Chinese and Indian transnational corporations' foreign direct investments in Hungary[1]

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The main topic of UNCTAD's World Investment Report 2006 was the emerging foreign direct investments (FDI) from developing (and transition) economies. "In many respects, the expansion of FDI from developing (and transition) economies is entirely to be expected. In fact, this has been predicted since the late 1970s. After having documented the existence of many overseas subsidiaries of TNCs from developing countries, one early assessment concluded that "the fact that so many have appeared in such a short time suggests that the overall numbers are likely to be considerably more impressive in the next few years" [*Wells*, 1983, 2]. By the early 1990s, FDI from developing countries had taken off in earnest" [*UNCTAD*, 2006, 103]. Global outward FDI stock from developing countries grew from 140 billion US dollars in 1990 to 690 billion US dollars in 2000 and tenfolded (6 898 billion US dollars) by 2017. The share of developing countries in global outward FDI stock increased from 6 percent in 1990 to 22 percent in 2017. Developing Asia is the largest outward investor among developing regions. It accounted for 82 percent of total outward FDI from developing countries in 2017. In terms of FDI outflows, developing Asia could even outpace developed regions such as North America and Europe in 2014. 77 of the top 100 transnational corporations from developing and transition economies originate from Asia: 24 from China, 13 from Hong Kong, 9 from Singapore, 6 from Taiwan, 6 from India and 6 from South Korea [*UNCTAD*, 2018].

Table 1: Outward FDI flow and stock of China and India

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
FDI outflow of China	0.92	6.89	2.52	2.85	5.5	12.26	17.63	26.51	55.91	56.53	68.81	74.65	87.8	107.84	123.12	145.67	196.15	124.63
outward FDI stock of China	27.77	34.65	37.17	33.22	44.78	57.21	75.03	117.91	183.97	245.76	317.21	424.78	531.94	660.48	882.64	1097.86	1357.39	1482.02
FDI outflow of India	0.51	1.39	1.68	1.88	2.18	2.99	14.28	17.23	21.14	16.06	15.95	12.46	8.49	1.68	11.78	7.57	5.07	11.3
outward FDI stock of India	1.73	2.53	4.07	6.07	7.73	9.74	27.04	44.08	63.34	80.84	96.9	109.51	118.07	119.84	131.52	139.04	144.09	155.34

Source: UNCTAD

FDI outflows from China and India have started to significantly increase after 2000. Annual FDI outflows from China grew from 0.92 billion US dollars in 2000 to 124.63 billion US dollars in 2017. During the same period, annual FDI outflows from India increased from 0.51 billion US dollars to 11.3 billion US dollars. China has launched economic liberalization earlier than India which partly explains the difference level of outward FDI flows. China has become one of the top FDI home countries. In 2017, China was the third largest FDI home country behind the United States and Japan.

According to the data collected by *Meng at. al.* [2018], since 2010, developed markets such as North America and Europe have become increasingly the preferred destinations of Chinese FDI outflows. At a country level, the top 10 destination countries of cumulative Chinese FDI outflows between 2005 and 2016 were the USA, Australia, Canada, Brazil, the UK, Singapore, Russia, Italy, France and Switzerland. (These data are filtered and they do not show the distortion effects of round-tripping and offshoring activities through Hong Kong, the British Virgin Islands and the Cayman Islands which together accounted for 70 percent of the total Chinese outward FDI stock in 2013 [*Casanova et al.*, 2015]). In line with the shift in

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geographical distribution of Chinese outward FDI from resource-rich developing countries in Africa, Asia and Latin America towards developed countries in Europe and North America we can see a more diversified sectoral distribution of Chinese outward FDI as well: the initial dominance of energy and mining sector has started to fade and sectors such as high technology, telecommunications, finance, agriculture, real estate and services have become more attractive for Chinese companies. These changes also reflect China's industrial upgrading and economic transformation from an export, manufacturing and investment-driven growth model to a consumption-, innovation- and service sector-driven one. "Chinese FDI outflows are driven by multiple objectives such as seeking market expansion, resources and assets, brands, technology and know-how. Acquiring resources and energies used to be the priority, but in recent years acquiring high-quality assets, and access to global marketing channels, advanced technologies, products and brands (in developed countries) have become predominant motives" [*Meng et al.*, 2018, 13].

In case of India, between 2000 and 2014, 56 percent of FDI outflows were directed to developing regions: 51 percent to Asia, 36 percent to Africa, 12 percent to Latin America and the Caribbean. The main destination countries were Singapore, United Arab Emirates, British Virgin Islands and Mauritius. The share of developed regions in Indian FDI outflows was 42 percent. The main target countries in developed regions were the United States, the United Kingdom, Switzerland, the Netherlands and Cyprus [*Pradhan*, 2017]. Nevertheless, the geographical distribution of Indian FDI outflows "should be interpreted with caution. Several important target countries with an advantageous fiscal regime are less likely to be the ultimate destination of Indian FDI outflows (this is similar to China's case), one part of such outflows may be redirected to other countries while another part could be round-tripping, i.e. coming back to India as FDI inflows" [*Pradhan*, 2017, 54].

The sectoral distribution of Indian FDI outflows (between 2000 and 2014) shows that the primary sector has the lowest share. In this sector, resource-seeking Indian companies mainly invest in oil and natural gas extraction to fulfil the demand of the rapidly growing domestic economy. The second most attractive sector is the manufacturing sector and the leading one is the service sector. The distribution of manufacturing FDI outflows from India have recently become more diversified from basic metals, chemicals, coke and refined petroleum products toward pharmaceuticals, motor vehicles, machinery and equipment which reflects the development of India's domestic industrial sector. Although, India's economy is dominated by the service sector, so the leading role of service companies in FDI outflows is not surprising. Market-seeking investments of Indian companies primarily target communication services, IT and IT-enabled services, construction and financial and insurance [*Pradhan*, 2017]. Like China, strategic asset-seeking investments of India have recently shown an upward trend in developed countries.

In case of Hungary, Japan and South Korea can be considered as traditional and important investors from Asia. Foreign direct investments of Chinese and Indian companies have started to grow only since 2000. Chinese and Indian companies in Hungary operate in manufacturing or service industry. We can highlight the dominance of companies in automotive industry (both countries), ICT manufacturing/service sector (China) and IT/BPO services (India). Most of the automotive companies produce components and have been integrated into the automotive global supply chains which have strong presence in the Hungarian economy. IT/BPO companies represent one of the internationally competitive sectors of India. A number of them such as Cognizant, Wipro, Tata Consultancy Services have opened a subsidiary in Hungary. In case of China, high-tech companies in ICT manufacturing and service sector such as Huawei, ZTE and Lenovo are worldwide operating and well known. In terms of entry mode we can see green-field investments and M&As as well. Indian companies usually acquire those companies which were established in Hungary, e.g. Alkaloida, Dunakilti Konzervüzem, Puszta Konzerv, and Ganz Transelektro. In Hungary, Chinese companies often acquire subsidiaries

Table 2: Chinese companies in Hungary

Chinese companies	Sector	Year of establishment
Huawei	ICT	2005
ZTE	ICT	2005
Lenovo (Flextronics)	ICT	2004
Comlink	ICT	2013
Wanhua (BorsodChem)	Chemicals	2009
Beijing Sevenstar (Greensolar)	Renewable energy	2009
BYD Electronics	Automotive/electric bus	2008
Bohong (Wescast)	Automotive components	2012
Yanfeng	Automotive components	2015
Himile	Automotive/tyre mould	2016
Midea (KUKA)	Robotics	2017
Changshu Standard Part Factory	Metal processing (screw)	1998
Bank of China	Banking	2003
Shanghai Feilo Acoustics (Inesa Europe)	Logistics	2015
China Railway Group (Chinese-Hungarian Railway Non-profit Ltd.)	Transportation	2015

Source: collected by the author
year of establishment: year of acquisition or year of foundation

Table 3: Indian companies in Hungary

India companies	Sector	Year of establishment
Tata Consultancy Services	IT/BPO	2001
Genpact	IT/BPO	2002
TechMachindra	IT/BPO	2004
Cognizant	IT/BPO	2008
Wipro	IT/BPO	2010
GrayMatter-Europe	IT/BPO	2014
Samvardhana Motherson Group (SMR)	Automotive components	2009
Apollo Tyres	Automotive/tyres	2014
Samvardhana Motherson Group (SMP)	Automotive components	2015
Sona	Automotive components	2015
SunPharma (Alkaloida)	Pharmaceuticals	2005
Cosmos City	Retail/Garments	n.d.
Global Green/Crompton Greaves (Dunakiliti Konzervüzem)	Food processing	2006
Global Green/Crompton Greaves (Puszta Konzerv)	Food processing	2008
Crompton Greaves (Ganz Transelektro Plc., Ganz Transverticum Ltd.)	Electrical equipment	2006
MBE EWB Ltd.	Environment	2000

Source: collected by the author
year of establishment: year of acquisition or year of foundation

owned by transnational companies originated from other developed countries than Hungary.[3] From this point of view, the acquisition of BorsodChem or Greensolar can be considered as exceptions.

There are several factors which influence investment decisions of Chinese and Indian companies. One of them is the Hungarian foreign economic policy, including the Eastern Opening policy which was launched in 2012 and is partly aimed at increasing foreign direct investments from Asia. In recent years new investors from India and China have arrived and the Hungarian government have concluded strategic cooperation agreements – among others –

[3] e.g. Midea, Yanfeng, Bohong

with several Indian and Chinese companies (e.g. Tata Consultancy Services, Crompton Greaves, SMR, Huawei, Wanhua, Yanfeng, Bank of China and Bohong) to strengthen their embeddedness into the Hungarian economy and encourage them to increase their investments what many of them have already realized with the expansion of their activities/capacities in Hungary.

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