The music still goes on ……somewhere in the world

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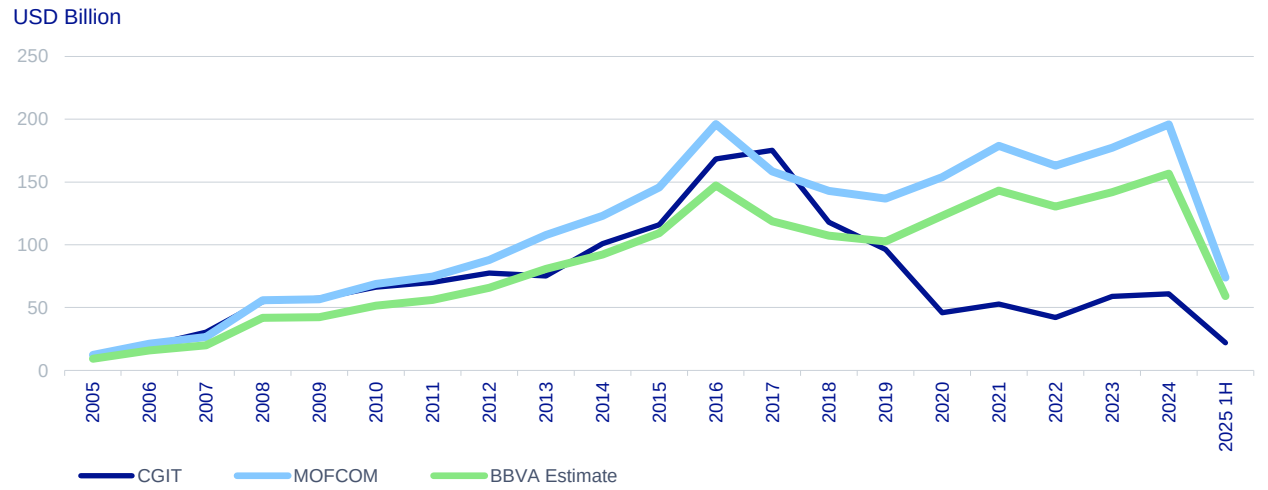
China’s ODI flows fell in 1H2025

According to China’s Ministry of Commerce (MOFCOM), China's ODI saw a slight downturn amid the trade war with the US, while investment in Belt and Road Initiative (B&R) countries rose against the trend. Chinese total ODI reached USD 80 billion in the first half of 2025, down 6.2% year over year (YoY) amid increasing external challenges (Figure 1). Conversely, official data shows investment in BRI countries increased 20.7% to USD 18.9 billion.

However, official data is distorted by “round-tripping,” a practice in which Chinese firms route capital offshore and reinvest it back into China as FDI. The World Bank and Asian Development Bank (ADB) estimate that round-tripping accounted for 25–30% or more of inflows in the 1990s and early 2000[1]. Following the 2008 unification of corporate income tax rates for domestic and foreign firms and the gradual elimination of preferential incentives, the motivation for such practices has diminished. Although Hong Kong and offshore centers like the Cayman Islands and the British Virgin Islands remain dominant sources of reported FDI, the actual scale of round-tripping appears to have decreased. Currently, we estimate this share to be approximately 20%.(For details on our adjustment algorithms, please refer to our previous report: China | Overseas Direct Investment Pivoting to Global South)

FIGURE 1: CHINA’s ODI ESTIMATES BY AEI, MOFCOM AND BBVA



Source: China Global Investment Tracker & BBVA Research

1: World Bank, “What to Do When Foreign Direct Investment Is Not Direct: FDI Round-Tripping,” Policy Research Working Paper 4756 (2008). ADB, Round-Tripping FDI in China, Research Paper No. 58 (2004).

Moreover, we juxtapose the data series from the China Global Investment Tracker (CGIT), a project-level database that includes transactions above USD 93 million. This helps trace investments by sector and geography. CGIT data closely matched MOFCOM data prior to 2019, but a notable divergence has emerged since. As of 1H 2025, CGIT captured only one-quarter of the ODI volume reported by official sources. The gap is largely due to: i) CGIT's focus on deals exceeding USD 93M, missing many smaller transactions; ii) a surge in "small but broad" outbound strategies in tech, brands, and services; iii) inadequate data in countries with limited transparency; and iv) CGIT's exclusion of loans, trade, bonds, and reinvested earnings—categories that MOFCOM includes. Notably, reinvestment accounted for 44% of total ODI from 2019–2023.

ODI current landscape: Asia still leads while Africa is catching up fast

Amid growing protectionism, tariff tensions, foreign-investment screening, and tightening technology controls, China's ODI landscape has been shaped more by geopolitical risks than by economic fundamentals. According to CGIT data tracking large deals, ODI deals above USD 93 million fell by 18.3% to USD 22 billion in the first half of 2025, reflecting not only regulatory headwinds but also a shift toward smaller, more fragmented, and geographically selective projects.

Heightened geopolitical uncertainty is reshaping where Chinese firms can invest-and in which sectors. Regions aligned with China or less exposed to US-led scrutiny are seeing increased activity, while markets subject to elevated political tension or security-related screening have experienced a significant slowdown. This realignment marks a structural reconfiguration of China's global investment map rather than a temporary fluctuation (Figure 2).

North America: From dominance to Marginalization

Once a leading destination for China's capital, North America's share of China's ODI plummeted to just 0.9% in 1H 2025, down from 4.0% a year earlier—a dramatic departure from 2016, when the region accounted for nearly one-third of China's global ODI. The collapse is largely due to rising political and regulatory hurdles, including tariff disputes, trade tensions, and scrutiny from the Committee on Foreign Investment in the United States (CFIUS) and the Foreign Investment Risk Review Modernization Act (FIRRMA).

Europe: Investment declines amid scrutiny

China's ODI in Europe fell to USD 3.8 billion in 1H 2025, down from USD 8.7 billion in the same period of 2024, with the region's share of China's global investment dropping from 32.3% to 17.2%. The decline reflects a significant tightening of European attitudes toward China, especially in technology, telecommunications, and critical infrastructure. The EU has strengthened its investment-screening mechanisms, and several member states—including Germany, which has begun phasing out Huawei equipment from its 5G networks—are adopting more security-driven policies.

Nevertheless, Europe remains a meaningful, though more selective, destination for Chinese investors because its regulatory environment is still rules-based and commercially oriented rather than overtly protectionist. While high-sensitivity sectors face increasing scrutiny, there is still space for investment in automotive electrification, batteries, manufacturing partnerships, and green technologies, where European industrial demand aligns with China's strengths. Countries such as Hungary and parts of Central and Eastern Europe continue to show openness, while Western Europe has become more cautious and politically sensitive toward Chinese capital.

Asia: Still the leading destination

Despite a decline in both value and market share, Asia remained the top regional destination for Chinese ODI in 1H 2025. Investment declined from USD 11.3 billion to USD 8.9 billion, while market share edged down from 41.8% to 40.2%. Within Asia, China's investment continues to concentrate in Southeast Asia and Central Asia, driven by geographic proximity, industrial relocation, and BRI connectivity. Asia dominated in several industries, including TMT, transport, health, agriculture, real estate, and utilities.

Africa: Surging to second place

Africa overtook Europe to become the second-largest regional recipient of China's ODI. In 1H 2025, Africa attracted USD 4.9 billion, a 63% increase from USD 3.0 billion in the same period of 2024. Africa's share of China's global ODI rose to 22.4%, doubling from 11.2% a year earlier. This surge was driven predominantly by the metal sector, led by Chinese SOEs and private firms investing in resource-rich Sub-Saharan countries. The region's mineral reserves, such as copper, cobalt, bauxite, and rare earths, align with China's energy and EV goals. The dominance of mining projects underscores Africa's rising strategic value—not just as a resource base, but also as a long-term partner in industrial cooperation and geo-economic alignment.

Latin America: Steady Growth

Chinese ODI in Latin America reached USD 2.8 billion in the first half of 2025, up from USD 2.4 billion in the previous year. This increase was primarily led by Brazil, which received USD 2.2 billion, mostly in the transportation sector, particularly from automotive and infrastructure firms. Other recipient countries included Ecuador and Colombia, reflecting growing Chinese interest in the region's emerging markets and natural resource wealth. Logistics deals dominated in Latin America.

Oceania: Fastest Growth Rate

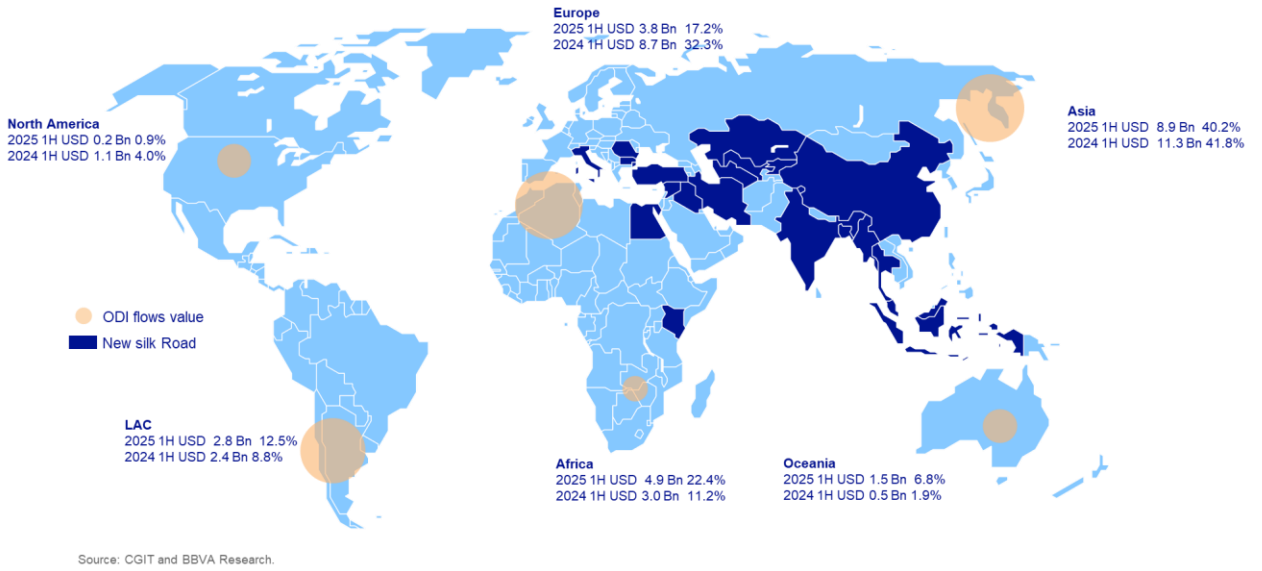
ODI to Oceania grew 200% YoY to USD 1.5 billion. This growth reflects China's renewed interest in energy and logistics assets in countries such as Australia and New Zealand, as well as a strategic recalibration amid global economic uncertainties.

Belt and Road Initiative (BRI)- Large Deals

Despite the overall decline in large-ticket outbound direct investment (ODI), China's investment in Belt and Road (B&R) partner countries involving transactions over USD 93 million reached USD 2.0 billion in the first half of 2025 according to CGIT data. This represents a 28.5% year-on-year increase for these large transactions. These deals accounted for 9% of total large-deal ODI, up from 6% during the same period last year. In these partner countries, Chinese enterprises primarily focused on the energy and metals sectors, reflecting continued alignment between BRI objectives and China's broader resource and infrastructure strategies.

Overall, the geography of ODI is increasingly diversified. While BRI remains a guiding framework, China is pursuing an "America +1" strategy to diversify supply chains away from dependence on the US to Europe, the Middle East, and Latin America, hedging against global volatility and strengthening ties with emerging markets.

FIGURE 2: MAPPING ODI FLOW FOOTPRINTS (2024 1H AND 2025 1H)



Note: The bubbles are indicative and do not exactly represent the size of ODI flows and stocks.
Source: China Global Investment Tracker & BBVA Research

Metal mining, energy, and transport industries stand out

In the first half of 2025, five sectors accounted for 82% of China's ODI by value for transactions exceeding USD 93 million. These sectors—metal mining, energy, transport, entertainment, and technology—collectively highlight China's strategic shift toward industry security, resource control, technological advancement, and expanding global commercial presence (Figure 3).

The metal mining sector remained the most dominant in both volume and value, totaling USD 10.6 billion across 17 projects. While investments were geographically diverse, Sub-Saharan

Africa was the primary target, leading with over USD 3.3 billion, particularly in the Democratic Republic of the Congo, Guinea, and Zambia. Other notable destinations included Central and West Asia, South America, and Southeast Asia. Prominent deals included Zijin Mining's USD 1.2 billion investment in Kazakhstan and State Power Investment's USD 1.02 billion project in Guinea. The sector's wide geographic spread and steady deal flow indicate a well-calibrated strategy to secure critical resources while mitigating geopolitical and commercial risks.

The energy sector ranked second by value, with 11 outbound projects totaling USD 8.04 billion across Europe, East and Southeast Asia, the Middle East, and the Americas. The majority of these investments were concentrated in renewable energy and clean-technology manufacturing, including major battery and solar projects such as Gotion's USD 1.02 billion project in Morocco, CATL and Zhejiang Lygend's USD 720 million facility in Indonesia, as well as substantial solar-manufacturing expansions by JA Solar and DAS Solar, and Xiamen Hithium's energy-storage investment in the United States. At the same time, a smaller but still significant portion of activity involved traditional energy and power-infrastructure investment, particularly in the Middle East, led by companies such as State Grid, United Energy, and State Power Investment. Together, these investments highlight China's growing dominance in global clean-energy industries while underscoring its continued engagement in conventional energy where strategic resource considerations remain important.

In the transportation sector, Chinese investments totaled USD 13.9 billion across 11 projects, covering Asia, Europe, and South America. The Chinese automotive industry chain is rapidly expanding its global footprint. Leading manufacturers such as BYD and Geely spearheaded the trend—BYD invested over USD 1 billion in Indonesia and Hungary, while Geely made significant moves in Brazil and Sweden in the first half of 2025. According to a recent report by the US-based Rhodium Group, in 2024, Chinese ODI in the new energy vehicle (NEV) sector surpassed domestic NEV investment for the first time. Meanwhile, battery and component manufacturers are increasingly collaborating on international expansion, accounting for 74% of total ODI in China's NEV industry chain. The sector's focus remains on EV production, capacity building, and infrastructure integration, with Southeast Asia and Europe emerging as key hubs for manufacturing and export.

This convergence of green and advanced manufacturing is not only aligned with global decarbonization goals but also designed to position China as a competitive player in the next generation of sustainable industrial supply chains. Chinese firms are combining smart factory models with low-carbon technologies, setting up greenfield R&D centers, production lines, and energy integration systems tailored to host-country sustainability targets. Localized deployment of EV infrastructure—such as charging networks and grid storage—has also become a key area of outbound focus.

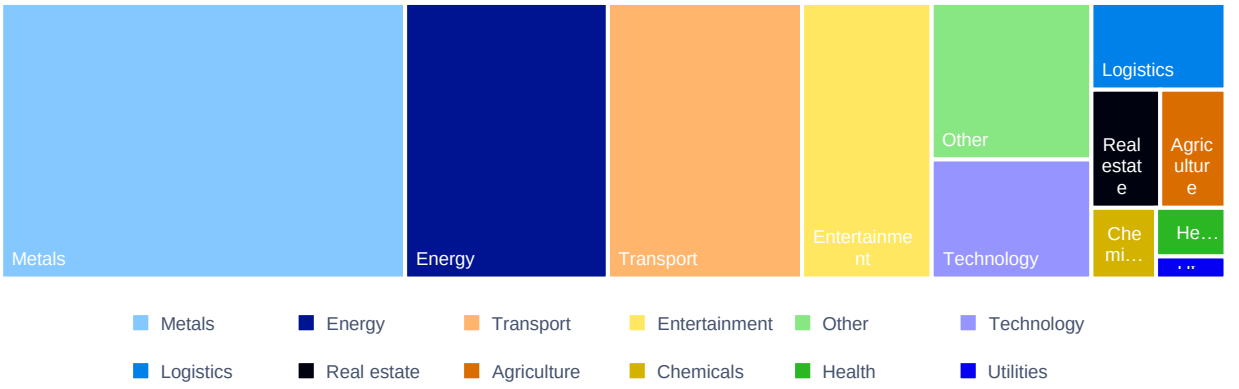
In the entertainment sector, Chinese firms completed three outbound investments totaling USD 2.33 billion, ranking it fourth in outbound investment volume. Major deals included Tencent's investments in France and South Korea, as well as Hongshan's investment in Sweden. Over 90% of transaction value was concentrated in Europe, indicating a clear strategic focus on mature, high-consumption digital markets. These investments reflect China's increasing ambition to integrate more deeply into global digital entertainment ecosystems.

The technology sector ranked fifth in outbound investments, amounting to USD 2.74 billion. Target markets included Thailand, Indonesia, India, and Saudi Arabia, reflecting China's continued engagement with emerging digital economies. Key investments included Bytedance's USD 760 million project in Thailand and Tencent's deals in Saudi Arabia and Indonesia. At the same time, digital commerce giants such as Pinduoduo (Temu), TikTok (TikTok Shop), and Shein are pursuing aggressive global expansion, particularly in e-commerce, cloud services, and digital content platforms. China's tech and e-commerce leaders are driving this transformation, leveraging their innovation capacity in fast-growing digital markets.

Driven by the rapid global growth of Chinese technology and e-commerce platforms, logistics investments totaled USD 760 million across three projects in the first half of 2025. These were led by China Merchants' USD 450 million project in Brazil, which strengthened its presence in Latin America's ports and transport infrastructure, while JD.com's two investments in Australia reflected the company's efforts to build international fulfillment, warehousing, and last-mile delivery capabilities.

Other traditional sectors—including real estate, agriculture, and chemicals—remained marginal. These areas are often constrained by China's "negative list" and have received lower strategic priority amid capital tightening and a broader shift toward high-value-added sectors.

FIGURE 3: METAL, ENERGY AND TRANSPORTATION INDUSTRIES ACCOUNTING FOR THE LION'S SHARE



Source: China Global Investment Tracker & BBVA Research

Greenfield investment vs mergers and acquisitions (M&A)

A defining characteristic of China's ODI in 1H 2025 was the dominance of mergers and acquisitions (M&A) over greenfield investments. The vast majority of large-ticket deals were structured as acquisitions, equity stakes, or joint ventures. This preference for M&A reflects a pragmatic strategy emphasizing speed, risk mitigation, and faster market access—especially in high-tech, digital entertainment, EV manufacturing, and mining sectors.

By contrast, greenfield investments—which involve building new operations abroad—were relatively limited and concentrated in infrastructure and energy sectors, often led by state-owned enterprises and occasionally aligned with the Belt and Road Initiative (BRI). Greenfield projects offer long-term control and deeper localization but come with high capital and regulatory risks. As a result, many Chinese firms increasingly favored strategic partnerships or joint ventures with local or multinational firms to de-risk their entries.

SOEs vs POEs: Shifting investment dynamics

2025 marked a continued shift toward privately owned enterprises (POEs) as the leading force behind ODI. The rise of POEs signals a more mature, commercially driven phase in China's global investment strategy. Firms such as Bytedance, Tencent, Geely, CATL, and Zijin Mining are now leading outbound investment in high-growth industries including technology, digital entertainment, electric vehicles, and digital sectors. Their strategies emphasize equity participation, market proximity, and commercial scalability, often targeting fast-growing economies with large domestic markets. While SOEs remain strong in energy, utilities, and infrastructure, they are increasingly focused on politically aligned BRI projects. This results in a more balanced landscape where POEs lead in innovation and scalability, while SOEs focus on long-term strategic corridors.

Looking ahead: structural forces driving expansion of ODI

Looking forward, China’s outbound investment is set to continue its upward trajectory, supported by a more stable external environment and reinforced by long-term structural drivers. While strategic competition between China and the United States will remain a defining feature of global politics, short-term decoupling risks have eased—particularly following the three rounds of meetings since May, which helped stabilize trade relations and brought the tariff confrontation closer to a plateau. This external backdrop sets the stage for a continued and selective rise in Chinese ODI.

At the global level, China’s outbound investment will persist—including in advanced manufacturing, clean energy, and strategic resources—in its globally competitive sectors. Industries such as electric vehicles, solar panels, and batteries face tightening margins and persistent excess capacity at home, yet they remain globally competitive. Many host countries now prefer localized investment over imports, encouraging Chinese firms to build factories, supply chains, and local partnerships abroad.

Moreover, China’s large and persistent current account surplus creates additional incentives to channel capital outward to sustain stable economic relations with key trading partners. Outbound investment plays a diplomatic role to ease trade tensions by creating jobs, building capacity, and supporting local development. Domestically, economic intensification and market saturation are increasing the push for firms to “go global”. With limited room for expansion in the home market, companies are turning to internationalization as a strategy for survival,

profitability, and technological upgrading. This dynamic is not cyclical but structural, reflecting deeper changes in China's industrial landscape and the logic of its "dual circulation" strategy, which relies on global linkages to complement domestic resilience.

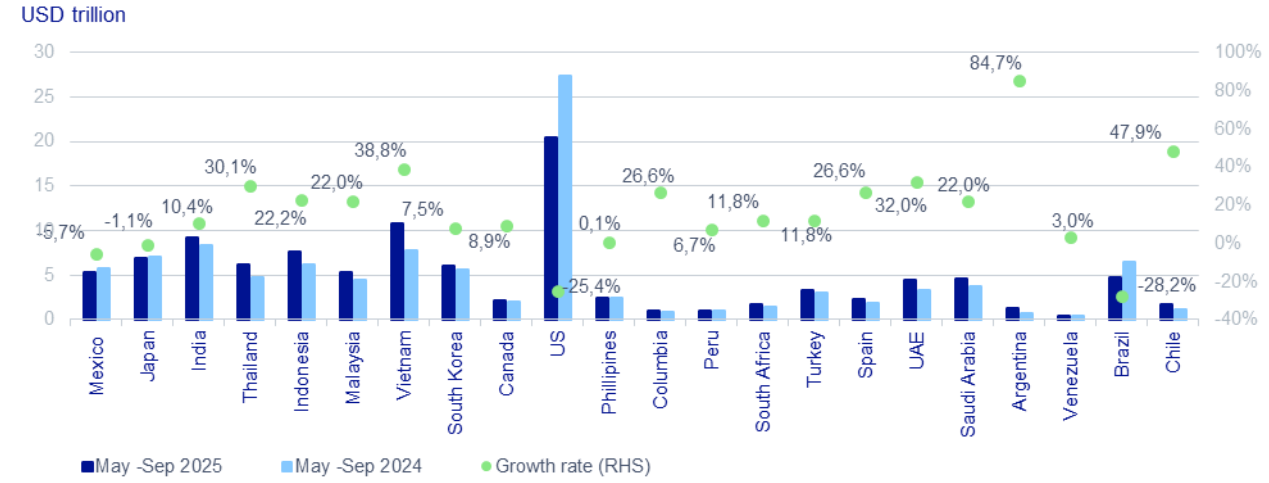
Finally, ODI will continue to serve China's national energy security and critical mineral strategy. Investments in traditional energy, renewable power, and upstream metal resources remain essential for safeguarding supply chains central to China's industrial system, from batteries to high-end manufacturing. As global competition intensifies, securing access to key minerals and energy assets abroad has become integral to China's long-term strategic planning. Taken together, these forces suggest that Chinese ODI will not diminish—it will evolve.

Where will China's ODI head?

The fast-changing external environment, in particular the high US tariffs implemented since April, has redrawn the global investment landscape for Chinese firms. We attempt to gauge the "wind of change" by analyzing China's exports of capital goods (Figure 4).

Capital-goods data from May to September 2025 further reinforces this trend: capital-goods shipments surged to Argentina (+85%), UAE (+32%), Colombia (+27%), Spain (+27%), and Saudi Arabia (+22%), while falling sharply in Mexico (-5.7%), the United States (-25%), and Brazil (-28%). Given that capital goods are typically deployed in industrial, infrastructure, and manufacturing upgrades, their import patterns serve as forward-looking indicators of future ODI. Markets showing strong import growth of capital goods are thus likely to become China's next major investment destinations, especially in sectors such as EVs, renewable energy, digital infrastructure, and smart logistics.

FIGURE 4: CHINA'S CAPITAL GOODS EXPORTS TO RECEIPIENT COUNTRIES



Source: General Administration of Customs of People's Republic of China & BBVA Research

Some takeaways from the chart are noteworthy:

First, Southeast Asia—especially ASEAN—will remain a central hub for Chinese

manufacturing and technology-linked investment. Three structural forces underpin ASEAN's continued attractiveness: i) manufacturing investment operates with a long time horizon, meaning that once Chinese firms establish production bases in ASEAN, relocation is difficult even amid shifting geopolitics ; ii) although global tariffs have risen, they have been applied relatively "evenly" across exporters, meaning ASEAN's comparative advantage has not meaningfully eroded, particularly in labor-intensive and mid-tech manufacturing; and iii) Chinese firms possess a high degree of familiarity with ASEAN's local markets, supported by large Chinese diaspora communities and deep commercial ties—evident in sectors such as video gaming, e-commerce, digital entertainment, and retail logistics.

Second, the Middle East—especially Saudi Arabia and the UAE—will continue to rise as priority destinations, driven by large domestic markets, sovereign-backed industrial diversification agendas, and deepening China–Gulf strategic complementarities. Beyond energy, China's fast-growing capital-goods exports to Saudi Arabia and the UAE signal accelerating investment in EVs, renewable power, smart logistics, and industrial upgrading. These economies are emerging as China's preferred "new-market anchors" outside Asia, offering scale, policy certainty, and strategic footholds connecting Africa, Europe, and South Asia.

Third, Latin America is expected to receive stable but uneven ODI inflows. Countries such as Argentina, Chile, Colombia, and Ecuador have broadened their economic engagement with China—from resource extraction into EV manufacturing, agritech, and smart infrastructure. Brazil remains a core market where Chinese automakers and tech companies are building full-chain local operations. However, renewed U.S. diplomatic assertiveness in the Western Hemisphere—particularly under a strengthened Trump administration—could constrain China's expansion in parts of Latin America by tightening geopolitical boundaries and amplifying U.S. leverage over regional governments.

Finally, developed economies in the Global North—Europe, the United States, Japan, and South Korea—will remain strategically important yet more challenging. In the United States, Chinese ODI will stay low-profile, limited to non-sensitive sectors via minority stakes, licensing partnerships, and joint ventures. In Europe, despite intensifying "de-risking" rhetoric, several countries continue to maintain an open investment stance. Hungary has already become a key production hub for Chinese EV and battery firms, while Spain is emerging as a second foothold thanks to its relatively favorable investment environment and growing collaboration in ports, EVs, batteries, and telecom infrastructure.

Overall, China's future ODI geography will be shaped by a combination of geopolitical alignment, market scale, industrial upgrading needs, and sectoral synergies, with ASEAN, the Middle East, and selected Latin American partners forming the core of the next wave of expansion. Across all three tiers, a consistent trend is emerging—deep localization. Rather than export-heavy engagement, Chinese enterprises are now building R&D centers, regional supply hubs, branded retail channels, and digitally integrated platforms to ensure a long-term, embedded presence in key global markets.

Strategic sectors on the rise: toward a more innovative and globalized Chinese industrial footprint

As China enters a more strategically driven phase of global investment, several sectors are poised to become the core pillars of its next wave of outbound activity. These sectors signal a broader shift from capacity-driven expansion to value-added, technology-enabled, and consumer-centric growth.

- Advanced manufacturing and green energy: In the decade ahead, China's strength in electric vehicles (EVs), battery technology, smart manufacturing, and clean energy will serve as the backbone of its industrial globalization. These sectors are deeply interconnected—especially in China's strategic efforts to lead the global green transition. Outbound activity in these areas is no longer about capacity replication; it is about co-creating the next generation of sustainable industrial ecosystems. Chinese firms will focus on integrating low-carbon solutions, smart production systems, and digitalized supply chains into host markets, especially as global industries transition toward net-zero targets.

- TMT (Technology, Media, and Telecommunications): As digital technologies become central to global economic competition, Chinese companies are expected to deepen their internationalization of platform services, cloud infrastructure, AI tools, and fintech applications. Future expansion will likely be driven by strategic partnerships, joint ventures, and localized digital compliance models. Rather than exporting Chinese platforms wholesale, firms will adapt and embed themselves into local digital ecosystems.

- Consumer and lifestyle brands: China's shift from being the "world's factory" to a global brand builder will become more pronounced. Future investments will focus on value-driven branding, cultural localization, and omnichannel retail strategies. Chinese companies are poised to play a bigger role in setting global consumption trends in fashion, beauty, wellness, and electronics—particularly among Gen Z and emerging middle classes in frontier markets.

- Logistics and infrastructure: As supply chain resilience becomes a strategic necessity, logistics and infrastructure investment will evolve from "connectivity building" to intelligent, flexible, and carbon-conscious systems. Future Chinese investment will prioritize AI-enabled logistics, modular infrastructure design, and green trade corridors that integrate with e-commerce flows and regional production networks. These systems will not only support China's outbound industries but also position Chinese firms as key contributors to the global infrastructure of the digital and green economy.

TABLE 1: ANNOUNCED BUT NOT YET OR PARTIALLY IMPLEMENTED DEALS

Year	Month	Investor	Country	Sector	News
2025	January	Lenovo Group	Saudi Arabia	TMT	Lenovo Group and a subsidiary of Saudi Arabia's Public Investment Fund (PIF) announced the completion of a three-year, USD 2 billion zero-interest convertible bond investment. Lenovo will establish its Middle East and Africa regional headquarters in Riyadh and build a sustainable manufacturing facility in Saudi Arabia.
2025	March	Shengtai Intelligent Manufacturing Group	Morocco	Advanced manufacturing	Shengtai Intelligent Manufacturing Group signed an Investment Agreement with the Kingdom of Morocco to establish a project company and invest in the "Shengtai (Morocco) Green Textile Industrial Park Project."
2025	May	Meituan	Brazil	TMT	Meituan's international brand Keeta signed an investment agreement with the Brazilian Trade and Investment Promotion Agency. Meituan plans to officially launch its food delivery service Keeta in Brazil in the coming months and intends to invest USD 1 billion over the next five.
2025	May	Tencent	Saudi Arabia/ Indonesia / Japan	TMT	Tencent announced plans to invest USD 150 million in the Middle East, including the launch of its first data center in Saudi Arabia. The company also plans to invest USD 500 million in Indonesia to build its third data center there.

Source: BBVA Research based on compiled market news

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