Foreign Capital inflows to India and China–A Tale of Two Economies

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Abstract

FDI flows are generally believed to be influenced by economic indicators like market size, export intensity, institutions etc. irrespective of the source and the destination countries. This paper looks at the FDI inflows using an alternate approach based on the concepts of neighborhood and extended neighborhood. Using a database, the study shows that the neighborhood concepts are widely applicable in different contexts – particularly for China and India. The study finds that there are significant common factors in explaining the FDI inflows in select regions. While a substantial fraction of FDI inflows may be explained by select economic variables, the country-specific factors and the idiosyncratic component account for more of investment inflows to India and China. The findings may have strong relevance in explaining possible Indian and Chinese investment in other economies.

I
INTRODUCTION

The existing studies (for example Agenor, 2001; Obstfeld, 1994) have emphasized the role of select economic factors that explain investment flows. This aspect appears to be remarkably weak on some of the important questions that confront nations. There are areas where we have little or no theory to go by, but have enough guesses about how one action may affect another.

The temptation to examine a modified version of Isaac Newton's Law of Gravitation to predict movement of people, information, investment and commodities between cities and even continents has been strong in this context. The gravity model, as social scientists refer to the modified law of gravitation, takes into account the population size of two places and the distance between them. Since large places attract people, ideas, and commodities more than smaller and places closer together have a greater attraction, the gravity model incorporates these two features.

The gravitational attraction between two continents, countries or regions with similar cultures and roots may explain our neighborhood model. Such attraction, in turn, can explain certain economic flows such as investment, market access and trade.

Section II lists the various neighborhoods that may explain foreign direct investment (FDI) flows. Section III elaborates the four neighborhoods while sections IV and V study the extended neighborhoods of India and China respectively and analyse FDI inflows to these countries using their extended

neighborhoods. Section VI concludes after contrasting the neighborhood approach with some other similar approaches discussed in the literature.

II

THE NEIGHBORHOODS

Historically, foreign direct investment has flowed into four distinct neighborhoods:

1. The original neighborhood – direct investment of USA in the manufacturing Industry of UK;

2. The intermediate neighborhood – the formation of the European Common Market;

3. The extension of the intermediate neighborhood – the changing pattern of Foreign Direct Investment inflows;

4. The extended neighborhood – the role of ethnicity when FDI became explorative and brought changes in repetitive and local experimentation with new alternatives in its wake.

III

THE EVOLUTION OF THE NEIGHBORHOODS

Historically, foreign direct investment (FDI) inflow in the original neighborhood was strongly influenced by technological and economic hegemony that created competitive advantage for USA as compared with Western Europe at the end of the Second World War. The end of the war presented an opportunity for the

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USA. This stemmed from the fact that the economies of Western Europe had been battered during the war and so there was considerable opportunity for the expansion of US foreign direct investment. The United States has been a continental-sized country with a huge 'home market' and a substantial share of the world economy that made it even more difficult for other countries to compete with the USA.

The original neighborhood was also influenced by historical factors such as 'preferred destination' outside North America. The United Kingdom was the single most important foreign direct investment inflow destination after the World War II for two reasons: (i) the infrastructure and the production capacity of the UK were not damaged or disorganized and (ii) there were sequential flows of foreign investment because of the similarity between the US and the UK firms in terms of product-markets, human resources, production technology, consumer tastes and culture in the most general sense (Davidson, 1980; Kogut, 1983).

Satisfying strategies also played an important role in terms of foreign direct investment in the original neighborhood. Teece, *et al.*, (1994) have identified two characteristics of satisfying strategies – that is, repetitive nature and local scope of experimentation. The repetitive nature suggests that private capital flow experience will be directly related to their existing organizational routines. The local scope of experimentation implies that near neighborhood investment is preferred (Levinthal and March, 1993). It is the case that capital inflow in the original neighborhood was exploitative in nature as opposed to exploratory since it added to the existing capital inflow without fundamentally changing the

nature of investment patterns. Exploratory capital inflow implies changes in repetitive and local experimentation with new alternatives. As Levinthal and March *ibid.* have argued, the satisfying strategy of a firm should balance between exploitative and explorative since both are *sine qua non* for present and future viability of firms. Hence we turn our attention to the intermediate neighborhood. Interestingly, the USA was the world's biggest borrower in 1913. It had begun investing abroad, predominantly in its local neighborhood – Canada, Mexico and the Caribbean (Twomey, 2001).

Intermediate Neighborhood

Foreign direct investment inflow in the intermediate neighborhood was strongly influenced by economic conditions, notwithstanding the opportunities for higher growth in this neighborhood. Initially, the intermediate neighborhood had market conditions with which US firms were not familiar. Other factors included differences in language and business practices, lack of similarity in the GDP per capita, finite capital available for foreign expansion and high costs of establishing plant capacity in the intermediate neighborhood relative to the original neighborhood. It was the case that US firms preferred to exploit markets with which the net start-up costs were low as opposed to new market with potential growth and opportunity to maximize profit (Dunning, 1993). However, foreign direct investment inflow into the intermediate neighborhood improved as the economic conditions were becoming similar to the original neighborhood. As in the case of the original neighborhood, it was exploitative in nature.

Another important factor that influenced FDI inflow into the intermediate neighborhood was the formation of the common market by the EC-6 which provided extra incentive to establish or expand activities for the US firms. Increased FDI inflow was due to the growth of the intermediate neighborhood economies relative to the original neighborhood as well as the increasing homogeneous market conditions in the intermediate neighborhood.

The preferred destination outside the original neighborhood also played a significant role. Hagedoorn and Narula (1995) have provided empirical data to demonstrate that both the GDP growth rate and the foreign direct investment growth rate of Germany were higher than those of EC-6. What this suggests, as they argued, was that US companies preferred to invest in Germany rather than the other members of the EC-6. Foreign direct investment in Germany grew at over 4.3 times the rate of real GDP (1972-1982), compared with 3.3 times recorded by EC-6 as a whole and US multinational firms were treating Germany as original neighborhood.

Finally, one factor that influenced FDI inflow in the intermediate neighborhood was the process of integration. As the intermediate neighborhood moved towards single market, preferred destination became less important. Due to market growth potentials of this neighborhood, US companies started to diversify their production activities to exploit the advantage of the single market (Hagedoorn and Narula *ibid.*).

Extension of the Intermediate Neighborhood

Historically, there have been two types of foreign capital inflow to the extended intermediate neighborhood. These are specific and non-specific foreign capital.

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Specific foreign capital inflows are in the form of equity or debt specific to a particular investment project; specific in the sense that the funds would not enter the country unless that particular project was undertaken and which do not affect the general borrowing ability of the country. The non-specific or nationally controlled foreign capital are "borrowed on the basis of the general credit worthiness of the country, fungible between alternative investment projects and constitute part of the general fund of investible resources" (Pursell, 1981).

Knowledge and practices – technical, management, and marketing – without which the project would not be undertaken, has influenced private capital inflows to this neighborhood. Among the several forms that flow of private capital inflow can take, trend in this neighborhood drifts towards foreign direct investment (FDI), particularly in the manufacturing sector, for the following reasons: First, FDI by its very nature entails the identification of an economic opportunity, the formulation of a productive project and its efficient implementation. Second, there is the argument that FDI can bestow substantial benefits on the host country where domestic management skills and entrepreneurship are embryonic and where there is no other way of organizing large scale manufacturing. By implication, FDI is especially suitable for developing countries where technology, human skills and entrepreneurship are as scarce as lack of capital.

FDI inflow in the extended intermediate neighborhood has been significantly influenced by financial integration or globalization of financial markets. Although there is evidence of large net capital flows from European countries to

countries in the periphery for financing governments or railways in the pre-1913 period, portfolio investments were notably absent, and the flows were long-term compared with the much larger relative volume of short-term flows today (Bordo, Eichengreen, and Irwin, 1999). The process of global financial integration has been fuelled primarily by the liberalization of the markets. Bacchetta and Wincoop (1998) have shown that "gradual nature of liberalization combined with the costs of absorbing large inflows in emerging economies leads to rich dynamics of capital flows". The economic and social survey of Asia and the Pacific (ESCAP) shows that the stock markets have assumed an increasing role in mobilizing domestic resource and providing a wider range of financial services. This has been, the survey argued, due to the deregulation, liberalization and other policies to foster the development of the stock markets. Marston (1997) also linked the progress made in integrating the financial markets of the major industrial countries – Britain, France, Germany, Japan, and the United States to deregulation and liberalization. He argued that deregulation and liberalization succeeded to an extent as interest rates in a single currency are nearly the same regardless of whether they are offered in national or Euro-currency markets. Bekaert, Harvey and Lumsdaine (1999) studied the interrelationship between capital flows returns, dividend in 20 emerging markets and concluded that after liberalization, equity flows increase by 1.4 per cent of market capitalization.

Capital inflows to the extended intermediate neighborhood has also benefited from technological progress that improves the timeliness, accuracy, and analysis of information. Improved information and communications technology have also played major role in financial integration. Present information

systems compute and store data more rapidly, and communications networks have extended their ramifications and augmented their capacity while more reliable data exchange protocols have made it possible to connect computing machines in more efficient ways.

Technological innovation and increasing cultural ties between the developing and industrial countries, has increased the range and variety of participants among emerging market countries in recent cross-border capital flows. Similarly, in many developing economies the private sector as well as the share of total capital flows that go to private borrowers is growing (Eichengreen, 1999).

Extended Neighborhood

So far our discussion of FDI inflows has focused on three types of neighborhoods. We have learnt that FDI inflows demonstrated a preference for engaging in the United Kingdom as well as Germany, with which the US firms had the initial experience. With the formation of the EC-6, they started to diversify their production activities in order to take advantage of the single market. Likewise, at the end of the 1980s, US private capital inflows (in particular FDI) had no particular preference for either the UK or Germany and the distinction between the original neighborhood and the intermediate neighborhood had largely melted away.

To start with, we argue that the FDI inflows to both the original and the intermediate neighborhoods attained their peak at the end of the 1980s. Hence FDI inflows to the extended neighborhood became explorative and brought changes in repetitive and local experimentation with new alternatives in its

wake. Similarly, linear approximation of FDI in terms of exploitation became increasingly inaccurate as the neighborhood was extended. In this case, FDI reduced to identifying some critical variables that would make producer(s) to become competitive in the extended neighborhood. Put differently, ability to compete started depending on the use of techniques, skills, and organizational forms compared to international levels of cost, quality, flexibility, and delivery (Lall, 2001).

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INDIA AND THE EXTENDED NEIGHBORHOOD

Table 1 presents the principal sources of FDI in India during 1979-2000 and the sub periods 1979-1986, 1987-1990 and 1991-2000. The average FDI per annum during the entire period in India has been reported to be US$3463 million. The largest annual average investment is however, reported to be US$7956 million during the sub-period 1991-2000. Figure 1 shows the sources of FDI in India for the period 1979-2000 in the form of a pie-chart.

The USA appears to be the largest investor in India both during the sub-periods and the entire period (from US $119.47 million to US $20187 million). The FDI inflows from the US constitute about 17 percent of the total FDI in India during 79-86. The percentage share has improved significantly to an average of 28 per cent during the period 1991-2000. The effects of reforms on trade and investment relations with the United States have been profound. It is now not only the largest investor country in India, but also its largest trading partner.

It appears that most of the FDI inflows to India came from the original neighborhood (USA, UK and Germany). Interestingly, Mauritius is the second largest source of FDI inflows to India in recent times. One possible explanation for the dominance of Mauritius is the double taxation treaty between the two countries, which favors routing of investment through this country. Perhaps the Indian policy makers responded positively to the role being played by overseas Indians (or persons of Indian origin in Mauritius). It can also be seen that the inflows from Japan, United Kingdom, the Netherlands, and Germany are steadily increasing during the later periods. The investment made by the Non-resident Indians (NRIs) was as much as US$2965 million (4 per cent).

Before proceeding further, it is pertinent to mention here that the FDI figures reported for India and China (for example in Tables 1 and 3 respectively) are not directly comparable. This is because many developing countries do not follow the IMF guidelines (IMF, 1993) completely while compiling and reporting their FDI data. While it is widely recognized (Kumar, 2003) that the FDI gap between China and India may not be as large as suggested by official figures, it is only recently that the wrong signals conveyed to potential investors and the consequences thereof are being appreciated (Srivastava, 2003).

Table 2 presents the distribution of FDI approvals according to the industrial sector in India during the period 1991-2000. It is interesting to note that unlike China, fuel and power sector dominates (about 28 per cent of total investment) in India. The telecommunications sector too contributes about 19 per cent of the total investment during the period 1991-2000. A summarized diagrammatic representation of this distribution is shown in Figure 2.

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India has excelled in the area of computer software and has evolved as an Information Technology hub for the world market. In recent times, 60 per cent of the total output of the IT sector is exported; another quarter of the output produced is shared between the parent multinational corporations (MNCs) and affiliates of the parent of the MNCs. On the other hand, 60 per cent of the output produced by the MNCs in all other sectors is sold in the local market providing a stronger argument that the size of the Indian domestic market will continue to play a significant role in attracting FDI (UNCTAD).

Since 1991, India has encouraged foreign investment into infrastructure but the demand for infrastructure services is still not being met. This has been blamed on skewed investments in terms of concentration in consumer durable sectors (where it is quick-yielding and withdrawal is easy) as opposed to infrastructure (investment is of long-term nature and the amount of investment needed is very high). Maitra (2003) reveals that shortage of power is estimated at about 10 per cent of the total electrical energy and approximately 20 per cent of peak capacity requirement. India's per capita electricity consumption is very low – 270 kilowatt hours/year as compared to 480 for China. India seems to have neglected the basic infrastructure such as railroad, power, road, and water management. On the whole, the emphasis on modernizing its basic infrastructure has been rather mild, whereas this could have been the priority in order to generate employment in both rural and urban areas.

Three types of investment projects have attracted FDI inflows in to India. The first includes projects that are invested in by the European investors. They are concentrated in the intermediate goods and machinery and equipment sectors.

The EU accounted for 26-27 per cent of India's exports and 24-29 per cent of the imports during the period 1990-91 to 1998-99.The second are from North American firms, oriented towards IT and financial services sectors. Firms from USA accounted for 14-21 per cent of India's exports and 8-12 per cent of India's imports during the period 1990-91 to 1998-99. The third are from Japanese and East Asian firms concentrated in the old economy machines and equipment sector and in the new economy IT sector (Bhaumik *et al.*, 2003).

The FDI inflows are strongly influenced by India's willingness to adopt established foreign technology and management skills. It may be argued that transfer of technology and know-how is at least as likely to have an impact on India's future growth as the quantum of FDI. The issues of technological and managerial skills have been subjects of debate. Studies support the view of very little technological content in FDI investments – in particular hardware transfer. A negligible proportion of the firms spend a significant fraction of their turnover on training hence the absolute level of knowledge and know-how spillover from FDI is not significant in India. As we have seen in the case of China, firms investing in India also have very small budgets for R&D. It is the case that the extent of transfer of cutting edge technology to India, and the extent of spillovers by way of enhancement of skills of the labor force will remain slow for many years ahead.

V

CHINA AND THE EXTENDED NEIGHBORHOOD

On historical grounds it can be argued that China during the first half of the twentieth century was a proto-colony; certainly a major part of the expansion of

foreign investment in China after World War I was the result of Japanese colonialist policies in Manchuria and the treaty ports.

In 1978, after nearly 30 years of largely self-imposed isolation, China finally seemed ready to rejoin the world economy. In the domestic front, the need for economic adjustment was felt due to a variety of reasons. For example, the per capita GNP had grown since 1957 at an average annual rate of 2.5 – 3.0 per cent, well below the average for China's neighboring countries such as Japan and South Korea. Likewise, total factor productivity of the Chinese industry had either been stagnant or actually declined since 1957 (Kamath, 1990). By 1978, Deng Xiao-ping was emerging as post-Mao China's paramount leader. At the Third Plenum of the Chinese Communist Party's Eleventh Central Committee on December 1978, Deng successfully put economic reforms at the top of Beijing's agenda. Perhaps most importantly, he gained support for sharply reversing the Maoist policy that had explicitly rejected on nationalistic and ideological grounds relying on capital inflows from capitalist countries. A policy of 'open door' (Kaifang Zhenze) was formally adopted by the Central Committee due to the growing importance of foreign capital and advanced technologies to China's own drive for modernization.

At the second session of the fifth National People's Congress in July 1979, the 'Law of the People's Republic of China on joint ventures using Chinese and foreign investment' was adopted, granting foreign investment a legal status in China (Kamath, 1994). By 1980, four special economic zones (SEZs) had been established along the southeast coast – Shenzhen, Zhuhai, Xiamen, and Shantou. In addition to attracting foreign capital and advanced technology,

these SEZs, according to an informed observer, were intended to serve at least two other very important purposes as well. First, they would serve as the testing grounds for bold, experimental economic and social reforms. Second, their locations – Shenzhen right next to Hong Kong, Zhuhai adjacent to Macao, and the other two opposite Taiwan – suggest that they were chosen to facilitate the eventual reunification of China. In December 1982, the decision to open up China to the world economy was formally included in the 1982 state constitution adopted by the sixth National People's Congress (Cheng and Zhao, 1995).

In 1984, the concept of SEZs was extended to another fourteen coastal cities and Hainan Island. In 1985, three 'development triangles' – the Yangtze River delta, the Pearl River delta in Guangdong, and the Min Nan region in Fujian – were also opened to foreign investors. In 1986, new provisions were made for the encouragement of foreign investment, of which the more important ones included: reducing fees for labor and land use; establishing a limited foreign currency market for joint ventures; extending the maximum duration of a joint-venture agreement beyond 50 years; and permitting wholly owned foreign subsidiaries. Likewise 'Cooperative joint ventures' law was passed in 1988 in order to improve the investment climate in China. In 1995, the concept of SEZs was extended to the Shanghai Pudong New Area, which is about the size of Singapore (Banik, 2003).

During the period 1979-2000, a total of US$348300 million FDI was invested in China, about US $174099 million (50 per cent) of which was accounted for by Hong Kong and Macao. The share of Japanese, Taiwanese and American

investment in China remains more or less constant during the period. The average investment per annum was about US$16585 million (Table 3).

At the initial period of opening up of the Chinese economy, only the neighboring countries invested in the coastal regions (SEZ) due to investment friendly policies adopted by the government. However once the success cases were demonstrated across regions other countries too invested due to factors such as export-linked investment and the large market size. Indeed, the investment from the US and Europe made a significant contribution to the total investment in the country in recent times. Interestingly, non-resident Chinese population appears to be the major investor in China. It is imperative to mention here that the non-resident Chinese are mainly businessmen, with a strong representation of billionaire tycoons in Hong Kong, Macao and other South-East Asian countries (Howard and Banik, 2001a; Howard and Banik, 2001b; Banik, 2003, Banik and Bhaumik, 2006). Figure 3 shows the major sources of FDI in China during 1979-2000 based on the data shown in Table 3.

The point in this context is to negotiate between the national and the global, as well as the historical and the contemporary diasporic. In order to gain more insights, one may analyze the basic characteristics of Chinese business communities such as the nature of Chinese business people, their style in order to manage organizations and then, their effectiveness and efficiency. Table 5 presents a few insights in this context.

For all practical purposes the Chinese diaspora has been the region to south of them, surrounding the South China Sea. Historically, the Americans went west, the Russians east and the Chinese south. Redding (1993) made an interesting

observation in this context. To quote, "… the Chinese who moved have remained in some deep and significant sense still Chinese; the majority of them have not psychologically left China, or at least not left some ideal and perhaps romanticized notion of Chinese civilization. This is the feature which unites them, and which provides them with one of their most distinct strengths – a capacity to cooperate" (p. 2).

China's open door policy has catalyzed the expansion of overseas Chinese investment in the mainland. Their roles are also supportive of investment being made by the original neighborhood. In fact, the Western firms from the original neighborhood looking at Asia seek collaboration with the overseas Chinese in business because their grips have grown increasingly strong in the region.

Table 6 presents the distribution of actual foreign direct investment in China according to the industrial sector during the period 1979-2000, while Figure 4 provides a summarized pictorial representation of the same. It reveals that FDI in the manufacturing sector in China contributes about 61 per cent of the total actual investment.

The bulk of FDI in this sector appears to be dominated by intermediate technologies. The FDI in the service sector on the other extreme contributes about 23 per cent of the total investment. On the whole, the inflows of FDI in China appear to be highly export-intensive. The overseas Chinese community played a significant contributory role in this context.

Few insights can be mentioned in relation to technology transfer in case of China and the role of the overseas Chinese community in this context. Technology transfers in China have led to the very important transfer of

'software' – managerial and export marketing technology. Similarly, substantial technology was transferred in the low, intermediate and even high technology areas through the establishment of manufacturing facilities, training, and 'learning by doing' aspects of technology transfer. This was the pattern of technology development for the economies of Hong Kong, Singapore, South Korea and Taiwan through the 1960s and the 1970s. China has relied on Hong Kong, and more recently on Taiwan, as its principal sources of FDI. FDI from Hong Kong has played an especially large role in Guangdong, while FDI from Taiwan has become increasingly important in Fuzian. It seems important to mention that Hong Kong and Taiwan have never been recognized as major sources of advanced technology. Likewise, these countries have been less known for adoption of new technology. Thus, the technology transfer through FDI from Hong Kong and Taiwan to China has been in the form of low or quite standardized technology (Banik and Subbayamma, 2000).

VI

SUMMARY

Our analyses reveal interesting insights that explain foreign investment inflows to the countries both developed and developing. The approach in the form of neighborhood and extended neighborhood is deepening and widening our understanding of FDI flows.

Although there are some apparent similarities between the concept of 'psychic distance' as proposed by some Swedish economists (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Vahlne and Wiedersheim-Paul, 1977) and later elaborated and extended by other authors

(Child *et al.*, 2000), and the neighborhood model proposed in this paper, there are significant differences in concepts, explanations and consequences of the models. 'Psychic distance' presents a static concept, wherein investments and their sequence is attempted to be explained through the 'psychic distance' between the home country and the host country. In the neighborhood model, the role and importance of 'psychic' or 'cultural' distance itself changes dynamically as investments move from the original to the intermediate and the extended neighborhoods. Although developed in the context of the USA, the concept of original, intermediate and extended neighborhoods should be equally applicable in explaining the FDI flows of other FDI sources.

Similarly, the eclectic paradigm of Dunning (2001) hypothesizes that firms make their international production decisions based on perceived Ownership (O advantages), Location (L advantages) and Internalization (I advantages) related factors. When stretched from the micro to the macro, this leads to the concept of the investment development path (IDP). As a country develops, the attractiveness of its OLI advantages change to potential investors (both inward and outward) and the country is likely to go through five relatively well-defined stages. The IDP is a useful heuristic model and attempting to find the position of a country on its IDP can lead to meaningful policy debates. In a way, the O advantages are related to the *push* factors of the home country, the L advantages to the *pull* factors of the host and the I advantages to the *how* of the involvement in so far as an international production decision is concerned. Although the basic structure of the model is very attractive, its details have been evolving over time (Dunning and Narula, 1996) and may contain too many explanatory variables – many with limited predictive value. On one side, this

may be too general a theory and on the other it ignores the possibility of any special advantage for a pair of countries. Countries in the *neighborhood* have a role in reduction of perceived risk and Dunning (1988) also argues that firms from developing countries are likely to perform activities in neighboring countries, which are politically and economically stable.

We find there are significant common factors in explaining FDI inflows to different regions. While a substantial portion of FDI inflows may be explained by select economic variables, the country-specific factors and the idiosyncratic component account for more of investment inflows in Europe, China and India. These findings may have strong relevance in explaining possible Indian and Chinese investments in other economies.

As noted by Arndt (2001), one of the innovative features of the current phase of globalization is the fragmentation of production into production networks based on component specialization and intra-product trade. It offers groups of small countries opportunities to make open regionalism work by enhancing their productivity and competitiveness as well as welfare of their nationals. This concept is equally applicable to other developing economies, although Arndt (*ibid.*) justifies it for the ASEAN. As production networks grow in the ASEAN region, this provides opportunity for both India and China to participate in these networks in their extended neighborhood with their respective component specializations.

Table 1: **Major Sources of FDI (in million US$) in India: 1979-2000**

Country		79-86	87-90	91-2000	79-2000
United States of America	Total	119.47	162.74	19 904.870	20 187.08
	Average p.a.	17.06	54.25	1 639.42	961.29
	% of total	21.61	28.80	20.61	27.75
United Kingdom	Total	31.15	45.56	4 741.51	4 818.22
	Average p.a.	4.45	15.18	626.83	229.43
	% of total	5.63	8.06	6.62	6.63
Non-resident Indians	Total	63.97	46.97	2 854.41	2 965.35
	Average p.a.	9.14	15.65	135.92	141.21
	% of total	11.57	8.31	4.00	4.08
Germany	Total	55.95	43.72	2 470.62	2 570.29
	Average p.a.	7.99	14.73	274.51	122.39
	% of total	10.12	7.73	3.45	3.45
Japan	Total	76.9	27.90	3 142.57	3 247.37
	Average p.a.	10.98	9.30	349.17	154.64
	% of total	13.91	4.94	4.40	4.46
Switzerland	Total	8.85	24.47	912.01	945.33
	Average p.a.	1.26	7.49	101.33	45.02
	% of total	1.60	4.33	1.27	1.30
Mauritius	Total	n.a.	n.a.	8 620.06	8 620.06
	Average p.a.	n.a.	n.a.	957.78	19.55
	% of total	n.a.	n.a.	12.04	11.85
Netherlands	Total	11.56	5.46	1 619.58	1 636.60
	Average p.a.	1.65	1.82	179.95	77.93
	% of total	2.09	0.97	2.26	2.25
Australia	Total	0.74	4.0	1 893.28	1 898.02
	Average p.a.	0.11	1.33	210.36	8.58
	% of total	0.13	0.70	2.64	2.61
Singapore	Total	0.94	6.88	1 204.87	1 212.69
	Average p.a.	0.13	2.29	133.87	57.75
	% of total	0.17	1.22	1.68	1.66
Canada	Total	4.97	1.92	757.52	764.41
	Average p.a.	0.71	0.64	84.17	36.40
	% of total	0.90	0.35	1.03	1.05
Other countries	Total	178.24	195.45	2 3481.30	23 854.99

	Average p.a.	25.46	65.15	3 142.47	1 135.95
	% of total	32.27	34.59	40.00	32.80
All	Total	552.74	565.07	71 602.60	72 720.41
	Average p.a.	78.96	188.36	7 955.85	3 462.87
	% of total	100	100	100	100

Source: Reserve Bank of India Bulletin, various issues; India Investment Centre, India Investment Climate, various issues; n.a. not applicable

Table 2: **FDI (approval) Classified According to the Industrial Sector, India: 1991-2000 (in million US$)**

Industrial Sector	No. of Projects	Ratio (%)	Amount	Ratio (%)
Metallurgical	676	3.27	3 191.71	5.67
Fuels	860	4.16	15 994.96	27.80
Electrical Equipments etc.	4 301	20.83	5 523.12	9.77
Telecommunications	769	3.72	11 236.08	19.32
Automobile	1 377	6.67	3 978.56	7.04
Machinery, Machine tools, Fertilizers, dye-stuffs etc	4 807	23.28	4 140.24	7.32
Drugs and Pharmaceuticals	467	2.26	597.72	1.06
Textiles including dyed and printed	785	3.80	709.48	1.25
Paper and Pulp including paper product	183	0.89	679.16	1.20
Food processing industries	918	4.44	3 042.26	5.38
Vegetable oil, Glass, Ceramic etc	1 662	8.05	2 009.12	3.55
Financial services, Banks, Hospital and diagnostic centers etc	928	4.50	3 474.95	6.15
Hotel and Tourism	509	2.46	1 006.50	1.78
Trading and miscellaneous industries	2 409	11.67	1 549.16	2.74
Total	20 653	100	57 133.03	100

Source: India's Investment Climate (various issues), Indian Investment Centre

Table 3:   **Major Sources of FDI (in million US$) in China: 1979-2000**

Country		79-83	84-90	91-2000	79-2000
Hongkong and Macao	Total	472.5	11 729.4	161 898.0	174 099.9
	Average p.a.	118.13	1 830.32	16 189.80	8 290.47
	% of total	52.0	60.26	49.37	50.0
Japan	Total	186.4	2 596.3	25 018.0	27 800.7
	Average p.a.	46.60	432.72	2 501.80	1 323.84
	% of total	20.0	13.34	7.62	8.00
South Korea	Total	Na	na	10 326.0	10 326.0
	Average p.a.	Na	na	1 032.60	491.71
	% of total	Na	na	3.15	3.00
Taiwan	Total	Na	na	26 160.0	26 160.0
	Average p.a.	Na	na	2 616.00	1 245.71
	% of total	Na	na	7.98	7.51
United Kingdom	Total	10.6	284.0	8 453.4	8 748.0
	Average p.a.	0.30	47.30	845.34	416.57
	% of total	1.2	1.5	2.6	2.5
France	Total	35.4	180.2	4 219.4	4 435.0
	Average p.a.	8.85	30.00	421.94	211.19
	% of total	3.9	0.9	1.3	1.3
Italy	Total	12.4	166.8	1 652.8	1 832.0
	Average p.a.	3.10	27.80	165.28	87.24
	% of total	1.4	0.9	0.5	0.5
United States of America	Total	83.1	2204.8	27 744.1	30 032.0
	Average p.a.	20.78	367.46	2 774.41	1 430.09
	% of total	9.1	11.3	8.5	8.6
Other countries	Total	1 156.0	2 300.5	62 450.3	64 866.4
	Average p.a.	28.90	383.41	6 245.03	3 088.88
	% of total	12.5	11.8	19.1	18.6
All	Total	916.0	19 462.0	327 922.0	348 300.0
	Average p.a.	229.00	3 243.66	32 792.20	16 585.71
	% of total	100	100	100	100

Source: China Economic News, various issues; na   not applicable

Table 4: **The Relative Position of Chinese Capital in Southeast Asia (ASEAN)**

Industry	Foreign Capital	Chinese Capital	Private Indigenous Capital
Banking	Moderate	Substantial/ Dominant	Moderate/ Substantial
Property Development		Substantial	Substantial
Construction	Moderate	Moderate	Moderate
Mining	Moderate	Moderate/ Substantial	Moderate
Oil Exploration	Dominant	Substantial	Moderate
Plantation Agriculture	Minor		Substantial
Export/Import Trade	Substantial	Substantial	Minor
Manufacturing	Substantial	Substantial	Minor
Light Industries	Minor	Dominant	Minor
Machinery	Substantial	Substantial	Minor
Metals & Petrochemicals	Dominant	Minor	

Source: Yoshihara 1988:51

Note: Based on assessing the relative positions of (a) foreign, (b) Chinese, and (c) private indigenous capital, on a ten-point scale, such that
Less than 1 = no entry
1.0 to 2.4   = minor
2.5 to 3.9 = moderate
4.0 to 7.4 = substantial
above 7.5 = dominant

Table 5: **Occupational Grouping of Overseas Chinese sub-groups in Indonesia and Thailand**

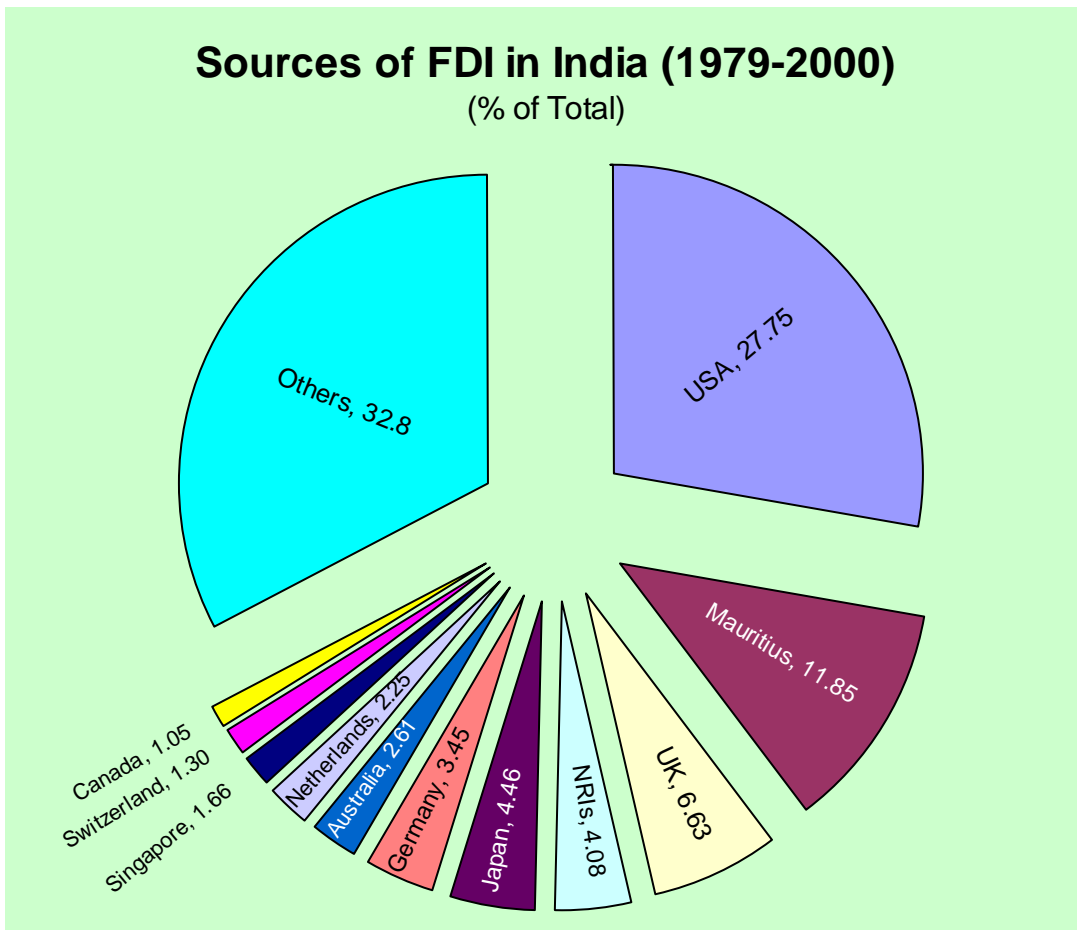| Occupational Grouping	Indonesia	Thailand
Hokkien	Rubber, Copra, Coffee, pepper, tobacco, import/export, rubber & plastics, textiles, knitwear, weaving, garments, glassware, earthenware, tea processing, drugs, gold and jewelry, bicycles, trishaws, printing, hotels, entertainment, finance	Rubber, rice, import/export
Chiu Chow		Import/export, clothing, rice milling, native products, dry goods, canned food, cosmetics, hardware, jewelry, distilling, publishing, furniture, entertainment, finance, insurance, shipping.
Cantonese	Rice milling, lumber, machine shops, soap, bakeries, food canning, furniture, hardware, tailoring, photography, coffee shop, truck farming, poultry, restaurants, clothiers, piece goods, dry goods, printing, plastics, entertainment.	Machine repair, construction, food and beverage, printing, watches/clocks, sugar.
Hakka		Leather and hides, weaving, banking, department stores, metal working, shoe manufacturing, tailoring, hairdressing, truck farming.
Taiwanese	Transportation, hotels, restaurants, electronics, paper, lumber, engineering production	
Hainanese		Beverages, hotels, drugstore, furniture, hairdressing, fishing
Yunnanese		Jewelry
Kiangsu & Checking	Optical, clocks and watches, shoes, gifts, books	
Hupei	Dentistry	
Shantung	Piece goods	

Source: Yuan li Wu and Chun-his Wu (1980), Economic Development in Southeast Asia: The Chinese Dimension, Stanford: Hoover Institution Press

Table 6: **Foreign Direct Investment Classified According to the Industrial Sector, China: 1979-2000 (Unit: US$100 million)**

Industrial Sector	No. Of projects	Ratio (%)	Amount	Ratio (%)
Agriculture, forestry, husbandry, fishing	10 355	2.85	123.10	1.82
Manufacturing	265 609	72.99	4 115.34	60.87
Construction business	9 059	2.59	196.91	2.91
Communication and transportation, storage, and post & telecommunications	4 027	1.11	163.86	2.42
Wholesale and retail catering	18 410	5.06	233.96	3.46
Real estate and public services	37 252	10.24	1 595.43	23.60
Health, sports and social welfare	1 030	0.28	47.73	0.71
Education, culture, arts, broadcast and film	1 336	0.37	21.23	0.31
Scientific research, technical services	2 510	0.69	21.24	0.31
Others	14 297	3.93	242.17	3.58
Total	**363 885**	**100**	**6 760.98**	**100**

Source: China Economic News, External Services Division of Economic Daily, May 21, 2001

Figure 1

Sources of FDI in India (1979-2000)
(% of Total)

Source:Table 1

Figure 2

Distribution of FDI approvals among sectors in India (1991-2000)
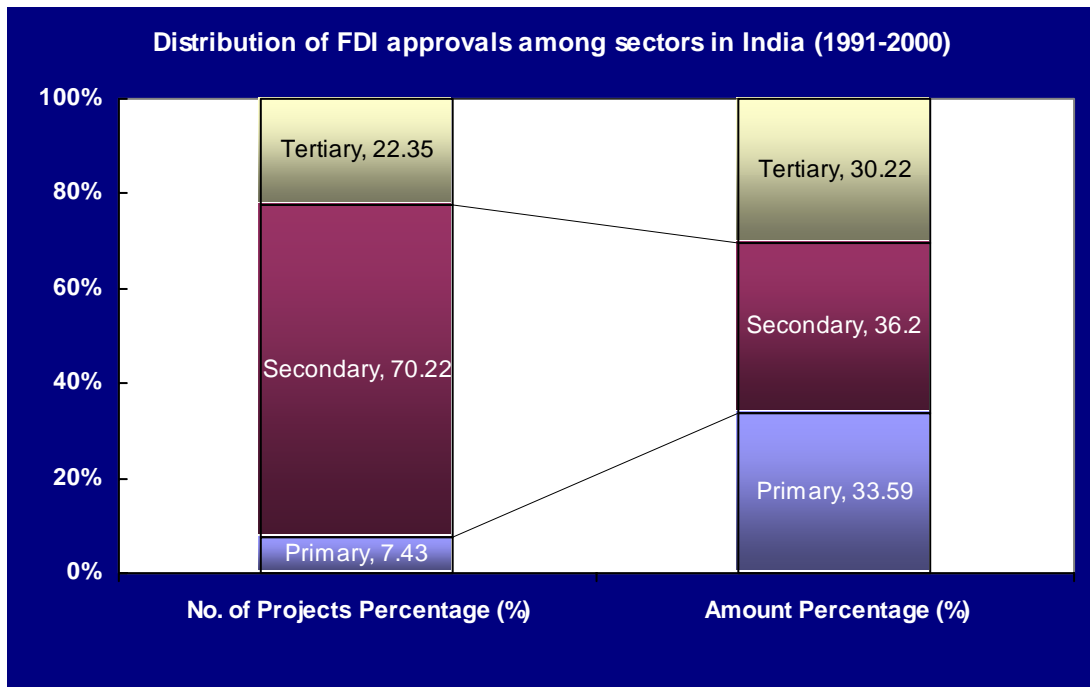
Source: Table 2

Figure 3

Sources of FDI in China (1979-2000)
(% of Total)

- Others, 18.60
- Italy, 0.50
- France, 1.30
- UK, 2.50
- South Korea, 3.00
- Taiwan, 7.51
- Japan, 8.00
- USA, 8.60
- Hongkong and Macao, 50.00

Source: Table 1

Figure 4

Distribution of FDI among sectors in China (1979-2000)

Tertiary, 24.16

Secondary, 72.99

Primary, 2.85

Tertiary, 37.31

Secondary, 60.87

Primary, 1.82

No. of Projects Percentage (%)   **Amount Percentage (%)**
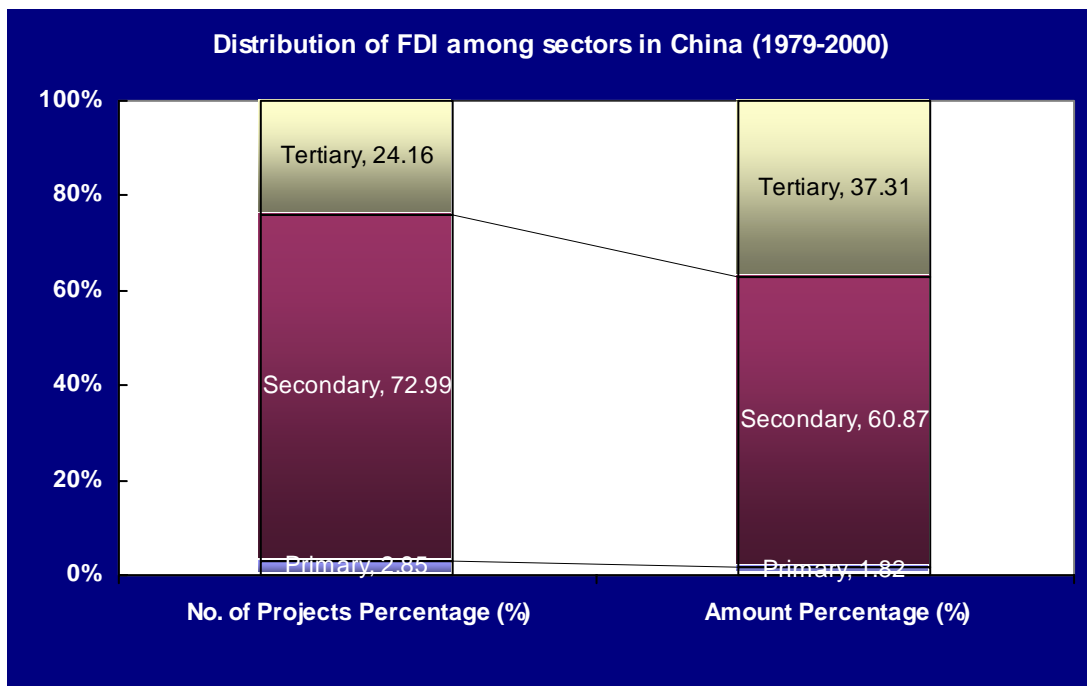
Source: Table 6

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