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COMPARATIVE ANALYSIS OF FOREIGN DIRECT INFLOWS: INDIA VIS A VIS CHINA

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INTRODUCTION

India and China are the two largest and leading economies of the world after USA. These two countries are also significant in terms of population and size of the economy. Both the countries cumulatively accounts for 40 % of the world population and their total output accounts for approx. 20 % of the global economy. These two countries has many things in common such as population, cheap availability of labor, size of economy and transition from closed to open economy. China became an independent in 1949 that's two years after the independence of India. But today China is far ahead of India in terms of social and economic parameters. These two countries have introduced economic reforms time to time and these economic reforms have helped both the countries to achieve their desired growth rates in the past two decades. China has skilled human capital, rising rate of domestic savings, growing and rising demographic profile of population and increasing FDI. On the other hand, India has well developed and managed institutional framework, democracy in country, rules and laws, relaxing rules for attracting FDI. If this pattern will go on, India and China will be able to change their status from developing to developed nation and will set an example for least developed countries.

FDI in India can be seen in the era of East India Company. This British company entered in to India during colonial era of Britain. However, whole and authentic data is not available about the FDI in India during that period before independence; major chunk of FDI came from British companies. They established their units in mining sectors and in many other sectors of their interest. It was after Second World War that Japanese countries entered in to Indian market, but U.K remained at top position as far as FDI is concerned.

Therefore after independence, policy makers paid attention to foreign capital operations. By considering all the issues a policy was framed for FDI which aimed at acquiring advance technology via foreign operations. With the passage of time, economic and political environment has changed and so the FDI policy in India. During second five year plan, India faced financial crisis i.e. depletion of foreign exchange reserve and lack of financial resource availability. So to overcome, these entire crises Government adopted a liberal attitude in the Industrial Policy of 1965. In this, frequent equity was allowed in MNCs and equity capital was also made acceptable in technical collaboration. Various other incentives such as tax concession ease of licensing and abolition of reservation in drugs, aluminum, fertilizers etc. to encourage more FDI in to country. Due to various initiatives taken by Government of India, foreign capital was attracted from countries like USA, Japan, Germany etc. but outflow of foreign reserve in the form of dividend, profits repatriation and royalties etc. create problem for the Government. In the 1970s, government adopted restrictive foreign policy. Major decisions taken were establishment of foreign investment board and passage of foreign exchange regulation in order to control the outflows of foreign capital. During 1980s, increasing oil prices and worsening balance of payment forced Government to make major changes in the foreign policy. That leads to partial liberalization of Indian Economy by allowing MNCs to operate in India. Government introduced many reforms in the industrial sector with the aim of increasing competency, efficiency and growth in Indian industry via a stable, realistic and unbiased policy for FDI flow. In the early 90s, Indian economy was in serious financial crisis. Balance of payment was in negative, export was becoming difficult to conduct. Due to gulf countries war, petrol prices were increasing, increasing external debts were adding fuel in to fire. Inflation was at its highest level of 13%, BOP was at Rs. (4471) crore. Economy was left with that much amount of foreign exchange reserve which was able to finance its three weeks import only. Political instability in the country was another problem. All these chaos lead to fall in international credit rating of India in terms of both long as well as short term borrowings. Overall, the country was on the verge of bankruptcy. In this critical time, finance minister of India Dr. Manmohan Singh along with IMF and World Bank introduced Macroeconomic stabilization and structural adjustments programme. Under this, to restore the confidence of investors more liberal foreign policy was adopted.

Foreign Investment Promotion Board(FIPB) was set up the main function of this board was to encourage invite and facilitate foreign investors. A single window system from Prime Minister's office was arranged with the help of FIPB.

FDI IN CHINA

As per world investment report 2017, China ranked as the world's third largest recipient of FDI, country's economy was ranked as the second most attractive economy for establishing Multinational Companies. China has many opportunities available, as it has the biggest internal market with 1.3 billion customers, which is growing at the rate of 7% and cheap availability of labor. But on the other hand, it has constraints such as frequent change in legal system, administrative complexities, corruption, lack of transparency, weak protection of intellectual property rights.

So in this context paper intends to make comparison of FDI inflows of two leading economies of the world.

REVIEW OF LITERATURE

Nagaraj (2003) gave the detailed explanation on trends and issues of Foreign Direct Investment in India in the 1990's. The objective of the paper was to study the trend, quantum and composition of FDI and making the comparison of FDI inflows of India with China. Research also highlighted the limitations on the availability of data to make more accurate analysis of FD1. India by ending its restrictive policy on FDI in the year 1991, sought to compete with other developing Asian economics. But the problem with Indian FDI was that there is huge difference between approved and actually acquired FD1. Most of the FD1 approved in infrastructure sector acquired in consumes durable goods industry. There was also a disparity in disbursement of FDI with in the country. While making comparison of India with China, the paper explained how China majority acquiring their FD1 by "Round Tripping". And the quantum of FD1 acquired by China from developed country was not much different from India. But India should learn from China how to use its internal openness to give benefit to its domestic capability and access foreign market for labour intensive manufacturers. While assessing the Indian Domestic market, the study highlighted the actual issues like problem with infrastructure, technology spill over, foreign exchange outflows, loss of bargaining power in the technology market etc. In the end, paper suggested that there is need have a more realistic FD1 policy which can enhance domestic production, technological capabilities and as also helps in accessing the internal market for labour intensive manufacturers such as China is doing.

Iyare, Bhamnik and Banik (2004) worked on FDI Inflows in to India, China and Caribbean countries. Study found that FDI flows were generally influenced by economic indicator eg. Market size, institutions and export intensity etc. these variables or indicators were common to all the above specified countries irrespective of the source. In the research paper FDI inflows were analysed in an alternative approach which was based on the concept of neighbourhood and extended neighbourhood. Study showed that the concept of neighbourhood were widely applicable for different countries, specifically for China and India, partly in case of Caribbean countries. There were many common factors, which were helpful in explaining the inflow of FDI in the selected countries. On the other hand, majority of FDI inflows may be explained by selected economic variables, country specific factors and idiosyncratic component.

Shiv (2014) discussed the changing phase of FDI inflows in India and how political parties and their ideologies have affected the institutional changes in the FDI inflows. Article very well explained the emergence of FDI policy of toady by considering the phase of 1. Anti FDI (1969-75) 2.Selective FDI (1975-91) 3. Pro- FDI (1991 onwards). In anti FDI phase, struggle between Indira Gandhi and her opponents, which played an important role in structural change? Every policy framed in this phase was framed to have the control over the socialist goals. In Selective FDI phase, when emergency was imposed, the need for foreign investment began to discuss. But the discussion was opposed by business interest group. It was found that pro-FDI period was driven by threat to economy from financial crisis, withdrawal of help from international agencies. Study also pointed out that after liberalization India has outpaced China in terms of FDI inflows as a proportion of gross fixed capital formation since 2006. Research also suggests that competition among states has contributed to increase the FDI inflows in India.

Aggarwal and Khan (2011) attempted to study the effect of FDI on economic development of developing countries India and China. Study considered the structural changes that took place in the economies of both the countries, which is ignored by many studies previously. For this secondary data has been used for the period 1993-2009. Impact has been checked by using Modified growth model, basic growth model. In these models, human capital, labor force, FDI and gross capital formation were the factors. Among them GDP is predictor variable and the rest are criterion model.it was found that with 1% increase in FDI, China’s GDP will increase by 0.07% and India’s GDP by 0.02%. Study also tried to find out the reasons why India is having lesser amount of FDI as compare to China. Some of the reasons pointed out are late adoption of liberalization by India, red-tapism, unnecessary delay in approval of projects by GOI, quality of infrastructure, skilled labor. Study also suggested that India should learn lessons from China for better utilization of FDI.

BalasubramanyamnSapsford (2007) tried to give reasons that India may not require much more FDI as compare to China. India's FDI is $1/10^{th}$ of China even if we exclude the effect of round tripping. Paper is not concluding that India do not need more FDI, it is needed if we want to achieve the growth rate of 10 %. But the requirement may be lower due to composition of its manufacturing and service sector. Study explained the optimum level of FDI and it is achieved when FDI generate spillovers, enhance learning on jobs, contribute to productivity. This is very low in India as compare to China. Research suggested that India should spent more on research and development so that the optimum level of FDI can be achieved.

Yasmin, Hussain and Chaudhary (2003), analyzed the factors which were affecting the Foreign Direct Investment Inflows in developing countries. The main focus of the study was on checking the effect of determinants on the volume of FDI in developing countries only. 15 sample developing countries were selected on the basis of definition given by World Development Report (1998). Out of which 5 lower income countries 5 lower middle and 5 upper middle income countries were selected to examine the difference in concentration of FD1 in them. Factors chosen for the study were GDP, current account, external debt, trade openness, urbanization, labour force, import duties, tax revenue, monthly wages etc. Panel data approach was applied by using common intercept model. The study also taken into the account the structural changes taken place during the period 1970-97. Random effect model, Harssman specification test was also carried out to check the existence of no correlation between explanatory variable. Research concluded that domestic investment, labour, force debt and trade openness were the important determinants of FDI among upper and lower middle income countries. On the other hand, urbanization, standard of living, inflation, wages, current account were important for lower income group as all these were needed for the development of the country. In the end, the study suggested that countries who want to attract more FDI adopt suitable policies. Government should provide incentive and take effective steps to reduce imbalances and have political stability in the country.

Kumar (1998), gave the detailed explanation about the patterns and trends of FD1 inflow in the country by considering the National Industrial Policy of 1991. Paper also considered the role played by different policies in shaping the trend and pattern of inflow no doubt, with the liberalization of policies, there was an increase in the inflows of FD1, but less as compare to country's potential. Majorly FD1 flows into manufacturing sector, energy and service sector, but over the years the source of FD1 has changed. FDI inflows from Europe countries especially UK has declined and on the other hand, share of US and other emerging economics has increased sharply. Study also concluded that liberalization policy of 1991 has not led to a vital improvement in India's relative attractiveness as a host of FDI amongst major Western Countries. India has fetched maximum amount of FDI from i.e. US & Japan. In the end, paper concluded that efficiency seeking FDI have yet to start flowing to the country. In the era of competition, liberal policy alone cannot do wonders, there is a need for negotiations and bargaining with Multinational enterprises is required. Moreover, paper also suggested that India should start taking advantage of their bargaining power such as low wage rate, large domestic market vast pool of professional well developed capital market.

Shamsuddin Abdul (1994), discussed in detail about the economic determinants of FDI in less developed countries by considering the empirical research. Study investigated the determinants of FDI by using cross section data for 36 last develop countries. Data was collected from the report of world development report, UNCTAD, International Financial Statistic. 36 countries which were selected for the analysis have been chosen by using convenience sampling i.e. totally dependent upon the availability of data. Determinants selected for the study were economic determinants, as political determinants have been ignored due to their less importance. Main independent variables were per capita GDP, growth rate of GDP, wage rate, variance of price level, energy imported, per capita debt and aid from capitalist economy. Ordinary least square technique of regression was used to check the significance of variable. Per capital GDP emerged as one of the important variable to attract the FDI followed by wage costly per capita debt, per capita aid, volatility of price & energy. To check the structural stability of coefficients F-statistics was calculated. In the end, research highlighted the limitation i.e. there is possible existence of simultaneously problem. In order to overcome this problem, a full scale macro econometric model would be needed for each of the host country.

Sandhya, Mrinalini and Nath (2014), studied in detail the sector and cluster effects of FDI in R&D in India. Article attempted to analyse the extent of sectoral effects in the inflows of FDI in R&D in India. For that data has been taken from various reports of various agencies i.e. CSIR, DIPP, NISTAD, TIFAC, because one single source, from which systematic data on FDI on R&D was unavailable. Time period taken for the study 2003 onwards, because FDI in R&D is started speeding up after 2003. In the study, with the help of previous research, it's established that India is one of the attractive destination for fetching FDI. But the valid question which was raised in the study is growth with the help of FDI i.e. output of FDI. That was measured in this study with the help of number of patents acquired by these sectors analyzed along with distribution (no. of firms, investment & job creation), nature of investment. In IT sector, Banglore is one of the leading cities because of the availability of large skilled HR availability. In Pharma Sector, Indian firms has become self-sufficient or capable in manufacturing drugs at different stages. MNCs were collaborating or contracting with Indian firms to take the benefit of the HR potential available. The main point of concern here was that these collaborations are not giving any actual benefit to our Indian firms for acquiring patents. Mumbai/Pune is a favourable destination again due to availability of capable population. In automotive sector, India is gaining importance by fetching FDI in designing and manufacturing. Banglore again is leading by fetching maximum FDI in R&D. In the end, paper suggested that there is a need to devise appropriate strategy or policy that will help Indian firms to gain a competitive edge and turn them into major center of innovation.

OBJECTIVE

1. To study the trend and growth of FDI inflows in India and China.
2. To make the comparative analysis of FDI inflows of India and China.
3. To suggest the policy implications of the study.

RESEARCH METHODOLOGY

To achieve the above stated objectives, secondary data for the period 2000-01 to 2015-16 onwards has been collected. Data has been collected from the various published sources and Reports of DIPP, IMF, World Bank, CSO, and UNCTAD. Data for China has been collected from the China Statistical Year book for the period 2000 to 2015. To study the trend tabular and percentage analysis were carried out. To study the growth, Compound Growth Rate (CGR) is calculated by fitting the Exponential Growth Curve.

Table 1: Foreign Direct Inflows in India and China for the Year 2000-01 to 2014-15

(Amt. in USD mn)

Year	China FDI	India FDI
2000-01	691945	237868
2001-02	827743(19.63)	402770(68.90)
2002-03	764592(-7.62)	270434(-32.68)
2003-04	606299(-20.70)	218785(-19.09)
2004-05	603246(-0.50)	321869(47.11)
2005-06	630206(4.46)	553972(125.49)

2006-07	747678(18.64)	1249177(95.13)
2007-08	9239549(23.57)	2457543(28.80)
2008-09	900327(-2.55))	3139597(-17.71)
2009-10	1057352(17.44)	2583441(-17.22)
2010-11	1160110(9.71)	2138341(64.24)
2011-12	117161(-89.90)	3512080(-36.15)
2012-13	1175862(903.63)	2242358(8.36)
2013-14	1195615(1.68)	2429933(27.28)
2014-15	1262666(5.61)	3093050(28.31)

Source: Source: SIA Newsletter, FDI Fact Sheet from March 2005 to 2015, China Statistical Year book for the period 2000 to 2015

It is quite clear from above table that there is huge difference in the FDI inflows of India and China. China's FDI is almost doubled the FDI inflows of India. Point here is to be highlighted that growth rate of FDI in India is higher than Growth rate of FDI in China.

Table 2: Sector wise cumulative Foreign Direct Inflows in China for the Period 2000-01 to 2014-15 and Compound Growth Rate

Sr. no.	Sectors/ Variables	Total FDI	Compound Growth Rate
1.	**Agriculture, Forestry, Animal Husbandry and Fishery**	2172191	2.81 (1.253)
2.	**Mining**	765594	-.6896 (-.377)
3.	**Manufacturing**	69922319	-1.0191 (-1.490)
4	**Production and Supply of Electricity, Gas and Water**	2617602	4.0450** (2.755)
5	**Construction**	1686013	.8559 (.296)
6	**Transport, Storage and Post**	3830228	10.5707** (10.507)
7	**Information Transmission, Computer Services and Software**	2752326	12.3436** (9.116)
8	**Wholesale and Retail Trades**	7838375	21.4512** (7.700)
9	**Hotels and Catering**	938843	-2.1440

	Services		(-1.774)
10	**Financial Intermediation**	2958594	31.6703** (6.726)
11	**Real Estate**	25845031	15.9651** (9.098)
12	**Leasing and Business Services**	8256861	10.8119** (10.293)
13	**Scientific Research, Technical Service and**	2492894	20.4477** (7.361)
14	**Geologic Prospecting**	6595	.5728 (.562)
15	**Management of Water Conservancy, Environment and**	638730	13.5745** (4.644)
16	**Services to Households and Other Services**	1692881	-11.3267 (-2.879)
17	**Education**	57412	-20.7009 (-2.415)
18	**Health, Social Security and Social Welfare**	1510791	7.3231** (3.653)
19	**Culture, Sports and Entertainment**	606218	38.6854** (4.208)
20	**Public Management**	56007	4.7003** (4.693)

Source: China Statistical Year Book for the period 2000 to 2015

Note: 1. Value in parenthesis shows t value.

2. * 5% level of significance

It is evident from the above table that maximum FDI in China has been fetched by real estate ($25845031mn) followed by manufacturing sector ($69922319 mn) and so on. China has attracted significant FDI in Health, Social Security and Welfare (3.653%), environment conservancy (4.644%), scientific research (7.361%) in last year 15 years which has been showed by compound growth rates. This also shows the China's seriousness towards social development. On the other hand, real estate (9.908%), transport, storage and post (10.507%), information, computer service & software (9.116%) sectors has also attracted significant amount of FDI, as their contribution is highly significant in last 15 years. All other sectors also attracted significant amount except mining, catering & hotel services.

Table 3: FDI Inflows of different sectors for the period 2000-01 to 2015-16 and Compound Growth Rate

Sector	Total FDI	CGR
Metallurigical	889027	32.59 (4.04)**
Conventional Energy Power	766883	24.00 (3.49)**
Electronics Equipment	597273	12.39 (3.02)**
Computer Software & Hardware	2101778	13.20 (3.26)**
Telecommunication & Information Broadcasting	2335931	19.69 (3.65)**
Automobile Industry	1484798	18.86 (2.35)**
Machinery, Tool & Equipment	557648	25.95 (6.17)**
Drugs &Pharma	1502491	25.96 (4.49)**
Chemicals	1213419	26.02 (4.12)**
Service	5219977	31.72 (5.19)**
Paper & Pulp	129914	17.09 (2.15)**
Food Processing	701978	21.98 (3.90)**
Cement & Gypsum	242639	9.075 (.694)
Fermentation	224672	25.85 (3.11)**
Subtotal	19076304	21.68 (6.89)**
Other Sectors	9775012	26.70 (5.41)**
Total	28851316	22.83 (6.74)**

SIA Newsletter, FDI Fact Sheet from March 2005 to 2016.

Note: 1. Value in parenthesis shows t value.

2. * 5% level of significance

Table 3 shows the cumulative FDI for the period 2000-01 to 2015-16. In this span of 15 years, maximum FDI has been attracted by service sector i.e. $5219977mn which is emerging as one of the leading industry. If we compare the FDI inflows of service sector for the period

1990-91 to 1999-2000 with 2000-01 to 2015-16, growth rate is 1152 times. Moreover service sector which was not contributing significant share in the time period of 1990-91 to 1999-00 has emerged a major contributor in total FDI inflows in the second phase of the study. In this sector contributed significantly except cement & gypsum.

CONCLUSION

China is attracting more FDI in service sector, recycling, clean protection, use of renewable resources and environmental protection. On the other hand, India is attracting more FDI in service sector, computer software and hardware, telecommunication and Information broadcasting. But still there is huge difference in FDI inflows of both the countries. No doubt both the countries are developing, but China is still ahead in FDI inflows. And there is huge gap which need to be covered.

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