Foreign Direct Investment In India And China : Some Lessons For India

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INTRODUCTION

International flow of capital is not a new phenomenon. Foreign Direct Investment (hereafter, FDI) is generally viewed as an engine for global development and transfer of technology. In order to avail the benefits of FDI through MNCs, the developing countries, including India and China have started modifying foreign - related Trade and Investment Laws in favour of the prospective investors. Foreign Direct Investment is defined as, *"an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (foreign direct enterprise or affiliate enterprise or foreign enterprise."*. FDI implies that the investor exerts a degree of influence on the management of the enterprise resident in the other economy. A Foreign direct investor may also have an effective voice in the management of another business entity by means of acquiring other than an equity stake. For example, through franchising, licensing, turnkey arrangements, sub-contracting. FDI occurs mainly in two forms: namely, Greenfield investment and Mergers & Acquisitions. The former involves the establishment of a new enterprise. On the other hand, the latter is related to the acquisition of existing firms. Since Greenfield form of FDI is backed by many advantages, there is a tough competition among developing countries to turn more FDI to their respective countries through the green field mode.

REVIEW OF LITERATURE

Before coming out with a statement of the problem, it is required to survey the existing recent literature on Foreign Direct Investment (FDI) to find the research gap. Therefore, a selective survey of literature is given here.

Jacques Morissets's (2000) survey on 29 African countries reveals that, comparative locational advantages, political stability and economic environment are the prime factors for attracting more FDI. Markusen, James and others (2000) investigated the impact of FDI in services on host country firms. The study proved that liberalization of policies and its impact on income and welfare of the country is positively correlated. Choudary (2001) examined the politico-economic and legal framework of FDI in China. Reasons for the increase in inflow of FDI to China have also been highlighted in the study. Morisset and Lumenga (2002) examined the cross-country variations in administrative costs faced by investors by studying 32 developing countries. The study came out with a positive relationship of low level of corruption, quality governance, trade and finance reforms and high inflow of FDI. Linda, Tuan and Chyav (2002), empirically examined dimensions and major factors in governing FDI- friendly environment by studying sample firms operating in Guangdong province of China. The study observed macro economic environment with favorable institutional changes as the prime factor to attract more FDI. By using some econometric models, Sahoo and Mathiayazhagan (2002) tested the role of FDI in the economic growth of India through export promotion and found that the growth of economy is positively influenced by the export, but not by the aggregate FDI inflows. UNCTAD (2002, Chapter 2) advocates the necessity of a promotion agency with a strong administrative capacity, and abundant resources to woo the foreign investors. Pradeep and Pravakar (2003) in their study evaluated the implications of China's accession to the WTO in terms of its impact on the country's exports and foreign investment flows. The study accepted the relation of economic growth of China with WTO accession, and the study left some Chinese challenges for India. Ravi and Xiaboo (2004) have examined regional inequality in China due to deployment of more FDI to a particular region and cautioned the Chinese government regarding the increasing favourism towards coastal regions in its foreign investment strategy. Casar and others (2004), conducted a study on 22 industrial and 50 developing countries to know the link between FDI flows through Greenfield projects and M&As, and the study concluded that - expansion of M&As is indeed followed by an increase in Greenfield FDI. In another study, Luo (2004) examined the

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relationship between unbalanced regional growth and development of the Chinese economy. The study claims that infrastructural development in the region is the main reason for flow of FDI to only coastal regions of China. Kumar (2005) in his study traced the reasons for increasing the investment by knowledge-based MNCs in the software sector of India. The study concluded that locational advantage is one reason which attracts knowledge-based industries. Whereas, in the study of Dullian (2005), the reasons for shifting of FDI in China from market-seeking to efficiency-seeking have been traced out.

Fung (2005) in his study analyzed current development of China's foreign trade and investment, and their related issues. It found a positive relationship between exports of China and performance of foreign funded enterprises. At the end, the study noted some challenges and opportunities before China in the trade and investment field. The Chinese related study of Ali and Guo (2005) identified that political instability, unsatisfactory trade policies, improper implementation of regulations as the major obstacles in foreign firms' decisions to invest in China. Lim (2005) in his work observed the growth performance of China and India. While analyzing challenges of development in India, the study identifies certain areas such as infrastructure, human-resource development, politics, policy reformations where mutual learning is needed. China Annual Economic Report (2009) reveals that since 2006, China's FDI policy has shifted from export-led growth to quality investment supporting domestic led growth. As a result, China has been changing its attitude of inviting quantity based FDI to quality based FDI. Ram Mohan, Toma and Roe (2009) have listed the strengths and weaknesses of India and China. They reported certain benefits available for India, such as the young force for the manufacturing sector etc,.

STATEMENT OF THE PROBLEM

In response to globalization, investment from foreign countries is coming for both India and China. However, as per United Nations Conference on Trade and Development World Investment Report 2009, China has attracted nearly three fold higher FDI than India. Annual FDI inflow to China increased from US 2.7 billion dollar to US 108.31 billion dollar for the period from 1984 to 2008. As a percentage of global FDI inflows, China received, on an average, 5.65% during last decade (1998-2008), against India's 0.98 %(Vide annexure table no.1). However, the international financial decline has also influenced direct investment in China. FDI in China still increased, but much more slowly in 2008 than in previous years. According to the Ministry of Commerce of PRC, the actual direct investment of China reached US $ 92.4 billion in 2008, a growth of 23.6% compared to the previous year (China Annual Economic Report 2009, p.7) Therefore, it is necessary to analyse the reasons for changes in inflow of FDI to China and India systematically. As a result of higher FDI inflows, studies shows that FDI companies contribute more for total industrial output, exports, access to market and in turn, GDP and economic development. The present paper throws light on the reasons for high inflow of FDI to China and slow inflow of FDI to India. Through this study, it is planned to trace the reasons for bypassing of FDI from India. The analysis is being made at the macro level.

STUDY PERIOD

The present study covers the experience of India after initiations of new economic policies, i.e. from 2000 to 2010 and in case of China, the study covers the period after its accession into WTO i.e. from 2001 to 2010.

AN ANALYSIS OF FDI IN INDIA AND CHINA

a) Economic Reasons: To gain knowledge about the reasons for huge gap in inflow of FDI, it is necessary to focus on the economic policies initiated by both the countries. In the late 70s, China began implementing a wide ranging economic activities. As a result, more Special Economic Zones (SEZs) were established in coastal Provinces. These SEZs invited ethnic Chinese to take advantage of the SEZs and in turn, to contribute to China's exports. Due to this, the ethnic Chinese from Honk-Kong, Taiwan, Macao and Singapore started investing in China. Between 1986 and 2008, the contribution from overseas Chinese in realization of FDI (Hong-Kong: 43.59%, Taiwan: 6.58%) as well as in project implementation, (Honk-Kong: 44.83%, Taiwan: 11.86%) (Table no. 1&2), was significant. In lieu of this, FDI units in China were contributing nearly 50% share in total exports of the country. Over the 30 years since the reforms and opening up of its economy to the outside world, Chinese foreign trade triggered from US $ 20.6 billion in 1978 to US $ 2.1738 trillion in 2007, by 105 times at an average annual growth of 17.4%. Whereas in case of India, NRIs share in FDI flows was limited to 8.52% (research findings). By contrast, India's attitude towards foreign investment till

1991 was not up to the expectations. Moreover, the Indian economy was given a new shape only after the implementation of the new economic policy in July 2001.

b) Bureaucratic Setup And FDI: In case of China, Chinese policy makers and Bureaucrats considered FDI and foreign trade as two faces of the same coin. Authority to the provinces to sanction FDI Projects, Creation of more SEZs, open cities, coastal cities, tax-free zones, decentralization of power to Provinces and Municipalities are the landmarks in the history of FDI of China. Efforts of Chinese policy makers in moulding FDI related laws and foreign related trade laws in favor of prospective investors brought remarkable changes in the inflow of FDI to China. With regard to working of single window clearance of FDI projects in India, Mr. Lal (2000) correctly notes, unless the agencies have the authority needed to negotiate the regulatory system, and unless the rules themselves are simplified, this may not help. On the contrary, this is a very real risk that a one-stop shop becomes one more stop. Apart from this, lack of coordination between central and states to ensure substantial foreign investment in India gets actual investment flows for the state. Furthermore, UNCTADs World Investment Report 2006 identifies lack of stability in policies of countries as the prime reason for low inflow of FDI. This is true in case of India. India's policy towards foreign capital and MNCs is highly influenced by the political and social conditions. Labour market conditions are also the deciding factors. Even the basic rights of an entrepreneur in the areas of locating a plant, production process, and marketing are highly influenced by the trade unions in India. Apart from this, the trade unions in India are fully patronized by various political parties; in turn, trade unions are rather more loyal to political parties than to the enterprises where they are working. This will curb the moral courage of prospective investors while locating a destination for their capital.

c) Round Tripping Of Capital Between Hong Kong, China And Mainland China: Actually, China has a very unbalanced origin of FDI with Hong Kong, Macao and Taiwan and other Asian countries being the dominant source (Ali and Gou, 2005). One possible reason may be that investment from major industrial countries in China is mainly motivated by the access to the Chinese market, and that from Hong Kong, Macao and Taiwan had been export-oriented (Zhang, 2001). In case of China, round tripping of capital between Hong-Kong, China, Mainland China and tax heaven Islands such as Virgin Inland, Cayman Islands and Samoa is responsible for mobilization of significant FDI to China. Round tripping of FDI from China through Hong-Kong and back to China has been estimated at 25% of total inflow of FDI to China . Table 1 and 2 provides the information on inflow of FDI and number of projects established from Hong Kong and Taiwanese in Mainland China. It is confirmed that, in total inflow of FDI to China, a significant contribution is made by Hong Kong and Taiwan (43.59% and 6.58% respectively, vide table no.1). This is true in case of projects established by these two ethnic countries in Mainland China (44.83% and 11.86% respectively vide table no.2). Incase of India, Mauritius is the major investor with nearly 50% (42.32%) of total FDI flows from April 2000 to June 2010. However, Mauritius is widely regarded as an Offshore Financial Centre (OFC) that is used by most foreign investors as an intermediary to reach India, predominantly to capitalize on the tax rebates that the country offers so as to minimize the overall tax burden (Gopalan and Rajan, 2010).

d) True Level Of FDI On Records In India And China : The disclosure of data to the world in a systematic manner is also important. In this area, India has failed to disclose its data as per international parameters. Actually, the disclosed FDI data of India was not at par with international standards up to the formation of a committee in May 2002. The data on FDI have been revised since 2000-2001 with expand coverage to approach international best practices. Whereas, China from its beginning, is reporting FDI in all respects, i.e., equity capital component, intra company debts and reinvested earnings. In this regard, while quoting Government of India's Draft Press Note on FDI Regulatory framework, 2010, Francis (2010) traces the dangers of treating portfolio investment at par with direct investment categories. The information authorities of India have failed to report the exact data to the rest of the world. Hence, a wrong message was passed to the prospective investors.

e) Ethnical Issues: In inflow of capital to the respective countries, the share of ethnic origins is also considerable. The role of Diaspora in the development of their states of origin has been well documented (World Bank's Global Economic Prospects, 2005) Surveys states that over 50 million ethnic Chinese have spread across the globe (20 million in Taiwan and remaining in Hong-Kong and Asian countries). The overseas Chinese are more entrepreneurial in nature. Because of social, cultural, proximity and religiously connections, these ethnic Chinese are interested to invest in their ancestral Provinces/ Countries that have already been declared by the Chinese government as open cities/free zones with all concessions including tax benefits. In contrast, overseas Indians are limited in number. Indian diaspora numbers are 29.31 million, including people of Indian Origin (PIO) and NRI spread across 40 countries.

Table 1 : FDI from Hong Kong and Taiwan to Mainland China from 1986 to 2008 (in US $ Billion)					
		Share of Hong Kong		Share of Taiwan	
Year	Total FDI	FDI	% to FDI	FDI	% to FDI
1986	20.24	1.32	58.90	NA	NA
1987	2.31	1.58	68.30	NA	NA
1988	3.19	2.06	64.50	NA	NA
1989	3.39	2.03	59.80	0.15	4.42
1990	3.48	1.88	54.00	0.22	6.32
1991	4.36	2.40	55.04	0.46	10.55
1992	11.01	7.50	68.10	1.05	9.53
1993	27.51	17.27	62.70	3.13	11.37
1994	33.76	19.66	58.24	3.89	11.52
1995	37.52	20.06	53.47	3.16	8.42
1996	41.72	20.67	49.56	3.47	8.31
1997	45.25	20.63	45.59	3.28	7.24
1998	45.46	18.50	40.71	2.91	6.40
1999	40.31	16.36	40.58	2.59	6.42
2000	40.71	15.49	38.07	2.29	5.62
2001	46.87	16.71	35.66	2.97	6.33
2002	52.74	17.86	33.86	3.97	7.52
2003	53.51	17.70	33.08	3.37	6.29
2004	60.62	18.99	31.33	3.11	5.13
2005	72.41	17.94	24.79	2.15	2.96
2006	72.71	21.30	29.31	2.22	3.05
2007	83.52	27.70	33.17	1.77	2.11
2008	108.31	NA	NA	NA	NA
TOTAL	**963.41**	**305.61**	**43.59%**	**46.16**	**6.58%**
Source: compiled from the official website of People's Republic of China www.fdi.gov.cn					

Table 2 : Number of projects from Hong Kong and Taiwan to Mainland China - 1989- 2009					
		Share of Hong kong		Share of Taiwan	
Year	National Total	No. of projects	% to Total	No. of projects	% to Total
1986	1498	1155	77.10	NA	NA
1987	2233	1721	77.07	NA	NA
1988	5945	4562	76.74	NA	NA
1989	5779	4072	70.46	539	9.33
1990	7273	4751	65.32	1103	15.17
1991	12978	8502	65.51	1735	13.37
1992	48764	30781	63.12	6430	13.19
1993	83437	49134	58.89	10948	13.12
1994	47549	24622	51.78	6247	13.14
1995	37011	17186	46.43	4847	13.09
1996	24556	10397	42.34	3184	12.97
1997	21001	8405	40.02	3014	12.96
1998	19799	7805	39.42	2970	14.35
1999	16918	5902	34.89	2499	14.77
2000	22347	7199	32.21	3108	13.91
2001	26140	8008	30.64	4214	16.12
2002	34171	10845	31.74	4853	14.20
2003	41081	13633	33.19	4495	10.94
2004	43664	14719	33.71	4002	9.17
2005	44019	14831	33.69	3907	8.88
2006	41496	15496	37.34	3752	9.04
2007	37892	16208	42.77	3299	8.71
2008	27514	12857	46.72	2360	8.57
2009*	10419	4607	NA	1143	NA
TOTAL	**653065**	**292791**	**44.83%**	**77506**	**11.86%**
Source: Compiled from www.fdi.gov.cn *The figures are related to January to June 2009					

Barring Nepal and Myanmar, the UK, Malaysia and the USA, have the largest number of overseas Indians. The Indian Diaspora is purely professional in nature, working in knowledge-based industries. However, their contribution has been made through remittances. Moreover, they suffer from entrepreneurship and international trade experience. The contribution of overseas Indians for the economic development through FDI is has not been as per expectation. The benefits and facilities of government of India for NRIs helped to increase official remittances, but not FDI. Though a limited number of Indian expatriates are engaged in trading (wholesale, retail or similar type of service related), many suffer from export oriented low cost manufacturing units as ethnic Chinese had.

f) FDI In Food Sector : It can be observed from the Table 3 that the major (21%), US $ 24296 Million FDI flows to the services' sector, followed by computer software and hardware (9% US $ 10189 Million), telecommunication (8%, US $ 9855 Million), housing and real estate (8%, US $ 8703 Million), construction activities (7%, US $ 8274 Million). Surprisingly, India has received a meager amount, i.e., (0.93%, US $ 960 Million) for food-processing industries. (Not in the top 10 list). This is true in case of technical approvals too (Table no.4).

In order to meet the food demand of the growing population of India, there is a need to adopt a proper policy to invite foreign investment in R&D in agriculture. In this regard, China has already initiated steps in encouraging foreign

Table 3: Sectors Attracting Highest FDI Equity Inflows In India From April 2000 To June 2010 (In US $ Million)			
Ranks	**Sectors**	**Cumulative inflows of FDI**	**Percentage to total inflows**
1	Services sector	24296	21
2	Computer software and hardware	10189	9
3	Telecommunications	9855	8
4	Housing and Real Estate	8703	8
5	Construction activities	8274	7
6	Power	5066	4
7	Automobile industry	4663	4
8	Metallurgical industries	3699	3
9	Petroleum and natural gas	2876	2
10	Chemicals	2584	2
	TOTAL FDI ATTRACTED BY TOP 10 SECTORS	**80205**	**69%**
	TOTAL FDI FLOWS	**116061**	**100%**
Source: Compiled from the data published by the Government of India on its official Website www.dipp.gov.in			

Table 4 : Sector-Wise Foreign Technology Transfer Approvals From August 1991 To December 2009			
Ranks	**sectors**	**No. of Technical collaborations approved**	**Percentage to total approvals**
1	Electrical equipments including computer software and electronics	1263	15.58
2	Chemicals other than fertilizers	905	11.16
3	Industrial machinery	872	10.76
4	Transportation industry	760	9.38
5	Misc. Mach. Engineering industry	444	5.48
	TOTAL FOREIGN TECHNOLOGY APPROVALS FOR 5 SECTORS	**4244**	**52.35**
	Other sectors	**3862**	**47.65**
	TOTAL OF ALL SECTORS	**8106**	**100.00**
Source: Compiled from the data published by the Government of India on its official Website www.dipp.gov.in			

investment in agricultural related R&D in certain areas such as development of new technologies for sugar crops, fruit trees, and forage grass, and genetically engineered trees. In order to protect the domestic agriculture sector, Chinese government has different policies on foreign ownership and control for different agricultural products and agricultural related activities. For example, breeding and seed development companies have to be majorily owned by Chinese companies; foreign investment in the development of Genetically Modified (GM) seeds and plantations of domestic pacific such as some traditional Chinese herbal medicines is prohibited (World Investment Report, 2009 p.169).

Due to rapid industrialization, the most fertile arable land in India is being converted for non-agricultural purposes. This type of conversion is also being made by the government for the creation of SEZs or for infrastructural purposes. Conversion of arable lands into non-agricultural purposes may lead to decrease in the food production. But, investment in manufacturing in India has significant potential to develop ancillary industries and provide large scale employment to people who are relatively unskilled for the services' sector, but suitable for low and labour intensive manufacturing jobs such as assembling. The major advantage for India is the availability of a huge workforce - over half of India's 1.2 billion people are under 25 years of age, constituting a huge workforce, whereas, China's long-standing one child policy is coming home to roost, resulting in a much older workforce (Sappenfield ,2006). As Zhoo and Guo (2007) states, *"China has become old before it has become rich"*. As Arunachalam (2008) states, India will experience a demographic dividend for a longer period than China around the middle of the 21st century, and India is likely to have more working people than China.

g) "Go West Policy" Of China: For the past several years, FDI inflows into China have been concentrated in the coastal areas of the country. By the end of 2008, (UNCTAD's World Investment Report, 2009 p.52) more than four-fifth of the accumulated inflows were in the Eastern region i.e., coastal region. This is may be due to under developed and poor infrastructure in the inland provinces, the destinations of the investment from Asian developing economics reflect the Chinese Diaspora factor, because most overseas Chinese FDI originally came from coastal areas that have received a huge share of the total Asian FDI (Zhoo, 2001).

However, in recent years, FDI inflows to the central and western regions have boomed. This indicates that shifting of interest of TNC, to explore investment opportunities from the coastal belt to inland areas. The reason may be an introduction of *"Go west"* policy of the government. This policy aims to promote economic growth of inland areas and to reduce the income disparities between the coastal and inland areas. Apart from this, rising production costs in the coastal areas may be the affecting factor to shift investment decision from coastal to inland areas of China. The Pearl River Delta Region, the first on the Mainland to accommodate Foreign Investment, has lost its advantage in terms of labour cost and preferential policies - Shanghai has caught up, thanks to its high quality of labour, its leading role in the national economy and its new investment policies that are more often favorable than those of Guangdong (Yunshi and Jing, 2005). Moreover, rapid infrastructural development in the central and western region has significantly reduced transportation and other costs related to production. The Chinese government has responded with some measures to minimize the losses from decreased investments during the global recession. In March 2009, the Ministry of Commerce of PRC has announced the facilitation of certain foreign investment by giving the provinces the authority for approvals. Further, the Ministry of Commerce, PRC plans to streamline procedures for FDI approval and channel more FDI to China's central and western regions (China Annual Economic Report, 2009 p.7). As a result of this, China is still an attractive destination for foreign investors.

Even in the case of India also, FDI is unevenly distributed among the states. Only six RBI regional offices are responsible for receiving nearly 80% (77%) of the total FDI flows to India from April 2000 to June 2010 (i.e., out of total of US $116061 million, the six regional offices viz., Mumbai : (US $ 40510 million, 35%), New Delhi : (US $ 23922 million, 21%), Bangalore (US $ 7250 million, 6%), Ahmedabad (US $ 6576 million, 6%), Chennai (US $ 5771 million, 5%) and Hyderabad (US $ 4999 million, 4%) attracting US $ 89028 million FDI (www.dipp.gov.in). The reasons are easy transportation (the states like Gujarat and Maharashtra are coastal states, with good rail and road facilities), social and cultural reasons (Karnataka state is well-known for peace and harmony), availability of skilled HR (Hyderabad and Bangalore are the capital cities, as well as the hub of ITBT industries), or due to easy administrative reasons (Delhi is the junction of all administrative offices). But, the lack of infrastructural facilities may be the strongest reasons for most of the MNCs to select their destination for their capital. Several huge infrastructural projects in India like Nandi infrastructural Corridor Project in the state of Karnataka, metro rail facilities in Bangalore, the Golden Quadrilateral highway connecting Delhi, Mumbai, Kolkota and Chennai (it was the largest highway project in India initiated by Atal Bihari Vajpayee) are still under progress. The huge Investment in ports and airports, declaration of new railway roots, upgradation of state highways to national highways, attention on regular powercut problem could attract the FDI units to the states.

h) Greenfield FDI V/s M&A's : FDI is being either used for building fresh projects or Mergers and Acquisitions (M&As) of the existing firms. Usually, FDI in Greenfield (fresh projects) are preferred over M&A projects because of its several advantages such as possibility of augment of domestic capital requirement, possibility of flow of managerial ability including technical know-how, increasing the employment opportunities etc., By contrast, M&As usually will not bring fresh capital, limited in bringing managerial ability, moreover, M&A projects concentrate on market and lead to monopoly. Further, M&A's may lead to decrease in employment opportunities. M&A route may be desirable when there is a need for rapid restructuring under intense competition pressures. Sometimes, M&A's act as *'life savers'* through bringing in new synergy of new management and better technology. Foreign firms find quick and cheaper route to enter a new market and secure sizeable market share. But, in recent years, a large portion of the new inflows across the globe have been in the form of M &A's (UNCTAD 2006, pp 15-21). In case of China, due to decline in inflow of foreign investment, during financial recession, the government has relaxed M&A regulations, delegated more approval powers to local governments, and allowed banks to extend loans to finance M &As (China Annual Economic Report, 2009).

Table 5 provides the information of Mergers and Acquisitions deals taking place in both the countries. On an average, in China, 6.83% M&A deals included in FDI head between 1989 and 2009 against India's 24.63% for the same period. It means, in India, in the last decade, about 25% of the inflow of FDI capital has been used for acquiring existing industrial assets (Indian companies) and their managerial control. In other words, out of total FDI of US $ 134500 million, US $ 33136 million (one-fourth) was not used for establishment of Greenfield projects in India, against China's only 6.83%.

Table 5 : Cross-Border (Sales) And Inflow of FDI For India and China From 1989-2009 (in US $ Million)

year	India			China		
	FDI	M&A	% of M&A to FDI	FDI	M&A	% of M&A to FDI
1989-2004	40885	10591	25.90	543869	26220	4.82
2005	6598	4210	63.80	72406	8253	11.39
2006	20336	4410	21.68	72715	11307	15.54
2007	25127	4406	17.53	83521	9274	11.11
2008	41554	9519	22.90	108312	5144	4.74
2009 (January-March)	NA	4274	NA	NA	2995	NA
TOTAL	**134500**	**33136**	**24.63%**	**880823**	**60198**	**6.83%**

Source: UNCTAD's World Investment Report of various years

Table 6 : Greenfield Projects By Destination 2002-2009 (In Numbers)

Country	2002	2003	2004	2005	2006	2007	2008	2009 (Jan-March)	Total
World	5685	9348	10222	10481	12175	11928	15551	3363	**78753**
India	249	452	693	590	983	690	958	218	**4833 (6.13%)**
China	586	1303	1545	1244	1402	1190	1483	238	**8991 (11.41%)**

Source: World Investment Report, 2006 p.265 and World Investment Report, 2009 P.212

Table 6 discloses that the share of India in the world's total in respect of Greenfield projects through FDI is 6.13% (4833 nos) against China's 11.41% (8991 nos).As the green field projects (fresh projects starting from the scratch) brings many advantages than M&As, there is a need for India to change the policy in attracting more FDI through green field projects. But, the thing to be noted here is the focus should not just be on the amount of green field FDI inflows, but also the externalities, such as technological development to be derived from them.

SUGGESTIONS

The above-discussed reasons are mainly responsible for increase or decrease in inflow of FDI to India and China. Keeping in mind the Indian context and prospective investors needs, the following suggestions are made with the expectation of improvement in the atmosphere of FDI in India.

☸ The Indian government has to woo back the global Indian diaspora, with a combination of economic incentives and patriotic ground through the programmes like Pravasi Bharathiya Divas, Global Indian Entrepreneurs meet, etc.

☸ Allowing FDI in new sectors, going away the multiple approvals of government and regulatory agencies and extending automatic approvals route to some more sectors.

☸ Activity should be undertaken in investment promotional polices to fill in informational gaps.

☸To maximize spillover benefits from FDI on a sustained basis, host country features in terms of human capital, technological capacity, etc., must be improved.

☸ There is a need of forming an autonomous non-governmental regulatory body with industry representation and facilitating agency at the state and central level to tackle post sanction hassles.

☸ To make the existing single window system more effective and strengthen the concerned departments to leave the powers to a Single Window System (SWS).
☸ Foreign funded enterprises should be made compulsorily to bring Research and Development (R&D) centers and management expertise and marketing skills along with capital.
☸ Few more sectors need to be opened, considering the national interest into account.
☸ Sector caps should be removed, based on the necessity, viability and national interest.
☸ Low FDI attractive states conditions should be improved with a good investment climate to make them as good FDI destinations.
☸ Business entry and exit norms should be eased.
☸ Flexible labour laws, full fledged single window mechanism, entrepreneurial grievances cell, world class infrastructure, single trade union are really needed for an entrepreneur to play freely, at least in SEZs.

In order to grab the attention of the global investors and to explore infinite business opportunities, China's programmes like *"Dialogue between Chinese Private Enterprises and Fortune 500 companies",* China International Fair for Investment and Trade (CIFIT), World Investment Forum etc are not easily comparable with India's programmes of such nature. The UNCTAD (2002) advocated a policy of targeted promotion. The investment promotional agency should have a strong administrative capacity with sufficient resources.

CONCLUSION

Since 2006, China's FDI policy has shifted from export-led growth to quality investment supporting domestic led growth. This can be observed from the newly introduced and explicit "buy Chinese" policy in order to ensure the use of Chinese products. In a move to create a tax neutral FDI policy, the new Corporate Income Tax law (CIT), which came into force from 1st January 2008, removed many of the preferential treatments foreign companies previously enjoyed, creating a more equal environment. The new economic policy of China in this regard led to an increased nationalism and protectionism of domestic industry. Therefore, China decided to shift its policy of attracting foreign investment form *"quantity to quality"* and push its industry up the value chain (China Annual Economic Report, 2009). Both India and China are giants on the world stage, in terms of market size, population, etc. Both India and China are comparable and compatible. Hence, growing trade between them, together with other types of economic co-operation would certainly make them as the world's super power in the years to come. These two largest emerging economies are ranked as number one and number three respectively as the most preferred FDI locations (UNCTAD's World Investment Prospects Survey-2010-11) . Their strong performance, even during the global financial crisis and recession, has reshaped the landscape of FDI flows to the region, as well as to the world at large.

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Annexure - Table : 1

Inflow Of FDI To India And China 1992-2008 (in Us Billion Dollars)

Country	1992 to 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total FDI from 1998-2008
World	310.87	690.9	1086.75	1387.95	817.57	678.75	557.86	710.75	916.27	1461.07	1978.83	1697.35	11984.05
India	1.67	2.63	2.16	2.31	3.4	3.44	4.58	5.47	6.59	20.33	25.12	41.55	117.58 (0.98)
China	32.79	45.63	40.31	40.7	46.87	52.74	53.5	60.63	72.4	72.71	83.52	108.31	677 .32 (5.65)

Source : UNCTAD's World Investment Reports of various years
Note: figures in brackets are percentage total FDI from 1998- 2008