

CHAPTER 1: INTRODUCTION

1.1 Introduction

In the current globalised era, among the various intricacies of global economic dynamics, Foreign Direct Investment (FDI) plays a pivotal role, shaping the destinies of nations and influencing the course of their development. As capital transcends borders, it carries with it not only monetary investments but also the potential to redefine industries, stimulate innovation, and carve new pathways for prosperity. In this thesis, we embark on a journey into the realms of FDI, unravelling its complexities and dissecting its cause and impact on the economic landscapes of India and China—a comparative analysis that unveils the intertwined narratives of growth, policy, and opportunity.

1.1.1 Backdrop of Foreign Direct Investment

As per Koluman Law (2020), the evidences of FDI can be traced back in 1500 BC by Phoenician civilization in Israel and Palestine. They established outposts and sold wood and textile, manufactured in their hometown. After a few centuries a key link between Europe and Asia was established in the form of silk road trading routes. In the early 15th century, the economic relationship between Europe, India and China started escalating. In the year 1602, the Dutch East India company was established to carry out economic activities in Indonesia. It can be called as the first multinational corporation of the world. Later, the Portuguese started establishing colonies in India and Africa, Britain and France established colonies in North America where fur trapping was profitable. In the eighteenth and nineteenth centuries, investments were unilateral from imperialist states to colonial states to acquire natural resources. This practice was followed by mainly European economies to invest in lesser developed economies in acquire cheap resources.

In the 20th century, electricity in Brazil, telecommunication in Spain started developing through FDI as a part of development of world infrastructure. During the 20th century, United Kingdom was the largest source of FDI in the world, followed by the USA and Germany. Foreign investments during the era, were efficiency seeking and strategic asset seeking which were prominent in developing economies like Mauritius which attracted considerable number of foreign investments.

In the 1970s, developing economies witnessed inflation which persuaded the developing economies to tighten their FDI policy restrictions and the same discouraged foreign enterprises to invest in developing economies. The economic stagnation continued till 1980s; however, in late 1980s, the foreign investments towards developing economies started escalating because of structural adjustments programs to reorient economies towards private sector, and international trade which involves measures such as reducing tariffs, and liberalizing business environment.

However, the composition of FDI evolved during 1990s as foreign investors were inclined towards developed economies to park their funds. The gap in the numbers of foreign investments between developed and developing economies was negligible till 1997 but started widening after 1997 and the trend extended till 2000 as multinationals favoured developed economies where the business environment was perceived to more stable and conducive to investment (UNCTAD Database).

1.1.2 Context of the Present Study

The present study titled "Foreign Direct Investment: A Comparative Analysis of India and China" is situated within the broader context of global economic trends and the significance of India and China as key players of the world economy. A remarkable economic growth has been experienced by India and China. Along with this, they have attracted substantial FDI in the past decades. This research seeks to delve deeply into the specific trends, patterns, factors, policies, and outcomes that have shaped FDI flows in India and China, providing a nuanced understanding of how these two diverse nations have navigated the complexities of inward and outward FDI. Also, the UN 2030 Agenda for Sustainable Development in 2015 recognised that FDI, when channelled effectively, can act as a powerful driver of sustainable development. Both nations are substantial recipients of inward FDI, making them vital players in shaping the impact of international capital on sustainable development. This study also attempts to draw critical insights from analysing how FDI flows contributes or challenges SDG in these diverse and dynamic contexts. An attempt has been made to highlight the distinct strategies and challenges associated with FDI in these dynamic Asian economies in addition to providing recommendations for investment decisions in the region. This study intends to conduct a comparative analysis and provide insightful information to academia, policymakers, and investors alike.

a) *India*

Economies like India depends on FDI flows for several reasons. This includes the technological development, fiscal stability, increased global competitiveness in addition to diversification and enhanced foreign exchange reserves, all of which improve macroeconomic indices. India had a serious Balance of Payments crisis in 1991, but it was unable to stop inflation by printing new currency notes or avoid a debt crisis by taking on large amounts of foreign borrowing. To address this issue, the Indian government decided to integrate the country's economy deeply with the world economy and started major economic policy reforms in 1991. Even though foreign investments in India started in the 1970s, there were obstacles in several areas. India first welcomed FDI in 1991, and since 1995, inward FDI has increased. However, there has been a considerable change in the patterns of inward FDI in India since 2005 as Singapore, and Mauritius emerged as highest contributors surpassing economies like United Kingdom and the USA. India witnessed an elevation in FDI from 2000 to 2016. However, for the next two years FDI flows decreased and again jumped back in the next years. Attributed to factors, including the intensity of the pandemic, in countries like China and Brazil and higher investments, in the pharmaceutical industry to fight against COVID- 19.

India's primary focus until 2005, revolved around attracting investment into its domestic economy. However Indian companies began the expansion of their investments after 2005. They made large investments in various industries, including information technology, pharmaceuticals, wholesale and retail trade, transportation, and manufacturing, in nations like the USA, the United Kingdom, Singapore, and Malaysia.

Prior to the year 2000, most of the Indian outward FDI was solely focused on resource seeking. Nevertheless, post-2000 there are significant changes in the economic landscape as Indian multinationals focused more and more on market-seeking outward FDI along with resource seeking outward FDI. The overall pattern demonstrated a notable shift in investment flows in the direction of opportunities found in the market (Pradhan, 2017).

b) *China*

China's centrally managed economy was in economic stagnation prior to 1979. Several challenges, including resource scarcity, poverty, inequality, and a severe foreign exchange crisis, compelled China to seek inward FDI to earn foreign exchange. Consequently, China adopted an export-led growth strategy, considering FDI a pivotal catalyst. In 1979, Deng Xiaopin, under his leadership introduced economic reforms in China and opened its doors to foreign investment. Their policy focused on reduction of state control on enterprises and encouraged them to collaborate with multinational corporations that were global leaders in their respective sectors. It is noteworthy that China's approval of FDI was often based on the incentives it offered to the industrial sector, especially before its joining to the WTO. In the 1980s, equity joint ventures with foreign entities gained prominence in China, requiring them to demonstrate economic benefits. In 2006, there was a notable increase in cross-border mergers and acquisitions. China witnessed substantial growth in inward FDI from 2005 to 2011 (Sweeney, 2010). The structure of inward FDI in China post 2000 became more diversified since European economies, and Australia started investing in China. Post 2000, there was a shift in Chinese investment from purely manufacturing sector investments to green field investments, investments in R&D, telecommunications, and biotechnology.

China's outward FDI began to surge in the mid-2000s. Prior to this, outward FDI was limited and primarily focused on Hong Kong, Taiwan, and other Asian nations. These early investments were predominantly resource-seeking and often guided by the Chinese government. However, in the mid-2000s, China's investment landscape underwent a significant transformation. Chinese FDI expanded to encompass a broader range of economies, both developed and developing. The private sector played an increasingly prominent role in driving these investments. Chinese investments diverted from being solely resource-seeking and diversified into market seeking and strategic asset seeking investments. This shift marked a pivotal moment in the evolution of China's outward FDI, as it became more diverse, dynamic, and reflective of China's growing role in the global economy.

1.2 Rationale and Significance of the Study

Efforts to stimulate economic growth in a country often requires adaptation as per evolving needs. While FDI has been recognized as crucial since the 1970s, when economists globally acknowledged the insufficiency of domestic capital for development, its significance has only increased over the past fifty years. This increased prominence of FDI is attributed to its evolving role. This encompasses expansion and diversification, enhancing innovation capabilities, and supporting the Balance of Payments. Additionally, contributing to sustainable development, all of which are essential for the contemporary economic landscape of any nation. The core motivation of this study is to shed light on the current state of FDI in India and China, considering the changing dynamics and new perspectives. The research is expected to throw a light on cohesive FDI environment in two big Asian giants i.e., India and China. These economies hold largest market size in the world and hence a comparative analysis of these economies in terms of trends, patterns, determinants, and impact of inward and outward FDI is expected to add more diverse implications in the literature of FDI. The core motivation driving this research is the striking observation that India and China both boast comparable market sizes, yet China consistently manages to attract a substantially larger volume of inward FDI in comparison to India. To illustrate, in years such as in the year 2005, 2010, and 2015, China nearly attracted nine, five, and three times higher inward FDI than India. In 2018 and 2019, which can be considered as typical pre-COVID-19 years, China drew in inward FDI that was approximately five times greater than that of India (UNCTAD, 2023). However, recent reports from Bloomberg (2022), Braw (2022) and the Rhodium Group, have indicated multinationals contemplating the relocation of their investments away from China. Hence, in the current economic landscape, it becomes crucial to investigate the type of business environment that India should cultivate to fetch these investors.

The literature review includes influential studies like Desai et al. (2005) and UNESCAP (2019), which emphasize the strategic importance of outward FDI, alongside inward FDI. Therefore, a study of inward FDI and outward FDI can provide valuable insights for academicians, investors, and policy makers. Moreover, since China has outperformed India in terms of outward FDI, India can draw some insights from the policies in the relatable environment.

To grasp the significance of comparing FDI flows in India and China, it is essential to gain insights into their macroeconomic parameters. The following Table 1.1 emphasizes the macroeconomic

conditions in both the economies, which have potential impact on investors choice regarding FDI flows.

Table 1.1: Macroeconomic Scenario (Percentage),2019

Sr No.	Macroeconomic Parameters	India	China
1.	Inflation (consumer prices (annual%))	3.7%	2.9%
2.	GDP Growth Rate (annual %)	3.9%	6%
3.	External Debt (% of GNI ¹)	20%	14.85%
4.	Official Exchange Rate (LCU ² per US\$, period average)	70.42%	6.91%
5.	Adjusted National Income (annual growth rate %)	4.23%	4.70%
6.	Exports of Goods and Services (% of GDP)	18.66%	18.41%
7.	Employment in Agriculture (% of total employment)	41.39%	25.31%
8.	Employment in Industry (% of total employment)	25.37%	27.42%
9.	Employment in Services (% of total employment)	33.24%	47.27%
10	Researchers Per Million ³ (2022)	218	1113

Source: World Development Indicators,2019

Table 1.1 displays comparison between India and China based on various macro-economic parameters. Asia is home to both economies, and China performs better than India in several areas. Although gaining independence, two years later than India, China managed to greatly enhance its macroeconomic metrics.

As we continue to explore the relevance of this study the following points clarify the importance of a comparative study between China and India:

- i. **Macroeconomic Relevance:** India and China are the world's fastest growing economies. Additionally, they are important participants in the global investment scene due to their FDI flows. A comparative analysis can shed light on the variables influencing FDI in these massive economies.

¹ GNI: Gross National Income

² LCU: Local Currency Units

³ Source: NITI AYOJ

- ii. ***Diverse Approaches:*** India and China have distinct economic models and approaches to FDI. China has historically prioritized manufacturing and growth driven by exports. For instance, research by Khan et al. (2021) shows that China's exports are positively and significantly impacted by inward FDI. China has been able to grow and improve its export capacity with the help of inward FDI. Studies like Tiany (2019) concludes that India has relied on domestic consumption. The comparative study is expected to highlight the strategies of India and China in attracting inward FDI and achieving developmental goals.
- iii. ***Developmental Impact:*** Foreign investments have considerable socio-economic impact on the economies. For instance, inward FDI is expected to escalate employment opportunities in economies, and researchers like Rong (2020) concluded that one percent increase in inward FDI in China is associated with 0.216 increase in Chinese employment. A comparative examination is expected to evaluate who among India and China makes a calculated use of their inward FDI.
- iv. ***Global Investment Trends:*** As these two economies compete more for inward FDI, China and India's investment policies have an impact on patterns of global investment. Gaining insights from their approaches and results can help identify greater preferred styles in overseas funding.
- v. ***Lessons for Other Countries:*** India and China have been actively attracting inward FDI compared other developing economies. Hence these economies aiming at escalating their inward FDI can accrue useful insights from this comparative study.
- vi. ***Outward FDI:*** The prominence of outward FDI is increasing in India and China primarily due to several reasons. As growing economies like India and China are increasingly aiming at expanding their market. Outward FDI enables acquiring new customers, acquire strategic assets, reduce risk, and overcome trade barriers. The literature needs to be analysed with different perspectives of outward FDI from India and China.

1.2.1 Significance of Sustainable FDI

- i. Sustainable FDI refers to investment strategies which includes investments that are environmentally responsible. Along with this, the investments are equally distributed leading to equal distribution of benefits. Additionally, the investments which bring long term economic returns.
- ii. In the current climate where, multinational corporations are contemplating relocation from China, and international investors have become cautious and risk-averse in their investments post the Covid-19 pandemic, it is crucial for India to position its FDI flow as sustainable. By doing so, India can make a compelling case for attracting these investors and positioning itself as a preferable alternative to China.
- iii. The strategy of attracting sustainable inward FDI involves emphasizing how FDI in India aligns with long-term sustainability goals—encompassing environmental responsibility and social equity. This approach signifies growing global demand for responsible investment and assures investors of stability and long-term returns in a risk-sensitive environment.
- iv. Promoting sustainable FDI includes showcasing India's commitment to environmental conservation, ethical business practices, and equitable social development along with economic returns. It also involves demonstrating how investments in India can contribute to global sustainability targets. Additionally, providing incentives to investors who are increasingly aligning their portfolios with sustainability objectives.
- v. By leveraging its strengths and showcasing a commitment to sustainable development, India can attract investors seeking more secure and responsible investment environments in the post-Covid-19 era.
- vi. The study identifies growing prominence and the significance of sustainable FDI. Hence, attempts at analysing the scenario of sustainable FDI in India and China by adding a new dimension in a realm of FDI.

In summary, a comparative study of FDI in China and India is important to understand the complexities of foreign investment in diverse economic, social, and regulatory contexts. It can

provide policy decisions, drive economic development. Additionally, it provides valuable lessons for other nations, making it a relevant and insightful area of research.

1.3 Research Issues

The review of literature encompasses substantial studies on the various aspects of FDI in India and China. However, the literature needs to add more studies in this domain. The areas are discussed in the points below:

- i. ***International Context of FDI Flows:*** The literature lacks in identifying the distribution of international FDI flows from the perspective of developed and developing economies in a holistic manner. Additionally, issues related to the trends and patterns of FDI flows at the global level need to be analyzed in detail.
- ii. ***Sub-National Analysis (Regional Disparities):*** The existing research focuses on FDI trends at the national level. There is potential for more in-depth analysis at the sub-national level to understand regional disparities, the impact of state-level policies, and variations in FDI attraction and retention.
- iii. ***Policy Analysis:*** The available literature probes into the geographical distribution of inward and outward FDI in India and China. Additionally, there is a need for an in-depth analysis on agreements and policies entered by home and host economy leading to FDI flows.
- iv. ***Evolving Regulatory Environment:*** The regulatory environment in India can be complex and subject to changes. Additionally studying FDI in the changing regulatory environment of China can give meaningful insights and hence more research on how it is evolving and how it can affect FDI decisions and strategies, and how investors navigate these challenges, is needed.
- v. ***Agglomeration Effects:*** Agglomeration effects refer to the benefits a firm attains when they cluster in a specific geographical area. For example, benefits such as knowledge spillovers, shared resources and services, and network externalities. The literature lacks in considering existing FDI flows available in India and China as a crucial variable affecting new flows due to the agglomeration effects.
- vi. ***Sustainability Determinants:*** As sustainability gains prominence, investors are increasingly inclined towards allocating their investments to countries that exhibit increased sustainability

indicators (World Economic Forum, 2021). As such, the goal of this study project is to investigate the variables that impact sustainability, including carbon emissions, electricity availability, and the use of natural resources.

- vii. ***Focus on Outward FDI:*** The literature includes studies on outward FDI from China and India. However, there is always a need to probe into industries where Chinese and Indian businesses invest abroad. This investigation also includes the fundamental factors driving these investment decisions.

- viii. ***Impact on SDG:*** The SDG encompass vital indicators like exports, carbon emissions, and employment growth, all of which play a pivotal role in the advancement of any economy. Therefore, an investigation into the influence of FDI on these key indicators will shed light on whether the incoming FDI has been channeled in a manner that fosters a positive impact on sustainability parameters.

1.4 Research Design

1.4.1 Research Objectives

- i. *To Study the Trends and Patterns of Inward FDI in India and China.*

The objective is to systematically examine and compare trends and patterns of inward FDI in India and China over a specified period, with the aim of understanding the dynamics of FDI in both countries. It attempts to provide a comprehensive analysis of how FDI has evolved over period, been distributed, and influenced the economic landscapes of these two major economies.

- ii. *To Study the Trends and Patterns of Outward FDI from India and China.*

The objective attempts to identify the distribution of outward FDI from India and China. It attempts to highlight the global trends of outward FDI. It aims at highlighting the concentration of outward FDI as concentrated outflows within specified region can increase the reliance on individual economies. Along with this, the study attempts to highlight in which type of economies India and China invests, that is, Developed or Developing. Additionally, the study attempts to probe into geographical distribution of outward FDI. Moreover, it attempts to probe into the type of investments i.e., resource-seeking or efficiency seeking through sectoral distribution.

- iii. *To Study the Drivers of Inward FDI in India and China.*

To identify the pull factors which influence international investors to invest in India and China. The factors are expected to highlight the significant economic factors and suggest adaptable changes for India.

- iv. *To Study the Sustainability Determinants Influencing Inward FDI in India and China.*

This objective is to probe whether the sustainability parameters influence inward FDI in India and China. This is due to increasing prominence of SDG and increasing reliance on sustainability parameters by international investors.

v. ***To Study into the Impact of Inward FDI on Sustainability factors***

In view of the increasing prominence of SDG, the objective attempts to identify whether inward FDI flows in India and China are effective or not. It analyses the impact of inward FDI on sustainability parameters.

vi. ***To Study the Push Factors Influencing Outward FDI from India and China***

The purpose of the objective is identifying the push factors that influence Indian and Chinese investors to invest abroad. The factors are expected to highlight the significant economic factors and suggest adaptable changes for India.

vii. ***To Study the Impact of Outward FDI from India and China on Sustainability factors***

The goal of analysing the effect of outward FDI from India and China on sustainability parameters is to comprehensively look at how these investments effect economic sustainability in India and China. The intention is to determine the economic sustainability of outward FDI from India and China via assessing whether they constitute mere capital outflow for tax avoidance functions or result in quality financial results, which encompass heightened export degrees.

1.4.2 Data Collection

i. ***Official Government Sources***

a. Ministry of Commerce, China (MOFCOM): China's Ministry of Commerce offers detailed statistics on inward FDI, outward FDI, and investment policies.

b. Reserve Bank of India (RBI): RBI publishes data on FDI transactions, exchange rates, and foreign exchange reserves.

c. Department for Promotion of Industry and Internal trade (DPIIT): DPIIT publishes data on inward FDI, outward FDI in terms of sectoral and geographical distribution. It publishes data quarterly and on annual basis.

ii. *International Organizations*

a. United Nations Conference on Trade and Development (UNCTAD): UNCTAD offers a wealth of global FDI data, including inward FDI, outward FDI, and policy-related information for both India and China.

b. World Bank: The World Bank provides economic and financial data for countries, including India and China, which can be useful for contextual analysis.

c. International Monetary Fund (IMF): It provides data on various macro-economic indicators such as inflation, GDP growth rate etc.

iii. *Academic Resources*

Data from databases like JSTOR, SCOPUS, SAGE UGC, UGC care and Emerald Publishing are collected.

iv. *Reports*

Data from reports such as UNCTAD's World Investment Report, ESCAP's report, OCED report and ASEAN's report.

1.4.3 Research Methodology

The research methodology for the above discussed objectives is briefly explained below:

i. *To Study the Trends and Patterns of Inward FDI in India and China*

- a) *Trends and Analysis on Multiple Dimensions*: The research examines inward FDI from multiple angles, including trends in inward FDI in world, developed and developing economies, in BRICS economies and the leading Asian economies. This is analysed through charts, and tables. The trends of inward FDI in India and China in particular are studied through charts and coefficient of variation.

- b) ***Distribution of Inward FDI by Sector and Geography***: The study comprehends sectoral (primary, secondary, and tertiary sectors) distribution of inward FDI in India. It also examines many forms of FDI that flow into India and China, including loans, equity, joint ventures, and wholly-owned subsidiaries using pie-charts. Additionally, sub-sectoral distribution of inward FDI through their ranks (top five).

The geographical distribution is comprehended by the economies investing in India and China in terms of their ranks. Additionally, the common economies investing in India and China and their simultaneous trends in India and China are analysed using charts.

- c) ***Trends and Patterns of Sustainable Inward FDI***: Trends and patterns of sustainable inward FDI are analysed through state level distribution within India and China using Lorenz Curve and Gini coefficient. Patterns of investments i.e., green field or brown field in India and China are analysed using tables and charts.

ii. ***To Study the Trends and Patterns of Outward FDI from India and China.***

- a) ***Trends and Analysis on Multiple Dimensions***: The research examines outward FDI by including trends in outward FDI in world, developed and developing economies. Additionally, trends in Asian economies and the consistency of India and China in terms of outward FDI is studied. This is analysed through charts, tables, and coefficient of variation.
- b) ***Distribution of Outward FDI by Sector and Geography***: The sub-sectoral distribution of outward FDI is analysed through their ranks (top five). The geographical distribution is comprehended by the distribution outward FDI from India and China in terms of their ranks.

iii. *To Study the Drivers that Pull Inward FDI in both India and China.*

Methodology

To determine the factors influencing inward FDI from India and China, the study employed Vector Autoregressive Model⁴ and Granger Causality Test. The study spans from 1995 to 2019, and data is collected from sources, including UNCTAD, World Bank Indicators (The World Bank Group), and IMF. To guarantee reliable and accurate modeling, several crucial tests including stationarity test, heteroskedasticity test, multicollinearity test, autocorrelation test, normality test, and Ramsey reset test are conducted. The selected variables are shown below in Table 1.2.

Table 1.2: Selected Variables for Inward FDI Analysis

Sr No.	Independent Variables	Proxy Variable	Expected Sign	Source
1.	Trade Openness	Trade (% of GDP)	+	WBI
2.	Economic Growth	GDP Growth Rate (%)	+	WBI
3.	Exchange Rate	Official Exchange Rate (LCU per US\$, period average)	+	WBI
4.	Gross Fixed Capital Formation	Gross Fixed Capital Formation (% of GDP)	+	WBI
5.	Inflation	GDP Deflator (%)	-	WBI
6.	Market Size	Population Size (total population) ⁵	+	WPP ⁶ (United Nations)

⁴ Vector Autoregressive Models: The Vector Autoregressive (VAR) model is a statistical approach used in econometrics for analyzing the dynamics and interdependencies between multiple time series. Each variable in a VAR model is expressed as a linear function of past values of itself and past values of all other variables in the system. Ordinary Least Squares (OLS) is applied within this framework as an estimation technique.

⁵ To conduct the analysis population change has been considered as a proxy variable for China. Population density has been considered as a proxy variable for India.

⁶ WPP- World Population Prospects 2022

iv. *To Probe into Sustainability Determinants influencing Inward FDI in India and China.*

Methodology

The study analyzes the impact of sustainability parameters on inward FDI as review of past literature has identified that in the current era investors are becoming more cautious and are inclined to invest in economies with better sustainability performance. The introduction of the SDG in 2015 led to the availability of data on potential indicators influencing FDI since 2000. Consequently, this study uses secondary data from 2000 to 2019 for India and China. To address the issue of multicollinearity, which can result in spurious regression analysis, and to satisfy the assumptions of OLS⁷ method for multiple regression, several tests such as multicollinearity test, normality test, autocorrelation test, heteroskedasticity test, and Ramsey reset test are conducted. The model was approved after checking values of R square, Adjusted R square, and Durbin Watson statistics. The selected variables are shown below in Table 1.3.

⁷ OLS: Ordinary Least Square

Table 1.3: Selected Variable for Inward FDI Analysis (Sustainability Factors)

Sr No.	Sustainable Development Goals	SDG Indicators	Proxy Variable	Expected Sign	Source
1.	SDG-17 (Partnership for the Goals)	17.3	FDI (Inflows in terms of US\$ million)	Dependent variable	UNCTAD
2.	SDG-7 (Affordable and Clean Energy)	7.1.1	Access to Electricity (% of population)	+	WBI
3.	SDG-17 (Partnership for the Goals)	17.1.1	Tax Revenue (US\$ million)	-/+	RBI and MOFCOM
4.	SDG-9 (Industry, Innovation, and Infrastructure)	9.4.1	Carbon Emission (metrics ton per capita) ⁸	-/+	WBI
5.	SDG-17 (Partnerships for the Goals)	17.8.1	Internet Users (Individuals using internet as % of total population) ⁹	+	WBI
	SDG-9 (Industry, Innovation, and Infrastructure)	9.1	Mobile Cellular Subscription (per 100)		
6.	SDG-12 (Responsible Consumption and Production)	12.2	Natural Resources Total natural resources rents (% of GDP)	+	WBI ¹⁰

v. *To Study the impact of Inward FDI on Sustainability Factors*

Methodology

The objective analyses long-term relationships amongst variables using Johansen Cointegration Technique¹¹ and Granger Causality Test¹². The data is from 1990 to 2019 and is sourced from the

⁸ To conduct analysis for China methane emission (kt Co2 equivalent) has been considered

⁹ Due to the problem of multicollinearity, the study has used mobile cellular subscription (per 100) for India.

¹⁰ WBI-World Bank Indicators

¹¹ Johansen Cointegration Technique: Method to identify long run equilibrium relationship between variables.

¹² Granger Causality: To identify the causality among variables.

WBI and UNCTAD. The variables are tested for stationarity and lag length has been selected based on lag selection criterion. The diagnostic test such as serial correlation test, normality test, and heteroskedasticity test. The goals include assessing the influence of inward FDI on carbon emissions and exports in India and China.

vi. *To Identify the Push factors Influencing Outward FDI from India and China*

Methodology

To determine the factors influencing outward FDI from India and China, the study employed Vector Autoregressive Model and Granger Causality Test. The study spans from 1995 to 2019, and data is collected from UNCTAD, WBI, and WIPO¹³. To guarantee reliable and accurate modeling, several crucial tests prior to estimation are conducted including stationarity test, lag selection criterion, heteroskedasticity test, multicollinearity test, autocorrelation test, normality test, and Ramsey reset test. The selected variables for India and China are shown below in Table 1.4 and Table 1.5 respectively.

a) *India*

Table 1.4: Selected Variables for Outward FDI Analysis

Sr No.	Independent Variables	Proxy Variable	Expected Sign	Source
1.	Technological Development	Technical Grants (US\$ million)	+	WIPO
2.	Tax Revenue	Tax Revenue ¹⁴ (% of GDP)	+	WBI
3.	Inward FDI	Inward FDI (US\$ million) ¹⁵	+	WBI
4.	Inflation	GDP Deflator (%)	+	WBI
5.	Imports	Imports (% of GDP)	+	WBI
6.	National Income	Adjusted Net National Income Growth Rate (%)	+	WBI

¹³ WIPO- World Intellectual Property Organisation

¹⁴ This includes tax paid to the central government

¹⁵ To conduct the analysis the study has considered inward FDI growth rate in India.

b) *China*

Table 1.5: Selected Variables for Outward FDI Analysis¹⁶

Sr No.	Independent Variables	Proxy variable	Expected Sign	Source
1.	Imports	Imports (% of GDP)	+	WBI
2.	Inward FDI	Inward FDI (US\$ million)	+	WBI
3.	Inflation	GDP deflator (%)	+	WBI
4.	Tax Revenue	Corporate Tax Revenue (Yuan 100 million)	+	MOFCOM
5.	Economic Growth	GDP Growth Rate	+	WBI

vii. *To Analyse the Impact of Outward FDI from India and China on Sustainability Factors*

Methodology

The objective analyses long-term relationships amongst variables using Johansen Cointegration Technique and Granger Causality Test. The data is from 1990 to 2019 and is sourced from the WBI and UNCTAD. The variables are tested for stationarity and lag length has been selected based on lag selection criterion. The diagnostic test such as serial correlation test, normality test, and heteroskedasticity test are conducted. The influence of outward FDI has been assessed on exports for India and China.

¹⁶ The variables selected for China are after satisfaction of various assumptions of OLS technique. Further explanation is available in the concerned chapter.

1.5 Main Concepts and Definitions

International investors engage in the process of allocating capital in global financial markets or undertake direct investments across national boundaries. International investors can be categorized mainly as:

- a) **Foreign Portfolio Investor:** “The action by companies, financial institutions, or individuals of buying stakes in companies on foreign stock exchange. These type of investors do not make investments with the intention of acquiring a controlling interest in the issuing company” (European Commission).

- b) **Foreign Direct Investor:** “A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of enterprise, or equivalent for an unincorporated enterprise, resident in another economy” (OECD, 2008). A foreign direct investor can be classified as:
 - i. An individual
 - ii. Group of related individuals
 - iii. Enterprise (incorporated or unincorporated)
 - iv. Public or private enterprise
 - v. Group of related enterprises
 - vi. Government body
 - vii. Estate, trust, or another societal organisation; or
 - viii. Any Combination of the above. (OECD, 2008)

- c) **Inward FDI:** “The inward FDI is the investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, and net repatriation of capital.” (United Nations)

- d) **FDI Inward Stock:** It represents total accumulated FDI in an economy over a certain period. It basically involves Inward FDI made by foreign enterprises into domestic enterprise in the past year along with reinvestment and capital appreciation. FDI stock keeps on decreasing or increasing based on the inward FDI, capital gains or losses or disinvestment over time.

e) **Outward FDI:** The outward FDI is the investment made by residents of the reporting economy to external economies, including reinvested earnings and intra company loans, and net receipts of the repatriation of capital.” (United Nations)

f) **FDI Outward Stock:** It is total accumulated FDI held by domestic entities in host economies. It is total sum of FDI minus withdrawals and disinvestment. It measures the stock of foreign owned assets by domestic entities and represent their long-term presence. It involves investments in the form of equity, reinvested earnings, and intercompany debt.

g) **Sustainable FDI:** The sustainable FDI refers to inward and outward FDI by considering social and environmental factors along with economic factors.

1.5.1 Forms of FDI

The form of FDI varies based on the nature of the investment and objective of the investor. Following are the forms of FDI:

- a) **Greenfield Investment:** FDI which involves the establishment of new operations or production facilities in the host economy like new factories, offices, or infrastructure facilities which basically allows domestic economy enterprise to start from scratch in host economy enterprise or start operations in foreign market with specific requirements in known as green field FDI (Abdi, 2010).
- b) **Mergers and Acquisitions:** It refers to acquisition or merger of domestic economy enterprise with host economy enterprise in the foreign market. The investor (domestic economy enterprise) purchases a controlling stake in the investee (host economy enterprise), gaining ownership and control over its operation. It allows companies to expand its market presence, gain access to technology, benefit from customer base and brand recognition of acquired company (Abdi, 2010).
- c) **Joint Ventures:** Joint venture is an alliance where two or more companies from different economies collaborate to establish a completely new entity jointly. Individual entity contributes capital, resources, skills, share the risk, technological expertise etc. FDI through

joint ventures allow companies to take advantage of knowledge of local market, resource and resources of their partners which eventually reduces the risks of entering a new market (Abdi, 2010).

- d) **Strategic Alliance:** Strategic alliance is like joint venture and involve cooperation between companies except they are less formal and there are no requirements relating to formation of completely new entity. Usually, strategic alliances involve companies collaborating for specific projects such as research development, marketing, or distribution. This allows companies to be flexible and leverage each other's strength without fully integrating their operations (Abdi, 2010).

- e) **Cross Border Investments:** Cross border investments include FDI activities that involve acquisition of financial assets by domestic economy enterprise (investor) in host economy enterprise (investee). It includes purchase of stocks, bonds, or securities in foreign market as cross border investments usually aim at financial gains. (Abdi, 2010).

- f) **Vertical and Horizontal Investments:** Vertical investments involve establishment of operations in different stages of the production chain such as backward integration (investing in suppliers) or forward integration (investing in distributor). Horizontal investments involve investor investing in same industry or produces similar commodities in the host economy (Abdi, 2010).

1.6 Theories of International Investment:

The increasing prominence of FDI flows at the world motivated various economists and analysts to probe into various determinants or push and pull factors of FDI for respective domestic economy. This eventually led to various FDI theories over time.

1.6.1 International Trade Theories

The explanation of the importance of economic integration was in the form of classical theories of international trade.

- a) ***Absolute Cost Advantage Theory***: The theory is developed by Adam Smith in 1776. According to this theory, absolute cost advantage is the ability of the nation to produce goods more efficiently. This includes to produce products with lower costs and resources as compared to other nations. This concept motivated economies to remove trade restrictions and encourage trade and exports. As per theory, economies should specialise and trade the goods and services in which they have absolute cost advantage.
- b) ***Comparative Cost Advantage Theory***: This is developed by David Ricardo in 1817. According to this theory, comparative cost advantage arises when a country can produce a good at a lower opportunity cost than another country.
- c) ***Factor Endowment Theory***: The theory was developed by Ohlin and Heckscher in 1933. The theory explains that an economy which has plentiful capital and scarce labour will tend to export capital and import labour. Additionally, an economy which has plentiful labour and scarce capital will export labour and import capital.

1.6.2 Theories of FDI

a) *Based on Market Imperfections*

i. *Industrial Organisation Approach to FDI (Hymer, 1976)*

This given by Hymer explained the behaviour of foreign enterprises. According to this theory, the enterprises own certain industry specific advantages which enables them to operate more efficiently or profitably as compared to domestic firms. These advantages include technological expertise, managerial skills, access to resources, and economies of scale. They can be termed as “ownership advantages”. Ownership advantages enables foreign enterprises to capture large share of market and earn higher profits. It enables firms to overcome market imperfections such as imperfect knowledge, trade barriers, legal and regulatory constraints.

ii. *Role of MNCs in Economic Development (Kindleberger, 1969)*

The theory stated that domestic markets are not perfect in efficiency and there are various imperfections at the domestic market level. This includes trade barriers, insufficient information, transaction costs etc. Multinational can accrue benefits of these imperfections and initiate FDI in host economies and play a significant role through international economic activities. Accordingly, FDI bridges the gap between developed economies (capital surplus) and developing economies (capital deficit). As the capital flows from developed economies to developing economies to use their capital. This in turn, escalate economic activities in developing economies.

Kindleberger identified three major roles of FDI:

- i) Capital export
- ii) Technology transfer
- iii) Market expansion

iii. *The Internalization Theory (Buckley and Casson, 1985)*

The theory identifies the function of external environment in shaping the process of internalization. It suggests that firms engage in internationalization when economic activities

in foreign markets outweigh its costs. This is because a domestic enterprise owns certain firm-oriented advantages that enables them to operate more efficiently in the international market. Firm-oriented advantage includes technological expertise, brand reputation, managerial skills, access to resources and economies of scale. Hence, internalization occurs when firms leverage their firm-oriented advantages to overcome market imperfections, particularly transaction costs which includes costs of negotiating and enforcing contracts, information asymmetry, cultural differences, and barriers to market exchange.

iv. ***Oligopolistic Theory (Knickerbocker, 1973)***

The theory highlighted the role of oligopolistic rivalry and strategic behaviour in shaping FDI. According to the theory, firms engage in FDI as a defensive response to the actions taken by competitors. Oligopolistic market is a market where small number of firms operate and when one firm engages in FDI it triggers the other firm of the industry to engage in FDI. This leads to a “follow-the-leader” pattern, where FDI by one enterprise prompts similar investments by its rival. It suggests that FDI flow is not merely influenced by firm-oriented advantages. Additionally, it is influenced by reaction of competitors within oligopolistic industry. This often forms cluster of FDI flow in certain markets.

v. ***The Eclectic Paradigm Theory (Dunning, 1980)***

The theory also known as OLI framework theory. The theory aims to address the motives behind firms engaging in FDI. The theory is comprised of main three elements:

- a) ***Ownership Advantages (O)***: Ownership advantages include technological expertise, brand reputation, economies of scale, and managerial skills. Firms with significant ownership advantages in international markets as compared to local markets are more likely to engage in FDI to leverage and exploit these advantages.
- b) ***Location Advantages (L)***: The location advantages such as access to resources, market size, infrastructure, political stability, cultural proximity pushes domestic firms to engage in FDI. Firms are motivated to invest in locations with such as advantages to enhance their competitiveness and profitability.

- c) ***Internalization Advantages (I):*** The internalization advantages arise when firms choose to undertake FDI to internalize certain economic activities rather than relying on external markets. This enables firms to retain control over their assets, reduce transportation costs, and gain a competitive edge. Firms with significant internalization advantages use FDI as a strategic step to maintain control over assets.

The theory mentions that FDI occur when all these three advantages combine. Moreover, these advantages can also reinforce each other as ownership advantages and used in a specific location leading to internalization benefits.

- b) ***Based on Currency Strength***

- i. ***Exchange Rate Exposure and Risk Management (Froot and Stein, 1991)***

The theory proposed that exchange rate movement significantly influence multinationals decision to invest abroad. It mentions that FDI projects are sensitive to exchange rate movements as dynamics of exchange rate movement will influence the value of the firm. However, the loss can be mitigated if firms use certain risk management techniques such as hedging, or by using certain derivatives and financial instruments. The theory highlights significance of movement in exchange rate and risk management in FDI decisions, as they are influenced by exposure to exchange rate along with economic fundamentals of potential host economy.

- c) ***Based on Market***

- i. ***Product Life Cycle Theory (Vernon, 1960)***

Product life cycle theory mentions that FDI is motivated by stages of product life cycle and identifies three stages:

- a) ***Introduction Stage:*** During this stage, production is conducted home country to take advantage of research activities and cater the needs of domestic market. Firms may set up production facilities in host economy with similar characteristics.

- b) **Maturity Stage:** During this stage, the product enters maturity stage and firms shift their production activities in host economies to take advantage of lower cost and have access to new markets.
 - c) **Standardization:** In the final stage, the product becomes standardized and production is shifted to economies with lowest production cost and to attain economies of scale. Firms use FDI to establish strategic alliance or acquire competitors to strengthen their market position.
- ii. **Strategic Behaviour Theory (Dunning, Buckley, Casson, Rugman, and other)**

The theory focuses on the strategic motivations behind FDI according to which FDI takes place due to following motivations:

- a) **Market Seeking FDI:** Firms engage in FDI to have access of larger markets and expanding its business activities firms intend to increase its market share, leverage economies of scale, and retaliate competitors.
- b) **Resource Seeking FDI:** Firms invest in economies with abundant resources and low-cost availability of resources such as raw materials, labour or capital in order to ensure efficiency in production and stable supply of inputs.
- c) **Efficiency Seeking FDI:** Firms invest in host economies to take advantage of cost differentials or economies of scale to ensure profitability.
- d) **Strategic Asset-Seeking FDI:** Firms invest in host economies to acquire strategic assets such as technology, intellectual property rights, brands and distribution in order to enhance competitive position, and strengthen market presence.
- e) **Defensive FDI:** Firms, in order to protect their respective market share, engage in defensive FDI. By establishing presence foreign markets, firms can counter rival firms' entry, secure intellectual property rights, and protect their customer base.

iii. ***Regional Strategic Framework (Rugman)***

The theory emphasized the importance of regional factors in shaping the strategies and investment patterns of foreign enterprises. Firms while engaging in FDI tend to prioritize regional markets and form regional networks due to economic, cultural, and institutional similarities between economies. Rugman further expanded the internationalization theory and proposed that FDI flows when firms intend to internalize specific activities that provide them competitive advantage.

1.7 Regulatory Framework for FDI

i. *India*

India's adaptation of global economic reforms gave birth to FIPB¹⁷ under the Ministry of Finance to regulate FDI. This was a statutory body under the provisions of foreign exchange management act and operated under the authority granted by the act in the year 1991. It was a central authority to review or evaluate and approve FDI proposals in compliance with applicable laws and regulations.

However, FIPB was abolished in the year 2017 to streamline and simplify the FDI approval process. DPIIT¹⁸ was introduced in 2019, with the aim of liberalization of FDI which included opening more sectors to FDI. Additionally, diminishing the long process of FIPB to review and approve the FDI proposals. It was created by merging Department of Industrial Policy and Promotion and the Department of Commerce. The responsibility of FDI promotion and FDI approval was subsequently passed on to respective ministries or departments concerned with the specific sectors. The functions of DPIIT are to facilitate and promote FDI in India. The specific roles of DPIIT includes:

- a) ***Streamlining FDI Approvals Process:*** To eliminate bureaucratic hurdles and delays in order to enable faster decision making and reducing the layers of approvals.
- b) ***Ease of Doing Business:*** To simplify and decentralize administrative process in India to transition to sector-specific approval mechanism to make the process more efficient.
- c) ***Promoting Transparency:*** The responsibility of FDI approvals on respective ministry and sector-specific department will enhance the transparency, improve clarity and accountability in decision making.

Like DPIIT, other key agencies and departments are established by government of India to promote FDI in India. These entities work towards attracting and supporting FDI in various sectors:

- i. ***Invest India:*** It is a national investment promotion agency for promoting and facilitating investments in India. It is non-profit organisation that guides, facilitates, and provide handholding

¹⁷ FIPB: Foreign Investment Promotion Board

¹⁸ DPIIT: Department for Promotion of Industry and Internal Trade

support to foreign investors in India. Additionally, it supports foreign investors to set up their operations in India by offering information, advisory services enabling smooth investment process. It was established in the year 2009.

ii. **State Investment Promotion Agency:** There are state investment promotion agencies where Indian states facilitate foreign investments. They also provide information regarding investment opportunities, incentives, subsidies and provide services specific to their regions.

iii. **Make in India:** The Make in India programme aims at establishing a ‘global manufacturing hub’ in India This can be done inviting foreign investments from the world to produce in India. This can be facilitated by providing conducive environment to foreign investors. It was launched in the year 2014.

iv. **Sector Specific Ministries and Departments:** Various ministries and departments at the central level and state level promote and regulate specific sectors. They provide sector specific information such as incentives, and guidance to attract FDI in sectors such as information technology, renewable energy, infrastructure and more.

Government of India has approved two routes for foreign investors:

- a) **Automatic Route:** FDI is allowed without the need of prior government approval from the central government or Reserve Bank of India in most of the sectors. The investor is required to inform RBI within 30 days of inward remittance.
- b) **Government Route:** FDI is allowed only with prior government approval from the central government or Reserve Bank of India. These usually includes sectors such as defence, media, telecommunications etc. The application is submitted to Foreign Investment Promotion Board or the concerned ministry for approval. However, in the year 2020 FIPB has been abolished and the process has been streamlined as the responsibility of the approvals is held by concerned departments or ministries.

Based on the Consolidated FDI Policy 2015, and Consolidated FDI Policy 2020, following are the sectoral provisions of inward FDI in India (Table 1.6).

Table 1.6: Sectoral Provisions of Inward FDI

Sr No.	Consolidated FDI Policy	2015	2020
	Sectors	FDI Limit¹⁹/Route	FDI Limit/Route
1.	Agriculture sector	100%/ Automatic	100%/ Automatic
2.	Tea sector	100%/Government	100%/Automatic
3.	Mining (Mining and mineral separation of titanium bearing minerals and ores)	100%/Automatic (100%/Government)	100%/Automatic (100%/Government)
4.	Petroleum and Natural gas	100%/Automatic	100%/Automatic
5.	Manufacturing	Different sectoral sap ²⁰	Different sectoral cap ²¹
6.	Trading (Through retail trading)	100%/ Automatic up to 49%	100%/Automatic
7.	Print media	26%/Government	26%/Government
8.	Broadcasting content (TV, FM radio)	26%/Government	49%/Government
9.	Civil aviation (Airports)	Different sectoral caps ²²	100%/Automatic
10.	Construction development	100%/Automatic	100%/Automatic
11.	Satellites establishment	74%/Government	100%/Government
12.	Trading (Wholesale)	100%/Automatic	100%/Automatic
13.	E-commerce	100%/Automatic	100%/Automatic
14.	Railways Infrastructure	100%/Automatic	100%/Automatic
15.	Financial services	100% ²³ /Automatic up to 49%	100%/Automatic

¹⁹ FDI Limit is the sectoral cap imposed by central government on the sectors.

²⁰ Manufacturing under MSME sectors were allowed under government route only when capital is more than 24 percent. For manufacturing under industrial parks, railway infrastructure, and medical device was allowed up to 100 percent under automatic route. For defence, 74 percent automatic. For railway infrastructure, and medical devices 100 percent is allowed under automatic.

²¹ The FDI policy sets specific sectoral caps on FDI in certain manufacturing sectors, which determine the maximum permissible level of FDI in India. Under trading sector, 100 percent FDI is allowed under government route.

²² Under green field projects, 100 % FDI was allowed under automatic route. Under existing project up to 74% was allowed under automatic route.

²³ Paid up capital of FDI, FII, and FPI

16.	Green field Pharmaceuticals (Brown field Pharmaceuticals)	100%/Automatic (Beyond 74%- Government)	100%/Automatic (Beyond 74%- Government)
17.	Insurance company (Insurance intermediaries)	49%/Automatic Beyond 26% Government route (Government route beyond 26% and up to 49%)	49%/Automatic (100%/Automatic)
18.	Banking private sector (Banking public sector)	74%/ Automatic Beyond 49% Government (20%/Government) ²⁴	74%/ Automatic Beyond 49% Government (20%/Government)
19.	Defence	49%/ Government	Up to 74% - Automatic Beyond 74%- Government

Source: DPIIT

ii. *China*

China is actively working towards increasing inward FDI in the country. This is with the aim of increasing manufacturing and exports in the country, China has used inward FDI as a channel to achieve its growth objectives. To attract inward FDI China has established various entities to promote and facilitate inward FDI into the economy.

- a) **Ministry of Commerce, China:** A primary government agency responsible for formulating and implementing policies related to foreign investment and trade. It plays crucial role in promoting and managing not only inward FDI in China but also concentrates on the international economic cooperation. It was established in the year 2003 by merger of two predecessor entities i.e., the Ministry of Foreign Trade and Economic Cooperation and the State Economic and Trade Commission. The establishment of MOFCOM was aimed at streamlining the administrative

²⁴ FDI allowed under banking public sector was total 20% including FII and FDI

structure, enhancing coordination, and consolidating the functions related to both domestic and foreign investment and trade.

- b) ***China Investment Promotion Agency:*** An agency under MOFCOM, that provides investment related information, consulting services, project identification, and coordination with relevant government department. This was established in the 2003.
- c) ***China Council for the Promotion of International Trade:*** It is non-government organization authorized by the Chinese government to promote trade and investment. It works closely with chambers of commerce, and trade and foreign business communities.
- d) ***State Administration of Foreign Exchange:*** It is responsible for the administration and regulation of foreign exchange transactions in China. It plays a crucial role in ensuring smooth flow of FDI in China and managing foreign exchange reserves. Additionally, it provides guidance on foreign exchange policies to foreign investors.
- e) ***Free Trade Zones:*** China established FTZ_s around the country to promote trade and attract FDI. These were established in Shanghai, Guangdong-Hong-Kong- Macao Greater Bay Area etc. This strategy has worked incredibly for China since these zones motivated international investors from developed economies to establish manufacturing units in China and exports the products to their country.
- f) ***Provisional and Local Investment Promotion Agencies:*** Each provision and many cities in China have their promotion agencies which work at the regional level to promote and attract inward FDI into the region. They provide conducive environment to the investors by providing them support services and assisting foreign investors.

China publishes ‘FDI catalogue’ under which the sectors are divided into ‘encouraged’, ‘restricted’, and ‘obsolete’ list. The list is quite exhaustive and hence the following is the gist of sectoral FDI provisions in China

- i. ***Financial Service Sector:*** In China, foreign banks can establish subsidiary banks or joint ventures in China

ii. **Telecommunication Sector:** In China, 100% foreign ownership is allowed in only few sectors such as value-added telecommunication services; restrictions remain in basic telecommunication services.

iii. **Internet Service Provider:** Restricted for foreign ownership and control.

iv. **Manufacturing:** 100% foreign ownership is allowed in manufacturing sectors such as automobiles, new energy vehicles, high end medical devices. Additionally, pilot Free Trade Zones allow 100 % foreign ownership in certain sectors. China does not demand investments through joint ventures in these sectors. FDI in manufacturing sectors such as publishing, defence, media and broadcasting, and internet services are prohibited.

v. **Automotive Sector:** Foreign investors are required to enter into joint ventures to manufacture vehicles in China. Although the overtime China is relaxing its restrictions.

vi. **Healthcare Sector:** Wholly owned subsidiaries can be established in certain pilot cities, however, there in certain cities there is requirement to form partnership with certain Chinese companies.

vii. **Education Sector:** Wholly owned subsidiaries can be established in certain regions, however, there in certain cities there is requirement to form partnership with certain Chinese companies.

viii. **Real Estate Sector:** Foreign investments can invest in certain real estate projects while there are restrictions on land ownership in China.

1.8 Beneficial Outcomes of the Research

i. **Policy Formulation and Improvement:** The outcomes of the study on trends and patterns of FDI flows can assist policy makers in India and China in designing more effective and targeted policies to attract and regulate FDI flows. This includes engaging in bilateral trade and investment treaties, addressing barriers, and aligning FDI flows with SDG.

ii. **Investor Guidance:** The investors choosing the mode of FDI can make use of the outcomes and understand the major dynamics of FDI flows. This includes understanding the major investment partners for India and China in terms of FDI flows, sectoral investment patterns, in assessing the potential risks, and aligning their investment decisions accordingly. In the current era, investors are inclined towards the sustainable business practices. The current study is expected to highlight the scenario of sustainable FDI flows in India and China which is expected to assist the investors in making investment decisions.

iii. **Academic Contribution:** The research is expected contribute to the academic field of international business and economics by providing empirical data and insights on two of the world's largest and fastest-growing economies. It enriches the existing literature on FDI and offers a comparative perspective that can be valuable for scholars studying global economic trends.

iv. **Business Strategy Development:** The multinationals interested to invest and expand their business activities in India and China can use findings of the research. The findings can highlight prominent modes of entry for FDI flows in India and China.

v. **Sustainable Development Insights:** The increasing significance of SDG and the requirement to align FDI flows with sustainable investing highlights the need to add more literature on sustainable FDI flow to gain insights on the subject.

vii. **Comparative Advantage:** A comparative analysis will highlight the areas in which India has comparative advantage over China. Hence, the study can be useful in identifying India's strengths and India's FDI strategies can be formulated and promoted considering these areas.

1.9 Limitations of the Study

- a) The current study has conducted country level and state level analysis for trends and patterns inward FDI, however, due time and data constraints, company level analysis could not be conducted.
- b) Due to the unavailability of the data on China's employment, the research does not include an analysis of the impact of outward FDI on employment in India and China.
- c) The database of World Investment Enterprise Survey does not include China's state-wise data on its business environment and hence a comparative analysis with business environment in India and Chinese states could not be conducted.
- d) Due to data and time constraint, the study has not conducted an in-depth study on 'Belt and Road' initiatives by China which influences outward FDI from China and its influence on the global level.
- e) Due to data and time constraint, the variables of the host economy that attract outward FDI from India and China could not be studied.

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