Chapter 1
Current Trends and Features of Outbound Investment Worldwide

1.1 Outline

With the deepening of economic globalization, the internationalization of Chinese enterprises has also seen rapid development. This is especially true in the 21st century, the golden age of the “go global” strategy for Chinese companies. Despite the financial crisis of 2008 and 2009 and weak outbound investment worldwide, China’s OFDI flows have seen significant gains, growing ever more diverse in terms of investment destinations, industries and investment methods. However, the aftermath of the global financial crisis and the growing trend of anti-globalization in western countries has created new challenges for the globalization of Chinese enterprises.

The Center for China and Globalization (CCG), an observer, researcher and supporter of China’s “go global” strategy, has consistently focused on the trajectory of globalizing Chinese enterprises, analyzing the relevant context of current events, international politics, economic and environmental issues. Through such research, CCG aims to decode existing patterns and map out the future direction of globalizing Chinese enterprises. This analysis helps CCG provide strategic, far-sighted recommendations to overcome the challenges Chinese enterprises face in the process of globalization. This work is a useful reference for enterprises, governments, and other research institutes. Moreover, CCG offers an open, inclusive and cooperative platform, as a think tank serving as a connecting point between research and recipient, providing intellectual support for the globalization of Chinese enterprises.

This book, published by CCG, presents nearly 3000 data samples on the outbound investment of Chinese firms. Both quantitative and qualitative research methods are used to analyze the features of Chinese enterprises’ globalization. This analysis provides a reliable reference for enterprises that have already gone global and those that plan to. In particular, this book investigates challenges confronted by Chinese companies when doing business in foreign countries. It summarizes research covering three angles, namely: the current situation, causation analysis and corresponding
solutions, and recommendations for firms, government departments and other institutions. This book mainly focuses on the globalization of Chinese enterprises from 2014 to 2017.

In the 21st century, globalizing Chinese enterprises witnessed rapid development with increasing levels of outbound investment. However, in 2017, Chinese OFDI experienced a decrease. From the end of 2016, the Chinese government increased its control over the risk management of outbound investment by strengthening regulations on the authenticity and compliance of Chinese firms’ outbound investment. As a result, the OFDI of Chinese enterprises gradually cooled down and adopted a more rational pattern. As investment growth declined, the investment structure was able to further develop and mature.

In 2017, China’s OFDI flows showed negative growth for the first time since China began releasing annual statistics in 2003. The annual total of $158.29 billion was down 19.3% from 2016. Nevertheless, Chinese outbound investment continues to become increasingly influential around the world, accounting for more than 10% of total investment worldwide for two consecutive years. At the same time, China’s outbound investment has exceeded inbound investment three years in a row. By the end of the 2017, China’s total outbound investment amounted to $1.8 trillion, accounting for 5.9% of the global total and ranking China the second in the world.

2017 saw both the global economy and global trade grow at the fastest rate since 2011, with growth of 3% and 4.7% respectively. By contrast, outbound investment decreased worldwide in 2016 and 2017. For instance, in 2017, cross-border mergers and acquisitions (M&A) and announced greenfield investments decreased by 22% and 14% respectively. In addition, levels of investment in developed countries shifted drastically while levels of investment in developing countries remained stable and robust. Generally speaking, international investment policies are becoming more liberalized and supportive, but protectionist measures adopted by certain countries remain a cause for concern.

1.2 The Current Situation and Features of Outbound Investment Worldwide

Since the financial crisis, the word economy has entered a period of slow recovery. However, influenced by trade frictions, financial turmoil, geopolitical tension and other factors, the global economic recovery has weakened, with the growth rate falling to 2.3% in 2019, according to the United Nation World Economic Situation and Prospects Report. Covid-19 has dealt a further blow to global economy, which may face the greatest challenge in nearly a century.

2017 IMF data shows that the GDP growth of developed countries was 2.2%, a 0.5% point increase from 2016. The US, the Euro Zone and Japan were the primary drivers behind the growth in developed countries. GDP growth for emerging markets and developing countries was 4.6%, with Russia and Brazil helping to overturn the
trend of negative growth. In 2017, global commodity trading welcomed the fastest growth since 2011, up 4.7%. Nonetheless, given the trends of anti-globalization and trade protectionism, the world economy still faces many challenges.

In 2017, the amount of FDI decreased drastically by 23%, totaling $1430 billion. Geographically, America remains the largest outbound investor, while Japan replaced China to be the second largest investor, with China slipping down to third place. From a sectoral perspective, cross-border transaction decreased across the board. The mining industry suffered the largest drop, while manufacturing and service industries remained subdued. Regarding modes of investment, FDI was primarily comprised of M&As, supplemented by greenfield investment. However, both types of investment saw an overall downturn in 2017. Consequently, the growth of global value chains also slowed.

1.2.1 The Largest Drop in Global FDI Levels in Recent Years

Since 2014, the global economy has been in a steady state of recovery. However, from 2014 to 2017, FDI saw a downward trend, except for a significant increase in 2015. In 2014, many factors led to a decrease in global FDI flows, including the US draw down of quantitative easing, geopolitical crises in Eastern Europe and the Middle East, and the imbalanced recovery of the Euro Zone. After a one-year increase in 2015, the dominant causes of decreasing FDI over 2016 and 2017 appear to be the slow recovery of global markets and the rise of anti-globalization and protectionist policies and measures. Not only did FDI continue to fall in this period, the FDI drop in 2017 was also more severe compared to 2016.

The rising tide of anti-globalization worldwide appears to be the main culprit for the drop of global FDI in 2017. In the US, the Trump administration implemented unilateral and protectionist policies that increased tariffs on international trade. In Europe, elections in certain countries reflected a right-wing shift, hindering the progress of globalization. Furthermore, some European and North American countries strengthened their supervision and set up approval mechanisms for FDI. These crucial trends stood out as the major elements behind the continued shrinking of global FDI (Fig. 1.1).\(^1\)

1.2.2 FDI Flows to Developed Economies Fluctuated but Flows to Developing Economies Remained Stable

From 2014 to 2017, global investment into developing countries remained stable, totaling around US $700 billion. Investment to developed countries experienced a period of volatility. After the 91.3% increase in global FDI in 2015, there followed

\(^1\)UNCTAD (2018).
a 37.1% decrease in 2017. Developing countries in Asia continued being a popular destination for international investors, and therefore did not feel the negative effects of the global economic slowdown as much as other regions. This was especially true for East, Southeast and South Asia, which saw rapid growth in international investment.

In 2017, the amount of global investment inflows to developed countries was $712.4 billion, accounting for 49.8% of the total investment worldwide. FDI to developing countries came to $670.7 billion, making up 46.9% of total global investment. The remaining 3.3% went to transition economies, a total of $46.8 billion.

Causal analysis shows that developed economies in North America and Europe suffered from slow economic recovery and implemented stricter supervision of foreign investment over this period, which led to a sharp decline in investment inflows. In contrast, the steady growth of global FDI inflows into Asian countries can be attributed to the relatively stable political situation, large market potential, and the strong development of the digital economy (Fig. 1.2).

### 1.2.3 Cross-Border M&A and Greenfield Investment

Both cross-border M&A and greenfield investment have fluctuated in recent years. After hitting a high point in 2016, both modes of investment saw decreases in 2017. Meanwhile, in 2017, cross-border M&A and greenfield investment amounts converged.
In 2017, cross-border M&A witnessed a dramatic drop of 21.8% to US$694 billion. Despite the fact that the total amount of capital involved in cross-border M&As decreased, the number of M&As actually saw a small 5% increase to 6,967 cases. This shows that in 2017, large-scale M&As decreased in comparison with 2016. M&A activity did not only cool in manufacturing and services. M&As in the primary sector also shrank severely by 70%. However, other sectors saw large gains; there was a 43% increase in M&As in business services, 63% in machinery and equipment and 66% in information and communication.

Similarly, in 2017, greenfield investment decreased 13.6% to US $720 billion. Of note, the total amount of greenfield investment in manufacturing was $338 billion, a 14% increase compared with the previous year. Nevertheless, greenfield investment into primary industry and service industry both saw reductions of 61% and 25% respectively. The decrease varied across sectors, ranging from 51% in construction to 26% in electricity, gas and water as well as transport, storage and communications (Fig. 1.3).

### 1.2.4 International Policy Trends Toward Liberalization and Investment Facilitation

From 2008 to 2017, an increasing number of countries enacted policies regarding international investment. In 2017, 65 countries and economies launched a total of over 126 policy measures affecting foreign investment. This represented the highest number of countries implementing investment measures and the highest total number of policy measures in a decade, up by 25 and 58 respectively since 2008. Of these
policies, 93 were related to investment liberalization and investment promotion, while 18 were aimed at restriction and regulation (Table 1.1).

The specific characteristics of new investment varied by year. In 2014, some countries focused on loosening control over the ownership of foreign capital and opening up new sectors to foreign investors. For instance, India loosened restrictions on foreign investment in railway construction, while Indonesia increased foreign investment caps to 85% in medicine, risk investment and electricity generation. In 2015, emerging markets in Asia made particular efforts to facilitate and liberalize investment. For example, when Prime Minister Modi assumed office, India moved to allow 100% direct foreign investment in civil aviation and lowered the entry threshold for international airlines to enter India’s aviation market. In addition, India passed measures allowing foreign companies to hold up to a 74% share in mature medicine programs even without prior government approval, and for foreign investors to hold 100% of new pharmaceutical enterprises. In 2016, despite the trend of global investment policies moving toward liberalization and facilitation, some developed countries were tightening foreign investment regulations and increasing supervision and restrictions on foreign investment.

In 2017, emerging Asian powers continued expanding policies to attract foreign investment. China lifted 30 restrictions on foreign investment into the Chinese market, ranging from services to manufacturing and mining. Laos abolished the requirement to register the lowest standard for foreign investment. Myanmar gave far more leeway to foreign investors to hold shares in domestic companies. Conversely, certain developed economies continued to strengthen barriers to foreign investment. Japan revised its foreign investment audit system. The cabinet of Germany passed further amendments to the Foreign Economic Law. The United Kingdom proposed

---

Fig. 1.3 Comparisons of FDI by different investment modes. Source UNCTAD <World Investment Report 2018>
|                                      | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------------|------|------|------|------|------|------|------|------|------|------|
| Number of countries presenting regulations | 40   | 46   | 54   | 51   | 57   | 60   | 41   | 49   | 59   | 65   |
| Total number of policies changed      | 68   | 89   | 116  | 86   | 92   | 87   | 74   | 100  | 125  | 126  |
| Liberalization and facilitation policies | 51   | 61   | 77   | 62   | 65   | 63   | 52   | 75   | 84   | 93   |
| Restrictive policies                 | 15   | 24   | 33   | 21   | 21   | 21   | 12   | 14   | 22   | 18   |
| Neutral policies                     | 2    | 4    | 6    | 3    | 6    | 3    | 10   | 11   | 19   | 15   |

Source: UNCTAD <<World Investment Report 2018>>
measures to strengthen the review and investigation mechanisms on foreign M&As of British enterprises.

These trends make clear that more countries are paying closer attention to foreign investment. Most aim to create a more amiable environment for FDI. However, a number of countries have decided to adopt a more cautious attitude towards FDI. Notably, it tends to be developed countries that have introduced restrictive regulations regarding foreign investment. In general, these countries have stepped up review mechanisms for foreign M&A, especially for strategic assets and high-tech enterprises. Moreover, the formulation of International Investment Agreements (IIAs) also witnessed a turning point; 2017 saw the lowest amount of IIAs signed since 1983. Moreover, for the first time in history, the number of agreements that were terminated exceeded the number of new agreements signed. By contrast, negotiations on large-scale regional agreements have maintained good momentum, especially in Asia and Africa.

Reference

UNCTAD, *World Investment Report 2018*. 