Mizuho Economic Outlook & Analysis

March 4, 2020

Transformation of China's outward direct investment

Investments to the US and Europe fell sharply, but investments to Asia remain robust

< Summary >

◆ An analysis of China's outward direct investment trends under the US-China confrontation with the use of private-sector statistics shows the sharp drops in investment in Europe and the US. Behind this are (a) China's tighter controls over outward direct investment and (b) tighter regulations on inward direct investment in Europe and the US.

◆ On the other hand, China's investment in Asia remains robust. By investment purposes, the bulk of investment projects are infrastructure investment linked to the "Belt and Road Initiative" and investment for acquiring growth markets.

◆ From the perspective of impacts of the US-China confrontation, tighter US regulations on inward direct investment, motivated by a sense of vigilance over Chinese companies, are a factor to suppress investment by Chinese companies. Over the medium and long term, China's outward direct investment is expected to increase for the relocation of production bases to circumvent higher tariffs, but currently such investment remains limited.

Mizuho Research Institute Ltd.
Yoshino Tamai, Senior Economist
Research Department - Europe and the Americas, Research Department - Asia
yoshino.tamai@mizuho-ri.co.jp

1. Introduction

The US-China trade tensions are in a temporary lull for now following the signing of the “phase one” trade deal on January 15, 2020. Considering that US President Donald Trump hinted at a “phase two” agreement in their trade talks after the US presidential election in November, the US-China confrontation over trade issues is deemed unlikely to intensify for the time being.

However, as the US sense of vigilance over China’s technology and security remains strong, it is hard to imagine that a temporary easing of confrontation over trade would alter the fundamental structure of the US-China rivalry. One example of that US vigilance is the Foreign Investment Risk Review Modernization Act (FIRRMA), which was enacted in the summer of 2018 and enforced on February 13, 2020. Under the Act, the US has tightened the screening of investment in the country by foreign companies from the security perspective. In addition, Europe and Japan are also moving in a similar direction.

What changes have been seen in China’s investment in the US, and consequently in its overall outward direct investment, due to the US-China confrontation over trade, technology and security? This paper analyzes the real picture of China’s outward direct investment that cannot be captured by existing government statistics, using private-sector statistics prepared by US think tanks. Due to statistical constraints, the scope of analysis in this paper is limited to outward investment by Chinese companies and does not include outward investment by foreign-affiliated companies from their bases in China.

In summary, outward direct investment by Chinese companies has decreased sharply since 2017, mainly in Europe and the US, due to (1) China’s tighter controls over outward investment, and (2) tighter regulations on inward direct investment by foreign companies in Europe and the US. On the other hand, investment by Chinese companies in Asia has remained robust, mainly due to investment in infrastructure construction linked to China’s Belt and Road Initiative (BRI) and investment aimed at capturing growing markets. From the perspective of the impact of the US-China confrontation on China’s outward investment, tighter investment regulations spurred by a growing sense of vigilance against Chinese companies have been significantly pushing down China’s outward investment. While the relocation of production bases out of China to circumvent the effects of trade tensions is expected to boost China’s outward investment over the medium and long term, at present it is still limited.

2. Overview of China’s outward direct investment

(1) Government statistics have limitations in capturing breakdown of investment by country/region, industry

China’s outward direct investment had kept increasing until 2016, supported in part by the Chinese government’s “Go Global” strategy to encourage an overseas expansion by Chinese companies (**Chart 1**). The “Go Global” strategy, whose official outline was released in 1998, is a package of measures to help promote outward investment aimed at utilizing overseas markets, resources and technologies, enhancing the competitiveness of Chinese companies and promoting exports. By the mid-2000s, China's foreign exchange reserves became bloated due to the expansion of exports and inward direct investment, resulting in excessive liquidity domestically. As a result, outward investment was encouraged as an effective way to utilize foreign exchange. To that end, China streamlined screening and authorization procedures and provided financial support. Consequently, the value of China's outward direct investment in 2016 expanded to become the second largest in the world, accounting for 12.7% of the entire global direct investment.

However, according to government statistics, China's outward direct investment has been on a downward trend since 2017. Based on the statistics from the Ministry of Commerce of China, China's outward direct investment (flows) in 2019 declined for the third consecutive year to USD 117.1 billion, a drop of 18.1% y-o-y. The breakdown of outward investment by country/region and industry was released only until 2018. By country/region, China's outward direct investment in Hong Kong, Latin America and North America decreased after showing sharp rises in 2016 (**Chart 1**). By industry, investment in leasing and business services, real estate, and information and communications went on the downtrend after sharply rising in 2016, as did investment in manufacturing and wholesale/retail in 2018 (**Chart 2**).

It should be noted here that there is a limit to the extent to which government statistics alone can be used to monitor China's outward direct investment trends. First, many cases of China's outward direct investment involve investment in third countries via other countries/regions, such as Hong Kong which is China's main base of funding from overseas, and tax havens. However, China's official statistics count these transit points as destinations of outward investment and thus do not reflect final investment destinations.[1] The breakdown by country/region shown in **Chart 1** actually indicates that investment in Hong Kong accounted for over half of the overall investment value (60.7% in 2018). Most of the investment in Latin America was also investment in tax havens such as the Cayman Islands and the British Virgin Islands. Second, it is highly likely that overseas M&A deals of a wide variety of industries were all classified under the category of "leasing and business services," and the actual breakdown by industry is not clear.[2] As shown in **Chart 2**, "leasing and business services" constantly accounts for a large share of the breakdown by industry (35.5% in 2018), but the actual breakdown is unknown. It has also been pointed out that since statistics of the Ministry of Commerce of China are based on government approval, instead of a survey basis which is the international standard, they do not capture investments by some private companies that make outward investments without reporting to the government.

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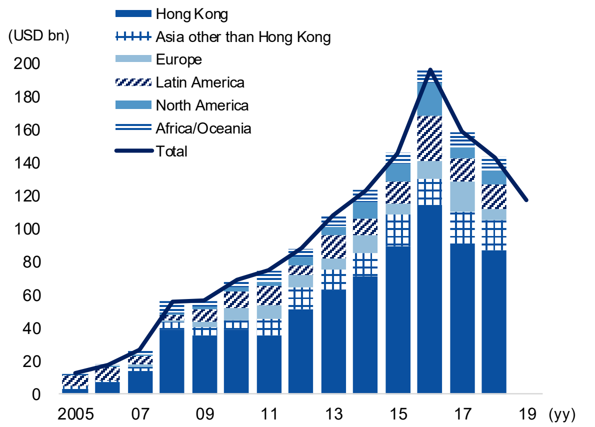
[1] Amighini, Alessia, Claudio Cozza, Roberta Rabellotti and Marco Sanfilippo. "Investigating Chinese outward foreign direct investments: How can firm-level data help?" *China & World Economy 22*, no.6 (Nov,2014): 44-63. U.S.- China Economic and Security Review Commission, *2019 Report to Congress of the U.S.-China Economic and Security Review Commission*, November 2019. According to the latter, US statistics may not fully reflect the actual picture of China's outward direct investment because they only count investment in the US by Chinese companies based on mainland China and do not include investment by Chinese companies based in other countries/regions.

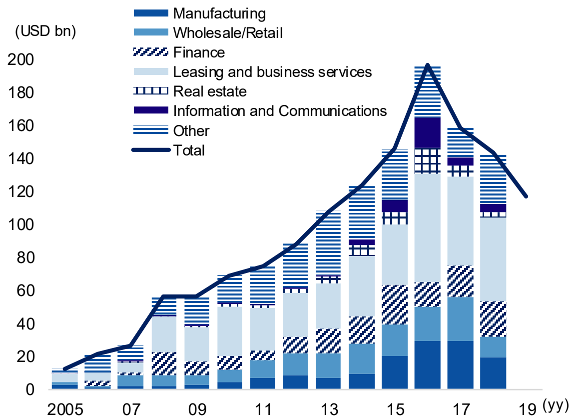
[2] Marukawa, Tomoo, Asei Ito and Yongqi Zhang, China's Outward Foreign Investment Data, ISS Contemporary Chinese Research Series No.15 (Institute of Social Science, The University of Tokyo, 2014). Junya Sano, "Kakudai wo Tsuzukeru Chugoku no Taigai Chokusetu Toshi – Tokei Deeta ga Shimesu Tokucho to Seifu no Torikumi (China's Foreign Direct Investment Keeps Expanding – Characteristics Shown by Statistical Data and the Government's Initiative), Kan-Taiheiyo Bijinesu Joho, RIM 2013, Vol.13, No.48.

Chart 1: China's outward direct investment (by country/region, government statistics)



Source: Made by MHRI based upon Ministry of Commerce of China

Chart 2: China's outward direct investment (by industry, government statistics)



Source: Made by MHRI based upon Ministry of Commerce of China

In order to make up for these shortcomings of government statistics, it is necessary to analyze China's outward direct investment by making use of private-sector statistics compiled from firm-level data on investment of a certain size or larger. The three main superiorities of private-sector statistics are: (1) they reflect final destinations of investment by Chinese companies, which cannot be captured by government statistics; (2) since private-sector statistics can trace individual investment projects, they can broadly capture outward investment trends by country and industry, while government statistics provide limited data of the breakdown for only a few countries/regions; and (3) timely and prompt releases. In this paper, we mainly use "China Global Investment Tracker" (hereinafter referred to as the "CGIT"), the database of China's outward investment prepared by the American Enterprise Institute (AEI), a US think tank. We also use "U.S.-China Investment Hub," the database prepared by a US research firm Rhodium Group, solely for Chinese investment in the US. Though the CGIT differs from government statistics in such points as (1) it only covers the large-scale investment of USD 100 million or larger; (2) it does not follow the direct investment definition of "holdings of equities of 10% or more" by the International Monetary Fund (IMF) and includes investments with the equity holdings of less than 10%; and (3) it does not include outward investment by Chinese bases of foreign-affiliated companies,[3] the CGIT is considered to be useful for quickly identifying the trends of outward investment by Chinese companies.

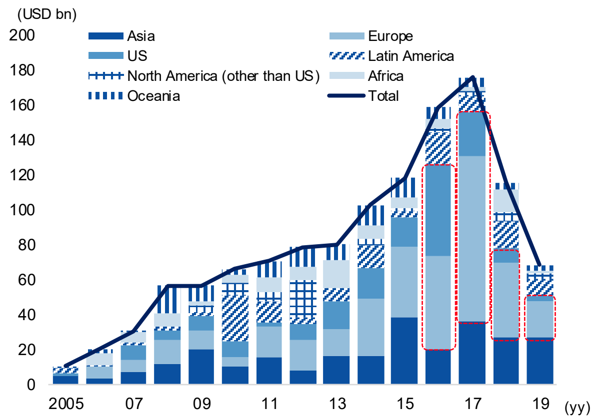
(2) Private-sector statistics show steep declines in investment in real estate, entertainment/tourism and technology in Europe and the US

According to the CGIT mentioned above, China's outward direct investment has been declining sharply after peaking out in 2017. Though the peak year is different from that based on government statistics, the CGIT and government statistics show the common trend of shrinking after rising sharply in 2016 or 2017.

[3] The Chinese Ministry of Commerce's statistics on outward direct investment do include investments by foreign-affiliated companies (including Hong Kong, Macau and Taiwanese companies), but the share of their outward investment is only limited at 8.4%. Thus, we judged that the fact that the CGIT does not include outward direct investment by foreign-affiliated companies is not a major problem.

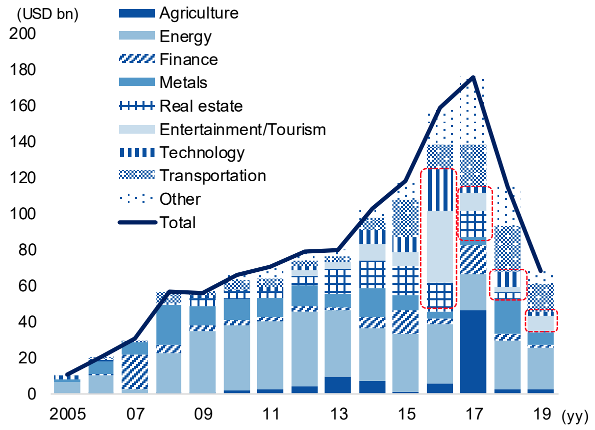
Looking at outward direct investment trends by country/region[4] and by industry that are not necessarily clear in many aspects in government statistics, China's direct investment to the US and Europe has been significantly shrinking in recent years, while investment to Asia has remained steady (**Chart 3**). By industry, investment in real estate, entertainment/tourism and technology sectors has significantly declined (**Chart 4**).

Chart 3: China's outward direct investment (by country/region, private statistics)



Source: Made by MHRI based upon American Enterprise Institute, "China Global Investment Tracker," United Nations

Chart 4: China's outward direct investment (by industry, private statistics)



Source: Made by MHRI based upon American Enterprise Institute, "China Global Investment Tracker," United Nations

Next, looking at cumulative changes in the value of China's outward direct investment from 2016 through 2019, investments to the US and Europe show a significant decline (**Chart 5**), while Asia is the only region that saw an increase in investment from China (to be discussed in detail in "4. Expanding Investment in Asia"). Looking at the investment trends by country/region and by industry, it is clear that China's outward direct investment has decreased mainly in real estate, entertainment/tourism and technology sectors in both the US and Europe (**Chart 6**). For the US, the database of the aforementioned Rhodium Group points to the shrinking investment particularly in real estate, entertainment/media/education and information and communications (**Chart 7**), as does the CGIT data. When we look at the trends of China's outward direct investment in Europe by country, outward direct investment has significantly declined mainly in the UK and Germany (**Chart 8**).

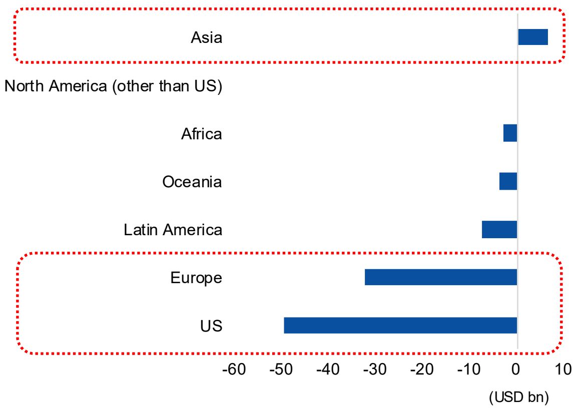
Based on results of these analyses and preceding studies,[5] it is presumed that the major two factors behind the decline in China's outward direct investment are (1) China's tighter controls on outward direct investment, and (2) tighter regulations on inward direct investment by foreign companies in Europe and the US. First, the sharp drops in investment in real estate and entertainment/tourism suggest that China's policy to curb outward investment in non-real economy sectors since the end of 2016 is responsible for the declines.

[4] Since the regional classification of original data of AEI has several problems, such as the lack of the regional category of "Oceania," the inclusion of New Zealand in "East Asia" and the inclusion of Russia in "West Asia," we reclassified the AEI data according to the regional classification of the United Nations (UN Statistic Division, Standard Country or Area Codes for Statistical Use (M49).

[5] Liu Ying, Historical Opportunities of China's Outward Investment, *China Finance*, 21(2017):48-49. Hanemann, Thilo, Cassie Gao, Adam Lysenko and Daniel H. Rosen, "Sidelined: US-China Investment in 1H 2019," Rhodium Group, July 31, 2019. Hanemann, Thilo, Daniel H. Rosen, Cassie Gao and Adam Lysenko, "Two-Way Street: 2019 Update US-China Investment Trends," Rhodium Group, May 8, 2019.

Next, it is presumed that tighter regulations on inward investment in Europe and the US are affecting China's outward direct investment, given that China's outward investment in technology and information and communications sectors have been falling and that China's direct investment has dropped significantly in the US as well as the UK and Germany, which all moved to tighten regulations on inward direct investment from a security standpoint. These two factors are discussed in detail in the next section.

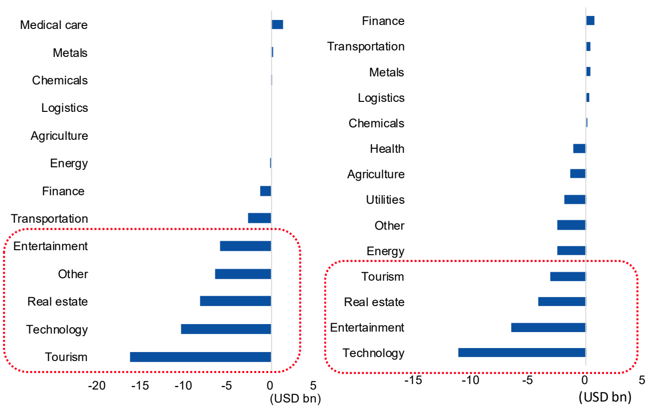
Chart 5: Changes in value of China's outward direct investment (by region)



Note: Cumulative changes between 2016 and 2019.
Source: Made by MHRI based upon American Enterprise Institute, "China Global Investment Tracker," United Nations

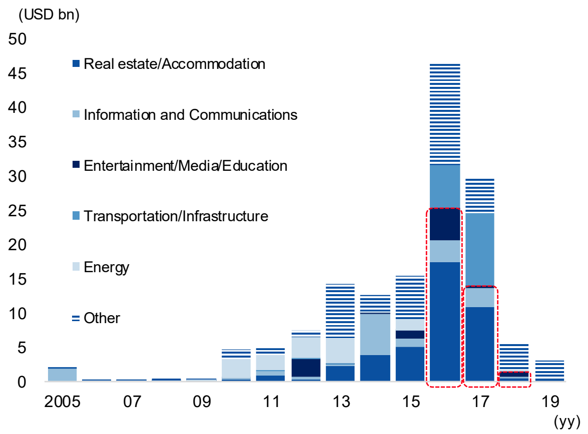
Chart 6: Changes in value of China's outward direct investment to US, Europe (by industry)

[US] [Europe]



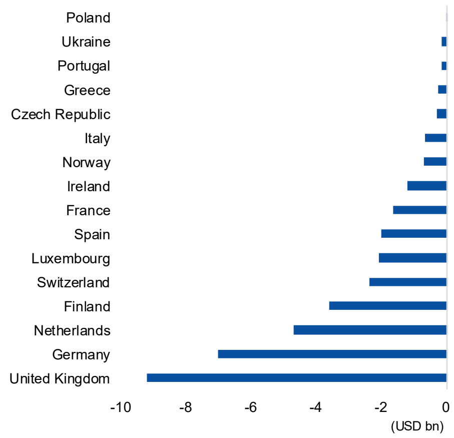
Note: Cumulative changes between 2016 and 2019.
Source: Made by MHRI based upon American Enterprise Institute, "China Global Investment Tracker," United Nations

Chart 7: China's direct investment in US (by industry)



Note: The Jan-Jun cumulative amount for 2019.
Source: Made by MHRI based upon Rhodium Group

Chart 8: Changes in value of China's direct investment in Europe (by country)



Note: Cumulative changes between 2016 and 2019.
Source: Made by MHRI based upon American Enterprise Institute, "China Global Investment Tracker"

3. Background of the sharp declines in China's outward investment -- China's tighter controls on outward investment and tighter regulations on inward investment by Europe and US

(1) China's tighter controls on outward investment

China's tighter controls over outward investments are presumed to have caused sharp declines in its outward direct investment in real estate and entertainment/tourism industries. Since late 2016, the Chinese government saw capital outflows due to excessive investment by Chinese companies in the non-real economy sectors (real estate, entertainment/tourism, etc.) as a problem, and tightened the screening of outward investment cases. Behind this was the fact that an increasing number of companies have brought capital out of the country in the guise of direct investment following the depreciation of the Chinese yuan since the summer of 2015. As a result, an outflow of capital accelerated to destabilize the Chinese financial markets.

Furthermore, there was an increase in the number of companies running into financial troubles because of excessive investment. Specific examples of excessive investment included Dalian Wanda Group that acquired movie theaters and motion picture companies mainly in the US and Europe, and HNA Group and Anbang Insurance Group, both of which invested in hotels and real estate. In the US, investment by the above three companies and Oceanwide Holdings alone together accounted for over 60% of China's investment in the US in 2016, showing just how big their respective investment deals were.

The Chinese government's specific policies related to the tighter screening of outward investment deals are shown in Chart 9. In addition to the basic policy to restrict outward investment in real estate, hotels, movie theaters, entertainment businesses and sports clubs, it also introduced policies to tighten the screening such as mandatory submissions of related documents, and to require approval by the supervision authorities. These policies apparently put the brakes on overheated outward investment, resulting in the sharp drops in investment in the industries mentioned above.

Having said that, this does not mean that outward investment as a whole has been reined in. "The Opinions on Further Guiding and Regulating the Direction of Overseas Investment (Guiding Opinions)" published on August 2017 set forth "encouraged overseas investments" that should be promoted. This category includes (a) investment in overseas infrastructure projects that are beneficial to the BRI; (b) investment under cooperation with overseas high technological and advanced manufacturing enterprises; and (c) investment relating to the exploration and extraction of energy resources, including overseas oil, natural gas, and mineral resources. Given the Chinese government's strategic policy to promote innovation, investment covered by (b) appears to aim at the acquisition of advanced technologies. However, Chinese investment in this particular area seems to be affected by European and US regulations on inward investment, as discussed in the following section.

Chart 9: Chinese policies related to the tighter screening of outward investment

	Announcing authorities	Policy content	Details
Nov. 2016	State Administration of Foreign Exchange	Tightened regulations on overseas remittances for outward investment	As for a foreign investment project whose total value exceeds USD 50 million, a Chinese investor is required to go through the screening by the supervising authorities (People's Bank of China, State Administration of Foreign Exchange, National Development and Reform Commission, and Ministry of Commerce, etc.) in advance.
Dec. 2016	National Development and Reform Commission, Ministry of Commerce, People's Bank of China, State Administration of Foreign Exchange	Tigher controls over outward investment	Announced that "the government is proposing to relevant companies that they set outward investment policies prudently by focusing on hidden risks in the recent trend of irrational outward investments in some areas such as real estate, hotels, movie theaters, the entertainment industry and sports clubs, large investments in business lines that are not related to the core businesses of Chinese investors, and investments by limited partnerships."
Jan. 2017	State Administration of Foreign Exchange	"Circular of the State Administration of Foreign Exchange on Further Advancing Foreign Exchange Administration Reform to Enhance Authenticity and Compliance Reviews"	When domestic institutions handle outward direct investment and payment procedures, they must submit relevant materials for the screening in accordance with the set rules, and must explain sources of investment funds and use of funds to banks and submit relevant evidential materials.
Aug. 2017	National Development and Reform Commission, Ministry of Commerce, People's Bank of China, Ministry of Foreign Affairs	"Opinions on Further Guiding and Regulating the Direction of Overseas Investment"	Divided outward investment by Chinese companies into the three categories of "encouraged FDI," "restricted FDI" and "prohibited FDI," and presented the control policies by category. "Restricted FDI" includes investment in real estate, hotels, movie theaters, the entertainment industry and sports clubs.
Promulgated in Dec. 2017, enforced in Mar. 2018	National Development and Reform Commission, Ministry of Commerce, People's Bank of China, Ministry of Foreign Affairs	Administrative Measures for Enterprise Outward Investment	Classified outward direct investment into "sensitive projects" and "non-sensitive projects," with the latter required to obtain approval by the National Development and Reform Commission. Standardized outward investment by bringing outward investment by foreign companies (including companies in Hong Kong, Macau and Taiwan) controlled by domestic companies and individuals under the scope of control.
Jan. 2018	Ministry of Commerce, People's Bank of China, State-owned Assets Supervision and Administration Commission of the State Council, China Securities Regulatory Commission, China Insurance Regulatory Commission, State Administration of Foreign Exchange	"Interim Measures for the Reporting of Outward Investments Subject to Record-filing or Approval"	Conduct focused supervision and inspection of outward investment from China for an amount equivalent to USD 300 million or over, outward investment in sensitive countries/regions and industries, and outward investment that brought about serious operating deficits.

Source: Made by MHRI based upon China's State Administration of Foreign Exchange, National Development and Reform Commission, various materials

(2) Tighter regulations on inward investment by Europe and US

It is presumed that the sharp declines in China's outward direct investment in Europe and the US were largely due to tighter controls over inward investment by European countries and the US. The Ministry of Commerce of China, in a report on China's outward direct investment, pointed out that "since 2017, advanced economies such as the US, the UK, France, Germany, Italy and Japan, implemented further stricter supervision and control over investment by foreign companies, leading Chinese companies to curb their investments in these regions." Also, in a questionnaire survey on outward investment conducted on Chinese companies implemented between March and July 2019, 57.3% of respondents cited the US and 14.4% Europe as "countries/regions with the largest number of screenings and regulations concerning the safety of investment by foreign companies." The following is an overview of regulatory trends regarding inward investment in the US and Europe.

a. The US

In the US, following the mounting sense of vigilance over an outflow of the advanced technology available for military use to foreign countries with security concerns, the Foreign Investment Risk Review Modernization Act (FIRRMA) and the Export Control Reform Act (ECRA) were enacted on August 13, 2018.

Of the two laws, FIRRMA has a direct impact on inward direct investment. In the US, the Committee on Foreign Investment in the United States (CFIUS) has been screening investments in the US by foreign companies from the viewpoint of security. FIRRMA has strengthened the authority of CFIUS and required mandatory filing for investments in the US that involve foreign governments. Furthermore, FIRRMA tightened the screening of foreign investment in the US by adding non-controlling investment in US businesses relating to important technologies, infrastructure and sensitive personal information (called TID businesses from the initial letters of Technology, Infrastructure and Data) and investment in some real estate (including airports, ports and real estate close to military facilities) to the scope of investment transactions subject to the CFIUS review.

While FIRRMA does not target specific countries, many people believe the law bears in mind the direct investment from China seeking to acquire advanced technologies, since it requires the preparation of reports on the trends of China's investment in the US. In fact, since 2017, prior to the enactment of FIRRMA, the CFIUS screening of direct investment projects by Chinese companies has been getting more rigid and longer. As a result, a number of Chinese companies have withdrawn their investment projects in the US (**Chart 10**). This includes a project rejected by the President's Executive Order (the acquisition of Lattice Semiconductor, a US semiconductor manufacturer, by Canyon Bridge Capital Partner). As for the characteristics of the cases that were withdrawn or rejected, most of the investments were made in companies with advanced technologies, such as semiconductor manufacturers, and in industries dealing with sensitive personal information (such as digital maps and money transfer services). This indicates that the US is strongly cautious about investment in TID businesses. The total value of such investment projects is about USD 5.8 billion (about 5% of China's overall outward investment in 2018), which cannot be ignored.

b. Europe

In Europe, regulations on inward investment have been strengthened from the viewpoint of security at the national and EU levels. Germany was among the first countries to take action to strengthen regulations. After the acquisitions of the industrial robot maker (Kuka) and the semiconductor manufacturer (Aixtron) by Chinese companies in 2016, Germany became keenly aware of the inadequacy of the existing screening system for corporate buyouts by foreign companies. On July 18, 2017, Germany revised its Foreign Trade and Payments Ordinance to tighten the screening of acquisitions of German firms by foreign companies, expanding the scope of candidates for screening and extending the screening period. In addition, the Foreign Trade and Payments Ordinance was revised again on December 19, 2018, lowering the criteria for the foreign investment ratio subject to investment regulations, and thus expanding the scope of corporate acquisitions subject to regulations.

Chart 10: Investment projects in the US withdrawn by Chinese companies (2017 and onward)

	Chinese company	Target US company	Industry of target US company	Value (USD million)
Jun. 2017	TCL Corp.	Novatel Wireless	Information and communications	50
Jul. 2017	Beijing Shareco Technologies (a subsidiary of major aviation firm, HNA Group)	Global Eagle Entertainment	Media (in-flight content)	103
Sep. 2017	NavInfo Tencent Holdings GIC Private Limited of Singapore	HERE International (some equity stake held by Intel of the US)	Software (digital map)	330
Sep. 2017	SDIC Fund Management	Maxwell Technologies	Electric equipment (battery manufacturing)	47
Sep. 2017	Canyon Bridge Capital Partners (a US company in which China Venture Capital Fund, a state-owned Chinese fund, has invested)	Lattice Semiconductor	Semiconductors	1,300
Nov. 2017	Zhongwang USA	Aleris Corporation	rolled aluminum manufacturing	2,300
Nov. 2017	CEFC China Energy	Cowen	Finance (investment banking)	100
Jan. 2018	Ant Financial Service Group	MoneyGram International	Finance (money transfer service)	880
Feb. 2018	Hubei Xinyan Equity Investment Partnership	Xcerra	Semiconductor testing/inspection equipment manufacturing	580
Feb. 2018	BlueFocus Communications Group	Cogint	Digital marketing	100
May. 2018	China Heavy Duty Truck Group	UQM Technologies	Manufacturing of electric motors for automobiles	28
			Total	**5,818**

Source: Made by MHRI based upon U.S.- China Economic and Security Review Commission (2019), Squire Patton Boggs, "The Trade Practitioner: CFIUS Information Archive"

The United Kingdom is also moving ahead toward tighter screening of inward investment, though the country has yet to enact statutory regulations like those adopted by Germany. On June 24, 2018, the Secretary of State for Business, Energy and Industrial Strategy unveiled a proposal to enhance the government's powers concerning the screening of inward investment to ensure security, and is reportedly considering the introduction of a system similar to the CFIUS screening in the US.

Furthermore, at the EU level as well, moves are underway to tighten regulations on inward investment. From October 2020, the EU is set to apply EU rules for the screening system for investment by foreign companies. According to the European Commission, as of April 2019, a total of 14 EU member states have the screening system for inward direct investment. The proposed EU rules are chiefly designed for the sharing of information on inward direct investment and promotion of cooperation for the buildup of viable screening systems between EU member states and the European Commission. Although the final decision on individual investment cases is left to the discretion of each member state, the enforcement of the EU rules may further reinforce moves toward tighter regulations on inward direct investment within EU member states.

4. China's outward direct investment in Asia remains robust

(1) Investment mostly linked to the BRI; investment projects for the relocation of production bases to circumvent higher tariffs limited

Following China's tighter controls over outward investment and tighter regulations on inward direct investment by European countries and the US, outward investment by Chinese companies in Europe and the US has declined significantly in recent years, but their investment in Asia still remains robust (**Chart 3**).

Looking at the breakdown of China's outward investment in Asia by industry and country/region based on the CGIT, we can see the increases in investment, by industry (small classifications in the parentheses), in transportation (automobiles, railways), metals (steel), others (textiles, education), entertainment,[6] and technology (communications) from 2016 through 2019 (**Chart 11**). By country/region, China's outward direct investment grew significantly in Southeast Asia and South Asia, including Indonesia, Cambodia, the Philippines and India, and West Asian countries such as Turkey, Pakistan and Iraq (**Chart 12**). Also, in the questionnaire survey on outward investment conducted on Chinese companies, respondents cited Southeast Asia as the top investment destination in 2019, which is consistent with the CGIT.

In addition, we collected information on individual investment projects in the aforementioned industries that attracted a lot of Chinese investment, based on the CGIT, press releases of individual Chinese companies, and media reports. The summary of such information indicates that the purposes of China's outward investment in Asia can be broadly divided into the three categories: (a) investment linked to the BRI ; (b) investment for acquiring growth markets; and (c) investment aimed at cost reductions and the relocation of production bases to avoid the impacts of trade tensions. **Chart 13** shows the representative examples of each category.

Of these three, (a) investment linked to the BRI accounted for the largest number of Asian investment projects, represented by the construction of transportation infrastructure, coal-fired thermal power stations and communications infrastructures. Other investments include the establishment of a nickel refining plant in Indonesia and the acquisition of a major Kazakh automaker for the purpose of producing electric vehicles and their charging equipment, as Chinese companies involved position these projects as linked to the BRI. It is also possible that these projects reflect the circumstances of Chinese investors, such as the fact that it is easier for them to obtain loans from policy financial institutions by linking their investment projects to the BRI.

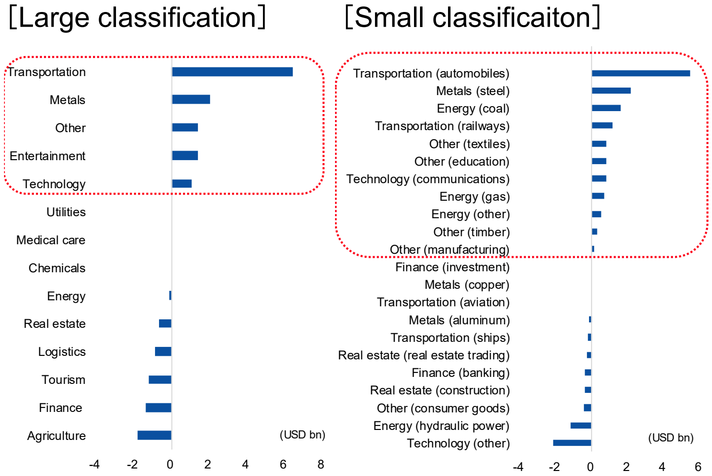
As for (b) investment projects aimed at acquiring growth markets, it includes the building of factories in India in response to increasing demand for steel and smartphones. Regarding smartphone-related investment, smartphones by Chinese manufacturers such as Xiaomi, Vivo and OPPO are expanding their shares in the Indian market. Also, Tencent and other major Internet service providers are investing in local startup firms to gain markets in Southeast Asia. Gojek of Indonesia and Grab of Singapore, the destinations of their investment, are eager to provide "super applications" that offer not only ride-hailing transport services but also various other services that consumers use on a daily basis, including payments and delivery services. For example, Tencent has invested in Gojek to work with payment services, and JD.com has also invested

[6] This category mainly reflects the acquisitions of video application companies (the purchase of Singaporean peer BIGO by major live streaming firm YY, investment in Indian video application company VMate by Alibaba), instead of investment in the entertainment industry (such as movies) regulated under China's tighter controls over outward investment.

in the company for collaboration in the operation of e-commerce sites and delivery businesses.

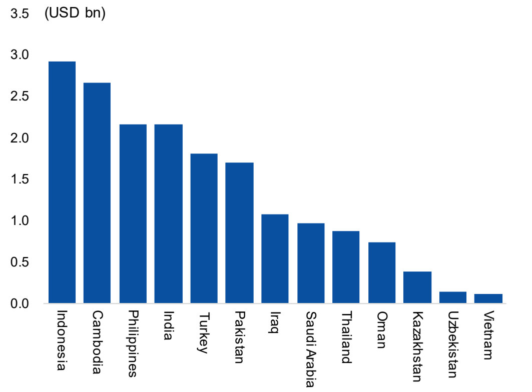
Regarding (c) investment aimed at cost reductions and the relocation of production bases to circumvent the impacts of trade tensions, the number of investment projects is small relative to the two other categories, which indicates that there are not many cases in which the transfer of production has led to China's outward investment. One example of such investment, the establishment of a clothing production factory in Indonesia, appears to have aimed at circumventing higher tariffs. Indonesia seems to regard trade tensions as an opportunity to attract foreign direct investment.

Chart 11: China's direct investment in Asia (by industry)



Note: Cumulative changes between 2016 and 2019.
Source: Made by MHRI based upon American Enterprise Institute, "China Global Investment Tracker"

Chart 12: China's direct investment in Asia (by country/region)



Note: Cumulative changes between 2016 and 2019.
Source: Made by MHRI based upon American Enterprise Institute, "China Global Investment Tracker," United Nations

(2) Future developments of outward investment by Chinese companies

Tighter regulations on inward direct investment seen in Europe and the US are hard to change once introduced, and it is therefore should remain as a factor to suppress China's outward investment going forward. On the other hand, Chinese companies are expected to accelerate outward investment linked to the BRI or aimed at gaining growth markets, in line with "encouraged" investment areas defined by the Chinese government. In addition, though outward investment for the relocation of production bases is not showing any noticeable increase currently, it may gradually expand due to the prolonged US-China confrontation and the spreading infection of COVID-19. For Japanese companies that also focus on Asia as a major destination for their outward investments, it will become increasingly important how to deal with Chinese companies that are making inroads in Asia.

Chart 13: Examples of outward direct investment by Chinese companies in Asia

Industry	Country	Overview	Size (USD bn)	Year
(1) Investment linked to the "Belt and Road Initiative"				
Transportation infrastructure	Cambodia	Construction of expressway (between Phnom Penh and Sihanoukville)	1.95	2019
	Turkey	Acquisitions of equity stakes in the expressway and the bridge in Istanbul	0.69	2019
	Indonesia	Construction of expressway (between Jakarta and Bandung)	2.4	2018
Coal-fired thermal power stations	Bangladesh	Also designed to deal with China's excessive coal production facilities	1.01	2018
	Pakistan	One of the China-Pakistan Economic Corridor (CPEC) projects	1.48	2017
Communications	Singapore	Opening of a data cener by China Mobile	0.12	2019
	Philippines	China Telecom's entry as a mobile network operator in a joint venture with a local firm	0.86	2019
	Pakistan	Expansion of 3G, 4G networks by China Mobile	0.2	2017
Metals (nickel)	Indonesia	Establishment of a nickel refining plant for electric vehicle batteries	0.61	2018
Electric vehicles	Kazakhstan	Acquisition of Allur Group, the biggest Kazakh automaker, by China's state-owned enterprise	0.56	2019
(2) Investment to acquire growth markets				
Steel	India	Establishment of a factory by Tsingshan Holding Group, a major stainless steel manufacturer	1.16	2018
Smartphones/ Smartphone parts	India	Establishment of a factory by Holitech (touch panel maker), a major supplier for Xiaomi	0.2	2018
	India	Enhancement of smartphone production capacity by BBK electronics, which has equity stakes in Vivo and OPPO	0.56	2018
Ride-hailing transport services	Indonesia	Equity investment in Gojek by Tencent and JD.com	0.34	2019
	India	Equity investment in Ola by Tencent	0.4	2017
	Singapore	Equity invesment in Grab by DiDi	0.5	2017
Video applications	Singapore	Acquisition of BIGO by YY, a major live streaming firm	1.08	2019
	India	Equity investment in Vmate, an video application firm, by Alibaba	0.1	2019
(3) Investment for reducing costs or circumventing the impacts of trade disputes				
Technology	Vietnam	Relocation of production of Airpods by Goertek, a manufacturing partner of Apple	0.26	2019
Clothing	Iindonesia	Establishment of a plant for production of clothing for exports	0.1	2019
Tires	Thailand	Expansion of production capacity by major tire manufacturer Shandong Linglong Tyre	0.23	2018

Source: Made by MHRI based upon American Enterprise Institute, “China Global Investment Tracker,” various news reports