

# How important is foreign capital to income growth in China and India?\*\*\*

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## **Abstract**

*The picture often painted is that foreign capital inflows in China and India are prominently linked to rapid growth at the national level, and contribute to widening income disparities at the provincial/state level. In this paper we revisit Krugman's (1993) contention that foreign capital can hardly be considered an important income growth driver, when in most developing countries it only accounts for a fractional share of gross capital formation. In the case of contemporary China and India, the data suggests that Krugman's critique holds largely true, even in the coastal regions that are considered magnets for foreign investment. Thus, domestic factors, rather than the driving forces of globalization, appear to be the more important determinants of income growth in both countries.*

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