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Review of FDI Policies in India and China: Analysis and Interpretation

Chitranka K
Chartered Economist, Chartered PR, Prince2 Practitioner, INDIA

Corresponding Author: chithrank.kashimata888@gmail.com

ABSTRACT

Foreign Direct Investment (FDI) is a wide word that encompasses any long-term investment made in the host nation by a non-resident enterprise. Typically, the investment is undertaken over a lengthy period of time with the purpose of maximizing the host nation's advantages, such as superior (and cheaper) resources, consumer market access, or direct access to the host country. All talent improves efficiency. This long-term cooperation will benefit both the investor and the host nation. If the investor makes the same investment in his own nation, he will obtain a larger return, but the host country will profit by boosting the transfer of knowledge or technology to its workforce, putting more pressure on his local business to compete. Foreign firm that can develop the sector as a whole or serve as an example for other companies thinking about investing in the host nation.

Keywords— FDI, Policies, Global, Market

I. INTRODUCITON TO FDI

Foreign Direct Investment (FDI) is a wide word that encompasses any long-term investment made in the host nation by a non-resident enterprise. Typically, the investment is undertaken over a lengthy period of time with the purpose of maximizing the host nation's advantages, such as superior (and cheaper) resources, consumer market access, or direct access to the host country. All talent improves efficiency. This long-term cooperation will benefit both the investor and the host nation. If the investor makes the same investment in his own nation, he will obtain a larger return, but the host country will profit by boosting the transfer of knowledge or technology to its workforce, putting more pressure on his local business to compete. Foreign firm that can develop the sector as a whole or serve as an example for other companies thinking about investing in the host nation.

1.1 Types of FDI'S

By Direction

Outward FDI

With government backing, external foreign direct investment is safeguarded from all types of losses. A range of tax perks and incentives apply to these sorts of foreign direct investments. Outbound foreign direct investment, often known as "overseas direct investment," obstructs the covering of losses attributable to local sector and business subsidies.

Inward FDIs

FDI inflows can be helped by various financial variables. Examples include interest loans, tax benefits, subsidies, relaxation and restrictions. FDI expansion is hampered by factors such as different performance requirements and restrictions imposed by proprietary models.

Horizontal FDI is when a corporation invests in the same industry as its cottage industry.

Vertical FDI

Backward Vertical FDI: When an industry in another country supplies inputs for a company's local manufacturing process.

Forward Vertical FDI: When a company's domestic output is sold to an industry in another country.

By Target

Direct investment in new facilities or the expansion of existing ones is known as seed investment. Greenfield investments, which generate new production capacity and employment, transfer technology, and lead to global market links, are the major focus of marketing operations in the host nation. Increased employment (typically at better pay than local enterprises), investment in research and development, and extra capital investment are all benefits of investing in greenfield (or sourcing) for regional and national economies, according to the International Investment Organization. Greenfield investments come with the risk of losing market share to local rivals. Another critique of greenfield investments is that profits seem to go exclusively to multinationals' headquarters, bypassing local economies. Local industries, on the other hand, are believed to return 100% of their earnings to the local economy, according to opponents.

Mergers and Acquisitions

The most typical kind of foreign direct investment is the transfer of existing assets from local corporations to foreign companies. When the assets and operations of firms from many countries are combined to establish a new legal entity, it is known as a cross-border merger. this is called border consolidation. Purchases between borders take place when the assets and activities of the local company are transferred to a foreign company and when the domestic company becomes a subsidiary of the foreign company. However, mergers and acquisitions accounted

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for significant foreign direct investment, with approximately 90% of FDI in the United States until about 1997. Mergers are the most common method of foreign direct investment for multinational companies.

By Motive

From the standpoint of the investing business, FDI may also be classified according to the motivation for the investment:

Resource-Seeking

Investments are aimed at obtaining more efficient production resources than those available in the company’s local economy. These resources may not be available in home economics under certain circumstances. For example, in the Middle East and Africa, cheap labor is sought for natural resources, as well as in Southeast Asia and Eastern Europe.

Market-Seeking

Investments are made with the goal of breaking into new markets or sustaining current ones. This sort of FDI may be employed as a defensive tactic; he claims that corporations are more likely to be driven towards this type of investment rather than generating anything new because they are afraid of losing market share. This sort of foreign direct investment was typified by foreign mergers and acquisitions in the accounting, advertising, and legal industries in the 1980s.

Efficiency-Seeking

Investing in economies of scale and scope as well as hoping to maximize efficiency by reaping the benefits of co-ownership. It is believed that this type of foreign direct investment is generated by investing in resources or researching the market with the aim of increasing the profitability of the company.

1.2 Methods of foreign direct investments

Using one of the following techniques, a foreign direct investor may achieve 10% or more of a company's voting power in the economy:

- By purchasing shares in a connected company
- By setting up a subsidiary or wholly owned company
- By participating in a joint venture with another investor or company
- Merging or acquiring an unrelated company

Foreign direct investment incentives may take the following forms:

- Holidays from paying taxes
- Low rates of business and personal income taxes
- Zones of special economic significance
- Preferential tariffs
- Soft loan or loan guarantees
- R&D support
- Investment financial subsidies
- Relocation & expatriation subsidies
- Free land or land subsidies
- Subsidies for infrastructure
- Subsidies for job training and employment

Problem Statement

Financial status is affected by various factors. FDI is one of them. As a result, The influence of FDI on economic change must be investigated.

Objective

The study covers the following objective

1. To evaluate the impact of FDI on the Indian Economy and Chinese Economy. 2. To study the trends and patterns of flow of FDI in India and China.

Significance/Importance of the Study

India needs FDI because it is a vital catalyst for economic progress and an important secular economic resource for any developing country like India. Foreign companies investing in India will benefit from cheaper state salaries by acquiring technology that will help create employment opportunities for the citizens of the state.

Because of the government's favorable policy framework and the improving economic environment, foreign cash continues to come into India. The government has made a number of initiatives in recent years, including relaxing limits on foreign direct investment in military, oil refineries run by Prince Sultan University, telecommunications, electricity exchanges, and stock markets.

II. RESEARCH CONTEXT

Research Methodology

AIM: To determine the link between FDI and the Indian economy's rising patterns.

PRIMARY SOURCE: In this study, it is not applicable.

SECONDARY SOURCE:

The current study is analytic in nature and uses secondary data. The Ministry of Commerce and Industry, Government of India, the Indian Economic Monitoring Center, the Reserve Bank of India, and the World Investment Report provided secondary data. It's a time series data collection that spans the years 2017 through 2021.

III. LITERATURE REVIEW

Overview

In contrast to other studies and its extensive research, it discovered the development and rise of inbound FDI in China and India. The literature on Chinese and Indian external FDI is sparse and needs to be developed further. Chinese and Indian direct investments overseas have been studied in several published research publications, and a few of these studies have sought to

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investigate the causes behind this. Research on FDI flows into India and China as opposed to FDI flows out of these countries has been extensive. why do companies invest in foreign direct investment? "FDI as a technique of transferring tangible and non-tangible assets to organise worldwide production" was first mentioned in a PhD dissertation by Hymer (1959).

Brief History and Background of FDI

According to Maheshwari (2010), the study's goal is to start conversations about standardising the approach used to measure international FDI. In order to accurately portray a country's investment environment and provide useful information for investors from other countries, it is essential to adhere to a standard methodology. China and India use two distinct techniques to calculate FDI. On the other hand, China has added non-FDI items to its FDI account. FDI inflows reported in China were increased by the inclusion of commodities other than stocks. As a result of the generally reported increase in FDI, China is expected to be more attractive to foreign investors than India. When the standards change, the gap between FDI in China and India will shrink significantly.

A sector level study of inbound FDI in the BRICs by Duan (2010) analyses and explains the causes of general trends and industrial patterns in the BRICs. The inflow of foreign direct investment into the BRIC countries is on the rise. However, the inbound FDI trends are distinct from one another. Most foreign direct investment (FDI) has gone into the tertiary sector over the last decade, whereas it has been sparse in Brazil, Russia, and India's other three economies. Despite this, China's inbound FDI patterns are unique, with the secondary sector taking the lion's share of the investment and the primary and tertiary sectors receiving just a little amount. For the BRICs, the three key elements that influence inbound foreign direct investment patterns are the availability of resources, as well as the business climate. As a result, it fills a need in the study of inward foreign direct investment (FDI) patterns in BRIC countries. It's still a matter of theory when it comes to studying the BRICs' industrial investment trends.

Impact of FDI

"Benefits and Disadvantages of FDI in China and India," according to Bose (2012), has examined the advantages and disadvantages that international investor face while investing in India and China directly. When it comes to FDI in such nations, a descriptive and exploratory research study was conducted. Investors can take advantage of India's large market size, a fast growing economy, a wide range of resources, cheap labour and public-private partnerships; however, there are some drawbacks such as bureaucracy, power shortage and ethnic diversity that can be found in the country. FDI, regulatory framework and investment protection are also available. Among the many advantages of doing business in China are the country's enormous size and rapid growth, the abundance of resources and the low cost of labour in the country, the enormous progress made in related infrastructure, the country's openness to international commerce and simple access to international markets, the regulatory framework's development and adjustment, and the encouragement of foreign investment However, there are certain drawbacks, such as the regulatory burden, information flow limitations, and a lack of English literacy. China and India pose certain difficulties for operators. but the advantages far outweigh the downsides in terms of overall efficiency and profitability. Because of this, international investors will continue to flock to these two locations, and they will continue to be the most desirable places to invest and reap future dividends (Chen et al., 1995).

Does FDI Promote Economic Growth in Developing Countries?

The "effect of foreign direct investment on economic development," according to Ray (2012), is critical to the economic success of emerging nations like India. The co-integrated method is used in this research to examine the link between foreign direct investment (FDI) and economic development in India from 1990-1991 to 2010-11 in order to determine how FDI influences economic growth in India. The basic lower squares approach is used for empirical analysis. GDP and foreign direct investment are positively associated using this strategy. For static data, the enhanced dickey-fuller test is utilized. The difference is utilized if the data does not seem to be static. The first system, as proved by the Kwatkovsky, Philips, Schmidt & Shin (KPSS) unit route test, requires both economic development and foreign direct investment. Johansson The findings of the co-integration test show that the two have a long-term equilibrium connection. There is a causal link between economic advancement and foreign direct investment, according to the Granger causal test. To prove a long-term association between FDI and GDP growth, all four steps of the ganger test must be satisfied. The error-correction component was statistically significant and produced a negative signal for the long-term equilibrium connection between independent and dependent variables, according to error-correction estimates. Infrastructure, human resources, and local entrepreneurial improvements, as well as a stable macroeconomic environment and advantageous investment conditions, are all fantastic methods for FDI to help India expand economically.

IV. EMPIRICAL LITERATURE ON FDI BASED ON INDIA AND CHINA

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Effects of FDI on all other countries compared with India and China

Rank	Country	2017-18 (April-March)	2018-19(April-March)	2019-20(April-March)	2020-21(April-March)	2021-22(April-August)	Cumulative Inflows (April '20 August '21)	% to Total Inflows
1	Mauritius	44483	50794	49633	31855	26634	269395	41
2	Singapore	12319	15727	11295	7730	13350	66407	10
3	USA	4377	8002	9230	5353	2066	44609	7
4	UK	4690	3840	3094	3434	11311	40744	6
5	Japan	3336	1889	5670	7063	7855	31813	5
6	Netherlands	2780	3922	4283	5501	3207	28834	4
7	Cyprus	3385	5983	7728	4171	1830	23778	4
8	Germany	2075	2750	2980	908	5737	19113	3
9	France	583	2098	1437	3349	1668	11936	2
10	UAE	1039	1133	3017	1569	376	8968	1
	Total FDI Inflows	98664	123025	123378	88520	77864	658586	

Fundamental Policies of FDI

Retail Trading (except single brand product retailing)

A. Gambling and betting, which includes casinos and other similar establishments.

B. Lottery business, which includes government and private lotteries, as well as internet lotteries.

C. Transferable Development Rights (TDR) trading (TDRs)

D. Chit money

E. Nidhi Company

F. Manufacture of cigars, cards, small cigars, cigarettes, tobacco and tobacco substitutes G. Building a farm house or real estate business

H. In the lottery industry, as well as gambling and betting operations, foreign technological involvement in any form, including franchise, trademark, brand name licensing, and management contract licensing, is unlawful.

I. Activities and areas not available for private sector participation, such as nuclear power and rail transport (other than mass rapid transit systems).

Historical Background and National Goal

In the past, most of India's economic policy changes have been the result of crises.

In response to severe food shortages in the late 1960s, the government finally turned its attention to agricultural changes after decades of emphasis on the industrial revolution in their five-year plans. This ultimately led to the birth of the Green Revolution. Economic changes like as lower trade barriers, lower direct tax rates for people and corporations, and an end to "licence raj," all resulted from the government's famed "Hindu" growth rate. Investment from outside was also encouraged by the administration. The Ministry of Commerce and Industry's Industrial Policy and Promotion Division is in charge of India's foreign direct investment policy.

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An overview of India's existing policies may be found in the "Consolidated FDI policy" provided by the department previously mentioned: There are two ways to become involved in the stock market:

a) Automatic Route: Non-resident investors do not require prior authorisation from the Reserve Bank of India or the Indian government to participate in specific areas through this method.

b) Government Route: This option requires prior clearance from the Government of India through the Foreign Investment Promotion Board (FIPB).

The percentage of FDI cap in different industries, as well as the pre-defined entrance channel, are shown in the table above.

V. HISTORY OF FDI IN INDIA

Investment made by an entity outside of the nation where the investment is made, either by purchasing a firm or growing its operation in the native country, is known as foreign direct investment.

Because FDI does not generate debt, is non-volatile, and returns are linked to the success of the projects backed by foreign investors, FDI inflows are often favoured over other forms of external financing.

An additional benefit of foreign direct investment (FDI) is that it helps bring new technologies and management experience into a nation as well as facilitating the creation of jobs and a better infrastructure.

For India's economic growth, FDI is a significant source of funding. Taking advantage of India's lower salaries and rapidly evolving economic climate, foreign corporations are making direct investments in the country's burgeoning private entrepreneurial firms. FDI has continuously risen in India since the 1991 economic crisis, which has resulted in more than one crore (10 million) employment being created.

India's FDI policy was revised on April 17, 2020, according to the Ministry of Industry

Promotion and Internal Trade, to shield Indian firms from "opportunistic takeovers / acquisitions of Indian enterprises owing to the present COVID-19 epidemic." The new foreign direct investment policy will not limit any markets, but it will now be overseen by the Ministry of Commerce and Industry.

VI. HISTORY OF FDI IN CHINA

Deng Xiaoping's emphasis on luring foreign investment gave the phrase "self-reliance" a new connotation when he came to power in 1978. Following Mao Zedong's departure from the self reliance principle, Deng ordered that the Chinese Communist Party's 1949 history be examined and the role and accomplishments of Mao Zedong be reviewed. Resolution on various problems in our party's history since the formation of the People's Republic of China was approved by the Eleventh Central Committee of the Chinese Communist Party in 1981 during its Sixth Plenary Session.

According to the decision, the Nationalist Party and Japan overcame the ban on military wars by adhering to the concept of self-sufficiency. Success in China's revolution was based on the "principle of independence and autonomy" and "on the hard work of the people of China as a whole". The Communist Party was committed to sustaining economic progress in the years after 1949. In 1979, after two years of "shortcomings and failures", the central authorities devised new plans to address and eliminate the impact of the "left" deficiencies in this area.

Prior to Deng's announcement in 1981, political historians such as Frederick C. Tevez and Warrenson argue that Hua Gufeng, a loyal Maoist, had previously adopted some of the same ideals that Deng later adopted in the 1980s. It is impossible to say that Hua was a transitional person before Deng's reform and full-scale opening because "in all major respects - a highly ambitious drive for growth, a new expansion approach to open up to other parts of the world, limited steps towards management reform - Hua and Ding are in agreement. For example, Hua itself Was responsible for approving the establishment of free trade zones when it came to prosperity and foreign trade, and after the imposition of restrictions on the importation of certain goods in 1972, Mao personally approved his expansion of foreign trade in the 1970s. Were sympathetic to the acquisition of knowledge.Before Deng came to power, he misunderstood self sufficiency and sought foreign money and technology.

VII. RESEARCH RESULTS AND INTERPRETATION

In this research, we investigate empirically how China and India's FDI policies affect foreign firms' perceptions of the business climate. Based on our comparison of the policy structures of the two economies, we have come to the conclusion that foreign-owned enterprises (FIEs) in India's host nation are more concerned about government rules and the legal environment than indigenous firms are. India's FDI liberalisation has trailed domestic liberalisation and the reduction of complicated procedural regulations, which is consistent with these results.

Analysis of China's foreign investment policies and regulations shows that, compared to local firms, FIEs rules and compliances in China are typically more helpful and investor-friendly in supporting company growth. on the other hand." As a result, there is no distinction between FIEs and local enterprises in China when it comes to the

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perspective of legal and financial institutions. For the two greatest developing countries, we want to offer a quantitative evaluation on the impacts of FDI policies and to comprehend the different rules and procedural compliances that come with it.

Multi-brand retails in China are a clear illustration of simplified procedural rules compared to Wal-Mart, a prominent multi-brand retail operator in India.

A broad scale comparison shows that China's foreign direct investment policy favours investors more, with the goal of ensuring the effective and efficient development of a nation through non commercial borrowings. However, there are some minor flaws in the policy as articulated, including the priority given to domestic liberalisation. This needs to be rectified immediately by Chinese policy makers. at the national level. Non-commercial borrowings should be a top priority for India in their next stage of reforms, if efficiency and effectiveness are to be ensured via the use of non-commercial borrowings.

VIII. CONCLUSION & DEFINITION OF TERMS USED IN THE PROJECT

Foreign Direct Investment (FDI)

The purchase of a share in a firm or investor company based outside the country's boundaries is known as foreign direct investment (FDI).

The word alludes to a corporate decision to buy a significant share in a foreign firm or to completely extend its activities into another region. It is not often used to signify the acquisition of shares in a foreign corporation.

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