Class XII Session 2026-27
Subject - Economics
Sample Question Paper - 9

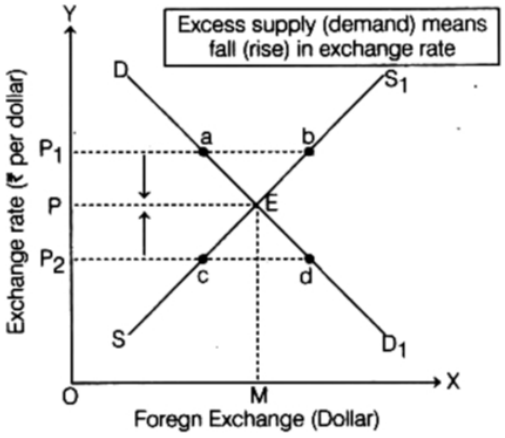
Time Allowed: 3 hours **Maximum Marks: 80**

General Instructions:

1. This question paper contains two sections:
   Section A – Macro Economics
   Section B – Indian Economic Development
2. This paper contains 20 Multiple Choice Questions type questions of 1 mark each.
3. This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.
4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

SECTION A – MACRO ECONOMICS

1. In the diagram below, at exchange rate OP_1, there is **[1]**



a) Excess demand
b) Excess supply
c) Either Excess demand and Excess supply
d) Equilibrium

2. The main aim of monetary policy is _____. **[1]**

a) employment generation in the country
b) to bring price stability in the economy
c) to generate greater tax revenue
d) to increase trade surplus

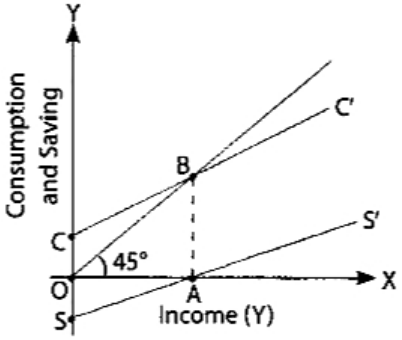
3. When aggregate demand is greater than the aggregate supply, inventories _____. **[1]**

a) first fall than rise
b) fall
c) do not change
d) rise

4. **Statement 1:** Balance of trade includes only visible items. **[1]**
Statement 2: Current Account records both visible and invisible items.

a) Statement 1 is true and Statement 2 is false.
b) Both the Statements are false.
c) Statement 2 is true and Statement 1 is false.
d) Both the Statements are true.

5. Average Propensity to Consume is _____ at point B and Average Propensity to Save is _____ at point A. **[1]**



a) 1, 0
b) 1, 1
c) 0, 1
d) 0, 0

6. Generally, the value of currency of a country is expressed in terms of _____. **[1]**

a) Euro
b) Pound Sterling
c) Japanese Yen
d) US Dollar

7. **Statement 1:** Average Propensity to Consume (APC) represents the change in total income with respect to a given change in total consumption. **[1]**
Statement 2: When income changes, change in consumption (ΔC) can never exceed the change in income (ΔY).

a) Both Statements 1 and 2 are false.
b) Both Statements 1 and 2 are true.
c) Statement 1 is true and Statement 2 is false.
d) Statement 1 is false and Statement 2 is true.

8. If in an economy, actual aggregate demand falls short of demand required to maintain the full employment level, such a situation would be known as _____. **[1]**

a) Excess demand
b) Full employment equilibrium
c) Deflationary gap
d) Inflationary gap

9. **Assertion (A):** Credit creation by Commercial Banks raises the money supply in the economy. **[1]**
Reason (R): In the credit creation process, Commercial Banks are able to distribute loans which are in far excess of the initial or Primary Deposits.

a) Both A and R are true and R is the
b) Both A and R are true but R is not

correct explanation of A.

the correct explanation of A.

c) A is true but R is false.

d) A is false but R is true.

10. Goods purchased for the following purpose are final goods: **[1]**

a) For production purpose

b) Both For satisfaction of wants and For investment in firm

c) For investment in firm

d) For satisfaction of wants

11. Distinguish between Current Account Deficit (CAD) and Current Account Surplus (CAS). **[3]**

12. If nominal income is ₹ 500 and price index is 125, calculate real income. **[3]**

OR

If the Gross Domestic Product at current prices is ₹ 6,600 crore and GDP deflator is 110, calculate the Real Gross Domestic Product.

13. Define Inflationary Gap. State how the Central Bank of an economy can control the situation of inflationary gap, using any monetary policy measure. **[4]**

OR

An economy is in equilibrium. From the following data, calculate the value of Autonomous Consumption.

National Income = ₹ 5,000 crore

Marginal Propensity to Save (MPS) = 0.2

Investment Expenditure = ₹ 800 crore

14. Discuss briefly, how the government can control the situation of deflation using the following: **[4]**

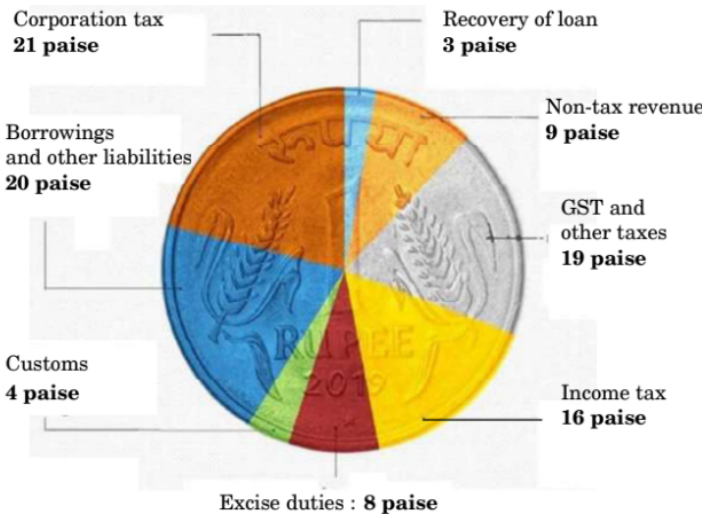
a. Taxation Policy

b. Government Expenditure Policy

15. i. From the information given in the diagram, categorize the items into revenue receipts and capital receipts, stating valid reasons. **[4]**

WHERE INDIA GETS ITS MONEY FROM?

For every ₹ 1 that the Govt. earns



ii. Distinguish between Revenue deficit and Fiscal deficit.

16. **Answer question (A) or (B) the following:** **[6]**

i. **Answer the following questions:** **[3]**

i. Calculate Domestic Income (NDP_{FC}) from the data given below:

S. No.	Particulars	Amount (in ₹ lakh)
(i)	Gross National Product at market price	2,500
(ii)	Consumption of fixed capital	200
(iii)	Goods and Services Tax	20
(iv)	Subsidies	50
(v)	Net Factor Income from Abroad	50
(vi)	Changes in Stocks	30
(vii)	Unexpected loss of a fixed asset	500

ii. **Increase in domestic income always leads to an increase in national income.** Do you agree with the given statement? Support your answer with valid example.

ii. **Answer the following questions:** **[4]**

i. Giving reason state how the given is treated in the estimation of national income: Purchase of tractor by a farmer/Purchase of taxi by a taxi driver/Purchase of a truck to carry goods by a firm.

ii. Suppose the Gross Domestic Product (GDP) of Nation X was ₹ 2,000 crores in 2018-19, whereas the Gross Domestic Product of Nation Y in the same year was ₹ 120,000 crores. If the Gross Domestic Product of Nation X rises to ₹ 4,000 crores in 2019-20 and the Gross Domestic Product of Nation Y rises to ₹ 200,000 crores in 2019-20. Compare the rate of change of GDP of Nations X and Y, taking 2018-19 as base year.

17. Read the following text carefully: **[6]**

"After setting up a working group to study the possibility of a Central Bank Digital Currency (CBDC) in India in 2020, the RBI revealed a concept note on digital rupee (e-Rupee) on 7th October, 2022."

"The e-Rupee will provide an additional option to the currency available forms of money. It is substantially not different from bank notes, but being digital it is likely to be easier, faster and cheaper."

RBI said that it broadly defines CBDC as the legal tender issued by a central bank in a digital form. It is akin to paper currency in a different form.

On the basis of the above text and common understanding, answer the following questions:

a. Identify and discuss the function of central bank indicated above text. (3)

b. State any two advantages of digital rupee. (3)

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18. In _____, first **Industrial Policy Resolution** of Independent India was announced. **[1]**

a) 1956 b) 1947

c) 1951 d) 1948

19. _____ measure introduced in China led to the decline in its population as well as sex ratio. **[1]**

a) One-child norm b) Nationalisation of capital goods

c) Denationalisation of capital goods d) Two-child norm

20. From the following alternatives, identify the correct full form of **NITI** in NITI Aayog: **[1]**

a) National Institution for Tribal India b) National Institution for Transforming India

c) National Institution for Technical India d) National Institution for Training India

21. **Assertion (A):** Goods and Services Tax (GST) was implemented by the Government of India on 8th November, 2016. **[1]**

Reason (R): GST was introduced to implement a unified indirect tax system in India.

a) Both A and R are true and R is the correct explanation of A. b) Both A and R are true but R is not the correct explanation of A.

c) A is true but R is false. d) A is false but R is true.

22. The Government of India enacted the **Right to Education** as a fundamental right for all children in the age group of _____ years. **[1]**

a) 6 - 12 b) 5 - 13

c) 5 - 14 d) 6 - 14

23. Which is the apex institute at the national level which provides re-finance facilities to institutions engaged in providing rural credit? **[1]**



a) NABARD b) DABARD

c) NBAARD d) NABADR

24. The size of population is comparatively very small in Pakistan just about ____ of China **[1]**

a) 1/5th b) 1/2th

c) 1/10th d) 1/15th

25. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I. **[1]**

Column I	Column II
(a) Launch of First Five Year Plan	(i) 1950
(b) Setting up of Planning Commission	(ii) 1955
(c) First Industrial Policy Resolution	(iii) 1948
(d) Karve Committee	(iv) 1951

a) (iv), (iii), (i), (ii) b) (iii), (lv), (i), (ii)

c) (iv), (i), (iii), (ii) d) (iv), (ii), (iii), (i)

26. A UN Conference on Climate Change, held in Kyoto, Japan, in 1997, resulted in an international agreement to fight _____ which called for reductions in emissions of greenhouse gases by industrialised nations. **[1]**

a) Air pollution b) Global warming

c) Ozone depletion d) Rising population

27. **Statement 1:** The British policies led to huge employment generation in the secondary and tertiary sectors of the Indian Economy. **[1]**

Statement 2: The real motive of the colonial government's infrastructural development was to benefit interests of India.

a) Statement 1 is false and Statement 2 is true. b) Both Statements 1 and 2 are false.

c) Statement 1 is true and Statement 2 is false. d) Both Statements 1 and 2 are true.

28. Explain the reasons behind less number of regular salaried employees in rural areas as compared to urban areas. **[3]**

29. Is environmental crisis a recent phenomenon? If so, why? **[3]**

OR

State any two harmful effects of using chemical fertilizers.

30. Elaborate how the economic reforms process of India impacted the following: **[4]**

i. Agriculture sector

ii. Industrial sector

OR

India is often called the **Outsourcing Destination** of the world. Discuss the prime reasons for this name given to India.

31. Discuss briefly the rationale behind implementation of land reforms in the post-independence era. **[4]**

[4]

32. 

Consider an image of solar panels installed in a rural area.

i. Identify the resource type being used.

ii. Write one advantage and one challenge of adopting this resource for sustainable development.

33. **Answer question (A) or (B) the following:** **[6]**

i. **Answer the following questions:** **[3]**

i. What are the advantages of organic farming?

ii. Discuss briefly, why agricultural diversification is essential for sustainable livelihoods.

ii. **Answer the following questions:** **[3]**

i. Define the concept of micro-credit.

ii. Why is agricultural diversification essential for sustainable livelihoods?

34. **Read the following text carefully and answer the questions given below:** **[6]**

Foreign direct investment

Unlike India, FDI makes China a global player. In 2000, in cumulative terms, China was world's fifth-largest recipient of FDI, after the United States (USD1.3 trillion), the United Kingdom (USD497 billion), Benelux Economic Union states (USD482 billion) and Germany (USD480 billion). But for 2004, China was to clock the second largest FDI inflow of USD62 billion—next only to the United States which makes this FDI inflows the most critical as also most visible indicator of its sustained and rapid economic development. Even India is expected to emerge as the next hot spot for FDI inflows. Amongst others, the UNCTAD-DITE Global Investments Prospects Assessment 2004, estimates for 2004-2007 put China and India at the top two ranks followed by the US as third. This, however, remains rather ambitious, especially for India. Even for China, while it is expected to continue to leapfrog, it is likely to stay at its second position and may not surpass the US for a very long time.

But there are indicators that FDI inflows to China (even India) will continue unhindered. For example, China today accounts for over 10% of US foreign trade destinations and China owns USD167 billion of US securities issued by the Federal Government. During the year 2000, the total US corporate revenue generated from China was USD7.2 billion, compared to USD4.6 billion from Mexico, USD3.5 billion from Singapore, and USD1.85 billion from Brazil. Though China faced some phases when FDI had gone down yet it has gradually witnessed rise from USD2.7 billion for

1984 to USD62 billion by 2004, largely staying within the range of USD45 to USD60 billion on an average year.

By comparison, India's FDI has been generally sluggish and, for the early 1990s India's contracted FDI stood at USD0.15 billion for 1991, USD0.23 billion for 1992, USD0.57 billion for 1993, USD0.95 billion for 1994, and USD1.96 billion for 1995. But from there, India's FDI has experiences some acceleration and rose to USD3.4 billon for 2002 and USD4.3 billion for 2003; and some experts also question calculation methods and suspect underplaying of India's FDI statistics. For year 2004, India's FDI was estimated to exceed a rather impressive USD8 billion. And, given this new enthusiasm of the United Progressive Alliance, the government has been talking of absorbing an FDI of USD15 billion for 2005 and USD30 billion for 2007 to reach a total of USD150 billion of fresh FDI in next ten years.

Among the reasons cited to explain India lagging behind, is the argument that China had decided to open up to FDI back in 1979 and created special economic zones (SEZs) in coastal regions that had the clear advantage of geographical proximity to Hong Kong—the hub of capital investment in Asia —, and that China had the added advantage of its political system, cheap labour and special incentives for foreign investors as for its armed forces which were to become major players in China's opening up experiments. Also important is overseas Chinese contributions. Non-resident Indians and overseas Chinese have been distinct categories in FDI inflows into their respective homelands. Beginning only from the early 1990s, while non-resident Indians do contribute a little to India's FDI, overseas Chinese are known to present a unique example by contributing over two-thirds of the whopping inflows of FDI into China.

Questions:

i. Discuss the reason for India's FDI being sluggish compared to that of China. (3)

ii. Analyse the growth of the Chinese Economy focusing on the role of SEZs towards boosting FDI. (3)

Solution

SECTION A – MACRO ECONOMICS

1.

(b) Excess supply
Explanation:
At exchange rate OP, there is more supply of foreign currency than demand, this represents the situation of excess supply.

2.

(b) to bring price stability in the economy
Explanation:
to bring price stability in the economy

3.

(b) fall
Explanation:
If AD > AS then inventory fall.

4.

(d) Both the Statements are true.
Explanation:
Both the Statements are true.

5. **(a)** 1, 0
Explanation:
1, 0

6.

(d) US Dollar
Explanation:
Under fixed exchange rate, the most used currency for pegging was US Dollar.

7.

(d) Statement 1 is false and Statement 2 is true.
Explanation:
Statement 1 is false and Statement 2 is true.

8.

(c) Deflationary gap
Explanation:
Deflationary gap

9. **(a)** Both A and R are true and R is the correct explanation of A.
Explanation:
Both A and R are true and R is the correct explanation of A.

10. **(b)** Both For satisfaction of wants and For investment in firm
Explanation:
Both For satisfaction of wants and For investment in firm

11.

Basis	CAS	CAD
Meaning	It shows the excess of goods exported over goods imported.	It shows the excess of goods imported over goods exported.
Effect	It result in inflow of foreign exchange.	It result in outflow of foreign exchange.
Favourable/ Unfavourable	It is favourable.	It is unfavourable.

12. Real national income = $\frac{\text{Nominal national income}}{\text{price index}} \times 100$
Real national income = $\frac{500}{125} \times 100 = 400$

OR

Real GDP = $\frac{\text{Nominal GDP}}{CYI} \times 100$
So, Real GDP = $\frac{6600}{110} \times 100$
It is equal to ₹ 6000 crore

13. Inflationary gap is measured as the difference between AD beyond full employment and AD at full employment. Excess demand causes inflationary gap in the economy. In a situation of excess demand, level of output does not rise because factors are already fully employed.
Monetary policy deals with the control of liquidity or flow of credit in the market with a view to managing inflationary or deflationary gaps in the economy. Reverse repo rate is raised by the RBI to control inflationary gap. This induces commercial banks to park their surplus funds with the RBI. Accordingly, lesser funds are used as CRR deposits for the creation of credit. Availability of credit is reduced. It leads to a cut in AD. Hence, inflationary gap is curbed.

OR

Calculation of Autonomous Consumption:
It is given that
1. Marginal Propensity to Save (MPS) = 0.2
2. Investment Expenditure = 800
3. Income (Y) = 5,000

We know that,
MPS + MPC = 1,
On substituting MPS = 0.2, we get
MPC or b = 1 -0.2 = 0.8
Since an economy is the equilibrium situation,
Savings = Investment.
Savings = 800
Now, Income = Consumption + Savings
5,000 =$\overline{C}$ + b 5,000 + 800,
where
$\overline{C}$ = Autonomous consumption and
b = MPC

5,000 - 800= $\overline{C}$ + 0.8 × 5,000

4,200= $\overline{C}$ + 4,000

$\overline{C}$ = 4,200 - 4,000 = 200

∴ **Autonomous Consumption in the economy = ₹ 200**

14. a. **Taxation Policy:** To control deflation, the government may reduce the tax rates. This step may increase the disposable income (purchasing power) in the hands of the general public. Consequently, it may lead to a rise in Aggregate Demand, thereby controlling the situation of deflation.

    b. **Government Expenditure Policy:** To control deflation, the government may raise public expenditure. This step may result in an increase in the level of Aggregate Demand in the economy by raising the income of people.

15. i. **Revenue receipts:** Corporation tax, Customs, Income tax, Non-tax revenue, GST and other taxes, Excise duties. Reason: Revenue receipts neither leads to decrease in assets nor increase in liabilities.
    Capital receipts: Borrowing and other liabilities, Recovery of loan.
    Reason: Capital receipts either leads to decrease in assets or increase in liabilities.

    ii. The revenue deficit refers to the excess of estimated revenue expenditure over the estimated revenue receipts of the government, during a fiscal year.
    Whereas;
    Fiscal deficit is the excess of the total estimated expenditure over its total estimated receipts excluding borrowings of the government, during a fiscal year.

16. Answer question (A) or (B) the following:

    (a) Answer the following questions:

    i. Domestic Income $(NDP_{FC}) = (i) - (ii) - (v) - \{(iii) - (iv)\}$
    $= 2,500 - 200 - 50 - \{20 - 50\}$
    $= ₹2,280 \text{ lakh}$

    ii. No, it is not always necessary that an increase in domestic income leads to an increase in national income.
    We know that: **National Income = Domestic Income + Net Factor Income from Abroad**
    The following data justifies the above-mentioned condition:

Year	**2018-19**	**2019-20**	**Net Change**
Domestic Income	160	200	Increases by ₹ 40 crores
Net Factor Income from Abroad	60	15	Decreases by ₹ 45 crores
National Income	120	215	Decreases by ₹ 5 crores

    In the above example, in spite of the rise in the domestic income, the national income is falling by ₹ 5 crores.

    (b) Answer the following questions:

    i. Yes, it is included in national income because it is a part of the gross domestic capital formation or final investment expenditure.

    ii. The rate of change of GDP of Nations X and Y, taking 2018-19 as base year is as follows:

Output	**2018-19**	**2019-20**	Growth Rate of GDP $= \frac{\text{Change in GDP}}{\text{Base year GDP}} \times 100$ **(Base year = 2018-19)**
100	₹ 2,000 crores	₹ 4,000 crores	$= \frac{2000}{2000} \times 100 = 100\%$

110	₹ 1,20,000 crores	₹ 2,00,000 crores	$= \frac{80,000}{1,20,000} \times 100 = 66.67\%$

Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth rate of 66.67%.

17. a. The function being discussed here is the Bank of issue or Currency Authority. In India, the Central bank has the sole authority for issuing currency in the economy. This ensures uniformity in the issue of currency and it gives the central bank, control over the money supply.

b. Two advantages of Digital Rupee:

- Easier
- Cheaper
- Faster

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18.

(d) 1948
Explanation:
1948

19. **(a)** One-child norm
Explanation:
One-child norm

20.

(b) National Institution for Transforming India
Explanation:
National Institution for Transforming India

21.

(d) A is false but R is true.
Explanation:
A is false but R is true.

22.

(d) 6 - 14
Explanation:
6 - 14

23. **(a)** NABARD
Explanation:
National Bank for Agriculture and Rural Development bank has been entrusted with matters concerning policy, planning and operations in the field of credit for agricultural and other economic activities in rural areas in India.

24.

(c) 1/10th
Explanation:
The current population of Pakistan is 197,098,396 , based on the latest United Nations estimates. Pakistan population is equivalent to 2.62% of the total world population.Pakistan ranks number 6 in the list of countries (and dependencies) by population. China ranks number 1 in the countries.

25.

(c) (iv), (i), (iii), (ii)
Explanation:
(iv), (i), (iii), (ii)

26.

(b) Global warming
Explanation:
Global warming

27.

(b) Both Statements 1 and 2 are false.
Explanation:
Both Statements 1 and 2 are false.

28. In India, rural areas have lesser number of regular salaried employees compared to the urban areas, as:
    - most of the rural workforce is involved directly/indirectly in their farm and other allied activities.
    - regular salaried employment opportunities require skills and qualifications, which are generally not accessible to the rural population.
29. Yes, the environmental crisis is a very recent phenomenon. The sparks of such crisis were never visible in the past. In recent years, the population has increased. It has increased demand for natural resources while the supply of natural resources is fixed. It creates excess demand and exerts pressure on natural resources. Consequently, the mounting pressure on the carrying capacity of the environment is paving the way for environmental crises.

    OR

    Harmful effects of using chemical fertilizers are:
    a. Excessive use of fertilizers causes severe land degradation.
    b. Fertilizers flow in to the river and causes water pollution.
30. a. The agricultural sector was adversely affected by the reform process due to reduction in the public investment in agriculture sector especially in infrastructure. Furthermore, the partial removal of fertiliser subsidy had led to increase in the cost of production, which had severely affected the small and marginal farmers.
    b. Industrial sector performed poorly in the reform period as the demand for domestic industrial products decreased due to reasons like cheaper imports, etc. Moreover, the infrastructure facilities including power supply, remained inadequate due to lack of public investment.

    OR

    Reasons for India as an outsourcing destination:
    i. Availability of skilled manpower- India has vast skilled manpower which enhances the faith of MNCs.
    ii. Favourable Government policies- MNCs get various types of lucrative offers from the Indian government such as tax holidays, tax concessions, etc.
    iii. Availability of cheap labour in India.
31. After independence the government of India took several institutional/land reforms to ensure transformation of Indian agriculture, such as:
    i. Land ceiling - It ensured reduction of concentration of land ownership in few hands. it serves the purpose of goal of the government such as growth with social justice or equitable distribution.
    ii. Abolition of Zamindari system - It focused on elimination of farmers' exploitation and promotion of agricultural growth.

These reforms have led to stability of farming as an occupation and promoted equity.

32. i. The resource is solar energy, a renewable energy source.
    ii. Advantage: Provides clean, inexhaustible energy reducing dependence on fossil fuels.
    Challenge: High initial cost and variability due to sunlight availability.

33. Answer question (A) or (B) the following:

(a) Answer the following questions:

i. Following are the mentioned below advantages of Organic Farming.
· Farmers can reduce their production costs because they do not need to buy expensive chemicals and fertilizers.
· Healthier farm workers.
· They improve plant growth and physiological activities of plants.
· In the long term, organic farms save energy and protect the environment.
· There is an increasing consumer are willing to pay more for organic foods.
· More animals and plants can live in the same place in a natural way. This is called biodiversity.
· Pollution of ground water is stopped.
· They reduce the need for purchased inputs

ii. Agricultural diversification is essential for sustainable livelihoods as the need for diversification arises from the fact that there is a greater risk in depending exclusively on farming for livelihood. Expansion into other related sectors is desirable to provide supplementary gainful employment and in realising higher levels of income for rural people. Hence, there is a need to diversify through focus on allied activities, non-farm employment and other emerging alternatives of livelihood providing sustainable livelihoods in rural areas.

(b) Answer the following questions:

i. Micro-credit refers to loans to rural poor who have no sustainable access to the formal banking system.

ii. The agricultural diversification implies diversification of crop production and shifting of agricultural workforce to other allied activities such as livestock, poultry, fisheries, etc and non-agricultural sector. Diversification of crops implies production of a diverse variety of crops rather than 1 specialised crop. Diversification is essential because there is greater risk in depending exclusively on farming for a livelihood and to provide productive sustainable livelihood options to rural people. Most of the agricultural employment activities are concentrated in the Kharif season while during the Rabi season it becomes difficult to find gainful employment in areas lacking in irrigation facilities.
Therefore, expansion into other sectors is essential to provide supplementary gainful employment and in realising higher levels of income for rural people to overcome poverty and other problems. A substantial portion of Indian farming is dependent on the vagaries of monsoon, making it a risky affair to rely upon solely. Accordingly, the need for diversification is required to enable the farmers to earn from other alternative non-farm occupations. Also, agriculture being overcrowded cannot further generate employment opportunities. Therefore, the prospects of the non-farm sectors should be opened up in rural areas to provide job opportunities This lessens the excess burden on agriculture by reducing disguised unemployment.

34. i. Unlike India, China is a global player in the FDI market. Whereas India's FDI has been generally sluggish till the early 1990s but later in the 21st century improved. In 2000, China was the world's fifth-largest recipient of FDI. The possible reasons for this difference are:
    a. The Chinese reform process began more strongly and comprehensively during the 1980s when India was in a mid-stream of a rather slow growth process.
    b. The global exposure of the Chinese economy had been far wider than the Indian economy.

ii. China had been introducing economic reforms in phases. In the initial phase, reforms were initiated in the agriculture, foreign trade, and investment sectors. In the later phase, reforms were initiated in the industrial sector. To attract foreign investors, special economic zones (SEZs) were set up. These SEZs were judiciously set up in coastal regions for its advantage of geographical proximity to Hong Kong—the hub of capital investment in Asia. China also has an upper hand in its political system, cheap labour, and special incentives for foreign investors. Besides, the overseas Chinese contribute over two-thirds of the inflows of FDI into the Chinese economy.