

Case study of fdi in india vs china

[Countries](#), [India](#)



A project Report On CASE STUDY OF FDI IN INDIA VS CHINA Submitted to Mrs. Smita Kashiramka By Ramya Singh 2010B3A2613P In Fulfilment of Study oriented Project BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, PILANI 30th November 2012 | | | | | Abstract The report begins with the FDI definition and FDI reference with respect to India and its sectoral and regional comparisons. This report undertakes a comparative analysis of the foreign direct investment (FDI) flowing from the multinational corporations (MNCs) into China and India.

Examining the prevailing investment climate to account for the differences in FDI between the two countries and finally suggest some recommendations for India to achieve higher FDI. A review of McKinsey report on India's economic performance and growth potential has been done at the end of the report. Acknowledgements A Study oriented project is a golden opportunity for learning and self development. I consider myself very lucky and honoured to have been able to get this opportunity of doing such a project. My grateful thanks to Mrs.

Smita Kashiramka mam who in spite of being extraordinarily busy with her duties, took time out to hear, guide and keep me on the correct path. I do not know where I would have been without her. Ramya Singh ID-2010B3A2613P Table of Contents- 1. Introduction 2. 1. FDI definition 2. 2. Benefits of FDI 2. 3. FII's 2. FDI Routes to India 3. 4. Forbidden territories 3. 5. Forms of FDI Investment 3. 6. Automatic Route 3. 7. Government approved Route 3. Amendments in FDI and Industrial Policies 4. 8. FEMA 4. 9. FIIA 4. Status of FDI in India 5. Round Tripping of FDI to China 6. Directional comparison of FDI in India and China . Recommendations for improving FDI

to India 8. FDI in Retail 9. Review of Mckinsey Report of FDI in India 10. Conclusion 11. References 1. INTRODUCTION Background The official statistics of foreign direct investment (FDI) inflows in China and India exhibits a remarkable discrepancy that consequently establishes the unmatched superiority of China in attracting FDI inflows. China ventured into the path of liberalization in 1979 by gradually liberalizing and opening up its economy. Removal of restrictions on inward FDI has figured out to be one of the prominent features in the Chinese reforms.

China has indeed achieved remarkable success in FDI since it formally opened its door to FDI with the passage of the “ Law of People’s Republic of China on Joint Ventures using Chinese and Foreign Investment” in 1979. By virtually having their non-state sector (counterpart of India’s private sector) run on free market principles and setting up large special economic zones, encouraging competition among Chinese provinces to attract FDI, offering substantial tax concessions, permitting the leasing of land and property, introducing overnment guarantees for investment and special arrangements regarding retention and repatriation of foreign exchange, China has been able to attract significant sums of FDI inflows. India, the only developing country of size and diversity of industrial base comparable to China, has also adopted a similar path of liberalization since 1991, by slowly shedding its FDI restrictions and allowing FDI through automatic route barring a few strategic industries of security concern .

It is important to note that in 1997, India had joined the band of the top ten developing country recipients of FDI flows, whereas China had already acquired prominent positions at least since 1991. UNCTAD’s ranking of

countries based on FDI relative to the size of the economy was 121 for India and 61 for China for the period 1988 to 1990. The corresponding figures for 1998-2000 are 119 and 47 respectively. While India has improved marginally, China reveals a huge success in terms of FDI ranking. In 2002, the A. T. Kearney survey also found that China outranked the U.

S. as the most attractive destination for FDI. The importance of FDI to China is readily apparent. These discrepancies in the relative FDI attracting capabilities of India and China raise some important fundamental questions about the actual FDI potential of India. Can India possibly become an FDI destination as attractive as China?. The Report addresses this question at large.

1. 1 Definition of 'Foreign Direct Investment - FDI' FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.

Further, in cases of FDI, the investor's purpose is to gain an effective voice in the management of the enterprise. Components of FDI- The components of FDI are equity capital, reinvested earnings and other capital (mainly intra-company loans). As countries do not always collect data for each of those components, reported data on FDI are not fully comparable across countries. In particular, data on reinvested earnings, the collection of which depends on company surveys, are often unreported by many countries. - United Nations Conference on Trade and Development (UNCTAD)

Foreign investment refers to investments made by the residents of a country in the financial assets and production processes of another country. It can come in two forms: Foreign direct investment (FDI) and foreign institutional investment (FII). FDI or Foreign Direct Investment is an investment that a

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parent company makes in a foreign country. FDI brings in capital but also helps in good governance practices and better management skills and advanced technology infusion. But, FII or Foreign Institutional Investor is an investment made by an investor in the markets of a foreign nation.

Foreign Institutional Investment is also known as hot money as the investors have the liberty to sell it and take it back. The FII investment flows only into the secondary market. It helps in increasing capital availability. Objective of the Study:- a) To analyze the pattern and direction of FDI flow in India. b) To identify factors those are responsible for comparatively lesser flow of FDI to India c) To identify reasons for regional imbalances in terms of flow of FDI. d) To review FDI policy of India e) To address various issue and concern relating to FDI. f) To make policy recommendation to improve the level of FDI.

Nature and Source of Data:- The relevant data are collected from papers published (sources mentioned in the last) various sites of Government of India, Reserve Bank of India and Mckinsey report published by Mckinsey global institute, papers published etc. Other references have been mentioned at the end of the report. 1. 2 Benefits of FDI to the host country- * FDI not only brings in capital but also helps in good governance practices and better management skills and even technology transfer. Export market gets a boost due to this and consequently lesser import dependence.

Foreign Investors invest in social, economic infrastructure, financial markets and marketing system help the developing nations on the path of industrialization and modernization. Demand for various inputs give rise to development of the supplying industries, generating income, leading to a spur in the production process and a better living standard of the people

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employed in these industries. Quality products are available to the consumers at low prices. Foreign investment serves as boon to the government by bringing demand for various inputs giving rise to development of the supplying industries. . 3 FII's- Generate Enhanced flows of equity capital, improving capital markets, include reduced cost of capital, imparting stability to India's balance of payments, institutionalizing the market, improving market efficiency and strengthening corporate governance. 1. Foreign direct investment- the Indian scenario 2. 1 Forbidden Territories - FDI is not permitted in the following industrial sectors: •Arms and ammunition. •Atomic Energy. •Railway Transport. •Coal and lignite. •Mining of iron, manganese •Gambling and Betting •Business of chit fund •Trading in Transferable Development Rights (TDRs). Activity/sector not opened to private sector investment. 2. 2 Foreign Direct Investment (FDI) is permitted as under the following forms of Investments - •Through financial collaborations. •Through joint ventures and technical collaborations. •Through capital markets via Euro issues. •Through private placements or preferential allotments. * Through financial collaborations-“ Foreign collaboration includes ongoing business activities of sharing information related to financing, technology, engineering, management, consultancy, logistics, marketing, etc. which are generally, offered by a non-resident (foreign) entity to a resident (domestic or native) entity in exchange of cheap skilled and semi-skilled labour, inexpensive high-quality raw-materials, low cost hi-tech infrastructure facilities, strategic (favourable) geographic location, with an approval (permission) from a governmental authority like the ministry of finance of a resident country. ” The examples of foreign

collaboration between an Indian and abroad entity: * ICICI Lombard GIC (General Insurance Company) Limited is a financial foreign collaboration between ICICI Bank Ltd. India and Fairfax Financial Holdings Ltd. , Canada. * ING Visa Bank Ltd. is a financial foreign collaboration formed between ING Group from Netherlands and Visa Bank from India. * Tata DOCOMO is a technical foreign collaboration between Tata Teleservices from India and NTT Decoma, Inc. from Japan. * Through joint ventures and technical collaborations-A joint venture is a new enterprise owned by two or more participants. Joint ventures are formed with several motives:- The main motive is to share the risks.

A small firm with a new product idea that involves high risk and requires relatively large amounts of investment capital may form a joint venture with a large firm. A foreign company can invest in an Indian company through a joint venture agreement in the areas which are otherwise not reserved exclusively for the public sector or which are not under the prohibited categories such as real estate etc. For such foreign investments into India, a two tier approval mechanism has been provided. * Through capital markets via Euro issues- Foreign Investment through GDRs (GLOBAL DEPOSITORY RECEIPTS) - Indian companies are allowed to raise equity capital in the international market through the issue of Global Depository Receipt (GDRs). GDR investments are treated as FDI and are designated in dollars. * Use of GDRs -The proceeds of the GDRs can be used for financing capital goods imports, capital expenditure including domestic purchase/installation of plant, equipment and building and investment in software development, prepayment or scheduled repayment of earlier external borrowings.

Investment in stock markets and real estate will not be permitted. FDI comes through) Automatic route and b) Govt. approval route. 2. 4 Automatic route- Under the RBI's Automatic Route, the Indian companies can issue shares up to prescribed percentage to person's resident outside India without obtaining prior Permission either of the Government or RBI. These companies must be engaged in the Permissible activities under the FEMA. Companies engaged in manufacture of items, Reserved for SSI sector or those manufacturing items requiring industrial license or engaged in areas such as, defence, atomic energy or aerospace will not be able to avail of The Automatic Route.

In terms of the guidelines issued in February 2000 and subsequent amendments, except in certain circumstances, foreign investment by way of issue of shares/convertible Debentures by Indian companies can be made in India under the Automatic Route without Any approval from the Government of India or the Reserve Bank of India (RBI). In the Circumstances where the Automatic Route is not applicable, the foreign investor or the Indian company seeking foreign investment would require the approval of the Foreign Investment Promotion Board (FIPB).

FIPB is a competent body to consider and recommend foreign direct investment (FDI), which do not come under the automatic route. 2. 4 Government approved route- Indian companies may want to issue shares to foreign citizens and companies Incorporated outside India under sectors not allowed under the Automatic route or any other general/special permissions. In such cases, it will be necessary to Apply to the Foreign Investment Promotion Board (FIPB).

Foreign Direct Investment in India is allowed on automatic route in almost all sectors except -Proposals that require an industrial license and cases where foreign investment is more than 24% in the equity capital of units manufacturing items reserved for the small scale industries, For transfer of ownership or control of Indian companies in sectors with caps from resident Indian citizens to non-resident entities, Government approval/FIPB approval would be required in all cases where: The ownership or control of an existing Indian company (currently owned or controlled by resident Indian citizens and/or Indian companies, which are owned or controlled by resident Indian citizens) will be/is being transferred/passed on to a non-resident entity as a consequence of transfer of shares and/or fresh issue of shares to non-resident entities through amalgamation, merger/demerger, acquisition etc, where a foreign investor has an existing joint venture/ technology transfer/ trademark agreement in the 'same field', prior to January 12, 2005, the proposal for fresh investment/technology transfer/technology collaboration/trademark agreement in a new joint venture for technology transfer/ technology collaboration/trademark agreement would have to be under the Government approval route through FIPB/ Project Approval Board Proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted and whenever any investor chooses to make an application to the Foreign Investment Promotion Board and not to avail of the automatic route. * Industrial Approvals/clearances- For starting a new project, a number of industrial approvals/clearances are required from different authorities such as Pollution Control Board, Chief Inspector of Factories, Electricity Board, Municipal Corporations, etc. * Labour

Rules/Regulations- Under the Constitution of India, Labour is a subject in the Concurrent List where both the Central & State Governments are competent to enact legislation.

Some of the important Labour Acts, which are applicable for carrying out business in India are - Employees' Provident Fund and Miscellaneous Provisions Act, 1952; Employees' State Insurance Act, 1948; Workmen's Compensation Act, 1923; Maternity Benefit Act, 1961; Factories Act, 1948; Minimum Wages Act; Payment of Wages Act, 1936. * Taxation in India- Foreign nationals working in India are generally taxed only on their Indian income. Income received from sources outside India is not taxable unless it is received in India. Company taxation - Foreign companies are subject to a maximum tax of 40% on its net profits. The effective tax rate for domestic companies is 36.75% while the profits of branches in India of foreign companies are taxed at 40%. Companies incorporated in India even with 100% foreign ownership, are considered domestic companies under the Indian laws. 3.

Amendments- in the FDI and Industrial Policies 3. 1 FEMA (Foreign Exchange Management Act)- The Foreign Exchange Management Act (1999) or in short FEMA has been introduced as a replacement for earlier Foreign Exchange Regulation Act (FERA). FEMA was introduced because the FERA didn't fit in with post-liberalization policies. A significant change that the FEMA brought with it was that it made all offenses regarding foreign exchange civil offenses, as opposed to criminal offenses as dictated by FERA. When a business enterprise imports goods from other countries, exports its products to them or makes investments abroad, it deals in foreign exchange.

Foreign exchange means 'foreign currency' and includes deposits, credits and balances payable in any foreign currency. It was a criminal legislation which meant that its violation would lead to imprisonment and payment of heavy fine. It had many restrictive clauses which deterred foreign investments. FEMA emerged as an investor friendly legislation which is purely a civil legislation in the sense that its violation implies only payment of monetary penalties and fines.

3. 2 Foreign Investment Implementation Authority (FIIA)

Government of India has set up Foreign Investment Implementation Authority (FIIA) to facilitate quick translation of Foreign Direct Investment (FDI) approvals into implementation.

FIIA is assisted by Fast Track Committee (FTC), which have been established in 30 Ministries/Departments of Government of India for monitoring and resolution of difficulties for sector specific projects. Role of Foreign Investment Implementation Authority (FIIA) To understand and solve the problems of the investors , understand and solve the problems of the approving authorities, refer to the cases that has not been resolved at the level of FIIA to the agencies at the higher levels, and to start consultations with multiple agencies.

Changes in FDI policy in Single Brand retail trading:-

The policy regarding Single Brand retail trading has been liberalized and now FDI up to 100 percent is permitted under the Government route.

Policy for FDI in Commodity Exchanges:-

Foreign institutional investors (FIIs) can now invest up to 23 percent in commodity exchanges without seeking prior approval of the government. However, FDI will continue to need the approval of the FIPB DTAA (DOUBLE TAX AVOIDANCE AGREEMENT) WITH MAURITIUS- According to the tax treaty between India and Mauritius, capital

gains arising from the sale of shares are taxable in the country of residence of the shareholder and not in the country of residence of the company whose shares have been sold. Therefore, a company resident in Mauritius selling shares of an Indian company will not pay tax in India. 4. Status of FDI in India

Various studies have projected India among the top 5 favoured destination for FDI. Cumulative FDI equity inflows has been Rs. 5, 54, 270 core (1, 27, 460 Million US\$) for The period 1991-2009. This is attributed to contribution from service sector, computer Software, telecommunication, real estate etc. India's 83% of cumulative FDI is Contributed by nine countries while remaining 17 per cent by rest of the world. Country-wise, FDI inflows to India are dominated by Mauritius (44 percent), followed by the Singapore (9 per cent), United States (8 percent) and UK (4 percent) Countries like Singapore, USA, and UK etc. invest in India mainly in service, power, telecommunication, fuels, electric equipments, foodprocessing sector.

Though India has observed a remarkable rise in the flow of FDI over the last few years, it receives comparatively much lesser FDI than China. Even smaller economies in Asia such as Hong Kong, Mauritius receive much than India in terms of FDI inflows. This is largely due to India's economic policy of protecting domestic enterprise compared to above mentioned Newly Industrialized Asian Economies. Country-wise, FDI inflows to India are dominated by Mauritius (44 percent), followed By the Singapore (9 per cent), United States (8 percent) and UK (4 percent). the share of Mauritius is the highest due to the double taxation avoidance treaty with Mauritius. (Comparing India and China)

Source: UNCTAD, World Investment Report 2009; Net FDI Inflow= Inward FDI flow Minus Outward FDI Flow ?? . FDI stock of India has also registered a consistent growth over the period of study. Net FDI stock for the period 1990-2000 was 1533 Million US\$ which rose to 61523 Million dollars. However, net FDI stock of China is about 4 times than that of India. India's inward FDI stock to GDP ratio improved from 0.5 per cent for the 1990-2000 to 9.9 per cent by the year 2008. Similarly, ratio of outward FDI Stock to GDP for the Corresponding period has registered a consistent rise and was at the level of 5 per cent In the year 2008 Source: UNCTAD, World Investment Report 2009; Net FDI Inflow= Inward FDI flow Minus Outward FDI Flow.

There is a positive link between FDI and India's growth story. India has been observing a consistent growth in net FDI flow. Ratio of FDI Inflow to Gross Capital Formation has improved from 1.9 per cent during the period 1990-2000 to 9.6 per cent in the year 2008. . Service sector has been the highest contributor of FDI inflow to India (22%). Followed by computer software and hardware (9%), telecommunication (8%), housing And real estate (8%), construction activities and power (7%). Net inward FDI into India remained buoyant during April-June of 2009-10 as Manufacturing sector continued to attract most part of FDI (19.2 per cent), followed by Real estate activities (15. per cent) and financial services (15.4 per cent). This trend Reversal (greater FDI in manufacturing sector) could be attributed to relatively better macroeconomic performance of India. During 2008-09, continuing liberalization measures to attract FDI and positive Sentiments of global investors about the growth potential of EMEs, including India. India evolved as one of the most favoured destination for investment in the service Sector

due to low cost wages and wide demand-supply gap in financial services Particularly in banking, insurance and telecommunication. Gradually India has become Important centre for back-office processing, call centres, technical support, medical

Transcriptions, knowledge process outsourcing (KPOs), financial analysis and business processing hub for financial services and insurance claims. There has been a wide concentration of FDI inflows around Mumbai Region (36%) followed by New Delhi Region (19%), Karnataka (6%), Gujarat (6 %), Tamil Nadu (5%) and Andhra Pradesh. It is alarming that these regions receive 77% of FDI equity inflow while rest of India accounts for only 23%. Lack of proper initiative from the various state governments is responsible for such wide disparities in FDI. China is the workshop of the world. Its \$1, 952 billion in output last year allowed it to overturn the US' 115-year reign as the world's largest manufacturer.

China's manufacturing is labour-intensive: it produced almost the same percentage of world manufacturing output as the US (~19%) with about nine times the number of workers. China's manufacturing success — seeded by foreign investment, superb infrastructure, a rational labour law regime, an infinite supply of migrating cheap farm labour — created the fastest poverty-reduction programmed in recorded history. Indian manufacturing must seize this opportunity. India accounted for only 1. 8% of global manufacturing value added (MVA) last year versus China at 23. 3%. Our per-capita productivity was a disappointing \$107 versus China at \$842. Budget 2011 plans a new manufacturing policy that aims to raise the share of manufacturing in GDP from 16% today to 25% in 10 years.

How China became the world's largest manufacturing destination:-China invited foreign direct investors to provide the capital and the expertise to achieve export competitiveness in a wide range of sectors, including electronics, apparel, plastic toys, stuffed animals, ceramics, and many other labour intensive sectors. In each sector, the key was to link foreign investor capital and expertise with a large and low-cost Chinese labour force. The foreign investors brought in the product design, specialized machine tools and capital goods, key intermediate products, and knowledge of marketing channels. The Chinese assured these foreign investors certain key conditions for profitability, such as low taxes, reliable infrastructure, and physical security, adequate Power, decent logistics for the import and export of goods, and so forth.

Creating global manufacturing competitiveness is complex but two bottlenecks for Indian manufacturing are infrastructure and labour laws. Our current labour law regime has huge costs; exploding unorganized employment, lower organized manufacturing, encouraging buying machines rather than hiring people, corruption, blue-collar exploitation and higher organized sector skill intensity. Basically, labour laws have ensured that 100% of net job creation in the last 20 years has been in the low-productivity and sub-scale unorganized sector. Added to the acute infrastructure woes are the rigidities in Indian labour markets which makes it practically impossible to shed excess labour or get rid of nonperformers.

Looking beyond these two constraints, a number of studies and reports have highlighted other weaknesses that hinder India's development as a major export oriented manufacturing base. Some comparative statistics are given

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below- Source- Bajpai N and Dasgupta N, " Multinational Companies and Foreign Direct Investment in China and India", Centre on Globalization and Sustainable Development (CGSD) Working Paper No. 2 (Sectoral Distribution of FDI) Maharashtra Region attracts FDI in energy, transportation, services, Telecommunications and electrical equipment. Delhi and NCR attracts FDI inflows in Telecommunications, transportation, electrical equipment (including software) and Services.

While Haryana emerged as a preferred destination for electrical equipment, Transportation and food processing, Tamil Nadu has been successful in attracting FDI In automotive related and auto components sector. Andhra Pradesh and Karnataka Emerged as a popular destination for software, computer hardware and Telecommunication. India's rural areas such as Orissa has also been successful in Attracting FDI in securing large Greenfields FDI projects in bauxite, mining, aluminium and automotive facilities. 5. Round Tripping of FDI to China - The Chinese official statistical database does not provide disaggregated FDI that would directly project the relative contribution by the Non-Resident Chinese (NRC) population in China.

However, based on the fact that a large proportion of NRCs residing in Hong Kong, Singapore, Taiwan and Macao make FDI to mainland China, we will make the assumption that, in broad terms- any FDI originating from these countries will constitute expatriate FDI and mainland Chinese funds routed through local financial agents - round tripping. It is evident that the share of OECD (Organisation for Economic Co-operation and Development) countries and with it the share of MNCs in Chinese FDI inflows has been raising over the 1990s while the share of Singapore, Macao, Taiwan and Hong Kong

(supposedly the NRC contribution) is falling. NRC contribution, which was nearly 80. percent of the total Chinese inflows in 1992, has gradually decreased over the 1990s, being on an average about 60. 5 percent over the decade. China's FDI numbers include a substantial amount of round-tripping: A large amount of Chinese black money is recycled through Hong Kong and sent back to the mainland as FDI. Round-tripping in fact accounts for one-half of China's FDI inflows, which thus reduces the reported level from \$40 billion to \$20 billion in 2000(see graph below). Even in 2001, more than 47 percent of FDI inflows to China came from these four countries (Hong Kong, Singapore, Taiwan and Macao) where a large proportion of NRC's reside. 6. Directional Comparison of FDI in India and China -

China's FDI inflows are somewhat inflated due to 'round-tripping' investment through Hong Kong, which poses as a foreign investment in order to acquire the benefits from preferential tax treatment. The World Bank estimates that about 20-30% of FDI in China was due to the round-tripping investment on the other hand, India's FDI inflows are underestimated because the figure excludes reinvested earnings. While it is very likely that the entire FDI from these economies to China may not be totally from the NRCs, but a very large part of it actually is. Expatriate investment has been a very small portion of aggregate FDI in India, in spite of gradual attempts by the government to simplify the regulations involving investments by the non-resident Indians (NRIs) into the country and hence the expatriate

Indians do not form a large segment of the target investors in India, unlike in China. On the whole, it is observed that in India, FDI is flowing into areas where skilled labour is major input sectors are telecom, electrical equipment,

including computer software, energy, and the transportation industry. These four sectors accounted for roughly 50 percent of FDI inflows remarkable difference exists in the expanse of the areas of foreign investments in India and China. FDI in China is rather extensive, being diffused over agriculture (farming, forestry, animal husbandry and fishery), mining, and manufacturing and significantly into the tertiary sector.

Moreover, social-welfare related sectors like education and healthcare and wholesale and retail trade (till 2012) that have not yet been targeted in India as sectors competent for attracting FDI inflows, but these have contributed to FDI in China. China has, since 1998, stepped up its efforts to encourage foreign investments into technology development and innovation. Several incentives, such as import duty exemption for equipment and technology brought into China by foreign-invested research companies, tax breaks for incomes obtained from transfer of technology, and business tax exemption to foreign enterprises transferring advanced technology, are luring foreign investors to China. China most certainly attracted large sums of FDI in the manufacturing sector, a significant part of which could definitely be channelized to India had India not been plagued with inadequacies.

India's product reservation for the small-scale industry, stringent labour laws, inability of the firms to exit, if conditions so demanded (no exit policy), lack of decision-making authority with India's state governments and hence lack of competition among Indian states to attract FDI (as against China's provinces) were some of the key factors why India lost large sums of FDI. Fall in FDI in electrical equipment manufacturing in India has been due to the cheap Chinese goods flooding the market. The role of sub-national

government as a catalyst to FDI inflows has also been ignored in India while decentralization of FDI seeking and related powers has been given due importance in china. The Chinese government welcomes FDI and does not seek too much documentation for companies setting up ventures in China. Getting licenses is also easy for setting up a unit in china. Export-orientation in FDI in India and China- China has been successful in attracting huge export oriented FDI inflows in recent years.

China invited FDI to provide the capital and the expertise to achieve export competitiveness in the manufacturing sector with the key link of providing cheap labour . The foreign investors brought in the product design, specialized machine tools and capital goods, key intermediate products, and knowledge of world marketing channels. The Chinese assured these foreign investors certain key conditions for profitability, such as low taxes, reliable infrastructure, physical security, adequate power, decent logistics for the import and export of goods. India has large scale reservation in the small sector industries such as handicrafts which have large demand in the world market. SEZ's and EPZ's

SEZs, along China's coastline, were designed to give foreign investors and domestic enterprises favourable conditions such as import intermediate products and capital goods duty free for rapid export promotion and good infrastructure. India also had similar models of EPZ and Export Oriented Units (EOU). EPZs are located at various places including Cochin, Falta (near Calcutta), Kandla, Chennai, Noida, Santacruz (Mumbai), Vishakhapatnam and Surat. A unit could be set up in these zones subject to availability of space. Incentives provided to attract investment in these areas were 'zero import

duty', a 'special 10-year income tax rebate' and other incentives. Eight special zones failed to achieve the export targets.

Decentralization of decision-making authority was also a major reason for SEZ success in China. Another ingredient of infrastructure is the availability of power at competitive rate. Apart from cheap power there is no power failure in China, as in India. The EPZ's in India are one-third of the required size. In China all jobs are on contract basis, which stand terminated upon the expiry of the terms, which can be fixed/flexible or for a specific job. In contrast, the labour laws in India are extremely stringent and the Industrial Disputes Act, 1947 does not allow companies with 100 or more employees to retrench labour without seeking prior permission the concerned state government. EPZ's in India have performed poorly due to:-

Insufficient logistical links with ports and airport, Poor infrastructure in areas surrounding the zones (e. g. unpaved roads and poor Physical security), Government ambivalence and red-tape regarding inward FDI, Unclear incentive packages governing inward investment, and Lack of interest and authority of state and local governments, and the private sector, Compared with the central government, in the design, set-up, and functioning of the Zones. Unclear ownership of land- A major part of land parcels in India is subject to legal dispute over their ownership. This prevents to acquire land for retail; housing and the courts take an enormous time for clearing such cases.

As a result Indian developers have hard time raising collateral for loans against land for which they don't have a clear ownership. Revising the law on land construction would give a major push to the sluggish construction

industry of India. Parts of India are plagued by archaic laws such as ULCRA (Urban Land Ceiling Regulation Act) which created an artificial land scarcity leading to rising land prices further rising the cost of the housing Industry. Following Recommendations to improve FDI flows to India:- Apart from taking steps to improve infrastructural facilities and enhancing labour Market flexibility while the government has lifted sectoral caps for FDI over the last decade.

Policies have thus far been ad-hoc and a source of uncertainty. Particular attention should also be paid to the removal of restrictions on FDI in the Services sectors -- including telecoms, banking and insurance, aviation, etc - as this will help ease transactions costs for both consumers and business. The World Bank (2002) has in fact proclaimed that "in virtually every country, the performance of the service Sectors can make the difference between rapid and sluggish growth" One sector that should certainly get this automatic approval is the education sector. Currently there is no FDI in education Allowed. Since it is well known that the education sector in India has reached a plateau.

In terms of ideas or development, it is only fair that new ideas and methodologies from other countries are tried out. The SEZ'S and EPZ'S have failed to achieve their targets, for this the government must provide SEZs in strategic locations, close to ports or major industrial locations. Concurrent to this establishment of SEZs in strategic locations, the government should also provide all necessary infrastructural facilities to ensure the success of the SEZ's. The government needs to go beyond the current policy of only allowing SEZs in areas that are already owned by companies applying for the SEZ: in

effect, a SEZ should be like a huge industrial park rather than having one single company in it.

Three, focus should not just be on the absolute amount of gross FDI inflows but also the type. More specifically, while India has experienced an infusion of FDI inflows in recent times, a large portion of the new inflows have been in the form of M&A's. Given that the latter does not necessarily imply new capital infusion into a country, the macroeconomic consequences of the two types of FDI can be quite different. The focus should not just be on the amount of Greenfield FDI inflows but also the positive externalities to be derived from them, including in terms of technological development. The effectiveness of the Foreign Investment Implementation Authority (FIIA) needs to be enhanced.

Any investment promotion strategy must be geared towards the following: (a) image-building activities promoting the country and its regions and states as favourable locations for investment; (b) investment-generating activities through direct targeting of firms by promotion of specific sectors and industries, and personal selling and establishing direct contacts with prospective investors. India does have a vibrant manufacturing sector but that rarely comes out internationally because it gets drowned out by the more glamorous software and other service related sectors. This perception is a fundamental one and goes well beyond reasons such as red-tape, corruption, poor infrastructure though they are inter-related to an extent.

To get rid of this tag is easier said than done but the government can do more promotion activities to this end, preventing diverting this FDI to China. There is the desperate need to create a deep talent pool. This is inherently

dangerous for a country like India which has a tag of a services country; a sector that needs a deep talent pool to feed off. This lack of talent is reflected in the growth in wages which is one of the highest in the world. India has the highest wage inflation of any Asian economy. The one thing that makes India attractive is the cost arbitrage and if wages increase the way they are increasing, it is very likely that this arbitrage will disappear and along with it, valuable FDI dollars.

To this end, it is necessary to continuously monitor the quality of students as well as the quality of teachers in educational institutions. The table below gives the rise in wages in different sectors for year 2012. While many policy barriers have been removed on FDI in India, results have at times been disappointing due to administrative barriers at the state level as well as lack of coordination between the central and state governments. There need to be greater coordination between the centre and states to ensure that the substantial foreign interest in investing in India gets translated into actual investment flows to the State. An example of this is the proposed \$12 billion investment, India's single largest FDI investment, by South Korean steel giant, Pasco.

Pasco signed an agreement in June 2005 to set up a steel plant in Orissa but as of March 2008, the steel plant is yet to be start construction, let alone any operations. Every kind of problem ranging from political to environmental to allegations of land grabbing has affected this project. The main problem has risen from the allegation that they would make some villagers landless and Pasco cannot have a factory anywhere else because the raw material is in Orissa. This is a problem that the Orissa government could have easily

foreseen but many governments in India have a tendency to promise too much and do too little. This clearly has impacted credibility of many state governments.

India should continue to work towards developing a deep and liquid corporate debt market. India is one of the few countries with a major equity market but With a highly illiquid corporate debt market. A well functioning corporate debt market Does one major thing for companies looking to invest in India. It is very likely that when Companies are investing their money in India or in any other country, they are more Likely to use debt rather than their own cash. Therefore, they would go to debt markets In their countries of origin and raise money there. However, this could lead to a considerable exchange rate risk because FDI is usually long-term and there is no good way of forecasting exchange rate movements in the long-run.

If there a well functioning corporate debt market in India, it actually makes India that much more attractive. India should consciously work towards attracting greater FDI into R&D as a means of strengthening the country's technological prowess and competitiveness. Policymakers are looking at FDI as the primary source of funds. It is important to Keep in mind that FDI on its own is not a panacea for rapid growth and development. What India needs is to put in place a comprehensive development strategy, which Includes being open to trade and FDI. This ought to go a long way to fulfilling the Ultimate goal of permanently eradicating poverty over the medium and longer-terms.

India should remove the product reservation in small scale industries, bring in flexible labour laws, this will generate competitiveness in this sector which is critical for a growing economy. India has failed to evolve as inward FDI

manufacturing destination. Manufacturing investment has potentiality to develop ancillary industries also. There is a wide spread under employment in agriculture. Manufacturing sector has greater scope of low end, labour intensive manufacturing jobs for unskilled population when compared with service sector. The issues of geographical disparities of FDI in India need to address on priority. India is a quasi-federal country consisting of States and Union Territories.

States are also partners in the economic reforms, and should offer several tax incentives etc for attraction. Data on FDI reveals that India has increase largely due to Merger and Acquisitions (M&A's) rather than large Greenfield projects. Business friendly environment must be created on priority to attract large Greenfields projects. Regulations should be simplified so that realization ratio is improved (Percentage of FDI approvals to actual flows). To maximize the benefits of FDI persistently India should also focus on developing human capital and technology. M&A's not necessarily imply infusion of new capital into a country if it is through reinvested earnings and intra-company loans.

A Greenfield Investment is the investment in a manufacturing, office, or other physical company-related structure or group of structures in an area where no previous facilities exist. Governments should see that losing corporate tax revenue is a small price to pay if jobs are created and knowledge and technology is gained to boost the country's human capital. There is abundance opportunity in Greenfield Projects. But the issue of land acquisition and steps taken to protect local interests by the various state governments are not encouraging. MOU ArcelorMittal controversy is one of

the best examples of such disputes. Due to poor quality primary education and higher there is still an acute shortage of talent. This factor has negative repercussion on domestic and foreign business. FDI in Education Sector is less than 1%.

Given the status of primary and higher education in the country, FDI in this sector must be encouraged. The SEZ's and EPZ's of India have failed to achieve their export targets due to unclear rules and regulations by the government, overcrowding of units in these zones and poor infrastructure as discussed previously in the report. It is found that there are Lower indirect taxes in china, lower import duties on raw materials since the Government often sees that losing corporate tax revenue is a small price to pay if jobs are created and knowledge and technology is gained to boost the country's human capital, higher labour productivity encourage higher FDI's in china.

The Indian Government should also implement such regulations. In China, Foreign investment in research and development (R&D) and foreign enterprises transferring advanced technology to china are exempt from paying import duty; such policies aren't seen in India. In order to improve technological competitiveness of India, FDI into R&D should be promoted; FDI can be instrumental in developing rural economy. There is abundance opportunity in Greenfield Projects. But the issue of land acquisition and steps taken to protect local interests by the various state governments are not encouraging. 8. FDI in Retail(how it is good for the country):-

Small shops, street vendors and malls can all co-exist (as they are doing now): They all serve different needs, and different income segments. The FDI approval does state that " 30 per cent of the products must be procured

from small scale industries which have a total investment in plant and machinery not exceeding \$1 million. FDI in retail will expand consumer base. Some categories currently have no big players: There are some categories of stores that are just not present in India. The suppliers of e. g. -air conditioning units have increased but the food sector supplies remain traditionally the same. Having a Wal-Mart will cater to the increasing consumer base. FDI in India Retail should be welcomed as this will bring a lot of money in India.

Foreign Investment will help the government to build new infrastructure and improve rural infrastructure. Farmers will be the biggest beneficiaries from this move, as they will be able to improve their productivity and get high prices by selling their crops directly in the market to the large organized players. Government will also gain by FDI through transparent and accountable monitoring of goods and supply chain management systems. Products will be available to the consumers at reduced price since products will be purchased directly from the farmers and sold to consumers. This will provide lots of job opportunities to unemployed people in India.

It will provide more options to the farmers with less wastage of agriculture product. FDI in retail will increase the competition for Indian players pushing them to improve their products and services. The final beneficiary of this competition will be the consumers. We have enormous wastage in foods and vegetables because small stores and vegetable vendors cannot afford refrigerated trucks, or any refrigeration. The stores lose money, and so does the consumer (because a lot of the fruits/ vegetables spoil too quickly after purchase. Hence the State governments should go with this agenda instead

of opposing it and see the bigger picture. 9. McKinsey report on economic performance of India-

McKinsey Global Institute prepared a report on how the global economy works with a special focus on India which will be the most populated but remains one of the poorest economies. Special focus was given on the economic performance and growth potential of the country comparing its growth with its neighbour China. Following findings were made- A decade ago India and China had the same GDP per capital, but now India's GDP is only half that of china. Some of the factors preventing India's GDP to grow in comparison to China are Low Productivity-This arises due to regulations concerning markets and products, land market ownership distortions and government owned businesses since they protect most industries from competition.

Inequitable regulations-such regulations restrict competition thus reducing efficiency as seen in the telecommunication industries there private players have to pay a heavy licensing fees compared to government owned incumbents who do not do so. Uneven enforcement- the small scale industries steal power frequently compared to bigger more visible counterparts who can't do so. Reservation of products for small scale industries-Around 500 products are reserved for small scale industries (as of 2001), such reservations restricts these industries to achieve production efficiency. Licensing or Quasi Licensing-Several sectors such as dairy require a license from Government before starting production. These licensing authorities prevent private entrants into entering competition.

Government ownership of companies promote inefficiency and waste-their labour productivity levels are far below their private players- in telecommunications and electricity government control both the regulators and state electricity boards(SEB's) which are highly inefficient and lose around 30 % to theft compared to 10% of power lost by private players to theft. Poor infrastructure and less red tape in port management could greatly reduce customs clearance time. Unclear Ownership- A large proportion of land in India is subject to legal disputes over their ownership and the courts are very slow in resolving disputes. This prevents buying land for retail and housing. Counterproductive taxation-Low property taxes, ineffective tax collection, subsidised user charges for water and power leave the local governments unable to invest in infrastructure e. g. - in Delhi water is supplied at 10% of its true cost. MEASURES TO IMPROVE PRODUCTIVITY-

The following measures were suggested - removing reservations on small scale industries, establishing effective proactive and independent regulators, rationalising taxes and custom duties, removing restrictions on foreign investment and widespread privatisation which will boost competition, further improving the quality of products, and at times, has reduced the cost also. Removing the barriers to higher productivity, privatization and a more efficient taxation could save the government from what it loses now by providing subsidies to the state owned enterprises, helping it to reduce its burgeoning budget deficit. Increased Productivity and opening more sectors to FDI would also create new jobs, which is crucial for the second most populous country of the world. 10. Conclusion

India and China are exemplars of the changes brought on by globalization. They are two of the fastest growing economies in the world and possess two of the largest domestic markets by number of consumers. FDI has been a major contributor to both nations' growth, bringing in more than just investment capital. FDI has fostered the introduction of technology, human know-how, and helped to link nations internationally. India has complex FDI regimes that, while allowing for large nominal volumes of FDI inflows, has major flaws. India still protects large economic sectors from investment, is slow to approve foreign acquisitions of domestic firms (if at all), and is characterized by excessive bureaucracy.

The analyses in the current study suggest that: China's potentially huge domestic market is the major determinant of its inward FDI. Comparing to India, China's better performance in attracting FDI from was mainly due to its larger domestic market and higher international trade ties along with better infrastructure and less of red tapism. . . 10. References 1) Bajpai N and Dasgupta N," Multinational Companies and Foreign Direct Investment in China and India", Centre on Globalization and Sustainable Development (CGSD) Working Paper No. 2 2) Wei W," China and India: Any difference in their FDI performances? , Journal of Asian Economics, Vol-16 719-736(2005)) Bensidoun I , Lemoine F, " The integration of China and India into the world economy: a comparison", The European Journal of Comparative Economics, Vol- . 6, n. 1, pp. 131-155 4)http://www.investinginindia.in/ - FDI Website. 5)M. Shamim Ansari, M. Ranga," India's Foreign Direct Investment : Current Status, Issues, and Policy Recommendations", UTMS Journal of Economics, Vol. 1, No. 2, pp. 1-16, 2010

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