

Trends of China-Inbound & China-Outbound Investments

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Plan

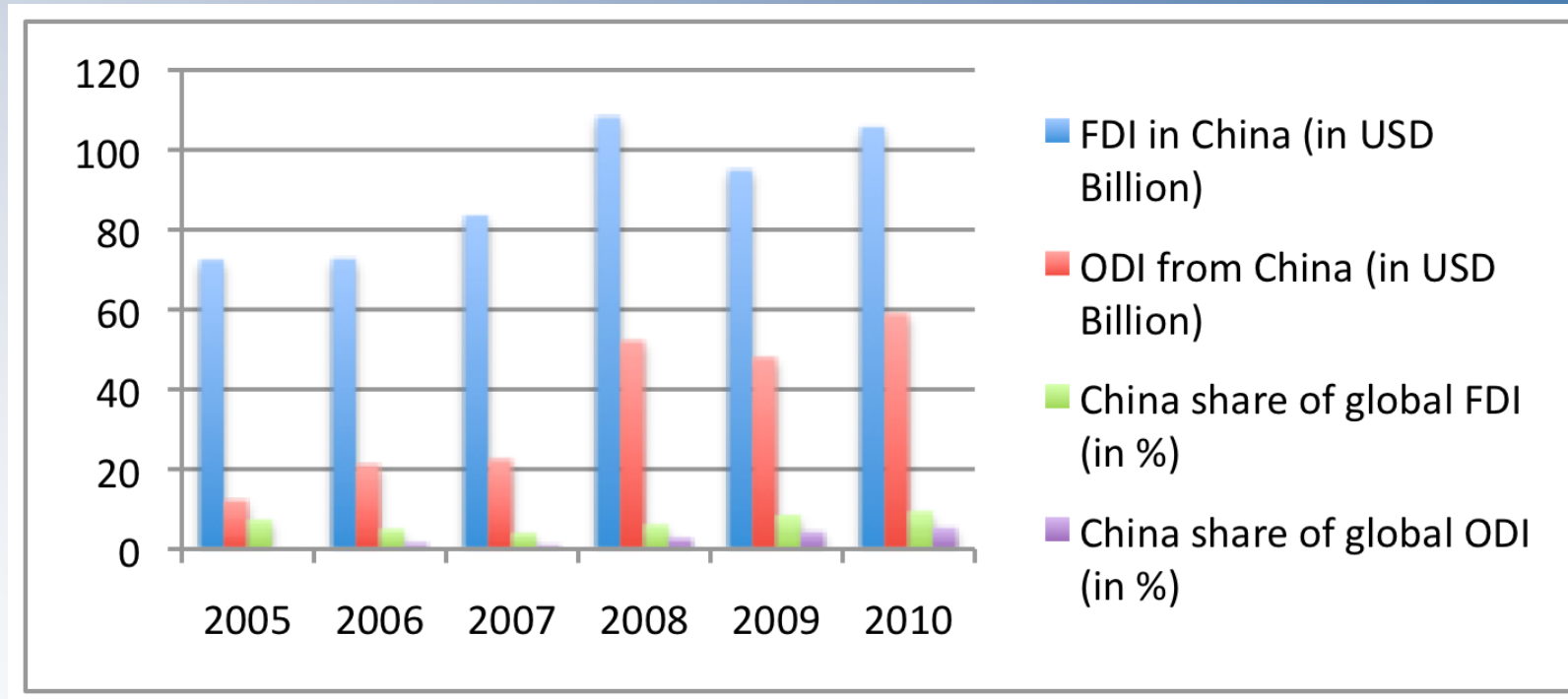
Introduction: Some Data

I. Successive Waves of China-Inbound Investments

II. Rise of China-Outbound Investments

Conclusion: Towards More Diversified, Sophisticated & Balanced Transactions.

Introduction: Some Data (1)



FDI = foreign direct investment to a given country

ODI = overseas direct investment from a given country

Sources:

-UNCTAD for 2005-2009

- PRC Ministry of Commerce for 2010 China FDI and 2010 China ODI

- UNCTAD for 2010 global FDI and assumption that 2010 global ODI is same as 2009 global ODI

Introduction: Some Data (2)



Source: PRC Ministry of Commerce

I. Successive China-Inbound investment Waves (1)

□ 1st Wave:

- China's objective: Attracting foreign capital in low-tech, labor-intensive industries.
- Foreign Investor's objective: using China as a low-cost, export-oriented production basis.
- Lack of clear FDI law. FDI very influenced by PRC and foreign governments.
- Investment form: mainly joint-venture with a Chinese partner imposed or supported by PRC government.

I. Successive Waves of China-Inbound investment (2)

□ 2nd Wave:

- China's objective: Attracting foreign capital & know-how in low-tech and mid-tech industries.
- Foreign Investor's objective: using China as a low-cost production basis for both export and domestic markets.
- FDI law starts becoming clearer. FDI still much influenced by PRC and foreign governments.
- Investment form: joint-venture with a (more) "chosen" Chinese partner; wholly-owned (100%) subsidiary ; acquisition of domestic company

I. Successive Waves of China-Inbound investment (3)

- ❑ 3rd Wave - currently
 - 2011-2015 12th Plan setting new priorities.
 - China's objective: Attracting foreign capital & know-how in high-tech & clean-tech industries. Technology transfer a priority and key criteria.
 - Foreign Investor's objectives:
 - ✓ using China as a production basis for both domestic and export markets;
 - ✓ distributing/selling in China.
 - FDI law becomes much clearer. FDI less influenced by PRC and foreign governments.

I. Successive Waves of China-Inbound investment (4)

- Investment form: joint-venture with a “chosen” Chinese partner; wholly-owned (100%) subsidiary.
- M&A (acquisition of a PRC domestic company) is becoming a more and more popular way for foreign companies to invest in China:
 - ✓ PRC companies becomes more attractive targets as their professionalism & quality increase;
 - ✓ Investments in China aims more and more at addressing the Chinese market, not using China as a production basis for export;
 - ✓ Clearer set of regulations regulating M&A in China.

II. Rise of China-Outbound investments (1)

- ❑ Objectives:
 - Access to natural resources (mines, energy, agricultural land).
 - Access to technology.
 - Access to know-how & brands to satisfy China's growing appetite for consumer goods & luxury goods.
 - Access to foreign markets by acquiring sales/distribution channels and/or by localizing some production to circumventing international trade barriers.

II. Rise of China-Outbound investments (2)

- ❑ Main features:
 - Mostly medium-sized investments except for natural resources-related investments.
 - Mostly by state-owned enterprises. Important role of province-owned enterprises (ex: Lenovo, TCL). Growing role of privately-owned enterprises.
 - China-outbound FDI regulations have been eased, but still grant a lot of PRC government influence.
 - M&A (acquisition of a foreign company) is becoming a more and more popular way for PRC companies to invest abroad.

II. Rise of China-Outbound investments (3)

- ❑ Growing issue of how China-outbound investments are perceived and welcomed abroad:
 - Ambivalence of Western public opinion & governments & business players : at the same time wishing to benefit from China's investments & dynamism and scared of losing control.
 - In some respects, same ambivalent reaction in Europe as used to be vis-à-vis US investments.
 - Reciprocity issue.

Conclusion: Towards More Diversified, Sophisticated & Balanced Transactions

- ❑ Diversification of industries concerned by China-related inbound and outbound transactions.
- ❑ Increasing sophistication of transactions:
 - Cross-border investment flows (in both ways): investment in or acquisition of a target company that in turn will invest back in the investor/buyer's country.
 - Combination of capital, technology transfer, know-how and commercial transactions.
 - Reciprocity/Balance: both parties need to “get something” from the transaction.



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Thank You!

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