

CHINA AND INDIA IN THEIR OUTWARD INVESTMENT

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Executive Summary

1. The last two decades have witnessed a significant rise in outward foreign direct investment (OFDI) from developing countries. The growing OFDI from China and India, the two largest emerging countries, is particularly notable.
2. China began its OFDI in the early 1980s. However, the development of China's OFDI fluctuated in the first ten years and was greatly surpassed by its net inward FDI. It was not until the early 2000s that China's OFDI began to grow steadily.
3. The development of India's OFDI can also be divided into two periods: pre-1990 period and post-1991 period. Its OFDI was quite limited in the pre-1990s, but rose steadily after 1991 when India began its economic reform.
4. As China and India are not abundant in natural resources, they have to depend on imports of oil and other raw materials. As the international production and supply of these strategic resources are mostly controlled and monopolized by a few giants, China and India are often at a disadvantage.
5. Chinese and Indian energy companies thus went into joint ventures, mergers and acquisition, or shares holding of overseas energy and resources exploration to have a say in production control and resource pricing.
6. China's OFDI is mainly government-led, whereas India's OFDI is primarily driven by markets and private companies. Unlike China, the Indian government is relatively weak and has no capacity to support its firms to go abroad. Indian enterprises have thus been lagging largely behind China's although the country has a longer OFDI history.
7. On the other hand, Chinese companies met with some political difficulties in their outward investment because of their government links and "image" problem. China's overseas investment and the potential role of its sovereign

wealth funds have stocked concerns that Beijing is locking up global energy assets through its FDI expansion.

8. In the case of India, it is believed that “its liberal democratic regime type is a real advantage over China in the two Asian giants’ competition for global attractiveness and influence”. With this shiny image plus market-driven investment, India’s overseas activities encounter fewer political difficulties than those of China.
9. China’s OFDI mainly goes to developing countries and mining sectors, while India’s mainly goes to developed countries and manufacturing sectors. There is thus little conflict or competition between these two giants in the third markets.
10. There is in fact moderate complementarity in their OFDI structures and approaches. China has advantages in its government-led strategy and economic diplomacy, whereas India has advantages in enterprise governance and business management. Both countries could learn much from each other.