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CHINA HOT TOPICS

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A new era of China's overseas investment

After a period of rapid expansion, China's overseas direct investment has witnessed a significant decline in recent years. This was not only due to China's economic slowdown and capital account scrutinization, but also the concerns brought forward by the West for Chinese inward FDI on the name of national security.

Specially, China's overseas direct investment has plummeted by over two-thirds compared to the peak levels reached in 2016-2017. The Covid outbreak accelerated the existing downward trend. Even as China exited its zero-Covid policy, the increase in China's overseas direct investment has been marginal, remaining lower than that of 2011 (**Chart 1**).

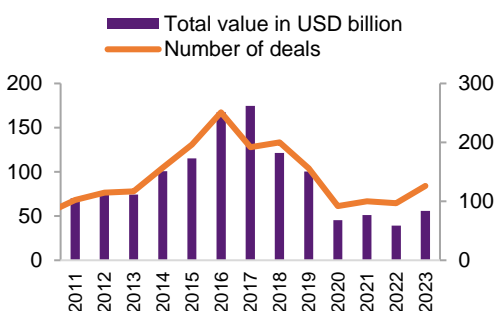
However, facing the toughed environment, Chinese companies are still seeking overseas opportunities as domestic returns remain subdued because of the stagnant demand. Confronted with increasing challenges to acquire companies, greenfield investment has been prioritized. Greenfield investment is also part of China's strategy of diversification of production to avoid barriers against Chinese exports. Unlike M&A investment, greenfield usually does not aim at directly acquiring Western technology and can foster local production and employment, thus facing less scrutiny from Western authorities. **Chart 2** shows that the share of greenfield investment in China's overall outbound direct investment has surged from 11% in 2016 to 53% in 2023.

Against such backdrop, Chinese corporates are also adopting a strategy similar to that of western corporates, namely, "friendshoring", when participating in M&A activities. **Chart 3** shows that China has relatively strengthened the M&A momentum towards Belt and Road Initiative (BRI) countries where there is a more favorable attitude for Chinese investment.

On the other hand, China's outbound greenfield investment does not exhibit a clear distinction between BRI and non-BRI countries (**Chart 4**), signaling the importance of the Western market for Chinese producers, to ensure its access to the market. For example, Chinese electric vehicles (EVs) are currently eager to build factories in Europe.

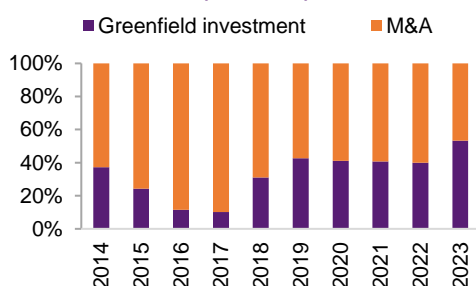
Overall, despite a decrease in China's outbound investment in terms of deal volume and value, Chinese companies continue to search for international opportunities. They are turning to greenfield investment, which encounters less resistance from authorities, as a means to enter the Western market. At the same time, the less developed countries along the BRI route have become an alternative for China's remaining M&A activities. In sum, the geopolitical environment has pushed Chinese companies to shift its way of globalization to adapt to the new era.

Chart 1
China's total overseas direct investment



Source: Natixis, American enterprise Institute (AEI)

Chart 2
M&A and Greenfield investment (% of total)

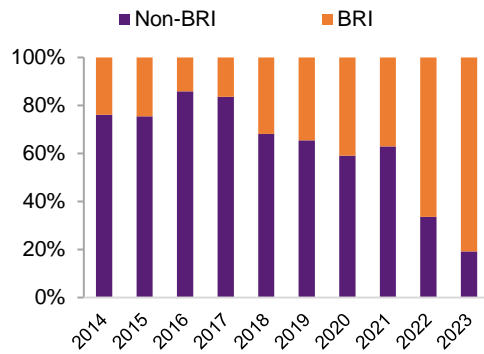


Source: Natixis, American enterprise Institute (AEI)

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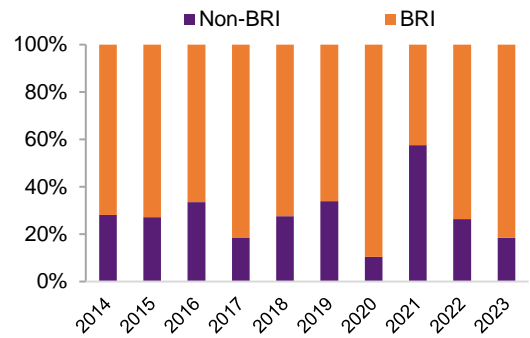
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Chart 3
M&A: BRI and non-BRI countries



Source: Natixis, American enterprise Institute (AEI)

Chart 4
Greenfield investment: BRI and non-BRI countries



Source: Natixis, American enterprise Institute (AEI)

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