CHAPTER -II
REVIEW OF LITERATURE

2.1. Introduction

In this chapter, the review of literature will mainly focus on comparison of the both countries’ emerging sectors from the transition perspective. This chapter will cover: general issues, trade and foreign direct investment (FDI). In the 21st century, both countries have been playing a significant role on the international stage, and, after transition, both China and India have integrated their economies with the world economy, though, both countries have initiated different structural reforms processes. The structural reforms process in an emerging economy has two major focus areas for the government: (a) to reduce undue government interference in the functioning of the industry, and (b) to play a crucial and active role in strengthening the public sector in certain areas. There have been several studies in empirical and theoretical - on China and India. FDI and Trade are most significant indicators for economic development in an emerging economy. Thus, numerous authors conclude that between FDI and Trade have a significant relationship, and lead to economic growth.

2.2. Emerging sector’s in China and India:

Robert Solomon (1999) stated that the world economy has undergone dramatic changes since the end of the 1970s. The economic transformation has occurred in a number of areas. The focus seems to have shifted from centrally planned economies toward market forces, with lesser government involvement in economics processes. Also, another change has been the intensification of efforts towards ‘globalisation’ in both industry and finance. Industries that experienced significant growth during the 1990s included IT and automobiles, which brought about economic growth, in the form of flow of capital to ‘emerging markets’. However, this was also accompanied by problems and crises.

A.S. Bhalle (2004) lays emphasis on the state economic reforms processes and the impact of economic reforms in both countries. Factors, such as economics stabilisation and long-term structural adjustments, are essential for growth and to meet the challenges of international competition. Both countries had reduced public expenditures and lowered subsidies, in order to reduce fiscal deficits and promote efficiencies in resource allocation. If you compare the other aspects, like FDI, technology, and poverty alleviation, China
seems to have performed better than India. India’s initial reforms were not that effective because of high interest rates and restrictive monetary policy. We can conclude that China has tended to encourage rapid growth of village and township enterprises (VTEs). On the other hand, India may have policies on paper, but the implementation has been generally tardy. Thus, China’s economic reforms have been more successful than India’s.

Thorvaduk Gylfason (2005) has made a comparison of the development strategies and trajectories of the two countries by considering determinants like market-friendly reforms, long coastlines, large overseas communities, diasporas contributing investments. The author poses questions like Can democracy facilitate growth? Don’t both countries have to reckon with factors like corruption, inequality, uneven distribution of income, large population and, finally, high child mortality rates?

Ira Kalish (2006) compares the basic growth factors for China and India. Indeed, in both countries, prices of certain commodities products had been fluctuating in the past decades. India and China are different in a number of areas, but have some common elements in areas like economic structures, sources of growth and competitive advantage. On the other hand, due to the financial system in China, state-run companies are able to borrow from state-run banks. In addition, in India, private companies are playing an important role in financial markets, i.e., Wipro, Infosys, because state-owned enterprises are controlled by the government and may not always be able to match the performance of private sector companies. India has also to face issues like: slow savings rate, excessive regulation, poor infrastructure, and non-performing loans. After, reforms in both countries, the domestic market has expanded and division of labour has also increased. Also, the number of new local companies is increasing through trade and investment, which would facilitate the creation of new world class companies and new opportunities for the job seekers.

Deepak Mishra (2006) has brought out that India’s GDP growth rate is slowly converging to the East Asian level. Its household savings rate is among the highest in the world. In addition, less use of physical capital (and more of human capital) than has been the case with East Asian countries. The increase in private and public savings and corporate sectors saving are increasing because of strong presence of the private sector. However, Indian’s corporate and public savings are considerably lower than that of China. This contrast in saving rates is due to the effect of demographic changes (See, Heff, 1980; Ram 1982; Hammesr, 1986; Mason, 1987 and 1988; and Gersovitz, 1988). However, Indian’s domestic savings and investment rates show that they are likely to
register only a moderate increase in the medium term and are unlikely to reach the level in East Asia.

**Michael A. (2006)** examines the presence’ of China in the emerging markets of the world. In an era of global economy, significant market opportunities exist because of foreign investment and firms. China has successfully projected itself as the favoured destination for emerging markets and transition economy. As a result, investment is more useful for firms for supporting technology development. Such ventures have more than tripled (China’s National Bureau of Statistics, 2004). Even after inflow of FDI, a number of reforms are required for a country to remain competitive in the global economy. There is also the need for maintaining appropriate balance of payments and institutional stability.

In the context of ‘global growth and distribution’, both China and India are re-shaping the world, with their focus on global trade and structure of production and distribution of income. In future, both countries would be influencing the global economy through sustained high growth. Both countries have middle class people, who are keen to significantly improve their quality of life. The demand for the consumer goods is likely to increase substantially. Also, skilled workers would be required to meet the high demand for manufactured goods. A measure of the growth of both countries is the higher degree of urbanisation. The economic expansions in both countries will certainly influence the global income distribution in the next 25 years and lead to the emergence of the “global middle class”.

**T. N. Srinivasan (2006)** in his article, posits that the after 1980s, both China and India has been growing rapidly and significantly impacting the world economy. The focus on two channels, namely, imports and exports is efficient in both countries and is influencing the rest of the world. Their economic initiatives have had a significant impact on their low and middle income citizens. However, China’s growth has slowed down since close to half of its population is engaged in agriculture and rural activities, resulting in low level of productivity. The labour–intensive services are also potential sources of strength for both countries. The fast growing domestic market for goods and services are creating phenomenal export opportunities for both China and India. India’s financial system is functioning better than that of China. India has done better than China in five pivotal areas: regulation of labour markets, galvanising the small scale sector, revitalisation of
agricultural growth, prudent investment on infrastructure, removal of fiscal deficits and, finally, across the board privatisation and trade liberalisation.

**Susan M. Walcott & James Heitzman (2006)** have discussed the processes of development in China and India. In both countries, there are IT parks within corridors adjoining urban regions; Bangalore and Hyderabad in India and Chongqing and Chengdu in China. In both countries, the governments issued public policy statements specifically designed to promote clusters in their metropolitan regions. The authors view the techno pole effect as a problem of institutional expansion or organisational change. The concept of techno poles had evolved within cluster analysis “growth poles” that traced the concentrated investment expanding into surrounding areas (Perroux, 1995). In a similar study, Marjusen et al., (1999) suggested that “Global fordiere” expansion of technology to other regions. Research is increasingly being focussed on rapidly developing nations, impact of science and technology on urbanisation and emerging innovative clusters within Asia’s two largest nations - China and India (Fan, et. al., 2002; Ganer and Prime, 2002; Lalkaka, 2002). The national techno poles, examined in this research, currently constitute peninsulas of privilege credited to connect work and attract a core of cosmopolites. The techno pole and corridor concepts suggest that regional actors are seeking solutions to the problems encountered due to the late entry of capitalism, through a shared space and the knowledge based on society.

**Jaishankar Raman (2007)** has made a comparison of the economic reforms experiences in China and India. Several authors have also examined the origin of reforms in China. They include: Wee Wong (2002), Srinivasan (2002) and Soled (1995). A perusal of the conditions leading to the introduction of economic reforms in two countries shows that China had surged past India in all the criteria of measurements.

**David E, Bloom, David conning, Linlin Hu, Yuanli liu, Anjay mahal, and Winnie Yip (2007)** bring out that there has been an increase in work productivity in both countries. Young (1994, 95) applied the growth rate of inputs in a country to estimate the marginal productivity of each factor, to arrive at the overall economic growth. Another approach is to study the impact of different variables that may affect growth in a number of countries. It becomes difficult to explain the relationship between demographic changes, age structure, etc., and the rise in the GDP, because of increase in life expectancy, population health, and the consequent effect on labour quality. In 1975, the ratio of working-age (15-64) to non-working age (0-14) and 65 above in both countries
was around 1.3 billion. In 1970, China launched the “later, longer, fewer” (later age at first birth and longer-inter-birth intervals, fewer births) and adopted the one child policy in 1980. We can know that age changes create supply–side potential changes for economic growth. Earlier, the, reforms in China were more aggressive than those in India. In 1991, India undertook massive economic reforms to overcome the fiscal and balance of payments crises. The emergence of China and India as major players in the international economic arena has made the rest of the world to sit up and take notice. In India the results were significant due to greater transparency, strong presence of private enterprises, large inflow of FDI and increase in foreign trade. In additional, in the next 30 years, high growth rates in India can affect the fertility decline.

Saraj Joseph (2008) has broadly focused on the linkage between the state and the economy in India after independence, especially in the political context which determined the strategy adopted for bringing in changes in economic policy and development. Since, independence, a large number of problems was faced and government has begun to experiment with liberalisation and economic reforms. The viewpoint of the World Bank and International Monetary Fund (IMF) was that the structural adjustment policies imposed by them they on debtors (a country, a person) helped to revive the economy. They argued that their demand for structural adjustments would facilitate reduction of poverty and engender a faster rate of economic growth. Mukharji states that the development strategies were adopted as a result of some adverse economic conditions and the balances of payment crisis in 1991.

Johan Galtung (2008) examines the Chinese model of development. After the Cultural Revolution, a number of steps, including distribution-oriented system and growth-oriented system, have been tried out. The country is trying to combine capitalism and socialism. While capitalism tends to make some people very rich and some were very poor, socialism, despite its plus points, has the tendency to become un-dynamic. Hence, it appears that adopting capitalism to achieve growth and socialism for ensuring better distribution of socio-economic gains would tantamount to sailing in two boats simultaneously.

Yanrui Wu (2008) compares the ‘Regional growth, disparity and convergence in the two economies’. After reforms, disparities seem to have widened in both countries during the period of rapid economic growth. In each country, economic growth has not led to catch-
up effects in the relatively poor regions, as postulated by the new growth theories (Abramovitz, 1986). It can be conclude that, in China, regions had shown greater dispersion than Indian regions. Uneven infrastructure development and urbanisation are the main causes of regional disparity in both countries over the past twenty years.

**Vittorio Valli & Donatell Saccone (2009)** examine the structural changes and economic development in both countries. Both countries have had to contend with "relative economic backwardness" and the "Fordist Model of Growth". The main intention of the authors was to compare the relation between the structural change and economic development. They opine that the structural changes have increased the social and economic inequalities. In the initial stage, China was strongly developed in industries, while India was more efficient in the service sector. Though the effect of reforms in the agriculture sector share has declined, the industrial sector has grown rapidly. However, the rise in labour productivity activities can lead to rapidly increasing levels of pollution, income and wealth inequalities. Yet, extent of poverty has decreased in both countries.

This paper reveals that the both countries are aggressively promoting software and hardware industries. The Indian domestic market is largely dominated by multinationals, while in China; domestic firms are more into hardware industries. Chinese firms have had strong linkages with institutions and Universities. In India most of the firms has potentially advanced due to information technology, such as, Indian railways reservations system and semi-public projects. Thus, India-China joint venture companies can offer stiff competition to multinationals in the global market.

**Amelia U. Santos-Paulino (2010)** feel that both China and India can be role models for other developing countries, because of their rapid growth, prudent economic policies, international trade and vibrant capital markets, even though economic reforms are very much influenced by domestic factors. Yao (2009) identifies three determinates of the reforms in China as: (a) the growth consensus (b) dual-track price system in 1978; and (c) privatisation of state owned enterprises (SOEs). While in India, Singh (2009) stresses that international trade, as well as domestic factors, are shaping India’s developing model. Both countries would be facing important challenges like institutional reforms internal mobility and labour markets. However, both countries’ policies issues like pragmatic approach, industrial policies and trade and liberalisation of commercial policies are key lessons for other developing countries.
2.3. Foreign Direct Investment in China and India:

Kiichiro Fukasaku and Henri-Bernad Solignac Lecomte (1996) stated that trade-policy reform is an essential feature of China’s economy. The liberalisation and decentralisation of export activities are boosting the country’s exports. China’s initial reforms were focused on the development of imports, agriculture sector and substitute industries. Reforms in China import regime has been progressively very slow. This is due to negative factors, such as high nominal protection rates, numerous tariff exemptions, which create a dual regime. Export-oriented firms enjoy access to imports, while the domestic sector remained highly protected from international competition, which leads to misallocation of resources. The lack of firm commitments to import liberalisation might delay China’s full integration into the world economy.

Xinhua Liu, Peter Burridge and P.J.N. Sinclair (2002) have explored the relationship between economic growth, FDI and trade. The rapidly expanding Chinese economy, due to high level of openness to the outside world and proxies by external trade, are the main economic determinants for attracting FDI. Moreover, the export are promoting the trade regime for FIE’s, with minimum administrative interference. Chinese government still restricts imports; which may cause economic distortion and inefficiency (Corden, 1997). However, the effect on FDI and exports is likely to be too small to be visible at the aggregate level. Economic development, exports and FDI appear to be mutually reinforcing each other under the open-door policy.

Yahsheng Huange & Tarun Khanna (2003) have examined the question: “Can India overtake China”? A report issued in 2000 by the Chinese Academy of Social Sciences concluded: “Because of long-standing prejudices and mistaken beliefs, private and individual enterprises have a lower political status and are discriminated against in numerous ways – both political and in terms of regulations. The legal, policy and market environment is unfair and inconsistent”. However, entrepreneurship and free enterprise are flourishing. In China, the banking sector is faced with a huge number of non-performing loans, leading to the subsequent recapitalisation of the banks by the government. India may not be outperforming China overall, but is certainly doing better in certain key areas. It can be concluded that, after observing all factors, India may in due course overtake China. The study also highlights the importance of homegrown
entrepreneurship in long-term economic development and brings out the limitations of the FDI–dependent approach that China is pursuing.

**Shiva S. Make (2004)** analyses the role of FDI and trade in promoting economic growth across selected developing countries and the linkage between FDI, trade, and economic growth. This study, based on neoclassical approach, argues that FDI affects only the level of income and leaves the long-run unchanged (Solow, 1957; De Mello, 1997). On the other hand, in the long-run, growth can be positive, only because of technological progress or population growth, and both are considered exogenous. According to the neoclassical approach model, on economic growth, FDI can influence the growth in the long-term through judicious use of technology. It needs to be mentioned here that lower inflation rate can bring about a better climate for investment, and trade, since it leads to economic growth. Although a country must be sound in its macro-economic policies, institutional stability is necessary for FDI driven growth.

**Dr. Maathai K. Mathiyazhagan (2005)** mainly focuses on the long-run relationship of FDI with the Gross Output (GO), Export (EX) and Labour productivity (LPR) in the Indian Economy at the sectoral level. The relationship between FDI and the host country has an impact on the FDI into the various core sectors in India. FDI has a positive effect on a host economy's development effort (Caves, 1974; Kokko, 1994; Markusen, 1995; Carves, 1996; Sahoo, Mathiyazhagan and Parida, 2001). Though FDI inflows into the sectors have helped to raise the output but still a better role of FDI at the sectoral level is possible. Investor’s advice that the export oriented sectors is to be opened up, since that would lead to high or growth of the economy.

**Sinha, Swapna S, Kent, David H, Shomali, Hamid (2007)** have made a comparative analysis of FDI in China and India. In both countries, FDI was conceived as an “Export platform” manner, so as to benefit from the global operations of the companies concerned. For attracting FDI by measures, such as (i) Structural Changes; (ii) Strategic infrastructure; and (iii) Strategy policy initiatives, China has very successfully put in place a congenial business climate. China has followed the ‘export-import’ oriented growth pattern, as opposed to an India’s ‘import substitution’ approach. India believes that allowing full convertibility of the rupee on capital account will help to attract foreign investment into the country.
**Linda Y. Yueh (2009)** presents a perspective on China’s economic growth. China has had to face large portfolios of non-performing loans held by State owned Banks (SOBs), rising unemployment in various forms and institutional frailties. This explains the “gradualist” reforms path undertaken by China as it transitions from a centrally planned to a more market-oriented economy. Still, structural issues like soft-budget constraints, urban bias and weak formal institutions continue to be problem areas. These issues, linked to its gradualist transition, will need to be addressed. In economic growth and global integration, it has led to continuous sustained growth and productivity over the reform period and more with increases in factor accumulation (Wang and Yao 2001), and similar to the ‘East Asian tiger’s’ factor accumulation process, associated with small increases in real productivity (Chow, 1994). However, the wide-ranging impact on China’s global integration raises further challenges for other countries to assess and manage the effects on their economy.

**Anita K Dixit, (2009)** emphasises that the process of growth is theoretically visualised to become less dependent on agriculture and rely more on the secondary and tertiary sectors. Theories of structural change suggest that the share of the agricultural sector will fall in the process of economic growth. In the Lewis two sectors model, agriculture was characterised as an over-populated sector with zero marginal productivity, which served as a provider of labour to other productive sectors. Prof. Raganer Nurkse and Maurice Dobb have visualised the agriculture sector as a creator of capital through utilisation of the unemployed. On the other hand, the other model, dealing with the structural transformation of an economy in the process of growth (Kunzents, 1966, 1973; Cheneery and Syrquin, 1975), emphasised on the reduction in the share of the primary sector in the national income. Gujarat is one of the faster growing states in India. This paper mainly focuses on analysing the three sectors in the growth patterns. Also, to calculate the extent of structural change, there is need to undertake a correlation exercise to establish the relationship between the three sectors. Price ratios of the primary sector and other sectors create an overall economic development. Dholakia (1983) has constructed an index - based Coefficient of Structural Change (CSC), in which the output structure compares at two points of time, the relative direction of growth of a region.

Growth rates in the three sectors are interdependent. Therefore, one can use correlation to analyse the relationship between the three sectors. Two trends a rising agricultural price ratio and a declining per worker income level can be noticed. The agro-
vision document aims at refocusing the agricultural sector. However, for the dynamic agriculture growth, based on commercial crops, the issue of stagnant agricultural incomes presents an argument for public investment in agriculture on distributive grounds.

**Choorikkadan Veeramani (2009)** mainly focuses on the specialisation pattern under trade liberalisation in China and India, and internal deregulation, rather than on trade liberalisation. The domestic firms in countries, which had been operating under a protective umbrella, were forced to respond to the competitive pressure from imports. Policy changes can improve export competitiveness through efficient resource allocation, greater specialisation and competitiveness. It would be advantageous for both countries, since and trade liberalisation invariably involve adjustment costs. Trade liberalisation would engender trade expansion towards intra-industry trade. Exchange rates were overvalued in both countries - creating a bias against exports. The transition from a controlled to a market based economy can result in better allocation of efficiency gains. First, productive resources could shift from inefficient to efficient industries. Second, resources may shift from inefficient to efficient firms within the industry. Third, resources could shift from inefficient to efficient activities and product lines within the firm. Thus, trade liberalisation can positively impact export growth in both countries. The majority of domestic manufacturing industries and firms in both India and China could compete and survive by specialising in narrow product lines.

**D. Krishnamurthy (2009)** explores the ‘FDI flows in India and China’. He mainly focuses on the efforts by major sectors in both countries to attract FDI in primary, secondary and tertiary sectors; the contrast in the FDI inflows in both countries and the reasons for slow progress in India. This may be partly due to issues connected with labour, tariffs and policies and regulations regarding export-import.

**Dolly Sunny (2009)** delves into the ‘Myth and reality of FDI Flows: India and China integration with the Global economy’. After the oil crisis of the1970s, FDI captured world-wide attention with a short-lived boom in the USA, The Netherlands, and the UK (WIR, 1997, Dolly Sunny) Policy changes are necessary to meet the competition posed by global companies. The broad areas of the economy are generally impacted by factors like: availability of human resources, managerial skills, access to clean technologies, pollution abatement skills, firms-wide local market knowledge, established distribution systems and contact with the customers (Blomstrom, et. al., 1994; Balasubramanyam, et. al., 1996; Borensztein, et. al., 1998; De Mello, 1999). The author has also discussed
measures of governance, such as, effectiveness, regulatory framework, rule of law, graft, political instability and violence. However, adoption of international standard for computation would raise FDI inflows. In India, certain components are impeding the process of attracting FDI, while China is not following the international standards. Therefore, both countries need to modify their macro-economic policies.

Haryana K. Nathan (2009) has discussed the role of trade and FDI in growth in Central Eastern Europe, and Baltic Region (CEEB). These countries substantially liberalised international trade and managed to attract large FDI inflows. The CEEB experienced a substantial decline in output in the initial phase of transition. Fischer, *et al.*, (1996a, HK Nat) argue that restrictive macro-economic policies and restructuring of the economy caused a decline in economic activities. Before transition, one needs to understand other variables of the growth experiences. Macroeconomic variables, structural variables, initial conditions and institutional factors. This analysis brings out that a significant positive effect of trade has been the robust economic transformation of the CEEB. However, FDI cannot have a significant effect on growth, until and unless control on the effect of domestic investment and trade on FDI is adequately monitored. Jade Bhagwath (1973), Balasubramanyam, *et al.*, (1996) and H.K. Nath (2008) argue that effect of FDI can be stronger in a more liberal trade regime, operating in an appropriate environment and has facilitators such as human capital and new technology. As a result, significant positive effect of trade on growth is a robust result for these transition economies. Domestic investment appears to be an important determinant of growth. It is very essential to develop the financial sector in transition economies.

Anjali Kulkarni (2009) posits that, in recent years, both countries have performed much better than other major country’s economics in terms of production, capital generation and trade. This paper mainly focuses on measuring FDI: IMF guidelines based on the recommendations of IMF, in its Balance of Payments Manual (Fifth edition, 1993). While estimating FDI inflows, according to IMF guidelines, these reinvestment earnings are taken as a part of FDI inflows and recorded as inflow on the capital account of the host country’s BoP. Thus, the FDI gap between India and China is not very significant.

**FDI a comparative Study of China and India:**

OECD Report (2002): these countries are bringing in policies to maximise the benefits of foreign presence in the domestic economy, with special focus on the overall effect of
FDI on macroeconomic growth and other welfare-enhancing processes and on the channels through which these benefits take effect. Several studies show that FDI triggers trade and investment, technology spillovers, assists human capital formation, contributes to international integration to create a more competitive business environment and enhances enterprises development. However, FDI can also lead to: increasing domestic backwardness, adverse balance of payments situations, setting of heavy industries that are harmful to the environment, and social disruptions due to accelerated commercialisation. Hence, emerging countries need to reach a certain level of development due to the presence of foreign markets. The benefits could include: (i) Education, (ii) Technology, (iii) Infrastructure; and (iv) Health. Finally, the economic benefits of FDI are real, but they do not accrue automatically. The maximum benefit from foreign corporate presence can be a healthy enabling environment for business. FDI can also encourage domestic, as well as foreign, investment, provide incentives for innovation and improvements of skills and contribute to a competitive corporate climate.

Bruce A. Blonigen (2005) has conducted a detailed study of recent literature regarding FDI determinants and MNEs across the world. The focus on external factors includes: who to influence to attract inflow of FDIs, exchange rates and taxes, trade protection and trade flows. Froot and Stein (1991) say that changes in the level of the exchange rate would not alter the decision by a firm to invest in a foreign country. The appreciation of the currency in a firm’s home country lowers the cost of assets abroad, the nominal return goes down in the home currency, leaving the rate of return identical. Froot and Stein (1991) present an imperfect capital markets story as to how a currency appreciation may actually increase foreign investment by a firm. The effect of taxes on FDI has been considerable for both international and public financiers and can affect the inflow of FDI.

Dharmendra, Dhakal, et. al., (2007) have discussed the “FDI and Transition Economies: empirical evidence from a panel data estimator”. This paper seeks to identify the factors that determine FDI inflows into transition economies. These include factors, such as: market size, inflation, current account balance, real exchange rate, openness of trade, and governmental regulations. Transnational corporations (TNCs) look for more trade, more open economies for resource-seeking operations, especially as they integrate their global production with variable and horizontal value-chain linkages. On the other hand, changes in the real exchange rates, interest rates and, market size negatively affect
FDI inflow into the host country. Therefore, openness and deregulation in the host country can positively impact FDI inflows into the economies.

Saul Estrin & Klaus E. Meyer (2008) have studied the ‘FDI in transition economies: strengthening the gains from integration’. The paper mainly focuses on the potential impact of FDI on host economies and also the patterns of FDI inflows into Central and Eastern Europe (CEE). According to Ghemawat (2007), there are three types of strategies by which MNEs create value. These include: (a) adaption; (b) aggregation; and (c) arbitration. A large argument was FDI and openness of the economy will bring about positive growth (see, Caves 1996; Singh and Jun, 1995). On the other hand, the impact of FDI on host economies is complex, since foreign investors interact with, and thus influence, many local individuals, firms and institutions. This paper discusses the structure and strategy adopted by an MNE located outside the country. FDI would help the host economies to better exploit their comparative advantages and transfer technologies that are more closely aligned with their needs. However, FDI flow had increased productivity of former state-owned firms in the transition economies. Finally, host economies should seek to promote a stable-macroeconomic framework, transparent institutional and policy environment. Government policies are also important for both countries to reap further benefits.

S.R. Keshave (2008) mainly focuses on the impact of FDI on growth in India and its impact on exports, GDI, FOREX, GDP, private final consumption expenditure, trade balance, balance of payments, and FDI lagged (t-1). However, if one country loses, it need not necessarily mean that another country would gains. Kindelberger (1969), discusses the that the relationships arising from the FDI. The conventional wisdom of FDI lies in improving in the long-term conventional wisdom (Leahy and Montangna, 2002). The policies of China and India regarding FDI have become significantly more liberal during the past several years. However, both countries are facing almost similar issues regarding FDI. Some common issues regarding FDI include: SEZs, EPZs, almost similar policies to attract FDI and also some regional problems. China has effectively implemented its WTO commitments and is seeking to achieve its potential for luring FDI. China has achieved significant success in areas like: complementary reforms, domestic markets, improving the performance of state-owned enterprise, intellectual property rights and speeding up competition and judicial enforcement, while India is still far behind
China in attracting FDI. India, it is imperative policy makers that understand the need for putting in place conducive good policies to attract more FDI.

Richard (2008) is convinced that trade and FDI can be integrally related. Of course, FDI can simultaneously act both as a complement and substitute for trade. In Central East European countries (CEES), Trade and FDI are playing a significant role in accelerating economic growth and also integration. During the initial period, awas treated as an important substitute for trade. Since 1989, trade activities have grown significantly in CEES and EU countries. The FDI Cycle Theory explains the stages of development. Initially, FDI investments flow into the manufacturing sector and then into more highly industrialised sectors that involve higher capitalisation, longer time horizons, high payoffs for the investors, and greater risks. During these phases, one would expect FDI into the tradable sector to increase as well. When the exporting sector has a large potential for growth, there can be measurable positive effects on the trade balance and economic growth at the macroeconomic level. At this juncture, the framework focusing on studying FDI into the CEECs was developed to have a better understanding of the current and future state and importance of FDI in the transition process (Poland, Hungry, the Czech Republic and Slovakia). Additionally, the export sector can have a positive effect on the industry and the trade balance of the countries concerned. However, according to the FDI cycle theory, accelerating the economic growth, by the support of domestic conditions (economics legal and political), can provide sufficient stability to encourage long term, more highly capitalised investments; low transportation costs. But still, this is the beginning of the international phase and the real effect on growth is yet to be seen.

2.4. International Trade in Both countries:

Trade in China: This book review brings out that, in China the process of trade reforms has preceded in the direction of integration with the global economy. The question arises: what kind of steps was taken for the development of trade? The dualist trade regime and the export processing system had begun in early 1978. After 1986, recognising the opportunities in China, the Chinese policy makers opted for the ‘Coastal development strategy.’ In addition, all type of the firms were allowed to engage in trading with TVEs, foreign investors, etc., for these allow trade to become a more flexible variant in export processing. China had established two separate trading regimes: (i) export-promotion (EP) trade, and (ii) foreign investment entrepreneurs (FIEs). Though WTO membership
can significantly help in pushing through reforms, the currency reforms in 1994 and openness of trade, the most important dimension for trade is: openness to trade with other countries.

**Aamir Hussain Siddiqui & Javed Iqbal (2000)** have studied the impact of trade openness on output growth on Pakistani during the period 1972-2002. The relationship between trade openness and growth is a highly debated topic. Numerous studies on openness of trade have all concluded that openness of trade or liberalisation with growth output is positive (Ahmed, Yusuf and Anoruo Emmanced, 2002; Edwards S., 1998; Eduards, S., 1992; Harrison, A., 1996; Iscan and Talan 1998; Santos Paulino, (2002); Wacziarg, R., 2001; and Yanikkaya Halit, 2003). For the empirical analysis, the first step is co-integration analysis to test the stationarity. ADF (Augmented Dickey Fuller) test found that all variables show positive stationarity at the first difference. The co-integration result shows that relationship between growth rate and investment is significant. In the case of single variables, Trade, and double variables, such as (Export, Import), GCTES results shows an insignificant relationship between growth and trade growth, while investment growth is found to have a significant relationship with GDP growth.

**Dipend Sinha (2000)** has surveyed the impact of openness and investment on GDP in 19 Asian countries. Numerous other studies on the subject have been undertaken. Some of these authors undertook multi-country and some conducted single country studies. This development model considers GDP growth rate, investment of growth rate, growth of openness and, finally, of population. Before analysis, the Philips-Perron test (1998) is used for testing for the stationary of the variables for empirical estimation. This empirical analysis used ARMA for ascertaining the time series differences. The empirical analysis concluded that China, Hong Kong, Indonesia, and Japan show a very high adjusted $R^2$. However, in the case of Bangladesh, India, Iran, Japan Pakistan and Singapore, the population growth rate has a negative coefficient, except in South Korea. However, results show the positive relations between GDP growth and growth of openness, domestic, investment and population. In the case of some countries the investment growth is positive. In cases of some others countries, the growth rate of populations is negative. But it is not significantly different from zero. Thus, the growth rate of GDP is positively related to the growth rates of openness and domestic investment. However, the
relationship between the growth rate of GDP and the growth rate of population is not clear cut.

**Halit Yanikkaya (2002)** has explored the trade openness and economic growth in cross-country. He has mainly focused on the effect of a number of measures of trade openness and how trade policies play a special role in economic growth. Trade openness measures can be: (i) Measures of trade volume, (ii) Measures of trade restrictions. These could result in an adverse association between trade barriers and growth on the other hand, using the average tariff rates shows a positive and significant relationship between trade barriers and growth. Hence, trade promotes growth through a number of channels; technology transfer, scale economies, and comparative advantages.

**Razeem Sally (2004)** has discussed China’s trade policies and integration into the world economy. China’s trade policy reforms have a wider significance in the world due to the foreign policy and economic reforms being pursued by it. The author has also addressed issues after opening of China’s reforms, what kind of steps were being taken, which kind of commitments like WTO and Free-Trade-Agreement (FTA) were put in place by that country. However, recent Chinese trends in trade and FDI, and other policy reforms, are cast in the historical perspective, when compared to other countries and regions. China’s trade policies include domestic economic policies, foreign policy and so on. The effect of liberal trade policies and openness to trade, combined with market-oriented institutions at home, has led to high growth in China. The other facilities have been reforms in export-import, Taxes, and foreign investors. China’s, capital-intensive components initially are being imported for labour-intensive processing at home, before being re-exported to markets in developed countries. However, China’s integration into the world economy has come a long way, and is expected to go much farther. China, today, is a role model of market-embracing policy reforms for the rest of the developing world. Its liberalisation programme is probably the biggest in the world. Still, China seems poised to go further with economic reform; more trade and investment liberalisation; much more internal liberalisation to integrate the domestic market, and bring about market reforms and administrative reforms. All these are necessary to shore up and extend economic freedom components of the basic as growth and prosperity.

**Pallavi Aiyar (2006)** in “India-China trade: A long road ahead”, brings out that China has replaced Japan as India’s top trade partner in North East Asia. The bilateral trade delegation crossed the Himalayas to seek out opportunities for trade and investment. But
a deeper study reveals any celebrations of ‘Chindia’ to be chimerical. Sino-India economic relationships can home the kind of significance that exists in China’s relations with it truly weighty trading partners. Indian exports to China are dominated by low-value and primary-production, especially iron-ore. India’s exports like, raw cotton are getting the benefit of value addition, including increase in employment, higher profitability, technological upgradation and so on. China top exports to India include electrical machinery and machinery. However, it can be said that trade can provide long-term stability to the bilateral economic relationship; it is affected by short-term circumstances. Indian companies have begun to be attracting ample opportunists in China (i.e., IT, pharmaceuticals, banking, auto components and manufacturing). India IT companies such as TACS, Wipro, Infosys, and Satyam have invested in China. Low levels of Chinese investments in India are due to the acquisition of high-value markets for them. In addition, China refuses to make investments in India infrastructure projects due to “security” concerns. However, now there seems to be an increasing willingness on the part of China to engage with India. Thus, China and India are developing the kind of economic linkages that would give real depth to their bilateral ties.

Convergence of China and India’s points of view since the 1980s has led to the opening of trade dynamics between the two countries. Here the author mainly reveals the possible trends in trade relations between the two Asian giants (in 2015) in world trade. An expansion in bilateral trade would reduce the joint pressure on their economies, besides have more effect on third world markets, and strengthen the complementarities between the two economies. The overall trade of China and Hong Kong combined today is almost eight times greater than that of whole of southern Asia. Moreover, China has continued to reduce tariffs, according to most experts in GDP [i.e., Srivastava in China and lending 2003]. The dynamic of the Chinese exports is such that “made in China” good are finding their way into Asian markets. China’s companies are attracting global companies, such as pharmaceutical industry and IT. The trade potential can be explained by the level of GDP. CRISILs calculation bring out the comparative advantages of India and China’s exports of goods [India has major (RCA agricultural products) grains and cereals, fats and vegetables oils etc. metals citron, steel pharmaceuticals]. In this study we can conclude that effect of openness of trade and WTO entry has benefited in both countries exports. Also, both countries have received a boost because of their forward, looking - economic policies.
Christopher J. Rusko & Karthika Sasikumar (2007) this study is mainly focused on the relationship between China and India. The author discusses the ‘from trade to peace’ process in both countries. Both countries have strong economic potential because of these possible mechanisms by which commercial interdependence could lead states towards peace. In fact, recently, both countries’ relations have been changing in the international scenario, since, today, both are responsible participants in the global economy.

Mahvash Saeed Qureshi & Guanghua Wan (2008) have discussed the trade expansion of China and India, especially with regard to export performance and specialisation; as also how trade structure mutually impacts their trade expansion, to the major trading partners. China and India are now much more integrated with the world economy and their share in global exports has increased. Ahya, et. al., (2004), argue that economic performance had been increasing because of abundant labour, better infrastructure, flexible labour markets, FDI inflows and a favourable investment climate. According to Blazquez-Lidoy, Rodriguez and Santish (2006), the average wage is three to four times lower in China than in Latin America. Both countries trade competition and complementarily to rest of the world exhibit a changing pattern. Consequently, impact of openness of trade in both countries has led to export growth. Also, both countries are almost moderate by complementary in their export-import structure.

Bojana Todorovic (2008) has emphasised the key issues in multilateral trade liberalisation of economies in transition. In post-transition, economies several trade rules were amended so as to be in tune with the global economy. The successes and of rapid recovery by most Central and Eastern European countries (CEECs) from post-transformation recession can be attributed to their integration into international trade and foreign investment flows. Even, after liberalisation of trade reforms, several other reforms were undertaken in the transition economics. Consequently, after trade liberalisation, this experience of transition economies is that for the trade reforms process to be more successful, it is necessary to have in place a legal regulatory and institutional setting so that these can act as “external anchors” for the success of trade reforms.

Andreas Billmeirer & Tommaso Nannicini (2009) in their paper, ‘Do open transition economies grow faster’, discuss the effect of trade openness on economic growth in transition countries. One argument in that trade openness offers a competitive advantage and has a positive on effect on economic liberalisation. The other one is complicated by a number of factors. Bhagwati and Srinivsa (2001) have also discussed this issue. The
authors have focussed on three issues, namely, (i) Initial conditions versus liberalisation policies as the main drivers for results, (ii) Most transition economies only emerged in the early 1990s, and (iii) Some countries are homogeneous, from there, they shifted to socialised central planning economy. Consequently, it can be said that trade liberalisation leads to growth in transition economies.

2.4. a. Science and Technology:

K.K Subramaniam, has analysed certain elements in the science and technology (S&T) policy. The strategies aspects of Chinese technology policy in the 1980’s have been discussed vis-à-vis those of India. The reforms were connecting some imbalances created by the “left errors”. Thereafter, there was an inter relationship between economics institutions and technological development. In China changes in technological policies were brought, through technological base and multi-larger development of “walking on two legs” strategy. However, both countries aim should be to develop S&T through autonomous, self-reliant development of technology and finally modernisation of technology, as opposed to import of technology from other countries. In this process, China already has a well developed system in place. India to has made similar efforts towards institution building, and strengthen its science and technology base. The author has highlighted that a selective regulation technology for import and planning of R&D activities to strengthen indigenous innovation are the key components in technology policy for any developing country and make-self reliance the Kernel technology policy. Technological autarky may hamper the development of forces of production and retard the technological progress and modernisation.

Zhang Ming W (2006) has gone into the experiences both the countries. After reforms, both countries have been trying to promote their economic growth and social progress. In the process, there have been both positive and negative experiences. After liberalisation, India has concentrated on the industrial sector, and also self–sufficiency in industrial products. In 1970, India had occupied the rank of 10th biggest industrial power in the world. In both countries, agriculture production has gone up considerably. Since 1970, China has launched more than 15 man-made satellites into outer space. It has even successfully launched manned space flights. Only recently, it sent the first woman astronaut into space into space. Indian has successfully launched satellites. In 1974, a nuclear device was exploded by India. In India, the Rohini satellite (Rs-1) had launched.
While China and India have achieved great successes in the development of S & T, a proper sharing of the experiences will be mutually beneficial for both countries. Due to it’s having a dynamic human capital and adopting global best practices, China has made rapid economic progress.

**Yanrui Wu and Zhngya Zhou (2006)** have undertaken a study on the bilateral trade between India and China. Even though previously a number of authors studied and focused on the expansion of the trade relationship and development (Chen and Uppal, 1971; Swamy, 1973; Harris, 1973; and Bergmann, 1977), their main focus was on trends in bilateral trade and to draw implications for futures trade and economic cooperation. The authors have examined the changes in China –India bilateral trade, both in terms of intensity and intra-industry trade. Thereby both countries export-import activities have been significant influencing their industries and impacting the world commodity trade. China total trade amounted to US$1422 billion in 2005 (NBS, 2006). Thus, the two countries may have comparative advantage in different commodity groups, as shown by Balasubramanyam and Wei (2005). Thus research findings demonstrate that FTAS have boosted bilateral trade between partners.

**Renfeng Zhao (2007)** describes and compares the trade investment expansion strategies in both countries. The experience of China and India shows that expansion has a significant impact on global growth. In China vast resources of cheap labour and domestic savings to initiate infrastructure development, large amount of FDI and manufacture industry are factors that are influencing it economic success. In the case of India, services sector, pharmacy, and financial markets have been playing a predominate role. China has become an 'assembly factory' in East Asia. It imports parts and components from other region and sells the finished products to the rest of world. India has not fully exploited its potential in international manufacturing, except in textiles and clothing. India needs to consolidate its two strengths: human capital and domestic market potential and second, the IT-enabled services sector. India's National Association of Software and Service Companies (NASSCOM) estimates that, by 2020, India share of the offshore market for engineering services-infrastructure and international reputation will be in place (NASSCOM, 2006). Both countries have their own successful outcomes. The current labelling of China as the 'factory of the world' and India as the world's back office’ in international trade may be changing in the coming decade. India telecommunication sector has been doing well, and ranks among the most competitive and cost-effective in
the world. However, both countries are facing similar problems and challenges, like social and environmental degradation, urbanisation and industrialisation.

2.4. b. Transition Economics meaning:

Stanley, Fischer, Ratna Sahay, Vegh and Carlos (1996) have dissected the stabilisation and growth experience in 26 transition economies in Eastern Europe, the former Soviet Union, and Mongolia for the period 1989-1994. Reducing high inflation is a precondition for the revival of growth. As the time profile stabilizes, it is seen that lower fiscal deficits have led to lower inflation and higher growth. The authors have conducted an econometric analysis of the main short-run determinants of growth and inflation. They have surmised that pegged exchange rate regimes (or) fixed exchange rate appear to be more effective in reducing inflation and raising growth. Also, structural reforms play an importance role in reviving growth and reducing inflation. The transition of former command economies to market economics can be judged by comparing the development of economic efficiency in the economy and the transfer of benefits to the population of the country. Even in transition economy countries, there are large variations in the implementation of the economic programmes.

Oleh Havrylyshy and Thomas Wolf (1999) emphasised about the determinants of growth in transition countries. The success of the transition lies in controlling of inflation and liberalising the market. In general growth has been more vigorous and has managed to control to inflation. Success of transition requires the liberalisation of prices, financial sector, external trade and enterprise reform. Output has also increased rapidly through the opening the economy to outside influences and stimulating trade, and resulted in stimulating growth. According to World Bank and European Bank for Reconstruction and Development (ERBD), influence of output is key to the reform process. In the initial stage, the (decline) reforms period, the relationship between growth and reform traced a U-shaped curve. But, unless conditions for an efficiency seeking market economy are in place, investment alone is not going to provide sustainable growth. Any delay in the reforms process can defer the pain (no pain, no gain), since there is no royal road to reforms. In any economy, favourable initial conditions and the institutional development of legal framework play a crucial role in reform. However, results of this comprehensive study show that developing countries will have to pass through vicious and virtuous circles.
Justin You Lin (2004) Gregory W. Komodo has explored the evolution of China’s economic transition. Since 1989, this process has been accelerated due to the transformation of the East Central European economies and of the republic of the former Soviet Union. The former Soviet Republics, Russia and Ukraine, East Central European nations, including Poland, had gone through gradual process, when the ill advised “Shock without Therapy” had been adopted, with all the avoidable losses and pains. The successful transition in China has been due to the policy of systematic transition and policy of growth economic and also gradual policy approach. Also, China had learned from the erroneous and mismanaged Polish shock “therapy approach”. The experience of transition has produced many interesting contrasts to the experiences of transition in Eastern Europe and former Soviet Union (EEFSU). In the west, many countries favoured a big bang approach, which expected the transition in EEFSU to have a “J-curve” effect on economic growth. It resulted in raising the GDP and decline in inflation, but led to serious deterioration in other social indicators (World Bank 1960, 2002; Justin You Lin, 2004). In addition, there were experimental and bottom up reforms over the comprehensive and top-down big bang approach (Chen et al. 1992; Harrold, 1992; Tefferson and Rawsi, 1995; Mckinneon, 1994; Allmiclion and Naughton, 1992; Murrell 1991, 1992; Perkins, 1992; Rana, 1995; Singh, 1991; Justin Yifu Lin, 2004). The gradual approach in China has achieved dynamic growth to provide protection to enterprises and subsidised the non-viable enterprises. The EEFSU countries and China adopted different strategies in the stage of development. The Soviet type planning system was endogenous to the choice of a CAD (Comparative advantage defying) heavy industry oriented development strategy. On the other hand, China relied on three integrated components for the transition process: (i) Macro policy environment (ii) Planned allocation; and (iii) Traditional micro environment system. However, China also adopted a socialist ideology. It can be concluded that the above policies have been very useful for the development strategy and traditional socialist economic system.

Justin Yifu Lin, Fang Cai, and Zhou Li (2006) have examined “the lessons of China’s transition to a market economy”. The authors explore the issue of development strategy followed and what kind of measures were considered for the economic development. The beginning of transition is the most successful step in the transition economy (Lin et al., 1996). Some other economists argue that China's success demonstrates the two adopted top-down "shock therapy" approach that characterised the transition in Eastern Europe.
and the former Soviet Union (Jefferson and Rawski, 1995; Mckinnon, 1994; McMillan and Naughton, 1992; Singh 1991; Chen et al. 1992; Harold, 1992; Perkins 1992; Justin Yifu Lin, Fang Cai, and Zhou Li). China adopted a Heavy Industry-oriented Development Strategy (HIODS) in the early 1950's. The system had three integrated components, such as: (i) Distorted Macro policy environment, (ii) Planned allocation mechanism for credit; and (iii) Traditional micromanagement institution of state enterprises. The system was found to be very inefficient because of (a) Low allocation efficiency; and (b) Low technical efficiency. It resulted in low incentives to work for managers and workers.

China’s transition followed a logical process that is predictable from the theoretical model. The traditional economic system was replaced by HIODs in the country’s capital-rare economy. The fault in the earlier economic system was low economic efficient arising from structural imbalance and incentive problems. For correcting and developing the system, micro-management institutional reforms, resource allocation mechanism reform and macro policy environment reform were taken up. For instance, successes of China are in sharp to contrast to those in other Eastern Europe countries and former Soviet Union (Chen et al. 1992; Qian and Xu, 1993; Harold, 1992; McMillan and Naughton, 1992; Gelb et al. 19993; Mckinnon, 1994). It can be concluded that, initially, industrial sector, agricultural sector and decentralised regional economic factors are very strong in China. These reforms experience have promoted the successes in the transition process.

Vladimir Popov (2009) in his paper, on ‘lessons from the transition economics’ has asserted that many transition economies succeeded by pursuing policies that were so different from each other’s background. Three central European countries–Czech Republic, Hungary and Poland are acclaimed to be success stories of transition. The success is attributed to the eliminations of soft budget constraints. The developing countries should not embark blindly on market friendly policies/reforms. The reasons for successful transition economic policies are different from liberalisation, as can we seen from the economic success of central European countries. For instance, a) Optimal policies are context - dependent, they are specific for each stage of development, e.g., a successful economic policy in one country cannot always be fully replicated in another b) Even though countries may have the same level of development, reforms needed to stimulate growth are different; they depend on the previous history and on the path chosen; and c) Introducing this ‘missing ingredient’ should not result in the destruction of
other preconditions for growth. The skill of the policymaker lies in creating markets without causing government failure as was the case with CIS countries.

**Rita O. Koyame (2011)** discusses the transition experience of Czech Republic and Slovakia. The influencing factors for output growth include: background, initial conditions and reforms policies on both countries’ economies (Donnorumm, 2009). In both countries, inflation and recession were the main causes for liberalisation in early 1990. They studied the economic indicators, namely, GDP, Inflation, FDI, unemployment rate, public sector deficit/ surplus so on. The reforms policies in the two countries were heavily influenced by European Union (EU) membership requirements. In both countries, transition began at almost the same time but, both countries are now at different development of stages. World Bank (2002), insistence that broad reforms should includes design, sequencing and speed of implementation are still subject to debates. Economic reforms also encompass: Macroeconomic stabilisation, Price and trade liberalisation, imposition of hard budget constraints on banks and enterprises, privatisation, reforms of the tax system and restructuring of public expenditure, Legal and judicial reform, and Reform of public sector institutions. Consequently, both Czech Republic and Slovakia experienced a rise in income inequality during the transition period. They primarily focused on privatisation, liberalisation and macroeconomic stabilisation.

**Srinivasan (2004)** has studied the merchandise trade in both countries during the period 1983-2002. A more disaggregated picture emerges, in terms of the changes in policies in India and China of several labour-intensive sectors in the world. Bottelier (2003), points out that India’s service exports are growing at about double the rate of its merchandise exports, and if current trends continue total exports would exceed 50% in a decade. There is one services sector (IT), in which India has done much better than its counterpart in China. The India IT giants have won contracts despite competition with China’s financial sector, China’s software sector face the issue of lack of facility with the English language and shortage of experienced project managers. Moreover, India is also ahead of China in the pharmaceuticals sector. Lace and Kynge (2003), state that United National buys more than half of its vaccines from a private Indian company. The fact is that two sectors, namely, software and pharmaceuticals were leading in India due to human capital. These are the driving force to raise a fast-growth economy (Kripalani and Engardio, 2003). We can say that services exports have been the engine of economic growth of India. In sharp contrast, China’s growth has been accelerated by manufactured exports.
2.4. c. Inflation:

Stanley, Fischer, Ratna Sahay and Vegh, Carlos (1996) have gone into the stabilisation and growth experience in 26 transition economies in Eastern Europe, the former Soviet Union, and Mongolia during the period 1989-1994. Though the main intent is reducing a high inflation as a precondition for the revival of growth, lower fiscal deficits have led to lower inflation and increase in economic growth. We can conclude that an econometric analysis is necessary mainly on short-run determinants of growth and inflation. And also pegged exchange rate regimes (or) fixed exchange rate appear to be more effective in reducing inflation and raising the growth. However, structural reforms also play an importance role in reviving growth and reducing inflation.

C.P Chandhrasekhar & Jayati Ghosh (2008) bring out that in India, the reasons for increase in the current inflation are: high price a of food products, including cereals, and intermediaries like metals and oil. These, combined with the uncertainty in West Asia, resulting from the occupation of Iraq and standoff in Iran, have created a situation where any instability will have an adverse effect. IMF data shows that due to increase in prices of agricultural raw material, and other commodities in 2005, inflation almost doubled in the two year period in February 2008. Also, coal prices more than doubled last year, even faster than the oil price. Moreover, IMF data shows more than 40 per cent increase in world food prices over 2007. As a result, globally, the prices of many basic commodities have been rising faster than they ever did during the last three decades. Also, imbalances are growing between world supplies.

George R. Hogues, CFA, FRM, Global Equities (2008) has attempted to explain rising inflation and its effect on commodity prices. According to Ben Bernanke in a speech given in February 2004, the Great Moderation refers to the period between 1980 and 2004, due to the changes in US economic activity, consumption and inflation experienced a dramatic decrease in volatility. In recent year in Asia, inflation is accelerating because of rising prices of food, oil and other commodities as well as accommodative monetary policies.

Tustin Yifu Lin (2009) in book review of “Economics Development and Transition: Thoughts, Strategy, and Viability”, concluded that institutional framework for market economy reinforced the support for economic liberalisation and individual choice and allowed millions the choice to left themselves out of poverty. This book emphasis on
‘China’s development process and understanding the fundamental determinant of development and transition strategies’. East Asian economic were able to take advantage of their ‘back wardens’, only when they adopted a ‘Comparative Advantage Defying’ (CAD) strategy to ‘Comparative Advantage Following’ (CAF) strategy and opened their economies to foreign trade and investment. The Scotsman, Adam Smith, and Hayek explain the importance of freedom and the ability of markets of self-correct through myriad adjustments. Hong Kong is the fastest growing economy in the world because it has limited government and trade liberalisation and big market.

2.4. d. Exchange rates:

Yuqing Xing, Guanghua Won (2004) examined the role of exchange rates in the competition for FDI. The importance of exchange rates in determining FDI has been emphasised in literature (i.e, Froot and Stenin 1991; Klenin and Rosenger, 1994; Blonigen, 1997). Basically, devaluation in the currency of the receipt country reduces production costs, and increased the relative wealth of foreign country investors leading to an increase in FDI inflows. Consequently, if the currency of country appreciates more than that of its rival, its FDI inflows will decrease, while the competing country’s FDI will increase. The relative FDI of one country is determined by the relative changes in exchanges rate between its currency and that of the source country.

2.5. Research Gap

In this review of literature, a number of authors have made a comparison of the economic policies of India and China. But very few studies have discussed this from the transition economics perspective. The present study is mainly focused on ‘transition economic perspective’ on FDI and Trade progress of India and China. The study will also explain the role of FDI and trade from a transition economy perspective, for both China and India.