

Department of Government comparative politics lecture series

# **Developmental Diasporas in China and India: a reconsideration of conventional capital**

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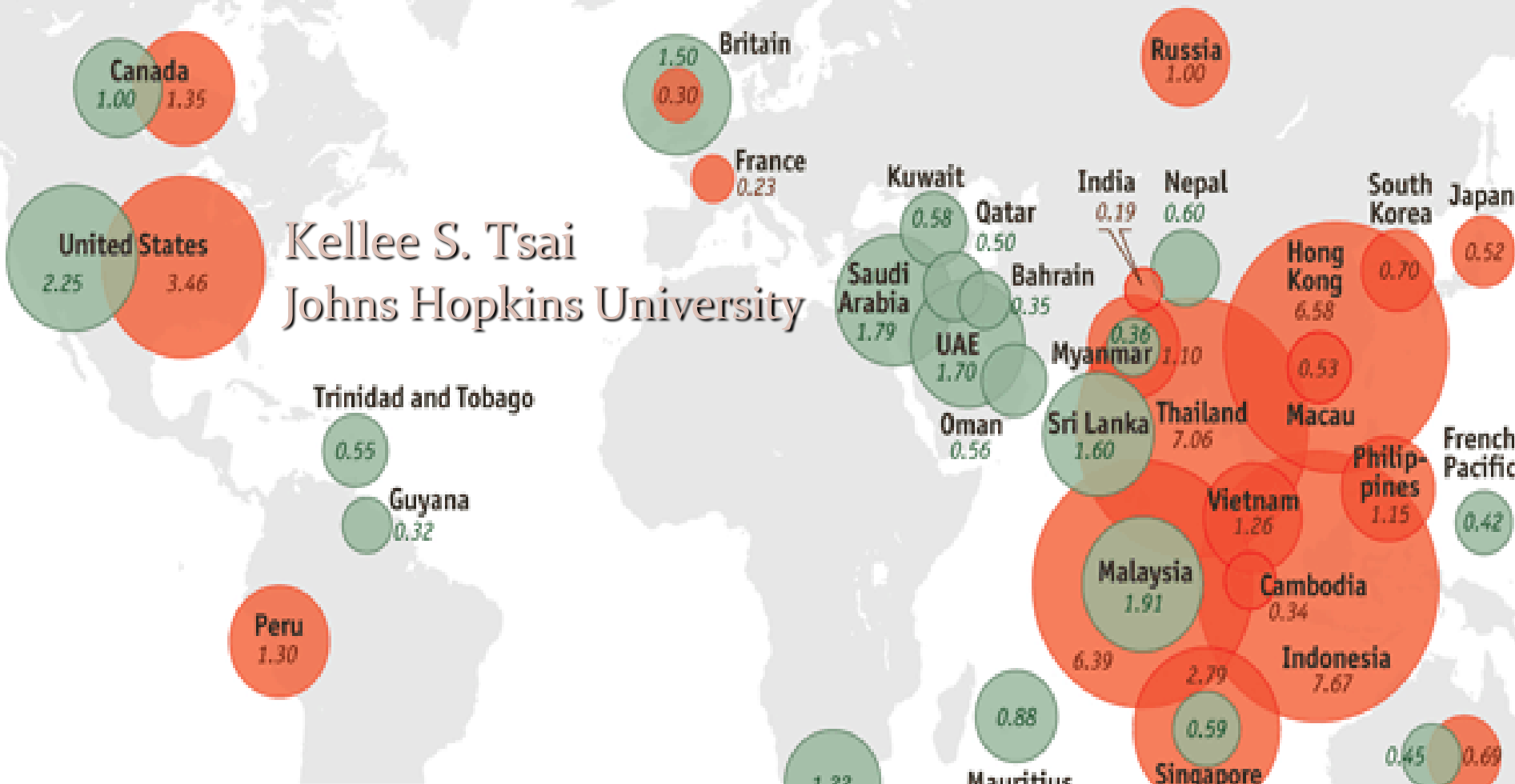


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# DEVELOPMENTAL DIASPORAS IN CHINA AND INDIA: A Reconsideration of Conventional Capital

Kellee S. Tsai  
Johns Hopkins University



**Two diasporas, top 20 countries**

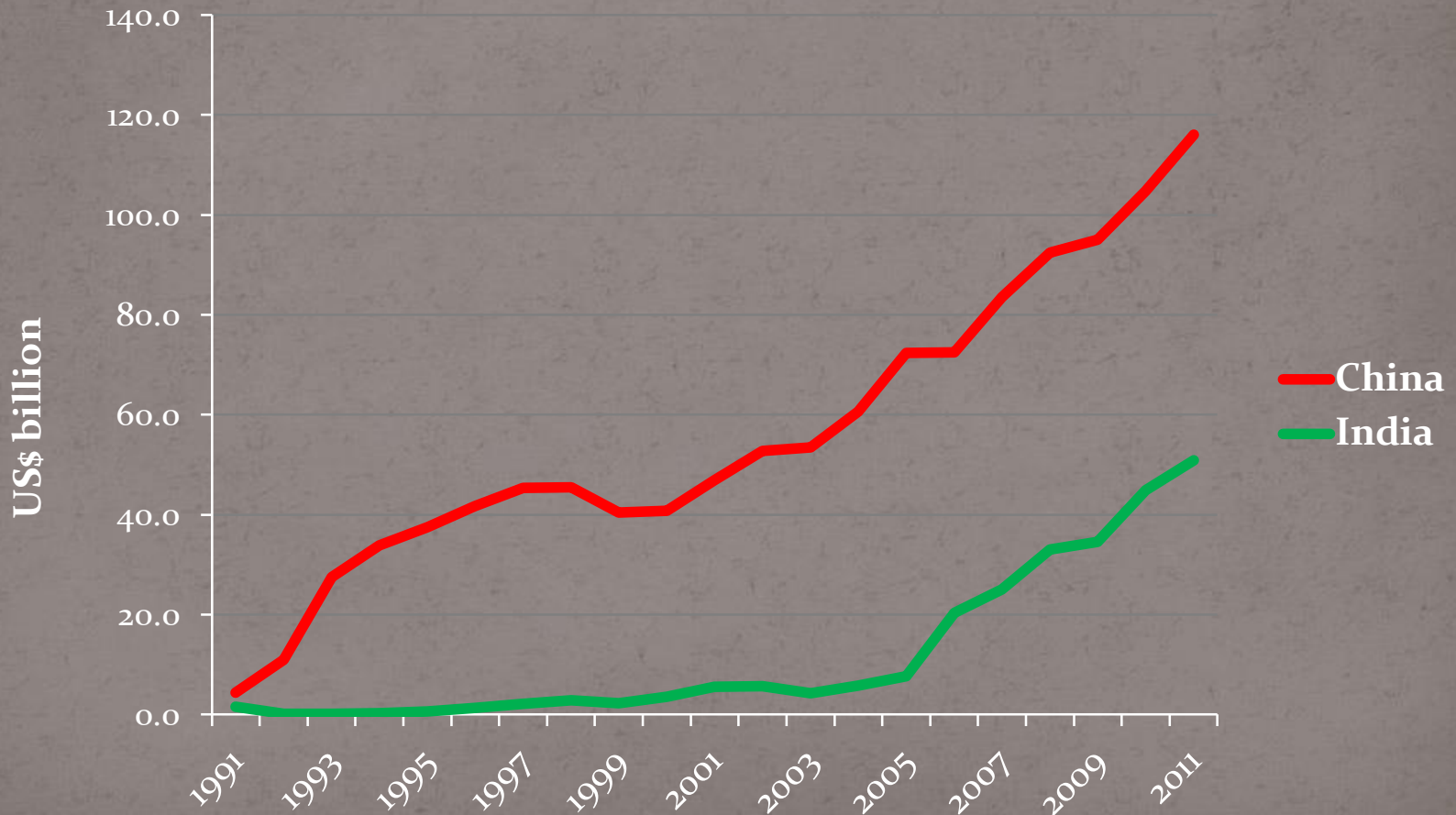
- Chinese outside mainland China\*, m
- Indians outside India, m

Sources: CEIC; OCAC; MOIA; US Census Bureau

\*Taiwan (23.2) not shown

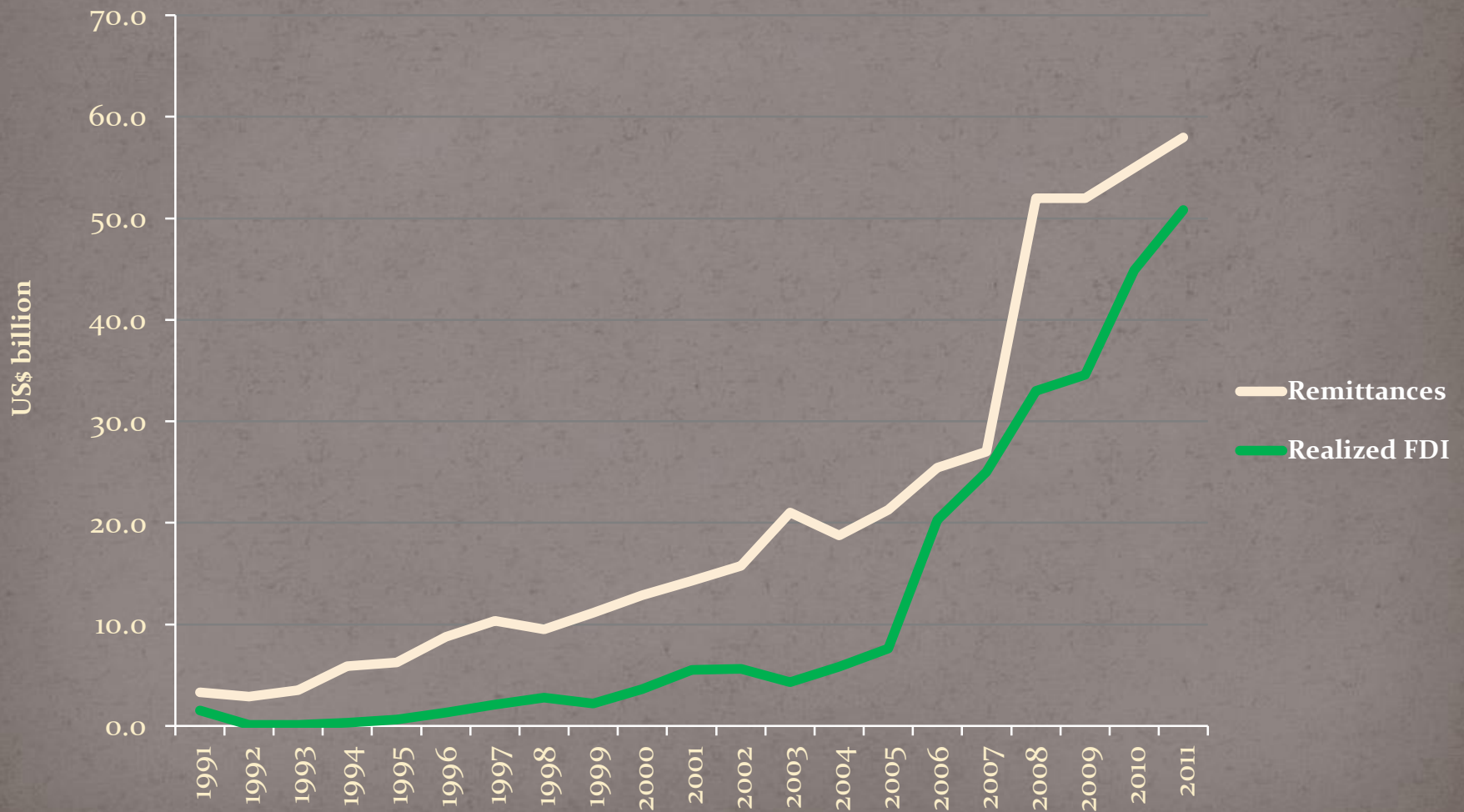
# Realized FDI in China and India, 1991 – 2011

## India trails behind China...



# India's Realized FDI vs. Remittances

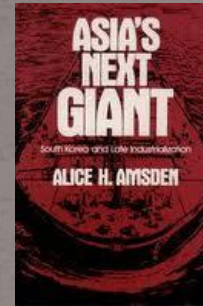
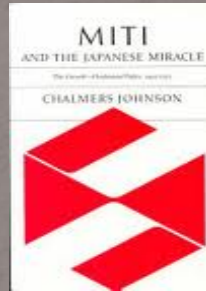
## ...but remittances outstrip FDI in India



# Analytic Objective

## Going beyond “conventional capital”

- Public investment (developmental state)
- FDI from MNCs (globalization, neo-liberalism)
- External aid (ODA & IFIs)



➔ Including the diasporic dimensions of informal finance

## Empirical Observations

### Need to disaggregate FDI data & remittances

- Developmental performance should not be reduced to FDI statistics
- FDI may not be as foreign as it appears
- Remittances influence development – in a diversity of ways

## Key Questions

- What motivates ethnic FDI vs. remittances?
- What are the developmental implications of these diasporic capital flows?
- How do national governments treat FDI vs. remittances?

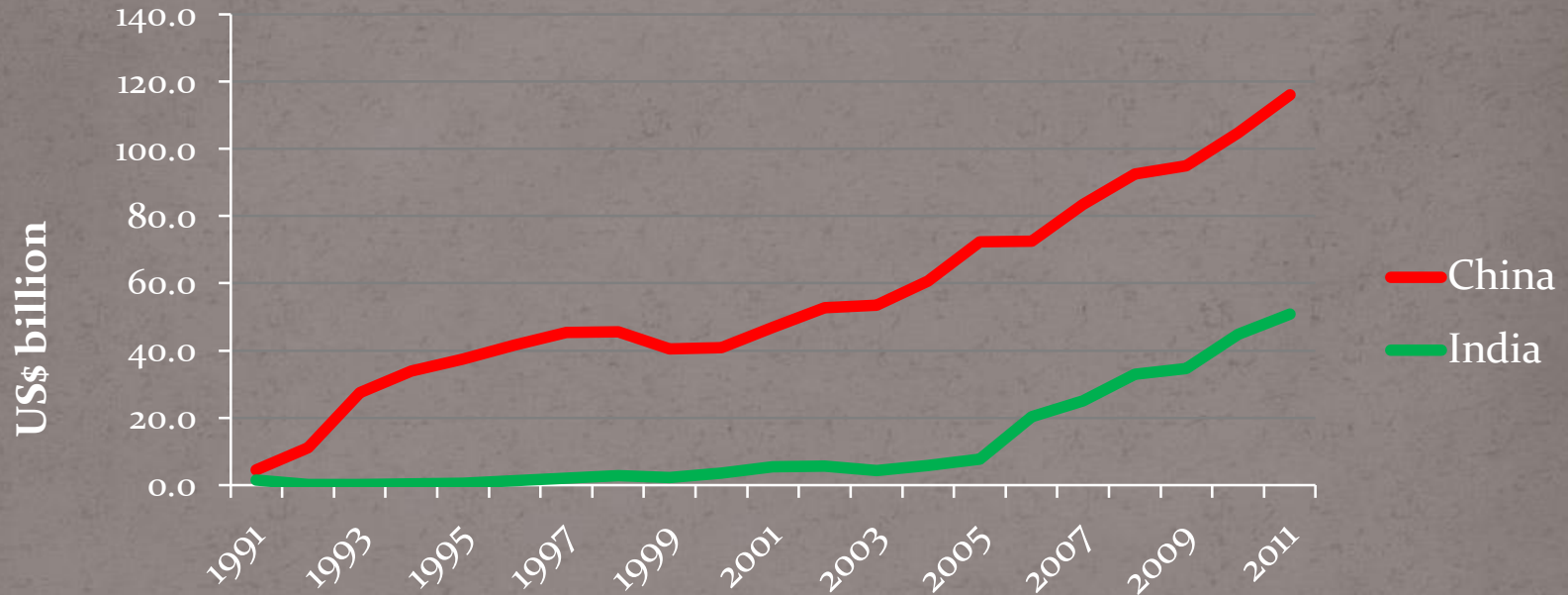
# Roadmap

1. Explaining the FDI gap
2. Comparing remittance trends
3. Developmental implications
4. Analytic implications



# Explaining the Great Divergence in FDI

## Why does India's FDI lag behind China's?



- Policy & business environment explanations
- Compositional differences in FDI

# Explaining the Great Divergence in FDI

## The World Bank's Ease of Doing Business Rankings, 2012

Ease of...	China	India	China-India
Doing Business	91	132	-41
Starting a business	151	166	-15
Dealing with construction permits	176	181	-5
Registering property	40	97	-57
Getting credit	67	40	27
Protecting investors	97	38	50
Paying taxes	122	147	-25
Trading across borders	60	109	-49
<b>Enforcing contracts</b>	16	182	-166
Closing a business	62	140	-78



# Explaining the Great Divergence in FDI

## World Economic Forum's Global Competitiveness Index

<i>Ranking out of 134 countries</i>	China	India	China-India
<b>Global Competitiveness Index</b>	30	50	-20

### A. Basic Requirements

Institutions	42	80	-38
Infrastructure	56	53	3
Macroeconomic policy	47	72	-25
Health and primary education	11	109	-98
	50	100	-50

### B. Efficiency enhancers

Higher education and training	40	33	7
Goods market efficiency	64	63	1
Labor market efficiency	51	47	4
Financial market sophistication	51	89	-38
Technological readiness	109	34	75
Market size	77	69	8
	2	5	-3

### C. Innovation and sophistication factors

Business sophistication	32	27	5
Innovation	43	27	16
	28	32	-4

# Explaining the Great Divergence in FDI

## Compositional Differences in FDI

- Differing definitions of FDI
  - **India's official FDI figures have been underestimated** (excludes reinvested earnings by foreign affiliates, inter-company foreign loans to domestic subsidiaries, overseas commercial borrowing, etc.)
  - **China's FDI statistics are overestimated** (includes roundtrip capital)

## Explaining the Great Divergence in FDI

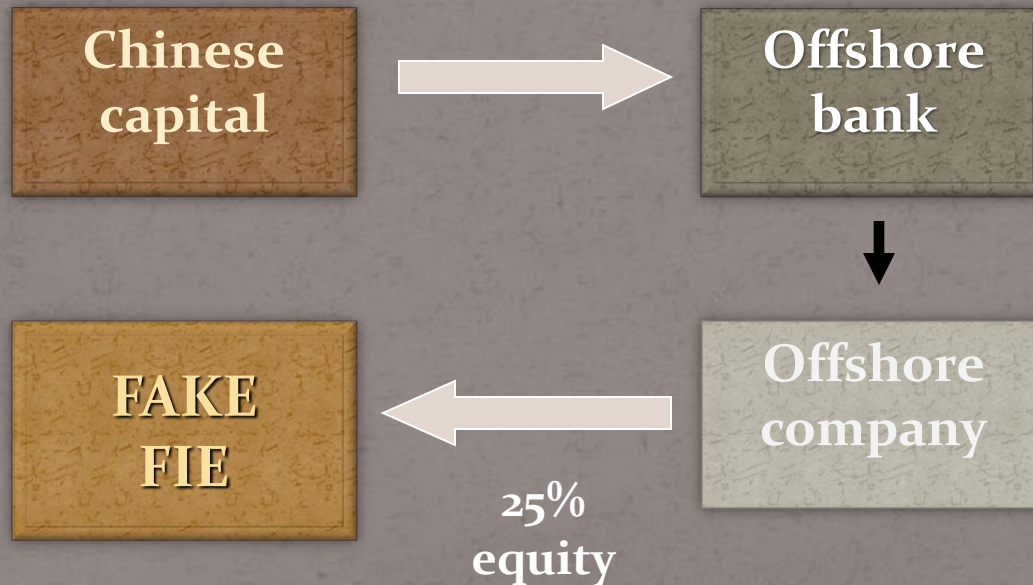
About 1/3<sup>rd</sup> of China's FDI is Roundtrip Capital

- Off-shore special purpose companies
- Transfer pricing
- Red-chip IPOs

# Roundtrip Capital: Offshore Investment

*Onshore*

*Offshore*

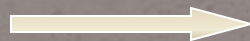


# Roundtrip Capital: Transfer Pricing

***CHINESE PARENT***

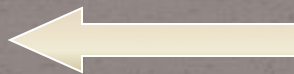
***FOREIGN ENTITY***

Under-invoice  
imports



(-) Receives less

Over-invoice  
exports



(+++)  
Pays more

**OUTCOME: Net financial transfer to Chinese company**

# Roundtrip Capital: Red Chip IPOs

*Onshore*

*Offshore*



Offshore bank



Offshore company



IPO



Red chip company



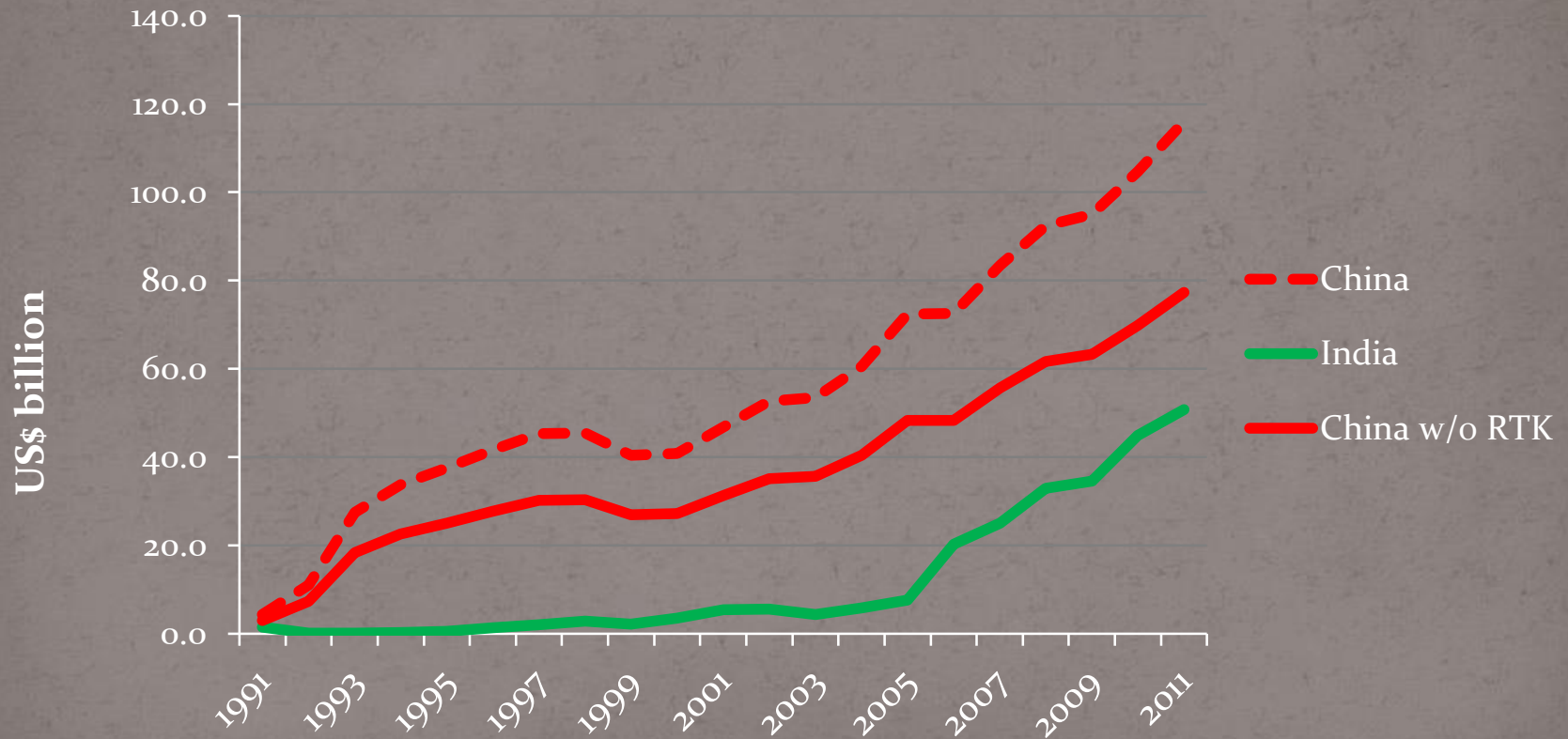


# Explaining the Great Divergence in FDI

## Composition of India's FDI, 2000-2009

FDI Source Country	Cumulative FDI (US\$ billion)	% of India's Total FDI
<b>Mauritius</b>	<b>\$173.7</b>	<b>44%</b>
Singapore	35.1	9
United States	28.8	7
United Kingdom	23.2	6
Netherlands	16.4	4
Japan	12.7	3

# Realized FDI in China and India, 1991-2011 (minus 33% roundtrip capital from China's FDI)



# Portfolio Investment

## Another key source of external capital



Cumulative Net Portfolio Investment (2011)

China: \$211 billion

India: \$174 billion

# Explaining the Great Divergence in FDI

## Compositional Differences: Ethnic FDI

- Non-Resident Indians (NRIs) account for < 14% of India's FDI
- **China's FDI is dominated by Chinese investors**
  - Through the 1990s, 2/3rds of China's FDI came from Hong Kong, Taiwan, Macau, and Singapore
  - As of 2011, 54% of FDI from 4 Chinese economies
  - As of 2011, FDI mainly from Hong Kong (47%) and Virgin Islands (14%).

# Explaining Variation in Ethnic FDI

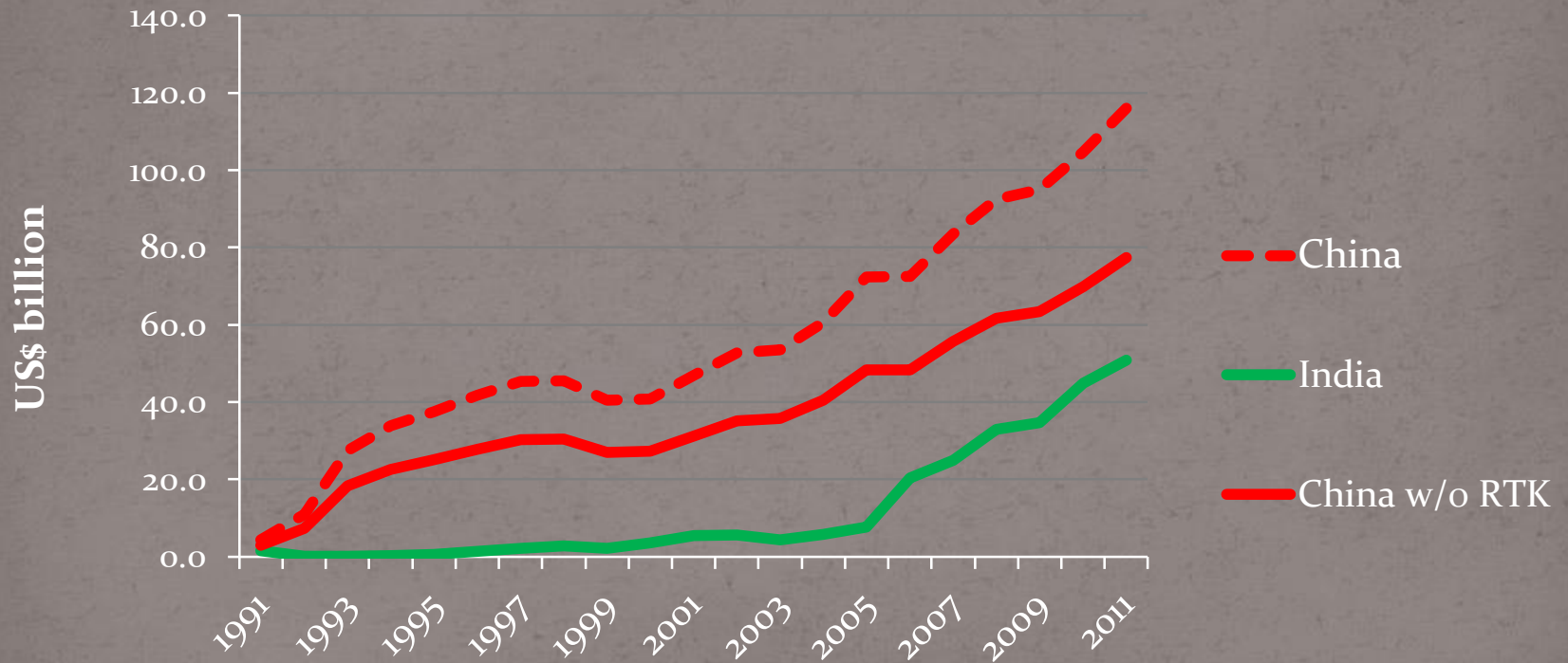
## High in China, Low in India

- Government policies
- Cultural affinity
- Geographic distribution/concentration of diaspora
- Regional economic networks & production chains



There may not be an “India Circle” within South Asia, but there are commercial co-ethnic networks of Indians in various sectors.

# Combining FDI & Remittances (as potential development capital)



# Migration & Remittances

## Pre-1949 China

Imperial-era  
settlements in  
Southeast Asia



Chinese dominance  
of commerce



# Migration & Remittances

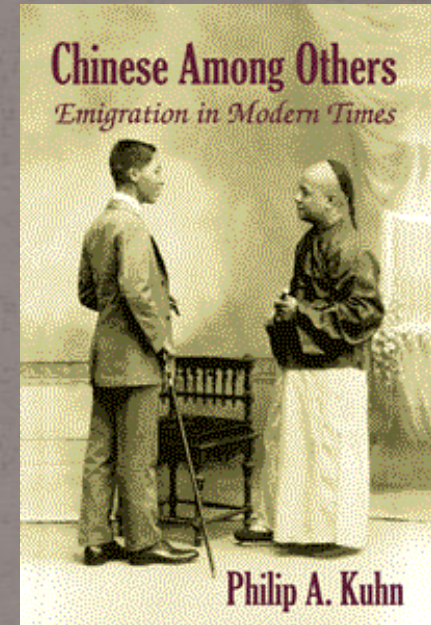
## Pre-1949 China

- 19<sup>th</sup> & early 20<sup>th</sup> century labor trade in Americas, Australia, & Southeast Asia = migration of 2 million workers

Hong Kong became hub for labor recruiters & remittance agencies

- **Patriotic remittances**

- reversed China's negative BOP position
- helped finance Revolution of 1911, May 30<sup>th</sup> movement, Anti-Japanese war





# Migration & Remittances

## People's Republic of China

- Despite outmigration of capitalists, remittances from Overseas Chinese encouraged during 1950s & early 60s - channeled mainly through Hong Kong
- Overseas Chinese viewed suspiciously during Cultural Revolution (1966-76)
- **Reform era** – migration to US, Britain, Australia, Canada, Latin America, and more recently, Europe & Africa
  - illegal migration from Changle, Fujian reflected in remittances

# Migration & Remittances

## Pre-Colonial and Colonial India

- 6<sup>th</sup>-11<sup>th</sup> century voyages => Buddhist & Hindu influence in Southeast Asia
- Itinerant commercial networks spanned Indian Ocean
- **19<sup>th</sup> & early 20<sup>th</sup> century forced labor migration** to colonies following abolition of slavery = migration of 1.5 million workers
  - *Maistry* and *kangany* system of labor recruitment
  - remittances recorded from Mauritius, British Guiana, Trinidad, and other colonial territories

# Migration & Remittances

## Indentured Indian Migrants/Total Population

	1900-01	1920-21	1940-44	1957-60
<b>Indians in Mauritius</b>	<b>70%</b>	<b>71%</b>	<b>63%</b>	<b>67%</b>
Indians in Trinidad	32	33	n.a.	36
Indians in British Guiana	38*	42	n.a.	48
Indians in Fiji	15	40	n.a.	49
Japanese in Hawaii	40	43	37	32
Chinese in Hawaii	17	9	7	6

# Migration & Remittances

## Post-Independence India

- 1950s & 1960s: Skilled professionals to UK, US, Canada, & Australia
- 1970s: **Gulf migration** – by 1977, 77% of remittances from the Middle East
- 1980s – 2000s: Shift in remittance composition to **industrialized countries** (over half of remittances from US since 2003)
  - decline of informal/*hawala* channels
  - shift from RBI deposits to remittances
  - RBI deposit withdrawals used for investment in domestic real estate & equity markets

# Developmental Impact of Remittances

## Post-Independence India

- Major increase since 1990: from 0.7% to 3.1% of GDP
- Bolsters BOP position: NRI deposits exceed revenues from software exports
- Outstrips government expenditures on education & health

Year	Remittances (US\$bil)	Remittances/ <b>Education</b> Expenditures	Remittances/ <b>Health</b> Expenditures
1990-91	\$2.07	55.5%	127.8
1995-96	8.51	118.4	271.0
2000-01	12.85	86.2	206.9
2001-02	15.4	101.7	242.5
2002-03	16.39	104.9	234.5
2003-04	21.61	120.4	263.9
2004-05	20.25	196.8	225.8

# Case Studies of Local Variation in Remittances

## Three Villages in Kerala's Gulf Pockets

- **Cherur, Hindu village in southern Kerala**
  - spent on education, weddings, gifts, & festivals
  - remittances not invested in local businesses
  - strengthens position of women due to matrilineal inheritance
- **Kembu, Christian village in central Kerala**
  - mainly white-collar migrants
  - investment in education, property, & bank deposits
- **Veni, Muslim district in northern Kerala**
  - illegal migrants employed in informal economy
  - consumption, gifts, charitable causes
  - investment in local businesses

# Local Variation in Remittances

## Examples from China

- **Dongguan, Guangdong**
  - early investment in manufacturing
  - from labor-intensive to technology-intensive
- **Wenzhou, Zhejiang**
  - transnational network of private entrepreneurs & informal finance
  - investment in local industry & churches
- **Chang Le, Fujian**
  - depopulation of mountain villages
  - construction boom
  - center of illegal migration arranged by snakeheads

## Remittances as a Resource Curse?

- Conspicuous consumption – vacant show-case houses of NRIs
- Lack of investment in agriculture and manufacturing
- Rural outmigration & urban crowding
- **Worst case scenario:** “Downward spiral of local development” (Ballard)



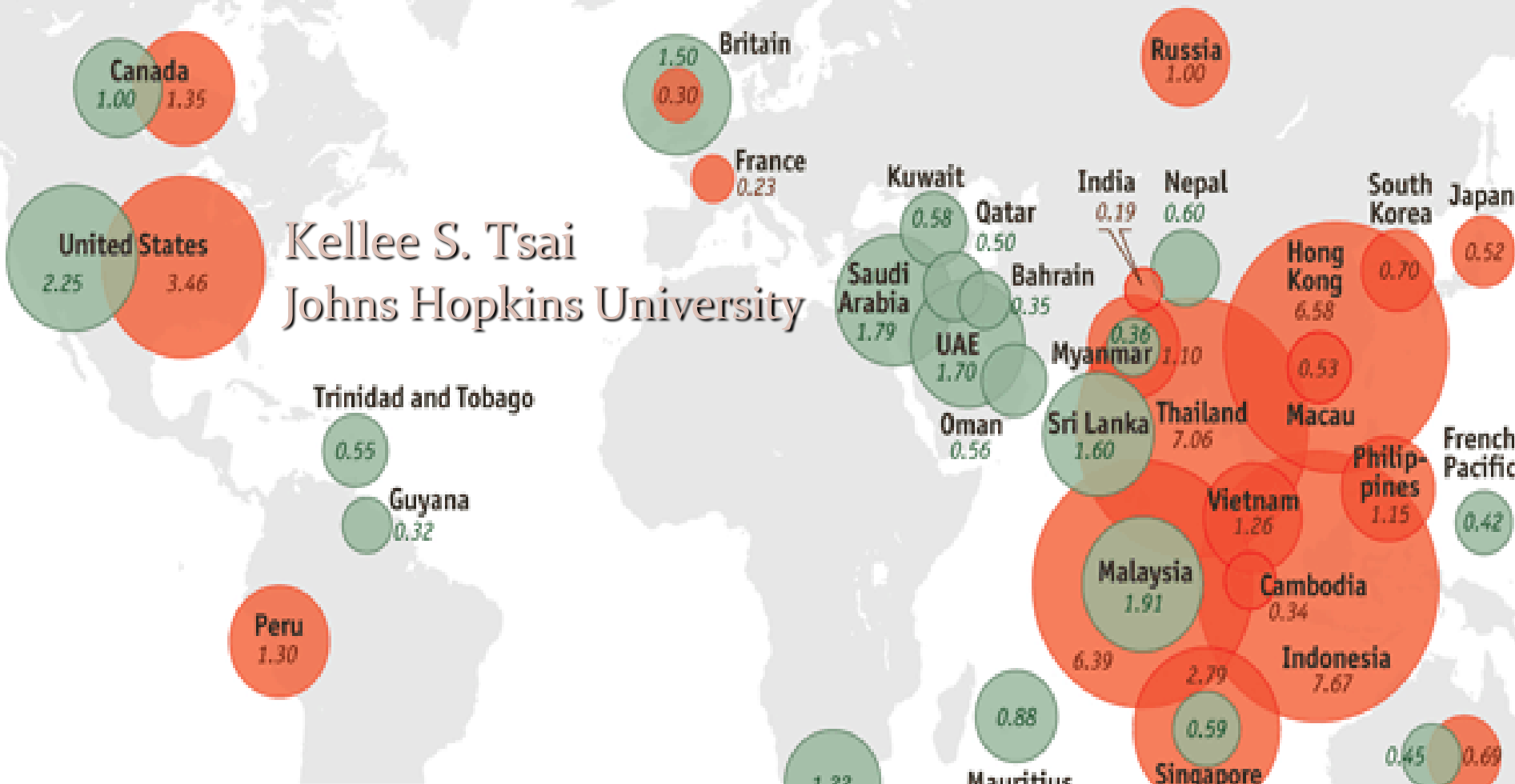
# Analytic Implications

## Rethinking Conventional Capital

- Ethnic FDI should be distinguished from non-ethnic FDI
- Remittances also influence development
- Existing explanations for development either neglect or essentialize transnational ethnic capital
  
- **Migration and diasporic capital flows should be incorporated into (political science) explanations of development.**

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