Room 1601 Golden Square
268 Jiangning Rd. Jing'an Shanghai China
上海市静安区江宁路268号嘉禾中心1601室
Post Code邮编：200041
Phone电话：021-64179501 Fax传真：021-54110106

China's Outbound Investment Enters a New Stage of Rule of Law: What Overseas Partners Need to Know About the State Council's Provisions on Outbound Investment

Author： Joseph Wang

For a long time, China regulated its enterprises' overseas investment activities primarily through ministerial rules. Effective July 1, 2026, the Provisions of the State Council on Outbound Investment (hereinafter referred to as the "Provisions")—China's first administrative regulation specifically dedicated to outbound investment—will formally take effect.

This regulation does not directly affect how foreign laws govern foreign investment, but it will profoundly change how Chinese enterprises make overseas investment decisions, fulfill internal approval procedures, and engage with overseas partners.

In short, if you are currently dealing with—or preparing to deal with—Chinese investors, understanding this regulation will help you understand their behavioral logic and compliance bottom line.

I. Significant Enhancement of Legal Status: From "Internal Rules" to "State Administrative Regulation"

Previously, China's outbound investment administration relied primarily on ministerial rules issued by the NDRC, MOFCOM and SAFE. This meant that different departments and regions might have varying interpretations and enforcement standards.

As an administrative regulation promulgated by State Council order, the Provisions carry higher legal effect. It unifies administrative standards and provides overseas partners with a more stable and predictable institutional framework.

What It Means for Overseas Partners: Chinese investors' internal decision-making processes will become more standardized and transparent. Situations such as "inconsistent local government standards" and "bureaucratic buck-passing" that may have occurred in the past will be effectively curbed. You will have a stronger basis for assessing your counterpart's approval progress and compliance status.

II. Individuals Explicitly Recognized as Outbound Investment Subjects for the First Time

In the past, direct overseas industrial investment by individual residents within China lacked clear legal basis at the statutory level. Article 2 of the Provisions explicitly includes "individual residents" within the scope of investors.

What It Means for Overseas Partners: This means that in the future, more high-net-worth individuals from China may directly participate in overseas project investments in a lawful and compliant manner—for example, by establishing overseas entities, acquiring assets, or participating in venture capital investments. For overseas projects targeting individual investors (such as overseas real estate, family office services, and cross-border equity financing), this is a noteworthy institutional signal.

III. Security Review System: China's Version of "Foreign Investment Review"

Many countries have foreign investment security review systems (such as CFIUS in the United States and the EU's foreign investment screening regulation). Article 15 of the Provisions explicitly provides, for the first time at the administrative regulation level, that China has the right to conduct security reviews of its enterprises' overseas investments—if such investments "affect or may affect national security."

What It Means for Overseas Partners: This is not directed at host countries, but rather represents China's own compliance management of its capital outflows. Specifically: if an overseas investment involves sensitive regions (such as countries or regions subject to international sanctions) or sensitive sectors (such as critical minerals, sensitive technologies, or important infrastructure), such investment will require not only approval from the host country's government but also security review by the Chinese government for outbound investment. Overseas partners should understand that when a Chinese partner says "we need to wait for domestic approval," this may not be an excuse but a statutory prerequisite that cannot be bypassed.

IV. Technology and Data Export: Compliance Red Lines Have Been Drawn

In the past, some overseas enterprises were accustomed to asking their Chinese partners to "send technical teams for on-

site guidance" or "open backend data interfaces." Articles 13 and 14 of the Provisions explicitly prohibit the indirect export of technologies and data that are restricted or prohibited from export by China through means such as dispatching personnel, cross-border training, or technology licensing.

What It Means for Overseas Partners: If you have technology cooperation or data-sharing arrangements with Chinese enterprises, please note: Chinese parties cannot arbitrarily dispatch technical personnel to carry sensitive technologies abroad; Chinese parties cannot arbitrarily transfer data from domestic servers overseas; and prior completion of China's technology export license or data outbound security assessment is required. Therefore, overseas partners should explicitly stipulate the Chinese party's compliance obligations in the contract and allow sufficient time for the Chinese party to obtain the relevant permits. Ignoring this may result in administrative penalties against the Chinese parent company, which could in turn affect the entire project's progress.

V. Official Rights Protection Mechanism: China Will "Have Your Back" When Facing Investment Barriers

This is a provision that overseas investors may be relatively unfamiliar with, but it has significant practical impact. Articles 23 and 24 of the Provisions establish a set of investment barrier investigation and countermeasure mechanisms.

The specific mechanism is as follows: if a Chinese enterprise encounters discriminatory treatment, unfair administrative intervention, or investment barriers in a host country, the competent Chinese commerce authority may initiate an investigation; based on the investigation results, China may adjust its investment policies toward that country (for example, restricting that country's enterprises from investing in China) as a bargaining chip; at the same time, China may implement countermeasures list administration against relevant foreign organizations or individuals in accordance with the Anti-Foreign Sanctions Law.

What It Means for Overseas Partners: This is not a "confrontational provision," but rather a legal remedy channel provided by China for its overseas investors. For host country governments, this means that they need to pay greater attention to principles of fairness, transparency, and non-discrimination when handling Chinese investment projects. For overseas partners in joint ventures with Chinese enterprises, this is actually a positive signal: when the Chinese party encounters unfair treatment, there is a national-level coordination mechanism behind it, rather than having to fight alone. This is conducive to maintaining the long-term stability of joint venture projects.

VI. Consequences of Violations: No Longer Just a "Slap on the Wrist"

The Provisions establish legal liability provisions with substantive deterrent effect. For example, investment in prohibited projects may be subject to fines of up to 10% of the investment amount; obtaining approval through fraudulent means may result in the competent authority not accepting any applications for three years; refusal to cooperate with security reviews may result in a ban on engaging in any outbound investment activities for one to three years.

What It Means for Overseas Partners: If a Chinese parent company commits serious violations (such as unapproved technology export, data leakage, or investment in sensitive sectors), it will face not only substantial fines but also possible suspension of the entire group's overseas business. At the due diligence stage, overseas partners should pay more attention to the Chinese partner's compliance system construction rather than merely looking at its financial strength. A partner with a sound compliance system is a reliable long-term partner.

In conclusion, this regulation moves China's outbound investment from "multi-headed administration with considerable flexibility" toward "unified rule of law with clear expectations." For overseas partners, understanding it will enable better communication, cooperation, and mutual success with Chinese investors.

Shanghai Office
+86 02164179501
linkking@linkking.cn
Unit 1601, Golden Square, No. 268 Jiangning Road, Jing`an District, Shanghai

San Francisco Office
+1 9255575968
sf@linkking.cn
4 Anthurium Ct, Danville, California, United States

Tokyo Office
+81 07041754118
tyo@linkking.cn
1 Chome-6-1-302, Hirakawachō, Chiyoda City, Tokyo