



Internationalization of Chinese companies

Key Insights

June 2024

Executive Summary

Spike in Chinese exports fueling concerns in advanced economies

- Growth in Chinese exports is both sector and country specific, with much of the difference resulting from consumption market tariffs
- Importers are raising concerns about overcapacity in Chinese production of key goods

Patterns of outbound FDI are shifting

- Outbound FDI slowed substantially during the pandemic, with funds moving to priority sectors like chemicals and logistics and regions such as East Asia, MENA, and Sub-Saharan Africa
- OEMs are also investing overseas to shorten supply chains, with varying motivations and sectors of interest in different regions

Yet, Chinese firms face mounting challenges in expanding abroad

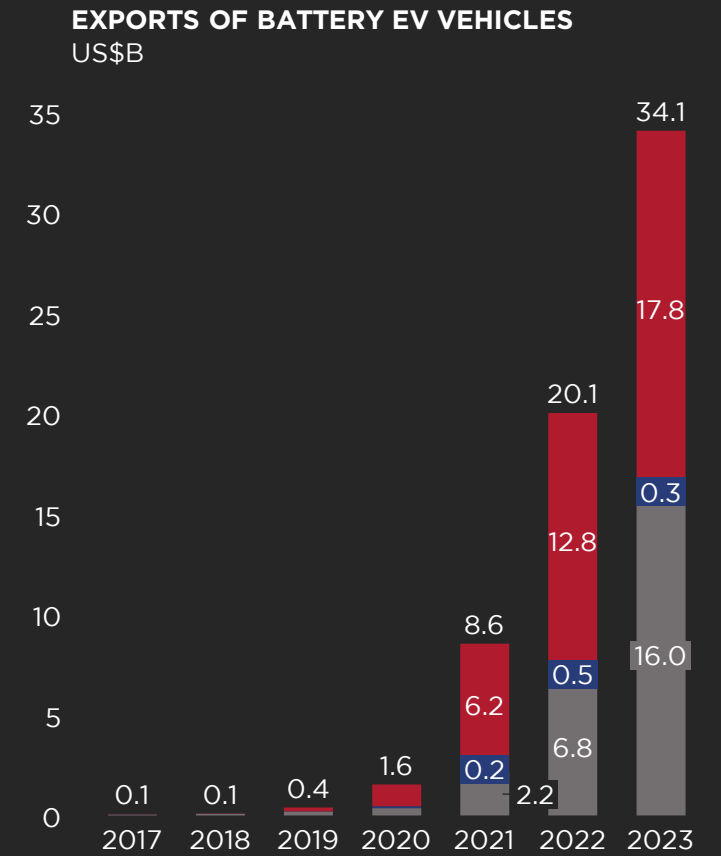
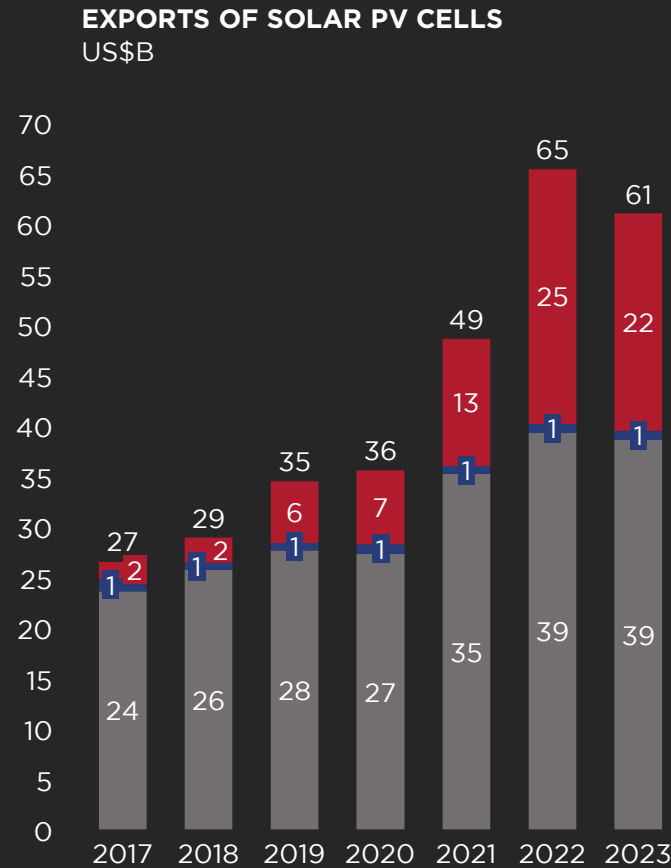
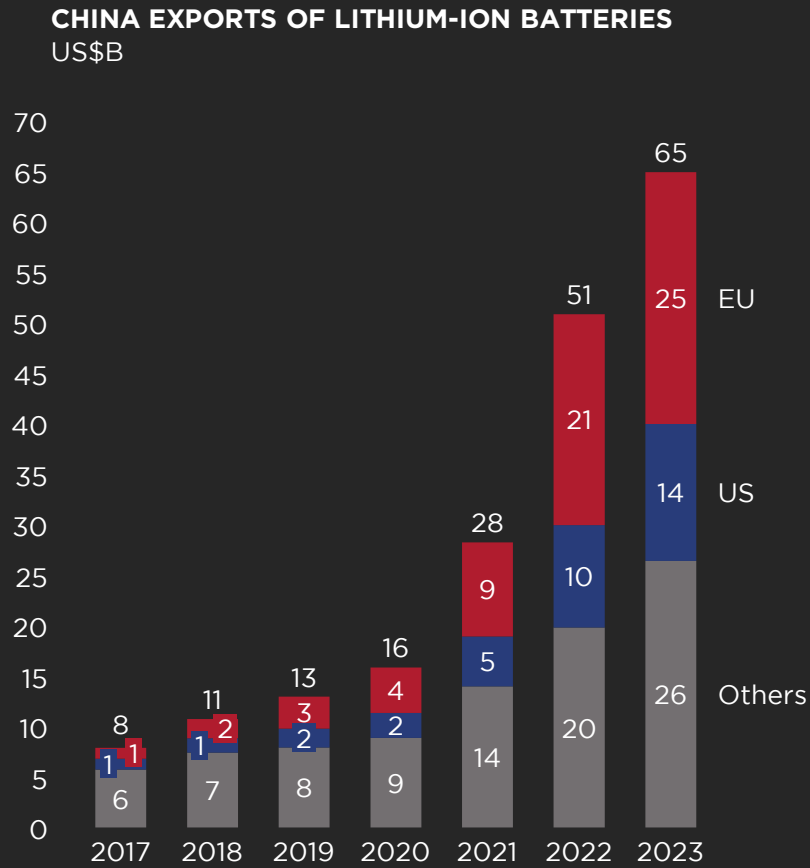
- Risks are tilted towards the downside for Chinese firms, particularly in the rise of protectionist trade policy in advanced economies and emerging markets
- But Chinese firms will continue to access the US market through its trade partners and China's rising exports of intermediates means it will be difficult for companies to completely de-risk from China

SECTION I

**Spike in Chinese exports
fueling concerns in
advanced economies**

Spike in Chinese exports is country and sector-specific

Trade data show that surging Chinese exports is more of an EU issue in green sectors than a US one



HS codes: LI batteries – 850760, solar PV cells – 8541, BEVs – 870380

Source: UN Comtrade, Onyx

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Difference between US and EU imports of Chinese green goods largely due to tariffs

EU rates are still most-favored nation (MFN)

PRODUCT	EU-27	US
Lithium-ion batteries	1.3%	7.5% → 25%
Solar PV cells and solar panels	0%	25% → 50%
Electric vehicles	10%	25% → 100%

WITH EVEN MORE INCOMING TRADE ACTION:

US TO IMPOSE DUTIES ON SOLAR PANELS COMING FROM CAMBODIA, MALAYSIA, THAILAND, & VIETNAM

- Assumed solar panel exports from these four countries originate from China
- More punitive action on trade diversion likely

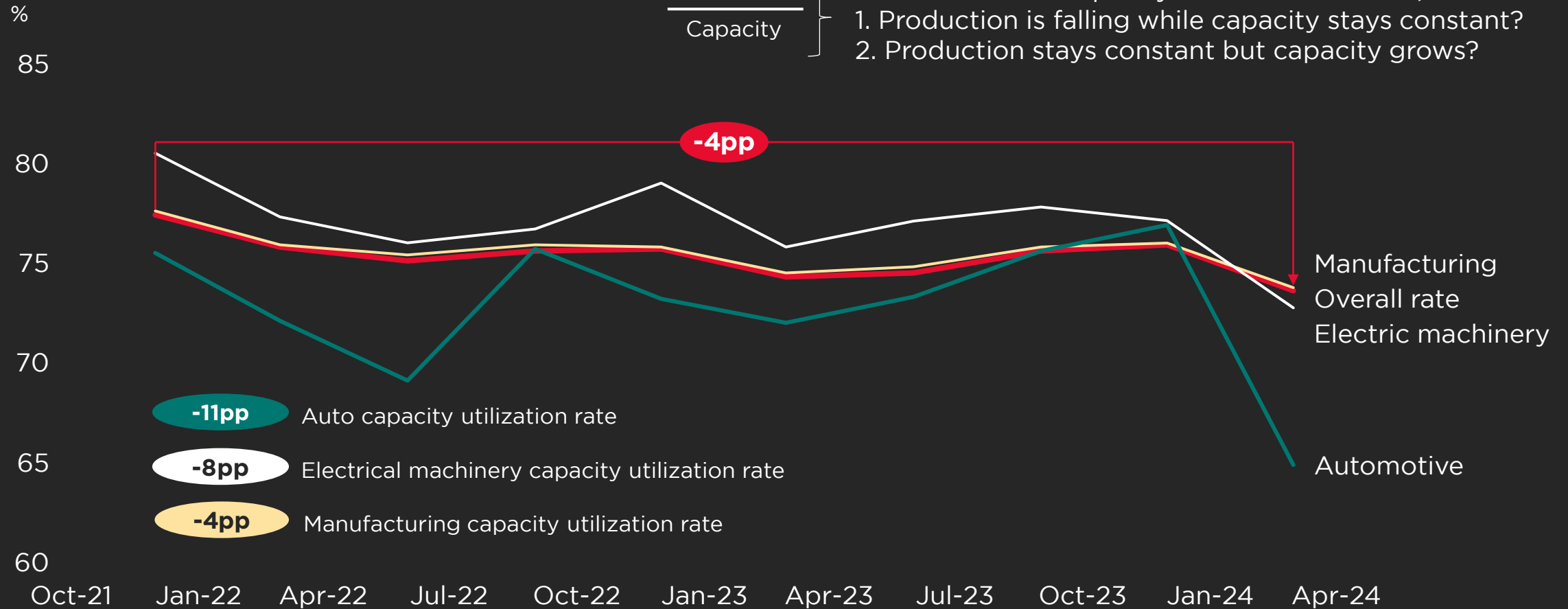
EU EV DUTIES ANNOUNCED

- Up to 25% duties on imports of Chinese EVs
- China threatened retaliation on EU agricultural goods, dairy, French cognac, autos

Industrial capacity utilization rate is falling, bolstering concerns around “overcapacity”

But this is also sector-specific; drop is much more apparent in auto

CHINA'S INDUSTRIAL CAPACITY UTILIZATION RATE



SECTION II

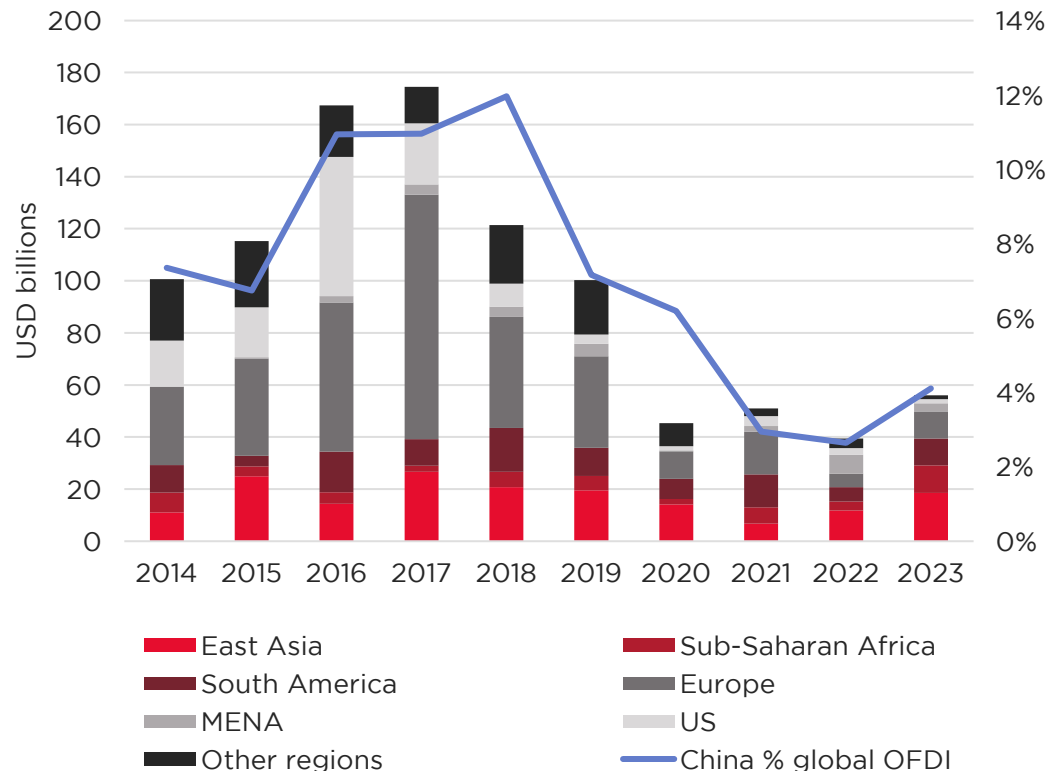
Patterns of outbound FDI are shifting

China's outbound FDI has slowed since the pandemic

Investment mix shifting by geography and sector as absolute values fall

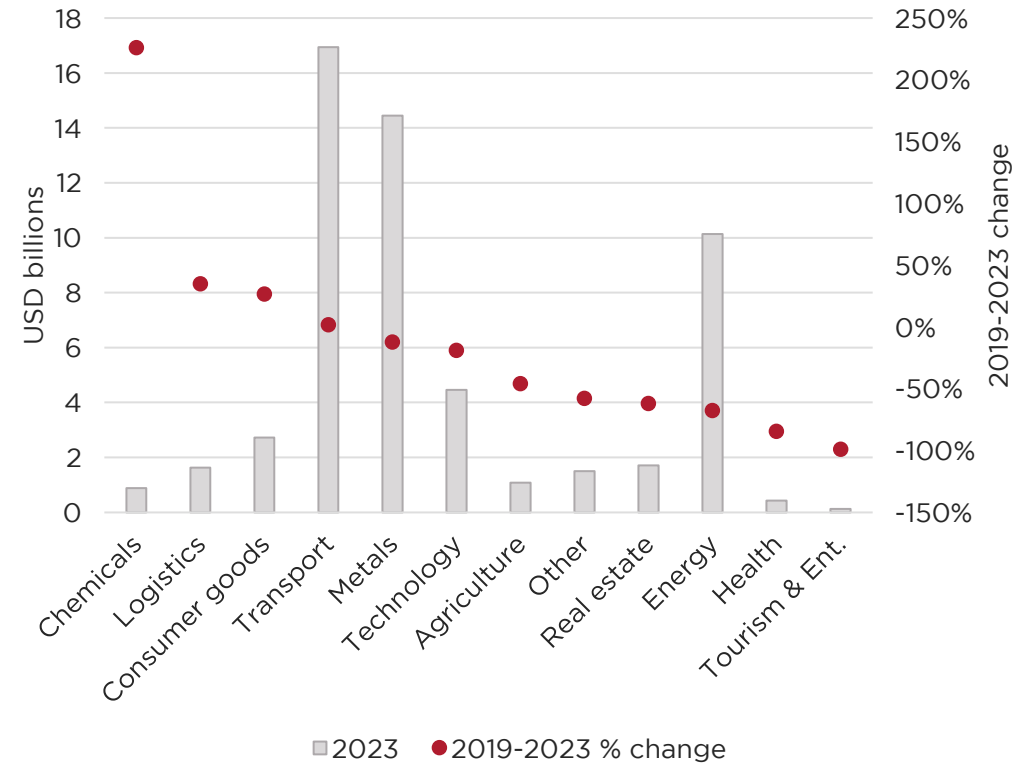
CHINA OUTBOUND INVESTMENT BY REGION*

- ODI returned to pre-pandemic levels in East Asia and MENA
- Doubled from 2019 levels for Sub-Saharan Africa
- Declined to around 10% of 2017 peak in EU, 3% of 2016 peak in US



BY SECTOR

- ODI growth from 2019-2023 is strongest in priority sectors such as chemicals, logistics, consumer goods, and transport
- Tourism & entertainment, health, energy were largest losses

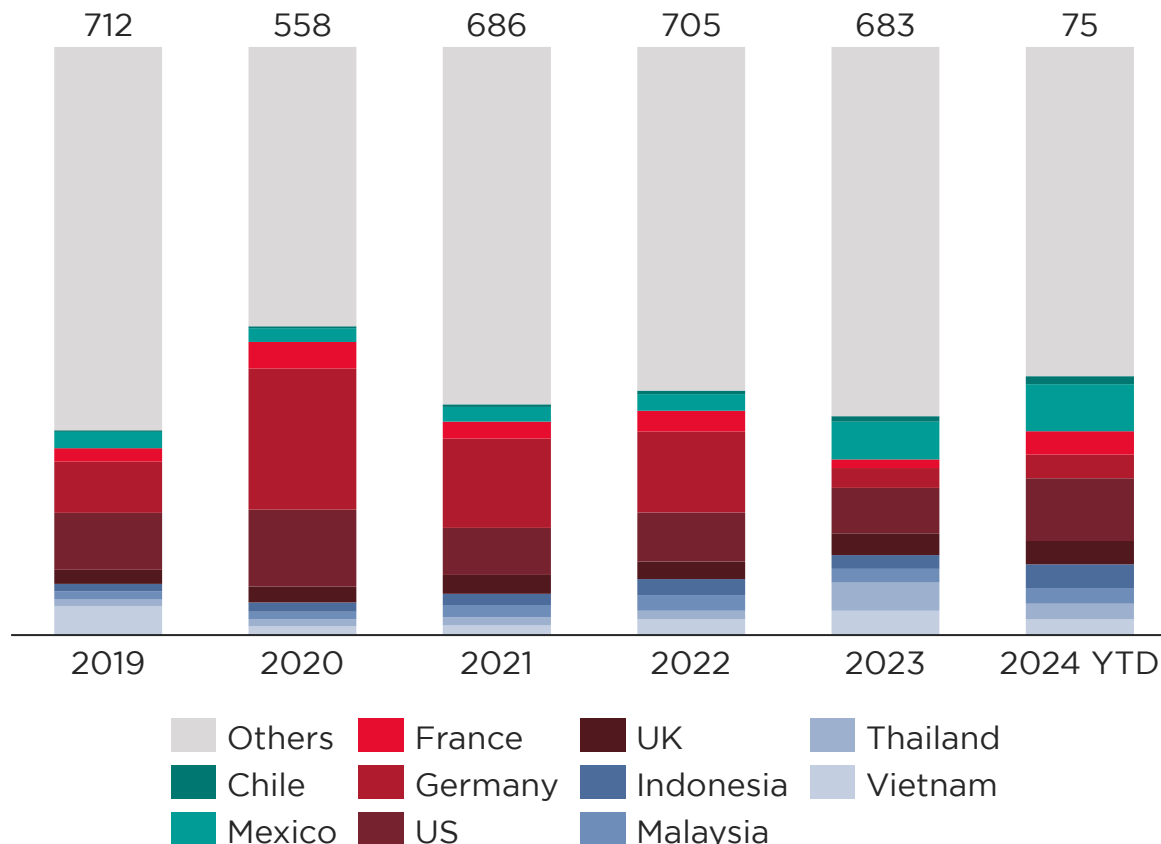


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OEMs are investing overseas to shorten supply chains

Motivations vary: bypassing tariffs, proximity to end-market, lower costs

CHINA PRIVATE OUTBOUND FDI BY DESTINATION*
PROJECT COUNT



OFDI INTO EUROPE AND US IS DECREASING WHILE ASEAN AND LATAM INCREASE SHARE OF INVESTMENT

- 1 **France, Germany, US, UK - higher value add sectors**
 - Top project sectors: electronics, automotive, industrial machinery, software & IT services, communications
- 2 **Indonesia, Thailand, Vietnam, Malaysia - range of sectors**
 - Top project sectors: battery manufacturing, electronic components, hotels & resorts, non-ferrous metals, EVs, solar PV
- 3 **Mexico and Chile - lower value add sectors**
 - Top project sectors: parts & tires, construction equipment, EVs, furniture & floor coverings, drug manufacturers

Source: GlobalData, Onyx

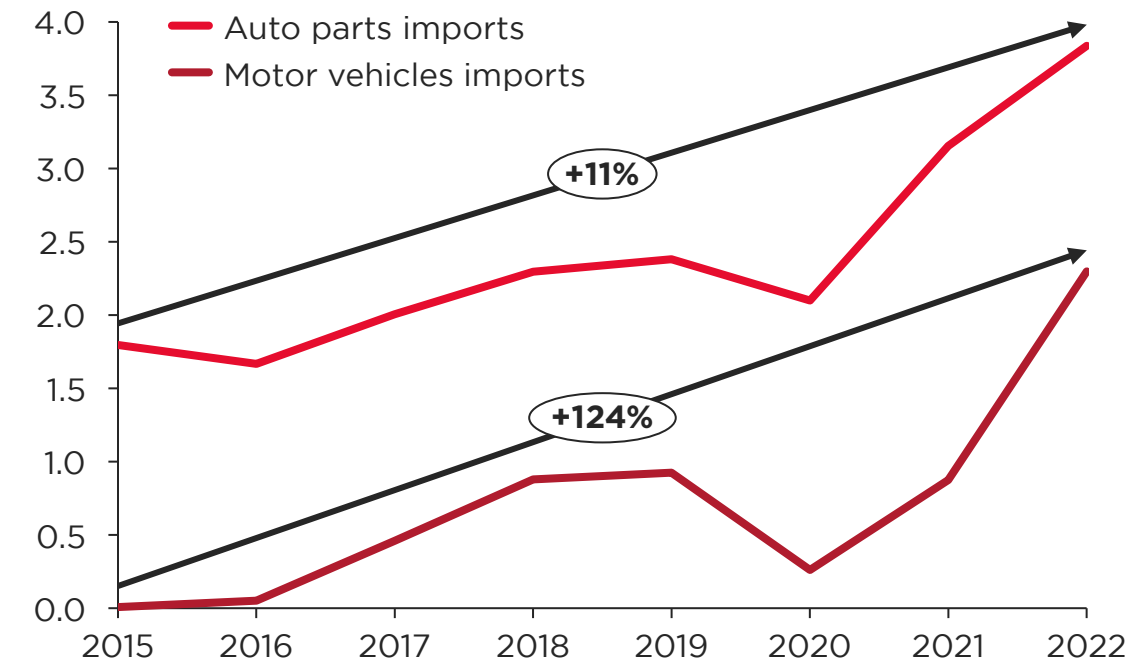
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Suppliers tend to follow foreign OEMs in nearshoring

Dependence on Chinese suppliers in nearshoring destinations highlight strong network effects

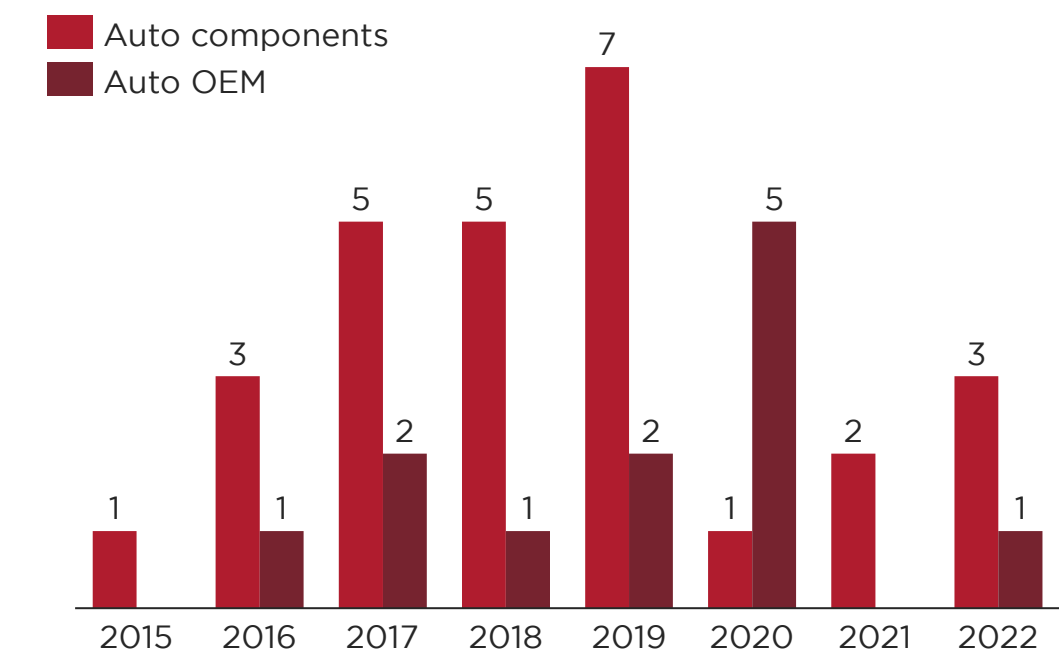
Mexico's imports of auto parts and motor vehicles from China have risen substantially...

MEXICO IMPORTS FROM CHINA
USD\$BILLION



...many of these projects are in auto components, highlighting that Chinese auto parts suppliers appear to be tagging along with their OEM partners

CHINESE GREENFIELD FDI INTO MEXICO
NO. OF PROJECTS



Source: fDi Intelligence, ITC TradeMap, Onyx
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SECTION III

**Chinese firms face
mounting challenges in
going abroad**

Pace and scale of overseas expansion will slow down

As risks are tilted to the downside

UPSIDE RISKS

- Price competitive goods to appeal to foreign consumers, esp. in emerging markets
- Trade diversion to continue through higher Chinese content in third country exports
- Rising exports of intermediates

DOWNSIDE RISKS

- Protectionist policy from both emerging markets and advanced economies
- Domestic capital controls

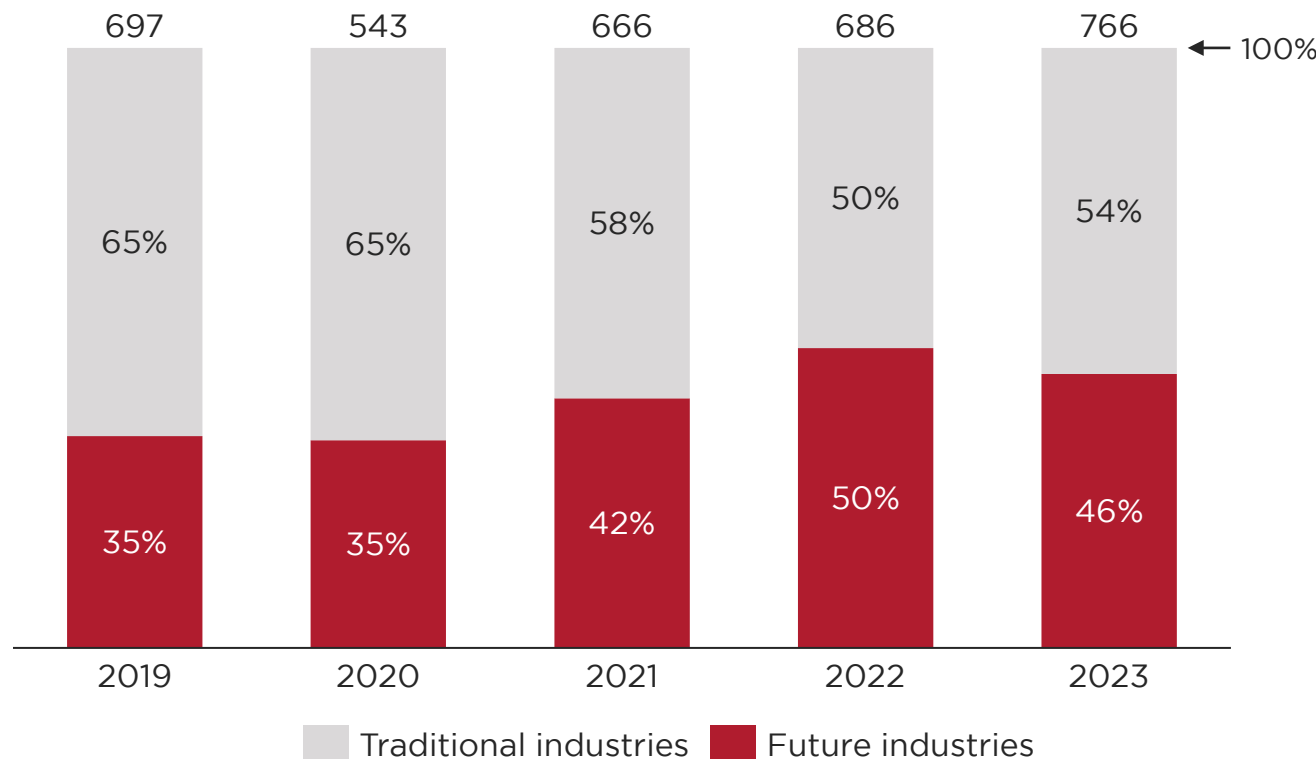
RISKS ARE TILTED TO THE DOWNSIDE:

1. Protectionist trade policy from advanced economies to persist
 - Punitive tariffs on Chinese imports to undermine price competitiveness
 - Tariffs on third countries allowing Chinese trade diversion
2. EMs increasingly wary about influx of Chinese investment and goods
 - Tariffs on imports of Chinese intermediates
3. Capital controls to persist with concerns of financial outflows in weak economic conditions

Firm expansion will take place on an industry-differentiated basis

Future industries to take priority in outbound FDI over other sectors

CHINA OUTBOUND PRIVATE FDI FROM 2019 TO 2023
PROJECT COUNT



SECTOR BREAKDOWN

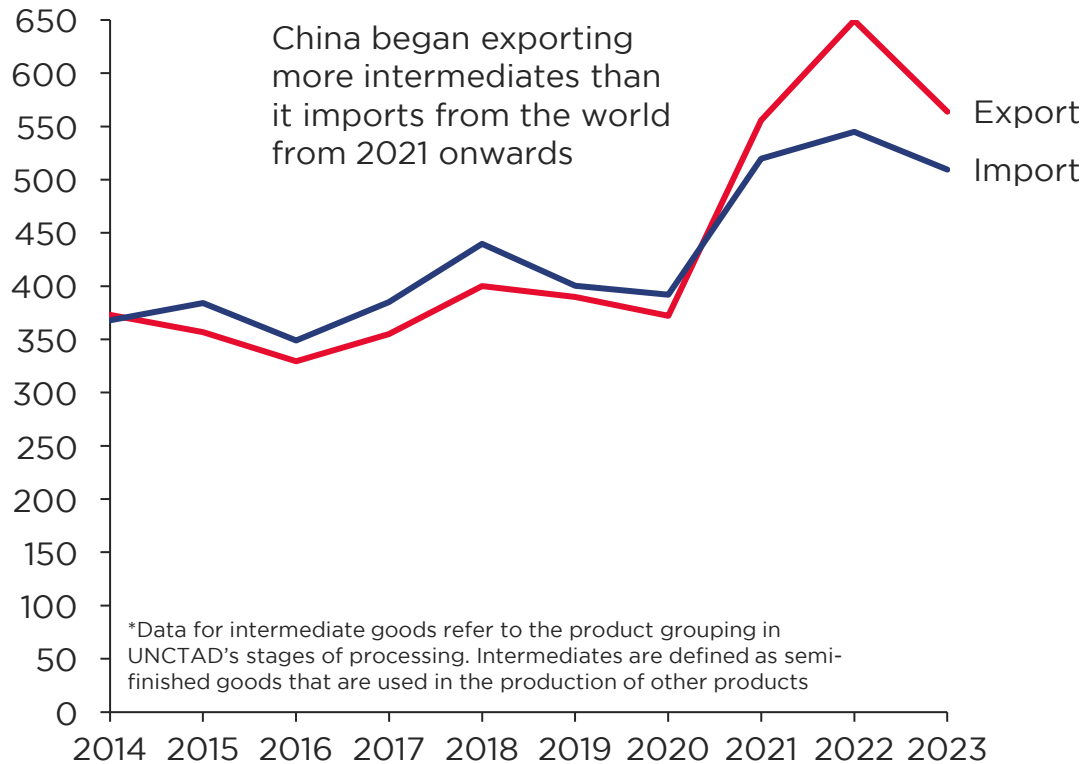
- Future industries are defined as sectors that rely on **scientific and technological innovations** rather than land, labor, and capital
- Future industries accounted for a growing share of outbound private FDI from the pandemic onwards
- Signals that China is following through on the pivot to 'higher quality growth'
- Communication equipment, SaaS, battery manufacturing, EVs, and solar PVs are the top sectors driving the increase in FDI

* GlobalData categorizes all private OFDI projects by companies HQ-ed in China into 272 subsectors from 2019 to 2023. The author coded each subsector as a traditional or future industry. For instance, battery manufacturing and cell therapy were coded as future industries while animal feed and building products were coded as traditional industries.

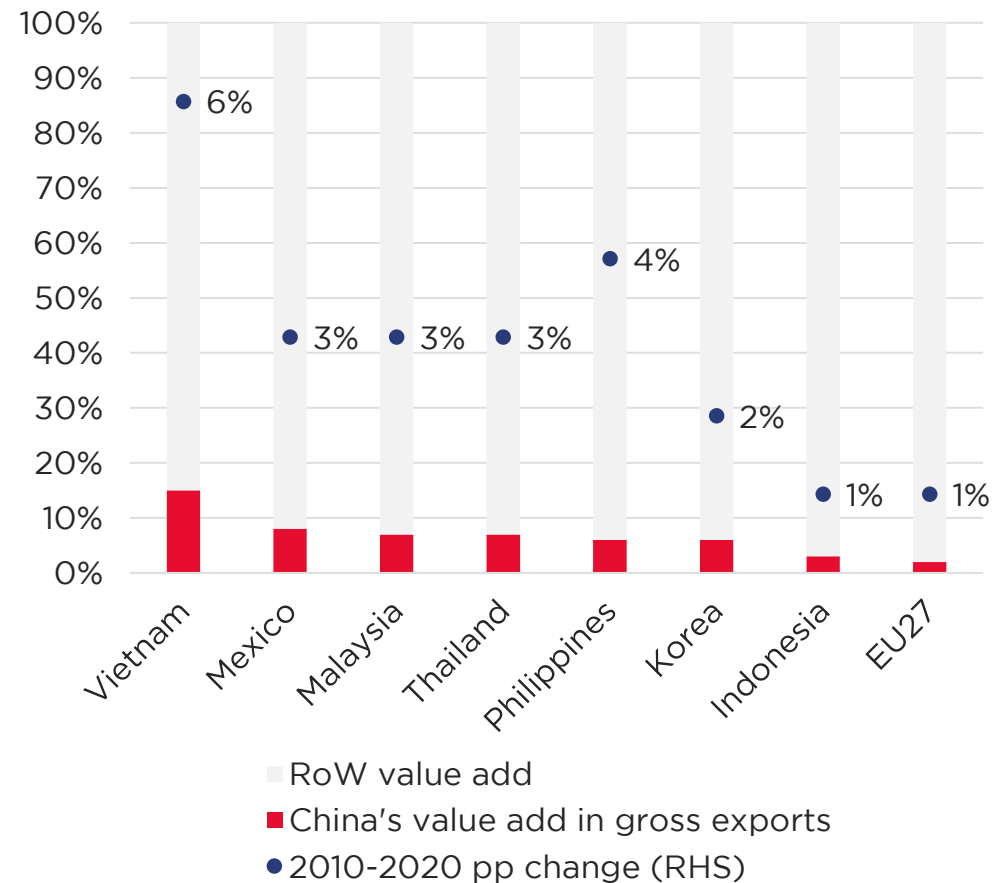
China's exports of intermediates is rising, calling into question the extent of de-risking

China's role and content in other countries' exports have also risen

CHINA'S IMPORTS AND EXPORTS OF INTERMEDIATE GOODS* TO THE WORLD
US\$ BILLION



CHINA'S VALUE ADD IN OTHER COUNTRIES' EXPORTS



Source: Bruegel, UN Comtrade, Onyx
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