

## QUALITATIVE RESEARCH ON THE ROLE OF INSTITUTIONS REGARDING FDI: A CASE OF INDIA AND CHINA

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**Abstract.** Foreign Direct Investment (FDI) is a source of hard capital in the economy and a means of transferring technology and business skills. However, injecting capital into an inefficient economic system would not harvest the pursued results. This paper investigates the moderating role of institutional elements on FDI's effects on Gross Domestic Product (GDP) and employment with China and India as case studies. This paper utilizes two principal methodologies. First, applying institutional theories for the analysis of China and India, second, a qualitative analysis of experts' interviews on the moderating role of selected institutional elements on FDI's effects on GDP and EPR. The first methodology presents an in-depth analysis of China and India, highlighting selected institutional elements with the potential to influence FDI's effects. The qualitative analysis confirms the moderating role of the selected institutional elements with variations in direction and strength. The institutions of governance include the state organs' functionality, the efficiency of the legal system and enforcement of the rule of law, and the quality of implementation of FDI-supportive policies.

**Key words:** Institutions, FDI, GDP, China, India.

## КАЧЕСТВЕННОЕ ИССЛЕДОВАНИЕ РОЛИ ИНСТИТУТОВ В ОТНОШЕНИИ ПРЯМЫХ ИНОСТРАННЫХ ИНВЕСТИЦИЙ: НА ПРИМЕРЕ ИНДИИ И КИТАЯ

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**Аннотация.** Прямые иностранные инвестиции (ПИИ) являются источником оборотного капитала в экономике и средством передачи технологий и деловых навыков. Однако вливание капитала в неэффективную экономическую систему не привело бы к желаемым результатам. В данной статье исследуется сдерживающая роль институциональных элементов в воздействии ПИИ на Валовой внутренний продукт (ВВП) и занятость на примере Китая и Индии. В настоящем документе используются две основные методологии. Во-первых, применение институциональных теорий для анализа Китая и Индии, во-вторых, качественный анализ интервью экспертов о сдерживающей роли отдельных институциональных элементов в воздействии ПИИ на ВВП и ОРЭД. Первая методология представляет собой углубленный анализ Китая и Индии, выделяя отдельные институциональные элементы, которые потенциально могут повлиять на эффект ПИИ. Качественный анализ подтверждает сдерживающую роль выбранных институциональных элементов с различиями в направлении и силе. Институты управления включают функциональность государственных органов, эффективность правовой системы и обеспечение верховенства закона, а также качество реализации политики, способствующей привлечению прямых иностранных инвестиций.

**Ключевые слова:** Институты, ПИИ, ВВП, Китай, Индия.

## **Introduction**

Foreign Direct Investment (FDI) is the acquisition of an interest in a company by another company or an investor outside the country's borders (Scott, 2021). This paper revolves around the effect of FDI inflows on the Gross Domestic Product (GDP) and employment in China and India. This paper studies the role of institutions as moderating variables in the relationship between FDI and GDP and between FDI and employment to population ratio (EPR). The investigated period is from 1991 to 2020. The paper examines whether institutions hold an influence on the relationship, its direction (positive or negative), and its strength.

Several research efforts are dedicated to the analysis of the effects of FDI inflows on GDP (Agrawal & Khan, 2011; Chaudhury et al., 2020; Su & Zhiqiang, 2016) and employment (Mishra & Palit, 2020; Tsaurai, 2018; Zdravkovic et al., 2017) in the host economies. Significant variations in the conclusions of econometric research are detected concerning GDP (Haydaroglu, 2016; Herzer, 2010; Iamsiraroj & Ulubasoglu, 2015; Nadar, 2021) and concerning employment (Liu, 2011; Mucuk & Demirsel, 2013; Rizvi & Nishat, 2009; Wei, 2013). Hence, a concrete conclusion that could be generalized cannot be formulated. The variations in the conclusions signal

that other variables influence and moderate the effects of FDI on GDP and employment. Moreover, the econometric analysis could only provide descriptive conclusions on the relationships rather than explanatory conclusions. Consequently, this posits the need for a systematic study around complementary thinking and methodology to fill the gap and empower the analysis. Despite their influence on the host economies, institutional elements need more research attention.

The GDP is frequently examined and compared among economies to assess their performance and living standards. Generally, GDP growth is associated with the growth of income levels and increased demand for employment. GDP level is an indicator of the economy's health and a reference for policymakers and central banks on the required interventions (Callen, 2020; Fegan, 2022; Picardo & Boyle, 2021; Stobierski, 2021). Several researchers have considered the GDP level as the main variable of economic performance and economic growth (Hunjra et al., 2022; Misini & Badivuku-Pantina, 2017; Raju et al., 2018; Soytas & Sari, 2003; Bertoletti et al., 2022). FDI inflows have the potential to influence the GDP of the host economy. This paper investigates the relationship between FDI and GDP and how institutions impact this relationship.

The World Bank defines the employment-to-population ratio (EPR) as the "*proportion of a country's population that is employed*" (The World Bank, 2022c). The working-age population is the population aged 15 years and above. Employment features the supply of human resources (a factor of production) into the economy and the population's income. Income is a source of domestic demand for goods and services. Hence, employment levels contribute to economic activities and their growth. Socially, employment endorses living standards and facilitates the social welfare of the population (United States Institute of Peace, 2022). Simpson & Walters (2022) inferred that unemployment causes significant economic costs such as the rise of government payments and unemployment benefits. Accordingly, unemployment leads to decreased GDP levels and inefficient allocation of economic resources. A wide range of research investigated the behavior of employment levels and their management methods (Piton & Rycx, 2018; Falk et al., 2021; Korkmaz, 2020; Hjazeen et al., 2021; Nepram et al., 2021). Like GDP, employment may be influenced by FDI inflows into the economy. This paper explores the impact of institutions on FDI's effect on employment.

North (1991) defines institutions as man-made limits constraining social, political, and economic interactions. Institutions could be seen as systems and frameworks of rules. Institutions create order and reduce uncertainty in exchange. Institutions support defining the choice set in the economy and determining the transaction and production costs. Consequently, they influence the profitability and feasibility of economic activities. Institutions are the blueprints of an economy that construct engagement incentives. Institutions can lead the economy toward growth or stagnation (North, 1991, p. 97). When FDI is injected into an economy, it operates

and performs under the structures of the economy, which are managed by rules and constraints. This paper studies how these rules and constraints in China and India impact FDI's effects on GDP and employment.

China and India are two consequential emerging economies. They are part of the BRIC countries, believed to hold global dominance in supplying goods, services, and raw materials by 2050 (Majaski, 2020). China and India attract FDI based on their abundant economic resources and growing product markets. This paper investigates China and India simultaneously to provide a reference country in the analysis. Every country has its own unique sets of institutions and their corresponding constraints. The comparison of the results of the analysis between China and India increases the quality of the research, provides a better understanding of each country, and establishes the basis for constructing concrete conclusions on the influence of institutions on FDI's effects.

## Theoretical background

### *Institutions of China*

The indicators portraying the conditions of the institutions of governance are measured (ranked) by the World Justice Project. The data presented are China's global rank for 2021. (World Justice Project, 2021). The color-coding method<sup>1</sup> of the global rank of China (out of 139 countries) is green when below the 70th<sup>2</sup> rank and red at the 70th rank or higher.

***Table 1 – State organs' independence, functionality, and constraints in China***

Dimension	Main Indicator	China (2021) Global Rank <sup>3</sup>
State's organs' independence	<b>The civil system</b> is free of improper government influence	136/139
	<b>The criminal system</b> is free of improper government influence	126/139
State's organs' functionality	Government officials in the <b>Executive</b> branch do not use public office for private gain	49/139
	Government officials in the <b>Judicial</b> branch do not use public office for private gain	76/139
	Government officials in the <b>Legislative</b> branch do not use public office for private	41/139

<sup>1</sup> The color-coding method of a country's ranking by red or green is identical throughout the research paper. The middle rank would be the reference of the color coding (lower than the middle rank: green coding, at the middle rank and higher: red coding)

<sup>2</sup>  $N = 139$  countries, the middle rank =  $(139 + 1) / 2 = 70$ th rank

<sup>3</sup> Based on the World Justice Project ranking system (the 1st rank is the higher ranking (best relative performance), and the 139th rank reflects the lowest ranking (worst relative performance))

	gain	
Political power constraints	The Legislature effectively limit	
	s government powers 130/139	135/139
	The Judiciary effectively limits <b>government powers</b>	
Government powers are effectively limited by <b>Independent Auditing and Review</b>	97/139	

Source: World Justice Project, 2021.

Note: The middle rank is the reference of the color coding (lower than the middle rank: green coding; at the middle rank and higher: red coding).

Significant challenges in the dimensions of state organs' independence and political power constraints are noted in China. The state organs' functionality better ranking of the executive and legislative branch functionality (governmental officials do not use the public office for public gains) are recorded than government officials in the judicial branch. To sum up, the conditions of the institutions of governance (level 3 institutions) in China are critical.

Moreover, the conditions of property rights are reflected by the ranking indicators of registering property (Table 3) and government property expropriation without lawful process and adequate compensation (Table 4).

*Table 2 – Registering property in China*

Indicator	China (Global Rank 2020)
Registering Property	28/190

Source; The World Bank, 2020a, p. 4

*Table 3 – Government and property expropriation in China*

Indicator	China (Global Rank 2021)
The government does not expropriate without lawful process and adequate compensation	126/139

Source: World Justice Project, 2021

China ranks (28/190) in registering property, reflecting favorable conditions regarding property rights management. China ranks (126/139) in the "government does not expropriate without lawful process and adequate compensation" indicator, which reflects insecure property rights and the significant risk of unlawful government expropriation of property in China.

By overviewing the ranking of Doing business in China, especially the "enforcing contracts" dimension (out of 190 countries), a better perspective of the conditions of the institutions of governance (play of the game) is constructed.



**Figure 1 – China's Doing Business Indicators**

Source: The World Bank, 2020a, p. 4.

In general, doing business indicators' ranking<sup>4</sup> of China reflects favorable business conditions. China is the 5<sup>th</sup> in enforcing contracts, the 12<sup>th</sup> in getting electricity, the 27<sup>th</sup> in starting a business, the 28<sup>th</sup> in registering property, and the 33<sup>rd</sup> in dealing with construction permits. On the other hand, China recorded lower ranks in other dimensions, such as the 56<sup>th</sup> in trade across borders, the 80<sup>th</sup> in getting credit, and the 105<sup>th</sup> in paying taxes. (The World Bank, 2020a).

Civil Justice is another core dimension of the game's play in China. Civil justice could be reviewed in two folds: its functionality (low degree of corruption) and its translation on the ground (its enforcement). Table 4 previews the ranking of China on the two indicators in 2021.

**Table 4 – Civil Justice in China**

Indicator	China (Global Rank 2021)
Civil Justice is free of Corruption	93/139
Civil Justice is effectively enforced	42/139

Source: World Justice Project, 2021.

China has a high ranking in terms of civil justice and freedom from corruption. In terms of effective enforcement of civil justice, China scored a low ranking. These

<sup>4</sup> Based on the Doing Business Indicators Ranking system (the 1st rank is the higher ranking (best relative performance), and the 190th rank reflects the lowest ranking (worst relative performance))

results reflect the high limitations of civil justice based on the significant presence of corruption (which may be described as unfair/unjust). However, on the other hand, the legal system holds the power to enforce the "civil justice" rulings effectively.

### *Institutions of India*

The indicators portraying the conditions of the institutions of governance are measured (ranked) by the World Justice Project. The data presented are India's global rank for 2021.

***Table 5 – State organs' independence, functionality, and constraints in India***

Dimension	Main Indicator	India (2021) Global Rank
State's organs' independence	The civil system is free of improper government influence	54/139
	The criminal system is free of improper government influence	58/139
State's organs' functionality	Government officials in the Executive branch do not use public office for private gain	88/139
	Government officials in the Judicial branch do not use public office for private gain	89/139
	Government officials in the Legislative branch do not use public office for private gain	73/139
Political power constraints	The Legislature effectively limits government powers	36/139
	The Judiciary effectively limits government powers	46/139
	Government powers are effectively limited by Independent Auditing and Review	54/139

Source: World Justice Project, 2021

The condition in India is opposite to the conditions in China. In India, significant challenges in the three indicators of the dimension of the state's organs' functionality are noted. Government officials in the executive, judicial, and legislative are using the public office for private gains. On the other hand, India is performing well in the dimensions of state's organs' independence (both criminal and civil systems have freedom from improper government influence and political power constraints

(government power is effectively limited strongly by the legislative authority, followed by the Judiciary, then by the independent auditing and review agencies. To sum up, the conditions of the institutions of governance (level 3 institutions) of the state organs in India are favorable except in the dimension of functionality.

In addition, to better understand the conditions of property rights in India, the ranking indicators of registering property (Table 6) and government property expropriation without lawful process and adequate compensation (Table 7) are explored.

***Table 6 – Registering property in India***

Indicator	India (Global Rank 2020)
Registering Property	154/190

Source: The World Bank, 2020b, p. 4.

***Table 7 – Government and property expropriation in India***

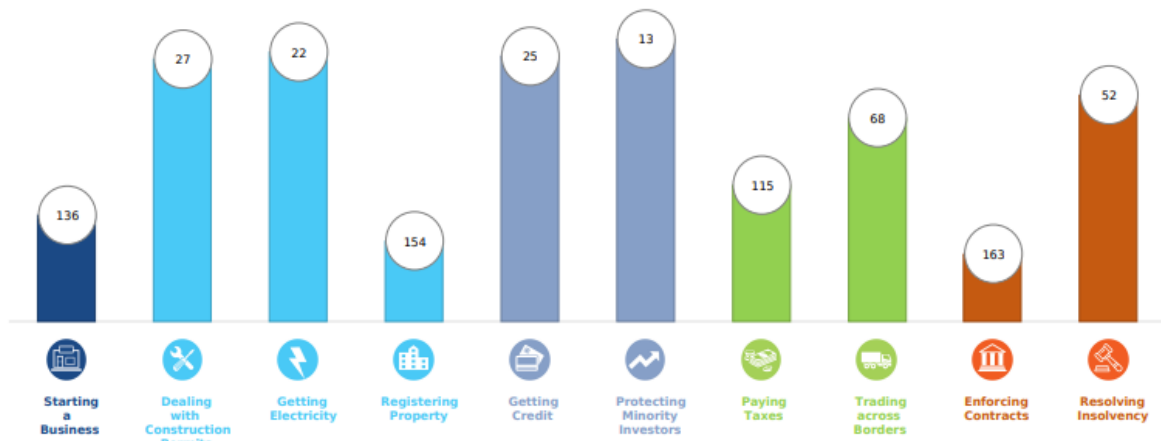
Indicator	India (Global Rank 2021)
The government does not expropriate without lawful process and adequate compensation	54/139

Source: World Justice Project, 2021.

India has somehow opposite conditions to the investigated two indicators. India ranks (154/190) in registering property. This high ranking reflects a critical challenge to property rights, as registering property is a core ownership element. On the other hand, India ranks (54/139) in the "government does not expropriate without lawful process and adequate compensation" indicator. This ranking reflects favorable conditions of constraints on the government regarding control of unlawful expropriation of property (by process and adequate compensation).

By overviewing the ranking of Doing business in India, especially the "enforcing contracts" dimension (out of 190 countries), a better perspective of the conditions of the institutions of governance (play of the game) is constructed.





**Figure 2 – India's Doing Business Indicators**

Source: The World Bank, 2020b, p. 4

In general, doing business indicators' ranking<sup>5</sup> of India reflects a combination of positive and adverse business conditions. India's highest score at protecting minority investors (13th), followed by getting electricity (22nd) and dealing with construction permits (27th) rank. On the other side, India's lowest ranking is in enforcing contracts (163rd), registering property (154th), and starting a business (136th) (The World Bank, 2020b). Critical conditions for enforcing contracts could be observed. This reflects significant challenges in the institutions of governance (the play of the game).

The conditions of enforcing contracts of a standardized case at the Mumbai City Civil Court in Mumbai, India, are presented in Table 10. The World Bank Indicator provides the average "OECD high-income countries" values as a reference point.

**Table 8 – Standardized Court Case Indicators in India**

Indicator	Mumbai City Civil Court (Standardized case, 2020)	OECD high-income (2020)
Cost (% of claim value)	31.0%	21.5%
Quality of judicial processes index (0-18)	7.1	11.7

Source: The World Bank, 2020b, p.96

By the relative cost (percentage of the claim value) and the quality index of the judicial processes, India performs worse than the average OECD high-income countries. Such indicators reflect the challenges of the court system in India and deficiencies in their contribution to empowering the economic exchange based on

<sup>5</sup> Based on the Doing Business Indicators Ranking system (the 1st rank is the higher ranking (best relative performance), and the 190th rank reflects the lowest ranking (worst relative performance))

formal laws and regulations. Moreover, these conditions reflect challenges in India's checks and balances system.

Civil Justice mirrors the conditions of the play of the game in India. Civil justice could be investigated by its freedom of corruption (functionality) and effective enforcement. Table 9 previews the ranking of India by the two indicators in 2021.

**Table 9 – Civil Justice in India**

Indicator	India (Global Rank 2021)
Civil Justice is free of Corruption	79/139
Civil Justice is effectively enforced	110/139

Source: World Justice Project, 2021

Regarding civil justice's freedom from corruption and enforcement, India has a high ranking. The indicators show a high limitation of civil justice in terms of corruption (which may be described as a low degree of fairness) and effectively enforcing the civil justice rulings.

### **Research question, methods of work, and research approach**

Based on the research gap and the objectives of this paper, two main research questions are constructed:

1. How do selected institutional elements and their conditions moderate FDI's effects on GDP and employment in China?
2. How do selected institutional elements and their conditions moderate FDI's effects on GDP and employment in India?

To answer the research questions, this paper adopts two main research methods:

1. Analysis of institutions in China and India based on institutional theories;
2. Qualitative analysis based on guided semi-structured experts' interviews about selected institutional elements in China and India and their moderating role on FDI's effects on GDP and employment.

The qualitative analysis aims to gather data and investigate the role of selected institutional elements in moderating FDI's effects on GDP and employment in China and India. Accordingly, guided semi-structured interviews are constructed to investigate the influence of institutions and "how" they moderate the effects of FDI on GDP and employment.

The sampling technique of the interviewees was the purposive sampling technique. Seven interviewees were deliberately and precisely selected. The main selection criterion was the interviewees' education, experience, and knowledge. The interviewees are professors and researchers in international trade, macroeconomics,

and institutional economics (or a related subject) with knowledge of the Chinese and Indian economies. During the interviewing phase, a challenge/limitation was encountered. The response rate of the purposely selected interviewees was low. This limitation was overcome by employing a parallel sampling technique, snowball sampling. The snowball sampling technique aims to provide access to potential interviewees and benefit from “gatekeepers’ networks” to increase the low response rate and time.

The selected institutional elements reflected the core reference in developing the interview questions. The questions embody two main types of questions: knowledge questions and opinion questions. The knowledge questions aim to gather facts and factual information on the investigated elements. The opinion questions intend to understand the cognitive and interpretive process of the interviewees on the explored element/relationship. The nature of the questions is specific and detail-oriented. The purpose of the questions is to precisely inspect the elements rather than collecting general knowledge.

## Results

Based on the qualitative data analysis, Table 11 presents the matrix of the qualitative analysis results in China, and Table 12 displays the matrix of the qualitative analysis results in India. Table 10 presents the key to the color-coding of the moderation role.

***Table 10 – Color-coding for the qualitative analysis results***

Color					
Moderation role	Positive moderation	Medium positive moderation	Weak positive moderation	No Moderation	Indecisive about the moderation
Color					
Moderation role	Negative moderation	Medium negative moderation	Weak negative moderation	Conditional moderation	No answer

Source: Own illustration of the authors.

Cells labeled "Positive" and "Negative" indicate that the moderation role acts on FDI's effects on GDP and employment. If the moderation role is on FDI's effects on either GDP or employment, it is indicated in the parenthesis as (GDP) or (EMP).

**Table 11 – Qualitative analysis’s results matrix – China**

Gover't policies	Rule of law	Property rights	Political power constraints	State organs’ functionality and independence	Form of state	Social embeddedness			The moderation role of institutional elements in China on FDI's effect on GDP and EMP
Positive	Positive	Negative	Positive	Positive	Positive	Weak positive	Expert 1		
Positive				Conditional	Conditional	Positive	Expert 2		
Positive	Positive	No negative	Positive	Positive	Positive	No Negative	Expert 3		
Positive	Positive	Conditional		Conditional	Positive	Positive	Expert 4		
Indecisive	Positive	Medium positive	Negative	Conditional	None	Positive	Expert 6		
Conditional	Negative	Negative	Negative	Conditional	Conditional	Negative	Expert 7		

Source: Own illustration of the authors

**Table 12 – Qualitative analysis’s results matrix – India**

Government policies	Rule of law	Property rights	Political power constraints	State organs’ functionality and independence	Form of state	Social embeddedness			The moderation role of institutional elements in India on FDI's effect on GDP and				
Negative	Medium positive	Positive	Weak positive	Medium Positive	Conditional	Medium negative	Expert 1						
Indecisive (EMP)	Medium positive (G)	No (EMP)	Indecisive (GDP)	No (EMP)	No negative (GDP)	No (EMP)	No positive (GDP)	No (EMP)	Limited (GDP)	None	None	Expert 2	

	DP)												EMP
Positive	Positive	No negative	Positive	Positive	No negative	No negative	Exper t 3						
Positive	Positive	Positive	Positive	Indecisive (EMP)	Positive (GDP)	Positive	Positive	Exper t 5					
Negative	Positive	Medium Positive	Negative	Weak positive	None	Positive	Exper t 6						
Conditional	Negative	Negative		Medium positive	Conditional	Negative	Exper t 7						

Source: Own illustration of the authors

### Discussion

The qualitative analysis concludes the presence of the moderation role of the selected institutional elements on the effects of FDI on GDP and employment in both China and India. The qualitative analysis results correspond to the findings of Wang et al. (2013), which conclude that the development of the host economy's institutions (particularly formal institutions) moderates FDI's impacts.

Regarding social embeddedness (level 1 institutions), three main themes arose. First, social networks in China and India support attracting FDI inflows and endorse the effects of FDI on GDP and employment. Second, efficient management of the social context of doing business in the host economy supports FDI's business operation and relationships, thus positively influencing FDI's effect. Thirdly, the increase in formalization and rationalization of the economy and the increase in the symmetry of information networks reduce the impacts of informal rules and their influence on business. The third theme aligns with North's (1991) theories of institutional innovations. Institutional innovations reinforce the complex, impersonal exchanges based on formal rules and laws.

Despite the significant variations in the elements of the institutional environment (level 1 institutions) and governance structure in China and India, such as the form of state (pluralism and distribution of power), the political power constraints, and the respective state organs' independence, the moderating role of institutions on FDI's effects are more significant based on variations among other institutional dimensions.

Significant variations in the moderating role are strongly related to the institutions of governance "play of the game" in the host economy. Core elements of the "play of the game" are the state organ's functionality, the efficiency of the legal system and enforcement of the rule of law, and the presence of FDI's supportive governmental policies and the ability for their implementation.

The deductions of the qualitative analysis correspond to the conclusions of published research. Arshad (2019) indicated that institutional quality and FDI endorse economic growth. Moreover, Arshad (2019) concluded that the institutional quality in low and middle-income countries (such as China and India) enhances FDI-led economic growth. Roy & Roy (2016) concluded that supportive institutional elements (government transparency, lower risk in operating business, independent judicial authority) positively impact economic growth in conjunction with FDI.

This paper achieves diverging conclusions from other research. Elkomy et al. (2015) findings demonstrate that political development in conjunction with authoritarian regimes, such as the Chinese, suppresses the FDI-led growth. The qualitative analysis of this research conveys that the nature of the authoritarian regime in China and the highly concentrated power of political actors reflects a governance structure in which supportive FDI policies are efficiently imposed. On the other hand, it was noted by several experts' interviews that the general official policy of the CPC, labeled as "FDI selective policies," constitutes the sectors in which FDI is allowed to operate and prosper, hence leading to higher effects on GDP and employment. Elkomy et al. (2015) also conclude that in higher degrees of democracies.<sup>6</sup> Political development supports the effect of FDI on growth. Similarly, the interviews emphasized the presence of supportive conditions and inefficiencies in the democratic system of India, which hold a diverse moderation role in FDI's effects.

The qualitative analysis revealed that a minimum degree of rule of law, political and economic stability, protection of property rights, and enforcement of business contracts are prerequisites to ensure the functionality of FDI and its positive effects on the host economy. Furthermore, having a democratic structure (highly pluralistic identity), a broad base distribution of power, and high political power constraints without functional supporting structures of laws, policies, and contract enforcement impedes the positive effects of FDI.

Protecting property rights is a cornerstone of the private enterprise system. However, when property rights are limited (such as in China) and having a concentrated state-owned sector, FDI can still perform and develop. On the other hand, in India, where property rights are relatively more protected, a higher confidence level in FDI inflows is observed. Thus, this leads to an increase in FDI's effects on GDP and employment.

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<sup>6</sup> India holds a higher democracy ranking than China but is considered a flawed democracy (Elkomy, 2015).

Governmental policies towards creating a highly skilled labor force (efficient educational system), well-functioning public services, developed infrastructure, supportive financial services, and FDI's favorable exchange rate and interest rate policies increase the absorption rate of FDI's positive effects on GDP and employment.

FDI is profit-oriented (lowering the costs and increasing the revenues). One of the main reasons for FDI inflows into emerging economies is the low costs of production (labor force, natural resources, etc.). Job creation and increasing the GDP levels are not the main aims of FDI. Management of GDP and employment are central targets of the government and policymakers in a country. Governmental policies (rules of the games, level 2 instructions) must implement policies that ensure both the convenience and attraction of FDI inflows and the positive effects of FDI on the economy (GDP) and the population (employment).

According to Acemoglu & Robinson (2012), the governance structure in China can be described as extractive political institutions, which catalyze the creation and persistence of extractive economic institutions. Acemoglu & Robinson's (2012) theory expresses that economic growth might occur (possibly) under extractive political institutions in two prominent cases. The first case is when resources are allocated to highly productive economic activities owned by the political power elites. This can be applied to the case of the Chinese growing state-owned concentrated economy. The second case is when semi-inclusive economic institutions can exist and perform. These intuitions are only allowed in cases where there are sufficient securities that the power of the extractive political institutions will not be negatively affected by the semi-inclusive economic institutions' growth. However, Acemoglu and Robinson (2012) express that sustainable long-term growth and creative destruction will not be accomplished in the two cases. Based on the analysis results, in the case of China, economic growth under extractive political institutions has been recorded throughout the past decades. In India, inclusive political institutions are present, but due to constraints and challenges in the functionality of inclusive institutions, the full potential of economic growth needs to be improved.

## **Conclusion**

China and India, throughout the research timeframe (1991 to 2020), recorded an increasing trend in GDP and a negative trend in the EPR. The research paper utilizes three primary methodologies: analysis of institutions in China and India based on institutional theories, quantitative analysis of correlation measurements, and qualitative analysis of experts' interviews.

The qualitative analysis of experts' interviews confirms a wide range of moderation roles of institutions on FDI's effects on GDP and employment. The moderation role of institutions varies among positive, negative, conditional, and

inconclusive. Furthermore, the strength of the moderation roles varies among average strength, medium, and weak.

This research paper acts as a cornerstone of in-depth future research into the following areas, for example, not limited to the role of selective-FDI & and constructive-conditional-FDI policies, the functionality of judicial authority controls, and FDI favorable exchange rates and interest rates policies.

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