Outbound Investment as a Going Global Strategy

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Excellencies, Distinguished Guess, Ladies and Gentlemen,

The theme of this symposium is 'Outbound Investment as a Going Global Strategy'. It is indeed a timely issue to discuss. From an economic point of view, there are at least two routes a nation can take to go global. The first route is through international trade. In this respect China has done remarkably well. Within 30 years of its opening up in 1978 China has become one of the world's main trading nations. Today, China's products can be found everywhere around the world.

Like many East Asian countries, has achieved this by adopting unilateral liberalization and open up its economy partly to attract foreign direct investment (FDI) so as to create jobs. In this respect the opening up of China in 1978 was a real watershed that has helped propelled its economic ascent; since then China's economy has been growing by leaps and bounds. According to UNCTAD, in 2010 China received USD106 billion in FDI, second only to the US which received USD228 billion. Meanwhile, in 1990 China's GDP, measured in purchasing power parity (PPP), accounted for only around 3.6% of the world GDP; by 2010 the number has reached 13.2%.

In addition to the unilateral liberalization, China has also adopted export-led growth policy. Export-led growth might necessitate the opening of certain domestic markets to foreign competition in exchange for market access in other countries. As a result, China's export rose rapidly especially since 2000. In 2008 its export has exceeded 1.4 trillion dollars while its import exceeded one trillion dollars. In fact only recently China has surpassed Germany as the world's largest exporter. China's vast labor force and expanding skill base imply a huge productive potential. For any country, the rise of China will undoubtedly generate both great expectation as well as anxiety. On one hand, China with a population of over 1.3 billion offers a huge potential market for its products. On the other hand, there is a concern particularly among developing countries that, given China's proven competitiveness, they will not be able to compete with it in the global market. As it turns out, such a concern seems to have been greatly exaggerated; so far trades between China and neighboring countries have not been overwhelmingly one sided.

In the meantime China has secured its place in the global trade arrangement through its accession to the World Trade Organization (WTO). In addition, following its accession to the WTO, China has also embarked on an endeavor to establish free trade agreements (FTAs) with various countries. One of them is the ASEAN-China Free Trade Agreement (ACFTA) which came to full force on January 1, 2010.

The second route is through outward investment. In this respect China needs to do more. Control of the world's stock of foreign direct investment tends to reflect a country's economic might. For instance, the share the US FDI ownership peaked at 50% in 1970. Today China, including Hong Kong and Macau has a share of just 6%. Meanwhile, according to the United Nations Conference on Trade and Development (UNCTAD), in 2010 outward flow of investment from China amounted to around USD68 billion or only about 5% of that year world's total outward flow of FDI, far smaller than that of the US of around USD329 billion, or 25% of the total. Arguably, China can significantly increase its share in the global FDI considering the fact that it has accumulated a huge amount foreign reserve, largely in the form of sovereign debts. China, in theory, can turn some fraction of its rapidly expanding foreign reserves into different forms of asset, including foreign direct investment.

Of the entire China's outward flow FDI in 2010, ASEAN received slightly over USD4.4 billion or only around 6.4% of the total. Of the amount Singapore received around 25%, slightly over USD1.1 billion. One may argue therefore that China needs to increase its investment in ASEAN which will clearly benefit ASEAN and China alike. Firstly, in 2015 ASEAN will turn the region into a single market under the ASEAN Economic Community (AEC) framework. This implies China's companies will have an immediate access to a market of close to 600 million people. Secondly, under the AEC framework, ASEAN as a region will become a single production base, as well. The main idea is to allow foreign company to use ASEAN as a base for their production activities for export purposes. In this respect ASEAN has some comparative advantages, namely, abundant of increasingly better-educated labor force which still relatively cheap. Equally important is the fact that ASEAN as whole has abundant of natural resources that can be used as inputs in various natural-based industries. In addition, by basing their production activities in ASEAN these companies can circumvent the ASEAN's rules of origin requirement. For Chinese companies, they can use ACFTA framework as a channel to enter ASEAN.

Some of us may recall about an idea that gained currency in 1990s which urged Asian countries to recycle their savings in the region. A noteworthy idea indeed, except for the fact it has never materialized. Asians continue to send their savings to London and New York, which come back in the form foreign direct investment. Part of the reason may be attributed to the fact that there is a mismatch between the quality of investment opportunities that Asian firms supply and the quality that Asian investors demand. Another reason is that Asian financial markets in general are relatively underdeveloped as compared to London and New York. As a result, other things equal, transaction costs in Asian financial markets tend to be higher than in those two global financial markets. Moreover, financial markets in the region remain fragmented with very low cross-border transactions. If East Asian countries, China in particular, are to increase their outward FDI, they may need to address this issue as well. In the long run the region may need to host a global financial market which can compete with London and New York. Needless to say, there is no guarantee that such an endeavor will succeed. Be that as it may, East Asian companies need to improve the quality of their investment by improving their corporate governance. There are plenty of rooms for improvement in this regard. For instance, they may start adhering to internationally accepted accounting practices also known as generally accepted accounting practices.

China's companies in particular may also need to address some of the concerns of often raised by foreigners. A large fraction of Chinese companies involved in FDI are state-owned companies. This may create a problem especially when it comes to merger and acquisition (M&A). As one relatively recent article in the Economist notes, foreign governments are increasingly wary about Chinese takeover. Another issue is regarding natural-resources companies. The concern here is that they can become captive suppliers to China rather than selling on the open market. At issue here is the power structure of Chinese companies which is perceived, rightly or wrongly a bit of a mystery to outsiders. To address this problem, Chinese companies may need to adjust their corporate governance so as to make it more transparent.

Before I conclude, let me share my view about what PECC can do to help smoothing the process of outbound investment. PECC is in a unique, tripartite partnership of senior individuals from business and industry, government, academic and other intellectual circles. PECC also works closely APEC. In particular, PECC prepares recommendations on various issues to relevant APEC bodies. APEC, as some of you may know, is working on, among other things, investment facilitation. The main objective of is to help APEC members to attract more domestic as well as foreign investments. But PECC may as well recommend to APEC to start working on the other side of the coin, namely to help firms from the member economies to invest abroad. APEC has also worked on corporate governance, and therefore is in a position to help the member economies to improve their corporate governance. Lastly, one main challenge that foreign investors often face, especially in merger and acquisition cases, is how to reconcile two distinct corporate cultures, namely, the one prevails in the host country and that which prevails in the home country. Investment facilitation does not usually address such an issue. Would be investors may therefore have to find out themselves as how to overcome such a problem. In this respects PECC, through conferences of symposiums like this one, offers unique opportunities to would be investors meet not only with other business persons but also, as I stated earlier, with senior individuals from government, academic and other intellectual circles and exchange ideas about the best way to promote investment abroad.

Finally, I wish you all a fruitful and productive conference. Thank you for your kind attention.