Institute of Chinese Studies
ICS
中国研究所 DELHI
Wednesday Seminar
The oldest continuing tradition of the ICS since 1969

Chinese Investments in India: Trends and Prospects, with Special Reference to Private Equity

Speaker: Ms. Meghanjalli Routh, Research Intern, ICS

Chair: Dr. Ashwini Deshpande, Honorary Fellow, ICS

15th July 2015

Institute of Chinese Studies

The presentation began with showing the worldwide investment scenario in past two years with a clear movement of capital from investment surplus to the investment deficit countries. The discernible pattern of investment was moving towards developing and emerging economies and Asia was the biggest recipient of funds with maximum funds invested in China, Korea and Taiwan. The presentation then threw light on how China is on the verge of becoming a net exporter by receiving more funds than it invests. China's investment worldwide from 2005 to mid-2014 was accounted at US$ 840 billion with maximum investment in Energy Sector. China's investment soared in 2013 with top investment destinations being North America, Australia, Africa and Gulf countries. However, China invested minimal in Russia and South America. Further, the presentation focused on Chinese Investments in India from 2005 to 2015. Analysing the Indian context with close to US$ 15 billion of cumulative investment, energy sector had the highest amount of investment. Some investments were made in metal and technology as well.

India has indicated an upward trend in investment inflows, the presentation attempted to cull out some points, which could be the potential reason behind such an upcoming trend. India is earmarked as one of the countries which are expected to become the fastest growing economy in few years. Also, India has recently witnessed changes in its FDI limits, import tariffs and now has a simpler tax structure. With the favourable demographic dividend, India by 2020 will have 64% of its population in the workforce and currently has a huge pool of labour force. Foreign Institutional Investment (FII), Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI) were the ways explained by the speaker as the routes of foreign investment into a country. FDI being termed as a long-term investment, which boosts economic prospects and generates employment, whereas FII and FPI were termed as investments which can be easily withdrawn. Statistics on foreign investments in India for Fiscal Year 2014 showed that FDI was at US$ 29 billion and FII close to US$ 4 billion and Chinese investments only accounted for 0.19% of India's FDI. Thereafter, a comparative analysis of Chinese FDI and Rest of the World (ROW) FDI in India, showed that Chinese FDI even when looked at with ROW FDI is miniscule, but when seen in isolation has been increasing (though not consistently) with the peak in 2013. Further, Private Equity (PE) was introduced as a component of FDI. Private Equity was defined as "Investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity". With objectives behind such an investment being to buy mature companies that are already established and streamline operations to increase revenues and then exit. The speaker highlighted that PE accounted for 53% of the FDI inflow in India in 2014. Also, PE deals have been increasing at a rate of 20% since 2010.

Chinese PE investments deals in India have been majorly in the e-commerce, electrical and IT sector. The least number of deals were in the Gems & Jewellery, Media and Realty sector. Whereas the amount of investment made was highest in services, IT and Manufacturing. The least amount was invested in media, education and hospitality. The speaker then emphasised about the joint venture (JV) deals between Chinese PEs and Indian Companies. Joint Venture was also said to be a component of FDI. The joint venture deals were mostly in Energy and Infrastructure sector. The key difference between PE and JV was pointed out as the formation of a new entity in case of joint venture unlike in case of private equity. Then a comparison was drawn between US PEs and Chinese PEs on the business being done by them in India. US PEs had a traditional entry in India compared to a late entry of Chinese PEs. US PEs were also said to have lesser liquidity compared to their Chinese counterparts. Thus, US PEs demanded substantial stake in the companies it invested, in contrast to the picture of Chinese PEs, who also settled for minority stakes in some instances. Finally, looking into the upward trend of Chinese Private Equity investment in India reasons were presented to justify it. Higher liquidity, demanding smaller stake and substantial risk appetite were charted as the top reasons for the Chinese PEs getting traction in India.

Report prepared by Meghanjalli Routh, Research Intern, Institute of Chinese Studies.

Discussion

Discussions revolved around how FDI could be both good and bad for the health of a country's economy without necessarily leading to an increase in employment or boosting its growth. The easily withdrawable feature of FII and FPI were discussed while adding that FDI could also be withdrawn if necessary. The discussion ended with the question about why Chinese investment in India is so low. A comparison with other developed economies was suggested for a sharper analysis.

About the Speaker

Meghanjalli Routh is a Research Intern with the Institute of Chinese Studies, Delhi. She is a post-graduate student of Financial Economics at the Gokhale Institute of Politics & Economics, Pune. She did her graduation in Economics from the University of Delhi. She is also a fellow with TERI-The Energy and Resources Institute, Delhi under the LEAD earth Fellowship in which she is implementing a Sustainability Project in schools in Pune. Her ongoing research focuses on all aspects of Private Equity investments in India by China and US. She is also looking into Women Employment in India & China. She can be reached at meghanjalli.routh@gipe.ac.in.

Disclaimer