Dynamics and Developments of Chinese MA Transactions in the wake of the BRI: A comparison of Germany and CEEC

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Dynamics and Developments of Chinese M&A Transactions in the wake of the BRI

A comparison of Germany and CEEC

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Abstract

China's "Belt-and-Road" initiative is one of the largest economic policy projects in history to date. It comes hand in hand with investments in almost all areas of life in 164 countries. In this article, dynamics of Chinese M&A activities in Europe related to the BRI are investigated. Germany as Europe's largest economy is compared to the countries of the former 17+1 Forum by using a modern sequential explanatory mixed-methods research design. The investigation examines four main fields: the general scope, dynamics over time, sectoral focus and short-term financial development of target companies. Hereby, we find crucial differences but also similarities of the regions studied. Based on the quantitative results as well as the in-depth expert insights, implications for politics and business are finally derived.

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1. Introduction

At a recent conference in London, the Lithuanian prime minister explained her country's decision to leave the Belt-and-Road-Initiative (BRI) and the 17+1 Forum (now 16+1) between seventeen Central and Eastern European countries (CEEC) and China. The main argument she pointed out for this decision is, that while it seemed promising in the beginning, it did not provide the expected economic returns - hitting a raw nerve. Since China has intensified its investment into the world economy through the BRI, the question of China's economic influence and geopolitical agenda has been the subject of repeated media and academic debates to which there is no definitive answer until now. This chapter sheds light on Chinese Merger & Acquisition (M&A) activity in Europe, via a comparison of the respective dynamics in the 17+1 countries and Germany. While doing so, we focus our investigation on four relevant fields, to provide a holistic perspective of the topic. Firstly, we explore the differences in size and mere number of Chinese M&A investments in Germany and the CEEC. Secondly, we examine the past and present investment volume and contrast them to the especially in Western European media transported belief that “China buys out CEEC”[3]. We incorporate this area of investigation into the larger context of the BRI, uncovering dynamics of this initiative over time. Thirdly, the determinants for the different investment behaviour regarding the targeted industries are assessed. Finally, we examine the post-merger company development in both targeted regions.

We build on the growing body of research trying to categorise Chinese M&As in contrast to traditional M&A theory (Buckley et al, 2009; 2018; Child & Rodrigues 2005). Until recently, the latter has mainly looked at foreign direct investments from highly industrialised nations rather than outflows from an emerging market to another. We contribute to the literature by comparing a heterogenous country sample and adding insights about dynamics, similarities and differences in the context of the BRI. Additionally, through our mixed methods approach we are able to add a diverse set of opinions from the business world as well as academia both from Germany, Central Eastern Europe and China. Finally, to the best of our knowledge, we provide one of the first scientific research works, investigating Chinese M&A activity in the wake of the COVID-19 pandemic.

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[3] See, for instance Brinza (2020) or Höhler & Gruber (2017)

We employ a modern mixed methods approach to capture this complex topic. Using a sequential explanatory mixed methods research design, we first analyse deal-level data from the Thomson Reuters M&A transaction data base. In the second, qualitative step, we discuss the results from the quantitative analysis with a collection of experts in this field, both from business and academia. The chapter is further structured as follows: In the second section, we review the existing literature and identify the main areas of interest we further investigate. Section 3 contains the methodology and an overview about our data. In section 4 we present our results in both quantitative and subsequent qualitative expert interviews. Section 5 includes the implications and conclusion.

2. Literature Review

The Belt and Road Initiative (BRI), also known as the New Silk Road, presents the largest global investment in Chinese history and in recent times overall. Announced by China's president Xi Jinping in October 2013, it aims to form a network for economic cooperation by creating trust with its partner countries, economic integration, new trade ties and cultural convergence (Pan et al., 2020). As of December 2021 it includes 146[4] countries in South East Asia, East Asia and Pacific, Middle East and North Africa, Sub-Saharan Africa, Latin America and Caribbean as well as Europe and Central Asia. With the biggest share of those countries being categorised as developing countries and emerging markets, one of the main foci lies on providing infrastructure as the "foundation of development through cooperation [...]", according to president Xi himself (Bluhm et al, 2018). However, the project further entails massive amounts of investments into non-infrastructure sectors in the partner countries. Du and Zhang find that overall Chinese Outward Direct Investments (ODI) have increased rapidly following the announcement of the BRI, including greenfield investments and M&As activities by Chinese firms (Du et al., 2016). The following section will give an overview about the existing literature assessing the motivation and location choices of Chinese M&A as a distinctive form in the field of Foreign Direct Investments (FDI).

The traditional theory on FDI presents two main motives for companies investing abroad (Buckley et al., 2009; Buckley & Casson, 2003): Firstly, to internalise imperfect external markets, meaning to replace components of incomplete markets through

[4] As of December 2021, according to www.yidaiyilu.gov.cn. The countries have joined the Belt and Road Initiative (BRI) by signing a Memorandum of Understanding (MoU) with China

products and knowledge. Secondly, to choose a location where the overall cost of production can be reduced. However, Buckley et al (2009) suggest that M&A from emerging markets with particular imperfect domestic markets may require an adjustment of these two components of mainstream theory since most of this strand of literature refers exclusively to FDI out of highly developed economies. The traditional Dunning eclectic paradigm of FDI proposed three motivations for the choice of location: 1. Foreign market seeking FDI, 2. Efficiency seeking FDI in terms of cost reduction and 3. Resource seeking FDI, including strategic asset seeking FDI (Dunning, 1980). Furthermore, the comprehensive literature on FDI suggests a long list of factors influencing cross-border M&As such as access to resources and technology, geographic proximity, bilateral trade, quality of discounting disclosure (Erel et al., 2012; Fuest et al., 2022), financial market development, common cultural characteristics, political stability and institutional capacity (di Giovanni, 2005), shareholder protection and governance (Kim & Lu, 2013), regulatory circumstances (Alimov, 2015) or taxes (Huizinga & Voget, 2009).

The rise of Chinese ODI raises the question, whether the classical theories of M&A are applicable to the investment characteristics of Chinese multinational enterprises (MNEs) or whether an extension of the theory according to a Chinese distinctive approach is necessary. While Fuest et al (2022) describe a lack of systematic analysis that assesses the patterns of Chinese cross-border M&A relative to greenfield investment, we found a growing body assessing its determinants. The first theoretical based empirical analysis was brought forward by Buckley et al (2009) applying the mainstream theory explaining FDI from industrialised countries to emerging markets country context by using a firm-level data set from 1984-2001. They find a positive association between Chinese M&As and the host market size, the proportion of ethnic Chinese population in the host country, the exports of the host country as well as positive relation between liberalisation policies in China and ODI. The results remain constant in a subsequent study conducted from, where they further highlight the importance of natural resources, the GDP growth rate in the host country (Buckley et al., 2016; 2018). In comparison to other investors, Chinese M&As do not decrease in light of a poor record of political institutions and political risks (Buckley et al., 2016, 2018; Child & Rodrigues, 2005; Kolstad & Wiig, 2012). Buckley et al (2016) describes the fact that China invests in countries with less governance as “perverse behaviour”. However, Fuest et al (2019) use deal-level data to not only examine country-level but also target-level characteristics of Chinese oversea M&A and a logit model and find that Chinese MNEs seem to be less concerned about market size, conduct more deals in investment hubs and target companies with lower profitability, more assets, higher level of debts and more patents. Additionally, they determine a difference between the investment behaviour of state-owned enterprises (SOEs) and private companies. Additionally, Fuest et al (2019) present unpreceded results about the post-merger performance, which seemingly differ from other investors: the growth in measures of capital productivity, defined as the ratio of turnover and value-added to total assets, is lower in Chinese acquired firms as the investing firms seem to acquire to invest more briefly after the takeover. We find a lack in the systematic analysis of post-merger performance of Chinese acquisitions and cannot provide further comparisons.

Regarding the dynamics of Chinese M&As, while the number of projects and investment volume has seen a rapid rise after the announcement of the BRI largely driven by strong state and government support (Du et al., 2016), there has been a decline in 2018 and 2019 (Herrero, Xu, 2021). This slowdown was already present before the beginning of the Covid-19 pandemic due to restrictions on "unreasonable" capital outflows by the Chinese government. Li notes that the M&A deal values were the lowest in 2020 since 2010 (Li, 2021). While ODI is distributed all over the BRI partner countries, Herrero and Xu (2021) find that the largest number of completed M&A deals are in the European Union. The sectoral concentration is mainly in energy and power and industrials, closely followed by high technology and financial services, with a distinction between SOEs and private companies. While the latter primarily invests in the industrial and consumer sector, Chinese SOEs prefer the resource and infrastructure sector (ibid., 2021). Du and Zhang (2018, p. 190) note that these findings "are largely consistent with the trend of industrial diversification in the overall structure of target industries of China's overseas acquisitions". The varying outcomes are due to the fact that some datasets use the announcement date and some use only the completed deals, which can sometimes be months, if not years, apart, according to Li (2021) and Kolstadt and Wiig (2021).

Based on the literature review we focus on four specific areas of investigation we evaluate crucial for an assessment of the topic: First, we want to uncover differences between the general M&A activity in Germany and the 16+1 CEE countries. Second, we focus on the BRI and aim to examine the progress of the initiative, as well as potential future developments. Third, we want to investigate whether there are specific sectoral differences between the two regions investigated. Fourth, we want to shed light on the M&A activity from a cultural perspective i.e., whether there are differences in further corporate developments rooted in varying perceptions of Chinese M&As in Germany and the 17 CEECs studied.

3. Methodology & Data

The availability of data on Chinese M&A activities in Europe, and in particular the density of data providing information on long-term effects, is limited. In addition, changes in the legal form and associated delisting which can occur after complete takeovers further restrict the data density. To overcome weaknesses resulting from the quantitative data situation and to combine the strengths of quantitative and qualitative research, a mixed-methods approach is applied in the present chapter. This set of approaches is particularly useful when complex contexts are to be explored and neither a quantitative nor a qualitative approach alone is sufficient to draw a comprehensive picture (Morse, 2016).

For our research we opt for a sequential explanatory research design i.e., we conduct a theoretical driven quantitative core component, which is complemented by a qualitative supplementary component afterwards (Ivankova et.al., 2006). A challenge of this specific mixed-methods approach is a prior definition of the weight given to the individual phases. In this study, the focus lies on the quantitative phase. This first step of the analysis serves to uncover interrelations in the previously defined fields of investigation. Finally, the qualitative phase serves to illuminate the found correlations further from a different perspective.

As a quantitative basis, we use the Refinitiv Eikon M&A database with more than 1.1 million entries since the 1970s (Refinitiv Eikon, 2021). We filter for transactions where the acquirer is based in Hong Kong or the PRC while the target is headquartered in one of the 17 China-CEEC countries or Germany. We only include transactions from 2013 onwards, as the BRI was officially announced in that year. Our final dataset therefore consists of 373 transactions conducted between January 2013 and October 2021. In our data, there are no transactions, where the target is headquartered in Bosnia and Herzegovina or Montenegro, leading to 15 CEEC out of which the transactions originate. The quantitative evaluation is mainly based on the following procedures: First, we calculate percentage indices in order to compare Germany and the 15 remaining CEECs, especially with regard to the temporal and sectoral perspective. Second, we compare the stochastic moments, in particular mean, skewness and kurtosis in the context of the perception of M&A activity. In particular, to perform the regional comparison, we also evaluate simple absolute and GDP-weighted[5] relative values.

In our qualitative, supplementary component, we rely on semi-structured expert interviews. In these interviews, we focus particularly on the results found in the quantitative component. The aim is to obtain an assessment from the experts on the results found and thus either to strengthen them or to uncover weaknesses in the quantitative analysis. We conduct semi-structured interviews with experts who are academically engaged or exhibit an exceptional professional expertise. Our academic experts are studying Chinese activities in relevant research institutions and are holding at least a doctoral degree. The interviewed professionals are high level responsible managers and have been in contact with Chinese investors for years, making their experience crucial, to relate them to a purely practical scale in business relations. Our expert sampling is done intentionally i.e., we select the experts according to their know-how. We pay attention to a corresponding scientific (at least PhD) or exceptional professional expertise. The case selection is diversely based on the criteria: business vs. scientific and Eastern European focus vs. German focus. Within this diversity, we try to choose cases that are as typical as possible for the individual dimensions. Due to the political relevance of the topic, we have assured anonymity to our experts. The interviews follow a three-part scheme: First, we ask for a general assessment of the situation regarding Chinese M&A activities in Europe without biasing the experts with previous results. This is followed by questions corresponding to the four specific areas of investigation to gather the experts' perception. Finally, in the third section of our interviews, we confront our experts with the results of the quantitative analysis. We use a qualitative codification scheme to evaluate the experts statements. The respondents, when confronted with the results, reacted uniformly and were aware of the phenomena taking place. A descriptive overview of the selected experts can be found in Table A.1. The analysis of the interviews was conducted with the help of a codification system, classifying the key statements and the density of their occurrence.

[5] We obtain the GDP data from the World Bank (The World Bank, 2021)

4. Results

4.1. Quantitative Results

Beginning with the quantitative assessment, we first examine the general M&A activity in the two investigated regions. For this purpose, we present absolute numbers as well as GDP-weighted[6] relative results. The results can be found in table 1. We exclude the data for 2021 here, as we rely on complete, yearly data in this step. A simple comparison (column 1) reveals a clear surplus of M&A transactions for German firms compared with CEEC firms. These figures suggest increased activity in Germany but are difficult to compare due to the different economic strength of the countries surveyed. However, the results are confirmed by the GDP-weighted number of transactions (column 2). In addition to the absolute number of transactions, we also examine the monetary value of the transactions, again absolute and GDP-weighted (columns 3 & 4). The values are based on 98 transactions in Germany and 40 transactions in the CEEC available in the dataset. Again, there is a strong overhang in Germany, which is also confirmed by the GDP-weighted values.

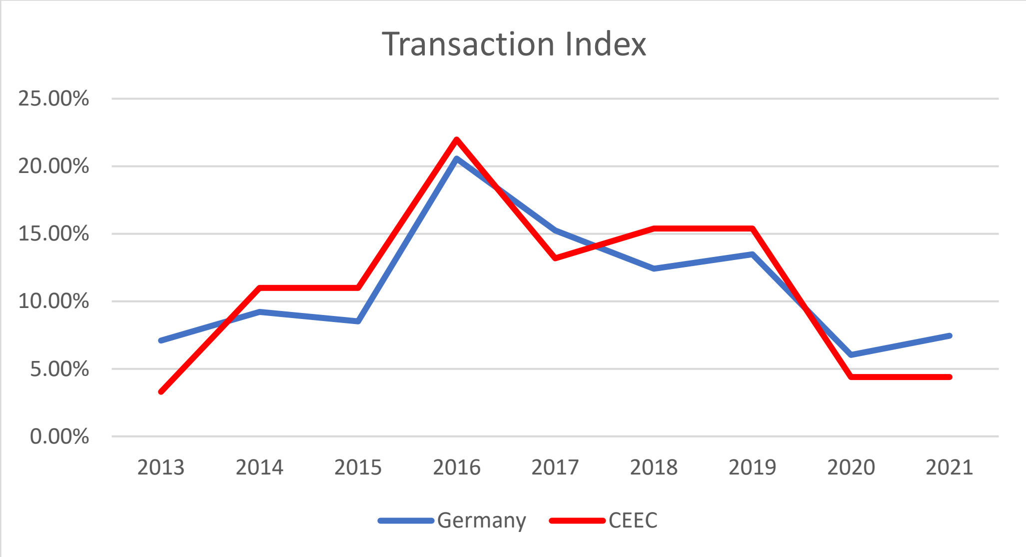
Table 1: Comparision of the general Chinese M&A activity in Germany and the CEEC

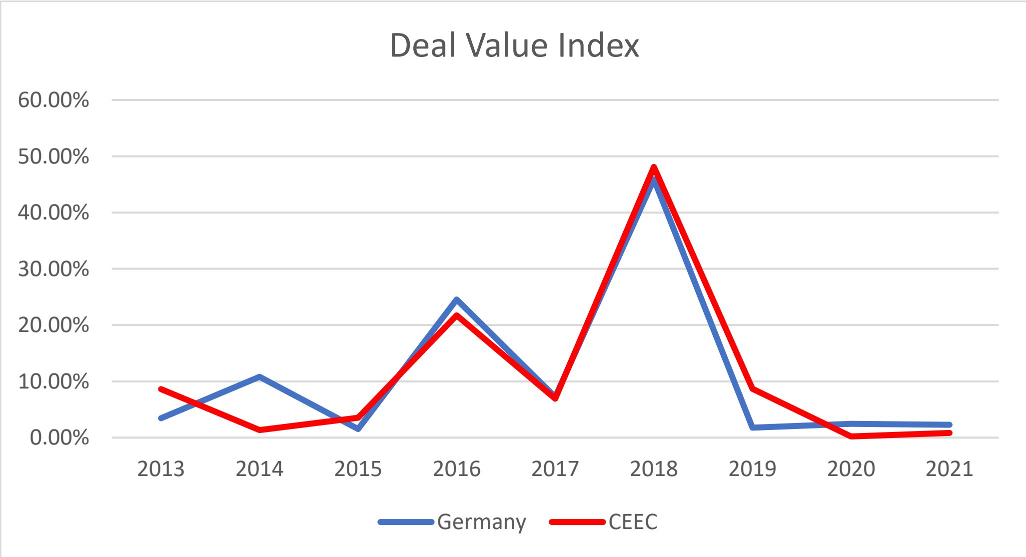
	Germany	CEEC	Absolute Deviation	Relative Deviation
Number of Transactions	261	87	174	300.00%
Weighted Number of Transactions	261	184	77	41.90%
Aggregate Deal Value (in million €)	21004.95	4597.11	16407.84	456.92%
Weighted Aggregate Deal Value (in million €)	21004.95	9656.62	11348.33	117.52%

Overall, our quantitative results suggest that there is disproportionately stronger M&A activity in Germany than in the CEEC. Interestingly, this result is robust to GDP-weighting, indicating, that the overhang in Germany cannot solely be explained by economic power.

[6] A comprehensive overview for calculating the weights can be found in the appendix in Table A.2.

Figure 1: Transaction and Deal Value comparison over time

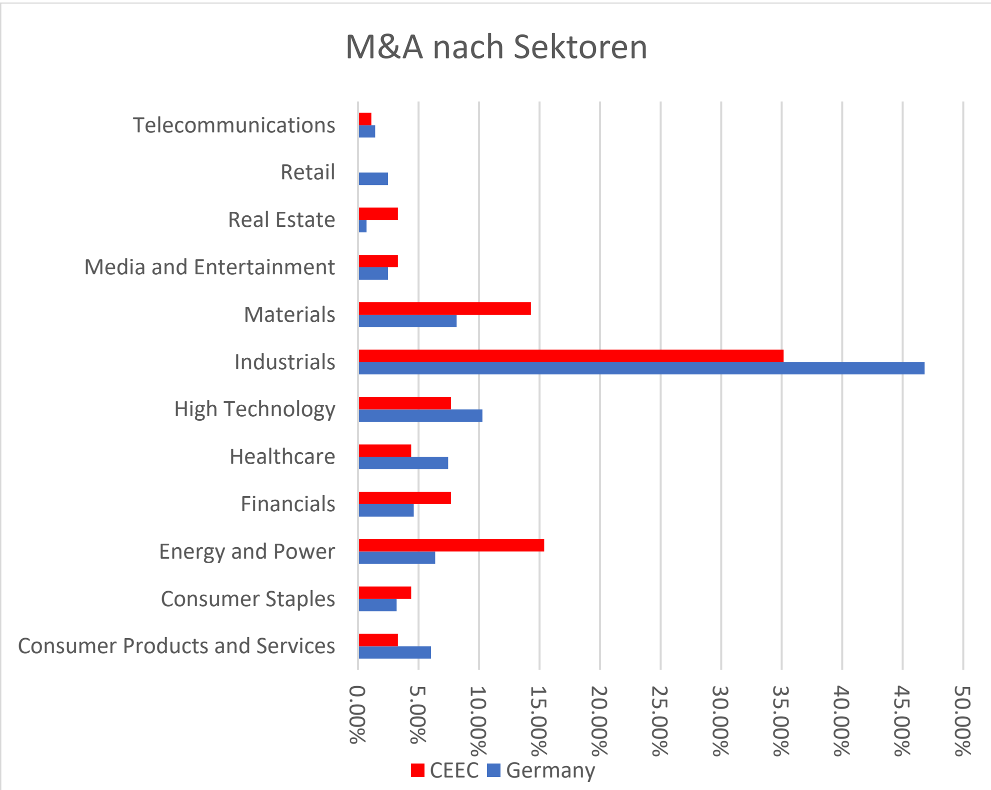




In the second step of our quantitative analysis, we investigate temporal dynamics of M&A activity. Based on the finding of the imbalance of activity between Germany and the CEEC and for the sake of a concise presentation, we calculate relative indices. The exact calculation can be found in the appendix in table A.3. We calculate an index for the absolute number of transactions (per year) and an index for the aggregate deal value (per year), to capture the activity from several perspectives. The indices' development is presented in Figure 1. Looking at the results, it can be said that the dynamics of M&A activity in both regions are very similar. There are no significant differences between Germany and the CEEC, neither in the transaction index nor in the deal value index.

Looking at the progression of the indices, we can see a stagnation between 2013 and 2015, followed by a sharp increase as well as the peak of activity between 2016 and 2018. Differences between the indices appear during the peak of activity. The Transaction Index locates the strongest activity in 2016, while the Deal Value Index locates the strongest activity in 2018. Generally spoken, the location of a peak of BRI activity between 2016 and 2018 is in line with the literature. With the onset of the corona pandemic, early 2020 is associated with a massive reduction in M&A activity, which is also reflected in the indices. For 2021, which is not fully represented in our sample, there are signs of a slight recovery for transactions in Germany, but without reaching the pre-corona level.

Figure 2: M&A Transactions per sector



The third area of investigation captures sectoral differences between the M&A activity in Germany and the CEEC countries. For our analysis we use the classification of the target macroindustry. The target companies are assigned to one of twelve possible categories. We only use the number of transactions as for the deal values, we did not obtain enough data for the sectoral split. In our sample except for the Retail category, transactions from every category occurred in both regions. Again, we calculate relative values to account for the general differences regarding the transactions. The absolute values can be found in the Appendix in table A.4.

When examining the results, broad similarities but also some relevant deviations can be found. Firstly, for both regions, most of the target companies are active in the industrials sector. However, the share of transactions targeting the industrials sector is significantly higher in Germany, than in the CEEC. Secondly, in the CEEC countries the shares of transactions targeting the materials and the energy and power sectors are significantly higher than in Germany. Finally, for the other sectors no relevant deviations can be found. No specific sectoral focus of M&A transactions can be identified from this result. Rather, it appears that the transactions are broadly spread to target the strongest companies, with differences in the targeted sectors based on economic differences in the countries surveyed.

Finally, in our fourth area of investigation we aim to shed light on the public perspective on Chinese M&A Transactions and possible regional differences. As we cannot measure these perceptions directly, we use the change in enterprise value as a proxy,

$$\Delta\text{Value} = \text{Value at announcement} - \text{Value at effective date.}$$

This approach allows us to gain insight into investor sentiment regarding the takeover, as there is no relevant business activity by the acquiring investors in this short time period. Similar to the Deal Values, we cannot rely on holistic information in this case, i.e. we have to overcome the issue of missing values. After excluding all the missing entries, a sample of 18 CEEC-located and 45 Germany-located M&A Transactions remains. For the sake of robustness, we also present extreme value-adjusted data. Nearly all of the ∆Value entries are located in the range between -73.61 and 93.60[7], except from two transactions in Germany which we exclude from our analysis[8] [9]. We further exclude one case from the CEEC sample as its absolute value is three-times higher than the second highest absolute value in this sample[10]. We calculate Mean, Median, Skewness and Kurtosis for the samples of both regions. The results can be found in table 2.

[7] Values are given in million USD

[8] The first case (-1,108.40 mio USD) we exclude is Kion Group GmbH. The listed transaction occurred in the course of the IPO and the associated restructuring on June 28, 2013. The losses can be, at least in parts, attributed to the accounting effects of this IPO.

[9] The second case (-440.32 mio USD) we exclude is the Hanwha QCells Investment Co Ltd. After an insolvency in 2012, QCells was part of the Hanwha Group. The transaction in 2014 was a reorganization within the Group which shifted the company’s focus from Germany to Asia.

[10] The third case (93.60 mio USD) we exclude is the Independent Power Transmission Operator SA. The Greek bailout agreement of 2015 included the privatization of this company.

Table 2: Statistical results for company value development

	Germany	CEEC	Germany (adjusted)	CEEC (adjusted)
Mean	-35.07	4.18	-0.69	-1.08
Median	-0.13	-0.35	-0.12	-0.36
Skewness	-5.55	3.01	-0.01	-0.16
Kurtosis	32.48	11.17	7.61	0.57
N	45	18	43	17

When investigating the results, it can be seen that both samples are highly sensitive to the extreme-values we adjust for in a second step. The extreme-values cause a left-skewness for the German sample as well as a right-skewness for the CEEC sample. When examining the adjusted values, the differences vanish for the Mean, Median and Skewness, indicating that no significant disparities in the perception about Chinese M&A activity occur between Germany and the CEEC. However, it can be noted that the mean and median values are both negative. This deterioration in the value of the company may be related to a generally negative perception in both regions. The deviation in kurtosis indicates that in the German sample, fat tails occur. Without exactly knowing the reason for this out of the data, it can be hypothesised that the nature of the M&A Investor can exhibit stronger positive/negative effects in Germany.

Looking at the results, despite the heterogeneity of the country sample, some strong findings for the qualitative supplemental study can be drawn. First, the quantitative results suggest a far stronger Chinese M&A Activity in Germany than in the CEEC. This result is highly robust to GDP adjustment. Second, we find evidence for a maximum in investment activity between 2016 and 2018 without any differences between Germany and the CEEC. Third, the industrial sector is the most important target for Chinese M&A transactions in the investigated countries. We further see some sectoral differences in the targets between Germany and the CEEC. Fourth, there is weak evidence that the perception towards Chinese M&A activity is slightly negative in the investigated countries. There might be differences between Germany and the CEEC, leading to a more negative perception in Germany.

4.2. Qualitative Results

Subsequent to the quantitative analysis, we conduct interviews with experts from business and academia both in CEEC as well as Germany. While conducting the forthcoming analysis, we will not distinguish between the national as well as professional background of the experts as described earlier in the methodology part.

All experts emphasise the special characteristics of Chinese M&As in comparison to traditional assumptions about M&A. Our results suggest that the Chinese model is presenting “a hybrid model of investments” as the decision-making by Chinese firms to invest abroad is not solely based on the maximisation of economic factors for each company but also derived from domestic governmental policies (Expert 1). Expert 1 states “[Chinese] government does not completely determine the way but it's quite clear what is wished by the government and what is not” (Expert 1). The Chinese governmental interests are twofold: Firstly, from a diplomatic perspective to have “stable and good relations with the European Union” and to use CEEC to “build a bridge between Europe and Asia”. Throughout our interviews the duality of political and economic determinants was mentioned at least three times explicitly. Therefore, the assessment of China's strategy and aims cannot be on purely economic terms since the investments are politically motivated and should be perceived as such (Expert 4). The statement that Chinese M&A activities are influenced by political objects is stated at least six times by all four interviewees in the interviews. Expert 1 and Expert 3 further notice, that for CEECs geopolitical reasons play a particular role.

The second set of motivations is based on economic factors and benefits for the domestic economy. We find that the Chinese government is aiming to develop their economy towards an increased knowledge-intensive and innovation-based economy, which in turn is determining the targets of M&A deals at least in Germany. Throughout our interviews the market access and access to technology and knowledge are mentioned both four and six times as the main economic motives.

However, Expert 1 and Expert 4 emphasise the difficulty to obtain enough data for a comprehensive analysis on M&A deals only. Expert 1 states that only looking at M&A investments could potentially distort the image of Chinese investments in CEEC as China's influence is also exerted through other lending activities without direct investments. Additionally, China's focus on M&A activities instead of greenfield investments might origin in its “late-comer” position to economic development, where it's more attractive to purchase existing firms than to go through the whole knowledge development on their own (Expert 3).

Our experts state that Germany presents the most popular destination in terms of deal numbers as well as values for Chinese M&A investments in all Europe and significantly in comparison to CEEC:

> *"Germany is something uncomparable in terms of - I mean - the levels of engagement and cooperation with China. These are something extraordinary and unique in the whole European Union and the level of dependence. So of course, there are different opportunities in Germany."* - Expert 4.

The statement that Chinese M&A in Germany outweighs CEEC in terms of investment volume finds support at least four times by Expert 1, 3 and 4 throughout the interviews. Reasons behind these statements lie in the attractiveness of the main industries in Germany as well as the fact that the German economy is known and studied in more detail in China and therefore, receives more attention by investors than Eastern European economies (Expert 2). However, a drastic increase in investments in CEEC was observed by the experts following the announcement of the BRI, putting this region more in the spotlight (Expert 1). The experts are unanimous in their view that the political significance of the BRI can be seen as a decisive factor in the M&A deals there. Additionally, companies acquiring firms in countries like Poland, Czech Republic, Slovakia or Hungary also enable Chinese acquirors the access to the Western European Market through the European Union, awaiting "rich consumers" (Expert 3).

Our experts observed a significant increase in Chinese M&A deals starting in 2008 (Expert 3) or 2010 (Expert 4), leading to a peak in investments in 2015/2016 (Expert 1). Expert 1, 2 and 4 highlighted the increase in overall investment and M&A activities since the beginning of the BRI. This analysis of past developments has been confirmed at least eight times throughout the interviews by all four experts. Congruently, all interviewees commented on a peak in investments in December 2015 and a stark decrease beginning of 2016. The most influential factor for this development was an in December 2016 adopted capital outflow regulation in China, aiming to a "double circulation policy" to increase domestic investments on the internal market, mentioned by all experts at least six times. Additionally, the Chinese government aimed to redirect cross-border M&A in a more efficient direction to sectors which would benefit the domestic economy more, for example away from entertainment or real estate sectors (Expert 1). Instead, Chinese state-owned companies were supposed to gain their leading role back in the field of foreign investments. According to this, the decrease of M&A deals had already begun before the beginning of the covid-19 pandemic in December 2019 (in China), which later led to an even steeper decrease in the number of M&A activities. All experts emphasise the multiplying effect that the pandemic and the subsequent economic slowdowns and travel regulations had on the dynamic of M&A deals both in CEEC and Germany. While investments are expected to increase after the pandemic, they are not expected to return to the pre-2016 and pre-pandemic point (Expert 2,3 and 4). Regarding Germany, Expert 1 describes itself as optimistic "because innovation and technological advantages of German funds are there and that's definitely the essence of what Chinese firms look for", which is congruent to Expert 3 views. Contrasting, Expert 4 describes how he expects a "closing up [period] of cooperation with everybody, but focusing cooperation with countries, which are trustworthy partners from the Chinese perspective, which is probably more Pakistan, Russia, Central Asia [...]" concluding on a process of investments still slowing down. Additionally, Expert 4 strongly highlights the political motivation behind Chinese M&A deals.

The statements regarding the sectoral distribution are consistent with the previous statements about the attractiveness of the high-tech sector in Germany for Chinese investors. While resource seeking plays a lesser role in Western Europe and Germany, the high-advanced technological companies are the main industry of Chinese interest due to its surge for knowledge-based technology for further innovation (Expert 1, Expert 3). This targeting of Chinese acquirers is mentioned most often in the interview, with eight times of all interviewers. According to the experts, other prominent sectors in Germany are advanced manufacturing (Expert 1, Expert 2), Energy (Expert 2), pharmaceuticals (Expert 2) and various kinds of industries (Expert 1, Expert 2, Expert 3). However, all four experts independently state that while investments are concentrated in these sectors, it is not merely limited to them. The market size of the European Union is also attractive to Chinese investors (Expert 1, Expert 3). M&A deals in CEEC are less focused on one single industry, according to all experts having stated this at least six times. According to Expert 1, the countries in CEEC belonging to the European Union have a more equal sectoral distribution than countries not belonging to the EU. In the latter, the amount of infrastructure development projects is more significant (Expert 1, Expert 2, Expert 3, Expert 4). This relates to a focus on logistic, e-commerce and train companies in CEEC as it is “cheaper for example in Poland than in Germany”. Poland would offer qualified labour to lower costs, lower real estate prices for warehouses, and more space for an “equally dense and working railway network in Poland” (Expert 3). Additionally, energy and power have been receiving more Chinese attention in CEEC recently, while Chinese firms are not allowed to enter these sectors in most Western European countries (Expert 2). There is no support found for a concentration of M&As in the financial sector in CEEC.

The expert statements regarding post M&A company development are limited. Expert 1 states that “if the post M&A company values were to decrease in Germany that would play in the hand of the concerned policy makers” as it would mean that Chinese firms would only be interested in receiving the technology but not in developing the company further (Expert 1). Expert 3 notes that China is not having an “aggressive take-over strategy” as most companies are not interested in holding more than 20% to 30% of the shares. An additional determinant of post-merger performance is transcultural management and the talent of the management to integrate both firms and the ability of Chinese managers to learn from the local market (Expert 2, Expert 3). Expert 4 expects the post-merger company development to be better in Germany due to the more favourable business environment than in CEEC.

4.3. Final Evaluation

If we look at the general M&A activity, we see a stronger activity in Germany than in the CEEC sample in the quantitative results. This finding is confirmed by the qualitative results. Our experts mainly identify the German economic power (in terms of development, GDP and business environment) and the attractivity of German high-tech and industry companies as reasons for this pattern. Furthermore, it is Chinese policy that transactions should in particular strengthen the economy and acquire knowledge. Another identified reason for the increased activity in Germany is the greater awareness of the German market among Chinese investors. In summary, the quantitative results are consistent with the uniformly held opinion of our experts.

Looking at the quantitative results in terms of dynamics over time, a peak in 2016-2018, followed by a strong decline in M&A activity can be investigated. Our experts confirm this dynamic generally. However, they broaden the perspective from M&As to general dynamics of the BRI. Identified reasons for the decline after the peak between

2016 and 2018 are two-fold. On the one hand, a stricter Chinese policy towards FDI outflows, starting from 2016 is seen as one major factor. On the other hand, negative examples (like the case of Kuka) and a generally more negative perception towards Chinese M&A and investment activity from European shareholders are mentioned as the second major factor. Our experts also provide us with an assessment of future activities: In general, a recovery of Chinese M&A activities in Europe can be assumed after the COVID-19 pandemic has subsided. However, it seems unlikely that the peak level of 2016-2018 will be reached again.

Our quantitative analysis reveals that there is a great overlap in activities by sector, but also crucial differences when comparing the CEEC sample with Germany. These differences become easier to explain if the assessment of our experts on the general Chinese M&A approach, i.e. further development of the Chinese economy, acquisition of the "strongest" targets, is taken into account. Especially in the case of Germany, as one of the leading industrial nations, Chinese investors are interested in the acquisition of knowledge and thus in particular in the industrial and high-tech sector. This qualitative assessment confirms our quantitative analysis, in which the industrials sector in particular was more strongly represented in Germany than in the CEEC. However, our experts agree that the CEECs studied form a very heterogeneous sample, and individual sectors that are particularly strong at the country level may be lost in this holistic view. In the Energy & Power sector in particular, there are also different legal regulations that make it difficult for Chinese investors to enter the market, as it is the case in Germany for example.

Post-merger performance provides the weakest quantitative results. First, we have to rely on a small sample here. Second, the results are highly sensitive to outliers. Third, we consider only a short time horizon, from announcement to actual completion. Nevertheless, the results suggest that in Germany in particular, the sentiment investigated tends to be negative or at least characterized by extreme values. Interestingly, even our experts can hardly offer in-depth insights on this topic, as research to date is very limited. If the long-term development of the acquired companies is indeed negative, this would be in line with the sentiment observed in the short term. However, it was also pointed out that each case has specific peculiarities and, in particular, the (trans)cultural skills of the managers involved exert a decisive influence.

An analysis of Chinese M&A transactions, including the present one, always struggles with the availability of financial data. Individual cases can be examined comprehensively, but a macro perspective is difficult to generate due to the weak data situation. Nevertheless, with a modern mixed-methods approach, we are able to enrich our main quantitative analysis with additional qualitative information and thus draw relevant conclusions. Future analyses should attempt to examine the results on a broader quantitative basis, i.e. policy makers should ensure the availability of financial measures to keep an eye on the relevant developments. In addition, further scientific observation of future developments of Chinese M&A activities in Europe seems appropriate against the background of the tense global situation. Finally, in-depth analyses of the individual areas of investigation are of high interest, to evaluate and understand the underlying mechanisms.

5. Conclusion

In the present chapter we investigate Chinese M&A behaviour in Europe. For our in-depth analysis we compare transaction activity in Germany with a sample of Central and Eastern European Countries, which are organised in the 17 + 1 Format. The chosen sequential explanatory mixed-methods approach enables us to conduct a broad investigation of the topic from various perspectives. We are further able to deepen our quantitative analysis by rich and informative expert assessments. Generally, our findings are broadly in line with the scarce, yet existing literature about Chinese M&A activity in Europe. We extend the literature through a systemic comparison of a heterogeneous country sample, as well as an in-depth focus on the BRI. Furthermore, to the best of our knowledge, we provide the first profound analysis of this topic in the wake of the COVID-19 pandemic.

From our results, we can derive some key results: First, Chinese investment activity in the investigated CEEC in terms of M&As is by no means as extensive as some media had feared, especially at the beginning of the BRI. Second, M&A activity peaked in 2016 and had already declined significantly prior to the COVID-19 pandemic, due to several policy measures from both the European and the Chinese part. Third, our analysis shows that Chinese investors are targeting the strongest sectors. In Germany, this is mainly the high-tech industry, while in the CEEC rather resource- and infrastructure-oriented investments occur. Fourth, our analysis shows slight evidence that Chinese M&A activity tends to be viewed negatively. However, a long-term development trend cannot be derived yet from this and is strongly dependent on the skills of the managers involved. In turn, policy implications and implications for companies can be derived from the results. From a policy perspective, it appears that changing (legal) market conditions in China have had a major impact on Chinese M&A transactions in Europe. The corresponding control mechanisms are working and should be used in a profitable way. However, Germany is by far a much more important target for Chinese M&A activities than the CEEC. From a policy perspective, Germany in particular must find a balance between economic ties with China and the possibly conflicting interests of its eastern European neighbours. The sectoral focus of Chinese companies on the strongest objects should be observed. Certainly, there are technologies and resources which, against the background of China's stronger governmental influence, should not necessarily be liberalized for mergers and acquisitions. In the case of a Chinese takeover or Chinese acquisition, the establishment of transcultural competencies is relevant from the company's point of view. On the one hand, to balance the different cultural, but also political backgrounds. On the other hand, to reduce possible concerns of stakeholders and investors.

Against the currently challenging geopolitical situation a continuous investigation of economic developments and their backgrounds is essential. It is important to identify dynamics in time to be able to take appropriate (policy) measures. With our broad analysis, we offer a starting point for future research and would like to see further focus on the topic of M&A transactions by various actors with geopolitical objectives.

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Appendix

Table A.1.: Overview for the Experts

	Position	**Justification**
Expert 1	Managing Director, Strategic Investment and Government Affairs at one of the worlds' biggest law consultancies.	Fifteen years of work experience in Poland (CEE), both for Chinese companies and the Polish Investment and Trade Agency. Currently helping Chinese firms to do investments in Europe.
Expert 2	Coordinator at the Kiel Centre for Globalization	Academic research focusing on development and consequences of FDI and global supply chains, as well as the determinants of Chinese innovation activities. Working at one of the biggest and most prestigious economic think tanks in Germany.
Expert 3	Head of Corporate Relations in CEE for the Bank of China	Held various positions in the field of Chinese-Eastern European relations, e.g. Diplomat Polish Embassy in Beijing (Economic Department), President of the Forum Asia Pacific, Polish Information and Foreign Investment Agency, Assistant to the Chairman of Polish - Chinese Parliamentary Group, member of the Chinese Investment Working Group (Ministry of Economy), helping to attract Chinese companies to invest in CEE countries. Additionally, he is a lecturer at the ZPP University in Warsaw.
Expert 4	Senior Research Fellow, Polish Institute for International Affairs	Former Diplomat at Polish Embassy in Beijing, author for CHOICE China Observers. Research focus on Chinese politics and its influence in CEE.

Table A.2.: Calculation of GDP-weights

GDP values of the CEEC over time (in billion USD)								
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Albania	10.95	11.14	11.39	11.76	12.21	12.70	12.97	12.46
Bulgaria	48.63	49.10	50.78	52.33	53.77	55.21	57.44	54.92
Croatia	49.10	48.93	50.16	51.94	53.71	55.27	57.19	52.56
Czech Republic	174.47	178.42	188.03	192.80	202.77	209.26	215.59	203.10
Greece	195.06	195.99	195.60	194.65	196.78	200.06	203.67	185.30
Estonia	21.81	22.47	22.88	23.60	24.97	26.00	27.07	26.27
Hungary	115.85	120.74	125.21	127.95	133.42	140.57	146.97	140.10
Latvia	25.74	26.23	27.25	27.90	28.82	29.97	30.72	29.60
Lithuania	39.21	40.60	41.42	42.46	44.28	46.05	48.16	48.09
Poland	443.41	458.39	477.81	492.82	516.63	544.29	570.12	555.63
North Macedonia	9.35	9.69	10.06	10.35	10.46	10.76	11.19	10.60
Serbia	39.58	38.95	39.66	40.98	41.84	43.72	45.62	45.18
Slovenia	41.02	42.16	43.09	44.47	46.61	48.67	50.25	48.12
Slovak Republic	81.98	84.21	88.60	90.31	93.00	96.53	99.05	94.73
Romania	166.62	172.63	177.73	186.09	199.71	208.64	217.38	208.84
Calculation of Weights								
Sum of GDP for CEEC	1462.77	1499.64	1549.69	1590.42	1658.98	1727.71	1793.37	1715.52
German GDP	3235.41	3306.90	3356.24	3431.08	3523.04	3561.30	3598.89	3434.44
Percentage Value of German GDP	45.2%	45.3%	46.2%	46.4%	47.1%	48.5%	49.8%	50.0%
Weight	2.21	2.21	2.17	2.16	2.12	2.06	2.01	2.00

Table A.3.: Absolute values for Transaction and Deal Value indices

	Number Germany	Number CEEC	Deal Value* Germany	Deal Value* CEEC
2013	20	3	744.02	399.76
2014	26	10	2322.07	63.04
2015	24	10	329.33	163.82
2016	58	20	5277.57	1008.11
2017	43	12	1551.78	320.18
2018	35	14	9871.09	2230.43
2019	38	14	378.96	401.86
2020	17	4	530.13	9.90
2021	21	4	491.38	38.43
Sum	282	91	21496.33	4635.54

* Deal values are given in million USD

The index values are percentage values of the absolute values respective to the summed-up values

Table A.4.: Absolute values for calculation of sectoral distribution

Sector	Germany	CEEC
Consumer Products and Services	17	3
Consumer Staples	9	4
Energy and Power	18	14
Financials	13	7
Healthcare	21	4
High Technology	29	7
Industrials	132	32
Materials	23	13
Media and Entertainment	7	3
Real Estate	2	3
Retail	7	0
Telecommunications	4	1
Sum	282	91

The index values are percentage values of the absolute values respective to the summed-up values