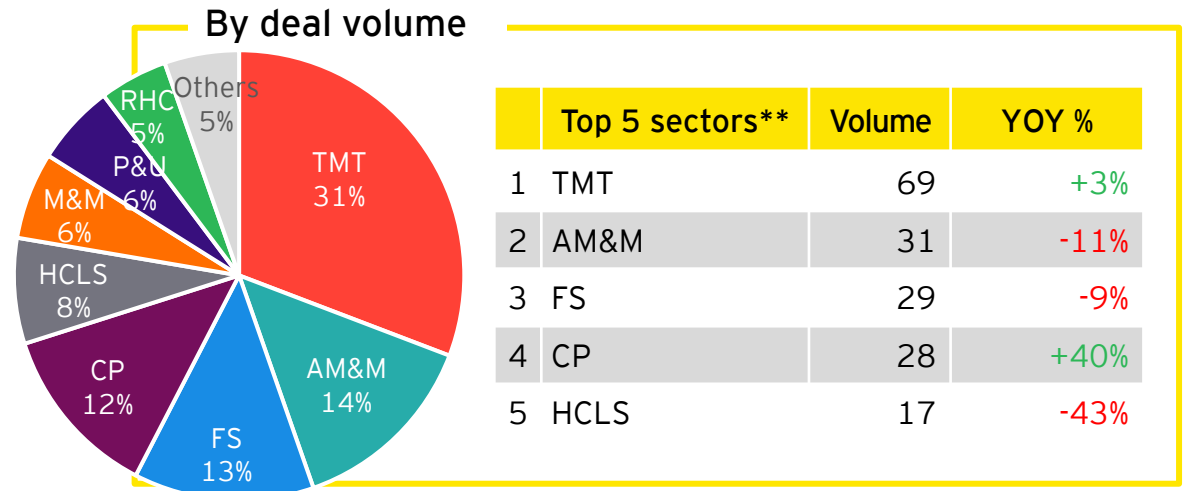
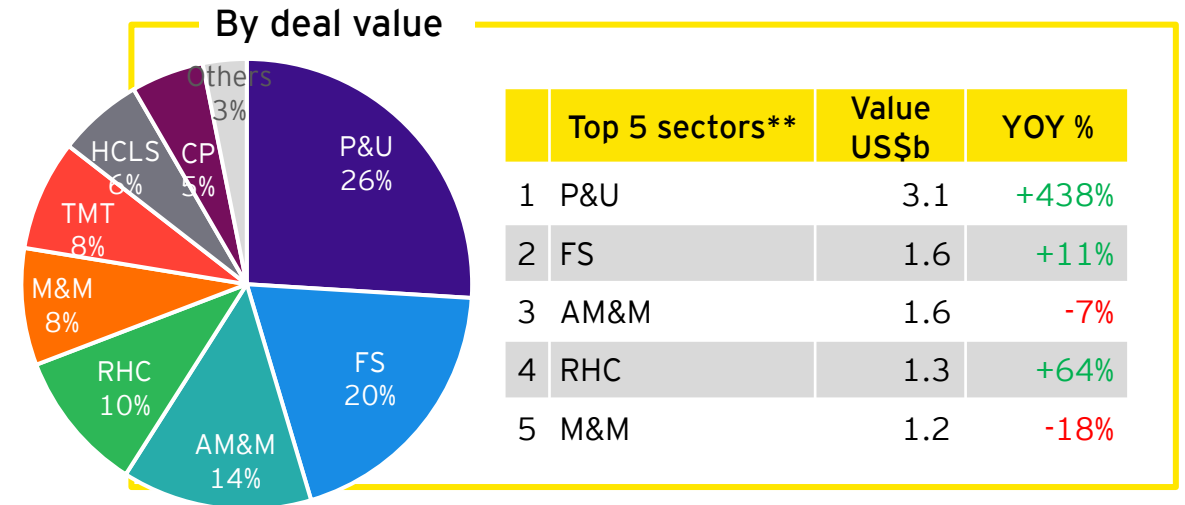
Sources: Refinitiv; Mergermarket, including data from Hong Kong, Macau and Taiwan, and deals that have been announced but not yet completed, data was downloaded on 5 July 2023; EY analysis

Overseas M&As (cont'd)

Sector analysis

In H1 2023,

- ▶ In terms of M&A deal value, the top three popular sectors in H1 2023 were **power & utilities**, **financial services**, and **advanced manufacturing & mobility**, together accounting for 54% of the total deal value. **Power & utilities** experienced a substantial growth of 438%, while financial services and real estate, hospitality & construction also recorded certain increases.
- ▶ Notable large transactions announced in the second quarter this year include:
 1. A Chinese enterprise acquiring two power distribution businesses and energy service companies in Peru (totaling approximately US\$2.9 billion), which will help the Chinese enterprise expand and consolidate its presence in the Latin American market;
 2. A Chinese enterprise acquiring a real estate investment trust in the UK (approximately US\$1 billion).
- ▶ In terms of deal volume, the popular sectors were **TMT**, **advanced manufacturing & mobility**, and **financial services**. TMT remained the top hot sector, announcing 69 transactions, accounting for over 30% of the total deal volume, far surpassing other sectors.

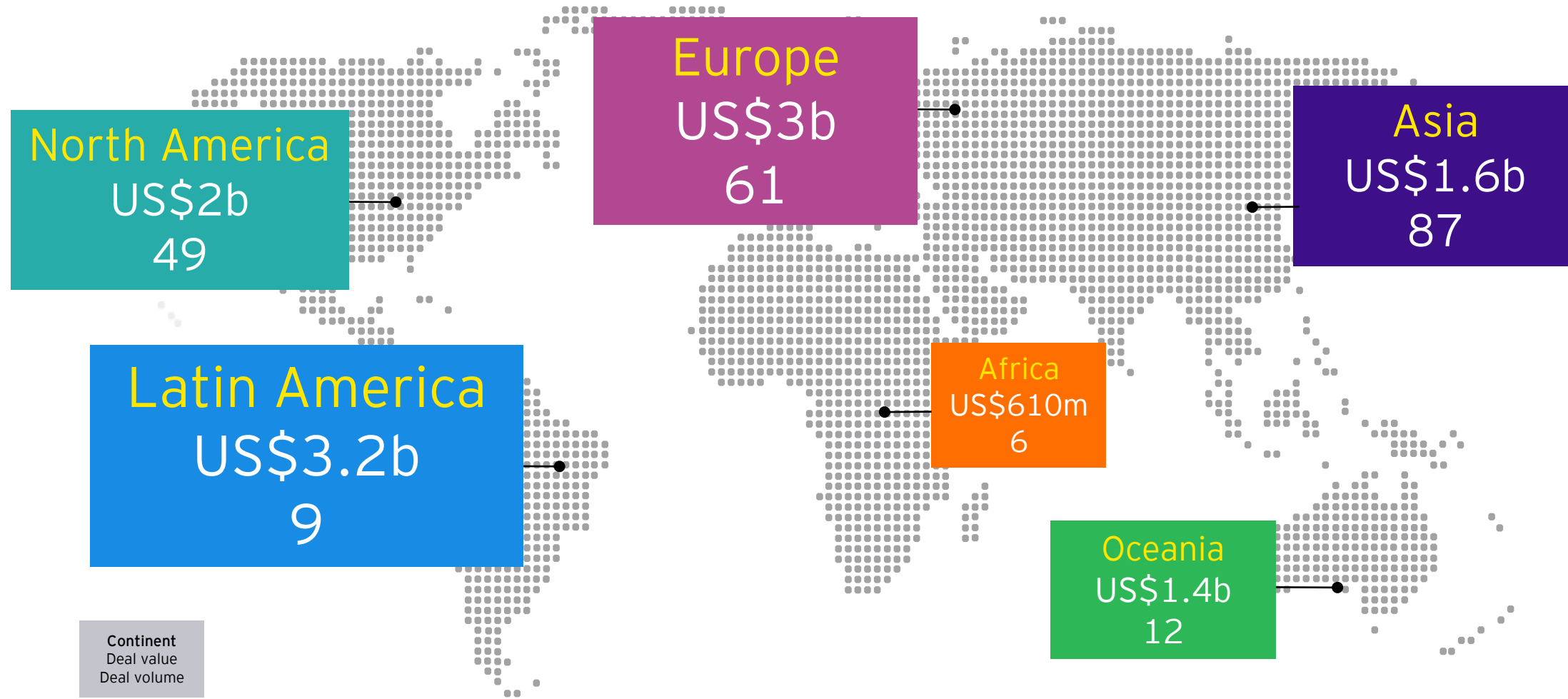


**AM&M refers to advanced manufacturing & mobility; RHC refers to real estate, hospitality & construction; HCLS refers to health care & life sciences; FS refers to financial services; CP refers to consumer products; P&U refers to power & utilities; M&M refers to mining & metals.

Sources: Refinitiv; Mergermarket, including data from Hong Kong, Macau and Taiwan, and deals that have been announced but not yet completed, data was downloaded on 5 July 2023; EY analysis

Overseas M&As (cont'd)

Regional analysis



Sources: Refinitiv; Mergermarket, including data from Hong Kong, Macau and Taiwan, and deals that have been announced but not yet completed, data was downloaded on 5 July 2023; EY analysis

Overseas M&As (cont'd)

Regional analysis

Latin America

US\$3.2b

▲ up 1,737% YOY

9 deals

▼ down 40% YOY

- ▶ The announced M&A deal value by Chinese companies in Latin America ranked first for the first time in nearly a decade.
- ▶ In recent years, China's circle of friends in Latin America has been continuously expanding, with Brazilian president's visit to China in H1 2023, Honduras establishing diplomatic relations with China, and China and Argentina signing a cooperation plan under the BRI. These developments have facilitated the progress of China-Latin America economic and trade relations. Additionally, the 16th China-Latin America Entrepreneurs Summit is scheduled to be held in Beijing in the second half of this year, which is expected to further promote exchanges and cooperation between Chinese and Latin American companies for mutual development.
- ▶ The economic growth of major Latin American countries this year is expected to be 2.6% for Mexico, 2.4% for Peru, and 2.1% for Brazil, leading other Latin American nations. However, Argentina's economy is expected to decline by 2.5%¹.

Europe

US\$3b

▼ down 44% YOY

61 deals

▼ down 24% YOY

- ▶ The announced M&A deal value was the lowest for the same period in nearly a decade.
- ▶ Over 40% of the M&A deal value was invested in the financial services sector, with other popular sectors including mining & metals and real estate, hospitality & construction.
- ▶ The main destinations for investments were the UK and Germany, with M&A deal values rising against the trend by 117% and 91%, respectively. The two countries' combined M&A deal values accounted for 86% of the total announced M&A deals in Europe.
- ▶ Lately, high-level visits between China and Europe have been frequent, and China attaches great importance to the European market in terms of economic and trade cooperation. In June this year, Chinese Premier Li Qiang made his first official visit to Germany and France after taking office. Leaders from both Germany and France expressed their opposition to any form of "decoupling" and welcomed Chinese companies' investment in their countries. In the future, China is expected to deepen cooperation with Germany and France in areas such as automobile manufacturing, high technology, new energy, digital economy and semiconductors.
- ▶ In 2023, the overall economic growth of European countries will be weak, with relatively high inflation levels. The Eurozone is expected to grow by only 0.9% this year, far below the global average of 3%, and Germany is expected to decline by 0.3%¹.

Sources: *World Economic Outlook update*, IMF, July 2023; *World Economic Outlook*, IMF, April 2023

Overseas M&As (cont'd)

Regional analysis

North America

US\$2b

▼ down 28% YOY

49 deals

▲ up 11% YOY

- ▶ North America is the only continent where the M&A deal volume has increased. The TMT sector saw a significant growth in transaction volume by 150%, mainly directed toward software development and electronic components. M&A deals in the healthcare & life sciences and TMT sectors accounted for 75% of the total M&A deal value by Chinese companies in North America.
- ▶ Currently, the US inflation rate has decreased to around 3%¹. It is predicted that the US economy will grow by 1.8% this year, with strong growth in consumer spending. The IMF has revised its forecast for the US economy by 0.2 percentage points higher than the April forecast².

Asia

US\$1.6b

▼ down 61% YOY

87 deals

▼ down 3% YOY

- ▶ The top three M&A destinations in Asia were Vietnam, Singapore and Japan, accounting for 64% of the total M&A deal value, with investments in Vietnam showing a counter-trend increase, with both the investment amount and number of deals increasing by over 200%.
- ▶ Overall, investment activity has increased in ASEAN countries, with a YOY growth of 35% in the number of M&A deals. The main sectors for Chinese M&A in Asia were real estate, hospitality & construction, financial services and advanced manufacturing & mobility.
- ▶ It is predicted that India and the ASEAN-5³ countries will grow by 6.1% and 4.6% respectively this year, with the Philippines and Vietnam leading ASEAN with economic growth rates of 6% and 5.8%, respectively².

Oceania

US\$1.4b

▲ up 225% YOY

12 deals

▼ down 45% YOY

- ▶ The investments were mainly in Australia's mining & metals, real estate, hospitality & construction, and consumer products sectors.

Africa

US\$610m

▼ down 24% YOY

6 deals

▼ down 14% YOY

- ▶ Mainly invested in South Africa and Egypt's advanced manufacturing & mobility sector. A major transaction in Q2 was the acquisition of a South African cement producer by a Chinese company, which was a key move in the company's active overseas development strategy and will strengthen its leading position in the region.
- ▶ China has become the fourth-largest source of investment in Africa and remains the largest trading partner⁴. Recently, the third China-Africa Economic and Trade Expo was successfully held in China, with the number of signed agreements reaching a record high. China-Africa economic and trade cooperation is moving towards a new stage of high-quality development.
- ▶ This year, East African countries are expected to maintain high economic growth, with Ethiopia, Kenya and Tanzania expected to grow by 6.1%, 5.3%, and 5.2%, respectively².

Sources: 1. U.S. Department of Labor, June 2023 data; 2. *World Economic Outlook update*, IMF, July 2023; *World Economic Outlook*, IMF, April 2023; 3. Note: ASEAN-5 includes Malaysia, Indonesia, Thailand, the Philippines, and Singapore; 4. The State Council of China

Overseas M&As (cont'd)

Regional analysis

Top 10 destinations of China overseas M&As in H1 2023 (By deal value: US\$ billion)

	Destination	H1 2023	H1 2022	YOY %
1	Peru	3.0	/	/
2	UK	2.1	1.0	+117%
3	US	1.9	2.6	-27%
4	Australia	1.4	0.4	+234%
5	Vietnam	0.5	0.2	+217%
6	Germany	0.4	0.2	+91%
7	Egypt	0.4	/	/
8	Singapore	0.3	1.2	-72%
9	Japan	0.2	0.4	-39%
10	South Africa	0.2	/	/

Top 10 destinations of China overseas M&As in H1 2023 (By deal volume)

	Destination	H1 2023	H1 2022	YOY %
1	US	41	37	+11%
2	Singapore	31	19	+63%
3	Germany	16	13	+23%
4	Japan	13	20	-35%
5	Australia	12	20	-40%
6	UK	10	17	-41%
7	South Korea	9	17	-47%
8	Canada	8	7	+14%
8	Italy	8	4	+100%
10	Vietnam	7	2	+250%
10	France	7	9	-22%
10	Malaysia	7	6	+17%

Sources: Refinitiv; Mergermarket, including data from Hong Kong, Macau and Taiwan, and deals that have been announced but not yet completed, data was downloaded on 5 July 2023; EY analysis

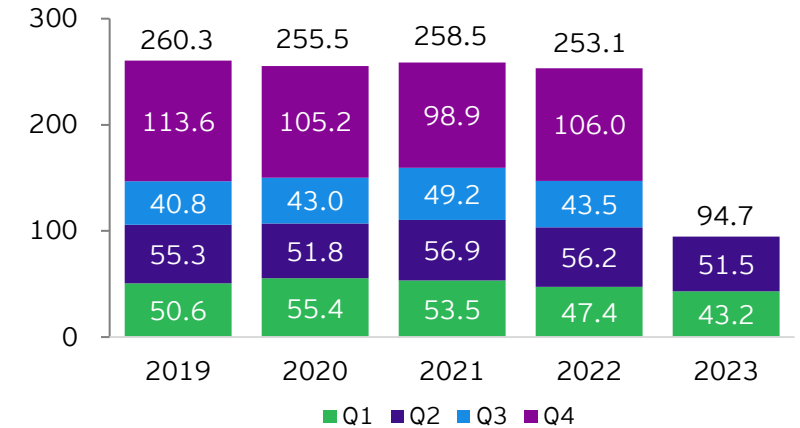
EPC

China overseas EPC showed a continuous decline in newly-signed contract value, while completed turnover remained stable

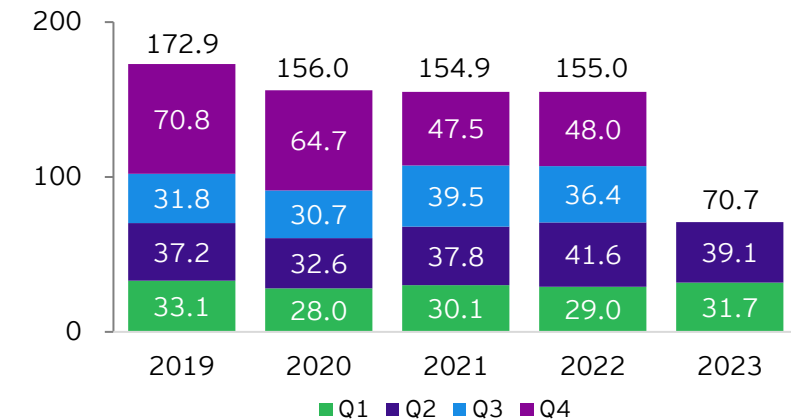
In H1 2023

- ▶ Chinese enterprises' newly-signed EPC contracts worth **US\$94.7b**, down **8.6%** ▼ YOY.
 - ▶ Among them, B&R new contracts amounted to **US\$47.6b**, up **8.8%** ▲ YOY, which accounting for 50.3% of the total for the same period.
- ▶ Chinese enterprises' overseas EPC completed turnover reached **US\$70.7b**, remaining relatively stable.
 - ▶ B&R completed turnover amounted to **US\$40.1b**, up **4.4%** ▲ YOY, constituting 56.7% of the total for the same period.
- ▶ Notable new overseas EPC projects signed by Chinese enterprises¹ in Q2 include:
 1. A residential tower project in the UAE with an investment of about US\$1 billion;
 2. An East African crude oil export pipeline project with a contract value about US\$806 million;
 3. A petrochemical engineering project in Saudi Arabia with a contract value about US\$720 million;
 4. An industrial park project in Ethiopia with a contract value about US\$600 million.

Value of newly-signed China overseas EPC contracts (US\$ billion)



Value of completed turnover of China overseas EPC contracts (US\$ billion)



Note: Due to rounding, some totals may not correspond with the sum of the individual quarters.

Source: *Monthly Statistics in Brief*, China MOFCOM

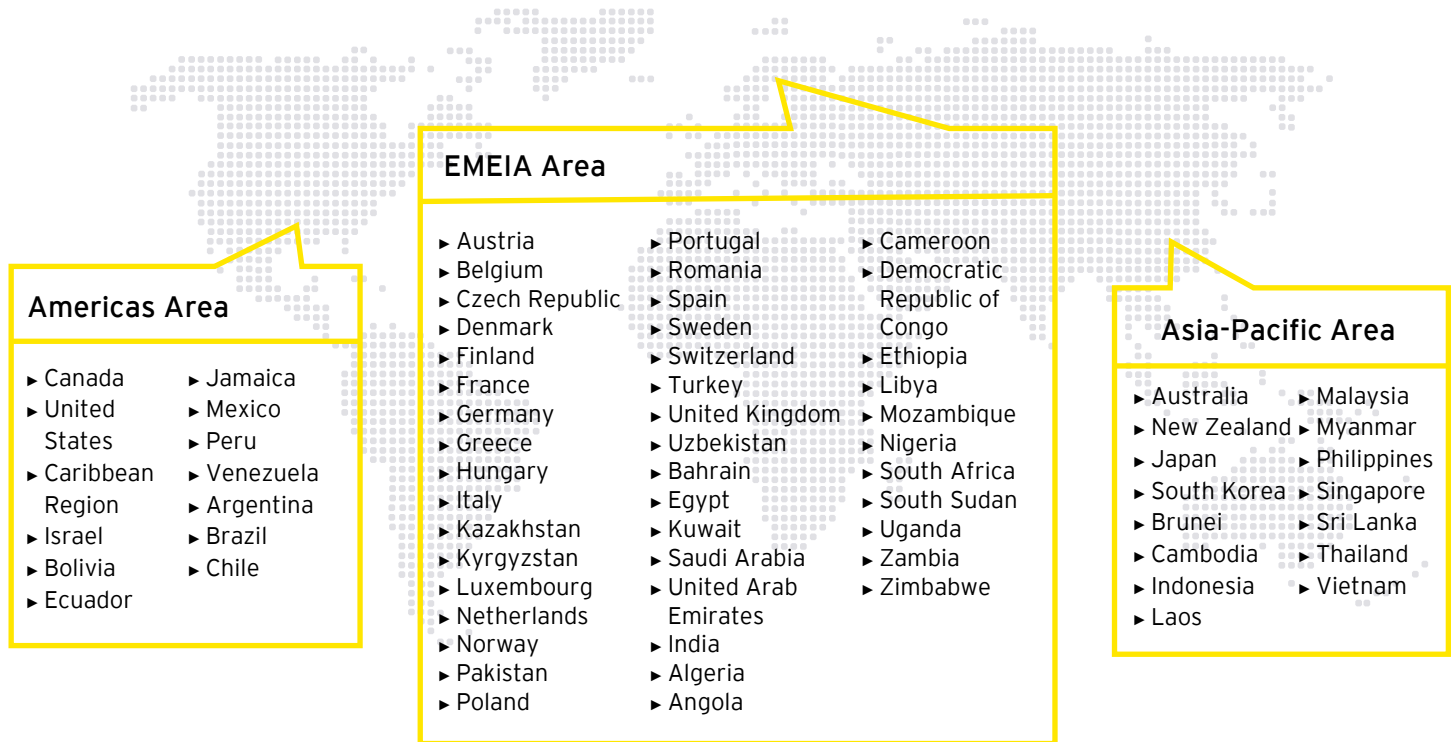
Source: 1. Public domain information

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Global reach and local expertise	Multilingual seamless service teams	Extensive cross-border transaction experience and full coverage of services
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70+
Countries and territories in the EY global service network

90%
Countries and regions along the B&R

3,200+
Clients assisted globally

1,600+
Clients assisted in B&R countries

74,000+
Overseas engagements

34,000+
Projects assisted in B&R countries

*Data from the last 3 years



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