

Foreign Capital Inflows to China, India and the Caribbean

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Trends, Assessments and Determinants

Arindam Banik and Pradip K. Bhaumik

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*Dedicated to
Jyotsna and Ram Gopal Banik
Reba and Late Surendra Nath Bhaumik*

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List of Abbreviations

ACFTA	ASEAN–China Free Trade Area
ADR	American Depositary Receipt
ASI	Annual Survey of Industries
BOT	Build-Operate-Transfer
BPD	Barrels per day
BPO	Business Process Outsourcing
BPTT	British Petroleum Trinidad and Tobago
BRIC	Brazil, Russia, India, China
BSE	Bombay Stock Exchange
CARICOM	Caribbean Community
CMIE	Centre for Monitoring Indian Economy
CSA	Country-Specific Advantage
EC-6	European Community (Belgium, the Netherlands, Luxembourg, West Germany, France and Italy)
EOU	Export-Oriented Units
ESCAP	Economic and Social Commission for Asia and the Pacific
ETDZ	Economic and Technological Development Zones
EU	European Union
FDI	Foreign Direct Investment
FERA	Foreign Exchange Regulation Act
FIE	foreign-invested enterprises
FII	Foreign Institutional Investors
FIPB	Foreign Investment Promotion Board
FSA	Firm-Specific Advantage
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
GDR	Global Depositary Receipt
GI pipes	Galvanized iron pipes
GNP	Gross National Product
HKSAR	Hong Kong Special Administrative Region
IC	integrated circuit
ICICI	Industrial Credit and Investment Corporation of India
IDP	Investment Development Path
IMF	International Monetary Fund
IPC	intellectual property rights
LAC	Latin America and the Caribbean Economies

LIBOR	London Inter-Bank Offer Rate
M&As	Mergers and Acquisitions
MDC	More Developed Country
MEEI	Ministry of Energy and Energy Industries
MNC	Multinational Corporations
MNE	Multinational Enterprises
NAFTA	North American Free Trade Agreement
NASSCOM	National Association of Software and Service Companies
NCAER	National Council of Applied Economic Research
NICs	Newly Industrialized Countries
NRI	non-resident Indian
NTB	non-tariff barriers
OBM	Original Brand Manufacturing
ODM	Original Design Manufacturing
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
OEM	Original Equipment Manufacturing
OLI	advantages, location and internalization
OPEC	Organization of the Petroleum Exporting Countries
PPP	purchasing power parity
R&D	Research and Development
RBI	Reserve Bank of India
RBTT	Royal Bank of Trinidad and Tobago
SBS	switching power supplies
SEBI	Securities and Exchange Board of India
SEZ	special economic zones
SIA	Secretariat for Industrial Assistance
SOEs	state-owned enterprises
TOT	Transfer–Operate–Transfer
TP	Technology Purchase
TPM	Total Productive Maintenance
TQM	Total Quality Management
WIR	World Investment Report
WFOEs	wholly foreign-owned enterprises
WTO	World Trade Organization

Preface

Foreign investment and economic growth has been a central theme of the development literature in the past two decades. In fact it has witnessed marked changes in the global organization of industry with far-reaching effects for the evolving patterns of integration of developing countries into the world economy. The relationship between industrialization and trade-orientation, due to foreign investment across economies and regions, are thus the emerging issues. Incidentally, the precise consequences of these developments have not yet been fully analysed or understood. This has been the case for both large economies such as India and China and relatively small ones such as those of the Caribbean.

Interestingly, India and China have often been compared in terms of their performances in the development literature. These comparisons can indeed be quite enlightening, given the similar challenges faced by the two countries in the late 1940s, and the different routes they have taken in addressing these challenges. In recent time Foreign Direct Investment (FDI) and economic growth has been a common focus of comparison between India and China. Studies on the Caribbean, on the other hand, reveal an interesting contrast due to its close geographic proximity to the developed economies. Even then these studies still reveals many characteristics of developing countries due mainly to the Caribbean's inherent internal structure and a few policy failures. The immense diverse pictures with many distinct pursuits in India, China and the Caribbean thus enable us to analyse the subject from different perspectives and offer great opportunities for study. Needless to say the promised resources of social services, education, health, infrastructure and housing – among other things – may not be compatible with the respective countries' current domestic savings rate.

The selection of focus here revolves around three specific objectives: discussing the idiosyncrasies beyond rational economic choices that determine the inflows of foreign investment; examining the various facets of inflows of FDI in India, China and the Caribbean; and revealing the insights of local and foreign firms' behaviour as they compete on an emerging level playing field. It is also definitely being argued that long-term growth prospects of these developing countries will hinge on their ability to exploit population, innovation, investment and higher education.

Many scholars and organizations have assisted us in writing the book. We owe special thanks to K. L. Krishna for his inspiration. We have benefited from the comments and suggestions from Hilary Beckles, Ramesh Ramsaran, Andrew Downes, Rajat Kathuria, Michael Howard, George Bell, Ian Hickling and Sunday O Iyare. We would also like to express our appreciation to Wayne Hunte, Don Marshall, Judy Whitehead, Stephen Harewood, and Nlundu Mamingi for useful discussions on several occasions. Our students at the Department of Economics, University of the West Indies, Cave Hill Campus, Barbados, West Indies and the students at International Management Institute, New Delhi, India were critical in classes in dealing with certain issues. They deserve special appreciation. Mr Andy Watts provided us with a lot of useful information for developing a Caribbean case. Our special thanks to him.

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New Delhi
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Pradip K Bhaumik