China's Post-COVID OFDI Rebound Loses Steam: Q2 2024 Update

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After a notable post-COVID rebound, China's outbound foreign direct investment is losing steam again. Investment in Q2 rebounded slightly from the previous quarter but H1 activity remained lower than the same period of 2023. Asia and Europe remained the top recipient regions of Chinese capital, driven by investment in the automotive, basic materials, and power generation sectors.

Investment momentum

The 2023 post-COVID outbound investment boom from pent-up demand seems to be subsiding somewhat, as a return to higher levels is constrained by economic and political realities. In Q2 2024 we recorded 161 announced major outbound foreign direct investment (OFDI) transactions by Chinese companies worth an estimated $19.14 billion. This represents a small rebound in volume terms and an 81% increase in value terms from the first quarter. For the first half of the year, we count 250 new investments worth $29.71 billion, down from 305 investments worth $48.68 billion in the same period of 2023.

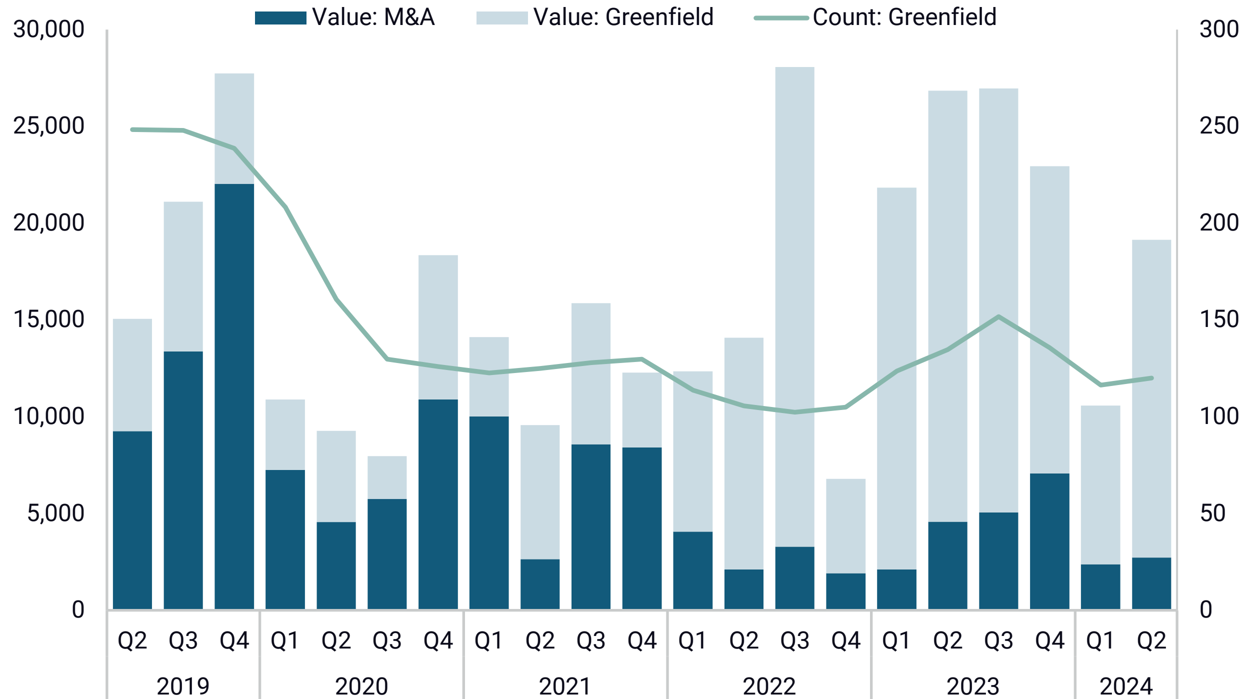
Greenfield projects have remained in driving seat, accounting for 86% ($16.42 billion) of newly announced OFDI in Q2 2024. Three multi-billion-dollar deals accounted for a third of the total value: A $2.75 billion oil processing plant in Serbia announced by China Energy, a $1.75 billion steel plant in Kazakhstan by Fujian Hengwang, and a $1.13 billion EV battery plant in South Carolina by Envision AESC.

Mergers and acquisitions (M&A) activity, on the other hand, was at the lowest quarter recorded since 2021 with only 40 announced transactions worth $2.71 billion. Midea's acquisition of Arbonia's climate business in Switzerland for $812 million was the top transaction, followed by Ganfeng Lithium's stake increase in the Goulamina lithium mining project in Mali for $342 million.

FIGURE 1

Announced major Chinese FDI transactions by quarter

USD million (left) and count (right)



Source: Rhodium Group China Cross-Border Monitor

Notable status updates in Q2 include the completion of Enel's $ 3.10 billion acquisition of assets from China Southern Power Grid in Peru. Canceled transactions include Svolt's second battery factory in Germany and the public auction for the unfinished Oceanwide Plaza in downtown Los Angeles. Governments intervened in several transactions, with Germany blocking the sale of Volkswagen's gas turbine business to China, the US government ordering a Chinese crypto miner to sell land near a US military base, and Australia mandating the disposal of China-linked shares in Northern Minerals. Disputes include a challenge to Ganfeng Lithium concessionary rights in Mexico, a conflict between Tianqi Lithium and a local state-owned enterprise in Chile, and the Peruvian government's move to revoke COSCO's exclusive right to operate the port of Chancay.

Investment by sector

Chinese outbound investment in Q2 remained concentrated on a handful of industries, continuing a trend from the previous quarters.

The **energy sector** topped the quarter with a total of $6.13 billion in investment (32% of total Q2 value). China Energy's oil refinery in Serbia accounts for half of that, followed by $800 million of investment in renewable energy equipment manufacturing and $2.10 billion in solar and wind power generation.

Basic materials, metals, and minerals investments totaled $4.93 billion (26% of Q2 value). Two greenfield projects account for the lion's share of that investment: Fujian Hengwang Investment's $1.75 billion investment in a steel plant in Kazakhstan and China-owned PT Kobexindo Cement's $622 million cement plant in Indonesia.

Investment in the **automotive sector** remains strong at $3.70 billion (19% of Q2 value), largely driven by manufacturing projects in the EV supply chain. The largest auto investment this quarter was Envision AESC's announced $1.13 billion expansion of its existing plant in South Carolina. Aside from auto suppliers, Chery announced its first two electric vehicle manufacturing plants in Southeast Asia, with plants in Thailand ($400 million) and Vietnam (estimated $160 million).

FIGURE 2

Value of announced major Chinese FDI transactions by sector

Newly announced quarterly value in USD million (top) and count (bottom) of FDI transactions

Source: Rhodium Group China Cross-Border Monitor

Investment by geography

Asia and Europe remain the top recipients of Chinese outbound investment.

With $7.39 billion, **Asia** accounted for 39% of new investment in Q2. Southeast Asia continues to be the biggest draw for Chinese investors, accounting for more than 80% of China's investment value in Asia. Vietnam stands out as a recipient, with Chery's EV plant and the Victory Giant PBC plant. Indonesia is also a favored destination, driven by Hongshi Cement's $622 million cement plant. Fujian Hengwang's $1.75 billion steel plant made Kazakhstan a top recipient country.

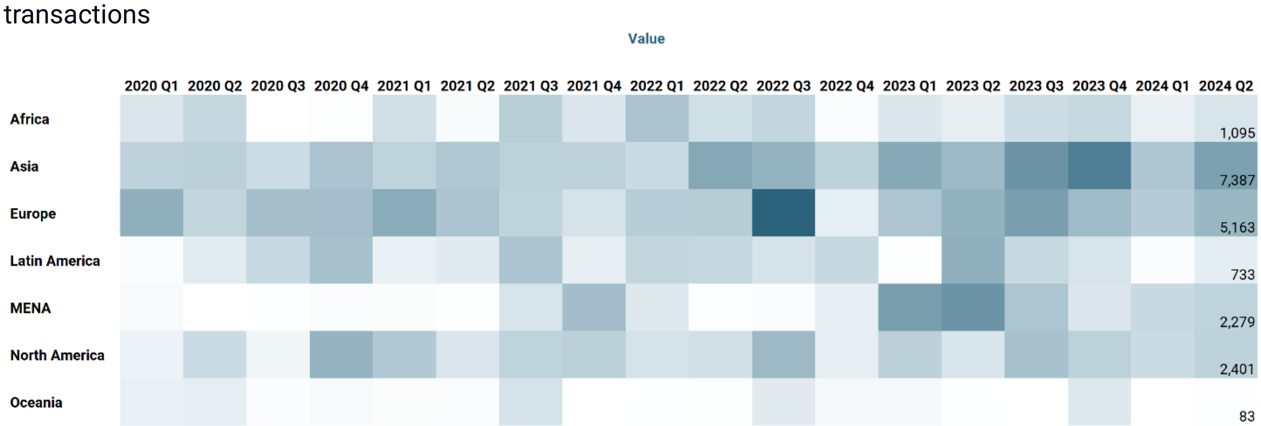
Europe attracted $5.16 billion worth of new investment in Q2 (27% of total). Serbia recorded the largest transaction in the quarter with China Energy International Group's $2.57 billion oil processing plant. It also landed three other projects: a solar power plant, a solar panel factory, and a steel plant. Europe also attracted the largest M&A deal this quarter, with Midea Group's $820 million acquisition of Arbonia's climate division in Switzerland.

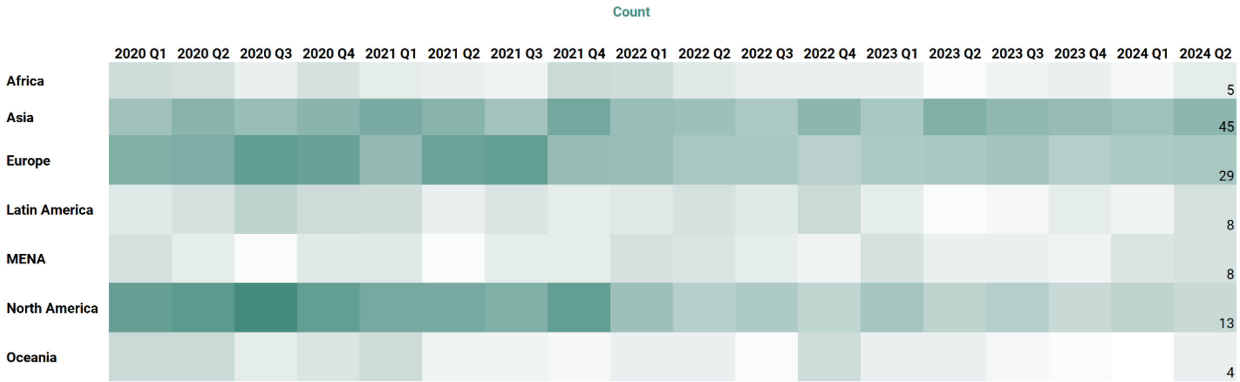
North America has seen elevated investment in recent quarters, attracting $2.4 billion of new investment in Q2 (13% of total). The United States was the top recipient with Envision's $1.13 billion expansion in South Carolina, Shenzhen Capchem Technology's battery factory in Louisiana for $350 million, and Green New Energy Materials' lithium-ion battery separator plant in North Carolina. Mexico was another major recipient with Eaglerise's $189 million solar electric transformer plant in Coahuila and continuing activity in the automotive industry including new facilities by Sailun Tire and Minth Group.

FIGURE 3

Value of announced major Chinese FDI transactions by geography

Heatmap, newly announced quarterly value in USD million (top) and count (bottom) of FDI transactions





Source: Rhodium Group China Cross-Border Monitor

Notable transactions

In Q2 we observed the following transactions that match our screens for policy-relevant themes:

In terms of **problematic actors,** we identified several smaller investments by sanctioned Chinese construction and defense companies in renewable energy projects in Europe and South America. Norinco emerged as the most active investor, announcing plans to acquire the developer of a copper-cobalt mine in the Democratic Republic of Congo. The company also reportedly submitted a proposal to acquire a 49% stake in Brazilian defense equipment manufacturer Avibras Aeroespacial.

We identified 11 investments by Chinese companies in **countries of concern**, as defined by the US State Department. Projects were concentrated in energy and power generation sectors in Nicaragua and Russia. Lenovo also announced its intention to set up a new regional headquarters in Saudi Arabia. Chinese UAV manufacturer Xuzhou Jitian Intelligent Equipment reportedly announced plans to open a drone plant in Russia.

In terms of **critical infrastructure**, most activity was concentrated in smaller-scale renewable energy development, but the construction of a wind turbine manufacturing facility in Scotland by Mingyang Smart Energy raised concerns from local politicians. Chinese IT giants continue to build their global data center infrastructure to expand locally and comply with localization requirements—Alibaba's announced new data centers in Mexico and Vietnam are a good example. In the US, we identified a small investment by COFCO to increase its stake in a small grain transloading terminal on the Mississippi River in Illinois.

Investment in **critical technologies** was concentrated in the semiconductor sector with Chinese companies accelerating organic growth through four new plants in Malaysia and expansions in Thailand and Germany. Focuslight Technologies purchased micro-nano optical component assets from Osram in Germany for $50 million. Chinese automakers continued to acquire smaller European auto suppliers with e-mobility technology, including Chongqing Millison Technologies's acquisition of VOIT Automotive in Germany and Voit Polska in Poland. Shang Gong Group said that it will invest $13.5 million to buy insolvent US light airplane maker ICON Aircraft.

We recorded a dozen acquisitions in the **critical minerals** industry, with China's focus increasingly shifting towards Africa. Notable transactions include Ganfeng Lithium taking control of a lithium mining project in Mali for $342 million and Avatar Technology's $200 million Lithium Plant in Nigeria.

Momentum continues to be strong for manufacturing investments driven by **nearshoring** and **tariff-jumping** considerations. Mexico saw six new manufacturing projects and Vietnam 12. We recorded three new EV parts plants in Morocco, three solar panel factories, and three tire factories in Southeast Asia.

Spotlight: China's FDI in Mexico

There are concerns that Chinese companies could use FDI to establish manufacturing and assembly operations to circumvent tariffs and other trade barriers. Mexico has come under growing US scrutiny, with anecdotal evidence that Chinese manufacturers are rushing to establish operations there as a "back door" to the US market. Yet, official data does not show a major increase of Chinese investment in Mexico. Our transactions data shows a significant growth in investment by Chinese companies in the country, particularly along the automotive supply chain.

In terms of headline FDI, official data shows only a modest increase of Chinese FDI in Mexico in the past five years (Figure 4). Data from Mexico's Secretariat of Economy shows an increase since 2018, but annual inflows averaged only $280 million 2020-2023, accounting for less than 1% of total FDI over that period. China's MOFCOM has similar figures, averaging $290 million annually since 2020. AEI's China Investment Tracker has a modestly higher figure of $485 million annually since 2020, but only records large transactions over $100mn.

FIGURE 4

Available public data on Chinese FDI in Mexico

USD million

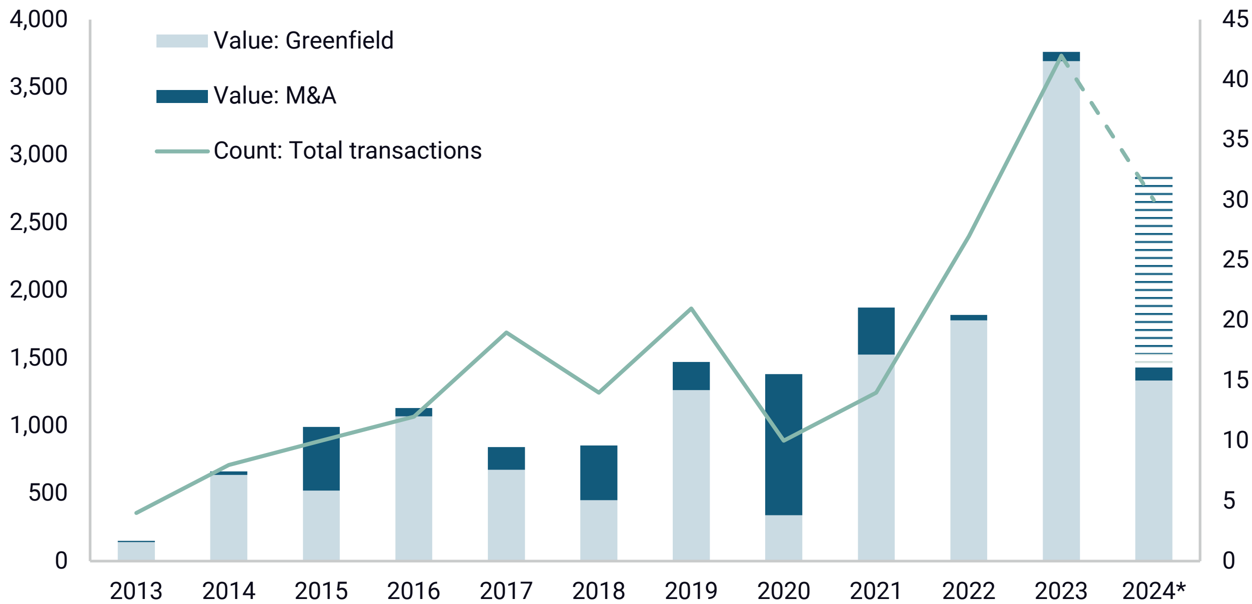
Source: AEI China Global Investment Tracker, PRC Ministry of Commerce (MOFCOM), Mexican Secretariat of Economy

Our CDIT data shows higher levels of Chinese investment than official data, and a sharper increase of new investment in recent years. Figure 5 shows that newly announced investment has continuously increased since 2014, averaging 13 major transactions per year worth an average total of $1 billion through 2020. Since 2021 we are recording another uptick in both transaction count and value, reaching 42 transactions worth $3.69 billion in 2023. This year is on track for similar levels, with 12 transactions worth $1.34 billion in the first six months of the year. Much of this recent increase was driven by greenfield investment, with M&A activity almost vanishing after 2021.

FIGURE 5

Value of announced major Chinese FDI transactions in Mexico by mode

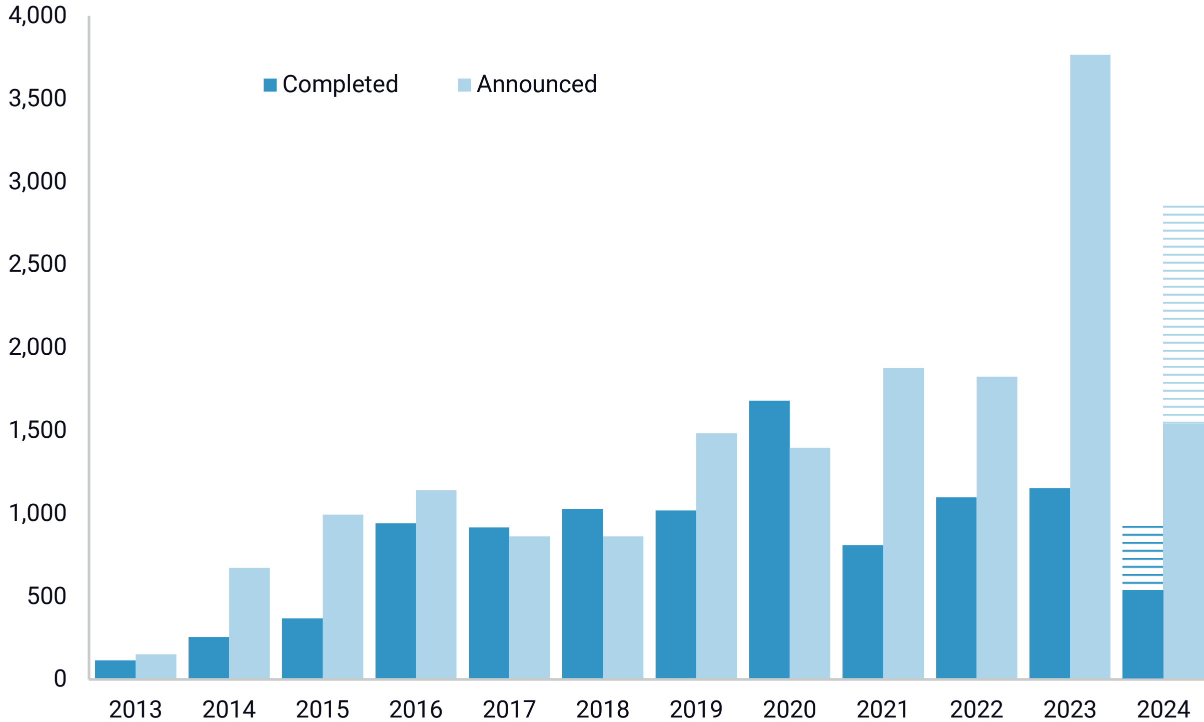
USD million (left) and count (right)



Source: Rhodium Group China Cross-Border Monitor. *Note: Estimates for the second half of 2024 are based on data from the first half of the year.

Figure 6 shows our estimates for completed Chinese FDI transactions in Mexico. Actual investment levels are lower than announced figures, but annual investment averaged $1.2 billion per year over the past five years. This is more than double the official data from Mexican and Chinese governments, reflecting well-known gaps and distortions in balance of payments FDI data collection (such as investments through offshore entities). While total investment has only modestly increased since 2021, this growth happened despite a collapse of M&A activity. Chinese investors are increasingly following through on expanding their manufacturing capabilities in Mexico, driving greenfield FDI to record levels in 2023.

FIGURE 6
Value of announced vs. completed major Chinese FDI transactions in Mexico
USD million



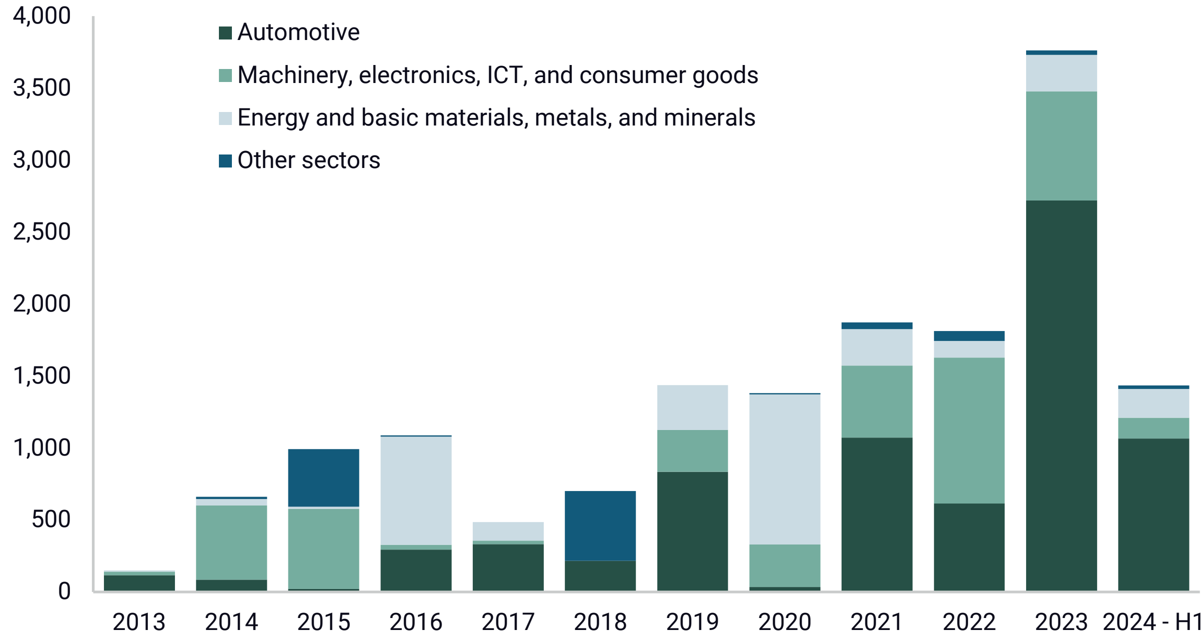
Source: Rhodium Group China Cross-Border Monitor. *Note: Estimates for the second half of 2024 are based on data from the first half of the year.

Our data also allows a dissection of the drivers of Chinese investment in Mexico. Figure 7 shows the industry breakdown of newly announced Chinese FDI transactions in Mexico. Electronics and consumer goods manufacturing—represented by companies like Lenovo, Hisense, and Man Wah—have been significant contributors, accounting for 30% of the total announced value over the past five years. The energy and materials sector has also attracted interest, particularly in M&A activities. Notably, Ganfeng Lithium acquired the Sonora lithium mining project for $391 million, and China Power purchased the renewable energy projects developer Zuma Energía.

Since the mid-2010s, the automotive sector accounted for about a third of Chinese FDI in Mexico. More recently, it become the predominant driver of investments. In 2023, Chinese companies announced automotive investments worth $2.72 billion, representing 72% of the total investment value. This trend continued into the first half of 2024, with automotive investments comprising 75% of the total. This growth is largely driven by parts manufacturers, such as ZC Rubber, which announced a $600 million investment in 2024.

While major new US and European car manufacturers like Tesla and BMW have been announcing the construction of new plants in Mexico—which Chinese part manufacturers are following—Chinese battery makers and car manufacturers have remained more cautious. Companies like BYD, Chery, and BAIC have expressed interest in establishing factories in Mexico but have yet to make concrete commitments. CATL announced plans to build a battery factory but paused those efforts in 2022 due to concerns over US restrictions on sourcing materials used in EV batteries.

FIGURE 7
Value of announced major Chinese FDI transactions by sector
USD million



Source: Rhodium Group China Cross-Border Monitor

In sum, Chinese FDI in Mexico is higher than shown in official statistics. New Chinese investment activity has boomed since 2022, driven by tariff-jumping considerations but also a broader FDI boom in Mexico, especially in the automotive sector. However, recent activity is mostly capital-intensive greenfield investments, which are less certain and may take years to materialize and show up in official statistics. China remains a relatively small source of capital for Mexico compared to the US and other advanced economies, but it is emerging as a more important investor nation, posing challenges for the US in terms of trade defense as well as supply chain security in the context of nearshoring ambitions.

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ABOUT THE CHINA CROSS-BORDER MONITOR

The China Cross-Border Monitor is a project of Rhodium Group's China practice to track China's overseas investments. Traditional methods of tracking overseas investment by Chinese companies are skewed by tax havens and reinvested earnings, creating a skewed picture of China's overseas investments. Our transaction-based methodology tracks nearly a million individual investments worldwide, helping create a more transparent view of China's global investment footprint.

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