



The Z/γen Group



Route to Dual Circulation – UK China Healthcare Component

December 2020

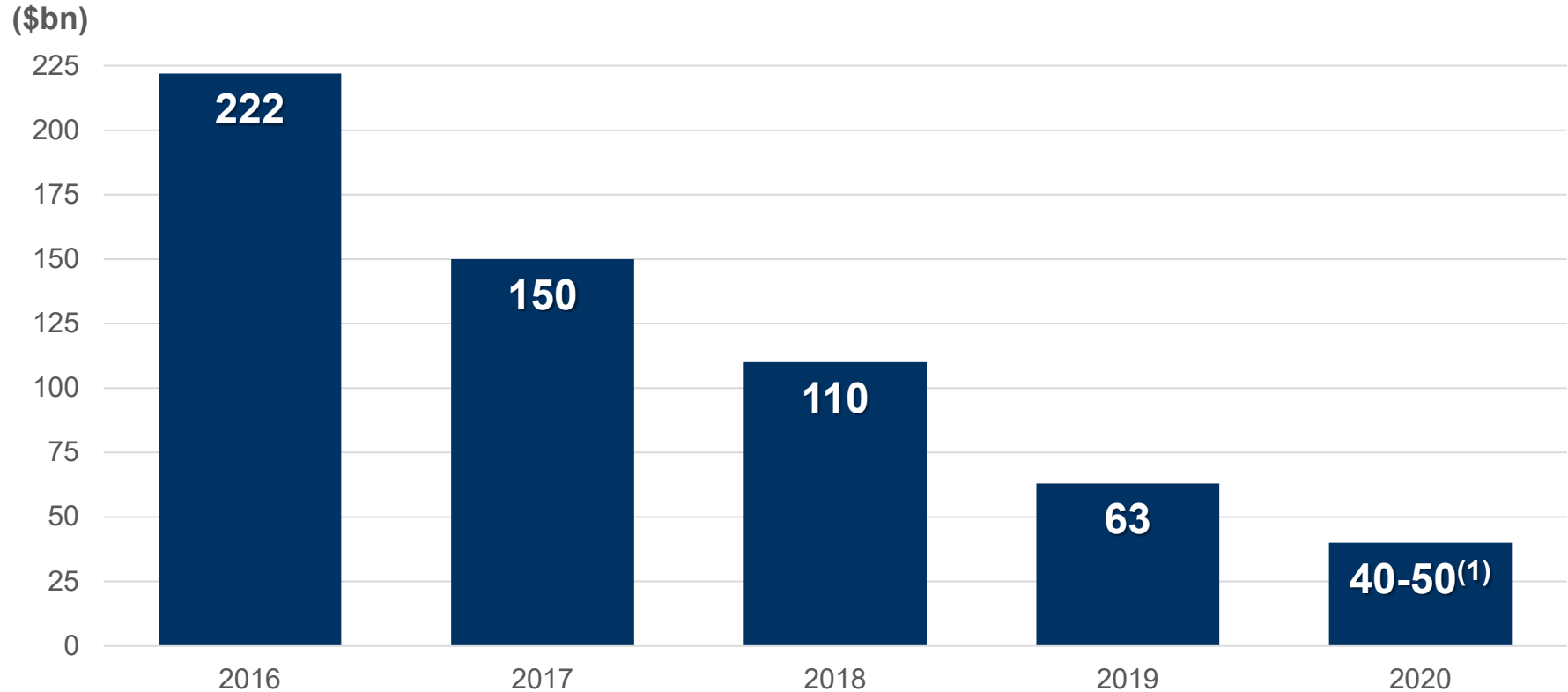
Route to Dual Circulation

Summary Highlights

- Shifts in Announced China outbound M&A (2016-Q3 2020)
- Increased importance of Inbound FDI
- Shifts in overall Inbound Investment
- Importance of EU – Germany Data (2018-Q3 2020)
- International Chinese Debt and Equity Investments (2019/2020)
- Chengdu-Chongqing Economic Cycle
- Health Silk Road – Chinese outbound healthcare investments (2019-Q3 2020)
- Health Silk Road (Q4 2019, Q3 2020)
- China Healthcare investments into UK; UK into China (2018-Q3 2020)

Route to Dual Circulation

Announced M&A/Equity Outbound Investments – Declining Aggregate Amounts since 2016



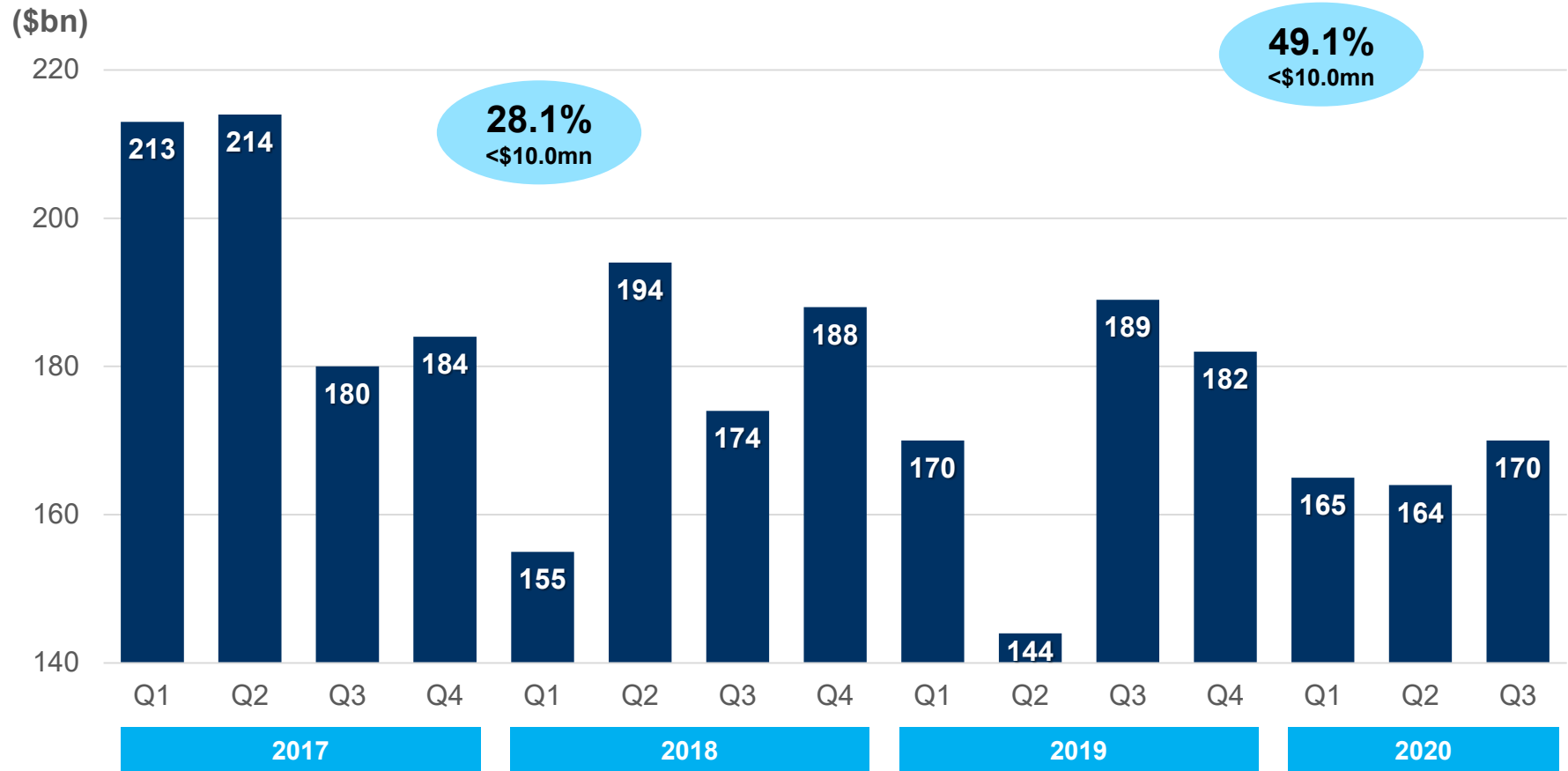
Notes:

(1) Pro forma as at 30/09/2020.

(2) Includes all FDI and non (below) FDI.

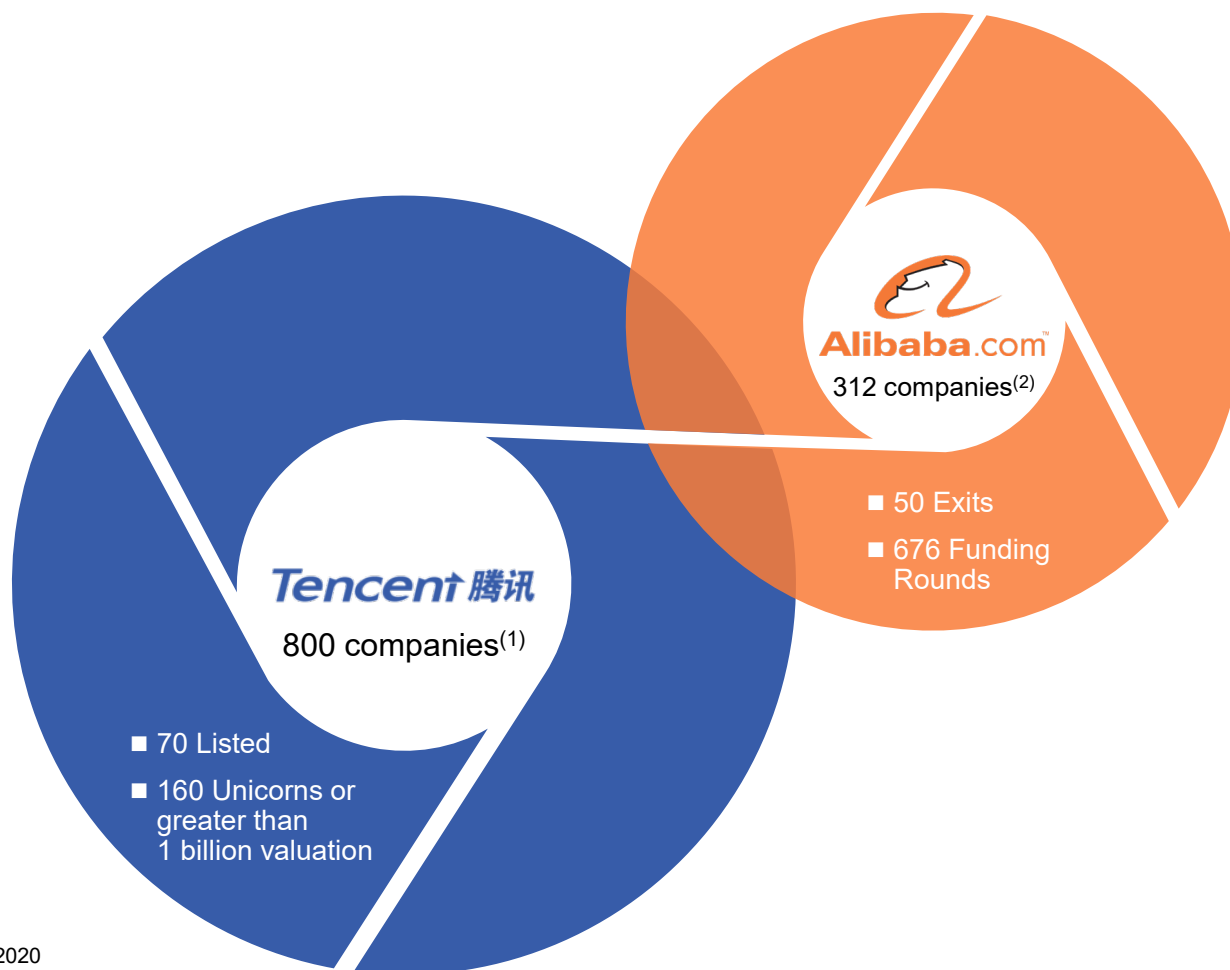
Route to Dual Circulation

Outbound M&A/Equity Investments – Announced Investment Volumes Remain Strong



Route to Dual Circulation

Tencent/Alibaba Ecosystems – Built via Investment



Notes:
(1) As at 29/07/20
(2) Crunchbase November 2020

Increased Importance of Inbound FDI

Key Drivers/Results

Key Drivers

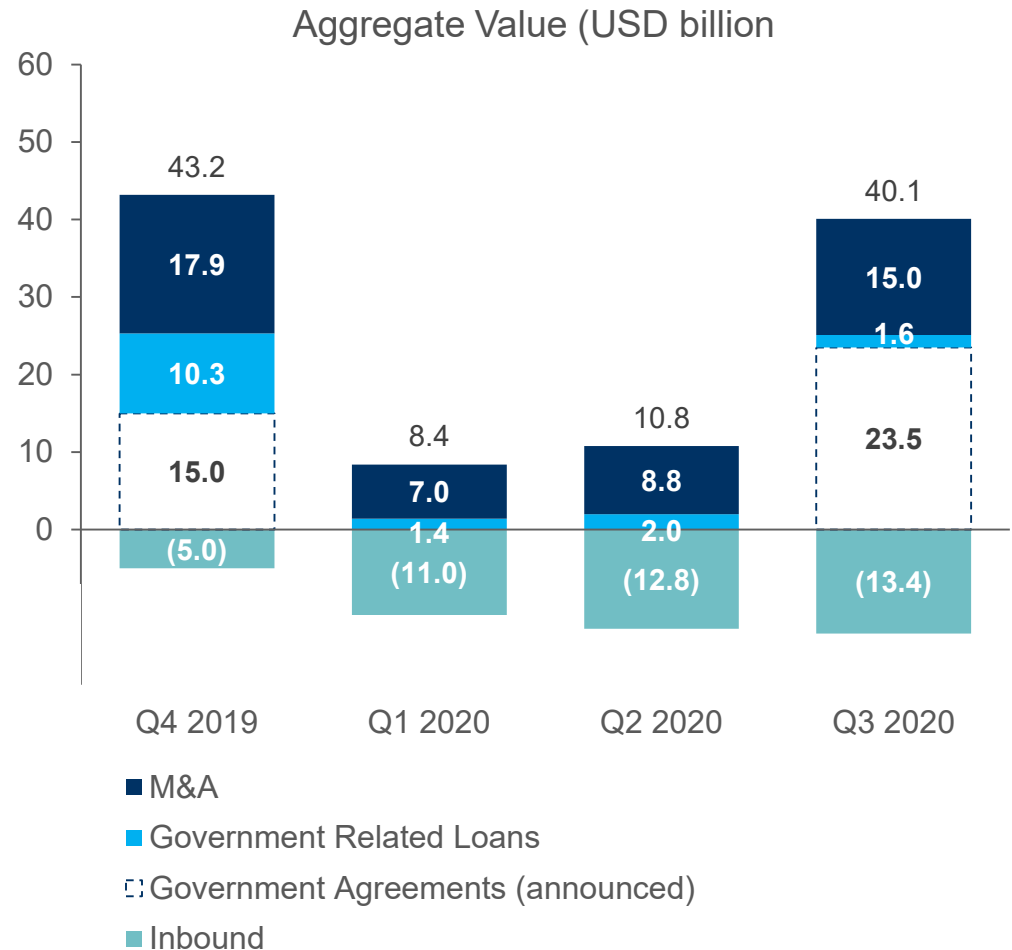
- Shift to consumer economy leads to deficit in capital account (Q1 2018)
- USA trade conflict begins gathers pace
- By 2019, Morgan Stanley forecasts \$50 billion annual deficits

Results (non-Financial FDI)

- 2017: \$136 billion
- 2018: \$136 billion; Global Trade fell by 40%
- 2019: \$137 billion, up 5.8% y-o-y
- 2020: increased by 6.4% through October, led by high tech

China Outbound and Inbound Investments

- Grisons Peak began tracking China inbound in 2018
- Q1 2019 marked the first quarter in which announced inbound was greater than announced outbound
- As can be seen from the table, announced China inbound has exceeded announced outbound M&A/equity investments for virtually every quarter during 2020



Increased Importance of Inbound FDI

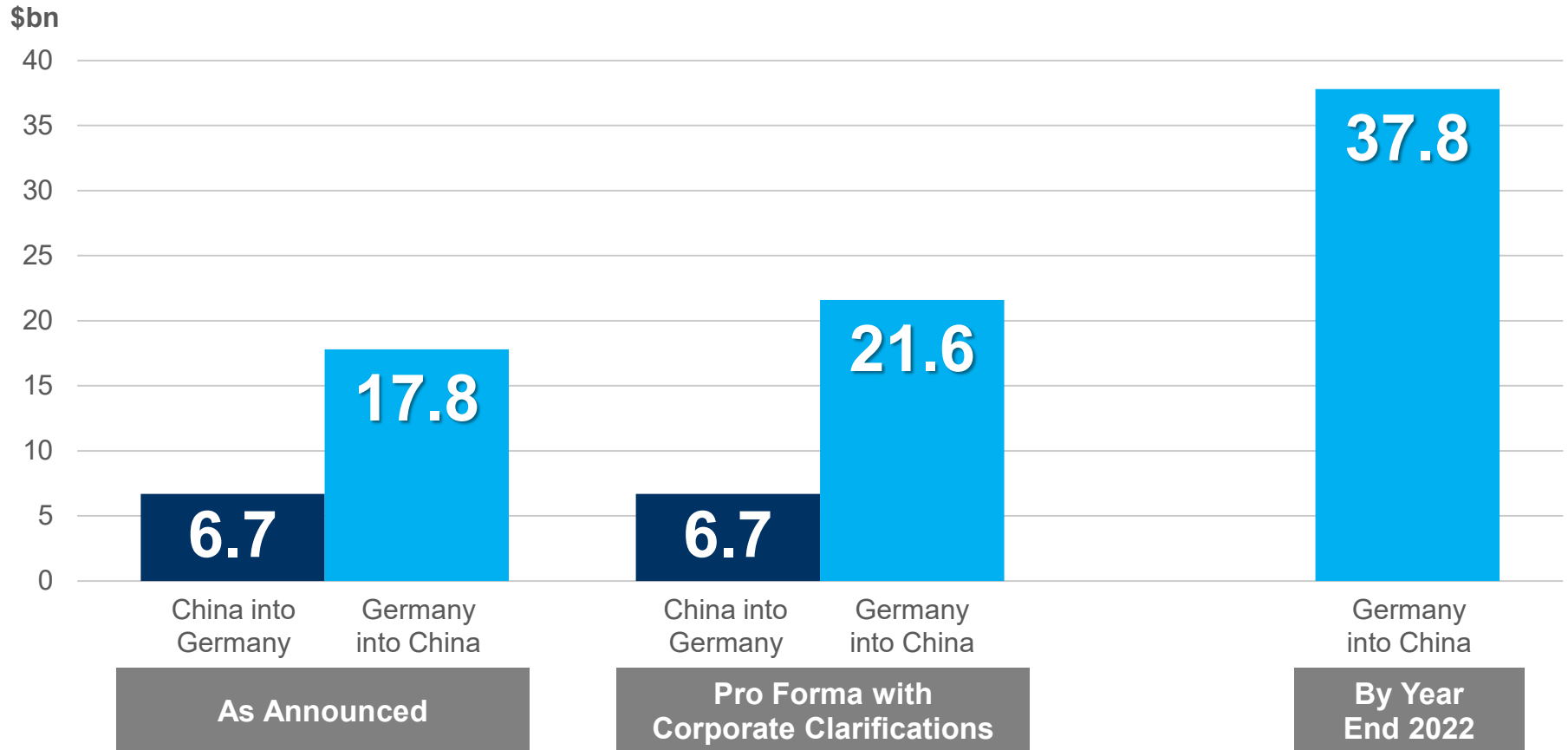
Foreign Investment Law (FIL)

- An early version of the FIL was introduced in 2015
- We were told by those involved that there were dual (competing) versions of FIL within NDRC and MOFCOM through 2017
- In 2018, President Xi accelerated the decision and the first draft was released for comment by year end
- FIL was enacted in Q1 2019, after only 3 months, unusually fast within China
- Came into effect in 1st January 2020

Route to Dual Circulation

China – Germany Announced Inbound/Outbound (2018-Q3 2020)

Aggregate Values Q1 2018 – H1 2020



Financial Inbound 2019-2020

2020 Chinese IPO Activity⁽¹⁾

- The three Greater China stock exchanges, HKEX, SSE, and SZEX, accounted for 45% of global IPOs Q1-Q3 2020. Through mid October 308 Chinese companies (2019 full year total was 200) raised \$73.5 billion
- SHEX raised \$61 billion through Q3 2020 through IPOs, more than triple the total in 2019 (Dealogic) while Shanghai's STAR market (launched only in Q2 2019) saw a total of 104 companies IPO⁽²⁾
- Hong Kong showed declines both in volume and aggregate amounts (\$6 billion below in 2018 peak total amounts)
- Technology-related sectors dominate Chinese IPOs
- In the USA, 29 Chinese companies raised \$9 billion in U.S. IPOs through Q3, including 8 companies that went public in Q3, compared to \$3.5 billion in 2019. Interestingly, of the 10 mega-IPOs in the Q3, three were Chinese companies
- In the UK, two additional Chinese IPOs, China Pacific Insurance and China Yangtze Power, raised \$3.9 billion through the London Stock Exchange

Notes:

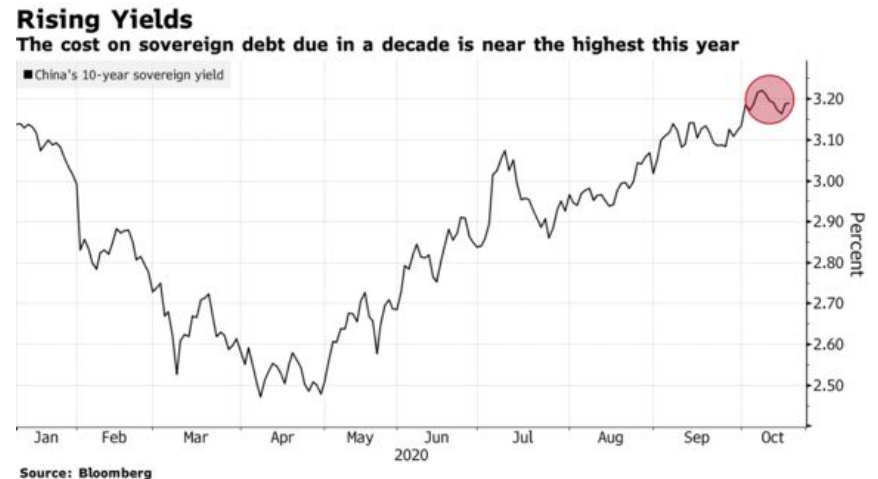
(1) *The Future of Chinese IPOs*; Simon Chen, 5 November 2020; <https://insight.factset.com/the-future-of-chinese-ipos>

(2) *Shanghai bourse could be world's biggest IPO market as it turns 30*; CGTN; 13 November 2020, <https://news.cgtn.com/news/2020-11-13/Shanghai-bourse-could-be-world-s-biggest-IPO-market-as-it-turns-30-Vo6OWk46Ag/index.html>

Financial Inbound 2019-2020

Chinese Debt Markets – Could Compete with US Treasuries

- Overseas funds boosted their holdings of Chinese sovereign debt by a record 439 billion yuan (\$66 billion) in Q3, the fastest pace ever. Foreign investors had boosted their holdings of yuan bonds for six months in a row to a record high of 3 trillion yuan as of September
- With a 10-year yield at 3.19%, the securities are attractive when \$16 trillion of the world's debt yields less than zero. As at mid October 10-year yields stood at 0.70%, 0.02% and – 0.53% for the US, Japan and Europe respectively



- Separate from yield, the yuan is at its strongest level since July 2018, the bonds have now been included in three flagship indices (FTSE Russell, JPMorgan and Bloomberg Barclays) and they are convinced that Beijing will become less willing to ease monetary policy amid a strong growth recovery from the virus pandemic
- In light of the strong growth, foreign institutional ownership of Chinese government bonds has grown to around 9% of outstanding shares from almost 4% in 2017
- DBS (Singapore) expect foreign investors to allocate more to Chinese government bonds over the coming years, driving foreign ownership towards 20% of outstanding shares⁽²⁾

Notes:

- (1) *Foreigners Are Snapping Up China Government Bonds Like Never Before*; 25 October 2020 <https://www.bloomberg.com/news/articles/2020-10-25/china-s-strong-yuan-fuels-record-foreign-flows-into-bond-market>
- (2) *Investors find safety in Chinese bonds*; 20 October 2020: OMFIF <https://www.omfif.org/2020/10/chinese-government-bonds-offer-new-hedge/>

Domestic China Changes

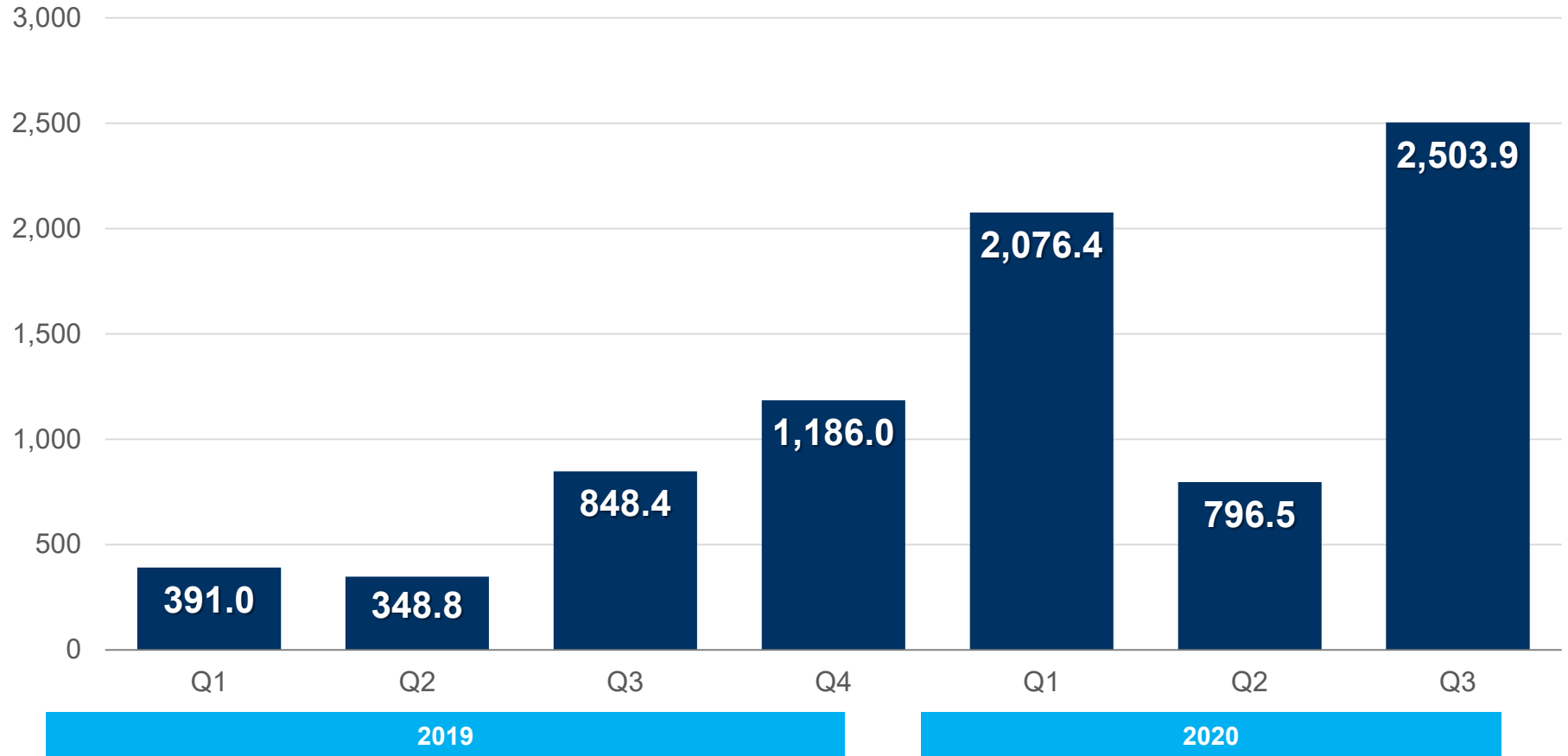
Chengdu-Chongqing Economic Circle

- The economic circle was founded on 3rd January as part of the national strategy
- On 17th October at a key Party meeting called for advancing the construction of the Chengdu-Chongqing economic circle, seen as a major move to promote the new development pattern in response to the complex domestic and international situation
- The meeting of the Political Bureau of the CPCCC reviewed a master plan for the coordinated development of Chengdu, capital of Sichuan province, and Chongqing
- The area is at the intersection of the Belt and Road and the Yangtze River Economic Belt
 - Westwards, there is the China-Europe Express to Europe
 - Eastwards, the China-Europe freight railway continues along with the golden waterway of the Yangtze River
 - Southwards, there is the New ILSTC to Singapore and other ASEAN countries
 - Northwards, there is an international train route to Russia



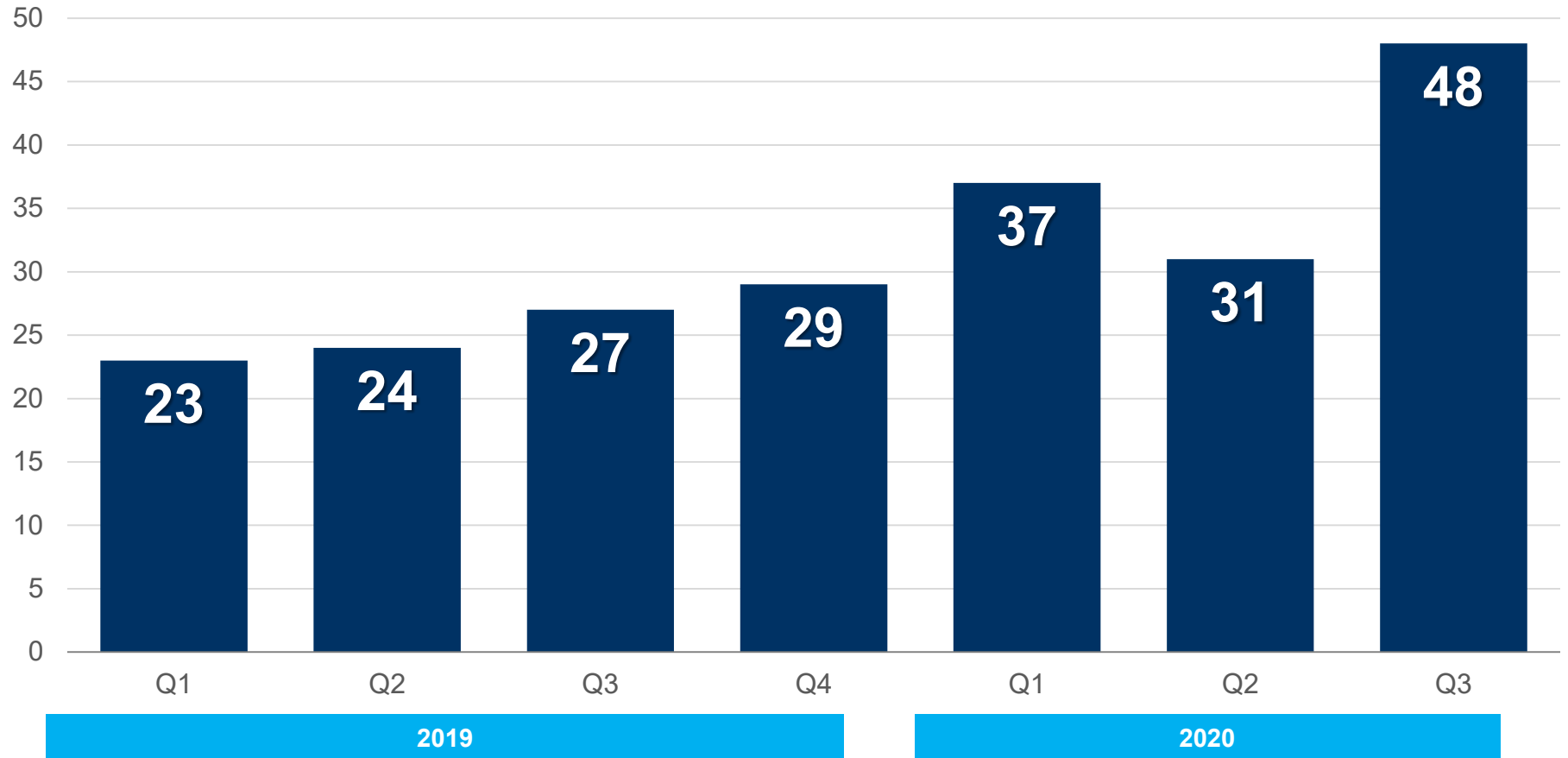
Route to Dual Circulation – Global Healthcare

Announced Chinese Outbound M&A/Equity investments/JVs/R&D/Licensing in Healthcare (2019-Q3 2020) (Global Aggregate Amounts)



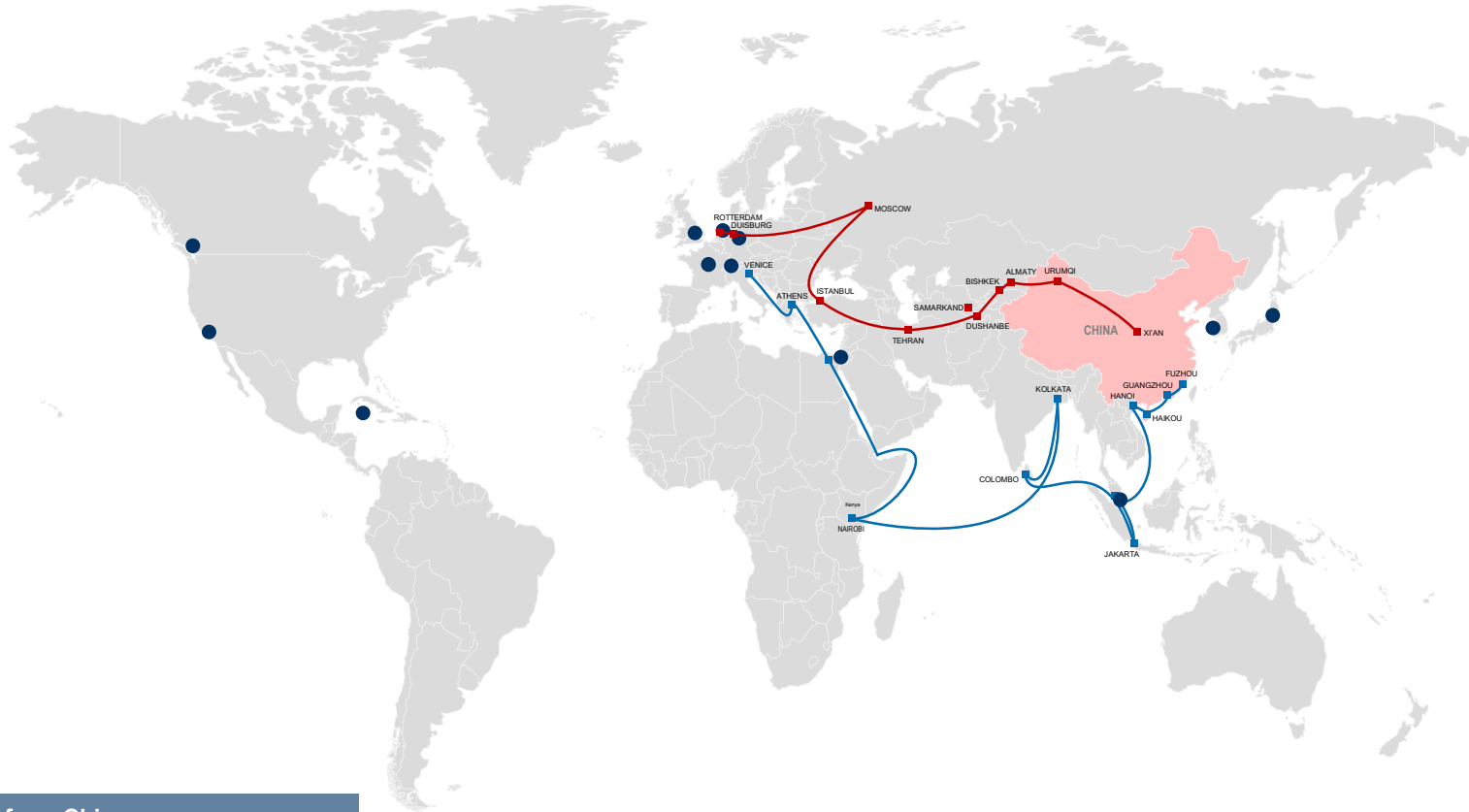
Route to Dual Circulation – Global Healthcare

Announced Chinese Outbound M&A/Equity investments/JVs/R&D/Licensing in Healthcare (2019-Q3 2020) (Global Volumes)



BRI: 2020 Significant Developments

Health Silk Road – Q4 2019



Outbound from China

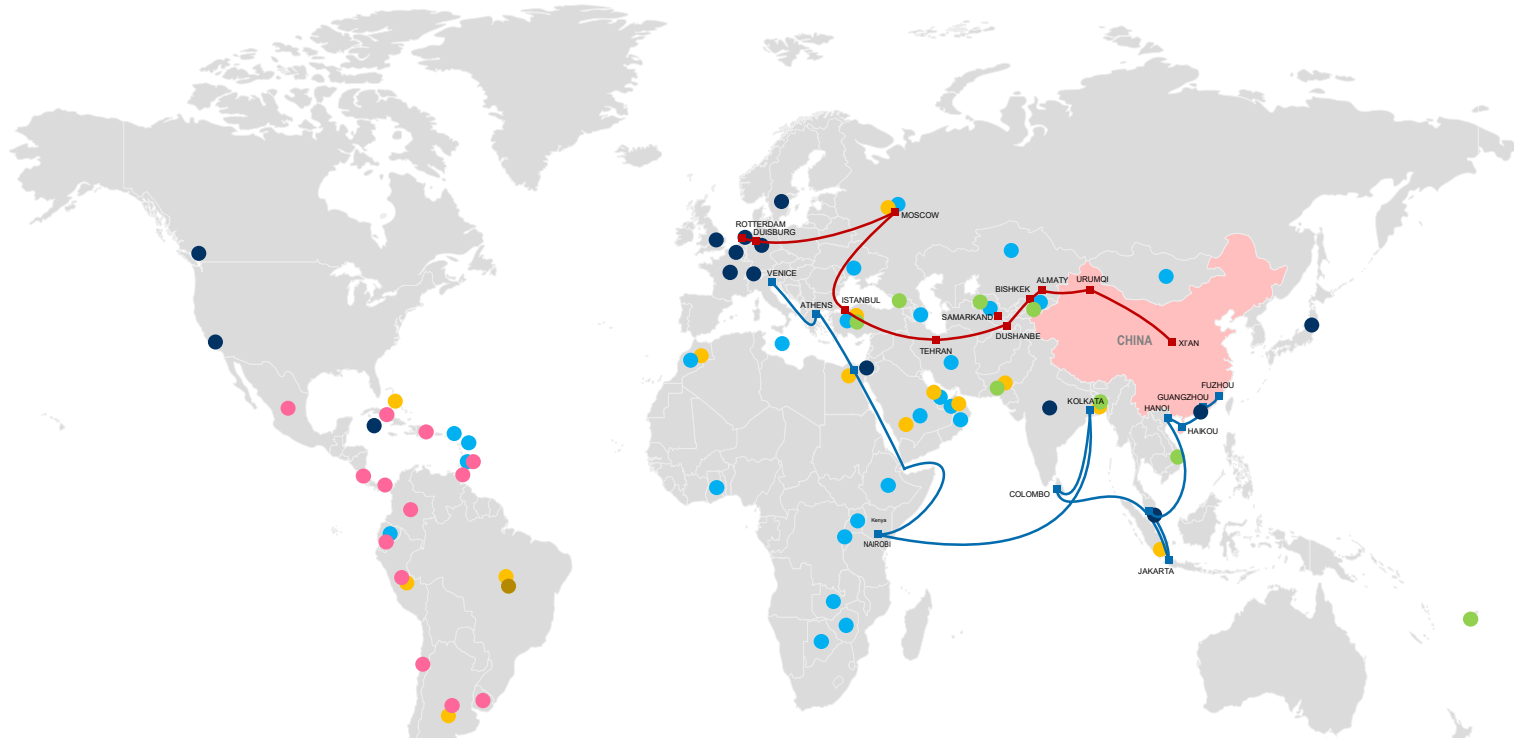
Countries Receiving Equity Investments/JVs

USA	Germany	Switzerland
Qatar	Japan	Israel
UK	Canada	Cayman
Netherlands	Singapore	South Korea

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BRI: 2020 Significant Developments

Health Silk Road – Q3 2020



Outbound from China

Countries Receiving Equity Investment JVs

Belgium	Japan	Singapore
Cayman Islands	Hong Kong	Switzerland
Canada	India	Sweden
France	Israel	UK
Germany	Netherlands	USA

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Countries Receiving Medical Assistance (Incremental)

SCO – Russia, Kazakhstan, Kyrgyzstan and Mongolia
 MENA – UAE, Qatar and Saudi Arabia
 Uzbekistan, Zimbabwe, Botswana, Ethiopia, Guinea Turkey, Rwanda, Uganda, Azerbaijan, Morocco, Ukraine, Zambia, Oman, Iran, Barbados, Antigua, Barbuda, Ecuador, Ghana, Malta

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China \$1 billion Loan to LAC – Vaccine Access

Mexico	Chile	Cuba	Ecuador	Trinidad & Tobago
Argentina	Colombia	Dominican Republic	Panama	Uruguay
Barbados	Costa Rica	Peru		

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AiIB COVID Loan Commitments

Bangladesh	Turkey
Fiji	Uzbekistan
Kyrgyzstan	Vietnam
Pakistan	

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NDB Loans

Brazil

1

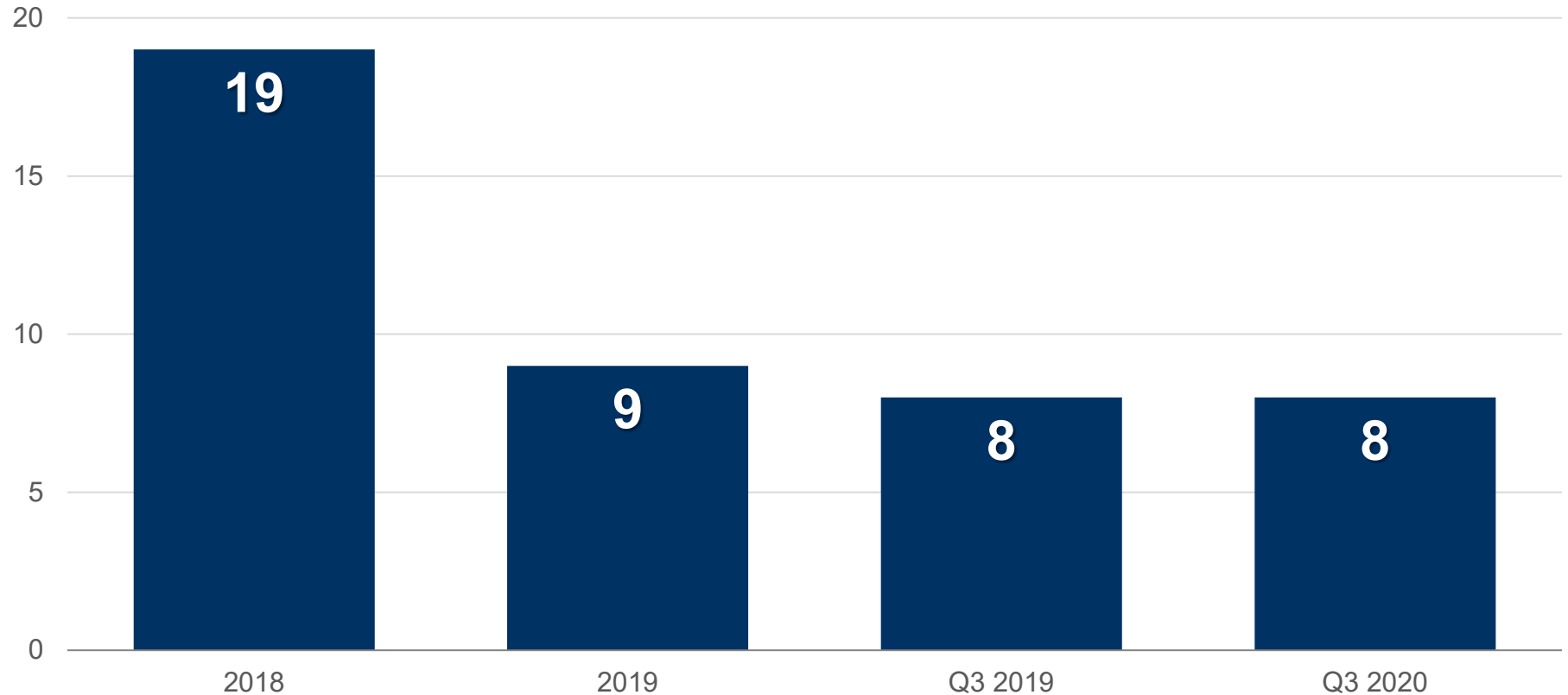
Countries Piloting Chinese Vaccines

Argentina	Morocco
Bahamas	Pakistan
Bahrain	Peru
Bangladesh	Russia
Brazil	Saudi Arabia
Egypt	Turkey
Indonesia	UAE

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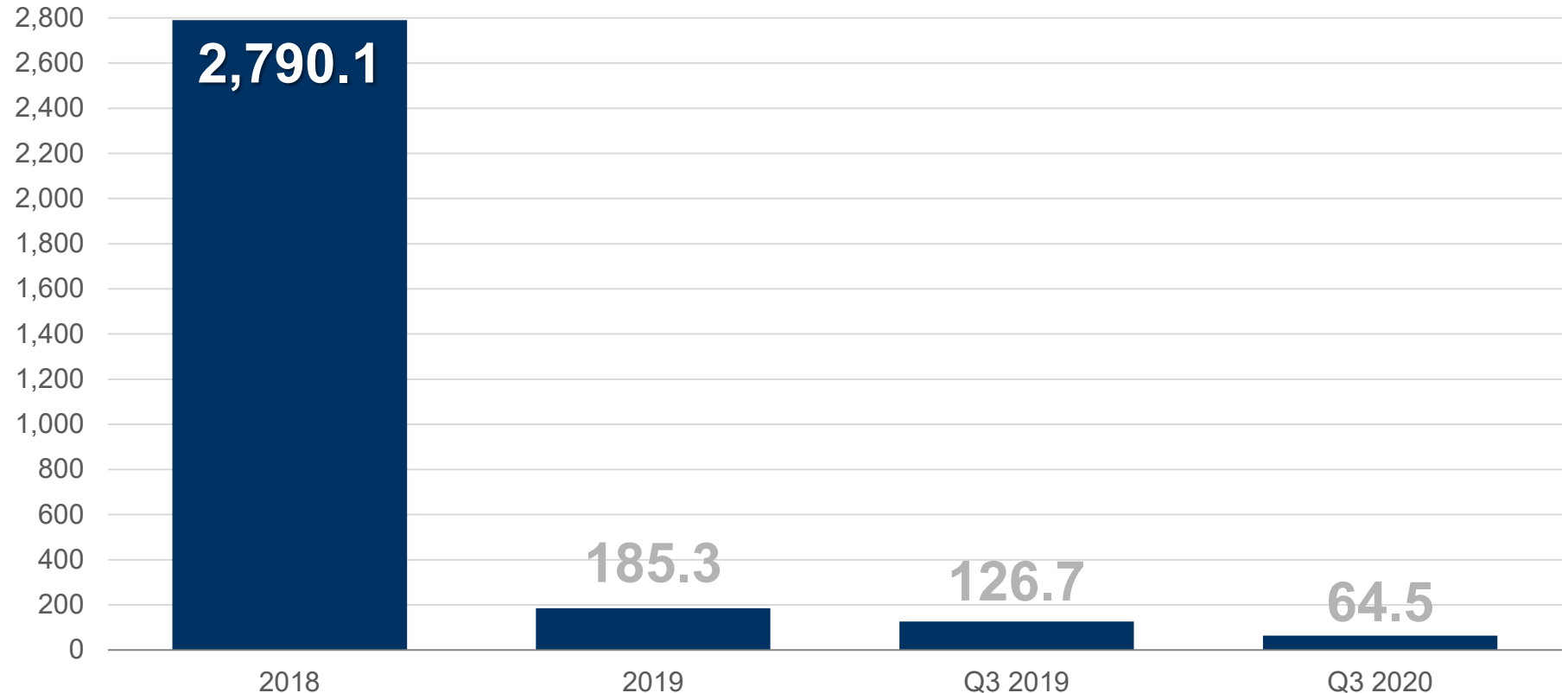
Route to Dual Circulation – UK Healthcare

Announced Chinese Outbound M&A/Equity investments/JVs/R&D/Licensing in UK Healthcare (2018-Q3 2020) (Volume)



Route to Dual Circulation – UK Healthcare

Announced Chinese Outbound M&A/Equity investments/JVs/R&D/Licensing in UK Healthcare (2018-Q3 2020) (Aggregate Amounts)



Announcement of Dual Circulation

Summary Conclusions

- China has substantially reduced outbound M&A/equity investment amounts annually since the 2016 peak
- However, volumes remain relatively strong, led by much smaller deal sizes (49% under \$10 million Q2 2020) – thus providing growth capital, often below (FDI) 10% stakes
- China have also focused much more in specific sectors such as healthcare, technology and renewable energy
- China has been addressing its domestic needs, growing consumer, increasing non-financial FDI, opening its financial markets and rerouting trade (ASEAN now leads)
- These domestic trends at a time of increasingly negative perceptions by many non BRI countries – has led China to announce Dual Circulation in October

Announcement of Dual Circulation

Policy Questions

1. It is clear from the data that China has already substantially reduced making large acquisitions of controlling stakes and that circa 50% of the outbound volume is below FDI thresholds. What is the logic of enacting restrictive FDI legislation under these conditions and at this time?
2. With only limited capital to invest internationally, and with BRI priorities in Southern, Southeastern and Central Asia, why does the UK want to limit its future Chinese FDI and/or risk receiving less growth capital for its growth industries?

THANK YOU