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China ODI exceeded FDI in 2015 for the first time, led by the private sector

China's outbound direct investment (ODI) exceeded inbound foreign direct investment (FDI) for the first time in 2015. According to a joint statement issued on 22 September by the Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange, total ODI flow in 2015 increased 18 percent to USD 145.7 billion, compared to a total of USD 135.6 billion in FDI (see Chart 1).

This marked China's 13th consecutive year of outbound investment growth, and saw it emerge as a net exporter of capital. China surpassed Japan to become the country with the second largest ODI flow in 2015. It also ranked eighth in terms of ODI stock at USD 1.1 trillion, a global share of 4.4 percent.

According to the joint statement, Chinese firms conducted a total of 579 outbound merger and acquisition (M&A) deals with a value of USD 54.4 billion in 2015. These transactions covered 18 industries including manufacturing, IT, mining, and culture, sports and entertainment across 62 countries and regions. In particular, deals by privately owned enterprises (POEs) accounted for 75.6 percent of total M&A value, surpassing that of state-owned enterprises (SOEs) for the first time.

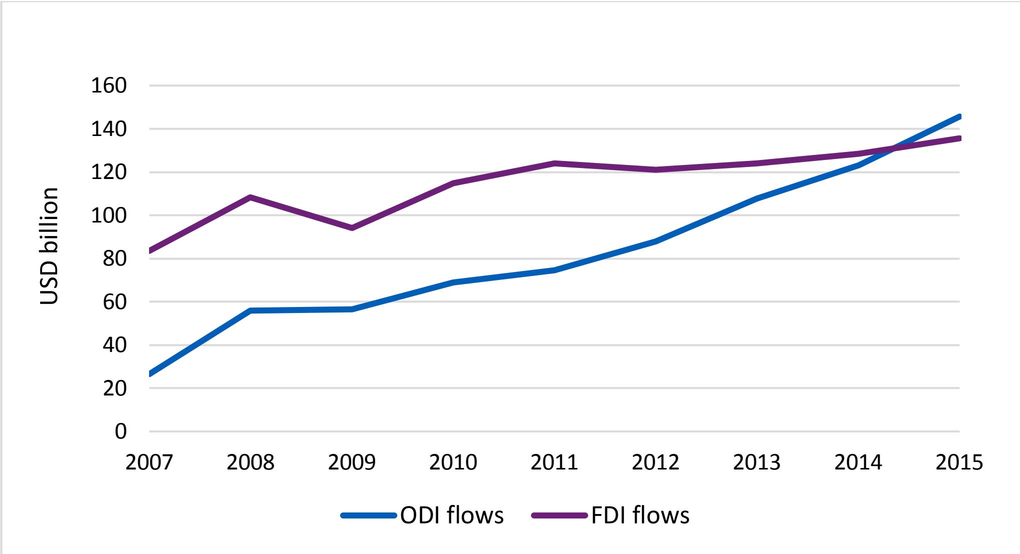
Outbound investment by China's financial sector grew 26 percent to USD 24 billion. By the end of 2015, the stock of outbound investment by China's banking sector had reached USD 97.1 billion, 7.6 times greater than in 2007. By the end of 2015, China's 'big five' commercial banks had established 136 branches and affiliates worldwide.

As we previously highlighted in *China Outlook 2016*, China's ODI has been growing rapidly, in line with the government's objective of 'opening up'. Recent policy developments and initiatives have helped strengthen this trend. For example, countries connected to the 'Belt and Road' initiative saw investment increase 38.6 percent to USD 18.9 billion in 2015, accounting for 13 percent of China's total outflows (see Chart 2).

Increased participation by the private sector has also become an important feature of China's ODI, and we expect this to continue going forward. Many Chinese companies are 'going out' to acquire expertise, technologies and high-quality products to respond to increasingly sophisticated domestic demand. POEs are often quick to grasp business opportunities, and usually meet less resistance from governments and communities in the host countries. The emergence of large Chinese POEs has also made them influential players in the global M&A market.

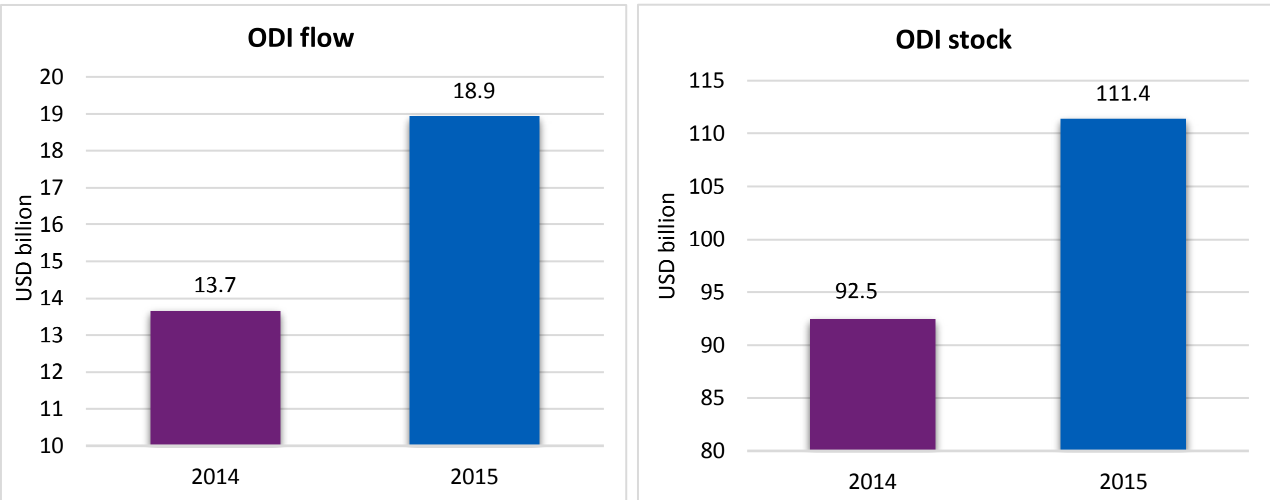
We are also likely to see more rapid ODI growth by China's financial sector. Domestic financial institutions – such as insurers – are increasingly looking to diversify their portfolios across a number of asset classes and geographies in order to secure long-term, stable returns. Meanwhile, the rise in non-financial ODI is also expected to stimulate demand for increased financial support abroad. This will act as a catalyst for domestic banks to expand overseas and provide financial services needed by Chinese firms 'going out'.

Chart 1: China ODI vs FDI growth – 2007-2015 (USD billion)



Source: Ministry of Commerce; CEIC; KPMG analysis

Chart 2: China outbound investment in 'Belt and Road' countries



Source: '2014 Statistical Bulletin of China's Outward Foreign Direct Investment'; press release for '2015 Statistical Bulletin of China's Outward Foreign Direct Investment'; KPMG analysis

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