

FDI as A Source of External Finance to Developing Countries: A Special Reference to India and China

Showket Ahmad Dar, Research Scholar, A.M.U. Aligarh.

Abstract: *In this era of increasingly globalized world economy, FDI is particularly a significant driving force behind the interdependence of national economies and is considered as the main source of external finance. The considerable decline in official development assistance (ODA) and commercial bank lending to developing countries, which are considered as the main sources of meeting the external financing needs of developing countries, have seen a greater reliance on private capital especially foreign direct investment as a source of development finance. This is because of the fact that FDI not only remains much less volatile than portfolio and other investments but it has also proved to be resilient enough during East Asian crisis of 1997-98 and the Mexican crisis of 1994-95. In view of this growing significance of foreign direct investment, this paper aims to study the role of FDI in external financing to developing countries, particularly India and China and the benefits of combining FDI with other private sources of external finance. The paper concludes that FDI is the major source of external finance for developing economies not only in absolute terms but also relative to other sources of private capital flows, contributing on an average more than half of net private and official flows during the period under review. The findings also presented a completely different picture with regard to the structure of external financing for India and China. For China, FDI is the major external source of finance followed by debt. On the other hand, for India Workers' Remittances is the major source of external finance followed by debt. The paper further concludes that China and India are the first and third most developing country destinations for investment flows respectively and both are vying with each other to attract more and more FDI inflows.*

Keywords: *FDI, External Finance, Developing Countries, Private Capital Flows*

I. Introduction

The degree of integration in the global financial markets has increased dramatically in recent years. As a result, the external financing options available to developing countries have evolved and expanded over the years. Among the different forms of capital flows, foreign direct investment is considered as the main source of external finance because of the fact that FDI remains much less volatile than portfolio and other investments (such as commercial loans & trade credits) and because of its importance in the world economy vis-a-vis other forms of capital flows. According to OECD (2002), "increasingly, foreign direct investment has been recognised as a powerful engine and a major catalyst for achieving development, poverty-reducing growth and global integration process. In the similar vein, the UN (2002) reckons that, "private international capital flows, particularly foreign direct investment...are vital complements to national and international development efforts and can contribute towards financing sustained economic growth, transfer knowledge and technology, create jobs, boost overall productivity and, ultimately, eradicate poverty through economic growth and development.

Since the establishment of Bretton Woods Institutions and the United Nations system, official development assistance (ODA) has grown steadily and played a lead role as a source of external capital for economic growth and development of less developed countries around the world (Amerasinghe & Espejo, 2006). But in the aftermath of the debt crisis of 1980s, there was a huge decline in commercial bank lending to developing countries and a steady decline in official development assistance which resulted in a dramatic change in the structure of long term external financing of developing countries. Since early 1990s developing countries have seen a greater reliance on private investment especially foreign direct investment as a source of development finance. As a positive sign for developing countries, private capital flows rose by 68 per cent to \$ 1.1 trillion in 2010, equivalent to their 2007 pre-crisis level (UNCTAD, 2011). The increase in private capital flows was led by FDI, implying greater stability and return to confidence for longer term productive investment. In view of the growing significance of foreign direct investment as a source of external finance, this paper will discuss the development implications of various forms of investment especially FDI for developing countries and the benefits of combining FDI with other private sources of external finance.

The remainder of this paper is structured as follows. Section II discusses the rationale for external financing. The advantages of FDI in relation to other external sources of finance have been discussed in Section III. Section IV discusses the trends and patterns of net private and official flows to all developing countries with special emphasis laid on FDI. Section V provides a historical overview of the evolution of capital flows again

with special emphasis on the development of FDI for both India and China. The recent trends and patterns of various capital flows have also been highlighted in this section. Section VI summarises the main conclusions.

Objectives of the Study

- To study the trends and patterns of external financing to developing countries.
- To elucidate the striking change in developing countries attitudes towards foreign direct investment.
- To discuss the importance of foreign direct investment as a source of external finance to developing countries on the whole, with a special focus on India and China.

Research Methodology

Methodology is always the most important part of any study. It provides the necessary base and structure of every article or research paper. Therefore, a sound methodology is always the most prioritized concern of each and every research. The research questions consisted of analysing the contribution of FDI in the structure of external financing for developing countries on the whole with special focus on China and India. The study is analytical in nature and makes use of secondary data. The relevant secondary data are collected from various sources i.e. UNCTAD World Investment Reports, UNCTAD Handbook of statistics, World Bank Debtor Reporting System, International Monetary Fund, Bank for International Settlements etc. which are available on internet. It is a time series data and relevant data have been collected for the period of 1995– 2012. Different statistical tools like Ratios, Percentages and line charts have been used for analysis purposes.

II. Why External Financing

In an optimally planned economy, the actual level of investment is equal to the desired level of investment and therefore savings equal the desired level of investment. But this phenomenon is missing in many developing countries. With low domestic savings, most developing countries are grappling with a savings gap, which means that government financing is not enough to spur economic development in order to achieve an optimally planned economy. The savings investment gap is a first indication of the amount of external finance that developing countries need in order to sustain growth and development. Therefore, developing countries seek to fill this shortfall by way of capital inflows. As such, external financing is important for economic and social development. Further, rather than increasing government spending which could lead to high rates of inflation, governments have been turning to external sources of capital for development finance.

III. Advantages of FDI over Other Private Capital Flows

Discussion about global private capital flows often centres on “foreign direct investment”. FDI is the dominant form of private capital flow to developing countries accounting for about 70 per cent of private flows to developing countries as a whole (UNCTAD, 2011). On the importance of foreign capital, an International Monetary Fund study (2010) states: “These flows and capital mobility more generally, allow countries with limited savings to attract finance for productive investment projects, foster the diversification of investment risk, promote inter temporal trade, and contribute to the development of financial markets” (IMF, 2010). The positive implications of FDI apparently set them apart from other types of private capital flows. Besides, import of improved management techniques, the commonly cited advantages associated with FDI are more advanced technologies as well as the related easier access to international financial markets. Deutsche Bundesbank (2003) states that even a large current account deficits are often viewed as clearly sustainable as long as they are largely financed through FDI instead of bank lending or portfolio investments which are both known to be highly volatile. Further, the proponents of foreign capital claim the following advantages of FDI over other forms of private capital flows:

- ❖ FDI is widely regarded as a composite bundle of capital inflows, knowledge, and technology transfers (Balasubramanyam, Salisu, & Sapsford, 1996).
- ❖ Compared to other private capital flows, foreign direct investment (FDI) has proved to be resilient during financial crises. For instance, in East Asian countries, such investment was remarkably stable during the global financial crises of 1997-98. In sharp contrast, other forms of private capital flows—portfolio equity and debt flows, and particularly short-term flows—were subject to large reversals during the same period (Dadush, Dasgupta, and Ratha, 2000; and Lipsey, 2001). The resilience of FDI during financial crises was also evident during the Mexican crisis of 1994-95 and the Latin American debt crisis of the 1980s.
- ❖ FDI flows are a more stable source of finance as compared to other forms of international private capital flows. Today, FDI is the largest source of private foreign capital reaching developing countries. Since it has the potential to facilitate transfer of technology and generate spillovers from one sector to another, it is also found to have a more direct link with economic growth (Mehta & Dugal, 2003).
- ❖ FDI is different from other major types of external private flows in that it is motivated largely by investors’ long-term prospects of making profits from production activities that they control. Foreign bank lending

and portfolio investment, in contrast, are invested in activities which are often motivated by short-term profit considerations.

- ❖ FDI brings in financial capital, which is scarce in developing countries. It has the potential to add to the productive capacity or capital formation of the host country.

IV. Private Capital Flows to Developing Countries

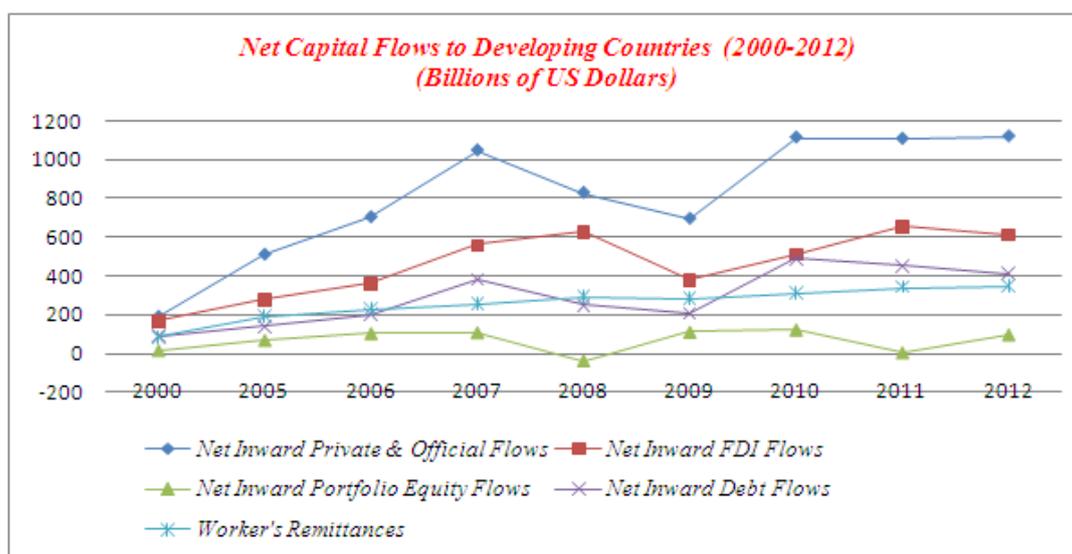
An Overview: Beginning in the 1980s, private capital has started to become the major source of external financing for developing countries. International capital flows have particularly become prominent after the advent of globalisation that has led to widespread implementation of liberalisation programme and financial reforms in various countries across the globe. The major shifts in international development finance landscape have created new opportunities and options for developing countries to access external finance for their development priorities. In order to tap the many possible sources of internal finance, developing countries are inevitably resorting to external sources of finance to supplement domestic sources to achieve their anti-poverty and pro-development goals.

Most developing countries have now access to a much wider range of flows. Foreign direct investment is increasing and so are workers' remittances. Available data of the past decade reveals that developing countries have witnessed a dramatic increase in international capital flows. Net private capital flows to developing nations increased almost six fold to reach US\$ 1093.7 bn during 2011-12 from around US\$ 187 bn during 2000-01 (World Bank, 2012). Several factors contributed to this rapid growth, including the deregulation of financial markets in industrialised countries, the important advances made in information & communication technologies and the move towards economic liberalisation in the developing world.

Scale, Trends and Volatility of Private Capital Flows to Developing Countries

(i) Net Capital Flows:

Table (A) reveals that the international capital flows, debt and equity combined together amounted to just over \$1.1 trillion in 2012, marginally higher than 2011, but 7 percent above their 2007 pre crisis level. Measured relative to developing country GNI, net capital flows declined sharply to 5.1 percent in 2012, well short of the 8.4 percent recorded in 2007. Net equity flows rose 8 percent in 2012 driven by a sharp rebound in portfolio equity flows. The increase in portfolio equity flows by almost \$100 billion offset both the 7 percent fall in foreign direct investment inflows and the 9 percent decline in net debt inflows. However, this global trend is dominated by China, which accounted for more than one-third of net capital flows to developing countries in 2011 and 2012.



(ii) Foreign Direct Investment flows:

Foreign direct investment is the single largest component of capital flows to developing countries and the most resilient, accounting for almost 55 percent since 2008. During 2012, a record 52 percent of global foreign direct investment was directed at developing countries with investors attracted by improvements in the business and regulatory environment, growth prospects, and buoyant domestic markets (UNCTAD, 2013a).

FDI flows to developing economies remained relatively resilient in 2012, reaching more than US\$ 600 bn, the second highest level ever recorded. Available data also indicates that there has been a marked growth of

269 per cent in net FDI inflows to developing countries since 2000, indicating an annual growth rate of 22.41 per cent. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows. For example, four developing economies now rank among the five largest recipients in the world (China, Hong Kong (China), Brazil, British Virgin Islands) (UNCTAD, 2013). At the regional level, 81 percent of foreign direct investment in the East Asia and Pacific region was directed towards China, while India absorbs almost 90 percent of foreign direct investment into the South Asia region, and Brazil accounts for half of the foreign direct investment going to Latin America and the Caribbean region (UNCTAD, 2013b). Despite the instability of FDI flows in recent years, the fact that net private flows that net private flows to developing countries remain positive is largely due to FDI. In terms of contribution to private capital flows, FDI on an average contributes more than half of net private & official flows to developing countries.

(iii) Portfolio Equity Flows:

As far as Portfolio equity flows are concerned, they have remained by far the most volatile of all capital flows. Following a near total collapse in 2011, portfolio equity flows increased to almost \$100 billion in 2012 as investors piled into select emerging markets, where growth prospects remained good and returns were anticipated to be high. During 2012, more than half of such flows went to China (\$29.9 billion) and India (\$22.8 billion), and the top six recipients combined (China, India, Mexico, Nigeria, Turkey & Brazil) accounted for 86 percent of inflows to all developing countries—almost identical to their share in 2010 (IMF, 2013). Over the past three years, most recipients experienced extreme volatility in portfolio equity flows.

(iv) External Debt Flows:

The debt accumulation pace slowed to 9 percent in 2012, from 11 percent in 2011 with both long-term and short-term debt increasing at the same pace. This was in marked contrast to 2011, when the short-term debt raised to 17 percent grew almost twice as fast as that in long-term debt. Net debt flows to developing countries fell 9 percent in 2012, to \$412 billion, and were characterized by some important shifts in borrowing patterns and sources of financing. Viewed from the borrower perspective, net flows of public and publicly guaranteed debt drove the overall increase in long-term debt flows in 2012. Of the total net debt flows recorded in 2012 in developing countries, long term debt flows was \$ 308.4 billion and short term debt flows was \$ 104.3 billion. Regarding the source of financing, private creditors remained dominant and accounted for more than 90 percent of net debt flows in 2012. Long-term debt flows from private creditors continued their upward trajectory, rising by an additional 15 percent in 2012 on the back of the surge in bond issuance by developing-country borrowers. These rose to \$179 billion (from \$121 billion in 2011), offsetting both the fall in long-term lending by commercial banks and a large part of the decline in short-term debt flows (World Bank, 2013). The rapid contraction in net debt flows to China dominated the global trend. They plummeted to \$38 billion in 2012, less than 30 percent of their 2011 level. If China (the single largest borrower among developing countries) is excluded, then net debt flows to developing countries rose 20 percent in 2012 with long-term debt flows 14 percent higher and short-term debt flows 55 percent higher than the 2011 level.

(v) Worker's Remittances:

Remittances are monies sent home by workers living abroad. In 2012, inflows of remittances to developing countries were \$348.1 billion, registering a marginal increase of almost 2 per cent over 2011. Remittances have proved less volatile than FDI over the past 20 years, steadily rising until plateauing after 2008. The World Bank argues this is because of certain inherent features of remittances. They have also grown in scale, in absolute terms, and in comparison with other private flows.

V. Country Experiences

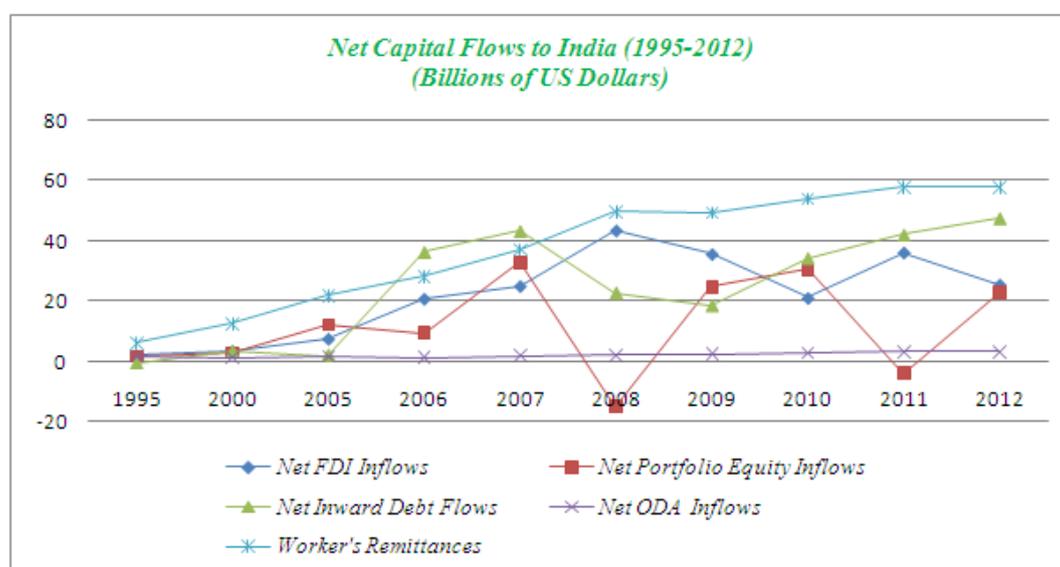
Private Capital Flows to India

Historical Perspective: For the first four decades after independence in 1947, the economic policies of the Indian government were characterised by planning, control and regulation. India's development strategy until the 1980s was mainly focused on self-reliance and import substitution. Efforts were made at regular intervals for market-oriented reforms, and for easing of restrictions on foreign capital inflows which had a very little impact on actual inflows. The situation changed dramatically with the onset of reform programmes introduced in the early 1990s in the aftermath of the balance of payments crisis of 1991.

Broadly speaking, India's reliance on external flows was mainly restricted to multilateral and bilateral concessional finance (Mohan, 2009). Following the balance of payments crisis in 1991, India initiated the reform process which was conditioned by the need to correct the deficiencies that had led to payment imbalances in 1991. India's market oriented economic reforms undertaken in 1991 were directed towards increased liberalisation, privatisation and deregulation of the industrial sector, and to re-orient the economy towards global competition by reducing trade barriers and gradually opening up its capital account. Learning

from the Latin American debt crisis of the 1980s and the Asian crisis of the 1990s, India adopted a calibrated approach towards management of capital flows, in particular it prioritised the liberalisation of non-debt creating flows including FDI and portfolio flows. While FDI was favoured due to perceived benefits arising from technological & skill spillovers, portfolio investment was thought to increase depth and innovations in the financial markets (Gupta & Sengupta, 2012). In 1991, by slowly shedding its FDI restrictions, India allowed FDI through automatic route barring a few strategic industries of security concern.

Capital Flows Experience: Compared to China, India presents altogether a completely different picture with regard to the structure of capital flows. Available data reveals that for more than a decade, Workers' Remittances has been a major component of external financing for India. Figures presented in the Table (B) also reveals that over the period 2000-12, on average about 40 per cent of the total private inflows into India involve Workers' Remittances. The World Bank also shows that there has been a marked increase in the magnitude of Workers' Remittances into India from about US\$ 12.8 bn in 2000 to about US\$ 57.9 bn in 2012, registering an annual growth rate of 37.5 per cent. The greater magnitude of Worker's Remittances reflects its greater stability compared to other private capital flows and may also reflect greater political resistance to FDI on the part of Indian government in earlier times. After Workers' Remittances, India has shown more reliance on debt component as a source of external finance. The combined stock of short term & long term debt of India as on 31st March, 2012 stood at US\$ 47.6 bn from about US\$ 3.3 bn in 2000, an average increase of 3.6 per cent since 2000, the highest ever increase after Workers' Remittances.



The remaining two components of external financing are FDI inflows and portfolio equity inflows. While net portfolio equity inflows experienced more than an eight-fold increase in the recent years, up from about US\$ 2.8 bn in 2000 to about US\$ 22.8 bn in 2012, net FDI inflows have also witnessed an increase from about US\$ 3.5 bn in the year 2000 to nearly US\$ 25.5 bn in 2012. However, due to tendency of high variability, portfolio equity inflows might be considered rather unstable source of financing for development. Though Workers' Remittances is currently a major source of external finance for India, but in recent years India has been able to attract more FDI inflows on account of easing of capital controls coupled with strong investment opportunities which gave a strong rise to FDI inflows to India. Despite a 29 per cent fall in FDI to US\$ 25 bn in 2012 which is much bigger decline than the average for all developing countries (-4 per cent), India stills remains the third most developing country destination for investment flows, after Brazil and China (UNCTAD, 2013). However, the economy experienced its slowest growth in a decade in 2012 and also struggled with risks related with high inflation. In addition to the overall economic situation, a research study conducted by the Reserve Bank of India on FDI flows into the country notes that complex policies and cumbersome procedures could have dampened FDI flows.

China's Experience

Among the developing countries in Asia, China is the major economy which has adopted market oriented economic policies designed to attract FDI inflows. China ventured into the path of liberalisation in 1979 by gradually liberalising and opening up its economy. The approach can be best described as incremental and experimental with considerable responsibility assumed by local governments. Amerasinghe & Modesto (2010) states that economic reforms in China were undertaken in three waves with first wave relating to

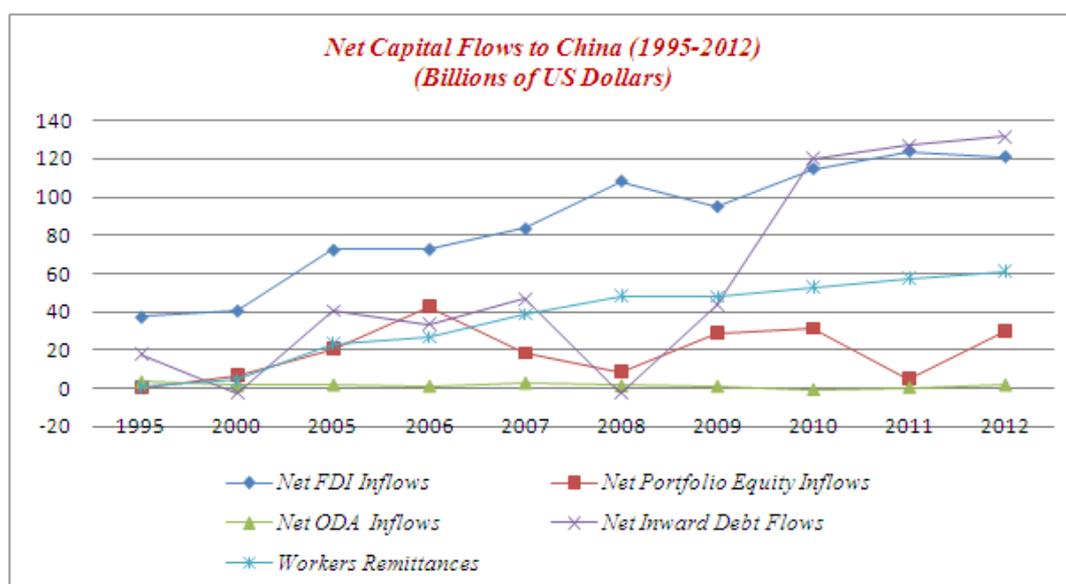
Agricultural and Rural Reforms (1978-84) which led to a surge in agricultural production and productivity. The second wave entailed a broadening of reforms (1984-91), which led to state industrial enterprises in urban areas and the gradual dismantling of the central planning system. The third and the last wave was a deepening of reforms (since 1992), the key objective of which was to strengthen the institutions & infrastructure for macroeconomic control and increase in market orientation of the economy.

During early 1980s, the government not only established Special Economic Zones but it also established new enterprises such as new foreign funded and joint venture companies which has been the main mode of absorbing FDI into China (Zhang, 2001: OECD, 1998). In recent years, China continues to attract high levels of FDI, the share of which was negligible prior to 1979. Investments in 2010 remained at the level of US\$ 121 bn, falling short of the peak level of US\$ 124 bn reached in 2011. In 2003, China also overtook the U.S. as the number one destination for FDI which was attributable to high surge in capital inflows throughout the 1990s despite the Asian Economic Crisis.

With regard to various forms of capital flows like foreign loans, portfolio investments, official flows, etc., FDI has been a major source of external funding for China since 1990s. Unlike many other Asian Countries, the share of FDI in external financing is much larger and the importance of foreign loans and portfolio investments is much lower for China. This structure of FDI, explains why China was able to avoid the economic crisis that hit most Asian countries.

Capital Flows Experience: During 1990s, China has attracted around one-fifth of all private capital flows to developing countries, peaking at US\$ 60 bn in 1997, before falling sharply to US\$ 42 bn in 1998 with a collapse in bond finance and a sharp fall in equity investment. However, the impact of these declines was limited by the dominance of FDI in total inflows which accounted for three-quarters of the total net private inflows in the peak year 1998 and almost one-hundred per cent in 1999. Since then, FDI inflows to China have been increasing steadily. To understand China's success in attracting FDI, we used FDI data from UNCTAD which reveals China's share in FDI flows to developing countries was 9.9 per cent in 1990 which rose to 15.9 per cent in 2000 and 18.5 per cent in 2012 (UNCTAD, 2013 & 2001). By looking at the overall figures in the table, it becomes clearly evident that currently China is the largest destination for FDI within the developing world by recording net inward FDI flows of US\$ 121 bn in 2012, registering an annual growth rate of 17 per cent since 2000. Lane & Schmukler (2007) opines that abundant low-cost labour and close proximity to trade networks have been major factors in attracting FDI into China. However, recent rising production costs and weakening export markets have pushed foreign companies to relocate from China to lower income countries. This is reflected in the lack of increase of inward FDI to the country.

Regarding overall capital flows, China has absorbed 74 per cent of the net capital inflows of the East Asia and the Pacific region over the period 2007-12 and has also accounted for 40 per cent of non-debt flows to all developing countries over the past five years.



Despite knock-on effect on capital inflows in the year 2012 due to slowdown in GDP growth, China has raised large chunk of money through short term and long term debt with its combined stock stood at US\$ 131 bn at the end of year 2012, registering an increase of 133 per cent since the onset of global financial crisis. That is why debt has been the second largest source of external finance for China after FDI. Remittances' which

constitute one-third of net total private capital flows into the developing countries have also emerged as the third most important type of private external finance to China after FDI and debt. In the year 2012, China has recorded Workers' Remittance of US\$ 61.1 bn, with an annual growth rate of 24 per cent over the seven year period since 2005. On the basis of facts & figures presented in the Table (C), we can conclude that China has shown more reliance on FDI as a source of external finance among the various forms of private capital flows, whereas debt and Workers' Remittances have been the second & third most external sources of finance for development.

VI. Discussion, Summary and Conclusion

Over the past several years, international capital flows to developing countries have been characterised by extreme volatility. The collapse in capital flows during the global financial crisis was followed by a renewed surge in inflows in 2010. Overall, the latest figures indicate that net private and official capital flows to developing countries amounted to US\$ 1121 bn in 2012 and are forecasted to total about US\$ 1200 bn in 2013. Looking at the structure of various forms of capital flows, official capital flows (ODA) used to be the main important source of foreign finance to developing countries during early 1990s, whereas bank lending remained subdued. During this period, total net official inflows amounted to an average of US\$ 27 bn per year, whereas net private capital flows were recorded at an average of US\$ 14 bn per year. But as soon the Asian crisis erupted in 1997, there was a sharp downward contraction in total capital flows except FDI. While looking at the development of individual categories of capital flows to developing countries, it is striking that FDI not only increased but has also remained the major source of external finance for developing countries since 2000. Available data indicates that net FDI inflows increased from US\$ 166 bn in 2000 to about US\$ 612 bn in 2012, an increase of 269 per cent since 2000, contributing on an average more than half of net private and official flows to developing countries. The reasons for the higher magnitude of FDI might be linked to several factors which contributed to this rapid growth, including the deregulation of financial markets in industrialised countries, the important advances made in information and communication technologies and the move towards economic liberalisation in the developing world. After FDI, Workers' Remittances have become an increasingly important and second most source of external development finance for developing countries both in absolute terms and relative to other sources of external finance. Remittances rose steadily in the 1990s, reaching more than US\$ 180 bn in 2000 and further increased to US\$ 348 bn in 2012. Compared to other sources of private capital flows, Workers' Remittances have been the most stable source of external finance to developing countries after FDI and unlike foreign aid, they are not a burden on public budget.

Regarding the country experiences of India and China, both are presenting a completely contrasting picture with regard to the structure of external financing. While China shown more reliance on FDI which has been the largest source of external finance for it. Unlike many other Asian countries, the share of FDI in external financing is much larger to China and the importance of foreign loans and portfolio investments is much smaller. This becomes clearly evident from the fact that China overtook US as the number one destination for FDI in the year 2003 and also remained a major global recipient of foreign capital since then. On the other hand, for India Workers' Remittances has been the major component of external financing for more than a decade. The marked increase in Workers' Remittances from about US\$ 12.8 bn in 2000 to about US\$ 57.9 bn in 2012 with an annual average growth rate of 37 per cent makes it to the top of the structure of external financing for India. The reason for higher magnitude of Workers' Remittances is reflected in its greater stability and may also reflect greater political resistance to FDI on the part of Indian government in early times. Despite attracting large amount of FDI inflows in recent years and despite being the third most developing country destination for investment flows, debt component still accounts for the second largest source of external finance for India. To conclude, both countries have shown more reliance on FDI as an external source of finance to boost domestic investment & both are vying with each other to attract more and more FDI inflows.

References

- [1]. Amerasinghe, N. & Modesto, J. (2011). Foreign Direct Investment in Asia: Lessons of Experience, Asian Institute of Management (AIM), Working Paper 12-003.
- [2]. Amerasinghe, N., and Espejo, M. (2006). Losing the Lead Role: Has Private Capital Flows Edged Out ODA? Centre for Development Management, Asian Institute of Management: Nunnenkamp, P. (2001). Foreign Direct Investment in Developing Countries: What Policymakers Should Not Do and What Economists Don't Know. Institute for World Economics, Kiel Discussion Papers 380. Kiel.
- [3]. Bajpai, N. and Dasgupta, N. (2003). Multinational Companies and Foreign Direct Investment in India and China, Columbia Earth Institute, Columbia University.
- [4]. Balasubramanyam, V.N., Salisu, M. and Sapsford, D. (1996). Foreign Direct investment and Growth in EP and IS Countries, Economic Journal, 106(434), 92-105.
- [5]. Bhattacharyya, B. & Palaha, S. (1996). Foreign Direct Investment in India: Facts and Issues, Indian Institute of Foreign Trade, New Delhi.
- [6]. Chen, C., Chang, L. & Zhang, Y. (1995). The Role of Foreign Direct Investment in China's Post-1978 Economic Development, World Development 23(4), 691-73.

- [7]. Chunlai, C. (1997). The Composition and Locational Determinants of Foreign Direct Investment in China's Manufacturing, Working Paper, Chinese Economics Research Centre, University of Adelaide, Australia.
- [8]. Deutsche BundesBank (2003). The role of FDI in Emerging Market Economies Compared to other forms of Financing: Past developments & Implications for Financial Stability, International Relations Department, Frankfurt.
- [9]. Gabriele, et al. (2000). Instability and Volatility of Capital Flows to Developing Countries, World Economy 23, 1031-1056.
- [10]. Gupta, A.S. & Sengupta, R. (2012). Management of Capital Flows in India: 1990-2011.
- [11]. Hernandez, L. & Rudolph, H. (1995). Sustainability of Private Capital Flows to Developing Countries, World Bank Policy Research Working Paper 1518.
- [12]. Huang, Y. (2001). Why more is actually less: new interpretations of China's labor-intensive FDI. Available at <http://eres.bus.umich.edu/docs/workpap-dav/wp375.pdf>.
- [13]. IMF (2013a). Annual Report 2013. Promoting a More Secure & Stable Global Economy, International Monetary Fund.
- [14]. IMF (2013b). World Economic Outlook: Hopes, Realities & Risks, International Monetary Fund, Publication Services, Washington DC.
- [15]. International Monetary Fund (2010a) Research Department's paper, February, Washington D.C.
- [16]. International Monetary Fund (2010b) World Economic Outlook -Recovery, Risk and Rebalancing, Washington D.C.
- [17]. Jones, S.G. & Leape, J. (2002). Capital Flows to Developing Countries: Does the Emperor Have Clothes? QEH Working Paper Series 89 (QEHWPS89).
- [18]. Kapur, D. (2003). Remittance: The New Development Mantra? Paper Prepared for the G-24 Technical Group Meeting.
- [19]. Kregel, J. (2004). External Financing for Development and International Financial Instability, United Nations Conference on Trade and Development, G-24 Discussion Paper Series.
- [20]. Lahdhiri, M. & Hammas, M.A. (2012). The Effectiveness of External Financing Sources on Economic Growth: Case of the Developing Countries of the MENA Region, Interdisciplinary Journal of Contemporary Research in Business, Vol. 3, No. 9.
- [21]. Lane, P.R. & Schmukler, S.L. (2007). The International Financial Integration of China and India, World Bank Policy Research Working Paper 4132.
- [22]. Lane, P.R. & Schmukler, S.R. (2007). The Evolving Role of China and India in the Global Financial System, Springer Publications.
- [23]. Mohan, R. (2009). Capital Flows to India. Bank of International Settlements (BIS), Working Paper No. 44.
- [24]. Nolan, P. (1995). Politics, Planning and the Transition from Stalinism: The Case of China, in Ha-Joon Chang and Robert Rowthorn (Ed.) Role of State in Economic Change, Oxford: Oxford University Press.
- [25]. Nunnenkemp, P. (2003). FDI as a Source of Finance for Development, CUTS Centre for International Trade, Economics and Environment.
- [26]. OECD (2002). New Horizons for Foreign Direct Investment, OECD Global Forum on International Investment, Paris.
- [27]. Prime, P.B., Subramanyam, V. and Lin, C.M. (2012). Competitiveness in India and China: The FDI Puzzle. Asia Pacific Business Review, Vol. 18, No. 3, PP. 303-333.
- [28]. RBI (2013). Handbook of Statistics on Indian Economy 2012-13, Reserve Bank of India, Mumbai, India.
- [29]. Siddiqui, K. (2014). Flows of Foreign Capital into Developing Countries: A Critical Review, Journal of International Business and Economics, Vol. 2, No. 1.
- [30]. Singh, S. (2009). Foreign Capital Flows into India: Compositions, Regulations, Issues and Policy Options, Journal of Economics and International Finance, Vol. 1(1), Pp. 014-029.
- [31]. Sun, X. (2002). Foreign Direct Investment and Economic Development: What Do the States Need to Do? Paper prepared by the Foreign Investment Advisory Service (FIAS) for the Capacity Development Workshop (10-13, Dec.) held in Marrakech, Morocco, Sponsored by the United Nations.
- [32]. UN (2002). Final Outcome of the International Conference on Financing for Development, United Nations, New York, (<http://www.un.org/esa/ffd/0302finalmonetaryconsensus.pdf>)
- [33]. UNCTAD (2001). World Investment Report 2001: Promoting Linkages, Geneva, Switzerland.
- [34]. UNCTAD (2010). World Investment Report 2010: Investing in a Low Carbon Economy, United Nations Conference on Trade and Development: Geneva, Switzerland.
- [35]. UNCTAD (2011). Foreign Direct Investment in LDCs: Lessons Learned from the Decade 2001-2010 and the Ways Forward. United Nations Conference on Trade and Development: Geneva, Switzerland.
- [36]. UNCTAD (2013a). Handbook of Statistics, United Nations Conference on Trade and Development, New York & Geneva, Switzerland.
- [37]. UNCTAD (2013b). World Investment Report 2013. Global Value Chains: Investment and Trade for Development, New York & Geneva, Switzerland.
- [38]. World Bank (2005). International Debt Statistics 2005, International Bank for Reconstruction and Development, Washington, D.C.
- [39]. World Bank (2013). International Debt Statistics 2013, International Bank for Reconstruction and Development, Washington DC, 20433.
- [40]. World Bank (2014). International Debt Statistics 2014, International Bank for Reconstruction and Development, Washington, D.C.
- [41]. Zhang, K. H. (2001). How does foreign direct investment affect economic growth in China? Economics of Transition, 9(3), 679-693.

Appendix Statistics

Table (A): Net Private Capital And Official Inflows To Developing Countries (2000-2012) (Billions of US Dollars)

INDICATORS	2000	2005	2006	2007	2008	2009	2010	2011	2012
Net Private and Official Inflows	192.9	513.1	705.8	1049.8	831.2	698.0	1116.1	1109.3	1121.6
Percent of GNI (%)	2.1	5.4	6.3	8.4	5.6	4.7	6.2	5.3	5.1
Net FDI inflows	166.5	279.1	358.4	558.6	623.4	380.3	511.6	654.6	612.2
Net Portfolio Equity Inflows	13.4	68.1	104.3	109.0	-40.6	110.9	123.4	2.7	97.6
Net Debt Flows of which--	87.0	138.0	200.1	382.1	248.3	206.7	490.1	451.9	411.8
Official debt:	-5.2	-64.3	-68.9	3.2	42.7	93.8	80.1	32.0	27.9
Private Debt:	92.2	203.1	269.0	378.9	205.6	112.9	410.0	419.9	383.9
Change in Reserves	-45.1	-385.5	-629.9	-898.5	-506.9	-632.8	-673.4	-475.8	-252.8
Workers' Remittances	83.8	191.2	229.0	255.2	294.5	280.4	310.1	342.9	348.1

Source: World Bank International Debt Statistics 2014 & 2005.

Table (B): Net Capital Flows To India, 1995-2011 (Billions Of Us Dollars)

YEAR	NET FDI INFLOWS	NET PORTFOLIO EQUITY INFLOWS	NET ODA INFLOWS	NET INWARD DEBT	WORKERS REMITTANCES
1995	2.1	1.6	1.7	-0.7	6.2
2000	3.5	2.8	1.4	3.3	12.8
2005	7.6	12.2	1.8	1.9	22.1
2006	20.8	9.5	1.3	36.3	28.4
2007	25.0	32.9	1.9	43.3	37.2
2008	43.4	-15.0	2.1	22.7	49.9
2009	35.6	24.7	2.5	18.4	49.4
2010	21.1	30.4	2.8	34.2	54.0
2011	36.1	-4.0	3.2	42.1	57.8
2012	25.5	22.8	3.3	47.6	57.9

Source: UNCTAD World Investment Reports, RBI Handbook of Statistics for Indian Economy 2013. Bank for International Settlements, International Monetary Fund.

Table (C): Net Capital Flows To China, 1995-2011 (Billions of US Dollars)

YEARS	NET FDI INFLOWS	NET PORTFOLIO EQUITY INFLOWS	NET ODA INFLOWS	NET INWARD DEBT	WORKERS REMITTANCES
1995	37.5	0.4	3.4	17.8	0.8
2000	40.7	6.9	1.7	-2.4	4.8
2005	72.4	20.6	1.8	40.7	23.4
2006	72.7	42.9	1.2	33.5	26.8
2007	83.5	18.5	2.8	46.8	38.7
2008	108.3	8.5	1.4	-2.2	48.4
2009	95.0	29.1	1.1	43.5	47.8
2010	114.7	31.4	-0.6	119.9	53.0
2011	123.9	5.3	0.6	126.9	57.2
2012	121.0	29.9	1.8	131.4	61.1

Source: UNCTAD World Investment Reports, World Bank International Debt Statistics, Bank for International Settlements, International Monetary Fund.