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China's Overseas Production-Supply Bases: Network Structure and Implications

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I. Introduction

Global supply chains are undergoing structural change as the prolonged U.S.–China strategic rivalry, the normalization of geopolitical risks, and post-pandemic disruptions shift the organizing principle from efficiency to stability, resilience, security, and trust. Major economies such as the United States, EU, and Japan have responded by strengthening policies for supply chain diversification, friend-shoring, and strategic management of critical minerals and advanced industries.

In response to these environmental changes, China is also strengthening the strategic nature of its overseas economic activities. Whereas Chinese companies' overseas expansion previously focused on market expansion or resource acquisition, it has recently shifted to a structural network expansion strategy aimed at responding to the restructuring of global supply chains. Specifically, China is expanding its global economic network by simultaneously establishing overseas production bases, supply bases, and infrastructure/logistics networks through a combined approach involving Outward Foreign Direct Investment (OFDI), overseas contracting projects, and trade activities.

This strategy goes beyond merely relocating production bases overseas. China is pursuing a multi-layered strategy: strengthening global market access through overseas production bases, establishing supply bases to secure critical minerals and intermediate goods, and solidifying long-term economic footholds through infrastructure and industrial park development. This can be understood as China's strategic response to maintain its economic influence and enhance industrial competitiveness amid the global supply chain restructuring.

Therefore, China's overseas expansion should be analyzed not merely as a phenomenon of increased investment, but as a process of restructuring global production and supply networks. This report approaches China's overseas economic activities from this perspective, understanding them as a strategy for building production and supply networks, and systematically classifies China's overseas bases into three functional types and identifies core hub countries through standardized indicator analysis.

II. Structural Shift in China's Overseas Expansion

1. From Technology-Seeking OFDI to Supply-Chain Transplantation

China's OFDI has shifted from technology-acquisition-oriented mergers and acquisitions toward greenfield investments that transplant Chinese production systems overseas. This reflects the tightening of investment screening in advanced economies, which has constrained acquisition of foreign technology and pushed Chinese firms to deploy their own technology and capital in host countries.

This has produced a dual structure. State-owned enterprises (SOEs) are concentrated in resource development and large-scale infrastructure projects that align closely with national energy and security objectives. In parallel, private firms have spearheaded the creation of manufacturing bases in partner countries to secure market access, reduce tariff exposure, and respond flexibly to local demand conditions. In both cases, the emphasis is on embedding Chinese technology, standards, and intermediate inputs in host-country production.

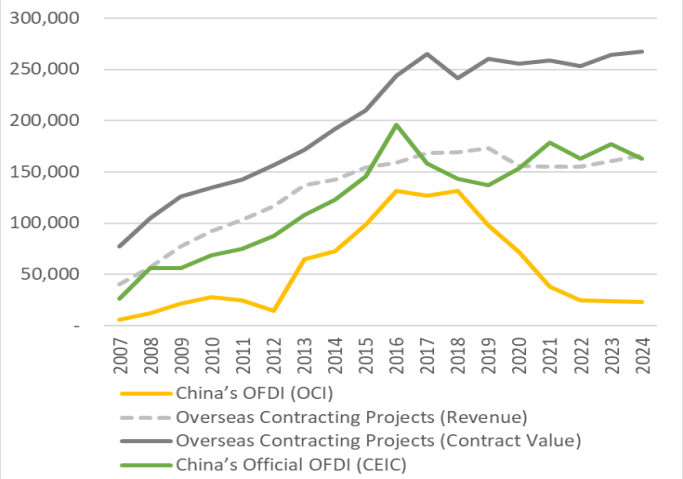
2. Evolution of Foreign Contracted Projects into Strategic Assets

Foreign contracted projects have evolved from simple engineering, procurement, and construction (EPC) contracts to strategic platforms for spreading Chinese standards and networks. In particular, China has expanded investment in "new infrastructure" such as 5G networks, data centers, and power grids, using these projects to promote Chinese equipment and technical standards overseas.

Business models increasingly combine construction with equity participation and long-term operation rights—often under build-operate-transfer (BOT) or similar arrangements. This transforms infrastructure into strategic assets that (1) lock in future demand for Chinese equipment, maintenance, and upgrades, (2) reduce entry costs for subsequent Chinese manufacturing and service investments, and (3) expand China's ability to shape host countries' regulatory and technical environment.

Figure 1. China's OFDI & Overseas Contracting Projects

(Unit: USD million)



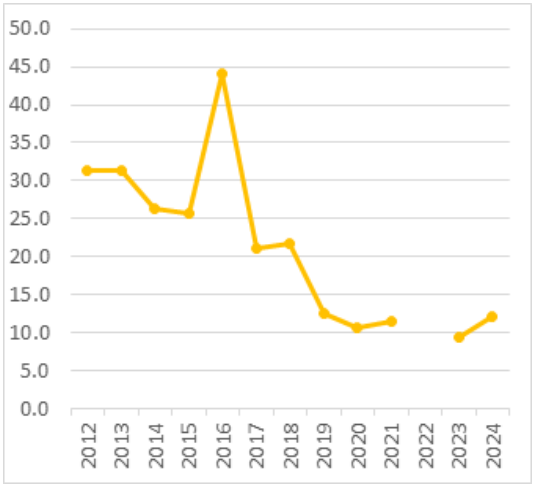
Notes: (1) The Orbis Crossborder Investment (OCI) database, provided by Moody's Analytics, contains global statistics on cross-border FDI projects and M&A transactions.

(2) The CEIC database reports China's OFDI statistics based on data released by the Ministry of Commerce (MOFCOM).

Source: Author's analysis using data from OCI and CEIC DB. Adapted from Jung et al. (2025).

Figure 2. Share of M&A in China's OFDI

(Unit: %)



Source: Author's analysis using data CEIC DB. Adapted from Jung et al. (2025).

3. Indirect Exports via Third Countries and Intermediate-Goods Hub Emergence

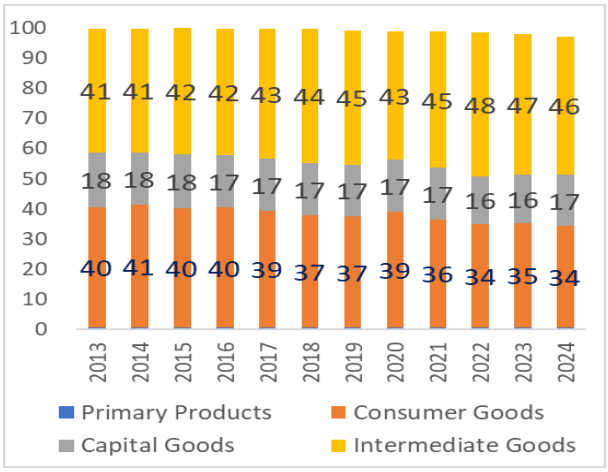
Trade data reveal a deepening triangular structure in China's link to major markets. After the U.S. imposed additional tariffs on Chinese goods, Chinese firms intensified a pattern whereby intermediate goods are shipped from China to a third country, where minimal or partial assembly occurs, and final products are exported onward to the U.S. or EU (China (intermediates) → third country (assembly/processing) → United States (final goods)).

This pattern is particularly pronounced, particularly in economies such as Mexico and Vietnam. Value-added trade analysis reveals that a growing share of Chinese value added embedded in U.S. imports from Mexico and Vietnam flows indirectly through these third countries rather than through direct Chinese exports to the United States. This confirms China's strategic use of manufacturing OFDI to circumvent high tariffs while retaining control over critical supply chain segments.

At the same time, the share of intermediate goods in China's total exports has continued to rise, indicating a gradual transition from "factory of the world" for final goods to a global hub for intermediates. This shift enables China to maintain leverage over global value chains even when final assembly is relocated abroad, as high value-added components and key inputs remain under Chinese control.

Figure 3. Composition of China's Exports by Product Type

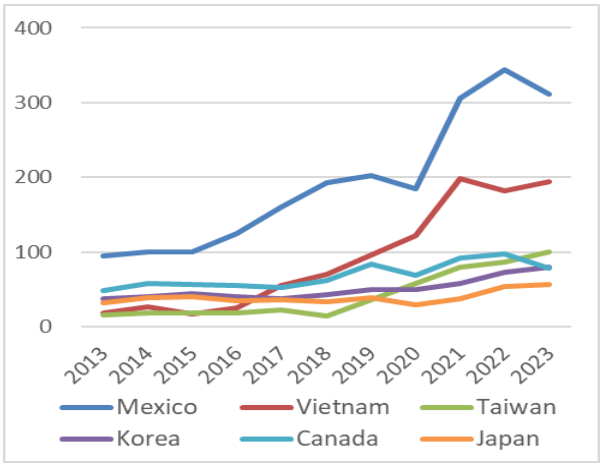
(Unit: %)



Source: Author's analysis using data from UN Comtrade DB. Adapted from Jung et al. (2025).

Figure 4. Chinese Value Added in Major Countries' Exports to the United States

(Unit: USD 100 million)



Source: Author's analysis using data from ADB MRIO. Adapted from Jung et al. (2025).

III. Identifying China's Overseas Hub Countries

1. Methodology: Standardization of Functional Indicators

To systematically identify China's overseas hub countries, this report standardizes key indicators for each functional type using mean (μ) and standard deviation (σ) normalization across 211 countries grouped into 11 regions.[1] The analysis tracks changes from 2013–2017 to 2018–2024 to distinguish core hubs (high→high: consistently above μ+σ) from emerging hubs (medium→high: rising from μ±σ to above μ+σ).

This framework makes it possible to identify not only where Chinese activity is concentrated, but also whether a country's role in China's network is intensifying over time and in what functional dimension.

Table 1. Indicators by Functional Type

Functional Type	Key Indicators
Production Bases	Manufacturing OFDI; Intermediate/capital goods exports
Supply Bases	Mining OFDI; Resource imports; Intermediate/capital goods imports
Infrastructure/ Network Hubs	Foreign contracted projects

Source: Author.

2. Results: Core and Emerging Hubs by Region and Function

The standardized results reveal that China's overseas network is anchored in a limited set

[1] (1) Sample and regional grouping: 211 countries are classified into 11 regions (Northeast Asia, ASEAN, South Asia, Middle East, EU, non-EU & CIS, North America, Latin America, tax havens, Africa, Oceania), (2) Standardization: For each indicator and period, country-level data are standardized using the mean and standard deviation across the 211-country sample.

of core hubs, while a growing number of emerging hubs are being integrated into the system. ASEAN, Latin America, Africa and the EU stand out as the most important regions, but the functional roles differ markedly across and within regions.

Table 2. China's Overseas Hub Countries by Functional Type

Region	Overseas Production Bases		Overseas Supply Bases		Infrastructure/Network Hubs	
	Core	Emerging	Core	Emerging	Core	Emerging
Northeast Asia	(Hong Kong), Korea, Japan, Taiwan	(Hong Kong)	Taiwan, Korea, Japan, (Hong Kong)		(Hong Kong)	-
ASEAN	Brunei, Malaysia, Vietnam, Singapore, Indonesia	Malaysia, Vietnam, Thailand, Philippines	Malaysia, Thailand	Indonesia, Singapore, Vietnam	Indonesia, Malaysia, Singapore, Vietnam, Thailand, Laos	Philippines
South Asia	India	India	-	-	Pakistan	Bangladesh
Middle East	-	-	-	-	Saudi Arabia, Iraq	UAE, Egypt
EU	Germany, Netherlands	Sweden	Germany, Switzerland, France	-	-	-
Non-EU & CIS	-	Russia	-	Russia	-	Russia, Uzbekistan, Serbia
North America	U.S.	-	U.S.	-	-	-
Latin America	-	Argentina, Mexico, Brazil	Brazil, Chile, Peru	Brazil, Chile	-	Peru, Mexico
Africa	-	Algeria, Nigeria	South Africa	DR Congo, Zimbabwe, Cameroon, Guinea	Algeria, Nigeria	-
Oceania	-	Australia	Australia	Australia	-	Australia

Note: Gray text indicates intermediate/capital goods trade networks.

Source: Author's compilation based on the analysis, Adapted from Jung et al. (2025).

3. Strategic Implications of Hub Diversification

The results show several strategic features of China's overseas network. (1) The coexistence of core and emerging hubs across multiple regions provides layered resilience, enabling China to reroute production and sourcing when facing sanctions, regulatory changes, or political shocks in individual countries. (2) Functional complementarity is evident as many countries serve multiple roles simultaneously—such as Indonesia functioning as both a mining-linked supply base and infrastructure hub, or Mexico operating as both a production base and indirect export platform to North America. (3) Infrastructure hubs in Africa, ASEAN, and the Middle East also

serve as channels for diffusing Chinese technical standards and institutional practices, which lock in long-term demand for Chinese technology and reinforce economic and political ties with host countries.

IV. Functional Characteristics of China's Overseas Bases

1. Overseas Production Bases: Reallocation & Vertical Specialization

China's production bases abroad are designed to reallocate specific segments of the value chain while keeping control over technology and high-value components. Typically, R&D, design, and core component manufacturing remain in China, while labor-intensive assembly, finishing, and market-specific customization are conducted at overseas bases.

Empirically, in regions where Chinese manufacturing OFDI is concentrated, there is a strong contemporaneous and lagged correlation with Chinese exports of intermediate and capital goods to the same countries. This is especially pronounced in ASEAN (Vietnam, Indonesia, Malaysia) and Mexico. The sectoral profile has also upgraded over time—from textiles and footwear towards electronics (smartphones, consumer electronics), automobiles, auto parts, and machinery, mirroring China's industrial upgrading at home.

2. Overseas Supply Bases: Resource Control and Risk Management

Supply bases extend beyond simple resource import relationships. In critical minerals like lithium, nickel, cobalt, and copper, Chinese firms seek to secure the entire chain from mining rights to smelting and refining. Mining OFDI targets resource-rich Latin America (Peru), Africa (Zimbabwe, Cameroon, DRC), and Indonesia, often securing management control or long-term offtake agreements. Indonesia's nickel smelters exemplify adaptation to resource nationalism while capturing midstream supply chain control.

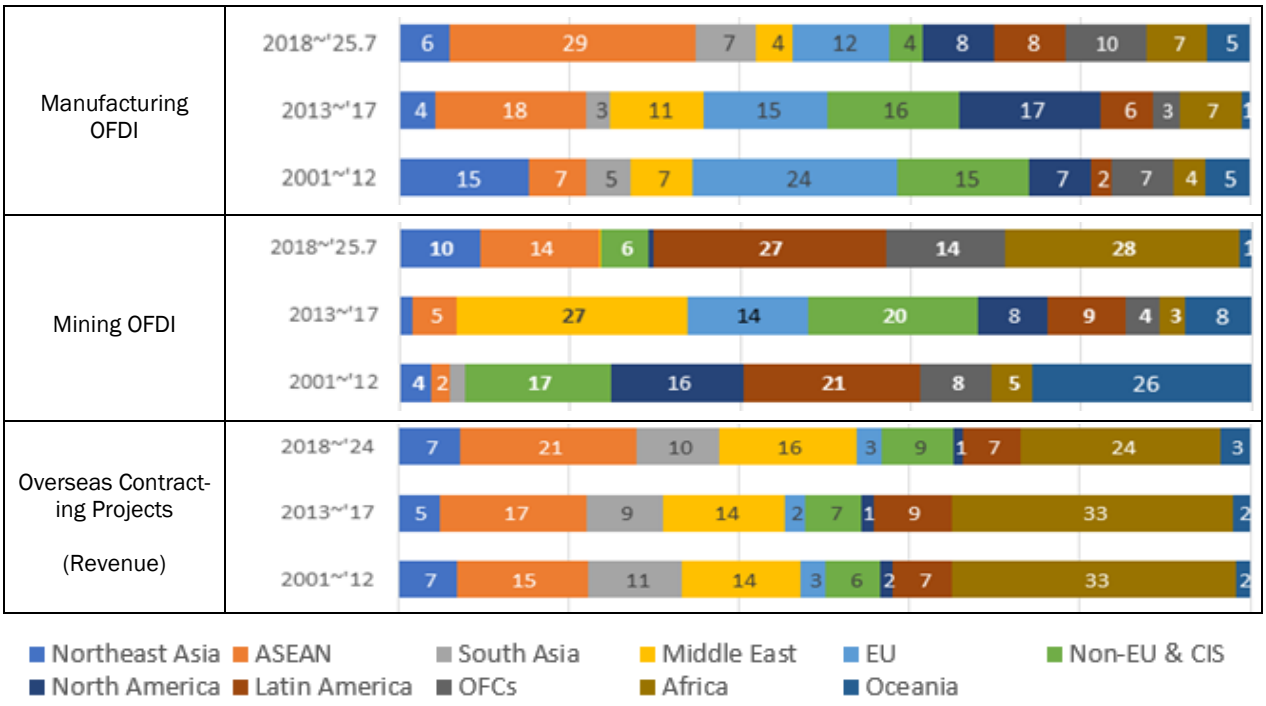
At the same time, China remains dependent on advanced economies for high-end capital goods, precision machinery, and some key semiconductor inputs, resulting in continued import concentration from economies such as Germany, Japan, Korea, and Taiwan. The combination of outward mining OFDI and import diversification in advanced technology goods reflects a dual strategy: reducing upstream resource risk while gradually addressing technological dependence

3. Infrastructure & Network Hubs: Standards Penetration

Infrastructure and network hubs are where the physical backbone of China's overseas networks is built. Port-rail-industrial park complexes in Africa and ASEAN enhance the ef-

ficiency of moving resources and manufactured goods, while energy and power projects stabilize host-country supply conditions and often incorporate Chinese equipment and digital control systems.

Figure 5. Changes in the Regional Distribution of China's Overseas Expansion



Source: Author's analysis using data from OCI and CEIC DB. Adapted from Jung et al. (2025).

The Digital Silk Road extends this logic into the digital realm, with Chinese firms providing telecom networks, data centers, and digital payment platforms. These create ecosystems where Chinese protocols, software, and cybersecurity standards become embedded in host economies, making switching costs higher and reinforcing long-term economic and political ties.

V. Implications for Korea

China's diversified overseas networks pose a complex mix of risks and opportunities for Korea. Rather than reacting in a fragmented, country-by-country manner, Korea needs a comprehensive global network strategy that explicitly accounts for China's evolving footprint.

Korea-Centric Global Network Strategy: Korea should systematically map its overseas production and supply bases against China's hubs to identify overlaps, complementarities, and vulnerabilities through a permanent monitoring platform tracking China's OFDI, mining investments, EPC contracts, and trade patterns at country and sector levels, coupled with scenario analysis of how shocks in Chinese hubs would propagate through Korea-relevant value chains, and integration of these insights into unified trade, industrial, and security policies. Rather than relying on a few "all-purpose" hubs or a limited number of resource suppliers, Korea must develop a diversified portfolio of overseas bases with differentiated roles encompassing production, resource procurement, logistics, and R&D collaboration.

Strategic Use of Third-Country Hubs: Vietnam, Mexico, and select Central and Eastern European nations—currently key Chinese hubs—offer natural candidates for Korea's diversification and near-shoring strategies, but Korea must anticipate tightening U.S. and EU rules of origin, stricter supply-chain due diligence and ESG requirements, and scrutiny of Chinese involvement in host-country projects. Korea should therefore design entry strategies that maximize local value addition and transparent sourcing, clearly differentiate Korean operations from Chinese entities where necessary, and leverage Korea's reputation for compliance and governance as a competitive advantage.

Differentiated Positioning: Korea cannot match China's capital scale and should instead differentiate through technological sophistication in semiconductors, batteries, green technologies, and digital solutions; reliability and predictability of supply; and superior transparency and governance standards in overseas projects. In resource-rich economies, Korea can pursue co-development models linking resource extraction to local industrialization, skills development, and environmental safeguards as an alternative to extraction-focused investments, while concentrating on high-value chain segments with local workforce and technology partnerships in manufacturing-oriented hosts.

Whole-of-Government and Multi-Stakeholder Coordination: Finally, China's ability to integrate OFDI, trade, and infrastructure under a broad national strategy highlights the need for Korea to improve coordination across ministries and agencies responsible for trade, finance, industrial policy, and development cooperation. Policy tools such as export finance, ODA, and sovereign or policy-bank investments should be aligned to support coherent regional strategies, rather than dispersed across unconnected projects. Closer cooperation with multilateral development banks and structured public–private partnerships will be essential to mobilize the scale of resources required to execute such a strategy. KIEP

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