Economic and more political

Economics

Both leaderships considered the state to be the engine of growth and suspected foreign sector development. In China, foreign Investments were prohibited and the mechanism for foreign trade was monopolized by the Ministry of Foreign Trade. In India, the Foreign Exchange Regulatory Act (1974) reduced foreign equity participation from 51 to 40 percent which led to the exit of companies like MOM, Shell and Coca-Cola. Since that time, both governments have significantly liberalized their FED regimes, however, China has been able to attract a much higher level of foreign Investment.] Beijing initiated the reform process much earlier than New Delhi and both entries are far more " FED-led" than other developing countries have been in the past. Nonetheless, the experience of these two large, but strikingly different countries underlies the importance of political economy for growth and development. 2]The divergence of attitudes toward FED can be easily explained by the two countries' different political systems. China has an authoritarian regime where policy-making is generally regarded as a top-down process, and where the government Is able to be flexible In Its decision-making.

Additionally, the Chineseleadershiphas a clear focus n economic growth. In contrast, the formation of policy in democratic India is much slower. Short-term political calculations dominate as there are frequent elections conducted at different levels- national, state, municipal or village. Interest groups are Important constituencies for Indian parties since they have the ability to provide campaign finances and influence voting behavior.

That is why for democratic, post- colonial India, allowing foreign investors to earn huge profits at the expense of domestic firms is unthinkable. A further part of the answer lies in the political economy of the local state. In China. Decentralization of economicresponsibilityand establishment of special economic zones (Sees) was a key feature in foreign sector reform. Local authorities, responsible for the economic growth of their province, undertook many initiatives to ensure that Sees would attract foreign investors.

In India, decentralization was less 'economic' and more 'political'. It began In the early 1 sass only because central government lacked sufficient political power and was not able to create an efficientcoalitionwithout depending on the state governments purport. Thus, local officials have no direct incentives to promote FED and state governments heavily rely on centrally-led strategies. Helmet City- a special economic zone In Hydrated, designed to attract investments in the IT sector, Is a case In point.

Every significant aspect of the project, from negotiations with investors to the design FIFO broadly, local bureaucracy in India- epitomized in this case by the license-quota- permit raja- do not perceive themselves as independent actors in terms of economic reform and oblige central government to be responsible for the implementation of placement programs. Such dependence on central government also has an impact on infrastructure. In China local governments have far greater control over local revenues than in India.

Under the new fiscal system that resulted from economic decentralization, Chinese provinces entered into negotiated revenue sharing contracts with the central government. This means that local governments are allowed to keep a share of revenue that they collected before handing over a negotiated amount to the central government. The ability to extract these revenues revised them with the financial resources to build a strong infrastructural base to foreign investors and maintaining a reputation for the rapid completion of infrastructure projects. Unlike in China, the tax assignment system in India is imbalanced: most broad-based taxes have been assigned to the center, while taxes narrow in scope are assigned to the states. The impact is that central government has a greater income and less expenditure whereas state governments are collecting less and spending more. This deficit in local state budgets needs to be balanced by entree funds, which in turn means greater central control of the allocation of financial resources to state governments while simultaneously laying responsibility for infrastructure development on them.

Since the central government itself is running on the deficit, transfers to state governments must take second place to central consideration. This has resulted in their decline in recent years, throttling state-level infrastructure investments. State governments are not able to quickly and effectively implement these projects, thus decreasing its appeal to FED. Local states eave a little impact on macro-policy issues but they can provide the base that is crucial for attracting foreign enterprises.

Local political economy and the coherence of institutional aims provide a partial answer for the promotion of FED in China. In India, local policy was one of change Within institutions' rather than change 'of institutions'. Existing bureaucracy had to adapt to a new circumstances within old institutional arrangements instead of following incentives created by newly established institutions ë FED in china grew from us$3. 5 billion in 1990 to us$52. 5 billion 2002; excluding mound-tripping, china's FED inflows could fall to us$40 billion. Those to India rose from SIS$O. Billion to SIS$3. 45 billion during the same time period. Even with these adjustment, china attracted about fifteen times more FED than India in 2002 ë FED has contributed to the rapid growth of china's merchandise exports, at an annual rate of 15 percent from 1989 to 2001. In 1989, foreign affiliates accounted for less than 9 percent of Chinese export; by 2002 they provided half. In some high-tech industries in 2000, the share of foreign affiliates in exports was over 90 percent, for example, electronics circuits (91 percent) and mobile phones (96 percent). ë In India, by contrast, FED has been much less important in driving export growth, except in informationtechnology. FED in Indian manufacturing has been and remains domestic market-seeking. FED accounted for only 3 percent of Indian's exports estimated to account for less than 10 percent of Indian's manufacturing exports. ë On the basic economic determinants of inward FED, china does better than India. China's total and per capita GAP are higher than Indian's, marking it more attractive for racket seeking FED.

China has higher literacy andeducationrates making it more attractive to efficiency seeking investors. China has large natural resources endowments. In addition, china's physical infrastructure is more competitive, particularly in the costal areas (CUTS 2010, Marianne corporation economic research institute 2009). But, India may have an advantage in technical manpower, particularly in information technology. It also has better English language skills. ë Some of the differences in competitive advantages of the two countries are illustrated by the composition of their inward FED flows.

In 'CT, china has become a key center for hardware design and manufacturing by such companies as Acre, Ericson, General Electric, Hitachi semiconductors, Hounded electronics, Intel, LEG electronics, Microsoft, Imitate international corporation, Motorola, Neck, Monika, Philips, Samsung Electronics, Sony. Taiwan semiconductor manufacturing. Toshiba and other major electronic trans-national corporations (Tan's). India, on the other hand, specializes in IT services, call centers, business back -office operations and R. Rapid growth in china has increased the local demand for customer durables and non durables, such as home appliances, electronics equipment, Automobiles, housing and leisure. This rapid growth in local demand, as well as competitive businessenvironmentand infrastructure, have attracted many market seeking investors. It has also encouraged the growth of many local indigenous firms that support manufacturing. ë Other determinants related to FED attitudes. Policies and procedures also explains why china does better in attracting FED.