FOREIGN DIRECT INVESTMENT IN CHINA AND INDIA: ROLE OF DIASPORAS IN HOMELAND REFORM

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Executive Summary

1. The Chinese entrepreneurial diasporas have contributed greatly to China's foreign direct investment (FDI) by providing ideas and incentives to China's opening-up. They transferred capital and technology and helped the country achieve compelling early success which further led to FDI liberalization and pro-reform policymakers to gain political strength.

2. Indian diasporas on the other hand are mostly Western-educated professionals who work in multinational corporations (MNCs) and international organizations. Many returned in the mid-1980s to help the government formulate policies and build infrastructure critical to later success. Diasporas have served as policy advisors and policymakers since then.

3. India's success in software services was shaped by diaspora connections. Indian diasporas working in the Silicon Valley circulated the business model, while professional Indians helped to transfer technology to indigenous companies and bridge Indian services with global markets. India's software services were almost entirely oriented toward exports.

4. Both China and India's experiences suggest that diasporas with resources and human capital would generally help homeland development.

5. Yet two conditions are important to diasporas' homeland impact. First, diasporas need to have ties with the homeland. In both the Chinese and Indian cases, family and ancestral linkages are quite strong. Second, domestic policies are preconditions. In China, Deng Xiaoping's embracement of diasporas and Chinese proactive diaspora policies helped to revive and extend diaspora connections.

6. In India, Rajiv Gandhi was keen on technology and opened the country to diaspora professionals, which started a major brain circulation through diaspora networks back to India.

7. India can learn from China in opening itself to foreign investment that boosts its infrastructure and small industries; India's reform is lagging behind in services and internationalization of large companies.

8. China can also draw lessons from India. As China has become a capital-surplus nation, it faces challenges in society and governance. In these areas, looking to the West may not help, due to strong ideational divide and mutual suspicion between the two worlds.

9. Regions dominated by overseas Chinese such as Singapore, Taiwan, and Hong Kong have tremendous experiences in coping with these challenges arising from rapid economic growth. Tapping the ideas and experiences of overseas Chinese in these co-ethnic areas facilitated by diaspora networks would help China successfully conduct its next stage of reform.