

Regulations to safeguard outbound investment

EAGLE EYE

By Yang Zekun

On June 1, China's State Council — the nation's Cabinet — released regulations on outbound investment (hereinafter referred to as “the regulations”), which will take effect on July 1. As the country's first comprehensive administrative regulations governing outbound investment, they mark a historic step toward a unified legal framework for overseas investment activities.

They represent an important legal milestone in balancing development and security while advancing high-standard opening-up, with far-reaching historical and practical significance.

China's outbound investment has undergone nearly half a century of development. Since the country first proposed allowing enterprises to establish operations overseas in 1979, outbound direct investment has grown steadily, reaching \$174.38 billion in 2025.

Chinese companies have established more than 50,000 enterprises abroad, making China one of the world's major sources of outbound investment.

Despite this rapid growth, governance of outbound investment has long relied on departmental regulations and policy documents. Regulatory responsibilities were divided among agencies such as the National Development and Reform Commission, the Ministry of Commerce and the State Administration of Foreign Exchange, resulting in a fragmented framework without a unified legal foundation.

The regulations bring the oversight functions of different authorities into a single institutional framework for the first time through an administrative regulation. They establish the basic legal rules governing outbound investment and represent an evolution from policy-based management to institutionalized governance backed by the rule of law.

Some scholars have noted that the legislation fills a long-standing institutional gap in the outbound investment sector, and provides a fundamental legal basis for investment administration and services. It signals a new stage of law-based and standardized governance for China's outbound investment activities.

Consisting of 34 articles, the regulations establish a full-cycle governance framework covering pre-investment approval and filing procedures, ongoing supervision and post-investment accountability. The framework rests on three major pillars.

The first is a commitment to openness



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and alignment with international standards. Article 4 states that China will actively align with high-standard international economic and trade rules, promote high-quality Belt and Road cooperation, and participate in the development of international investment rules.

This approach reflects China's commitment to multilateralism, while providing institutional support for deeper participation in global economic governance.

Articles 24 and 25 establish a two-way countermeasure mechanism that allows China to take lawful responses against discriminatory measures imposed by foreign countries, providing institutional protection for Chinese investors overseas.

The second pillar focuses on improving the quality of outbound investment. The regulations encourage investment in areas

such as technological innovation and green, low-carbon development.

At the same time, they place restrictions on investment in sensitive sectors including real estate, hotels, film and television, gene editing and rare-earth mining, while prohibiting activities involving weapons and military equipment development, news media and gambling.

This classified management approach represents a shift from broad-based regulations toward more targeted oversight, helping direct capital toward strategic sectors that support high-quality development.

The third pillar is strengthening risk prevention and security safeguards. The regulations establish a comprehensive framework covering the stages before, during and after investment activities. Before projects proceed, investors are required to complete

approval, filing and information-reporting procedures in accordance with the law.

During implementation, stricter controls apply to the cross-border movement of technology, data and personnel. Afterward, violations may trigger penalties, including fines ranging from 0.5 percent to 1 percent of the investment amount.

Entities that obtain approvals or filings through fraudulent means may have future applications rejected for three years. These measures significantly raise the cost of non-compliance and bolster deterrence.

The practical value of the regulations extends beyond oversight alone. Their significance also lies in strengthening services and protection, thus creating a more comprehensive governance framework.

One important aspect is the development of an integrated overseas service system. The regulations call for improved coordination of resources related to foreign affairs, legal services, taxation, finance and logistics. Investors will have access to public services covering laws and regulations, investment guidance, risk prevention and rights protection.

Banking institutions will provide financing services, policy-oriented insurers will offer overseas investment insurance and professional service providers will expand their overseas networks. This reflects a governance approach that places equal emphasis on regulations and services.

The regulations also establish a multilayered framework for protecting rights and interests overseas. Risk warning mechanisms will provide timely information on security conditions and investment risks.

Consular protection mechanisms will offer assistance in cases involving wars, armed conflicts and other major emergencies.

Investment dispute resolution mechanisms encourage consultation, mediation, arbitration and litigation as means of resolving disputes. In addition, countermeasure mechanisms allow investigations and responses to investment barriers and discriminatory practices.

Together, these arrangements provide stronger support for Chinese companies operating overseas.

Another notable feature is the clarification of the relationship between government oversight and market autonomy.

Article 5 states that investors enjoy the legal right to make independent outbound investment decisions and bear their own risks and responsibilities. The provision reflects respect for the role of market entities. Within clearly defined compliance boundaries, enterprises retain ample room for commercial decisionmaking.

As a result, outbound investment governance is moving away from broad, one-size-fits-all administration toward more targeted and refined regulation, achieving a

better balance between policy guidance and market principles.

The release of the regulations represents an important step in modernizing China's outbound investment governance and carries broader significance.

First, it reflects China's contribution to global economic governance. At a time when unilateralism and protectionism are gaining ground in some parts of the world, the regulations not only provide legal safeguards for Chinese investors, but also send a clear signal of China's commitment to multilateralism and opposition to protectionist practices.

As China increasingly moves from being a participant in international rules to playing a greater role in shaping them, the regulations reflect this evolving position.

Second, the framework serves as an example of balancing development with security. It combines measures aimed at promoting high-quality outbound investment with mechanisms designed to prevent and address risks, helping achieve a balance between greater openness and effective oversight, while enhancing protection for China's growing overseas interests.

Third, the regulations are expected to support higher-quality development. As China's outbound investment shifts from pursuing scale to pursuing quality, the framework provides clearer guidance on where investment is encouraged, restricted or prohibited.

By directing capital toward areas such as technological innovation and green development, it offers policy support for Chinese enterprises seeking to move up the global value chain.

From the country's first proposal in 1979 allowing enterprises to establish operations overseas to the introduction of its first comprehensive administrative regulation in 2026, China's outbound investment has undergone nearly five decades of development.

By transforming long-standing policy measures into a formal legal framework, the regulations fill an important legislative gap in the outbound investment sector.

Looking ahead, their implementation is expected to help China's outbound investment evolve from scale-driven expansion toward higher-quality and more efficient growth, while promoting a shift from extensive management to more refined governance.

In doing so, they will provide stronger legal support for high-standard opening-up, thus helping achieve the country's broader development goals.

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Financial structure optimization key to China's development

MAIN STREET

By Lian Ping
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The outline of the 15th Five-Year Plan (2026-30) calls for actively developing direct financing channels such as equity and bond financing, and explicitly identifying optimization of the financial structure and expansion of direct financing as key drivers in building the nation into a financial powerhouse.

This strategy aims to reduce overall social financing costs, ease the real economy's overreliance on bank lending, provide risk-sharing capital support for technology and innovation-focused enterprises, and further improve the precision and resilience of financial services for the real economy.

In recent years, China has continuously deepened supply-side structural reform in the financial sector in response to the needs of high-quality economic development. As a result, the country's financial structure has steadily optimized, with the share of direct financing continuing to rise.

In 2025, China's new indirect financing totaled 16.1 trillion yuan (\$2.37 trillion), falling below the increase in direct financing for the first time. The share of indirect financing dropped to 45.3 percent, also falling below the share of direct financing for the first time. This marks an important step in China's transition from a financial structure dominated by indirect financing to one characterized by coordination between direct and indirect financing.

Direct financing in China is primarily supported by bond issuances. In 2025, net financing through corporate bonds included in direct financing statistics reached 2.4 trillion yuan, marking the second consecutive year of expansion. In May 2025, financial regulators launched a science and technology board in the bond market, driving rapid growth in the

issuance of sci-tech innovation bonds and green bonds.

Particularly noteworthy is that net government bond financing reached 13.8 trillion yuan in 2025, rising rapidly for the fourth consecutive year. This was mainly driven by the sustained implementation of proactive fiscal policies.

Driven by policy support, equity and stock financing also experienced a recovery. In 2025, domestic stock financing by nonfinancial enterprises increased by 476.2 billion yuan, up 186.1 billion yuan year-on-year, accounting for 1.3 percent of the increase in direct financing. Although the share remained relatively low, the growth rate was relatively high.

In 2025, IPO fundraising on the STAR Market and ChiNext exceeded that of the main boards in Shanghai and Shenzhen. Financing on the Beijing Stock Exchange also increased steadily, with a focus on serving specialized and innovative small and medium-sized enterprises.

Equity financing through private equity funds, venture capital and government industrial funds also developed steadily. By the end of 2025, government-backed funds had committed capital of approximately 8.5 trillion yuan, providing strong support for industrial upgrading and technological innovation in China.

The growth rate of indirect financing, however, has structurally slowed. In 2025, loans extended to the real economy totaled 15.9 trillion yuan, down by 1.1 trillion yuan from the previous year, accounting for 44.7 percent of the increase in total social financing. Although indirect financing remains the mainstay of social financing, its growth rate slowed significantly compared with the previous year, reflecting a substantial decline in the real economy's dependence on bank credit.

The major transformation in China's financial structure is the result of the combined effects of multiple factors, including economic restructuring and industrial upgrading.

The nation's economic structure is shifting from investment-driven and traditional industry-led growth toward innovation-

driven and emerging industry-led growth. Its industrial structure is also upgrading from traditional industries to high-tech and strategic emerging industries. These profound transformations have led to the continued rise in the share of direct financing.

Rapid development in financial technologies has effectively reduced the cost of direct financing and improved its efficiency, enabling SMEs and households to participate more conveniently in direct financing. The rapid development of artificial intelligence-related industries has also generated substantial demand for direct financing.

At present, China's aging population is reshaping household wealth allocation demand. Households are gradually shifting toward direct financing products in pursuit of higher investment returns. Younger generations have become significantly more investment-conscious and financially sophisticated.

As returns on real estate investment have fallen sharply, capital has gradually flowed out of the property market into the capital market. Rough estimates suggest that the total market value of China's real estate sector may have fallen from a peak of around 400 trillion yuan to approximately 280 trillion yuan. Even using a conservative estimate of a 20 percent capital outflow rate, around 20-30 trillion yuan may flow out of the property market, a portion of which is likely to enter the capital markets.

In recent years, China has continuously expanded the opening-up of its capital markets, relaxed restrictions on foreign investor access, broadened the scope of overseas investment and launched a series of connectivity mechanisms that have attracted large inflows of cross-border capital into China's direct financing markets. Currently, overseas investors hold more than 3.4 trillion yuan worth of A shares and more than 4.5 trillion yuan worth of Chinese bonds.

Taking into account China's stage of economic development, industrial structure and policy directions, the share of direct financing in the country's financial market is expected to continue rising steadily over

the next five to 10 years. By 2030, the share of new direct financing could reach around 55 percent, while the share of outstanding direct financing could exceed 40 percent, gradually forming a financial structure dominated by direct financing and supported by indirect financing.

However, compared with the needs of China's high-quality economic development and the maturity of developed capital markets, China's direct financing markets still face a series of challenges. To promote high-quality capital market development and optimize the financial structure, the following policy recommendations are proposed.

Continue deepening comprehensive registration-based IPO reforms, optimize listing review mechanisms, simplify review procedures, lower listing thresholds, and prioritize support for technology enterprises and specialized and innovative companies seeking public financing. Improve delisting mechanisms, promote the normalization of delistings, and support private equity and venture capital funds in exiting their investments through IPOs, mergers and acquisitions, and equity transfers. We should improve stock pricing mechanisms, strengthen market-based pricing and reduce administrative intervention. Tax incentives should be provided for equity financing by technology companies and SMEs, while ancillary costs such as handling and auditing fees should be reduced to stimulate corporate demand for equity financing.

Improve the bond market ecosystem and increase bond issuances by private enterprises. Efforts should be made to lower the barriers to bond issuances for private enterprises and relax eligibility requirements for risk-sharing instruments. Expectations of rigid redemption should be broken and reliance on government guarantees should be reduced. Regulatory standards, information disclosure, registration and custody, and trading rules should be unified and optimized while equal treatment between State-owned and private enterprises must be ensured. Greater efforts should also be made to develop credit

derivatives, guarantees and risk mitigation tools to lower financing guarantee costs.

Improve the policy support system for direct financing of SMEs by establishing a special fund to provide guarantee support, broaden direct financing channels and expand bond financing for SMEs by simplifying bond issuance procedures, lowering issuance thresholds and introducing small-denomination bond products tailored to SMEs.

Optimize the credit rating system and strengthen risk control in direct financing markets. Supervision over credit rating agencies should be enhanced, rating practices standardized and methodologies improved to increase the scientific rigor and accuracy of ratings. Credit rating agencies should also develop customized indicators for technology enterprises and SMEs. Information disclosure rules should be improved and disclosure practices standardized. Bond default resolution mechanisms should be strengthened, with streamlined procedures and shorter disposal cycles.

Foster high-quality intermediary institutions and improve the quality of professional services. Intermediaries should be encouraged to increase their investment in research and development to enhance their capabilities in areas such as underwriting and sponsorship, research and analysis, and risk management. Policy support and tax incentives should be granted to compliant intermediaries with strong service quality, while institutions engaging in regulatory violations or providing poor services should face strict penalties.

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