China’s foreign direct investment in BRICS countries: status, problems and prospects

Sang Bai-chuan, Zheng Wei, Tan Hui and Ai Qi*

The emerging economies, represented by the BRICS, have risen rapidly in post-crisis era in both economic development and national competitiveness. In order to ensure a stable and sustainable long-term development of national economy, the governments of BRICS countries have shown positive attitude to foreign direct investment. This is a great opportunity for China to increase its direct investment in these countries, which will not only provide strong support to China’s “going global” strategy, but also help avoid risks arising from intensive investment in its traditional investment regions. This article focuses on the status of Chinese outward direct investment in the BRICS countries by analyzing existing problems in investment process and providing forecast as well as future agenda on China’s direct investment in these countries.

Keywords: China, BRICS countries, outward foreign direct investment

1. Introduction

With the continuous development of its opening economy and vigorous implementation of “going global” strategy, China’s outward foreign direct investment (OFDI) level has improved significantly in recent years. By the end of 2012, China’s OFDI stock has reached $447.71 billion, which is 13.5 times higher than that in 2003 ($33.22 billion). In the mean time, according to China Commerce Yearbook (2012), China has drawn world attention with its total overseas assets standing at over 1.5 trillion U.S. dollars, more than 18000 foreign enterprises established, and around 120 million oversea labors employed.

Nevertheless, there are some increasing problems caused by overly investing in certain regions. At present, China has spread its OFDI in over 180 countries and regions all over the world. However, Asia accounted for more than 70% of the whole of China’s OFDI stock. In particular, Hong Kong alone takes up around 60%, more than 90% of China’s OFDI in Asia. Although Latin America ranked second in the list, about 90% of which are concentrated in the

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Cayman Islands and the British Virgin Islands. The unbalanced concentration of China’s OFDI could easily lead to a high risk and might harm the aim of diversification.

The global financial crisis and the European sovereign debt crisis made developed economies, such as Europe and the United States, in trouble, and led to world economic slowdown. On the contrary, the emerging BRICS countries have become a new growth point in the world economy. In 2010, the total GDP of the BRICS countries amounted to $1153.952 billion, accounting for 18.4% of the global GDP, and representing an increase of nearly 10 percent from 2003. The trade volume of BRICS countries reached a total of $4.7156 trillion in 2010, accounting for 15.5% of the total trade volume all over the world, representing an increase of nearly 9% from 2003. Therefore, the governments of BRICS countries have been more positive towards FDI, and have issued a series of policies to encourage inward FDI. This is a new window of opportunity for China to increases OFDI in BRICS countries, so as to achieve the diversification of overseas investment. How to achieve this in the regions has become an important agenda.

2. The status of China’s direct investment in BRICS countries

By the end of 2012, China’s OFDI to BRICS countries has accumulated to $ 9.73 billion, which is 60 times when compared with $160 million in 2003, and its share in China’s overall OFDI has also increased five times from 0.48% to 2.17%. Although having a negative growth rate in 2009 due to the influence of financial crisis, the average annual growth rate of China’s OFDI to BRICS countries reached 65.4% from 2003 to 2012, which was still much higher than the overall average OFDI growth rate of 35.9% (see Table1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Stock of China’s OFDI</th>
<th>Year on year increase (%)</th>
<th>China’s OFDI to BRICS countries</th>
<th>Year on year increase (%)</th>
<th>Proportion (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>332.2</td>
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<td>1.6</td>
<td>0.48</td>
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<tr>
<td>2004</td>
<td>444.8</td>
<td>33.9</td>
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<td>137.5</td>
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<tr>
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<td>572.1</td>
<td>28.6</td>
<td>6.7</td>
<td>76.3</td>
<td>1.17</td>
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<tr>
<td>2006</td>
<td>750.3</td>
<td>31.1</td>
<td>12.5</td>
<td>86.6</td>
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<tr>
<td>2007</td>
<td>1179.1</td>
<td>57.2</td>
<td>24.3</td>
<td>94.4</td>
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<tr>
<td>2008</td>
<td>1839.7</td>
<td>56.0</td>
<td>53.3</td>
<td>119.3</td>
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<tr>
<td>2009</td>
<td>2457.6</td>
<td>49.2</td>
<td>51.1</td>
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</tr>
<tr>
<td>2010</td>
<td>3172.1</td>
<td>29.1</td>
<td>83.4</td>
<td>63.2</td>
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<tr>
<td>2011</td>
<td>3852.1</td>
<td>21.4</td>
<td>89.6</td>
<td>7.4</td>
<td>2.32</td>
</tr>
<tr>
<td>2012</td>
<td>4477.1</td>
<td>16.2</td>
<td>97.3</td>
<td>8.6</td>
<td>2.17</td>
</tr>
</tbody>
</table>

Source: China Commerce Yearbook (2013); database from the Website of the Ministry of Commerce, China.
2.1. Overview of China’s direct investment in Brazil

From the perspective of accumulated investment, the stock of China’s OFDI to Brazil in 2012 reached $1.45 billion, which was an increase of nearly 22 times compared with $50 million in 2003. The average annual growth rate of China’s OFDI to Brazil was 51.8%, which was 14 percentage points higher than the overall annual growth rate of China’s OFDI. It is worth noting that in 2009 and 2010, although hampered by the world financial crisis and a slowdown in China’s OFDI, China’s direct investment in Brazil was still growing rapidly with a year-on-year growth of 66.3% and 155.9% respectively.

Brazil is the largest trading partner of China among BRICSs. It is famous for its rich natural resources, and is considered as one of the most important strategic partners. According to the Classification of Chinese Investment in Brazil, published in 2010 by the Chamber of Commerce for China and Brazil, China’s major investment in Brazil was mainly concentrated in energy and resources, among which energy (including oil and gas) accounted for 45%, mining 20%, agriculture 20%, and steel 10%. With the deepening of bilateral investment cooperation between the two countries, the objectives of Chinese enterprises are also becoming more and more diverse. In addition to energy, some other sectors also received more attention. For example, the National Grid spent $1.7 billion acquiring 100% share of seven transmission assets in Brazil in 2010. Shanghai BAO Steel Group and Wuhan Iron and Steel (Group) CO. also built steel plants, respectively. Others include SANY Heavy Industry, ZOOMLION and XCMG Construction Machinery in machinery manufacturing. Even many Chinese private enterprises, such as GREE Corporation and CHERRY Automobile CO., have also established production bases in Brazil.

2.2. Profile of China’s OFDI in Russia

China’s OFDI in Russia has been developing rapidly in recent years. The good relationship between the two countries provides political support to the development of investment cooperation. By the end of 2012, China’s OFDI in Russia had reached $4.89 billion, which was 45 times higher than $62 million in 2003. Average annual growth rate reached 77.03%, accounting for 0.88% (from 0.19% in 2003) of China’s total OFDI stock. However, it is worth pointing out that the speed of direct investment to Russia has slowed down since 2006. It was only 10.87% in 2011, the lowest in history. On one hand, this is due to the expanding investment stock base. On the other hand, it reflects the slow trend of the growth rate of China’s OFDI in Russia in recent years.

China’s direct investment in Russia is mainly concentrated in the following sectors: infrastructure construction, microelectronics, telecommunications, household electric appliances assembling, energy and wood processing. The level of investment has been continuously raised, such as the China investment in the Russian forestry (which has been more advanced than...
before, from simple logging to deep processing). Chinese enterprises' investment in iron ore, non-ferrous metals, petroleum resources development and other resources and energy investment has maintained momentum. Representative examples include China National Petroleum CO.’s acquisition of 7.58% equity of Russia’s ROSNEF Oil Company, China petrochemical Co.’s acquisition of 49% stake of OAO UDMURTNEFT Oil Company. In the meantime, Chinese enterprises participated in Russia’s infrastructure sector, including the investment and construction of the China Business Center in Moscow and a comprehensive facilities project in the city of Yuzhno-Sakhalinsk, Sakhalin. Moreover, Chinese enterprises built car assembly plant in Tartar Republic, float glass plant in St. Petersburg as well as investing in Russia’s agricultural production, processing and fishery products and deep-processing industry etc.

2.3. Overview of China’s direct investment in India

By the end of 2012, China’s total direct investment in India has reached $1.17 billion, which increased over 500 times compared with $960,000 in 2003, equivalent to an average annual growth rate of 157.27%, which is a good indication of positive cooperation between the enterprises from both countries.

China’s direct investment in India has not fully spread out in terms of industries and ownership. Ownership is mainly private owned and investment areas are mostly concentrated in labor-intensive industries. Only few companies, such as HUAWEI invested in the field of science and technology, and telecommunications. However, it is worth noting that China’s automobile and energy enterprises have begun to try to invest in India directly in recent years, such as the acquisition of 50% stake of ASHAPURA MNECHEM in 2006 by QING TONGXIA Aluminum Group with an investment total standing at $651 million, the acquisition of 50% stake (excluding R & D center) of American manufacturing plant of General Motors India and General Motors India PVT Limited by Shanghai Automotive Group in 2009, worth $650 million, and so on. At present, India has developed ample preferential policies for FDI in infrastructure construction, manufacturing, electrical machinery and equipment, chemicals, pharmaceuticals, power and telecommunications and some other fields. This is a good opportunity for China to implement a comprehensive expansion of direct investment in India.

2.4. Overview of China’s direct investment in South Africa

According to World Investment Report (2011), total FDI in South Africa dropped to $17 billion in 2010, which was far below the $ 66 billion in 2009. Nevertheless, the direct investment from China has maintained a steady growth and the accumulated amount reached $43,983,000 in 2010. By the end of 2012, the stock of China’s direct investment in South Africa has reached $4.78 billion with an average annual growth rate of 79.62%, which increased around 95 times compared with $45 million in 2003.
China’s direct investment in South Africa ranks first in BRICS countries, and South Africa is also the biggest destination of Chinese enterprises’ investment in Africa. At present, China has set up more than 160 enterprises in South Africa, mainly in Johannesburg region and the provincial industrial parks. The invested projects include manufacturing and service sectors in various fields such as clothing, textiles, household appliances, machinery, building materials, edibles, mineral development as well as finance, trade, transportation, information and communications. Representative projects of China’s direct investment in South Africa include that Industrial and Commercial Bank of China acquisition of a 20% stake in Standard Bank of South Africa (becoming the largest single shareholder); Sino-Steel Group’s investment of $225 million to purchase a number of assets of SAMANCOR company and the establishment of a joint venture company with 50% share respectively; China’s largest wind power company, China LONGYUAN Power Group, and China-Africa Fund with two South Africa companies, together set up a joint venture company to participate in the three wind fields project bidding in South Africa of a total of 1590 MW of wind power. In the meantime, HUAWEI, ZTE, JIANGHUAI Automobile and other companies have entered the mainstream consumer market in South Africa through many years of penetration.

![Graph showing China's total FDI stock in BRICS countries from 2003 to 2012.](image)

*Figure 1. China’s total FDI stock in BRICS countries from 2003 to 2012 (Unit: Million $)
Source: Chinese Business Yearbook (2013)*

3. Existing problems of Chinese direct investment in BRICS countries

With more and more Chinese enterprises making direct investment in BRICS countries, a range of issues and problems have emerged and are worth careful discussion.

3.1. Relatively small investment scale

Under the vigorous implementation of “going out” strategy, China’s foreign direct
investment level has increased significantly in recent years. By the end of 2011, China raised itself to fifth in the top FDI source countries based on its 385.21 billion U.S. dollars of OFDI amount, which is higher than Japan, United Kingdom and some other traditional foreign investment giants. However, it should be noticed that the regions China invested in are still too concentrated. Although direct investment in BRICS countries grows rapidly, it still accounts for only 2.32% share of China’s total OFDI amount. The scale of direct investment in BRICS countries lagged far behind the level of trade, which is not conducive to the in-depth development of economic and trade exchanges between China and BRICS countries.

3.2. Irrational ownership and industrial structure

China’s direct investment in BRICS countries has been conducted mainly by: first, foreign trade companies, such as China Materials Import & Export Corporation and China National Chemicals Import and Export Corporation; second, large state-owned manufacturing enterprises or enterprise groups such as Wuhan Iron and Steel Group, China Coal Energy Company Limited and CNPC, etc.; third, large state-owned construction enterprise groups such as China Railway 16th Bureau Group and China State Construction Engineering Corporation; fourth, large state-owned financial institutions such as Industrial and Commercial Bank of China and China International Trust and Investment Company; fifth, market-leading private enterprises such as GEELY Automobile and SANY Heavy Industry, etc. At present, investment in BRICS countries is still dominated by state-owned enterprises, accounting for more than 90%, leaving private enterprises in minority. State-owned enterprises may on one hand cause political suspicion and increase foreign investment barriers, on the other hand, may not be conducive for private enterprises to exert their own advantages of being small, fast and flexible in market competition.

Moreover, the industrial sectors of Chinese enterprises investing in BRICS countries still remain limited, mainly coal, iron and non-ferrous metals, oil and other energy and resource industries and labor-intensive industries. Investment in capital-intensive industries, high-tech industries and agricultural sectors is still under-developed.

3.3. Barriers for green-field investment

China’s green-field investment in BRICS countries has become a major investment mode. This is particularly true in Brazil and South Africa, where rapid growth has been evident in recent years. However, some people still regard green-field investment from China as something hidden with a strong political purpose. For example, Tina Chomet Petersen, the South African Minister of Agriculture, Forestry and Fisheries, said on the United Nations Climate Conference in Durban, without naming China, that the performances of some countries on African continent had been seen as a “new colonialism.” She pointed out that some countries brought labor, equipment, fertilizer and seeds, used local land for growing grains and at last withdrew, leaving nothing but perhaps depleted land. Certain Brazilian scholars also warned Brazilian government on China’s
green-field investment. George Abach, a consultant of World Bank and Brazilian Development Bank, as well as a professor at the University of Sao Paulo, did affirm the positive impact of China’s investment in Brazil and then pointed out that the “alarm has been sounding.” He believed that what Brazil needs was a high quality investment rather than the simple purchase of land in Brazil. He also reminded the government that there were 3.2 trillion US dollars in China’s foreign exchange reserve, but how much land in Brazil could be traded with China?

Nowadays, BRICS countries have maintained a more cautious approach towards green-field investment from China by developing a series of more stringent examination measures. How to remove barriers on green-field investment has become one of the key issues of China’s investment in the BRICS countries.

3.4. Complex host government policies towards FDI

Due to considerations regarding political system, economic system, market environment and other factors, preferential policies towards FDI have experienced many uncertainties among BRICS countries. In particular, the policies guiding FDI in energy and resource sectors are becoming stricter. For example, Brazil government is considering setting constraints on FDI in the mining industry, including a minimum amount of domestic supply and screening transactions based on the “investor.” Land purchase by firms from Chongqing in Brazil met with temporarily additional approval requirement, highlighting the uncertainty of the policy. Russia has more restrictions towards FDI in timber processing, natural gas, oil exploration and other areas. Indian government has been relatively prudent to Chinese investment, especially those from Chinese state-owned enterprises. It has come up with specific requirements to make Chinese investing firms more localized.

The cautious and changeable preferential policies of BRICS countries have a direct impact on the scale of investment from China. This has become a bottleneck to hinder Chinese capital entering these markets.

3.5. Lack of management skills among Chinese enterprises

Chinese enterprises lack relevant experiences in managing large investment in overseas markets. Most existing overseas investments of Chinese enterprises are derived from the need for international operations, but this has been conducted by replicating their Chinese management styles abroad. Unclear relationship of enterprise property right, non-standardized financial management practice and operating procedures have not been adapted to the local markets.

In addition, issues such as a lack of detailed understanding of investment environment, government policy, taxation, labor protection, labor union negotiation, nationalization risk, foreign capital policy, cultural background, consumer characteristics and other aspects in the BRICS countries, are likely to cause management loopholes in daily operations of Chinese firms. One case in point is that the Chinese garment factory in Newcastle, South Africa, faced huge fines
in 2009 for being accused of refusing to pay a lawful remuneration and at the same time suffered in a large-scale industrial strike participated by local workers. Opponents in South Africa thought that Chinese enterprises on one hand benefited from their home country and did bring positive impact to the local market, but, on the other hand, treated local labor force unfairly. Therefore, how Chinese enterprises integrate quickly into the local communities, improve management practice, and operate within local laws, are considered as key issues that must be solved in the future to facilitate Chinese enterprises’ expansion in BRICS countries.

3.6. The role of the government to be further strengthened

The Chinese government has introduced a series of policy documents, laws and regulations to encourage enterprises to “go global,” and vigorously supported direct investment in emerging markets, especially BRICS countries. Having said that, the government’s functions are still lacking in the provision of legal protection, policy guidance, institutional safeguarding as well as advisory services in tax, finance, information and other aspects. This is due to the fact that the industrial policies in the BRICS countries are not clear, leading to some blind investments without specific aims. In addition, a lack of effective supervision on state-owned enterprises results in the loss of a large number of state assets. Finally, the absence of necessary protection system for outward FDI leads to vulnerability of Chinese firms facing political risks in the host countries.

4. Prospects of China’s FDI in BRICS countries

The Chinese government considers its relationship with BRICS countries as a significant component of the country’s diversified foreign trade strategy, economic diplomacy, and core interests. In this case, it is crucial to figure out how to explore the markets of BRICS countries and increase FDI in these countries so as to benefit China’s foreign trade and economy. To accelerate investment cooperation with BRICS countries, China should identify its complementary advantages, raise investment cooperation level, and pursue win-win co-operation. In the meantime, it should be emphasized that there are still many problems when investing in BRICS countries due to the huge differences in economic development, geography, production endowments and so on. Therefore, promoting OFDI in the BRICS countries will have a huge impact on enhancing China’s international status, as well as evading risks and expanding future strategic space.

4.1. Great potential for China’s OFDI in BRICS countries

The land area of BRICS countries accounts for 26.8% of the world and the population of these five countries takes up 42.88 percent of the world’s total. The vast land and abundant labor resources provide a good investment potential for China’s investment. In addition, the GDP of
BRICS countries accounts for 20% of the world and their total trade volume occupies 15% of the world, which contributes to over 50% of new trade generation in the world. Goldman Sachs predicted that the world’s top ten economies would include all BRICS countries by 2050. The rapid development of their economy and huge ascending potential of BRICS countries calls for corresponding consuming ability and infrastructure, which provides a broad market demand for China’s FDI. “The general agreement for BRICS country banks cooperation mechanisms of multilateral domestic currency credit” and “Confirmation service agreement for multilateral letter of credit” were signed on the fourth summit of the leaders of BRICS countries and the establishment of “BRICS countries development Bank” was proposed at the same time to effectively expand local currency investment and the range of settlement, which provides a more convenient condition for China’s potential investment in BRICS countries. Therefore, BRICS countries will be another important foreign investment target market for China in the future, following developed economies such as USA and EU, and will be another important support to the implementation of the “going global” strategy.

4.2. Large scale of FDI in Brazil in light of the incoming World Cup and the Olympic Games

Following increasing economic globalization, the Brazilian government has adopted a series of policies to stimulate inward FDI and implemented ‘national treatment’ to foreign-funded enterprises after the 1990s. Consequently, the inflow of FDI in Brazil has increased year by year. According to World Investment Report 2011, Brazil attracted $48.462 billion of FDI in 2010 with a year-on-year growth of 54%, ranking it from 15th to fifth in the world FDI host country list. Healthy economic environment, rich mineral resources as well as positive government attitude toward FDI provide opportunities and necessary conditions for Chinese investors to expand further in Brazil.

There will be more opportunities for China’s FDI in the South American giant in the near future.

First, as Brazil will host the World Cup in 2014 and Olympic Games in 2016, there will be higher potential demand of venue construction, high-speed railway and other infrastructure construction. China should seize the opportunity to encourage qualified enterprises to participate in the construction of the related projects.

Second, there is a broad space for cooperation in the field of hydropower development between China and Brazil. In the next 10 years, Brazil plans to invest about $ 120 billion for new power plants and transmission lines. The installed power generating capacity will increase 60% by 2019 compared with those in 2009, and transmission lines will increase over 38%. Brazil’s hydropower resource has only been explored 30% so far, which indicates that the hydropower development will still be seen as a significant sector of expansion in the future energy development strategies. With number one hydropower capacity in the world, China has more experiences in hydropower construction. Therefore, there will be a broad space for cooperation in hydropower development in the future between China and Brazil.
Third, the bilateral cooperation in agricultural and livestock production has broad market prospects. Although Brazilian government restricts Chinese companies to buy land in the local area by setting different obstacles, there are still a variety of possible modes of cooperation in agriculture and animal husbandry. On one hand, Brazil’s infrastructure is relatively weak, which provides opportunities for Chinese enterprises to invest in infrastructure construction of agriculture and animal husbandry products logistics. On the other hand, Chinese enterprises can participate in production processes of Brazilian agriculture and animal husbandry through equity investment.

In addition, based on existing cooperation in energy, resources and other fields in Brazil, China should attempt to strengthen its FDI in oil trade, petroleum exploration and development, finance, services and equipment manufacturing. More emphasis should be given to developing deep-processing of resources products, extending industrial chain, enhancing the added value, improving the investment structure, deepening cooperation and exchanges among the business, commodity inspection, customs and other trade-related departments, improving market access conditions and strengthening investment facilitation.

4.3. Increasing FDI in Russia based on geographical advantage

Russia and China have long been strategic cooperation partners. Good political relations and geographic advantages provide a broad space for China to increase its FDI in Russia.

From the perspective of resource and energy investment, Chinese enterprises have intended to break into the Russian market of oil exploration, coal, nuclear energy, and have made some progress. In the oil field, the two countries signed an agreement in 2009 allowing China to provide a long-term loan of $ 25 billion to Russia in exchange of oil: China provides a loan with 6% fixed interest rate while Russia uses oil as collateral and the way of repayment of loans. According to this agreement, Russia will supply 15 million tons of oil to China annually through pipeline from 2011 to 2030. The China-Russia oil pipeline plan was put into operation in 2010, which initiates a new phase of long-term strategic cooperation between the two parties in oil sector. Chinese enterprises also have begun to invest more than $ 1 billion in Russian coal industry. Up to now, Russia has supplied China over a hundred million tons of coal. In the nuclear power field, China and Russia reached agreements on phase II cost in TIANWAN Nuclear Power Plant project, which is the biggest economic cooperation project between the two countries.

These two countries have a broad cooperation prospect with strong complementarity in the field of agriculture. Russia has rich agricultural resources with per capita arable land area of 0.83 hectares, which is eight times higher than China. Although Russia possesses vast cultivated land and fertile soil, its arable land utilization rate is still at a relatively low level due to the lack of agricultural labor. Investment and cooperation in agricultural areas between China and Russia have already been on the right path, although the cooperation is relatively decentralized with small overall scale on the whole. China’s FDI in the Russian agricultural sectors mainly concentrated in food industry. Therefore, increasing Chinese agricultural enterprises investment
in Russia is strategically important for both China’s “going global” strategy and the agriculture development in Russia. Chinese government should strive to build a cooperation platform in the future, improve guidance to Chinese enterprises, encourage them to carry out investment cooperation in planting, breeding, fishery, agriculture products processing and other areas in Russia.

There are a myriad of opportunities in Russia in the financial industry while the risk is also very high. Although Russia has accomplished its banking industry reform and experienced a high rate of return, state-controlled banks are still in a dominant position, which shows obvious traces of planed economy in operation and management. China should continue to elaborate the central bank’s key role in its investment in the Russian financial sector and promote bilateral financial cooperation under the strategic partnership. It should also engage in dialogue with the Russian government to create more favorable conditions to open up the Russian market, and encourage commercial bank to increase the varieties of financial products and constantly improve the level of service. Moreover, Chinese firms should explore new ways of providing warrant guarantee in the Russian market.

4.4. To enhance traditional investment patterns and expand investment in India’s high-tech industry

As two largest developing economies in Asia, China and India share a similar economic development path. Both countries show strong competitiveness in labor and resource endowments, which directly results in China’s direct investment in India hovering at a low level in the past decades. Nevertheless, the low level of exploitation of the Indian market indicates a great potential for Chinese investors. The current status of India is similar to the early stage of China after its economical reform and opening up to foreign investors. Chinese investors can expect to tap into the huge cooperation potential in sectors such as infrastructure construction, telecommunications and so on. These potentials are strongly underpinned by the huge number of population in India.

Future development of China’s FDI in India should be focused on the following issues. First, in addition to maintain the current investment scale of labor-intensive industries in India, Chinese government should guide Chinese enterprises to shift to investment in the field of software, pharmaceuticals, energy saving, environmental protection and other high-end industries. Investment in the highly competitive industries should be carefully diversified, while cooperation in the complementary industries should be encouraged. Second, China should focus on investing in infrastructure in India. India is currently under a crucial period of urbanization process with urgent need for infrastructure construction, while China has a strong comparative advantage in this aspect. The Indian government adopts a variety of preferential measures to attract construction enterprises to invest in India, which will greatly stimulate the interests of Chinese enterprises. Third, political trust is the prerequisite for China’s increasing investment in India. In recent years, due to the interference of political factors, there have been distinct restrictions
from the Indian government for investment made by Chinese enterprises. For example, some Chinese enterprises in India suffered restrictions and rejections on national security reasons. China and India should strengthen communication while reserving differences and build through communication by governments, media, folk and via other multi-level and multi-field exchanges to achieve mutual understanding and trust so that to pave the way for expansion of investment cooperation between the two countries.

4.5. To increase FDI in South Africa by focusing on energy and resources

As China’s biggest FDI target in Africa, South Africa has a highly market-oriented economy with few investment restrictions to investment from China. In fact, the South African government strongly encourages Chinese enterprises to increase investment in manufacturing, railway, power grids and infrastructure. In March, 2012, China and South Africa signed “Beijing Declaration,” which indicated that these two countries’ comprehensive strategic partnership had entered a substantive stage. This agreement also laid a solid foundation for China to further expand its FDI in South Africa.

China’s FDI in South Africa in the new era should focus on the following aspects. First, rely on South Africa’s resource endowments and deepen the cooperation in mineral resources. South Africa has a strong international competitiveness in mineral industry due to its rich mineral resources endowment and advanced mining technology. Sino-Steel Group, Wuhan Iron and Steel and other large energy and mineral enterprises should not only seek cooperation with South African firms, but also invest in its mineral industry by way of equity investment, such as mergers and acquisitions. Second, HUAWEI, ZTE, China Telecom and other Chinese telecom and electrical equipment enterprises should exert their existing technological advantage to increase investment in high-tech communication. Third, bilateral cooperation of banking industries should be emphasized. South Africa attaches great importance to the availability of financial resources, especially to the cooperation with Chinese state-owned banks. Chinese banks should take Industrial and Commercial Bank of China’s successful investment experience in South Africa and seek to exploit South African financial markets. Fourth, explore the South African automobile market. The automobile industry in South Africa has already on the way of booming while its consumption potential is still enormous. Chinese car manufacturers should seize the market opportunities, fully explore South African market based on their own advantages. Fifth, South Africa has a huge demand in infrastructure construction at this stage. Therefore, the construction enterprises in China should make active investment in infrastructure construction in accordance with South African market situation. Last, Chinese firms could exert household appliance brand advantages to improve the overall reputation of Chinese products. GREE Electric Appliances, HAIER Group and other China’s competitive household electrical appliance enterprises should set up production bases in South Africa, improve marketing channels, focus on technological innovation and product upgrading, enhance after-sales service and establish and bolster a good reputation of Chinese brands and products.
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