

Foreign Direct Investment and Exports

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Presentation at IIFT

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FDI and Exports

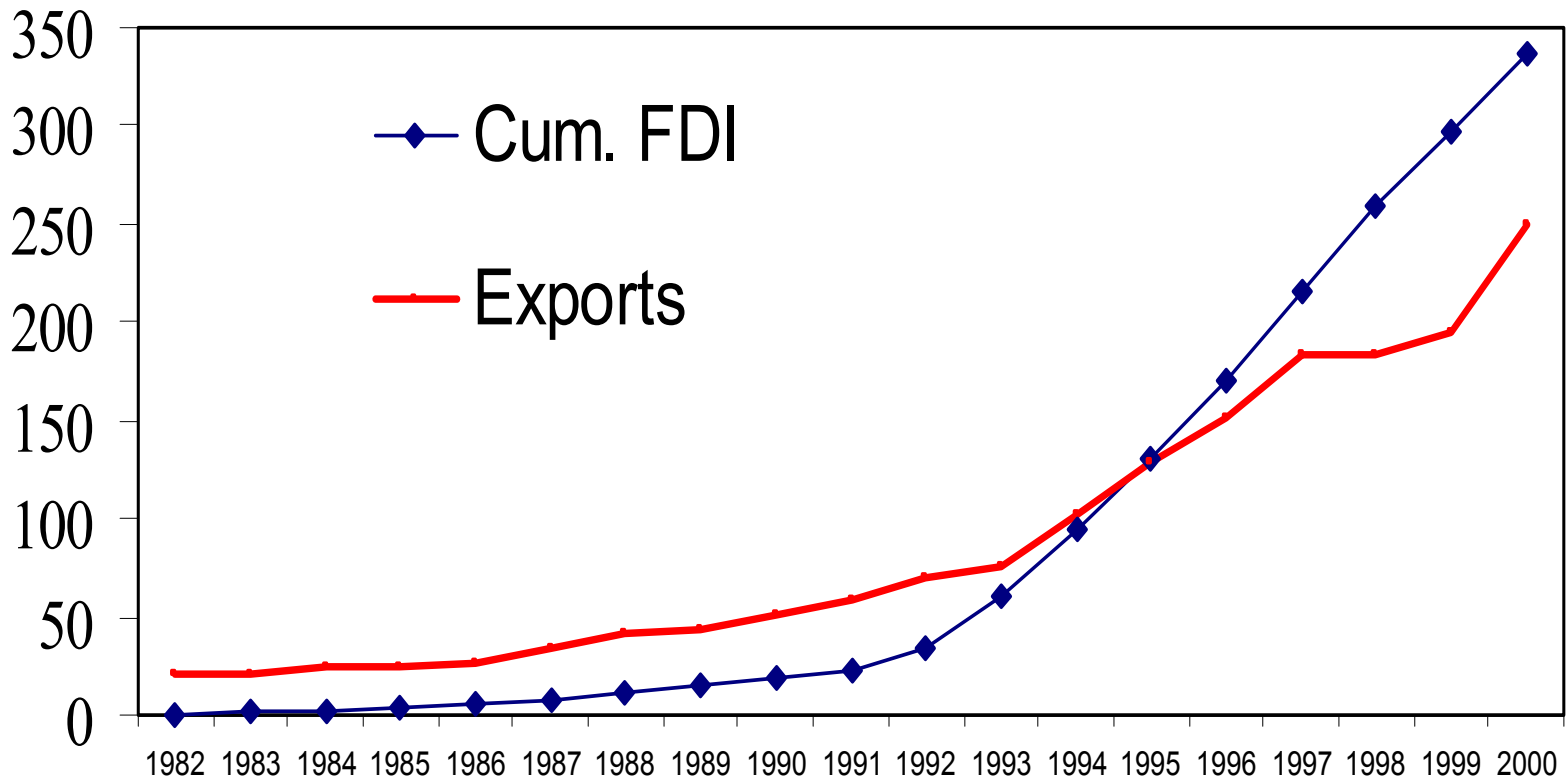
- FDI in China
- FDI in India
- China vs. India
- FDI in Korea
- Implications for India

FDI in China

- Exports have grown rapidly over past twenty years. Share of world merchandise exports tripled to 4 percent.
- Expansion in exports has been associated with large inflows of FDI (Chart)
- But exports by domestic enterprises have also grown strongly (Chart)

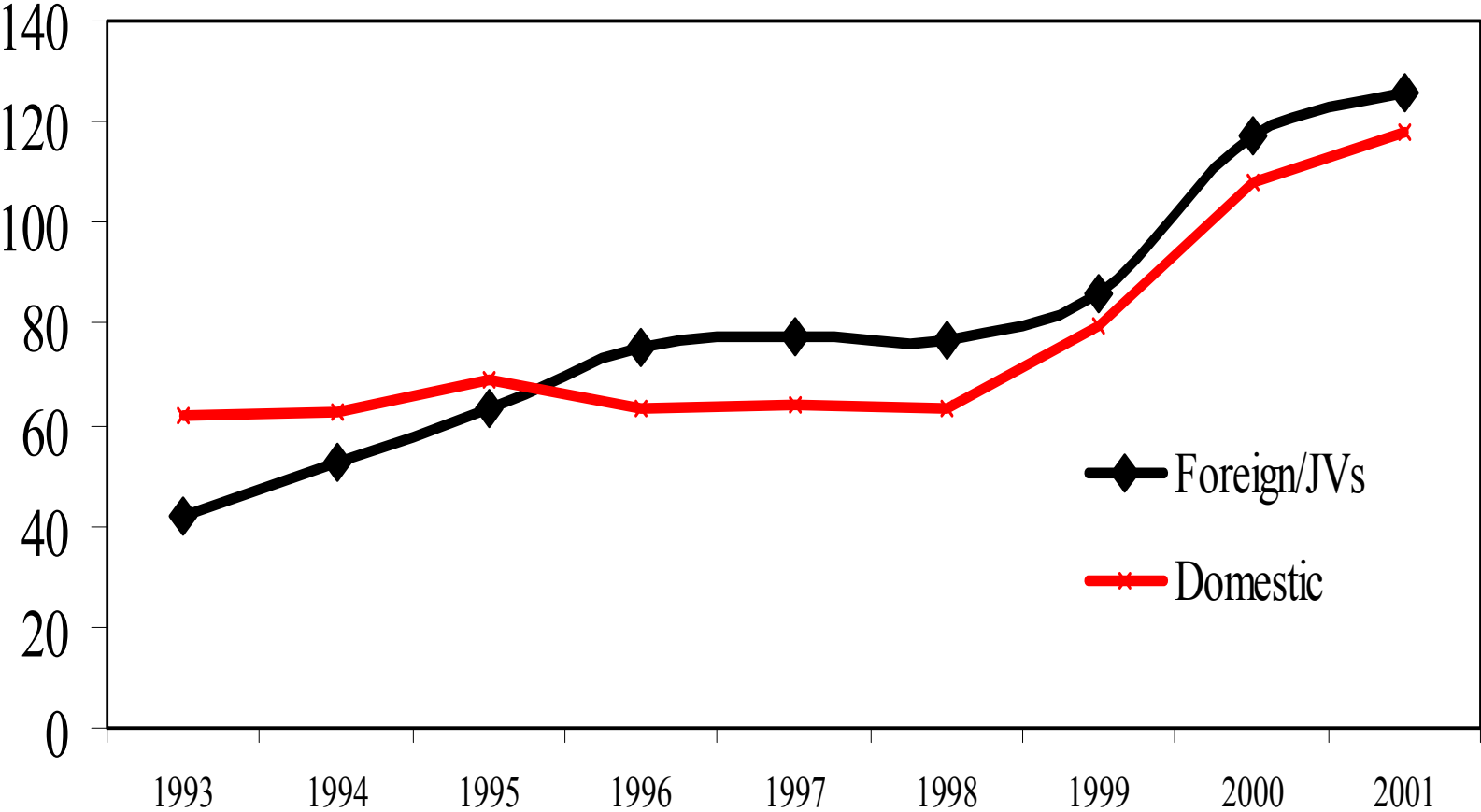
China. Foreign Direct Investment and Exports, 1982-2000

(In billions of US\$s)



China. Exports by Type of Enterprise 1993-2001

(In billions of US\$)



FDI and Exports

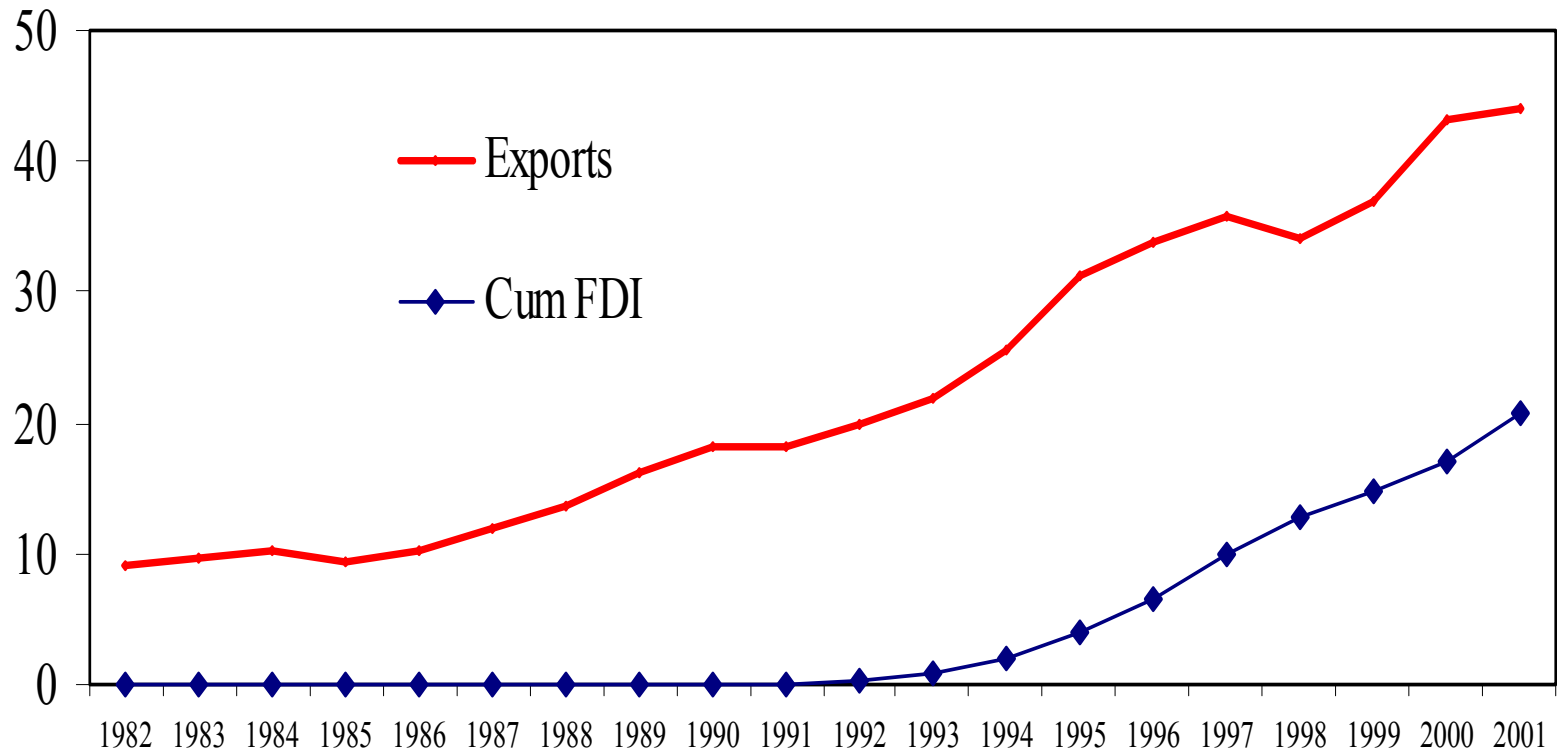
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FDI in India

- Exports have quadrupled over past twenty years, but share has only risen from 0.5 to 0.7 percent of world merchandise exports.
- FDI picked up 10 years ago, but has remained small (Chart) and primarily geared toward local market.
- Domestic investment has also remained much lower than in China (Table)

India. Foreign Direct Investment and Exports, 1982-2001

(In billions of US\$)



China and India

Selected Economic Indicators

(In percent of own GDP)

	1978		2000	
	China	India	China	India
GDP pc (const US\$s)	225	197	855	467
Exports of Goods	4.6	5.1	19.1	9.2
Imports of Goods	5.2	6.8	23.1	12.4
Net FDI inflows	0.0	0.0	3.6	0.4
Total investment	36.7	21.0

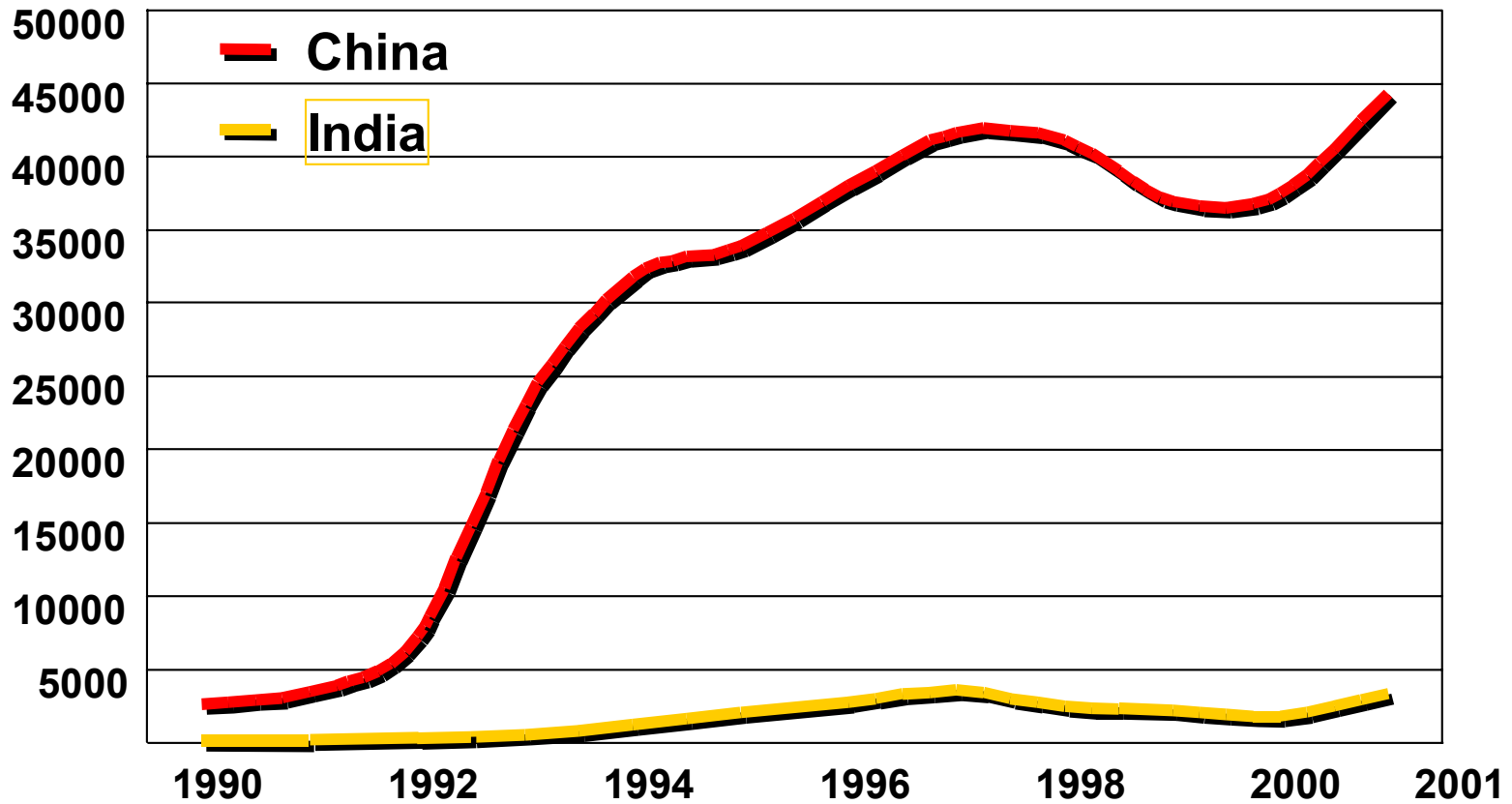
Source: Tseng and Zebregs (2002)

FDI and Exports

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China and India. Foreign Direct Investment Inflows, 1990-2001

(In millions of US\$)



Source: Pfefferman (2002)

But is India's FDI Understated?

- An IFC paper recently asked whether something is wrong with India's FDI numbers
- Despite large investments, Citibank: US\$400 million, Coke and Pepsi: US\$1.3 billion, and other new foreign players, annual flows only about US\$3 billion.
- IFC notes that India's FDI statistics exclude reinvested earnings, subordinated debt, and overseas commercial borrowings. These are included in FDI in other countries.

Source: Pfefferman (2002)

Is China's FDI Overstated?

- IFC concludes that India's FDI, if correctly measured, could be US\$8 billion or **1.7 percent of GDP**
- Also estimates that "Round-tripping" in China could be 50% of total FDI inflows.
- Reducing China's FDI by half implies annual inflow of US\$20 billion, or **2 percent of GDP**

IFC conclusion: **Not a huge difference**

Source: Pfefferman (2002)

Caveats

- China round-tripping assumption is extreme (Table). And what of India? (Table)
- In any case, absolute amount of FDI going to China is still much larger.
- And FDI in China has not only generated large exports, it has also created 20 million jobs (Chart).

China. Foreign Direct Investment Country-wise Inflows, 1999

	US \$ million	Percent
Hong Kong SAR	16,605	41.0
Taiwan POC	2,916	7.2
Japan	2,633	6.5
Singapore	4,010	9.9
EU	4,455	11.0
South Korea	2,511	6.2
U.S.	1,215	3.0
Other	6,116	15.1
	40,500	100.0

Source: Tseng and Zebregs (2002)

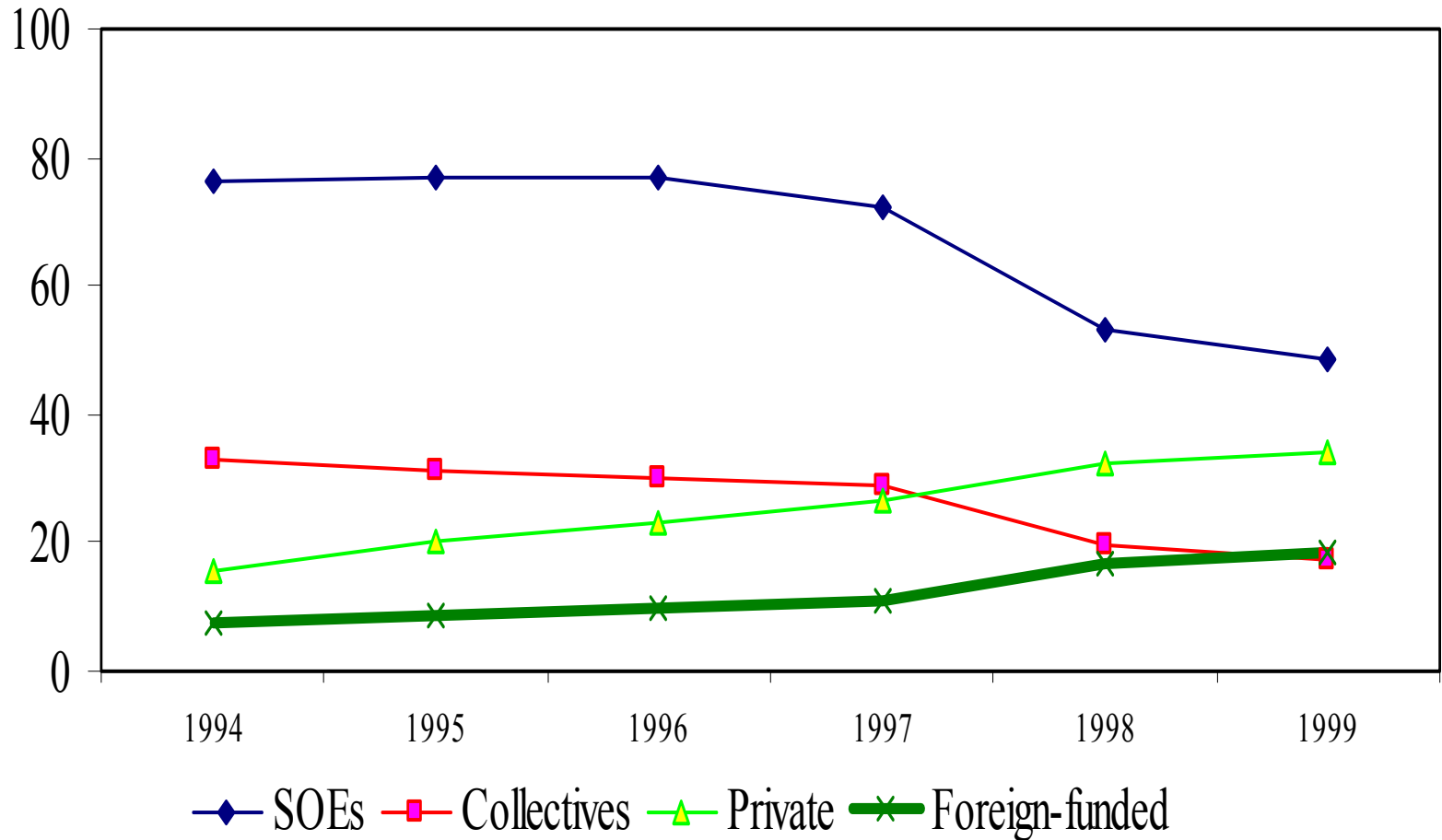
India. Foreign Direct Investment Country-wise Inflows, 2001-02

	US \$ million	Percent
Germany	74	2.5
Italy	28	0.9
Japan	143	4.8
Mauritius	1,863	62.3
Netherlands	68	2.3
South Korea	3	0.1
U.S.	364	12.2
Other	445	14.9
	2,988	100.0

Source: RBI

China. Employment by Enterprise 1993-1999

(In millions)



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UNCTAD Report, 2002

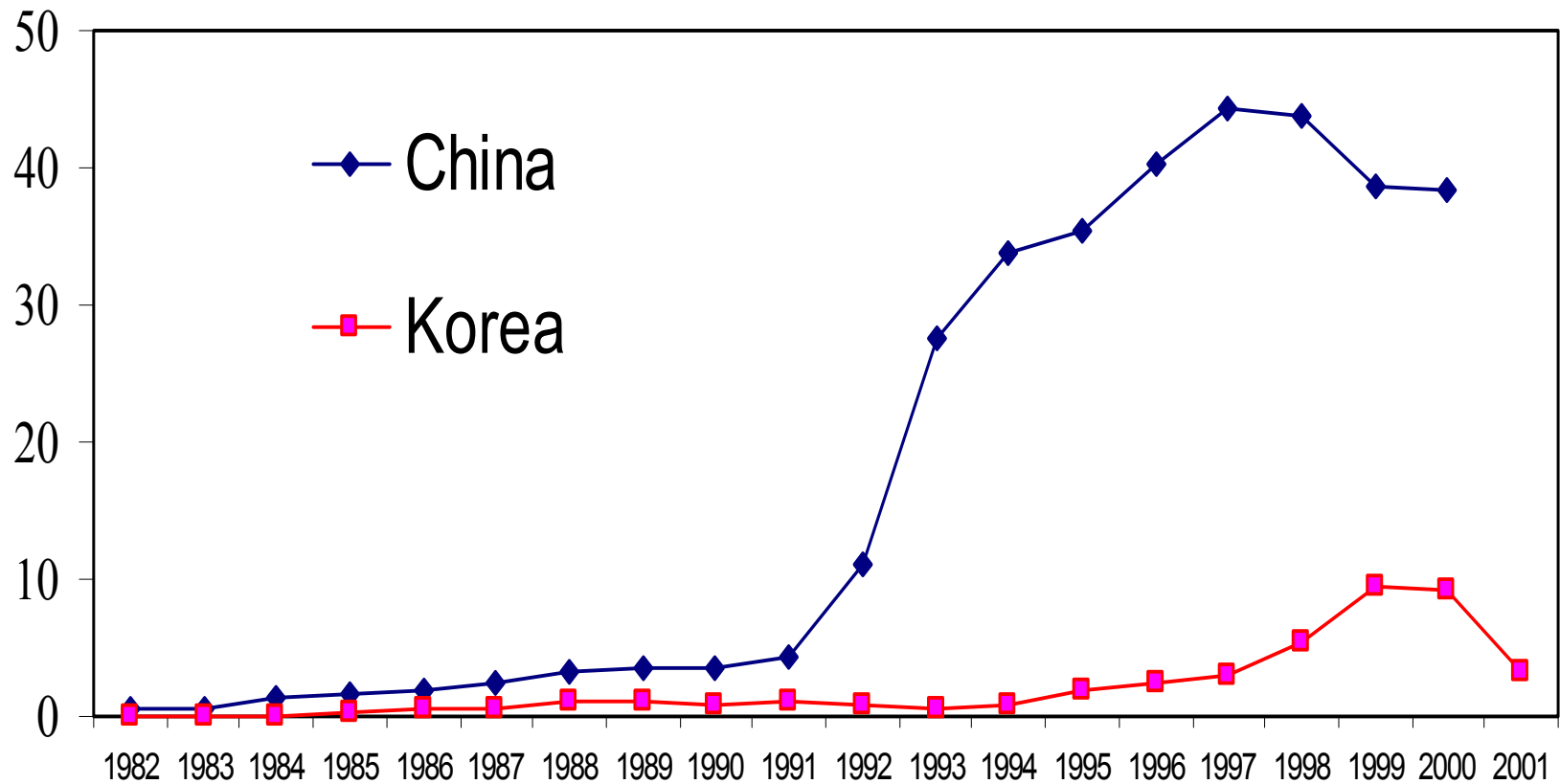
Major differences across countries in proportion of exports contributed by foreign companies:

- Ireland (manuf. 1999) 90 percent
- China (2001) 50 percent
- Brazil (2000) 21 percent
- Korea (manuf. 1999) 15 percent
- India ? (3 pct in 1991)

Source: UNCTAD World Investment Report (2002)

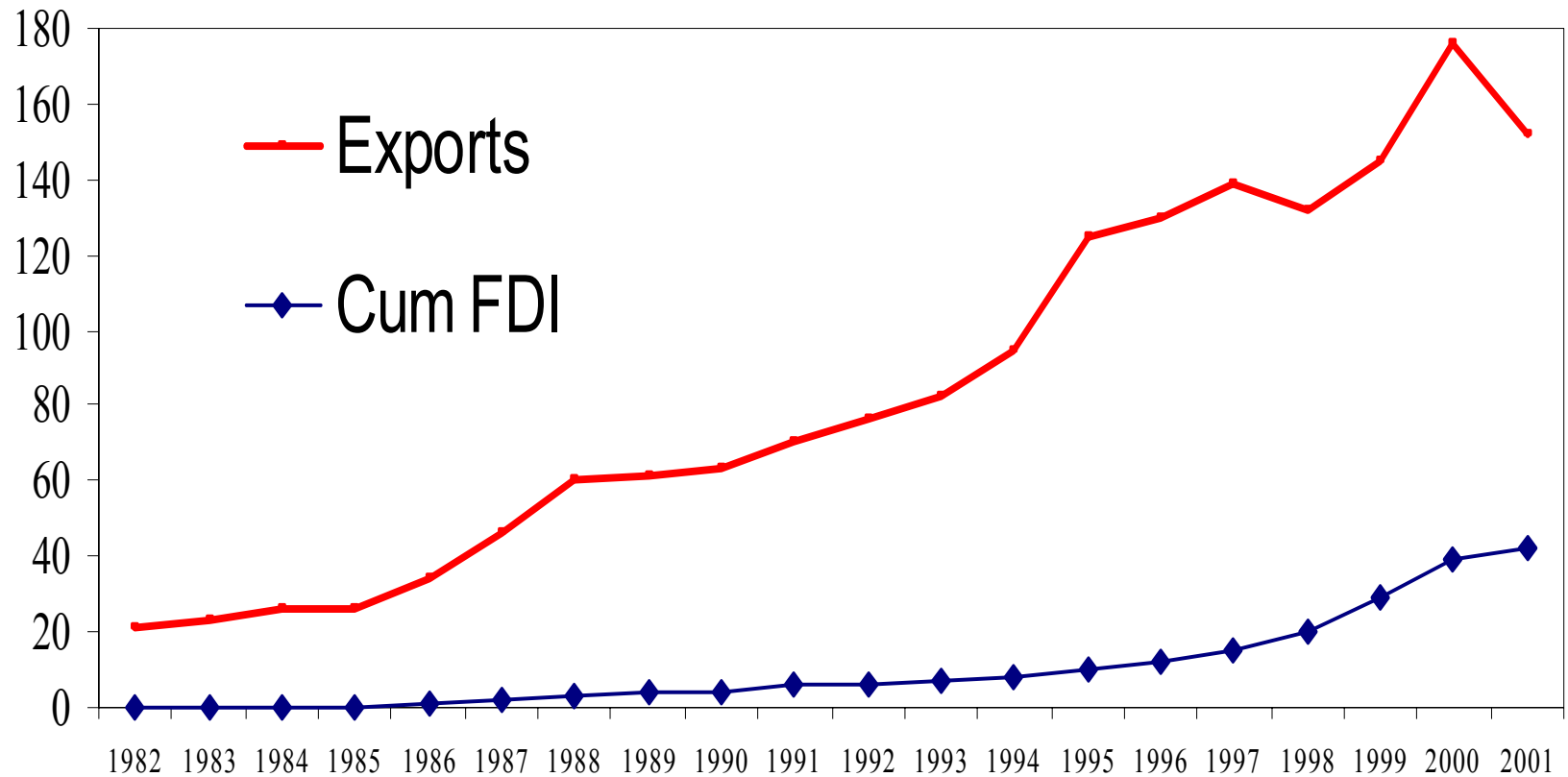
China and Korea. Foreign Direct Investment Inflows, 1982-2001

(In billions of US\$)



Korea. Foreign Direct Investment and Exports, 1982-2001

(In billions of US\$s)



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Lessons from other Countries

UNCTAD report notes that countries with dynamic export performance have used FDI to different degrees:

- Hungary, Ireland and Mexico used FDI to leverage preferential access to major market
- China used size of domestic economy to reap economies of scale and boost competitiveness. Also established Open Economic Zones.
- By contrast, Korea used domestic investment to build world-class manufacturing sector.
- Indian manufacturing faces well-known structural constraints (infrastructure, power, labour laws, small scale reservations). Current focus is on Special Economic Zones (SEZs).

IMF Views on Export Promotion via SEZs

SEZs can provide facilities necessary to make exports competitive and attract FDI. IMF 2002 Consultation with India noted importance of:

- SEZs establishing links with domestic enterprises (technology transfer, boost productivity and skills)
- Avoiding complex and over-generous SEZ incentives
- Prudential control of offshore banking units (potential conduits for short-term capital that could increase vulnerabilities of domestic financial system)
- Industrial countries opening up their own markets to Indian exports