A Comparative Study of the Outward Foreign Direct Investment (OFDI) between China and India in the New Era

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Abstract: For a country, as an important manifestation of its international division of labor, OFDI is also an important manifestation of its economic development. With the development of modern social economy, the scale of OFDI in the world is constantly expanding. In this context, the foreign investment of developing countries has also obtained good development opportunities. Among them, as two important economies in the world, China and India have played an important role in the world economy as developing countries. China and India have a large population, and they are both developing countries, so they have similarities in terms of national conditions, with a certain comparability in the analysis of OFDI events. The economies of both countries have developed rapidly as the trend of economic globalization is developing in depth. Moreover, the scale of their investment is gradually expanding, but there are obvious differences in the industry, location, subject and other aspects directly invested by them, and the investment results of China and India are also different. Compared with China, India has obvious advantages in investment industry, location and subject of investment. Due to the development of high and new technologies, India has begun to make direct investment to more and more developed countries.

1. Introduction

China's OFDI is mainly reflected in the flow and stock, but it is still different from western developed countries. In particular, the regional choice of OFDI in China is too centralized and the proportion of private enterprises is low, which affects the performance of investment, thus making the result of OFDI in China unsatisfactory. In this regard, this study focuses on the comparison and analysis of the OFDI between China and India in the new era, and makes a clear analysis of the differences between them, hoping to provide a good reference for the effective development of China’s OFDI.

2. Preface

2.1 Research background

At present, the main forms of China's participation in the international division of labor include international trade, foreign direct investment in China and OFDI. However, compared with western developed countries, China's economic development is still limited, so most enterprises pay more attention to the investment of developed countries in China, and do not pay attention to China's OFDI. In this case, the trend of global economic integration is increasingly strengthened, which makes the ODFI event of developing countries receive more and more attention. Since 2012, the instability of the global economy has led to a significant decline in the proportion of ODFI, especially in developed countries. In this case, the proportion of developing economies in the international market is growing, and the proportion of the ODFI of the developing countries exceeds 30% of the world. China and India account for a large proportion of ODFI in developing countries.
Since the economic reform and opening up, China's economy has developed rapidly. After the "Go globally" strategy was put forward on the 17th National Congress of the Communist Party of China, the scale of ODFI has gradually expanded, and the capital invested has gradually increased. According to data from the Ministry of Commerce in 2012, the amount of China's ODFI ranks the third, second only to the United States and Japan. However, even though China has made some achievements in ODFI, it is still unable to compare with developed countries in terms of investment scale, industry, region, investment subject and economic benefits obtained. In view of this situation, it is necessary to discuss China’s ODFI in detail and formulate corresponding solutions to promote its development.

As the second developing country, India's economic growth rate is also not to be underestimated. In the 1990s, India's economic investment has entered the international market, and the development speed is very fast. Although it is slightly different from China's aggregate ODFI, the rapid development of ODFI still attracts a lot of attention and enhances India's international influence to some extent. It can be seen that foreign direct investment plays an incomparable role in the economic development of both China and India.

2.2 Research significance

China and India are both developing countries, and their economic development has accelerated significantly in recent years. At the same time, China and India have similarities in their national conditions, but the model of their economic development is similar, but not completely the same. They still retain their own characteristics, which enables their domestic economy to get a driving role and get a considerable development. ODFI requires the state to use its own foreign exchange reserves to complete, thus laying a foundation for the development of enterprises engaged in ODFI. At the same time, it provides a guarantee for its competitive strength in the international market, which is of great significance for the sustainable economic development among countries. However, in this study, it is not difficult to find that there are still a lot of problems in China's ODFI, which need to be solved urgently. In addition, it is necessary to draw on the advantages of foreign direct investment on the basis of comparison with India's, so as to ensure the improvement of China's ODFI. In addition, it also makes it easier to understand India’s problems in ODFI more intuitively by comparing China’s and India’s ODFI. Meanwhile, it also takes this as a lesson to optimize China's ODFI, thus further promoting the development of China's ODFI. This is of great practical significance to the development of China's economy and ODFI.

3. Current Situation of the ODFI of China and India

3.1 The history of ODFI of China and India

Both China and India started their ODFI later. Their development of foreign investment is related to economic reform and has experienced a similar historical stage.

3.1.1 The history of China's ODFI

The level of economic development and national investment policy have a far-reaching impact on the overseas expansion of Chinese enterprises. In 1978, with the implementation of the reform and opening up policy, China’s economy came into a stage of rapid development. In the early stage of reform and opening up, China's economic development was mainly based on the introduction of foreign capital due to the lack of funds. However, with the growth of China’s economy, the increase of foreign exchange reserves and the continuous development of ODFI, the coordinated development of "Bring in" and "Go Globally" strategies is gradually achieved.

China's ODFI began in the late 1970s and early 1980s. Compared with developed countries, China's ODFI has a short history, but develops rapidly. Its development has roughly gone through the following four stages:

The first stage is from the late 1970s to the early 1980s, during which ODFI began to take off in order to adapt to the development of economy with the introduction of the reform and opening up
policy. However, due to the shortage of foreign exchange and capital, its main form is to establish overseas branches of state-owned enterprises with the government as the main body, such as CITIC Group, Bank of China, MCC and other state-owned enterprises. At this stage, the scale of ODFI is very small, mainly concentrated in catering, trade, engineering contracting.

The second stage is the middle and late 1980s, during which ODFI was still dominated by state-owned enterprises, but not limited to central enterprises. With the deepening of the reform and opening up, the foreign trade system has also been reformed. State-owned foreign trade companies, such as SINOCHEN, have begun to make ODFI. Due to the problems of the management system, both the efficiency of enterprises and the development of ODFI were slow.

The third stage is from 1991 to 2003, which is the transition period of ODFI. Deng Xiaoping's talks delivered on his inspection tour of southern China promoted economic reform. The 14th National Congress of the Communist Party of China proposed the goal of establishing a socialist market economic system and continuous development of enterprise reform, governmental macroeconomic regulation and control, and price reforms. At this stage, large industrial and commercial enterprises had also begun to expand overseas. The scale and quality of investment have developed to some extent, but they still do not occupy the mainstream position of the economy.

The fourth stage, from 2004 to now, is the rapid development stage of ODFI. The increase of capital stock and foreign exchange reserves provides conditions for enterprises to invest overseas. The World Investment Report 2013 published by UNCTAD (United Nations Conference on Trade and Development) shows that China’s ODFI in 2012 reached US$84 billion, making it the third largest ODFI country in the world, second only to the United States and Japan. At this stage, M&A has become an important way of ODFI, and more small and medium-sized enterprises has begun to make ODFI.

At the end of 2017, China's ODFI stock was US $1,809.04 billion, accounting for 5.9% of the global ODFI outflow stock, distributed in 189 countries and regions. The scale of stock increased by US $451.65 billion compared with the end of last year, jumping to the second place in the global stock ranking and advancing four places from the previous year. China still has a big gap with the United States which ranks the first (US $7.8 trillion) in terms of stock scale, which is only 23.2% of that of the United States, and close to Hong Kong, Germany, the Netherlands and the United Kingdom which rank the sixth.

In 2017, China's ODFI covered 18 industrial divisions of the national economy, of which the investment in business services, manufacturing, wholesale and retail, and finance exceeded US $10 billion, accounting for more than 80%. There are six industries with a stock scale of over US $100 billion, namely leasing and business services, wholesale and retail, information transmission / software and information technology services, finance, mining and manufacturing, accounting for 86.3% of China's ODFI stock. [1]

3.1.2 The history of India's ODFI

India's ODFI is also the result of economic globalization, and has made a great contribution to economic development. Although the large-scale ODFI of developing countries is a new feature of economic development, large Indian groups, such as Tata and Birla, have been investing abroad since the 1960s. However, as India adopted restrictive trade and investment policies after its independence in 1947, the scale of ODFI is relatively small. After the 1990s, the Indian government implemented loose policies, which made its overseas investment enter a stage of rapid development. So it appears that the Indian government's investment policy from control to encouragement has an important impact on the development of its overseas investment.

India's ODFI took off in the 1950s and 1960s. After gaining independence, India stepped up the recovery and construction of its national economy, but it still maintained economic ties with other countries. India's ODFI began with the establishment of a textile joint venture in Ethiopia by the Birla Consortium in 1955. Until the end of the 1960s, manufacturing and service industries were the major investment industries, mainly in developing countries, with the features of slow development, small scale and relatively concentrated regions and industries.
From the 1970s to the early 1990s, India's ODFI had entered a stage of steady development. Through 20 years of recovery and development after independence, India has initially established a complete national economic system and industrial system, which lays a solid foundation for the development of ODFI. In the 1970s, India expanded preferential policies for overseas companies in terms of tariffs, taxes and foreign exchange. In 1974, the India Overseas Joint Venture Committee was established, which further promoted the overseas expansion of enterprises. The investment field expanded to the pharmaceutical industry and transportation industry, and began to flow to developed countries, such as the United States and Australia. However, the scale of ODFI at this stage is still relatively small. In 1983, India invested less than US $500,000 (4.5 million rupees) at the exchange rate of that time.

Since the 1990s, India has entered the rapid development stage of overseas investment. In 1991, Rao’s Government reformed the traditional economic system under the guidance of liberalization, marketization and globalization to cope with international payment crisis. While the economy has developed rapidly, the scale and quality of ODFI had also been developing, but it mainly focus on the manufacturing sector. Since the 21st century, India's ODFI is growing in scale and diversifying in investment mode. Cross-border M&A has become increasingly significant and has cultivated a large number of competitive multinational enterprises. [2]

3.2 The ODFI scale of China and India

From 1990 to 1991, China's ODFI flow was small, only US $830 million. Due to the further deepening of the reform and opening up, there was a leapfrog growth in 1992, and the flow increased to US $4 billion. From 1994 to 2003, the growth of flow was relatively stable, and then it entered the stage of rapid growth. In 2012, the ODFI flow reached US $84.2 billion, with an increase of 12.8% over 2011, which was 29.5 times that of 2003 and 101.4 times of 1990. Obviously, with the increase of flow, the stock of foreign direct investment will also rise rapidly. In terms of stock, China's ODFI has maintained a continuous growth, reaching US $4.455 billion in 1990 and US $13.7 billion in 1993, exceeding US $10 billion for the first time. In 2007, the ODFI was US $117.9 billion, exceeding US $100 billion. In 2012, the ODFI was US $509 billion, with a year-on-year growth of 19.8%, which was 114.25 times that of 1990.

From this, it can be found that both China and India have made great progress in ODFI. However, in terms of flow and stock, the scale of India's ODFI lags behind that of China, which is closely related to its economic scale. [3]

However, compared with the countries in development, the ODFI of both countries is in a weak position due to their late start, and their position in the world is not significant, so they need further development. In 2012, China became the third largest outbound direct investor in terms of flow, second only to the United States and Japan, but the flow was only 25.6% of that of the United States (US $328.87 billion in the United States). In 2012, China’s ODFI stock was only 10% of that of the United States during the same period (US $5,191.1 billion), 28% of the United Kingdom (US $1,808.1 billion), and 33% of Germany (US $1,547.2 billion).

4. The Reference and Enlightenment of India’s ODFI to China

The reason why India has made remarkable achievements in ODFI is closely related to the development mode of India's ODFI. First of all, the Indian government supports foreign direct investment, relaxes the restrictions on the ODFI of many domestic enterprises, and issues many preferential policies that are conducive to the development of domestic industries with comparative advantages, such as the pharmaceutical industry and software service industry. So that the companies in these industries continue to grow and develop, and have the conditions to go abroad. At the same time, the development of ODFI in domestic advantaged industries also drives the development of domestic economic level, which makes the pace of ODFI consistent with the pace of domestic economic development.
Secondly, India's ODFI enterprises are mostly private enterprises. In addition to the characteristics of institutional advantages and flexible mechanisms in the market economy, private enterprises focus more on acquiring new technologies and expanding overseas markets in terms of the motivation of ODFI. At the same time, due to the spillover effect of technology, foreign advanced technology and management experience can be internalized through foreign investment, which makes them more suitable for the development of local enterprises through absorption and innovation, thus forming a positive interaction of enterprise development, foreign direct investment and domestic market development. [4][5]

Thirdly, India's ODFI has a clear purpose. India's ODFI is more balanced in the region, with the investment footprints of Indian enterprises in both developing and developed countries. Similarly, the multinational companies of India are also very balanced in the investment industry. Indian enterprises pay more attention to the needs of the host country during their investment in developing countries. Generally, developing countries tend to be poor in technological level and weak in economic foundation, with relatively cheap labor and natural resources. Indian enterprises has brought technologies suitable for local development by ODFI in these countries, which is conducive to solving the problems of backward local technology level, labor employment and economic development. At the same time, the multinational corporations of India also have access to cheap natural resources and labor, which reduces enterprise cost and expands the market. For the ODFI to developed countries, they pay more attention to the technological advantages of host countries. The reverse transfer of technology can be realized through internalization, and the advanced technology can be transferred back to the parent company to realize its own transformation and upgrading. At the same time, the host country has a sound legal system, good market environment and infrastructure, so that it can expand its overseas market and popularity through ODFI. In terms of investment industry, Indian enterprises are more flexible and diversified in investment. They not only invest in traditional industries such as steel, automobile and chemical industry, but also in modern service industry and high-tech industry. At the same time, India's pharmaceutical industry is also a characteristic industry of India’s ODFI. The diversification of India’s ODFI has positive significance for optimizing the industrial structure. [6]

5. The best strategy to promote the ODFI of Chinese enterprises

For the current supervision system of private enterprises, it only mainly focuses on the centralized supervision of the listed private enterprises, but also on the comprehensive supervision and self-supervision mode. For example, centralized supervision, which is mainly led by the national government, plays a regulatory role in the development of the private enterprise market. In the process of supervision, the corresponding security regulations is customized according to the current development of the private enterprise market to better regulate the private enterprise market, and a securities regulatory agency is also established to regulate the operation of securities in the private enterprise market. The self-supervision model refers to the supervision of the development by private enterprises themselves. However, the supervision system by securities supervision commission, exchange and enterprises themselves is still not perfect in the supervision system. As the level of supervision is also relatively low, it is necessary to improve and upgrade it from the supervision system and supervision level, so as to ensure a healthier development of the private enterprise market. [7][8][9]

5.1 Further improving the sponsor system of ODFI enterprises

The sponsor system exists as an intermediary organization. In a certain sense, it can improve the responsibilities of intermediary organizations, which enables them to supervise the operation of listed enterprises and provides necessary support, so that listed enterprises can maintain a good operation state. [10] In case of financial abnormality, it can put forward management suggestions and report it to the management department as soon as possible, so as to reduce the risky behavior of listed enterprises and improve their risk prevention function. In addition, the sponsor system can also
effectively use the benefit mechanism such as joint liability to make the actual business situation of the listed company closely related to sponsors. In addition to the use of sponsors to supervise and manage the IPO behavior and capital flow of listed companies, it also improves the capital management of listed companies, thus effectively avoiding the moral hazard caused by the interest relationship between intermediary service agencies and listed companies. On the other hand, the sponsor should fulfill the duty of examination and supervision dutifully. The sponsor shall investigate whether the growth of the issuer conforms to the standard due diligence and give professional opinions, carefully examine the authenticity, accuracy and completeness of the listed and issued documents, and give follow-up supervision on the compliance operation, the timeliness of information disclosure, the performance of various commitments and the issuance of the regular reports of the listed company.[11][12]

5.2 Further improving the information disclosure system of ODFI enterprises

At present, the operating income of private enterprises in China has declined in recent years. The continuous decline of the profitability, operation ability and growth ability of enterprises makes the growth of enterprises in the private enterprise market questioned by the majority of investors. Although more and more enterprises have successfully applied for listing on the private enterprise market in China in recent years and the net profit gained by the enterprise also shows an increasing trend compared with the same period last year, it is still far below the operating performance of the listed enterprises in the main board market in the same period. [13] Therefore, it is necessary to enhance the operation ability of the listed enterprises in the private enterprise market, strengthen the daily operation and management of enterprises, the turnover speed of business capital, the performance evaluation of the enterprises, adopt a positive incentive system to fully mobilize the enthusiasm of employees, promote the improvement of enterprises’ own capabilities in the private enterprise market, and actively guide the private enterprise market in China to carry out healthily and normal operation. At the same time, the transparency of the company's information can be effectively improved through the information disclosure system, so that the resulting investment risk can be easily controlled and prevented. Moreover, the information disclosure of listed companies can also improve their credibility and asset mortgage efficiency, which makes the whole enterprise develop more rapidly after listing. [14]

5.3 Further strengthening the supervision of ODFI governance

Enterprises should actively take development and innovation as one of the purposes of advancing the enterprise, establish and improve a positive and effective reward mechanism, and increase funding for scientific and technological research and development according to the specific situation of the enterprise. At the same time, the government also actively supports the enterprises in the private enterprise market to conduct a research on independent innovation, isolate and support them through tax policies, properly guide small and medium-sized enterprises that meet the listing requirements of private enterprises to carry out financing planning and list successfully, and lead foreign private enterprise market to develop healthily. [15][16]

5.4 Continuously improving the technological innovation ability of ODFI enterprises

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5.5 Strictly controlling the use scope of over-raised funds

Listed enterprises should reasonably plan the use of over-raised funds to make them play a greater valuable role. At the same time, they not only develop a set of strict use approval process, but also make and improve the plan for the use of over-raised funds according to the overall fund use of the enterprise.[18] The key point is that the use of over-raised funds of an enterprise must be connected with the operation of its main business. Therefore, it is necessary to reduce the related party transactions of the enterprise accordingly, gradually improve the independence of enterprises to another level, so as to ensure the maximum scientific and reasonable use of the over-raised funds held by enterprises.

5.6 Improving the operational capacity of foreign direct ODFI enterprises

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6. Conclusion

In the process of ODFI, Chinese enterprises often lacked knowledge of the market conditions, politics, cultural customs, laws and regulations, and partners of the host country at the beginning, which made enterprises face many risks when choosing ODFI. Their investments would be a failure without thorough research. Therefore, before overseas M & A, it is necessary to fully investigate the target enterprises and analyze the results. In cross-border M & A, it is necessary to check whether the target enterprise has the resources and technology it needs, to grasp the true value of the target enterprise to meet the long-term development needs of the company. At the same time, it is necessary to ensure that the outbound investment projects should be within their own tolerance so as to avoid unnecessary burdens.

A win-win situation should be a tenet of China's ODFI. In the process of ODFI, Chinese enterprises should not only consider the benefits they bring to themselves, but also consider the beneficial effects they bring to the local enterprises in the host country. If the investment can bring reasonable benefits to the host country, such as the improvement of the technical level, the increase of labor employment rate and lower environmental cost, the host country will be more willing to receive foreign direct investment. At the same time, Chinese enterprises should conduct in-depth research on the local investment environment of the host country before investing abroad. It is necessary to fully evaluate the feasibility and expected benefits of the investment on this basis. Only in this way the investment is ensured to be beneficial to themselves. At the same time, for countries with different levels of development, it is necessary to develop different investment strategies. For example, for countries with relatively low technological level, they can invest in intermediate technologies which are quick in returns and easy to learn, while for developed countries, they can absorb the advanced technology of the developed countries through cross-border M & A or stock acquisition. Therefore, Chinese enterprises should make reasonable investment strategies based on the reality of the host country, so as to obtain the maximum benefits in the process of foreign investment under the purpose of ensuring a win-win situation.
Reference


