FOREIGN DIRECT INVESTMENT (FDI) INFLOWS: A COMPARATIVE STUDY OF INDIA VS. CHINA

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Abstract
Today Globalization has become a very popular and widely used word in all over the world. Globalization simply represents as a process when an economy gets integrated with the rest of the world. In the era of globalization when increased competition and rapid technological change are very frequent, role of Foreign Direct Investment (FDI) is very complementary, catalyst, and valuable to the nations and thus helps in boosting economic development. Realizing this, emerging economies like India and China are in transition and increasingly see FDI as a source of economic development, modernization and employment generation and have liberalized their FDI regimes to attract investment. FDI triggers technology spillovers, assists human capital formation contributes to international trade integration helps create more competition business environment and enhances enterprise development. All these contribute to higher economic growth. This paper focuses on the study on Foreign Direct Investment (FDI) with particular reference to India and China. This paper highlights the concepts and significance of FDI. This also highlights the determinant factors of FDI in host country. This paper discusses the trends of FDI inflows between china and India. This paper also tries to asses their comparative stand in terms of attracting FDI.

Keywords: China; India; FDI; Inflows and Outflows; GDP.

JEL Classification Codes: M41; P34; G24.

1. Introduction

The World has become a global village due to the process of liberalization of the economies of the countries under the regime of WTO. In this era globalization has become a very popular and widely used word in all over the world. Globalization simply represents as a process when an economy gets integrated with the rest of the world. In the era of globalization when increased competition and rapid technological change are very frequent, role of Foreign Direct Investment (FDI) is very complementary, catalyst, and valuable to the nations and thus helps in boosting economic development. Realizing this, emerging economies like India and China are in transition and increasingly see FDI as a source of economic development, modernization and employment generation and have liberalized their FDI regimes to attract investment FDI refers to investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm, or starting joint venture in the foreign county.

UNCTAD's World Investment Report defines Foreign Direct Investment as an investment involving a long term relationship and reflecting a lasting interest and control by a resident entity in one economy (Foreign direct investor or Parent enterprise) in an enterprise resident in an economy other than that of the foreign Direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).FDI may undertake by individual as well as by business entities.

FDI flows comprise two distinct forms:

1. Equity
2. Non- Equity

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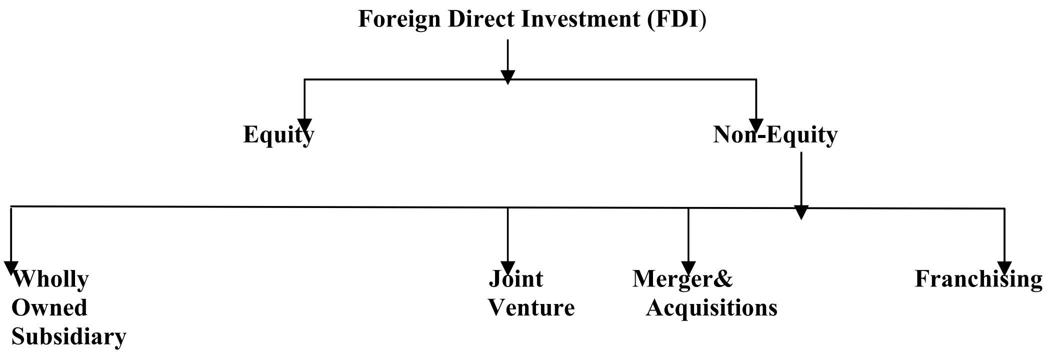

Equity flows comprise foreign direct investor's purchase of shares of an enterprise in a foreign county. The non-equity form of FDI include investments through such activities as joint ventures, setting up of wholly owned subsidiaries, management contracts, turnkey arrangement , franchising , Licensing and product sharing. On the one hand FDI provides the much needed resources leading to accelerated capital formation on the other it facilitated transfer of technology, knowledge skills and above all the organizational and managerial capabilities. The proponents of FDI also emphasize on its role in accessing international marketing networks.

FDI may be horizontal or vertical type according to firms' motives for affiliate operations abroad. *Vertical FDI* is the case where a firm pursues FDI in order to take advantage of international differences in factor prices, by locating its labor-intensive processing abroad and keeping capital-intensive input production and knowledge intensive designing and R&D at home. On the other hand, *horizontal FDI* arises when a firm can reduce trade costs by setting up foreign affiliates replicating the parent firm. Hence, the literature of horizontal FDI emphasizes the importance of trade costs and access to local markets as the main motives of FDI location decisions.

2. Objectives of the study:

1) To understand the meaning, nature and advantage of FDI.
2) To study the key determinants required for a nation to attract FDI.
3) To compare FDI inflow & outflow of India vis-à-vis China.
4) To bring out suggestions out of the study.

Foreign direct investment in the globe

With the advent of Liberalization of economics under the WTO regime, the world has become a global village .The flood gates for trader between countries have opened. The interdependence of nations on each other has grown at a faster pace with the internationalization of trade and commerce. It is very important to understand the significance of FDI in global trade and in economic development. The world FDI stock as a percentage of world output was about 9.2 percent in 1990 in contrast to 9.0percent in 1913 and almost twice by 1999 (i.e. 17.3 percent) . This is mostly due to the significant advance in deep integration of contemporary globalization. Another is its drastic diversification in contrast to earlier periods. It pertains to the economic activity to which FDI is directed. In 1913, 55 percent of the FDI stock was in the primary sector; 10% towards manufacturing and the rest was directed towards transportation; trade and distribution (UNCTAD, 1994). Now this has an opposite direction of FDI. Now only 6.3percent of FDI stock is in the primary sector, 42.5 percent in the manufacturing sector, and another 48.5 percent is in the service sector (UNCTAD, 1999).

In the years after the Second World War global FDI was dominated by the United States as much of the world recovered from the destruction wrought by the conflict. The US accounted for around three quarters of new FDI (including reinvested Profits) between 1945 and 1960. Since that time. FDI has spread to become a truly global phenomenon. FDI has grown in importance in the global economy with FDI stocks now consisting over 20% of Global GDP. It is noteworthy the phenomenal growth of FDI in the last two decades of the 20^{th} century.The average value of FDI has increased from $6.6billion during 1965-69 to $25.6 billion during1975-79. After a steady upward trend in 1970s. FDI dropped between 1981 and 1986 but recovered in latter half. (World Bank, 1993). In 1970, the total FDI inflows in the Globe amounted to $ 2.2 billions and increased to $202.3billions in 1990 and then increased to $1.271trillions in the turn of century (UNCTAD, 2001).

In short, in the matter of 20 years FDI inflows had multiplied about 100 times. This flows were vary consistent with both developed and developing countries. However the lion's share of the inflows mostly went into the developed economies. The cumulative inflows of FDI for developed countries were increased from a low of $137.1millions during 1989-94 to $401millions during 1995-2000. On the contrary for developing countries, the cumulative flows of FDI were increased from a low of $63millions during 1989-1994 to $190.8millions during 1995-2000.

The Global stock of FDI at the end of 2006 stood at $10trillion which is equal to the current combined GDP of the four largest economies of the world after USA, Japan, China , Germany and the United Kingdom. The Global FDI in 2005 increased to $730billion registering a growth of 18 percent over $648billion of 2004 of the total FDI flows, the developed world contributed $637billlion out of which half is from only three countries- US, UK and Luxemburg. In 2005 the net outflows from the developed world exceeded the inflows by $260 billion. For the US the largest economy in the world with $ 12.5 trillion GDP FDI outflow increased by 90 percent to $229 billion in 2005.

The FDI inflows in case of developing nations increased by leaps and bounds. There was a growth of over 20% of the GDP in the period 1980-1999. In the year 1980 FDI inflows for developing economies was 6 percent of GDP and in the Year 1999 it is 28%.In East Asia and Pacific developing countries between 1995 and 2003 alone net inward FDI totaled more than $ 483 billion. FDI inflows to East-Asia rose by 8%in 2006. The China seems to be the biggest beneficiary in the East Asia .. FDI inflows to South-East Asia rose by 25% in 2006.

Table 1: Foreign direct investment and portfolio investment to select countries (US $ billion)

Country	Foreign Direct Investment						Foreign Portfolio Investment					
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7	8	9	10	11	12	13
India	3.584	5.472	5.626	4.585	5.474	6.598	2.345	2.853	1.022	8.216	8.835	11.968
Argentina	10.418	2.166	2.149	1.652	4.274	4.730	(3.227)	.031	(.116)	.065	(.086)	(.048)
Brazil	32.779	22.457	16.590	10.144	18.166	15.193	3.076	2.481	1.981	2.973	2.081	6.451
Chile	4.860	4.200	2.550	4.307	7.173	6.667	(.427)	(.217)	(.320)	.318	.8	1.635
China	40.715	46.88	52.74	53.50	60.630	72.406	6.912	.849	2.249	7.729	10.923	20.346
Indonesia	(4.550)	(2.977)	.145	(.597)	1.896	5.260	(1.021)	.442	.877	1.131	2.043	(.165)
Malaysia	3.788	.554	3.203	2.473	4.624	3.966	0	0	(.055)	1.340	4.239	(1.200)
Mauritius	.266	(.028)	.032	.063	.014	.039	(.004)	(.009)	(.001)	.008	.019	.036
Mexico	17.773	27.142	19.044	15.256	18.941	18.772	.447	.151	(.104)	(.123)	(2.522)	3..352
Philippines	2.240	.195	1.542	.491	.688	1.132	(.202)	(.125)	.227	.501	.518	1.461
Russian Federation	2.714	2.748	3.461	7.958	15.444	15.151	.150	.542	2.626	.422	.233	(.215)
South Africa	.969	7.270	.735	.783	.701	6.257	4.169	(.962)	(.388)	.685	6.661	7.230
Thailand	3.366	3.892	.953	1.949	1.718	4.527	.901	.352	.539	.1787	1.319	5.665

Status of FDI flow to India:

Foreign investment used to be treated as a necessary evil in the post independence economic policies of India. There was a highly regulated foreign trade and investment regime in the early nineties. The total no.s of collaboration agreement was as low as 242 during the period 1967-79 and the proportion of agreements with foreign equity participation fell from 36% during the year 1959-66 to 16% over the year 1967-79.

India was one of the lowest recipients of FDI among developing countries until 1970and her cumulative inflows of FDIduring that period were about $454 millions or 1.2% of gross domestic investment. The main reasons to these low FDI inflows in the country were:

- Restriction in foreign shareholding of Equity. (which was limited to maximum 40% under FERA)
- Lengthy approval process.
- Restriction in foreign Participation in many areas.
- Lobby system.
- Negative Attitude of bureaucrats.

These causes contributed the erosion of international confidence in India. To overcome this problem. India launched the bold economy reforms in mid 1991 and changed its development policies by increasing the role of market forces and reducing the rule of public sector. The changed policies of the country made an attempt to eliminate wide range of regulatory controls remove licensing requirements; reduce government involvement in the financial sector. This policy gave the thrust of making India to move away from inward oriented economy to one that is well integrated with the world market. The Govt. of India understands the indispensable role of FDI and took various steps to attract FDI into its economy. These are opening up of all industries to foreign Investors(excluding few strategically important reserved sectors), permitting higher percentage of equity participation by foreign investors in India enterprises even the extent of 70% and 100% in priority sectors with full repatriation benefits , Repeal of FERA in favour of FEMA, abolition of License requirement for domestic investment and so on.

Foreign direct investment (FDI) inflow In India

The inflow of Foreign Direct Investment (FDI) has registered robust growth in the current financial year. As per latest report of UNCTAD India surpassed South Korea to become the fourth largest recipient of FDI in the region. Cumulative FDI inflows since August 1991 up to August, 2007 were Rs.258, 511crore (US $61.07billion). Rapid economic growth has led to improved investor confidence in the country. The sustained growth in income has made the country increasingly attractive to market seeking FDI. Indeed foreign retailers such as Wall Mart have started to enter the Indian market. At the same time, a number of United states TNC's such as General Motors, IBM are rapidly expanding their presence in the country as are several large Japanese TNCs such as Toyota, NISSAN etc.
The trends of FDI inflows have been discussed by observing, the trend of approved and actual FDI inflows, the trend in the share of investing countries in the FDI inflows into India and the FDI inflows into the different sectors in the economy.

FDI approvals and inflows into India

From the Table2 it is clear that approval of FDI inflows into India has been falling from 1997-98 onwards. In case of actual FDI inflows except in the year 1999-2000, 2000-01 and 2004-05 in all other years fell down than the earlier years. The actual FDI inflows also displayed a similar trend and actual FDI inflows the average growth rate was in negative during the above mentioned period. Thus, India failed in accelerating the FDI inflows into its economy in the recent years.

Table 2: FDI approvals and inflows to India(Amount in US$ billion)

Year	Amount of FDI approved	Percentage of change over previous years	Amount of FDI inflows	Percentage of change over previous years
1997-98	11.78	--	4.41	--
1998-99	8.42	(28.52)	3.54	(19.73)
1999-2000	5.13	(39.07)	3.60	1.69
2000-01	9.89	92.79	4.74	31.67
2001-02	4.46	(54.90)	4.69	(1.05)
2002-03	1.66	(62.78)	3.73	(20.47)
2003-04	1.35	(11.67)	2.78	(28.15)
2004-05	1.48	8.15	2.55	(8.27)

Source: Economic Survey: 2004-05, Govt. Of India

FDI Inflow Into India By Country Of Origin

A through analysis of country wise data on FDI inflow into India shows that India is able to attract FDI inflows from all the major economies. Table 3 shows that Out of the total FDI inflows into India during the period from Jan, 1991 to August,2007 US $ 20.96 billion were from Mauritius accounting to 43.68 percent of the total FDI inflows into India. The next best contributing economy in USA amounting to US $ 6.22 billion, which is 12.96 percent of the total FDI inflows into India during the period. The other major contributors are Japan, UK, Netherlands, Germany, France, South Korea, Singapore and Switzerland. Though India is able to attract FDI inflows from major economies of the world, its performance trend moved southwards. The analysis of FDI from all the countries exhibited a falling trend, except the FDI inflows from Switzerland and the Netherlands. Even when India's performance is compared with that of china the performance of India is not that attractive. For instance, FDI inflows to China grew from US $ 3.5 billion in 1990 to US $ 52.7 billion. Those to India rose from us $ 0.4 billion to US $ 3.45 billion during the same period. China attracted fifteen times of India's FDI inflows in the year 2002.

Table 3: Share of top investing countries in FDI inflows in India(amount in US $ billion)

Country	1991-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (April-Aug)	Total FDI inflows	% of Total
Mauritius	3.42	0.83	1.67	1.52	0.56	1.13	2.57	6.36	2.90	20.96	43.68
USA	2.31	0.42	0.37	0.28	0.41	0.67	0.50	0.86	0.40	6.22	12.96
UK	0.66	0.07	0.29	0.35	0.19	0.10	0.27	1.88	0.12	3.93	8.12
Japan	0.82	0.23	0.22	0.41	0.09	0.13	0.21	0.86	0.40	3.47	7.21
Netherland	0.61	0.03	0.23	0.16	0.25	0.27	0.08	0.64	0.17	2.44	5.07
Singapore	0.34	0.12	0.04	0.05	0.04	0.18	0.28	0.59	0.41	2.05	4.26
Germany	0.66	0.09	0.13	0.14	0.08	0.15	0.30	0.12	0.27	1.94	4.03
France	0.27	0.08	0.13	0.11	0.04	0.12	0.02	0.12	0.04	0.93	1.93
South Korea	0.57	0.12	0.01	0.04	0.02	0.02	0.01	0.06	0.07	0.92	1.91
Switzerland	0.23	0.04	0.04	0.05	0.09	0.08	0.10	0.06	0.20	0.89	1.85
Others	1.6	0.22	0.39	0.25	0.31	0.22	0.30	0.90	0.15	4.34	9.02
Total of all countries	11.49	2.25	3.52	3.36	2.08	3.07	4.64	12.45	5.13	47.99	

Source: FDI Data Cell, Ministry of Commerce, Govt. Of India

FDI inflow into India by sector wise

The FDI inflows into India are mainly concentrating on ten sectors of the economy. These sectors are: Energy, Telecommunication, Electrical Equipment, Transportation, Service Sector, Metallurgical Industries, Chemical (other than Fertilizer), Food & food processing, Hotels & Tourism and Textiles. Among these sectors, Electrical Equipment sectors have received 17.54 percent of FDI inflows amounting to US $ 6.27 billion during janurary, 1991 to September, 2006. The next best sector attracting the FDI inflows into India is Service sector, accounting to 12.69 percent of FDI inflows. The Telecommunication ranked the next best position with 10.39 percent amounting to US $ 3.78 billion.. The sector wise FDI inflows are given in the Table 4. From the table it is clear that the sector such as Energy, Telecommunication, Electrical Equipment, Transportation and Services are playing dominant role in attracting the FDI inflows into India.

Table 4: Sectors attracting highest FDI inflows into India (January 1991 To September- 2006) (Amount in US$ billion)

Sectors	FDI Inflows	% with Total Inflows
Electrical Equipments(including computer software and electronics)	6.27	17.54
Service Sector (financial and non financial)	4.60	12.69
Telecommunications (radio paging, cellular mobile, basic telephone services)	3.78	10.39
Transportation Industry	3.44	9.31
Fuels(Power + Oil refinery)	2.72	7.45
Chemicals (other than fertilizers)	2.24	5.79
Food processing Industries	1.21	3.12
Drugs and Pharmaceuticals	1.06	2.91
Metallurgical Industries	0.77	2.14
Cement and Gypsum Products	0.76	2.14

Source: FDI Data Cell, Ministry of Commerce, Govt. Of India

Here it is worth mentioning that the FDI inflows do not seem to be coming to those industries which have been made more attractive through policy concession by the government. This is an encouraging sign which is worth appreciation as this means the FDI inflow into the country are guided more by market and economic conditions rather than the incentives offered by the government.

Foreign direct investment in China

The revolutionary economic reforms in China were launched in 1978. By 1980 China had established four Special Economic Zones (SEZs) along with the South East Coast –Shenzhen, Zhuhai, Xiamen and Shantou- for better inflows of FDI in the economy. The reforms were followed by further moves at integration of the Chinese economy with the Global Economy. The change in strategy proved successful by attracting continuously increasing inflows of export oriented foreign direct investment (FDI) in all priority industries.

China's annual economic growth rate is 9.5 percent in the last Ten years. In 2006 China grew at 10% China's GDP increased from $ 163.6 billion in 1978 to $ 2.2 trillion in 2005. In 2006 FDI inflow to China was $62.0 billion as opposed to India $6.0 billion for India. China's foreign exchange reserve expanded from $ 167 million in 1978 to $ 800 billion in 2005 exceeded that of Japan. At present China's economy is 3rd and it would become the largest economy of world in the surpassing US. On Purchase Power Parity basis China's GDP measured in 2005 at $ 9.412 trillion just behind US.

FDI inflows into China

However the flows were very attractive in 1990'.Table5 shows that the highest growth of FDI was in 2005 with an increase of 19.43 percent over 2004. From the table it is clear that from 1995- 1998 it was declining but 2000 onwards FDI has been consistently increasing except in 2003. This shows that China has been able accelerate the inflow of FDIs.

FDI inflow into china by country of origin

A through analysis of country wise data on FDI inflow into China shows that China is able to attract FDI inflows from all the major economies. While the number of FDI source countries in China is quite large, a handful countries account for the sums invested. Table6 shows that Out of Total FDI inflows to China during the period From 1995- 2005, US$ 546.06 billion Hong Kong comes first as a single investor accounting to 44.94 percent of total FDI inflows into China. The next best contributing economy is Japan amounting to US $ 50.08683 billion, which is 9.17 percent of the total FDI inflows into China during the period. The other major contributors are United States, Taiwan, UK, Netherlands, Germany, France, South Korea, Singapore, Virgin Islands. The other developed countries have made rather small amounts of investment in China, even though they have shown an increasing interest in China in recent years.

Table 5: FDI inflows into China (1995-2005)

Year	Amount of FDI inflows (US $ billion)	Percentage of change over previous years
1995	37.52	……
1996	41.73	11.22
1997	45.26	9.59
1998	45.46	0.44
1999	40.32	(11.31)
2000	40.71	(0.97)
2001	46.88	15.16
2002	52.74	12.50
2003	53.50	1.44
2004	60.63	13.33
2005	72.41	19.43

Source: China's Statistical Year Book, Various Issues

Table 6: FDI inflows into china by source country (1992-2005) (US $ billion)

COUNTRY	1992-2000	2001	2002	2003	2004	2005	Total FDI Inflows	% of Total
Hongkong,China	156.18834	16.71730	17.86093	17.70010	18.99830	17.94879	245.41376	44.94
United States	27.32865	4.43322	5.42392	4.19851	3.94095	3.06123	48.38648	8.86
Taiwan	25.31640	2.97994	3.97064	3.37724	3.11749	2.15171	40.91342	7.49
Japan	24.51279	4.34842	4.19009	5.05419	5.45157	6.52977	50.08683	9.17
Singapore	16.71181	2.14355	2.33720	2.05840	2.00814	2.20432	27.46342	5.03
Virgin Islands	13.08173	5.04234	6.11739	5.77696	6.73030	9.02167	45.77039	8.38
Korea	10.32645	2.15178	2.72073	4.48854	6.24786	5.16834	31.10370	5.70
United Kingdom	8.40351	1.05166	.89576	.74247	.79282	.96475	12.85097	2.35
Germany	5.45258	1.21292	.92796	.85697	1.05848	1.53004	11.03895	2.02
France	4.01614	.53246	.57560	.60431	.65674	.61506	7.00031	1.28
Macao, china	3.79012	.32112	.46838	.41660	.54639	.60046	6.14307	1.12
Netherlands	2.92646	.77611	.57175	.72549	.81056	1.04358	6.85395	1.26
Canada	2.26096	.44130	.58798	.56351	.61387	.45413	4.92175	0.90
Malaysia	2.19894	.26298	.36786	.25103	.38504	.36139	3.82724	0.71
Australia	1.91806	.33560	.38070	.59253	.66263	.40093	4.29045	0.79
TOTAL	304.43294	42.75070	47.39689	47.40685	52.02114	52.05617	546.06469	100

Source: China Statistical Year Book, Various issues

FDI inflow into china by sector wise

So far the major proportion of FDI is drawn for manufacturing field which tales up almost 55 percent of the total FDI by 2005. Next follows Real estate management with the share of 22.50 percent. It is followed by Electricity, gas and Water production and supply with a share of 3.97 percent. The portion of distribution industry including wholesale and retailing is 3.47 percent. The transportation, Storage, Post and Telecommunication comes next with the share of 3.34 percent. The primary industry such as agriculture, forestry, and fishing take 1.34 percent. Distribution of FDI inflows into China sector wise is being shown in Table 7.

Table 7: FDI inflows into China sectorwise (1991-2005)

Sectors	**FDI Inflows (US$ billion)**	% with Total Inflows
Agriculture,Forestry,Animal Husbandry, & Fishery	78.275	1.34
Manufacturing	3271.834	55.82
Construction	150.499	2.57
Geological Prospecting and Water Conservancy	10.856	0.19
Transportation, Storage, Post &Telecommunication	195.839	3.34
Wholesale, Retail Trade, & Catering Service	203.453	3.47
Finance and Insurance	12.951	0.22
Real Estate Management	1318.712	22.50
Healthcare, Sports, Social Service	20.719	0.36
Education, Culture, Arts, Radio, Film & TV	20.392	0.35
Scientific Research and Polytechnic Services	14.225	0.24
Electricity, Gas & Water Production and Supply	232.704	3.97
Others Sectors	330.883	5.65
TOTAL	5861.063	100

Source: China's Statistical Year Book, Various Issues

China And India – What Explains The Different FDI Performance

Basis	CHINA	INDIA
Basic Determinants of inward FDI	China's total and per capita GDP are higher making it more attractive for market –seeking FDI. Rapid growth in China has increased the local demand for consumer durables and non durables such as home appliances, electronic equipment, automobiles, housing and leisure. This rapid growth in local demand as well as competitive environment and infrastructure has attracted many market seeking investors. Its higher literacy and education rates suggest that its labour is more skilled making it more attractive to efficiency seeking investors. In addition China's physical infrastructure is more competitive particularly in coastal areas.	FDI domestic market- seeking. India has an advantage in technical manpower, particularly in information technology. It has also better English language skills.
Contribution to Export growth	Foreign affiliates have contributed to the rapid growth of merchandise export at an annual rate of 15% between 1989-2001. In 1989 foreign affiliates accounted for less than 9% of total Chinese exports by 2002 they provided half. In some high tech industries in 2000 the share of Foreign affiliates in total exports was as high as 91 percent in electronics circuits and 96% in mobile phones.	FDI has been much less important in driving India's export growth, except information technology. FDI accounted for only 3% of export in the early 1990s. Even today FDI is estimated to account for less than 10 percent of India's manufacturing exports.
Other Determinants (FDI attitude, policies and procedures)	China has more business oriented and more FDI friendly. FDI procedures are easier and decision can be taken rapidly. China has more flexible labour laws. , a better labour climate and better entry and exit procedures for business.	India's policies are not very much business oriented and FDI friendly FDI procedures are lengthier and time consuming. India does not have flexible labour policies.
Development Strategies and policies	China opened its doors to FDI in1979 and has been progressively liberalizing its investment regime. China has since its opening favoured FDI especially export oriented FDI, rather than domestic firms.	India allowed FDI long before that bud did not take comprehensive steps towards liberalization until 1991. India long followed an import-substitution policy and relied on domestic resource mobilization and domestic firms encouraging FDI only in higher-technology activities.
Overseas Networks	China's larger FDI flows lies in its position as the destination of choice for FDI by Chinese businesses and individuals overseas especially in Asia. Overseas Chinese are more in number tend to be more entrepreneurial , enjoy family connections in china and have the interest and financial capability to invest in china- and when they do they receive red carpet treatment.	Overseas Indians are fewer , more of a professional group and unlike the Chinese often lack the family network connections and financial resources to invest in India.
Investor sentiments	China as a location for investment is improving. Nearly 80% of all Fortune 500 companies are in China.	Investment interest in case of India is lukewarm, with some exception such as in information and communication technology. Only 37% of the Fortune 500 outsource from India.

The reforms Saga

CHINA	INDIA
1978 Dismantled the People's Communes and allotted land to farmers.	**1991** New industrial policy announced;upto 51% foreign direct investment allowed in select industries.
1979 Set up Special Economic Zones in Shenzen, Zhuhai, Shantoe and Xiamn to Attract foreign direct investments.	**1996** Minimum Alternate Tax introduced. Corporate surcharge cut from 15% to 7.5%
1987 Contract system launched	**1997** Maximum income tax rate cut to 80% and corporate tax to 35%. New takeover code approved.
1988 Made Hainan island a province and declared the whole island a SEZ.	**1999** IRDA Bill passed; FERA replaced by FEMA Department of disinvestment created.
1994 A single VAT of 17% introduced.	**2000** SEZ created with 100% foreign equity. Quantitative restrictions on 714 items lifted in the small scale sector.
1995 Current account convertibility allowed, customs duty reduced.	**2002** Full convertibility of deposit schemes for NRIs. Urban initiative fund set up.
1999 Recapitalization of banks by creating four AMCs.	**2003** SOV set up to finance core projects.
2000 Individuals allowed to tap the capital market.	**2006** National Rural Employment Guarantee scheme launched. The Jawaharlal Nehru National Urban Renewal Mission established.
2001 China becomes a WTO member.	
2004 Hong Kong Banks allowed to accept deposits in Yuan.	
2005 China revalues its currency after over a decade.	

Source: Outlook Business, June, 5, 2006

SWOT: The big picture

STRENGTH	WEAKNESS
➢ India has a better regulatory environment and stronger financial system. ➢ India with average age of 24 years against China's 32 years is younger. ➢ India has better corporate governance and offers better returns on investments. ➢ India has a better pool of English- speaking workers ➢ Strong Services industry ➢ Skilled manpower(scientific, technical, managerial, and professional) ➢ More dynamic private entrepreneurs.	➢ China's GDP per capita is now 2.2 times higher than India's in dollar terms. ➢ China has moved ahead of India in all social indicators. ➢ China's strong physical infrastructure gives it a substantial cost advantage over India. ➢ Infrastructure has made China a more attractive destination for investors. ➢ China has more business-friendly policies and procedures for encouraging FDI
OPPORTUNITIES	**THREATS**
➢ India is promoting private and foreign investments in more sectors. ➢ Given the high levels of foreign investments already China is likely to see its investment ratio decline. ➢ India is more advanced in institutional infrastructure. ➢ India's financial market is strong, while Chinese banks are burdened with bad loans.	➢ The Chinese economy is much more integrated with the world economy through international trade and investments. ➢ Manufacturing sector's share in GDP in China is around 35 % (India's 16%). ➢ China has a good number of 'closet billionaires" who can bring much more to the already booming economy.

Source: Outlook Business, June, 5, 2006

3. Conclusion

China has been experiencing a much higher volume and growth of FDI in the post liberalization era. In China's modernization programme such as export FDI played a pivotal role and help China to achieve international competitiveness. As compared to China India is not very competitive in attracting FDI especially the export oriented type. China received about 8% of the world FDI inflows, while India received just 0.5 percent of the world FDI inflows.

To compete with China India has to create a favourable environment in her economy. For this emphasize should be given on Special Economic Zones (SEZ). India started formation of SEZ in 1965, but did not get success very much as it reflects in China. India is developing around 100nos of SEZs which are of small size. Chinese SEZs are large in size. India should also develop large SEZs like china which should be with world class infrastructure having bank, township, shopping mall, airports etc. It would attract more FDI. Most of the problems faced by TNCs are plethora of clearances, Legislations, centre state duality, bureaucracy, Labour laws and weak image. There is need of improvement in government policy, streamlining bureaucracy, and labour reforms. Emphasis should also be given to improve infrastructure like power and electricity sector which want immediate steps, to develop a strong financial sector, reduce sectoral FDI caps etc. Investment should be tailored to unique requirements of host country. These factors significantly would be helpful for India in attracting more FDI inflows into her economy.

India and China: the current socio-economic profile

	CHINA	**INDIA**
Population (mn)	1314.5	1118
Birth Rate(per 1000)	12	24
Death Rate (per 1000)	6	8
Infant Mortality Rate(per 1000)	23	56
Life Expectancy (years)	70	63
Adult Literacy Rate (Percent)	91	61
Gross Enrolment Ratio in Primary Schools(percent)	123	100
GDP ($ Bn)	2269.75	804.07
GDP per capita ($)	1740	730
Gross Domestic Savings(per cent of GDP)	47.3	32.4
Growth in Industrial Production (Mn tones)	11.6	1.1
Electricity Consumption per capita (KWH)	687	347
Population below the poverty line (per cent)	2.5	27.4
Motor Vehicles (per 1000)	8	7
Celullar Phone (per 1000)	215	25
Personal Computers (per 100)	4.05	1.54
Internet users (per 1000)	63	17
Exports ($ Bn)	969.1	83.54
Forex Reserves ($ Bn)	1066	226.4
Inflation (per cent)	1.8	4.2
Sector –wise Employment (per cent)		
Agriculture	49	56
Industry	12	19
Service	39	25

Source: World Development Indicators, 2007

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