CHINESE INVESTMENTS IN FRANCE

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What is happening at the European level?

Since her inauguration in June 2019, European Commission President Ursula von der Leyen has railed relentlessly against China and its purported hegemonic behaviour, and has frequently portrayed the PRC as Europe's most significant economic threat.[1] These suspicions have gained further traction as China enjoys a renewed economic and diplomatic cooperation with Russia. However, such fears may be significantly exaggerated with regard to the evolution of Chinese investments in Europe in the past few years.

While Chinese outbound investment remained flat in 2021, growing by a modest 3% to a figure of $ 114 billion, Chinese outbound M&A transactions amounted to just €20 billion, down 22% from 2020. China's FDI in Europe (the 27 EU Member States and the UK) increased but remained disappointing. In 2021, Chinese FDI in Europe increased by 33% to €10.6 billion, from €7.9 billion in 2020, the second lowest figure since 2013.[2] The increase was driven mainly by a €3.8 billion acquisition of the electronics giant Philips by Chinese private equity firm Hillhouse Capital and some €3.3 billion worth of investment in greenfield projects such as electric vehicle batteries (EVBs), healthcare and biotech, IT and energy. While Germany, France and the UK accounted for 39% of total Chinese investment in Europe, this lagged significantly behind the Netherlands, due to the massive Philips acquisition.

In 2020,[3] Global Chinese outbound investments had fallen by 45% to $29 billion, its lowest since 2008 (vs $53 billion in 2019 and $80 billion in 2019, a far cry from the record $139 billion in 2017. In Europe in particular, Chinese investments dipped 45% to reach $7.2 billion, as compared to $13.4 billion in 2019. In 2020, The German hotel group Steigenberger was acquired by the Huazhu Group in a deal amounting to an equivalent of $780 million. Asteelflash in France was acquired by Universal Scientific Industrial (Shanghai) in a $422 million[4] transaction, while National Electric Vehicle Sweden (NEVS) was acquired by Evergrande, taking a majority stake in the company through a $380 million transaction (in addition to the $930 million already spent in 2019). In total, Chinese investments in Europe remained at an all-time low in 2020, with Germany and France receiving $1.8 billion each (equivalent to the 2018 figure in the case of France). If some very large transactions every year logically attract our attention (such as the €4.6 billion Amer Sports acquisition by Anta in Finland or the acquisition of Candy

[1] https://www.politico.eu/article/european-commission-ursula-von-der-leyen-state-union-2021-china-xi-jinping/
[2] Chinese FDI in Europe 2021 Update - Merics and The Rhodium Group, April 2022 report
[3] Baker McKenzie et Rhodium Group https://www.bakermckenzie.com/en/newsroom/2021/1/pandemic-slows-chinas-global-deal-making-in-2020
[4] https://www.asteelflash.com/about-us/ and https://evertiq.com/news/49230

by Haier in Italy for €475 million, both in 2019), most transactions in Europe involved SMEs with average transaction size of $132 million in 2019, significantly lower than the 2016 figure of $267 million or the $526 million invested in 2017. France was the poor parent of Europe in 2019, with Chinese investments amounting to a total of $100 million, significantly lower than both Sweden ($1.3 billion) and Italy ($700 million).

The different Chinese investment phases in Europe and overall outbound investment policy

China really started massively investing overseas in 1999 with the onset of the "China Go out"[5] policy in the wake of the Asian financial crisis in 1997-1998. This investment doctrine was consolidated after 2001 when China entered the WTO and embarked on the 10th Five-year Plan.

Since 2014, Chinese SOEs (state-owned enterprises) were encouraged by the "China Go Global" strategy[6] and carried a large number of overpriced investments, fueled by almost unlimited debt leverage provided by Chinese state-owned banks. In 2016, the Chinese Government sounded the end of the "all-you-can-eat buffet" and started cracking down on outbound capital flight, aiming to significantly slow or stop non-core and expensive investments (the Chinese had acquired a reputation for ignoring local business customs and ending up overpaying as a sole means of winning the prize). The goal was also to deleverage SOEs and prioritize BRI (Belt and Road) projects.

In 2019, Chinese state-driven investments represented just 11% of total Chinese investments in Europe, a result of 3 years of restrictions on SOEs compounded by recently introduced European restrictions.[7]

What are Chinese investors looking for in France?

From 2000 to 2019, France received the equivalent of $14.4 billion from Chinese investors, a far cry from the UK ($50.3 billion), Germany ($22.7 billion) or even Italy ($ 15.9 billion).[8] This ranking excludes the Swiss-based acquisition of Syngenta by ChemChina in 2016-2017 for $43 billion.

Tourism and Hospitality are key targets. In 2010, Fosun took a 7.1% stake in Club Med, in a transaction worth €22 million. In 2015, Fosun finally purchased a majority shareholding in Club Med (then valued at €939 million). Back in pre-Covid times, this represented a perfect combination of complimentary forces. Club Med had lost its luster and was crippled with debt, but held prestigious assets across the world. Fosun would make use of its financial, engineering and business network to help Club Med develop in China, a key market for tourism. Similarly, Chinese SOE, Jinjiang, a leader in hospitality, purchased the Louvre Hotels Group (featuring the Campanile and Kyriad brands) in 2014 from US-based Starwood Capital in a $1.3 billion transaction.

Food and agriculture-related acquisitions have also become strategic targets for Chinese investors. In 2011, Bright Food, Chinese leader in F&B, unsuccessfully tried to acquire the yogurt manufacturer Yoplait. Despite Bright Food's offer being 50% higher than its direct competitor, Private Equity fund PAI selected US-based General Mills to sell its stake in Yoplait for an equivalent of. $2.2 billion. In 2013, Shanghui, another leader in the sector, took indirect control of Aoste, Justin Bridou and Cochonou, through the purchase of US firm Smithfields Foods. In 2018, a consortium led by Fosun and Sanyuan acquired margarine producer Saint Hubert from investor Montagu. That same year, Chinese conglomerate Reward Group confirmed they had acquired approximately 3,000 hectares of arable land in two French regions, Indre and Allier, between 2014 and 2017. Because of the public outcry in response to these announcements, the French Government started imposing regulatory restrictions on the purchase of arable land by foreign entities. Visibly, this has not stopped Chinese investors from buying more than 165 vineyards and châteaux (of which 150 are located in the Bordeaux region).[9]

The luxury and cosmetics industries are magnets for Chinese investments. In 2005, Hutchinson Whampoa, the holding company of Hong Kong mogul Li Ka-Shing, acquired the Marionnaud cosmetics chain. Hong-Kong Li & Fung group purchased luxury shoe brand Clergerie in 2011 and iconic brand Sonia Rykiel in 2012. In 2016, Shandong Ruyi Technology took a controlling share in affordable luxury group SMCP owner of Sandro & Maje and Claudie Pierlot, among other prestige brands, for €1.3 billion. Shandong Ruyi have since relinquished their ma-

[5] https://www.diplomaticourier.com/posts/china-s-going-out-strategy
et http://www.gov.cn/node_11140/2006-03/15/content_227686.htm
[6] https://thediplomat.com/2014/12/china-urges-companies-to-go-global/
[7] https://eur-lex.europa.eu/eli/reg/2019/452/oj
[8] https://www.bakermckenzie.com/en/newsroom/2020/01/chinese-investment-in-europe-na
[9] Source : Trésor Public https://www.tresor.economie.gouv.fr/Pays/CN/investissements

jority share due to default on their debt. Sonya Rykiel failed to turn a profit and subsequently laid off 25% of its workforce. The group was later sold to a team of French entrepreneurs. As Bernstein Luxury analyst Luca Solca declared to SCMP in 2021 "often the Chinese companies taking these brands over have little experience of the industry and little value added to contribute". The article continues by stating that "European commentators have argued that Chinese companies are ill-equipped to steer traditional French and British brands through a retail crisis such as the pandemic or the shift to online purchasing"[10].

Yet a notable exception could well be Fosun, who have been trying their luck at European luxury brands for a number of years and have built local teams to administer these assets. In 2018, Fosun bought the iconic Lanvin brand, at the time in serious financial distress, and integrated it into a newly-founded luxury division aptly named "The Lanvin Group".[11] In 2020, Yuyuan Jewelry & Fashion Group, a Fosun subsidiary, acquired 55% of French jewelry brand Djula.[12] The new owner has announced they will invest up to €26 million to accelerate entry into the Chinese market and international business development. Last but not least: China cosmetics group Yatsen finalized the acquisition of skin treatment specialist Galenic in 2020 from owner Laboratoires Pierre Fabre - the latter will retain a 10% share in the company. According to the legal firm involved in the transaction, Yatsen is run by a team of young US-educated Chinese executives, well versed in Western business principles, M&A and sale auctions. They have also shown their ability to conduct transactions entirely remotely, especially useful during the Covid pandemic, while leveraging local teams of advisors.[13] Backed by Chinese private equity fund Hillhouse Capital, Yatsen was listed on the NASDAQ in November 2020, raising $100 million.[14]

French Industrial and tech companies have also attracted Chinese investors' interest for over 20 years. From 2003 to 2010, Consumer electronics giant TCL made a series of acquisitions in France or joint-venture companies with French companies, such as Thomson Electronics, Alcatel Mobile Phones and Sagem Mobile. Manoir Industries, specialized in metal transformation, with activities spanning the nuclear, defence and petrochemical industries, was acquired by the Yantai Tahai Group in 2013.[15] The two companies were already working together in Manoir Industries' China JV since 1994.[16] Considering the sensitive nature of the technology and the clients involved (Manoir was an Areva supplier, for example), the teams and management from the sensitive areas of the company were managed separately alongside the data flow with the rest of the company. The transaction thus included a carve-out of this team for the sale.[17] In 2017, BOE Technology, a Chinese group in LED and IOT, took a majority shareholding and control of SES-Imagotag,[18] a French leader in digital tags, founded in 1992. The transaction was for 56% of the company, with a €222 million ticket. Like so many of the targets acquired by Chinese companies, SES-Imagotag was also losing money at the time of the transaction, yet had extensive experience working with its Chinese supplier, BOE. The merger therefore made sense.[19] Microchip manufacturer Linxens was also acquired by Tsinghua Unigroup from the CVC Group for €2.2 billion.[20] The transaction was confirmed and upheld in September 2019[21] by the French Government. The grounds for this approval by the French state was that Linxens was not a strategic asset and only provided the passive components of semiconductors. The famous "Montebourg Decree" of 2014 was therefore not invoked in order to block the transaction. In 2020, Universal Scientific Industrial (Shanghai) acquired Asteelflash in a transaction valued at $422 million[22] and Wencan, a Chinese leader in supplying parts for the automotive industry, acquired Le Bélier end 2020 for €250 million. Le Belier is also a company specialized in supplying similar products for the

[10] https://www.scmp.com/lifestyle/fashion-beauty/article/3155285/why-western-luxury-brands-bought-chinese-investors-fail
[11] https://www.lanvin-group.com/
[12] https://wwd.com/accessories-news/jewelry/fosuns-jewelry-unit-yuyuan-buy-majority-stake-djula-1203548561/
[13] Source : Bernard Tézé, Managing Partner at DS Avocats
[14] https://www.nasdaq.com/articles/chinese-cosmetics-producer-yatsen-files-for-a-%24100-million-us-ipo-2020-10-30
[15] https://fr.wikipedia.org/wiki/Manoir_Industries
[16] https://www.manoir-industries.com/2017/04/manoir-goes-international-manoir-yantai/
[17] Source : Ghislain de Mareuil, lawyer and co-founder of Shanghaivest
[18] https://www.ses-imagotag.com/en/acquisition-of-boe-technology/
[19] Source : Didier Fornoni, Partner at Hoche Avocats (at Dentons when the transaction occurred)
[20] https://www.reuters.com/article/us-linxens-m-a-tsinghua-unigroup/chinese-chipmaker-tsinghua-unigroup-to-buy-frances-linxens-for-2-6-billion-sources-idUSKBN1KF0B1
[21] https://www.euronews.com/2018/07/26/france-not-objecting-to-sale-of-linxens-to-chinese-group
[22] https://www.asteelflash.com/about-us/ and https://evertiq.com/news/49230

automotive sector. Electric vehicles and batteries are also attractive sectors for Chinese investors in Europe and in France in particular. Back in June 2021, Envision AESC announced it would construct a €2-billion plant in the Hauts-de-France Region of northern France to supply the Renault Group with electric car batteries. It will be Envision's first EVB plant in Europe, and indeed in France. Yet it is wise to monitor progress up until the operational launch in 2024, as it is not uncommon for such large projects to be resized, abandoned or relocated before they reach finalization.

Chinese internet giants also have a keen interest in specific sectors of the French tech scene. Tencent first invested in Vivendi and Universal Music. And then took 5% of Ubisoft in 2018 for an estimated $460 million. They also acquired a minority share in Voodoo games in August 2020, valued at approximately €160 million. In fintech, Tencent led a $45-million round in mobile peer-to-peer payment platform Lydia with CNP Assurances, XAnge etc and in 2019 a $115-million round in online banking provider Qonto.[23] France also appears to be a magnet for gaming studios acquisitions. As of August 31, 2022, NetEase, a Nasdaq-listed Chinese technology giant and leading video games publisher announced they had acquired French video-game studio Quantic Dream, a company which currently has 200 employees. Netease acquired a minority stake in the company in 2019. This acquisition is the first for Netease in Europe and will help establish Netease European headquarters.

At last, certain well-known Chinese venture capital companies are finally investing in France, after focusing their activities mainly in the UK, Germany, Scandinavia and Israel since the 2010s. In 2021, Chinese VC investments in Europe more than doubled to reach €1.2 billion remained concentrated in the UK and Germany.[24] Back in July 2021, Paris-based Prophesee, a leading developer of neuromorphic vision solutions, received a series-C investment from 3 Chinese investors, among which were leading AI venture capital firm Sinovation Ventures, founded by the reputed AI and tech evangelist, Kai-Fu Lee. The round was completed with investments from the corporate investment arm of Xiaomi, a world-leading mobile device supplier, and Inno-Chip, a Chinese investment firm specialized in semiconductors. Prophesee raised $28 million in 2019 which brought the amount raised by the company at that time to $68 million, while it is believed the July 2021 round reached $30-35 million. The idea behind such minority investment is to help Prophesee expand its global footprint and strengthen its presence in the Chinese market.

What does the future hold for Chinese investors in France?

If Chinese strategic investments in large French enterprises raised eyebrows, in particular in the energy and infrastructure sectors, they remain however minority shareholdings with often little impact on the management of operations. In 2011, GDF Suez confirmed investment from Chinese sovereign wealth fund CIC to the tune of €2.3 billion. The deal was accompanied by the signature of a framework agreement with Chinese state-owned giant CNOOC to bolster Engie's presence in China and APAC.[25] In 2014, Dong Feng, a leader in the Chinese automotive sector and JV partner of Stellantis in China took a 14% share in the French manufacturer, investing €800 million as part of a rescue mission when Stellantis was in distress. In 2017, the state-owned China Eastern Airlines became a minority shareholder of Air France-KLM, acquiring a 10% stake for $440 million In 2021, China Eastern also got involved in a rescue plan totalling €4 billion for Air France-KLM. In 2015, an unknown Chinese consortium called Casil Europe acquired 49.99% of the Toulouse-Blagnac Airport Management Company. Casil Europe sold their shares in 2019 to the French consortium Eiffage, pocketing a €200 million profit in the process.[26]

2019-2020 saw increased capital outflow restrictions imposed by the Chinese Government. However, in 2021, a combination of the continued restrictions on outbound travel for Chinese tourists (which included the suspension of passport renewals and issuances, in addition to weeks of mandatory quarantine upon returning to China) and an early reboot of Chinese exports created a sizable trade surplus, thus representing a logical encouragement to overseas investment, especially in Europe. Yet Chinese investments in Europe, while increasing significantly from 2020 to 2021 (€10.6 billion in 2021 compared with €7.9 billion in 2020) have shifted from "M&A only" to a significant proportion of greenfield projects (representing €3.3 billion in 2021 and covering a broad range of sectors). Chinese investors such as Huawei or Microport have been

[23] https://supchina.com/2020/02/24/why-is-tencent-investing-in-european-fintechs/
[24] Rhodium Group - MERICS
[25] https://www.reuters.com/article/us-gdfsuez-china-idUSTRE79U1HQ20111031
[26] https://www.lemonde.fr/economie/article/2019/12/30/le-chinois-casil-vend-l-aeroport-de-toulouse-a-eiffage-et-realise-une-grosse-plus-value_6024419_3234.html

encouraged to pursue this more nuanced approach, developing cooperation instead of straight acquisition and boosting R&D and manufacturing, in order to circumvent increasing regulations and lower thresholds to controlling interests imposed by UE countries such as France. Strict capital controls, such as the "Montebourg Decree" in 2014 and the "PACTE Law" in 2019 were complemented by two additional decrees: in December 2019, through the broadening of the definition of strategic sectors and lowering the triggering mechanism for the Government authorization procedure from 25% to 10% ownership for investors outside of the EU/EEE. In April 2020, the scope of protected industries was broadened to include biotech and saw a lowering of the ownership triggering threshold to 10%, which also included French listed companies. Finally, China's growing financial woes compounded by catastrophic climate events in the Summer of 2022, the unabatingly painful Covid restrictions and disruptions to industrial output and the value chain will most likely exert a negative impact on investment projects in France and Europe for the remainder of the year and in 2023.