Haute école de gestion
Genève

Outbound Chinese M&A in Switzerland

Bachelor Project submitted for the degree of

Bachelor of Science HES in International Business Management

by

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Geneva, August 16th 2024

Haute école de gestion de Genève (HEG-GE)

International Business Management

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Acknowledgements

I would like to express my deepest gratitude to all those who have supported and contributed to the successful completion of this Bachelor Thesis on Outbound Chinese M&A in Switzerland.

First and foremost, I am profoundly grateful to my family. Your unwavering support, encouragement, and understanding have been the backbone of my academic journey. Thank you for believing in me and providing the emotional and practical support necessary to complete this project. Your patience and sacrifices have been instrumental in helping me reach this milestone.

I am also very thankful to my mentor, Professor Alain Le Berre. Your guidance, expertise, and insightful feedback have been invaluable throughout this process. Your commitment to my academic and personal growth has been a source of inspiration, and your constructive criticism has helped me refine my research and analytical skills. I am deeply appreciative of your time, effort, and dedication in mentoring me through this project.

Additionally, I would like to extend my heartfelt thanks to the interviewees who participated in this research. Your willingness to share your experiences and insights has enriched this study and provided a deeper understanding of the complexities and dynamics of Chinese M&A activities. Your contributions have been crucial in shaping the findings and recommendations presented in this thesis.

Lastly, I would like to thank the Haute école de gestion de Genève (HEG-GE) for providing me with the resources and opportunities to pursue this research. The knowledge and skills I have acquired during my time here have been instrumental in the successful completion of this thesis.

Thank you all for your immense support and encouragement. This accomplishment would not have been possible without each and every one of you.

Executive Summary

This thesis explores outbound Chinese mergers and acquisitions (M&A) in Switzerland, focusing on the trends, motivations and challenges of these transactions. As Chinese firms seek international expansion, Switzerland, with its stable economy, high-quality industries, and strategic location, has become a key destination. This study aims to analyze the factors driving Chinese M&A in Switzerland and evaluate the success and challenges of these activities. The thesis is organized into several chapters, including an introduction, literature review, research methods, results, discussion, and conclusion.

The growing trend of Chinese outbound M&A stems from China's « Go Global » policy and is driven by strategic objectives such as acquiring advanced technology, accessing new markets, and enhancing global competitiveness *(FDI Intelligence & Merics)*. Key articles and studies support the analysis and provide a context for understanding the dynamics of Chinese M&A in Switzerland.

To find this, a mixed-methods approach was employed, combining quantitative and qualitative analysis to provide a comprehensive understanding of Chinese M&A activities in Switzerland. Quantitative data was collected from industry reports and self-made databases, covering transaction values, volumes as well as various analysis approaches such measuring portfolio weights and comparative analysis.

Challenges included financing difficulties, exchange rate risk and post-merger integration *(Deloitte)*.

The analysis highlights the strategic importance of outbound Chinese M&A in Switzerland.

Therefore, we suggest addressing these hurdles through three various recommendations per challenge.

Alternative financing sources through international banks, private equity firms or strategic investors.

Hedging strategies to mitigate risk of adverse currency movement and ensure favorable exchange rate

And finally, creating detailed integration plans with specific milestones and establish integration teams from both firms.

Future research should focus on sector-specific dynamics and comparative analyses to further understand the strategic implications of Chinese outbound investments.

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1. Introduction

The landscape of global mergers and acquisitions (M&A) has undergone significant transformations, with Chinese firms playing an increasingly prominent role in outbound investments. Switzerland, known for its robust economy, political stability, and leading industries, has emerged as a key target for Chinese outbound M&A activities. This thesis explores the dynamics of outbound Chinese M&A in Switzerland, focusing on the trends, motivations and challenges of these transactions.

1.1 Goals of the Thesis

1. Analyze the trends behind Chinese firms' investments in Switzerland.
2. Identify the motivations for these transactions.
3. Examine challenges faced by Chinese companies in the Swiss market

1.2 Organization of the Report

This Bachelor Thesis on Outbound Chinese M&A in Switzerland is organized into six chapters, each addressing different aspects of the research topic and contributing to a comprehensive understanding of the subject. Here is a detailed overview of the structure of the thesis:

Chapter 1: Introduction

This chapter provides a brief presentation of the subject, outlining the relevance and importance of studying outbound Chinese M&A activities in Switzerland. It also defines the primary research objectives that guide the investigation and analysis conducted in the thesis. Finally, it offers an overview of the thesis structure, explaining how each subsequent chapter contributes to the overall research goals.

Chapter 2: Literature Review

The second chapter delves into existing theories and research related to mergers and acquisitions (M&A). It begins with an exploration of the fundamental reasonings behind Outbound Chinese M&A in Switzerland. The chapter then examines global trends in Chinese outbound M&A, providing a broader context for understanding these activities. A focused analysis of Chinese M&A in Switzerland follows, discussing the specific dynamics and characteristics of these transactions. The trends of Chinese M&A on Swiss firms and the broader economy is also evaluated. This chapter includes a detailed case study of the acquisition of Syngenta by ChemChina, offering practical insights into the real-world implications of such deals.

Chapter 3: Methodology

This chapter outlines the research design and methods used to collect and analyze data for the thesis. It details the data analysis methods employed, including both quantitative and qualitative approaches. The chapter also describes the data collection, identifying the sources of data and the techniques used to gather relevant information.

Chapter 4: Results

In this chapter, the findings from the data analysis are presented. It includes a comprehensive presentation of the results, highlighting key trends and patterns observed in the data. Statistical analysis is used to provide a rigorous examination of the findings, supporting the conclusions drawn from the research.

Chapter 5: Discussion or Analysis

This chapter provides an in-depth analysis of the results, interpreting the data in the context of the research objectives and existing literature. It discusses the strategic implications of the findings, considering how they inform the understanding of outbound Chinese M&A activities in Switzerland. The chapter also explores the broader implications for Chinese firms, Swiss companies, Switzerland's portfolio weight and its variance over the years and a comparative analysis

Chapter 6: Conclusion

The final chapter summarizes the key findings of the thesis, highlighting the main conclusions drawn from the research. It discusses the contributions of the study to the field of international business, particularly in understanding Chinese outbound M&A. The chapter also contains personal recommendations based off the findings and identifies avenues for further research, suggesting potential areas for future investigation to build on the insights provided by this thesis.

This structured approach ensures a comprehensive and systematic exploration of the topic, providing valuable insights and contributing to the broader academic and practical understanding of outbound Chinese M&A activities in Switzerland.

1.3 Research Question

What are the motivations, key challenges, and overall trends of outbound Chinese M&A activities in Switzerland?

2. Literature review

The literature review aims to provide a comprehensive overview of existing research on outbound Chinese mergers and acquisitions (M&A), focusing on activities in Switzerland. This section will explore the contextual background of Chinese outbound M&A, key theoretical frameworks, and the empirical findings from previous studies. It will also identify gaps in the literature that this thesis aims to address.

2.1 Empirical Findings

Chinese firms have increasingly engaged in outbound M&A as a strategic tool to achieve various objectives such as acquiring advanced technology, accessing new markets, and enhancing global competitiveness. The rise of Chinese outbound M&A can be traced back to the country's "Go Global" policy initiated in the early 2000s, which encouraged Chinese enterprises to invest abroad. *(Council on Foreign Relations)*

The volume and value of Chinese outbound M&A have grown significantly over the past two decades. Key sectors targeted by Chinese investors include technology, manufacturing, health care, financial services, consumer products, real estate and mining. (Refinitiv, Mergermarket, 2024)

2.1.1 China Going Global

To give some historical context, prior to 1978, China followed a self-reliance strategy, largely isolated from global markets.

The economic reforms initiated in the late 1978 marked China's shift from autarky to active participation in the global economy. (IMF)

In the early 2000s, China formally encouraged its « Go Global » policy which aimed to promote Chinese enterprises international expansion.

The policy was motivated by the need to secure natural resources, acquire advanced technologies, and enter new markets.

The Chinese government provided various forms of support, including financial assistance and policy guidance, to firms investing abroad.

This support was articulated through documents issued by bodies like the State Development and Reform Commission and China Import and Export Bank in 2004.

Chinese outbound M&A activities were driven by strategic objectives such as resource acquisition, market expansion, and technological advancement.

Investments in sectors like energy, raw materials, and high-tech industries were prioritized. *(Zhang)*

Switzerland's economic stability, high-quality industries, and strategic location in Europe make it an attractive destination for Chinese investors. The country's strong legal framework, business-friendly environment, and reputation for innovation further enhance its appeal. A University Professor from ZHAW underlines how Switzerland stands out as opposed to other European countries when it comes to regulation. We are seeing increased regulation from European countries creating barriers to Chinese investment. Switzerland on the other hand, doesn’t have as strict of regulations and is much more open to Chinese investment.
Several case studies provide valuable insights into the dynamics of Chinese M&A in Switzerland. For example, the acquisition of Swiss agrochemical firm Syngenta by China National Chemical Corporation (ChemChina) in 2016 highlighted the strategic importance of securing advanced agricultural technologies.

Gaps in the Literature

While existing research provides valuable insights into Chinese outbound M&A, several gaps remain:

1. **Sector-Specific Analysis:** Limited studies focus on sector-specific dynamics of Chinese M&A in Switzerland.
2. **Longitudinal Studies:** There is a need for longitudinal studies to assess the long-term impacts of Chinese M&A on Swiss firms.
3. **Comparative Studies:** Comparative analyses between Chinese M&A activities in Switzerland and other European countries are lacking.

2.2 Case Study: The Acquisition of Syngenta by ChemChina

The acquisition of Swiss agrochemical company Syngenta, one of the world’s largest agricultural firms, by China National Chemical Corporation (ChemChina), one of China’s largest chemical companies, in 2017 stands as one the most significant outbound Chinese M&A deals in Switzerland and globally. This landmark transaction, valued at $43 billion, not only underscores the strategic importance of such acquisitions but also highlights the complexities and challenges involved in outbound mergers and acquisitions. This case study will delve into the motivations, process, strategic fit, challenges, and outcomes of this acquisition.

Motivations for the Acquisition

Global Presence: ChemChina aimed to expand its global footprint and gain access to Syngenta's extensive distribution network and market presence in over 90 countries. *(Syngenta)*
Technological Advancement: Acquiring Syngenta provided ChemChina with advanced agricultural technologies and a strong R&D pipeline, enhancing its capabilities in the agrochemical sector. *(Syngenta)*

Product Portfolio: The acquisition diversified ChemChina's product portfolio, integrating Syngenta's seeds and crop protection products with ChemChina's existing chemical offerings. *(Syngenta)*
Geographical Diversification: This move allowed ChemChina to mitigate risks associated with dependence on the domestic market and tap into Syngenta's established markets in Europe. *(Syngenta)*
Food Security: The Chinese government has prioritized food security, and acquiring Syngenta's expertise in agricultural productivity aligned with this national goal. *(Syngenta)*
Belt and Road Initiative: The acquisition fit within China's broader Belt and Road Initiative, aimed at expanding the country's influence through strategic international investments. *(Council on Foreign Relations)*

Acquisition Process

Initial Offer: ChemChina made an initial offer of $43 billion in February 2016. *(Syngenta)*
Approval Process: The deal required approval from multiple regulatory bodies, including those in the United States, the European Union, and China. *(European Commission)*
Completion: The acquisition was completed in May 2017 after receiving the necessary approvals and addressing regulatory concerns. *(European Commission)*
Antitrust Scrutiny: Given Syngenta's significant market share in the agrochemical sector, the deal underwent extensive antitrust reviews to ensure it did not create unfair competition. *(European Commission)*
National Security: The Committee on Foreign Investment in the United States (CFIUS) reviewed the transaction for potential national security risks, given Syngenta's substantial operations in the US. *(Syngenta)*

Synergies

R&D Synergies: The integration of Syngenta's advanced R&D capabilities with ChemChina's resources aimed to drive innovation and product development in agrochemicals and biotechnology. *(Syngenta)*
Operational Efficiency: Synergies in production and distribution were expected to enhance operational efficiencies and reduce costs. *(Syngenta)*

Challenges Faced

Regulation: Navigating the complex regulatory landscapes delayed the transaction and added to the cost. *(European Commission)*
Antitrust Concerns: Ensuring compliance with antitrust regulations required significant adjustments and commitments, including divesting certain assets. *(European Commission)*
Cultural Differences: Significant cultural differences between Swiss and Chinese business practices posed challenges in terms of management styles, communication, and corporate governance according to Chinese ambassador to Switzerland. *(Caixin)*
Operational Integration: Aligning the operational practices and systems of two large and complex organizations posed significant logistical challenges.
Debt Financing: ChemChina financed the acquisition through much debt as it only used USD 5 billion of its own capital for the acquisitions. The rest came from loans from banks and other institutions. *(Caixin Global)*
Exchange Rate Fluctuations: Fluctuations in currency exchange rates impacted the overall cost of the transaction and subsequent financial planning. *(XE)*

Outcomes

Global Leader: The acquisition positioned ChemChina as a global leader in the agrochemical sector, significantly enhancing its market presence and competitive edge.
Innovation Boost: Access to Syngenta's R&D capabilities and innovative technologies strengthened ChemChina's product offerings and innovation pipeline. *(Syngenta)*
Investment in R&D: The acquisition led to increased investment in R&D, benefiting agricultural innovation and productivity. *(Syngenta)*
Job Retention: By maintaining Syngenta's operations in Switzerland and other key markets, the acquisition preserved jobs and economic activity in those regions. *(Syngenta)*

Enhanced Capabilities: The combined entity benefited from enhanced capabilities in product development, production, and distribution. *(Syngenta)*

Long-Term Growth: The acquisition supported ChemChina's long-term growth strategy, aligning with China's national goals of food security and international expansion. *(Syngenta)*

Financials: When observing their financial statements pre and post-acquisition, they have managed to increase sales by around 50% (Sales in 2016 = $12.8 billion, Sales in 2023 = $19.2 billion).

Furthermore, EBITDA ratios have remained steady between 18% and 20%.

Net income has decreased in recent years due to a higher tax rate of 24% in 2023 as opposed to 15% in 2022. This is seen in the difference in income before tax and net income after tax getting wider in recent years. *(Syngenta)*

These figures are superior than one of its peers in the industry, Corteva Agriscience, which had a smaller increase in sales ($14.3 billion to 17.2 billion in 2023). As well, a lower EBITDA ratio of around 15%. *(Corteva Agriscience)*

Conclusion of the Case Study

The acquisition of Syngenta by ChemChina is a landmark case in the realm of outbound Chinese M&A, illustrating both the potential benefits and the complex challenges of such large-scale international transactions. The deal underscored the strategic motivations driving Chinese firms to acquire advanced technologies and expand their global footprint. Despite the significant hurdles related to regulatory approvals and cultural integration, the acquisition has positioned ChemChina as a formidable player in the global agrochemical industry, providing valuable insights for future M&A activities.

This case study highlights the importance of strategic alignment, thorough due diligence, effective regulatory navigation, and cultural integration in ensuring the success of cross-border mergers and acquisitions. The lessons learned from this acquisition can inform future strategies and best practices for Chinese firms seeking to invest in Switzerland and other international markets.

3. Methods

The research methodology section outlines the approach and techniques that will be employed to address the research questions and achieve the objectives of this thesis. This study will utilize a mixed-methods approach, combining both qualitative and quantitative methods to provide a comprehensive analysis of outbound Chinese M&A activities in Switzerland.

Research Design

This study will be conducted in two main phases:

1. **Quantitative Analysis:** Statistical analysis of data related to Chinese M&A transactions in Switzerland. As complete information on the subject is difficult to obtain, I will create my own database with the use of tables and graphs.
2. **Qualitative Analysis:** Case studies and research through published reports as well as self-constructed table and graph data analysis.

Quantitative Analysis

Data Collection

The quantitative phase will involve collecting data on Chinese M&A transactions in Switzerland from reputable financial databases and industry reports. Key sources include:

- Ernst & Young
- Deloitte
- MERICS
- Rhodium Group
- FDI Intelligence
- PWCCN
- International Financial Law Review (IFLR)
- Swiss and Chinese news articles

The data will cover a range of variables such as:

- Number of transactions
- Transaction values
- Trends

Qualitative Analysis

Case Study

A case study approach is used to provide in-depth insights into the dynamics of specific Chinese M&A transactions in Switzerland. The case was selected based on criteria such as industry representation, transaction size, and the strategic importance of the acquisition. We have used the Syngenta case.

Document Analysis

Reviewing annual reports, press releases, and other relevant documents.

Data Analysis

The qualitative data will be analyzed using thematic analysis to identify recurring themes and patterns. The process will involve identifying common themes and sub-themes across different cases and interpreting the findings in the context of the theoretical frameworks and research questions.

Cross-checking

To enhance the validity and reliability of the findings, this study will employ triangulation by integrating data from multiple sources and methods. Triangulation will help to cross-verify the findings and provide a more robust understanding of the research problem.

Interviews

In the beginning of the research paper, interviews were planned to take place as part of the qualitative research. Unfortunately, due to lack of expert availability in this specific field and time constraints, only two interviews managed to be conducted. Key insights are provided in the appendix.

Limitations

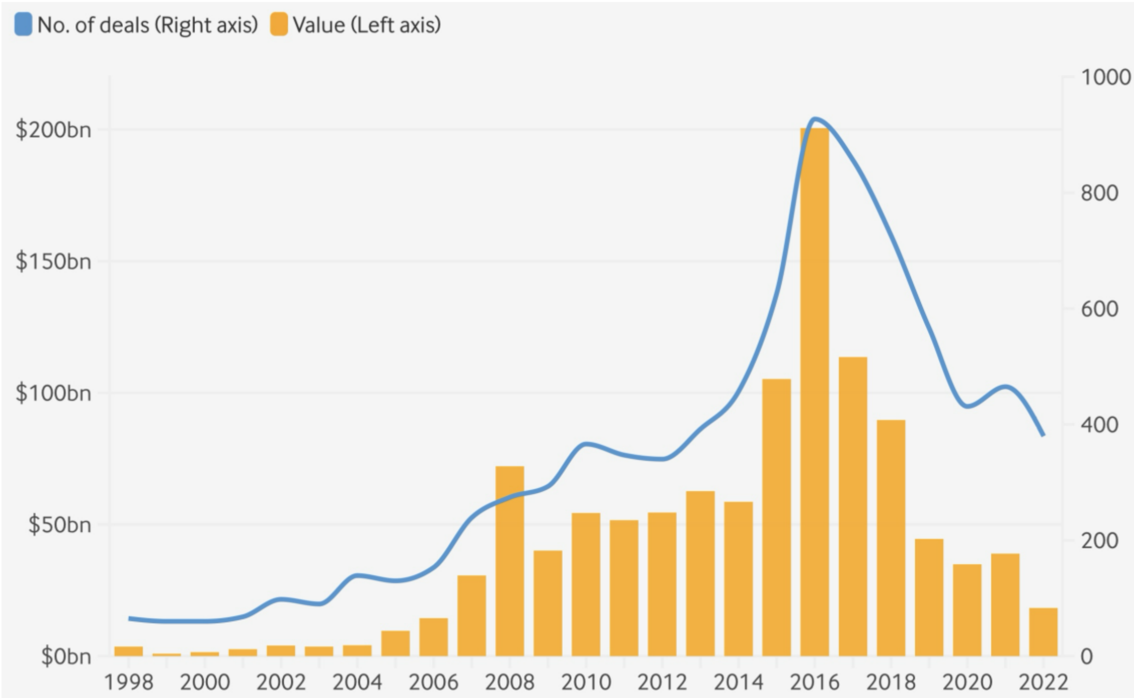
While the mixed-methods approach provides a comprehensive analysis, there are some limitations to consider:

- Data Availability: Access to detailed and up-to-date data on Outbound Chinese M&A transactions in Switzerland is limited and very undisclosed.
- Generalizability: The findings from the case study may not be generalizable to all Chinese M&A activities in Switzerland or other countries.

4. Results

This section presents the findings from both the quantitative and qualitative analyses conducted in this study. The results will be lightly commented and organized around the key research questions, focusing on the motivations, trends, motivations and challenges of outbound Chinese M&A as a whole, in Switzerland and in the US for comparison.
A deeper analysis of these results will be provided in the following chapter titled « Discussion ».

4.1 Outbound Chinese M&A



Source: Refinitiv, an LSEG business

The provided graph depicts the trends in outbound mergers and acquisitions (M&A) by China-based acquirers from 1998 to 2022. It shows the number of deals (right axis) and the total value of deals in billions of dollars (left axis).

From 1998 to 2008, the number of outbound M&A deals started at a relatively low level but gradually increased over this period.
The value of deals also showed a steady rise, reflecting growing confidence and capacity of Chinese firms to engage in international acquisitions.

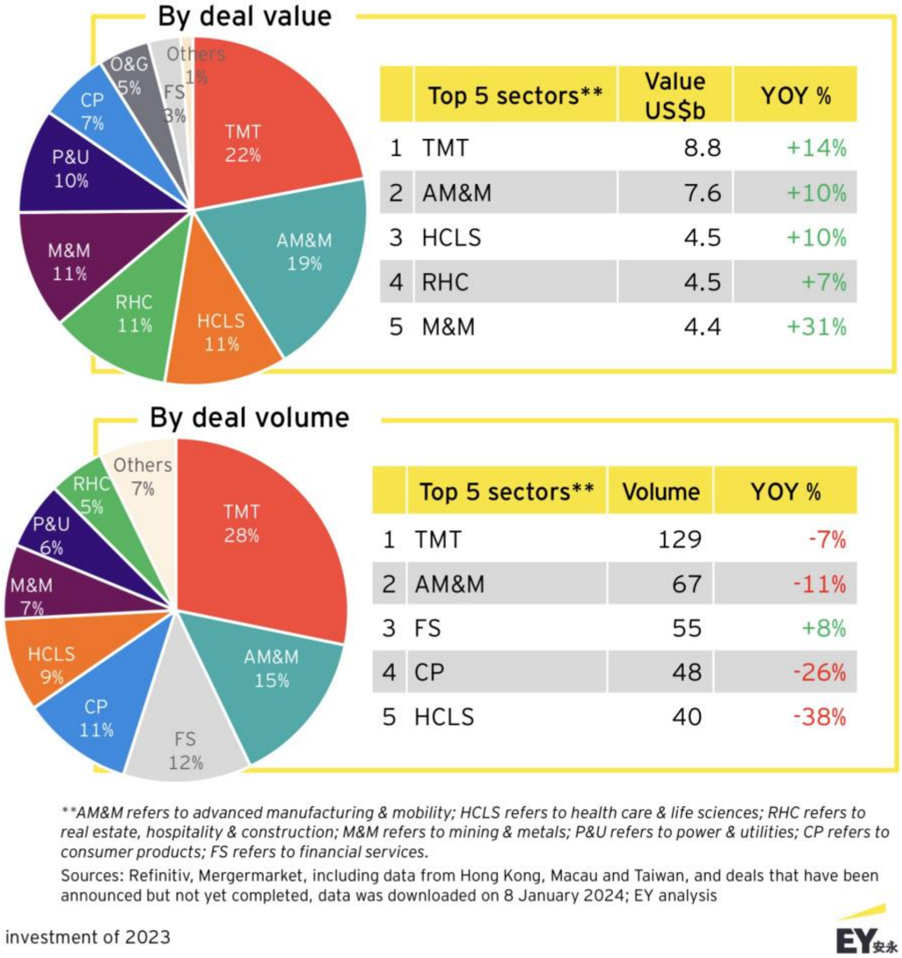
From 2008 to 2016, both the number and value of deals saw significant growth. This period aligns with China's growing economic power and strategic push for international expansion.

The peak occurred in 2016, where the value of deals reached approximately $200 billion, and the number of deals also hit its highest point. This was a period of aggressive outbound investment by Chinese firms, driven by a combination of economic strategy and favorable conditions in global markets.

Following the peak in 2016, there was a notable decline in both the number and value of outbound M&A deals. This decline is attributed to the reinstatement of strict capital controls by the Chinese government, aimed at curbing excessive capital outflows and financial risks.

Furthermore, increasing regulatory scrutiny in target markets, particularly in the USA and Europe, and growing geopolitical tensions have also contributed to the decline in outbound M&A activities. The COVID-19 pandemic further exacerbated the decline in outbound M&A activities, with economic uncertainties and travel restrictions making it difficult for Chinese firms to pursue international acquisitions.

Regarding sectors, China has persistently targeted TMT, Advanced manufacturing and mobility, financial services and health care & life sciences as part of their areas of highest interest.



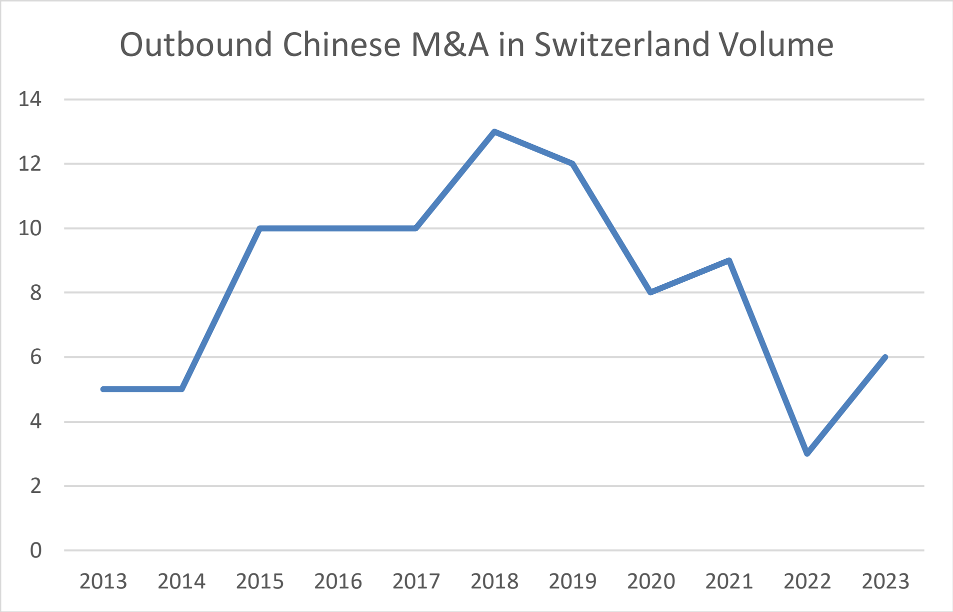
	Top 5 sectors**	Value US$b	YOY %
1	TMT	8.8	+14%
2	AM&M	7.6	+10%
3	HCLS	4.5	+10%
4	RHC	4.5	+7%
5	M&M	4.4	+31%

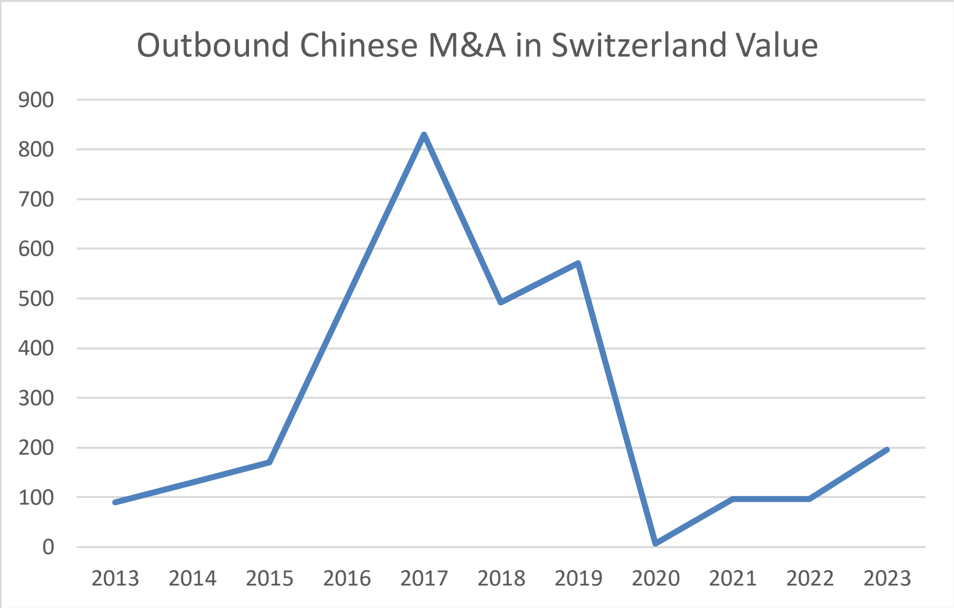
	Top 5 sectors**	Volume	YOY %
1	TMT	129	-7%
2	AM&M	67	-11%
3	FS	55	+8%
4	CP	48	-26%
5	HCLS	40	-38%

***AM&M refers to advanced manufacturing & mobility; HCLS refers to health care & life sciences; RHC refers to real estate, hospitality & construction; M&M refers to mining & metals; P&U refers to power & utilities; CP refers to consumer products; FS refers to financial services.*

Sources: Refinitiv, Mergermarket, including data from Hong Kong, Macau and Taiwan, and deals that have been announced but not yet completed, data was downloaded on 8 January 2024; EY analysis

4.2 Outbound Chinese M&A in Switzerland





	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Volume	5	5	10	10	10	13	12	8	9	3	6
Value ($M)	90	130	170	500	830	492	571	7	96	96	196

Above are graphs of Outbound Chinese M&A in Switzerland by both volume (number of deals) and value (in millions of $) coming from numerous sources such as Ernst & Young and the Institute for Mergers, Acquisitions and Alliances.

It is important to note that the data for 2016 has been adjusted by taking an average of the previous and following years. This has been done because 2016 was such an exceptional year for Outbound Chinese M&A in Switzerland that the graph was completely visually distorted. By adjusting the outlier, we have a more comprehensive graph regarding the other years.

From 2013 to 2015, the volume of deals increased from 5 to 10, indicating growing interest in Swiss assets.

In 2016, Switzerland had a standout year with both the highest volume (26 deals) and the highest value ($49.01 billion). This surge can be attributed to large-scale strategic acquisitions, particularly ChemChina's acquisition of Syngenta worth alone 43 billion dollars. As mentioned previously, these values have been adjusted.

Between 2017 and 2019, the number of deals decreased to around 10-13. The value of deals also saw a decline but remained substantial compared to pre-2016 levels, indicating continued interest albeit at a more moderate level.

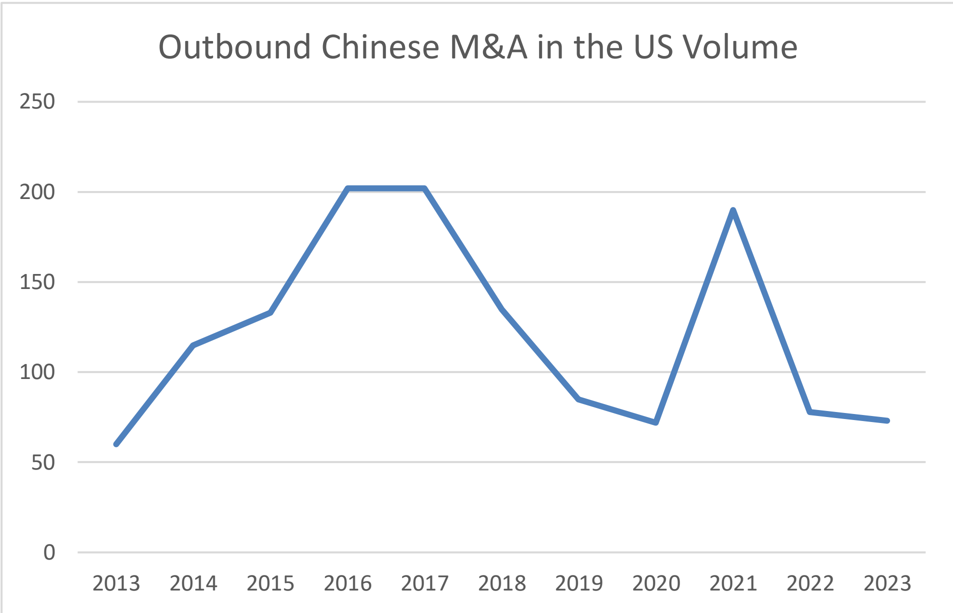
In 2020, the volume of deals dropped to 8, and the value plummeted to $7 million. The global economic impact of the COVID-19 pandemic severely restricted investment activities, with investors adopting a wait-and-see approach amid uncertainties.

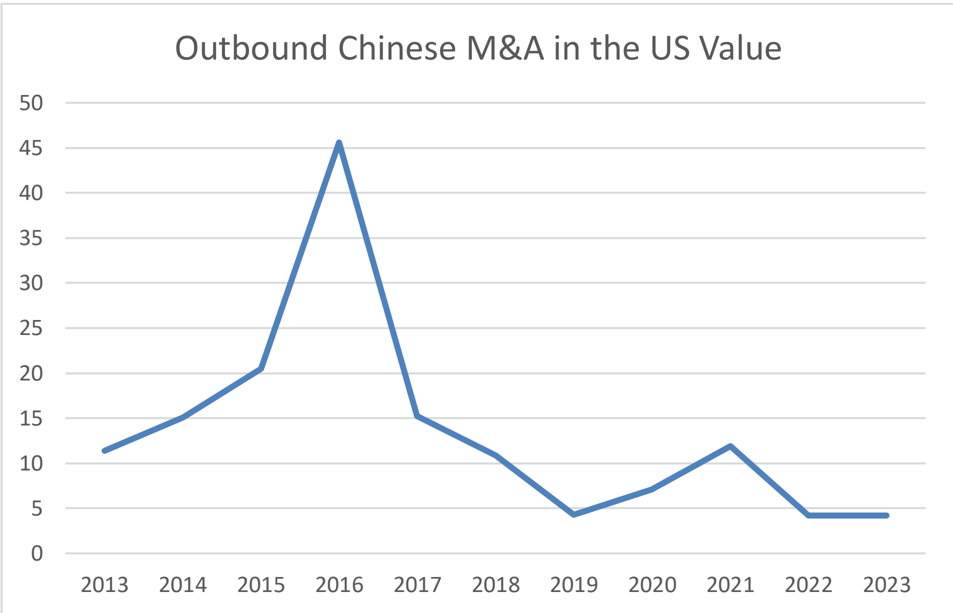
In 2021, the number of deals showed a slight recovery with 9 deals, but dropped again in 2022 to just 3 deals. However, there was a more substantial recovery in 2023 with 6 deals.

The value of deals also recovered from $96 million in 2021 and 2022 to $196 million in 2023, indicating renewed confidence and a return to more significant investment activities.

4.3 Outbound Chinese M&A in the US

For comparison, I have chosen to show Outbound Chinese M&A in the US by volume (number of deals) and by value (in billions of $) to highlight similarities as well as differences the US market has with Switzerland.





	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Volume	60	115	133	202	202	135	85	72	190	78	73
Value ($B)	11.4	15.1	20.5	45.6	15.2	10.9	4.3	7.1	11.9	4.2	4.2

This is a personal made table with the figures coming from numerous sources such as Deloitte and the Institute for Mergers, Acquisitions and Alliances.
From 2013 to 2015, we see a rise in Outbound Chinese M&A activity in the US indicating interest in US assets. The volume (number of deals) going from 60 deals to 133 deals and value (in billions of dollars) going from USD 11.4 bn to USD 20.5 bn.
In 2016, we have a peak in volume with 202 deals and record value of USD 45.6 billion as this was a strong year for Outbound chinese M&A as a whole. This indicates several high value important deals having taken place that year.
In 2017, volume remained high at 202 deals showing strong cooperation between the US China with lower value deals with a value of USD 15.2 billion, a value similar to previous years.
Post 2016, we see a continuous decline in both volume and value as it was the case for Outbound Chinese M&A as a whole. Besides a rebound year in 2021 following the Covid-19 pandemic, Outbound Chinese M&A in the US has fallen to levels lower than pre-2016 levels. The reasons as to why this has occurred will be seen in the following chapter Discussion.

5. Discussion

In this chapter, we will analyze the trends, effects, and explanations to Outbound Chinese M&A in Switzerland.
To better understand these trends, we will refer to Outbound Chinese M&A as a whole, as well as utilize Outbound M&A in the US for comparison's sake.
Finally, we will see Switzerland position in Europe and its portfolio weight in Outbound Chinese M&A as a whole compared to the US portfolio weight in Outbound Chinese M&A to see if Switzerland stands out as an investment destination in critical times.

5.1 Analysis of Outbound Chinese M&A trends

When observing the graph on Outbound Chinese M&A as a whole, we notice a clear up trend up until 2016 where it hit a peak, then a continuous down trend in both volume and value.
From 1998 to 2008, we see a period which can be characterized by steady growth, reflecting the initial stages of China's international economic engagement. The gradual increase in deal volumes and values indicates growing confidence among Chinese firms to invest abroad which can be attributed to China's « Go Global » strategy which was encouraged in the early 2000s.

From 2008 to 2016, the rapid increase in outbound M&A activities aligns with China's strategic economic policies, considering not only the « Go Global » strategy but also the Belt and Road Initiative which was launched in 2013 by President Xi Jinping *(Council of Foreign Relations)*. These policies encouraged firms to acquire international assets to gain advanced technologies, expand market reach, and secure resources.
The peak in 2016 can be seen as the culmination of these efforts, where Chinese firms engaged in several high-value acquisitions, significantly impacting global M&A landscapes.
Unfortunately, following this peak, China's has experienced a sharp decline which highlights the effectiveness of capital controls imposed by the Chinese government to prevent excessive capital flight and stabilize the domestic economy. *(Irwin-Hunt, FDI Intelligence, 2023)*
The decline also reflects the impact of increased scrutiny and protectionism in key markets such as the USA and Europe, where Chinese acquisitions faced greater regulatory hurdles.
To further reduce outbound M&A activities, China suffered massively due to the Covid-19 pandemic which caused global economic slowdown, logistical challenges, and heightened uncertainties *(FDI Intelligence).*
Other factors in the decline of Outbound Chinese M&A include the depreciation of the Yuan, the current geopolitical climate such as the Russia-Ukraine and Middle East conflict creating

uncertainty, as well as China's current weak financial position (real estate market, youth unemployment, low consumer confidence, etc,) *(Agatha Kratz et al., Rhodium Group & Merics, 2024)*

Despite some recovery attempts, the overall trend remains downward, indicating that the challenges faced by Chinese firms in executing international deals are persistent and multifaceted.

5.2 Analysis of Outbound Chinese M&A in Switzerland trends

When looking at the data, we instantly notice a remarkable peak in 2016 in both volume and value. Out of the USD 49.01 billion, USD 43 billion come from the acquisition of Swiss agrochemical company Syngenta by China's Chemchina. *(Syngenta)*

However, when removing this outlier, both volume and value remain relatively steady for Outbound Chinese M&A in Switzerland, even noticing an increase in its last years.

This insight is interesting because Outbound Chinese M&A as a whole has significantly declined which should indicate a significant decline in Outbound Chinese M&A in Switzerland, but it has not. Interestingly, volume and value have actually risen in 2023 which can be attributed to Switzerland's more welcoming and business-friendly demeanor towards China, which isn't a shared vision by its Western allies. If Switzerland retains its open regulations towards China, it could set the way for another up trend in Outbound Chinese M&A.

Furthermore, when comparing with the US, a large trading partner for China, we also notice a decline in Outbound Chinese M&A in the US due to its strict screening and trade war with China. *(Rhodium Group)*

In essence, this shows that Switzerland is a safe-haven destination for Outbound M&A for China in critical times as well as offering regulatory ease for chinese investment as opposed to its counterparts.

5.3 Analysis of Outbound Chinese M&A in the US trends

As seen in Outbound Chinese M&A as a whole, we observe an uptrend until the 2016 peak, then a continuous downtrend with very low levels in recent years. The small spike in 2021 indicates a rebound year after the Covid-19 pandemic.

The reason for this downtrend in Outbound Chinese M&A in the US can be attributed to the US's regulations for national security. *(Rhodium Group)*

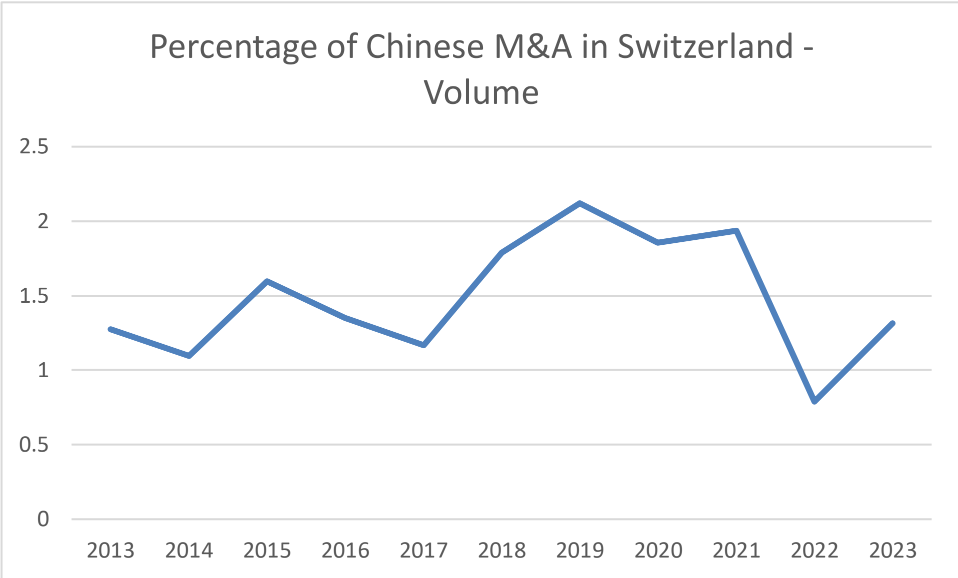
The US has increasingly scrutinized investment from China. The US's Foreign Investment Risk Review Modernization Act (FIRRMA), introduced to the US Congress on November 8th 2017 and enacted into law on August 13th 2018, as part of the National Defense Authorization Act (NDAA) for Fiscal Year 2019, which purpose is to expand the powers of the Committee on Foreign Investment in the United States (CFIUS) to review and block foreign investments on national security grounds, complicating Chinese M&A activities. *(Merics)*

Furthermore, broader geopolitical issues, such as the US-China trade war and concerns over China's strategic ambitions, have led to increased caution and regulatory barriers for Chinese Investment. *(Merics)*

5.4 Portfolio weight of Outbound Chinese M&A in Switzerland

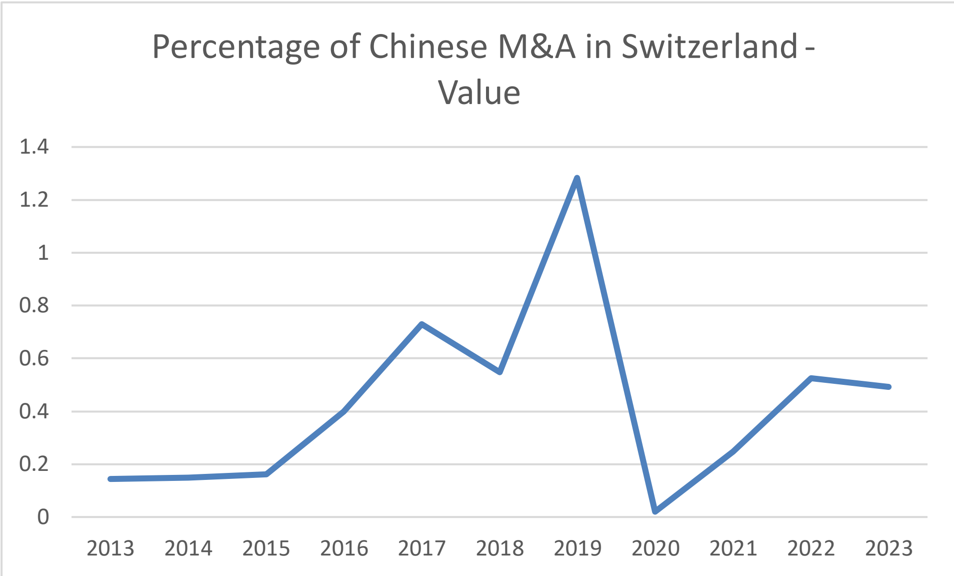
In this section, I have taken the amount of Outbound Chinese M&A in Switzerland divided by the amount of total Outbound Chinese M&A to see what Switzerland's portfolio weight in Outbound Chinese M&A is and how it compares to that of the US. Once again, we will flatten the Syngenta deal as it is an outlier.

Volume



As we can see from this graph, depicting the percentage of Switzerland's share in total Outbound Chinese M&A (by volume) in the past ten years remains steady between around 1-2%. This shows that in the past 10 years and through difficult geopolitical and economic circumstances, China has kept its same level of M&A volume in Switzerland. This clearly illustrates Switzerland image of a stable and safe-haven country. The past year even shows an increase in portfolio weight.

Value



This graph depicts the percentage of Switzerland's share in total Outbound Chinese M&A (by value) in the past ten years.

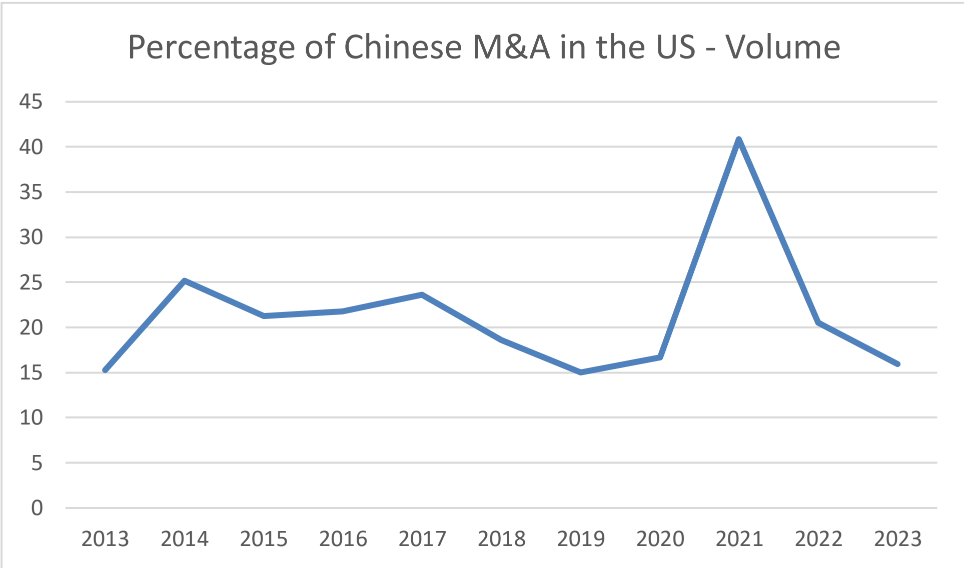
Once again, we notice, the percentage of Outbound Chinese M&A value taking place in Switzerland also remains steady, between 0.2 and 1.2%..

What is important to take note of is not Switzerland's proportion in Outbound Chinese M&A, as Switzerland remains a very small market on the global scale, but how it maintains its portfolio weight given the past and current macro-economic and geopolitical conditions. The past years also show an increase in portfolio weight.

5.5 Portfolio weight of Outbound Chinese M&A in the US

In this section, I have taken the amount of Outbound Chinese M&A in the US divided by the amount of total Outbound Chinese M&A to see what the US's portfolio weight in Outbound Chinese M&A is and how it compares to that of Switzerland.

Volume



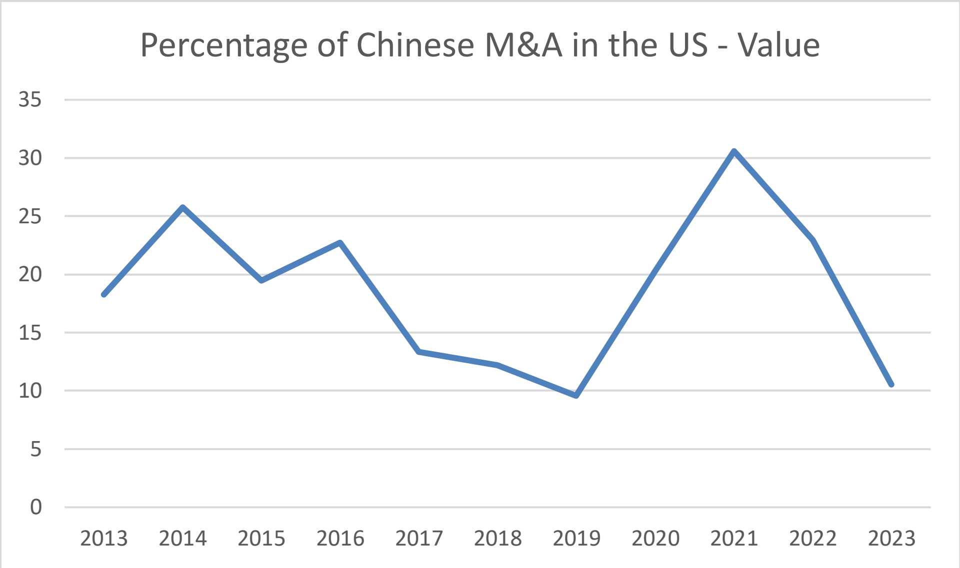
This graph depicts the percentage of the US's share in total Outbound Chinese M&A (by volume) in the past ten years.

Although we find a same level of 15% in 2013 as in 2023, the volatility seems to indicate it is very sensitive to geopolitical and macroeconomic factors, with the percentage varying between 15% and 25% in most cases, all the way up to 40% in the post Covid-19 rebound year. Following this rebound year, we see a sharp decrease due to the previously discussed regulatory environment.

Whereas Switzerland on the other hand, saw its share of Outbound Chinese M&A volume increase.

This indicates a shift in Chinese sentiment away from the US and towards Switzerland.

Value



This graph depicts the percentage of the US's share in total Outbound Chinese M&A (by value) in the past ten years.

Here volatility seems to be even greater as 2013 started at around 20% whereas today the US stands at only 10% of share in total Outbound Chinese M&A.

On top of that, this is following an important fall from 30% in the post Covid-19 rebound, indicating that Chinese M&A in the US is very sensitive to geopolitical, macro-economical and regulatory factors.

When comparing the Chinese M&A in Switzerland, the US saw its share fall from 30% down to 10% whereas Switzerland saw its share increase from 0.25% to 0.5%.

The fact that investment trends in Switzerland are counter to not only the US but also to those of global outbound Chinese M&A highlights its key importance on China's outbound M&A landscape.

5.6 Year-by-Year Analysis of Outbound Chinese M&A in Switzerland (2013-2023)

2013

Volume: 5 deals

Value: $90 million

Context: Early stages of the Belt and Road Initiative (BRI) and increasing outbound investment interest. Moderate activity with small-sized deals, reflecting cautious but growing interest in Swiss assets. This could also be attributed to cautious investment strategies as firms evaluated the European market and economic conditions post the Eurozone crisis that ended in 2010.

2014

Volume: 5 deals

Value: $130 million

Context: Increase in deal value due to higher value transactions. The free trade agreement between China and Switzerland was signed, likely facilitating larger investments. This year saw fewer but larger deals, indicating strategic acquisitions.

2015

Volume: 10 deals

Value: $170 million

Context: Increase in the number of deals but a drop in average deal size. This year had more transactions of smaller scale, possibly reflecting a diversification strategy possibly in niche markets or emerging sectors.

2016

Volume: 26 deals

Value: $49.01 billion

Context: Peak in both volume and value. However, when taking a closer look we see that one deal, the Syngenta acquisition by ChemChina, was worth 43 billion dollars. This deal alone represents almost 90% of the value in 2016.

2017

Volume: 10 deals

Value: $830 million

Context: Significant drop from the previous year in terms of value, due to the fact that the previous year included a massive deal. However, we still observe a considerable number of deals.

2018

Volume: 13 deals

Value: $492 million

Context: Increase in both the number of deals and average deal size compared to 2017. Continued interest in Swiss assets, possibly driven by strategic needs and favorable bilateral relations as opposed to the US and other EU.

2019

Volume: 12 deals

Value: $571 million

Switzerland's Position in Europe: 5th in Europe

Context: Slight decrease in volume but an increase in value and average deal size. Switzerland maintained a strong position in Europe, indicating ongoing strategic importance. The economic environment was stable, and M&A activities reflected strategic investments in high-value sectors.

2020

Volume: 8 deals

Value: $7 million

Context: Significant drop in both volume and value due to the global impact of the COVID-19 pandemic. Economic uncertainty led to smaller-scale deals, with companies being highly cautious about international investments.

2021

Volume: 9 deals

Value: $96 million

Switzerland's Position in Europe: 6th in Europe

Context: Slight recovery from the previous year with a moderate increase in both volume and value. The position in Europe indicates sustained interest but still relatively low-value deals as companies cautiously resumed M&A activities post-pandemic.

2022

Volume: 3 deals

Value: $96 million

Switzerland’s Position in Europe: 9th in Europe

Context: Drop in volume but deals had a higher average value compared to the previous year. This indicates fewer but more significant transactions, reflecting selective strategic investments amid ongoing global uncertainties.

2023

Volume: 6 deals

Value: $196 million

Switzerland’s Position in Europe: 6th for volume, 3rd for value

Context: Increase in both volume and value, with Switzerland’s high rank in terms of deal value in Europe highlighting its strategic importance and continued attractiveness for high-value investments. The larger average deal size reflects a strategic focus on significant acquisitions. The recovery from the pandemic continued, with Chinese firms looking for valuable investment opportunities.

Conclusion

From 2013 to 2023, Chinese outbound M&A activities in Switzerland showed little fluctuations influenced by economic conditions, geopolitical factors, and strategic priorities. The peak in 2016 stands out with one exceptionally high-value deal, while the years affected by the COVID-19 pandemic (2020 and 2021) reflect cautious investment behavior. Switzerland’s consistently strong position in Europe underscores its attractiveness as an investment destination for Chinese firms seeking strategic assets and market expansion opportunities. Overall, the fluctuations remain minor as Switzerland proves itself resilient and holding an important safe-haven place in Chinese investments.

5.7 Reasons for Outbound Chinese M&A in Switzerland. How Switzerland stands out.

Strategic Importance

Switzerland's strengths in high-tech industries and pharmaceuticals make it a strategic target for Chinese firms seeking advanced technologies and R&D capabilities.
The strong and stable financial services sector in Switzerland is attractive for Chinese investors looking to expand their financial reach and capabilities in Europe.
Switzerland's stable economy and strong currency provide a safe investment environment, reducing risks for Chinese investors.
Furthermore, Switzerland's low corporate tax rates also benefit Chinese investors.
In sum, Chinese investment in Switzerland is a careful and strategic move (EY).

Regulatory Environment

Contrary to the EU and especially the US, Switzerland is known for its stable and transparent regulatory environment. The clear legal framework and efficient processes make it easier for foreign investors to navigate M&A transactions. This is why Chinese M&A in Switzerland has upheld better compared to the EU and the US.
On top of this, the free trade agreement between Switzerland and China, effective since 2014, Switzerland being the first European country to do so, reduces barriers to trade and investment, facilitating smoother M&A activities.
Finally, Switzerland's geopolitical neutrality often shields it from the political tensions that may affect Chinese investments in other countries (Niederer Kraft & Frey Ltd).

Location

Switzerland's central location and language offer Chinese facilitated logistical and communication coverage of Europe.
Switzerland's ideal location, in the middle of the continent, allows China to enter the European market much easier. This was shown previously in the Syngenta case.
Furthermore, investing in Switzerland is an effective way to acquire recognized brands and thus provide legitimacy as China often struggles with its reputation.
All in all, Switzerland geographical setting on its own offers multiple advantages (EY).

5.8 Challenges in Outbound Chinese M&A in Switzerland

Post-Merger Integration

Achieving successful post-merger integration to realize synergies is often challenging. It involves aligning corporate cultures, integrating systems, and harmonizing operational processes.

A Deloitte study reveals that 60% of Chinese outbound M&A deals fail to achieve their proposed deal values due to ineffective Post-Merger Integration (PMI)[1]. Effective PMI is crucial for maintaining business momentum, achieving synergetic goals, and ensuring a smooth transition for post-deal operations. Unfortunately for the Chinese, differences in culture and management styles have led to to poor PMI and by extension, failed proposed deal values.

Financing difficulties

Securing financing for large-scale acquisitions can be challenging, especially if Chinese firms face capital outflow restrictions or tightening credit conditions domestically.

The Chinese government has implemented stringent capital controls to manage the outflow of funds and maintain economic stability. These controls limit the amount of capital that can leave the country, directly affecting the ability of Chinese firms to engage in large-scale overseas M&A transactions *(FDI Intelligence)*.

To align with government policies, Chinese firms may prioritize domestic investments or projects in Belt and Road Initiative (BRI) countries, reducing their focus on markets like Switzerland.

The controls can also make it harder for Chinese companies to secure financing from domestic banks for international deals, as banks may be reluctant to approve large outflows of capital *(Merics)*.

Exchange rate risk

Fluctuations in exchange rates between the Swiss franc and the Chinese yuan can impact the cost and financial viability of M&A transactions.

Through the years the depreciating CNY relative to the CHF has made financing acquisitions more expensive in Switzerland. The devaluation can lead to higher valuations in terms of CNY, making Swiss targets more expensive. This can deter Chinese firms from pursuing potential deals or push them to negotiate harder on price, potentially complicating deal closure *(XE)*.

[1] https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/strategy/deloitte-cn-consulting-china-outbound-m&a-en-170811.pdf

Conclusion

In this Bachelor Thesis, we have examined the landscape of outbound Chinese mergers and acquisitions (M&A) in Switzerland from 2013 to 2023. This analysis covered various dimensions, including the motivations behind these investments, the trends over the years, the challenges encountered by Chinese firms and Switzerland's strategic importance. Through a mixed-methods approach, combining quantitative data analysis and qualitative case studies, we gained a comprehensive understanding of the dynamics at play.

Summary of Findings

Trends and Strategic Importance

Our analysis revealed significant fluctuations in both the volume and value of Chinese M&A activities in Switzerland. The year 2016 stood out with the highest volume and value of deals, largely driven by ChemChina's acquisition of Syngenta. Despite fluctuations, Switzerland has consistently attracted investments. This underscores Switzerland's role as a prime destination for Chinese firms seeking to acquire advanced technologies and expand their market presence.

Challenges

Navigating complex regulatory environments and obtaining approvals from multiple jurisdictions can delay transactions and increase costs *(European Commission)*.

Currency fluctuations and high valuation expectations have impacted the financial viability of some deals.

Differences in business practices and management styles have sometimes hindered successful integration and synergy realization.

Comparative Advantage

The stable Swiss economy and strong currency provide a secure environment for investments.

Switzerland's business-friendly regulatory framework, including a free trade agreement with China, facilitates smoother M&A transactions.

Leading positions in high-tech and pharmaceuticals make Swiss companies desirable acquisition targets for Chinese firms seeking strategic assets.

Recommendations

To overcome the difficulties and enhance the success of outbound Chinese M&A activities in Switzerland, I will provide three strategic recommendations based on the previous challenges:

1. Post-Merger Integration (PMI)

- Structured PMI Plan: Develop a detailed PMI plan before the acquisition is finalized. This plan should outline specific goals, timelines, and responsibilities for integrating systems, aligning corporate cultures, and harmonizing operational processes.
- Cultural Training and Exchange Programs: Implement cultural training programs for both Chinese and Swiss employees to bridge cultural and management style differences. Encourage exchange programs and joint team-building activities to foster mutual understanding and cooperation.
- Hiring Local Expertise: Employ local managers and experts who understand the Swiss business environment and culture. Their insights can be invaluable in navigating cultural differences and ensuring smoother integration.
- Continuous Monitoring and Feedback: Establish a system for continuous monitoring and feedback during the integration process. This will help identify and address issues promptly, ensuring the integration stays on track and achieves the desired synergies.

2. Financing Difficulties

- Alternative Financing Sources: Explore alternative financing sources, such as international banks, private equity firms, and strategic investors, to reduce reliance on domestic financing. Partnering with global financial institutions can provide the necessary capital without being constrained by domestic capital controls.
- Offshore Financing: Utilize offshore financing vehicles and special purpose entities (SPEs) to facilitate the flow of capital for international acquisitions. This approach can help bypass some of the restrictions imposed by Chinese capital controls.
- Focus on Smaller, Strategic Acquisitions: Instead of large-scale acquisitions, consider smaller, strategic investments that are easier to finance and integrate. These can still provide significant value and growth opportunities while mitigating the risks associated with large-scale deals.

3. Exchange Rate Risk

- Hedging Strategies: Implement currency hedging strategies to mitigate the risk of exchange rate fluctuations. Using financial instruments such as forwards, futures, options, and swaps can help lock in favorable exchange rates and protect against adverse movements.
- Flexible Deal Structures: Structure deals to include flexible payment terms that can adjust based on currency movements. For example, including clauses for staged payments or earn-outs that are contingent on future performance can reduce immediate currency exposure.
- Currency Diversification: Diversify currency exposure by conducting transactions in multiple currencies if possible. This can spread the risk and reduce the impact of any single currency's fluctuation.

By implementing these recommendations, Chinese firms can enhance the success of their outbound M&A activities in Switzerland. A focus on effective post-merger integration, alternative financing solutions and mitigated exchange rate risk will enable Chinese companies to overcome challenges and achieve their investment objectives.

Contributions and Future Research

This thesis contributes to the broader understanding of international business dynamics by providing detailed insights into the factors driving and hindering Chinese M&A activities in Switzerland. The findings highlight the strategic importance of Switzerland as a destination for high-value Chinese investments and the complexities involved in cross-border M&A.

Future research should focus on sector-specific dynamics and comparative analyses between Chinese M&A activities in Switzerland and other countries. Longitudinal studies assessing the long-term impacts of these investments on both Chinese and Swiss firms would also provide valuable insights.

By addressing these points, the study would offer a comprehensive analysis of outbound Chinese M&A activities in Switzerland, contributing valuable knowledge to the field of international business and informing future strategies for successful Chinese cross-border investments in Switzerland.

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Appendix – Key insights from interviews

This Appendix includes the key insights of the conducted interviews.

There are five main takeaways that have served as the qualitative analysis in understanding what happens in the field of Chinese Outbound M&A in Switzerland as well as the reasoning.

- Geopolitics: Chinese Outbound M&A is very dependent on geopolitics. When China invests abroad it is not only an investment in the hope of a successful merger but it is also contains its geopolitical advantages. Inversely, it may not be able to do its M&A business activities for geopolitical reasons. This has been seen with the decrease in M&A in the US.
- Regulation: Similar principal to geopolitics, regulation can heavily impact Chinese M&A. Some European countries and especially the US are creating heavy regulatory hurdles for Chinese investment. Although this creates a barrier to Chinese investment, they still manage to get their M&A activities through by going through different countries. For example, in Europe, Hungary is receiving more and more investment in order for the Chinese to get access to the European market. Regarding the US, China will have M&A activities in Thailand mainly and partly in Malaysia in order to reach the US.
- Switzerland's business friendliness: Unlike the previous western countries, Switzerland is very business friendly towards China and doesn't apply the same strict regulation. This allows for easy flow of Chinese M&A to Switzerland.
- European expectations: On a more micro level, Chinese top management lack the understanding in European expectations. Due to different management styles and business approaches, the dichotomy has negative impacts in the overall success of the post merger integration, as seen as one of the three difficulties the Chinese face.
- Distribution channels: Finally, an important reason as to why China decides to invest abroad is to have better access to various markets around the globe.

Appendix 2 – Sectoral research

Regarding the sectoral analysis, EY provides the highest interest sectors for China in Outbound M&A since 2020.

As we can see, TMT persistently remains at the number one spot with Advanced manufacturing and mobility, financial services and health care & life sciences following behind as part of their areas of highest interest.

2020		2021		2022		2023	
Value	Volume	Value	Volume	Value	Volume	Value	Volume
TMT	TMT	TMT	TMT	TMT	TMT	TMT	TMT
Consumer products	Consumer products	Real Estate	Health care & life sciences	Health care & life sciences	Advanced manufacturing and mo	Advanced manufacturing and mobility	Advanced manufacturing and mobility
Advanced manufacturing and mobility	Advanced manufacturing and mobility	Hospitality & construction	Financial services	Real Estate Hospitality Constr	Health care & life sciences	Health care & life sciences	Financial services

Appendix 3 – CNY to CHF Exchange rate 10 year chart