



China M&A Round-Up

Keeping pace, marking milestones

What's the Deal?

Our latest article in the series is closely related to the upcoming Nov. 30 China Issues Dbriefs webcast on China's economic policy. It explores the 19th National Party Congress, APEC Vietnam 2017, and other recent developments in the context of global investment flows and China's expanding geo-economic presence.

China's 19th National Party Congress and global investment flows

The four weeks from mid-October to mid-November saw a whirlwind of activities that showed clearly how global priorities and attitudes are shifting. The Chinese Communist Party's 19th National Party Congress (19th NPC) in mid-October was followed by US President Trump's trip to Asia, featuring a China stop, and then culminated in the Asia Pacific Economic Cooperation (APEC) meetings in Hanoi, where a large roster of world leaders convened to discuss major Asia Pacific

economic and security issues. Among many others at the APEC meetings were President Xi, President Trump, and President Putin.

Xi Jinping wears two hats. General Secretary Xi is the top leader of the Chinese Communist Party, and one signal event at the 19th NPC was the enshrining of "Xi Jinping Thought" in the Party's constitution. There were few if any surprises at the 19th NPC. General Secretary Xi was elected to a second five year term at the Party helm. Five new members joined Xi and Li Keqiang on the powerful seven-person Standing Committee of the Politburo. Several others moved up the Party ladder to the 25-person Politburo itself. Those three tiers represent the political leadership of China. It is worth remembering that in China the People's Liberation Army belongs to the Party, not the government, and the Party reigns above the judiciary, the courts, and the government. Being the single Party in power since the establishment of the People's Republic of China in 1949, as head General Secretary Xi's guidance is definitive in terms of what China's official policies, strategies, and priorities are.

President Xi is the chief executive of the government, and under him Li Keqiang remains the Premier. As president, Xi has been very active in foreign affairs and relations, having traveled abroad far more than his predecessors. His focus on China's international role has steadily expanded during this first five year term. He delivered an important address at Davos earlier this year, and he was a featured speaker at the APEC meetings in Hanoi.

China is uniquely explicit about both its domestic plans and international aspirations. Unlike any other large country, China carries out a vast process of consultations and study, then publishes a five year plan every five years and in-between publishes a great deal of information on its economic development strategies and plans. These include major domestic and international investment projects, fiscal policies, trade goals, energy goals, and the like. Of course, the outcomes of the best laid plans are uncertain, and externalities reshape the realities of global growth and the fates of nations, but it is certainly worth paying close attention to what the leaders of China are actually saying, given that China is by far the world's second largest economy, the fastest growing foreign investor, the fastest growing consumer market, and the biggest user of a very long list of commodities and materials.

The 19th National Party Congress

General Secretary Xi opened the 19th NPC with a three hour, 30,000 word "work report" that emphasized a number of points. The major theme was that China had entered a "New Era," a comment that made clear he was departing from the 40 years of transition that were initiated by Deng Xiaoping's reforms.

“With decades of hard work, socialism with Chinese characteristics has crossed the threshold into a new era. This is a historic juncture in China’s development.” . . . Xi Jinping, October 18, 2017

Two historical points about the New Era were made by Xi and are worth mentioning: China had reached its long goal of building a socialist economy with Chinese characteristics, and having reached a level of great economic and military strength, China is ready to “enter center stage” in global influence, while it creates for the Chinese people a “moderate level of prosperity.”

In addition, Xi reiterated his commitment to continued opening of the economy and strongly stressed two major development themes, the One Belt One Road (OBOR) initiative and the Made in China 2025 (MIC2025) program. (http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-10/18/content_33398037.htm)

Both OBOR and MIC2025 have broad implications for China’s role in the global economy and its participation in global capital flows, including M&A, direct investment in infrastructure projects, and greenfield buildouts of capacity abroad. OBOR targets massive investments in emerging economies around the world, and already many billions of dollars have been committed to port, rail, and roadway projects, IT and power distribution projects, and resource management projects in S.E. Asia, Africa, and central Europe. These projects carry with them Chinese involvement in Internet systems and management, local finance activities, distribution, and retail, as well as privileged trade arrangements. They also implicate institutional change, supporting the Chinese-led Asia Infrastructure Investment Bank (AIIB), the Chinese International Payment System (CIP), and expanded international use of the Chinese currency for trade and reserves.

The Asia Pacific Economic Cooperation meetings

President Xi’s remarks at the APEC meeting focused on three themes, and they are consistent with his Work Report at the 19th Party Congress. He stressed the importance of innovation.

“First, we need to promote innovation as a strong growth driver. Innovation is the most powerful lever for development. As new technologies emerge and the new industrial revolution gains momentum, we face a rare historic opportunity for innovation-driven development.”

Secondly, he stressed the importance of open, connected economies.

“Second, we need to open up our economies to create more space for development. History has taught us that closed-door development will get nowhere, while open development is the only right choice. We need to remain true to APEC’s founding purpose: advance trade and investment liberalization and facilitation, build an open economy, uphold and

strengthen the multilateral trading regime, and help rebalance economic globalization.”

Finally, he stressed the importance of inclusive development, essentially addressing the wealth gap.

Third, we need to pursue inclusive development to enhance our people's sense of fulfillment. Lack of inclusiveness in development is a problem facing many economies. We should redouble efforts to address this problem. To enable more people to share the benefits of development, efforts must be made to strike a better balance between fairness and efficiency, capital and labor, technology and employment. (<http://www.globaltimes.cn/content/1074692.shtml>).

Given the focus on regional development, Xi also reported progress on the OBOR initiative, and reflected briefly on all that had been accomplished in the May OBOR Summit in Beijing, where over 100 leaders from potential OBOR client countries came and negotiated deals.

The global perspective

A theme permeating all of the events we have discussed above is China's confidence and strength in pursuing its global goals. In the domestic media, there is a tidy scheme describing three eras, the Mao era when China “stood up,” the Deng era, when China “became wealthy,” and the Xi era, when China became “powerful.”

Behind the excitement of the 19th NPC and the APEC meetings, analysts inside and outside China continue to watch the large accumulation of debt on the books of both local governments and large corporate entities, and the continued stimulation of the economy with large infusions of liquidity. Debt in the formal banking and total social financing sectors is estimated to reach nearly 300% of GDP in 2017. While the rate of leverage growth has slowed, leverage is still growing, and along with leverage asset prices remain far higher than any potential returns, whether we are talking about real estate or start-up companies. (Sources: NBS, PBoC CEIC, The Conference Board)

Household debt is also increasing at an unprecedented rate in China. The outstanding household debt over annual household disposable income ratio reached 88% in 2016, up from 74% in 2015. If this ratio continues to rise at the same rate as in 2017 Q1-Q3, by the end of 2019, it will be higher than the pre-crisis peak in the US in 2007 at 130%. (Sources: NBS, CEIC, The Conference Board). Household debt in China is concentrated in mortgage borrowing, not credit card debt. But because of the level of commitment to property ownership and uncertainty about the secondary market and liquidity of these investments, consumer confidence and household spending levels are difficult to predict, and household spending growth is a necessity in achieving China's ten year goal of

higher quality growth driven by domestic consumption as opposed to government spending.

Domestic economic challenges have so far avoided a black swan event, but both S&P and Moodys have moved China's sovereign debt ratings down a notch, for the first time, in recognition of the leverage levels.

(<https://www.wsj.com/articles/moodys-cuts-its-china-rating-citing-risks-from-rising-debt-1495590160>)

These challenges are closely related to China's new discipline in activities like outside direct investment in M&A activities, down considerably in 2017 compared to 2016, and they weigh even more significantly on ability to fulfill the extraordinary promises of broad outbound financial activity in OBOR, Made in China 2025, and related programs. It is helpful to have such a clear roadmap outlined in the events of October and November. Now we will await their playing out in real time in the real world.

Trends to Watch

[Few banks seen queuing for China's red carpet invite](#), Reuters, 11/16/2017
[China dismisses bid to create new Trans-Pacific trade pact](#), WSJ, 11/11/2017
[The US-China business deals signed during Trump's visit](#), Axios, 11/9/2017

Outbound M&A from China

Aviation, Transportation & Logistics

[Zhejiang Tiancheng Tech-Investment to acquire 100% stake of British Acro Aircraft Seating](#), Yicai Global, 9/21/2017

Energy and Resources

[Shenzhen firm takes shine to three US solar farms](#), Caixin, 10/13/2017

Financial Services

[Bank of China grooms unit into Southeast Asian flagship](#), Caixin, 11/6/2017

Life Sciences

[Shenzhen Hepalink Pharmaceutical to invest in Canada's Resverlogix Corp](#), Reuters, 10/13/2017

[Nanjing Xinjiekou Department Store Will Acquire US Pharmaceutical Firm From Controlling Shareholder](#), Reuters, 10/9/2017

[Chinese medical devices maker to buy US-based Argon for \\$850 mln](#), Reuters, 9/24/2017

[Ping An strategically invests in Tsumura and becomes its largest shareholder](#), PR Newswire, 9/22/2017

Real Estate

[Aecon Group stock surges 20% after China's CCCI inks \\$1.5 bln deal to acquire company](#), Financial Post, 10/26/2017

Technology, Media & Telecommunications

[China's Toutiao is buying Musical.ly in a deal worth \\$800 mln-\\$1 bln](#), TechCrunch, 11/9/2017

[China's Sunsea co-leads \\$60M round in US IoT firm Ayla Networks](#), China Money Network, 11/2/2017

[China's Orient Hontai in deal to take control of Spain's Imagina](#), Reuters, 10/18/2017

Inbound M&A into China

Life Sciences

[Sinco Pharmaceuticals: Pharma to issue up to \\$150 mln convertible bonds](#), 4-Traders, 10/13/2017

Technology, Media & Telecommunications

[CyprusOne enters new strategic pact with GDS](#), StreetInsider, 10/18/2017

China Domestic M&A and Industry Consolidation

Aviation, Transportation & Logistics

[Alibaba takes controlling stake in Cainiao and will invest \\$15 bln in global logistics](#), Forbes, 9/28/2017

Energy and Resources

[Meidu Energy receives enquiry from SSE in the acquisition in Ruifu Lithium Industry](#), Asian Metal, 11/3/2017

Technology, Media & Telecommunications

[Qihoo 360 set to return to China's A-share market](#), China Daily, 11/3/2017

[Shiji Information Technology signs framework agreement with Alibaba Investment](#), Reuters, 11/2/2017

[Jiangsu Broadcasting Cable Information to buy stakes in 19 firms for 9.3 bln yuan](#), Reuters, 9/18/2017

Dbriefs China Issues Webcast

China's economic policy: Trends and outlook November 30 | 11 a.m. ET

Developments in 2017 show that China's economic policy and impact on multinational businesses is no longer primarily about the mainland market, but is increasingly global and complex. What business dimensions of China's expanding geo-economic presence should you know about?

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