CHAPTER-VIII

COMPARATIVE ANALYSIS OF INDIA, CHINA, MEXICO AND SOUTH-EAST ASIAN COUNTRIES

China and India: Comparative Study on Economic Reforms

The reform strategy of China has been different from that of India and very different from that of Asian economies and some other countries. The Chinese did not show any haste or anxiety in their action and refused to be pressurized in whatever they did even if the rest of the world including the US criticized them. Price controls and regulations functioned along with free market prices. The result was that the common man was given protection against inflation, which was allowed in mild doses along with increased growth and investment.

A comfortable and acceptable legal framework for foreign investors in China was created to replace arbitrariness and red tape while sacrificing some authority of the central government. Gradually many restrictions were eased and investors were induced to come forward. Comparatively speaking, the environment in India was not quite satisfactory; it was marked by uncertainty, vagueness and delays. The result was a mere trickle of FDI into India in comparison with its flow in China where a body of joint venture regulations took care of contentious issues, brought transparency in rules, avoided detailed negotiations and improved wage goods availability.

India's reform strategy cannot be quite easily compared with that of China though that is done often. China and some other countries of Indo-China as well as some of the erstwhile republics of USSR had central planning, which was also partly true of the Indian economy. Like India in 1951, China adopted the Soviet model in 1949 and opted for a sort of open door policy in 1978. Her agricultural reforms benefited the rural people significantly. This was an important matter since China had a predominantly rural economy. Unlike India where reforms remained a relatively unknown quentity in the rural sector, in China, they were welcomed by a large part of the population. Reforms in other sectors, including foreign trade and investment,

were also introduced. These were not accompanied by economic or cultural shocks since the process was slow, steady and gradual. Of course China has still to do a lot to cope with its fast modernizing economy because of its antiquated bureaucracy and infrastructure. With the gradual opening of the closed Chinese economy, increasing rural incomes led to an increasing demand for the products of non-agricultural sectors which would absorb the surplus rural labor and capital and which now worked for more exports. Like China, India too could have gone first for agricultural and then for non-agricultural development. Despite the generation of some inflationary and cyclical tendencies, the Chinese economy proceeded satisfactorily in spite of macroeconomic pressures like the demand for higher government expenditure and reduced inflation, which could jeopardize reforms.

We can note that China has given its own colour and shape to reforms, which are marked by politico-economic adventure and an attempt to reorganize the country as a major politico-economic power, way ahead of that in any other country. It has already overtaken Russia and the way it is proceeding, it can overtake the US whose superiority is gradually being dimmed. At the same time questions are being raised about the very concepts of globalization and liberalization, a path, which some countries are treading with caution.

There was a dramatic decline in absolute poverty in China from about one-third to less than one-tenth of total population in a short period of seven years between 1978 and 1985 following economic liberalization. Surprisingly, however, no further reduction in poverty was achieved during the second half of the 1980s, and the proportion of total population living in absolute poverty stagnated around 9%, despite high overall economic growth during that period[1]. Much of this remaining poverty is rural, as the head-count ratio for the rural sector was 11.5% in 1990 as against 0.4% for the urban sector. Further, absolute poverty is now almost entirely restricted to resource-deficient remote upland areas in the interior provinces of northern, northwestern and southwestern China, where poverty persists on account of low productivity of land, despite the poor enjoying the land-use rights. In India on the other hand the head-count poverty ratio has gone up during the reform period, from 35.04 in 1990-91to 38.46 in 1997 in rural areas and from 35.11 to 37.23 in the country as a whole but the urban poverty has gone down during this period from 35.29 to 33.97[2]. However a recent survey of National Sample Survey Organisation of Govt. of India[3] indicates that there is a significant decline in poverty estimates on the basis of a 30-day recall of household consumer expenditure. The survey data indicate that the poverty on all

India level has gone down during the reform period from 36% in 1993-94 to 26% in 1999-2000 and the rural poverty has gone down from 37.3% to 27.1% during this period against the urban poverty from 36% to 23.3%

Common Features and Experiences

China and India have much more in common than demographic and economic size. A number of factors make comparative analysis potentially rich. First, both countries are attempting simultaneously but independently to liberalize disfunctional systems of central planning, state ownership and government regulation, which have been created in the four decades of democratic socialism in India and of communism in China. Both have carried through a significant measure of market reforms in industry, the financial sector, trade and foreign investment rules (and, in China, agriculture). Both are also gradualists in their approach to economic reform[4]. Second, both are generating a form of transitional capitalism which has distinctive characteristics: one is a large state sector which is as yet on the whole untouched by privatization but is being 'commercialized' and is contracting in relative, if not absolute terms; another is fiercely competitive family-based, private business-though the concept of 'private' business in China is still legally murky. In both cases, but especially in China, there are substantial injections of capital and business organization from the large 'family conglomerates' of the Indian and Chinese Diasporas.

The legitimacy and durability of India's political system is not in doubt but it has imposed considerable constraints on the economic reform process. In the words of a key reformer: 'gradualism was the inevitable outcome of India's democratic and highly pluralistic society in which reforms can only be implemented if they are based on a sufficiently wide consensus'[5].

In China, the argument shifted decisively in 1976 with the death of Mao, and the end of the regime of the Gang of Four. The adoption in 1978 of the 'Four Modernizations' slogan provided a framework for a new direction by the Communist Party that emphasized 'great growth in the productive forces which, in turn, requires diverse changes in those aspects of the productive forces'[6]. The decisive 1978 meeting of the 11th Central Committee cleared the way to domestic policy changes (ownership and management reforms, decentralization, price reform) and to opening up of trade and foreign investment, both of which have since been steadily developed.

Although the pressures for liberalization were largely internal (especially in China), there was also an external dimension. India has long been exposed to the ideas of its aid donors, particularly those of the World Bank, from whom there was growing criticism and programme of conditionality. The two oil shocks exposed India's external weaknesses, and in the early 1980s a balance-of-payments crisis led it to seek and adopt an International Monetary Fund (IMF) programme and to liberalize some imports and to promote exports. A further serious external financing crisis in 1991 forced India back into the arms of the IMF, to devaluation and to a more radical reorientation of policy. For China, too, a key event was an incipient balance-of-payments crisis in 1978/9, in this case brought about by Mao's successor Hua Guofeng, whose attempt at reinstating centrally planned industrialization led to an unmanageable flood of capital goods imports, with no capital inflows or exports to pay for them. These events helped to catalyse the acceptance of an 'open door' policy.

China has emerged as a "bastion of stability" in the Pacific region particularly after the South-East Asian crisis, which could not affect its economy. China's foreign reserves continue to grow, and the Chinese currency remains stable with a tendency toward appreciation. Most fundamentally, China differs from ASEAN in the relationship between domestic and foreign financial markets. Most of the massive capital inflow China has enjoyed has come in the form of foreign direct investment, and the currency is not convertible on the capital account. China has relatively little exposure to private debt denominated in foreign currency, and the interactions between volatility in domestic financial markets and foreign currency markets are quite limited. As a result, there is little danger of a downward spiral caused by mutually reinforcing volatility in the markets for foreign exchange and domestic financial assets. There is thus little danger for the present that China will catch the "Thai disease."

Comparative Analysis of Foreign Direct Investment in Select Countries :

India and China

China is the major recipient of FDI amongst the developing countries. China's inflow of FDI has increased from an annual average of $4652 million in 1987-1992 to $45460 million in 1998 (See Table-I), which is a tenfold increase over a period of ten years. China's early entry into economic reform in 1978 has created proper infrastructure and transparent policies for attracting FDI accompanied with

economic decentralization. It's share in the developing countries total inflow of FDI has increased from 13.17% in 1987-1992 to 27.40% in 1998. India on the other hand which entered late in the economic reform process in mid-1991 has also been receiving FDI with consistent increase over the reform period but in comparison with China, India's share is very small. India's share in FDI inflow was only $550 million in 1993 which increased to $3351 million in 1997 but has gone down to $2258 million in 1998. In terms of percentage it has increased from 0.7% in 1993 to 1.36% in 1998 amongst the developing countries total inflow of FDI during these periods.

If we look at the FDI inward stock, there was stagnanation in India between 1980 and 1990 that is during the pre-reform period because the FDI inward stock remained unchanged at $1179 million in 1990. However the FDI inward stock has gradually increased to $5196 million in 1995 and to $10973 million in 1997 and to $13231 million in 1998. Thus there is considerable increase in FDI inward stock during seven years of economic reform in India. China's FDI inward stock in 1980 was only $57 million or practically nil as compared to India's $1177 million but it has gone up with skyrocketing speed with in a short period during 1990s from $4305 million in 1985 to $18.568 billion in 1990 and $261.117bn. in 1998, which is 21.42% of the total FDI inward stock of the developing countries total and 5.31% of the world FDI inward stock (See Table III).

If we compare the FDI inward stock of China as a percentage of its gross domestic product, its share has gone up from 1.5% in 1985 to 5.2% in 1990 to 23.5% in 1997 (See Table III). This shows a very vital role of FDI in China's GDP, India's share of FDI inward stock as a percentage of GDP on the other hand is comparatively very low, that is 0.4% in 1990 but has gone up to 3.3% in 1997 indicating an improvement during the reform period. FDI inflow as a percentage of GDP has also increased substantially in China from 0.9% in 1991 to 4.3% in 1997 (See Table V) as against India's 0.1% in 1991 to 0.7% in 1997. The data in Table V indicates that FDI plays a growingly dominant role in the gross economic activities in China whereas in India the role of FDI is very negligible so far. If we make a comparisons of FDI inflow as a percentage of the gross capital formation in the two countries, we find that in China it has increased from 4% an annual average between 1987-92 to 14.3% in 1997 (See Table II) whereas in India it has gone up from 1% in 1993 to only 4.2% in 1997 a level where China began in 1987.

Thus all the various parameters as given in Table-I to V shows that China is much ahead of India in attracting FDI. The aggregate effect of the above analysis is reflected in an increase in the level of gross domestic investment in China as a percentage of GDP from 35% in 1980-89 to 39% in 1990-96 (See Table VI) as against India where the level of gross domestic investment is very low at 24% during 1990-96 which has marginally gone up from the pre-reform period of 22% in 1980-89. The impact of increasing inflow of FDI in China is also visible in the GDP growth rate in China, which was 9.6% during 1982-91 on average and went up to 14.2% in 1992 and 13.5% in 1993 (See Table X). An almost double digit GDP growth in the whole 1990, in China is really very remarkable achievements of China's economic reforms and its positive effects on overall investment climate both domestic and FDI with a considerable effect of increase in the gross domestic products.

The comparative study of FDI inflow between India and China will remain incomplete unless we make an analysis of the source of FDI inflow in both the countries. A detailed study has been made about India in this respect in Chapter-IV and about China in Chapter-V. Table-XI of Chapter-IV shows that almost 100% FDI in India has come from foreign countries, and non-resident Indians' (NRIs') role in India's FDI inflow is almost negligible whereas in case of China almost 60% of FDI inflows has come from ethnic Chinese residing in Hong Kong, Macao, Taiwan and Singapore as evident from Table-VIII and IX, Chapter-V.

The second noticeable difference in FDI inflow in India is that USA plays the lead role with 28.65% of India's total FDI inflow followed by several European countries contributing 22.84% during the reform period (August 1991-March 1998). The other major contributories are Japan (6.88%), South-East Asian Countries (12.29%) and the tax shelter country, namely Mauritius (15.58%). The share of NRIs is a nominal 0.7%.

The third important aspect of comparison between the two countries is the period of the beginning of reforms. China began reforms in 1978 and started receiving FDI from 1979 and up to 1990 China had a gradual and consistent flow of FDI and the cumulative flow of FDI over 12 years of initial periods of reforms in China was $18.98 billion (1979-90). By this time China was mature enough to receive FDI through its Special Economic Zones (SEZ's) with an open door policy and thus was able to exploit the full advantage of surge in FDI inflow to developing countries in

the decade of 1990s. India on the other hand was a late comer in mid 1991 when economic reforms just began.

The fourth important point of distinction between India and China is about the nature and composition of the flow of foreign investment, which in the case of India consisted of FDI and portfolio investment, sharing almost an equal portion in 1996-97 as evident from Table-VIII Chapter-IV. The total foreign investment in India during the reform period (1991-98) was $26.39 billion of which FDI constituted $10.87 billion and portfolio investment constituted $15.53 billion, which on a rough scale was 60% of the total foreign investment in India. It may be pertinent to mention that technically money raised by Indian companies through global depository receipts are treated as portfolio investment although the money is utilized in industry and is not invested in the secondary market directly. The money so raised was $6.54 billion during the said period in India. On the other hand in China the foreign investment consist mainly of FDI and portfolio investment has practically no role because the concept of stock exchange itself is very new to China and the first stock exchange was opened in China in 1995. The Foreign Institutional Investors have not been allowed freedom in the Chinese stock exchange, which is so far mainly controlled by state owned enterprises in China.

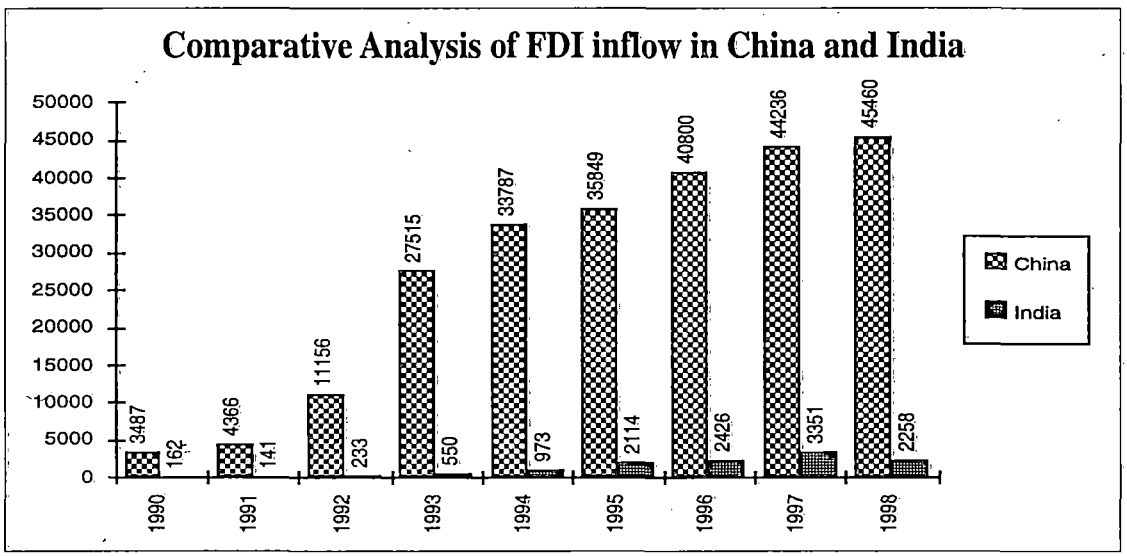
Another important point of distinction between the two countries is the actual inflow over the approvals granted for investments. In India the actual flow as percent of approval was only 21.7% on average during the reform period (1991-1998) as evident from Table-XIII Chapter-IV. In case of China the actual inflow is much higher and accounted for 69.05% of the approved amount on annual average basis during 1991-1998 as evident from Table-IV of Chapter-V.

However, there are certain points of similarities about the role of foreign enterprises in India as well as China particularly their negative contribution in the international trade. The imports of foreign enterprises (FFEs in China and MNCs in India) are far in excess of their exports and sometimes have also exceeded the net inflow of funds brought by them. The empirical evidences are available in Table-XIV Chapter-IV in case of India and Table-XII & XIII in case of China in Chapter-V.

Another remarkable similarity is noticed in respect of the impact of FDI inflow on external sectors of both the countries, which were solely dependent on external

borrowings for meeting the current account deficit during their pre-reform period. It has been observed that in the early periods of reforms in China more than two-third of the foreign capital inflows was in the form of external borrowings between 1979-1990 which came down to one-fourth of the capital inflow in the later part of the reforms in the 1990's as evident from Table-III, Chapter-V in case of China. Similar evidences have also been noticed in case of India where debt service ratio, debt GDP ratio and other vulnerability on external accounts have been considerably reduced with increasing foreign exchange reserve, built by inflow of foreign investment during the reform period (See Table-XVI and XVII, Chapter-IV).

China's inward FDI stock was only 5.2% of GDP in 1990 and has grown to 18.8% of its GDP in 1995. This indicates that much of China's FDI inflow has come during the period 1990-95. At the same time it is seen that Hong Kong China's inward stock has gone down during this period from 75% of GDP to 50.6% of GDP and its outward FDI stock has increased during the same period from 17.7% to 60.7%. This gives a clear indication that after liberalization of FDI policies in China there is transfer of FDI stock from Hong Kong China to Mainland China. Another important feature as evident from this table is that during the pre-reform period China had no FDI stock whereas in case of India FDI inward stock was in existence since 1980 though India went for economic reform in 1991.



India and Mexico

A detailed study on Mexico has been made in Chapter-VI, which reveals that stabilization and structural adjustment program began in Mexico in early 1980s after the debt crisis in 1982. In this respect similar to China, Mexico is also a forerunner in the field of economic reforms as compared to India. We have noticed in our studies

in previous chapters that economic reforms have a direct relationship with inflow of foreign investment in place of external debts. Almost all developing countries before embarking on the path of economic reforms followed the path of inward oriented policies and external borrowings were the only major source of funding their current account deficits. Mexico opened its FDI route through Maquiladoras in the border districts but soon thereafter also allowed portfolio investment in its stock market through Foreign Institutional Investors. Similar to India, foreign investment in Mexico consisted both types, Direct investment and Portfolio investment.

FDI inflow in Mexico has been much larger in value as compared to India as is clearly evident from the figures given in Table-I. The annual average FDI in Mexico was $4.310 billion during 1987-1992 as compared to a negligible $58 million annual average in India during this period. The FDI inflow in Mexico during this period is comparable with China, which had an annual average inflow of $4.652 billion during this period. India had just began its reforms in mid 1991 and therefore FDI flow in India began only after the reforms process were started. Mexico's share in the developing countries was 7.44% in 1997 as compared to India's 1.94% during that year which was almost four fold. The cumulative inflow during 1993-98 in Mexico was $60.86 billion as against India's $11.70 billion which was more than 5 times.

India and South-East Asian Countries

It may be reiterated at the outset that all the countries in South East Asia under study had opened foreign investment policies much earlier to India and consequently the FDI inflow in all those countries were considerably high during late 1980's and particularly at the time when India began its reforms in July 1991. Amongst the five select countries, the FDI inflow in Malaysia and Thailand were much higher than Indonesia, Korea and Philippines. The annual average inflow during 1987-1992 in Malaysia was $2387 million and in Thailand $1656 million and in other three countries it was below $1000 million as evident from Table-I.

There are few discernible and distinguishing features of FDI inflow in the South-East Asian countries inter se as well as the South-East Asian countries as a whole vis-á-vis India, which represent the South Asian countries. The first important feature is the volume of FDI inflow. If we take the total figures of FDI inflow of the five select countries which does not include Singapore it comes to $84.226 billion during 1993-1998 as compared to $11.702 billion of India but if we compare individual countries India exceeds only Philippines.

The second distinguishing feature is that amongst the five select countries the FDI inflow during six years (1993-1998) was largest in Malaysia followed by Indonesia which was marginally higher than Thailand; Korea occupied fourth position and Philippines was in the fifth position. It may be pertinent to mention that all the five countries individually received much lower FDI inflow as compared to Mexico and China during this period.

The third distinguishing feature is that the FDI inflow in all the crisis hit countries in the year 1998 remained positive except Indonesia where there was a negative flow of $356 billion. In two countries namely, Thailand and Korea, the FDI inflow in the year 1998 almost doubled the FDI inflow in 1997. In Thailand, the FDI inflow in 1998 was $6969 million as compared to $3733 million in 1997 and in Korea it was $5143 million in 1998 as compared to $2844 million in 1997. This higher surge of FDI flows in these two countries could be due to drastic fall in the exchange rate and the share prices which made purchase of domestic enterprises by the multinational companies cheaper as generally happens on the principle of 'Fire Sale FDI' as often cited by Paul Krugman the noted economist. Surprisingly the FDI inflow in Malaysia went down from $5106 million in 1997 to $3727 million in 1998. This could be possible due to capital account controls introduced in Malaysia after the currency crisis. Another distinguishing feature is that the FDI inflow has consistently increased in the select South-East Asian countries during 1993-1998 and their share in the developing countries was 11.08% over this period.

The statistics given in Table-II is in respect of inward and outward FDI flows as the percentage of gross fixed capital formation in the select countries during 1987-1997. The first distinguishing feature, which emerges from the said table, is that Malaysia is the lone country with considerable high percentage of inward and outward FDI. Though the share of inward FDI as the percentage of domestic investment has come down in Malaysia from 20.3% in 1993 to 12.2% in 1997 it still occupies an important position amongst the select countries after Mexico and China.

Table-III gives the details of FDI inward stock of the select countries during 1980-1998. The data reveals that Indonesia has the highest amount of inward stock of $61.116 billion followed by Malaysia $41.005 billion and Korea $20.478 billion, which is marginally higher than Thailand $19.978 billion in the year 1998. India's FDI inward stock of $13.231 billion is higher than Philippines $10.133 billion in

1998. India in true sense is comparable with Korea and Thailand to some extent but is far behind Indonesia and Malaysia.

Table-IV gives the details of inward FDI stocks as the percentage of GDP in the select countries. A cursory look at the table shows that Malaysia has the highest FDI inward stock which is 38.1% of its GDP, higher than China where the ratio is 23.5 and Indonesia where this ratio is 28.6%. Thus it appears that FDI occupies a predominant place in Malaysia and Indonesia as revealed from Table-III & IV. Korea where FDI inflow is much higher than Indonesia and Malaysia, the FDI inward stock in terms of percentage of fixed capital formation and as a percentage of GDP is much lower signifying a lower dominance of FDI in that country. India can be compared to Korea in terms of FDI inward stock as the percentage of GDP, which is 3.3 in the year 1997 as against 3.5 in Korea.

Table-V gives the details of FDI inflow as a percentage as GDP in the select Asian economies between 1991-1997. The data of this table are different from data of Table-IV, which reflect FDI stock as a percentage of GDP. All the countries under study show an increasing trend of FDI during this period. However their respective share is different. The ratios of Malaysia and China are comparable with 5.3% of GDP (Malaysia) and 4.3% of GDP (China) in the year 1997. One distinguishing feature between China and Malaysia is that in China the ratio has gone up from 0.9% in 1991 to 4.3% in 1997 whereas in case of Malaysia the ratio has gone down from 8.3% in 1991 to 5.3% in 1997. The share of India is 0.7% in 1997 as against 0.1% in 1991 but it is the smallest amongst the select countries and can be compared only with Thailand and Philippines where the ratio was 1.3% and 1.14% respectively in 1997. Indonesia's ratio was 2%, which is higher than Thailand and Philippines but much lower than Malaysia and China.

Table-VI gives the overall investment to GDP ratios in select countries with different block periods in the previous four decade during 1960's. It appears that Mexico's investment. GDP ratio was lowest during 1990-1996 at 22% of GDP and Thailand's was highest at 41%. Amongst the other select countries Malaysia had 38% followed by Korea 37% and Indonesia 32%. India's share was 24%, which was higher than Philippines with 23% during this period (1990-1996). The above ratio suggest that as developing countries all the select countries are trying their level best with maximum possible amount of domestic investment by meeting the savings investment gap by the inflow of foreign capital in the form of FDI and external borrowings. India

has a long way to go from its present domestic investment ratio of 24% to compete with Thailand and China, which has a higher investment ratio of 39% and 41% respectively. It may be pertinent to mention with the existing ICOR of four, India needs to invest at least 36% in domestic investment in order to achieve a growth rate of 9% from its present level of GDP growth rate of 6%.

Table-I
A Comparative study of FDI inflow in Select Countries (1987-1998)
(Millions of dollars)

Host region/ economy	1987-1992 (Annual average)	1993	1994	1995	1996	1997	1998	Sub-total (1993-98)
World	**173 530**	**219 421**	**253 506**	**328 862**	**358 869**	**464 341**	**643 879**	**2268878**
Developing countries	**35 326**	**78 813**	**101 196**	**106 224**	**135 343**	**172 533**	**165 936**	**760045**
China	4 652	27 515	33 787	35 849	40 180	44 236	45 460	227027
India	58	550	973	2 144	2 426	3 351	2 258	11702
Mexico	4 310	6 715	12 362	9 526	9 186	12 831	10 238	60858
Indonesia	999	2 004	2 109	4 346	6 194	4 673	-356	18970
Korea, Republic of	907	588	809	1 776	2 325	2 844	5 143	13485
Malaysia	2 387	5 006	4 342	4 178	5 078	5 106	3 727a	24737
Philippines	518	1 238	1 591	1 478	1 517	1 222	1 713	8759
Thailand	1 656	1 805	1 364	2 068	2 336	3 733	6 969	18275

a Estimates. For details, see "definitions and sources" in annex B.

Source: World Investment Report (1999), United Nations, Pg.479-480

Table-II
Inward and Outward FDI flows as a percentage of gross fixed capital formation by region and economy, 1987-1997.

Region/economy	1987-92 (Annual average)	1993	1994	1995	1996	1997
World						
Inward	4.1	4.3	4.6	5.4	5.8	7.7
Outward	4.7	5.0	5.3	6.0	6.3	8.0
Developing countries						
Inward	4.2	3.6	3.7	4.7	4.8	6.5
Outward	5.7	5.6	6.1	7.0	7.3	9.7
Mexico						
Inward	9.4	9	15.2	20.6	15.5	16.3
Outward	0.4	-0.1	1.3	-0.6	—	1.4
China						
Inward	4.0	12.2	17.3	14.7	14.3	14.3
Outward	1.1	2.0	1.0	0.8	0.8	0.8
Hong Kong, China						
Inward	9.9	11.5	10.6	7.7	11.5	9.9
Outward	18.5	55.9	55.0	58.7	55.1	40.4
India						
Inward	--	1.0	1.4	2.6	2.8	4.2
Outward	--	—	0.1	0.1	0.3	0.1
Indonesia						
Inward	2.7	4.3	3.8	6.7	8.9	7.0
Outward	--	0.8	1.1	0.9	0.9	0.3
Malayasia						
Inward	18.1	20.3	14.9	11.1	12.1	12.2
Outward	2.8	5.9	8.9	8.2	9.9	8.2
Korea, Republic of						
Inward	1.1	0.5	0.6	1.1	1.3	1.8
Outward	1.1	1.1	1.8	2.1	2.6	2.9
Philippines						
Inward	6.0	9.6	10.5	9.0	7.8	6.1
Outward	--	2.9	2.0	2.4	0.9	0.7
Thailand						
Inward	5.6	3.6	2.4	2.9	3.1	6.8
Outward	0.4	0.5	0.9	1.3	1.2	0.8

Source: UNCTAD, FDI/TNC data base; Annex Table B.5, Page 501-512, Complied from World Investment Report, 1999

Table-III

FDI Inward stock, by host region and economy
1980, 1985, 1990, 1995, 1997 and 1998

(Millions of dollars)

Region/economy	1980	1985	1990	1995	1997	1998
World	**506 602**	**782 298**	**1 768 456**	**2 789 585**	**3 436 651**	**4 088 068**
Developed countries	**373 658**	**545 060**	**1 394 853**	**1 982 346**	**2 312 383**	**2 785 449**
Developing countries	**132 945**	**237 239**	**370 644**	**769 262**	**1 055 656**	**1 219 271**
Mexico	8 105	18 802	22 424	41 130	50 545	60 783
China	57	4 305	18 568	131 241	215 657	261 117
Hong Kong, China	43 510	46 389	56 115	70 951	94 558	96 158
India	1 177	1 075	1 179	5 196	10 973	13 231
Indonesia	10 274	24 971	38 883	50 601	61 475	61 116
Malayasia	5 169	7 388	10 318	27 094	37 278	41 005
Philippines	1 225	2 601	3 268	6 086	8 420	10 133
Korea, Republic of	1 140	2 160	5 864	10 478	15 335	20 478
Thailand	981	1 999	8 209	17 452	13 009	19 978

Source: UNCTAD, FDI/TNC data base; Annex Table B.3, Page 489-493,
Adopted from World Investment Report 1999.
a. Estimated by accumulating flows since 1984.
b. Stock data prior to 1997 are estimated by subtracting flows.
c. Estimated by acumulating flows since 1977.
d. Estimated by accumulating flows since 1996.

Table-IV

Inward and Outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995 and 1997

Region/economy	1980	1985	1990	1995	1997
World					
Inward	5.0	6.9	8.7	9.9	11.7
Outward	5.3	6.3	8.4	10.2	11.9
Developed Countries					
Inward	4.8	6.1	8.4	9	10.5
Outward	6.4	7.4	9.9	11.7	13.9
Developing Countries					
Inward	5.9	9.8	10.5	14.1	16.6
Outward	0.8	1.4	2.3	4.7	5.8
Mexico					
Inward	4.2	10.2	9.2	14.3	12.5
Outward	—	0.3	0.2	1.4	1.3
China					
Inward	—	1.5	5.2	18.8	23.5
Outward	—	—	0.7	2.3	2.2
Hong Kong, China					
Inward	158.6	138.4	75.0	50.6	54.6
Outward	0.5	7.0	17.7	60.7	78.6
India					
Inward	0.7	0.5	0.4	1.6	3.3
Outward	0.1	0.1	—	0.2	0.3
Indonesia					
Inward	14.2	28.6	36.6	25.6	28.6
Outward	—	—	—	—	—
Malaysia					
Inward	21.1	23.7	24.1	31.8	38.1
Outward	1.7	4.4	6.2	13.1	13.0
Korea, Republic of					
Inward	1.8	2.3	2.3	2.3	3.5
Outward	0.2	0.5	0.9	2.2	3.8
Philippines					
Inward	3.8	8.5	7.4	8.2	10.2
Outward	0.5	0.6	0.4	1.6	1.9
Thailand					
Inward	3	5.1	9.6	10.5	8.5
Outward	—	—	0.5	1.3	1.3

Source : UNCTAD, FDI/TNC database; Annex Table B.6, Page 513-524
Compiled from World Investment Report 1999.

Table-V Select Asian economies-Foreign direct investments Inflow as % of GDP							
Country	1991	1992	1993	1994	1995	1996	1997
India	0.1	0.1	0.2	0.4	0.6	0.6	0.7
China	0.9	1.7	5.3	5.9	4.8	4.6	4.3
Indonesia	1.2	1.2	1.2	1.4	2.3	2.8	2
Malaysia	8.3	8.9	7.8	5.7	4.8	5.1	5.3
Philippines	1.2	1.3	1.6	2	1.8	1.6	1.4
Singapore	8.8	2.1	5.5	4.8	4.9	4.3	5.3
Thailand	1.5	1.4	1.1	0.7	0.7	0.9	1.3

Source: World Economic Outlook 1998, http://www.nic.in/pmcouncils/reports/fin/global.htm.

Table-VI Selected Economies: Investment-GDP Ratios[1] (Percent)				
	Averages			
	1960-69	1970-79	1980-89	1990-96
China[2]	35	35	34	39
Indonesia[2]	18	19	27	32
India[2]	16	18	22	24
Korea	18	28	30	37
Malaysia[2]	15	23	30	38
Philippines[2]	19	25	23	23
Thailand[2]	22	25	28	41
Mexico[2]	17	22	22	22

[1] Investment refers to gross fixed capital formation plus change in Inventories.
[2] Data start in 1963.

Source : World Economic Outlook (IMF) October 1998, Pg.88.

Comparative Study of Private Capital Flows in Select Countries

A detailed discussion has already been made in Chapter-II about the net resource flows to the developing countries where it was noticed that the net private capital flows have been increasing against the official flows which have been decreasing particularly since 1990 when large flow of capital consisting direct and portfolio investment started pouring in developed countries.

In this section an attempt has been made to analyse the various components of the private capitals namely, direct investment, portfolio investment and bank lending. In the year 1990 and 1996 in the select countries, the statistics given in Table-VII

reveal that there is a quantum jump in the net capital flow in all the select countries from 1990-1996. For example in India the net capital flow has increased from $1873 million to $6404 million, which is an increase over 350%. Malaysia has made the highest jump from $769 million in 1992 to $12096 million in 1996. China had the highest amount of growth in inflow in absolute term from $8107 million to $50100 million. Mexico had higher amount of inflow in the base year 1990 which was $8240 million, marginally higher than China in that year but has increased to only $23647 million in 1996 which is less than half of China. Amongst the select countries China stands first followed by Mexico, Indonesia and Thailand. India remains at the lowest with only $6404 million.

Foreign direct investment is one of the components of the private capital flow and has increased substantially during the above period and no further emphasis is given on this because detailed discussion had already been made in the foregoing paragraph. However one important point, which needs attention is the ratio of foreign direct investment in the total capital flow in the select countries. On a plain reading of the table it appears that China is the only country with highest ratio of FDI in the total capital flows which is almost 80% that is $40 billion of FDI out of $50 billion of the net capital flow.

The second component of the private capital flow is portfolio investment, which has two parts: bond and equity. Mexico has received the highest amount in bonds amounting to $11.34 billion followed by Thailand $3.77 billion and Indonesia $3.7 billion. India has a net outflow of $457 million in bonds in 1996. The second component of portfolio is the equity investment in the secondary market. It is important to note that India has topped the list with highest amount of portfolio investment in the form of equity shares amounting to $4.40 billion in 1996 followed by Malaysia $4.35 billion and Mexico $ 3.92 billion. China's share in portfolio investment is very low with only $3.46 billion as already discussed in Chapter-V. It is generally argued and empirically established that portfolio investment is volatile and direct investment is long term and more reliable. The past experience of Mexican peso crisis in 1994 and South East Asian currency crisis in 1997 are the telling examples of the risk involved with the portfolio investment. Mexico which has already been a victim of several financial crises in the past including the debt crisis in 1982 should be more cautious because the portfolio investment in the forms of bonds and equity in Mexico is highest amongst the select countries and is much higher as compared to the FDI flow. India also needs to be very cautious because the portfolio

inflow is higher than the FDI inflow and therefore there is a need to increase direct investment as a percentage of net capital flow.

The third important component of the private capital flow is bank borrowings. It has been observed in Chapter-VII that one of the important causes of South East Asian currency crisis in 1997 was short-term bank borrowing. Table-I in Chapter-VII gives an illustrative example of the sudden outflow of short-term debts. The statistics given in the table-VII are up to 1996 for the pre currency crisis stage in South-East Asia. The data reveals that there was a substantial increase in the bank borrowings in South-East Asian countries during 1990's as already discussed in details in Chapter-VII and as also reflected in this table. However, one distinguishing feature, which needs special analysis, is the high component of the bank borrowings in China, which is next only to Thailand in 1996. However, if we compare it with total capital inflow in China the incidence of bank borrowings is only about 10% whereas in case of Thailand it is almost 50%. Thus it is not the aggregate amount but the proportionate amount which is important and China appears to be within its reasonable limits. India had a negative flow in bank borrowings similar to portfolio bonds and thus India's vulnerability to these parameters is minimum amongst the select countries.

Table-VIII shows the pattern of private financial flows in China, Mexico, India and the select Asian countries as a percentage of total private inflows in developing countries during 1993-1998. It reveals from the table that China's share in FDI inflow to the developing countries during 1993-1998 was highest being 25.7% followed by Mexico 6.5%, Malaysia 3.7% and India only 1.4%. While China's share was highest the Philippines' share was the lowest at 1% only. The share of Indonesia was 2.2% and of Thailand 2.1% which was higher than that of India.

China and Mexico shared almost an equal ratio of 10.8% and 10.9% of the portfolio equity flow to the developing countries whereas India's share was only 6.1%. The share of Malaysia, Indonesia and Thailand are more or less equal to India's between 5 to 6 percent. However, the share of Philippines was lowest at 3.2% only. It is important to note that India is more attractive to its foreign investors in the stock market, which has attracted 6.1% of portfolio in the developing countries as against only 1.4% of FDI inflow in the developing countries. India needs to reverse this ratio in order to achieve a risk free sustainable growth. China's share in the portfolio bonds in the developing country was 4.4% which was lowest as compared to India's 5.6% and Mexico's 10.8%.

Table-VII
A Comparative study of Private Financial Flows in select countries

	Net Private Capital flows		Foreign Direct Investment		Porftolio Investment				Bank and trade related lending	
					Bonds		Equity			
	$ million		$ millions		$ millions		$ millions		$ millions	
	1990	1996	1990	1996	1990	1996	1990	1996	1990	1996
India	1,873	6,404	162	2,587	147	-457	105	4,398	1,459	-124
China	8,107	50,100	3,487	40,180	-48	1,190	0	3,466	4,668	5,264
Mexico	8,240	23,647	2,634	7,619	661	11,344	563	3,922	4,382	763
Thailand	4.498	13,517	2,444	2,336	-87	3,774	449	1,551	1,692	5,856
Malasia	769	12,096	2,333	4,500	-1,239	2,062	293	4,353	-617	1,180
Indonesia	3,219	18,030	1,093	7,960	26	3,744	312	3,099	1,788	3,228
Korea	--	--	788	2325	--	--	--	--	--	--
Singapore	--	--	5,575	9,440	--	--	--	--	--	--

Source: World Development Indicators 1998, pp-334-336. (The World Bank)

Table-VIII
Pattern of private financial flows in, Select Countries
1993-1998
(Percentage of total a)

Country	FDI inflows	Portfolio equity	Bonds	Bank and trade-related lending
China	25.7	10.8	4.4	1.3
Mexico	6.5	10.9	10.8	13
India	1.4	6.1	5.6	-0.2
Malaysia	3.7	5.3	1.6	6.6
Indonesia	2.2	5.9	2.2	-3.7
Thailand	2.1	6.6	2.5	1.3
Philippines	1.0	3.2	2.1	0.3

Source: World Investment Report, 2000 p.23
a. Cumulative tota of developing economies and countries in Central and Eastern Europe during 1993-1998. Excluding Bermuda, Cayman Islands, Hong Kong (China), Saudi Arabia, Singapore and Taiwan Province of China.

Comparative Study of Portfolio Investment and Stock Market Development in Select Countries

The analysis made in the previous chapters dealing with each country suggests that except for China where the stock market is of recent origin, the other select countries including India have stock market activities for a long time. The analysis made in the previous sections in this chapters also confirms that portfolio investment in China during the period under study was negligible. It is only in recent years that China has

started receiving some amount of portfolio investment after establishment of two stock exchanges in 1995. Table-IX reflects market capitalization of select countries between 1985 and 1996 as percentage of their gross domestic product. It is noticed from the table that there is substantial increase in the market capitalization of the securities traded in the respective countries. In India the market capitalization as a proportion to its GDP has gone up from 9.9% in 1985 to 66.2% in 1996. In Malaysia the market capitalization is very high at 326.6% of its GDP over 52% in 1985. In Philippines the market capitalization has gone up from 2.2% to 97.5% followed by Thailand from 4.8% to 53.1% and in Indonesia where it has gone up from 0.1% to 41.2%. The growth in market capitalization has remained lowest in South Korea where it has gone up from 9.8% to 29.9% only.

Another important ratio of the stock market development is the turnover ratio of the stock market. Turnover ratio is the average turnover of scripts in the stock market as a proportion of market capitalization. Generally the turnover ration is high if the market capitalization is low and vice-versa. It is noticed from the table that South Korea, which has the lowest market capitalization, has the highest turnover ratio, which has gone up from 56.4% in 1985 to 127.7% in 1996. Malaysia on the other hand also reflect a converse relationship between market capitalization and the turnover ratio which has gone up from 14.4% in 1985 to only 56.5% in 1996 against the market capitalization of 323.6% of its GDP in 1996. The table thus gives an indication that the countries with low market capitalization has higher turnover ratio and vice versa. In India the turnover ratio was 34.5% in 1995 when market capitalization was only 9.9% and the ratio has gone down to 21.7% whereas the market capitalization has gone up to 66.2% in 1996. Another important indicator is the foreign share in stock market turnover. It reveals from the data that Indian stock market is less active in terms of turnover ratio and foreign share in the turnover.

Table-IX

Stock Market Development in Asia: 1985-96

Country	MCAP as % of GDP	MCAP as % of GDP	Turnover Ratio (in %)	Turnover Ratio (in %)	Foreign share Stock-Market turnover (%)
Financial Year	1985	1996	1985	1996	1995
India	9.9	66.2	34.5	21.7	25
Indonesia	0.1	41.2	2.6	35.3	75
S.Korea	7.8	28.9	56.4	127.7	81
Malaysia	52	323.6	14.4	56.5	50
Philippines	2.2	97.5	16.6	31.6	50
Thailand	4.8	53.1	30.6	44.4	26
Emerging Economies	7.2	40.5	38.8	51.4	

Sources: 1. Emerging Stock Market Factbook, Internatioinal Finance Corporation, 1997; 2. Indian Securities Market: A Review; National Stock Exchange of India, 1999; 3. Bombay Stock Exchange, Official Directory.

A Comparative Study of Economic Parameters in Select Countries

Economic reforms in general have contributed to the growth in the select countries. Although individual experiences differ about equitable and balance growth in respective countries. The GDP growth rate during the ten years on average basis between 1982-1991 was 9.6% in China, which was highest amongst the select countries followed by Korea 8.9%, Thailand 8.1% and Malaysia 6.3%. The GDP growth during this period (pre-reform) in India was 5.4%, which is comparable with Indonesia 5.5% and Malaysia 6.3% which had already adopted market economy. Mexico and Philippines were at the lowest growth in this period at 1.4% and 1.3% respectively (See Table-X).

China continued to grow at a higher speed between 1992-1997 as revealed from the figures given for each year during this period. The highest growth rate achieved in 1992 by China was 14.2% as the peak rate and thereafter the growth chart of China has started declining from 13.5% in 1993 to 8.8% in 1997. Malaysia on the other hand continued to maintain its tempo of growth from the average of 6.3% during 1982-1991 to 8.9% in 1992 to 10% in 1996 that is up to the year before the crisis in 1997 when its growth declined to 7.5%. Philippines has made a comparatively good progress during the decade of 1990's as its growth has picked up from 0.3% in 1992 to 5.8% in 1996 with a little decline to 5.2% in 1997. An important feature, Table-X reveals, is that Mexico which was the victim of currency crisis in 1994 had a negative growth of (-)6.2% in the immediately succeeding year 1995. Similarly Thailand from where the currency crisis started in 1997 also had a negative growth of 1.8% in 1997. India also resembles a similar example with a little decline in its growth rate to 4.2% in 1992 after a BOP crisis in 1990-1991. However it is noticed that in the post-crisis period the growth rate has picked up in Mexico to 5.1% in 1996 and 6.8% in 1997, which is an all time record in the Mexican history of previous two decades. Similarly in India the economy grew by 6.7% in 1994 and 7.6% in 1995, which is also a record so far in Indian economy. The growth started declining in 1996 when it recorded a lower growth of 7.1% in 1996 and 5.8% in 1997.

Another important economic indicator is the rate of inflation, which is given in Table-XI for all the select countries. Mexico had the highest ever rate of inflation during the decade of 1980's, which averaged 64.4% during 1982-1991 particularly after the debt crisis of 1982. The inflation rate came down to 7% in 1994 with the help of the measures taken for the structural reforms by the Salinas administration during 1988-

1994. However the Peso Crisis, which hit the Mexican economy in December 1994 had adverse effects on the general economy with decline in the growth rate and rise in the inflation rate. The inflation in Mexico rose to 34.8% in 1995 and 35.3% in 1996 and has slightly gone down to 20.8% in 1997. The data gives an indication that any type of financial crisis has adverse effect on the GDP growth rate and the inflation in the country and it is also proved particularly in case of Mexico that the growth rate has improved after the two crises namely the debt crisis in 1982 and the peso crisis in 1994 although it remains an open question about the time and period required for stabilization and improvement in the economy. The second question arising out of the Mexican experience is the sustainability of the high growth and the low inflation because what was achieved after the debt crisis was lost during the Peso Crisis.

In the case of China a comparative study of Table-X and XI suggest that the GDP growth rate remained higher than the rate of inflation from 1982 to 1992; however during 1993 to 1995 the growth rate declined during these three years and the inflation rate rose higher. In 1994 the GDP growth declined to 12.6% but the inflation went up to 24.1% that is almost double the rate of the growth in the economy and the situation continued till 1995 when the GDP growth rate was 10.5% although the inflation was 17.1%. The sudden surge in the capital flow during the early period of 1990's in China had the effect of increase in money supply in the economy without simultaneous increase in the demand of the industrial goods. This would be partly due to the effect of 'Dutch-Disease'[7]. However in the later period in the year 1996 and 1997 the Chinese authorities has been able to control the inflation rate by managing the demand and there is a success in achieving a low rate of inflation of 8.3% in 1996 and 2.8% in 1997. The data available for the subsequent years as given in Table-XI show that there is a negative rate of inflation, which means that the prices have declined in China in 1998 and 1999. This could also be due to oversupply of goods and services. In case of India there was a substantial decline of inflation rate to 6.3% in 1993 from a high of 11.8% in 1992. However due to the slowdown of economic process and the populist economic policies of the central government the rate of inflation went high to a double digit figure of 10.20% in 1994 and 1995. However the rate has declined to 7.2% in 1997 and similar to China the inflation rate has come down further in the year 1998 and 1999.

The above analysis reveals that the inflow of foreign investment during the reform period with open door policy for the foreign investment has contributed to the growth of these economies but due to the internal factors such as the labour productivity and

other government policies and having regard to the past economic background of the respective economies, the growth rate is not similar. Reference may also be made to Table-XI Chapter-VII where a comparative analysis has been given for the select economies for the period 1993-1997 about domestic savings, fiscal deficits, current account deficits and growth rate in money supply. Comparisons of certain economic and social parameters have also been given in Appendix I and II about India, China and Mexico.

Table-X

A Comparative study of gross Domestic Product (Real GDP) of select countries (1982-1997)

	Ten-Years Average						
	1982-91	1992	1993	1994	1995	1996	1997
China	9.6	14.2	13.5	12.6	10.5	9.6	8.8
India	5.4	4.2	5.0	6.7	7.6	7.1	5.8
Indonesia	5.5	7.2	7.3	7.5	8.2	8.0	4.5
Malaysia	6.3	8.9	9.9	9.2	9.8	10.0	7.5
Philippines	1.3	0.3	2.1	4.4	4.7	5.8	5.2
Thailand	8.1	8.1	8.4	9.0	8.9	5.9	-1.8
Korea	8.9	5.4	5.5	8.3	8.9	6.8	5.0
Mexico	1.4	3.6	2.0	4.5	-6.2	5.1	6.8

Source:World Economic Outlook May, 2000 (IMF), Pg.211-212.

Table-XI

A Comparative study of consumer prices (Real Inflation) of select countries (1982-1997)

	Ten-Years Average						
	1982-91	1992	1993	1994	1995	1996	1997
China *	7.1	6.4	14.7	24.1	17.1	8.3	2.8
India *	8.9	11.8	6.4	10.2	10.2	9.0	7.2
Indonesia	8.3	7.5	9.7	8.5	9.4	7.9	6.6
Malaysia	2.5	4.7	3.5	3.7	3.4	3.5	2.7
Philippines	13.5	8.9	7.6	9.1	8.1	8.4	5.0
Thailand	3.8	4.1	3.4	5.1	5.8	5.9	5.6
Mexico	64.4	15.5	9.8	7.0	34.8	35.3	20.8

Source:World Economic Outlook May, 2000 (IMF), Pg.219-220.

* nflation rate in China has gone down to (-) 0.8% in 1998 and (-) 1.4% in 1999 and in India 2.2% in 1998 and 1999.

Source:ibid.

Exchange Rate Policies (China and India)

Chinese authorities describe the current exchange rate as a "managed float". The exchange rate is permitted to fluctuate in a narrow band around central rates announced by the People's Bank of China. China uses the RMB/dollar exchange rate as the basic rate, and RMB rates against other currencies are calculated by referring to international market rates of the previous day. China still lacks a foreign exchange market where foreign exchange dealers interact directly with international markets (Country Reports 1998). India on the other hand has market-determined rate with minimum interference of its central bank.

South-East Asian Currency Crisis has affected the value of Indian Rupee vis-à-vis dollar adversely but had no effect on Chinese RMB/Yuan. On the other hand Chinese currency has appreciated in value over the period since 1995 up to 1998 gradually by 3.94%. The present exchange rate (See Table XII) of Chinese RMB/Yuan is 827.91 against US$100 which was 861.87 RMB/Yuan per US$100 in 1994. It may be pertinent to note that China devalued its currency in a massive scale in 1994 by almost 50% from 576.19 Yuan per $100 in 1993 to 861.87 Yuan per $100 in 1994. China introduced full convertibility of its currency for current account transactions on December 1st 1996 but has not adopted capital account convertibility as yet. India has also not yet adopted convertibility on capital account.

Table-XII

Average Exchange Rate of RMB Yuan against main convertible currencies (Middle Rate)

Unit:RMB.Yuan

Year	100 US Dollars	100 US Dollars
1981	170.51	790.9
1985	293.67	1188.9
1990	478.38	1664.9
1991	532.27	1794.3
1992	551.49	2447.4
1993	576.19	3064.9
1994	861.87	3136.6
1995	835.07	3139.9
1996	831.42	3345.0
1997	828.98	3350.0
1998	827.91	4207.10

Note: Data in this table are obtained from the National Bureau of Statistics.
Exchange rates upto March 1992 was the official rates Govt. of India and thereafter the merchants rates are announced by Foreign Exchange Dealers Association of India (FEDAI)
Source:Economic Survey 2000-01, Govt. of India, Pg.S-79.

A Comparison of the Indian Economy with the Asian Currency Crisis

Indian economy is comparatively more dependent on its large domestic market with low dependence on exports, for its sustained growth of 5 to 6 percent for the past two decades as compared to the South-East Asian economies, which have followed export-oriented growth. Inflation in India is demand driven as compared to a primarily import/cost-driven type of inflation in Asia; less than 2 percent current-account deficit in India is manageable as against the large current-account deficits that have been one of the major precipitators of the Asian crisis and protected currency. The Indian rupee is still only partly convertible: the current account is convertible but the capital account is not. Since currency operators can take only

limited positions, speculation on the scale recently seen in South-East Asia is virtually impossible. It is quite easy for the central bank to intervene and stabilize the rupee. In mid-November 1997, the central bank teemed its will with its war chest and did just that, spending over US $ 1 billion to buy up rupee, especially to curb local speculators.

Unlike most of Asia, the Indian economy is not dominated by the property sector and therefore is insulated from the risky asset bubbles that characterize it. In India, property sector concerns do not even appear in stock exchange listings. Foreign equity and debt investments focus on industrial business sectors and the creditworthiness of these assets are significantly superior to property assets. India has very little exposure to short-term foreign debt. Some 98% of the national foreign currency debt carries long-term maturities and most of that is either bilateral or multilateral. At the same time, exposure to foreign debts is decreasing. As a percentage of GDP, it has dropped from 30.67% in 1994 to an estimated 26.58% in 1997, and the debt-service ratio has gone down from 27.5% to 26.4%. Exports as a percent of GDP are only 16%, making Indian case far less vulnerable to the cyclicality of global markets than are its South-East Asian cousins. Large Indian corporates are primarily focused in capturing the domestic market and fight against import competition. Although in the past five years the Government has cut import tariffs in order to force its domestic industry to become more competitive, it has done so like an element on a relentless but slow march; it wants to open India's markets to global competition but with a minimum of dislocations. With its vast population, India is expected to enjoy a low labour-cost advantage for at least a generation. At the same time, the skill base is improving; for instance, the software industry doubled its export sales to $ 2 billion in fiscal 1996-97.

The inflows of foreign capital have strengthened India's external position. India now has a greater capacity to withstand external and internal shocks. It is also less dependent on official capital flows, which have been declining in real terms in recent years. At the same time, the sudden surge in capital inflows in 1993 and 1994 made the task of macro-economic management more difficult. These added substantially to the growth of money supply in the country. In order to restrain monetary growth, the Reserve Bank was compelled to tighten monetary policy and increase real interest rates. There was also a pressure on the exchange rate as the supply of foreign exchange exceeded demand.

Although India is not immune to the effects of slowing world markets, its own economy is primarily domestically focused, which makes it less vulnerable to external factors. India's current account deficit remains relatively low, and its current short-term external debt, around 5% of GDP, is comparatively low for an emerging economy of its size. India is not heavily dependent on exports, which account for about 10% of GDP. Unlike many other emerging economies, In addition, its banking system is relatively healthy, with no major failures to date. The India Government's renewed focus on economic reforms should increase the current level of foreign direct investment (FDI) and spur economic growth.

With reference to the Asian crisis, it is now strongly argued that the main culprit was not internationalization per se, rather it was weaknesses in the domestic financial system of these economies which should have been corrected before or during the integration process. A recent study of Johnston and Pazarbasioglu (1995) concludes that countries, that had faced financial crisis had failed to adjust real interest rates, prevent inflationary credit and monetary expansion, and had allowed greater inefficiencies in their banking systems. As far as India is concerned, it has recently started to integrate itself with the rest of the world. Therefore its chances of getting affected by the development in its neighborhood have increased considerably. To substantiate this point, it may be recollected that 19 October 1987 crash in US stock market did not affect Indian bourses so much. However the stock market crash on 27 October 1997 in South-East Asia has crashed Indian stock market as well. Nevertheless, India survived the financial crisis for various reasons including the strength of its financial system and appropriate monetary policy decisions taken by the Central Bank.

According to Annual Survey Report of The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) *(Reported in the Times of India, Jan. 5, 2001)*[8], the risk of a second regional crisis is remote although the growth may be slowed because of economic slow down in the United States and Japan.

India and China are two big economies in the Asian region to have remained largely insulated from the East Asian currency crisis, which has caused a severe economic slowdown in the region. So far there has been no serious spillover effect of the Asian meltdown on India and China. Economists feel that neither of these two

economies is integrated enough with global markets to get affected by the 'contagion effect' sweeping through South-East Asia.

India has better regulatory and financial supervision systems than the South East Asian countries. But even Chile, with very well developed financial markets and sophisticated financial supervision systems in place, did not allow easy capital movements in and out. Chilean regulations required 30 per cent of portfolio investment to be for one year in a central bank deposit account. However, this rule has been abolished now since September 1998.

Though India is a large country by international standard, its financial markets are still rather shallow in an international sense. That is why 1996 World Development Report had said even before the Asian crisis 'be careful on the capital account'. It had signaled portfolio capital as a very important area where some controls are obviously needed.

However, it is also true that there is no consensus as yet on how those controls should best be applied. Should it be through taxes or through the Chilean type of deposit system? But what the East Asian crisis suggests is that one must be very careful if there are no restrictions. In that case, and this applies in the Indian context, capital account convertibility must be viewed with great caution. And this will quite clearly hold good for some period of time, and certainly until there are some great improvements in India's industrial and commercial regimes.

India was not as badly engulfed by the currency crisis as other countries in the South-East region. Slower deregulation of the financial sector in India has proved to be a good policy decision. If India had adopted Capital Account Convertibility (CAC) it would have been difficult to protect its economy from getting severely affected by the Asian turmoil. Similar to India China has also succeeded to protect itself from the Asian flu, as its currency is not fully convertible. However, it seems that our policy makers have not learnt any lessons from the South-East Asian crisis as they are following an open door policy towards hot money flows in the form of external commercial borrowings and portfolio investment.

Summary and Conclusions

The comparative analysis made in the foregoing paragraphs gives a clear indication that China has been most successful with low inflation and higher amount of domestic savings accompanied with higher and sustainable GDP growth rate without undergoing any financial crisis so far. The other economies have also been successful in attracting foreign investments but due to higher amount of portfolio and short-term debts these economies, particularly Mexico and South-East Asian countries, had to face currency crisis. It is also evident that it is not the large amount of capital flows but the proper management of the fund which is important without which the countries with large capital flows are likely to face crisis at the time of reversal of flow for future uncertainties which may arise due to various economic factors including the slowness in the economy or policy errors in the exchange rate management. The reasons of success in China are mainly because of large amount of inflow in the form of direct investment and the contribution of MNC's in the export growth of China. The economic decentralization and setting up of special economic zones with adoption of MIGA convention had contributed together towards a high and sustainable economic growth.

The comparative analysis has also resulted into certain basic findings such as: i) There is a surge in FDI inflow in crisis-hit countries, particularly Korea and Thailand after the currency crisis giving empirical evidence about a hypothesis of 'Fire Sale FDI' of Paul Krugman, ii) The outward FDI flows of Hong Kong has been the main source of FDI inflow in China, iii) Though the FDI inward flows of Malaysia has been comparatively low as a percentage of fixed capital formation as compared to China, its FDI stocks as a percentage of GDP is much higher than China. iv) It is not the total amount of private capital flows but its component in the from of FDI or portfolio or in the form of bank lending which is more important, v) The financial crisis lead to drastic fall or negative growth in the economy but with proper policy changes may bring higher growth rates and vi) A lower growth rate has generally been accompanied by a higher rate of inflation and vice versa.

Appendix – I

Comparison of Economic Performance Among Select Countries

Indices	India	China	Mexico
1.GNP (World Bank Atlas method)			
a. per capita 1999 (in $)	450	780	4400
b. ranking of countries	162	140	71
2. GNP (PPP)			
a. per capita 1999 (in $)	2149	3291	7719
b. ranking of countries	153	128	75
3.GDP annual growth rate in %			
a) 1980-90	5.8	10.1	1.1
b) 1990-99	6.1	10.7	2.7
4. Average annual rate of Inflation 1990-98 (in %)	8.9	9.7	19.5
5.Gross domestic investment (GDI) as % of GDP (1997-1999)	23.9	38.8	24.8
6. Average annual growth of GDI (1990-99)	7.4	12.8	3.9
7. Gross domestic savings as % GDP (1997-1999)	20.3	42.5	23.8
8. Average annual growth of exports of goods & services (1990-99)	11.3	13.0	14.3
9. External debt as % of GNP (1998)	23.0	16.4	42.0
10. Gross reserves in US $ billion			
a) in 1990	5.64	34.48	10.22
b) in 1999	32.7	157.73	31.78
11. Net foreign direct investment (in US$ billion)			
a) annual average 1987-1992	0.06	4.65	4.31
b) 1998	2.26	45.5	10.24
12.Composite ICRG risk rating (March 2000)	64.3	72.3	70.5
13. Institutional investor credit Rating (March 2000)	45.3	56.6	49.8
14. Stock market capitalization (in US$ billion) in 1999	184.6	330.7	154.0
15. Stock market capitalization as % of GDP in 1997	33.7	22.9	38.9
16. Subsidies & other current transfers as % of total expenditure in 1997	40	-	51
17. Education Profile			
a) Public education expenditure as % of GNP (1995-97)	3.2	2.3	4.9
b) Public education expenditure as% Govt. Expenditure (1995-97)	11.6	12.2	23.0
c) Share of pre-primary, primary and secondary in education expenditure (1994-97)	66.0	69.6	82.8
d) adult literacy rate 1998	55.7	82.8	90.8
e) youth literacy rate 1998	70.9	97.2	96.6

Appendix – I *(contd.)*

18. Health Profile			
a) Public expenditure on health as % of GDP (1990-98)	0.6	2.0	2.8
b) % of population with access to improved water source (1990-96)	81	90	83
c) % of population with access to sanitation (1990-96)	16	21	66
d) infant mortality rate per 1000 live births (1998)	70	31	30
e) life expectancy at birth	62.9	70.1	72.3
f) daily per capita supply of calories (1997)	2496	2897	3097
g) daily per capita supply of protein in grams (1997)	59	78	83
h) Doctors per 1 lakh of population (1992-95)	48	115	85
i) Tuberculosis per 1 lakh People in 1997	118.3	33.7	25.0
j) per cent of infants with low birth weight (1990-97)	33	9	7
19. Military expenditure as % of GNP in 1997	2.8	2.2	1.1
20. Highest marginal tax rate in % in 1999			
a) individual	30.0	45	40
b) corporate	35	30	35
21. Power & Transportation			
a) power consumption per capita KWH (1997)	363	714	1459
b) T&D losses (1997)	18	8	14
c) paved road as % of total (1998)	45.7	-	29.7
d) goods transported by rail thousand ton-km per $ million of GDP (PPP) (1998)	137.1	304.8	62.1
e) air passenger carried '00000s (1998)	165.2	532.3	177.2
22.Communications, information & science & technology per 1000 people			
a) radios (1997)	121	333	325
b) TV sets (1998)	69	272	261
c) Telephone mainlines (1998)	22	70	104
d) PCs (1998)	2.7	8.9	47
e) internet hosts per 10,000 (January 2000)	0.23	0.57	40.9
f) scientists & engineers in R&D per million people (1987-97)	149	454	214
g) high technology exports as % of manufacturing exports	5	15	19
h) waiting time for telephone connection in years (1997)	1.0	0.1	0.8
23. GFD of Central Govt. (% of GDP)			
a) 1990	-7.5	-1.9	-2.5
b) 1998	-5.2	-1.5	-1.1
24. Capital Expenditure of Central Government(% of GDP)			
a) 1990	1.8	-	2.5
b) 1998	1.6	-	1.9

Note: The data for making country comparisons are primarily culled out from World Development Reports and Human Development Reports, World Bank. For the performances of Indian economy during the post independence period they are mostly drawn from Economic Survey, Government of India, World Development Report, World Bank and RBI Occasional Papers vol. 18 Nos. 2 and 3.

Adopted from Annexure-2
Golden Jubilee Commemoration lecture delivered by Dr. Y. V. Reddy, Deputy Governor, Reserve Bank of India on the Occasion of Swarn Mohotsavam of Vivek Vandhari College, Hyderabad on Oct. 30, 2000.

Appendix-II

Annexure – 1 : Ranking of India, China and Mexico Based on Various Socio-Economic Indicators

Indices	India	China	Mexico
1. Economic creativity Index (2000)	38	48	35
a.Technology Index (2000)	38	47	11
b. Startup Index(2000)	38	46	51
2. Growth competitiveness Index (2000)	49	41	43
3. Current competitiveness Index (2000)	37	44	42
4. Microeconomic competitiveness Index (2000)	42	49	34
5. Environmental regulatory regime Index (1999)	43	40	30
6. Financial market sophistication (1999)	39	50	35
7. Corruption perception Index (1996) $	46	50	38
8. Human Development Index (1998)	128	99	55
a. GDP (ppp) index	0.51	0.57	0.73
b. Education index	0.55	0.79	0.84
b. Life expectancy index	0.63	0.75	0.79
9. Human Poverty Index (1998)*	58	30	12
10. Recessionary expectations 6 (January 2000) (on score between 0 to 7)#	6.2	–	5.7
11. Globalisation Index annual average % change, 1993-97	2.0	7.0	-4.5
12. Emerging market access Index (2000)	46	37	68

* for 85 developing countries and 18 industrialized countries (in which USA and Japan belong) separately $-higher the rank greater is the degree of perceived corruption or lack of transparency. #-higher the value less is the recessionary expectations.

Adopted from Annexure-1

Golden Jubliee Commemmeration lecture delivered by Dr. Y.V.Reddy, Deputy Governor, Reserve Bank of India on the occasion of Swama

Notes and References :

1. *World Bank 1992.*

2. *NSS data used by S.P.Gupta (1999) Table-1, "Social Scientist", Pg.10.*

3. *Planning Commission, Table-1.8, "Economic Survey 2000-2001", Pg.13.*

4. *Cable Vincent, "China and India : Economic Reform and Global Integration, The Royal Institute of International Affairs," There is an overall and up-to-date review of the reform process in China in M.Bell et.al., China at the Threshold of a Market Economy, IMF Occasional Paper 107, September 1993, IMF, Washington, DC; and World Bank, China Updating Economic Memorandum: Managing Rapid Growth and Transition (Washington, DC: World Bank, 1993), The background to India's reform is explained in Bimal Jalan, ed., The Indian Economy: Problems and Prospects (New Delhi, India: Viking/Penguin Books, 1992), Pg.5.*

5. *D. Perkins et.al., Rural Small Scale Industry in the People's Republic of China (Berkeley: University of California Press, 1977). Even before 1979, 64 percent of cement, 41 percent of coal and 23 percent of steel were free of national planning control (quoted in G. Jefferson and T. Rawski, 'Enterprise Reform in Chinese Industry,' Journal of Economic Perspectives, Vol.8, No.2, Spring 1994, p.49, Pg.7.*

6. *Jiang Zemin, quoted in K. Fukasaku and D. Wall, China's Long March to an Open Economy (Paris: OECD Development Centre Studies,1994,) Pg.11.*

7. *Dutch Disease – The effect of an increase in one form of net exports in driving up a country's exchange rate, which handicaps the sale of other exports and impairs the ability of domestic products to compete with imports. The name comes from the supposed effects of natural gas discoveries on the Netherlands economy.*

8. *Economic and Social Commission for Asia and the Pacific (ESCAP) (Reported in the Times of India, Jan. 5, 2001),*