

STATE COUNCIL REGULATIONS ON CHINA'S OUTBOUND INVESTMENT - KEY UPDATES

On **1 July 2026**, the **State Council Regulations of the People's Republic of China on Outbound Investment**¹ officially entered into force, introducing China's first unified, State Council-level legal framework governing outbound investment activities.

While the Regulations are primarily addressed to Chinese investors, they also carry important implications for foreign companies operating in China. The new framework strengthens compliance obligations, expands national security oversight, and reinforces controls over outbound investments, technology transfers, and cross-border business activities involving Chinese entities.

In today's newsletter, we highlight **some key developments** foreign businesses should be aware of.

A NEW UNIFIED FRAMEWORK FOR OUTBOUND INVESTMENT

Before the Regulation, China's outbound investment regime was mainly based on separate rules administered by the National Development and Reform Commission ("NDRC"), the Ministry of Commerce ("MOFCOM") and the State Administration of Foreign Exchange ("SAFE"), covering project approvals and filings, overseas investment filings and certificate administration, foreign exchange registration, and outbound remittances. The Regulation does not replace these existing rules. Rather, **as a State Council administrative regulation**, which ranks above rules issued by central government ministries and commissions in China's legal hierarchy, **it provides a higher-level framework for the existing regime.**

The Regulations adopt a broad definition of both investors and outbound investment (Art. 2). **In addition to Chinese enterprises and organizations, resident individuals are expressly included within the regulatory scope.** Likewise, outbound investment extends beyond direct equity investments to cover **financing arrangements, guarantees, indirect investment structures, and transactions designed to obtain ownership, management, or control over overseas businesses and assets.**

While reaffirming the principle that investors make independent commercial decisions at their own risk, the **Regulations also introduce extensive conduct obligations** (Arts. 3–5). Investors are required to comply with applicable laws, business ethics, environmental and social standards and, most importantly, **ensure that their overseas activities do not undermine China's national security, national interests, or public interest.** The existing approval, filing (核准/备案), and reporting regime is also confirmed and reinforced as the cornerstone of outbound investment supervision (Arts. 10–12).

¹ State Council of the People's Republic of China, Regulations on Outbound Investment (《国务院关于对外投资的规定》), promulgated by State Council Order No. 837 on 1 June 2026 and effective from 1 July 2026. Official text (Chinese): [Xinhua – Regulations on Outbound Investment](#).

STRONGER EXPORT CONTROLS AND NATIONAL SECURITY REVIEW

Among the most significant changes is the closer integration of outbound investment with China's export control and national security regimes.

The Regulations prohibit not only the unauthorized export of restricted goods, technologies, services and data, but also indirect transfers through personnel secondments, technical assistance, remote guidance or overseas training activities (Art. 13). As a result, multinational groups should carefully assess whether routine intra-group cooperation, research projects or technology-sharing arrangements could fall within the scope of China's export control rules.

Another major development is the **introduction of a national security review mechanism** (境外投资安全审查) applicable to outbound investments (Art. 15). **Transactions that may affect China's national security, including related transfers of assets or rights, may become subject to government review before implementation.** Although further implementing measures are expected, companies should already consider national security implications when planning investments involving sensitive industries or technologies.

ENHANCED COMPLIANCE OBLIGATIONS FOR INVESTORS

The Regulations significantly strengthen compliance expectations for Chinese investors and their overseas operations (Arts. 16–18). Investors and their foreign-invested enterprises are expected to establish appropriate governance structures, internal control systems, compliance procedures, risk management mechanisms and emergency response plans to safeguard both personnel and assets abroad (Art. 16). At the same time, the Regulations expressly prohibit conduct such as unfair competition, infringement of trade secrets, bribery, fraud and other practices capable of disrupting market order (Art. 17).

Alongside these obligations, Chinese authorities will further enhance country-risk monitoring, early warning systems and overseas investment guidance (Art. 18), reflecting a more proactive supervisory approach throughout the entire investment lifecycle.

NEW RULES FOR CROSS-BORDER DATA, DISPUTES AND INTERNATIONAL ENFORCEMENT

The Regulations also introduce important implications for international dispute resolution and cross-border information flows (Arts. 19–25).

Art. 22 is of particular operational significance. It is a blocking-statute-type rule: where a Chinese party participates in arbitration or litigation connected to outbound investment, or is subject to investigation by foreign judicial or law-enforcement authorities, and must provide evidence or materials abroad, that transfer must comply with the regimes on State secrets, data security, personal information protection, technology export administration, export control and judicial assistance; where statutorily required, prior approval from the competent authority must be obtained.

The Regulations further strengthen China's broader defensive legal framework by introducing mechanisms addressing discriminatory measures adopted by foreign jurisdictions (Arts. 23–25). **Depending on the circumstances, Chinese authorities may adjust outbound investment policies, adopt countermeasures, or impose restrictions against foreign organizations or individuals whose actions are considered detrimental to China's sovereignty, security or national interests.**

OVERALL ASSESSMENT AND OPERATIONAL RECOMMENDATIONS

The Regulations should not be interpreted as imposing a general prohibition or broad restriction on outbound investment by PRC investors. Rather, they strengthen compliance requirements for transactions involving sensitive assets, national security concerns, or opaque funding arrangements.

Multinational companies should therefore conduct comprehensive PRC regulatory assessments early in the transaction process, rather than assume that offshore structures will insulate a transaction from regulatory scrutiny. **They should also allocate the relevant regulatory risks through appropriate closing conditions, indemnities, and post-closing contractual protections.**

Because non-compliance by PRC investors may create both execution risks during the transaction and longer-term post-closing exposure, **early risk identification and appropriate contractual risk allocation will be essential to enhancing transaction certainty.**