Department of Government comparative politics lecture series

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

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LSE events Suggested hashtag for Twitter users: LSETsai
DEVELOPMENTAL DIASPORAS IN CHINA AND INDIA: A Reconsideration of Conventional Capital

Kellee S. Tsai
Johns Hopkins University
Realized FDI in China and India, 1991 – 2011

India trails behind China...

US$ billion
India’s Realized FDI vs. Remittances

...but remittances outstrip FDI in India

[Graph showing the comparison of remittances and realized FDI in India from 1991 to 2011]
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 to do national governments treat FDI vs. remittances?
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

<table>
<thead>
<tr>
<th>Ease of...</th>
<th>China</th>
<th>India</th>
<th>China-India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing Business</td>
<td>91</td>
<td>132</td>
<td>-41</td>
</tr>
<tr>
<td>Starting a business</td>
<td>151</td>
<td>166</td>
<td>-15</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>176</td>
<td>181</td>
<td>-5</td>
</tr>
<tr>
<td>Registering property</td>
<td>40</td>
<td>97</td>
<td>-57</td>
</tr>
<tr>
<td>Getting credit</td>
<td>67</td>
<td>40</td>
<td>27</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>97</td>
<td>38</td>
<td>50</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>122</td>
<td>147</td>
<td>-25</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>60</td>
<td>109</td>
<td>-49</td>
</tr>
<tr>
<td><strong>Enforcing contracts</strong></td>
<td>16</td>
<td>182</td>
<td>-166</td>
</tr>
<tr>
<td>Closing a business</td>
<td>62</td>
<td>140</td>
<td>-78</td>
</tr>
</tbody>
</table>
# Explaining the Great Divergence in FDI

## World Economic Forum's Global Competitiveness Index

### Ranking out of 134 countries

<table>
<thead>
<tr>
<th>Global Competitiveness Index</th>
<th>China</th>
<th>India</th>
<th>China-India</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30</td>
<td>50</td>
<td>-20</td>
</tr>
</tbody>
</table>

### A. Basic Requirements

<table>
<thead>
<tr>
<th>Category</th>
<th>China</th>
<th>India</th>
<th>China-India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions</td>
<td>42</td>
<td>80</td>
<td>-38</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>56</td>
<td>53</td>
<td>3</td>
</tr>
<tr>
<td>Macroeconomic policy</td>
<td>47</td>
<td>72</td>
<td>-25</td>
</tr>
<tr>
<td>Health and primary education</td>
<td>50</td>
<td>100</td>
<td>-50</td>
</tr>
</tbody>
</table>

### B. Efficiency enhancers

<table>
<thead>
<tr>
<th>Category</th>
<th>China</th>
<th>India</th>
<th>China-India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher education and training</td>
<td>64</td>
<td>63</td>
<td>1</td>
</tr>
<tr>
<td>Goods market efficiency</td>
<td>51</td>
<td>47</td>
<td>4</td>
</tr>
<tr>
<td>Labor market efficiency</td>
<td>51</td>
<td>89</td>
<td>-38</td>
</tr>
<tr>
<td>Financial market sophistication</td>
<td>109</td>
<td>34</td>
<td>75</td>
</tr>
<tr>
<td>Technological readiness</td>
<td>77</td>
<td>69</td>
<td>8</td>
</tr>
<tr>
<td>Market size</td>
<td>2</td>
<td>5</td>
<td>-3</td>
</tr>
</tbody>
</table>

### C. Innovation and sophistication factors

<table>
<thead>
<tr>
<th>Category</th>
<th>China</th>
<th>India</th>
<th>China-India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business sophistication</td>
<td>43</td>
<td>27</td>
<td>16</td>
</tr>
<tr>
<td>Innovation</td>
<td>28</td>
<td>32</td>
<td>-4</td>
</tr>
</tbody>
</table>
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)
Off-shore special purpose companies

Transfer pricing

Red-chip IPOs
Roundtrip Capital: Offshore Investment

Onshore

Chinese capital

FAKE FIE

Offshore

Offshore bank

Offshore company

25% equity
Roundtrip Capital: Transfer Pricing

CHINESE PARENT

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

Red chip company

IPO
# Explaining the Great Divergence in FDI Composition of India’s FDI, 2000-2009

<table>
<thead>
<tr>
<th>FDI Source Country</th>
<th>Cumulative FDI (US$ billion)</th>
<th>% of India’s Total FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritius</td>
<td>$173.7</td>
<td>44%</td>
</tr>
<tr>
<td>Singapore</td>
<td>35.1</td>
<td>9</td>
</tr>
<tr>
<td>United States</td>
<td>28.8</td>
<td>7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>23.2</td>
<td>6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>16.4</td>
<td>4</td>
</tr>
<tr>
<td>Japan</td>
<td>12.7</td>
<td>3</td>
</tr>
</tbody>
</table>
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
• 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%).
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

• 19th & early 20th 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 30th 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\textsuperscript{th}-11\textsuperscript{th} century voyages \implies Buddhist & Hindu influence in Southeast Asia
• Itinerant commercial networks spanned Indian Ocean

• 19\textsuperscript{th} & early 20\textsuperscript{th} 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

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

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