

Circumvent, Conceal, Cultivate, and Cater

Chinese Strategies to Navigate Foreign Direct Investment Screening in the EU

Tobias Junerfält, Frida Edvardsson Lampinen, Mattias Burell, Michał Budryk

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Sammanfattning

Hur har kinesiska multinationella företag reagerat på EU:s tilltagande granskning av utländska direktinvesteringar? Kinesiska forskare har sedan mitten av 2010-talet påtalat behovet av att förstå investeringsgranskning som fenomen, och såväl partistatsaktörer som aktörer inom den privata sektorn har anpassat sitt beteende därefter. Med utgångspunkt i en iterativ analys av litteratur inom internationellt företagande, kinesisk forskning och empiriska exempel presenterar denna rapport en typologi över fem idealtypsstrategier som kinesiska företag kan tänkas använda för att navigera investeringsgranskning i EU: företag kan söka att *Kringgå* att utlösa en granskningsprocess, att *Kamouflera* sina mindre attraktiva egenskaper under granskningen, att *Kultivera* relationer med lokala aktörer samt att *Kompromissa* för att bemöta värdlandets krav.

Fokus för rapporten är de strategier som avser utmynna i investeringar inom känsliga sektorer, men företag kan också välja att *Undvika* att investera på granskade marknader överhuvudtaget. Analysens huvudfokus är att definiera och beskriva mekanismerna för hur företag i praktiken kan tänkas genomföra de fyra förstnämnda strategierna. Därutöver presenterar rapporten en konceptuell modell som illustrerar hur företagsledare kan tänkas resonera när de beslutar investeringsstrategi. Strategiernas praktiska användbarhet varierar beroende på investeringssyftet och värdlandet. Sammantaget framstår *Kamouflera* som den minst användbara strategin, medan *Kringgå*, *Kultivera* och *Kompromissa* sannolikt är de mest effektiva.

Nyckelord: Kina, utländska direktinvesteringar, investeringsgranskning, EU, multinationella företag

Summary

How might Chinese multinational enterprises respond to the increased screening of foreign direct investment in the EU? Chinese researchers have emphasised the need to understand investment screening since the mid-2010s, and both party-state and private-sector actors have adjusted their behaviour accordingly. Drawing on an iterative analysis of international business literature, Chinese scholarship, and empirical examples, this report presents a typology of four ideal-type strategies that Chinese enterprises may employ to navigate investment screening in the EU: companies might seek to *Circumvent* triggering a screening, *Conceal* characteristics that could count against them, *Cultivate* relationships with local actors, and *Cater* to host-country concerns.

Although the report focuses on strategies that involve continuing to pursue investment in sensitive sectors, companies may also seek to *Avoid* investing in screened markets altogether. The analysis focuses on how companies might implement the first four strategies in practice. The report also presents a conceptual model illustrating how business executives might reason when deciding their investment strategy. The strategies vary in their practical utility depending on the specific investment objective and host country. Overall, *Conceal* appears to be the least useful strategy, whereas *Circumvent*, *Cultivate*, and *Cater* are likely to be the most efficient.

Keywords: China, foreign direct investment, FDI screening, EU, multinational enterprises

Preface

The Swedish Defence Research Agency (FOI) has for several years produced research reports on foreign direct investment, mapping specific foreign actors and sectors of the economy and analysing associated risks. This FOI research has taken place both before and after Sweden implemented its screening mechanism for foreign direct investment in late 2023.

This study delves into the largely unexplored topic of how Chinese multinational enterprises may navigate the new environment for foreign direct investment in the EU. Investment screening has become widely institutionalised throughout the Union in recent years, and both regulations and implementation continue to evolve. This report aims to provide insight into the strategies available to Chinese firms and the party-state to gain access to sensitive sectors in a regulatory environment where national-security concerns have become more prominent.

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Tobias Junerfält (FOI)

Project Manager

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Executive summary

Following an extended period of global trade liberalisation, many advanced economies, including the EU, have introduced or strengthened inward foreign direct investment (FDI) screening mechanisms. A key driver has been concern over asset-seeking outward FDI (OFDI) by emerging market multinationals, particularly Chinese firms. Active support for overseas investment in advanced technology sectors, aimed at acquiring new knowledge and transferring it back to China, is one way in which the Chinese party-state pursues its industrial policy ambitions and broader economic and geopolitical goals.

The EU debate on China has shifted in recent years; having previously focused on protecting European technologies and infrastructure, it is now more about ensuring the survival of European industries threatened by competitive, state-supported Chinese firms. Although it would be reasonable to expect that Chinese interest in foreign technological assets would diminish as Chinese high-tech industries mature, this is not the case. The party-state's ambitions to gain access to foreign technology remain strong, particularly in sectors where Chinese industry still lags behind. FDI screening thus remains one of the EU's key tools for protecting its strategic industries and maintaining competitiveness.

This report proposes an analytical model of the the toolbox available to Chinese enterprises to navigate FDI screening when investing in sensitive EU sectors. Grounded in international business theory, it accounts for China's specific characteristics as an OFDI actor. The analytical method is a theory-driven synthesis of the literature, organised around an iteratively developed typology, presented in Table 1. A key contribution of the report, the typology maps five ideal-type strategies that Chinese enterprises may use to navigate FDI screening in the EU. Four involve equity investment and form the focus of this report: *Circumvent*, *Conceal*, *Cultivate*, and *Cater*. The strategies are ordered by the stage of screening at which they apply, not by prominence. Although identified in the context of Chinese firms, the strategies are not unique to them and may also be employed by firms from other countries. The mechanisms underpinning each strategy are explained, exemplified, and discussed throughout the report.

Table 1. A summary of the identified strategies for navigating FDI screening.

Strategy	Intent	Means	Timing	Mechanisms
Avoid	Invest without having to consider screening mechanisms	Reconsider FDI-oriented strategy	Corporate strategic planning	• Change OFDI target market • Non-investment partnerships • Illegal means
Circumvent	Invest without triggering screening or thorough review	Exploit regulatory loopholes, fly under the radar	Corporate strategic planning	• Adjusting the equity stake • Adapting the entry mode • Manipulating the geographical path • Manipulating the sectoral corporate path
Conceal	Pass triggered screening without remarks	Obscure the ultimate beneficiary	Before filing for review (short-term)	• Opaque ownership structures • Contractual arrangements and non-equity control • Informal corporate–party-state ties
Cultivate	Shape screening conditions (regulatory, political, social) for long-term benefit	Influence the political and social environment and build trust	Before filing for review (long-term)	• Relationship-building with local actors • Lobbying
Cater	Clear the screening process by managing host country authority concerns	Make compromises on original investment aims	During the review process	• Proactive consideration of host-country concerns • Catering to host-country demands

Another contribution of the report is adapting the typology into a conceptual model of the decision-making process for a Chinese enterprise seeking to navigate FDI screening in the EU. The model is presented in Figure 1 below, with the focal strategies highlighted with a red dashed outline.

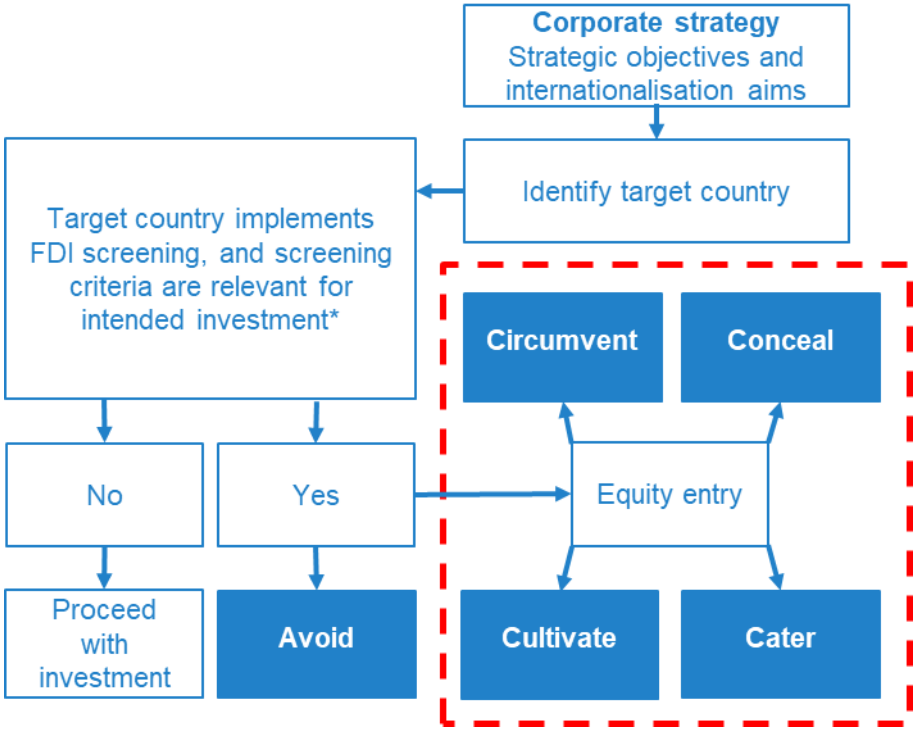


Figure 1. A schematic illustration of the decision-making process and strategic options involved in formulating investment strategies of Chinese multinational enterprises.

The analysis finds that both Chinese state and private-sector actors are well aware of FDI screening, including in the EU, and adapt their behaviour accordingly. At the same time, the internationalisation behaviour of Chinese multinational enterprises appears to be mostly motivated by the need to adapt to obstacles in the domestic Chinese market rather than to obstacles abroad. The analysis also concludes that it is difficult for external observers to distinguish company behaviours that specifically aim to navigate FDI screening from indirect or coincidental adaptations or conventional motives such as tax optimisation, financial structuring, regulatory arbitrage, or broader multinational enterprise organisational practices that are clearly not unique to Chinese firms.

Applicability of the identified strategies in the EU context

The applicability of each strategy and its underpinning mechanisms in the EU is affected by several general and specific factors. General factors include the regulatory environment, notably national FDI screening frameworks, which differ across EU member states in scope, stringency, and implementation; administrative capacity; bilateral ties with China; and the presence of the Chinese diaspora. Factors that affect the applicability and utility of the Circumvent strategy include country-specific regulatory loopholes. The Conceal strategy is supported or challenged by factors such as the presence of bilateral information-sharing agreements between host and home governments, the level of compliance by contractual parties, and, in practice, the level of knowledge of the Chinese system among screening authorities in individual EU member states. The Cultivate strategy's effectiveness depends on the host country's cultural compatibility with *guanxi*,

a longstanding Chinese practice of relationship-building through personal networks and reciprocal obligations, and the host country's susceptibility to lobbying endeavours. Finally, the Cater strategy depends on the degree to which forgoing investment demands are commensurate with the Chinese company's long-term aims. Chinese companies likely adapt their strategies over time, taking into account how local contexts affect their likelihood of success.

This is not an empirical study. Concealment strategies are particularly difficult to observe directly, limiting the available evidence. Thus, the report does not set out to quantify Chinese multinational enterprises' use of the different strategies. However, the analysis does support some tentative conjectures, based on the authors' estimates combined with insights from experts interviewed.

First, adapting the entry mode (Circumvent) is likely the most common mechanism to navigate FDI screening. Chinese businesses have increasingly opted for greenfield investments over mergers and acquisitions in recent years, not least in the EU. Second, the intentional use of shell companies and opaque corporate structures (Conceal) is evidently hard to study but also unlikely to be widespread. The risk of backlash if discovered likely acts as a deterrent, while screening authorities can often, though not always, identify ultimate beneficiaries. Exercising control through informal ties is likely to be a more useful Conceal mechanism. Third, relationship-building and lobbying (Cultivate) and proactively considering host-country concerns (Cater) merit more attention. Chinese companies are likely to seek support from a wide range of actors, including not only Chinese state authorities and the Chinese diaspora, but also Chinese and non-Chinese law firms, consultancies, business associations, companies, and others, to help them navigate the new environment. Relatedly, economic dependencies and trust relationships established over time may be exploited by Chinese companies seeking to expand their FDI footprint in sensitive sectors.

The Chinese state factor

The Chinese party-state's influence over enterprises varies partly by investment strategy, company type, and host country. Notably, some forms of corporate behaviour may primarily serve to escape party-state control rather than to navigate FDI screening. Chinese companies and state actors often have divergent goals, and fragmented bureaucratic lines of authority in the Chinese political system can limit unified top-down control.

Over the course of China's economic reforms since the 1990s, policies have shifted, and Chinese OFDI has been driven by both asset-seeking and market-seeking motivations, with their relevant importance varying across industries and ownership types. Although free-market ideas have driven many reforms in the past forty years, the Chinese Communist Party's strategic priorities continue to shape the OFDI targets of both state-owned and private firms. Official statistics show that Chinese OFDI is heavily channelled through Hong Kong and other offshore financial centres. These function as capital transit hubs and can obscure both the true origin and sectoral allocation of investments.

Since the mid-2010s, Chinese scholars have debated various strategies to navigate Western FDI screening, treating it as a hurdle to be managed rather than a regulatory barrier to be respected. Post-investment influence by the Chinese Communist Party over the operations of multinational enterprises must be borne in mind. Taken together, this influence and the application of China's National Intelligence Law (2017) and National Security Law (2020) jurisdictions that apply to Chinese firms and citizens residing abroad mean that the overseas reach and influence of the Chinese party-state should not be underestimated.

Intermediary jurisdictions of choice for Chinese OFDI

Some intermediary jurisdictions are more popular than others as transit hubs for investments rerouted by Chinese multinationals. These include Ireland, Luxembourg, the Netherlands, Switzerland, and the United Kingdom, as well as non-European offshore financial centres such as Hong Kong, Singapore, the Cayman Islands, and the British Virgin Islands. These serve many purposes for Chinese multinational enterprises, most of which are unrelated to navigating FDI screening. It is worth noting that company registration or investment in these jurisdictions may also help conceal ownership and, beyond that, enhance investor legitimacy through rebranding of national origin and legal domicile.

There are significant differences between these offshore financial centres in geographic and political proximity to China, economic dependence, and diaspora presence. These differences affect the Chinese state's ability to influence FDI rerouted via intermediary jurisdictions by Chinese enterprises. Hong Kong sits within arm's reach politically and geographically. Singapore is influenced through economic and ethnic ties, but remains politically independent and arguably less economically dependent on China than some of its Southeast Asian neighbours. The Caribbean islands are more distant from China's geopolitical sphere and offer the greatest degree of ownership confidentiality. Within the EU, bilateral relations with China vary considerably across member states, as does the presence of Chinese diaspora communities; both factors shape local politics and the effectiveness of business lobbying. The EU also includes several prominent offshore financial centres, namely Ireland, Luxembourg, and the Netherlands, which may serve as substitutes for or complements to non-European offshore financial centres.

Corporate behaviours in Chinese OFDI indicating non-economic objectives

A widespread concern underpinning scrutiny of Chinese investments, particularly among public authorities in liberal market economies, is the risk of exposure to direct or indirect Chinese party-state influence. Shareholding, party cells, personal connections, and state-backed financing are obvious warning signs, as are ties to China's military or inclusion on sanctions lists. This report also identifies specific company characteristics and behaviours that may indicate OFDI driven by non-economic objectives or state-sponsored strategic-asset seeking rather than commercial considerations. Corporate behaviour that seemingly deviates from business logic, such as continuing to invest despite financial losses or accepting unusually unfavourable acquisition terms, may similarly reflect a political rather than commercial rationale.

Certain patterns of offshore financial centres use can also indicate non-market objectives. State-owned enterprises that transfer capital through high-confidentiality offshore financial centres lack the typical private-sector incentive to do so, suggesting non-commercial motivations. Opacity and complexity in ownership structures warrant scrutiny, as does routing investments through multiple intermediary jurisdictions beyond what would be justified by efforts to increasing operational efficiency.

That said, corporate OFDI behaviour must be interpreted with caution, since an action could be motivated by several aims. It is entirely plausible that Chinese multinational enterprises that use indirect FDI are market-seeking rather than asset-seeking. Decentralised corporate structures can produce indirect investment patterns without any intent to conceal. And some behaviours that appear suspicious from an FDI screening perspective may instead reflect attempts to avoid scrutiny from the Chinese state itself. Finally, many FDI navigation mechanisms overlap with techniques used for tax or sanctions evasion; stricter anti-evasion enforcement could thus simultaneously strengthen the effectiveness of FDI screening.

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Abbreviations

AMNE	Advanced market multinational enterprise
BRI	Belt and Road Initiative
BVI	the British Virgin Islands
CCP	Chinese Communist Party
CFIUS	The Committee on Foreign Investment in the United States
CMNE	Chinese multinational enterprise
EMNE	Emerging market multinational enterprise
FDI	Foreign direct investment
HKEX	Hong Kong Stock Exchange
IPO	Initial public offering
JV	Joint venture
KY	Cayman Islands
MNE	Multinational enterprise
MOFCOM	[Chinese] Ministry of Commerce
OFC	Offshore financial centre
OFDI	Outward foreign direct investment
PRC	People’s Republic of China
RMB	Renminbi
SAFE	[Chinese] State Administration of Foreign Exchange
SOE	State-owned enterprise
SME	Small- and medium-size enterprises
SPE	Special-purpose entity
VCC	Variable Capital Company
VIE	Variable Interest Entity
WFOE	Wholly foreign-owned enterprise

1 Introduction

After an extended period of global trade liberalisation, many advanced economies, as well as all EU member states, have introduced or strengthened screening mechanisms for inward foreign direct investment on national security grounds.[1] A key driver has been concerns over asset-seeking outward foreign direct investment (OFDI) by multinational enterprises (MNEs) from emerging markets. The risk that MNEs may acquire and transfer strategically important technologies and know-how back to their home countries has prompted governments to expand their monitoring of such investments. Concerns about foreign control of critical infrastructure also form part of this threat perception.[2] Moreover, recent years have seen an increased focus on managing supply chain vulnerabilities and maintaining domestic production capacity for critical goods, providing an additional rationale for screening.[3]

China is a prominent example of an autocratic state, and by some measures, still an emerging market. It has increasingly engaged in OFDI during the 21st century, with Europe as a leading destination.[4] Active support for overseas investment in advanced technology is one of several means by which the Chinese party-state seeks to achieve the goals of its ambitious industrial policy programmes and, ultimately, to further China's economic development and international influence. These goals, in turn, are tied to the Chinese Communist Party's (CCP) long-term vision of achieving the rejuvenation of the Chinese nation by 2049 and becoming an innovation superpower by 2050.[5] For the EU, the 2016 announcement of the acquisition of Kuka, a German industrial robotics manufacturer, by Chinese company Midea Group became a watershed moment and elevated FDI screening to the top of the policy agenda.[6]

In the years since, amid China's technological rise amid increased geopolitical tensions, managing the risks of economic coercion has become increasingly central to the EU's political agenda.[7] Chinese firms are no longer simply technologically dependent latecomers, but are increasingly competitive, expanding their global market shares in a growing number of high-tech sectors. In the EU context, China's growing technological advantage and market dominance have become especially salient in "green" technologies, such as electric vehicles, batteries, solar panels, and wind turbines. The policy debate has consequently shifted from safeguarding EU technologies or critical infrastructure to broader concerns about the economic survival of European companies and industrial bases in the face of competitive, state-supported Chinese industries. These concerns include the effects of China's extensive state subsidies and industrial overcapacity on foreign competitors, as well as the geopolitical risks associated with entrenched dependency as Chinese multinationals embed themselves

[1] K. Lai. National security and FDI policy ambiguity: A commentary. *Journal of International Business Policy* 4:4 (2021): pp. 496–505.

[2] E. Giuliani, S. Gorgoni, C. Günther & R. Rabellotti. Emerging versus advanced country MNEs investing in Europe: A typology of subsidiary global-local connections. *International Business Review* 23:4 (2014): pp. 680–691; Y. Luo & R.L. Tung. International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies* 38:4 (2007): pp. 481–498; Lai. National security and FDI policy ambiguity.

[3] B. Raganelli & F. Marconi. Foreign Investment screening beyond the COVID-19 challenge. *Banca Impresa Società* 40:3 (2021): pp. 469–520.

[4] A. Kratz, M.J. Zenglein, A. Mischer, G. Sebastian & A. Meyer. *Chinese Investment Rebounds Despite Growing Frictions. Chinese FDI in Europe: 2024 Update.* (Berlin: Rhodium Group – MERICS, 2025). For the purposes of this report, "autocratic" and "authoritarian" are seen as interchangeable concepts.

[5] F. Edvardsson Lampinen & T. Junerfält. *Gammalt sug för ny teknik: kinesisk teknikpolitik under Xi Jinping.* FOI Memo 9248 (Swedish Defence Research Agency – FOI, 2026); F. Lampinen & A. Schröder. *Innovation Capacity in the People's Republic of China – On the state of the innovation assessment literature and strategic ambitions in science and technology governance*. FOI-R--5771--SE (Swedish Defence Research Agency – FOI, 2025); D.A. Levine. Made in China 2025: China's Strategy for Becoming a Global High-Tech Superpower and its Implications for the U.S. Economy, National Security, and Free Trade. *Journal of Strategic Security* 13:3 (2020): pp. 1–16; Y. Lin. 'Made in China 2025' and China's cross-border strategic M&As in OECD countries. *Journal of Chinese Economic and Business Studies* 18:2 (2020): pp. 91–114.

[6] C. Wrage & J. Kullik. After Kuka – Germany's Lessons Learned from Chinese Takeovers. China Observers in Central and Eastern Europe. (21 July 2022).

[7] European Council. European economic security. (Last updated 11 December 2025).

in strategic sectors of the EU economy through exports and investments.[8] This shift has also been accompanied by EU policy responses including the new Foreign Subsidies Regulation and anti-subsidy investigations, as well as the proposed Industrial Accelerator Act, which pushes for local-content requirements and the rapid scaling of the EU's domestic manufacturing capacity.[9] These measures represent a new phase of economic securitisation in the EU, spearheaded by trade defence and industrial policy measures.

Yet it might be expected that Chinese companies' interest in pursuing technological assets and know-how that are primarily available overseas would diminish in parallel with the growing competitiveness of Chinese high-tech industries. However, this is not the case, especially not in industrial sectors and technology areas or niches where the Chinese industry is still lagging behind. A 2025 article in the newspaper China Social Sciences Daily points out that FDI enables CMNEs to "benefit from international technology spillovers, particularly in sectors where there is a significant technological gap" and that "an increasing number of enterprises are proactively pursuing strategic asset-seeking investments in developed countries."[10] Moreover, innovative EU companies with potential to produce technological breakthroughs in areas where China is currently racing ahead may also become attractive targets.[11] It is here relevant to point out that even globally competitive Chinese "national champions" still draw advantage of engaging in not only acquisitions of foreign companies, but also overseas greenfield R&D investment. For example, some of Huawei's top innovations can be traced to its overseas innovation centres and R&D activities conducted by foreign employees.[12]

It is also important to emphasise that the strategic technology areas mentioned in Chinese industrial and technology policy largely overlap with those identified as critical by the European Commission.[13] This creates a fundamental tension in the policy goals of the EU and China: some technology areas that the EU aims to protect are identical to those in which the Chinese party-state prioritises acquiring knowledge from abroad. But the issue is not necessarily confined to certain niche technology segments. Foreign know-how and technological goods remain crucial inputs to China's innovation system across different sectors, as they do, to some degree, in most other countries, since no advanced economy is entirely self-sufficient.[14] In this context, FDI screening remains one of the policy tools available to the EU to protect its strategic industries and strengthen the Union's competitiveness, complementing to parallel initiatives that aim to bolster the Union's domestic manufacturing capabilities.[15]

This report is anchored in the analytical assessment that the Chinese party-state's ambitions to access foreign technology remain strong.[16] This means that initiatives that foreign nations for technology transfers via OFDI, including FDI screening and other economic-security initiatives, could push Chinese actors to use non-transparent and illegal means to pursue

[8] This issue has been on top of the EU's industrial-policy agenda for years, and has been analysed previously by one of the authors; see T. Junerfält & E. Wannheden. *Manufacturing Vulnerabilities: Chinese Minerals, Semiconductors and Green Technologies in the EU*. FOI-R--5524--SE (Swedish Defence Research Agency – FOI, 2024).

[9] Regulation (EU) 2022/2560 of the European Parliament and of the Council of 14 December 2022 on foreign subsidies distorting the internal market; European Commission. Commission issues Guidance Document on submission of price undertaking offers for battery electric vehicles from China. (12 January 2026); European Commission. Industrial Accelerator Act. (4 March 2026).

[10] Z.M. Chen. 用好融资窗口深化对外直接投资 [Making effective use of financing channels to deepen outward direct investment]. *中国社会科学报* [*China Social Sciences Daily*]. (2 March 2025).

[11] T. Junerfält & M. Lougui. *Swedish business in critical technology supply chains in China.* FOI-R--5794--SE (Swedish Defence Research Agency – FOI, 2025), pp. 16–19, 27.

[12] K.J. Schaefer. Catching up by hiring: The case of Huawei. *Journal of International Business Studies* 51 (2020): p. 1502.

[13] European Commission. Commission Recommendation (EU) 2023/2113 on critical technology areas for the EU's economic security for further risk assessment with Member States. C (2023) 6689. (European Commission, October 2023); Edvardsson Lampinen & Junerfält. *Gammalt sug för ny teknik*.

[14] T. Junerfält. *China's Technology Transfer Ecosystem—Key Actors and the Case of China Electronics Technology Group Corporation*. FOI-R--5641--SE (Swedish Defence Research Agency – FOI, 2024), pp. 19–21.

[15] European Commission. *Revision of the EU's Foreign Investment Screening Mechanism*. (11 December 2025).

[16] This subject is further explored in previous FOI research; see Junerfält. *China's Technology Transfer Ecosystem*; Edvardsson Lampinen & Junerfält. *Gammalt sug för ny teknik*; Lampinen & Schröder. *Innovation Capacity in the People's Republic of China*.

these goals. Notable in this context are for example the incentives for Chinese investors to manipulate foreign nations' FDI screening regimes in various ways.[17] For example, re-routing FDI through intermediary third-party jurisdictions can be used for "normal" tax evasion, but can also help conceal the investor's origin and avoid sanctions.[18]

A substantial body of research, particularly in the academic field of international business, examines OFDI from autocratic states and emerging markets. For instance, OFDI has long been recognised as a means of accessing assets unavailable in the home market.[19] FDI has been shown to be effective for knowledge transfer from advanced economies to emerging markets.[20] In most cases, such asset-seeking follows an economic logic, but in other cases, it may be underpinned by political motivations.[21] For example, asset-seeking by state-owned enterprises (SOEs) from autocratic states may be politically motivated by attempts to gain and exercise geopolitical influence, although such motivations are not necessarily limited to SOEs.[22]

Furthermore, Chinese OFDI has been subject to increasing international scrutiny, including in the EU. Policy research has extensively mapped Chinese investments in the EU and analysed the associated risks.[23] A broader economic-security literature examines the Chinese party-state's influence over companies, how the Chinese system acquires and absorbs foreign technology, and the international implications of Chinese technology and innovation policy.[24]

1.1 Purpose and research questions

The research discussed above has also examined, directly or indirectly and from various perspectives, how FDI screening affects the behaviour of Chinese and other companies. However, this study identifies a gap requiring systematic analysis: the overall toolbox available to Chinese multinational enterprises (CMNEs) to navigate FDI screening when investing in sensitive sectors.

By analysing CMNE behaviour in relation to FDI screening in theory and practice, this study aims to provide a deeper understanding of the strategies that actors may employ to navigate FDI screening, and to contribute to the development of fit-for-purpose FDI screening

[17] Junerfält. *China's Technology Transfer Ecosystem*, pp. 58–59.

[18] D. Sutherland, J. Hurst, X.-H. Peng & L. Wu. Exploring the use of offshore intermediary jurisdictions by CMNEs for the purposes of "onward-journey" transit FDI: implications for measuring and understanding CMNE activity. *Asia Pacific Business Review* 28:2 (2022); D. Erokhin. Tax effects on foreign direct investment – Just a rerouting. *The World Economy* 46:9 (2023); C.M. Barry & K.B. Kleinberg. Profiting from Sanctions: Economic Coercion and US Foreign Direct Investment in Third-Party States. *International Organization* 69:4 (2015).

[19] See, for example, S. Makino, C.-M. Lau, & R.-S. Yeh. Asset-Exploitation Versus Asset-Seeking: Implications for Location Choice of Foreign Direct Investment from Newly Industrialized Economies. *Journal of International Business Studies* 33:3 (2002); Luo & Dong, International expansion of emerging market enterprises.

[20] Giuliani et al., Emerging versus advanced country MNEs.

[21] Luo & Tung, International expansion of emerging market enterprises; Y. Lu, Z. Tao & L. Zhu. Identifying FDI Spillovers. *Journal of International Economics* 107:2 (2017).

[22] L.J., Clegg, H. Voss & J.A. Tardios. The autocratic advantage: Internationalization of state-owned multinationals. *Journal of World Business* 49:5 (2018).

[23] Prominent examples of such research are the annual reports by the Rhodium Group and MERICS; see, for example, Kratz et al., *Chinese Investment Rebounds.* Previous research at the Swedish Defence Research Agency (FOI) includes, for example, O. Almén & C. Weidacher Hsiung. *China's Economic Influence in the Arctic Region: The Nordic and Russian cases*. FOI-R--5326--SE (Swedish Defence Research Agency – FOI, 2022); M. Budryk, A. Dahl, H. Lackenbauer, M. Refors Legge & J. Lusua. *Utländska investeringar och ägande i svensk hälso- och sjukvård: En studie om risker*. FOI-R--5474--SE (Swedish Defence Research Agency – FOI, 2023); O. Almén. *Kinesiska investeringar i Sverige: en kartläggning*. FOI-R--5474--SE (Swedish Defence Research Agency – FOI, 2023); and Junerfält & Wannheden. *Manufacturing Vulnerabilities*.

[24] Much research and analysis in this regard is published by prominent think tanks such as the Center for Security and Emerging Technology at Georgetown University, the Australian Strategic Policy Institute, and MERICS. The Swedish Defence Research Agency (FOI) has also published relevant research, including, for example; O. Almén & H. Carlsson. *The Chinese Communist Party's influence over businesses*. FOI-R--5695--SE (Swedish Defence Research Agency – FOI & Swedish National China Centre, 2025); Junerfält. *China's Technology Transfer Ecosystem*; and Lampinen & Schröder. *Innovation Capacity in the People's Republic of China*.

mechanisms. Although the study focuses on China as the home country and the EU as the host region, it also provides some general insights. The overarching research question is:

> *What strategies may be employed by CMNEs to navigate FDI screening when investing in sensitive sectors?*

The analysis was also guided by the following questions:

1. *To what extent are the identified strategies applicable to CMNE investment in the EU?*
2. *How do China-specific institutional and political factors shape CMNE behaviours in relation to OFDI and FDI screening?*
3. *Which intermediary jurisdictions do CMNEs preferentially use for routing OFDI, and what functions do these jurisdictions serve in navigating FDI screening in third countries?*
4. *What CMNE OFDI behaviours could indicate non-economic objectives?*

1.2 Method and sources

This report uses a variety of qualitative data-collection and analytical methods. The report primarily references academic articles, supported by analyses from research institutes and think tanks, media reports, corporate publications, and government information. Open-source data is also supplemented by expert interviews.

1.2.1 Data collection

The primary data-collection method employed is a qualitative literature review. The authors reviewed a broad range of literature and distilled the resulting insights into three chapters spanning general OFDI theory (Chapter 2), China as a home country for OFDI (Chapter 3), and Chinese strategies to navigate FDI screening (Chapter 4).

The literature review was largely conducted thematically. As part of the study, the authors, together with FOI colleague Oscar Almén, held seven literature review seminars between September and December 2025. During these seminars, we shared readings and discussed previous research on specific topics, such as the interaction between authoritarian states and enterprises in the OFDI context, firm-level motives for OFDI, offshore financial centres, and sovereign wealth funds. In addition to building shared knowledge, the seminars helped to narrow the study's focus iteratively. Particular attention was paid to previous research on countries or regions that host prominent offshore financial centres (OFCs) used as intermediary jurisdictions by CMNEs, namely the Caribbean islands, the EU, Hong Kong, and Singapore.

The literature review also included Chinese-language academic literature on topics such as OFDI, FDI screening, and OFCs. These sources primarily inform the analysis in Chapter 4. The literature was identified through semi-systematic review of two Chinese scholarly databases: China National Knowledge Infrastructure (中国知网) and Baidu Scholar (百度学术). Searches for a series of keywords (see footnote) were conducted in November 2025, and additional works were identified from the reference lists of retrieved articles.[25] Some 70 Chinese academic works identified in the searches were reviewed. Of these, 40 (including two PhD dissertations and one book) were selected as particularly relevant to this report. Much of the selected Chinese literature takes a matter-of-fact approach to understanding the nuts and bolts of various FDI screening frameworks, commonly referred to in Chinese as

[25] Major keywords for the literature review in China National Knowledge Infrastructure that generated useful findings include national security review (国家安全审查), OFDI (对外直接投资), and overseas economic interests (海外经济利益). Other keywords produced little or no relevant results, including springboard (跳板), bridgehead (桥头堡), intermediary jurisdiction (中介法域), special purpose entity (特殊目的公司), shell company (空壳公司), safe haven (避险地), asset management (资产管理), and risk management (风险管理). Literature searches using the keyword offshore financial centre (离岸金融中心) generated articles that at first sight seemed relevant, but, on closer inspection, usually had a strict regional focus, for example, on Singapore's role for Chinese investments in ASEAN.

security review (安全审查), describing their processes, relevant legislation and key actors. The 40 works were selected because they analysed the implications for CMNEs and offered suggestions for corporate and government policy responses. In addition to academic literature, Chinese government documents and corporate sources were consulted where relevant.

As part of the study, the authors also participated in the December 2025 European International Business Academy conference in Athens, Greece. There, the authors presented preliminary findings in a poster session and received input from international scholars. The conference also prompted further mapping and analysis of academic sources. Importantly, the authors later followed up on contacts established through networking at the conference by interviewing selected scholars, which provided further input to the study (see especially Chapter 5.6.1).

In addition to the qualitative literature review, data was collected through ten semi-structured expert interviews with a total of eleven interviewees, including both academics and practitioners. The interviews are listed in the Interviews section under References (Chapter 7), though some interviewees chose not to be named.

Nine of the ten interviews were conducted online, each involving one or two interviewees and attended by at least two co-authors. The tenth was a group meeting with civil servants in the Swedish government. Of the participants interviewed individually or in pairs-, seven of the eleven interviewees were international business scholars, and the remaining four were practitioners: a tech investor, two lawyers, and the CEO of a corporate risk intelligence firm. Together, the eleven interviewees are based in eight countries.

The tech investor interview was conducted in October 2025 at an early exploratory stage of the study. The remaining interviews were conducted between February and May 2026, for triangulation, generating new insights, and validating preliminary findings.

1.2.2 Data analysis

In essence, the study's method of analysis is best described as a theory-driven literature synthesis organised around a typology developed during the study. The typology presents five strategies for Chinese MNEs to navigate FDI screening and is illustrated in Chapter 4.

The typology was initially inspired by academic articles on host-country concerns and reactions to FDI from emerging market multinational enterprises (EMNEs). Based on this existing research, the study group developed preliminary hypotheses about how EMNEs might react to a more restricted investment environment. These hypotheses were then refined through the review of Chinese academic articles on FDI screening described above. The methods suggested by Chinese scholars for overcoming screening-related hurdles generally fell within the strategies presented in the typology, consistent with the authors' hypotheses.

Even though the typology was initially developed top-down by inferring hypotheses from theory, it was further refined bottom-up as the study identified various sub-strategies and assessed how they fit into the larger picture, leading to the restructuring and re-evaluation of the initial hypotheses. The interviewed experts also made notable contributions to this process (see above). The study applied a case study methodology, assessing how CMNEs use OFCs in the Caribbean islands, the EU, Hong Kong, and Singapore. In particular, the case studies sought to analyse how CMNEs may reroute investment via each of these jurisdictions to pursue four of the five strategic responses outlined in the typology (see Chapter 4) for navigating FDI screening mechanisms in the EU.

The current state of research calls for further study of CMNE's motives for using OFCs, as much existing research has concentrated on tax planning.[26] Only the most relevant results from each case study are included in the main text of the report. Much of the material collected for the case studies consisted of background information on each jurisdiction that goes

[26] M. Christofi, D. Vrontis & A. Makrides. Exploring the role of institutions in Chinese OFDI: a systematic review and integrative framework. *Asia Pacific Business Review* 28:2 (2022): p. 205.

beyond the study's research question. This information is instead provided in the Appendix, which interested readers may consult to understand each jurisdiction's broader utility for CMNEs and their business activities.

1.3 Delimitations and definitions

EU regulation on FDI screening highlights three kinds of foreign investors that could negatively affect security and public order: a) investors that are directly or indirectly controlled by a foreign government, including state bodies or armed forces; b) investors with a track record of negatively affecting security or public order in an EU member state; and c) investors that are at high risk of engaging in illegal or criminal activities.[27] This report focuses on the first type: investors that potentially are controlled by a foreign government, whether directly or not.

The report is not an empirical study. The empirical examples provided throughout mainly serve to make theoretical constructs more concrete for pedagogical purposes; they are not used to pinpoint motives or quantify how commonly CMNEs use each strategy. Especially notable are the evidentiary limitations associated with studying concealment strategies, as these are by definition often difficult to observe directly. Relatedly, it may occasionally be difficult for external observers to distinguish company behaviours aimed at navigating FDI screening from indirect or coincidental adaptations or from behaviours driven by conventional considerations, such as tax optimisation, financial structuring, regulatory arbitrage, or broader multinational enterprise organisational practices. Moreover, neither of these behaviours are unique to Chinese firms. The study also cannot establish causality, not least in the absence of concrete evidence. When incidents involving specific companies serve as empirical examples, the intention is not to make unsubstantiated claims about the companies' actual motives. However, a fundamental concern underlying the topic is that it is the demonstrated or potential motives of the Chinese state, not those of the companies themselves, that matter most.

This study focuses on means of navigating FDI screening mechanisms that entail equity investment. Non-investment actions that can be used to access foreign markets or know-how, or gain control over critical infrastructure, therefore, fall outside the study's scope. Consequently, activities that fall outside its scope include non-equity-related R&D partnerships, professional and academic networking, talent recruitment, espionage, circumvention of export controls, and imports and exports more generally.[28]

For the sake of simplicity and brevity, *multinational enterprise* (MNE) is used here in a broad sense to encompass not only enterprises but also, for example, investment funds that operate internationally. The term *Chinese multinational enterprises* (CMNEs), in turn, encompasses both *de jure* Chinese firms, those incorporated in China, and *de facto* Chinese firms, which, although formally incorporated abroad, originate from China and maintain substantive operational, financial, or ownership ties to China (see Chapter 4.2.3 for a more detailed discussion).

Here, *sensitive sectors* refer to sectors of national economies that are formally or informally recognised as strategic industries or otherwise of national security importance. The study focuses particularly on high-technology sectors, such as those pinpointed in EU economic-security policy or China's high-level technology policies. Their knowledge intensity makes governments especially concerned about the transfer of sensitive know-how to foreign actors.[29] However, further sectors are deemed sensitive or worth safeguarding in the EU, such

[27] Y. Li. "Europeanization of foreign direct investment screening: A spotlight on the EU regulation." In Y. Li, F. Lin & C. Bian (eds.), *National Security in International and Domestic Investment Law*. (Routledge, 2024), p. 89.
[28] The means of accessing foreign technology listed here, among others, are discussed in a previous FOI report that focuses on Chinese actors involved in technology transfer efforts; see Junerfält. *China's Technology Transfer Ecosystem*.
[29] European Commission. Commission Recommendation (EU) 2023/2113 on critical technology areas, pp. 5–6; Edvardsson Lampinen & Junerfält. *Gammalt sug för ny teknik*, pp. 8–9.

as transport, energy, or digital infrastructure, different supply-chain activities involving critical raw materials, and financial services.[30]

The study also does not provide an in-depth analysis of differences in FDI screening regulations and implementation across different EU countries. This is a relevant issue, but would require a separate study. That said, the report discusses, where relevant, the overall implications of actual or potential differences between FDI screening mechanisms.

1.4 Structure of the report

The rest of the report is structured as follows. Chapter 2 provides a theoretical background on OFDI determinants, which forms the basis of the analytical framework created by the authors for categorizing MNE attitudes toward FDI screening mechanisms. Chapter 3 examines the unique characteristics of China as a home country for OFDI. Chapter 4 explores the identified strategies for CMNEs to navigate FDI screening mechanisms. Chapter 5 provides the report's conclusions. Chapter 6 suggests avenues for future research.

[30] European Commission. Revision of the EU's Foreign Investment Screening Mechanism.

2 Theoretical framework: OFDI determinants

This chapter establishes the theoretical baseline for the analytical framework presented in this report, distilling insights into economic and non-economic OFDI motives, home-country characteristics, and choice of host country and entry mode.

The most important findings of this chapter are:

- firms are commonly motivated to invest abroad in pursuit of assets unavailable in the home market, including knowledge transfer;
- state-owned enterprises operate according to political rather than economic logic, meaning that OFDI with direct or indirect state backing may be driven by non-economic motives such as strategic asset seeking or ideology transfer;
- firms from emerging markets tend to be asset-seeking, but may possess strong strategic assets that they will leverage to dominate new markets; and
- the motivation behind an investment dictates its destination.

2.1 Economic OFDI motives

In simple terms, the motives that lead firms to internationalise can be divided into two groups: market-seeking and strategic asset-seeking (henceforth, *asset-seeking* for short). Efficiency-seeking falls under the former and natural resource-seeking under the latter.[31] A market-seeking company views its home market as having reached its full potential (or foreign markets as more readily available), meaning that expansion into new markets is necessary to increase sales or achieve higher profitability. This often means greenfield investments (investments involving the establishment of new operations in a market) in markets similar to the home market, as this provides favourable conditions for greater control over the investment, including quick adaptation to local customer demands and the reuse of firm-specific assets and advantages from the home market.[32]

Meanwhile, an asset-seeking company needs assets or resources that are inaccessible in the home country (or at least more easily accessible abroad), such as specialised labour, production assets, or various forms of intellectual property.[33] This motive often leads firms to pursue mergers and acquisitions (M&As) targeting specific companies that own the necessary assets.[34] In some cases, however, even greenfield investments can serve this purpose, for example, when used to access natural resources or to establish an R&D centre within an existing R&D cluster to access its networks.[35] It is difficult to prove whether acquisitions are intended to maximise profits, or undercut competition. Joint ventures (JVs) are usually considered second best to fully owned subsidiaries, as they may leave the investor without majority ownership and thus with limited control over the venture. However, JVs can be the only way to gain access to new markets, business networks, and assets, or can simply be preferable to having no influence at all.[36]

[31] Makino, Lau & Yeh. Asset-Exploitation Versus Asset-Seeking; J.H. Dunning. The Eclectic Paradigm as an Envelope for Business Theories of MNE Activity. *International Business Review* 9:2 (2000): pp. 163–190; J.H. Love, N. Driffield, K. Lavoratori, & Y. Yang. FDI motives redux: Exploring behavioral assumptions in international business research. *Multinational Business Review* 33:2 (2025): pp. 220–237.

[32] Makino, Lan & Yeh. Asset-Exploitation Versus Asset-Seeking; Dunning. The Eclectic Paradigm.

[33] Giuliani et al. Emerging versus advanced; Y. Luo & R.L. Tung. A general theory of springboard MNEs. *Journal of International Business Studies* 49:2 (2018): pp. 129–152.

[34] N. Gaffney, B. Kedia & J. Clampit. A resource dependence perspective of EMNE FDI strategy. *International Business Review* 22:6 (2013): pp. 1092–1100.

[35] Giuliani et al. Emerging versus advanced.

[36] J.-F. Hennart. Down with MNE-Centric Theories! Market Entry and Expansion as the Bundling of MNE and Local Assets. *Journal of International Business Studies* 86:3 (2009): pp. 1432–1454.

In some cases, the asset sought is knowledge (including know-how, innovations, tacit knowledge, and technology). The literature has traditionally understood knowledge as flowing from politically, economically, and culturally central locations to peripheral ones, with such flows depending on the latter's absorptive capacity.[37] More recently, scholars have argued that reverse knowledge transfer (from the periphery towards the centre) is also a notable phenomenon.[38] For this study, and more broadly in the context of for MNEs from emerging markets, however, the concept of reverse knowledge transfer remains somewhat ambiguous. On the one hand, acquiring knowledge through investment in developed countries depends on effective flows from the periphery (i.e., the subsidiary) to the centre (i.e., the parent unit).[39] On the other hand, one can reasonably argue that the transfer is not reversed, as from a macro perspective it flows from Europe and North America, which can still be described as central, to less developed (and thus peripheral) markets.[40]

In summary, what constitutes "reverse" knowledge transfer may not be clear-cut, and the efficiency of knowledge flows in different directions may vary. For this report, however, it is relevant to highlight that the potential transfer of knowledge back to China from Chinese investments in sensitive sectors in the EU, regardless of entry mode (see Chapter 2.4), forms part of the risk perception motivating FDI screening. This study understands knowledge-transfer-seeking behaviour as a component of asset-seeking behaviour.

2.2 Non-economic OFDI motives

In some cases, OFDI is an instrument for achieving goals other than those arising from business logic (and even economically motivated goals may be multiple and mutually conflicting). One example is a "golden passport" (or "golden visa") scheme, whereby an investor is entitled to permanent residency, citizenship, or an equivalent status in the host country in which the investment is made, provided the investment meets certain criteria (typically a monetary value threshold). Investors using this method may attempt to escape an oppressive political regime in their home country through relocating or to evade political sanctions by gaining citizenship of another state.

OFDI may also be instrumentalised by governments to achieve geopolitical objectives, such as securing access to strategic resources (including goods, services, technologies, or knowledge), denying such access to rivals, promoting national values or ideology, rewarding allies, projecting power, or facilitating corruption.[41]

Given the potential motives for OFDI outlined above, one potential way to identify investments motivated by a foreign state's geopolitical goals from those driven by a business actor's economic motives is to examine the underlying business logic. This is particularly true when the investment is made by a publicly controlled entity, such as a state-owned enterprise (SOE) or sovereign wealth fund, which may pursue government objectives rather than purely commercial considerations.[42]

In theory, privately owned companies and SOEs have different motives for investing abroad, reflecting their different raisons d'être.[43] The basic premise of SOEs is not to follow common market logic and seek to maximise profits, but rather to address market failures in

[37] M. Frenkel. Can the Periphery Write Back? Periphery-to-Centre Knowledge Flows in Multinationals Based in Developing and Emerging Economies. *Core-Periphery Relations and Organisation Studies*. (Palgrave Macmillan, London, 2014), pp. 33–52; cf. S.A. Zahra & G. George. Absorptive Capacity: A Review, Reconceptualization, and Extension. *Academy of Management Review* 27:2 (2002): pp. 185–203.

[38] L. Rabbiosi. Subsidiary roles and reverse knowledge transfer: An investigation of the effects of coordination mechanisms. *Journal of International Management* 17:2 (2011): pp. 97–113.

[39] Giuliani et al. Emerging versus advanced; S.R. Nair, M. Demirbag, K. Mellahi, & K. Gopalakrishna Pillai. Do Parent Units Benefit from Reverse Knowledge Transfer? *British Journal of Management* 29:3 (2018): pp. 428–444.

[40] Frenkel. Can the Periphery Write Back?

[41] T. Wei, L.J. Clegg & L. Ma. The Conscious and Unconscious Facilitating Role of the Chinese Government in Shaping the Internationalization of Chinese MNCs. *International Business Review*. 24:2 (2015): pp. 331–343; Clegg, Voss & Tardios. The autocratic advantage.

[42] Clegg, Voss & Tardios. The autocratic advantage.

[43] Importantly, we use "state" in a broad sense, i.e. the term should be understood to cover public authorities at all levels, whether national, supranational, or subnational.

response to various societal problems and challenges. This typically includes ensuring public access to fundamental goods and services, such as infrastructure, education, and healthcare. By this logic, SOEs have few reasons to invest abroad other than to achieve economies of scale or pursue business expansion that requires foreign operations, since their government owners generally have little interest in employing their own resources to address market failures in other countries. Previous research notes that SOE investments in the same industry but in different markets (same-industry investments) generally serve to achieve economies of scale intended to make home-country operations more efficient.[44]

It is important to note, however, that state ownership and involvement can take different forms. An entity can be a government agency (with or without separate budgetary provisions); be directly or indirectly owned by the state, whether wholly or through a majority or minority stake (with indirect ownership occurring, for example, through sovereign wealth funds or state-administered pension funds); or even be a private company indebted to a state-owned bank. These forms of involvement confer varying degrees of state control and, consequently, varying degrees of alignment between the entity's investment decisions and state priorities.[45]

Previous research identifies at least three implications of state ownership in OFDI that are relevant to this study. First, SOEs tend to use M&As rather than greenfield investments to enter foreign markets.[46] This appears to differ from the more cost- and strategy-oriented selection of entry modes by private actors.[47] Second, ideology transfer and the management of increased wealth in the home country are among the motivations for state-owned MNEs from autocratic states to engage in foreign M&As.[48] Third, an SOE may be viewed, sometimes with good reason, by host governments as a proxy for its home government and as such may trigger formal and informal screening and other types of sanctions to prevent that government from gaining geopolitical control and other advantages.[49] However, in some states where the lines between political power and private ownership are blurred (such as China and Russia), the same may also be true of formally privately owned organisations. The logical conjecture is that an investment that does not appear to follow a business logic should invite inquiry by the host country authorities into what other non-economic forces might be at play.[50]

A plethora of reservations must be made here: they fall into two categories. On the one hand, not all investments that appear to lack business logic are necessarily driven by non-economic motives. Most importantly, information asymmetry between the investor and the authorities will affect the assessment of an investment's business logic. Some investments might be driven by innovative business strategies, and some are simply misguided; moreover, it is generally not the authorities' job to judge the viability of an investor's business idea. Similarly, portfolio and capital investments may evade traditional business logics, as may investments driven by diversification strategies. This might be particularly true in the case of growing economies, where investors look for ways to put liquid capital surpluses to good use.[51] In some cases, the investment may be motivated by the investor's desire to escape

[44] Clegg, Voss & Tardios. The autocratic advantage.
[45] A. Cuervo-Cazurra. Thanks but no thanks: State-owned multinationals from emerging markets and host-country policies. *Journal of International Business Policy* 1:3 (2018).
[46] Clegg, Voss & Tardios. The autocratic advantage, p. 669.
[47] J.-F. Hennart. Transaction Cost Theory and International Business. *Journal of Retailing* 86:3 (2010): pp. 257–269; Hennart. Down with the MNE-centric theories!
[48] Clegg, Voss & Tardios. The autocratic advantage.
[49] Cuervo-Cazurra. Thanks but no thanks; Clegg, Voss & Tardios, The autocratic advantage; Wei, Clegg & Ma. The Conscious and Unconscious; O. Bertrand, M.-A. Betschinger & A. Settles. The relevance of political affinity for the initial acquisition premium in cross-border acquisitions. *Strategic Management Journal* 37:10 (2016): pp. 2071–2091.
[50] Wei, Clegg & Ma. The Conscious and Unconscious; Bertrand, Betschinger & Settles. The relevance of political affinity.
[51] See, for example, J. Gammeltoft. Emerging Multinationals: Outward FDI from the BRICS Countries. *International Journal of Technology and Globalisation* 4 (2008): pp. 5–22.

certain conditions in the home market, for instance if they experience deficits in financial or regulatory privileges.[52]

On the other hand, not all investments that follow business logic can necessarily regarded as "legitimate." In some cases, an investor's identity matters, as a private entity's intentions could appear more legitimate than those of a state-owned one. In this context, some actors links to their respective home governments may, intentionally or otherwise, be concealed through complex ownership structures. The unclear lines between private and public ownership and control are therefore particularly important.[53] We return to and expand on these ideas in Chapter 3.

2.3 Home-country characteristics

Markets with easier access to capital can generally be expected to be more prominent sources of OFDI, simply because investment requires financial resources. Consequently, wealthier industrialised economies have long dominated the international trade scene.[54] Over time, steady economic growth in industrialising countries has created capital surpluses in less developed economies as well, increasing their OFDI activity.[55]

Scholars tend to distinguish between these two groups of economies, industrialised (sometimes also called "advanced" or "developed") and industrialising ("emerging' or "developing"), when discussing different logics that dictate the decisions of firms in selecting OFDI destinations.[56] MNEs originating in advanced economies (AMNEs) have long been believed to possess the technological edge, stronger brands, more sophisticated business strategies and practices, experience with well-developed institutions, and financial muscle. In other words, these companies tend to have strong assets, and they tend to invest abroad to exploit these strengths in new markets in line with the market-seeking logic.[57]

MNEs originating in emerging markets (EMNEs), on the other hand, tend to have built their business in underdeveloped institutional environments.[58] The emerging market concept originated in World Bank circles in the 1980s and typically denotes countries that exhibit rapid economic growth, industrialisation, and urbanisation, accompanied by opening up of trade, FDI and capital markets.[59] On the negative side, emerging economies tend to be more vulnerable to external economic shocks due to budget deficits, debt-ridden public agencies and firms, exposure to currency volatility, weak capital markets along with weak legal systems and property rights, and therefore entail higher uncertainty both for foreign investors and for domestic economic actors.[60] This implies that EMNEs have a certain aptitude for operating in similarly underdeveloped environments (such as those of other emerging markets), but they tend to be weaker when it comes to strategic assets such as knowledge and technology, financial resources, or brand recognition.[61] Consequently, they

[52] B. Burmester & J. Scott Kennel. Hide and seek: Evasion and search as FDI motivations. *Critical Perspectives on International Business* 15:4 (2019): pp. 273–295.
[53] See, for example, Wei, Clegg & Ma. The Conscious and Unconscious; Cuervo-Cazurra. Thanks but no thanks.
[54] See, for example, M. Wilkins. The History of European Multinationals: A New Look. *The Journal of European Economic History* 15:3 (1986): pp. 483–510.
[55] Gammeltoft. Emerging Multinationals.
[56] M.F. Guillén & E. Garcia-Canal. The American Model of the Multinational Firm and the 'New' Multinationals from Emerging Markets. *Academy of Management Perspectives* 23:2 (2009): pp. 23–35.
[57] Guillén & Garcia-Canal. The American Model.
[58] R. Ramamurti. What is Really Different about Emerging Market Multinationals? *Global Strategy Journal* 2:1 (2012): pp. 41–47.
[59] *The Economist.* What's in a name? Defining emerging markets: A self-fulfilling prophecy. October 5, 2017.
[60] The Economist. What's in a name?; A. Mody. What is An Emerging Market? *IMF Working Papers* 2004:177 (2004): pp. 1–4.; R. Duttagupta & C. Pazarbasioglu. Miles to go. *Finance & Development Magazine* (June 2021): pp: 4–9.; S. Johnson. Straight Talk: Emerging Markets Emerge. *Finance & Development Magazine* 45:3 (September 2008): pp: 54-55.
[61] Y. Liu, C. Öberg, S. Tarba & Y. Xing. Brand management in mergers and acquisitions: Emerging market multinationals venturing into advanced economies. *International Marketing Review* 35:5 (2018): pp. 710–732.

can be expected to seek specifically these assets that tend to be lacking in their home markets.[62]

In reality, the distinction between AMNE and EMNE is not as sharp as the theoretical argument might lead one to believe. Not all companies originating in a certain type of economy type fit neatly into this pattern. AMNEs also need assets and resources that are not always readily available (or possible to develop) in their home markets. Natural resources are a typical example of assets that may occur anywhere regardless of the economic environment. Similarly, low-cost labour is another type of asset, available in abundance primarily in emerging markets, which AMNEs have sought to take advantage of. Conversely, EMNEs have invested abroad in other, similar markets to draw on business experience gained in their home markets.[63]

The passing of time has also blunted the distinction. As emerging markets experience economic growth, companies in these markets develop and accumulate strategic assets of their own that they can exploit in other markets. While it is not uncommon for them to acquire strategic assets from advanced economies, it is important to note that many strategic assets (such as technologies or brands) have also been developed in emerging markets, with the recent boom of Chinese electric vehicle manufacturers serving as a prime example.[64] Thus, the dividing line between advanced and emerging economies is becoming increasingly blurred.

2.4 Choice of host country and entry mode

The motivation behind an investment dictates its destination. Asset-seeking investments will naturally be directed towards those markets where the desired assets are available, and the choice of investment destination among those markets can be more or less flexible. For instance, some natural resources are widely available, while others can only be extracted (at an acceptable cost and/or scale) in a limited number of locations. The same is true for other types of assets and resources. Additionally, the clarity of the investor's strategic awareness and intent will factor into the location decision: in some cases, investors will adhere strictly to their interest in a given asset, while in other cases, the interest might be more loosely defined, more substitutes might be available, and the investor might be more flexible or opportunistic.

The choice of target host country may be based on a particular type of asset-seeking motive, namely, accessing local networks, such as clusters, ecosystems, and supply chains.[65] An example is companies that opt to invest in overseas R&D units in developed markets. EMNEs may pursue this for several different purposes: to scan technological developments in preparation for future investments; to "tap into" local R&D infrastructures and technology leadership clusters; to establish new partnerships with local actors or strengthen existing ones; to recruit local talent; or to manage personnel located abroad.[66] Foreign talent recruitment is an important success factor even for prominent Chinese companies such as Huawei, which "strategically [hires] R&D experts outside its home country, earning it a reputation for intense knowledge sourcing."[67]

Additionally, OFDI may be used for tax optimisation, either through moving the headquarters to a more lenient tax jurisdiction than that of the home country or through using a

[62] Wei, Clegg & Ma. The Conscious and Unconscious.
[63] A. Cuervo-Cazurra & M. Genç. Obligating, Pursuing, and Supporting Dimensions of the Environment and the Non-Market Advantages of Developing-Country Multinational Companies. *Journal of Management Studies* 48:2 (2011): pp. 441–455.
[64] Cf. G. Duysters, J. Jacob, C. Lemmens & Y. Jintian. Internationalization and technological catching up of emerging multinationals: a comparative study of China's Haier group. *Industrial and Corporate Change* 18:2 (2009): pp. 325–349.
[65] Interview 6.
[66] D. Sutherland, J. Anderson, L. Wu & S. Severe. Exploring the impact of establishment mode on intangible strategic asset creating in CMNEs: springboard cross-border strategic asset-seeking M&As versus greenfield R&D-related FDI projects. *Asian Business & Management* 23 (2023): p. 523.
[67] Schaefer. Catching up by hiring, p. 1501.

more lenient jurisdiction as an intermediary to channel investments to other countries (see Chapter 4.2.3).

The entry mode, that is, the way in which a company enters a foreign market, may have a significant impact on the ability of the investing firm to achieve knowledge transfer from its subsidiaries abroad. Chinese asset-seeking companies investing abroad may even achieve their purpose better through greenfield investments than through M&As. For instance, greenfield investments tend to involve managers tied to the broader corporate network, whereas acquisitions tend to involve managers whose networks relate to the acquired firm. Knowledge-sharing from host to home country will be easier in the former case, since greenfield subsidiaries will be more easily embedded in the MNE in terms of culture, routines, and relationships between top management and the subsidiary. The MNE needs to be highly capable of orchestrating knowledge flows within its broader corporate structure for acquisitions to be successful in terms of intangible asset transfers. Post-acquisition failures often stem from integration issues between acquired companies and their new parent companies. At the same time, even though greenfield investments come with benefits of stronger intra-MNE linkages, local embeddedness will naturally take longer to achieve than in the case of acquisitions.[68]

[68] Sutherland et al. Exploring the impact, pp. 525, 534; see also C. Dhanaraj & A. Parkhe. Orchestrating Innovation Networks. *Academy of Management Review* 31:3 (2006): pp. 659–669.

3 OFDI with Chinese characteristics

This chapter examines the unique features of China as a home country for OFDI. In other words, this chapter seeks to position China within the theoretical baseline presented in Chapter 2 above. As earlier research has noted: "It is the distinct contexts of the way people are organised, within societies and within firms and the structures that straddle each, that account for why special theoretical explanations are necessary for Chinese OFDI."[69]

The most important findings of this chapter are:

- the expansion of OFDI is promoted at the highest state level;
- Chinese enterprises are squeezed by domestic political pressures to engage in politically desirable business operations at home and abroad;
- the OFDI motives of state and corporate actors differ but are mutually reinforcing in incentivising enterprises to go abroad; and
- the Chinese OFDI community is acutely aware of FDI screening mechanisms and largely perceives them as discriminatory against China.

3.1 The rise of China's OFDI

To understand the strategic role of OFDI in the Chinese political and business landscapes, it is important to grasp how Chinese OFDI has evolved over time. The rising tide of Chinese OFDI was shaped by the CCP party-state, but also constituted a challenge to the institutional framework it put in place.

It should be noted that Chinese OFDI is a fairly recent phenomenon linked to the rapid rise in trade surpluses and growth of foreign exchange reserves. China initiated its economic reform era in 1978. Since then, Chinese OFDI has developed in stages, with OFDI expansion triggered by new policies designed to handle China's rising foreign exchange reserves, accumulated through regular foreign trade surpluses.[70] For instance, in 2011, the reserves topped USD 3 trillion. Simply placing them in long-term US Treasury bonds and securities became an untenable and insecure alternative from an economic perspective.[71]

Following China's accession to the World Trade Organisation in 2001, the government started supporting enterprises to "Go Out" (走出去) into the global economy, to expand not only their foreign trade but also their OFDI operations. The CCP began directing SOEs to increase overseas investment to access foreign markets and acquire natural resources and technologies critical to China's growth.[72]

During the global financial crisis in 2007–2009, transforming China's excess reserves into strategic assets became an issue of debate in Beijing's policy circles.[73] Eventually, a large share of the reserves was used for OFDI to enhance national financial security and to project global geo-economic influence.[74] Between 2000 and 2016, China's foreign exchange reserves rose from less than USD 100 billion to nearly USD 4,000 billion. OFDI rose at a corresponding pace, an average annual rate of 39 per cent growth between 2002 and 2016.[75]

[69] Buckley et al. A retrospective and agenda for future research on Chinese outward foreign direct investment." *Journal of International Business Studies* 49:1 (2018): p. 19.
[70] B.J. Wang & K.L. Gao. Forty Years Development of China's Outward Foreign Direct Investment: Retrospect and Challenges Ahead. *China & World Economy* 27:3 (2019): p. 2.
[71] Z. Liu. *Sovereign Funds: How the Communist Party of China Finances Its Global Ambitions*. (Harvard University Press, 2023), pp. 55–63.
[72] P. Nash. China's "Going Out" Strategy. *Diplomatic Courier*. (10 May 2012).
[73] Liu. *Sovereign Funds*, pp. 57–66.
[74] ibid, pp. 71–73, 185, 201.
[75] Ministry of Commerce of the People's Republic of China, National Bureau of Statistics, and State Administration of Foreign Exchange. *2024 年度中国对外直接投资统计公报* [2024 Statistical Bulletin of China's Outward Foreign Direct Investment]. (September 2024), 6.

In 2013, CCP chairman Xi Jinping launched the Belt and Road Initiative (BRI), a policy programme aiming to connect Asia, Europe, and Africa with China through a web of economic and trade relations. The BRI programme stimulated the "Go Out" policy, and the OFDI stock continued to grow. In 2016, China became the world's second-largest outward investor behind the US.[76] Figure 2 below illustrates the development of Chinese OFDI during the 21st century.

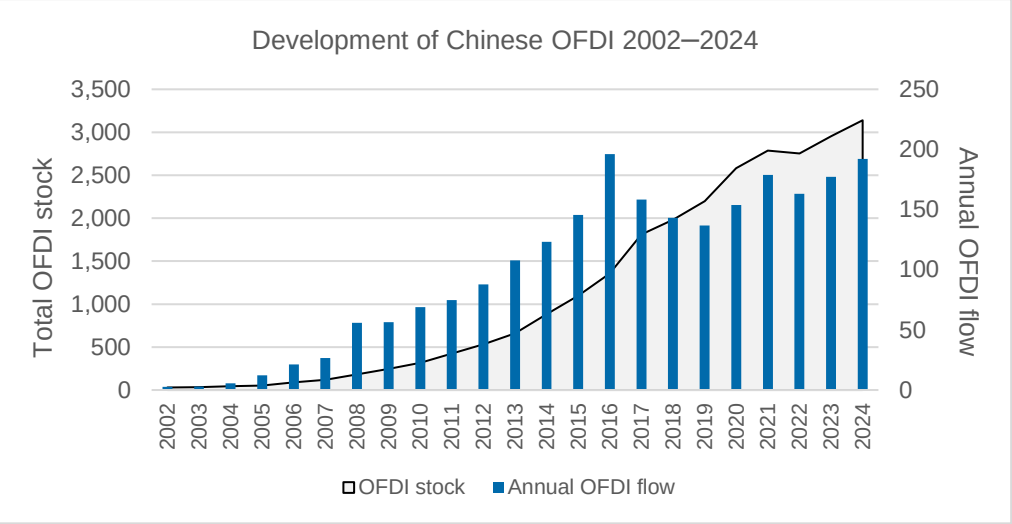


Figure 2. Development of Chinese OFDI, 2002–2024. Numbers in USD billion. **Source:** MOFCOM, NBS, and SAFE.[77]

3.1.1 The current status of Chinese OFDI

In 2024, China's global OFDI stock amounted to USD 3,134 billion (see Figure 2 above). Note that official data includes only first-order OFDI, the first stop in an investment's journey, thus excluding ultimate investment destinations. However, while these investments have generated significant profits, a 2020 Chinese academic article states that China has received remarkably few "intangible benefits," such as political influence, relative to the size of its OFDI stock.[78]

Some of China's OFDI policy trends in the period since 2017 are worth mentioning. China's OFDI operations have been both politically and commercially motivated. While the first stage of China's OFDI was driven by natural-resource-seeking motives, later investment aims became more diverse, including market-seeking, efficiency-seeking, technology-seeking, and a wish for risk diversifycation.[79]

Second, SOEs operating in strategic sectors linked to central government ministries usually enjoyed financial support to expand overseas in the 1990s. However, since around 2010, local SOEs and private firms have gradually increased their share of China's OFDI. According to official data, China's OFDI investor group comprises approximately 30,500 enterprises, about 1,000 of which are centrally managed SOEs.[80] At the aggregate level, Chinese SOEs have been observed to invest abroad less frequently than private companies.[81] Indeed, SOEs represent less than 3 per cent of all investors, yet they own 40 per cent of China's total

[76] Wang & Gao. Forty Years Development, pp. 2–3. See also, Liu. *Sovereign Funds*, p. 55.
[77] MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*.
[78] Y.Z. Wang & B.Y. Li. 风险-收益视角下中国对外投资中的海外利益保护问题探析 [Protection of China's Overseas Investment Interests: A Risk-Return Analysis]. *亚太经济* [Asia-Pacific Economic Review] 6 (2020).
[79] E. Hong & L. Sun. Dynamics of Internationalization and Outward Investment: Chinese Corporations' Strategies. *The China Quarterly* 187 (September 2006): pp. 615–616.; F. He & B. Wang. Chinese Interests in the Global Investment Regime. *China Economic Journal* 7: 1 (2014).
[80] There were 34,000 investing entities, 89.6 per cent of which were domestic enterprises (= 30,464); see MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*, pp. 38–39.
[81] Christofi, Vrontis & Makrides. Exploring the role of institutions in Chinese OFDI, p. 196.

OFDI stock.[82] Among SOEs and private enterprises categorised by industry, 33.3 per cent of investors operate in the manufacturing industry, 20.9% in the wholesale and retail industry, 12.9 per cent in the leasing and business services industry, 10.2 per cent in the communications, software, and IT services industry, and 6 per cent in the research and technological services industry.[83]

Third, for many years the major destinations for Chinese OFDI have been Hong Kong (61.2 per cent), the British Virgin Islands (10.6 per cent), the Cayman Islands (6.8 per cent), and Singapore (3.3 per cent).[84] In recent years, Hong Kong's share has declined slightly.[85] According to data from the People's Republic of China's (PRC) Ministry of Commerce, in 2024, 89.2 per cent of China's OFDI stock was located in developing nations. This included investment in Hong Kong, which accounted for 68.6 per cent of China's OFDI stock in developing economies.[86] That said, the geographic scope of Chinese OFDI destinations is incredibly wide. In 2024, the investment stock was spread across 190 countries worldwide.[87] That year, 51,717 companies outside of the PRC were first-order recipients of Chinese investments. About 18,000 of these were established in Hong Kong; 5,700 were located in North America, primarily the US, and 4,800 in Europe.[88]

Fourth, another trend associated with China's SOEs and other firms moving their operations offshore via OFDI is their improved ability to raise capital. Encouraged by the Chinese government, these companies have listed via initial public offerings (IPOs) on local stock markets and raised international capital to finance their overseas expansion.[89] In 2024, China's OFDI stock was distributed across a wide range of sectors: the leasing and business services industry (30.8 per cent); the communications, software, and IT services industry (12.7 per cent); the wholesale and retail industry (12.2 per cent); the manufacturing industry (10.8 per cent), the financial industry (10.4 per cent); and the mining industry (7.9 per cent).[90]

These trends in China's OFDI indicate that the incentives for China's foreign investment have changed over time. It is worth noting that, apart from its OFDI operations, China has also become a major international player in the fields of foreign aid, overseas lending, and grant-giving. Chinese state-owned creditors are prominent in this regard, and in the last ten years their lending has been re-oriented towards middle- and high-income countries. In other words, China's OFDI is merely one of its levers to project its financial influence on a global scale.[91]

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[82] MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*, pp. 27–28, 39. Note, however, that these statistics could be subject to measurement errors, since Chinese SOEs are more inclined to make direct investments from China, and are thus included in the statistics, whereas private Chinese firms are less inclined to do so and prefer to use OFC intermediary channels for their OFDI. Therefore, private firms' share of China's total OFDI stock may actually be higher.

[83] MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*, p. 40. Note: there may be tangible differences between SOEs and private firms in how they allocate OFDI across sectors. Chinese large SOEs have traditionally directed most of their overseas investments in heavy industry, energy, natural resource extraction (e.g., mining), etc.

[84] MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*, p. 22.

[85] He & Wang. Chinese Interests, p. 7; Wang & Gao. Forty Years Development, p. 7.

[86] MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*, pp. 18–20. The decision to label Hong Kong as a developing economy could be contested. The World Bank classifies it as a "high income" country. It is unclear why PRC authorities view Hong Kong as a developing economy. Perhaps doing so is a convenient way to inflate the share of OFDI going to developing countries and shape international perceptions of Chinese overseas investment as contributing to global development. See the Appendix for more on Hong Kong.

[87] ibid, p. 41.

[88] ibid

[89] Hong and Sun. Dynamics of Internationalization, p. 616, 632.

[90] MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*, p. 25.

[91] B.C. Parks, S. Zhang, B. Escobar, K. Walsh, R. Fedorochko, J. Zimmerman, J. Sickell, E. Bury, A. Joshi, L. Thome, O. Pandey & V.P.R. Raja Manuri. *Chasing China: Learning to Play by Beijing's Global Lending Rules*. (AidData at William & Mary, 2025), pp. 4–6.

3.1.2 Chinese OFDI in Europe[92]

Although the Chinese share of Europe's total OFDI stock remains relatively small, Europe is a major destination for Chinese OFDI. In 2024, the EU and UK combined attracted roughly EUR 10 billion in Chinese FDI, accounting for some 20 per cent of total Chinese OFDI globally and exceeding 50 per cent of Chinese OFDI in high-income countries. In the same year, Europe experienced a rebound of Chinese investors' interest after several years of stagnation, with the value of FDI growing for the first time since 2016, according to some sources.[93] This followed the global pattern of Chinese OFDI activity, and the trend continued in 2025.[94]

Historically, M&As were by far Chinese investors' preferred entry mode into European markets, although greenfield investments have become increasingly popular since 2013, driven in particular by producers of electric vehicles. 2025 saw a partial rebound of M&As, driven by a few large investments in consumer electronics and the video game industry. The geographical distribution of Chinese investment has shifted in recent years. Although Germany, the UK, and France continue to host the majority of Chinese OFDI stock, they only attracted some 20 per cent of new Chinese FDI inflow in 2024, while over 50 per cent of the inflow was directed at central European countries (with Hungary alone accounting for over 30 per cent of the inflow). This shift has also been largely driven by investments by Chinese electric vehicle manufacturers.[95] On the other hand, the UK, Germany, and France exhibited a rebound in Chinese OFDI in 2025.[96]

It is important to note that the relatively small scale of total Chinese investment flows in Europe means that a few major investments may skew the distribution, as has recently been the case in Hungary, as it was in Sweden during Geely's acquisition of Volvo Cars, and, to some extent, with the aforementioned M&As in 2025.[97] However, in recent years, Central and Eastern European countries, such as Hungary, are viewed by Chinese stakeholders as more welcoming to Chinese investments than Western European countries, as these countries employ less strict FDI screening. Additional pull factors for CMNEs are the relatively cheap labour and the established presence of CMNEs along the industry chain (e.g., both electric vehicle batteries and their subcomponents).[98]

3.1.3 Problems with interpreting OFDI data

There are several known issues with official OFDI data. For one, it was noted earlier that international investments often transit via several jurisdictions. Empirical studies that only consider the first-order recipient country may therefore present misleading results. One aspect prone to misinterpretation is the use of corporate inversion. This involves relocating a company's legal domicile abroad to change its formal country of origin while keeping its actual business operations in its home country (see also Chapter 4.2.3). CMNEs are overrepresented among companies that use corporate inversion. Moreover, companies that have undergone corporate inversion often do not report their investment activity to their "home government," either because it entails an administrative burden or to escape unwanted monitoring. As such, official data, such as that provided by China's Ministry of

[92] Though the focus here is on the EU, the UK (which left the Union in 2020) is included for the sake of simplicity, as it is included in the authoritative reports by MERICS and Rhodium Group on Chinese FDI in Europe.
[93] Kratz et al. *Chinese Investment Rebounds*.
[94] ibid; A. Kratz, A. Mischer, G. Williams & A. Meyer. *Chinese Investment in Europe Rises to Seven-Year High: Chinese FDI in Europe Update*. (Rhodium Group – Mercator Institute for China Studies, 2026).
[95] Kratz et al. *Chinese Investment Rebounds*; Kratz et al. Chinese Investment in Europe.
[96] ibid
[97] T. Hanemann, M. Huotari & A. Kratz. Chinese FDI in Europe: 2018 trends and impact of new screening policies. (Rhodium Group – Mercator Institute for China Studies, 2019); Kratz et al. Chinese Investment in Europe.
[98] Interview 7; Junerfält & Wannheden. *Manufacturing Vulnerabilities*, pp. 41, 43.

Commerce, could be misleading.[99] Among other things, these statistics do not take into account the ultimate destination for OFDI.[100]

The prevalence of holding companies and other investment vehicles (see Chapter 4.3.1), whose sole purpose is to channel funds, also makes it difficult to get an overview of the real industrial distribution. Estimates based on the industry classification of Chinese subsidiaries in OFCs would mistakenly suggest that CMNEs focus mostly on business services. In sum, not only country-level data but also firm-level data may be misleading if FDI that transits via third countries is not taken into account.[101]

To illustrate the biases of official statistics, Eurostat data shows a significant gap between ultimate and immediate FDI from China to Europe (see Figure 3).[102]

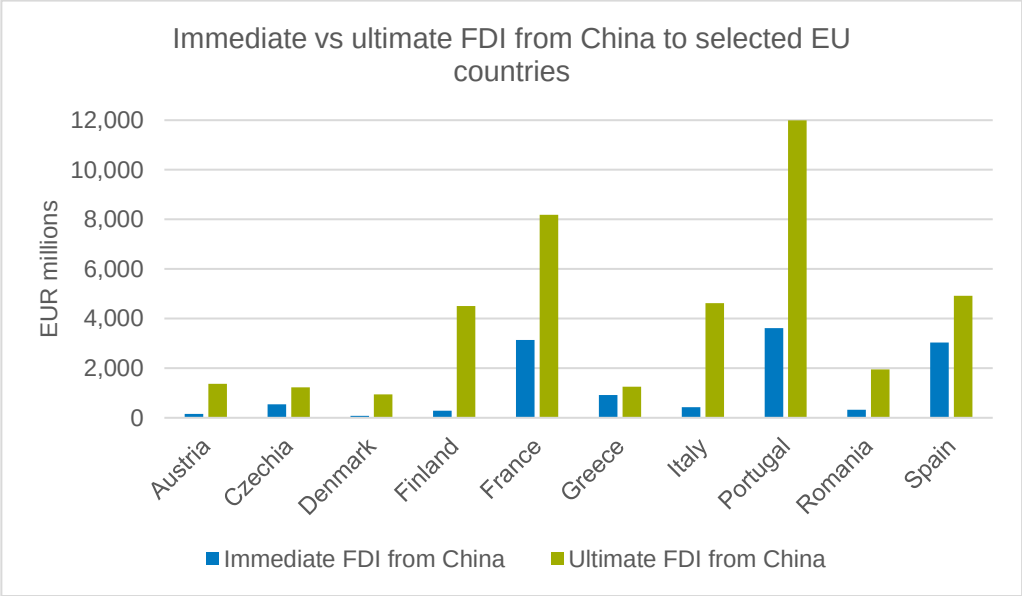


Figure 3. Immediate vs ultimate FDI from China to selected EU countries in 2023. **Source**: Eurostat.[103] **Notes**: Data for Czechia is provisional. Data for Estonia was excluded due to low numbers and similarities between immediate and ultimate FDI from China. Selection of countries is based on data availability.

This gap is significant for FDI from Hong Kong as well (see Figure 4). While ultimate FDI tends to be larger than immediate FDI from China, the opposite is true for Hong Kong. This is likely a reflection of Hong Kong's role as an intermediary for Chinese OFDI.[104] In other

[99] Anderson, J.-F. Sutherland & J.R. Hurst. Measuring CMNE activity: The challenge of corporate inversions and capital in transit related FDI. *Research in International Business and Finance* 70A:102355 (2024): pp. 5–6.

[100] D. Sutherland, Hennart & Anderson. How does the routing of FDI How does the routing of FDI to and via tax havens confound our understanding of CMNE identity? A critical review of the empirical literature on CMNEs. *Asian Business & Management* 18 (2019): p. 343.

[101] Sutherland, Hennart & Anderson. How does the routing, pp. 342, 343, 357. While host countries largely collect FDI data based on immediate investor nationality, the case of M&As is often different. Merger-control scrutiny, which is widespread, usually forces companies to divulge detailed information on ownership structures; see K. Kalotay. Indirect FDI. The Journal of World Investment & Trade 13:4 (2012): p. 547.

[102] Only 11 EU member states report inward FDI data on ultimate investors to Eurostat. See Eurostat. *Foreign direct investment positions by ultimate counterpart*. (November 2025).

[103] Eurostat. EU direct investment positions by country, ultimate and immediate counterpart and economic activity (BPM6) [Dataset]. (August 2025). Similar data are also available from the OECD. OECD Data Explorer > Foreign direct investment (FDI) > FDI flows by counterpart area [Dataset]. (November 2025). OECD's data cover some countries that Eurostat does not, and vice versa.

[104] Luxembourg and the Netherlands (among others) are excluded from Figures 3 and 4 due to the lack of available data on ultimate investments. However, it should be noted that FDI flows to Luxembourg and the Netherlands from China and Hong Kong stand out, reflecting their positions as important OFCs in Europe for CMNEs. In 2023, immediate investments to Luxembourg amounted to EUR 5,062 million from China and EUR 69,934 million from Hong Kong. Corresponding numbers for the Netherlands were EUR 13,300 and EUR 69,934 million.

words, a large share of China's OFDI flows are channelled via Hong Kong and other OFCs. The reasons for this phenomenon are discussed in detail in Chapter 4.2.3.

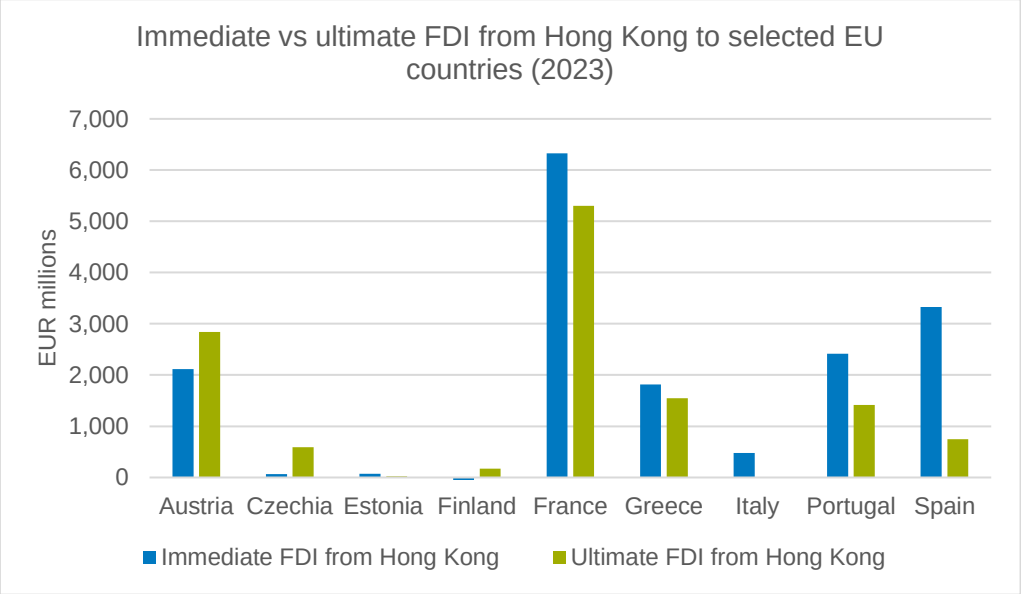


Figure 4. Immediate vs ultimate FDI from Hong Kong to selected EU countries in 2023.
Source: Eurostat.[105] **Notes**: Data for Czechia is provisional. Data for Denmark and Romania is excluded, as immediate investments to Denmark and ultimate investments to Romania are unavailable due to confidentiality.

3.2 China-specific market and regime features

China is an authoritarian and communist one-party state with the clear strategic objective to preserve its current political regime and secure, by the mid-21st century, a dominant position in world politics by increasing its political, economic, and military power. The literature on China's political economy emphasises its legacy of economic planning, the prominence of its state-owned sector, the tangled relationships between enterprises, local governments, and society, and the significance of political interference and informal personal connections. The following section describes the features of China's economy and its political system that set it apart from other prominent OFDI actors.

3.2.1 China's autocratic economic statecraft

Economic and trade policies are among several tools at the CCP's disposal to achieve its strategic objectives.[106] Understanding the connection between political concerns and policy-making is critical to understanding OFDI in China. Above all, it must be emphasised that sustaining a positive economic growth rate to advance China's development into an advanced industrial economy is a key strategic target. This goal is reiterated in multiple top-level political documents, including the Innovation-Driven Development Strategy from 2016 and the latest Five-Year Plan for Economic and Social Development (commonly known as the Five-Year Plan), issued in March 2026.[107]

Political strategic thinking guides not only domestic fiscal policy but also China's foreign economic relations. Such has been the case in the opening up to foreign trade, the regulation of inward and outward FDI, foreign companies' variable access to different sectors of the

[105] Eurostat. EU direct investment positions.
[106] For a detailed review of CCP strategic objectives, see Lampinen & Schröder. *Innovation Capacity in the People's Republic of China*.
[107] Edvardsson Lampinen & Junerfält. *Gammalt sug för ny teknik*.

economy, and the regulation of cross-border capital.[108] OFDI most clearly corresponds to the pursuit of economic power by generating wealth and exerting economic leverage, but it also has political and military aspects. Politically, OFDI can be used to create dependencies, as well as to signal foreign policy alignment between recipient and investor. Militarily, OFDI can generate financial and knowledge resources with which the state can advance military modernisation. Thus, it is in the Chinese party-state's interest to consider how OFDI and Chinese firms can be used to advance national interests.[109]

Indeed, the State Council's new regulations on Chinese OFDI introduced in June 2026 emphasise that OFDI by Chinese firms should be in line with China's national interests and security.[110] Additional reasons for the Chinese state to promote the overseas ventures of its companies are national pride and soft power. It is in the interest of the party-state to see its companies claim success and market shares abroad.[111]

Some scholars argue that China's top-down decision-making power gives China an advantage in long-term strategic planning over more open-ended and democratic political systems (the so-called "autocratic advantage"). Leaving a discussion of market economy benefits aside, according to this argument, China is playing a strategic "long game" vis-à-vis Western democracies, slowly building an alternative world order with itself as a dominant power.[112] A key feature here is the concept of economic statecraft, whereby a nation leverages its economic resources in combination with diplomacy to project geo-economic power abroad. Scholars such as William J. Norris argue that China is instrumentalising its economy, trade, and investments to achieve political goals, but with varying degrees of success.[113]

Although market forces have played a big role, and continue to do so, the economic reforms in China from the 1980s have been guided by the party-state to support economic growth while ensuring political control. The reforms have been experimental and adjusted in light of economic outcomes.[114] In the mindset of the party-state leadership, trade issues have serious economic and political implications and must be handled to reach multiple goals, and sometimes at the expense of "economic rationality." Therefore, it must be expected that all economic and trade policies have been carefully drafted to serve national interests, limiting the space for market forces to play out freely and produce uncertain outcomes.[115]

3.2.2 Bureaucratic fragmentation

A key factor that challenges the success of these plans is the different policy agendas of central and local political elites in China. Scholars have analysed how the Chinese state is both "fragmented" and disaggregated, creating conflicts of interest that affect both economic policymaking and implementation.[116] In principle, political leadership is highly centralised, but in practice the bureaucratic apparatus is to a large extent decentralised: China has 21 provinces, 333 prefectures, 2,844 counties, and 38,658 townships that make and implement policy.[117] Naturally, these organs all have different incentives and interests. While central policymakers and top officials favour long-range, strategic goals (e.g., high-tech and innovation), local party-state officials are keen to support economic projects and firms that create short-term economic growth and employment. To ensure that local decision-making is con-

[108] This image of the CCP and the Chinese central state as strategic actors in China's international economic relations is elaborated on in W.J. Norris. *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*. (Cornell University Press, 2016), pp. 44–54.
[109] See Edvardsson Lampinen & Junerfält. *Gammalt sug för ny teknik* for an analysis of the effects of Chinese national-level policies on firm-level behaviours.
[110] State Council Information Office. China unveils regulation on outbound investment. (1 June 2026).
[111] Interview 4.
[112] R. Doshi. *The Long Game: China's Grand Strategy to Displace American Order*. (Oxford University Press, 2021).
[113] Norris. *Chinese Economic Statecraft*.
[114] See B. Naughton. *The Chinese Economy: Transitions and Growth*. (The MIT Press, 2007).
[115] W.J. Norris, *Chinese Economic Statecraft*, pp. 222–228.
[116] K.G. Lieberthal. "Introduction: the 'fragmented authoritarianism' model and its limitations." In K.G. Lieberthal & D.M. Lampton (eds.), *Bureaucracy, Politics, and Decision Making in Post-Mao China*. (University of California Press, 1992).
[117] National Bureau of Statistics of China. "Divisions of Administrative Areas in China." In *China Statistical Yearbook 2024*. (2024).

sistent with top-level national policies, the CCP imposes a set of centralising control mechanisms.

One of the key instruments at the CCP's disposal for exercising control is the nomenklatura system, which allows the CCP to appoint and promote leading personnel to top positions in all government agencies as well as to key posts in SOEs, banks, investment firms, insurance companies, China's stock exchanges, universities, research institutes, and so on. By controlling personnel appointments and demanding Party membership and loyalty of those individuals, the CCP can reach very far into the decision-making of government and public-sector organs. The political system is clearly hierarchical in nature, while at the same time segmented along bureaucratic-geographical lines and bureaucratic-sectoral interests.[118] This feature of the political system in China is so basic that it is sometimes overlooked. However, it is worth emphasising that the party-state exercises overwhelming influence over administrative and economic life in China.[119] It is therefore natural that it also has spill-over effects in foreign trade and OFDI.[120]

The above-described factors lead to variation in the extent to which national strategic policy objectives can be implemented despite clear top-down instructions. When there is goal compatibility between the state and SOEs, a high degree of state unity, strict lines of reporting, and high political priority, the Chinese state can exercise considerable power in enforcing its economic policy goals, imposing its will on SOEs and private firms alike in their dealings with overseas business partners.[121] Overall, these analyses indicate a more intrusive party-state approach to foreign trade and geo-economic positioning.

3.2.3 The politicisation of business and foreign investments

SOEs and private firms do not exist in an institutional vacuum in which they need to react only to market forces. Instead, they are embedded in an environment of party-state directives, state laws, and various tools by which the CCP party-state can influence their decision-making. Some scholars point to the relations between local Chinese authorities vis-à-vis enterprises, and how there is a constant "politicisation" of their enterprise operations. Several studies conclude that the CCP has asserted its control over businesses in China since Xi Jinping's rise to political power in 2012, inserting itself more deeply into the corporate governance of SOEs and large private enterprises. This is mainly done through three instruments: (1) the imposition of mixed ownership whereby SOEs buy equity shares in private firms; (2) the insertion of CCP party cells within firms and the presence of CCP members on the boards of directors; and (3) political signalling, where the publication of party documents and speeches by political leaders indicate CCP preferences for the future direction of corporate governance.[122]

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[118] For analyses of Chinese economic policymaking in the 1980s and early 1990s, see B. Naughton. *Growing Out of the Plan: Chinese Economic Reform 1978–1993*. (Cambridge University Press, 1996). For insights into CCP political control of the Chinese bureaucracy, see K.G. Lieberthal & D.M. Lampton. *Bureaucracy, Politics and Decision-Making in Post-Mao China*. (University of California Press, 1992). Cf. K.G. Lieberthal. *Governing China: From Revolution Through Reform*. (W.W. Norton & Company, 1995). Often there is a divergence of interests between central and local agencies, and also a divergence of goals vis-à-vis ultimate economic actors, including SOEs. Local government goals and the resources of SOEs can be overwhelming and in conflict with the policy preferences of the central government. In addition, central agencies can harbour conflicting policy agendas and contradict each other, which entails policy disunity. Finally, the level of accountability and upward reporting between SOEs and superior agencies can be more or less strict.

[119] M. Manion. *Retirement of Revolutionaries in China: Public Policies, Social Norms, Private Interests*. (Princeton University Press, 1993); M. Manion. *Political Selection in China: Rethinking Foundations and Findings*. (Cambridge University Press, 2023).

[120] Y. Tan. *Disaggregating China, Inc.: State Strategies in the Liberal Economic Order*. (Cornell University Press, 2021).

[121] Norris. *Chinese Economic Statecraft*, pp. 28, 30, 34, 40. See also Y. Oh & S. No. The patterns of state-firm coordination in China's private sector internationalization: China's mergers and acquisitions in Southeast Asia. *The Pacific Review* 33:6 (2020): pp. 873–899.

[122] Almén & Carlsson. *The Chinese Communist Party's influence*, pp. 7–8, 32–36, 46–47; K.I. Beck & K.-E. Brødsgaard. Corporate Governance with Chinese Characteristics: Party Organization in State-owned Enterprises. *The China Quarterly* 250 (2022): pp. 486–508. See also W. Lin & C.J. Milhaupt. We are the (national) champions: understanding the mechanisms of state capitalism in China. *Stanford Law Review* 65 (2013): pp. 697–760; J.

Formal tools for the party-state to exercise control include legislation, regulations, policies, and *ad hoc* decisions to impose taxes, subsidies, budgetary allocations, and bank credits with effects on both SOEs and private enterprises. China's National Intelligence Law, enacted in 2017, inserted another layer of control over Chinese enterprises. It requires all Chinese companies and citizens, whether they live in China or reside abroad, to assist intelligence activities when asked to do so by Chinese authorities, or else face criminal charges. Hence, this law goes beyond China's borders and leaves no clear line between domestic and international intelligence efforts. This should be a cause of some concern among the host countries for China's OFDI operations.[123]

The key actors in regulating OFDI are the agencies under the central government, the State Council, in Beijing. Key among these with regard to financing and regulating OFDI are the National Development and Reform Commission, the Ministry of Finance, the Ministry of Commerce (MOFCOM), the People's Bank of China, and its affiliate agency, the State Administration of Foreign Exchange (SAFE). Moreover, there is the State-owned Assets Supervision and Administration Commission (SASAC), which supervises SOEs.[124]

The Ministry of State Security (MSS) is another noteworthy government actor, despite not having a formal regulatory role in the OFDI context. MSS is China's "spy agency" and at the apex of China's foreign intelligence apparatus. It is present at all administrative levels in China, from national headquarters in Beijing to county bureaus. Its activities include a variety of influence operations and espionage, including in the economic sphere. It is infamous for its involvement in cyberespionage, talent recruitment, and front organisations (such as think-tanks, publishing houses, and academic associations). In the OFDI context, it is worth noting that there are historical cases of MSS officers allegedly being involved in brokering Sino-foreign business deals. Lastly, the organisations associated with the CCP's United Front strategy, aimed at spreading the party's influence domestically and abroad, bear mention. These include not only party organs but also, for instance, overseas diaspora organisations under party-state influence. While many clandestine United Front activities overseas relate to political influence and talent recruitment, trade and investment promotion in service of party-state goals is another observed aim.[125]

In sum, we should recognise that Chinese firms, banks, and financial institutions operate within a context of a state-guided market economy, within structures determined by the CCP, with direct and indirect impacts on how China's OFDI plays out. This is apparent from the fact that Chinese companies need government to register with and receive approval from three government authorities to engage in OFDI: the National Development and Reform Commission, MOFCOM, and SAFE. In addition, SOEs require approval of SASAC. As part of the procedure, the firms usually need to provide information on the ultimate destination of their investments, shareholder information, funding sources, and business scope, among other things. This mechanism allows the Chinese government to guide investment flows towards or away from certain markets and sectors. One source suggests that investments into the United States are discouraged due to the unpredictability of the US market under President Trump. One key concern is whether the US might freeze Chinese assets if geopolitical tensions escalate. The government's view on investments into Europe is reportedly neutral and, as such, the outbound investment screening does not feature any particular incentives or disincentives for Europe-bound OFDI.[126]

Offshore holding structures for round-tripping and onward-journey FDI purposes (see Chapter 4.2.3) are usually allowed if initial registration is done properly. However, it may be difficult to meet domestic compliance requirements, including those for profit repatria-

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Blanchett. From "China Inc." to "CCP Inc.": A New Paradigm for Chinese State Capitalism. *China Leadership Monitor* 66 (2020): pp. 1–13; B. Naughton & B. Boland. *CCP Inc.: The Reshaping of China's State Capitalist System*. (Center for Strategic and International Studies, January 2023): pp. 1–41. Cf. E. Economy. China's New Revolution: The Reign of Xi Jinping. *Foreign Affairs* 97: 3 (2018): pp. 60–74.

[123] E. Schwarck. Intelligence and Informatization. The China Journal 80: pp. 1–23; Choi & Huang. Chinese Intelligence Law: Compliance Made Simple.

[124] Liu. *Sovereign Funds*, pp. 90–100, 149-152. Cf. Norris. *Chinese Economic Statecraft*, pp. 167–170, 195–198.

[125] Junerfält. *China's Technology Transfer Ecosystem*, pp. 30, 39–41.

[126] Interview 7.

tion, when the outbound investments involve special arrangements such as trusts.[127] In April 2026, SASAC set up a bureau specifically in charge of overseas state-owned assets to better guide SOEs' international operations and to strengthen risk prevention. According to a news release from China's State Council Information Office, the new bureau will help SOEs to adjust and optimise the structure of their overseas assets, as well as to handle overseas emergencies and crisis situations.[128]

Finally, the CCP's influence over CMNEs is not just of a formal or legal character. Notably, informal connections, *guanxi* (关系), between state officials and corporate employees at various levels are a means for controlling the behaviour of both SOEs and private firms. *Guanxi* is a longstanding Chinese practice of relationship-building through personal networks and reciprocal obligations. Personal connections can be used to influence company structures, the appointment of management staff, and even business decisions and activities at the strategic and operational levels, such as OFDI host-country selection and bargaining with the host government. Revolving doors and interlocking positions between the business and political spheres involving senior appointees highlight the importance and effects of personal connection networks (关系网, *guanxi wang*).[129] Previous research has recommended further study of how local governments in China leverage personal connections to influence corporate behaviour, in addition to the literature on how firms lobby governments through political ties, and China is an interesting case in this regard.[130] Thus, informal control is clearly a factor in the Chinese party-state context, but remains a difficult topic to research.[131]

3.2.4 State-backed investors

SOEs are likely the first type of actor that springs to mind in relation to state-backed or state-affiliated investors. SOEs used to function as organs of social welfare and political control, acting as key links between the party-state and the urban populace, and their gradual reform since 1979 into market-oriented entities has been long and troublesome.[132] For the purpose of this report, this would indicate that Chinese enterprises, and especially SOEs, are not 100 per cent equipped to conduct their foreign operations on a purely business basis. On the contrary, they would more likely heed the demands of either central or local political authorities.

Another relevant actor is China Investment Corporation, a sovereign wealth fund. It invests in a broad spectrum of banks, financial institutions, investment companies, SOEs, private enterprises, and policy-driven projects. Over time, the China Investment Corporation, in conjunction with SAFE, has allocated huge funds to stimulate and stabilise the Chinese economy, and to project China's economic strength via overseas investments.[133] As shown by Liu, they have had both "market-oriented" and "strategic" aims, often at the same time. They have managed funds in line with "economic rationality" principles to gain good returns on investments. Occasionally, these sovereign wealth funds have also acted with great strategic intent. Such was the case in 2017, when the China Investment Corporation entered into a joint venture with the investment firm Goldman Sachs, with a target size of USD 5 billion and a mandate to invest in manufacturing, industrial, consumer, and healthcare sectors in the United States. The motives on the Chinese side were not only to enhance China–US trade relations, but also to seek a legitimising investment platform via the cooperation

[127] Y.Y. Tao, Y.Y. Lin & Y.X. Wang. 中国企业出海投资之海外架构设计关注要点 [Key considerations for overseas structure design]. (Zhong Lun, 19 August 2025).
[128] SCIO. China sets up bureau for overseas state-owned assets. *Xinhua*. (9 April 2026).
[129] Buckley et al. A retrospective and agenda, pp. 9–10, 14.
[130] ibid
[131] Interview 3.
[132] A.G. Walder. *Communist Neo-Traditionalism: Work and Authority in Chinese Industry*. (University of California Press, 1986); A.G. Walder. *China Under Mao: A Revolution Derailed*. (Harvard University Press, 2015). See also C. Riskin. *China's Political Economy: The Quest for Development Since 1949*. (Oxford University Press, 1988); S. Yabuki. *China's New Political Economy*. (Westview Press, 1995); Blanchett. From 'China Inc.' to 'CCP Inc.'.
[133] While SAFE is formally a government agency that supervises foreign exchange and is in charge of China's foreign-exchange reserves, it has, with State Council approval, developed affiliated bodies that act as sovereign wealth funds with overseas investments and operations.

with Goldman Sachs.[134] Chinese sovereign wealth funds have adopted a political logic where investments have been made to restructure China's domestic economy, to secure China's access to natural resources or technology, to seek strategic economic advantages overseas, and to support BRI projects in South-East Asia and elsewhere.[135]

3.2.5 Private-sector investors

Policy must be implemented to produce effects. In the strategic OFDI context, the implementing actors are the Chinese enterprises and investors. Their investment decisions are influenced, more so than those of the average global investor, by two factors: relationships between businesses and the government, especially concerning 1) top-level policies mandating companies to "catch up" in prioritised asset areas (including high-risk investments in geographically faraway markets), and 2) the specific institutional environment of their home market characterised by imperfections and uncertainty.[136]

First, some research has pointed out that CMNE internationalisation is largely defined by asset-seeking, and that state-firm coordination is high in cross-border M&As in industrial sectors with high technological intensity.[137] Statistical analyses conducted by Chinese scholars conclude that, on average, technology acquisition is a central motive for a large portion of Chinese OFDI. A host country's innovation resources are strongly correlated with the country being chosen as a destination for OFDI, while the presence of investment barriers has a dampening effect. This means that CMNEs prefer to invest in countries with good innovation resources (technological competence, patent holdings, etc.), but will choose a country with fewer investment barriers, all else equal.[138] While some CMNEs prefer a gradual approach to OFDI, by first investing in less developed economies, others try to leapfrog by aiming for investments in advanced economies to gain local know-how and adapt to the environment as soon as possible.[139] Firms with good political *guanxi* resources, i.e., personal contacts, find it easier to obtain government support and to internationalise more effectively.[140]

Second, an enterprise's decision to invest abroad may be motivated not so much by benefits offered by specific investment destinations as by the fact that OFDI allows businesses to operate *outside* of China. Previous research finds that while Chinese policies facilitate the internationalisation of SOEs, these also create a political and institutional environment that politicises business and inadvertently incentivise private companies to go abroad. The CCP wants to create economic growth while ensuring that entrepreneurs and private investors do not become political threats, meaning that private firms face great regulatory scrutiny. Private firms are subject to various political pressures, such as being selected to lead projects that boost local politicians' chances for promotion in the party-state hierarchy. This kind of local political "entanglement" often defies economic rationality and reduces efficiency and profit. For this reason, it may become an impetus for Chinese private firms to "give up" or venture abroad through OFDI as a strategy to sidestep an institutional environment that is burdensome for their operations.[141] In other words, internationalisation may in some cases

[134] Liu. *Sovereign Funds*, pp. 127–129.
[135] ibid, pp. 185–207.
[136] Cf. Sutherland, Hennart & Anderson. How does the routing of FDI to and via tax havens confound our understanding of CMNE identity? A critical review of the empirical literature on CMNEs. *Asian Business & Management*. 18 (2019): p. 357.
[137] M. Christofi, D. Vrontis & A. Makrides. Exploring the role of institutions in Chinese OFDI: a systematic review and integrative framework. *Asia Pacific Business Review*. 28:2 (2022): pp. 198–199; Oh & No. The patterns of state-firm coordination, pp. 873–899.
[138] Z. Zhang & J. Qin. 创新资源、投资限制与新晋对外投资企业区位选择研究 [Location Choice of China's New Foreign Investment Enterprises under the Influence of Innovation Resources, Investment Restrictions], 地理科学 [Geographical Science] 45: 8 (2025): pp. 1782–94.
[139] Buckley et al. A retrospective and agenda, p. 16.
[140] F. Yang. The Importance of Guanxi to Multinational Companies in China. *Asian Social Science* 7:7 (2011); J. Du & C. Zhou. Does guanxi matter in the foreign expansion of Chinese manufacturing firms? The mediator role of linking and leveraging. *Asia Pacific Journal of Management* 36 (2019).
[141] N. Leng. *Politicizing Business: How Firms Are Made to Serve the Party-State in China*. (Cambridge University Press, 2025).

be viewed as a strategic exit from the home regulatory milieu rather than a strategic entry into host markets.[142]

Why is this? On the one hand, *legal requirements* for businesses in China do not appear to be stricter or more costly to comply with than those in other large market economies. On the other hand, Chinese businesses are also governed by *non-legislative governmental requirements* outlined in administrative documents. These regulations tend to be ambiguous. It is not clearly defined how much authority these regulations carry, and the existence of two spheres of regulation that only partly overlap creates confusion and uncertainty.[143] Local authorities have great discretion to shut down non-compliant businesses and confiscate property, giving rise to concerns that private businesses in China can only prosper at the discretion of the state.[144] To play it safe, private companies tend to respond with over-compliance, which adds extra costs and often incentivises them to move offshore. Moreover, firms are often expected to provide local governments with various political services, such as investing in projects that make local officials look good in the eyes of their superiors, but that do not necessarily benefit the company in a meaningful way. Firms with smaller budgets may find it difficult to compete with major private firms or SOEs in politicised economic sectors, leading them to exit the market entirely.[145]

By extension, the administrative burden in China can be high in terms of time and effort to prepare documents, seek approvals, and interact with agencies regulating business matters.[146] In particular, capital transfers out of China face high regulatory scrutiny and require a lot of paperwork. In this sense, it is easier for CMNEs to deposit money in an OFC and use this to finance all of their operations outside of China.[147] Companies may also want to domicile their business in OFCs to reduce the tax burden, strengthen property rights, and gain other legal advantages. A motive for MNEs from China and other "institutionally less-developed markets" to move operations abroad is to use institutional arbitrage, that is, to take advantage of differences in the institutional environment between the home and host country. Potential advantages may include lower tax rates, access to better capital markets, access to foreign currency, business services, and legal systems, making it easier overall to raise investment capital, while optimising transaction costs and securing property rights.[148]

A wide range of law firms and consultancies assist CMNEs in navigating overseas regulations, compliance requirements, and risk management. This demand has been a key driver of Chinese law firm internationalisation since the 2008 financial crisis. Unlike many counterparts in other jurisdictions, Chinese law firms, most of which are privately owned, have expanded internationally largely through networks and relationships shaped by China's institutional context rather than through absorption by Anglo-American firms. Their internationalisation has also been encouraged by the Chinese state since the 1990s "Go Out" era and more recently under the BRI, creating incentives for firms to demonstrate alignment with these initiatives.[149]

Chinese law firms pursue internationalisation through foreign offices, formal referral networks, informal cooperative relationships, and long-term alliances or joint ventures with foreign firms. A study of 123 Chinese law firms found that while larger firms often maintain

[142] Christofi, Vrontis & Makrides. Exploring the role of institutions, pp. 196–197.
[143] X. Zhao & Y. Qi. Why Do Firms Obey? The State of Regulatory Compliance Research in China. *Journal of Chinese Political Science* 25 (2020): pp. 339–352.
[144] Oh & No. The patterns of state-firm coordination, p. 878.
[145] Leng. *Politicizing Business*, pp. 31, 175.
[146] Y. Sun, J. Mi & L. Liu. Administrative burden and business satisfaction with public services. *Transylvanian Review of Administrative Sciences* 74 (2025): pp. 151–171.
[147] Interview 2.
[148] Sutherland et al. Exploring the use of offshore intermediary jurisdictions, pp. 215, 218; Anderson, Sutherland & Hurst. Measuring CMNE activity, p. 4. Impartial courts may be a significant factor behind CMNEs' selection of intermediary jurisdictions for onward-journey FDI. For instance, a study of 396 cases of Chinese transit FDI found a clear tendency for CMNEs to reroute investments through countries that are *less* corrupt, with *high* regulatory quality and rule of law; see Sutherland et al. Exploring the use of offshore intermediary jurisdictions, p. 223.
[149] J. Li. All roads lead to Rome: Internationalization strategies of Chinese law firms. *Journal of Professions and Organization* 6 (2019): pp. 156–158, 170–171.

overseas offices, referral networks and strategic alliances are particularly common. Co-located offices with foreign partner firms are also widespread, and private SMEs and provincial SOEs constitute important Chinese client groups.[150]

3.2.6 China—An emerging market?

It is doubtful whether the label "emerging market" is helpful in explaining the Chinese economy and OFDI patterns.[151] Placing China in this category is problematic for many reasons, mainly because of its unique political economy, divergent scores on many indicators, and the variation in economic growth and maturity across its different regions. Thus, given the disparity between affluent Shanghai and coastal provinces and the economic backwaters of the western inland provinces, China as a whole is not easily labelled as being in any specific category of economic development. Rather, at the aggregate level, measures such as literacy rate, length of the high-speed railway network, and economic size in purchasing-power parity terms suggest that China is highly developed.[152] In 2025, China was the global leader in 66 of 74 critical technologies tracked by the Australian Strategic Policy Institute.[153]

The emerging market concept does not fully align with China, but given its past growth record, with a strong state-directed push for continued development, we can expect China to prioritise access to natural resources and new technologies and manufacturing innovations. This will incentivise Chinese firms to engage in asset-seeking OFDI if those resources are lacking at home. This does not mean that market-seeking OFDI is unlikely to occur; on the contrary, it will likely remain a partial solution to domestic overcapacity issues in China.

Meanwhile, China's capital markets fit the "emerging market" label with regard to favouring SOEs over private business, and not being market driven. SOEs have preferential access to favourable loans from state-owned banks and injections from capital markets. To get around discriminatory treatment and gain access to capital, private firms must either develop special relationships with the state or try to raise new capital overseas.[154] These findings point to the need for a more sophisticated approach to describing China as an OFDI actor.

3.3 Chinese perceptions of FDI screening mechanisms

Amid the boom in Chinese OFDI from the mid-2000s to the early 2010s, Chinese scholars began paying attention to the risks facing China's overseas economic interests. In 2012, scholar He Dan noted that the Canada, France, Germany, Japan, the UK, and the US, all major destinations of Chinese OFDI, had introduced investment screening for foreign M&As in recent years. He explains the appearance of investment screening by pointing to two factors: a global trend toward trade protectionism following the 2008 financial crisis, and the rise of sovereign wealth funds that invested on a large scale in key industries, thereby arousing security concerns. He argues that the US tightened its screening process to prevent Chinese corporations from circumventing US export controls and gathering technological know-how with the ultimate aim of strengthening China's military power.[155] As mentioned above, China's takeover of German robotics manufacturer Kuka in 2016 was a watershed for Europe, and sharply triggered threat perceptions among EU companies and governments.[156]

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[150] Li. All roads lead to Rome, pp. 156–158, 160–161, 170–171, 174.
[151] Interview 3; Interview 4.
[152] World Economic Forum. Why "emerging markets" is an outdated definition. (August 4, 2015).
[153] J. Wong Leung & S. Robin. ASPI's Critical Technology Tracker: 2025 updates and 10 new technologies.
[154] Buckley et al. A retrospective and agenda, p. 10.
[155] D. He. 企业海外并购的国家安全审查风险及其法律对策 [National Security Review Risks and Legal Countermeasures of the Chinese Enterprises' Overseas Acquisition]. *法学论坛* [Legal Forum] 27: 2 (2012).
[156] W. Rabe & O. Gippner. Perceptions of China's outward foreign direct investment in European critical infrastructure and strategic industries. *International Politics* 54: pp. 468–486.

Li Zhongmin, also writing in 2012, asserted that host-country FDI screening mechanisms had become the main challenge to Chinese global economic interests. Li suggested three reasons behind the rise of FDI screening. First, the rapid pace of China's OFDI growth. Second, Chinese OFDI was predominantly carried out by SOEs, the investment activities of which are usually viewed with suspicion in developed countries. Third, Chinese enterprises were inexperienced at engaging with the public and the media, as this is not common practice in China, leading CMNEs to underestimate the role of positive public perceptions in the investment process.[157] Following the adoption of BRI in 2013, Chinese OFDI continued to grow in both size and scope. Therefore, scholarship on the protection of Chinese overseas economic interests increased in Chinese academia.[158] In the 2010s, the strategic competition between the US-led West and China deepened and, according to many Chinese scholars, the spread of the "China Threat" theory (中国威胁论) in these years was a key factor behind the intensification of FDI screening mechanisms since 2017.[159]

According to some Chinese scholars, the China Threat discourse has generated substantial anxieties regarding China's economic and technological rise. FDI screening mechanisms address these concerns by giving Western nations a legal justification to block FDI that is deemed politically or ideologically undesirable (i.e., a thinly veiled general measure aimed specifically at China, according to Chinese research). Seeing that the US increasingly views China as a strategic competitor, one paper explains the US's scrutiny of inward FDI as aimed at hampering China's economic development and preserving its own competitive standing on the one hand, and at appeasing popular demands for more economic opportunities for American citizens on the other.[160] The US investment screening framework is described as "discriminatory investment protectionism" that creates a lose-lose situation for both US and Chinese stakeholders: US companies lose out on Chinese investment capital, whereas Chinese corporations lose access to the US market.[161] Another paper expects that approvals of Chinese FDI applications by the Committee on Foreign Investment in the United States (CFIUS) will drop as the agency faces political pressure to restrict China's technology companies.[162] As for Europe, the overall understanding in the Chinese business community is that the EU investment environment turned more hostile towards Chinese FDI after the COVID-19 pandemic.[163]

The perceived unfairness of having one's investment motives questioned simply due to the enterprise's country of origin (the CCP's influence over Chinese firms notwithstanding) is a legitimate grievance. One source suggests that there is a real, widespread discontent among Chinese business owners regarding what they perceive as high levels of unfair and prejudiced scrutiny due to their nationality.[164] As is pointed out elsewhere in this report, the majority of CMNE investment activities are likely to be fully legitimate examples of standard international business practice. Nevertheless, under the current state of affairs, companies must take into account the reality that Chinese OFDI is subject to vetting in investment screening processes when planning their corporate strategies. It must be stressed, however, that no matter how legitimate the individual CMNE's original motives might be when

[157] Z.H. Li. 中国海外经济利益保护战略刍论 [China's Overseas Economic Interests Protection: A Strategic Analysis]. *世界经济与政治* [*World Economics and Politics*] 8 (2012).

[158] X.M. Pan. 构建中国企业海外投资保护体系——以日本经验为借鉴 [Building a Protection System for Chinese Enterprises' Overseas Investments: Lessons from Japan's Experiences]. *国际经济合作* [Journal of International Economic Cooperation] 9 (2017).

[159] C.Y. Liao & W.S. Gao. 当前我国海外利益面临的主要风险及对策研究 [The main risks and countermeasures of China's overseas interests]. *广西社会科学* [Social Sciences in Guangxi] 6 (2018); P. Zhao & Y.N. Li. 美国政府对中国企业投资实施安全审查问题的研究 [Research on US Government's Implementation of 'Security Review' on Chinese Enterprise Investment]. *吉林工商学院学报* [Journal of Jilin Business and Technology College] 37: 3 (2021).

[160] Zhao & Li. Research on US."

[161] R.C. Song. 美国外资安全审查制度的新动向与国际投资保护主义 [The New Trend of American Foreign Investment Risk Review and International Investment Protectionism]. *当代经济管理* [*Contemporary Economic Management*] 42: 11 (2020): p. 86.

[162] W. Li & L. Zhao. 美国外资审查制度的变迁及其对中国的影响 [Institutional Changes in U.S. National Security Review of Foreign Investment and Their Impacts on China]. *国际展望* [*Global Review*] 11: 1 (2019): p. 65.

[163] Interview 7.

[164] Interview 7.

engaging in OFDI, there is always an ever-present risk that the CCP party-state may use its various levers of influence over that enterprise to encourage or force it to adjust its operations in line with the "national interest." This risk was noted earlier in relation to China's National Intelligence Law, issued in 2017.[165]

The perception of being unfairly discriminated against in international investment settings is also strong in the Chinese government. In June 2026, the Chinese government introduced new regulations on outbound FDI. The regulations specify which outbound investments are encouraged, restricted, or prohibited; strengthen outbound investment supervision by making clear the rules for pre-investment approval and filing, information reporting, and cross-border capital registration; and guide and supervise investors in standardising their investment and business conduct.[166] Interestingly, the new regulations are motivated partly by reference to "the discriminatory measures taken by individual foreign governments and organisations against Chinese investors." The discriminatory measures referred to here are "trade-related investment barriers or other obstacles to investment and business in foreign countries," in other words, FDI screening mechanisms, that are understood to "unreasonably depriv[e] investors of. . . their legitimate rights and interests."[167]

Several Chinese scholars encourage companies that have made successful investments to share their experiences and insights within Chinese business communities. For example, knowing which issues drew critical remarks from the authorities can help refine future applications and increase their chances of success.[168] For instance, CMNEs may switch entry modes through a process of trial and error. If they receive unwanted attention after a successful M&A, they can adjust their investments, divest, and opt for greenfield investments. One Chinese commentator notes a trend wherein enterprises are choosing to R&D facilities as a direct result of increased FDI barriers.[169] CMNEs may also use supplier relationships instead of (or alongside) equity participation. Supplier relationships, such as long-term supply, licensing, maintenance, data-service or platform relationships, can create dependence and so confer influence even in the absence of formal ownership.[170]

One source suggests that FDI screening abroad is increasingly being discussed in China, and that these debates are a key source of information for entrepreneurs.[171] It is argued that it is equally important to share information on why an investment was rejected. Some scholars urge the state to disseminate such information.[172] Finally, academic papers encourage Chinese investors to utilise available legal tools, such as the right to legal examination of an investment screening decision and the possibility to give feedback on the EU's Foreign Direct Investment Screening Regulation.[173]

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[165] See, O. Almén & H. Carlsson. *The Chinese Communist Party's influence*, pp. 52–56.

[166] Xinhua News Agency. 司法部、国家发展改革委、商务部负责人就《国务院关于对外投资的规定》答记者问 [MoJ, NDRC, MOFCOM Officials Answer Reporters' Questions on State Council Regulations on Outbound Investment] (1/6 2026).

[167] Xinhua News Agency. MoJ, NDRC, MOFCOM.

[168] B. Xiao & X. Li. 欧盟外资安全审查制度变革下中资企业赴欧投资的挑战与法律应对 The Challenges and Legal Responses of Chinese Enterprises' Investments in Europe [The Challenges and Legal Responses of Chinese Enterprises' Investment in Europe under the Reform of EU Security Screening Mechanism]. *国际级经济法学刊* [Journal of International Economic Law] 1 (2024).

[169] Chen. Making effective use of financing channels to deepen outward direct investment.

[170] Interview 6.

[171] Interview 7.

[172] Z.H. Hu, Y.Z. Jia & X. Yu. 美国外资国家安全审查机制对中国影响及应对策略分析 [Study on the US Foreign Investment Security Review Mechanism and its Impact on China]. *财政研究* [*Public Finance Research*] 5 (2017).

[173] Xiao & Li. The Challenges and Legal Responses; Y.Z. Jia, X. Yu, H. Guo, M. Liu. & Z.H. Hu. 《欧盟外商直接投资审查框架》条例对中国的影响及应对策略 ["The Regulation of Framework for Screening Foreign Direct Investment into the EU": Impact on China and the Corresponding Strategies]. *财政科学* [*Fiscal Science*] 41: 5 (2019).

4 Chinese strategies to navigate FDI screening

This chapter synthesises insights from Chapters 2 and 3 to present an analytical typology of five ideal-type strategies that CMNEs may adopt to manage FDI screening mechanisms: *Avoid*, *Circumvent*, *Conceal*, *Cultivate*, and *Cater*. The strategies are ordered by the stage of screening at which they apply, not by prominence. Although identified in the context of Chinese firms, the strategies are not unique to them and may also be employed by firms from other countries. The authors have logically inferred these strategies from previous research, and the strategies represent different approaches to minimising the risks of having one's investment blocked or rejected by FDI screening authorities. The framework presented here is an original analytical contribution. Table 2 summarises the five identified strategies.

Table 2. A summary of the identified strategies for CMNEs seeking to navigate FDI screening.

Strategy	Intent	Means	Timing	Mechanisms
Avoid	Invest without having to consider screening mechanisms	Reconsider FDI-oriented strategy	Corporate strategic planning	• Change OFDI target market • Non-investment partnerships • Illegal means
Circumvent	Invest without triggering screening or thorough review	Exploit regulatory loopholes, fly under the radar	Corporate strategic planning	• Adjusting the equity stake • Adapting the entry mode • Manipulating the geographical path • Manipulating the sectoral corporate path
Conceal	Pass triggered screening without remarks	Obscure the ultimate beneficiary	Before filing for review (short-term)	• Opaque ownership structures • Contractual arrangements and non-equity control • Informal corporate–party-state ties
Cultivate	Shape screening conditions (regulatory, political, social) for long-term benefit	Influence the political and social environment and build trust	Before filing for review (long-term)	• Relationship-building with local actors • Lobbying
Cater	Clear the screening process by managing host country authority concerns	Make compromises on original investment aims	During the review process	• Proactive consideration of host-country concerns • Catering to host-country demands

The literature review of Chinese scholarship on FDI screening reveals that scholars generally advise enterprises to formulate an investment strategy that is mindful of the host country's concerns. To be clear, the typology presented here is logically deduced, and the five strategies are ideal types. In other words, based on previous research on state- and firm-level OFDI motives in general and in relation to China in particular, each strategy represents a theoretically plausible option for companies seeking to minimise their risk of having an investment application rejected. The typology does not make any claims as to how prevalent the strategies are in the real world. A real enterprise's investment strategy may incorporate elements of multiple strategies. These caveats are discussed further in Chapter 5.6.

4.1 Developing the typology

It follows from the theoretical framework presented in Chapter 2 that state ownership or control in EMNEs raises several types of host-country concerns. Economically, governments may perceive threats to domestic companies, local economies, or social and labour standards. Politically, governments worry that non-business objectives may threaten national security and that EMNEs may seek access to advanced technologies (including, but not limited to, those with military applications), prompting restrictions on sensitive sectors and

technology transfer.[174] Furthermore, state ownership is associated with complex governance and opaque behaviour, while weak institutional practices may raise concerns over unethical behaviour and lead to additional transparency and governance demands. Psychologically, state influence can signal soft-power ambitions or competitive threats. To address these concerns, host countries may impose controls, reciprocity requirements, or limits on foreign firms that are permitted to invest in strategic sectors.[175]

CMNEs may respond with various strategies to address these concerns, depending on the goals of the investment. In this study, we identify five ideal-type strategies, four of which entail foreign direct investment (*Circumvent*, *Conceal*, *Cultivate*, and *Cater*). The strategies are differentiated based on four dimensions: intent, means, timing, and mechanisms. The first two variables, intent and means, concern the *why* and *how in theory* of investments. These dimensions tend not to be directly discernible, as investors seldom explicitly state why they have decided on a certain investment strategy and how this strategy fulfils the company's strategic aims for the investment. Instead, the intent variable is inferred from theory and operationalised through the means variable. The latter two variables, timing and mechanisms, are empirical indicators of the means, concerning the *when* and *how in practice* of an investment. The timing and mechanisms can be observed empirically in a company's investment behaviour. In other words, the typology provides a framework for interpreting the intent behind investment behaviours, along the lines of "given that company X structures its investment using mechanism Y at timing Z, it seems motivated by intent A to engage in means B."

Overall, CMNEs' strategy selection is influenced by the company's strategic objectives. A company that invests abroad does so to achieve certain objectives that are unachievable in the home market. This report chooses to call the process during which a company analyses its objectives and formulates an investment strategy based on this analysis *corporate strategic planning*. As mentioned above, strategic investment objectives generally fall under one of two categories: market-seeking or asset-seeking. At the stage of corporate strategic planning, company executives are faced with two initial choices: market/country selection, followed by the choice of entry mode: equity (FDI, portfolio investments) or non-equity (e.g., exports, contracts, licensing) modes.[176]

The Chinese literature studied here unequivocally underlines the importance of fully understanding the host country's screening mechanism and its criteria before deciding on the investment strategy. Information on the criteria can be collected in several ways. Some scholars recommend proactively contacting the host country's screening authority to inquire about the process. This serves the dual purpose of gathering information and signalling the intent to comply with national regulations.[177] Others recommend finding a local partner, such as a trade association, chamber of commerce, business consultants, or a local business, to help fill in the gaps.[178] One scholar recommends that Chinese investors ask the target company they seek to invest in for support in identifying and mitigating potential risks.[179] MOFCOM is another source of information, as it regularly publishes country FDI handbooks that give advice on important considerations ahead of investing in a specific country. In the FDI handbook for Sweden, for example, MOFCOM describes the Swedish screening mechanism, provides guidance on how to enter a public procurement process as a foreign

[174] T. Moran. *Three Threats: An Analytical Framework for the CFIUS Process*. Policy Analyses in International Economics 89 (Peterson Institute for International Economics, 2009).
[175] Cuervo-Cazurra. Thanks but no thanks, pp. 140–141.
[176] A. Slangen & J.F. Hennart. Greenfield or acquisition entry: A review of the empirical foreign establishment mode literature. *Journal of International Management* 13:4 (2007): pp. 403–429.
[177] H. Liu, Q. Feng & H.Y. Zhao. 外资安全审查加剧背景下中国 OFDI 面临的挑战及对策——以日本规避美国投资壁垒的经验为借鉴 [Challenges and Countermeasures for China's OFDI in the Context of Intensified Foreign Investment Security Review – Based on Japanese Experience of Evading US Investment Barriers]. *国际贸易* [Intertrade] 8 (2022).
[178] Xiao & Li. The Challenges and Legal Responses; S. Xu. 国有企业投资菲律宾公共服务行业的投资壁垒及风险应对 [Investment Barriers and Risk Mitigation Measures for State-owned Enterprises in the Philippines' Public Service Sector]. *海外投资与出口信贷* [*Overseas Investment & Export Credits*] 2 (2025).
[179] X.Q. Wang. 西方国家外投资并购国家安全审查制度的最新发展及其启示 [The Recent Developments on National Security Review Systems of Foreign M&A in the West]. (Hubei People's Publishing House, 2010), p. 292.

company, and notes other relevant information (for example, that Sweden does not limit the share of foreign equity in a company).[180]

The rest of this section, Section 4.1, defines the typology's five strategies. This is followed by in-depth analysis in Sections 4.2 through 4.5 of the mechanisms underpinning the four equity-based strategies, Circumvent, Conceal, Cultivate, and Cater.

4.1.1 Avoid

The first strategy in the typology is *Avoid*. As the label suggests, an investor that adopts this strategy seeks to avoid dealing with FDI screening mechanisms altogether. The presence of FDI screening regulation in a given market immediately raises investment costs because potential investors need to allocate time and money to understand and potentially manage and undergo the screening process. This administrative burden may lead some enterprises, especially those inexperienced in international business management, to reconsider their initial plans for equity investment in a given target market.

Given the intent to avoid entanglement in screening processes altogether, the investor may select a different host country or use non-equity entry modes, depending on the strategic goal of the investment. Considering that the focus of this report is to examine how CMNEs adapt their investment strategies to the presence of FDI screening, companies that choose *not* to invest are less interesting. For the sake of analytical completeness, the authors have decided to include Avoid in the overall typology, and it is defined and explained briefly below. Because the strategy generates no equity-based investment behaviour to analyse, the report does not examine the mechanisms at play in depth. However, these mechanisms have partly been examined in a previous publication by one of the authors.[181]

Chinese scholars advise firms with limited international experience *not* to make their first investments in jurisdictions with screening regimes. Such firms must not only navigate regulatory review processes but also acquire basic capabilities in conducting OFDI. They would thus be better off beginning their overseas ventures in less restrictive environments before entering tightly screened markets.[182] Options for market-seeking companies include changing their choice of market to one that offers similar expansion opportunities but does not implement FDI screening. Similarly, asset-seeking companies may consider investing in a different host country that offers similar resources, in the broadest sense (for example, natural resources, financial and human capital, new technologies, labour and manufacturing assets, access to professional business services or to a business network) but does not implement FDI screening, or opt for non-investment actions such as R&D partnerships, technical cooperation, and scholarly exchanges to access the desired assets.

Furthermore, a subset of asset-seeking companies may resort to illegal means to pursue their asset-seeking objectives. To access new technologies or human assets, companies may, for example, engage in cyberespionage (e.g., computer-network exploitation) or industrial espionage (e.g., insider operations), as well as in smuggling, the employment of front organisations, different types of copyright infringement, and possibly forced talent recruitment that involves disclosure of commercial secrets. China is a prominent example of a state where both government actors and state-owned companies have been observed to directly engage in such behaviours, while also delegating tasks to non-state actors through formal or informal state control, financial incentives, legislation, or otherwise.[183]

Chinese scholars acknowledge the option to avoid FDI screening, yet generally do not advocate avoidance, as this would entail missing out on the benefits of entering markets that employ FDI screening mechanisms. Chinese researchers note that "non-material gains" are important when selecting investment destinations, as they are a significant component of

[180] Ministry of Commerce of the People's Republic of China. 对外投资合作国别（地区）指南 – 瑞典（2024 年版）[Country (region)-specific guidance on outward investment cooperation – Sweden (2024 edition)]. (2024), pp. 39–55.
[181] Junerfält. *China's Technology Transfer Ecosystem.*
[182] X.M. Xiao & X.M. Xu. 新的国际形势下中国对外直接投资探析 [Analysis on China's Foreign Direct Investment under the New International Situation]. *电子商务评论* [E-Commerce Letters] 13:2 (2024).
[183] Junerfält. *China's Technology Transfer Ecosystem,* p. 19.

expected returns and should be incorporated into risk–reward calculations.[184] For example, Chinese firms tend to prefer locations that are close to their customer base and offer good logistics and services. Huawei, for example, established its European HQ in Düsseldorf to be close to Vodafone, its main European customer at the time.[185]

Another reason to retain the desired investment destination is to access local talent pools. Continental Aerospace Technologies, a US-based subsidiary of the Chinese defence contractor AVIC, was established in Mobile, Alabama, to tap into its community of aviation engineering talent created by the aerospace programmes offered at local universities and colleges.[186] For these reasons, some enterprises may still perceive the original target market as an attractive FDI destination despite the presence of FDI screening mechanisms. These firms may therefore collect more information on the intended target market's screening mechanism and assess the risk of it challenging the company's investment plan before deciding on whether to Avoid or not.

Importantly, the issue of whether a target market has unfavourable conditions for market entry is not a matter of whether a host country has, or does not have, an FDI screening mechanism. For example, the OECD assesses that FDI regulation is far more restrictive in Australia, Canada, New Zealand, and Switzerland than in most EU-27 member states, including Finland, Germany, Portugal, and Sweden.[187] Note that FDI regulation might be comprehensive and wide in scope without being restrictive. There is no a priori reason to assume that a screening mechanism that is heavy on the paperwork or requires a larger group of entities to file with the authorities on average approves fewer investments. In the European context, Chinese companies and law firms recognise France, Germany, Italy, and the UK as particularly time-consuming and challenging markets to navigate in terms of FDI screening.[188]

It is also possible that regulatory rigour on paper does not correspond to implementation realities. A country may implement FDI screening on paper but in practice lack the resources, knowledge, or institutional capacity to collect, interpret, and make assessments of relevant data.[189] It is also possible that a state has a screening mechanism established in response to political pressure (e.g., pressure from other member states within the EU) but lacks domestic incentives to screen all applications with equal rigour and may, for example, be more lenient towards Chinese investments if these are understood as critical to the national economy.[190]

In practice, firms do appear to consider the presence of screening mechanisms in their market selection decisions. A legal practitioner asserts that this is among the most important, factors, if not the single most important factor, influencing whether a CMNE enters a given market. In particular, firms are prone to avoid jurisdictions with broadly defined and discretionary screening rules (such as Italy's "golden power" regulation), which make it difficult to predict whether a transaction will be reviewed and whether it will be approved. By contrast, countries with clear, transparent, and predictable rules are viewed more favourably, even if compliance is administratively burdensome.[191]

4.1.2 Circumvent

The second strategy identified here is *Circumvent*. This refers to a strategy wherein a company deliberately adapts its investment method, target company, or other aspects of the deal

[184] Wang & Li. Protection of China's Overseas Investment Interests.
[185] L. Lin, D. Wang & Y.-F. Si. The Limits of Guanxi for Chinese Nationals Doing Business Abroad: Empirical Investigation into Chinese Companies in Germany. *Journal of Economic and Human Geography* 109:3 (2018): pp. 420–433.
[186] E. Clemens. How Some Chinese Companies Obscure Ties to China and What Policymakers Should Do About It (Information Technology & Innovation Foundation, 3 November 2025), p. 7.
[187] OECD. OECD Data > Indicators > FDI restrictiveness index (2023).
[188] Interview 7.
[189] Interview 2.
[190] I. Kokkoris. *Merger Control, National Security, and Foreign Direct Investment Screening: A Comparative Perspective*. (Oxford University Press, 2024), p. 67.
[191] Interview 7.

to fall outside the scope of the screening criteria. In other words, the investor does not avoid investing, as it identifies an investment in this particular market as critical to advancing its corporate strategic objectives. Instead, the investor adapts its strategy to minimise friction and does this by exploiting regulatory loopholes and thresholds that allow an investment to fly below the screening authorities' radar. The intent is to invest without triggering the screening mechanism at all.

However, some countries require investors to file most, or even all, investments with the authorities. In these cases, the intent of the Circumvent strategy is to structure the investment in such a way that the filing does not trigger a more thorough review. It should be noted here that Circumvent is a dynamic strategy, and that the effectiveness of the different mechanisms described in Chapter 4.2 is highly dependent on country-specific regulations (and loopholes). Overall, the Circumvent strategy appears to be most suitable for investments that are at risk of failing the FDI screening process due to one specific concern.

Circumvention as a strategy can be traced back to institutional theory and the notion that organisations, in order to achieve their goals, tend to adopt structures and practices that are legitimate within their institutional environment.[192] While trying to circumvent regulatory frameworks is dubious from a moral perspective, it does not necessarily mean that the investment motives are economically illegitimate. Regardless of the motives behind the investment decision, undergoing a screening process is costly. Preparing the necessary documents requires much time and can be extremely expensive in terms of fees and various legal expenses.[193]

Moreover, legal scholars have argued that FDI screening regulations in the EU tend to define only vaguely, if at all, key terms such as "critical" or "strategic." As a result, the regulations lack certainty and predictability, making it difficult for investors to understand and comply with the rules even if they want to.[194] It can therefore be argued that the economically rational thing to do would be to seek to bypass FDI screening, for the same reasons that companies use offshore accounts to avoid taxes. That being said, just as tax avoidance is a perfectly legal way to reduce one's tax burden yet is frowned upon by many taxpayers, an investment strategy adapted to circumvent FDI screening is ethically questionable and raises doubts as to the company's intentions.[195]

4.1.3 Conceal

The third strategy is *Conceal*. Faced with a high probability of triggering screening or a thorough investigation, the company makes adjustments to conceal undesirable attributes before filing for investment review, most commonly by hiding the ultimate beneficial owner through manipulated ownership structures or illegal means that do not appear in the relevant paperwork, while preserving direct or indirect control.[196] Unlike *Circumvent*, the *Conceal* strategy presupposes that bypassing screening altogether is unfeasible or too costly. The investor therefore seeks to manipulate the screening authority's assessment to minimise the risk of rejection, for instance by obscuring ties to potentially problematic ownership links, including state shareholding, or other ties to the home state, defence industry, or armed forces.[197]

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[192] See, for instance, P.J. DiMaggio & W.W. Powell. The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review* 48 (1983): pp. 147–160.

[193] Hu, Jia & Yu. Study on the US Foreign Investment Security Review Mechanism; Interview 7.

[194] A. Gemmi. "Certainty and Predictability in FDI Screening Regulations." In J.H. Pohl et al. (eds.), *The Law and Geoeconomics of Investment Screening*. (Springer Studies in *Law & Geoeconomics*, 2025).

[195] 61 per cent of respondents in a 2015 UK survey and 85 per cent of respondents in a 2025 Finnish survey condemned tax avoidance. P. Shah. *Exploring public attitudes to tax avoidance in 2015*. Research Report 401. (HM Revenue & Customs, 2016); Tax Administration Bulletin. *A positive attitude toward taxes and a general disapproval of malicious tax avoidance − these are results of a survey that measured public attitudes*. Vero. (11 June 2025).

[196] Financial Action Task Force & Egmont Group. *Concealment of Beneficial Ownership*. (July 2018), p. 26.

[197] J.Y. Lu, X.Y. Li & S.J. Li. 欧美国家外资安全审查:趋势、内容与应对策略 [National security review of foreign direct investment by European and U.S. administrations: Its trends, contents and China's countermeasures]. *国际经济合作* [Journal of International Economic Cooperation] 12 (2018): pp. 4–9.

International business literature suggests that host-country policies imposing high disclosure requirements or sector exclusions may inadvertently motivate such responses: companies seeking to satisfy minimum requirements at minimum cost may conceal ownership or investment origin to appear benign or domestic, including through front organisations, while formally complying with disclosure and governance requirements.[198]

Chinese companies need to consider in what ways their ownership structure may cause concerns in the target host country. A *Conceal* strategy predominantly relies on indirect FDI, i.e. having the investment transit via third jurisdictions, in combination with complex ownership structures. There is an abundance of literature on how different ownership structures are employed for different strategic purposes. The issue spans fields such as corporate governance, international business, and financial economics.[199]

At the same time, the studied Chinese literature recognises that a successful concealment strategy gives the company an appearance of a transparent ownership structure. Partial concealment that reduces the transparency but does not fully conceal undesirable ownership draws more suspicion and reinforces perceptions of CMNEs as agents of the Chinese intelligence service.[200]

Empirically, the *Circumvent* and *Conceal* strategies overlap to a certain extent, as both may entail the use of specialised investment vehicles or intermediary jurisdictions, possibly through chains of ownership spanning multiple intermediary individuals and countries.[201] This may be particularly attractive to evade country-specific screening, for example, which applies only to investments from a specific set of countries, or for lessening the overall significance of the country of origin in investment screening processes. However, the motive and intended effect are here identified as the core differentiating factor between circumvention and concealment measures. To reiterate, in a *Circumvent* strategy, the aim is to make adjustments to the investments so that they do not trigger a screening process, or at least not a thorough review. In a *Conceal* strategy, the aim is to obscure certain aspects of the company's business operations, relations, or agenda to increase the chances that a screened investment would pass a thorough review.

For example, an investor may opt for the *Conceal* strategy when an investment is planned to transit through multiple jurisdictions that apply FDI screening. The *Circumvent* strategy is used to adapt to a specific set of regulations: those of one country. Adapting to regulations on FDI screening in several countries at once may prove difficult, in which case the *Conceal* strategy could offer a "blanket" or "one-size-fits-all" solution by hiding several potential points of concern. Further, concealment strategies would appear to be used primarily in contexts where the target host country rigorously implements FDI screening, that is, where authorities possess both the political will and the institutional capacity to conduct a thorough screening. In jurisdictions where the screening process is more lenient, either due to a lower data-collection capacity or because of a political inclination not to look "too hard," with a dependency on foreign investments being one possible reason for such an inclination, "lightly concealing" the investment's origin may be sufficient. One possible form of such concealment is to have the investment transit through a third jurisdiction (see Chapter 4.2.3), in which case the response may rather fall under the *Circumvent* strategy.

4.1.4 Cultivate

The fourth strategy identified here is *Cultivate*. This refers to a strategy wherein a company seeks to actively generate a favourable institutional and political environment for future investments in a given market. The investor, potentially backed by home-country state actors such as diplomats, politicians, researchers, or other institutional actors, engages in acti-

[198] Hennart. Transaction Cost Theory; Wei, Clegg & Ma. The Conscious and Unconscious Facilitating Role.
[199] See, for example, A. Shleifer & R.W. Vishny. A Survey of Corporate Governance. *The Journal of Finance* 52:2 (2012); Hennart. Down with MNE-centric Theories!; and M. Faccio & L.H.P Lang. The ultimate ownership of Western European corporations. *Journal of Financial Economics* 65:3 (2002).
[200] Lu, Li & Li. National security review.
[201] Financial Action Task Force & Egmont Group. *Concealment of Beneficial Ownership*, p. 26.

vities intended to shape the regulatory, political, and social conditions surrounding FDI screening so that the screening process is more lenient towards or even supportive of foreign investments from their home country. The end goal is to improve the chances that future investments will either no longer trigger the screening process or require less administrative effort to pass the screening.

International business literature refers to responses of this type as "non-market strategies": actions taken by firms to improve performance by managing the institutional or societal context of economic competition, primarily pertaining to relationship management with non-market stakeholders such as government actors and institutions, nongovernmental organisations, social and environmental activists, and local communities.[202] One way of doing this is through corporate political activity, defined as firms' attempts to manage political institutions and influence political actors in ways favourable to the firm, in other words, lobbying.[203]

Chinese scholars generally describe FDI screening mechanisms as fundamentally biased toward suspecting the intentions of Chinese OFDI. Many countries perceive CMNEs as untrustworthy, geopolitically driven, and closely linked to the party-state and the military. Even though Chinese scholars assert that these perceptions are "misunderstandings" and "discriminatory prejudice," they nevertheless recommend that Chinese investors take these concerns seriously and proactively enact measures to enhance public perceptions of China in general and to build rapport with relevant stakeholders and confidence in the individual company.[204] In addition to benefiting the individual company, positive public perceptions could over the long term lead to policy change, most notably less strict FDI screening criteria.[205]

The studied Chinese literature thus recommends that all companies consider measures to boost the likelihood of a smooth screening process and the chances of a successful outcome before filing for review. While a company may seek to *Cultivate* favourable screening conditions ahead of making a specific investment, this strategy is most effective over longer periods of time. Companies that practice the *Conceal* strategy can technically also engage in corporate political activity. However, in our framework, the *Cultivate* strategy presupposes that the company is upfront about its national origins. *Cultivate* as a strategy can therefore be pursued in tandem with the *Circumvent* or *Cater* strategies, or be a company's only response to FDI screening.

4.1.5 Cater

The fifth and final strategy identified here is *Cater*. This refers to a strategy wherein a company seeks, by various means, to improve the chances of investment approval *during* the screening process. In other words, the intent is to cater to the authorities' likely or stated demands by compromising on the original investment plan.

Chinese scholar Chang Rui reminds us that the purpose of FDI screening is not to prohibit inward FDI. The purpose is to prevent a subset of investments that the host country assesses as harmful, and even investments that are flagged as potentially damaging to national security interests may be approved with sufficient risk-mitigating measures.[206] For most companies, going through investment screening in accordance with local regulations is the best course of action. Putting too much effort into trying to manipulate screening mechanisms can prove ineffective, less profitable, and counterproductive. One scholar warns that the benefits attainable by deceiving FDI screening authorities are oftentimes not worth the risks.

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[202] K. Mellahi, J.G. Frynas, P. Sun & D. Siegel. A Review of the Nonmarket Strategy Literature: Toward a Multi-Theoretical Integration. *Journal of Management* 41:1 (2016): pp. 143–173.
[203] Mellahi et al. A Review of the Nonmarket.
[204] Liu, Feng & Zhao. Challenges and Countermeasures.
[205] Xiao & Li. The Challenges and Legal Responses.
[206] R. Chang. 外资并购国家安全审查制度:国际经验与启示常蕊 [National Security Review System for Foreign Mergers and Acquisitions: International Experience and Lessons Learned]. *国际经济合作* [Journal of International Economic Cooperation] 4 (2015).

If the screening were to expose a company's attempt at concealment, it would not only further undermine the trustworthiness of CMNEs but could also result in previously approved investments being reassessed and potentially rejected.[207]

On the other hand, "getting caught" would not necessarily be disastrous for CMNEs that are used to skirting responsibility in the home-country authoritarian context. With support from the Chinese state, they could claim that the rationale for rejection was based on a misunderstanding, or flip the script and blame the host country for being the instigator through its hardline regulations and politicisation of economic exchange. Rejections might even benefit Chinese soft power, rather than result in a loss of face.[208]

In any case, the studied Chinese literature recommends that companies seriously consider the host country's security concerns regarding the planned investments. This can be done proactively, in which case the investor analyses likely host country concerns in advance and formulates its investment plan to accommodate the anticipated hurdles, or it can be done reactively, in response to initial assessments or statements by the screening authority. Certain screening authorities, such as the American CFIUS as well as the French and German authorities, may impose measures on the applicant investor to mitigate security risks as a condition for approving the investment.[209] For example, CFIUS may demand that parties prohibit or limit the sharing of certain assets or information, ensure that certain facilities and operations are located in the US, or restrict the hiring of certain personnel.[210] The pattern is similar in many parts of Europe; "scrutiny increasingly works through governance conditions, information-security measures, or carve-outs, not only through outright prohibition."[211]

If the host country's concerns are well-articulated and specific, CMNEs may not need to alter their approach that much. For example, to address economic concerns about a firm's potentially non-business objectives, the company may pledge in advance not to transfer certain technologies that it acquires in the host country to its home country. Political concerns regarding the company's behaviour in the host country market can be addressed by enforcing high governance standards. Psychological concerns regarding the extent to which the company's home country is friendly to the host country can be mitigated by predictability and slow expansion.[212]

4.2 Circumvent mechanisms

This report identifies four mechanisms for the *Circumvent* strategy: adjusting the equity stake, adapting the entry mode, manipulating the geographical path, and manipulating the sectoral corporate path.

4.2.1 Adjusting the equity stake

One of the first things a CMNE seeking to employ a Circumvent strategy should reasonably pay attention to is the threshold for how large a stake it is permitted to acquire without filing for investment screening in its target host country.[213] If the threshold for screening is at 10 per cent equity, then acquiring 9.9 per cent would be a convenient alternative. If the company assesses that it needs a larger stake to achieve its objectives, it could buy small equity

[207] S. Ma. 美国外资安全审查下的投资壁垒与中国企业的应对策略 [The Investment Barriers from the US Foreign Investment Risk Review and the Coping Strategies of Chinese Enterprises]. *太平洋学报* [Pacific Journal] 30: 11 (2022).
[208] Interview 4.
[209] T. Sullivan, P. Bine, W. Lainé, M. Horbach, J.A. Washington & J. Hewitt. "A Goldilocks' Conundrum: Mitigating national Security Risks in the United States, France, Germany, and United Kingdom." In J. Hillebrand Pohl et al. (eds.), *The Law and Geoeconomics of Investment Screening*. (Springer Studies in *Law & Geoeconomics*, 2025), pp. 35–41.
[210] Committee on Foreign Investment in the United States. *CFIUS Annual Report to Congress Report Period: CY 2024.* (2025), pp. 32–33.
[211] Interview 6.
[212] Cuervo-Cazurra. Thanks but no thanks, p. 141.
[213] Liu, Feng & Zhao. Challenges and Countermeasures.

stakes on multiple occasions to gradually increase its ownership, or first acquire non-equity or preference shares (without voting or ownership rights), gradually build confidence with the target company, and then convert those shares into equity.[214] The legal conditions for share conversions differ between countries, however, and again reinforce the need to fully understand the legislation of the target host country.

Another option is to make several small investments through multiple investment vehicles. In theory, the majority of a company's shares can be owned by foreign portfolio investors, each of which owns a small, non-controlling share, for example, less than 10 per cent. In such cases, the ultimate ownership cannot be determined unequivocally.[215]

To secure long-term influence over foreign companies, CMNEs may use non-equity cooperation or minority share acquisitions followed by equity involvement or a gradual increase of ownership, which can be referred to as "sequential two-stage entries."[216] There are many cases in which Sino-foreign non-equity cooperation has been followed by equity involvement. For instance, in 2024, Chinese automotive giant BYD became a significant minority shareholder in its local distributors in Thailand and Germany, and Ant Group acquired a minority stake in Swedish financial technology (fintech) company Klarna in 2020 following pre-existing cooperation.[217]

In some cases, the minority stake acquisition is reciprocal, that is, part of establishing a strategic alliance. One such example is Chinese state-owned automotive company BAIC acquiring a 5 per cent minority stake in Germany's Daimler in 2019, preceded by a long-standing JV in China (majority-owned by BAIC). BAIC's minority acquisition in Daimler was seemingly a means to maintain influence over its German partner, in response to Geely acquiring a 9.69 per cent stake in Daimler the preceding year. BAIC's stake was later increased to 9.98 per cent, just below the 10 per cent ownership threshold that entails mandatory disclosure under Germany's financial regulations. The increase in BAIC's stake was only made public after a Daimler spin-off of its truck division.[218]

Part of the rationale behind this type of "hybrid strategy" for Chinese firms may be to avoid triggering screening mechanisms, with the aim of establishing enough economic interdependence to make authorities hesitant to block continued investments for fear of the potential negative economic fallout.[219] Needless to say, this type of strategy may be more likely to succeed in non-sensitive sectors (which vary between host countries), where national security-motivated scrutiny is absent.

4.2.2 Adapting the entry mode

Chinese scholars advise against conducting M&As. From a security perspective, acquisitions signal that the acquiring company wants to be in control, which could be a source of concern. Instead, the literature recommends that companies buy non-majority equity shares, which more readily allows the purchase to be interpretated as an economic, not politically motivated, investment.[220] Partial equity acquisitions made together with a host-country investor are also more likely to gain the support of the host country's authorities and general public.[221] Additionally, companies may consider greenfield investment as an entry mode. Greenfield investments bring in capital and create employment opportunities in the host

[214] ibid; Y.P. Wang. 欧美加严外资安全审查的趋势特点和分析建议 [Analysis and suggestions on the trend of strict foreign capital security review in Europe and America]. *国际贸易* [Intertrade] 5 (2018).
[215] Kalotay. Indirect FDI, pp. 545–546.
[216] Interview 6
[217] Interview 6.
[218] E. Taylor & Y.L. Sun. China's BAIC buys 5% Daimler stake to cement alliance. *Reuters*. (23 July 2019).
[219] Interview 6.
[220] Z.N. Hu. 英法德三国收紧外商投资安全审查监管研究 [The Tightening of National Security Review on Foreign Investment by the UK, France and Germany]. *国际论坛* [International Forum] 6 (2021).
[221] Y.X. Wang, B. Tan, Y.J. Huang & L. Sun. 对外直接投资影响因素分析与我国的应对策略 [Analysis of Factors Influencing Foreign Direct Investment and China's Response Strategies]. *现代管理科学* [Modern Management Science] 3 (2015).

country, two characteristics that make these types of investments more likely to be positively received.[222]

Empirically, CMNEs have indeed altered their entry mode preferences since around 2016. M&As have decreased in frequency, while greenfield investments and venture capital (in the sense of early-stage funding of start-ups) have flourished. This pattern holds true in the EU (see Chapter 3.1.2) and elsewhere. One recent paper notes that "China's current tactics to gain footholds in the US economy have likely evolved to become more subtle than headline-grabbing acquisitions and instead feature quieter financial manoeuvres."[223] Apart from the rise of FDI screening mechanisms, plausible explanatory factors include the high levels of debt incurred by Chinese companies, a "regulatory clampdown" in China on big outbound M&As, and the perception that R&D investments are simply a better way to internalise foreign knowledge than acquiring foreign companies.[224]

Greenfield investments in R&D facilities have seen particularly strong growth. Investments in R&D are more difficult to regulate and thus present a good way for CMNEs to enter foreign markets. Huawei is a prominent example of a major CMNE that favours greenfield R&D over M&As in its overseas ventures. Venture capital and "the financialisation of FDI" are also interesting trends. Chinese investments are increasingly done through minority stakes and through the use of pooled resources from funds and other institutional investors, rather than M&As by traditional producing companies. Among other things, it is harder to discern the origin of the capital for this type of investment. In the mid-2010s, the US-based but Chinese-funded venture capital firm Hone Capital managed to get significant minority shares in hundreds of Silicon Valley start-ups, giving the Chinese ultimate beneficiary access to knowledge of local developments, business models, and possibly even intellectual property. The US has since strengthened its investment screening regulations to prevent technology transfer via venture capital funds.[225]

If a company nevertheless opts for M&A, some types of companies are more preferable to acquire than others. Chinese scholars suggest that acquisitions of well-known companies should be avoided, as this attracts too much attention. Better would be to acquire companies that are less well-known to the general public. This includes SMEs and companies that operate up- or downstream relative to a strategic industry.[226] If possible, acquiring "hidden champions", i.e., small yet highly successful companies that usually operate mid-value chain in a business-to-business context and thus have little brand recognition among the general public, is a good way to gain access to business networks and technical knowledge in a low-profile way.[227]

Additionally, companies need to consider the political atmosphere in the host market to select an appropriate entry mode and timing. If the domestic political landscape is marked by heightened geopolitical tensions or national security anxieties, a more restrained investment strategy is preferred. Chinese scholars note that this is the current situation in the EU and thus advise companies to avoid M&As in favour of JVs for the time being.[228] Not only are JVs with local companies plausibly less conspicuous, but they could also benefit the CMNE by distributing the financial and administrative burdens of the screening process.[229] For example, some CMNEs investing in Australia have established consortia with local partners to increase their chances of securing approval from Australian authorities.[230] CMNEs that have established JVs with local partners but maintain ambitions to expand fur-

[222] Hu. The Tightening of National; Li & Zhao. Institutional Changes.
[223] Clemens. How Some Chinese Companies, p. 18.
[224] Interview 3; Kratz et al. *Chinese Investment Rebounds*.
[225] Interview 3.
[226] Z.Q. Jiang & J. Du. 统筹国家安全与对外开放：外资安全审查制度的流变与中国因应 [Coordinating National Security and Opening-up: The Evolution of the Foreign Investment Security Review System and China's Response]. *对外经贸实务* [*Practice in Foreign Economic Relations and Trade*] 42:9 (2024).
[227] Wang. Analysis and suggestions on the trend of strict foreign capital security review.
[228] Xiao & Li. The Challenges and Legal Responses.
[229] H. Wu & M.J. Cao. 全球 FDI 审查与中国对策 [Global FDI Review and China's Countermeasures]. *世界经济探索* [World Economic Research] 11:3 (2022).
[230] Interview 5.

ther, potentially into other sectors, may seek to further localise their corporate structures as well as staff to shed the "liability of foreignness" to the greatest possible extent (see Chapter 4.2.4).[231]

There are many historical cases of Sino-foreign JVs that have later turned into acquisitions. One example is the JV between former French mobile phone maker Alcatel and Chinese state-owned electronics company TCL, which in 2005 turned into a buyout of the French partner by TCL. Another example is Geely's 2006 acquisition of a 23 per cent minority stake in former UK taxicab manufacturer Manganese Bronze, which was combined with a majority stake purchase in their China-based JV. In 2013, Geely eventually acquired the British parent company outright.[232] However, whether these and other historical cases would be deemed sensitive investments or not today, in a different geopolitical landscape and after the institutionalisation of FDI screening in the EU, depends on the specific host country and context.

It is hard for external observers to discern whether shifts in entry mode are driven by the companies themselves or by the Chinese state. It is partly a matter of interpretation. As argued in Chapter 3, industrial and technological priorities promoted by the Chinese party-state and the associated financial support are hard for CMNEs to ignore, whether or not the Chinese state intervenes directly in the choice of entry mode. CMNEs are pushed to persist in asset-seeking behaviour abroad, and will reasonably choose the entry mode they find best suited for this purpose.[233] This type of indirect party-state-company alignment has also been referred to as "interest transformation."[234] Seen from another perspective, the Chinese state at least passively enables CMNEs' overseas asset-seeking by not obstructing their efforts.[235] It should be reiterated that China's screening of outbound investments and other regulations shape the target markets and sectoral focus of Chinese OFDI (see Chapter 3.3.1).

4.2.3 Manipulating the geographical path

CMNEs can also manipulate the geographical path of their international investments by means of indirect FDI through intermediary jurisdictions. This may serve many different purposes, including nominally altering an investment's "nationality" or "legitimacy."[236] In some instances, FDI screening authorities may be satisfied as long as an investment does not come directly from China, even if it is apparent that the ultimate beneficiary is indeed a China-based business. As such, indirect FDI via a third jurisdiction at its most basic level is here categorised as a *Circumvent* mechanism. In combination with various ownership structures, it may be possible to increase the opacity of the ultimate beneficiary further, moving into *Conceal* territory (see Chapter 4.3 below).

Indirect FDI can have two different ultimate destinations: the home country or a different ultimate host country. The act of transiting investments via an intermediary jurisdiction back to the home country is known as *round-tripping FDI*. The purpose of round-tripping FDI is for the investing company to be treated as a foreign company in its home country for one reason or another. For instance, gaining access to tax incentives and other benefits targeting "foreigners" by round-tripping through Hong Kong and back to China was a strong driving force for Chinese companies going abroad in the 1980s.[237] This method is used by CMNEs to circumvent domestic Chinese regulations on inward investments.

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[231] Interview 4.
[232] R. Jones. China's Geely buys UK black cab maker Manganese Bronze. *Reuters*. (1 February 2013).
[233] Interview 3.
[234] Norris. *Chinese Economic Statecraft*.
[235] Interview 4.
[236] There are also forms of indirect FDI that are transparent, including investments made more or less autonomously by regional headquarters. For instance, in 1988, Opel (Germany) invested in car assembly in Poland without heavy involvement from its ultimate owner, General Motors (US). When Magyar Telekom (Hungary) invested in Macedonia in 2001, its ultimate owner, Deutsche Telekom (Germany), was heavily involved, even placing German nationals in charge of the Macedonian subsidiary. See Kalotay. Indirect FDI, pp. 542–544.
[237] Anderson, Sutherland & Hurst. Measuring CMNE activity, p. 3; Sutherland et al. Exploring the use of offshore intermediary jurisdictions, p. 217.

Of greater relevance to this study are the cases when FDI passes through one or several intermediary jurisdictions on its way to an ultimate destination that is not the home country. This is referred to as *onward-journey FDI*, alternatively as *capital-in-transit*. Investments commonly enter the intermediary jurisdiction in the form of equity and continue to the ultimate destination as an intra-corporate group loan. Onward-journey FDI is a common practice for Chinese private companies and SOEs alike.[238]

In the context of indirect FDI, it is essential to delve further into the topic of OFCs. OFCs are jurisdictions that attract foreign financial activity due to comparative advantages in terms of tax rates and regulations. Whereas the popular imagery of OFCs is that of small emerging economies with lax governance and "exotic small islands," this is not necessarily the case. For instance, companies may also have a relatively easy time establishing anonymous shell companies and bank accounts in certain OECD countries.[239] Popular intermediary jurisdictions for CMNEs that engage in onward-journey FDI include several European countries, not least the Netherlands, Luxembourg, Switzerland, Ireland, and the United Kingdom.[240] Notable jurisdictions outside of Europe include the British Virgin Islands, the Cayman Islands, Hong Kong, and Singapore.[241] Overall, the Chinese use of European OFCs is limited in comparison with, for example, the Cayman Islands.[242]

The discussion in the following section centres on the possibilities for CMNEs to employ onward-journey FDI through OFCs for the purpose of navigating FDI screening. However, it should be emphasised that the use of OFCs has many economic and efficiency-enhancing benefits. The shape of bilateral treaties is one factor that may make particular jurisdictions more attractive than others.[243] For instance, some OFCs will be better for tax purposes than others, depending not only on their domestic tax policies but also on whether they have favourable double taxation treaties with the intended ultimate host country. Companies that engage in so-called treaty shopping may look at bilateral investment treaties, which provide varying degrees of financial safety.[244] Chinese companies are far from alone in using OFCs for various profit-driven purposes. For a more detailed account of how CMNEs benefit from using the Caribbean islands, the EU, Hong Kong, and Singapore as OFCs more broadly, please refer to the Appendix.

Corporate inversion

One pathway for CMNEs that seek to rebrand their origin is to engage in *corporate inversion*, that is, to move a company's legal domicile abroad in order to *de jure* change country of origin, while *de facto* maintaining actual business operations in the home country. Corporate inversion can be executed either by dissolving the corporation and re-establishing it with a parent company based abroad, or by having an overseas company (or a subsidiary) acquire the corporation, thus *de jure* moving the headquarters to a different geographical location. Corporate inversion is heavily associated with OFCs.[245] Private CMNEs are more likely to engage in corporate inversions than are state-owned CMNEs.[246]

There are hundreds of CMNEs that have undergone corporate inversion in OFCs. These include well-known companies that have retained their Chinese branding, such as, Alibaba, Baidu, Geely, Tencent, and Xiaomi.[247] Alibaba explains its choice of domicile in the

[238] Anderson, Sutherland & Hurst. Measuring CMNE activity, p. 2.
[239] Cuervo-Cazurra. Thanks but no thanks, p. 149; J. Garcia-Bernardo, J. Fichtner, F.W. Takes& E.M. Heemskerk. Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network. *Scientific Reports* 7:6246 (2017): p. 1.
[240] Garcia-Bernardo et al. Uncovering Offshore Financial Centers, pp. 6, 8; Sutherland et al. Exploring the use of offshore intermediary jurisdictions, p. 224.
[241] Sutherland, Hennart & Anderson. How does the routing of FDI, pp. 347–348.
[242] C. Clayton, A. Coppola, A. dos Santos, M. Maggiori & J. Schreger. China in Tax Havens. *AEA Papers and Proceedings* 113 (2023): pp. 114–119.
[243] Garcia-Bernardo et al. Uncovering Offshore Financial Centers, p. 9.
[244] Kalotay. Indirect FDI, p. 547.
[245] Anderson, Sutherland & Hurst. Measuring CMNE activity, pp. 1–2; Garcia-Bernardo et al. Uncovering Offshore Financial Centers, p. 1.
[246] Anderson, Sutherland & Hurst. Measuring CMNE activity, p. 3.
[247] Sutherland, Hennart & Anderson. How does the routing of , p. 356.

Cayman Islands by stating that the jurisdiction offers "political and economic stability, an effective judicial system, a favourable tax system, the absence of exchange control or currency restrictions, and the availability of professional and support services."[248]

A 2025 study on corporate inversions identifies 17,297 foreign subsidiaries of Chinese-origin companies that have undergone corporate inversion abroad, most commonly in the Cayman Islands (449 inversions), followed by Bermuda (89), Singapore (18) and the British Virgin Islands (16).[249] Indeed, international business scholar Dylan Sutherland assesses that Chinese enterprises are more prone to invert ownership than firms of any other nationality.[250]

Among other purposes, corporate inversions can be used to circumvent domestic Chinese regulations on taking in foreign capital in certain sectors. The Chinese Foreign Investment Law regulates inward FDI in 29 industrial sectors, with FDI totally banned in 12 of them, including publishing houses, news outlets, and certain types of agricultural, livestock, and fisheries businesses.[251] Chinese entrepreneurs in investment-restricted sectors are able to take in foreign capital by moving parts of their business operations abroad through corporate inversion. For example, it is common for Chinese firms operating in sectors that ban IFDI to create a listing vehicle in the Cayman Islands and go public on a US stock exchange. This method operates in a legal grey zone, relying on Chinese authorities' willingness to tolerate bypassing of investment regulations. In fact, Chinese authorities launched a regulatory crackdown in 2020–2023, stopping two planned, high-profile IPOs that relied on circumventing Chinese IFDI legislation.[252] The regulatory crackdown appears to have had a deterrent effect on the use of this method. In 2021, 186 CMNEs using these grey-zone methods were listed on US stock exchanges, whereas in 2025, that number was only 17.[253]

Establishing offshore subsidiaries

CMNEs may also establish regional offices or headquarters in OFCs, tasked with real operational responsibilities.[254] CMNEs commonly do this to benefit from various regulatory, legal, or political advantages present in these jurisdictions. According to data from the Chinese Ministry of Commerce (MOFCOM), Chinese enterprises held at least 10 per cent equity in 52,000 international companies at the end of 2024. The jurisdiction that hosts the most Chinese subsidiaries is Hong Kong (~18,000 firms), followed by the US (~5,000 firms), Singapore, British Virgin Islands, Vietnam, and the Cayman Islands.[255] The exact number of companies in the latter four jurisdictions is not disclosed by official data. However, recent scholarship estimates that 393 Hong Kong firms and 275 (Mainland) Chinese

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[248] F. Pan & C. Fang. Mapping global financial networks: a spatial analysis of Chinese companies' overseas listings. *Transactions in Planning and Urban Research* 1:18 (2022): p. 6.

[249] J. Hurst & D. Sutherland. Do corporate inversions create systematic MNE sampling biases when using the Orbis database? *Journal of International Management* 31:6 (2025).

[250] Interview 3.

[251] The banned sectors comprise certain types of agricultural, livestock, and fisheries businesses; mining of rare earth elements and tungsten; businesses dealing with tobacco; postal services; internet information services and online publishing; legal services; humanities and social science research; all types of businesses relating to mapmaking or geology; primary and secondary education institutions; all types of news organisations; the editing, publishing, or production of books, newspapers, and other publications; radio and television stations and channels, as well as related networks and satellites; radio, television, and film production and distribution companies; businesses related to the sale or handling of antiquities; and performing-arts troupes. See National Development and Reform Commission & Ministry of Commerce of the PRC. 外商投资准入特别管理措施（负面清单）（2024 年版） [Special Administrative Measures for Foreign Investment Access (Negative List) (2024 Edition)].

[252] R. McMorrow & H. Lockett. China halts $37bn Ant Group IPO, citing "major issues." *Financial Times*. (3 November 2020); C. Mok. Diving into Didi's Aftermaths: On Data and Capital. Friedrich Naumann Foundation. (22/7 2021); China Securities Regulatory Commission. CSRC Releases New Regulations for Filing-Based Administration of Overseas Offering and Listing. (17 February 2023). As of 2023, CMNEs with a VIE structure must gain approval from the China Securities Regulatory Commission before publicly listing on a foreign stock exchange.

[253] S. de Boer. Enemy at the Gates: A Case Against the United States of America's Response to the Perils of Chinese Variable Interest Entities. SSRN Electronic Journal 3899099 (2021): p. 9; Tamrat. *Behind the veil: Risks of Chinese Companies and the VIE Structure*. (Council of Institutional Investors, August 2025), pp. 6–8.

[254] X. Ma, P. Wang & D. Li. What Determines the Establishment of Chinese Multinational Enterprises' Asian Regional Headquarters? *Management and Organization Review* 13:1 (2017): pp. 85–119.

[255] MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*, pp. 41–43.

firms are incorporated in the Cayman Islands; 406 Hong Kong firms and 49 Chinese firms are incorporated in Bermuda; and 12 Hong Kong firms and 11 Chinese firms are incurporated in the British Virgin Islands.[256] What is more, these firms manage large sums of money. Estimates suggest that locally registered but Chinese-owned firms account for up to 50 per cent of all outstanding securities (all shares issued or sold by a company to shareholders other than the company itself) in the Cayman Islands and 55 per cent in the British Virgin Islands.[257]

The British Virgin Islands, the Cayman Islands, and Hong Kong are an important "triad" of OFCs used by CMNEs for rerouting onward-journey FDI. These three jurisdictions have strong historical links, since Hong Kong used to be a British colony and the other two remain British Overseas Territories to date. There is internal competition within the triad, and among OFCs in general, to attract foreign capital, which has given rise to specialised services in each jurisdiction.[258] For example, Hong Kong's advantage as an OFC is linked with its proximity to mainland China and its expertise in global trade and financial markets. It has a large number of banks, investment firms, legal consultants, and insurance companies. Hong Kong has had a special OFDI link with both China and the Caribbean islands, and large capital transfers are often used along with multi-layered ownership structures with subsidiaries and special-purpose entities (see Chapter 4.3.1).[259]

The Cayman Islands are specialised in IPOs and holding structures, while the British Virgin Islands specialise in incorporation with high levels of confidentiality. For this reason, the Cayman Islands appear to be used by CMNEs primarily as a jurisdiction that capital is transferred through on its way to the ultimate destination. In particular, CMNEs tend to establish holding companies that list on global stock exchanges from the Cayman Islands. In contrast, the British Virgin Islands appear to be used as a "sink", where Chinese capital rests for longer periods of time. Intermediary holding companies in the British Virgin Islands are often used to isolate a Cayman Islands parent from subordinate entities as a form of risk management. Incorporation in the Cayman Islands or the British Virgin Islands may reduce CMNEs' costs of internationalising relative to doing so from the PRC. In other words, firms domiciled in these jurisdictions are equipped with better financial and regulatory preconditions for investing in a third country.

Due to their high degree of financial and legal integration, CMNEs generally find it worthwhile to establish holding companies in each of these jurisdictions to generate complementary advantages.[260] CMNE subsidiaries incorporated in OFCs may in turn own subsidiaries in other OFCs.[261] Onward-journey FDI may thus pass through several different OFCs in investment chains on its way to its ultimate destination.[262] The Appendix illustrates the significant investment flows between several of the prominent OFCs discussed in this report. However, CMNEs with previous experience in managing international business activity are likely to benefit less from OFCs, in the sense that they already know the "tricks of the trade," at least when it comes to operational optimisation. Utilising OFCs far from the ultimate host country serves no apparent purpose in terms of operational efficiency.[263]

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[256] W. Bailey & E.X. Liu. Incorporation in offshore financial centers: Naughty or Nice? *International Review of Finance* 25:2 (2025): p. 13.

[257] C. Clayton, A. Coppola, A. Dos Santos, M. Maggiori & J. Schreger. *China in Tax Havens*. Working Paper 30865 (National Bureau of Economic Research, January 2023).

[258] Sutherland et al. Exploring the use of offshore intermediary jurisdictions, pp. 217–218.

[259] Garcia-Bernardo et al. Uncovering Offshore Financial Centers, pp. 6, 8. See also X. Wei & R. Palan. Global corporate structure of Chinese state-owned financial institutions through Hong Kong. *Journal of International Relations and Development* 26 (2023): pp. 373–403.

[260] Anderson, Sutherland & Hurst. Measuring CMNE activity, p. 4; J. Fichtner. The anatomy of the Cayman Islands offshore financial center: Anglo-America, Japan, and the role of hedge funds. *Review of International Political Economy* 23:6 (2016); J. Robertson. Global financial networks confront headwinds: China's shifting offshore relationship with the British Virgin Islands. *The Pacific Review* 34:2 (2021); Sina Finance [新浪财经]. 海外股权设计解密：开曼、BVI、香港各自扮演什么角色？ [Overseas equity structures decoded: what roles do the Cayman Islands, the British Virgin Islands and Hong Kong play?]. Baidu Baijiahao.

[261] Sutherland, Hennart & Anderson. How does the routing of FDI, pp. 347–348.

[262] Garcia-Bernardo et al. Uncovering Offshore Financial Centers, pp. 7–8.

[263] Ma et al. What Determines the Establishment, pp. 91–92, 107–108.

Importantly in this context, CMNEs may incorporate or establish corporate entities in OFCs to increase their legitimacy in business interactions abroad. It might be useful for a company to be perceived as, for example, Singaporean or Hong Kongese, rather than Chinese, by business partners in third countries. Even in cases where the Chinese origin is apparent, the offshore business operations may be perceived as independent from the home country/state and its norms, standards, and expectations. If the OFC possesses an internationally respected legal system, such as that of Hong Kong or Singapore, this may alleviate concerns in third countries pertaining to, for example, contractual enforcement or business transparency more broadly. CMNEs that seek to fly under the radar when investing in third countries may be well aware of these OFC perks. However, the use of OFCs may also signal a genuine intent on the part of CMNEs that want to focus on doing business and not get caught up in geopolitics.

The extent to which CMNEs gain increased legitimacy by toning down their links to China varies depending not only on the OFC but also on how exactly they "de-Chinafy." The German think tank MERICS presents four categories of CMNEs that leverage their incurporation in Singapore as a means to tone down their links to China and the party-state. To a varying extent, these categories would seem to fit CMNEs in other OFCs as well. The first category is *headquarters relocators*, such as Shein in Singapore. The second is *equity diversifiers*, such as IT service provider Cue Group, with origins in Shanghai but now owned by multiple international investment firms. The third is *stock exchange listers*, such as electric-vehicle company Nio, listed on the Hong Kong, New York, and Singapore stock exchanges. The fourth and last is *local firm acquirers*, such as Alibaba, which acquired Singapore-based e-commerce company Lazada, which consequently has expanded in Europe under a non-Chinese flag (unlike AliExpress, which retains its Chinese branding). MERICS also emphasises talent decoupling, in terms of hiring non-Chinese staff in their overseas corporate entities, as a means for CMNEs to tone down the visibility of their Chinese origins.[264]

Let us look at some examples in which Chinese MNEs have been perceived as exploiting OFCs to circumvent scrutiny in third countries. A 2024 article by the *Financial Times* describes Singapore as one of "China's new back doors into Western markets." A concrete example is provided of a Chinese mining conglomerate, Jinan Yuxiao Group, which in 2023 sought to acquire controlling shares in the Australian rare earths company Northern Minerals through an investment vehicle established in Singapore. The point of this, or so the article argues, was to "[change] the angle of attack," to manipulate, in other words, the geographical path of the investment via Singapore to exploit the city-state's renown as a geopolitically neutral nation with a trustworthy legal system. Seeing as Australian authorities blocked the investment and had no apparent issues with identifying its origin and ties to the Chinese party-state, it seems likely that the intention behind rerouting the investment was to gain legitimacy through "Singapore-washing." Another example provided by the *Financial Times* is Shunwei Capital, a venture capital firm led by Xiaomi founder Lei Jun. It reportedly exploits the reputation of affiliated firms in Singapore to carry out investments in jurisdictions where Chinese investors face extensive scrutiny (in this case, India).[265]

However, this is not necessarily a new trend. In a well-publicised case from 2008, Aluminum Corporation of China partnered with US investors to acquire a strategic minority stake in mining company Rio Tinto, with significant business operations in Australia. The acquisition was seen at the time as an innovative and successful attempt to block competitor BHP from acquiring Rio Tinto, with the Chinese MNE employing a special-purpose entity (see Chapter 4.3.1) in Singapore and using international financing to secure its interest without engaging in a full takeover.[266]

Another current example is TikTok, a Chinese-origin company with international headquarters in Singapore.[267] TikTok tends to emphasise its Singaporean identity when its ties

[264] J. Gunter, A. Adachi & F. Ghiretti. *Post-Covid momentum for China's global ambitions*. (MERICS, 29 March 2023).
[265] J. Kynge, J. Webber & C. Murray. China's new back doors into Western markets. *Financial Times*. (5 September 2024); C. Chen. Australia sues China-linked rare earths investors. *Reuters*. (26 June 2025).
[266] CNBC. Chinalco, Alcoa Take 12% Stake in Rio Tinto. (1 February 2008); J.L. Chen. Chinalco, Alcoa to take 12% stake in Rio Tinto. (*China Daily*, 2 February 2008).
[267] TikTok also has major operations in Los Angeles, but these are majority-owned by US investors as of January 2026; see B. Stelter. *The Trump-approved US TikTok is off to a rough start. CNN*. (28 January 2026).

to China and the party-state are scrutinised. Similarly, it tends to highlight that its European subsidiaries in the UK and Ireland operate under local, not Chinese, regulations.[268] TikTok's CEO, Shou Zi Chew, is indeed Singaporean. Zhang Yiming, founder and major shareholder of TikTok's parent company, ByteDance, also lives in Singapore. Having stepped down as ByteDance CEO, Zhang retains a 20 per cent stake in the company. Despite 60 per cent of ByteDance's equity being owned by non-Chinese investors, Zhang also maintains over 50 per cent of voting rights.[269]

TikTok is formally incorporated in the Cayman Islands, as is ByteDance. However, ByteDance's main operating companies are based in China, with Beijing Douyin as headquarters. ByteDance uses a VIE structure (see Chapter 4.3.2), under which its Chinese operations are contractually controlled by the offshore holding company (i.e., ByteDance Ltd).[270] Still, the Chinese state has a 1 per cent stake (a so-called "golden share") and a seat on the board of Beijing Douyin. The Chinese government may possibly also exercise influence over ByteDance in China through national security legislation and mandatory party cells.[271]

TikTok's corporate siblings in China are thus under direct party-state influence. All in all, perceptions of potential Chinese party-state influence over TikTok's overseas operations are based on factors beyond its formal ownership structures and country of incorporation. The possibility of the CCP exercising informal control over TikTok's corporate siblings in China and ByteDance's senior management personnel raises doubts about TikTok's supposedly non-Chinese identity and also triggered the debate over TikTok in the US.[272] It is also notable that Singapore's government does not allow its public officers to use the TikTok app freely on government devices.[273]

Following the discussion of CMNEs' manipulation of the geographical path via third countries, the following section looks more closely at the EU itself and the possibilities for circumventing scrutiny within the single market.

The EU: Entry points to the single market

The use of EU member states as intermediary jurisdictions merits further attention. The EU is a special case in the world of FDI due to one of its foundational principles: the free movement of capital. This principle implies that FDI flows from one EU member state to another can only be restricted under exceptional circumstances, and that differential treatment by national authorities of domestic and EU-based economic entities is prohibited.[274] This in turn means that FDI originating in one EU member state is exempt from FDI screening in another (as long as the receiving country does not screen domestic investments). As a consequence, once foreign capital is invested in one member state, it can be freely moved to another.

This creates challenges for the national authorities tasked with FDI screening. Different EU member states have different priorities in their FDI policies and employ different methods for FDI screening, and some may even choose to forgo FDI screening altogether in some cases. Thus, a non-European company aiming to invest in a sector considered sensitive by one member state, but not another, may attempt to employ onward-journey FDI. First, it would invest in a state where the sector is not considered sensitive, to establish an EU-based entity without going through a screening process (possibly a lenient one), and from there continue to the state that does consider it sensitive, also possibly without screening, as the FDI is formally an intra-EU capital flow. As a consequence, the screening authorities of

[268] Kynge, Webber & Murray. China's new back doors.
[269] *The Business Times*. *TikTok places ByteDance founder among China moguls in Singapore.* (9 May 2024).
[270] ByteDance. Corporate Structure. (2 February 2023).
[271] P.J. Benson, C. Y. Cho& M.D. Sutherland. *TikTok: Frequently Asked Questions and Issues for Congress*. (U.S. Congress, 18 February 2025).
[272] C.J. Milhaupt & D.W. Puchniak. *TikTok's Identity Crisis: Corporate Personality in a De-Globalizing World*. (Harvard Law School Forum on Corporate Governance, 3 January 2025).
[273] S.K. Tang. *TikTok can be used on Singapore government-issued devices only on a 'need-to' basis.* (CAN, 17 March 2023).
[274] The freedom of movement of capital is secured by the Treaty on the Functioning of the European Union (TFEU), Article 63, and the potential restrictions outlined in Articles 64–67.

each member state bear responsibility, even if only in the moral sense of the word, for protecting not only their own nation's security interests, but also those of all other member states and of the EU as a whole.

Several measures are taken to protect these pan-European security interests. Most importantly, in order to harmonise national regulations and enhance information exchange between the member states to protect their security interests, the EU has adopted a uniform framework for inward FDI screening. The framework requires the member states to establish national screening mechanisms, although it leaves some degree of freedom in how each state designs its regime, with some inconsistencies remaining in the overall EU system.[275] Additionally, some member states, such as France, Germany, Italy, Spain, and Sweden, screen all investments in selected sectors (including domestic and intra-EU) that would lead to a non-EU foreign actor gaining control over an entity that is considered sensitive, that is, investments where the foreign actor is located further down the ownership chain. A prerequisite, however, is that the foreign actor is willing to disclose its ownership, or that it can be detected by the screening authorities. Neither of these two, however, can be safely assumed in the case of actors wishing to mask their involvement.

An important investment motive for CMNEs investing in the EU is to gain access to technology and know-how that can be used to develop their businesses both at home and globally.[276] Another is to gain access to existing and well-established business networks.[277] The Chinese acquisitions in Sweden's automotive industry provide a practical example of investments that seemingly served both purposes. As major Swedish automotive manufacturers were struggling financially in the wake of the financial crisis of 2008, Chinese investors aimed at acquiring those companies to access their well-developed technologies and strong brands.[278]

This includes Zheijang Geely's acquisition of Volvo Cars and the subsequent establishment of China Europe Vehicle Technology (CEVT, later renamed Zeekr Technology Europe), as well as NEVS's acquisition of the assets of the Saab Automobile bankruptcy estate. Particularly in the case of Zeekr, the acquisition served not only as a basis for development but also as a starting point for further expansion in Europe. Since the acquisition of Volvo Cars, its new Chinese parent, Geely, has also made investments in automakers in the United Kingdom (Lotus Cars, 2017) and Germany (Smart Automobile, 2019), as well as grown organically with the brands it already owned, including Volvo, Polestar, and Zeekr.[279]

While the example of Chinese investments in the Swedish automotive industry predates the recent rise of FDI screening mechanisms in Europe, it nonetheless serves to show that one nation's screening authority may need to take into consideration how the reviewed investment could affect the security interests of other EU member states or those of the EU as a whole. By acquiring companies in Sweden, the investors also gained a basis for future expansion within the EU, both through organic growth of the acquired Swedish companies and through further acquisitions.

Several EU member states have been described as tax havens, jurisdictions allowing companies to avoid taxation when transferring profits overseas. In fact, Europe is the world's major hub for this activity, with four out of the world's five largest OFCs being located in Europe.[280] The most commonly mentioned examples of European tax havens are Ireland, Luxembourg, and the Netherlands, which all apply relatively low corporate tax rates compared to those in other EU member states. Additionally, other jurisdictions may also be

[275] OECD. *Framework for Screening Foreign Direct Investment into the EU. Assessing Effectiveness and Efficiency*. (OECD, 2022).
[276] Giuliani et al. Emerging versus Advanced.
[277] Hennart. Down with MNE-Centric Theories!
[278] M. Budryk. *Fat Cats? A Case for the Swedish Managers' Making Sense of the Developing Markets*. (Department of Business Studies, Uppsala University, 2020).
[279] Budryk. Fat Cats?
[280] These are the Netherlands, the United Kingdom, Switzerland, and Ireland, with Singapore being the non-European outlier on the list. Garcia-Bernardo et al. Uncovering Offshore Financial Centers.

of interest because of other policies, despite their relatively high corporate tax rates where Germany is one example because of its high score on financial secrecy.[281]

Interestingly, a specialisation of sorts has formed among the EU tax havens. García-Bernardo and colleagues note that Ireland has become an increasingly preferred location for foreign MNEs' head offices, while the Netherlands and Luxembourg are more commonly chosen as locations for holding companies.[282] One example of an attempt to measure the restrictiveness of European countries' FDI screening mechanisms has been provided by Faubert, who found significant variation in screening intensity (how thorough and stringent the process was) and extent (how many sectors it applied to), both among EU countries and over time. She notes, however, that formal criteria are only one aspect of such a measure, and a certain degree of latent restrictiveness needs to be taken into account, depending on such factors such as the screening authority's discretion and access to information not provided by the applicant.[283]

Consequently, as alluded to above, Chinese actors may be willing to make an initial investment into the EU to create a legitimate base for further expansion within the Union by targeting an EU member state with a relatively lenient FDI screening regime overall, or one that is politically more closely aligned with China and therefore more lenient towards specifically Chinese investments. However, this behaviour in and of itself is not necessarily a sign of an antagonistic intent, as companies may wish to present their provenance as other than Chinese for legitimate business reasons (such as exploitation of well-established local brands, as is the case with Geely's subsidiaries Volvo and Polestar, or in the Italian luxury goods industry), or for reasons of perhaps debatable legitimacy, but nonetheless legal and justifiable on business grounds.[284] Examples of the latter include tax optimisation and avoidance. In the Appendix, there is an overview of EU member states that have been described and utilised as tax havens.

A special case of this circumvention mechanism is the so-called "golden passports" or "golden visas," the legal mechanisms that allow individuals to obtain citizenship or a permanent residence permit in an EU member state once they invest a pre-defined amount of capital in the local economy. One example is Malta, which grants citizenship to individuals investing EUR 750,000, or in exchange for buying or renting property of a certain value.[285] Another example is the Cypriot "golden visa," where permanent residency permits are offered to individuals who have invested at least EUR 300,000.[286]

These schemes have attracted criticism from other EU member states and the EU institutions, as they include the right to live and work in any of the EU member states and pose potential risks in terms of security, tax evasion, and money laundering. By granting these rights, the schemes provide investors with an entry into the EU, or even the possibility of becoming European rather than foreign investors, with all the liberties this entails in the European single market.[287] While such risks may indeed materialise, it is important to note that these schemes primarily affect individuals rather than organisations. Thus, their usefulness to institutional investors is highly limited. Additionally, a recent ruling by the EU's Court of Justice implies that such schemes will be restricted or terminated altogether in the near future.[288]

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[281] P. Janský, M. Meinzer & M. Palanský. Is Panama really your tax haven? Secrecy jurisdictions and the countries they harm. *Regulation & Governance* 16:3 (2022): pp. 673–704.
[282] García-Bernardo et al. Uncovering Offshore Financial Centres. The United Kingdom and Switzerland are other European states popular for hosting head offices and holding companies, respectively.
[283] V. Faubert. Comparing Investment Screening Mechanisms: One Index to Rule Them All. *Law & Geoeconomics* 1:2 (2025): pp. 253–296.
[284] M. Budryk. *Fat Cats?*; S. Segre-Reinach. From Joint Ventures to Collaborative Projects: Toward an Ethnography of Sino-Italian Fashion Relations in the 2020s. Fashion Theory 25:7 (2021): pp. 931–944.
[285] R. Islam. Commodifying Citizenship: The ECJ Rules Against Malta's "Golden Passport" Program. *American Society of International Law Insights* 29:8 (2025).
[286] M. Pitrová & C. Bindacová. The Golden Visa: How can one access the EU and for what price? *Journal of Comparative Politics* 17:2 (2024): pp. 66–87.
[287] Pitrová & Bindacová. The Golden Visa.
[288] Islam. Commodifying Citizenship.

In summary, the EU's adoption of FDI screening regimes ought to make it more difficult for CMNEs to unduly gain access to the member states' sensitive sectors. However, to the fact that the EU's FDI screening regime is a relatively new phenomena and is implemented non-uniformly by the member states, along with other factors, suggests that there are still possibilities for CMNEs to circumvent it if so inclined. These possibilities are discussed further in Chapters 5 and 6.

4.2.4 Manipulating the sectoral corporate path

In addition to manipulating the geographical path of an investment to bypass scrutiny, Chinese scholarship identifies two general methods involving manipulation of an investment's corporate path: roundabout (or indirect) investment (迂回投资) and cross-sector investment (跨界投资).[289]

These methods contain elements of minority share acquisitions and a gradual increase in ownership, as described in Chapter 4.2.1, but with the specific aim of making an investment into a strictly regulated or politically sensitive industrial sector less conspicuous by first transferring the investment through a sector under less regulatory scrutiny. The localisation of corporate structures as well as staff is intended to help minimise the liability of foreignness. A sector deemed sensitive in the home country is not necessarily sensitive in the host country; however, in practice these tend to overlap. FDI in sensitive sectors may be subject to higher entry barriers or stricter investment screening regulations in host countries. An important special case for these strategies is the special case of the EU, in which the free flow of capital and goods within the Union means in practice that, to a large extent, the EU can be treated as a single market for investments between member states. In other words, when the description below refers to investments within a target host country, the reference could also extend to investments between EU member states.[290] It is also important to note that national FDI screening regulations among the member states do not treat all entry modes equally. For example, many countries opt not to screen greenfield investments.

Roundabout investment refers to a method used by an enterprise that operates in a sensitive sector to invest in that same sector in a target host country by having the investment transit through a low-barrier sector. In the first step of this method, the company invests in an existing company (or possibly makes a greenfield investment) in a low-barrier sector unrelated to the company's core business area in the target host country. The specifics of this investment are not important, as long as it is profitable. The company invested in then establishes an affiliate or JV, or joins a business consortium in the host country holding less than 50 per cent of the ownership shares or assets.[291] The remaining equity (>50 per cent) is raised by local investors or partners, which gives the affiliate the appearance of being a local company. In some jurisdictions, it may also be possible for multiple Chinese investors, none of whom own 10 percent or more, to acquire the remaining equity.[292]

Holding what is formally a minority stake may suffice for actual control of the company if the remaining ownership is fragmented. In the final step, the affiliate reinvests the capital gains from the initial investment in the high-barrier ultimate target sector. Since the investment capital seemingly originates from local companies, this method creates a money trail confined to the host country (i.e., makes the investment "non-foreign") which in some countries may allow the investment to go through without triggering a screening process. How-

[289] J.M. Lu, P. Yao & M. Lu. 投资壁垒与海外投资企业数量的增长边际 [Investment Barriers and the Growth Margins of OFDI Enterprises]. *国际贸易问题* [Journal of International Trade] 1 (2020); D.X. Yang & J.P. Yu. 东道国外商投资壁垒与中国企业大型对外投资 – 基于投资边际、模式与成败三重视角 [Foreign Investment Barriers in Host Countries and Large-scale Outward Foreign Direct Investment of China's Enterprises: Based on a Triple Perspective of Investment Margin, Mode and Success or Failure]. *国际经贸探索* [International Economics and Trade Research] 38:5 (2022).

[290] See the Appendix for an analysis of the EU as a transit hub for Chinese FDI.

[291] Wang. Analysis and suggestions on the trend of strict foreign capital security review.

[292] H. Berger & C. Arhold. "FDI Control and Parallel Sector-Specific Screening Procedures: Are There Ways to Increase Efficiency?" In J. Hillebrand Pohl et al. (eds.), *The Law and Geoeconomics of Investment Screening*. (Springer Studies in *Law & Geoeconomics*, 2025): p. 75.

ever, given that this method relies on reinvestment, the time taken to amass capital in the host country limits the possibility for the parent company to act on sudden investment opportunities.[293] Also, the actual degree of control that can be exercised by the Chinese minority owner depends on agreements between the Chinese investor and the local investment partner.

In the cross-sector investment method, a Chinese company enters a foreign market in a low-barrier sector, with the ultimate aim of investing in a high-barrier sector in the same host country (note again the possibility of moving between EU member states as if they were one host country). However, in this method, the company originally operates in a non-sensitive sector and enters the target market by investing in a sector in which it already has expertise, which gives the investment the appearance of a legitimate business rationale. This can be done in many ways, either by establishing a local affiliate or JV or by repurposing a pre-existing subsidiary, branch, or investment vehicle that is managed by the corporate headquarters. This entity then makes the investment in the targeted high-barrier sector. As in the roundabout investment strategy, the localisation of the company that makes the immediate investment, in combination with its non-sensitive business profile, is apparently the "trick" used to gain access to strictly regulated sectors.[294]

Since the cross-sector investment method does not limit the size of the investment or constrain how quickly the money can be transferred, MNEs that opt for this alternative supposedly gain a first-mover advantage, as their presence in the host market presents them with an informational advantage (compared to a company in the "right" sector but the "wrong" country) in identifying investment opportunities in the target sector.[295] While the literature suggests that the cross-sector investment method is superior to the roundabout investment method due to its greater flexibility and less cumbersome process, it does not elaborate on why some companies still choose the roundabout investment method. Reading between the lines, however, it appears that companies operating in sensitive sectors face greater scrutiny and thus must dedicate more effort to rebrand themselves.

The move into a low-barrier sector may be further legitimised if other conditions are fulfilled. For instance, an investment in an established industrial cluster could easily be justified in terms of business logic. Examples of industrial clusters that could attract this kind of investment are the ICT cluster in Dublin, the luxury goods and textiles cluster in Tuscany, and banking clusters in London or Luxembourg.[296] Historically, the automotive industry in western Sweden could also serve as an example.

Recent Chinese analysis finds that more CMNE subsidiaries in high-barrier sectors have parent companies in non-sensitive sectors (characteristic of cross-sector investment) than in sensitive sectors. The Chinese study's authors interpret this as support for the notion that cross-sector investments are used to circumvent investment barriers. Moreover, Chinese subsidiaries in high-barrier sectors tend to originate from a smaller number of large corporate groups. This indicates that the cross-sector investment strategy is mostly accessible to larger enterprises, seemingly due to the larger funds at their disposal.[297]

4.3 Conceal mechanisms

This report identifies three specific mechanisms for the *Conceal* strategy: opaque ownership structures, contractual arrangements and non-equity control, and informal corporate-party-state ties.

[293] Lu, Yao & Lu. Investment Barriers and the Growth Margins; Yang & Yu. Foreign Investment Barriers.
[294] Lu, Yao & Lu. Investment Barriers and the Growth Margins.
[295] ibid
[296] P. Balmas & S. Dörry. Chinese bank networks in Europe: FDI-oriented by legal and strategic design. *Eurasian Geography and Economics* 66:1 (2025): pp. 1–27.
[297] Lu, Yao & Lu. Investment Barriers and the Growth Margins.

4.3.1 Opaque ownership structures

In some cases, a company may want to conceal its Chinese identity altogether. To this end, firms may employ various specialised ownership structures. It was previously mentioned that law firms play an important role in assisting CMNEs in their overseas business (see Chapter 3.2.5). Assisting companies with their international expansion is part of the *raison d'être* of law firms across the world, and is nothing unique to China. However, in the context of this study, it is noteworthy that law firms sometimes offer advice on how to avoid foreign scrutiny through using different corporate structuring schemes that fall into an ethical grey zone. One example of such a firm is Zhong Lun, a major law firm headquartered in Beijing but with multiple international offices.[298] On its website, Zhong Lun provides advice on how CMNEs may employ a variety of different offshore structures as part of their internationalisation strategies. This, Zhong Lun suggests, is important both for business purposes (such as operational efficiency, supply chain and asset security), and for ensuring compliance with foreign regulatory requirements. The advice covers corporate structuring schemes, legal compliance within China's domestic regulatory environment, and choice of jurisdiction for overseas establishment.[299]

Of special interest here is Zhong Lun's description of the different "flexible and adaptable" corporate structures that CMNEs may employ to maintain control over international subsidiaries without direct ownership, simultaneously addressing needs such as structural confidentiality, tax optimisation and avoidance of political risks. In particular, Zhong Lun recommends that Chinese firms invest in offshore jurisdictions with limited public disclosure of company information and carefully consider their ownership structures.[300]

It can be surmised that the use of special-purpose entities (SPEs) is part of Zhong Lun's equation, but they are nevertheless a relevant phenomenon for this study. SPEs are corporate entities created to fulfil particular financial or investment purposes and are typically characterised by "no or little employment, up to a maximum of five employees, no or little physical presence, and no or little physical presence in the host economy" and "directly or indirectly controlled by non-residents."[301] For example, this includes shell companies and investment holding companies.

A typical manoeuvre used by investors who value their anonymity is to create corporate structures with multiple layers that mix different types of business entities across various jurisdictions. This includes different types of private corporations, as well as debt holdings and layered venture funding.[302] The use of SPEs is heavily tied to OFCs, where they are commonly incorporated.[303] Depending on the OFC in question, SPEs may provide transactional and ownership confidentiality.[304] As noted in Chapter 4.2.3, the British Virgin Islands is especially known for providing ownership confidentiality, whereas Germany and Switzerland are examples of jurisdictions with a high degree of financial secrecy.

For CMNEs, SPEs in OFCs may thus serve the purpose of partially disguising or obstructing identification of the investment capital's Chinese origin.[305] In OFDI data, however, SPEs do not have their own sector classification. Corporate entities in OFCs commonly fall under administrative and support activities, holding companies, head offices, or trade offices.[306] Many such corporate entities can be referred to as SPEs. However, not all subsidiaries in

[298] Li. All roads lead to Rome, p. 165.
[299] Tao, Lin& Wang. Key considerations.
[300] ibid
[301] OECD. *OECD Benchmark Definition of Foreign Direct Investment (Fifth Edition).* (OECD, 2025), p. 295. Other examples of SPEs are "financing subsidiaries, conduits. . . shelf companies, brass-plate companies, merchanting companies, royalties and license fee companies, and operation leasing companies."
[302] Clemens. How Some Chinese Companies, p. 18.
[303] J. Anderson, Sutherland & Hurst. Measuring CMNE activity, pp. 1–2; Garcia-Bernardo et al. Uncovering Offshore Financial Centers, p. 1.
[304] OECD. *OECD Benchmark Definition*, p. 295.
[305] Anderson, Sutherland & Hurst. Measuring CMNE activity, p. 3.
[306] Garcia-Bernardo et al. Uncovering Offshore Financial Centers, pp. 1, 4, 6, 8. The sector specialisations mentioned here relate to the EU's statistical classification of economic activities, NACE: 829 (administrative and support activities), 642 (holding companies), 701 (head offices), and 46 (wholesale trade).

OFCs should be considered SPEs, as there are naturally also many examples of corporate entities that engage in value-adding activities, including, for instance, trading.[307]

Zhong Lun specifically mentions four ownership schemes that, in combination with selected intermediary jurisdictions with confidentiality perks, may yield good results: offshore holding platforms, trust structures, nominee shareholders, and variable interest entities (VIEs). Zhong Lun recommends that firms employ these schemes in combination, with help from professionals (such as Zhong Lun itself).[308] While none of these schemes is intrinsically illegal; their legality depends on the jurisdiction. They nevertheless provide varying degrees of ownership opacity. This section primarily explores offshore holding platforms and, more briefly, trust structures, whereas nominee shareholders and variable interest entities are described further in Chapter 4.3.2.

Offshore holding platforms and other special-purpose entities

The first scheme described by Zhong Lun is the "classic" offshore holding platform, preferably established in jurisdictions where shareholder information is subject to higher levels of confidentiality.[309] In the Chinese context, CMNEs commonly set up "sandwich" corporate structures consisting of several layers of holding companies and other SPEs across the British Virgin Islands, the Cayman Islands, and Hong Kong.[310]

Typically, a Chinese company incorporated in Hong Kong or the PRC sets up a holding company, most commonly in the Cayman Islands. Subsequently, the holding company will set up an intermediate holding company or subsidiary in the British Virgin Islands (or occasionally in Hong Kong). This middle layer serves to isolate the top holding company from risks at underlying levels, to facilitate equity and capital transfers within the corporate structure, and to optimise tax efficiency, but, most importantly of all, to preserve confidentiality. The British Virgin Islands and the Cayman Islands do not legally require disclosure of company ownership. The British Virgin Islands additionally do not require companies to file audit reports. Aside from basic company information such as name and date of incorporation, information submitted to the Cayman Islands or British Virgin Islands governments is non-public and usually cannot be accessed by shareholders, potential investors, or other external parties. [311] Such a high degree of non-transparency is unusual in an international context. Notably, the addition of a British Virgin Islands layer in the corporate sandwich helps conceal the parent company and subordinate entities from external observers.[312]

In some instances, the parent company may establish two or more intermediary holding companies, adding multiple layers in the British Virgin Islands, the Cayman Islands, and Hong Kong to the corporate sandwich. For example, a company may establish an additional intermediary in Hong Kong to take advantage of preferential tax rates under the PRC–HK tax treaty.[313] This sounds very complex and indeed is intended to throw observers off, but the sandwiching of subsidiaries in the British Virgin Islands, the Cayman Islands, and Hong Kong results in corporate structures that appear more complex than they really are.[314]

Chinese firms may have wholly owned offshore holding platforms to exercise full control. However, when possible, many would opt to hold a minority stake below the legal thresholds at which a shareholder is identified as controlling, while a trusted foreign entity acts as the formal controlling shareholder (see also Chapter 4.2.1). This enables the Chinese firm

[307] Sutherland, Hennart & Anderson. How does the routing of FDI, p. 352.
[308] Tao, Lin & Wang. Key considerations.
[309] ibid
[310] Sina Finance. Overseas equity structures decoded.
[311] E. Tamrat. *Behind the Veil*; S. Yeung. Exploring the benefits of BVI/Cayman offshore companies in Hong Kong. Bolder Group. (25 March 2025).
[312] Sina Finance. Overseas equity structures decoded.
[313] Yifu Consulting. VIE 架构是什么？2025 新规下，阿里、霸王茶姬都在用的上市密码全解析 [What is the VIE structure? A complete analysis of the listing strategy used by Alibaba and CHAGEE per 2025 regulations]. Baidu Baijiahao. 29 October 2025.
[314] B. Maurer & S.J. Martin. Accidents of equity and the aesthetics of Chinese offshore incorporation. American Ethnologist 39:3 (2012): p. 528.

to retain a degree of influence over the offshore holding platform without being the direct or indirect controlling shareholder. Still, the offshore holding platform scheme involves a shareholding relationship, which may be an issue in the context of sensitive industries where the shareholder's nationality and identity are subject to scrutiny. Figure 5 below illustrates the offshore holding platform scheme.[315]

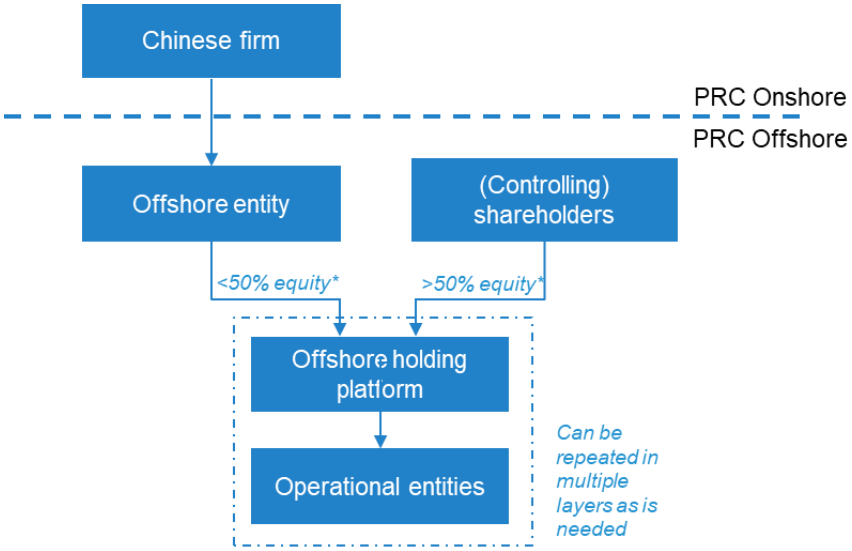


Figure 5. Equity participation in offshore holding platforms. **Note:** '*' represents a typical case.

This method relies on intermediary jurisdictions for onward-journey FDI by CMNEs. Considering that systematic study of illicit business activity is both methodologically and politically difficult, not least for Chinese academics, empirical data on the intentional use of offshore holding companies, platforms, or other SPEs for concealment purposes is limited. With that caveat in mind, the discussion here draws on a combination of observed patterns and anecdotal evidence.

For one, the business service providers in the British Virgin Islands are known to offer "aged shelf companies"; these are firms that were originally incorporated for some other purpose but have since become empty shells, and therefore can be acquired and repurposed for new uses.[316] For example, investors may acquire a shelf company to save time on company incorporation processes or to immediately access certain opportunities that are available only to companies that have been in business for some time. Another example is the common practice of establishing a listing or investment vehicle in the Caribbean, typically the Cayman Islands, to go public on a US stock exchange using so-called "red-chip structures."[317] This adds complexity to the corporate structure and the geographical path of an investment. Such complexity need not indicate intent to manipulate FDI screening mechanisms, but it is certainly a key ingredient in a concealment strategy. In a 2024 case from the US, a British Virgin Islands-registered corporate group majority-owned by Chinese nationals was discovered to have established crypto-mining operations adjacent to a military base in the US, without informing the government of its Chinese ownership. The Biden administration later forced it to divest.[318]

An tech investor among our respondents pointed out that some CMNEs invest in the EU via intermediary jurisdictions and through local partners as fronts, but also that they are unlikely to transfer capital twice from the same bank account or even the same geographical location.

[315] Tao, Lin & Wang. Key considerations.
[316] Maurer & Martin. Accidents of equity and the aesthetics of Chinese offshore incorporation, pp. 539–540.
[317] Z.J. Wu, C. Leng & W.J. Ding. Chinese companies rush to dismantle "red-chip" structures. *Financial Times*. (10 June 2026).
[318] D. Sevastopulo. Joe Biden orders Chinese crypto miner to sell land near US military base. *Financial Times*. (13 May 2024).

The money arrives "one month from the Caymans, another from Switzerland." The OFC subsidiaries also frequently disappear and are re-established in other places under other names.[319]

As stated above, it is not clear how common it is for CMNEs to use offshore holding platforms or other special-purpose vehicles for concealment purposes. OFDI data by sector can provide some hints, albeit inconclusive. For example, Rhodium Group data suggests that the majority (over 75 per cent) of Chinese corporate entities in Singapore are engaged in administrative and operational support services.[320] Similar patterns can be found in other OFCs (see the Appendix). These industry categories, along with business services and trade, are likely to include SPEs of various kinds. However, aggregate statistics do not allow for detailed analysis of issues such as the prevalence of shell companies and holding companies aimed purely at channelling funds to third countries. Any assessment is therefore necessarily conjectural without further investigation, which is beyond the scope of the present study.

There are also interesting empirical examples that illustrate the illicit use of offshore holding platforms. In a case from the early 2010s, Reuters reported that Huawei had been conducting its business in Iran using shell companies. The case eventually ended up in US courts due to allegations of bank fraud and violation of US export controls. One of the corporate entities in Iran, Skycom, had been described by Huawei as a local business partner rather than a subsidiary, although it was in fact incorporated in Hong Kong and owned by a Huawei-controlled entity.[321] According to US prosecutors, employees of the Iranian Skycom branch had for all intents and purposes acted as part of Huawei, using Huawei IDs, mail addresses, business logos, and so on in their daily work.[322]

The 2015 Chinese acquisition of a Swedish semiconductor company, Silex, is another relevant example. The acquisition took place before Sweden implemented an investment screening mechanism, and went under the radar until it was uncovered by journalists in 2018.[323] However, this was not a case of minority equity participation. Rather, the Hong Kong-based SPE that acquired Silex was majority Chinese-owned through a layered corporate structure, of a. In 2015, a local investment fund in Beijing, in turn funded by China's National Integrated Circuit Industry Investment Fund, created a subsidiary, Ruitong Xinyuan (later renamed Silex Beijing), on 28 April.[324] A couple of weeks later, Ruitong Xinyuan acquired a Hong Kong company, GAE, which became its subsidiary. GAE was in fact acquired the same day it was registered, on 13 May. At the time, it "had no substantive business operations nor identifiable assets."[325] Two months later, on 13 July, GAE acquired 98 per cent of the shares in Silex.[326]

Furthermore, in 2016, Chinese company NavTech, with business operations in military technology, took over Ruitong Xinyuan in Beijing, thereby also becoming the indirect owner of Silex in Sweden.[327] The NavTech takeover was supported by the aforementioned National Integrated Circuit Industry Investment Fund, which, alongside the acquisition of Silex, had funded a broader overseas acquisition spree during the same period.[328] The use of a corporate entity based in Hong Kong with no real business operations strengthens the suspicion that GAE was employed as an SPE for the sole purpose of acquiring the Swedish

[319] Interview 1.
[320] China Cross-Border Monitor. Geographies > Singapore. (Rhodium Group, 2024).
[321] US Department of Justice. Huawei CFO Wanzhou Meng Admits to Misleading Global Financial Institution. (24 September 2021).
[322] E. Dou. *House of Huawei: Inside the secret world of China's most powerful company*. (Little, Brown Book Group, 2025), pp. 298–299.
[323] B. Forsberg. Staten sålde spjutspetsbolag till Kina – under radarn. *Svenska Dagbladet*. (18 December 2018).
[324] Weibo. "军工+芯片"的概念宠儿:风口一来九万里,风息运去当努力 | 独立研报 ["The 'Military Industry + Chip' Concept Darling: A Rapid Rise, But When the Wind Fades, All That's Left is Hard Work | Independent Research Report"]. (18 May 2020); Qichacha. Beijing Selex International Technology Co., Ltd.
[325] Beijing NavTech. 北京瑞通芯源半导体科技有限公司: 备考模拟财务报表及审计报告 2015 年度、2014 年度及 2013 年度 [Beijing Ruitong Xinyuan Semiconductor Technology Co., Ltd. Pro Forma Financial Statements and Audit Report Fiscal Years 2015, 2014, and 2013]. (10 May 2016), p. 45.
[326] Weibo. The "Military Industry"; Crunchbase. Silex Microsystems acquired by GAE.
[327] Forsberg. Staten sålde spjutspetsbolag; Weibo. The "Military Industry."
[328] ibid

company. Although it could be argued that the Hong Kong subsidiary served, for example, to raise capital more efficiently, the rushed timeline for the corporate structuring scheme and the involvement of a state-controlled investment fund aimed at promoting the party-state's industrial policy goals suggest otherwise.

Silex has since been acquired by Swedish majority owners in 2025 and publicly listed on the Stockholm stock exchange in 2026. NavTech (under its new name, SMEI) remains a minority owner, with a little less than 10 per cent of shares after the listing. In its IPO prospectus, Silex recognises the risks associated with its exposure to the Chinese ownership, including in the context of potential scrutiny by CFIUS as the company seeks to expand production in the US.[329]

There are noteworthy examples from the 2020s as well. In Taiwan, there have been more than 100 cases in which Taiwanese authorities have accused Chinese firms of setting up shell companies, often funded in turn by shell companies in intermediary jurisdictions such as Hong Kong. These companies have then allegedly engaged in illegal talent recruitment and unlicensed business operations within Taiwan's semiconductor industry, which is subject to strict limitations for Chinese investors.[330]

In one particular case investigated by Taiwanese authorities in 2021, Chinese company Bitmain and affiliated entities were accused of conducting unauthorised activities in Taiwan for several years, including talent recruitment, R&D, and various business activities with major Taiwanese semiconductor companies (e.g., TSMC and ASE). This was done via multiple corporate entities in Taiwan. According to Taiwanese investigators, Bitmain exercised control over two Taiwanese entities, one of which received financing routed via a company incorporated in the Seychelles, while the other was financed by the chairman, a local Taiwanese engineer. For both entities, Taiwanese engineers and management personnel allegedly assisted Bitmain by acting on instructions issued remotely to facilitate its indirect collaboration with the Taiwanese semiconductor industry. Moreover, prosecutors alleged that one of the Taiwanese managers engaged in technology transfer to Bitmain's affiliate in China via his company in Hong Kong. The investigation concluded with the dissolution of one of the Taiwanese corporate entities that provided Bitmain with access to Taiwanese chip technology.[331]

Leaving aside the veracity of the unproven allegations, the Bitmain case illustrates how control and reverse knowledge transfer can potentially be achieved without the physical presence of a Chinese corporate entity in the country in question, through so-called remote poaching of local personnel, with offshore holding companies to facilitate financing.

Trust structures

In addition to offshore holding platforms, Chinese law firm Zhong Lun presents offshore trust structures as another option. The equity of the target overseas operating entity is either directly or indirectly transferred into the trust through an intermediate offshore holding platform. A Chinese-controlled offshore entity is designated as the trust beneficiary. Through its control over the beneficiary and the trust arrangement, the Chinese company enjoys economic interests in the overseas operating entity without holding the equity directly. Figure 6 below illustrates the trust structure. However, it should be noted that Zhong Lun recognises that trust structures tend to be constrained by compliance requirements.[332] This study has not identified concrete examples of CMNEs employing the trust structure scheme in practice.

[329] Silex. Invitation to acquire ordinary shares in Silex Microsystems AB (publ). (27 April 2026).
[330] W.-Y. Lee. Taiwan probes 11 Chinese firms for illegal poaching of tech talent. *Reuters*. (30 March 2026); W.-Y. Lee. Taiwan investigates 16 Chinese firms for poaching high-tech talent. *Reuters*. (7 August 2025).
[331] Bitmain's de jure headquarters was in the Cayman Islands, in turn owned by entities in the British Virgin Islands. However, its core operations took place in China, and Bitmain was thus treated as Chinese by Taiwanese authorities. See M.-Y. Chiang. *The Remote Poaching Model: How China's Bitmain Acquired Taiwan's Edge AI Chip Technology and Its Implications for Economic Security*. (DSET, August 2024), pp. 6, 21, 23–24.
[332] Adapted from Tao, Lin & Wang. Key considerations.

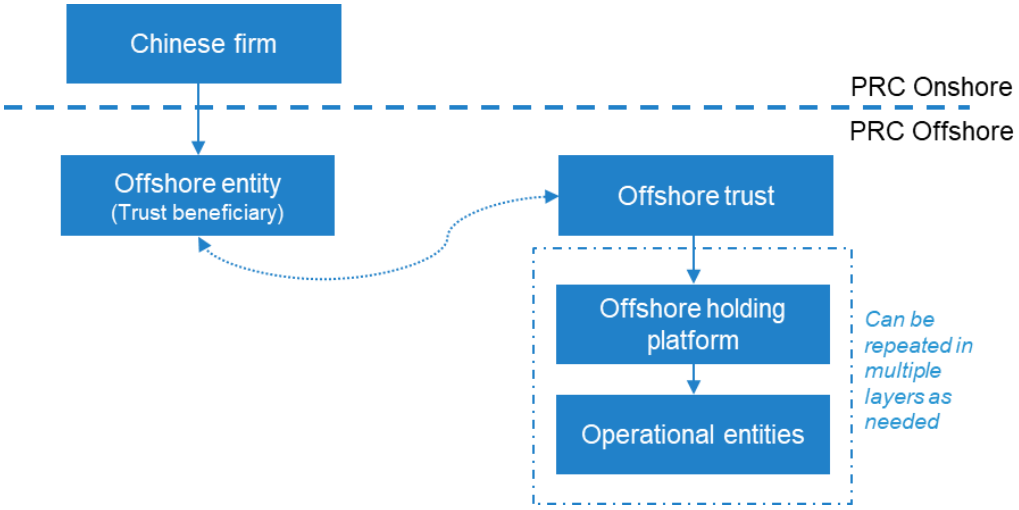


Figure 6. Trust structure.

4.3.2 Contractual arrangements and non-equity control

One scholar suggests that contractual arrangements may prove more useful than complex or non-transparent ownership structures for a CMNE seeking to obfuscate its identity or intentions. Corporate structures are legally registered and may at any time be discovered by an "intrepid journalist pulling the thread." The question then becomes why the company went through all the hassle. In a time of geopolitical tensions and heightened suspicion of Chinese companies, the answer will be obvious to most people. On the other hand, a contractual arrangement may be defensible, on the face of it, as a legal arrangement and as a way to shed the liability of foreignness.[333]

CMNEs may obtain effective influence through combinations of minority voting rights, shareholder agreements, co-investment arrangements and governance or information rights. Relevant mechanisms include also board nomination or observer rights, vetoes, access to sensitive information, management agreements, financing covenants, control over intellectual property or software updates, and long-term supply or offtake contracts. Whether these arrangements are reviewable depends on the particular national regime and cannot be inferred from the absence of majority ownership alone.[334] The aggregate influence of indirect ownership can be very difficult to track.

Nominee shareholders

Another way to conceal the identity of beneficiaries, presented by law firm Zhong Lun, is through nominee shareholder structures. The arrangement typically involves identifying suitable individuals to hold *de jure* ownership of overseas entities, while separate side agreements specify the rights and obligations of both the nominee and the ultimate beneficial owner, ensuring that the latter retains *de facto* control. Figure 7 below illustrates the nominee shareholding scheme.[335]

[333] Interview 4.
[334] Interview 6.
[335] Tao, Lin & Wang. Key considerations.

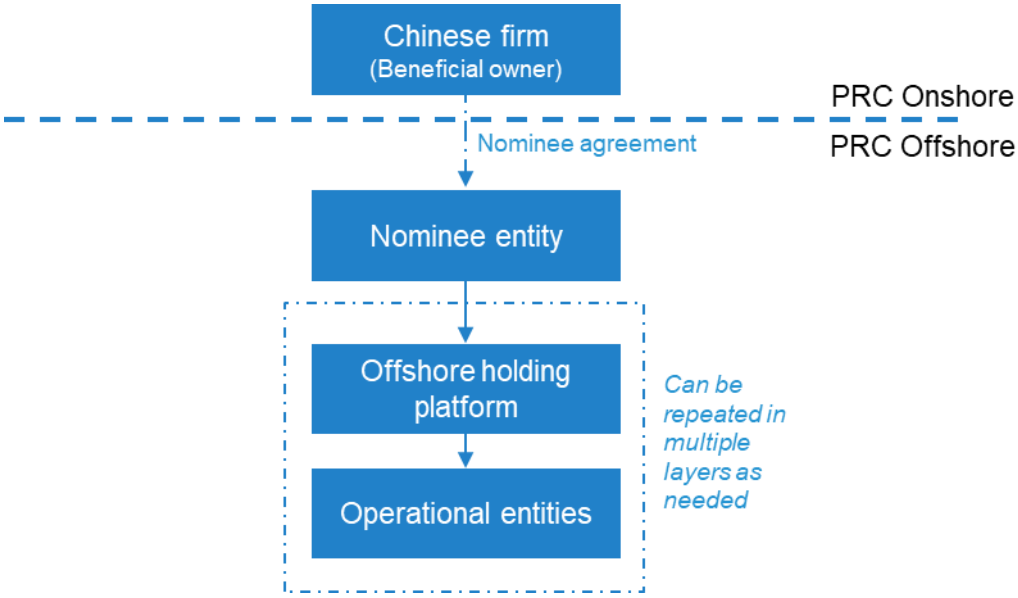


Figure 7. Nominee shareholding scheme.

A European tech investor interviewed by the authors suggested that there are examples of CMNEs that enter into agreements with European companies to act as fronts for their investments in exchange for monetary benefits. This includes involvement by Chinese intermediaries, for example, from Sino-foreign "friendship organisations" or business promotion associations, that promote and facilitate transactions. The tech investor claimed to have been approached by such an intermediary at a European business convention, followed by an invitation to visit China and to set up a fund to invest in European technology.[336]

Even though, for obvious reasons, publicly available empirical data supporting the notion that this is a regular part of the *Conceal* playbook is scarce, the investor's account brings to mind historical cases of Chinese state actors covertly brokering Sino-foreign business deals in China and United Front activities in the business sphere (see Chapter 3.2.3). A variant of the nominee shareholding scheme is the use of nominee directors. The Bitmain case from Taiwan, mentioned above, allegedly involved both an entity with Taiwanese nominee shareholding and directorship, and an entity with Taiwanese nominee directorship combined with Chinese ownership through an offshore holding company.

However, nominee shareholding tends to be constrained by legal preconditions and compliance requirements.[337] Singapore, for example, has strict legal limits on nominee shareholding schemes. Singaporean law requires companies to have at least one local director (a citizen, permanent resident, or valid work-pass holder). Non-residents may appoint nominee directors to act on their behalf, but they cannot legally direct or control the nominee in ways that undermine the director's obligation to act independently and in the best interests of the company. Information about the non-resident nominators must also be made available.[338] Additionally, a legal expert pointed out that in most cases Chinese firms will struggle to find European locals who are willing to become nominee shareholders, due to stringent legal compliance requirements.[339]

Variable interest entities

One particular type of ownership structure that relies on contractual arrangements is the variable interest entity (VIE) structure, a final option suggested by law firm Zhong Lun. A

[336] Interview 1.
[337] Tao, Lin & Wang. Key considerations.
[338] Accounting and Corporate Regulatory Authority of Singapore. Appointing Directors, Company Secretary and Other Key Personnel. (November 2025).
[339] Interview 7.

VIE is a firm that is controlled by a company through means other than shareholding and voting rights. Most commonly, VIEs and beneficiaries enter into one or more of the following agreements to achieve consolidation without equity control: technical service agreements, equity pledge agreements, voting rights delegation agreements (power of attorney), exclusive purchase agreements (call option agreements), and loan agreements.[340]

These agreements allow the VIE to channel profits, pledge its equity, and delegate decision-making to the controlling company, mirroring the rights that a shareholder has in a traditional direct equity relationship. For example, the VIE and its beneficiary may enter into service agreements that make the beneficiary the exclusive provider of certain services to the VIE. On paper, the beneficiary sells services to the VIE and receives payment for them, whereas in reality no service is provided and the beneficiary simply extracts profits from the VIE.[341]

In the European context, the equivalent term for an entity whose activities are directed by means of contractual arrangements is "structured entity."[342] Under both US and European accounting standards, the primary beneficiary should consolidate the financial results of the VIE/structured entity into its financial statements.[343] Figure 8 below illustrates the VIE scheme.[344]

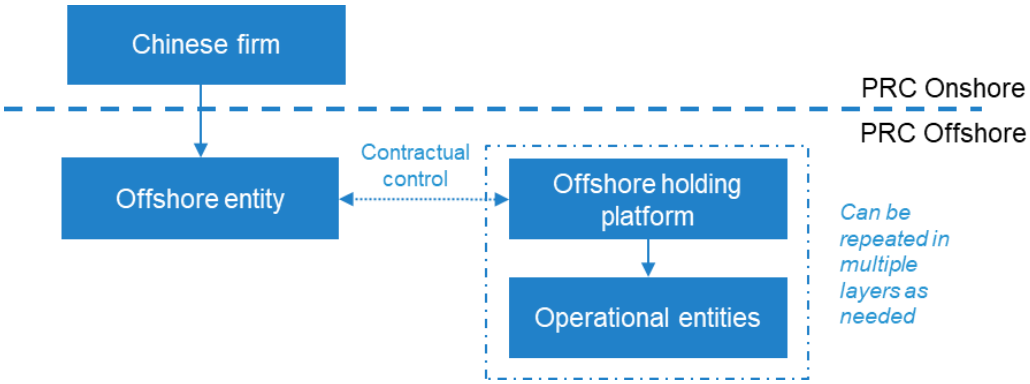


Figure 8. VIE scheme.

The use of VIEs in an FDI context appears to be a uniquely Chinese phenomenon that first surfaced in 1994.[345] The most prominent use case of VIEs is to channel foreign investments into industrial sectors that cannot receive FDI under the Chinese Foreign Investment Law (see Chapter 4.2.3). However, this type of contractual arrangement could possibly be considered as an alternative to equity ownership in cases where ownership is unfeasible, for example, due to FDI screening criteria. Zhong Lun describes VIE structures and nominee shareholding as "more covert" (更为隐蔽) than offshore holding platforms, although the latter still formalises a shareholding relationship.[346] CMNEs are quite familiar with the VIE structure, and a company could feasibly acquire a non-sensitive business in the target country, which would then enter into a VIE relationship with a local target company. The Chinese parent firm's interest would lie not in profit transfers but in transfers of assets such

[340] Yifu consulting. What is the VIE structure?; B. Whitehill. *Buyer Beware: Chinese Companies and the VIE Structure*. (Council of Institutional Investors, December 2017), p. 6.
[341] B. Cui. The Difficulties and Risks for Chinese Companies Using the Vie Structure to List on the U.S. Stock Market. *Highlights in Business, Economics and Management* 24 (2024).
[342] International Financial Reporting Standards (IFRS). IFRS 10 Consolidated Financial Statements, paragraphs 5–7; IFRS 12 Disclosure of Interests in Other Entities, Appendix B, paragraphs B21–24.
[343] Financial Accounting Standards Board. Accounting Standards Codification (ASC) 810-10-25-38; IFRS 12 paragraphs 26–27.
[344] Tao, Lin & Wang. Key considerations.
[345] At the time, the strategy went by the name of "China-China-Foreign"; the term "VIE" appears to have surfaced sometime in the early 2000s. R. Lewis. Investors at the Gate. *International Financial Law Review* 26 (2007): p. 36.
[346] Tao, Lin & Wang. Key considerations.

as intellectual property and technologies. Contractual agreements that could achieve this include asset licensing agreements.[347]

However, this of course assumes that the target company would agree to such a setup, and it is not clear to what extent target companies would be willing to do so. Moreover, the VIE model is not without risks. The actual control that can be exercised through these schemes depends on whether the signatories comply with the contractual agreements, whose enforceability is uncertain, as the owner of the VIE could decide to cancel the contracts and retake ownership. It also depends on the legal preconditions in different jurisdictions.[348]

Another significant drawback of using VIEs is the complexity of complying with tax regulations. To make a VIE structure work, even within China, the business beneficiary must pay extremely close attention to the national tax regime, so as not to get in trouble for tax fraud. While a VIE structure could be a feasible option in certain markets (including China, Indonesia, Thailand, and Malaysia), one legal practitioner strongly recommends against using VIEs in markets such as Europe due to the administrative burden related to tax compliance.[349]

4.3.3 Informal corporate-party-state ties

Finally, a company may attempt to conceal the ultimate beneficiary by removing them from the formal legal structure altogether, instead keeping them in the loop through informal, interpersonal ties or non-ownership relations based on common interests or joint activities.

Diluting "state-ness" with private equity and non-ownership relations

One option is to downplay the company's connections to the Chinese party-state. Since state interference and military-civil cooperation are key concerns underpinning FDI screening of Chinese companies, SOEs may opt to downplay or substantially reduce their connections to state and military actors.[350] This can naturally only be done to a certain extent, given that SOEs by definition are state owned. Yet, preemptive adaptive measures could include decreasing the degree of state ownership by taking in more private equity or establishing a JV with a private sector company.[351] A state-private JV was used by the state-owned Beijing Yizhuang International Investment Development Company in 2010 to alleviate CFIUS' security concerns. By entering into a JV with privately owned Tianbao Group, the target American company was acquired without problems.[352]

Another way for CMNEs with party-state or military ties to pass due diligence demands is to cut formal ownership ties altogether, while informally remaining imbedded in the party or military ecosystems by virtue of personal relationships and *guanxi* networks (see Chapter 3.2.3). This was raised by one practitioner interviewed by the authors as meriting special attention. Here, the issue is what is *not* on paper. For Chinese state or military actors, it is probably more common to have opaque informal relationships with, than opaque ownership of, Chinese companies. For example, United Front representatives within companies tend to not be advertised, although this information can be publicly available (unlike ties to the security apparatus). Still, screening authorities will likely either not know to look out for this information, or have trouble finding it.[353]

When considering Hong Kong as a prominent OFC location for CMNE operations, the issue of CCP party-state influence becomes clear. Hong Kong's proximity to China and increased entanglement with its political system can be a source of concern. In fact, this has a long history. Hong Kong companies have always had access to informal contacts in China, often occupying political positions, offering information on how to navigate a tricky regulatory

[347] Interview 7.
[348] P. Gillis & M. Lowry. Son of Enron: Investors Weigh the Risks of Chinese Variable Interest Entities. *Journal of Applied Corporate Finance* 26:3 (2014): pp. 61–66.
[349] Interview 7.
[350] Ma. The Investment Barriers from the US Foreign Investment Risk Review.
[351] Liu, Feng & Zhao. Challenges and Countermeasures; Lu, Li & Li. National security review.
[352] Lu, Li & Li. National security review.
[353] Interview 10.

situation.[354] As noted by one scholar, the policy environment in China was complex and unpredictable at the start of economic reforms. Hong Kong entrepreneurs, however, persisted, driven by profit motives, to interact with Chinese counterparts, and they "adopted whatever stratagems were required, however informal or illegal, to win the cooperation of mainland officials."[355]

This pattern of interaction with CCP officials is very likely to have continued until today. Over the years, Hong Kong has thrived through its special connection to mainland China, and its capacity to adapt in a pliable manner. Both Hong Kong authorities and the local business community are aware of this fact. Hence, we may suspect that Hong Kong go-between entities will offer their best services in channelling Chinese OFDI abroad, while keeping a legitimate image vis-à-vis Western counterparts. It bears mentioning that the CCP has had an organizational presence in Hong Kong since 1997, with the capacity to exert pressure on local authorities and companies.[356]

Formally, PRC legislation such as the 2023 Company Law or CCP regulations do not have any legal reach in Hong Kong, which has its own legal system. Companies and subsidiaries, including those from mainland China but incorporated in Hong Kong, are governed exclusively by Hong Kong's Companies Ordinance.[357] Informally, however, such firms may seek to comply with mainland Chinese laws and regulations – including requirements of CCP party cells within company governance – just to play it safe. Also, both China's National Intelligence Law (2017) and National Security Law (2020) have extended jurisdictions which are applicable to Chinese companies and citizens residing in Hong Kong. Therefore, we should not underestimate the reach and influence of the CCP party-state. Given the transnational nature of these two laws, it seems likely that these problems of CCP influence over MNEs and their overseas operations is not exclusive to Hong Kong, but is relevant for enterprises in other offshore locations as well.

Entanglement in the military-civil fusion system

Another central issue in the context of opaque informal relationships with military actors is China's military-civil fusion system. Military-civil fusion (or "strategic integration" as it is also known) was adopted as a national strategy in 2015 and refers to the creation of synergies and sharing of information, resources, and capabilities between China's civil and defence economies.[358] Essentially, this means that the Chinese government strongly encourages the exchange of knowledge, experiences, and resources between civilian companies, universities, and research institutes on the one hand, and the nation's defence companies, universities and military research institutes on the other hand. These collaborations can be formalized, for example in terms of institutionalised research partnerships between defence universities and private companies in which they share laboratories, results, and sometimes even staff. [359]

You may also find so-called State Key Laboratories within prominent private CMNEs, such as Huawei, Tencent and Alibaba. While being operated by the companies themselves, such laboratories are ultimately under the control of China's Ministry of Science and Technology. Importantly, they link major companies in the Chinese private sector to a broader state-led defence-research laboratory system and constitute another means to promote civil-military synergies.[360]

Some private companies also hold a defence contractor license that links them to the defence industrial base. For example, the Chinese firm Dingli gradually consolidated control over

[354] E.E. Vogel. *One Step Ahead in China: Guangdong Under Reform*. (Harvard University Press, 1989), pp. 57, 68.
[355] L.F. Goodstadt. Economic Relations between the Mainland and Hong Kong, an "Irreplaceable" Financial Centre. In G.C. Luk (ed.), *From British Colony to a Chinese Colony? Hong Kong before and after the 1997 Handover*. (Institute of East Asian Studies, UC Berkeley, 2017), p. 198.
[356] C. Loh. *Underground Front: The Chinese Communist Party in Hong Kong*. (Hong Kong University Press, 2018).
[357] OSOME HK. Hong Kong Companies Ordinance: A Complete Guide to Compliance for SMEs. (17 May 2026).
[358] Edvardsson Lampinen & Junerfält. *Gammalt sug för ny teknik*.
[359] F. Lampinen. "China's defence-industrial base." In O. Almén & C. Weidacher Hsiung (eds.), *Studying China's Military Power: Analytical framework and methods*. FOI-R--5760--SE (FOI, August 2025): pp. 86–90.
[360] Junerfält. *China's Technology Transfer Ecosystem,* pp. 35–37.

the US firm California Manufacturing & Engineering Company in 2016-2024 (with approval from CFIUS), even while holding licenses to conduct defence research and manufacture military equipment on behalf of the Chinese military and having signed a framework agreement for military-civil fusion strategic cooperation with the PLA.[361]

However, informal and ad hoc forums for knowledge exchange based on interpersonal ties are perhaps even more common. For example, a private company without equity ties to military actors could yet be integrated into the military ecosystem by having members of the board that are (retired or active-duty) military officers, defence company executives, or defence university researchers (not to mention CCP members). Oftentimes, these individuals-based connections between the civil and defence ecosystems may be publicized on the company's Chinese-language website, if one knows where to look, while the information is left out on the English-language website as well as unavailable in aggregated corporate intelligence databases.[362]

Since military-civil fusion manifests in many different ways, it is difficult for screening authorities to identify off-the-record civil-defence ties and even then, challenging to assess what security risks (if any) the ties have for a given investor. A practitioner interviewed by the authors notes that informal personal connections are hard to quantify, and therefore difficult to implement in a screening evaluation. It is far easier for EU governments to quantify and assess ownership stakes than the significance of ties to the Ministry of State Security or defence universities.[363] Another analyst notes that the US government heavily rely on "case by case" assessments of security risks pertaining to Chinese FDI in terms of military ties because there is no framework for consistent risk assessment.[364]

4.4 Cultivate mechanisms

This report identifies two mechanisms for the Cultivate strategy: relationship-building with local actors, and lobbying.

4.4.1 Relationship-building with local actors

The Chinese government recommends companies to "adhere to cultural integration [and] actively adapt to host country culture", and MOFCOM specifically instructs CMNEs that "internationalization must be accompanied by localization."[365] Cultivating a conducive environment is not done overnight. To build rapport with the local community, Chinese scholars recommend companies to early on establish a relationship with the screening authorities, adopt a corporate social responsibility plan, and proactively integrate host country social values, such as fair labour practices and other social and welfare interests, in its investment application.[366]

Another route is to gradually increase the equity involvement in JVs between Chinese and local partners (as discussed in Chapter 4.2.1 above) to generate an economic intertwinement that may make authorities hesitant to reject eventual acquisitions. Along with efforts towards cultivating positive public visibility, JVs may over time create trust and legitimacy for the Chinese firm among its local business partners.[367] These local businesses may, at least in theory, feel inclined to support Chinese investment interests vis-à-vis the screening authorities in the future.

Building confidence with the local general population is equally important. For example, companies may adopt a communication strategy that entails regular press statements and a welcoming attitude towards journalists, as well as highlight the benefits of the investment

[361] Clemens. How Some Chinese Companies, pp. 9–10.
[362] ibid
[363] Interview 10.
[364] Clemens. How Some Chinese Companies, p. 19.
[365] ibid, p. 3.
[366] Lu, Li & Li. National security review.
[367] Interview 6.

to the local economy and community, such as stimulating growth, generating tax revenue, and providing employment.[368] In practice, however, this type of strategy is less accessible to small and medium-sized companies, as they tend to lack sufficient financial resources. Large companies do however prioritize post-closing integration and are more likely to devote significant resources to corporate social responsibility and other corporate image building activities.[369] The company may also consider adopting a visual brand (including logo, website design, etc.) that communicates adherence to local culture and history to cultivate public trust. For example, the US-based but Chinese-owned firm Continental Aerospace Technologies presents itself as an all-American company with a logotype displaying an eagle in the same colours as the US flag.[370]

Chinese diaspora present in the target market can prove helpful in building confidence both with the local authorities and general public. This is especially true in places where the diaspora is well-established, as for instance in the United Kingdom. The interventions of the British Empire in China during the 19th century, as well as the legacy of British sovereignty over Hong Kong have led to an establishment of a Chinese diaspora in several British cities, perhaps most notably in London.[371] A major finance hub, London hosts several Chinese banks, facilitating the international moves of such investors as BYD or Chinese real estate developers, not least by providing the localised knowledge of the British financial, business, and legal systems, and access to the British networks.[372] Italy is another example of a country where strong Chinese diaspora presence in certain sectors and regions may provide Chinese MNEs with potential access to social and business networks in the local market, possibly drawing advantage of their linguistic and cultural competences (see the Appendix). However, periods of geopolitical and social tensions between the diaspora and the local population may in some cases prove more a liability than an asset.

Additionally, Chinese scholars recommend companies to acquire a broad foreign investment portfolio spread across multiple countries and sectors before engaging in targeted and potentially sensitive investment.[373] The reasoning here is that a broad portfolio establishes an image of the company as a serious business-motivated investor to mitigate suspicions of non-business interests. Empirically, the literature shows that host-country investment restrictions are indeed positively correlated with broader company investment portfolios.[374]

To establish trust through relationship building is coherent with the appreciation of interpersonal relationships in Chinese business culture. In the domestic Chinese context, firms with good *guanxi* resources, i.e. personal connections (see Chapter 3.2.3), will find it easier to obtain government support and to internationalise more effectively.[375] One scholar observes that Chinese business culture is centred on networking and building personal relationships (*guanxi*), and as such, Chinese entrepreneurs operating abroad are predisposed to reach out to (or create) local support networks in the host market as a first response when facing difficulties.[376] Ethnic *guanxi* networks overseas are known to bring benefits to internationalizing CMNEs, especially SMEs, by providing access to, e.g., information, market opportunities and financial resources.[377] Previous research suggests that Chinese managers' *guanxi*-approach to building corporate reputation and improving business efficiency is generally transferable to markets such as India, Latin America, and Russia.[378]

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[368] Liu, Feng & Zhao. Challenges and Countermeasures.
[369] Interview 7.
[370] Clemens. How Some Chinese Companies, p. 4.
[371] R. Sales, P. Hatziprokopiou, F. Christiansen, A. d'Angelo, X. Liang, X. Lin & N. Montagna. London's Chinatown: diaspora, identity and belonging. *International Journal of Business and Globalisation* 7:2 (2011): pp. 195–231.
[372] T. Pattinson. How Chinese Investment in London is Changing and Growing. *China-Britain Business Focus*. (28t August 2024).
[373] Wang. The Recent Developments on National Security Review Systems of Foreign M&A in the West, p. 294.
[374] Yang & Yu. Foreign Investment Barriers.
[375] Yang. The Importance of Guanxi; Du & Zhou. Does guanxi matter.
[376] Interview 2.
[377] X. Ong, S. Freeman, F. Goxe, S. Guercini & B. Cooper. Outsidership, network positions and cooperation among internationalizing SMEs: An industry evolutionary perspective. *International Business Review* 31:3 (2022).
[378] J. Chen. Internationalization of Chinese Firms: What Role Does *Guanxi* Play for Overcoming Their Liability of Outsidership in Developed Markets? *Thunderbird International Business Review* 59:3 (2017): p. 374.

The use of personal connections – including ties to state officials – to facilitate business and to navigate complex policy environments is also a key feature of Hong Kong's skill set (see Appendix). Hong Kong entrepreneurs and intermediary institutions have a long tradition of relying on Chinese diaspora networks in international trade and finance – not merely in East and Southeast Asia but also in the US and Europe. Chinese managers and their Hong Kong go-betweens will seek support in personal contacts as an important supplement to formal structures, rules and modes of communication.

However, in other cultural contexts such as Europe, off-the-record, informal person-based engagement with authorities may be perceived in a highly negative light, as attempted bribery or corruption. CMNEs that have not appropriately gauged the institutional distance between their home and host country may thus end up failing in their lobbying and relationship-building efforts.[379] CMNEs cannot avoid adapting to the host country's cultural context if they want relationship building to work as a strategy. As one scholar puts it, Chinese firms may try to overcome the liabilities of outsidership by establishing *guanxi*-like relationships only after an experimental learning process on relationship building in the host country. Western country trust building should focus on quality, pricing and service that exceeds the expectations; only when this is established, the company may build relationships on a personal level for long-term benefit.[380]

4.4.2 Lobbying

Chinese scholars further suggest that companies may engage in lobbyism to strengthen pro-China perceptions in the host country. In the international business literature, this behaviour is known as corporate political activity (see Chapter 4.1.4). While this specific term does not feature in the Chinese literature surveyed here, the recommendations are quite similar in spirit. For example, CMNEs may approach influential local think tanks, have them evaluate previous Chinese investments, and circulate the (positive) results to nudge public opinion in a favourable direction.[381] While companies are advised to do what they can, the primary responsibility for shaping the environment lies with Chinese (non-corporate) state actors, since these have access to greater resources as well as other diplomatic tools to shape the investment environment.[382] One example is the China Council for the Promotion of International Trade (CCPIT), under the Ministry of Commerce. It has established ties with business associations and think tanks in several EU countries such as Italy, Poland, and Belgium, to serve as interfaces with EU elites in the economic and political spheres.[383]

Additionally, the PRC Ministry of Foreign Affairs, via the Chinese Academy of Social Sciences and the affiliated China-CEE Institute, sponsors think tank and academic activities across Europe, offering up to EUR 60,000 for a one-year project.[384] Browsing the press releases of the Chinese Academy of Social Sciences's European studies institute shows that the institute frequently arranges lectures, roundtables and seminars with a wide range of European researchers and analysts on themes such as EU-China economic cooperation.[385] The Chinese mission to the EU also exerts an active presence in the policymaking space, for example co-hosting the annual China-Europe Forum in Brussels, an event well-attended by political, diplomatic, and media representatives in the EU sphere.[386] All these measures reflect the orchestrated and cross-sectoral lobbying effort to improve opinions on China and

[379] Interview 4.
[380] Cf. Chen. Internationalization of Chinese firms, p. 379.
[381] Song. The New Trend.
[382] Interview 2.
[383] J.C. Lulu. The spooks and the merchants: Germany's arrest of a suspected MSS agent and the CCP's cultivation of business associations. Sinopsis. (27 April 2024); Corporate Observatory Europe. Follow the New Silk Road: China's growing trail of think tanks and lobbyists in Europe. (8 April 2019).
[384] China-CEE Institute. 2025 China-CEE Institute Guide to Application for Research Project Funding. (25 April 2025).
[385] Institute of European Studies, Chinese Academy of Social Sciences. 国际交流 [International exchanges].
[386] Mission of the People's Republic of China to the European Union. The 13th China-Europe Forum Held in Brussels. (14 November 2025).

not least on the Chinese businesses globally – or for the world to "better understand China".[387]

Chinese state and private actors alike may also aim their lobbying efforts at local-level politicians and policymakers to gain their support for Chinese OFDI activities. Scholars reason that subnational decision-makers are more keenly attuned to opportunities to raise local tax revenue and strengthen the local labour market than to national-level security concerns.[388] US research indicates that Chinese government lobbying makes US legislators twice as likely to endorse bills that are favourable to CCP interests.[389]

Chinese diaspora and overseas networks come into play here as well. Depending on the host country in question, CMNEs may have access to support from local diaspora and diaspora organisations that help them in their lobbying efforts.[390] *Guanxi* networks can also be employed in intermediary jurisdictions to cultivate the environment for onward-journey FDI to the target host country. An example of a jurisdiction where this may prove useful is Singapore, where ethnic-Chinese business networks play an important role for the economy. Chinese firms and state actors, such as the local embassy, may exercise influence through the various Sino-Singaporean business associations and cooperation fora for lobbying purposes. These institutions may potentially also be exploited by China's United Front-organisations (see Chapter 3.2.3). Singapore may be susceptible to such influence, considering the importance of economic and ethnic ties to China. If successful, pressure on the diaspora may influence the direction of government policy, notably including FDI screening regulations and their actual implementation.[391]

The CCP is known to promote business promotion associations, including through diaspora organisations. This is part of United Front overseas influence operations and serves as a means to facilitate access to foreign technology (see Chapter 3.2.3). In certain cases, the Ministry of State Security will find opportunities to exploit the cultivated business networks for covert operations.[392]

A Jamestown Foundation report from February 2026 maps a network of over 2,000 United Front-affiliated organisations operating in the US, Canada, the UK and Germany, providing "latent capacity" for instrumentalization by the CCP. Such organisations can be mobilised in service of party goals, for example to exercise influence over political decision-making or engage in illicit technology transfer in foreign countries. In a 2010 case, a Chinese-born businesswoman was charged with violating export controls by exporting controlled semiconductor technology from the US to a Chinese defense-industrial entity. The Jamestown report notes that, over the years, she had been involved in several different United Front-affiliated diaspora and business associations that connected her to Chinese state actors. The report does not demonstrate that the export-control violations were directed by Chinese authorities, but argues that such associations can serve as platforms for cultivating relationships and mobilizing overseas businesspeople in support of broader state objectives.[393]

4.5 Cater mechanisms

This report identifies two mechanisms for the Cater strategy: proactive consideration of host-country concerns, and catering to host-country demands.

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[387] A. Nawaz & N.I. Chaudhry. The World Needs to Better Understand China. *Advances in Social Sciences Research Journal* 9:12 (2022).
[388] Zhao & Li. Research on US; Li & Zhao. Institutional Changes.
[389] Baggott Carter, E. When Beijing Goes to Washington: Autocratic Lobbying Influence in Democracies [Video]. (Stanford Asia-Pacific Research Center, 21 April 2021).
[390] Interview 5.
[391] See the Appendix for more details on Sino-Singaporean business associations and Singapore's FDI screening regulations.
[392] Lulu. The spooks and the merchants.
[393] C. Yu. *Harnessing the People: Mapping Overseas United Front Work in Democratic States.* (Jamestown Foundation, 11 February 2026).

4.5.1 Proactive consideration of host-country concerns

The Chinese literature highlights the value of long-term planning and strategic preparation. This includes building an understanding of how the host country's security concerns translate into FDI screening criteria. Chinese scholars suggest that companies should adopt measures to mitigate the host-country authorities' security concerns to improve the review approval chances, even absent of formal demands by a local screening authority.[394] To the highest extent possible, this should be done *before* formally starting the review process.[395] The investor can collect insights into the host country's concerns in multiple ways, many of which have been previously mentioned in relation to understanding the host country's screening criteria (see Chapter 4.1). One such venue is to establish JVs or special purpose vehicles with local companies to tap into their expertise, or partnering up with local business consultancy firms.[396]

Generally, the studied Chinese literature advises that companies downplay strategic, geopolitical aspects of the investment (e.g., making no mention of either BRI or the "Go Out" policy), emphasizing instead the economic motives.[397] Practitioners interviewed by the authors suggest that Chinese companies occasionally try to downplay their investment as "merely an office" when in fact it concerns more substantial business operations and/or broader strategic aims.[398] Another aspect of strategic preparation is awaiting the right time to enter the market. If the investment has strategic value, then delaying the investment until an appropriate time is worth the wait. Inappropriate timings include ahead of the host country's presidential or parliamentary elections (as it creates a risk of politicisation) and periods of friction in the bilateral ties between China and the host country. These circumstances also affect the appropriateness of various entry modes, as described in Chapter 4.2.2 above. In the case of an M&A process, the acquiring company is advised to keep a low profile to avoid falling victim to sensationalist journalism, which could increase the risk of rejection.[399] Other potential localisation efforts tied to legitimacy include the appointment of local managers and ring-fencing sensitive R&D from overseas access. Local managerial appointments may improve responsiveness and legitimacy. Separately, credible ring-fencing of sensitive R&D may mitigate security concerns.[400]

4.5.2 Catering to host-country demands

Some screening authorities may demand that the applicant investor concedes to certain security risk mitigation measures as a condition for approving the review.[401] As such, the company must assess which interests it can accept to forgo in order to satisfy the authority's demands. Here, it is necessary to strike the balance between attributes of an investment that are necessary to fulfill the investment's strategic objectives (to make it worthwhile at all) and attributes that are simply "nice to have." For instance, the firm may find it necessary to forgo a larger share of the profits to local stakeholders. While less economically profitable, deals that generate more value for local stakeholders than for the MNE can be strategically beneficial to win the acceptance of sceptical counterparts.[402] Other rights that the CMNE may need to concede include seats on the corporate board, veto rights over major corporate decisions, or access to significant classified technical information.[403]

A recent case from Sweden illustrates this point. Chinese battery company Shanghai Putailai had planned a greenfield investment in an anode factory outside Timrå, Sweden, but was eventually blocked in late 2024. Putailai had not met the demands put out by Swedish

[394] Song. The New Trend.
[395] Ma. The Investment Barriers.
[396] Wu & Cao. Global FDI Review.
[397] Li & Zhao. Institutional Changes.
[398] Interview 9.
[399] Lu, Li & Li. National security review; Song. The New Trend.
[400] Interview 6.
[401] Sullivanet al. "A Goldilocks' Conundrum, pp. 35–41.
[402] L. Tinhof & H. Puhr. A Value Capture Theory of Foreign Direct Investment. *Academy of Management Proceedings* 2025:1 (2025).
[403] Song. The New Trend.

investment screening authorities, which included non-majority ownership in a joint venture with a Swedish partner, as well as Swedish top-level management (CEO, chairman of the board, and a majority of board members).[404]

On a final note, Chinese scholars suggest that companies make honest self-assessments of whether their investment is likely to pass the review. If the rejection risk is too high, the company could either await improved conditions or adjust their investment strategy.[405] In other words, the company would go back to the corporate strategic planning stage and identify what it wants from the investment, and based on this analysis, adopt a *Circumvent*, *Conceal*, or *Cultivate* strategy. If the likelihood of rejection grows during the screening process, Chinese scholars advise companies to withdraw their application voluntarily. Although giving up midway may seem like a waste of time and resources, the companies are encouraged to view it as a valuable experience on the basis of which to draft a new and refined application.[406]

Seeing the review process through until the end if it concludes in rejection may affect the company more negatively than a voluntary withdrawal in terms of media coverage and dumped stock prices. It could even negatively affect bilateral ties and expose future Chinese FDI requests to greater scrutiny.[407] However, as mentioned previously, rejection may benefit Chinese soft power more broadly, leaving aside the consequences for the individual Chinese company. In the case that a CMNE is blocked from investing, not because of its inferior products or lack of transparency, but primarily because of its national origins, the firm could insist the investment is economically motivated but politicized by the host country authorities.[408]

[404] J. Kärrman. Kinaägda PTL skrotar storsatsning i Sverige. (*Dagens Industri*, 6 March 2025).
[405] Li & Zhao. Institutional Changes.
[406] Ma. The Investment Barriers from the US Foreign Investment Risk Review; Hu. The Tightening of National Security; Lu, Li & Li. National security review.
[407] Ma. The Investment Barriers; Hu. The Tightening of National Security; Lu, Li & Li. National security review.
[408] Interview 4.

5 Conclusions

This chapter presents the conclusions of this study. It first introduces a conceptual model that illustrates the overarching conclusion to the study's research question: *What strategies may be employed by CMNEs to navigate FDI screening when investing in sensitive sectors?* This is followed by conclusions pertaining to each strategy, combining takeaways from the preceding chapters together with reflections on the study's guiding questions:

1. *To what extent are the identified strategies applicable to CMNE investments in the EU?* (Addressed in Chapters 5.1-5.4 and 5.6)
2. *How do China-specific institutional and political factors shape CMNE behaviours in relation to OFDI and FDI screening?* (Addressed in Chapter 5.5)
3. *Which intermediary jurisdictions do CMNEs preferentially use for routing OFDI, and what functions do these jurisdictions serve to navigate FDI screening in third countries?* (Addressed in Chapter 5.1)
4. *What CMNE OFDI behaviours could indicate non-economic objectives?* (Addressed in Chapter 5.7)

One of the major contributions of this report is the construction of a conceptual model that illustrates five different strategies available to CMNEs seeking to navigate FDI screening, illustrated in Figure 9 below. Companies may choose to change the target market or opt for non-equity means (a strategy that this report dubs *Avoid*), but in accordance with the study's research question, the analysis focuses on means and mechanisms to navigate FDI screening that entail making an overseas equity investment in the intended target market. The report identifies four such strategies: Circumvent, Conceal, Cultivate, and Cater. These are highlighted with a red dashed outline in Figure 9 below.

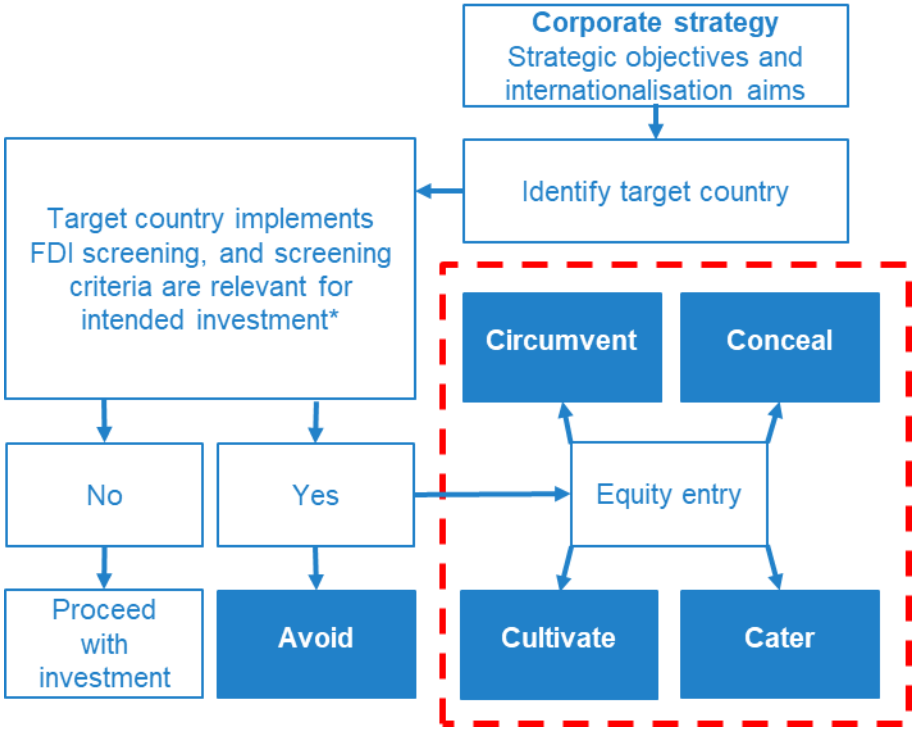


Figure 9. A schematic illustration of the decision-making process and strategic options in the formulation of CMNEs' investment strategies. **Note:** The asterisk (*) indicates an intentional simplification by the authors concerning whether a potential investment would be subjected to FDI screening in the target country. For purposes of improving conceptual clarity, the flowchart shows the strategy selection process as guided by the assessment of FDI screening regulations as either "relevant" or "irrelevant" to a particular investment. This labelling intends to capture the reality that FDI screening is dictated by factors other than formal legal obligations. For example, different countries may implement screening with various degrees of diligence.

One important conclusion is that both Chinese state and private sector actors recognise the phenomenon of FDI screening and adapt their behaviour accordingly, albeit to various extents. Reasonably, a CMNE's choice of strategy will be preceded by thorough analysis of the company's strategic objectives of the investment as well as the host country's screening mechanism to identify methods to raise the chances of a successful investment. During the pre-investment process, the CMNE may seek support from Chinese government authorities and embassies as well as Chinese or foreign law firms, and local partners such as trade associations, business consultants or companies to formulate a strategy (see Chapter 4).

Another primary finding is that much of CMNE internationalisation behaviour appears motivated by adapting to regulations and obstacles on the domestic Chinese market, rather than being driven by investment obstacles in foreign countries (such as FDI screening). That said, the analysis finds support of the notion that CMNEs do adapt their behaviour to navigate FDI screening in foreign markets, plausibly driven by objectives related to acquiring valuable assets and/or know-how unavailable in their home market.

5.1 Circumvent

Chapter 4.2 describes how CMNEs that seek to invest without triggering screening or thorough review in the host country may adopt the *Circumvent* strategy. Companies that opt for this strategy will carefully consider whether it can make adjustments to the ownership stake, entry mode, or geographical and sectoral paths of the investment to improve the chances that the investment flies under the screening authority's radar, see Table 3 below. Included in this section are the key takeaways pertaining to one of the study's guiding questions: *Which intermediary jurisdictions do CMNEs preferentially use for routing OFDI, and what functions do these jurisdictions serve to navigate FDI screening in third countries?*

Table 3. The four mechanisms underpinning the Circumvent strategy.

Mechanism	Description
Adjusting the equity stake	• Initial stake below filing threshold, combined with gradual raise in ownership (potentially by multiple investors) • Non-equity shares later converted to equity, or non-equity cooperation followed up by equity involvement (strategic alliances)
Adapting the entry mode	• Non-majority equity acquisition (potentially together with local investors) • Change of entry mode: Greenfield (R&D) investments, venture capital and joint ventures over M&As, or M&As targeting "hidden champions"
Manipulating the geographical path	Rerouting an investment via intermediary jurisdictions/offshore financial centres (so-called "onward-journey FDI"), either through corporate inversion or by establishing offshore subsidiaries. Potential benefits include: • Toning down national origins, increasing investor legitimacy. CMNEs may individually opt to relocate their headquarters, diversify their equity structure, list on foreign stock exchanges, or acquire local firms • Access to advanced business services, capital, business networks • Exploiting institutional arbitrage: operational efficiency, corporate confidentiality, bilateral investment and tax treaties
Manipulating the sectoral path	Transiting investments via low-barrier sectors with the ultimate aim of accessing high-barrier sectors. Includes efforts to localize the investment entity and capital, potentially including local partnerships. May include adjustment of equity stakes and entry modes. • Roundabout investment (for companies originally in high-barrier sectors) • Cross-sector investment (for companies originally in low-barrier sectors)

The first mechanism, described in Chapter 4.2.1, is choosing ownership stakes below (e.g., <10 per cent) or outside the scope (e.g. non-equity shares) of filing thresholds. This is done to avoid triggering the investment screening process, or if filing is mandatory, to pass without triggering an in-depth investigation. The long-term aim may be to raise its ownership gradually or through equity conversion. This can be referred to as "sequential two-stage entries." The success rate of this strategy will depend on the notification and filing requirements in the host country in question; in some jurisdictions it may be difficult to obtain a significant degree of shareholder control without reporting this to the authorities. At the same time, there may be legal wiggle room for combining minority shares across multiple investors, possibly even subsidiaries of the same corporate group. The ability to effectively exercise influence through accumulated shares will also depend on the jurisdiction. That said, if this is indeed a regulatorily feasible strategy in a certain host-country, the Chinese party-state's mandate to guide the operations of state- and privately owned companies may prove effective in coordinating multiple stakeholders.

The second mechanism, described in Chapter 4.2.2, is choosing entry modes subject to less scrutiny, e.g. by engaging in greenfield investments rather than M&As, making non-majority acquisitions together with a host country investor, or acquiring companies that are less well known to the general public (e.g., in business-to-business segments). Adapting the entry mode seems like a highly applicable strategy for navigating FDI screening, though the ultimate utility of this mechanism depends on the specific host-country context. For example, EU member states notably have substantial regulatory differences. In some countries, even minority acquisitions or acquisitions of less well-known companies by a CMNE will face extensive scrutiny, whereas in others it may not. The same goes for greenfield investments. The utility of entry mode adaptation also depends on the purpose of the investment. A minority acquisition likely does not allow substantial control over company assets or strategic decision-making, unless it over times translates into majority ownership. However, if the purpose is to gain access to company know-how, business networks, or other information, it might be a potent strategy.

The type of relationship with and degree of alignment of the local partner is a crucial factor that decides to what extent minority shareholding will lead to strategic goal fulfilment. The level of control that can be exercised by the non-majority Chinese owner will also depend on the degree of overall fragmentation and nationalities of the other owners. At least when it comes to formal transfer of ownership of certain assets. Still, knowledge or information could spill-over or be accessed without any assets formally changing ownership, and potentially even without the target company's explicit knowledge or permission. The increase in R&D greenfield investments as entry mode for CMNEs merits further attention. As one scholar puts it, it may constitute a more efficient and inconspicuous way for asset-seeking companies to fulfil their ambitions in EU countries where it is not covered by local FDI screening regulations, as a means to tap into local technology ecosystems, including access to R&D partnerships and talent pools. As of March 2026, its treatment still varied across national screening regimes, making it in some jurisdictions less directly exposed to acquisition-oriented review. [409]

The third mechanism, described in Chapter 4.2.3, is manipulating the geographical path of an investment by rerouting it through intermediary jurisdictions. For example, a CMNE may undergo corporate inversion or establish offshore subsidiaries. Some intermediary jurisdictions are more popular transit hubs than others for rerouted investments by Chinese multinationals, including Ireland, Luxembourg, the Netherlands, Switzerland, and the United Kingdom, as well as non-European offshore financial centres such as the British Virgin Islands, the Cayman Islands, Hong Kong, and Singapore.

However, the authors' early assessment that these jurisdictions appeared to be prominent vessels for cloaked investments from China quickly proved insufficiently nuanced. The main conclusion is instead that OFCs serve many purposes for CMNEs, most of which have nothing to do with navigating FDI screening in third countries. However, rerouting via OFCs

[409] Interview 6.

does have some relevant uses for navigating FDI screening. Rerouting may allow a CMNE to rebrand itself as non-Chinese or gain more legitimacy in the eyes of host country authorities by exploiting the image of certain OFCs as having transparent institutions and rigorous regulations. Rebranding can also be done in different ways, some of which may work better than others depending on the target host country than others. Examples listed previously include relocating headquarters, acquiring local firms overseas, or dispersing equity across multiple international investors and stock exchanges, possibly combined with an emphasis on employing non-Chinese personnel.

Successful OFDI into one EU country (likely one with less strict screening or lower administrative capacity) may serve as a credibility platform and greatly boost ventures into other parts of the EU. Ultimately, making use of "golden passport" or "golden visa" schemes, to the extent that these remain an option, may allow the individual investor to formally become an EU actor, and thus circumvent FDI screening in other EU member states entirely. Moreover, OFCs provide CMNEs with access to advanced business services that may help firms become not only more operationally efficient, but also more presentable in areas such as public messaging and corporate structuring. CMNEs may also benefit from institutional arbitrage by taking advantage of specific provisions in treaties between the OFC and the ultimate host country, including for tax purposes, corporate information confidentiality, financial safety and other benefits. The Appendix provides a more comprehensive picture of the OFCs' utility for CMNEs, beyond what is of direct relevance to the study's research question.

Significant differences also exist between OFCs in terms of geographical and political proximity to China, economic dependence, and the presence of the Chinese diaspora, all of which affect the Chinese state's ability to support CMNEs in their onward-journey FDI. Hong Kong lies within arm's reach politically and geographically. Singapore is influenced through economic ties and ethnic links but remains politically independent and, given its relative wealth, is arguably less dependent on China than some neighbours in Southeast Asia. The Caribbean islands are more distant from China's geopolitical sphere but offer the greatest ownership confidentiality among the studied OFCs. Within the EU, bilateral relations with China and the Chinese diaspora vary considerably across member states, shaping local politics and business lobbying. The EU also includes several prominent OFCs, notably Ireland, Luxembourg, and the Netherlands, which may serve as attractive substitutes or complements to non-European OFCs for CMNEs.

The fourth mechanism, described in Chapter 4.2.4, is manipulating the sectoral corporate path. For example, a CMNE may invest in a low-barrier sector and later reinvest accumulated capital in a high-barrier sector. This mechanism could be used to exploit differences in strategic sector definitions across EU member states.[410] Moreover, greenfield investments are not screened in all member states. There may thus be ways to gain a foothold in the EU for future investments. However, if the decision whether to initiate a screening process is based on the sensitivity of the sector rather than the origin of the investor, and the host-country authorities base their also have access to information about the ultimate (non-EU) beneficiary, it is unlikely that the localisation effort will have the intended effect. Moreover, repurposing existing business entities may not be an option if such investments are also subject to screening. At most, perhaps, the Chinese investor can gain some legitimacy by becoming embedded in the local ecosystem.

If there is a local partner with majority shareholding, the question again becomes whether the CMNE can exercise effective control over the investment. The nature of the relationship and contract with the local partner, and the purpose of the investment, are decisive. It should also be noted that intentional company pivots from a non-sensitive sector to a sensitive sector may be hard to capture empirically. The political sensitivity of sectors is not static, and a company's decision to move from one sector to another may equally well be based on its own path of technology development.

[410] Kokkoris. *Merger Control, National Security, and Foreign Direct Investment Screening*, p. 73.

5.2 Conceal

Chapter 4.3 describes how a CMNE that seeks to pass a triggered screening process without objections may adopt the *Conceal* strategy. Companies that choose this strategy will take measures to obscure the ultimate beneficiary by adopting opaque ownership structures and contractual arrangements and by relying on informal corporate-party-state ties to make their relationships presentable to host country authorities, as shown in Table 4 below.

Table 4. The three mechanisms underpinning the Conceal strategy.

Mechanism	Description
Opaque ownership structures	• Offshore holding platforms and other special-purpose entities • Trust structures
Contractual arrangements and non-equity control	• Nominee shareholders • Variable interest entities
Informal corporate-party-state ties	• Diluting "state-ness" with private equity and non-ownership relations • Entanglement in the military-civil fusion system

The first mechanism, described in Chapter 4.3.1, is the use of opaque ownership structures. Private companies and SOEs may want to opt for corporate structures that provide the ultimate beneficiaries with a satisfactory amount of control while limiting their perceived influence. This includes, for instance, non-majority equity participation in offshore holding platforms together with trusted foreign partners and the so-called sandwich manoeuvre, in which companies stack subsidiaries in various jurisdictions on top of each other. CMNEs may or may not successfully conceal their national origins from authorities in the target host country when investing via an OFC, depending on factors such as the shape of their corporate structure and bilateral information-sharing agreements between the host country and the intermediary jurisdiction.

Public authorities may or may not be able to obtain complete information on beneficiaries. Depending on the intermediary jurisdiction, local regulations can make it significantly more difficult for beneficiaries to provide information on investor ownership structures, for example.[411]

Particular methods associated with individual OFCs, such as VCCs in Singapore or the sandwiching manoeuvre involving Caribbean islands, may be used for illicit onward-journey FDI and have some utility for concealment in the context of FDI screening mechanisms in the EU. However, they primarily appear to be business-motivated, and concealment appears to play a very minor rather than major role, according to the authors' estimate. It is outside the scope of this study to investigate the utility of specific ownership structures in specific EU countries. In general, it may vary widely depending on local regulations, treaties signed between host and home countries (especially in the context of onward-journey FDI via OFCs), and the administrative capacity of host-country authorities, among other factors.

Nonetheless, the overall benefits associated with OFCs may be considered to facilitate OFDI into third countries that implement FDI screening. Raising capital to be reinvested and adding complexity to the corporate structure and geographical path of an investment could perhaps be used to conceal ownership and equity relations. For example, it is not clear what economic reasons would drive the need that CMNEs have for the added confidentiality of an intermediate holding company in the British Virgin Islands. Also, actual company motives are not necessarily a crucial factor in the case of China, as has been noted previously. Ultimately, the party-state may choose to exercise influence and instrumentalise a

[411] Interview 9.

Chinese company with overseas operations for its own purposes, regardless of the investment aims and the extent of state involvement at the time of the initial investment.

However, questions remain concerning the long-term sustainability of exploiting OFCs for investment concealment purposes. For one, leaving China and incorporating overseas may be perceived in Beijing as unpatriotic and disloyal. Perhaps more importantly, the intermediary jurisdictions may be averse to the political risk of being perceived as venues used to manipulate economic-security legislative measures in third countries.[412] This may compel popular OFCs to take action to maintain their credibility and legitimacy. For instance, Singapore's new investment screening regulations (see the Appendix) may discourage foreign companies, including those from China, from engaging in business behaviour in Singapore that may damage the city-state's reputation as a neutral and reliable actor.

The second mechanism, described in Chapter 4.3.2, is contractual arrangements and non-equity control, which may be used to provide the ultimate investors with a satisfactory amount of control while limiting their perceived influence. This includes nominee shareholding and variable interest entities. In some jurisdictions, there is legislation in place to prevent contractual arrangements from taking place outside government oversight, such as nominee shareholding in Singapore. Nevertheless, it is possible that CMNEs can, to some extent, navigate Singaporean law in ways that allows them, for example, to establish shell companies and obscure the identity of the owners when investing in third countries. This possibly includes nominee shareholding and the VCC fund structure, provided that the CMNE meets the legal requirements, such as local infrastructure and personnel, while successfully evading scrutiny from the Singaporean government. It is also possible that the formal legislation is not fully implemented in practice, although this is difficult to prove empirically. Analogous reasoning applies to other jurisdictions that provide unique ownership arrangements circumscribed by legal requirements.

Host-country authorities can demand information on side agreements of various kinds, but the limited ability to trace certain side agreements makes it more complicated to fully verify the investor's transparency.[413] Perhaps specific corporate structures, such as VIEs that are not immediately made public, can be used for concealment purposes if their use is timed appropriately. This remains an open question. That said, the utility of this mechanism depends on the compliance of local and/or non-Chinese nominee or contractual parties.

The third mechanism, described in Chapter 4.3.3, is informal corporate-party-state ties. Chinese SOEs are likely to be among the most scrutinised by EU investment screening authorities. For this reason, they may want to tone down their party-state connections by taking in more private equity. However, if the state maintains majority ownership, it is unlikely to have much effect on the perceptions of host-country authorities. Moreover, the utility of this strategy will likely depend on the nationality of the private-sector partners. If the host country has a high degree of scepticism towards China, using the Chinese private sector as a shield may prove futile, especially if it is viewed as being under Chinese state influence regardless of formal ownership. That said, in some cases and some countries, reducing state ownership to below certain thresholds may be enough to meet regulatory demands and jump through the necessary hoops.

A possibly more potent means for the Chinese state to exercise influence over company decisions while avoiding detection by screening authorities is to embed CMNEs with personal connections to the United Front (see Chapter 3.2.3) and the security apparatus, or different types of ties to China's military-civil fusion system. It is unlikely that screening authorities will be able to find a paper trail on security apparatus ties. Moreover, information on connections to the United Front and/or the military-civil fusion system may not be explicitly requested by screening authorities if they lack sufficiently deep knowledge of the specific features of the Chinese party-state context. However, this type of information may at times be retrievable through open sources, provided that the inquirer knows where to look and has the ability to navigate Chinese-language sources.

[412] Kynge, Webber & Murray. China's new back doors.
[413] Interview 9.

5.3 Cultivate

Chapter 4.4 describes how a CMNE that seeks to shape the regulatory, political, and social conditions for FDI screening to make them more favourable to Chinese OFDI may adopt the *Cultivate* strategy. Companies that choose this strategy will take measures to influence the political and social environment of a specific host country as well as to build trust with local communities, as shown in Table 5 below.

Table 5. The two mechanisms underpinning the Cultivate strategy.

Mechanism	Description
Relationship-building with local actors	Establish trust with local actors through: • Establishing relationships with screening authorities ahead of filing for review • Engaging in corporate social responsibility activities and integrating host country social values • Establishing a broad business portfolio abroad ahead of investing to demonstrate commercial interests • Cultivating loyal local business partners and gradually creating economic entanglement that may deter authorities from rejecting investments • Communicating positive intentions and economic benefits to the local community, possibly with diaspora support
Lobbying	Corporate political activity, potentially with party-state involvement, including: • Establishing ties with business associations, think tanks, and academics to help improve perceptions of China • Lobbying local politicians • Soliciting lobbying support from local Chinese diaspora networks • Cultivating the policy and investment screening environment for onward-journey FDI in intermediary jurisdictions through diaspora networks

The first mechanism, described in Chapter 4.4.1, is relationship-building with local actors, including screening authorities, businesses, and the broader community. The company may try to establish good relationships with screening authorities and seek to resolve concerns informally and ahead of time, while also engaging in other relationship-building and lobbying efforts, as well as employing various proactive *Cater* methods (see Chapter 4.5.1). Recall that Cultivate and Cater methods often go hand in hand, and that it is primarily the timing (long-term vs. short-term effects) that differentiates them (see Chapter 4). The presence of a Chinese diaspora in the target market may in this context provide valuable insights, contacts, and embeddedness in local networks. However, efforts by Chinese firms to establish positive relationships with EU government authorities for the purpose of addressing security concerns in advance may be perceived as subversive and an attempt to bypass formal processes.

As for the scenario where a CMNE seeks to gradually increase its ownership in a joint venture with local partners to establish control over time, it may or may not work, depending on local FDI screening regulations. However, the question remains whether minority shares or strategic alliances may eventually lead to significant economic entanglement and/or increased investor legitimacy. The importance of preserving existing economic relationships may or may not incentivise authorities to allow majority acquisitions in the future that perhaps would have been blocked if attempted without prior dependencies or confidence-building.

The second mechanism, described in Chapter 4.4.2, is lobbying. The company may seek cooperation with local actors, such as politicians, think tanks, or trade and industry organisations, to help foster a favourable perception of the company. Broader lobbying efforts for

China and Chinese companies, with possible involvement from United Front organisations (see Chapter 3.2.3), may also indirectly contribute to the company's aims. Lobbying efforts are possibly more likely to succeed at the local level (directed at local-level politicians and companies), where business interests may triumph over national security concerns. National-level actors (including screening authorities) may be less receptive to lobbying efforts and, more broadly, to Chinese *guanxi*-building (see Chapter 3.2.3) as a strategy. Even in the case of lobbying, the presence of the Chinese diaspora may prove valuable, as diaspora members may contribute their insights and networks. The diaspora itself may in fact wield considerable political power and therefore considerable lobbying influence, at least at the local level.

CMNEs may find it relatively risk-free to engage with local consultancy firms or business promotion associations to promote the company's image. Regardless, for CMNEs to secure support they must persuade local intermediaries that it is worth the effort. It is reasonable to assume that these intermediaries will do their own cost-benefit analysis and weigh the pros and cons of helping a Chinese company enter the market.

In addition to seeking a more favourable regulatory environment in the ultimate host country, lobbying in *intermediary* jurisdictions may also serve to shape how FDI screening and related regulations are implemented in practice, potentially easing conditions for CMNEs engaging in onward-journey FDI to the EU. The administrative implementation of FDI screening is opaque to external observers, and details of what information a specific investor applicant is required to submit to the authorities are generally not publicly disclosed. This potentially opens some wiggle room for Chinese state actors, companies, and diaspora communities in jurisdictions such as Singapore or Hong Kong to exercise influence over how the local establishment of Chinese corporate entities is scrutinised and what information about them is provided to third countries.

5.4 Cater

Chapter 4.5 describes how a CMNE that considers the screening process inevitable and seeks to make it as smooth as possible may adopt the *Cater* strategy. Companies that choose this strategy will take measures to proactively accommodate the host country's potential security concerns as well as cater to demands that arise during the screening process by making compromises to the original investment plan, as shown in Table 6 below.

Table 6. The two mechanisms underpinning the Cater strategy.

Mechanism	Description
Proactive consideration of host-country concerns	• Downplaying geopolitical aspects of investment • Choosing the right time to invest and keeping a low profile in M&As • Shedding the liability of foreignness by localising corporate structures, employing local staff and managers, and investing jointly with local partners • Ring-fencing sensitive business operations from overseas access
Catering to host-country demands	• Forgoing possibilities to exercise formal control, such as board seats, veto rights, and access to certain information • Forgoing a share of profits to local shareholders

The first mechanism, described in Chapter 4.5.1, is proactive consideration of host-country concerns. The company may, for instance, opt to invest during a period of good relations between China and the target host country, rather than during periods of friction or during election periods when politicisation is more likely. It may also keep a low profile when engaging in M&As, so as not to draw unnecessary attention. Election periods can be positive for the CMNE if politicians identify Chinese inward investment into their community as benefiting their political agenda. This might be especially true at the regional or local levels,

where politicians are more likely to emphasise the investment's positive impact on the local labour market and less likely to focus on geopolitical and national-security issues. But it can also be negative if awareness of the CMNE and its investment ambitions is heightened within a China-sceptic framing.

Laying low and biding your time probably works better as a strategy in the US context, however, where investment reviews are initiated on a case-by-case basis by CFIUS, than in EU countries, many of which impose an obligation under legislation to notify the authorities. Thus, politicisation of investments may not be as significant a factor in the EU context, even though CMNEs may still want to avoid unwanted media attention. However, a CMNE investing in the EU may attempt to invest during periods when host-country screening authorities may plausibly have lower administrative capacity, for instance during holiday periods.

The second mechanism, described in Chapter 4.5.2, is catering to host-country demands. The company may deem it necessary to scale back its ambitions to pass the screening process. Forgoing some of its investment demands regarding company control or access to certain information, assets, and personnel may be regrettable but necessary to obtain a green light for the investment. The question is whether meeting the demands is compatible with the CMNE's investment goals. Naturally, this depends on the purpose of the investment. For a market-seeking company, it may be a small sacrifice that results in a net positive outcome, but for an asset-seeking company, it may be a significant letdown. Beyond a certain point, limits on access to critical assets may make the investment irrelevant in the short term. But it may also remain a potential path to long-term goal fulfilment.

5.5 The Chinese state factor

This section sums up key takeaways pertaining to one of the study's guiding questions: *How do China-specific institutional and political factors shape CMNE behaviours in relation to OFDI and FDI screening?*

PRC regulations on FDI into China stipulate that "foreign investors should not circumvent the security review [i.e., screening process] by any means, be it by holding shares on behalf of others, via trusts, multi-level reinvestment, leasing, loans, agreement-based control, or overseas transactions."[414] However, as is explored throughout this report, it would appear that Chinese scholars, practitioners, and state-actors have no qualms about suggesting these or similar methods to CMNEs looking to invest abroad.

As discussed in Chapter 3, the degree of influence that can be exercised by the Chinese state varies depending on the type of investment strategy, the particular CMNE, and the host country. First, it should be stressed that some strategies (e.g., going through corporate inversion in OFCs) involve observable behaviour similar to that of strategies to escape the reach and control of the Chinese party-state. In other words, two companies that behave similarly might do so for different purposes. Companies and state actors in China may have divergent goals, sometimes compounded by fragmented bureaucratic lines of authority within the Chinese political system. This makes it harder for the state to exercise unified and effective control over companies.

Even among Chinese SOEs, some report directly to government authorities, while others have somewhat more autonomy. SOEs do not necessarily invest fully in line with policy goals, although the degree of direct party-state influence is generally higher than in the case of private sector firms. In other cases, the Chinese state and CMNEs have mutual interests, or the Chinese state is more unified in its efforts to compel companies to act in line with political goals. In such cases, the problem is less one of goal incompatibility or the reporting relationship between the party-state and firms. Instead, it is a question of whether administrative capacity is adequate. In some cases, when the SOE is very large in terms of size, resources, and economic importance, it may be rather difficult for nominally superior poli-

[414] Kokkoris, *Merger Control*, p. 241.

tical authorities to control, especially when that enterprise has business interests that run counter to or deviate from policy directives from above.

In view of the many stages and varying policy priorities of China's economic reforms since the 1990s, we can assume that China's OFDI has been driven both by asset-seeking and market-seeking motives, with these motives variable across industries, ownership types, and time periods. While free-market ideals have driven Chinese economic reform over the past five decades, the CCP's shifting priorities continue to shape OFDI targeting by both state-owned and private firms. This includes policy guidance on the targeting of OFDI. According to official statistics, China's OFDI has been channelled to a large extent to Hong Kong and other OFCs. They function as transit hubs, offering added value for onward investment before the OFDI reaches its ultimate destinations. This can lead to misleading interpretations regarding both the country origin and the sectoral distribution of MNE foreign direct investment flows.

Chinese OFDI occurs within two strategic frames: national policymaking and enterprise-level considerations. At the national level, multiple state agencies, with the CCP party-state at the core, set the standards and priority sectors for OFDI and aim for asset-seeking targets of importance to China's economy. State actors such as the Ministry of State Security and United Front organisations (see Chapter 3.2.3) may get directly involved in efforts to promote party-state goals. At the firm level, it has been shown that technology acquisition and access to innovation are often key motives for OFDI among CMNEs, alongside the pursuit of new markets.

Since the mid-2010s, Chinese scholars have studied FDI screening mechanisms in Western countries and argue that Chinese authorities and firms must devise adaptive strategies and share information on how to overcome these obstacles. In these debates, Chinese analysts have often viewed Western FDI screening as a hurdle to be managed rather than a regulatory barrier to be respected. It must also be noted that CCP influence over CMNE operations may be quite relevant in a post-investment context. That factor, along with China's National Intelligence Law (2017) and National Security Law (2020), which apply to Chinese firms and citizens residing abroad, gives host country authorities reason to pause and exercise caution. In sum, one should not underestimate the overseas reach and influence of the CCP party-state.

5.6 Applicability of the identified strategies in the EU context

This section discusses the relative effectiveness of the identified strategies in navigating FDI screening along with additional limiting factors in the EU context, in response to another of the study's guiding questions: *To what extent are the identified strategies applicable to CMNE investments in the EU?* This complements the specific comments pertaining to each strategy in Chapters 5.1–5.4 above.

5.6.1 Relative effectiveness of the strategies

The four strategies are not mutually exclusive and can be used in combination. Their behavioural mechanisms overlap to some extent as well. For instance, circumvention through manipulating the geographical path may turn into concealment in the context of OFCs whose regulatory systems allow for non-disclosure of shareholder information. Engaging in joint investments with local partners is a common feature across the four strategies, as are choosing the right time to invest and avoiding unnecessary publicity. A notable difference is that in the case of Conceal, the Chinese origin of the investment is purposely obscured, whereas it remains transparent for companies that choose the paths of Circumvent, Cultivate, and Cater. As for the potential for joint use of different strategies, the authors note that companies may, for example, structure deals to fall outside FDI screening criteria (Circumvent) and avoid investing during periods of political tension (Cater).

The different strategies defined in this report are not weighted but treated as theoretically equal. This does not mean that there are no practical differences in their utility or prominence. Expert interviews held over the course of the study, during which the authors presented the typology and sought insights into the practical applicability of each strategy, provide some input on this matter. For instance, one scholar stressed that the overall pattern of CMNE business engagement in the EU suggests that a change in entry mode, notably from a focus on M&As to a focus on greenfield investments (including in R&D facilities), is far more representative of how they navigate FDI screening than concealment tactics. It is unclear whether concealment is at all a prevalent strategy in aggregate. The scholar also suggested that the Cultivate strategy merits more attention.[415]

A practitioner shared this viewpoint, and considered it unlikely that Chinese MNEs opt for complex corporate structures based on shell companies: "If one of them is found out, it ruins it for everyone." The Chinese state has strategic interest in embedding Chinese companies in EU economies and likely ensures that companies strive to present themselves as keeping politics separate from business. In the long term, the intent would be to disincentivise EU opposition to China's policy on, for example, Tibet and Taiwan. As mentioned previously in Chapter 4.3.3, the practitioner also suggested that opaque informal relationships with the Chinese state or military actors are more problematic than ownership structures. Non-ownership relations are harder to track, and European authorities are still largely unaware of such nuances specific to the Chinese context. [416]

Furthermore, another scholar pointed out that geopolitical tension is dynamic. Depending on the timing and state of bilateral relations between the home and host countries, different strategies will prove more or less effective (and therefore empirically prevalent). Firms are likely to sequence their use of the strategies through trial and error, adopting increasingly complex approaches as they build experience and improve their understanding of the hurdles most relevant to their specific investment goals.[417] The aforementioned practitioner concurred with this view and suggested that Chinese MNEs will ultimately adapt to the regulatory frameworks and the bar they set for the effectiveness of the strategies. As an example, a company that gets caught investing via the Caribbean islands may subsequently opt to stay below the screening threshold in future investments.[418]

A tech investor suggested that while there is likely no single *modus operandi* for CMNEs, a common denominator in various approaches appears to be identifying weak links (e.g., corruptible local partners) in each specific target host country or region on a case-by-case basis.[419] This hypothesis is supported by the Bitmain case in Taiwan (see Chapter 4.3.1), where Taiwanese engineers allegedly played an indispensable part in facilitating illegal Chinese business activities.

Another scholar assessed the utility of structuring deals to fall outside the scope of screening criteria or adjusting their entry mode as very high for CMNEs, while onward-journey FDI through OFCs is almost futile given screening authorities' ability to see through indirect ownership. Routing an investment through an offshore financial centre or an intermediate jurisdiction does not normally eliminate screening risk, since authorities commonly request information on ultimate ownership, control and financing. It may nevertheless complicate attribution, exploit differences between national regimes or, under the framework applicable in March 2026, benefit from gaps concerning acquisitions made through EU-established subsidiaries. Its utility should therefore be assessed as limited and jurisdiction-dependent.[420] Meanwhile, other scholars thought it is both plausible and likely that Chinese MNEs use all the means identified above and assistance available to navigate this new environment, such as seeking advice from Chinese state authorities, using law firms and legal consultants as go-betweens, and employing in-house legal divisions to monitor FDI screening procedures

[415] Interview 3; Kratz et al. *Chinese Investment Rebounds*.
[416] Interview 10
[417] Interview 4.
[418] Interview 10.
[419] Interview 1.
[420] Interview 6.

in EU member states.[421] However, as a legal professional emphasised, it is likely that most lawyers and business consultancies do not advise CMNEs to lie or engage in deceitful behaviour when investing overseas.[422]

A practitioner suggested that it is not unlikely that European sovereign wealth funds could help Chinese companies with their European business ventures without due consideration of potential national-security implications. As an example, he supplied that bureaucrats without access to private-sector consultants might focus solely on economic factors, such as cost-efficiency gains, when deciding whom to grant access to the EU market.[423]

It must also be pointed out that information exchange between the academic and the business communities is slow. As indicated by a legal professional, business executives do not generally read academic papers or participate in conferences (except perhaps to catch up on new technical research in the field of the company's core competence) and would only be exposed to academic or policy recommendations once they find their way into government policy and opinion pieces in mainstream media.[424]

On this note, there are generally good opportunities for academic research in China to influence policy, at least in economic and industrial planning. The Chinese policymaking process generally aims to be "scientific," and policy planners seek academic perspectives on various issues, not least when it comes to economic planning.[425] Even the CCP Politburo, composed of the party-state's top leaders, arranges regular "study sessions" to which academic speakers are invited to give lectures on various topics.[426] For this reason, we may expect recommendations made by Chinese academics and noted in this report to influence, at least indirectly, the environment in which CMNEs make their internationalisation decisions, even if CEOs are unaware of the underlying research.

This report focuses on CMNE strategies that entail equity entry; the Avoid strategy is not the focus here. However, as a scholar stressed , there are also ways to exercise influence through non-equity engagement with foreign countries, including long-term supply contracts, software dependence, maintenance dependence, data services, or platform control. The IT sector is particularly exposed to this kind of non-equity influence. Supply-chain dependencies are a very important factor overall and can create economic entanglement that may influence host-country authorities in their decision to permit or block certain FDI.[427]

Another scholar noted that asset-seeking companies (or the Chinese state itself) faced with increased scrutiny of their overseas ventures also have the option of inviting companies to invest in China and bring their technologies along.[428] Naturally, depending on export controls and outbound investment screening regulations in the home country in question, this may or may not be an effective way to acquire foreign knowledge. Another adjacent strategy for China as a whole is to focus on the independent domestic innovation of critical technologies, which is already a core priority in Chinese science and technology policy. This strategy may continue to increase in prominence as countries continue to de-risk their economic relations from China.[429]

5.6.2 Limiting factors

The applicability or utility of the strategies in the EU context varies. One factor that influences the applicability of all four focal strategies in the EU context is the regulatory environment, which differs among the 27 member states. National FDI screening frameworks

[421] Interview 8.
[422] Interview 7.
[423] Interview 10.
[424] Interview 7.
[425] Lampinen & Schröder. *Innovation Capacity in the People's Republic of China*, p. 51.
[426] N. Thomas & F.F. Hung. Who Briefs Xi Jinping? How Politburo Study Sessions Help to Decode Chinese Politics. (Asia Society Policy Institute, 23 October 2024).
[427] Interview 6.
[428] Interview 5.
[429] Liu, Feng & Zhao. Challenges and Countermeasures; Wu & Cao. Global FDI Review; Zhao & Li. Research on US; Li & Zhao. Institutional Changes.

and adjacent legislation differ in their scope, stringency, and implementation. These differences include, for example, the designation of sensitive and non-sensitive sectors, threshold values for changes in ownership that trigger requirements for prior notification to authorities, and the entry modes that are subject to screening in the first place.

Administrative capacity is a second factor. Some host-country screening authorities will have access to more data sources and qualified personnel than others. Some countries will have better information-sharing and other cooperation agreements with third countries than others, helping them to see through non-transparent investments. These factors will impact a CMNE's ability to avoid scrutiny through smokescreens of different kinds.

A third important factor is the bilateral ties between China and the host country. Hungary has emerged as one of the most accommodating EU locations for Chinese investment, owing to favourable bilateral political relations, investment incentives, EU market access and most importantly an established automotive cluster. The concentration of CATL, BYD and related EV-supply-chain projects supports this assessment. Hungary should nevertheless not be reduced to a political "entry point", because its industrial capabilities and location advantages are independently relevant and Chinese projects have faced substantial local contestation.[430] The situation may also change with the new government in Hungary, following Viktor Orbán's electoral defeat in 2026.

The degree to which members of the Chinese diaspora with loyalty to Beijing are present locally is a fourth factor. In some countries, CMNEs may be better able to benefit from diaspora networks and state-tied business associations to help them in lobbying efforts or otherwise navigate local regulatory hurdles.

However, a deep discussion of the likely or actual success rate of a specific strategy in a specific EU country would be an entirely new study in itself, which the authors leave to future research endeavours. The EU is complex, and the existence of as many sets of regulations as there are member states raises the need for more Union-level cooperation to 1) understand more deeply the FDI screening navigation phenomena discussed in this report and 2) address them.

5.7 Indicators of non-economic objectives in CMNE OFDI behaviour

This section addresses another of the study's guiding questions: *What CMNE OFDI behaviours could indicate non-economic objectives?*

Certain company characteristics and behaviours are assessed here as especially noteworthy potential indicators of non-economic and plausibly geopolitical motives behind OFDI activity. First, signs of direct or indirect state influence, whether through shareholding, party cells or otherwise, are obvious warning signs in and of themselves, especially in the context of China and its strategic sectors.[431] Naturally, ties to China's military, including economic partnerships, and being on sanctions lists for human rights violations in China's Xinjiang province, are also major warning signs.[432] Indirect influence over company management through personal connections is especially difficult to track but warrants scrutiny. Moreover, significant exposure by CMNEs to state-backed financial aid in their OFDI ventures or to economic benefits (e.g., land, capital, and contracts) in China, is another sign of political embeddedness. The type and degree of CMNEs exposure to the party-state differ. This exposure is perhaps best described as "political embeddedness in a common Chinese institutional environment."[433]

Corporate behaviour that deviates from conventional business logic (see also Chapter 2.2) may signal geopolitical rather than commercial considerations, potentially reflecting influ-

[430] Interview 6.
[431] See, for example, Almén & Carlsson. The Chinese Communist Party's influence over businesses.
[432] Interview 10.
[433] Interview 6.

ence from the Chinese party-state. Such deviations include cases where private firms pursue unconventional asset-seeking investments despite making persistent losses or exhibiting otherwise weak financial performance. Other examples would be forgoing certain demands in acquisitions despite negative economic consequences, for example in terms of significantly reduced profitability, or engaging in trade or hiring practices wherein the company is willing to pay unusually high prices for goods or unusually high salaries compared with the local market average.

Naturally, it can be difficult for external observers to assess what constitutes deviant behaviour and whether this behaviour is driven by a risk-taking corporate strategy or by state influence. It is entirely possible that a firm is willing to make one or more unprofitable investments in order to establish a foothold in a certain market (for example, due to market-seeking objectives), following the logic of losing a battle, but winning the war. It should be emphasised that indicators of non-economic motives can also be explained by other motives. CMNEs that engage in unconventional business practices may very well do so to avoid scrutiny from the Chinese state, rather than from foreign governments.

Opacity in an ownership structure may in itself constitute a warning sign. While limited transparency can serve legitimate commercial purposes in certain contexts, such as avoiding disclosure of sensitive partnerships or R&D investments, ownership arrangements that are opaque not only to the public but also to host-country government authorities warrant closer scrutiny of the underlying purpose of the investment. Alongside opacity, complexity may also be considered a warning sign. At some point, investing through multiple intermediary jurisdictions rather than just one ought to become suboptimal or even wasteful in operational terms.[434]

This relates to another factor that may indicate non-commercial OFDI motivations: the choice to establish subsidiaries in OFCs that offer greater confidentiality than other OFCs with comparable business efficiency benefits. From a profit-maximising perspective, it is not optimal to pursue greater confidentiality than is necessary for business operations to run smoothly. As a specific example, it is not entirely clear why CMNEs need the added confidentiality of an intermediate holding company in the British Virgin Islands for economic reasons. Rather, the use of two or more holding companies, for example, one in the Cayman Islands for listing purposes and one in Hong Kong for tax treaty purposes, could suggest non-business motives.

This may in some cases be legitimised by sophisticated treaty-shopping and institutional arbitrage, but should nevertheless raise eyebrows. Chinese SOEs are especially interesting in this regard, as they do not have the same incentives as private actors to utilise OFCs to get around domestic regulations in China. That said, certain OFCs, such as the Cayman Islands, offer benefits in terms of both confidentiality and operational efficiency, which makes it harder for an external observer to identify a company's "true" motive for investing there.

It should also be noted that recently internationalised companies that engage in indirect FDI may be more likely to be market-seeking than companies that invest directly. The reasoning is that companies without prior experience of overseas expansion may be hesitant to raise capital in an intermediary jurisdiction and then engage in asset-seeking M&As in a third country, without knowing whether it will be worth the significant effort.[435] This interpretation is complicated, however, by several factors relating to corporate governance.

If the investment is of strategic importance, parent companies tend to seek direct control and not engage in indirect FDI. However, the investment decision may also be delegated to regional headquarters if it aligns with their specific mandates.[436] Corporate groups with decentralised structures rather than traditional hierarchical ones are more likely to have subsidiaries that engage in autonomous decision-making, including investments abroad that

[434] Interview 1.
[435] D. Sutherland & L. Ning. Exploring "onward-journey'" ODI strategies in China's private sector businesses. *Journal of Chinese Economic and Business Studies* 9:1 (2011): p. 61.
[436] Kalotay. Indirect FDI, pp. 550–551.

possibly involve SPEs in OFCs.[437] If the investment decision comes from a regional headquarters, it is not really indirect FDI in the traditional sense since it is a direct investment from the regional headquarters' point of view. Yet from the host-country FDI screening authority's perspective, the investment appears to be indirect, due to the lack of insight into the corporate group's internal decision-making process.

There are cases, of course, of investors using OFCs without being primarily market-seeking. A tech investor interviewed by the authors suggested, based on personal experience, that it is common practice for Chinese investors with their sights set on acquiring European high technology to use Western partners as fronts and channel their investment funds via OFCs as a means of avoiding investment screening.[438] Moreover, a market-seeking CMNE investing in the EU would reasonably be expected to require no more than one or a few footholds in the single market.[439] If such a company continues to make acquisitions in other EU countries, despite already having a local (EU) company presence, this could indicate that these investments are made for asset-seeking purposes. However, the same behaviour could also reflect acquisitions aimed at eliminating competition, which once more points to the need for caution when distinguishing correlation from causation. At the same time, when discussing OFDI motives in the CMNE context, it should be remembered that it is the party-state's ability to exercise control (including post-investment) that is the key concern, not the motives of the companies themselves.

Certain intermediary jurisdictions are already widely perceived as conduits for illicit investment flows. A company investing via a known tax haven may pique the interest not only of FDI screening authorities but also of other authorities responsible for anti-money laundering and counter-terrorist financing.[440] Actors seeking to stay two steps ahead of FDI screening authorities may thus choose to route investments through more inconspicuous jurisdictions, including European or other countries not commonly classified as OFCs, regardless of the potential business disadvantages.

Many of the mechanisms of FDI screening navigation discussed in this report overlap with strategies used by companies for tax evasion purposes (see also the Appendix for more on tax evasion in OFCs). Enforcing stricter regulation and legislation on tax evasion could thus simultaneously prevent behaviour used to navigate FDI screening.

[437] ibid, p. 551.
[438] Interview 1.
[439] Interview 7.
[440] Interview 4.

6 Suggestions for future research

This report has focused on China and the strategies available to CMNEs to navigate FDI screening in the EU. However, many of the insights provided by the report are generalisable to other home countries. That said, country-level differences should not be neglected. It would therefore be relevant to conduct similar studies of other countries of concern as well.

Further, it is beyond the scope of this report to examine the applicability of the identified strategies in specific host countries. This is suggested as a topic for in-depth analysis. For instance, the authors suggest three dimensions that influence how "open" different EU countries are to inward FDI from China: the comprehensiveness of national FDI screening regulation and implementation (ranging from "lax" to "strict"); the screening authority's administrative capacity for thorough investigation (ranging from "low" to "high"); and the host country's bilateral relations with China (ranging from "hostile ties" to "friendly ties"), for example in terms of economic dependencies.

This study does not apply an industry-specific lens, but discusses OFDI into "sensitive sectors" in general. However, future studies could, for example, explore the variation in usefulness/vulnerability associated with the identified strategies depending on the type of target industry, the part of the value chain, and so on.

The relative prevalence of different types of complex ownership structures and rerouting behaviours in practice is not explored in this study. The authors encourage further empirical analysis of CMNE behaviours in this context, for instance by conducting in-depth analysis of data from commercial databases such as Orbis.

Lastly, several topics and implications only briefly touched upon in this report deserve further attention. Below is a non-exhaustive list of topics suggested for future research:

- The role of law firms and business service providers in Chinese internationalisation strategies, including navigating FDI screening in host countries. For example, what is the role played by international management consulting companies in Singapore, Hong Kong, or EU OFCs?
- The role of the Chinese diaspora, and of nationality/citizenship more broadly, in Chinese OFDI, especially in the context of rerouting via intermediary jurisdictions. Case studies could focus not only on selected European countries, but also on Southeast Asian nations with large Chinese diaspora populations, such as Malaysia and Indonesia.
- The role of local non-Chinese actors in assisting CMNEs to navigate FDI screening. What are the incentive structures for local middlemen and what characterises the risk–benefit analyses on which these individuals base their actions?
- Chinese-controlled venture capital funds operating in EU-based OFCs such as Luxembourg. What are their investment strategies, what industrial sectors do they invest in, and what are the implications for China's industrial policy and EU economic-security priorities?

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Appendix: Additional case study analyses of selected offshore financial centres

This appendix presents more information on the case studies of OFCs popular with CMNEs: the Caribbean islands, the EU, Hong Kong, and Singapore. The description and analysis here focus on each jurisdiction's broader utility for CMNEs and their business activities, beyond matters pertaining to navigating FDI screening in the EU. At least two categories of OFCs can be distinguished based on their differing utility for foreign capital. Firstly, there are sink OFCs, which attract and *keep* foreign capital, often due to their low corporate tax rates. Among these are many jurisdictions popularly known as tax havens, such as Bermuda, the British Virgin Islands, and the Cayman Islands, as well as jurisdictions such as Hong Kong and Taiwan. Secondly, there are conduit OFCs, which serve as financial intermediaries for routing international investments, often due to having low or zero taxes on capital transfers.[1] However, the two OFC categories are not mutually exclusive. For instance, Hong Kong can be referred to as both a sink OFC, due to the disproportionate amount of incoming capital that stays there, and as a conduit OFC, due to its role as an intermediary jurisdiction for Chinese capital.[2] The same also holds true, to varying degrees, for other OFCs.

There are many similarities between the OFCs studied in terms of their overall utility for CMNEs. For instance, all of the case studies highlight, in one way or another, the importance of advanced business services and the possibility of raising capital that can be more freely reinvested in international business ventures than capital transferred out of China. Institutional arbitrage, for example, the presence of regulatory systems more beneficial than those in the home country, is also a common feature. This includes, for example, legal protection in business transactions and the possibility of treaty shopping, that is, exploiting bilateral investment treaties or double taxation treaties between the OFC and third countries, among others. Such features of these offshore OFCs suggest that Chinese MNEs may use them to escape certain features of China itself, such as institutional uncertainty, policy volatility, political intrusiveness, or state monitoring, rather than to pursue strategies vis-à-vis the ultimate host countries of OFDI flows.

Hong Kong

Hong Kong has benefitted from, and faced the challenge of, occupying a political-economic space between two worlds and navigating the resulting tensions. Therefore, Hong Kong has been described as gateway to China for Western firms and as a window to the world for Chinese enterprises and investors seeking to expand their market networks and business opportunities overseas, with the aim of increasing profits or to gain access to foreign technologies unavailable at home.

Hong Kong's role is characterised by a duality: in the first stage, from the 1970s through the 1990s and into the early 2000s, it mainly catered to the needs of Western economies and Asian newly industrialised economies, such as Japan, South Korea and Taiwan, to gain access to China's growing economy. More recently, after Hong Kong's return to China in 1997 and China's entry into the World Trade Organization in 2001, Hong Kong has increasingly served the needs of Chinese MNEs and other mainland enterprises aiming to diversify, expand their offshore operations, and gain access to investment capital. Squeezed

[1] J. Garcia-Bernardo, J. Fichtner, F.W. Takes & E.M. Heemskerk. Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network. *Scientific Reports* 7:6246 (2017): pp. 1, 4, 6, 8. The sector specialisations mentioned here relate to the EU's statistical classification of economic activities, NACE: 829 (administrative and support activities), 642 (holding companies), 701 (head offices), and 46 (wholesale trade).

[2] Garcia-Bernardo et al. Uncovering Offshore Financial Centers, pp. 6, 8.

between China and the West, Hong Kong has been variously described as a preferred platform, broker, facilitator, and a "super-connector in a changing world."[3]

Hong Kong has also played the role of a buffer zone, a barrier or filter, or a sort of insulation between China's reforming economy and an outside world of free-market forces that, until 30 years ago, were quite alien to China's political system. Despite Hong Kong's long experience of a free-market system and legal framework under British rule, in recent years it has tried to adjust to the policies of China's central government and the business needs of CMNEs seeking to establish themselves overseas.[4]

A brief historical background

To understand Hong Kong's role as an ideal OFC and platform for CMNEs, we need to look back at its history. Hong Kong (Island) came under British colonial rule after the First Opium War and was ceded to Britain in 1842. The city became a point of entrepôt trade in East Asia. The territory stayed under British rule after the establishment of the People's Republic of China in 1949. In 1997, Hong Kong returned to China, following the Sino-British negotiations that began in the early 1980s between Deng Xiaoping, China's paramount leader, and Margaret Thatcher, the British prime minister at the time. Under this agreement, Hong Kong would be a Special Administrative Region under Chinese sovereignty but with a high degree of self-governance under the formula "one country, two systems." This was enshrined in the Hong Kong Basic Law. Hong Kong's system of governance, except in foreign affairs and defence, would basically remain unchanged for 50 years, until 2047. China under Xi Jinping's rule, however, began in 2014 to challenge the continuing legality of the Sino–British Joint Declaration.[5]

How exactly has Hong Kong's historical experience contributed to its unique skill set and attractiveness as an OFC to Chinese firms? The answer is multi-dimensional. To simplify, in addition to its unique geographical position, Hong Kong has a predominantly ethnic-Chinese population (7.5 million) that shares a history, culture, and language with mainland China. In addition, Hong Kong has been connected to the diaspora and business networks of Chinese emigrants in Southeast Asia, Taiwan, North America, Australia, and Europe. Familiarity with both mainland China and foreign markets, mediated via diaspora networks, has been advantageous to Hong Kong's authorities and companies since China's reform policies began in the late 1970s.

Due to China's reform policies in the 1980s, Hong Kong's local economy was restructured. Light industries and manufacturing, which played a prominent role in Hong Kong in the 1950s and 1960s, were relocated to nearby Guangdong province. Soon, the entire Pearl River Delta experienced an investment boom involving overseas capital from Hong Kong itself, as well as from Japan, South Korea, and Taiwan. These FDI flows were funnelled via Hong Kong, which rapidly developed into a financial services centre. Meanwhile, the nexus of rising FDI flows, local manufacturing, and overseas trade contributed to strong economic growth in China and Hong Kong while also benefiting foreign investors.[6] As one scholar noted, Hong Kong at that time was a world-class port and trading hub with modern legal and financial systems. It could offer not only access to global trade routes but also the knowledge and "soft infrastructure" needed for a modern economy.[7] Therefore, China's economic

[3] C. Hui. Hong Kong as a Global Super-Connector in a Changing World. *Horizons: Journal of International Relations and Sustainable Development* 30 (Spring 2025): pp. 226–237.

[4] Y.W.V. Li. Hong Kong in China's Financial Globalization. *Asian Survey* 58:3 (2018): pp. 439–463. It should be noted that the CCP has had a long-standing covert presence in Hong Kong, via its Xinhua news agency, its United Front department, and local party committees, thus enabling the CCP to monitor and influence both civil society and the local business community. See C. Loh. *Underground Front: The Chinese Communist Party in Hong Kong*. (Hong Kong, University Press, 2018).

[5] R. Zhu. *Hong Kong's Transformative Journey Under "One Country, Two Systems*," Master's thesis. (MIT Sloan School of Government, 2024), pp. 1–53.

[6] See, J. W. Salaff, *Working Daughters of Hong Kong*. (Columbia University Press, 1995), pp. 16–21; B. Naughton, *The Chinese Economy: Transitions and Growth*. (The MIT Press, 2007), pp. 402–416; H. Ohashi, China's Regional Trade and Investment Profile. In D. Shambaugh (ed.), *Power Shift: China and Asia's New Dynamics*. (California University Press, 2005), pp. 71–95.

[7] A.R. Kroeber. *China's Economy: What Everyone Needs to Know*. (Oxford University Press, 2016), p. 45.

take-off in the 1980s gave the impetus to Hong Kong's shift into a service economy focusing on finance, logistics, accounting, and legal consultancy. Hong Kong companies usually outperformed foreign firms in these areas because they could operate in both Chinese and English, had extensive experience in trade and marketing, and had access to global resources.

All these early experiences, both the legal aspects and the informal tactics and strategies, were helpful to Hong Kong companies acting as mediators between the Chinese economy and Western firms 20 years later. This precursor period of FDI into China created a strong skill set in financial services. Hong Kong developed into a sophisticated and uniquely attracttive OFC and could benefit from entrepreneurial skills and networks in the post-2001 period when CMNEs engaged in offshore OFDI operations.

Advantages of Hong Kong as an OFC

Many analysts agree that Hong Kong offers multiple advantages for international finance and OFDI management. According to Chinese scholar Li Yu, the reason Chinese enterprises select Hong Kong as a transit route when expanding overseas is that SOEs and private MNEs want to leverage the city's favourable business environment, taxes, and capital mobility. These firms use Hong Kong as headquarters and platform from which to invest in over 100 countries. Hong Kong's strength as an international financial hub is its considerable influence on ASEAN countries, which dovetails with mainland China's BRI programme.[8]

The Hong Kong Monetary Authority highlights Hong Kong as a gateway to China and a platform for business with China. Two-thirds of China's inward FDI and OFDI originate in or are mediated by Hong Kong. The Monetary Authority states that Hong Kong is the world's largest offshore centre for renminbi (RMB), China's national currency. Hong Kong has the world's deepest RMB liquidity pool outside China, with RMB 1 trillion, and 70 per cent of the world's offshore RMB payments are processed by Hong Kong.[9] The Monetary Authority emphasises that Hong Kong is firmly integrated into the Greater Bay Area, which comprises Hong Kong, Macau, and cities in Guangdong province. The region has a total GDP of over USD 1.9 trillion and a population of over 86 million.[10]

Scholars argue that Hong Kong has benefited from British colonial law, its transparent and stable regulatory framework, its strategic positioning, and proactive policies to develop into an OFC. The Hong Kong stock exchange (HKEX, the Hong Kong Exchanges and Clearing Limited) has a high market capitalisation and solid liquidity. On the negative side, Hong Kong's economy can be volatile due to the strong influence of mainland Chinese companies, periods of uncertainty, and geopolitical tensions.[11] The regulatory environment is governed by the Securities and Futures Commission, which maintains high standards of market integrity. It is noteworthy that Hong Kong now operates under a system influenced both by British common law and Chinese regulations, a unique situation designed both to satisfy international investors and to accommodate changes in the Chinese market. For example, the Stock-Connect programme, which links the Hong Kong market with China's stock exchanges in Shanghai (in 2014) and Shenzhen (in 2016), entails another layer of regulatory complexity.[12]

Regulatory bodies like the Hong Kong Monetary Authority play a key role, monitoring the banking sector and the currency exchange system. Hence, the Hong Kong dollar has been pegged to the US dollar since 1983, ensuring a stable currency. Another advantage is Hong Kong's free flow of capital; investors can move funds in and out without restrictions. Hong Kong offers a skilled workforce fluent in English and Chinese and with various kinds of specialised expertise. In recent years, Hong Kong firms have offered niche services in

[8] L. Yu. Chinese Outbound Investment (ODI): Profound Changes Unseen in a Century: Trends, Challenges, and Recommendations [百年变局下的中国对外直接投资:趋势、挑战与建议]. *Financial Think Tank* 06 [财经智库] (2024): pp. 45–68, 144–145.
[9] Hong Kong Monetary Authority. Dominant Gateway to China.
[10] ibid
[11] H. Luo & T. Yao, Hong Kong: Challenges and prospects as an international financial center. In *Proceedings of the 2024 6th international conference on economic management*. (Springer Nature, 2025), pp. 178–200.
[12] Luo & Yao, Hong Kong: Challenges and prospects, pp. 178–181.

fintech and green finance to remain at the cutting edge of new trends in the finance industry.[13]

It is worth noting, however, that Hong Kong has experienced considerable sociopolitical tension since 2003. Demonstrations and citizen protests involving civic activists, lawyers, journalists, and opposition party leaders have reflected discontent with the intrusive control imposed by Chinese authorities and attempts to co-opt Hong Kong economic elites. Citizen protests peaked in 2014 with the "umbrella movement," and again in 2019 in response to a proposed legal amendment allowing for the extradition of criminal suspects to China. This proposal raised concerns about the demise of Hong Kong's autonomy and fears of a politicised judicial process. In response, Hong Kong authorities, on instructions from the central government in Beijing, imposed harsh police clampdowns, made numerous arrests, and imposed prison sentences; a National Security Law was also adopted in 2020. The law is aimed at imposing restrictions on civil society and political dissent expressed via the media and the legal system.[14] The law is sufficiently broad in scope to give rise to uncertainty about the integrity of Hong Kong's rule of law system, and it represents an erosion of Hong Kong's autonomy.[15]

Overall, the implications of the National Security Law for the business community and Hong Kong's status as an international OFC have been limited, but investor and business confidence dipped in 2021–22. With geopolitical tensions rising between China and the US, foreign MNEs seem to be moving their regional headquarters out of Hong Kong to locations such as Japan, Singapore, South Korea, and Taiwan, .[16] FDI inflows to Hong Kong from Western countries have also declined. By contrast, investor and business confidence among CMNEs has been stable, triggering an influx of Chinese firms. In 2025, mainland Chinese firms accounted for 24 per cent of foreign offices in Hong Kong, a figure that has doubled since 2013.[17]

Positive perceptions of Hong Kong among Chinese enterprises

The choice of Hong Kong as a destination, and as a stepping stone to ultimate third-country destinations of Chinese OFDI, seems to have resulted from state policy, the result of market forces, and Hong Kong's inherent attractiveness. As mentioned above, Hong Kong had been instrumental in facilitating inward FDI into China in earlier years. It is also worth noting that Hong Kong is the primary destination for Chinese enterprises' OFDI. In 2023, mainland China's FDI outflow to Hong Kong was USD 109 billion, accounting for 61.4 per cent of the total. The cumulated outflow of Chinese FDI to Hong Kong amounted to USD 1.75 trillion, almost 60 per cent of China's total outward FDI stock.[18] This data, however, merely captures China's first-order OFDI, but leaves out information on ultimate investment destinations (see Chapter 3.1.3).

China's OFDI picked up speed in 2001 and increasingly so after 2004, coinciding with the reactivated "Go Out" policy advocated by the Chinese government.[19] It was noted that the top destinations for Chinese outward FDI were Hong Kong and a group of Caribbean tax havens, accounting for a combined 80 per cent of the flow. It was surmised that the choice of Hong Kong was due to its access to trade and financing opportunities. The corporate actors in this period were highly profitable SOEs, often supported by the Chinese government. Examples of such firms were China Mobile, China Resources (Holdings) Co., and

[13] ibid, p. 181; Hui. Hong Kong as a Global Super-Connector, p. 235.
[14] Interview 8. The NSL has, along with other triggering factors, led to a trend of Western companies relocating their regional headquarters from Hong Kong in favour of other locations such as Japan, Singapore, and South Korea.
[15] J.P. Cabestan & L. Daziano. *Hong Kong: The Second Handove*r. (Fondation Pour L'Innovation Politique, 2020), pp. 1–60. See BBC. Hong Kong national security law: What is it and is it worrying?
[16] N. Zhao. *One Country, One System? Dynamics of Headquarter Relocations in Hong Kong*. Master's thesis. (Aalto University School of Business, Global Management, 2023).
[17] Ainvest. Assessing the Impact of Hong Kongs National Security Measures on Long-Term Foreign Investment and Economic Resilience. (23 July 2025). Cf., Interview 8.
[18] Hong Kong Trade Development Council (HKTDC). *Mainland Enterprises' Preferred Platform for "Going Out": (2024 YRD Survey Results)*. HKTDC report. (12 Nov 2024).
[19] Y. Yeo, China's Policy of "Going Out" 2.0. *Korean Journal of International Studies* 16:3 (2018): pp. 367–387.

China Merchants Group.[20] In 2011, which coincided with a rapid expansion of China's OFDI, the top destinations were still the British Virgin Islands, the Cayman Islands, and Hong Kong. [21] However, it can be assumed that Hong Kong already functioned as both a sink OFC and a conduit OFC. Interestingly, a large share of China's OFDI was in the "leasing and business services" sector, which mainly includes holding companies, often used as platforms to invest overseas.[22] This may explain why a large share of Chinese OFDI remains in Hong Kong.

These statistics suggest that Hong Kong has long been an attractive destination for Chinese OFDI. The desire of mainland Chinese firms to establish a presence in Hong Kong is evident. In 2024, there were 10,000 firms with parent companies outside Hong Kong, of which 2,620 had parent companies in mainland China companies.[23] It is worth noting that Hong Kong's economy is dominated by financial services, trade, logistics, and consultancy. These sectors account for the vast majority of local GDP and 88 per cent of employment. A large majority operate in the subsector of financial and insurance services.[24] In addition, by 2024, some 1,478 mainland-based firms were listed on the HKEX, accounting for a majority of its market capitalisation and trading volume.[25]

Another sign of Chinese companies' appreciation of Hong Kong is provided by a 2024 survey by the Hong Kong Trade Development Council of firms in the Yangtze River Delta. The Yangtze River Delta covers Shanghai and two neighbouring provinces, representing the most dynamic economic region in China aside from Guangdong.[26] Over 90 per cent of firms stated that they faced challenges in shipping/geopolitics and finance, and 77 per cent said they would go to Hong Kong for various services. These included marketing, e-commerce, financing, and risk management, signalling that Hong Kong was a preferred destination for firms "going out" and expanding overseas. However, while Hong Kong is the top destination for China's OFDI, most companies simply use Hong Kong as part of their overseas expansion. In sum, Hong Kong's strategic location, mature market environment, cultural affinity, free capital flows, and the insights it offers into China's policies add considerable value to its role as an OFC.[27]

Mainland enterprise presence in Hong Kong

PRC companies are present in many sectors of Hong Kong, via incorporation, listing on the HKEX, or headquarters or subsidiaries in the city. These firms are either structured as "red chips," incorporated outside China but controlled by government entities or as "H-shares," that is, incorporated in China but listed in Hong Kong. Many of these companies have been established in Hong Kong to access international capital markets and benefit from financial services.[28] There are also Chinese-origin companies with a presence in Hong Kong that are incorporated elsewhere, such as in the British Virgin Islands or the Cayman Islands (see Chapter 4.2.3).

Many Chinese companies are listed or incorporated in Hong Kong or have established holding companies and key operations there. Examples include Alibaba Group Holding Ltd., which, following US delisting risks, shifted to a listing in Hong Kong, with Hong Kong serving as a hub for its operations; Tencent Holdings Ltd. (founded in Shenzhen), which has a long-standing presence in Hong Kong; JD.com, Inc., an e-commerce giant often called

[20] R. Morck, B. Yeung & M. Zhao. Perspectives on China's Outward Foreign Direct Investment. *Journal of International Business Studies* 39:3 (2008): pp. 3.
[21] F. He & B. Wang. Chinese interests in the global investment regime. *China Economic Journal* 7:1 (2014): p. 7.
[22] B. Wang & X. Li, From world factory to world investor: the new way of China integrating into the world. *China Economic Journal* 10:2 (2017): p. 179–180. B.J. Wang & K.L. Gao, Forty Years Development of China's Outward Foreign Direct Investment: Retrospect and Challenges Ahead. *China & World Economy* 27:3 (2019): pp. 6–7.
[23] Companies Registry (HK). Companies registry releases statistics for first half of 2025. (18 July 2025)*;* Cf., News.Gov.HK, Company figures reach record high. (17 December 2024).
[24] Census and Statistics Department, Hong Kong. *Living with Statistics – 2024 edition*. (2024).
[25] S. Lin. HK stock market home to 1,478 Chinese mainland-based companies at end 2024. (10 March 2025). *Global Times*.
[26] HKTDC. *Mainland Enterprises' Preferred Platform*.
[27] ibid
[28] T. Wong. China-H vs. A-shares: A tale of two markets. *Allianz Global Investors Newsletter.* (19 August 2025); see also B. Beers. H-shares vs. A-shares, What's the Difference? Investopedia. (25 May 2025).

China's Amazon; Xiaomi Corporation, a large high-tech company; Meituan, the food delivery and lifestyle services giant; NetEase, a major internet company with a primary listing in Hong Kong; and Lenovo Group, a PC giant headquartered in both Beijing and Hong Kong.[29]

Chinese companies have moved into key economic sectors in Hong Kong such as banking, finance, shipping, energy, telecom, and infrastructure. Examples include Bank of China; CITIC Ltd.; China Taiping Insurance Group; China International Capital Corp Ltd.; China Merchants Group; China State Construction International Holdings Ltd; CNOOC Ltd.; PetroChina; China Mobile Ltd.; and China Unicom (Hong Kong), to name just the largest companies.[30] Thus, Chinese companies have a strong impact on Hong Kong's economy. More than 260 red-chip companies are listed in Hong Kong and use HKEX to raise capital and the city as a platform for their overseas operations.[31]

From a different perspective, Hong Kong's status as an intermediary between China and the world has come to be appreciated in China's top policy circles. Apparently, Hong Kong officials have leveraged their regulatory expertise to guide mainland China's policymaking on financial reform. More precisely, Hong Kong's financial experts have "contributed to the maturing of the Chinese regulatory framework and expansion of China's financial networks beyond its borders."[32] This has included IPOs on the HKEX, facilitating China's expansion of projects abroad in the RMB internationalisation project. A key aspect of Hong Kong's interaction with China has been its role in cushioning financial risks, establishing policy barriers between onshore and offshore markets, and alleviating fears among top policymakers in China.[33]

Hong Kong's "triangular" OFDI connections overseas

As mentioned earlier, Hong Kong has been a top destination for China's OFDI for at least twenty years.[34] In some circumstances, incoming FDI to Hong Kong has been channelled through a subsidiary company registered in Hong Kong and returned to China in the form of round-tripping FDI motivated by tax rules or other advantages. At other times, OFDI funds from China transit through Hong Kong, are sent onward to OFCs in the Caribbean (see Chapter 4.2.3), and are returned to Hong Kong after some regulatory added value has been obtained in those locations.

In 2021–2024, the largest inward FDI flows to Hong Kong came from China, ranging from HKD 315–466 billion per year. The average inward FDI to Hong Kong from the British Virgin Islands was HKD 263 billion per year; the average FDI from the Cayman Islands was HKD 88.8 billion per year; and inward FDI to Hong Kong from Bermuda was HKD 46.8 billion per year.[35] Clearly, huge sums of FDI capital came into Hong Kong each year from these locations. In the other direction, OFDI flows from Hong Kong to these locations were also impressive. From 2021 to 2026, average annual OFDI from Hong Kong to China was HKD 426.4 billion; to the British Virgin Islands HKD 185.5 billion; to the Cayman Islands, HKD 14.5 billion, and to Bermuda, HKD 27.1 billion.[36] Some scholars point to the close links between Hong Kong, the Cayman Islands, and the British Virgin Islands, which share a British colonial and legal heritage as well as common-law traditions and business practices. Apparently, at the time of Hong Kong's return to China in 1997, those links were

[29] Wong. China-H vs. A-shares; see also Invesco. Investor interests in China equities is rising. (2 April 2025); Daxue Consulting, *Chinese companies listed in Hong Kong: Why is Hong Kong so attractive?* (29 May 2019).
[30] See C. Hua. 25 Greater Bay Area firms make Fortune Global List. *China Daily, HK*. (23 August 2023); see also, HKEX. Board 50 Leading Companies in market capitalization.
[31] K. Wong. Chinese Firms are Dominating Key Parts of Hong Kong's Economy. Bloomberg (22 June 2022).
[32] Y.W.V. Li. Hong Kong in China's Financial Globalization, p. 440.
[33] Li. Hong Kong in China's Financial Globalization; Y.-W. V. Li. The Irreplaceable Outpost? Whither Hong Kong in China's Financial Future. *China Review* 20:3 (2020): pp. 261–278.
[34] Invest Hong Kong. *The Preferred Platform for Globalization of Mainland Enterprises*. (9 September 2025).
[35] Hong Kong Census and Statistics Department. *Table 315-38011* [Dataset]. In 2024, the total FDI inflow to HK was HKD 18,231 billion. These four investor countries accounted for 77.4 per cent of the total. The PRC share was 32.6 per cent. Note: The exchange rate of the Hong Kong dollar (HKD) to the US dollar is about 0.13. Thus, HKD 1 billion roughly equals USD 130 million.
[36] Hong Kong Census and Statistics Department. *Table 315-38021* [Dataset]. In 2024, the total outward FDI from HK was HKD 17,071 billion. These four recipient countries accounted for 85.4 per cent. The PRC share of Hong Kong's total outward FDI was 52.1 per cent.

strengthened, mainly because Hong Kong firms looked for safe jurisdictions for their assets if the Chinese communist authorities proved to be less than fully reliable.[37]

Hence, since at least the early 2000s, the "triad" of Hong Kong, the Cayman Islands and the British Virgin Islands has had important economic connections, involving large FDI transfers. As noted by Dylan Sutherland, such practices for managing OFDI in transit, developed by HK financial entities, were later adopted by CMNEs as they learned from Hong Kong-based financial experts. This gave them "access to a broader range of advanced business service providers" and links to other tax havens and OFCs besides Hong Kong. These "tax arbitrage opportunities. . . in turn encouraged Chinese businesses to gain more knowledge of the offshore world" and to plan their operations according to their varying motives.[38] It could potentially involve tax evasion or the creation of complex ownership chains so as to conceal the origins of the investments. In sum, the roundabout movements of these FDI flows can follow a perfectly sound business logic, but their opacity also raises legitimate concerns.

Hong Kong's role in China's OFDI: Any "ambiguity"?

Hong Kong has obviously played a critical mediating role in China's expansion of OFDI. However, where does it stand with regard to CMNEs and their responses to stricter FDI screening policies in Western nations? Certainly, Hong Kong has developed high levels of financial expertise over time, both in the period of inward FDI flows to China and later in China's projection of economic influence through its OFDI flows abroad. Such expertise may be seen as having a dual character. The financial sophistication of Hong Kong firms and consultants, combined with their informal networks in China and their skills in navigating unclear or incompatible regulations, can be used for both benign and less benign purposes. Since 1997, as the impact of mainland Chinese companies in Hong Kong has increased, it has become obvious that the prosperity of this OFC hinges on being supportive of China's economic policies. Hong Kong has a reputation to safeguard in the eyes of Western nations, firms, and financial institutions. Hong Kong has a legal system with stable and transparent business regulations and low levels of corruption. However, Hong Kong is also in a position of dependence on the PRC central government, much more so than an OFC such as Singapore, and this may ultimately affect its legitimacy in global business and finance circles.

Singapore

Singapore is today a leading international financial hub. Its emergence as an OFC can be traced back to the late 1960s. At the time, the government promoted financial internationalisation through favourable tax policies for foreign banks and investors to drive economic growth. Following the Asian financial crisis in the late 1990s, Singapore implemented major financial reforms to manage the downturn and position itself as a safe haven for international wealth. These reforms focused on developing the asset management sector through openness and financial innovation, while competing with Hong Kong to attract private wealth. As a result of sustained reforms in industrial policy, taxation, and immigration, and close cooperation with business and academia, Singapore's asset management sector remains highly competitive today. Amid growing geopolitical uncertainty, Singapore's political stability and strong regulatory environment reinforce its role as a safe haven for capital.[39]

Singapore's role as a major OFC is reflected in its position as the world's third-largest foreign exchange market, after New York and London.[40] It has been a major US dollar trading

[37] D. Sutherland & L. Ning. Exploring "onward-journey" ODI strategies in China's private sector businesses. *Journal of Chinese Economic and Business Studies* 9:1 (2011): pp. 43–65.
[38] D. Sutherland, J. Hurst, X. Peng & L. Wu. Exploring the use of offshore intermediary jurisdictions by CMNEs for the purposes of "onward-journey" transit FDI. *Asia Pacific Business Review* 28:2 (2022): pp. 214–234.
[39] Q. Liu & G.F. Li. 新加坡离岸金融中心发展镜鉴 [Lessons from the Development of Singapore's Offshore Financial Centre]. *中国外汇* [China Foreign Exchange] 7 (2025): pp. 46–47.
[40] Monetary Authority of Singapore. Foreign Exchange & Derivatives. (October 2025).

hub since the late 1970s.[41] Moreover, its financial sphere is heavily integrated with that of China, facilitating the flow of capital between the countries and increasing the Singapore's attractiveness as an investment destination for Chinese companies. Singapore serves as a regional hub for offshore RMB trade, with RMB trading volumes growing steadily in recent years. Singapore is in fact a central node in the global offshore RMB network, alongside Hong Kong and London. This position is supported by institutional arrangements, notably a currency swap agreement in place since 2010 between the Monetary Authority of Singapore, which is both the central bank and the financial supervisory authority of the city-state, and the People's Bank of China. In 2017, Singapore overtook Hong Kong as the world's largest market for RMB foreign exchange futures, while also ranking second in cross-border RMB payments and third in RMB clearing. Singapore is second only to Hong Kong in investment in China's RMB bond market, and the Singapore Exchange cooperates with the Shanghai and Shenzhen stock exchanges on exchange-traded funds.[42]

The financial sector is important for Singapore's economy overall, alongside logistics and manufacturing. In 2024, financial services accounted for 14.3 per cent of GDP, the third-largest sector after wholesale trade (20.3 per cent) and manufacturing (17.3 per cent).[43] Services overall represented 54.9 per cent of total exports, led by transport services (34.5 per cent), followed by business management (10.7 per cent) and financial services (5.0 per cent).[44]

A bridgehead to ASEAN and beyond

Singapore is a prominent conduit OFC, primarily for Chinese onward-journey FDI to other ASEAN countries. In addition to Singapore, which is a founding member, ASEAN includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Thailand, Timor-Leste, and Vietnam.[45] These are politically, economically, and culturally diverse nations, and Singapore serves as a vantage point or "bridgehead" for CMNEs. Singapore hosts many regional headquarters of CMNEs (examples are provided below). It is the regional financial centre and possesses advantages in terms of business networks, tax policies, political stability, and a highly skilled workforce capable of providing high-quality professional services in finance. Other factors that make Singapore attractive to Chinese and other foreign investors include its efficient state administration and governance, few restrictions on establishing companies, equal treatment of foreign and domestic companies, an impartial judiciary, free capital flows, and access to advanced communication technology.[46] Singapore has also been actively trying to establish itself as a hub for intellectual property protection, not least for CMNEs doing business in the region.[47]

Though the focus here is on Singapore's financial sector, its role as a logistics hub right next to the Strait of Malacca, a major global trading route, also bears mention.[48] Singapore's geographical location, its advanced financial sector and infrastructure, and its long history of relations with China makes it a crucial node in the Maritime Silk Road.[49] Singapore has an important role to play in financial risk management for Chinese companies participating in the BRI, which, for instance, attracts Chinese financial derivatives companies to establish locally.[50]

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[41] Liu & Li. Lessons from the Development, p. 47.
[42] ibid, pp. 47–48.
[43] Department of Statistics Singapore. Singapore Economy. (April 2025).
[44] Department of Statistics Singapore. Singapore's International Trade. (February 2025).
[45] J.I. Chong. Great Power Competition in Small States: The Case of Singapore. *Asian Perspectiv.* 49 (2025).
[46] Q. Chen. 陈庆：新加坡——中国企业海外投融资的桥头堡 [Chen Qing: Singapore – A Bridgehead for Chinese Enterprises' Overseas Investment and Financing]. (HSBC Financial Research Institute, Peking University, 18 April 2024).
[47] J. Gunter, A. Adachi& F. Ghiretti. Post-Covid momentum for China's global ambitions. (MERICS, 29 March 2023).
[48] Liu & Li. Lessons from the Development, pp. 47–49.
[49] Chen. Chen Qing: Singapore – A Bridgehead.
[50] China Futures Association. [期货日报]期货机构"出海" 寻求差异化是关键 [[Futures Daily] Futures institutions "going overseas": Seeking differentiation is key]. (22 August 2024).

Singapore has free trade agreements beyond Asia, including with the EU, which contributes to its attractiveness to foreign MNEs.[51] Singapore's utility for so-called tariff-jumping is apparent. To circumvent tariffs imposed on their home country, foreign firms may establish local production in Singapore and use it as a hub for exports to their target markets. Moreover, Singapore has double tax treaties in force with 92 jurisdictions around the world, including China and many EU countries.[52]

Singapore is one of the largest FDI recipients in the world. In 2024, it ranked second globally with an inflow of USD 143 billion, after the US (USD 279 million) but ahead of Hong Kong (USD 126 million) and China (USD 116 million).[53] Singapore received approximately 63 per cent of total inbound FDI to ASEAN countries in 2024, only 4.3 per cent of which came from other ASEAN members.[54] In 2024, 52.1 per cent of total Chinese FDI flows to ASEAN went to Singapore, with major business sectors including retail, manufacturing, leasing, and business services. As of 2024, Singapore accounted for 51.7 per cent of total Chinese FDI stock in ASEAN.[55] However, of Singapore's total inbound FDI in 2024, only 5.4 per cent came from China and 2.4 per cent from Hong Kong. Chinese FDI flows have grown in recent years, especially after the pandemic, and 2024 levels were the highest since 2017. Inflows from Hong Kong during the same period have fluctuated.[56]

As for investment flows in the opposite direction, OFDI from Singapore in 2024 amounted to USD 55 billion (seventh globally).[57] As of 2023, China represented 14.6 per cent of Singapore's total OFDI stock.[58] In 2023, Singapore was the second-largest source, after Hong Kong, of FDI to China, representing 6 per cent of total incoming flows.[59] The large gap between inbound (143 billion in 2024) and outbound (55 billion) FDI flows suggests that Singapore not only serves as a conduit OFC, but also as a sink OFC that retains foreign capital, reflecting the attractiveness of its asset management sector.

From a bird's-eye view, most Chinese onward-journey FDI going through Singapore appears to stay in the region (i.e., ASEAN), whereas onward-journey FDI to Europe represents a minority of investment flows. Singapore is also a prominent conduit OFC for European capital flowing onwards to various sink OFCs, including Bermuda, the British Virgin Islands, the Cayman Islands, and Hong Kong.[60] Simultaneously, these sink OFCs are among the top sources and destinations of capital flows to and from Singapore. Figures 10 and 11 below present inward and outward FDI stocks for selected Caribbean and EU jurisdictions, alongside China and Hong Kong.[61]

[51] Liu & Li. Lessons from the Development, pp. 47–49.
[52] Inland Revenue Authority of Singapore. List of DTAs, Limited DTAs and EOI Arrangements. (July 2024).
[53] United Nations. *World Investment Report 2025 Chapter 1: International investment trends*. (2025), p. 9.
[54] ASEAN Statistics Division. *ASEAN Statistical Highlights 2025*. (2025).
[55] Ministry of Commerce of the People's Republic of China, National Bureau of Statistics, and State Administration of Foreign Exchange. 2024 年度中国对外直接投资统计公报 [*2024 Statistical Bulletin* of China's Outward Foreign Direct Investment]. (September 2024), pp. 32–33.
[56] Department of Statistics Singapore. *Foreign Direct Investment In Singapore By Source Economy (Flows)* [Dataset]. (April 2025).
[57] United Nations. *World Investment Report 2025 Chapter 1*, p. 11.
[58] Department of Statistics Singapore. *Singapore's Direct Investment Abroad By Destination Economy (Stock As At Year End)* [Dataset]. (March 2025). Singapore's official statistics only provide data on outbound investment stocks, not flows.
[59] Ministry of Commerce of the People's Republic of China. *中国外资统计公报 2024* [Statistical Bulletin of FDI in China 2024]. (2025), p. 7.
[60] Garcia-Bernardo et al. Uncovering Offshore Financial Centers, p. 8.
[61] The selection of Caribbean and EU states is based on FDI stock sizes as of 2023.

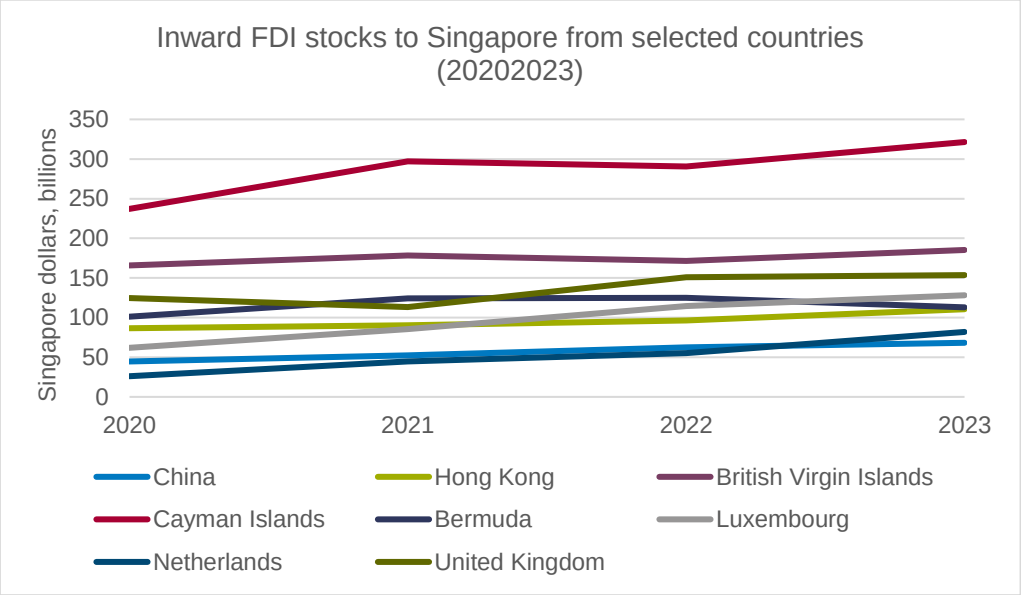


Figure 10. Inward FDI stocks to Singapore from selected countries, 2020–2023. **Source:** Department of Statistics Singapore.[62]

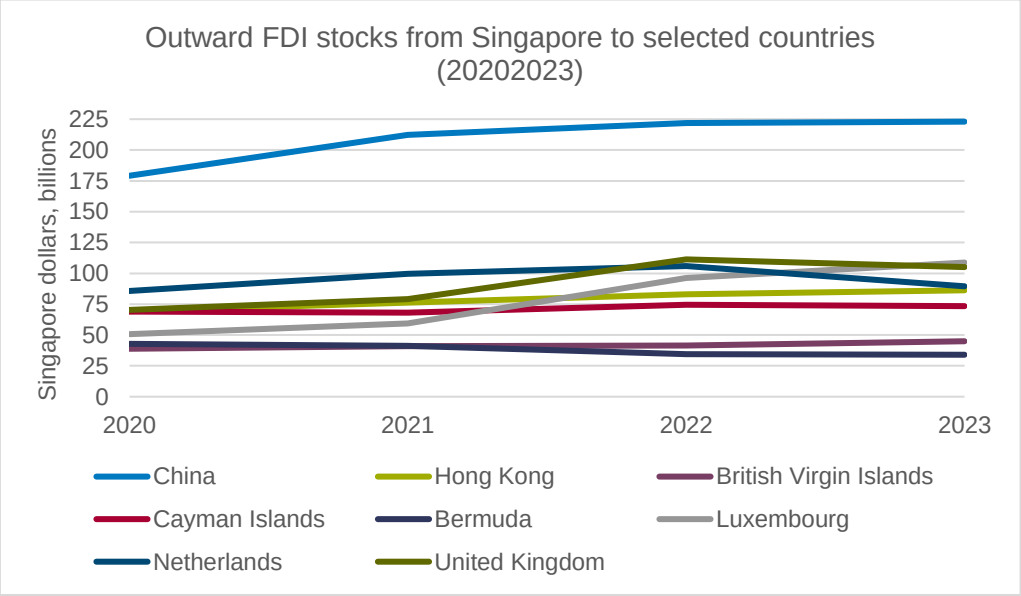


Figure 11. Outward FDI stocks from Singapore to selected countries, 2020–2023. **Source:** Department of Statistics Singapore.[63]

Chinese and other foreign company presence

Foreign companies overall contribute greatly to Singapore's trade; 74.5 per cent of exports of goods and services and 77.6 per cent of imports are tied to foreign affiliates (defined as companies majority-owned by a single foreign investor). Foreign affiliates account for 57.6 per cent of value-added activity in Singapore, while representing 28.5 per cent of total employment. At the same time, only 9.4 per cent of companies in Singapore are foreign affiliates. In other words, the contribution of foreign companies to Singapore's economy is dis-

[62] Department of Statistics Singapore. *Foreign Direct Investment In Singapore*.
[63] Department of Statistics Singapore. *Singapore's Direct Investment Abroad*.

proportionately high.[64] In total, more than 4,200 foreign MNEs have regional headquarters in Singapore.[65] Singapore's official statistics on foreign investors do not allow for a breakdown of Chinese companies by industry. However, the overall industry distribution of all 32,464 foreign affiliates in Singapore suggests that various types of service companies and trade offices, rather than manufacturing companies, predominate among foreign corporate entities in Singapore.[66]

A Chinese academic article suggests that, in 2023, more than 8,500 Chinese companies were registered in Singapore in various sectors of the economy, including not only trade, finance, and shipping and logistics, but also infrastructure, AI, and the digital economy.[67] Another dataset, provided by Rhodium Group, tracks 5,733 Chinese investments in Singapore as of 2024, for a total value of USD 53.4 billion. Around 60 per cent of total transaction value stems from private companies, and 40 per cent from SOEs. In terms of transaction count, most (93.7 per cent) Chinese direct investments are small or medium- sized, and the lion's share (92.7 per cent) consists of greenfield investments. However, in terms of transaction value, acquisitions account for 72.7 per cent, and major transactions (>USD 5 million) for 95.8 per cent. Chinese corporate entities in administration and operation support services account for the largest share (75.2 per cent) of the total, whereas business and consumer services dominate in terms of transaction value (74.1 per cent of total).[68]

There are several examples of major Chinese or Chinese-origin companies with significant ties to Singapore. These include e-commerce fashion giant Shein, which in 2022 underwent corporate inversion and is now headquartered in Singapore, even though most of its supply chain activities remain in China.[69] Overall, Singapore is a major innovation hub that attracts Chinese and other foreign companies alike. Major Chinese tech companies such as Alibaba, ByteDance, and Huawei have invested significantly in data centres and research labs in Singapore.[70] Examples of large Chinese SOEs with international and/or regional headquarters in Singapore include China Telecom and China Railway Materials.[71] TikTok, analysed in Chapter 4.2.3 above, is another major Chinese company with international headquarters in Singapore.

ByteDance also has subsidiaries in Singapore other than TikTok, including chip design company Picostar, incorporated in 2023. Interestingly, in September 2025, it was reported that chip designers had been administratively, but not physically, transferred from ByteDance's offices in China to Picostar. This prompted suspicions that the Singaporean subsidiary was being used to circumvent US semiconductor export restrictions on China.[72] Similarly, both ByteDance and Alibaba are reportedly using Singaporean data centres, equipped with Nvidia GPUs and owned by non-Chinese entities, to train their AI models in a way that, for now, remains compliant with US export controls.[73]

Some Chinese companies are likely to derive greater benefit from regional headquarters in Asian OFCs, such as Singapore (or Hong Kong), than others. For instance, companies from Chinese cities that are highly embedded in the region for historical reasons may already have ample access to business information and networks and derive less benefit from establishing operations elsewhere in the region for intraregional business activities. The degree

[64] Department of Statistics Singapore. *Statistics of Foreign Affiliates in Singapore 2023*. (June 2025).
[65] M. F. Cortez. Multinationals Pick Singapore Over Hong Kong for Asian Headquarters. *Bloomberg*. (22 February 2024).
[66] Department of Statistics Singapore. *Statistics of Foreign Affiliates in Singapore 2023*.
[67] Liu & Li. Lessons from the Development, pp. 47–49.
[68] China Cross-Border Monitor. *Geographies > Singapore*. (Rhodium Group, 2024).
[69] J. Kynge, J. Webber& C. Murray. *China's new back doors into western markets*. Financial Times. (5 September 2024).
[70] P.H. Lim. *Critics:* "Singapore Washing" of Chinese Companies Piles Dirty Laundry in City-state. *Voice of America*. (23 February 2024).
[71] Cortez. *Multinationals Pick Singapore*.
[72] W. Chen. ByteDance moves 1,000 chip employees to Singapore unit in internal directory update. *South China Morning Post.* (5 September 2025); F. Potkin & L. Mo. ByteDance chip design staff suddenly find out they report to Singapore unit, sources say. *Reuters.* (5 September 2025).
[73] L. James. Alibaba and ByteDance allegedly train Qwen and Doubao LLMs using Nvidia chips, despite export controls – Southeast Asian data center leases skirt around U.S. chip restrictions. *Tom's Hardware*. (27 November 2025).

of regional embeddedness may vary depending on, for example, the industrial composition of the home city. At the same time, a high degree of regional embeddedness may coincide with limited interaction with interregional business partners.[74] In such cases, regional headquarters in Singapore may primarily serve to promote the companies' interregional business activities, that is, trade and investment outside Asia.

Ethnicity plays an important role in the mutually beneficial economic relationship between Singapore and China. The Singaporean government has long been explicit about ethnic Chinese business networks' role in Singapore's international business ventures and has institutionalised the promotion of Sino-Singaporean economic ties through the involvement of government agencies, the private sector, and business associations. Some examples include China-Singapore Investment and Trade Committees, Cooperation Councils between Singapore's government and various Chinese provinces, and associations that connect ethnic Chinese businessmen and entrepreneurs, such as the Singapore Chinese Chamber of Commerce and Industry, founded in 1906. Some of these associations are supported by Singapore's People's Association, a government-established board that oversees community groups.[75] Not only does this give Singapore a multitude of venues through which to exercise influence on China in the economic sphere, but is also gives Chinese companies and state actors avenues through which to influence Singapore.

Singapore's geopolitical balancing

Finally, it is worth noting that Singapore has long had to balance its relations with China and the US. As the superpower rivalry between the two has intensified, Singapore has increasingly been squeezed between them. Historically, Singapore's economic success has hinged on its ability to exploit the benefits of a stable world order and to accommodate multiple major powers at once by serving as a "conduit" or "broker." This has become harder in recent years, as, for instance, US technology restrictions limit the scope of Singapore's business with China, particularly in semiconductor assembly. As the great power rivalry becomes more zero-sum, the conditions for Singapore to act as a middleman worsen, to the extent that it is expected to declare its geopolitical allegiance. Singapore already has close defence relations with the US, which can be leveraged by the latter, for instance, through threats to limit access to military technology. Meanwhile, to compel the city-state to align more closely with the People's Republic's foreign policy, China employs influence operations through United Front-affiliated organisations and supports diaspora nationalism among ethnic Chinese in Singapore, also involving the local embassy.[76]

Singapore has FDI screening legislation, which does not target Chinese investments specifically. However, a new act explicitly aimed at protecting national security, the Significant Investments Review Act, entered into force in 2024. Among other things, this act allows the government to exercise significant "call-in power" over any corporate entity in Singapore whose activities are deemed harmful to national security. Within two years of a transaction being completed, the government can exercise control over company equity interests, voting rights, and information disclosure.[77] This study has not found public information on either the new "call-in power" being exercised in practice or on Chinese companies being blocked from investing in Singapore. However, the new legislation may discourage foreign companies, including those from China, from engaging in business behaviour in Singapore that may damage the city-state's reputation as a neutral and reliable actor. At the same time, the extensive Sino-Singaporean business and diaspora ties may come into play here due to the possibility that informal influence may be exerted over the actual implementation of FDI screening.

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[74] X. Ma, P. Wang & D. Li. What Determines the Establishment of Chinese Multinational Enterprises' Asian Regional Headquarters? *Management and Organization Review* 13:1 (2017): pp. 93, 97.

[75] H. Liu & J. Goh. Emerging business transnationalism in Singapore and China: governance, networks, and strategies. *Asia Pacific Business Review* 30:4 (2024): pp. 649–650, 652.

[76] Chong. Great Power Competition in Small States, p. 25–26, 36–40.

[77] W. Yuen Yee. Singapore's New Investment Screening Law. *Lawfare*. (9 July 2024). Prior to the Significant Investment Review Act, there was already sector-specific legislation, for example, in the financial sector. However, the new act is unique in that it focuses on protecting "designated entities" that are deemed critical to national security, not least in the defence and energy sectors. For such entities, the government now has the ability to exercise significant control over existing and future ownership changes.

EU

The European single market is globally unique in its free movement of capital. While there have been attempts to harmonise the FDI screening system across the EU and the European Economic Area, each of the member states operates its own mechanism, and each faces a different set of challenges and opportunities, both for policymakers and for foreign investors.

European tax havens and Chinese company presence

As mentioned in Chapter 4.2.3, there are many known tax havens among the EU member states. This section further explores popular tax evasion schemes. Historically, a scheme dubbed the "Double Irish," involving two subsidiaries domiciled in Ireland and responsible for operations within the EU, became popular among American MNEs seeking to avoid tax on non-US profits. This is because the US is one of the world's few jurisdictions that apply taxation extraterritorially.[78] The scheme has been in effect since the 1980s, but became particularly prevalent with the expansion of American providers of digital services in the 2000s.[79]

Another widespread method is a scheme dubbed the "Dutch Sandwich," which has been used since the early 2000s. It allows MNEs to avoid certain types of taxes (particularly withholding taxes) and, as such, is attractive to MNEs originating from all jurisdictions, regardless of whether their home jurisdictions apply territorial or extraterritorial taxation.[80] Its use, often in combination with other financial mechanisms (including the "Double Irish") has made the Netherlands one of the largest, if not the largest, conduit OFCs on the planet.[81] Luxembourg has played similar role since the 1960s, and this has also made the small nation one of the world's largest OFCs.[82]

International pressure during the 2010s and 2020s, not least from the EU institutions, has led EU member states including Ireland, Luxembourg, and the Netherlands to review their respective regulations to curb tax evasion. Nonetheless, many of these practices and variations thereof prevail.[83] On the other hand, some research suggests that Chinese companies' use of European OFCs is limited compared with their use of other OFCs, with the Cayman Islands being the leading OFC.[84]

Ireland's favourable tax policies have incentivised American MNEs to establish their European headquarters there.[85] This, in combination with American dominance in the digital services sector, has led to a cluster of digital service providers in Dublin, with companies such as Adobe, Alphabet (parent of Google), Amazon, Apple, Meta (parent of Facebook), Microsoft, Oracle, Salesforce, and many more. This cluster has both facilitated the establishment of local companies in related industries (e.g., Accenture) and attracted investments from other parts of the world, including China. Examples of Chinese tech companies with their European headquarters in Dublin include ByteDance (parent of TikTok), PDD Holdings (parent of Temu) and Shein. Other companies retain a considerable presence in

[78] N. Samarakoon & P.R. Organ. Doubling down on tax avoidance: the effect of Double Irish closure on the profit shifting of U.S. multinational companies. *International Tax and Public Finance* (2025): pp. 1–43.
[79] J.B. Brothers. From the Double Irish to the Bermuda Triangle. *Tax Analysis*. (24 November 2014), pp. 687–695.
[80] S. Bateman. Double Irish, Dutch Sandwich: Overcoming Hybrid Mismatch Arrangements. *Corporate Business and Law Journal* 4 (2023): pp. 92–115.
[81] A. Beebeejaun. The Double Irish and Dutch Sandwich strategies and tax avoidance in Mauritius. *Journal of Money Laundering Control* 24:4 (2021): pp. 737–751; P. Hodgson. Netherlands, not Bermuda, is the tax evasion capital of the world. *Compliance Week*. (30 July 2017).
[82] B. Majerus. From local notables to global players: Law firms in a tax haven (Luxembourg, 1960s to 2020s). *Business History* 67:8 (2025): pp. 2166–2181; J.R. Hines. Treasure Islands. *Journal of Economic Perspectives* 4:24 (2010): pp. 103–125.
[83] P. Cooke. "Agentic" cluster aggression: KIBS auditors and law firms as key tax haven drivers. *Competitiveness Review* 34:5 (2024): pp. 1036–1053.
[84] C. Clayton, A. Coppola, A. dos Santos, M. Maggiori & J. Schreger. China in Tax Havens. *AEA Papers and Proceedings* 113 (2023): pp. 114–119.
[85] Samarakoon & Organ. Doubling down on tax avoidance.

Ireland even though their European headquarters remain located elsewhere, as is the case with Huawei and WuXi Biologics (both in Germany).[86]

A similar cluster in the banking industry has arisen in Luxembourg. This is in part due to Luxembourg's low corporate tax rates, and in part due to its proximity to major European financial and political institutions. As Luxembourg has grown into a major centre of financial services in Europe, it has attracted investment and the presence of foreign financial institutions, including Bank of China, Bank of Communications, China Construction Bank, and Industrial and Commercial Bank of China.[87]

Diaspora as an FDI anchor: The case of Italy

The presence of a Chinese diaspora in a country is likely to attract Chinese investments. One example of this is Italy. The Chinese diaspora in Italy dates back at least to the 19th century, when the growing industrial centres in the north of the country attracted immigrants. Over time, the Italian luxury industry also attracted Chinese immigrants and gave rise to a high concentration of the Chinese diaspora, especially around the textile industry in Tuscany.[88]

Strong brand recognition enjoyed by Italian luxury brands can also be seen in this context as a valuable asset for potential Chinese investors. Examples include brands such as Golden Goose (owned by Hong Shan Capital Group) and Giada (owned by Redstone). Additionally, a well-established and well-integrated diaspora facilitates investment, as it provides potential employees with relevant linguistic and cultural competences, as well as social and business networks in the local market.[89]

A recent report by the Chinese Chamber of Commerce in Italy estimates that over 600 companies with Chinese investment operate in 36 major industries in Italy, providing over 30,000 jobs in the country and generating a total of over Euro 24 billion in revenue.[90] However, the scale of Chinese investments in Italy has provoked mixed reactions from the Italian government, which aims to reduce Chinese influence in some sensitive sectors. Examples cited as being of concern to government officials in Rome are the tyre maker Pirelli & C (where the Chinese SOE Sinochem holds a 37 per cent stake), the electricity grid operator CDP Reti (in which State Grid Corporation of China holds a 35 per cent stake), and power plant manufacturer Ansaldo Energia (in which Shanghai Electric currently holds a minor stake).[91]

Caribbean islands

Caribbean islands, specifically the British Virgin Islands, the Cayman Islands, and to a lesser extent, Bermuda, are top OFC choices for CMNEs. These all belong to the British Caribbean and Atlantic Overseas Territories. In 2024, the British Virgin Islands accounted for 10.6 per cent of China's total OFDI stock, or nearly USD 332 billion, followed by the Cayman Islands at 6.8 per cent, equivalent to approximately USD 215 billion. Bermuda ranks 13th at 0.5 per cent, or USD 17 billion, of China's OFDI stock.[92] The British Virgin Islands is home to the largest number of Chinese-invested companies (PRC equity ownership of over 10 per cent) worldwide after Hong Kong, the US, and Singapore; the Cayman Islands ranks fifth.

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[86] A. Darwin. China and Ireland Economic and Finance Cooperation. In *China and the Changing Context*. (Springer Nature, (2022), pp. 63–71.

[87] P. Balmas & S. Dörry. Chinese bank networks in Europe: FDI-oriented by legal and strategic design. *Eurasian Geography and Economics* 66:1 (2025): pp. 1–27.

[88] E. Barberis & A. Violante. Chinese Immigration to Italy and Economic Relations with the Homeland: A Multiscalar Perspective. In *Native and Immigrant Entrepreneurship: Lessons for Local Liabilities in Globalization from the Prato Case Study*. (Springer International Publishing, 2017), pp. 31–52.

[89] Barberis & Violante. Chinese Immigration to Italy and Economic Relations with the Homeland; Reuters. China's HongShan eyes $2.9 billion Golden Goose deal by Christmas. (5 December 2025); see also S. Segre-Reinach. From Joint Ventures to Collaborative Projects: Toward an Ethnography of Sino-Italian Fashion Relations in the 2020s. *Fashion Theory* 25:7 (2021): pp. 931–944.

[90] G. Jingyan. Chinese enterprises in Italy see opportunities for deeper business cooperation. Xinhua Silk Road Database. (2025).

[91] D.P. Mancini, A. Migliaccio & D. Lepido. Meloni Seeks to Shrink Chinese Holdings at Key Italian Companies. *Bloomberg*. (2025).

[92] MOFCOM, NBS, and SAFE. *2024 Statistical Bulletin*, p. 22.

An analysis of how CMNEs use Caribbean OFCs shows two primary purposes: to escape PRC regulatory supervision and to raise foreign capital. Notably, the methods used involve adding complexity to the corporate structure and confounding the geographical path of capital, two key ingredients of a concealment strategy.

Skirting Chinese government and shareholder scrutiny

CMNEs appear to move capital via one or several Caribbean OFCs for two primary reasons. The first reason is to escape the PRC business regulatory environment. Studies in the academic literature have found that EMNEs use international expansion as a "springboard" to alleviate institutional and market constraints in the home market, among other aims.[93] The constraining factors that companies may seek to escape in this context are China's business regulations, which are inconsistent and opaque (see Chapter 3.2).

In this context, the Cayman Islands and the British Virgin Islands are well-known for their low-burden legal systems. As British dependent territories, the Cayman Islands and the British Virgin Islands adhere to the English common law tradition and have good reputations for stability, legal certainty, and compliance with international standards. Professional services such as accounting and legal advice are widely available.[94]

These characteristics make the Cayman Islands and the British Virgin Islands attractive offshore locations for Chinese enterprises that seek to lower costs and administrative burdens, increase confidentiality, and improve the legal conditions for business transactions. Chinese companies frequently buy and sell China-based businesses via the Cayman Islands to ensure robust legal protection, and property rights transactions between Chinese companies are commonly undertaken in the British Virgin Islands.[95] Others take their business to Caribbean OFCs to avoid the Chinese government's financial supervision of their international business. For example, a company may want to engage in business ventures or hold investments because doing so from China could, for some reason, create tax or legal issues.[96] CMNEs may also register shell companies for purposes of tax avoidance. One estimate from 2019 suggests as many as 40 per cent of Chinese firms conceal parts of their profits by using international shell companies.[97]

The use of Caribbean OFCs to elude PRC regulation does not directly impact Chinese firms' OFDI behaviour or management of FDI screening mechanisms. However, incorporation in the Cayman Islands or the British Virgin Islands could be considered an enabler of Chinese OFDI in the sense that the stable and high-integrity institutional and judicial environment may reduce the relative costs of internationalising compared to doing so from the PRC.

Accessing foreign capital

A second reason why CMNEs invest in or domicile themselves in Caribbean OFCs is to access and raise foreign capital. According to World Bank data, 1 in 4 Chinese firms identify inadequate access to finance as the biggest obstacle to their business, compared to an international average of 1 in 6.[98] The Cayman Islands is home to a large amount of investment capital in the form of international hedge funds and foreign banks, potentially the largest number of investment funds in the world, due to its expertise in fund structuring, secrecy regulations and lack of taxation on corporate income and capital gains.[99] MNEs may thus establish a presence in these jurisdictions to raise equity. This appears to be a significant

[93] Y. Luo & R.L. Tung. A general theory of springboard MNEs. *Journal of International Business Studies* 49:2 (2018): pp. 129–152.
[94] J. Fichtner. The anatomy of the Cayman Islands offshore financial center: Anglo-America, Japan, and the role of hedge funds. *Review of International Political Economy* 23:6 (2016): pp. 1038–1039.
[95] Buckley et al. The economic geography of offshore incorporation in tax havens and offshore financial centres: the case of CMNEs. *Journal of Economic Geography* 15 (2015).
[96] X. Wei & R. Palan. Global corporate structure of Chinese state-owned financial institutions through Hong Kong. *Journal of International Relations and Development* 26 (2023): p. 388.
[97] B. Michael & S.H. Goo. Do Corporate Governance Practices in One Jurisdiction Affect Another One? Lessons from the Panama Papers. *Chinese Journal of Global Governance* 5:2 (2019): p. 4.
[98] World Bank. China – Biggest Obstacle. Formal Sector World Bank Enterprise Surveys (WBES). *(*2024).
[99] Buckley et al. The economic geography.

motive, since companies in the PRC in 2020 received more than USD 2,000 billion from subsidiaries in the Cayman Islands and the British Virgin Islands.[100]

It is common for Chinese firms to create a listing vehicle in the Cayman Islands to go public on a US stock exchange. Until 2014, the Cayman Islands was the only jurisdiction from which companies were permitted to have dual primary listings on the Hong Kong and US stock exchanges. This is no longer the case, but companies incorporated in the Cayman Islands and Bermuda still receive privileged access to HKEX.[101] Moreover, the Cayman Islands remains a favourite platform for Chinese IPOs because the Cayman Companies Law allows flexibility in share structuring (for example, by allowing segregated portfolio companies) and corporate governance.[102] Some examples of CMNEs that use the Cayman Islands to list on the New York Stock Exchange or NASDAQ are Alibaba, XPeng, and ZTO Express.

Since British Virgin Islands companies are not legally required to publish a yearly audit report, the British Virgin Islands listings are not widely accepted by global stock exchanges, including in the US and Hong Kong. However, non-listed companies in the British Virgin Islands can still be used to raise capital. In fact, Chinese SOEs appear to prefer the British Virgin Islands for this purpose. State Grid Corporation of China, China National Offshore Oil, and Sinopec are some examples of SOEs that issue corporate bonds via a British Virgin Islands subsidiary.[103] The reason for this preference is not clear, but could be related to the British Virgin Islands' niche expertise in business incorporation and the fact that registering a non-listed company is both quick and relatively inexpensive.[104]

The incorporation of listing vehicles in the Cayman Islands or bond-issuing subsidiaries in the British Virgin Islands does not directly impact CMNE's positions on FDI screening. However, as above, this behaviour may be considered an enabler of OFDI into screening-implementing countries in the sense that it raises capital that may be reinvested.

The sandwich manoeuvre

A typical manoeuvre used by investors who value their anonymity is to create corporate structures with multiple layers that mix different types of business entities across various jurisdictions. The sandwich manoeuvre, as the authors have chosen to name it here, is essentially a corporate inversion (see Chapter 4.2.3) with additional layers of holding companies. The strategy begins with a holding company (the top bread slice) and ends with operating entities, that is, the subsidiaries that perform the primary business activities (the bottom bread slice). The operating entities typically are based in China, but do not need to be. In between the bread slices are multiple layers of intermediate holding companies and offshore subsidiaries, the number of layers depending on the size of the company and the geographic scope of its activities.

In practical terms, the strategy commonly plays out as follows. First, a Chinese company incorporated in the PRC or Hong Kong sets up a holding company, most commonly in the Cayman Islands, in preparation for an offshore listing. Subsequently, the holding company will set up an intermediate holding company or subsidiary in the British Virgin Islands. This middle layer serves to isolate the top holding company from risks at underlying levels and to preserve confidentiality.[105] In some instances, the parent company may establish two or more intermediary holding companies, adding multiple layers in the Cayman Islands, the British Virgin Islands, and Hong Kong to the corporate sandwich. With a new structure in place, one of the intermediate holding companies acquires all the equity in the original Chinese firm, effectively performing the inversion that transfers ownership abroad. Finally,

[100] Clayton et al. China in Tax Havens.
[101] HKEX. FAQ – List with HKEX.
[102] Carey Olsen. Choosing your offshore listing vehicle – key factors to consider. (January 2021).
[103] Clayton et al. China in Tax Havens.
[104] A. Davis. Why More Chinese Businesses are Choosing the BVI for Offshore Investment: A Move to Quality. *China Law & Practice* (21 February 2019).
[105] Sina Finance. [新浪财经]. 海外股权设计解密：开曼、BVI、香港各自扮演什么角色？[Overseas equity structures decoded: what roles do the Cayman Islands, the British Virgin Islands and Hong Kong play?] Baidu Baijiahao.

the Cayman Islands holding company lists on one or several stock exchanges and issues shares to the existing shareholders of the intermediary holding company that acquired the original firm.[106]

A sandwiched structure is the baseline for establishing a VIE structure (see Chapter 4.3.2). In a VIE structure, the holding company owns a wholly foreign-owned company (WFOE) in China that exerts, through contracts, non-ownership control over local PRC businesses. The VIE structure can be slim with only one offshore layer in which the listed company directly owns the WFOE, or it can sandwich multiple layers of intermediate holding companies in the Cayman Islands, the British Virgin Islands and Hong Kong. Commonly, the WFOE is owned by a Hong Kong subsidiary, which is owned by the listed company. A VIE may also control several Chinese subsidiaries of its own through equity stakes. Figure 12 below illustrates the VIE structure used by Alibaba.

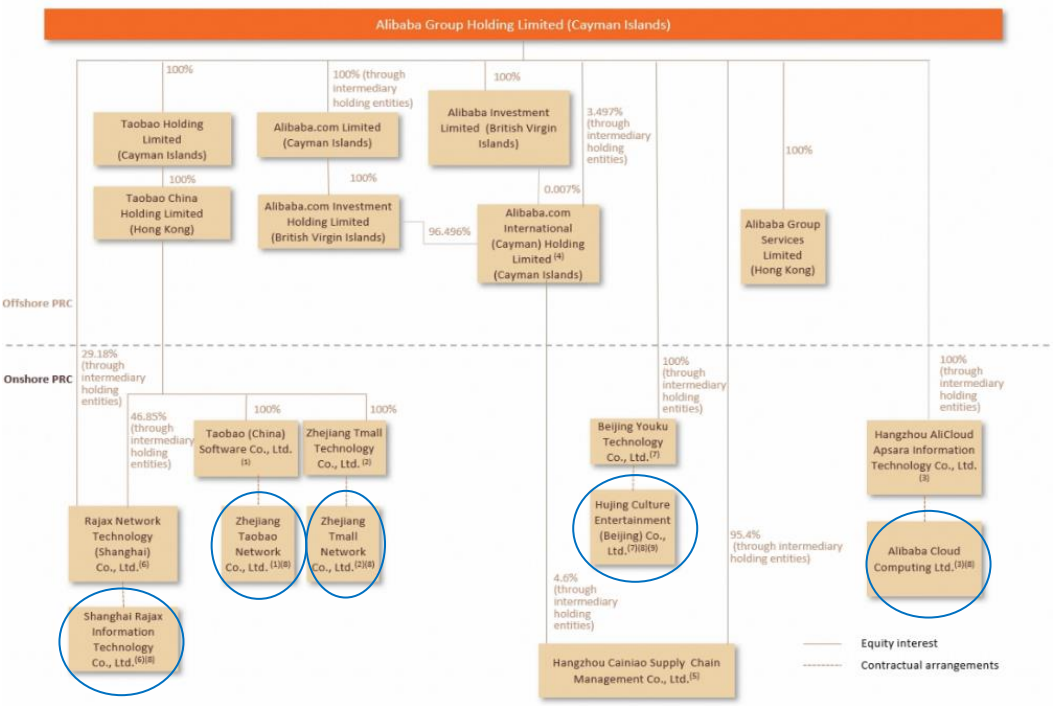


Figure 12. A schematic representation of Alibaba's corporate structure. Alibaba Cloud, Hujing Culture, Shanghai Rajax, Zhejiang Taobao, and Zhejiang Tmall, all circled in blue, are VIEs held through contractual arrangements with a WFOE owned by offshore Alibaba intermediate holding companies. **Source:** Alibaba.[107]

What do these methods and uses of Caribbean OFCs imply for CMNEs' responses to FDI screening mechanisms? It is important to point out that these tactics primarily appear business-motivated. Firms want access to a more stable institutional and regulatory environment and foreign capital, that is, traditional efficiency- or market-seeking behaviour. However, the sandwiching methods can plausibly also be used illicitly to conceal ownership and equity relations.

[106] Buckley et al. The economic geography.
[107] Alibaba. *Fiscal Year 2025 Annual Report*. (26 June 2025), p. 49.



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