

Patterns of China's Outward Foreign Direct Investments

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Abstract: This study examines the evolution, structure, and strategic trajectory of China's outward foreign direct investment (OFDI) from 1990 to 2023. Using data from UNCTAD, IMF, and recent empirical research, the paper identifies five distinct phases in China's OFDI development, highlighting its transformation from a resource-seeking and state-driven model to one increasingly shaped by market expansion, technological advancement, and global integration. China's OFDI remains heavily concentrated in Asia—especially Hong Kong—and in offshore financial centers such as the British Virgin Islands and the Cayman Islands. Sectorally, leasing, business services, finance, manufacturing, and mining dominate, accounting for nearly 90 percent of total investment. Recent trends indicate growing diversification toward high-tech, renewable energy, and digital sectors in emerging markets. Empirical evidence further supports that market-seeking, resource-seeking, and network effects drive China's OFDI decisions. The analysis also underscores the pivotal role of the Belt and Road Initiative (BRI) in accelerating China's overseas investment, particularly in infrastructure, energy, and connectivity projects across Asia, Africa, and other developing regions. Overall, the findings demonstrate China's strategic shift from traditional resource acquisition toward a more innovation- and market-oriented global investment approach.

Key Words: China, Outward Foreign Direct Investments (OFDI), Investment Diversification

1. INTRODUCTION

In the landscape of global capital movements, China has evolved into both a key destination and a prominent source of investment. It continues to attract substantial inward foreign direct investment (FDI) as a host country, while at the same time, it has rapidly risen to become one of the world's leading home countries for outward foreign direct investment (OFDI).

China's outward foreign direct investment (OFDI) has expanded dramatically in recent years, transforming the country into a major global investor. Today, China serves as a significant source of FDI across a wide range of host economies and has firmly established itself among the world's leading origins of outward investment.

China's global investments have grown from less than USD 1 billion in 2000 to over USD 177 billion in 2023. In 2023, China's outward foreign direct investment amounted to USD 177.3 billion, making it the third-largest source of global OFDI after the USA and Japan, and underscoring its growing influence in international investment flows.

It is argued that China's outward investment has generated substantial mutual benefits and made an increasing contribution to the global economy. In 2024, China's overseas investments supported USD 211 billion in goods exports, accounting for 5.9 percent of the nation's total exports during that period. Chinese enterprises operating abroad recorded USD 3.6 trillion in sales revenue, paid USD 82.1 billion in taxes to host countries and regions, and employed over 5 million people, 65.8 percent of whom were local workers (CGNT, 2025).

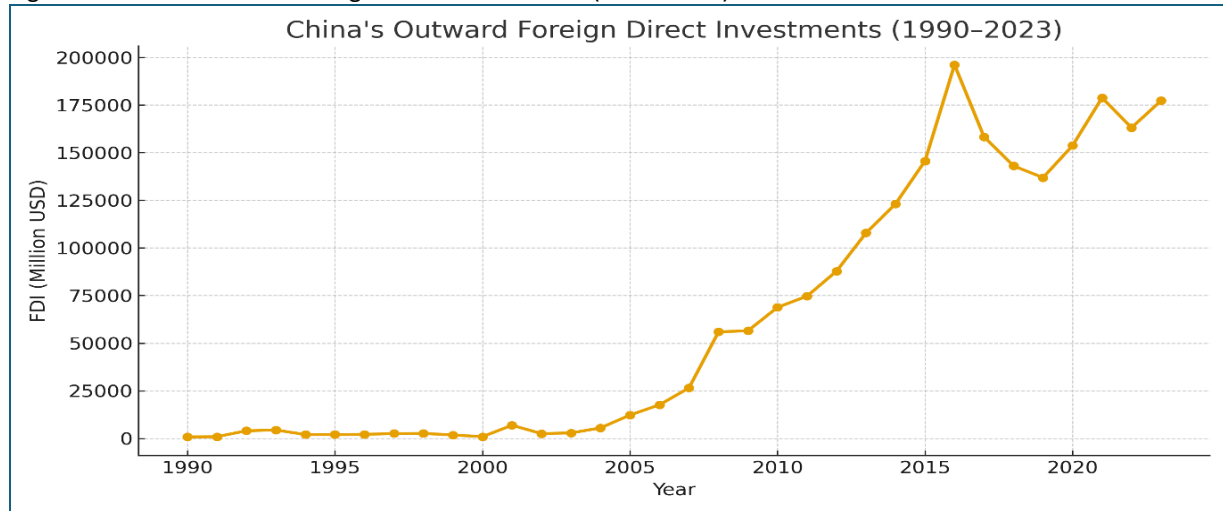
Table 1: China's Outward Foreign Direct Investments (1990–2023) (Values In Million USD)

Year	FDI (Million USD)	Year	FDI (Million USD)
1990	830.0	2007	26,506.1
1991	913.0	2008	55,907.2
1992	4,000.0	2009	56,529.0
1993	4,400.0	2010	68,811.3
1994	2,000.0	2011	74,654.0
1995	2,000.0	2012	87,803.5
1996	2,114.0	2013	107,843.7
1997	2,562.5	2014	123,119.9
1998	2,633.8	2015	145,667.2

1999	1,774.3	2016	196,149.4
2000	915.8	2017	158,288.3
2001	6,885.4	2018	143,037.3
2002	2,518.4	2019	136,907.6
2003	2,854.7	2020	153,710.3
2004	5,498.0	2021	178,819.3
2005	12,261.2	2022	163,120.0
2006	17,634.0	2023	177,288.8

Source: UNCTAD (2025)

Figure 1: China's Outward Foreign Direct Investments (1990–2023)



Source: UNCTAD (2025)

2. PHASES OF CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT TRAJECTORY

The development of China's outward foreign direct investment can be analyzed across five distinct phases. During the Early Development Phase (1990–2000), China's outward FDI remained relatively modest, averaging less than USD 7 billion per year. This phase marked the early implementation of China's "going out" strategy following Deng Xiaoping's 1992 tour of South China. During this period, the government's primary focus remained on attracting inward FDI and strengthening domestic industrial capacity. Overseas investments during this period were primarily undertaken by state-owned enterprises, focused mainly on resource-seeking projects and confined to a limited geographical range (Kolstad and Wiig, 2012; Drogendijk and Blomkvist, 2013).

The second phase, the expansion phase, took place between 2001 and 2007. Following the launch of the "Go Global" policy in 1999 and China's accession to the World Trade Organization (WTO) in 2001, outward FDI began to grow steadily, increasing from

USD 6.9 billion in 2001 to USD 26.5 billion by 2007 (Xie et al., 2024). This period represented a shift from restrictive to more liberal outward investment policies. During this phase, the Chinese government implemented policies encouraging domestic firms to invest abroad, with the goal of securing access to resources, technology, and markets (Kolstad and Wiig, 2012; Drogendijk and Blomkvist, 2013). Chinese outward FDI in 2006 was concentrated mainly in services (about 54%, primarily in business services and finance) and the mining and petroleum sector (just over 40%), while manufacturing accounted for only around 4%. These patterns suggest that during this phase China's overseas investments were driven largely by the pursuit of natural resources and access to major markets—typically with resource-oriented investments flowing to developing countries and service-related investments to developed economies (Kolstad and Wiig, 2012).

The third phase, the global integration and acceleration phase, occurred between 2008 and 2016. Between 2008 and 2016, China's outward FDI expanded rapidly, peaking at USD 196 billion in 2016. The 2008 global financial crisis created

opportunities for Chinese firms to acquire undervalued assets abroad, while policy initiatives such as the launch of the Belt and Road Initiative (BRI) in 2013 further accelerated overseas investment. During this period, Chinese OFDI diversified across sectors, extending beyond resources to include manufacturing, energy, infrastructure, and services.

The fourth phase, the adjustment and regulation phase, spanned between 2017 and 2020. Beginning in 2017, China's outward FDI declined to approximately USD 136–158 billion. The government introduced tighter capital controls and regulatory measures to curb speculative and non-strategic overseas investments, particularly in sectors such as real estate, sports, and entertainment. In addition, rising geopolitical tensions and escalating U.S.–China trade frictions further contributed to the slowdown in outbound investment (Interesse, 2024).

The fifth phase, the stabilization and strategic diversification phase, unfolded between 2021 and 2023. Between 2021 and 2023, China's outward FDI stabilized at around USD 160–178 billion. Despite global uncertainty and the disruptions caused by the COVID-19 pandemic, China sustained a resilient and stable level of overseas investment. The focus gradually shifted toward investments in high-tech industries, renewable energy, and the digital economy. While traditional destinations such as the United States, the European Union, and Australia experienced declining investment inflows, China increasingly redirected its focus toward emerging markets—particularly in Southeast Asia, Africa, and Belt and Road economies—where investment activity grew substantially (Interesse, 2024).

Trajectory of China's OFDI reflects China's broader shift in global economic strategy—from a focus on resource acquisition to one driven increasingly by technology, innovation, and market expansion. China's regulatory environment remains the most influential factor shaping its outward foreign direct investment decisions. Although the regulatory framework has gradually evolved from restrictive to more supportive and facilitative, strong administrative controls still persist (Tong et al., 2023).

3. REGIONAL DISTRIBUTION OF CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT STOCK

By the end of 2023, China's outward direct investment extended to 189 countries and regions, encompassing approximately 80.8 percent of the

world. Asia overwhelmingly dominates China's OFDI, accounting for more than two-thirds (USD 2,014.84 billion) of total outflows stock (68.2%). The bulk of China's investment in Asia—approximately 87 percent—was concentrated in Hong Kong, while notable shares also went to Singapore, Indonesia, Macao, Vietnam, Malaysia, Thailand, and Laos. Latin America is the second-largest destination, attracting USD 600.8 billion, or roughly one-fifth of total ODI (20.3%). The British Virgin Islands and the Cayman Islands together accounted for 96.7 percent of China's investments in the region. Other major destinations included Brazil, Mexico, Peru, Chile, the Bahamas, Jamaica, Panama, and Argentina (see Table 2) (Interesse, 2024).

Table 2: Regional Distribution of China's Outward Foreign Direct Investment Stock in 2023

Region	Billion USD	%
Asia	2,014.84	68.2
Latin America	600.8	20.3
North America	110.11	3.7
Europe	147.68	5
Africa	42.11	1.4
Oceania	39.85	1.4

Source: Interesse (2024).

In Europe, China's investments totaled USD 147.68 billion, representing 5 percent of its overall ODI. The main destinations included the Netherlands, the United Kingdom, Germany, Sweden, Luxembourg, and Russia, with additional significant investments in France, Switzerland, Italy, Spain, and several Central and Eastern European countries. In North America, China invested USD 110.11 billion, accounting for 3.7 percent of its total ODI, with the majority directed toward the United States and Canada (Interesse, 2024).

Africa received USD 42.11 billion in Chinese investment, representing 1.4 percent of the total. The leading destinations were South Africa, the Democratic Republic of the Congo, Nigeria, Ethiopia, and Angola. In Oceania, China invested USD 39.85 billion (1.4 percent of the total), with Australia and New Zealand as the primary recipients, complemented by smaller investments in Papua New Guinea and Fiji (Interesse, 2024).

4. DISTRIBUTION OF CHINA'S ODI STOCK BY INDUSTRY TYPE

By the end of 2023, China's outward FDI covered 18 industry sectors. However, Outward foreign direct investment stock was heavily concentrated in seven key sectors—leasing and business services, wholesale and retail, finance, manufacturing, mining, information technology and software services, as well as warehousing and postal services—which each exceeded USD 100 billion and collectively accounted for roughly 80 percent of the total (see Table 3) (Interesse, 2024).

Table 3: Distribution of China's Outward Foreign Direct Investment Stock by Industry Type in 2023

	USD Billion	%
Leasing and Business Services	1,179.1	40
Wholesale and Retail	421.4	14.3
The Financial Industry	323.8	11
Manufacturing	283.4	9.6
Mining	193.5	6.5
Information Technology and Software Services	133.1	4.5
Warehousing, and Postal Services	104.2	3.5

Source: Interesse (2024).

Leasing and business services dominated China's outward FDI portfolio, reaching USD 1,179.1 billion—nearly 40 percent of total ODI stock. This sector is largely driven by investment holding activities, with significant capital flowing into key financial hubs such as Hong Kong, the British Virgin Islands, the Cayman Islands, Singapore, the United States, Australia, and Luxembourg. Wholesale and retail followed with USD 421.4 billion (14.3 percent), reflecting China's deepening integration into global supply chains and trade networks. The financial industry ranked third, attracting USD 323.8 billion (11 percent) and underscoring China's growing presence and influence in international financial markets (Interesse, 2024).

Manufacturing, traditionally a pillar of China's economic strength, drew USD 283.4 billion (9.6 percent) in outward investment. Within this sector, the automotive industry led with USD 72.06 billion, followed by notable investments in electronics, pharmaceuticals, and specialized equipment manufacturing. The mining sector accounted for USD 193.5 billion (6.5 percent), focused primarily on

securing vital natural resources such as oil, gas, and minerals. Meanwhile, information technology and software services attracted USD 133.1 billion (4.5 percent), signaling a surge in technology-oriented investments, particularly by private Chinese investors. Finally, transportation, warehousing, and postal services received USD 104.2 billion (3.5 percent), reflecting China's expanding role in global logistics, connectivity, and infrastructure development.

Leasing and business services led the way with US\$1,179.1 billion, representing nearly 40 percent of China's total ODI stock. This sector is primarily driven by investment holding, with funds flowing into regions like Hong Kong, the British Virgin Islands, the Cayman Islands, Singapore, the United States, Australia, and Luxembourg (Interesse, 2024).

5. EVOLUTION AND ANALYSIS OF CHINA'S OUTWARD FOREIGN DIRECT INVESTMENTS

1) As of 2023, China's outward FDI displayed a clear concentration in developing economies, which accounted for approximately 89.5 percent (USD 2,645.69 billion) of its total overseas investment. In contrast, investments in developed economies totaled USD 309.71 billion (10.5 percent). This distribution underscores a marked contrast between China and developed economies: while developed countries' FDI typically targets other advanced markets, China's outward investment remains heavily oriented toward developing economies (Luo and Chen, 2024).

2) However, when analyzing China's investment destinations in developing countries, it becomes clear that Hong Kong, China's Special Administrative Region, remained the dominant recipient, attracting USD 1,752.52 billion (66.2 percent), followed by ASEAN countries with USD 175.62 billion (6.6 percent).

Hong Kong serves as a vital financial and logistical gateway for China's outward FDI, functioning both as a major destination and as a launching platform for mainland enterprises expanding overseas. Its strategic proximity to the mainland, free flow of capital, and world-class financial infrastructure make it an ideal hub for managing cross-border transactions, foreign exchange, and global investment activities. As one of the world's leading international financial centers, Hong Kong offers high liquidity, the absence of capital controls, and deep capital markets that attract mainland firms seeking to raise funds and list on the Hong Kong Stock Exchange (Chu, 2023).

Moreover, Hong Kong's robust legal and regulatory framework, along with its stringent corporate governance and transparency standards, ensures that companies listed there meet international benchmarks. This not only enhances their corporate image and credibility but also strengthens their global competitiveness. By leveraging Hong Kong's financial expertise and international networks, mainland enterprises improve their access to global markets and investors. Many firms also rely on Hong Kong-based services in areas such as fundraising, financial planning, and overseas compliance, underscoring the city's indispensable role in supporting China's broader "going out" strategy and global economic integration (Chu, 2023).

3) Similarly, the offshore financial centers of the British Virgin Islands and the Cayman Islands (Kolstad and Wiig, 2012), both classified as developing economies, jointly accounted for around 20 percent of China's total OFDI.

4) Thus, it can be observed that the majority of China's OFDI—over 80 percent—is directed toward offshore financial centers such as the Cayman Islands and the British Virgin Islands, as well as Hong Kong.

China's FDI figures encompass both financial and non-financial investments, with more than half of its outward FDI concentrated in the leasing, business services, and financial sectors. This pattern suggests that a significant share of China's reported overseas investment likely reflects intermediary financial flows rather than final, productive, or greenfield ventures abroad. Several factors may explain this trend, including financial structuring and tax efficiency motives, round-tripping and reinvestment practices, regulatory and strategic considerations, and the pivotal role of Hong Kong as a gateway for Chinese capital entering global markets.

5) Europe and North America collectively account for less than 9 percent of China's OFDI—a modest share that likely reflects intensified regulatory scrutiny, rising geopolitical tensions, and protectionist measures that have limited Chinese investment, particularly in strategic and high-tech industries. Likewise, investment flows to Oceania have declined amid tighter investment screening policies in countries such as Australia and New Zealand.

6) Another significant difference between China and developed economies exists in the destination patterns of outward FDI in Africa. Unlike developed countries, which primarily invest in advanced markets with strong institutional frameworks, China

has directed substantial investments toward African countries with weaker institutional environments and governance records more than developed countries, even though Africa's overall share of China's OFDI remains relatively small (Luo and Chen, 2024).

In recent years, China's outward FDI to Africa has expanded at an unprecedented pace. The introduction of China's official Africa policy in 2006, together with its active engagement in Belt and Road Initiative (BRI) projects, development finance, and strengthened diplomatic relations with the continent, has ushered in a new era of bilateral trade and economic cooperation between China and Africa (Drogendijk & Blomkvist, 2013). Reflecting the growing scale of this engagement, by 2024, China had established around 19,000 overseas enterprises in BRI partner countries, underscoring its deepening economic integration with the developing world (CGNT, 2025).

7) A preliminary examination of the major recipient countries suggests that tax havens, nations geographically proximate to China, those rich in natural resources such as petroleum, and countries with large consumer markets tend to attract the bulk of China's outward investment (Kolstad and Wiig, 2012).

8) The apparent stability in China's total outward FDI conceals an ongoing geographical diversification, characterized by increased investment in geopolitically aligned countries and a gradual shift away from larger advanced economies (IMF, 2024).

9) China's outbound investment patterns are undergoing a structural shift, marked by growing emphasis on construction and information technology alongside traditional sectors such as finance and manufacturing. A significant feature of this investment surge is China's strong push into clean energy technologies. This trend is especially evident in Southeast Asia and Africa, where Chinese investments are increasingly diversified across sectors, combining the rapid growth of the clean energy market with continued expansion in traditional industries such as manufacturing, wholesale, and retail. This evolution reflects an adaptive response to slower global growth, heightened geopolitical uncertainty, and increased scrutiny of overseas transactions (Interesse, 2024; China Briefing, 2025).

As China's domestic market matures and competition intensifies, international expansion has become a key strategy for sustaining growth and enhancing global competitiveness. The drive for

market diversification and reduced regional dependence is reinforced by the need to mitigate risks, foster regional development, and strengthen diplomatic ties. Additionally, geopolitical tensions and trade frictions with major economies like the EU and the United States have accelerated this outward push, as global expansion allows Chinese firms to bypass certain trade barriers and maintain access to international markets within legitimate frameworks (China Briefing, 2025).

Empirical evidence at the firm level further reinforces the arguments discussed above. Luo and Chen (2024) seek to explain why Chinese enterprises have invested more heavily in countries with weak market institutions compared to firms from other developing economies. They argue that Chinese companies, having grown and operated within an imperfect domestic market environment, have developed the capabilities and resilience needed to navigate institutional deficiencies abroad. Consequently, their experience in managing domestic market imperfections enables them to operate more effectively in countries with weak or underdeveloped institutional frameworks. Furthermore, analyzing outward FDI data from 3,479 Chinese multinational enterprises between 2002 and 2013, covering investments in over 160 countries, Xie et al. (2024) identified two key patterns. First, firms tend to invest in countries geographically closer to China and subsequently expand into locations near their existing overseas subsidiaries—a phenomenon referred to as the geographic network effect. Second, firms are more likely to invest in destinations with higher concentrations of Chinese FDI and to extend their investment networks to countries with strong linkages to their existing subsidiary locations. This pattern is known as the investment network effect. Similarly, using a panel dataset covering 176 host countries from 2003 to 2012, Tong et al. (2023) found that market size, trade factors, and natural resource endowments are strongly correlated with China's OFDI stocks. These findings suggest that China's outward investment is driven by a combination of market-seeking and resource-seeking motives. Moreover, sub-period analyses provide even stronger evidence supporting the predominance of market-seeking motivations in China's OFDI decisions.

6. CONCLUSION

China's outward foreign direct investment has evolved from modest beginnings in the 1990s to a defining force in global capital flows by 2023. This transformation reflects both policy-driven

initiatives and structural shifts in China's economic strategy. Initially guided by state-led resource acquisition and policy incentives, China's OFDI now emphasizes technology, services, and sustainable industries. Although the majority of investments remain concentrated in Asia and offshore financial centers, recent years have witnessed greater regional diversification—particularly toward emerging markets in Africa and Southeast Asia.

Empirical studies confirm that China's OFDI is influenced by a combination of market-seeking, resource-seeking, and strategic motives, alongside strong network and geographic effects. Hong Kong continues to serve as a key gateway for Chinese capital, while regulatory reforms have gradually shifted the investment environment from restrictive to facilitative. Despite persistent administrative controls and rising global scrutiny, China's OFDI has shown resilience and adaptability, contributing not only to its own economic modernization but also to global trade, employment, and industrial development. Going forward, China's outward investment is likely to become increasingly aligned with its broader goals of innovation-led growth, sustainable development, and enhanced global economic influence.

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