

CHAPTER 3: TRENDS AND PATTERNS OF INWARD FOREIGN DIRECT INVESTMENT

Chapter Overview

Jeffrey Frieden, states, “The international economy has enabled countries to develop, alleviate poverty, improve social conditions, lengthen life spans and carry out social and political reforms”(Sweeney, 2010). The current era is witnessing increasing capital, economical, and social interdependence between the countries, including developed and developing economies. The two Asian economic giants, that is, India and China have achieved remarkable growth in attracting inward FDI. As per the data of (World Bank Indicators), China alone received 25 percent of total world inflows whereas India received only 4 percent of world inflows in the year 2018. However, when on one side China, has already attracted bulk foreign investments, foreign investors are seeking to relocate their investments from China and hence, India should use this opportunity and work towards attracting foreign enterprises. The following chapter attempts to understand the trends and patterns of inward FDI in India and China and to comprehend challenges India faces from China (in terms of foreign enterprises), reasons behind why a particular country’s foreign enterprise is investing in China as well as India, current scenario of sector-wise investments in India and China, and the sectors India needs to focus on to elevate overall economic growth. The chapter uses secondary data, and the analyzes the data using growth rates, bar diagrams, scatter diagrams, pie-charts, Lorenz curve and descriptive statistics.

Foreign multinationals from Mauritius have remained the highest contributor of FDI in India in past 20 years which is partially due to DTAT with Mauritius and ‘round tripping’. India entered majority of its bilateral treaties with European countries after 2005 but the investments escalated since 2010 from countries like France and Germany which are also largest Indian trading partner. India attracts majority share in service sector followed by manufacturing and primary. Realizing the impact of FDI in manufacturing sector India, initiated its efforts towards attracting investments in manufacturing sector by liberalizing and launching ‘Make in India’ program in 2015 envisioning to transform India into a global design and manufacturing hub. Hong Kong has the highest share in China’s inward FDI in the past 20 years which is also partially due to ‘round tripping’. Foreign enterprises from other neighboring countries like

Singapore, Japan are the front runners in suppling FDI to China due to free trade ports and taxation advantages. The BIT with European countries and trade connections encouraged their investments in China. China's low-cost labor attracted foreign enterprises from the world to invest in its manufacturing sector which subsequently stimulated its exports. In early 2000s China began its efforts towards nurturing its service sector to elevate its economic growth rate by launching various incentives for service sector industries.

3.1 Introduction

Inward FDI is beneficial for economies with restricted domestic resources or is useful for economies which are in possession of resources but need financial capital to exploit them. Moreover, besides the transmission of financial resources, inward FDI is linked with supplying technological and managerial skills to the host economy. The multinationals by providing various financial, technological, and managerial assistance can help the local companies in conducting joint projects which could be unattainable otherwise.

From a host country perspective, the literature has identified the following benefits of inward FDI:

- a) ***Reducing Imports:*** The operational facilities through the projects developed by the multinational in the host economies²⁵ may result in reducing the needs for imports and enhancing the manufacturing capabilities of the host economy leading to increasing in exports and economic growth. Pegkas (2015) concludes that there has been long-term cointegrating relationship between economic growth and inward FDI in Euro-area countries.
- b) ***Enhancing Employment Opportunities:*** The developed operational facilities result in creating employment opportunities. Kurtovic et al. (2015) finds that inward FDI has reduced unemployment in developing economies. Additionally, with the employment generation comes the training provided to the host economy's workforce which generates advanced skills, and higher productivity.
- c) ***Innovation Performance:*** Inward FDI from technological advanced economies leads to better innovation performance. Arun et al. (2017) finds that inward FDI leads to enhancement in innovation capabilities which influences local companies positively through transfer of supply chain technologies.
- d) ***FDI and Income:*** Capital invested by international investors either through Greenfield investments or Brown field investments increase income levels in the economy. If funds

²⁵ Host economy: The economy that receives inward FDI from foreign enterprise.

are routed via Greenfield investments, the entity will create a subsidiary company enhancing employment opportunities leading to the upliftment of income levels. Additionally, if funds are routed via Brownfield investments, a domestic entity will only be handed over to the host economy entity when it is not attaining enough profits, and hence FDI by infusing funds in such entities can increase income levels.

- e) ***Contribution in Sustainable Development:*** FDI contributes to sustainable development by promoting inclusive growth while considering environmental and social factors. Responsible FDI practices can bring cleaner technologies resource efficiency and support holistic social development. “FDI is a principal means of financing 2030 Agenda for Sustainable Development and the corresponding 17 Sustainable Development Goals”. Sustainable FDI models give priority to long term development by aligning economic growth with environmental and social responsibility (Taylor-Strauss, 2019).

3.2 Review of Literature and Research Issues

A study analyzing the FDI policies in India and China conducted by Goyal (2014) highlighted that from 1979 to 1991, Chinese FDI policies were notably progressive. Moreover, in 1992, China successfully introduced the concept of a social market economy, aiming to amalgamate central planning and state ownership with market mechanisms and aspects of private enterprise. These reforms in 1992 significantly bolstered China's Inward FDI. The study also indicated that the comparatively lower trends in Inward FDI in India could be ascribed to less progressive policies and administrative issues.

In the realm of analyzing FDI policies in China for understanding the trends more comprehensively, Poncet (2007) contributed significant insights by characterizing China as an FDI 'magnet' due to its remarkable shift from restrictive to permissive policies in the early 1980s. This transformation allowed for a detailed examination of how China prioritized high-tech and capital-intensive investments, fostering a more in-depth understanding of their economic strategy. Particularly noteworthy was the concentration of international investments in Shanghai and Beijing, which provided invaluable data for scrutinizing the evolving trends in China's FDI landscape.

In a recent study by Rani et al. (2020), the study provided additional policy recommendations aiming to enhance Inward FDI in India. The study acknowledged India's success in attracting a substantial amount of FDI since 1991. However, it noted that India has fallen behind several developing nations, indicating the necessity to focus on long-term development rather than short-term objectives. The study highlighted that from 2000 to 2019, India received its highest levels of Inward FDI from Mauritius. Moreover, an analysis of sectors revealed that the service sector attracted the most significant levels of Inward FDI.

Research conducted by Banik (2003) covering the period from 1979 to 2000 discovered that Hong Kong was the primary investing economy in China, whereas the United States held the position of being the principal investing economy in India.

However, the trend shifted for India in the next decade as a study conducted by Gunawardana et al. (2009) observed that from 2006 to 2014, Mauritius emerged as the most consistent

investor in India, whereas investments from the United Kingdom displayed higher inconsistency during that period. Notably, the study unveiled an intriguing observation, while most regional investment in India gravitates towards Mumbai, Bangalore, Ahmedabad, and Chennai, Hyderabad demonstrated the most consistent ability to attract foreign investments.

Kalirajan et al. (2011) introduced a fresh perspective to the current body of literature by proposing that India and China should boost investments between each other due to their geographical proximity. This collaboration could potentially reduce the costs of manufacturing exports, allowing both nations to develop a comparative advantage in the global market.

3.2.1 Research Gap

A comprehensive review of the existing literature and the extensive analysis provided in Chapter 2, notes that the past literature primarily examines two dimensions. The trends and patterns focusing on geographical and sectoral distribution. This study aims to expand upon the past literature to gain a deeper understanding of the landscape of inward FDI in India and China. Thus, this chapter endeavors to address the following research gaps:

- a) ***Assessing the Consistency of Inward FDI:*** The existing studies have drawn conclusions regarding the FDI performance in India and China. The studies are primarily built on volume of inflows. However, it is imperative to evaluate the consistency of these inflows in both countries. Volatile FDI can have detrimental long-term effects on an economy and hence assessing consistency essential.
- b) ***Investigating the Principal Investing Partners:*** Previous literature has identified the primary investors in India and China. However, a more detailed analysis is necessary to discern which countries are investing in these nations and the specific policies or agreements that incentivize these investments. Apart from the macroeconomic factors, various economic relationships influence such investments. A comparative analysis with China is anticipated to illuminate essential agreements and strategies employed by China.

- c) ***Examining the Key Sectors:*** The available literature has pinpointed the primary sectors attracting FDI in India and China. The findings suggest that China has predominantly drawn inward FDI in the manufacturing sector. Hence, this solidifies its status as a global manufacturing center. Therefore, a comparison with China is crucial to highlight the strategies and agreements implemented by China.

- d) ***Analyzing Trends in Sustainable Inward FDI:*** The past literature has majorly focused on quantitative trends in inward FDI in India and China. However, the increasing importance of sustainable development necessitates an examination of the quantity of sustainable FDI entering these nations. A comparison with China will enable the identification of India's potential competitive advantage. Should such an edge exist, India could showcase or promote its inward FDI as sustainable on the global stage.

3.2.2 Research Questions

The chapter endeavors to scrutinize the following research questions:

- a) Examination of the kinds of economies that attract foreign enterprises for investment: whether they are developed, developing, and underlying rationales for such preferences.
- b) Identification of the leading Asian countries in terms of FDI attraction and an exploration of economies posing competitive challenges to India.
- c) Analysis of the trends in inward FDI in India and China.
- d) Comparison of the consistency of inward FDI between India and China.
- e) Study of the origins of foreign enterprises investing in India and China, along with the motivations driving these investments.
- f) Examination of the sectoral distribution of inward FDI in India and China, alongside the proportions allocated to various sectors and the underlying reasons for such distributions.
- g) Investigation into common economies investing in both India and China, including the trends and potential relationships in these investments.
- h) Assessment of the equality in regional FDI distribution within India and China.
- i) Quantification of greenfield inward FDI received by India and China.

- j) Differentiation between types of investments (greenfield or brownfield) made by major multinational corporations in India and China.

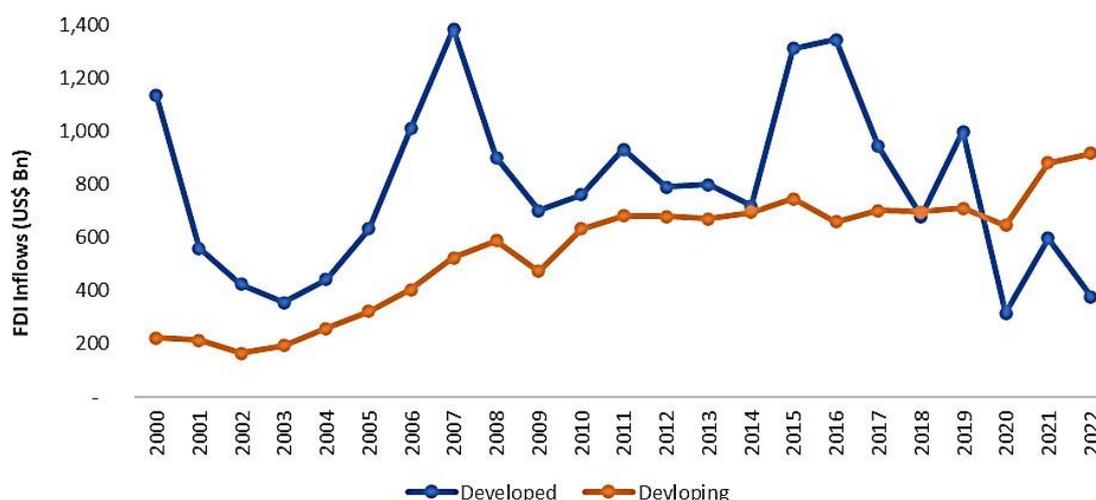
In alignment with these research questions, the chapter is organized as follows:

- 3.3 : Examination of the Global Trends in Inward FDI.
- 3.4 : Trends and Patterns of Inward FDI in India and China
- 3.5 : Exploration of Investing Countries in Inward FDI in India and China
- 3.6 : Sectoral Distribution of Inward FDI in India and China
- 3.7 : Investigation into the Trends and Patterns of Sustainable Inward FDI.
- 3.8 : Post Covid-19 Scenario of Inward FDI in India and China
- 3.9 : Findings

3.3 Examination of Global Trends in Inward FDI

3.3.1 Inward FDI flows in Developing and Developed Economies of the World

Figure 3.1: Inward FDI flows in World's Developing and Developed Economies, 2000-2022, (US\$ Bn)



Source: Author's compilation based on UNCTAD Database

The emergence of FDI within the global market gained significant attraction during the 1980s, with the world acknowledging FDI as a catalyst for growth in infrastructure, employment, GDP, and capital formation. Recent trends indicate a noteworthy decline in global inward FDI by 35 percent in 2020, plummeting to \$1 trillion from \$1.5 trillion in 2019 (World Investment Report, 2022). This reduction was a result of the global lockdown resulting from the COVID-19 pandemic, which instigated an economic deceleration, compelling multinational entities to reassess their new investment initiatives. However, in the subsequent year, 2021 witnessed a notable 53 percent upsurge, subsequently followed by a 12 percent reduction in 2022. (World Investment Report ,2023)

An evident observation from the Figure 3.1 reveals that inward FDI in developed economies are more volatile as compared to developing economies. Throughout the timeline, a notable shift in the trends of inward FDI is evident. In the year 2000, the flow of inward FDI was substantially higher in developed countries, amounting to US\$ 1,122,466 million, in stark

contrast to the markedly lower figure in developing countries, totaling US\$ 234,178.8 million. However, the current circumstances showcase an upward trajectory in the developing nations. The primary impetus driving multinational corporations towards investing in developing markets appears to be their potential to accrue advantages through access to low-cost capital, inexpensive labor, and promising growth prospects. Notably, the impact of the COVID-19 pandemic since 2020 has not affected developing markets as profoundly as it has the developed ones. It is evident by fact that the developing markets continued to attract higher Inward FDI as compared to their developed counterparts, which can be largely attributed to factors such as the demographic dividend and the presence of regulatory changes and incentives within developing markets.

3.3.2 Top Ten Economies in Terms of Inward FDI

Table 3.1: Top Ten Economies in Terms of Inward FDI (Percentage of IFDI), 2010-2019

Rank	Countries	Share of World IFDI
1	USA	16.07%
2	China	8%
3	Hong Kong	6.20%
4	United Kingdom	4.8%
5	Brazil	4.20%
5	Canada	4.20%
6	Ireland	4.10%
7	British Virgin Islands	3.30%
8	Australia	3.10%
8	Netherlands	3.10%

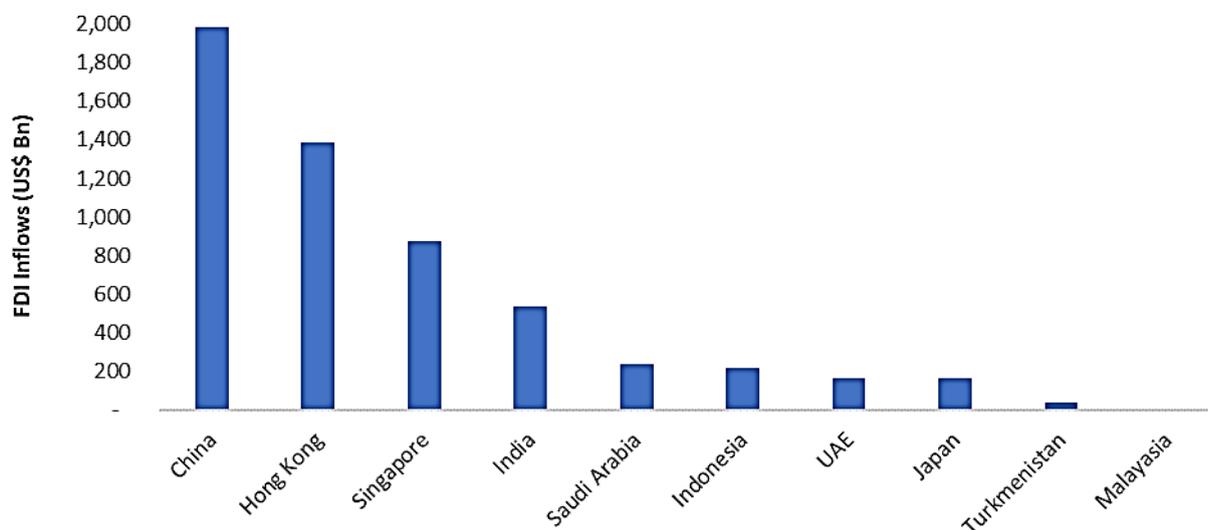
Source: Author's compilation based on UNCTAD Database

Table 3.1 illustrates the top ten countries in terms of receiving Inward FDI between 2010 to 2019. The top ten countries in the world have attracted nearly 50 percent of the total inward FDI flows in the world. Table 3.1 represents that the USA has attracted majority share i.e., 16.07 percent followed by China. The significant factors that have influenced Inward FDI into

the USA are fewer regulations, lower corporate tax, developed infrastructure, ease of doing business, diverse workforce, and consumer market Gray (2019). China between 2010-2019 attracted highest Inward FDI, after USA. China is the major investor in Hong Kong and it receives significant numbers of FDI from China. The United Kingdom influences investors to invest due to its mature, high-spending consumer market and ease of doing business. India stood at twenty second position in terms of stock of inward FDI in the world.

3.3.3 Top Ten Asian Economies in Terms of Inward FDI

Figure 3.2: Top Ten Asian Economies in Terms of Inward FDI (US\$ Bn), 2000-2019²⁶



Source: Author's compilation from UNCTAD Database

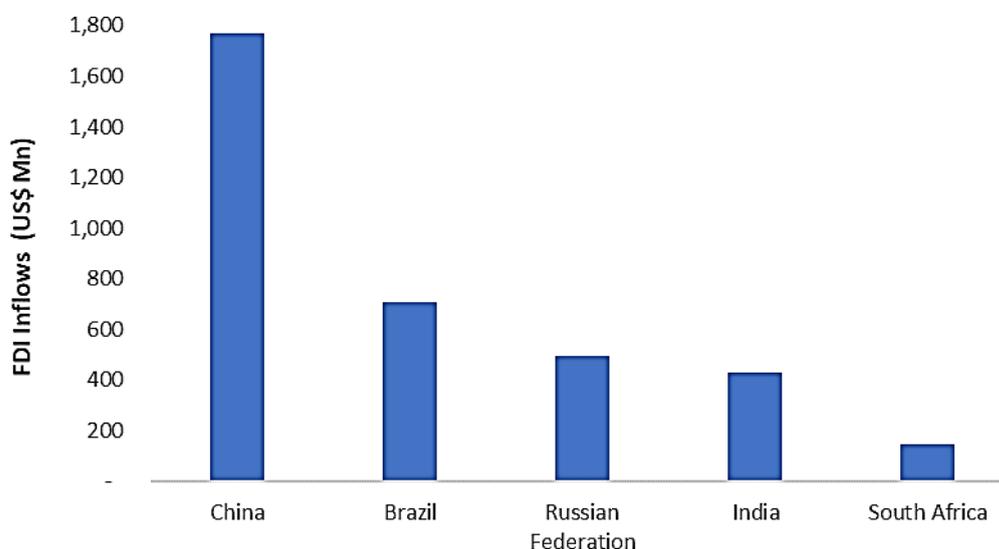
Figure 3.2 illustrates the cumulative inward FDI received by various Asian countries between 2010 to 2019. India faces competition primarily from China. The cumulative FDI in China amounted to US\$ 1982824 million, significantly surpassing India's total of US\$ 532578 million. After China, Hong Kong emerges as the second highest recipient of the inward FDI among Asian countries. This substantial influx of investments in China and Hong Kong has raised speculation regarding "round-tripping," wherein Chinese enterprises reroute investments through Hong Kong back into China. Despite this phenomenon, research conducted by Wei

²⁶ To show actual scenario post Covid-19 figures have been excluded.

(2005) reveals that even considering 25 percent of investments as part of round-tripping, China still receives a significantly higher FDI than India. The cumulative FDI in China amounted to US\$ 2931653 million, significantly surpassing India's total of US\$ 22257 million in the year 2022, which highlights that China's Inward FDI is multiple times higher than India's Inward FDI.

3.3.4 Inward FDI in BRICS Economies

Figure 3.3: Inward FDI in BRICS Economies (US\$ Bn), 2010-2019



Source: Author's compilation based UNCTAD Database

The Figure 3.3 represents total inward FDI in BRICS economies. The BRICS nations, collectively attract approximately 17 percent of the global inward FDI between 2010-2019. Among these countries, China is the leading recipient, securing about near half of the BRICS' total inward FDI which accounts for 48 percent. A recent study by UNCTAD (2023) highlights that from 2001 to 2021, inward FDI into the BRICS economies have quadrupled. This significant increase is primarily due to China's remarkable growth in attracting FDI, as FDI grew between 2011 to 2021 at a 4 percent increase annually. During the period from 2010-2019, the Russian Federation and India also experienced growth in Inward FDI, and contributed 14 percent and 11 percent respectively in total inward FDI received by BRICS. Brazil, on the

other hand, saw a negative growth rate in Inward FDI until 2015, while South Africa experienced a similar trend until 2011.

3.4 Trends and Patterns of Inward FDI in India and China

3.4.1 Evolution of Inward FDI in India and China

a) India

India faced a Balance of Payment problems in 1991, and to solve the crisis, India could not print new notes as it could lead to inflation, and on the other hand, withdrawing money from external sources could increase the debt crisis. Hence, to solve the crisis the Indian government revolutionized its economic policies in 1991 and decided to completely integrate itself with the world. Although multinationals commenced investments in India in the 1970s, there were considerable amount of ceiling on various sectors. Indian economy started encouraging FDI in 1991 and investments accelerated since 1995. “FDI is a major source of non-debt financial resources for the economic development of India” (Saini, 2015). According to RBI press release, India’s external debt was positioned at US\$ 570000 million at the end of March 2021 which was increased by US\$ 11700 million from the previous year. The escalation in external debt is one of the major reasons for the depreciation in the Indian currency which leads to other macro-economic problems. But India needs financial push in terms of adequate capital and technology to become a global manufacturing hub which can be attained by attracting FDI.

b) China

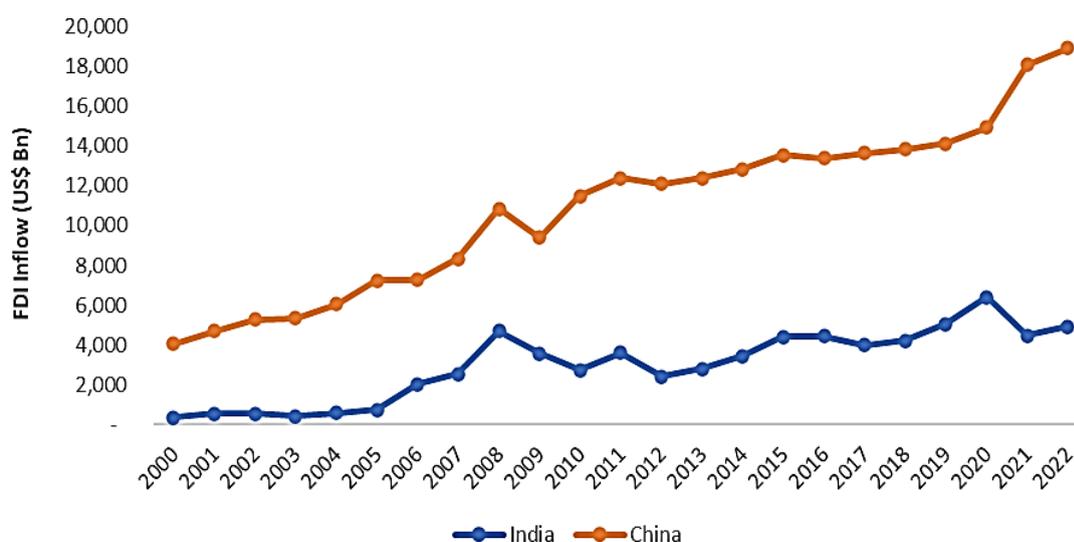
China believed, focusing on local market regulation, and passing the autonomy on the state authorities to attract foreign capital flow which turned out to be an appropriate method to acquire economic growth. When China began its economic liberalization in 1979, the policy focused on reducing control over state owned enterprises and encouraged them to integrate with multinationals which were global leaders in their sectors. In 1980s, investments through equity joint ventures increased in China, wherein the foreign entities were required to exhibit economic benefits. The first peak in China’s Inward FDI was observed after year 1992. The implementation of economic reforms in 1992 privatized several state-owned enterprises, established special economic zones which offered various incentives, and offered more power to lower level of government. However, studies claim that China’s FDI approval was highly based on the incentives it brings to the industrial sector till it joined the WTO. Investments

through cross-border mergers and acquisitions increased in 2006. China's inward FDI performed exponentially from 2005 to 2011 (Sweeney, 2010).

3.4.2 Trends in Inward FDI

The trends of inward FDI in India and China as shown in Figure 3.4 are explained below.

Figure 3.4: Trends in FDI in India and China (US\$ Bn), 2000-2022²⁷



Source: Author's compilation based on World Bank Indicators

a) India

- i. **2000-2008:** India observed a rise in investments in mid 2000s. This can be attributed to success of Indian IT companies, opening of telecommunication sector for FDI and investments by government in infrastructure projects, roads, ports, and power.
- ii. **2009- 2015:** After 2008, India witnessed the influence of global financial crisis and the inflows declined as investors were more risk averse and cautious about their investment decisions. Additionally, the lack of policy clarity created concerns among the investors about the ease of doing business in India and the resistance from the investments in the retail sector led to volatility in the coming years.

²⁷ Post Covid-19 i.e., after 2019 are the non-normal years.

- iii. **2015- 2019:** Even after the implementation of ‘Make in India’ initiative in September 2014 and implementation of foreign trade policy, inflows in India did not escalate. The initiatives were ambitious and a positive step to attract investments. However, the translation of policies into practical implementations might have faced challenges. The initiative was to bolster manufacturing which requires infrastructure in terms of transportation, power supply, logistics and without the significant improvement of these variables the set objectives cannot be attained.
- iv. **Post 2019 (Covid-19 impact):** India observed considerable increase post 2019. This can be attributed to severe effects of the pandemic in China and other economies like Brazil and the increased investment in drugs and pharmaceutical sector particularly.

b) **China**

- i. **2000 - 2008:** China’s inward FDI accelerated in mid 2000s and by this time China had established manufacturing base in the economy as China’s FDI approval before 2001 were highly persuaded by the incentives it brought to the industrial sector, which eventually helped in gaining inward FDI for the next years. Additionally, during this period China maintained a balanced stable economic environment with consistent GDP. Moreover, China improved its infrastructure and promoted itself as a low-labor cost economy during this period.
- ii. **2009-2015:** China observed a drop in Inward FDI post 2008 due to the sub-prime crisis and the world investments declining. However, due to various stimulus and recovery measures which included announcing substantial stimulus packages and directing funds towards infrastructure projects by the Chinese government in response to the global financial crisis, the level of Inward FDI increased in China. Moreover, sectors such as consumer goods, automobile, and services continued to receive higher investments as the demand was elevating due to expanding middle class. China has maintained commendable Inward FDI in all these years.
- iii. **2015- 2019:** Though China’s Inward FDI have been increasing however, the growth decreased in comparison to previous years. This attributed due to increasing labor cost, and trade tensions with the partner economies.

- iv. **Post 2019 (Covid-19 impact):** The decline in inflows in 2020 and an subsequent observed growth rate in the year 2021 and 2022, can be attributed to the Covid-19 pandemic.

3.4.3 India and China in Terms of Inward FDI Consistency, 2000-2019

Table 3.2: Inward FDI Consistency: Comparison of India and China

Measure/Economy	India	China
Sum (US\$ Bn)	533	1983
Mean (US\$ Bn)	27	99
S. D ²⁸ (US\$ Bn)	16	35
C.V.	61.11	35.59

Source: Author's calculation based on UNCTAD Database

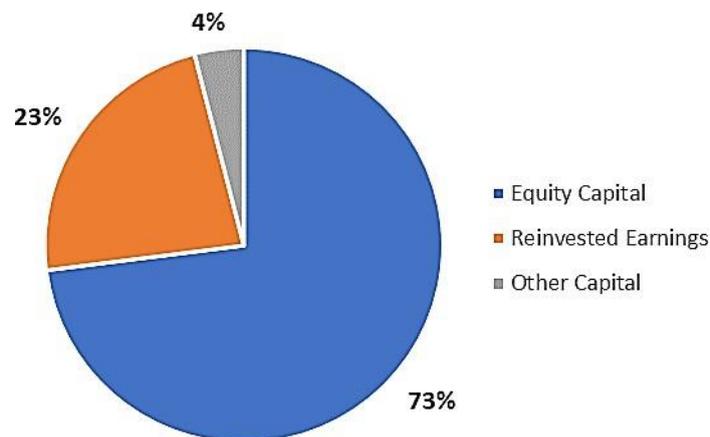
The analysis provided in Table 3.2 evaluates the consistency i.e. performing in a similar manner, maintaining uniformity, and regularity in inflows of FDI in India and China. It has been conducted using the coefficient of variation. Coefficient of variation measures the variability of a series of numbers, independently of the unit of measurement used for these numbers (Abdi, 2010). A higher coefficient of variation indicates greater dispersion around the mean. Regarding inward FDI in India and China, a higher coefficient of variation signifies increased variability or inconsistency in attracting FDI. The data in Table 3.2 suggests that over the twenty-year period from 2000 to 2019, China demonstrates lower variability and higher consistency in FDI attraction compared to India.

²⁸ S.D. – Standard Deviation is a measure that quantifies the amount of variability in the dataset (Bhandari,2020)

3.4.4 Components of Inward FDI

a) India

Figure 3.5: Components of Inward FDI in India, 2005-2019²⁹



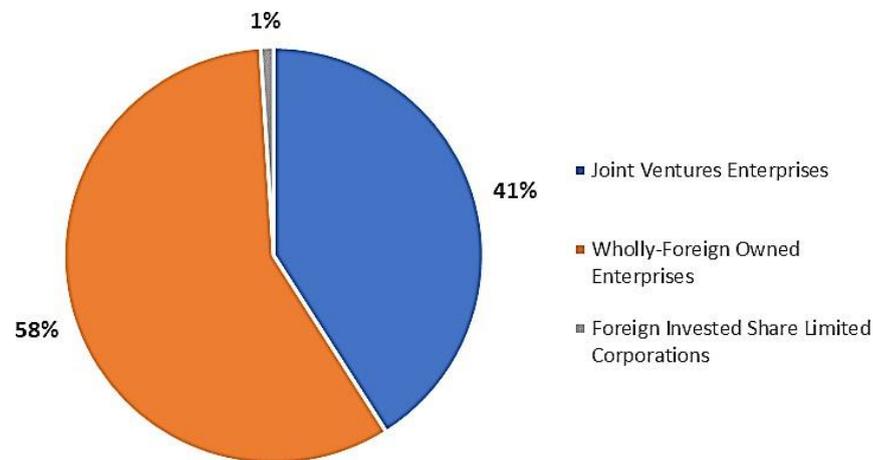
Source: Author's compilation based on RBI Database

The above Figure 3.5 discusses components of inward FDI in India. In India, equity capital is an approach distinctively popular among the foreign investors which includes FDI. This is followed by reinvested earnings by the foreign enterprises and other capital which indicates debt capital or intra company loans. The ratio of the components in India is decent and as for organic growth, India needs to augment investments in equity capital which is in greenfield investments.

²⁹ Note: Components of inward FDI are presented in terms of stock and hence to exhibit actual figures post 2019 i.e., inflows in Covid-19 have been excluded.

b) **China**

Figure 3.6: Components of Inward FDI in China, 1979-2019³⁰



Source: Author's compilation based on Statistical Yearbook of China, 2019

The above Figure 3.6 discusses components of inward FDI in China. In the FDI composition, China receives highest FDI in the form of Greenfield investment. Wholly owned enterprise has been major route through chosen by investors investing in China, this has been prominently due to its greater control over operations, intellectual property protection, and alignment with long term objectives. Joint venture enterprises are also prominent source of investment in China due to two reasons; first, when foreign investments in particular industry is restricted in China it is allowed through joint ventures, second, through joint ventures investors easily get access of the domestic market. In China, joint ventures are of two types, equity joint ventures under which investor invests with respect to their shareholdings and cooperative joint venture under which investor invests as per company's article of association. However, since 2020 there are no such distinctions a joint venture established in now governed under company law. (Joint Venture in China, 1996)

³⁰ China releases the data for forms of Inward FDI in terms of total stock and therefore to analyze the form of FDI till 2019 the pie-chart displays FDI from 1979 -2019.

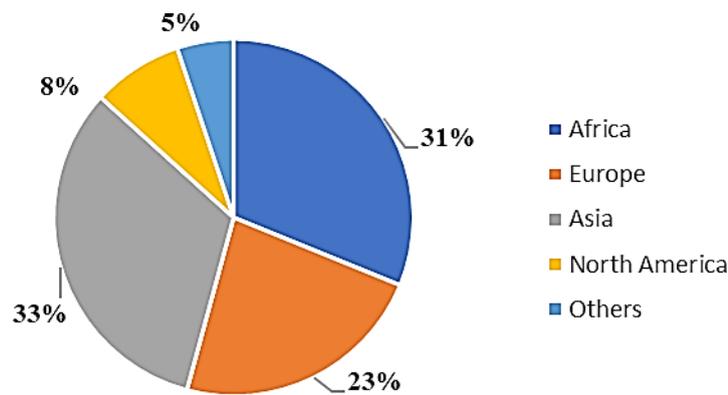
3.5 Exploration of Investing Countries in Inward FDI in India and China

3.5.1 Procurement of Inward FDI as per Regions

a) *India*

The regional distribution of inward FDI in India as shown in Figure 3.7 is explained below.

Figure 3.7: Procurement of Inward FDI as per Regions³¹ (US\$ Mn), 2000-2019



Source: Author's Compilation based on Reserve Bank of India Database³²

- i. **India and Asia:** Inward FDI from the Asian countries between 2000 and 2019 stood at around 33 percent. After Mauritius, Singapore is the highest international investor in India from Asia. The distribution in Asia is highly concentrated in Singapore, as it alone invests 20.07 percent of the total FDI in India. Countries like Japan and Germany have invested substantial stakes in India as well. Other than these economies, several other countries in Asia invest in India like Cyprus, China, Malaysia, Thailand, Kuwait, Oman, Saudi Arabia, Qatar, Philippines, Bahrain, Jordan, Kazakhstan, and Nepal. But the collective inward FDI from these economies is less than 10 percent of the total inward FDI received by India.
- ii. **India and Africa:** Africa is one of the highest investors in India. In exact numbers, Africa invested around 31.19 percent India. From Africa, Mauritius invested 31.07 percent in India between 2000-2019. The share of South Africa is only 0.11 percent,

³¹ The classification is based on the World Bank Group classification based on region.

³² These regions have been selected because 85 percent of India's inward FDI comes from these regions.

whereas other economies from Africa such as Kenya, Zimbabwe have no contribution toward inward FDI flows between 2000-2019. India and Mauritius have signed an agreement for the avoidance of double taxation and prevention of fiscal evasion with Mauritius under notification: GSR No. 920 (E), dated: 06-12-1983. Under which the taxes arising from the profits of an enterprise, profits from the operations of ships and aircraft in international traffic, taxes on dividends paid up the company, and taxes on the interest paid by the company shall be taxed only in the contracting state with certain terms and conditions applied. Hence, the large figures for inward FDI are justified.

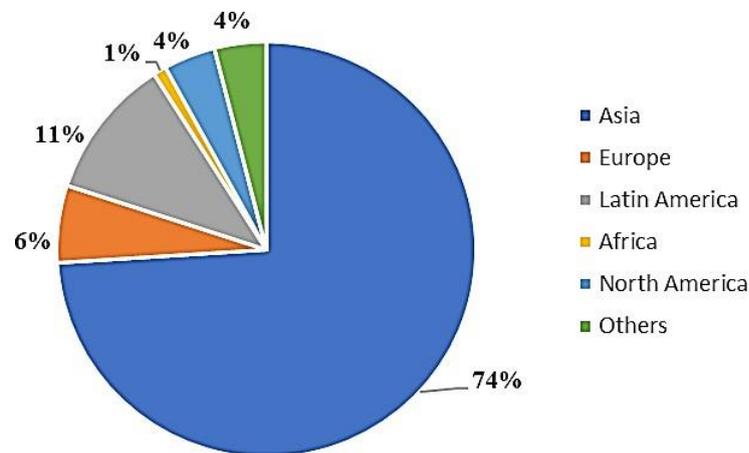
- iii. ***India and Europe:*** Among the top 20 international investor countries in India between 2000 to 2019, nine countries are from Europe. Netherland, United Kingdom, Germany, France, Switzerland, Luxembourg, Spain, Italy, and Belgium in terms of ranking. Hence Europe is one of the largest sources of investment in India.

- iv. ***India and North America:*** The continent comprise of 23 countries in total, but most of the investments come from the United States alone. Moreover, there are a few other countries with small investment shares like Mexico with 0.05 percent, Canada with 0.41 percent, and Panama with 0.05 percent of the total FDI in India. Hence, apart from the United States, there are no big investments from these countries coming to India. These are developed economies and can turn out to be a great source of investments for India. For instance, Canada's outward FDI stock till the year 2020 was US\$ 1964428 million but only US\$ 1964.52 million were directed towards India in twenty years (i.e., from 2000 to 2020) (UNCTAD Database).

b) China

The regional distribution of inward FDI in China as shown in Figure 3.8 is explained below.

Figure 3.8: Procurement of Inward FDI as per Regions³³ (Percentage), 2003-2019



Source: Author's compilation based on MOFCOM Database

- i. **China and Asia:** Asian economies between 2000-2019, have contributed 74 percent to China's inward FDI flows. There are in total 27 Asian countries investing in China as of 2019. China receives a considerable amount of FDI from Thailand, Brunei, Kazakhstan, and Vietnam. India's investment in China is US\$ 2563 million in 2019 (China's Statistical Year Book, 2019). Surprisingly, 57 percent of China's investments comes exclusively from Hongkong. China receives 17 percent of the investments from other Asian countries. Studies such as Geng (2004), Wei (2005) have discussed about round-tripping. The investors from China invest in Hong Kong and bring back investments to China with the incentive such as tax benefits, fiscal benefits. Geng (2004) mentioned that round-tripping in China is done with motive of acquiring advantages of financial services in Hong Kong.
- ii. **China and Latin America:** Latin America has invested 11 percent in China. High investments come from Barbados, Brazil, and Argentina.

³³ The classification is based on the World Bank Group classification by region.

- iii. ***China and Europe:*** The relationship between both can be traced back in 1985 with China-EU trade and corporation agreement which is still in force. China proposed a ‘Comprehensive Investment Agreement’ with European Union in 2013, in December 2020 the European commission announced that is concluded by leaders of European council. It is the very ambitious deal for China, as the economy waives off the transfer of technologies requirements and equity caps or joint venture obligations for specified sectors. For European Union, China allowed access for investments in its restricted markets. For example, manufacturing sector is fully accessible except few exclusions, under automobile sector and financial sector, China has agreed to waive off the equity caps and joint venture requirements, it had never provided access to any partner in R&D in biological resources. China has never been this convivial to any of its partners except EU. The deal has been concluded but has yet to be signed (European Commission, 2020).

- iv. ***China and North America:*** North America has 4 percent investment share between 2003 and 2019. Canada, United States, Bermuda are the countries with more than ninety percent investment share from North America in China.

- v. ***China and Africa:*** Companies from Africa have invested US\$ 1691071 million between 2003 and 2019 in China computing 1 percent of its total investment. Countries like Ghana, Seychelles, South Africa, and Tanzania are countries with higher share. (China's Statistical Year Book, 2019)

3.5.2 Geographical Distribution of Inward FDI in India and China

The geographical distribution of inward FDI in India and China as shown in Table 3.3 is explained below.

Table 3.3: Inward FDI in India and China as per Economies³⁴(Ranks), 2000-2019

Rank	India	Share in Total FDI	China	Share in Total FDI
1	Mauritius	31.07%	Hong Kong	54%
2	Singapore	20.72%	British Virgin Islands	8%
3	Japan	7.24%	Japan	5.1%
4	Netherlands	6.76%	Singapore	4%
5	The USA	6.21%	Republic of Korea	4%
6	United Kingdom	6.12%	The USA	3%

Source: Author's compilation based on RBI Database and MOFCOM Database

a) Top Investing Countries in India

Rank 1: Mauritius

Mauritius lands most of its outflows in India due to the DTAT between the countries. A very interesting paper Gunputh (2017) discusses the issue of round-tripping between India and Mauritius to evade tax Indian investors route their investments from Mauritius. Even though Mauritius is the largest investor in India between 2004 to 2009, ten percent of the investments were a result of round-tripping. This is a heavy loss in revenue for the Indian government. This reflects the need to renegotiate the investment agreement with Mauritius to stop such investment activities.

Mauritius is one of the advanced economies of Africa and hence investments from such destinations should be promoted but the investments should be genuine which brings macro-economic advantages to the nation, not the one causing revenue losses. Investments in the year 2020 were recorded as the lowest since 2006 due to the Covid-19 pandemic. But since 2018 the downward trend of Mauritius's FDI in India began. This was possible because in 2017 amendments in the DTAT signed in 1983 were introduced. (Chakraborty, 2022)

³⁴ India and China attract more than 60 percent of their inward FDI from foreign enterprise of these economies.

Rank 2: Singapore

India and Singapore's international investment relations became more solid after both countries entered their bilateral comprehensive economic cooperation agreement in 2005. Both the countries entered DTAT in 1994. It decreased the tax burden of the investors in both countries. The investments from Singapore have been escalating since 2005 as most taxes on the capital gains were removed. On Feb 1, 2020, in its union budget India announced a move to withdraw the dividend distribution tax i.e., dividends are taxed only in the hands of recipients only. (India-Singapore DTAA: Double Tax Avoidance Agreement, 2021)

Singapore is used by Indian investors to channel their investments in India and avoid taxes. Hence, considering the same on April 1, 2020, OECD's multilateral instruments for India and China were adopted under which the introduction of the principal purpose test was initiated. The tax authorities try to detect if the investment in a different country is made solely to avoid tax. Singapore was the largest investor in India in 2020-21 with twenty-nine percent of the share in the total investment. Singapore is an information technology and telecom hub. But India receives a mere six percent of the total investment from the country which includes round-tripping investments in it.

Rank 3: Japan

India and Japan signed a peace treaty in 1952 post-second world war, hence bilateral ties between both the nations started back then. Japan's investment trends in India have been quite volatile. Still, both the countries have a strong relationship and have entered several economic ties. A comprehensive economic partnership was concluded between India and Japan in 2011 to accelerate economic and commercial relations between the two countries (Invest India, 2022). Japan's investment in India received a boost in 2014 after Japan's then Prime Minister announced an investment of 3.5 trillion Japanese yen through public and private sectors which doubled the number of Japanese companies in India. (Invest India, 2022)

Further in 2016, Japan announced providing official development assistance to India to build its critical infrastructure (Invest India, 2022). Major Japanese companies in India are Maruti Suzuki and Toyota. Japan in March 2022 announced an investment of five trillion yen in the next five years in India. As per World Investment Report (2021) in 2019 Japan secured the first

position with the highest FDI outflows in the world but just 2 percent were routed towards India. Apart from Europe, Japan has considerable interest in Asian economies such as Bangladesh, Singapore, Thailand, Nepal, and Indonesia.

Rank 4: Netherlands

Diplomatic relations between India and Netherlands were established back in 1947. According to the report, Embassy of India in the Hague (The Netherlands), there are nearly two hundred companies present in India that originated from the Netherlands such as Unilever, Philips, and Nobel. The inward FDI from the Netherlands observed an upward trend till 2015 which was due to the termination of India's bilateral agreements with 73 countries including the Netherlands in the year 2015.

Moreover, Netherlands FDI outflows reduced in 2018 but the country continued investing in India and emerged as the fourth largest investor in 2018-19 and the third largest investor in the year 2019-20 (DPIIT, 2020). Over time, high-level meetings by the government officials of both nations have been arranged to promote trade and investments. Netherlands Prime Minister visited India in 2018 with over 130 Dutch companies. Again in 2019 officials visited India with over 140 Dutch companies and around 250 business representatives. The results of such meetings are clearly visible in the trends of inward FDI received by India from the Netherlands. (Embassy of India, 2022)

Rank 5: The USA

The USA is the fifth-largest investor in India but only one percent of its total investments are directed toward India. However, the country's investments in India have escalated since 2018. Indian residents are very fond of American products like Apple, Google, Amazon, and Coca-Cola. A study conducted a socio-economic survey to find out the impact of the U.S. A's investments in India finds that information technology, banking/finance, consultancy, and pharmaceutical sectors are the principal areas of operation of American companies. The study finds that these companies have generated employment in India.

Additionally, there are certain issues faced by these companies in India such as regulatory concerns, infrastructure-related concerns, unclear regulations, taxation delays, and weak

intellectual property rights regime (Ray et al.2014). The USA is a country with the highest overseas investments and hence India should attract investments from such country for capital funding as well as the advancement of socio-economic indicators.

Rank 6: United Kingdom

United Kingdom is the sixth largest investor in India. There are currently over 572 United Kingdom companies in India. These companies have invested in India's education, retail, life sciences, and infrastructure (Invest India, 2022). According to a United Kingdom based media report published by Stearling Assets, push factors for British firms investing in India are the market size, labor force and political stability. Moreover, British firms created highest number of jobs in India in 2016. In 2016 both the countries signed ease of doing business agreements to escalate investments in both the countries.

In 2018, India-UK tech alliance was decided to launch (Invest India, 2022). Some major British firms in India are Dyson technology, Aviva life insurance, and Diageo Business services. Several British firms are operating in Maharashtra due to the Memorandum of Understanding signed between the United Kingdom India Business council and Maharashtra in 2020 (Kapur, 2021). Key interest sectors of the British firms are Dairy, Fisheries, Agro chemicals, Specialty chemicals, Smartphones, and Industrial electronics.

b) Top Investing Countries in China

Rank 1: Hong Kong

“Hong Kong originates and intermediates two-third of China's inward FDI” (Hong Kong Monetary Authority - Dominant Gateway to China).The renminbi (also known as yuan) real time gross settlement system in Hong Kong enables market participants from the world to handle renminbi transactions with China and among offshore markets (Hong Kong Monetary Authority - Dominant Gateway to China). Hong Kong being the important global offshore renminbi business hub facilitates financial transactions smoothly which is a major incentive for all other countries to route their investments through Hong Kong in China. As per SWIFT statistics, 70 percent of world's renminbi payments are settled through Hong Kong.

Moreover, Hong Kong's ports have been efficient for undertaking Chinese exports and imports which escalate their economic dependence. China-Hong Kong signed CEPA in 2017 which progressively reduces the tariff and non-tariff barriers amongst the countries, promote trade and investment, and attempts to achieve liberalization of trade in services.

Rank 2: British Virgin Islands

Investor from British Virgin Islands invest in China simply due to its tax advantages and low labor cost. Moreover, majority of the investments British Virgin Islands is round-tripped money to take tax advantages. Although, the trend of British Virgin Islands investments in China is decreasing.

Rank 3: Japan

China and Japan had signed bilateral investment back in 1988 which is still in force. According to Kamata (2022), China and Japan are "cold in politics but hot in economics." Their political relations have never hampered their economic relations. China has received US\$ 32.4 billion of aid from Japan used to modernize its infrastructure between 1979 and 2018 (Singh, 2021). Japan's investment in China started flourishing in 2010 and are expected flourish in future too.

Rank 4: Republic of Korea

China and Korea signed their first BIT in 1992 which was terminated. But later in 2005 and 2007 BIT was signed between the countries. Moreover, both countries are parties of APTA³⁵ (2009). Japan-Korea and China have a Trilateral investment agreement. Korea and China have signed FTA in 2015. In 2020 China and Korea became members of regional comprehensive economic partnership. Korea-India had signed a bilateral agreement in 1996 which is now terminated.

³⁵ APTA: Agreement on the promotion, protection, and liberalisation of investment between Asia Pacific Trade Agreement.

Rank 4: Singapore

China has been Singapore's largest overseas investment destination since a decade. After the sub-prime crisis in the USA, Singapore shifted majority of its investments in Asian countries and China was on the top of that list Li (2021) . Singapore's overseas investments are in service sector. However, in China Singapore's investments are focused on small and medium enterprises which imparts China with capital, information, technology, and personnel support. (Li, 2021)

Rank 5: The USA

Table 3.4: USA's Outward FDI Stock in India and China (Percentage), 2003-2018

Variables	China	India
Total Investments ³⁶	1.85%	0.75%
Manufacturing Sector ³⁷	50.13%	23.38%

Source: International Trade Administration, The USA

China attracts almost twice number of investments from the USA as compared to India. Interestingly, more than fifty percent of the USA's investment in China is in manufacturing sector. The USA has considerable amount of dependency on China for producing its exports. In India, out of the total the USA's investments 23.38 percent is in manufacturing sector (Table 3.4). (International Trade Administration, The United States of America).

c) Common Investing Countries between India and China

Quoting (Tseng, 2002), "At the start of Chinese economic reforms China was not placed at a better position as far as economic indicators are considered. In 1978, GDP per capita in India and China were US\$ 196.8 and US\$ 225.1 respectively. India and China both were dependent on agriculture, their economies were closed, both the countries had low-income levels. But this

³⁶ Total investments represent share of China and India in the USA's outward FDI stock as percentage of its total investment.

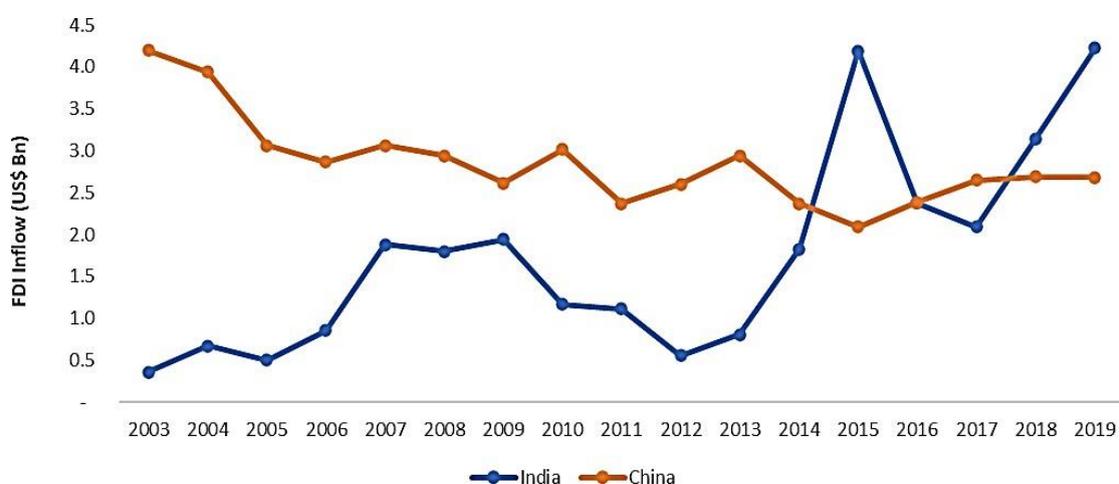
³⁷ The percentage share of manufacturing sector includes investment share of manufacturing sector as a percentage of total investments in China and India.

picture changed for China after 1978, as India GDP per capita increase to US\$ 467.4 while China GDP per capita increased to US\$ 855 in 2000 which means it increased nearly by four times.

The following section analyses the trends of countries which invest in India and China.

i. **USA**

Figure 3.9: Investments from the USA (US\$ Bn), 2003-2019



Source: Author's compilation based on UNCTAD Database

a) **USA vis-à-vis India** (Figure 3.9)

In 2017, the government implemented modest changes to facilitate investments in industries including single brand retail, pharmaceuticals, and private security. In 2017, the Indian government introduced the Goods and Services Tax, which streamlined the multiple state and central taxes into a single tax system (Bureau of Economic and Business Affairs, 2019). To hasten the FDI approval process Prime Minister Shri Narendra Modi has started a PRO-Active Governance and Timely Implementation (PRAGATI-initiative) a platform to speed up the government approval process (Bureau of Economic and Business Affairs, 2019). In 2018, 250 projects, involving investments of US\$ 172 billion, received approval, and Prime Minister Modi personally oversaw the monitoring process (Bureau of Economic and Business Affairs, 2019). USA investment in India is in professional, scientific, and technical services, manufacturing, and depository institutions (Office of the US Trade Representative, 2020).

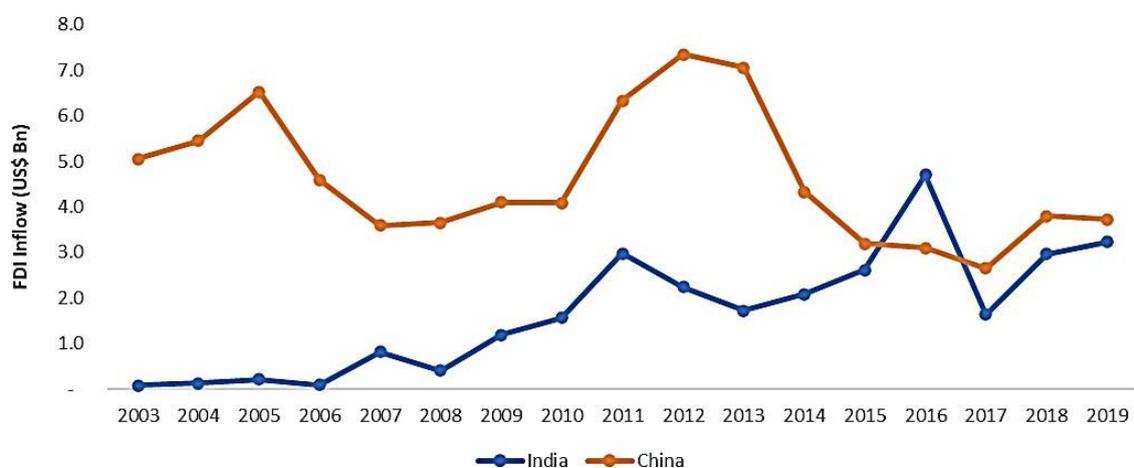
Moreover, India was USA’s twelfth largest export market in 2019. India stood as USA’s tenth largest importer in 2019 (Office of the US Trade Representative, 2020). The Bureau of Economic and Business Affairs report (2019) highlights challenges encountered by American companies in India. It notes that in April 2018, the Reserve Bank of India, without consulting stakeholders, declared that all payment system providers were required to exclusively store their transaction data from India within the country. This directive significantly impacts U.S. companies, which are predominant players in the Indian payment market.

b) *USA vis-à-vis China* (Figure 3.9)

A report by Dollar (2015) mentioned two primary reasons of decreasing outward FDI by United States in China. First, poor protection of property rights which can possibly lower the profits USA firms acquire from their technology and products. Second, China’s FDI restrictions on sectors which are important to USA firms. USA direct investment in China is made in manufacturing, wholesale trade, and finance and insurance. Moreover, USA imported the largest amount of goods from China in 2020 whereas China is the third largest export partner of USA. (Office of US trade representative, 2020).

ii. *Japan*

Figure 3.10: Investments from Japan in India and China (US\$ Bn), 2003-2019



Source: Author’s compilation based on UNCTAD Database

a) *Japan vis-à-vis India* (Figure 3.10)

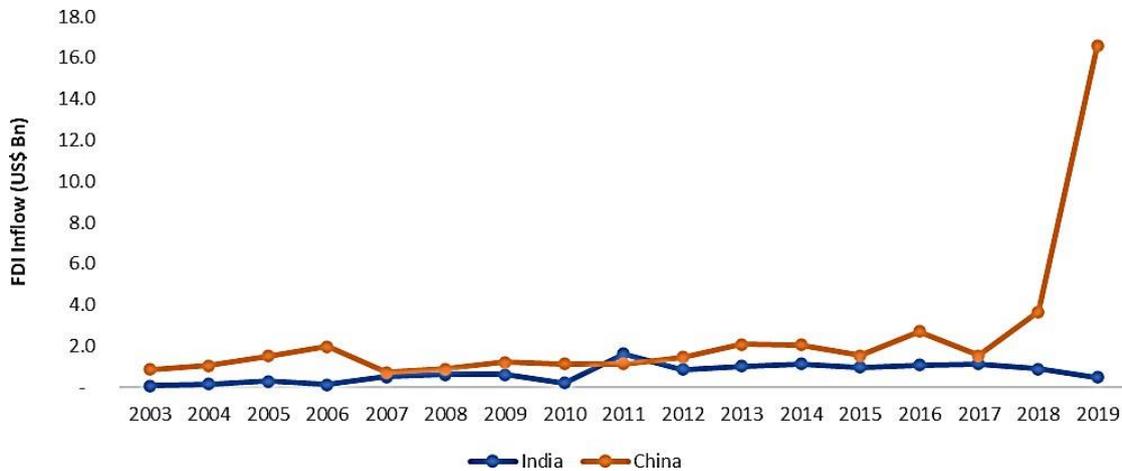
India-Japan relationship have been very pleasant since 1958 when Japan for the first time provided loan to India. It also helped India during 1990 economic crisis. Since 2006, there has been a growing influx of Japanese companies in India. According to the Ministry of Commerce and Industry's report, Japanese firms are particularly drawn to sectors in India such as automotive, electronics, system design and manufacturing, medical equipment, consumer products, and textiles. In April 2015, Ministry of Economic, Trade, and Industry (Government of Japan) and DPIIT (Government of India) signed an agreement to set up Japan Industrial Townships as a part of “Action-Agenda for the India-Japan Investment and Trade Promotion and Asia-Pacific Economic Integration”. Japan is the only country which has such industrial townships in India (The Print, 2022).

b) *Japan vis-à-vis China* (Figure 3.10)

Japan-China neighboring countries have economic relations, as well as cultural exchanges. China-Japan aims build a “constructive and stable relationship” (Ministry of Foreign Affairs of Japan, 2022). Japan exports US\$ 206.2 billion to China and imports US\$ 165.9 billion to India as of 2020 (Ministry of Foreign Affairs of Japan, 2022). Whereas Chinese outward investment to Japan’s is quite low as (US\$ 0.5billion) compared to Japan’s investment in China (US\$ 3.4 billion) as of 2020 (Ministry of Foreign Affairs of Japan, 2022). China is the Japan’s highest export market country which possibly is the reason of higher investment by Japanese investors in China. However, some Japanese executives mentioned that rising labor cost and other costs have attributed to disinvestments from China in 2015. Additionally, the insecurity of intellectual property rights is one reason (The Japan times, 2015). Although Japanese investments in China have slowed due to rising labor cost in China and Japan’s diversification policy in 2018 Japanese investors still invested more in China as compared to India. Researchers have expected that the investments will continue to grow in coming years looking at the efficiency of Chinese manufacturing sector especially in car industry.

iii. *Germany*

Figure 3.11: Investments from Germany into India and China (US\$ Bn), 2003-2019



Source: Author's compilation based on UNCTAD Database

a) *Germany vis-à-vis India* (Figure 3.11)

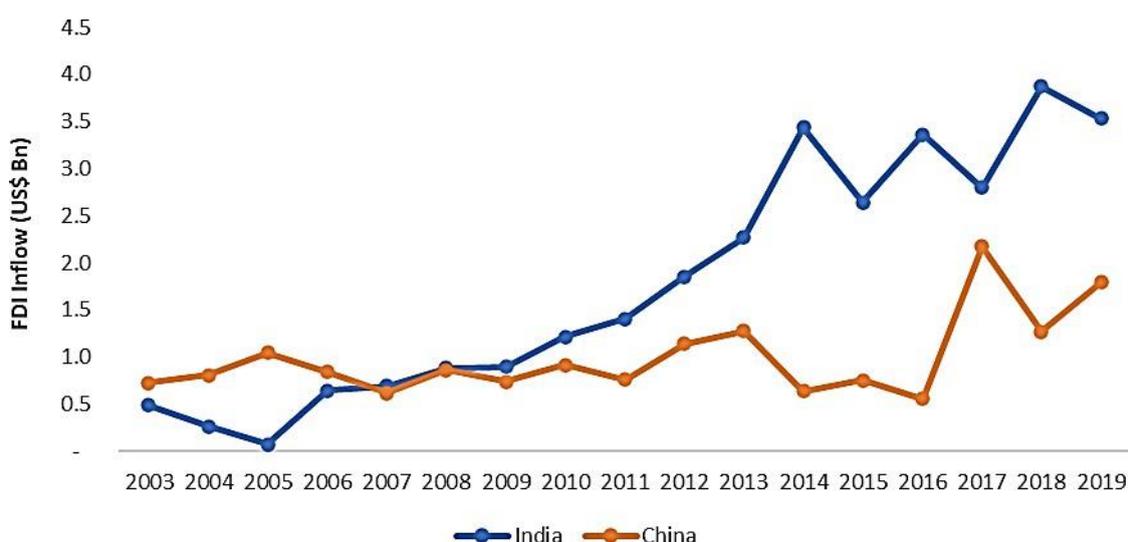
Germany-India signed a bilateral investment treaty in 1995 which was terminated in 1998. Both the countries are members of EC-India Cooperation agreement (1993) which is in force (Investment Policy Hub, UNCTAD). Germany's investment in India have reduced considerably after 2011. It was US\$ 1622 million in 2011 and since then till 2020 India has not been able to attract this figure back. Old German companies such as Siemens, Bosch, and Bayer have been in India for more than a century but have reinvested profits in India. They have not brought new FDI in the country. However, 'Make in India' launched in 2015 attracted FDI from 135 companies of Germany (The Hindu, 2021). India's total export to Germany is 2.6% of its total exports and 2.8% of its total imports as of 2019-2020 (Ministry of Commerce and Industry, Department of Commerce). The smaller number of investment treaties and lower German's export to India can be attributed as major reasons of lower investments from German companies.

b) *Germany vis-à-vis China* (Figure 3.11)

China-Germany entered China-EC trade and cooperation agreement in 1985 which is still in force and signed a bilateral investment treaty with last in 2003 (Investment Policy Hub, UNCTAD). An interesting analysis by Iglesias (2015) mentioned that Germany was the largest investors from Europe in China as of 2015. Germany and China both were reaping benefits from Germany's investment in China as of 2015 which was escalating China's growth. The paper mentioned that these investments primarily made China manufacturing powerhouse. Moreover, German machineries are not only used for manufacturing but also for real estate and infrastructure. On the other hand, during European financial crisis Germany has been greatly benefitted from China. Additionally, products are manufactured at low cost in China which benefitted Germany. The middle-class group from China were keen to buy German cars which also profited Germany (Iglesias,2015). As per German Federal Statistical office, China is the largest export partner of Germany. Although qualified staff is the biggest challenge German staff faces in China (Srivastava, 2016).

iv. *Netherlands*

Figure 3.12: Investments from the Netherlands into India and China (US\$ Bn), 2003-2019



Source: Author's compilation based on UNCTAD Database

a) *Netherlands vis-à-vis India* (Figure 3.12)

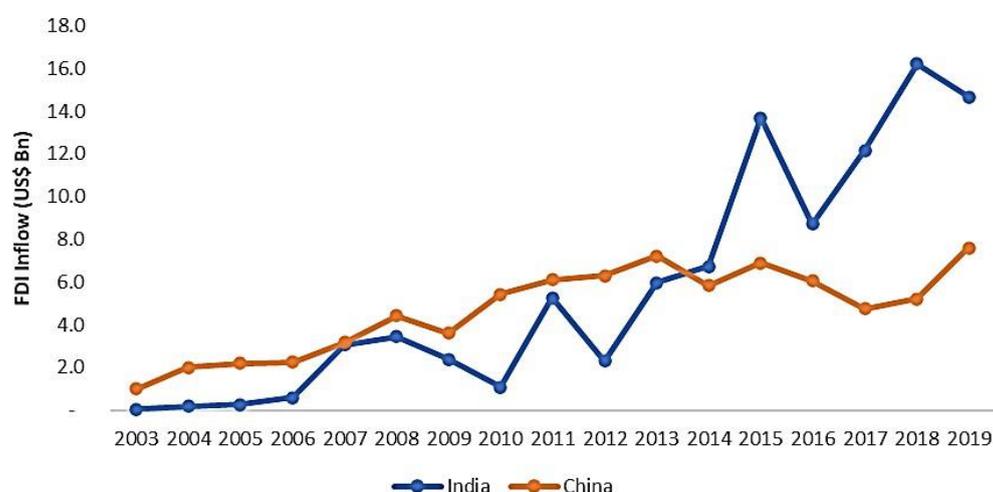
India-Netherlands signed a bilateral investment treaty in 1995 which was soon terminated in 2006. From the above Figure 3.12, an important insight that can be drawn is Netherlands investments in India and China have negative relationship i.e., with the increase in investments in China, Netherlands investments in India decreases. However, Netherlands still recovers its investments in India and maintains its flows in India as it considers India as a ‘priority country.’ The reason behind the flows is the increase in India-Netherlands trading. Netherlands Rotterdam port is used for exports by India as mentioned by Netherlands envoy to India (Chaudhry, 2022).

b) *Netherlands vis-à-vis China* (Figure 3.12)

China-Netherlands signed a bilateral investment treaty in 2001 which is still in force. Both the countries are members of China-EC trade and cooperation agreement. Netherlands is China’s largest trade partner after Germany. China consider Netherlands as ‘gateway’ to trade in European countries as it is the logistics hub of Europe (Fujino, 2018). Netherlands investment in China have been reducing since 2006. Although the ‘Belt and Road Initiatives’ have provided many investment opportunities to Netherlands investors.

v. *Singapore*

Figure 3.13: Investments from Singapore into India and China (US\$ Bn), 2003-2019



Source: Author’s compilation based on RBI Database and MOFCOM

a) *Singapore vis-à-vis India* (Figure 3.13)

India has no bilateral investment treaty with Singapore nor both are common members of any economic integration. As per Export Import Databank, Ministry of Commerce and Industry India, India has exported 2.88 percent of its total exports to Singapore while imported 3.10 percent of its total imports in 2019-2020. Singapore holds seventh position in India's trading partner in 2019-2020. India was in trade deficit with Singapore in 2018 while China was in trade surplus with Singapore in 2018. Hence, India needs to work on trade openness and engage in more bilateral agreements or economic integration with Singapore.

b) *Singapore vis-à-vis China* (Figure 3.13)

China-Singapore entered a bilateral investment treaty in 1985 which stands terminated. They are member of several economic integration like ASEAN-China framework agreement (2002), ASEAN-China investment Agreement (2009), China-Singapore FTA (2008), RCEP (2020). As per Ministry of foreign affairs, Singapore, in 2013, Singapore was China's largest foreign investor. Singapore and China have several government projects which aims at developing industrial parks and eco cities, and knowledge cities. Although as per the trends, India is surpassing India in attracting FDI from Singapore, the stock of Singapore's FDI in China and India is 15 and 6 percent as a percentage of its total stock as of 2019. Hence, India faces a tough competition from China to attract FDI from Singapore.

3.6 Sectoral Distribution of Inward FDI in India and China

3.6.1 Sectoral Inward FDI Distribution³⁸

a) *India*

Table 3.5: Sectoral Distribution of Inward FDI and GDP in India (Percentage), 2000-2019

Sector	GDP Share in 2000-2009	GDP Share in 2010-2019	Inward FDI
Primary ³⁹	23% (Agriculture)	21% (Agriculture)	1%
Secondary ⁴⁰	20% (Manufacturing)	19% (Manufacturing)	38.25%
Services ⁴¹	57%	60%	59.52%
Unspecified			1.23%

Source: Author's compilation based on World Bank and DPIIT Database

It is seen that investments in the primary sector are the lowest (Table 3.5). Under primary sector, investments are attracted under mining which sums up to only 0.66 percent share in the total investment which means that mining sector too has a very small share in total investment DPIIT (2019). Additionally, probing into the share of sector in GDP between 2000-2009 and 2010-2019, the findings confirm that it has declined and hence since to improve the contribution of primary sector in GDP, India needs to enhance inward FDI.

Under the secondary sector, automobile industry has received highest investment of US\$ 23892.81 million or 5.23 percent share in the total investment. Followed by investments in

³⁸ In the Table 3.5 and 3.6, the primary sector GDP share includes only agriculture sector's share to GDP and inward FDI into primary sector includes all the sub sectors under primary sector as per classification of the official sources. The secondary sector GDP share includes only manufacturing sector's share to GDP and inward FDI into secondary sector includes all the sub sectors under secondary sector as per classification of the official sources.
³⁹ Primary sector includes mining, and agriculture.

⁴⁰ Secondary sectors include metallurgy industry, industrial machinery, cement and gypsum products, miscellaneous mechanical & engineering industries, textiles, fermentation industries, machine tools, paper printing, agriculture machinery, earth moving machinery, scientific instruments, timber products, sugar production, tea and coffee production, electrical equipment production.

⁴¹ Service sector includes telecommunications, real estate, leasing and business services, Information technology, Computer hardware and software, Hotels, Construction development, Services to household, Transport, storage and post, supply of electricity, whole and retail trade.

chemicals sector DPIIT (2019). India has received significant number of inward FDI in secondary sector, however, the contribution of manufacturing to GDP needs to be enhanced. This can be done if investments in miscellaneous mechanical & engineering industries, textiles, fermentation industries are increased. During 2000-2019, the investments in these were less than 1 percent.

The service sector has received the highest investments. The top sub-sectors i.e., service, computer and hardware, and telecommunication belong to this sector. The contribution of service sector is highest in GDP, and it can be attributed to the inward FDI in the service sector (Shekhar et al., 2022) that inward FDI have positive and significant impact on GDP of service sector.

b) **China**

Table 3.6: Sectoral Distribution of Inward FDI and GDP in China (Percentage), 2000-2019

Sector	GDP Share in 2000-2009⁴²	GDP Share in 2010-2019	Inward FDI
Primary ⁴³	14% (Agriculture)	9.2% (Agriculture)	2%
Secondary ⁴⁴	32% (Manufacturing)	33.33% (Manufacturing)	47%
Services ⁴⁵	54%	57.47%	51%

Source: Author's calculation based on MOFCOM and World Bank Database

China's inward FDI in primary sector is considerably low and that can be reflected in the GDP share as its contribution has declined between 2000-2009 and 2010-2019. As per Lu et al. (2023), the decline in inward FDI began post 2012 and attributed in to mainly two reasons. First, Chinese economy entered a phase of high-quality development, and hence agriculture

⁴² For China, the data for manufacturing sector's GDP is available after 2004 and hence the analysis for GDP share to manufacturing includes data from 2004-2009.

⁴³ Primary sector includes agriculture and mining.

⁴⁴ Secondary sector includes manufacturing and production of electricity, water, and gas.

⁴⁵ Service sector includes real estate, leasing and business services, Information technology, Computer hardware and software, Hotels, Construction, Services to household, Transport, storage and post, supply of electricity, whole and retail trade.

industry become concerned about environmental pollution which emphasized attracting qualitative FDI in agriculture sector. Second, during 2017-2019, inward FDI policies were dedicated towards attracting investments in manufacturing and services.

China is known as global manufacturing hub which is clearly visible from above Table 3.6 as 47 percent of the investment has been attracted by secondary sector in China, under secondary sector, manufacturing (its sub-sector) alone contributed 33.33 percent to GDP between 2010-2019. Low labor cost conditions and Chinese liberal policies for foreign investors such as low taxes resulted in these achievements. FDI in the manufacturing sector can reap two most important benefits to any country, economic growth, and employment growth. Moreover, it makes a country self-reliant.

China attracts highest FDI in service sector. China has attracted FDI in almost every activity of service sector and the sole reason for attracting highest FDI in service sector China after liberalization had allowed FDI in almost every without any restriction.

3.6.2 Sectors Receiving Highest Inward FDI in India and China

The sub sectoral distribution of inward FDI in India and China as shown in Table 3.7 is shown below.

Table 3.7: Sub-Sectoral Inward FDI in India and China (Rank⁴⁶)

Rank	India	China
1	Services ⁴⁷	Manufacturing
2	Computer and Hardware	Real Estate
3	Telecommunication	Leasing and Business Services
4	Trading	Wholesale and Retail Trade
5	Construction Development ⁴⁸	Information Technology, Computer services and Software

Source: Author's compilation based on DPIIT and MOFCOM Database

a) *Analysis for India*

Rank 1: Services

The Cumulative inward FDI attracted in services is the highest between 2000 to 2019. As per DPIIT (2019), among the sub-sector of service sector, financial services received the 6.08 percent followed by non-financial/business service with 4.54 percent of the investment, investments in insurance were 2.86 percent and investments in banking services were 1.61 percent.

⁴⁶ The sectoral data for China is available from 2004 and hence, the ranks for China have been decided by summing up sectoral investments from 2004 to 2019. The ranks for India have been decided by summing up investments from 2000 to 2019. Post 2019 sectoral investments have been excluded since they are considered as non-normal years due to Covid-19.

⁴⁷ Services includes financial services, banking, insurance, and R&D.

⁴⁸ Construction Development Includes: Townships, housing, built-up infrastructure, and construction-development projects.

Table 3.8: Country-Wise Investment in the Service Sector (Percentage),2000-2019

Country	Country's FDI Equity Inflow in India's Service Sector
Mauritius	19.16%
Singapore	20.80%
U.S. A	21.18%
Japan	15.38%
Netherland	16.21%

Source: Author's compilation based on DPIIT Database

Since Mauritius and Singapore are the highest and second-highest FDI investor in India their investments in service sector are also higher but if we look at investment as a share of total investment then USA has invested the highest in the service sector (Table 3.8). The company-wise details on equity inward FDI reveals that despite of USA being the highest investor in the India's service sector only two Indian company; IndusInd Bank Ltd. And J.P Morgan securities India Pvt. Ltd. have received investments in India between 2000 to 2019. Moreover, investments in J.P Morgan securities India Pvt. Ltd. were made by its parent company situated in the USA. Hence, investments from USA in service sector are centralized in India.

The Consolidated FDI Policy of 2015 permitted up to 49% foreign equity investment through the automatic route in asset reconstruction companies and allowed 100% foreign direct investment in the non-banking financial sector. In contrast, the 2016 version of this policy raised the cap to 100% FDI for asset reconstruction companies under the automatic route. Additionally, it introduced 49% FDI in the private banking sector, also through the automatic route. This was the first instance of permitting FDI in the pension sector at 49%, and the policy further raised the FDI limit in the insurance sector from 26% to 49% under the automatic route. These policy liberalizations can be attributed to the subsequent growth in the service sector.

Rank 2: Computer and Hardware

During 2000 to 2019 computer and hardware sector has received second-highest investment as FDI in Indian sector. As per DPIIT (2019), computer and hardware sector include sub-sector, computer software industry with the highest 9.37 percent of the investment, followed by

computer hardware and other (software) with minimal 0.11 and 0.05 respectively. Among the sub-sector Indian software industry has attracted majority of the investments.

Table 3.9: Country-wise Investments in Computer and Hardware Sector (Percentage),2000-2019

Country	Country's FDI Equity Inflow in India's Service Sector
Mauritius	9.04%
Singapore	12.03%
USA.	19.83%
Netherlands	13.72%
Cayman Island	34.83%

Source: Author's compilation based on DPIIT Database

Since Mauritius and Singapore are the highest and second-highest FDI investor in India their investment in computer and hardware sector is higher but if we probe investment in computer sector as a percentage of total investment Cayman Island has invested the highest in the computer and hardware sector as a share of its total investment followed by USA (Table 3.9). The company-wise details shows that companies like BH International holdings (Based in USA) have invested in One 97 communication, Oracle Global (Based in Mauritius) Ltd has invested in I-Fliex Solutions LTD. But round-tripping is clearly visible in the investments from Mauritius in the computer and hardware sector as for example Baring India Pvt Equity Ltd (Based in Mauritius) has invested in an Indian company Infracsoft Technologies Ltd, Accenture Services Mauritius Ltd (Based in Mauritius) has invested in an Indian company Accenture Solutions Private Limited.

According to report of FDI India, this industry contributes to eight percent of GDP in India. This sector provides the highest employment in India. Quoting a report on FDI in IT sector by FDI India, India has become the hub of digital capabilities with around 75 percent of the global digital talent present here. India has the humungous market as far as global services sourcing is concerned. As of 2021, India has become 3rd largest tech-start-up hub in the world. (FDI in IT Sector in India, 2021)

Rank 3: Telecommunication

FDI in telecommunication sector has attracted the third largest share in India. As per DPIIT, December 2019, the telecommunication sector includes sub-sectors like telecommunication with 1.92 percent share, radio paging with no FDI, basic telephone service with 2.60 percent of share, telecom with 3.59 percent of share.

Table 3.10: Country-wise Inward FDI in Telecommunication Sector (Percentage), 2000-2019

Country	Country's FDI Equity Inflow in India's Service Sector
Mauritius	17.24%
Singapore	8.03%
Japan	6.52%
Russia	69.05%
U.S. A	1.41%

Source: Author's compilation based on DPIIT Database

Since Mauritius and Singapore are the highest and second-highest investor in India, volume of their investment is higher in India. But if we look share as percentage of total investment, Russia invests the highest as a percentage of its total investment. As per DPIIT data Indian companies like Federal Agency for State Property Manage (Based in Russia) invested in Sistema Shyam Teleservices Ltd, NTT Docomo Inc (Based in Japan) invested in Tata Teleservices Ltd, Three Pillars Singapore Pvt Ltd has invested in Bharti Airtel India. In total seven companies from Singapore have invested in India.

Under Consolidated FDI Policy (2015), FDI in telecommunication sector was allowed up to 49 percent under automatic route in India. In Consolidated FDI Policy (2016) it was allowed 100 percent under automatic route. The sector contributes 7 percent share in India's GDP. Moreover, India is the second largest telecommunication market in the world. (FDI in Telecommunication Sector in India, 2021)

Rank 4: Trading

FDI in trading started increasing after 2014. It includes sub-sectors such as trading (for exports), trading (wholesale cash and carry), E-commerce, trading (miscellaneous). As per DPIIT (2016), majority of inward FDI was attracted by trading (wholesale and cash and carry) with 3.73 percent of share. The boost has several reasons as FDI in trading (wholesale and cash and carry) was allowed 100 percent under automatic route in Consolidated FDI Policy (2015). This means the sale of goods directly to the whole seller, retailer, and institutions. Moreover, FDI in E-commerce was allowed up to 100 percent under automatic route but allowed only in Business-to-Business (B2B) it was restricted in retail sector.

Among the trading sector, E-commerce is a budding area. Under press note no.2 (2018 series) released by DPIIT, 100 percent FDI was allowed in E-commerce sector under automatic route. Although FDI was not permitted under inventory-based model of e-commerce. FDI policies in E-commerce sector and for trading (wholesale cash and carry) did not change. (Consolidated FDI Policy, 2020).

Rank 5: Construction Development

Construction Development sector includes townships, housing, built-up infrastructure, and construction development projects. FDI in this sector is one of the basic requirements towards building a developed economy. Despite of allowing 100 percent investment under automatic route in the sector under Consolidated FDI Policy (2020), the investments continued to fall. Moreover, several other conditions such as requirement by the investee company to bring US\$ 5 million within six months were removed under (Consolidated FDI Policy, 2016).

Table 3.11: Country-wise Inward FDI in Construction Development Sector (Percentage), 2000-2019

Country	Country's FDI Equity Inflow in India's Service Sector
Mauritius	9.9
Cyprus	39.98
Singapore	2.33
Netherland	2.19
U.S. A	1.70

Source: Author's compilation based on DPIIT Database

As Mauritius and Singapore are the highest and the second-highest investor in Indian FDI their investment percentage in construction development as a share of their total FDI is greater. Otherwise, Cyprus has invested the highest as a percentage of its total investment in construction development sector.

As per DPIIT (2019), from Cyprus there were only two investments by Vakoder Investments Ltd. in Adani State Pvt Ltd. There were in total thirteen companies from Mauritius who invested in Indian companies. But again, companies like Essar Business Park Ltd., Emaar Holdings were the parent or subsidiaries of the Indian company in Mauritius who invested in India.

a) **Analysis for China**

Rank 1: Manufacturing

In 2018, this sector constituted for 30 percent of China's total FDI. The immense part here was played the average tariff rate which was reduced to 15.3 percent in 2001 from 50 percent in early 1980s (Tseng, 2002). Moreover, low labor cost in China, attracts humungous FDI in manufacturing. However, in 2019 this sector constituted for 25 percent of China inward FDI.

Rank 2: Real Estate

Real estate sector accounted for 16 percent of China's total FDI in 2018 and 2019. Moreover, this sector witnessed a growth rate of 33 percent in 2018. Studies like Yongjian (2019) have

concluded that market size, policy liberalization, and cost has led to a considerable growth in the sector.

Rank 3: Leasing and Business Services

The share of this sector is 13 percent of total FDI in China in 2018. It has observed a growth rate of 12 percent in 2018. This sector has shown tremendous growth since 2004 except for the year 2015. In 2019 the contribution of the sector to the inward FDI was 15 percent.

Rank 4: Wholesale and Retail Trade

The sector covered 7 percent of total FDI in China in 2018 and received 6 percent of inward FDI in 2019. Although this sector recorded a negative growth rate in 2018. China joined WTO in 2001 and eliminated dual pricing practices and differences between goods produced in China and produced for exports. The wholesale sector is considered the most important step in overall distribution. FDI in this sector would mean an increase in inventory, availability of raw materials, and efficient supply chain.

Rank 5: Information Technology, Computer Services and Software

The share of this sector is 8 percent of China's total FDI in 2018 which increased to 10 percent in 2019. Although, this sector recorded a negative growth in 2018. Big companies like Tesla have invested in China's tech-companies.

3.7 Investigation into the Trends and Patterns of Sustainable Inward FDI

The investigation into trends and patterns of sustainable inward FDI has been carried out through following ways:

3.7.1 Regional Distribution of Inward FDI within India and China

Sustainable development is ensuring prosperity for all; it requires equal distribution of economic and social opportunities and benefits which are spillover effects of inward FDI as suggested by past literature. Thus, to attain sustainable development or overall development, an economy needs to ensure equal distribution of inward FDI. The present study attempts to analyse the distribution within India and China via concentration indices. There are several indices such as Lorenz curve and Gini coefficient, Theil index, Atkinson index, and Concentration Ratio. The present study has used Lorenz curve and Gini coefficient as they are most used by the government to evaluate and shape policies aimed at reducing inequality. Lorenz curve is a graphical representation of distribution of income and wealth within the economy developed by Max Lorenz in 1905. Gini coefficient is a numerical measure of income and wealth in the economy based on Lorenz curve. It measures how far is Lorenz curve from the line of equality. It is calculated using Lorenz curve. The Gini coefficient lies between 0 to 1. If the distribution is equal the Gini coefficient will have a value 0 and if all the distribution is concentrated within one city, Gini coefficient will have a value 1. This means that higher value of Gini coefficient highlights higher level of inequality and vice-versa. Using the Lorenz curve, Gini coefficient can be calculated with following formula:

$$Gini\ coefficient = \frac{Area\ of\ A}{Area\ of\ A + Area\ of\ B} \dots\dots\dots (1)$$

Implying that,

- ✓ Area A is the area between line of equality and Lorenz curve.
- ✓ Area B is the area between Lorenz curve and the X- axis.

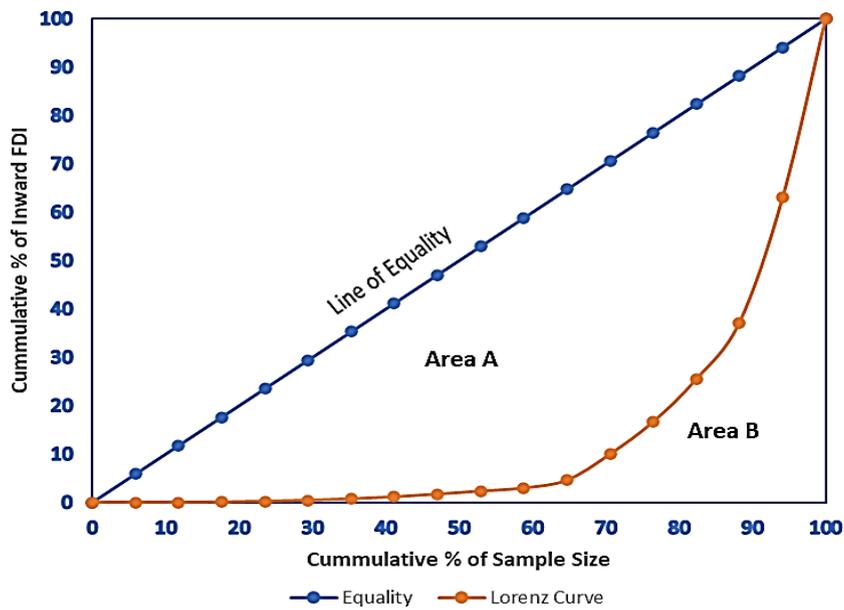
Since line of equality divides the graph into two equal parts, Area A + Area B is equal to 50 percent. Gini index is the calculated as the ratio of the area between the line of equality and the area under the Lorenz curve.

- ✓ Gini coefficient <0.2 indicates perfect equality,

- ✓ Gini coefficient between 0.2-0.3 indicates relative equality,
- ✓ Gini coefficient between 0.3-0.4 indicates reasonable gap in the distribution,
- ✓ Gini coefficient between 0.4-0.5 indicates high disparity in distribution,
- ✓ Gini coefficient >0.5 indicates severe disparity. (Andersen et al., 2021)

a) *India*

Figure: 3.14: Lorenz Curve for FDI Distribution (US\$ Mn), 2000-2019



Source: Author's calculation based on DPIIT Database

The above analysis in the Figure 3.14 has been carried out with the help of DIPPT database on distribution of FDI within Indian cities with the help of Lorenz curve and Gini coefficient. As seen in the above figure, there are two lines; the line of equality which is the ideal graph or the ideal distribution of FDI among Indian cities. The other line is the Lorenz curve which demonstrates the actual distribution of FDI among Indian states. The Lorenz curve is considerably far from the line of equality representing a high level of unequal distribution of FDI among Indian cities.

Gini Coefficient

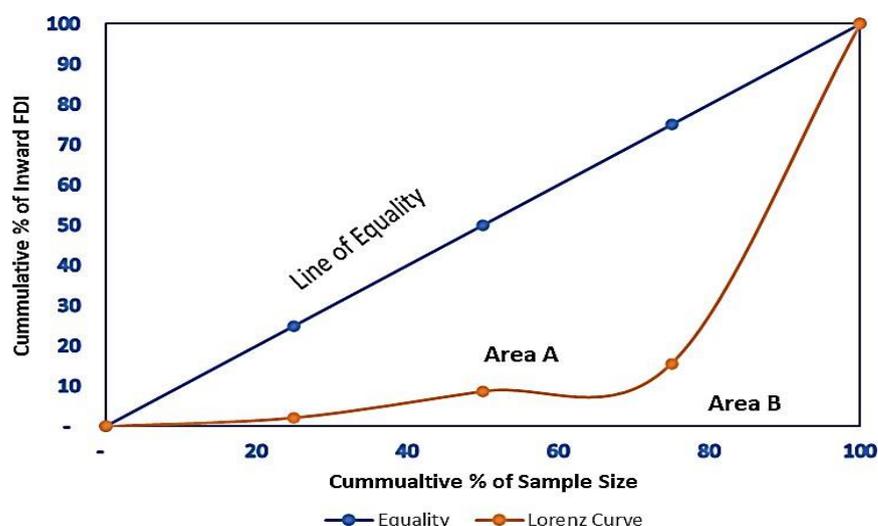
Based on the calculation,

$$G = 37.35/50 \dots \dots \dots (2)$$

The Gini coefficient, based on equation (2) is equal to 0.74 which means that there is severe level of inequality in distribution of FDI among Indian cities. As per recent DIPP report 71 percent of the FDI is attracted by five cities i.e., Mumbai, New Delhi, Bangalore, Chennai, and Ahmedabad.

b) *China*

Figure 3.15: Lorenz Curve for FDI Distribution (US\$ Mn), 2019⁴⁹



Source: Author's calculation based on MOFCOM Database

The above analysis in the Figure 3.15 has been carried out with the help of MOFCOM database of regional distribution of FDI within China i.e., within east⁵⁰, central⁵¹ and west⁵² parts of China in 2019.

Gini Coefficient

Based on the calculation,

$$G = 18.34/50 \dots \dots \dots (3)$$

⁴⁹ MOFCOM does not provide complete data on distribution of inward FDI within China and hence, the calculation has been done with the year 2019. Hence, regional distribution within India and China is not comparable.

⁵⁰ East- Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Hainan.

⁵¹ Central- Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan

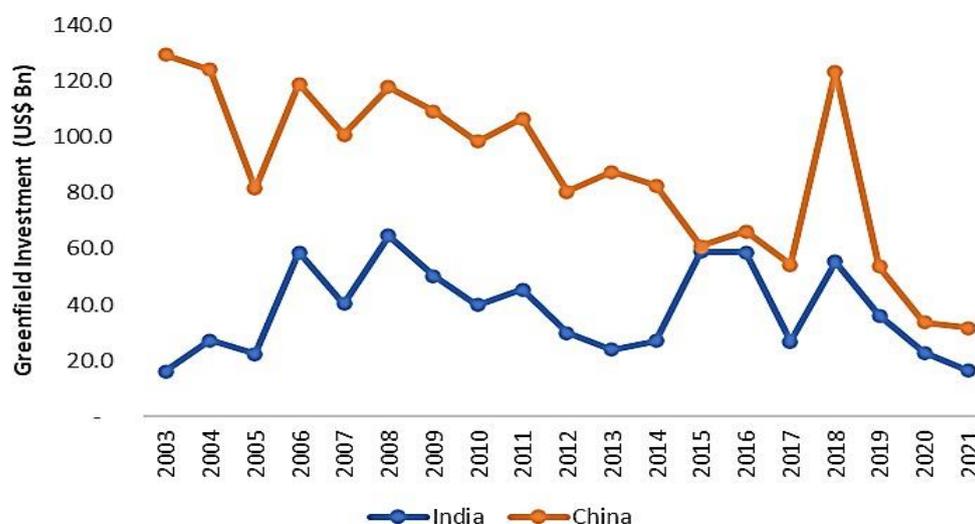
⁵² West- Inner Mongolia, Guangxi, Sichuan, Chongqing, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang

The Gini coefficient, based on equation (3) is equal to 0.36 which means that there is a reasonable gap in distribution of FDI within China. As per recent MOFCOM FDI statistics 84.3 percent of the FDI is attracted by eastern region in China i.e., Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, and Hainan.

3.7.2 Greenfield Investments Received by India and China

A greenfield investment is a form of FDI where an enterprise establishes new (green) facilities (sales, operations, manufacturing) in foreign country and leads to benefits such as generating employments, enhancing GDP, and innovation. The SDG requires economies to enhance and achieve growth in these areas which can be attained if economies attract Greenfield inward FDI.

Figure 3.16: Greenfield Investments in India and China (US\$ Bn), 2003-2021



Source: World Investment Report, UNCTAD

China and India are two Asian economic giants almost similar in market size and labour force. Since these two variables are very vital while deciding host economy for investments, China gives tough competition to India. China is the chief receiver of inward FDI among developing economies and in Asia. India aspires to become a global manufacturing hub beating China which is possible if it attracts greenfield FDI or organic FDI like China. Figure 3.16 demonstrates the volume of greenfield FDI attracted by both the economies. It is evident that

although China attracts higher volume than India the gap between China and India have reduced commendably since 2003.

Greenfield investments are crucial for enhancement of macro-economic indicators in India. Above Figure 3.16 demonstrates that China held an extremely high volume (US\$ 129 402) of greenfield investments: on contrary, India held an exceptionally low volume of greenfield foreign investment (US\$ 16247) in 2003. However, the current trend demonstrates that there is an upward trend in India which can be attributed to the advantages provided by the government to the green field investors. China has been observing a declining trend since 2003 which means that the high FDI figures of China are due to its FDI via mergers and acquisitions. The decline in China's greenfield FDI can be attributed to the rising geo-political tensions with economies such as Taiwan and USA. As per Caon (2020), in 2019 out of the total investments USA in China 67 percent were greenfield while 33 percent were via mergers and acquisitions. Moreover, the main reason China attracts such massive FDI is its exports which China conducts from Indian Ocean. But China must cross Taiwan to conduct its exports via Indian Ocean and rising tensions with Taiwan might discourage its greenfield investment. Hence, decline in Chinese greenfield investment is justifiable.

3.7.3 MNCs Investing in India and China and their Type of Investments

SDG requires higher employment ratios due to various macro-economic benefits. Top MNCs in terms of generating employment and their type of investments are studied to probe into the type of MNCs that enter in India and China and their investments. As top MNCs in terms of employment are expected to generated higher employment if mode of their investment via greenfield.

Multinationals Investing in India and China and their Type of Investments

Table 3.12: Investments by Top Companies (No. of Employees⁵³)

Top Companies	Invested in India		Invested in China	
	Forms of Investments	Sector	Forms of Investments	Sector
Hon Hai Precision Industries	Greenfield	Manufacturing	Greenfield	Manufacturing
Walmart Inc	M&A	Services	Greenfield	Manufacturing & Services
Volkswagen Group	Greenfield	Manufacturing	Greenfield	Manufacturing
Deutsche Post AG	M&A	Services	Greenfield	Services
Amazon.com, Inc	Greenfield	Manufacturing & Services	Greenfield	Manufacturing & Services
CK Hutchison Holdings Limited	-	-	Greenfield & M&A	Manufacturing & Services
Robert Bosch GmbH	Greenfield	Manufacturing & Services	Greenfield	Manufacturing
Nestlé SA	Greenfield	Manufacturing & Services	Greenfield	Manufacturing & Services
Toyota Motor Corporation	Joint venture	Manufacturing & Services	Greenfield	Manufacturing & services
Fresenius SE & Co.	M&A	Manufacturing & Services	M&A	Manufacturing & services
Hitachi Ltd	Joint venture	Manufacturing & Services	Greenfield	Manufacturing and Services
Siemens AG	Joint venture	Manufacturing & Services	Greenfield	Manufacturing

Sources: Author's compilation based on World Investment Report 2020, Companies' Websites, and Media Reports

Table 3.12 shows top companies in terms of providing employment in foreign countries. It depicts a comparative picture of India and China based on their patterns of investment in India.

⁵³ Number of employees includes foreign country employee.

It is evident that majority of the companies have made investments through M&A in India while the same companies have invested via greenfield in China. Taking a glance at companies, Nestle SA has 9 factories in India while 31 factories in China. Toyota in 2020 announced shut down of its 5 factories in India due to supply chain issues, taxes, and Covid-19 pandemic.

The growing concerns of conventional energy sources exhaustion have made the world realize the importance and need to shift towards non-conventional energy sources. Reliance on conventional energy sources will lead to exhaustion of available resources and carbon emissions. India is a country with untapped resources and potentials. However, there is a gap of financial and technical capital to exhaust these resources which can be filled by FDI in non-conventional energy sources to reduce carbon emissions and create sustainable energy sources.

3.8 Post Covid 19 Scenario of Inward FDI in India and China (2020 and 2021)

3.8.1 Exploration of the Trends and Patterns in Inward FDI in India and China

a) *India*

- i. ***Top investor:*** Mauritius continued to be India's top investor in the 2020 and 2021. Although its share reduced by 46 percent as the inward FDI amounted to be US\$ 8241 million in the 2019 were reduced to 5639 in the subsequent year 2020 due to Covid-19 pandemic. However, investments increased to US\$ 9392 million in the year 2021.
- ii. ***Increased flows from the USA:*** At the time when the world was witnessing a slowdown in investments, Indian inward FDI increased from US\$ 4223 in the year 2019 to US\$ 13823 in the year 2020. These flows were driven primarily by investments from the USA's company Facebook in the Reliance-Jio and its investments in the Drugs and Pharmaceutical sector of India. In the year 2021, investments were reduced to US\$ 10549 million however, it remained higher than pre Covid-19 scenario.
- iii. ***Increased flows from UAE:*** Singapore, UAE, and UK were other top economies which increased their investments in India. Among these economies, UAE has invested immensely in India. Its investments have increased from US\$ 339 million to US\$ 4203 million in the 2020. As per the report of the investment monitor, multinationals from UAE initiated eight FDI projects in India which increased to 22 in the year 2021. The leading sectors were healthcare followed by construction and financial services. (Lyttle, 2022)
- iv. ***Reduced investments:*** Top investor economies like Netherlands, Japan, Cayman Islands and Cyprus reduced their investments in India in the year 2020. Moreover, Netherlands, and Japan continued to reduce their investments in the year 2021 as well.

b) *China*

- i. **Top investor:** The inward FDI in China reduced by 4 percent in the year 2020. Hong Kong continued to remain top investor in China. Interestingly, Hong Kong's investment in China increased in the 2020 and 2021. This is primarily driven by China's huge consumer base and various manufacturing capabilities. Moreover, China and Hong Kong share common language and legal system which acts as a crucial determinant to motivate investors in Hong Kong.
- ii. **Other top investor economies:** Other top investors in China such as British Virgin Islands, UK, the USA, Republic of Korea, Germany, Japan, and Singapore increased their investments in China in the year 2020 and 2021. These investments were increased in the 2 in response to Covid-19 outbreak.

3.8.2 Sectoral Distribution of Inward FDI in India and China

a) *India*

- i. **Sectors receiving higher investments:** India received higher investments in primarily two sectors, i.e., Construction (Infrastructure) activities, Computer Software and Hardware and Drugs and Pharmaceutical sector in the year 2020 and 2021. The increased investments in construction sector can be explained by Abu Dhabi Investment Authority's investment in India. Moreover, UAE is the second non-financial action task force after Mauritius in India.
- ii. **Reduced investments:** Investments from crucial sectors such as telecommunications, trading, service sector, and chemicals were reduced in India.

b) *China*

- i. **Sectors receiving higher investments:** The investments in leasing and business services increased. Computer service and software and Mining received high investments and hence it can be said that the increase inward FDI in China despite of Covid-19 outbreak

were driven by these two sectors. Additionally, the investments in the real estate sector it remained unchanged in the 2020 and 2021.

- ii. ***Reduced investments***: In China top sectors in terms of inward FDI i.e., Manufacturing witnessed a downfall in the year 2020 and 2021 due to Covid-19 outbreak in China. Moreover, considerable investments were reduced in Production of electricity, gas, and water sector as well.

3.9 Findings

The findings suggests that inward FDI in developed economies have been volatile than developing economies. The USA receives highest share of inward FDI in the world and China receives highest share of inward FDI in Asia. Additionally, China receives highest of inward FDI amongst the BRICS economies. A comparative trend analysis of inward FDI in India and China suggests that China receives considerably higher volume of inward FDI as compared to India and China's inward FDI is more consistent than India.

The geographical distribution suggests that FDI composition in India is quite concentrated as more than sixty countries invests in India but only Singapore and Mauritius contribute more than half of the contribution in India's inward FDI. India needs to be risk averse as if in future India's fellowship with these countries end, then India's FDI figures will be affected. Moreover, the other countries like the USA, Germany, Japan, and Netherlands constitute 26.33 percent of FDI in India whereas the other 57 countries contribute in the remaining share of investment. Hence, India needs to attract FDI from economies around the world in considerate ratio. China's figures suggest same findings as Hong Kong contributes more than half of the total inward FDI in China and countries like Japan, Germany, France, Netherlands, Republic of Korea accounts for less than 25 percent of China's inward FDI share. Studies like Wei (2005) have linked the reason for this concentration with round tripping. But China attracts its FDI from 163 countries apart from Hong Kong and China has signed bilateral investments treaties in good numbers with other economies. India, needs to diversify their investments and become risk averse as by diversifying its investments will strengthen India's economic ties with several countries. If around 163 countries are interested in investing in China, India being its neighbouring economy with same market composition can provide conducive environment to these countries. India should invite investors from these economies and seize the opportunities.

The sectoral distribution suggests that India attracts highest FDI in the service sector followed by computer hardware, software, and telecommunication which means that FDI in India has been domestic market seeking. But to achieve the goals set by Indian government and become self-reliant, India needs to attract higher FDI in manufacturing. FDI in manufacturing has several benefits; increase in employment, increase in exports which will eventually strengthen the domestic currency and have positive impact on macro-economic indicators.

Probing into the FDI composition of China it was found that China attracts majority of its FDI in manufacturing sector, followed by investments in real estate sector this shows that investments in China are resource-seeking. Additionally, the trend suggests that China has changed its investment patterns since 2011 and it attracts top investments from countries like Germany, Japan, Netherlands, Republic of Korea, and the USA. These economies established manufacturing base in China and are responsible in making China a ‘global manufacturing hub.’

As per the findings through Lorenz Curve, FDI in India within Indian cities is highly skewed between 2000-2019 as significant number of investments are concentrated in five cities i.e., Mumbai, New Delhi, Bangalore, Chennai, and Ahmedabad. In China, based on the analysis there is a reasonable gap in the distribution of inward FDI in the year 2019. As significant number of investments are concentrated in the eastern region of China. For the overall development of an economy, FDI must be distributed equally. To enable this governments in the states with low volume of FDI should work on their ease of doing business indicators and announce incentives to foreign enterprises investing in their states. Additionally, they can provide a detailed report on their economic and industrial development and advantages of investing in the respective state. The findings on green field investments suggests that between 2003-2021, China attracted higher green field investments than India. However, India and China both have observed volatile trends in terms of green field investments. Interestingly, green field investments declined in India and China post 2018 till 2021. The findings suggest that top multinationals in terms of employment invest via greenfield in China and via brownfield in India.

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