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## **The golden age of China's outward FDI is likely over**

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### Abstract

Chinese investors scouring the world to buy natural resources, technology and internationally recognized brands left a strong footprint on the global stage over the last three decades. The most spectacular two years were 2016 and 2017, when Chinese outward foreign acquisitions (FDI) reached their peak. This paper shows the past patterns of regional and sectoral FDI transactions and argues that a new era has begun, where outward FDI from China is in retreat.

### Zusammenfassung

Chinesische Investoren, die die Welt durchqueren, um natürliche Ressourcen, Technologie und international anerkannte Marken zu kaufen, haben in den letzten drei Jahrzehnten einen starken Fußabdruck auf der globalen Bühne hinterlassen. Die beiden spektakulärsten Jahre waren 2016 und 2017, als die chinesischen ausländischen Direktinvestitionen ihren Höhepunkt erreichten. Diese Studie zeigt die bisherigen Muster regionaler und sektoraler ausländischer Direktinvestitionen auf und argumentiert, dass eine neue Ära begonnen hat, in der ausländische Direktinvestitionen aus China auf dem Rückzug sind.



## China's global investment footprint

In June 2017, the state-owned chemical company, China National Chemical Corporation (known as ChemChina), successfully concluded the acquisition of 98% of the Swiss seeds and pesticides group Syngenta for around 43 billion USD. The deal was viewed by experts as epochal, not just because of its spectacular size nor for the fact of heightened regulatory scrutiny that it took to give the deal the green light. The transaction marked the beginning of the end of an era that in retrospect appeared to be nearly over before it truly began.

Chinese investors scouring the world to buy natural resources, technology and internationally recognized brands left a strong footprint on the global stage over the last three decades. The overall value of Chinese overseas acquisitions between 2005 and the first half of 2023 amounted to over 2.3 trillion USD according to China Global Investment Tracker. The most spectacular two years were 2016 and 2017, when Chinese outward foreign acquisitions (FDI) reached their peak. This paper shows that a new era has begun, where outward FDI from China is in retreat.

### Regional diversification ...

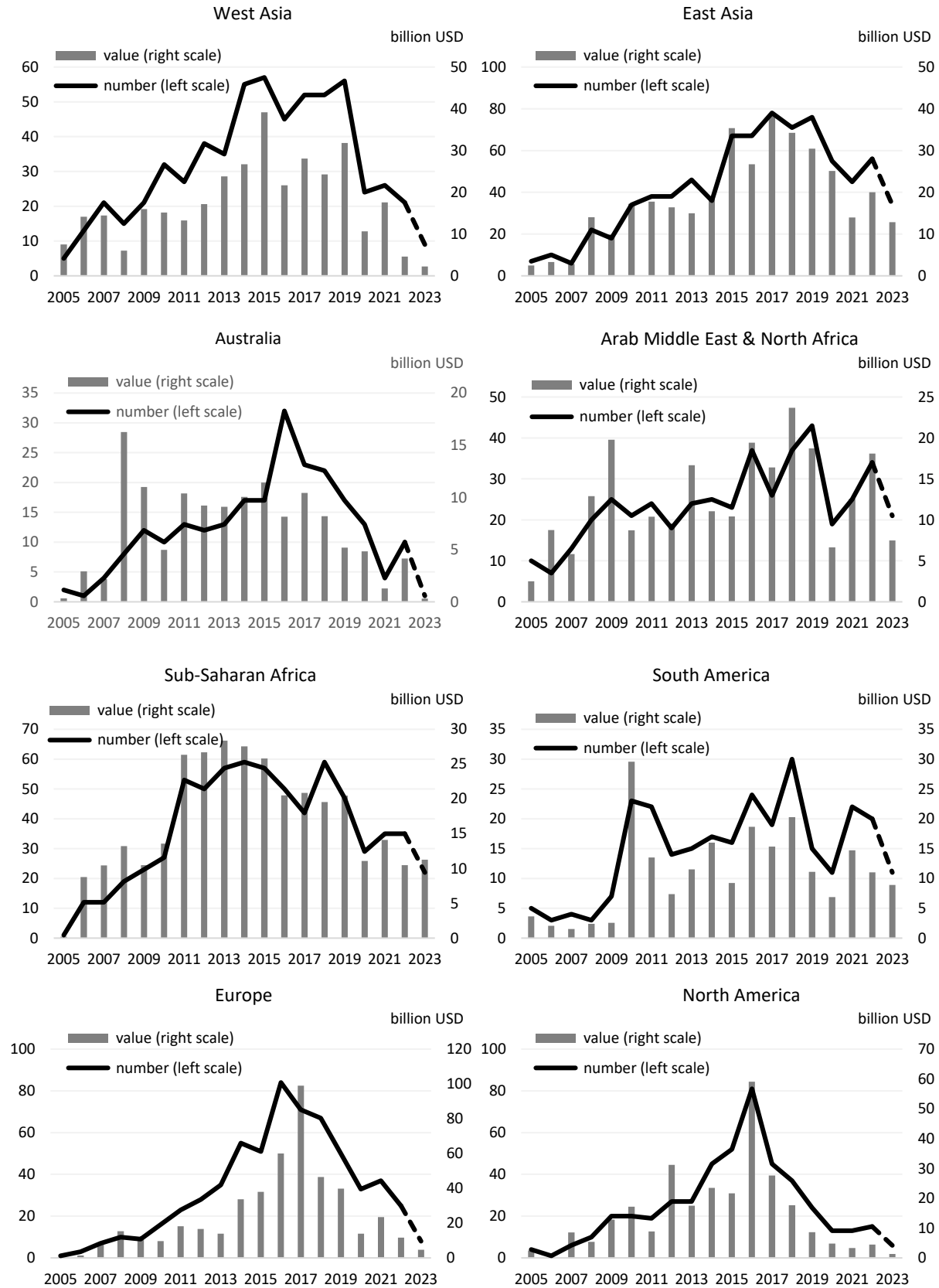
There is no single world region being dominant on the preference list of China's outward FDI (**Fig. 1**). In 2022, the biggest recipients of Chinese foreign investment were countries in East Asia (23.7%) and Arab Middle East & North Africa (21.4%), followed by Europe (13.8%), South America (13.1%) and Sub-Saharan Africa (12.4%). But the relative regional importance has varied strongly over the years. For instance, in 2021, European countries were in the leading recipient position (23.2%), followed by West Asia (17.4%), South America (14.6%), Sub-Saharan Africa (14.0%) and East Asia (13.8%). There is also some evidence that, in the pre-Covid era, Chinese foreign investors regionally migrated every few years in search of natural resources and commodities.<sup>1</sup> This regional diversification could provide assurance to China and its omnipresent Communist Party of China (CPC) that its supply chains are less susceptible to disruptions.

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<sup>1</sup> For more details and insightful information regarding the data quality from official Chinese sources, see Scizzors, Derek (2023), "China's Global Investment Surges, Finally", American Enterprise Institute.



Figure 1. Regional distribution of China's outward FDI

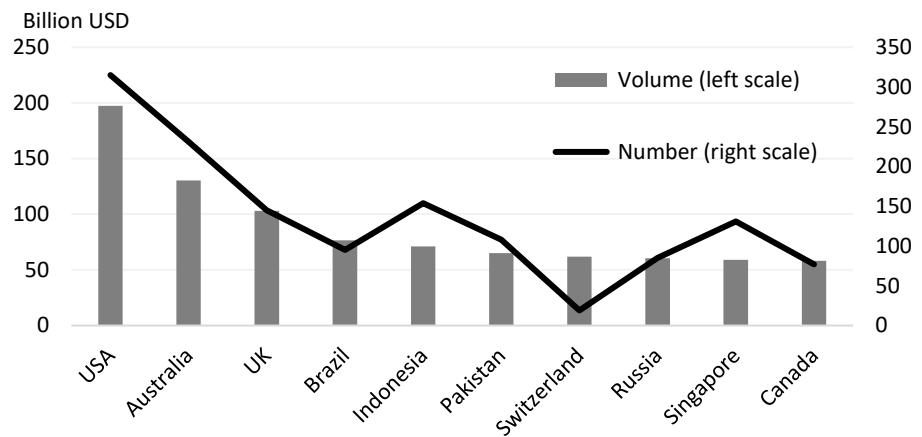


Note: Data for 2023 is preliminary and covers only the first half of the year.  
Source: Own elaborations by Flossbach von Storch Research Institute based on China Global Investment Tracker.



Among the top ten countries receiving China's outward FDI over the entire period since 2005, the three top places are taken by developed economies (**Fig. 2**). The US continues to maintain its leading position, with the cumulative amount of 197 billion USD, followed by Australia (130 bn USD) and the UK (103 bn USD). Indonesia's presence among the top recipients is related to the availability of minerals there, which are crucial in the provision of alternative energy sources and manufacturing of electric vehicles. Switzerland, instead, maintains its prominent position based on the Syngenta's mega-deal in 2017. For the rest, the country underperforms both in terms of the transaction volume and number.

**Figure 2. Top ten receiving countries of China's investment, cumulative 2005-2023**



Source: Own elaborations by Flossbach von Storch Research Institute based on China Global Investment Tracker.

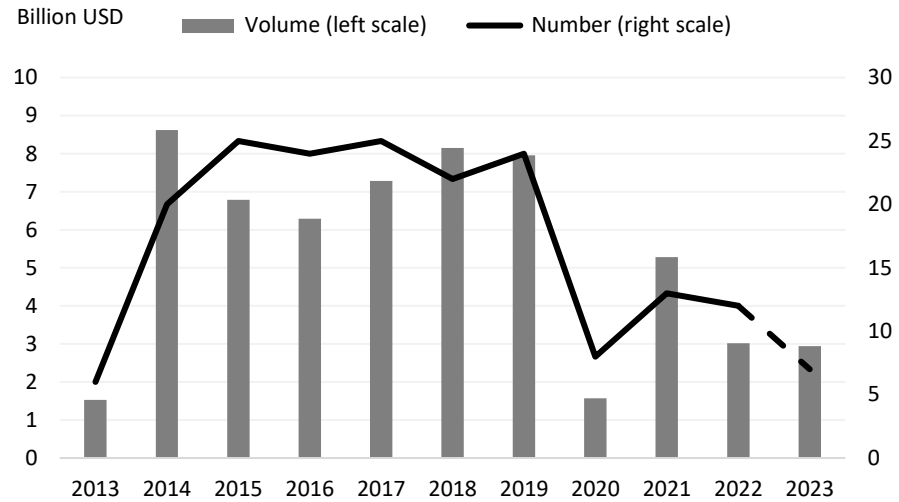
Looking ahead, the country composition at the top is likely to change. The intensified scrutiny of Chinese investors in developed countries could increasingly shift attention of the CPC decisionmakers towards less developed countries. As a matter of facts, the process was partly underway over the last couple of years, with flows of Chinese investment in East Asia, Arab Middle East & North Africa, Sub-Saharan Africa and South America showing much weaker decline, compared with the developed regions.

A substantial part of China's engagement in developing countries has been related to construction projects along the Belt and Road Initiative (BRI) since its inception in 2013 (**Fig. 3**). The China Global Investment Tracker documents 186 BRI-related construction projects, the most important of which in terms of the transaction volume includes the almost 3 billion USD heavy construction of the Central Business District east of Egypt's capital by China State Engineering Corporation. But there is also evidence of a shifting focus of BRI away from traditional infrastructure construction towards more



technologically advanced projects, with the Digital Silk Road considered as “a priority area for the BRI cooperation in the next stage”.<sup>2</sup>

**Figure 3. China-led foreign construction projects under the Belt and Road Initiative**



Note: Data for 2023 is preliminary and covers only the first half of the year.

Source: Own elaborations by Flossbach von Storch Research Institute based on China Global Investment Tracker.

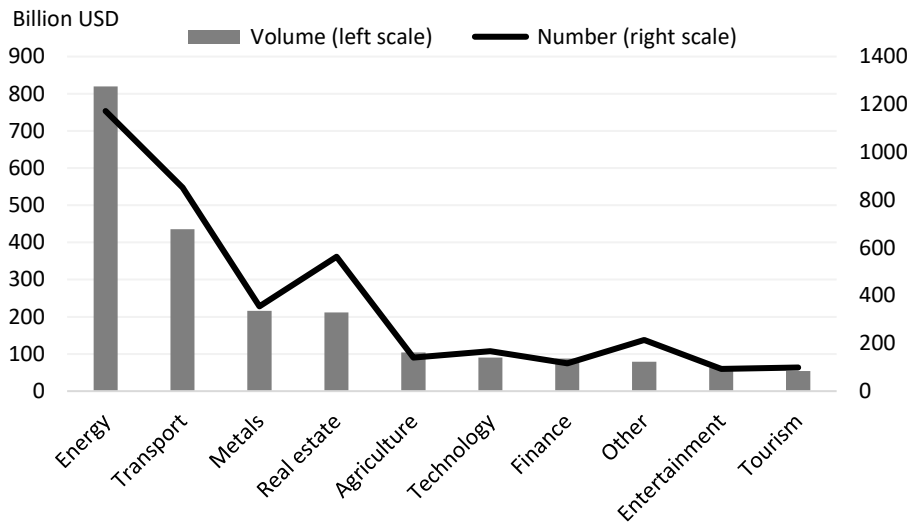
### ... versus sectoral concentration

China’s digital ambitions are also evident in the sectoral composition of foreign investment, with the technology sector playing a relevant role among past Chinese foreign investment. At the same time, the picture here is still dominated by four other sectors, namely, energy, metals, transport, and real estate (**Fig. 4**), with energy alone responsible for over 35% of overall investment volume since 2005. But for all four sectors, the downward trend over the recent years is clearly setting in (**Fig. 5**). The decline in Chinese foreign investment activity is even more pronounced in other sectors: the access to agriculture and technology is increasingly protected, mostly due to security concerns, whereas foreign investment in entertainment has been set on the so-called Negative List of prohibited sectors since 2017.

<sup>2</sup> Opening Speech by State Councilor Wang Yi at the meeting of the Advisory Council of the Belt and Road Forum for International Cooperation in Mumbai in December 2020, available at: [http://mumbai.china-consulate.gov.cn/eng//zgyw/202012/t20201220\\_5438672.htm](http://mumbai.china-consulate.gov.cn/eng//zgyw/202012/t20201220_5438672.htm).

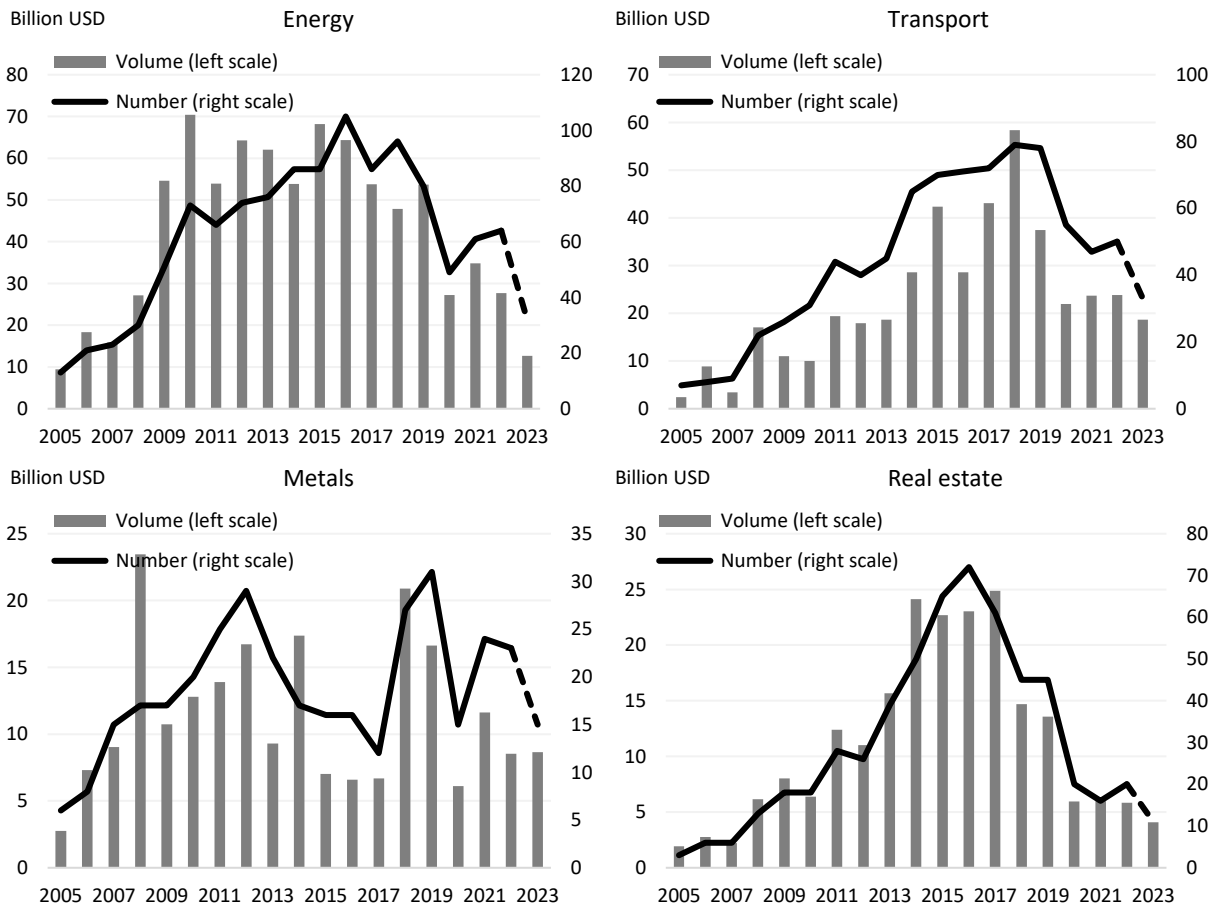


**Figure 4. Sectoral composition of China's foreign investment, cumulative 2005-2023**



Source: Own elaborations by Flossbach von Storch Research Institute based on China Global Investment Tracker.

**Figure 5. Past developments of China's foreign investment in the top sectors**



Note: Data for 2023 is preliminary and covers only the first half of the year.

Source: Own elaborations by Flossbach von Storch Research Institute based on China Global Investment Tracker.



## Conclusion

While China has played a significant role in global foreign investment in recent years, the landscape is poised for a shift in the foreseeable future, primarily attributed to two pivotal factors. First, heightened scrutiny from developed countries towards China's investments in strategic sectors has become a prominent concern, reflecting a growing wariness of the implications for national security and economic interests.<sup>3</sup> Second, the persisting lack of reciprocity from China, particularly in terms of allowing foreign investors access to its domestic market, further compounds the challenges. As these dual pressures intensify, they are likely to reshape China's role in global foreign investment. With growing geopolitical tensions and the undergoing recalibration of economic considerations, it appears likely that China's foreign investment will continue to decline.

The divestment not only complicates the strategic ambitions of Chinese President Xi Jinping, who envisions a "historic transformation from standing up and becoming prosperous, to growing strong"<sup>4</sup>, but also underscores the intricate balancing act required to navigate shifting global dynamics. After a long period of prosperous integration a new era of geopolitical segmentation has begun.

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<sup>3</sup> For a more in-depth discussion on this issue, see Gehringer, A. (2023), "China's strategic foreign direct investment in Europe", available at <https://www.flossbachvonstorch-researchinstitute.com/en/studies/chinas-strategic-foreign-direct-investment-in-europe/>.

<sup>4</sup> „China's Epic Journey from Poverty to Prosperity”, white paper of the State Council Information Office of the People's Republic of China on Sept 28, 2021.



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