Flash | East China | 5 November 2021

East China overseas investment report
Insights into the industries driving the Belt and Road Initiative

Insights & recommendations

Chinese enterprises are sure to face opportunities and challenges when they implement their overseas investment strategies. Colliers recommends investors:

- Be alert to overseas investment risks caused by Covid and the uncertain economy. Investors should organize professional teams to conduct market research, complete policy evaluations and legal reviews to ensure the feasibility of investments while avoiding future operational risk.
- Formulate a sustainable long-term overseas strategy. Chinese enterprises should proactively manage the difficulties of long distances when operating aboard, as well as cultural conflicts, in addition to focusing on customer satisfaction and profit maximization.

Overseas Investment Background

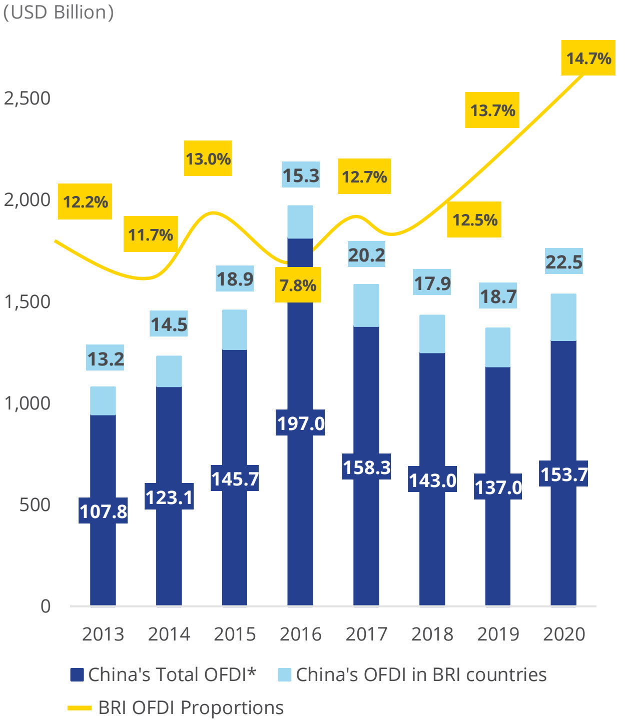
Unite and cooperate against the pandemic

In 2021, China's foreign investment and development assistance is evolving despite the challenging global economy, especially in the geographic distribution of investments, industry distribution, investment structure, BRI countries, and the scale of foreign contracted projects.

Since the introduction of the Belt and Road Initiative (BRI), Chinese enterprises have strengthened economic and trading cooperation with over 140 countries, playing an important role in facilitating world trade.

- In H1 2021, China's non-financial sector foreign direct investment (FDI) in BRI countries reached US$9.58 billion, a YOY increase of 18.0%, accounting for 17.8% of the total FDI for the same period, up 2.0% from 2020.
- With the gradual urbanization and development of BRI countries, we expect demand for infrastructure, power engineering and clean energy will increase accordingly.

Figure 1: China's outward foreign direct investment (OFDI) volume and that in BRI* countries, 2013-2020 (USD billion)



Source: Colliers, MOFCOM, National Bureau of Statistics, SAFE "Report on Development of China's Outward Investment and Economic Cooperation",

Figure 2: Global Policy and Regulation Overview

Date	Primary Document	Policy Abstract	Issuer
Nov. 2020	Regional Comprehensive Economic Partnership	Member countries agreed on investment protection and a high level of open commitments in sectors like manufacturing, agriculture, fisheries and forestry.	China and 10 ASEAN Countries
Dec. 2020	The EU-China CAI	Further reducing market access restrictions; implementing more favorable policies.	China & the EU
Jan. 2021	*The Rules*	China's Ministry of Commerce (MOFCOM) issued *the Rules on Counteracting Unjustified Extraterritorial Applications of Foreign Legislations and Other Measures* to protect the interests and rights of Chinese overseas investments.	MOFCOM
Jul. 2021	*The 2021 Guidelines*	*The Guidelines for Green Development of Outbound Investment and International Cooperation* encourages green development and ecological protection.	MOFCOM, Ministry of Ecology and Environment
Jul. 2021	The Guidelines on Cooperation in the Digital Economy	Guiding enterprises to, among other things, integrate into the global digital economy industrial chain and accelerate digital infrastructure construction.	MOFCOM, Cyberspace Administration of China , Ministry of Industry and Information Technology

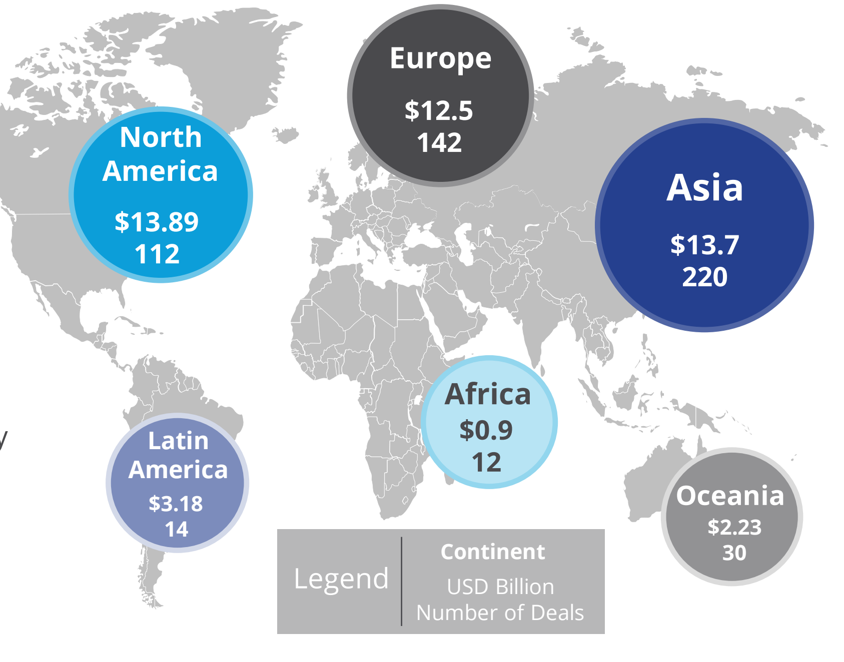
Source: Colliers, National Bureau of Statistics, UNCTAD Investment Policy Monitor

Popular investment destinations

Chinese foreign direct investment concentrates in North America, Southeast Asia, and Central Asia. Among those investments, TMT, consumer products, financial services, advanced manufacturing & mobility are the most popular sectors for merger and acquisition transactions.

The BRI stimulates infrastructure development, benefits consumer product exports and cross-border e-commerce, and encourages Chinese enterprises to invest in logistics infrastructure abroad. In 2020, the number of overseas warehouse investments made by Chinese enterprises surged by 80% YOY. By July 2021, that number reached 1,900, totaling over 13.5 million sq meters (145.3 million sq feet) of space according to MOFCOM.

Figure 3: Transaction value and volume of Chinese overseas M&As by continent, 2020



Source: Colliers, MOFCOM, National Bureau of Statistics, SAFE.

Popular investment sectors

Figure 4: Top five sectors for Chinese overseas M&A, 2020

By transaction value (USD hundred million)

TMT	Consumer Products	Advanced Manufacturing & Mobility	Power & Utilities	Financial Services
168.5	53.9	47.2	44.5	44.5

By transaction volume (Number of deals)

TMT	Financial Services	Advanced Manufacturing & Mobility	Consumer Products	Real estate, hospitality & construction
135	71	70	59	46

Sources: MOFCOM; ThomsonOne, Mergermarket

Industry focus I — Overseas Logistics

Cross-border e-commerce stimulates overseas logistic investments

Benefiting from the rapid recovery of China's supply chain and consumers' shifting preference towards e-commerce, China Customs reported a notable 31.1% increase in imports and exports (to RMB1.69 trillion, US$264.7 billion) in 2020. Exports accounted for RMB1.12 trillion (US$175.4 billion), a 40.1% YOY increase.

Compared with traditional foreign trade, cross border e-commerce logistics embodies the idea of small batches, high frequency and high efficiency. The ability to provide overseas warehousing and delivery services has become a key competitive edge for logistic service providers.

The overseas logistics market is characterized by:

- Currently low rate of market saturation.
- B2B businesses dominate, but B2C businesses are experiencing notable growth.
- Scattered industry and players. Aside from professional cross-border logistics service providers, cases of cross-border e-commerce giants developing overseas logistics facilities are gradually increasing.

Figure 5: Overseas cross-border e-commerce logistics investment – JD Logistics case study

Warehouse Rental	Self-use Land Acquisition	Warehouse Leasing	Capital Investments
JD Logistics considers a global supply chain as a key component to its globalization strategy, and renting warehouses is the first step to get a toehold in the global market.	By the end of 2020, JD Logistics owned 32 bonded warehouses and overseas warehouses, totaling 440,000 sq meters (4.7million sq feet). Through collaborations with international partners, JD Logistics has established routes that reach more than 220 countries and regions.	JD Logistics then rents warehouse space to Chinese companies entering overseas markets, providing end-to-end supply chain services, including asset storage, allocation, and sorting.	JD Logistics plans to attract capital investment and partnerships with real estate funds to achieve an asset-light strategy, different from its current capital-intensive position, to profit from management fees as a carrier.

Source: Colliers. JD Logistics, JD Logistics Prospectus

Industry Focus Ⅱ — Overseas New Energy Vehicles

New energy vehicles are seeing a boost from recent policy changes. The new energy vehicle penetration rate has increased significantly, and opportunities for investment in this sector area are expanding. These changes have brought increased demand for research & development centers, manufacturing facilities and logistics warehouses.

In November 2020, the Chinese National Bureau of Statistics ***New Energy Vehicle Development Plan (2021-2035)*** announced that China's new energy vehicle penetration rate should reach 20% by 2025 (Figure 7), with battery electric vehicles becoming mainstream. With the support of national policies and domestic consumers, the new energy vehicle industry in China is developing rapidly and gradually expanding overseas.

Figure 6: Timeline of China's new energy vehicles overseas expansion, 2021

01 In May 2021, auto manufacturer NIO announced the *Norwegian Strategy* to enter the European market. On 30 September 2021, the NIO ES8 was launched in Norway. The NIO Center Oslo was opened on 1 October 2021.

02 In May 2021, manufacturer BYD announced a cooperation with Norwegian dealer RSA to launch Tang EV models as the first market export in Europe.

03 In September 2021, Great Wall Motors released its European market strategic plan, announcing its entry into the European luxury car market with a future European R&D center.

Automobile manufacturing industry investment preferences

High-end manufacturing has become the main target for outbound Chinese mergers and acquisitions. The Chinese Association of Automobile Manufacturers states that from January 2021 to August 2021, the cumulative value of China's auto products exported to BRI countries reached USD42.39 billion (a YOY increase of 51%), accounting for 52.5% of total auto product exports.

Figure 7: Global electric vehicle's penetration rate forecast

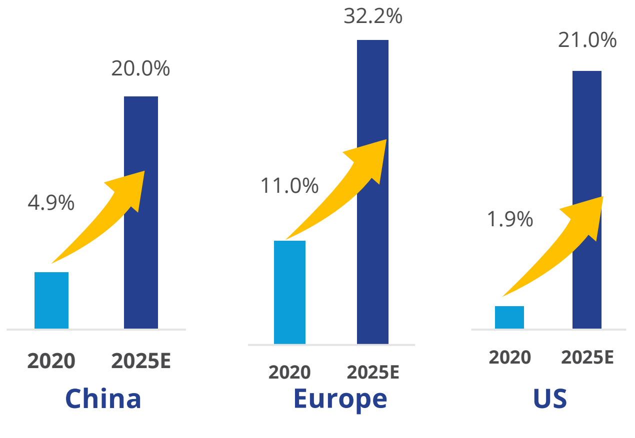
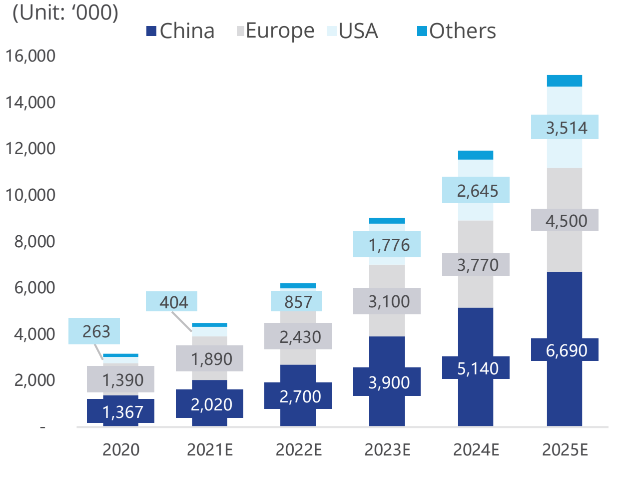


Figure 8: Global NEVs sales and penetration rate forecast

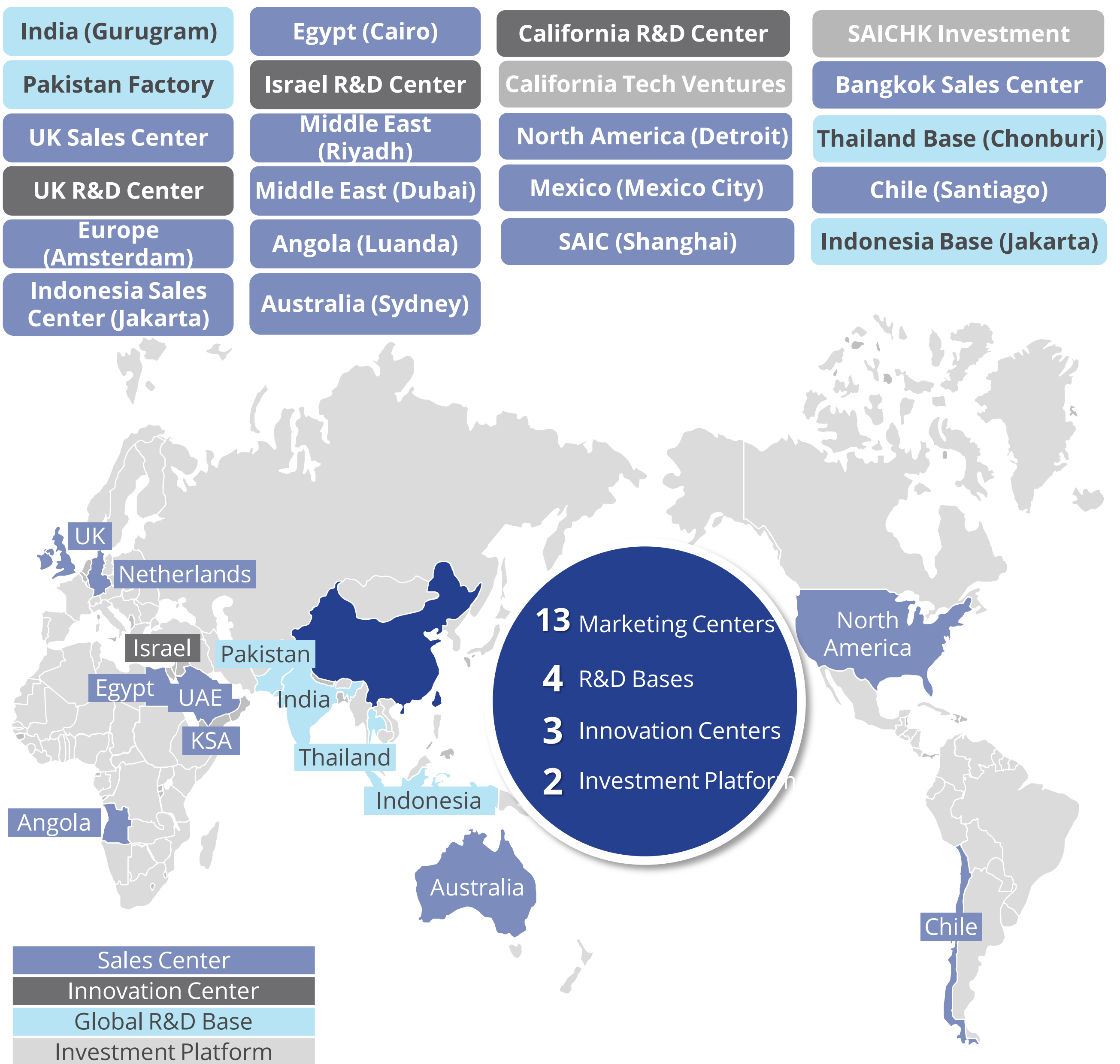


*NEV penetration rate: percentage of NEVs sales compared to total car sales.
Source: Colliers, China Association of Automobile Manufacturers, China International Capital Corporation (CICC).

Overall, the Chinese automobile manufacture industry's foreign investment strategy is to enter local markets through the acquisition of mature companies and then simultaneously integrate the domestic and foreign resources to improve product competitiveness.

For instance, SAIC Motor Corporation Limited mainly expands with greenfield investments*, in order to export techniques and establish brands. It also aims to acquire local auto parts companies. SAIC is focused on improving its new energy research, autonomous driving and intelligent computer mapping networks, among others. SAIC locates R&D centers in areas with technology intensive markets such as the United States and the UK, while building production bases in Southeast Asia and South Asia to maintain low manufacturing costs and expand the sales bases across the Asia Pacific region, the Middle East, Europe and the United States where auto products are in high demand (Figure 9).

Figure 9: SAIC new energy vehicles overseas locations



Source: Colliers, SAIC Motor International. Note: *Greenfield investment refers to the establishment of a new company in the host country, as opposed to the overseas expansion of foreign acquisitions or buying a controlling stake in a foreign company.

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