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**Outlook for China’s outward foreign direct investment: The Silk Road of the 21st century lies through Russia**

*MOSCOW, 14 May 2015*. With the ongoing economic development in China and the implementation of the “Going Global” strategy, China’s outward FDI has soared over the past decade from almost nothing to more than USD100 billion . In 2014, Chinese investors invested in 6,128 overseas companies across 156 countries and regions. China’s outward FDI outflow was ranked third in the world for the third consecutive year. EY's new report Riding the Silk Road: China sees outbound investments boom helps answer many questions and clarifies what Russia can offer to Chinese investors in the context of recent trends in the Chinese economy. In addition, it takes a look at what working with Chinese investors might entail.

**Alexander Ivlev, Country Managing Partner for Russia, EY,** notes: “Over the past decade, Chinese investors have grown increasingly active on the global market. Thanks to government support and increasing domestic demand stemming from an expanding middle class, China is on its way to going from the world’s largest manufacturer to its biggest investor. For Russia, strengthening ties with its neighbor to the east has always been a key priority in terms of foreign policy and the economy, and it’s clear that China remains important to it as a strategic investor. Successful companies are those that follow the Know Your Client rule and place the required surveys at the top of their agendas. This is also true for effective communication with an investor, especially when that investor is a nation – in order to attract one, you have to understand how their investments are structured, what sectors are the most lucrative, and what factors have an influence on the deal”.

China is becoming more of a consumer economy as its development emphasis shifts from “Made in China” to “Made for China.” This has opened up new opportunities for cooperation with neighboring countries, where Chinese companies are investing not only to expand their access to foreign markets and resources, but also to bring in products and services to meet the growing domestic demand.

The “One Belt, One Road” strategy will encourage China’s advanced industries and their overcapacity to move into neighboring countries along the new Silk Road. Although Chinese investments are becoming increasingly diverse in terms of geography, Russia plays a huge role as part of that strategy.

In 2014, Russia made the list of top 10 priority destinations for Chinese investors, ranking sixth in amount of outbound Chinese investment. This amount has grown steadily since 2009.

As part of the “One Belt, One Road” strategy, in January 2015, China proposed the construction of a 7,000 km high-speed rail link from Beijing to Moscow that would pass through Kazakhstan. The project would require an investment of RMB1.5 trillion.

China’s outward investment has clearly become more sophisticated as companies shift their focus from seeking natural resources toward creating a global strategic presence. Investment activities have recently expanded into the technology, media and telecommunication (TMT), real estate, finance, agribusiness, and health care sectors. The European M&A market also shows clear diversification: in 2014, Chinese investors closed only 10 deals in the power and mining industries but 28 deals in the industrial products sector.

In the coming years, a new wave of internationalization will be unveiled and China’s outward FDI will reshape the global economic landscape, as it is expected to grow more than 10% and continue to surpass the amount of foreign investment into China, leading it to eventually become a capital-exporting country.

“Russia may well expect the “One Belt, One Road” strategy to boost its investment cooperation with China in a number of areas, primarily in the development of infrastructure, - says **Alexander Ivlev**. Because attracting investment is in Russia's interest, it should work hard to create a good investment climate, minimize administrative barriers, and reduce bureaucracy.”

**Conclusions: main trends**

The accelerated economic transformation and increasing policy bonus are driving a new wave of overseas investment. We will see the following trends in China’s outward FDI in the coming years.

**A new wave of internationalization will be unveiled and China’s outward FDI will reshape the global economic landscape.** Over the next five years, China’s outward FDI will grow more than 10%21 and continue to surpass the amount of foreign investment into China, and China will become a capital-exporting country. Chinese capital will continue to seek global investment opportunities and play an increasingly important role in the development of the global economic, financial and industrial landscape.

**Structual transformation will dominate the shaping of the industrial landscape and Chinese investors will become increasingly involved in upstream industries.** China’s economic transformation will help drive investment into upstream services and industries, making Chinese investors move toward “Made for China” from “Made in China” to boost M&As in the high-tech and agri-business industries. This process will accompany a shift of industries with traditional advantages and overcapacity. With the release of the bonus from the “One Belt, One Road” policy, investment in infrastructure and advanced manufacturing industries is poised to take off.

**The land and maritime Silk Roads are helping connection between Europe and Asia; Europe and America have become attractive destinations for Chinese investors.** As the “One Belt, One Road” strategy has been put on the agenda, the spotlight will fall on investment cooperation between China and the neighboring countries on infrastructure construction. Chinese investment destinations are being diversified — from Asian, African and Latin American countries to developed economies in Europe and America — and are achieving optimal asset allocation across the globe.

**POEs have emerged as the mainstay of investment and PPPs are achieving win-win outcomes**. The rapid rise of overseas investment by POEs has enabled them to be the mainstay of China’s outward FDI. Encouraged by favorable government policies, more Chinese POEs are embarking on a new investment journey. SOEs have advantages in the infrastructure and energy sectors, and POEs are adaptable and in favor of diversified investment. With the PPPs evolving and their complementary advantages in place, there is great potential for joint overseas investment by SOEs and POEs.

## To read the full report:

## [http://www.ey.com/Publication/vwLUAssets/ey-china-outbound-investment-report-en/$FILE/ey-china-outbound-investment-report-en.pdf](http://www.ey.com/Publication/vwLUAssets/ey-china-outbound-investment-report-en/%24FILE/ey-china-outbound-investment-report-en.pdf)

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