

# Advantages and Disadvantages of FDI in China and India

Tarun Kanti Bose (Corresponding author)

Assistant Professor, Business Administration Discipline, Khulna University

Khulna 9208, Bangladesh

Tel: 880-1911-451-044 E-mail: tarun84ku@yahoo.com

Received: February 25, 2012

Accepted: April 5, 2012

Published: May 1, 2012

doi:10.5539/ibr.v5n5p164

URL: <http://dx.doi.org/10.5539/ibr.v5n5p164>

## Abstract

This study was directed towards detecting the positive and negative sides for the foreign investors while they go for direct investment in India and China. A descriptive and explorative research study has been carried out for investigating the current proposition of the concerned case of FDI in those two countries. Advantages of investing in India includes-Huge market size and a fast developing economy, availability of diversified resources and cheap labour force, increasing improvement of infrastructure, public private partnerships, IT revolution and English literacy, openness towards FDI, regulatory framework, and investment protection, where as few drawbacks likes huge section of poor and middle class, bureaucracy, power shortage and ethnic diversified are also available in the country. As far as the case of China is concern positives areas are the immense size and growth of the Chinese economy and very bright prospects, resource availability and low cost of labour force, immense development in relevant infrastructure, openness to international trade and easy access to international markets, development and alteration of the regulatory framework, investment protection and promotion. There are also few drawbacks as well like the regulator burden, hindrances in free flow of information, lack of English literacy and so on.

**Keywords:** FDI, India, China, Positives and negatives, International trade

## 1. Introduction

In this 21<sup>ST</sup> century globalization makes this planet as a global village and people of different countries are getting closer and closer (Dunning, 2002). Due to immense development of technologies investors of different countries are looking forward to find business opportunities beyond the conventional territory and as a result one of the most popular and highlighted terms in modern business-“FDI” is evolving at a greater pace than ever before (Birkinshaw, 2000; Alfaro et al., 2004). In this era of globalization and intense competition, foreign direct investment (FDI) has become a very common and immensely important phenomenon for consumers, producers and different governments (Balasubramanyan et al., 1996; Borensztein et al., 1995). In this 21<sup>ST</sup> century, business and trade become more competitive and diversified than ever before. As traditional market is shrinking down in a faster pace, operators are looking for options for expansion and international trade is getting accelerated. As a result FDI is getting accelerated at a faster rate and different countries of the world are trying their best to attract more and more FDI as it proves to be a great force for triggering the domestic economic development. (Chang & Rosenzweig, 2001; Chung, 2001; Daisuke, 2008). While the large Multi National Corporations of the West are getting advantages of market expansion from FDI, the host countries are also utilizing it as a major mechanism and source for accelerating their domestic economic growth. Several research works are taking place over the years in the field of FDI and the suitability and attractiveness of various destinations. There is little doubt on the fact that while a large company from the US or Europe consider about going into diversified operation across the globe-first thing came into their market is the size of the market.

It is always essential for attracting the foreign investors as it is the prime consideration prior to invest their money into foreign countries. When we just talk about size of the market-the name of two countries immediately came into our mind. Those countries are certainly India and China. The most populated and huge countries of the world and they are always attracting a lot of foreign investors. This case has become even more intense in modern times as western companies feel the pressure of market shrinking down in their home territory. Few research works has been done in this field but it always essential to have a closer look at the scenario of these two countries as far as the advantages and disadvantages of investing in these two palaces are concern. This paper has been intended towards achieving the same thing with the help of tow practical case study on retail giant-Wal-mart and the large motor company from South Korea-the Hyundai Motor Corporation. Wal-Mart has made a lot of FDI in China while Hyundai has done the same in India. By evaluating their operations and the benefit and drawbacks they have experienced while operating in those

two countries will be evaluated and also with the help of thorough literature review the advantages and disadvantages of FDI in India and China will be expressed.

## 2. Research Question

The main research questions of this study are:

- What are the advantages and disadvantages of FDI in China?
- What are the advantages and disadvantages of FDI in India?

The entire research work has been done for the successful answering of the above mentioned research question.

## 3. Methodology

Methodology is always the most important of any study. It provides the necessary base and structure of every article. Therefore, a sound methodology is always the most prioritized concern of each and every research. The case was also similar for this study. Proper and adequate importance has been given for preparing the methodology and afterwards it has been decided that a qualitative and descriptive research methods are appropriate for this study. The entire methods has been done and directed towards achieving the above mentioned research questions. The research questions consisted of evaluating advantages and disadvantages of FDI in China and India. In order to answering the research questions efficiently thorough review of the existing literature has been done and descriptive data has been gathered which is essentially relevant for this study. Those data consisted of qualitative output and thus explain the positives and negative sides of FDI in those two highly popular destinations for western investors. Along with that-two case studies on Wal-mart and Hyundai corporation has been done two evaluate the scenario from practical perspectives along with theoretical base. Wal-Mart is operating in China for quite few years and so is Hyundai in India. Thus, the experiences of those two companies have been detected and by that process the benefits and drawbacks of FDI in India and China has been evaluated more comprehensively.

## 4. Conceptual Framework

### 4.1 Defining FDI

Before interpreting the immense importance of FDI for countries as well as for investors it is important to define the term and concept FDI itself (Agosin & Mayer, 2000). According to IMF, FDI is the category of international investment that reflects the objective of a resident entity in one obtaining a 'lasting interest' and control in an enterprise resident in another economy (Bandelji, 2002; Hein, 1992). Few academicians and researchers define FDI as an investment by foreign corporation in any country. A common example of foreign direct investment is a situation in which a foreign company comes into a country to build or buy a factory. Afterwards they initiate the operation in respective countries by investing further through recruiting HR and also initiating manufacturing or distribution. From the definition itself the sky-high importance of FDI is clearly observable. Not only it serves the goal of economic development of the host country but also it assists the investors as well in a great way (Jun & Singh, 1996; Lim, 1983; Lucas, 1993).

### 4.2 Immense Importance of FDI

FDI serves the objectives of both the host country and foreign investors in various ways:

#### 4.2.1 Importance of FDI from Country Perspectives

FDI always brings certain benefits to national economies. It can contribute to Gross Domestic Product, Gross Fixed Capital Formation and balance of payments. There have been empirical studies indicating a positive link between higher GDP and FDI inflows. FDI can also contribute toward debt servicing repayments, stimulate export markets and produce foreign exchange revenue. Foreign direct investment (FDI) is increasingly being recognized as an important factor in the economic development of countries (Kamath, 1994; Lemoine, 2000).

Besides bringing capital, it facilitates the transfer of technology, organizational and managerial practices and skills as well as access to international markets. More and more countries are striving to create a favourable climate to attract FDI. In addition to reducing the restrictions on the entry of FDI, they are actively liberalizing their FDI regimes. FDI is a major source of economic development of developing and under developing countries (Lall, 2000; OECD, 2000; Zhang, 2001b).

#### 4.2.2 Importance of FDI from Investors Perspective

As host countries are getting advantages of FDI and, the investors are also not far behind in terms of their benefits. FDI assist the investing company in a number of ways. FDI enhances the domestic competitiveness, provides the opportunity of taking significant advantages of international trade technology, contributes towards increasing of sales and profit, extends sales potentials of the existing products, maintains cost competitiveness in the domestic market

set-up, enhances possibilities of business expansion, helps in the process of obtaining global market share, reduce the dependency on existing markets, and also stabilize seasonal market fluctuations (Oman, 2000; Rajan, 2005; Rao et al., 1999). The advantages of FDI have been successfully utilized by the global pioneer companies in almost every sector. In doing so the companies always look for the best possible destinations where they can put their money safely and also those places have the highest possibility of generating profits (Sharma, 2000; Smarzynska, 2002). Talking about suitable destinations for FDI reminds us about few emerging countries in this 21<sup>ST</sup> century. Talking about emerging economies automatically shifts our focus towards two particular countries which are India and China. The advantages of FDI in China and India are the main theme and discussion point of this article (Thompson, 2002; Luo, 1998).

## 5. Findings and Analysis

### 5.1 The Scenario of China

Ever since China reformed its economy, understood the immense importance of FDI and also urged for foreign capital participation in the economy-the country has received remarkable amount of FDI since 1979. It has become the second largest recipient of FDI just behind the US and definitely the largest among the developing countries (Liu & Wei, 2001; Luo & Tan, 1997; Sun & Yu, 2002). The FDI in China becomes most popular since 1979 and it has received \$306 billion in between the next 20 years. That is attributed to few major incidences in that span of 20 years including the establishment of Special Economic Zones (SEZs). The government of China established four SEZs in Guangdong and Fujian provinces and offered special incentive policies for FDI in these SEZs. That make the movement of FDI in the country towards upward direction and the trend has not been changed yet (Wu & Strange, 2000; Zhang, 2001a). China's overall economic reform process and China's commitment to the open door policy and market-oriented economic reform, proved to be a success in gaining the confidence of foreign investors in China (Wu, 2000; China Statistic, 2000). The establishment of new enterprises such as new foreign funded and joint venture companies has been the main mode of absorbing FDI into China (Zhang, 2002; OECD, 1999; Luo, 1998).

As mergers and acquisitions have become the popular mode of global business venture, China is getting the attention of investors all over the globe. As of today almost 190 countries and 450 out of 500 leading top companies investing in China and the value of FDI is worth of 105.7 billion. What makes it possible? What are the advantages for the companies in investing in China? Let's find out (Chen, 1996; Zhang, 2002).

### 5.2 Advantages of FDI in China

#### 5.2.1 The Immense Size and Growth of the Chinese Economy and Very Bright Prospects

Foreign companies which are market oriented, sets-up business ventures in order to serve the local market. Their goal is always directed towards serving the unexploited market. The market sizes, growth opportunities, purchasing power, degree of development in the host country are always the key factors for deciding the FDI destinations.

The bottom line is that the country which possesses larger market, greater opportunities for growth, has the highest chance of economic development-and will definitely attract more and more FDI. Considering these factors China is without any doubt the best location for investors to put their money (Andréosso-O'Callaghan & Cassidy, 2003; Branstetter & Feenstra, 1999). China has a population of 1.2 billion, with a vast potential for consumption. Companies consider the Chinese market as the largest one in the planet and in the last few years the purchasing power of the Chinese people also increased drastically. That makes it as the most suitable place for investing in the industries like chemicals, drinks, household electrical appliances, automobiles, electronics, and pharmaceutical industries and so on (Clifford & Webb, 2003; Rajan et al., 2008; Lardy, 1994; Zhang, 2002).

#### 5.2.2 Resource Availability and Low Cost of Labour Force

The degree of availability of different sources including the land, labour and natural resources is always the key to attract more and more investors. One of the major advantages of company's get while they invest in China is its availability of all kinds of resources. The most significant one is the human resources. China is the largest country in the world in terms of population and as consequence of that it possesses rich source of labour in the globe. Along with that another advantage the companies get is the labour force is also available at relatively lower cost and it are also less than in Europe and the US by a great margin. The country is also very rich in energy resources. It has oil reserve and it is the largest producer of coal in the world. As with coal, China's electric power supply is sufficient and uninterrupted. Other major natural resources such as land, iron and other minerals are economically available (Head & Ries, 1996; Ta et al., 2000; Zhang, 2002; Cheng & Kwan, 2000).

#### 5.2.3 Immense Development in Relevant Infrastructure

It is always the fact that availability of physical infrastructure greatly influences the decision of investment particularly in a foreign land. It is a great advantage for a company to go for investment in a place and country

which is very reach in infrastructural development. The more highways, railways and interior transport waterways are adjusted according to the size of host province, the more FDI inflows. Telecommunications services also play a major role. Empirical studies suggest that with these kinds of facilities are available a place will always be the perfect destination for foreign companies to go for FDI (Cheng & Kwan, 2000; Grub et al., 1990). Considering the case and scenario in China it can be concluded that all kinds of infrastructural facilities are available there and it is also up to the mark. That ensures great advantages for foreign companies to invest in China (Cheng & Kwan, 2000; Grub et al., 1990).

#### 5.2.4 Openness to International Trade and Easy Access to International Markets

China has adopted the “export promotion development strategy” which was proven to be a remarkable step in attracting more FDI in the country. Together with export promotion policy, China has implemented economic reforms and open door policies and made efforts to promote trade by concluding several bilateral trade arrangements and adopted unilateral actions. There has been substantial progress in reducing tariff barriers. Along with this the country also implemented a series of other policies to attract more international investments in the country. Foreign investors always considers these issues as a major one in deciding their investment locations and China is definitely on top of their list by giving them above mentioned advantages (Andresosso - O’Callaghan et al., 2003; Cheng & Kwan, 2000; Zhang, 2002).

#### 5.2.5 Development and Alteration of the Regulatory Framework

In the process of attracting more FDI China adopted a more transparent and suitable business environment and regulatory framework. That provides the investor a great deal of advantages and makes them feel secure to put their money in China. The process of making such environment and regulatory framework includes amending a series of laws including the important ones for investors’ likes regulations and provisions such as Equity Joint-venture Law and Contract. Alongside those the country also provided some huge advantages to the investors by relaxing some restraints. In addition China also restructures and reform the state owned enterprise and welcome the participation of foreign investors in that sector as well (World Bank, 2002; Zhang, 2001a; Zhang, 2002).

#### 5.2.6 Investment Protection and Promotion

It is a remarkable fact that there has not been a single case of expropriation of foreign investment since China opened up to the outside world in 1979. In is really astonishing considering the political scenario and historical outset of China. The real case is that the Joint Venture Law was amended to hinder nationalization. This portrays the scenario of investment protection in China. Investors are really feeling safe and foreign investors are getting immense mental as well as political advantages. Another significant addition of investment protection was the “Contract Law” of 1999. It ensures legal rights of investors. It provided the legal rights of all parties while allowing them to determine their own remedies for dispute resolution and breach of contract and to promote foreign investment. Investors are also getting quite significance advantages due to some investment promotion campaign by China. It includes unique tax incentives for the Special Economic Zones of Shenzhen, Shantou, Zhuhai, Xiamen and Hainan, 14 coastal cities, dozens of development zones and designated inland cities. The country also established a number of free ports and related economic zones. The incentives are also available in the areas of significant reductions in national and local income taxes, land fees, import and export duties, and priority treatment in obtaining basic infrastructure services (World Bank, 2003; Xing, 2004; Wilson & Purushothamam, 2003; Zhang, 2002).

### 5.3 Disadvantages of FDI in China

In spite of having huge advantage and also considered to be the one of the most perfect destination for foreign investors, China still has some areas of disadvantages for investors which are required to be addressed and certainly needed to be improved. China possesses a very low per capita income of people. The production capability is increasing but having a low per capita income makes periodical saturation in the country and makes life difficult for companies. China’s disadvantages in terms of technology gaps and lack of labour qualification in some areas will also need to improve. Another major disadvantage in China is unequal investments in different sectors.

There is saturation in traditional sectors but not a lot of investments in chemical and automobile sectors. China still in this 21<sup>ST</sup> century does not allow the foreign companies to owned 100% shares. There are still some barriers in the country in the areas of administrative enforcement and non-tariff measures. Even there are some changes are taking place, still works needed to be done improve the legal system which is appropriate for market economy. The existing legal basis, legislation procedure and operating mechanism have not yet fully shifted to the needs of market economy (Zhang & Felmingham, 2001; Te Velde, 2001; OECD, 2002; Mudambi, 1995; Zhang, 2002; Rongala, 2007).

#### 5.4 The Case Study of Wal-Mart

The scenario of investment climate over the years and also the advantages and disadvantages of FDI in China cannot be better explained than the operational experience and history of global retail giant Wal-Mart. Wal-Mart is the largest retail chain in the world with sales of around \$374.5 billion and in China it sales very diversified array of products starting from gasoline to orange to towel to power saws. It known as Sam's club in China and has more than 70 branches all over the huge country. Wal-Mart over the years has been able to go for this kind of diversification and expansion only because of the changing in Chinese regulatory and legal system. By Expanding in China Wal-Mart also find it easy to serve the markets close to China by using the China as they are local base (Bianco & Zellner, 2003; Biddle, 2004; Molin, 2004; Rock, 2001; Walmart, 2010).

Wal-Mart set their expansion strategy in China in 1994 and since then they never look back. They successfully implemented the localization strategy by conducting procurement in China. They were assisted by few good policy of Chinese government that boosting up the FDI in the country. As the company faced intense competition in domestic US market, huge Chinese market always served them as panacea for getting out if the business jinx. While the population in US is only 4% of world population the total population in China is 19.4%. That itself represents the picture of how immense benefit Wal-Marts obtained over the years by investing in China (Bianco & Zellner, 2003; Biddle, 2004; Molin, 2004; Rock, 2001; Walmart, 2010).

After becoming the member of WTO, in 2004 the Chinese government makes lot of regulation flexible and Wal-Mart got benefited by that as well. Wal-Mart's operation in China also was very profitable in terms of purchasing supplies. It purchase worth of \$18 billion from Chinese suppliers in 2010 and the price will be far more if they has to purchase it from US manufacturers. (Bianco & Zellner, 2003; Biddle, 2004; Molin, 2004; Rock, 2001; Walmart, 2010).

That represents the benefit they get by investing in China. The operation in China also assists the company in other areas such as, risk minimization, business growth, cheap labour cost, availability of diversified raw materials, energy resources etc (Bianco & Zellner, 2003; Biddle, 2004; Molin, 2004; Rock, 2001; Walmart, 2010).

Wal-Mart also faced few problems by operating in China. The per capita income of Chinese people is low and it remains a headache for consumer goods producing companies including Wal-Mart. Although they get cheap supplies but those are not as high quality compare to the US ones. Problems are also available in the areas of cultural differences and the perception of Chinese people about US companies. Due to that reason they always have to be on the edge of their seat to manage people and customers wisely. In spite of those few areas of concerns it can be concluded that, the journey of Wal-Mart in China is remarkable and praiseworthy (Bianco & Zellner, 2003; Biddle, 2004; Molin, 2004; Rock, 2001; Walmart, 2010).

#### 5.5 The Scenario of India

India considered as one of the most suitable place for foreign investors despite problem areas like bureaucratic hassle. The country presents a wide area of investment opportunities for the investors and increasingly promoting the country as the place to invest. Over the years it has not been able to attract foreign direct investment at the same pace of China, but the picture is improving for India. The investors cannot ignore India anymore which as the country has the potentiality to become third largest economy of the world within short span of time. It is also the second largest among emerging nations. India is also one of the few markets in the world which offers high prospects for growth and earning potential in practically all areas of business (Ahya & Sheth, 2006; Asher, 2007; World Bank, 2004; OECD, 1999)

#### 5.6 Advantages of FDI in India

##### 5.6.1 Huge Market Size and a Fast Developing Economy

India is the second largest country in the world just behind China in terms of population. Currently the total population is about 1.2 billion. This huge population base automatically makes a huge market for the business operators to capture and also a major part of it is still can be considered as un-served or not yet been penetrated. Therefore FDI investors automatically get a huge market to capture and also ample opportunity to generate cash inflows at relatively quicker times. The economy of India is also moving at faster pace than most of the economy of the world and inhabitants of the country also obtaining purchasing power at the same rate (Athreye & Kapur, 2001; World Bank, 2004)

##### 5.6.2 Availability of Diversified Resources and Cheap Labour Force

The huge advantage every company gets by investing in India is the availability of diversified resources. It is a country where different kinds of materials and technological resources are available. India is a huge country and has forest as well as mining and oil reserve as well. These are also coupled with availability of very cheap labour forces

at almost every parts of the country. From Mumbai which is in the west to Bengal which is in the east there is ample opportunity to set up business venture and location and most importantly labour is available at low cost (Bhandari & Tandon, 2002).

#### 5.6.3 Increasing Improvement of Infrastructure

A lot of research study in India finds out that historically the country fails to attract a significant amount of FDI mainly because of problems in infrastructure. But the scenario is changing. The Indian government has taken huge projects in transportation and energy sectors to improve the case. The projects for developing road transport is worth of \$90 billion, for rail it has undertaken several projects each worth of \$20 million and for ports and airports the value of development projects is around \$ 80 billion. In addition the investment in energy development is worth of \$ 167 billion and investment in nuclear energy development is outside that calculation. These huge investments are changing the investment climate in the country and investors will benefit hugely by that (Department of Industrial Policy and Promotion, 2005; Dua & Rasheed, 1998).

#### 5.6.4 Public Private Partnerships

Another significant advantage foreign investors experience in India today is the opportunities of PPP or Public private Partnership in different important sectors like energy, transportation, mining, oil industry etc. It is advantageous in several ways as it has eliminated the traditional trade barriers and also joint venture with government is risk free up to the great extent (GOI, 2007; IMF, 2005; Nagaraj, 2003).

#### 5.6.5 IT Revolution and English Literacy

Today the modern India considered to be one of the global leaders in IT. India has developed its IT sectors immensely in last few years and as of today many leading firms outsource their IT tasks in India. Because of IT advancement the firm which will invest in India will get cheap information access and IT capabilities as Indian firms are global leader. Along with that Indian youth are energetic and very capable in English language which is obligatory in modern business conduction. This capability gives India an edge over others. Foreign firms also find it profitable and worthy investment by recruiting Indian HR (GOI, 2006; GOI, 2007; IMF, 2005; Lall, 2002).

#### 5.6.6 Openness towards FDI

Recently the Government of India has liberalized their policies in certain sectors, like Increase in the FDI limits in different sectors and also made the approval system far easier and accessible. Unlike the historical tradition, today for investing in India government approval do not require in the special cases of investing in various important sectors like energy, transportation, telecommunications etc (Economic Department, 2005; GOI, 2007; Nagaraj, 2003).

#### 5.6.7 Regulatory Framework and Investment Protection

In the process of accelerating FDI in the country the government of India has make the regulatory framework lot more flexible. Now a day's foreign investors get different advantages of tax holiday, tax exemptions, exemption of service and central taxes. The government also opened few special economic zones and investors of those zones also get a lot of benefits by investing money. Apart from that there are number of laws has been passed and executed for making the investments safe and secure for the foreign investors (IMF, 2005; Nagaraj, 2003; Planning Commission of India, 2002; World Bank, 2004).

#### 5.7 Disadvantages of FDI in India

Investing in India definitely has some negative sides as well. Most noticeably India considered as a huge market but a major portion of that is a lower and middle class person who still suffers from budget shortage. The infrastructure of the country also needs to be improved a lot and already it is under huge strain. There are also problems exists in the power demand shortfall, port traffic capacity mismatch, poor road conditions deal with an inefficient and sometimes still slow-moving bureaucracy. The huge market in India is an advantage but it is also very diverse in nature. India has 17 official languages, 6 major religions, and ethnic diversity as wide as all of Europe. This makes the tasks difficult for the companies to make appropriate product or service portfolio. India is not a member of the International Centre for the Settlement of Investment Disputes also not of the New York Convention of 1958. That make life bit difficult for the foreign investors. India still has a heavy regulation burden among other countries, for example the time taken to start business or to register a property is higher in India. Similarly, indirect taxes, entry-exit barriers and import duties have been major disadvantages (Nagaraj, 2003; Planning Commission of India, 2002; USITC, 2007; World Bank, 2004).

#### 5.8 The Case Study of Hyundai Motor Corporation

Emerging India in modern times prove to be one of the perfect destination for foreign investors to put their money and get expected return. Historical scenario reveals that a few numbers of foreign companies were really successful

in doing business in the country. Along the way they have faced few drawbacks but they were really efficient in keeping away those drawbacks and move along. The success of few Korean companies is remarkable in India. Ever since the Indian government reform the policy Korean companies have come up and make a lot of investment in India by forming joint ventures and also made few Greenfield investments in the sectors of automobiles, consumer goods and other sectors. The success of Korean companies mainly highlighted by three big companies Hyundai, LG and Samsung. Among those the case of Hyundai Motor Corporation is most remarkable and worth of noticing and analyzing (HMI, 2011).

The company manufactures 120000 cars annually in India and it is the second largest production base of Hyundai Motors only next best to the domestic one in Korea. That picture tells the whole story of the advantage the organization gets in investing in India. Apart from manufacturing, India is the second largest overseas market for the company after the US, where it sells 5, 00,000 cars a year. They only get this huge advantage because of a larger population base in India that always provides unlimited opportunity for growth. The operation of the company is bit different and it gets backed by the local authority. Unlike the most multinational companies of the world it invests in an aluminium foundry and also a transmission line so that it could increase indigenisation levels and cut costs.

As a result, HMI has achieved indigenisation levels of over 85 per cent. They exercise such R&D practice and it is also supported by the regulatory reform of the India (HMI, 2011).

Apart from market, development and regulatory advantages the company also benefited from forming joint venture with Indian companies and by that they get involved in very profitable Greenfield investment. Hyundai motors also allowed developing large industrial clusters in Chennai India and a huge manufacturing base. From that location they serve the demand of neighbouring markets like Bangladesh, Pakistan, Nepal, Sri Lanka and also of ASEAN countries (HMI, 2011).

FDI in India also helped the company in gaining local human resources and cheap labour costs. In India they also benefited by increasing demand of growing Indian economy and people interest of having car in their property base. Hyundai motors huge success in India also rooted into the fact that India is proved to be one of the most convenient place for investing specially considering its very bright future prospects and un-served market to capture (HMI, 2011).

The journey of Hyundai motors in India is always not smooth, though. Over the years it has to deals with problems like labour dispute, energy shortage, bureaucratic hassles etc. But even considering those issues the advantages outweigh the disadvantages by great margin (HMI, 2011).

## 6. Conclusion

In this hyper competitive and ever changing business environment no business organization is certain about tomorrow. That forces them to look for new destination and new market to capture. The emerging market of China and India without any doubt poses suitable choice for those companies. Huge population and huge countryside is certainly making those places even more attractive. There are several benefits in investing in those two countries like-very bright future, cheap labor and raw materials, sound infrastructure, huge market availability. Easiness in regulatory framework, efficient human resources, investment protect and also efficient promotion mechanisms. However, factors like absence of market economy in China and hugely diversified culture in India make life bit difficult for the operators, but the benefits are overwhelming in compare to drawbacks. That is the prime reason why these two destinations will keep attracting foreign investors and will remain as the most attractive paces to put the money and earn future dividend. The experience of Wal-mart in China and Hyundai Motor Coporation in India also reveals the same picture and thus supports the above mentioned conclusion (Chen et al., 1995; Brewer, 1993; Agarwal & Ramaswami, 1992; Lipsey, 2000).

## References

- Agarwal, S., & Ramaswami, S. N. (1992). Choice of foreign market entry mode: Impact of ownership, location and internalisation factors. *Journal of International Business Studies*, 23, 11-19. <http://dx.doi.org/10.1057/palgrave.jibs.8490257>
- Agosin, M., & Mayer, R. (2000). Foreign investment in developing countries: Does it crowd in domestic investment?. *Discussion Paper No.146*, UNCTAD, Geneva.
- Ahya, C., & Sheth, M. (2006). India Economics - SEZ Rush: 267 and Count in. *Morgan Stanley Research Asia-Pacific*, 5(7), 23-38.
- Alfaro, L., Chanda, A., Kalem-Ozcan, S., & Sayek, S. (2004). FDI and economic growth: The role of local financial markets. *Journal of International Economics*, 64, 89-112. [http://dx.doi.org/10.1016/S0022-1996\(03\)00081-3](http://dx.doi.org/10.1016/S0022-1996(03)00081-3)

- Andréosso-O'Callaghan, B., & Cassidy, J. F. (2003). Spatial determinants of Japanese FDI in China. *Working Paper*, University of Limerick.
- Andresosso - O'Callaghan, B., & Wei, X. (2003). EU FDI in China: Locational determinants and its role in China's hinterland. *Proceedings of the 15th Annual Conference of the Association for Chinese Economics Studies*, Austrera (ACESA).
- Asher, M. G. (2007). India's Rising Role in Asia. <http://www.spp.nus.edu.sg/wp/wp0701b.pdf>.
- Athreye, S., & Kapur, S. (2001). Private foreign investment in India: Pain or Panacea?. *The World Economy*, 24, 399-424. <http://dx.doi.org/10.1111/1467-9701.00362>
- Balasubramanyan, V. N., Salisu, M., & Sapsford, D. (1996). Foreign direct investment and growth in EP and IS countries. *Economic Journal*, 106, 92-105. <http://dx.doi.org/10.2307/2234933>
- Bandelji, N. (2002). Embedded economics: Social relations as determinants of foreign direct investment in Central and Eastern Europe. *Social Forces*, 81(2), 409-44.
- Bhandari, L., Gokarn, S., & Tandon, A. (2002). Background Paper: Reforms and foreign direct investment in India. *DRC working papers*, 4. Centre for New Emerging Markets, London Business School, 1-23.
- Bianco, A., & Zellner, W. (2003). Is Wal-Mart too powerful?. *Business Week*, (3852), p.100.
- Biddle, R. (2004). Wal-Mart: Bully or Benefactor? *Megachain an Economic Godsend in Many Areas Daily News*, pV1.
- Birkinshaw, J. (2000). Upgrading of industry clusters and foreign investment. *International Studies of Management and Organisation*, 30(2), 93-113.
- Borensztein, E., De Gregorio, J., & Lee, J. (1995). How does foreign direct investment affect growth. *Journal of International Economics*, 45, 115-135. [http://dx.doi.org/10.1016/S0022-1996\(97\)00033-0](http://dx.doi.org/10.1016/S0022-1996(97)00033-0)
- Branstetter, L., & Feenstra, R. (1999). Trade and foreign direct investment in China: A political economy approach. *NBER Working Paper No. 7100*.
- Brewer, T. L. (1993). Government policies, market imperfections, and foreign direct investment. *Journal of International Business Studies*, 24, 101-120. <http://dx.doi.org/10.1057/palgrave.jibs.8490227>
- Chang, S.-J., & Rosenzweig, P. M. (2001). The choice of entry mode in sequential foreign direct investment. *Strategic Management Journal*, 22, 747-776. <http://dx.doi.org/10.1002/smj.168>
- Chen, C. H. (1996). Regional determinants of foreign direct investment in mainland China. *Journal of Economic Studies*, 23, 18-30. <http://dx.doi.org/10.1002/smj.168>
- Chen, C., Chang, L., & Zhang, Y. (1995). The role of foreign direct investment in China's Post-1978 economic development. *World Development*, 23, 691-703. [http://dx.doi.org/10.1016/0305-750X\(94\)00143-M](http://dx.doi.org/10.1016/0305-750X(94)00143-M)
- Cheng, L. K., & Kwan, Y. K. (2000). What are the determinants of the location of foreign direct investment? The Chinese experience. *Journal of International Economics*, 51, 379-400. [http://dx.doi.org/10.1016/S0022-1996\(99\)00032-X](http://dx.doi.org/10.1016/S0022-1996(99)00032-X)
- China Statistics. (2000). *A Statistical Survey of China*. Beijing: China Statistical Information and Consultancy Services Centre.
- Chung, W. (2001). Mode, size, and location of foreign direct investments and industry markups. *Journal of Economic & Organisation*, 45, 185-211.
- Clifford, M. L., & Webb, A. (2003). The rush is on - for 'The biggest market in Asia'-China opens up to foreign banks and fund managers. *Business Week*, 3(11), 15-29.
- Daisuke, H. (2008). Japan's Outward FDI in the Era of Globalization. In R.S. Rajan, R. Kumar and N. Vargill (Eds), *New Dimensions of Economic Globalization: Surge of Outward FDI from Asia* (Chapter 4). World Scientific Press.
- Department of Industrial Policy and Promotion. (2005). *Foreign Direct Investment-Policy & Procedures*. New Delhi: Government of India. Available at [http://dipp.nic.in/manual/manual\\_03\\_05.pdf](http://dipp.nic.in/manual/manual_03_05.pdf). Internet.
- Dua, P., & Rasheed, A. I. (1998). Foreign direct investment and economic activity in India. *Indian Economic Review*, 33, 153-168.
- Dunning, J. H. (2002). Determinants of foreign direct investment: Globalisation induced changes and the role of FDI policies. *World Investment Prospects, Economist Intelligence Unit*, pp 1-15.

- Economic Department, Ministry of Finance & Company Affairs. (2005). *Economic Survey*. New Delhi: Ministry of Finance & Company Affairs, Government of India.
- Government of India (GOI). (2006). *Foreign Direct Investment Policy*. Ministry of Commerce and Industry, Department of Industrial Policy and Promotion.
- Government of India (GOI). (2007). *FDI Statistics*. Ministry of Commerce & Industry, Department of Industrial Policy and Promotion.
- Grub, P. G., Lin, J. H., & Xia, M. (1990). Foreign investment in China: a study and analysis of factors influencing the attitudes and motivations of US firms. In A. R. Neghandi and P. Schran (Eds), *China and India: Foreign Investment and Economic Relations* (pp. 83-99). New York: JAI Press.
- Head, K., & Ries, J. (1996). Inter-city competition for foreign investment: static and dynamic effects of China's incentive areas. *Journal of Urban Economics*, 40, 38-46. <http://dx.doi.org/10.1006/juec.1996.0022>
- Hein, S. (1992). Trade strategy and the dependency hypothesis: a comparison of policy, foreign investment and economic growth in Latin America and East Asia. *Economic Development and Cultural Change*, 40, 495-521. <http://dx.doi.org/10.1086/451958>
- HMI. (2011). retrieved from <http://www.hyundai.com/in/en/main/>
- IMF. (2005). *India: Selected Issues*. IMF Country Reports No.05/87, IMF, Chapter 3.
- Jun, K. W., & Singh, H. (1996). The determinants of foreign direct investment in developing countries. *Transnational Corporations*, 5, 67-105.
- Kamath, S. J. (1994). Foreign direct investment in a centrally planned developing economy: The Chinese case. *Economic Development and Cultural Change*, 39, 107-130.
- Lall, S. (2000). FDI and Development: Policy and Research Issues in the Emerging Context. *Working Paper No.43*, Queen Elizabeth House, University of Oxford, p. 28.
- Lall, S. (2002). Linking FDI and technology development for capacity building and strategic competitiveness. *Transnational Corporations*, 11, 39-88.
- Lardy, N. (1994). *China in the World Economy*. Washington, DC: Institute for International Economics. <http://dx.doi.org/10.1086/451856>
- Lemoine, F. (2000). FDI and opening up the chinese economy. *Working Paper No.2000-11*, CEPPII, Paris.
- Lim, D. (1983). Fiscal incentive and direct foreign investment in less developed countries. *The Journal of Development Studies*, 19, 207-12. <http://dx.doi.org/10.1080/00220388308421859>
- Lipsey, R. (2000). Inward FDI and economic growth in developing countries. *Transnational Corporations*, 9, 67-95.
- Liu, X., Wang, C., & Wei, Y. (2001). Causal links between foreign direct investment and trade in China. *China Economic Review*, 12, 190-202. [http://dx.doi.org/10.1016/S1043-951X\(01\)00050-5](http://dx.doi.org/10.1016/S1043-951X(01)00050-5)
- Lucas, R. (1993). On the determinants of direct foreign investment: Evidence from East and Southeast Asia. *World Development*, 21, 391-406. [http://dx.doi.org/10.1016/0305-750X\(93\)90152-Y](http://dx.doi.org/10.1016/0305-750X(93)90152-Y)
- Luo, Y. (1998). *International Investment Strategies in the People's Republic of China*. Aldershot: Ashgate.
- Luo, Y., & Tan, J. J. (1997). How much does industry structure impact foreign direct investment in China?. *International Business Review*, 6, 337-359. [http://dx.doi.org/10.1016/S0969-5931\(97\)00009-7](http://dx.doi.org/10.1016/S0969-5931(97)00009-7)
- Molin, D. (2004). A bullish Wal-Mart: Targeting New Countries, Smaller Formats. Retrieved from <http://0web3.infotrac.galegroup.com.bianca.penlib.du.edu/itw/infomark/>.
- Nagaraj, R. (2003). Foreign direct investment in India in the 1990s: Trends and issues. *Economic and Political Weekly*, 38(17), 1701-12.
- OECD. (1999). Conference on foreign direct investment and the environment. Summary of the discussion. Emerging market origin effects. *Journal of Marketing Research*, 37(3), 309-317.
- OECD. (2000). Main determinants and impacts of foreign direct investment on China's economy. *Working papers on International Investment*. <<http://www.oecd.org/dataoecd/57/23/1922648.pdf>> Accessed on 8th Mar. 2004.
- Oman, C. (2000). *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract FDI*. Paris: OECD Development Centre.

- Organisation of Economic Cooperation and Development (OECD). (2002). *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs*. Paris: OECD, Chapters 1 and 3.
- Planning Commission of India. (2002). Report of the steering group on foreign direct investment: Foreign investment India. *Government report*, p. 11. New Delhi.
- Rajan, R. S. (2005). FDI, trade and the internationalization of production in the Asia- Pacific Region. *Asia-Pacific Trade and Investment Review*, 1, 3-26.
- Rajan, R. S., & Rongala, S. (2007). *Asia in the Global Economy: Finance, Trade and Investment* (Chapter 14). World Scientific Press.
- Rajan, R. S., Kumar, R., & Vargill, N. (2008). *New Dimensions of Economic Globalization: Surge of Outward FDI from Asia*. World Scientific Press.
- Rao, K. S. C., Murthy, M. R., & Ranganatan, K. V. K. (1999). Foreign direct investments in the post-liberalisation period: An overview. *Journal of Indian School of Political Economy*, 11(4), 423-54.
- Rock, J. (2001). Can Wal-Mart succeed in foreign soil?. *Weekly Corporate Growth Report*, (1158), p.11537.
- Sharma, K. (2000). Export growth in India: Has FDI played a role?. *center discussion paper* No 816, Economic Growth Centre, Yale University. pp. 1-21.
- Smarzynska, B. K. (2002). Composition of foreign direct investment and protection of intellectual property rights: Evidence from transition economies. *Policy Research*. <http://dx.doi.org/10.1596/1813-9450-2786>
- Sun, Q., Tong, W., & Yu, Q. (2002). Determinants of foreign direct investment across China. *Journal of International Money and Finance*, 21, 79-113. [http://dx.doi.org/10.1016/S0261-5606\(01\)00032-8](http://dx.doi.org/10.1016/S0261-5606(01)00032-8)
- Ta, H-P., Choo, H-L., & Sum, C-C. (2000). Transportation concerns of foreign firms in China. *International Journal of Physical Distribution & Logistics Management*, 30, 35-54. <http://dx.doi.org/10.1108/09600030010307975>
- Te Velde, D. W. (2001). The World Bank (February). *Policies Towards Foreign Direct Investment in Developing Countries: Emerging Issues and Outstanding Issues*. London: Overseas Development Institute.
- Thompson, E. R. (2002). Clustering of foreign direct investment and enhanced technology transfer: Evidence from Hong Kong garment firms in China. *World Development*, 30(5), 873-89. [http://dx.doi.org/10.1016/S0305-750X\(02\)00009-8](http://dx.doi.org/10.1016/S0305-750X(02)00009-8)
- U.S. International Trade Commission (USITC). (2007). Competitive conditions for foreign direct investment in India. *Staff Research Study*, Office of Industries, Publication 3931.
- Walmart. (2010). [www.wal-martchina.com/english/index.htm](http://www.wal-martchina.com/english/index.htm)
- Wilson, D., & Purushothamam, R. (2003). Dreaming with BRICs: The path to 2050. *Global Economics Paper* No.99, Goldman Sachs.
- World Bank. (2002). *Global Economic Prospects and the Developing Countries 2002*. Washington, DC: The World Bank.
- World Bank. (2003). *Global Economic Prospects and the Developing Countries 2003*. Washington, DC: The World Bank.
- World Bank. (2004). *India: Investment Climate and Manufacturing Industry*. Washington, DC: World Bank.
- Wu, X., & Strange, R. (2000). The location of foreign insurance companies in China. *International Business Review*, 9, 383-398. [http://dx.doi.org/10.1016/S0969-5931\(00\)00007-X](http://dx.doi.org/10.1016/S0969-5931(00)00007-X)
- Wu, Y. (2000). Measuring the performance of foreign direct investment: a case study of China. *Economic Letters*, 66, 143-150. [http://dx.doi.org/10.1016/S0165-1765\(99\)00225-6](http://dx.doi.org/10.1016/S0165-1765(99)00225-6)
- Xing, Y. Q. (2004). Japanese FDI in China: Trend, structure, and the role of exchange rates. International Development Program, International University of Japan, Yamato-machi, Niigata-ken. <[http://www.ijj.ac.jp/faculty/xing/papers/FDI\\_JC\\_xing.pdf](http://www.ijj.ac.jp/faculty/xing/papers/FDI_JC_xing.pdf)> accessed on 7th Mar. 2004.
- Zhang, K. H. (2001a). What attracts foreign multinational corporations to China?. *Contemporary Economic Policy*, 19(3), 336-346. <http://dx.doi.org/10.1093/cep/19.3.336>
- Zhang, K. H. (2001b). How does foreign direct investment affect economic growth in China?. *Economics of Transition*, 9(3), 679-693. <http://dx.doi.org/10.1111/1468-0351.00095>
- Zhang, K. H. (2002). Why does China receive so much foreign direct investment?. *China & World Economy*, 3, 49-57.

Zhang, Q., & Felmingham, B. (2001). The relationship between inward direct foreign investment and China's provincial export trade. *China Economic Review*, 12, 82-99. [http://dx.doi.org/10.1016/S1043-951X\(01\)00044-X](http://dx.doi.org/10.1016/S1043-951X(01)00044-X)

Table 1. Advantages and disadvantages of FDI in India and China (at a glance)

China		India	
Advantages	Disadvantages	Advantages	Disadvantages
Size of economy	Low income	Huge market	Low income
Growth of economy	Periodical saturation in business	First moving economy	Strained infrastructure
Bright prospects	Technological gap	Diversified resources	Power demand
Resources availability	Unequal investment	Cheap resources	Diverse market
Low labor costs	Companies can't won fully	Infrastructure	Diverse culture
Labor availability	Absence of market economy	PPP	Indirect taxes
Development		It revolution	Import duties
Infrastructure		English literacy	Excise taxes
Openness		Openness	
Access to market		Investment protection	
Regulatory changes		Regulatory framework	
Easy loans		Cheap labor	
Investment protection		Education system	
Promotion			
Changes in rules and laws			
Education system			