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FDI INFLOW BETWEEN INDIA AND CHINA AND ITS IMPACT ON INDIAN ECONOMY

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Abstract

India and China are the two main developed world emerging economic powers, both in Asia with wide domestic markets and cheap labour, which are also tempting FDI targets. With China joining the WTO, it has fallen for China, since it has first moved from the United States and has drawn more FDI than any other region, for the first time in FDI economic history.

The key aim of the paper is to research comparatively the increasing structure and course of FDI in India and China. It is well recognized that FDI will supplement local growth initiatives in numerous ways, including the promotion of export productivity, the growth and enhancement of job skills, technical capacity building and financial development capital increase.

India can learn a lot from China, our effective neighbor's FDI policy and experience, to attract FDI and use it effectively for its growth. This chapter aims to examine and compare the progress of China's FDI policy with India to allow us to learn from China's experiences and to minimize our shortcomings and improve our FDI-related reforms.

Keywords*: - FDI, FII, INDIA, CHINA, FDI Policy, Investment, Inflow, Economies*

I. Introduction

Some developing countries have achieved higher growth, and some couldn't draw too much FDI to expand effectively, due to the trance national transactions of FDI. While India has the ingredients to prosper in strong demographics, China has more success in the attraction of FDI on a wide domestic market. For nearly a quarter of a century, foreign investment has played an important role in China's economic growth and is crucial to this development. But while China has made tremendous strides in attracting FDIs so far and in developing the FDI

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policy system, its ability to attract FDIs has never been completely exploited. After the United States, China is the second-largest user of FDI. India has wide labour pools and strong domestic markets, which also provide fantastic possibilities for FDI but there is a major gap in contrast to FDI in India and China. In 2010, China received inbound FDIs of $111.7 billion, while India received only $22.24 billion. But the FDI in China declined for the first time in the last year

Foreign Direct Investment (FDI) was, in addition to being a vital engine of global growth, and significant financial non-debt vehicle for India's economic progress. In India, external firms invest for reasonable employment, special investment benefits such as tax holidays, etc. Foreign companies invest. It also involves acquiring technological know-how and creating opportunities for a nation where foreign investment is made.

The favourable political regime of the Indian Government and a healthy business climate ensure that foreign capital continues to flow into the region. In recent years, the government has taken various steps, including easing FDI requirements across industries such as defense-based refineries, PSU oil refineries.

In a global pandemic and growing fear of significant development slowdown, the government of Muhammad NarendraModi has taken a big decision to bar FDIs from land boundaries with India on the automatic road. In the background of the COVID 19 pandemic, the updated FDI regulation is intended to eliminate the 'oppportunity' of Indian industry. Analysts in particular worry about Chinese firms buying up distressed assets for an exorbitant price in the post-COVID era. The immediate signal for this came from the recent decision of the People's Bank of China to lift its HDFC shareholding from 0.8% to 1.0% in Indian bank.

There is no total irrational concern that China's predatory money will gain strategic stakes in India. In recent years , Chinese firms have spent more than $1 billion in two-thirds of Indian start-ups, large stakes of which are acquired from companies such as Alibaba (Paytm, Bigbasket and Zomato) and Tencent (Ola, Flipkart and BYJU's). In combination with China's strategic acquisitions over the years, fear has reached the entire globe, and countries such as Germany, Italy,Spain and Australia are generating similar obstacles. India's decision to ban the automatic Chinese FDI has uniquely benefited from a large political and economic context, both as a result of the real concerns and the exploitation of Chinese trading policies and backdoor strategic acquisitions in countries around India.

II. India’s Current Gamble Fraught with Risks

Although calls for Indian companies to safeguard their place in line with international developments and decline very well with domestic audiences, the move seems to have been precipitated. In India, for example, India has earned total FDI of $456.91 billion over the past two decades. More than 72% of those come from only five countries – from Mauritania, the world's largest channel for foreign investors (31%), Singapore (20.7%) and Japan (7.2%), the Netherlands (6.7%) and the United States (6.2%). Over the same time, China's FDI in India accounted for just $2.34 billion of overall inflows (0.51 percent). According to the Ministry of Commerce and Industry, China has earned a large inflow of car (876.73 million USD), electrical appliances (152.5 million USD), and utilities (1127

million USD). The Chinese government has made a substantial investment over the last five years (1, 81 billion USD). While China's FDI exposure to India has risen in recent years, the proportion remains small, making it difficult to justify such selective goals.

Over the years, numerous Governments in India, including those with legitimate reservations like Huawei in 5 G, have accepted investments from China. This is because India has over $55 billion of enormous trade deficits with China; the governments have continuously tried to bridge this gap partially through investment. The wide FDI bans would have significant implications for sectors like the manufacturing, manufacturing, real estate and other service sectors that are already under focus due to worsening demands, tough financing and India's internal vulnerability in capital development (the press release does not say whether investments are exempted from Greenfield's exemption).

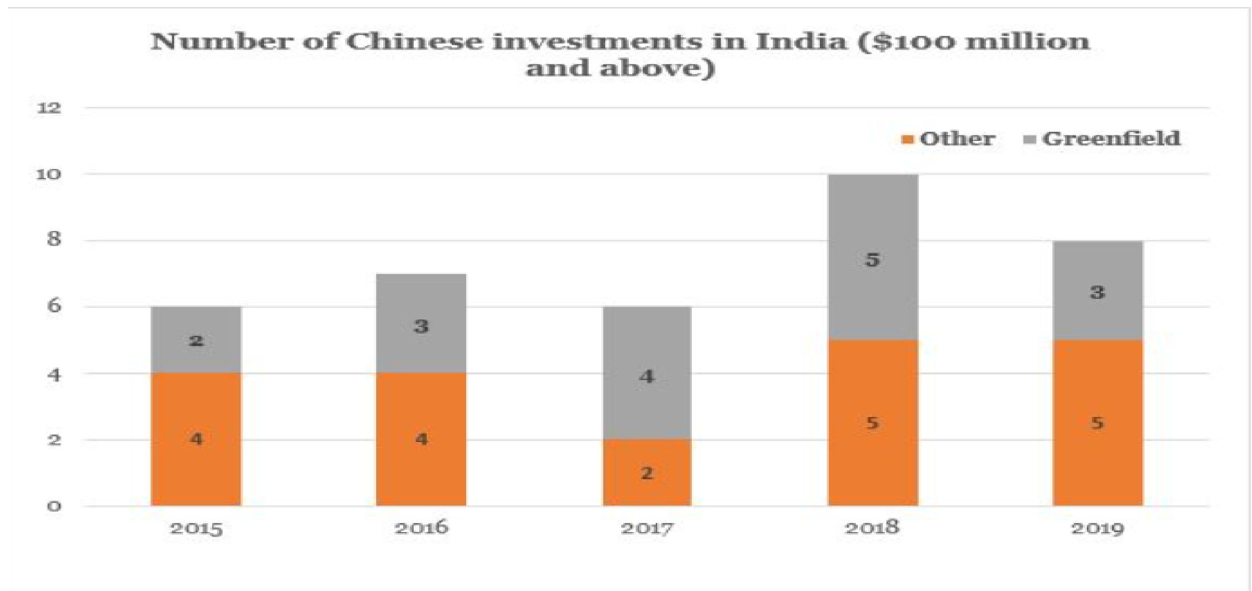
In several sectors such as cars, pharmaceuticals, aviation, immobilization and finch, Indian foreign investment has proven to be an inverter in work growth, knowledge diffusion and value-adding for the economy. In addition, China's investment channel participation is not foreign to India. Chinese firms spent $14.5 billion in India (excluding construction contracts), spread over 43 transactions, of which 23 are Greenfield projects, from March 2007 to December 2019 according to data from Chinese Global Investment Tracker, which monitors investment of $100 million or more. Most investments involve energy, technology (telecoms), consumer goods, metals and immovable products

Sector wise investment from Chinese companies ($100 million and above)

Sector	Total Investment (Million $)	No of deals	Greenfield
Agriculture	510	3	
Energy	1590	7	4
Entertainment	510	3	2
Health	1080	1	
Metals	1310	4	3
Other	4310	12	5
Real estate	540	3	3
Technology	1130	5	5
Tourism	1270	2	
Transport	700	3	1

Source: The China Global Investment Tracker, a project of the American Enterprise Institute and the Heritage Foundation.

In the last three years, Chinese companies have invested $2.8 billion (2017), $3.3 billion (2018), and $3.4 billion (2019) in India, a majority of them being Greenfield. It is common knowledge that FDI is a long-term investment, and the benefits of Greenfield investments to the host country have been well documented across the world.



India’s latest prohibition has been most controversial, though it is a clean prohibition. For some kind of investor from China, there are no exemptions. Although the Department for Industry Promotion and International Trade's press release says that the government will call for investment decisions, the previous record does not inspire trust. The net result is that the appeal of Indian companies that need urgent capital infusions would be reduced by less prospective investors — not to mention development of needless bureaucracy.

Banning Chinese investment does not forecast well in a period when Indian firms are being exposed to a major liquidity shortage due to rising reserves and banks are not so keen to lend. Nor do Indian businesses have a firm foundation for the argument that this change stops them from taking over. This is because the operational power of corporations remains with Indian promoters, pending foreign investment. In addition, international businesses must also abide by the rule of the land as they work on a regular basis. A brief analysis of the ownership patterns in Nice 100 companies suggests, primarily by international entities, that a fourth of the companies have foreign investment of 10 percent or more. CGIT data reveals that of 43 Chinese projects, only 15 included 50 percent or higher investment stakes in 2007-2019. In a project for Greenfield, every time the contribution was 100 percent.

The need to boost consumption demand by creating adequate jobs is one of the hours for India's economy, powered by the twin shocks of failed growth and COVID shutdown. Only a capital injection in the private sector will do this. The limited ban on foreign capital is not ideal at a time when government finances are strained and bank lending silenced.

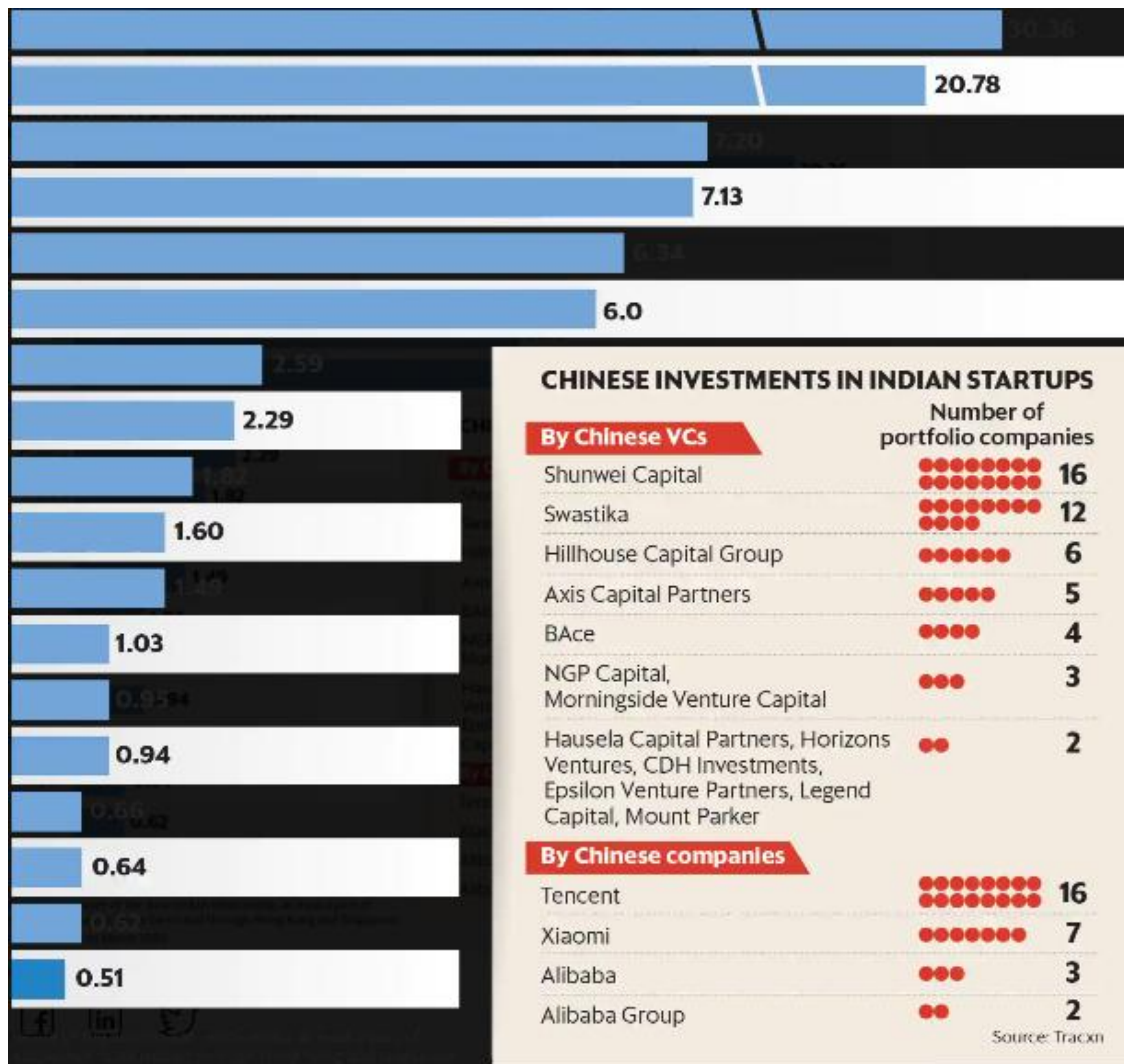
Real, Chinese state capitalism does not have optimal opportunities for Indian firms to compete with it, since it provides a number of undisclosed incentives for state-owned businesses. However, Chinese investment and Chinese exports are not the main danger to Indian firms. Despite the current FDI curb, Chinese markets continue to flood from plastics into electronics on Indian markets, even though Indian pharmaceuticals continue to rely heavily

on Chinese companies' chemicals. This was visible in 2019 in two countries' 92 trillion dollars exchange, with India having a trade deficit of 56 trillion dollars.

Capitalizing investment is a reasonable way to cross the gap; Chinese capital wants a major market like India because of global animosity. Moreover Chinese venture capital will also be exploring avenues to invest in India via different paths, while at the same time purchasing equity stock on the Indian market, considering the scope of Chinese companies around the world. Briefly, India must be intelligent to play the game. According to a recognised financial expert, "major foreign investment is a greater concern for foreigners than for investors. Let us therefore draw the greatest possible volume of Chinese investment, as the key risk is yours, not ours.

Finally, China will be motivated not only by India’s repressive policies to demand relief from the World Trade Organization; it may also pursue retaliatory steps that will lead to a trade war. The country can hardly afford it at this period of the economic growth of India and the emerging trade conditions induced by the COVID-19. Premier NarendraModi has put in motion ambitious plans to leverage the turmoil in India and to become a central player in the post-COVID global supply chains. This vision demands tremendous expenditure and future-oriented innovations. And it would not benefit to hold to the last remnants of protectionism.

During April 2014 to March 2019, the Parliament told that India was awarded $1.81 billion (around Rs 12.474 cr.) in foreign direct capital investment from China.In the fields of automotive manufacturing (USD 876, 73 million), electrical equipment (USD 152, 5 million) and the services sector (USD 127 millions), China earned maximum inflow during the time.The United Nations has announced that in 2019, India received 51 billion USD in foreign investment and was the world's ninth most significant recipient of FDI in 2019.



III. History and Recent Development on FDI Inflow from China

Initially, Chinese FDI was primarily investing in infrastructure from Chinese to India by state-owned firms. But in the past ten years, with China as a technical superpower rising, this has begun to shift.

Chinese tech companies like Baidu, Alibaba and Tencent began to invest in emerging Indian firms. Twenty-eight Chinese firms have been investment in Indian startups since 2010 according to the technology consulting company Tracxn. Tencent and Xiaomi are the champions.

For starters, Tencent has a portfolio of 16 Indian businesses including single-horn startups, valued at over 1 billion dollars – by Byju, Dream11, Flipkart, Hike, Swiggy and Udaan. Ibibo Party, KhataBook, MyGate, NewsDog and Practo are other firms that have an interest in it. All these businesses are noticeable and the Indian ecosystem's flag bearers.

Chinese venture capital companies (VC) are another number of investors and 41 have invested in Indian startups. The company's 16 portfolio businesses are led by Shunwei Resources (Cashify, Chalo, Clipapp, KrazyBee). The following businesses include Swastika and 12 firms (including HelloDhobi, InstaCar, Makkajai, Pickrr and Pocketin).

These 69 Chinese firms and VCs have invested in 104 start-ups in India. This is a tiny patch in the whole Indian entrepreneurship environment. Around 17 of them and VCs had more than one Indian company (Diagram 2). According to the 2019 annual fact sheet from Tracxn'sInde Technology, by the end of last year there had been financing of 6,114 Indian startups. In comparison to trade, China has so far made investment in India a limited room.

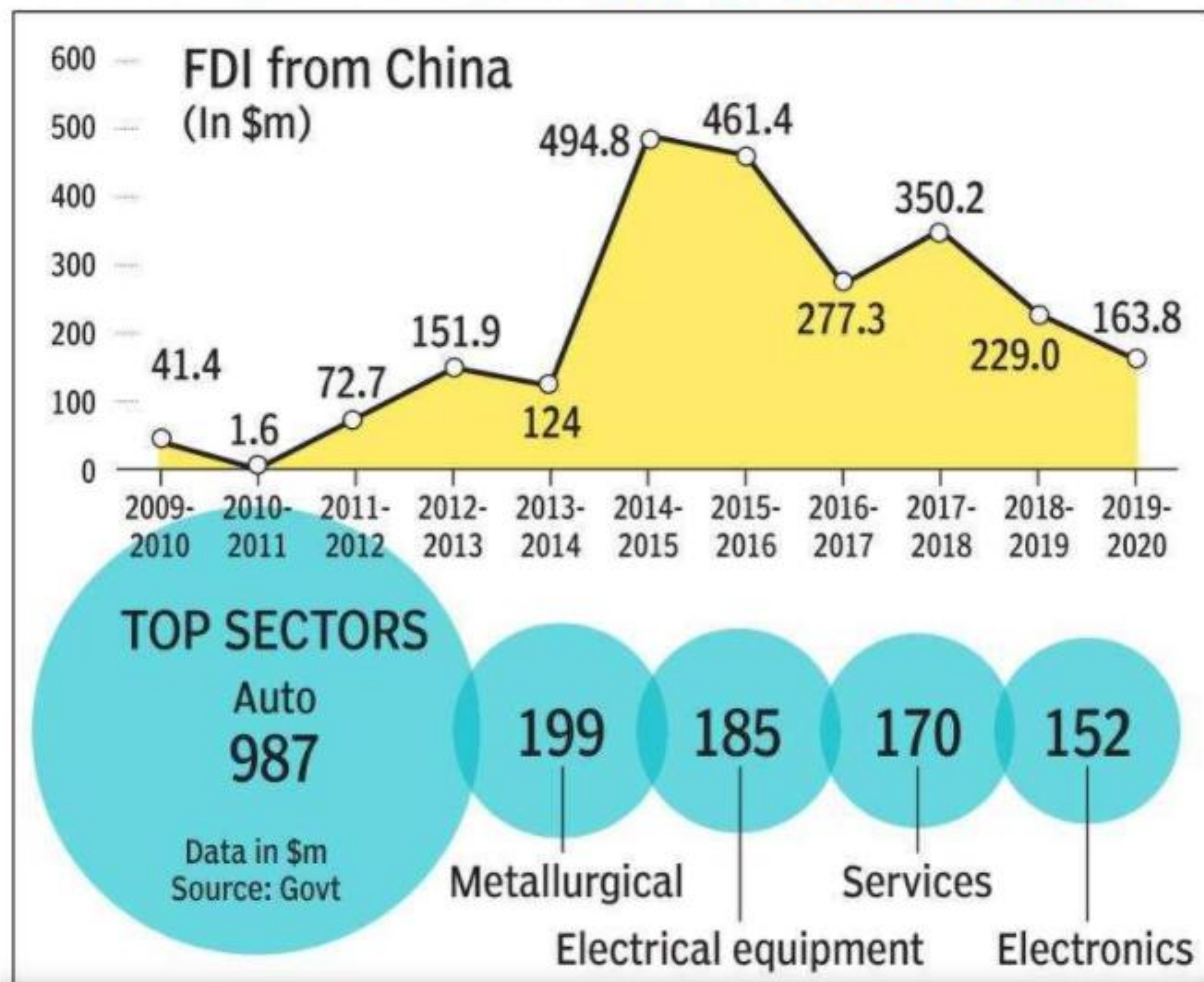
In Indian companies China is low on investment; even its investments in Indian startups are so.China saw India for decades as a destination for the export of its products. It began investing money in Indian start-up space after 2016, but on a much smaller scale than its movements on the company front.

In the last 20 years, the total FDI that was made into Indian firms, China accounted for only 0.51 percent, and according to the Indian government results, ranked low 18 (chart 1).

In exchange, India regarded China as the world’s industry, powered by state assistance, top-quality infrastructure and economies of scale. In reality, the main storey of Indian factories in China in the 2000s was that these benefits were abused.They were greeted by China. The local authorities called a road to the city following the Chennai headquarters when Indian automotive supplier Sundram Fasteners set up a factory in Wuyuan in China's Zhejiang province about ten days ago. Indian firms had spent $1.09 billion in China up to 2018, as per Indian government estimates.

Tense ties between India and China have had an effect on Chinese companies' investment as Chinese companies in India have substantially declined in foreign direct investment (FDI) in the last three years.

In 2017-18 the FDI inflow from Chinese companies in India was 350, 22 million US Dollars, down to 229 million US Dollars in 2018-19 and declining further to 163,77 million US Dollars in 2019-20.



The central government took a bold decision in late April of this year to amend its foreign direct-investment (FDI) scheme, which was named by some to curb the Chinese investors' aggressive actions in Indian businesses. In compliance with the new FDI requirements, any country which shares a land borders with India can no longer take the automatic route in FDI.

The laws will of course also extend to Pakistan, Bhutan, Nepal, Myanmar and Afghanistan but it is clear that India's authorities are especially keen to investigate potential Chinese investment for proof of exploitative actions because of the small FDI inflow from those countries.

And this seems to be a good reason. China has been rising its investment in India strategically since 2015. The FDI flowing into India from Chinese investors between 2015 and 2019 was $1.8 billion, according to information obtained at the Department of Industry Promotion and Internal Trade (DPIIT). In 2015, the gross China investment in India amounted to 494, 75 million dollars, while another 461, 40 million dollars came in the following year.

The United Nations Conference on Trade and Development (UNCTAD) on Monday said in its report that the country will continue to draw market-oriented investment through lower, but optimistic economic growth in India during the post COVID 19 pandemic.

The UNCTAD World Investment Study 2020 reports that in 2019 India, with an inflow of $51 trillion, was the 9th largest beneficiary of FDI, up from the 2018 $42 trillion earned when India ranked 12 among the world's Top 20.India was one of the top five host economies for FDI in the "Developing Asia" zone.

IV. Investments/ Developments

Some of the significant FDI announcements made recently are as follows:

- On August 21, 2020, the Government of Singapore announced investment of Rs 450 crore (US$ 63.84 million) in the qualified institutional placement (QIP) offering of mall developer Phoenix Mills Ltd.
- On August 14, 2020, Israel-based Coralogix, provider of machine-learning based log analytics and monitoring solution, announced a strategic expansion into India with a commitment to invest over US$ 30 million in the next five years.
- Between April 23 and July 16, 2020, Jio Platforms Ltd. sold 25.24 per cent stake worth Rs 1.52 trillion (US$ 21.57 billion) to various global investors from separate deals involving Facebook, Silver Lake, Vista, General Atlantic, Mubadala, Abu Dhabi Investment Authority (ADIA), TPG Capital, L. Catterton, Public Investment Fund (PIF), Intel Capital, Qualcomm Ventures and Google. This is the largest continuous fundraise by any company in the world.
- In May 2020, Philips, Dutch health tech and consumer electronics company, announced its plan to invest Rs 250-300 crore (US$ 35.47-42.56 million) to boost its manufacturing and R&D facilities in India.
- In January 2020, Amazon India announced investment of US$ 1 billion for digitising small and medium businesses and creating one million jobs by 2025.
- In January 2020, Mastercard announced its plans to invest up to US$ 1 billion in India over the next five years to double its research and development effort in the Indian market.
- In October 2019, French oil and gas giant, Total S.A., acquired 37.4 per cent stake in Adani Gas Ltd for Rs 5,662 crore (US$ 810 million), making it the largest FDI in India’s city gas distribution (CGD) sector.
- In August 2019, Reliance Industries (RIL) announced one of India's biggest FDI deals with Saudi Aramco to buy a 20 per cent stake in Reliance's oil-to-chemicals (OTC) business at an enterprise value of US$ 75 billion.’

V. Conclusion:

In this paper we empirically analyses the way international corporations' perceptions of the market climate are affected by FDI policy interventions in China and India. Using a comparative study of both economies' policy systems, we come to the conclusion that, particularly for matters relating to government regulations and the legal system, FIE in the Indian host country experience more barriers to business operations and development than domestic businesses do. The fact that FDI liberalization in India has slowed domestic liberalization and simplified complicated procedural requirements is consistent with these results. In contrast with domestic firms, in general, FIE laws and enforcement in China are easier and more investment oriented to encourage entrepreneurship growth. On the one hand, the empirical observation of China's FDI policies and regulations shows clearly. In comparison, between FIEs and domestic companies in China, there is little disparity in attitudes regarding legal and finance institutions, and they are regarded as equals. Our article attempts to quantitatively evaluate and appreciate the separate legislation and procedural compliance with FDI policies in the two biggest developed nations. Multi-brand retail outlets in China are a clear example of clear process regulations opposed to the complicated situation in India of the Wal-Mart multi-band player.

But a wide-ranging analysis of the economies assessed reveals that China's FDI policy is much more investment oriented with the goal, by non-commercial financing, of ensuring the efficient and successful growth of the economy. But in detail, there are still small $faults in the programme. Domestic liberalization focus, which needs urgent remediation by China's policy makers in order to ensure the momentum is sustained. For India, simplifying FIE’s bureaucratic and regulatory hurdles should take precedence in its next process of reform if the productivity and quality of the production are to be assured by way of non-commercial borrowing.

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