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OFDI of India & China: An Overview

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Abstract

Since its independence India has retained friendly diplomatic relations with many of the countries in the world. India's role in the Non-Aligned Movement and its ardent support for South-South cooperation, aid support and role in United Nations peacekeeping operations indeed create an atmosphere of good will that allowed Indian multinationals to internationalise with confidence in many host economies. India and China are two Asian countries that have an increasingly visible presence, whether in trade, investment or aid. They may be drivers of change in the global economy, but the two engage it quite differently.

A defining feature of the growth of South-South economic relations was the advent of emerging economy multinationals, such as those from India and China. South-South cooperation provides India and China with a framework for long-term political and economic investments and development cooperation with African states. India and China's engagements in Sub-Saharan Africa share similar and dissimilar forms and motivations for FDI. Markets and resources are primary motivations for these two countries' firms to invest in the region. India and China's growing commercial activities in Sub-Saharan Africa provide the region with opportunities for further international market integration and development.

Designed on the secondary data collected from the various available sources, the paper serves as a theoretical study and it both examines outbound investment experiences of Chinese and Indian multinationals and compares and contrasts the investment development trajectory for both the countries.

Keywords: Foreign Direct Investment, Outward Foreign Direct Investment, Economic Reforms, Emerging Market Multinationals

Introduction

The process of globalization is a socio-economic process which aims at improving the world economy through the joint participation of all the countries in the global economic activities. Obviously, the process is serving as a boon to many of the underdeveloped countries that need the identity of being developed.

Meaning & Significance of FDI

According to Walter and Sen (2009), foreign direct investment (FDI) is "an international capital flow recorded in the balance of payments in which an MNC establishes control over and a lasting interest in corporate assets in a host country". FDI plays a crucial role in enhancing the level of economic growth in the country. It helps in increasing the trade in the international market. Global economies are suffering with financial crisis and economic hurdles. However, the two giant economies, namely, India and China are growing very fast globally through their multinationals.

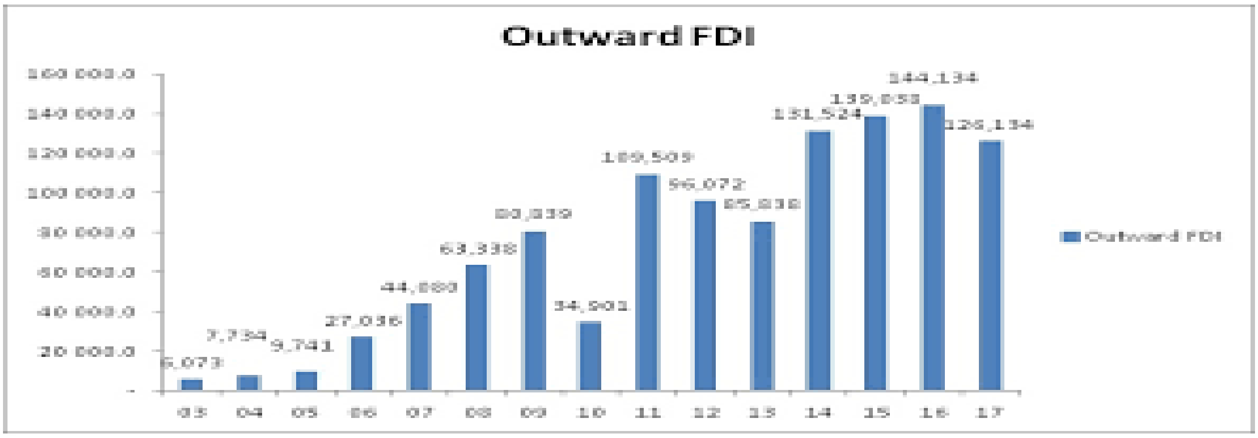
On the global economic stage, both India and China are proving themselves to be very supportive in terms of international trade and world economy. With the beginning of the FDI liberalization process in 1990s, they have been amongst the most aggressive of the emerging economy investors. Ever since Macro Economic structural changes initiated in 1991 in India and 1978 in China, the impact of ongoing process of Liberalization, Privatization and Globalization and its implications in attracting inward FDI into these countries has become significant.

FDI Motivations and Economic Determinants in Host Economies

FDI Motivations	Main Economic Determinants in Host Economies
Market-seeking	• Market size and per capita income • Market growth • Access to regional and global markets • Country specific consumer preferences • Structure of markets
Resource-seeking	• Availability of natural resources (natural gas, oils, minerals • Endowment of cheap unskilled labour • Presence of adequate skilled labour force • Level and quality of infrastructure
Efficiency-seeking	• Lower cost of resources and intermediate inputs, adjusted for productivity of labour resources • Membership of a regional integration agreement conducive to the establishment of regional corporate networks
Created/Strategic assetseeking	• Technological and other created assets (e.g. brand names), including as embodied in individuals, firms and clusters.

Source: Adapted from (Pradhan, 2010a)

OFDI Features of India



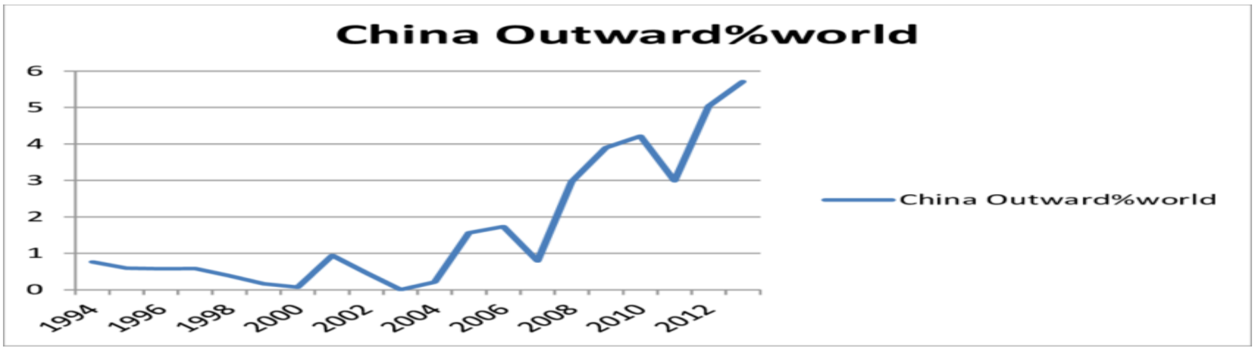
India is gearing up to globalise a lot of its efforts and to play a more key role in the future of the world. Liberalisation policies in India in the 1990s, while generally considered being mainly concerned on opening up the economy, created complimentary political considerations too. Through the engagement of regional trade agreements, strengthening bilateral relations and its activism in previous and contemporary political associations in Africa, the country is set to play to the shifting geographies of power. Some of the OFDI features of India are as follows-

1. The ambitious Indian private sector and its entities reflect more liberal reforms in the economy through the investment opportunities abroad.
2. In 2008 that India made a leap in creating a “new architecture for its engagement with Africa” with the inaugural India-Africa Summit in New Delhi.
3. At the 2011 IndiaAfrica Summit in Addis Ababa, Ethiopia, energy, investment and diplomatic relations topped the agenda.
4. While Indian firms that have internationalised are mainly private, India’s “state sector involvement”

in private firms can be indirect, mainly through state financial institutions that provide support for Indian firms, such as the Unit Trust of India, Industrial Credit and Investment Corporation of India (ICICI) or the Industrial Development Bank of India (IDBI).

5. India currently has eight companies in the Fortune Global 500 listing, which ranks the world's largest corporations by revenue.
6. In descending order on the list these firms are Indian Oil Corporation Ltd (98), Reliance Industries Limited (134), Bharat Petroleum Corporation Limited (272), State Bank of India (292), Hindustan Petroleum Corporation Limited (336), Tata Motors Limited (359), Oil and Natural Gas Corporation (361) and Tata Steel (370)

Ofdi Features of China



Source: OECD

Large scale outward foreign direct investment by emerging economy multinationals from countries such as India and China reflect a changing orientation of economic power in the world. (OFDI) from emerging economies from China and India has attracted intense academic and indeed political and journalistic scrutiny. However, it cannot be ignored that the reality is that OFDI is still quite regional, leans towards "asset-seeking" in the broadest sense of the word and apart from few headline-grabbing acquisitions. Some of the OFDI features of India and China are as follows-

1. Most OFDI from China is actually carried out by state-owned enterprises (SOEs) and is mostly directed to securing sources of energy and primary commodities in general.
2. Most of the Chinese MNEs are actually big brands in China itself, where they have large shares of their own markets and have developed managerial skills.
3. Most acquisitions are in mature sectors such as the PC, electronics and car industry (Lenovo purchase of IBM and Motorola, acquisition of Thomson by TLC, Volvo by Geely), where the local firm is possibly in financial distress.
4. Most private Chinese MNEs actually originate from the richest Provinces. These firms surely possess advanced FSAs as they cater for the aspirations and sophistication of customers of those Provinces, are big brand names in their own right within China and have developed their own managerial capabilities.
5. Even the recent jump in OFDI after 2007 has not brought China in line with its relative weight in the world economy and trade, reaching 6% of world flows and just above 2% of the world's stock of OFDI.

Chinese OFDI Scenario

	% GRP	**% OFDI**
Guangdong	10.2	15.4
Shandong	8.7	10.5
Jiangsu	9.4	9.6
Zhejiang	6.2	7.9
Shanghai	3.7	7.8
Hainan	0.5	5.2
Shanxi	2.1	5.0
Beijing	3.1	5.0
Liaoning	4.3	4.9
Tianjin	2.2	3.0

Source: National Bureau of Statistics of China- China Statistical Year Book 2012

Review of Literature

Jaya Prakash Pradhan (2011) in his study Emerging Multinationals: A Comparison of Chinese and Indian Outward Foreign Direct Investment deals with the origin and growth of outward foreign direct investment (OFDI) by emerging Chinese and Indian multinationals and examines the locational determinants of such investments. Both Chinese and Indian OFDI flows were observed to have surged after the adoption of economic openness policies by the home country in the late 1970s and the 1990s respectively and are now increasingly being driven by wholly-owned projects and acquisitions abroad. Indian and Chinese firms both started OFDI operations in developing countries and then they expanded into developed regions in the 1990s. Among locational factors, both Chinese and Indian OFDI projects are attracted by host country imports from the sources, greater strength of host currencies, rising host prices and host status of being offshore financial centres. While the Chinese multinationals were found to have preference for hosts with locational proximity, small size and high natural resource endowments, the Indian firms appear to choose countries with large size and that have bilateral investment treaty (BIT) with India irrespective of their physical distance from India.

Lina Lian & Haiying Ma (2011) in the paper Overview of Outward FDI Flows of China observe that China is integrated rapidly with the world economy by increasing its foreign investment linkage with other countries. In 2005 China was the 4th largest investor among emerging markets, up from 14th in 2004 with 72.4% of all economies in the world receiving Chinese FDI. Through outward FDI into any sectors, industries or regions, there should be intra-industry productivity spillovers from foreign firms to domestic firms within the same industry, mainly through reduction of production costs, technology transfer and international R& D spillovers. Diffusion channels of technology know-hows and managerial practices induced by higher FDI penetration abroad make the purpose of the increased transparency and access of core technology practical. There are three collaborated sets of FDI determinants, the features of FDI outflows as the overall FDI scale, the target sectors, the geographic distribution and the concrete ways of outward FDI of China. The study concludes that there should be a caveat to the non-guided outward FDI but strategically tailored to suit the requirements of multiplying the investment efficiency and climbing up the value ladder of global economy.

Byron Messaris (2012) in The Political Economy of Indian and Chinese Foreign Direct Investment and Multinationals in Sub-Saharan Africa observed that The Guidelines for Indian Joint Ventures and Wholly Owned Subsidiaries Abroad were amended in 1992, 1999 and 2002 which granted automatic approval for OFDI proposals; increasing from US$2 million in 1992 up to US$100 million by 2002, a remarkable 500 percent increase in ten years.

K. C. Fung & Alicia Garcia-Herrero (2012) in their study Foreign Direct Investment Outflows From China and India examine the determinants of Indian and Chinese FDI outflows. There are three sets of results. First, Chinese investment is attracted to more corruptcountries, while India is attracted to economies with better rule of law. Further analysis suggests that our result of China investing in more corrupt destinations is mostly driven by Chinese investment in the sub-sample of African countries. While we do not conduct economic welfare analysis, several studies in the literature reported that China's investment in Africa contributed to increased Asia–Africa trade and narrowing of the infrastructure deficits of the sub-Saharan African economies. Second, Chinese FDI is going to economies which are larger but poorer. Indian FDI is going to smaller but richer host countries. Lastly, both India and China seem to be investing in economies to seek fuels. There is also some evidence that they are investing to acquire technology. Exchange rates do not play a major role in affecting Indian or Chinese investment.

Amiya Kumar Bagchi and Anthony P. D'Costa (2013) their study Transformation and Development: The Political Economy of Transition in India and China present five key themes around which the transformation can be investigated: (i) agriculture; (ii) savings and investment; (iii) industry, exports, and global finance; (iv) inequality; and (v) science and technology. When linked to the growth process, these themes reveal not only specific mechanisms of change but also contradictions that accompany growth.

Khanindra Ch. Das, Nilanjan Banik (2015) in Outbound Foreign Direct Investment from China and India: The Role of Country-specific Factors observe that Chinese and Indian enterprises have been increasingly involved in international business thereby attracting global attention since the turn of the 21st century. There are more differences than similarities in the trajectory of outbound investments by Chinese and Indian enterprises. These differences arise due to the economic and institutional structure and the development path chosen by the two countries. Due to the differences between Chinese and Indian economic development trajectories, which are unique in many ways, it is not meaningful to make a straightforward comparison of outbound foreign direct investment (FDI) experience of the two countries. Nevertheless, the main differences with regard to outward investment by Indian and Chinese enterprises can be observed in areas such as the degree of involvement of the public sector enterprises, financing of overseas investments, success rate of proposed mergers and acquisitions (M&A), sectoral composition of such investments, investment motives, and so on. Various challenges facing outward FDI from China and India are highlighted, some of which could be addressed by specific economic and institutional reforms.

Gianluigi Giorgioni (2015) in OFDI from China: a deliberately macro re-evaluation observes that OFDI from emerging markets in general, and from China in particular, were actually predicted by the IIPD and that China as a whole is still at the early stages of the development path, while some (richer) Provinces might have tentatively moved to more advanced stages. The concentration of OFDI from a limited number of Provinces also put the idea that Chinese firms have poor FSA in a wider context. In many cases, those firms are established big local brands and originating from the richest Provinces, where incidentally they encounter also the competition by foreign firms, they are also quite competitive.

Angathevar Baskaran ,Ju Liu, Hui Yan &Mammo Muchie (2017) in their study Outward foreign direct investment (OFDI) and knowledge flow in the context of emerging MNEs: Cases from China, India and South Africa found that there are significant differences between the OFDI from EMNEs and Developed multinational enterprise (DMNEs), which cannot be explained by using traditional FDI models. The way that EMNEs enter and operate in developed and developing countries are different. Knowledge transfers between EMNEs and developing host economies are predominantly one way and the former transfers more technology and knowledge than they gain. In the case of EMNEs and developed host economies, the knowledge and technology transfers appears to be more evenly matched, a two-way street benefitting both parties.

Haiyue Liu, Jie Jiang, Lei Zhang and Xiaolan Chen (2018) in their paper entitled OFDI Agglomeration and Chinese Firm Location Decisions under the “Belt and Road” Initiative found that the agglomeration effect of Chinese OFDI on host country selection was obvious, as Chinese firms were often found to follow other Chinese firms and invest in host countries where Chinese investment was concentrated; however, it was also found that Chinese firms did not choose countries where there was a high concentration of non-Chinese FDI.

Objectives of the Study

1. To study the economic status of India and the determinants that impart it the current economic status
2. To study the economic status of China
3. To comment on the relationship between India and China
4. To study the theoretical and the practical aspects of OFDI
5. To study the flow, patterns and directions of FDI and Economic Growth in In-dia and China.
6. To provide a critical overview of the recent phenomenon of outward foreign direct investment (OFDI) from China
7. To provide a critical overview of the recent phenomenon of outward foreign direct investment (OFDI) from India
8. To examine which country is in better position for attracting more FDI and enhancing their economic growth
9. To study the Impact of FDI on Economic growth of India and China.
10. To highlight the determinants of Foreign Direct Investment in India and China.
11. To examine the determinants affecting the OFDI of India and China
12. To analyze the composition, trends and direction of OFDI of India and China

Hypothesis

1. There is significant impact of FDI on economic growth of India and China.
2. There is no significant impact of FDI on economic growth of India and China.
3. Major determinants of FDI are GDP growth, Inflation rate, exchange rate, FOREX reserve, and financial position.
4. Major determinants of FDI are not GDP growth, Inflation rate, exchange rate, FOREX reserve, and financial position.
5. India and China differ when it comes to sectoral distribution of their outward investments

Research Methodology

The basis of the research is on secondary data from the various sources such as World Bank re-port and United on conference on Trade and Development. Hence, the study is a theoretical one with a special focus on the OFDI status of India and China. Studies focusing on India and China’s outward investments and their various multinationals were found in a variety of academic fields, from branches of politics and economics to business studies and finance. The method includes the selection of the problem, study of the related literature, making the review of the studied literature, setting the specific aims and objectives, formulation of hypothesis, arriving at findings and conclusion. In order to keep up the scientific spirit of the work, scientific method was adopted and all the approved steps prescribed by the eminent scientists were followed. In addition to the studies included for the findings, the following studies conducted in India and abroad form the basis of the review making and hypothesis formulation-

1. Jaya Prakash Pradhan (2011)’s Emerging Multinationals: A Comparison of Chinese and Indian Outward Foreign Direct Investment
2. Lina Lian & Haiying Ma (2011)‘s Overview of Outward FDI Flows of China
3. Byron Messaris (2012)’s The Political Economy of Indian and Chinese Foreign Direct Investment and Multinationals in Sub-Saharan Africa
4. K. C. Fung & Alicia Garcia-Herrero (2012) ‘s Foreign Direct Investment Outflows From China and India
5. Amiya Kumar Bagchi and Anthony P. D’Costa (2013)‘s Transformation and Development: The Political Economy of Transition in India and China
6. Khanindra Ch. Das, Nilanjan Banik (2015) in Outbound Foreign Direct Investment from China and India: The Role of Country-specific Factors
7. Gianluigi Giorgioni (2015)’s OFDI from China: a deliberately macro re-evaluation
8. Angathevar Baskaran ,Ju Liu, Hui Yan &Mammo Muchie (2017)’s Outward foreign direct investment (OFDI) and knowledge flow in the context of emerging MNEs: Cases from China, India and South Africa
9. Haiyue Liu, Jie Jiang, Lei Zhang and Xiaolan Chen (2018)’s OFDI Agglomeration and Chinese Firm Location Decisions under the “Belt and Road” Initiative

Findings

1. The role of New Delhi and Beijing in facilitating and financing outward investments is strategic and pragmatic
2. India, despite being nominally a member of GATT (precursor of WTO) since 1948, actually opened up its economy only in 1991.
3. The flows of OFDI from China did not grow unexpectedly and particularly fast. A sudden jump in OFDI did take place in 2007-2009
4. Until 2007, Chinese outflows were barely undistinguishable from those of other emerging countries and only after 2007 they have grown quite substantially. Moreover, most OFDI originate from the richest Provinces, which due to the unequal distribution of income within China, already enjoy levels of income per capita at par with more developed countries.

5. OFDI from China behaves very differently from OFDI from other countries, notably from developed economies.
6. OFDI flows from China have surpassed OFDI from India only from 2007
7. Most OFDI from China is due to SOEs
8. China is still in phase 2, when inward flows of FDI far exceed outward flows
9. In China, large projects, predominantly in natural resources and involving big SOEs are typically approved by the Central Government, while smaller projects carried out by private firms are approved at Province level.
10. China is still in the second or perhaps third phase of the IIDP and that quite a significant amount of investment (both inward and outward) actually takes place in a limited number of (richer) provinces
11. The last two decades have seen outward foreign direct investment flows from India and China increase significantly when both countries initiated new waves of OFDI in which accelerated from 2000 onwards (Hong, 2011: 5)
12. India and China have emerged as Africa's most important contemporary economic partners and these powerful economies are having a significant effect on the continent's international relations (Cheru and Obi, 2011: 91)
13. Strategic objectives, resources, new markets, diplomacy and influence, development cooperation, energy and food security are some of the channels that Indian, Chinese states are engaging in (Pradhan, 2010: 140)
14. The corporate transformation of India and China is characterised by the increasing internationalisation of India and Chinese multinational firms through substantial outward foreign direct investment flows across the globe (Athreeye and Kapur, 2009: 209)
15. India and China have not only opened and expanded their trade and investment activities on the continent, but their diplomatic and political channels too.
16. Many of India and China's top firms have invested into Africa, as they seek to acquire strategic assets, new markets and resources (UNCTAD, 2006)
17. India's sectoral distribution however sees manufacturing as its major sector. Similar to China, India's second largest investment sector is in agriculture and mining activities followed by non-financial services (Hong, 2011: 19)
18. India and China record exceptional economic growth and global economic clout, the global financial crises created a recession that retarded global FDI.
19. Indian firms are investing on a larger scale in Africa than in the first wave of investment, which took place from the initial investment at the end of the 1950s to 1995, when the lessening of the regulatory investment regime began, resulting in a the second wave of investments. Investing billions of dollars to "tap the potential of its growing market and increasing its footprint across the continent" (Pasricha, 2011)
20. Indian firms expanded outward in two waves, the first occurring in the 1970s and 1980s, and the second occurring after 1995, shortly after India had opened up to the global economy in 1991 following economic reforms.
21. The first Indian firm to internationalise, the Birla Group, established their first plant, a textile mill in Ethiopia in 1959. In the following year, Birla would expand into Kenya, establishing an engineering firm in Kenya (Athukorala, 2009: 130)

Conclusion and Suggestion

India and China have grown at different time periods and India faces a lag of thirteen years, comparing different time dimensions can be misleading as their might be macroeconomic global factors such as Asian Cri-sis, recession in Japan and Gulf war that might have influence on the flows into these countries differently. They may be big economic players in Africa and the globe, but that does not mean that either their foreign policy or broader economic and fiscal policies; and their expanding influence regionally and globally, or on continents is a homogenous one.

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