

CHAPTER 2: REVIEW OF LITERATURE

Chapter Overview

The current chapter delves into a detailed literature review on "Foreign Direct Investment: A Comparative Analysis of India and China." It encompasses the background of literature review, its significance, objectives, key findings from various studies, and the emerging research gaps. Organized into five distinct sections - Conceptual review, Descriptive review, Methodological review, Contradictory review, and Comparative review - the chapter aims to clarify the evolution of thought, understand theoretical constructs, analyze conflicting outcomes, synthesize findings, identify effective research methodologies, and compile a comprehensive summary addressing the research gaps identified in these studies. The selection of literature is directly correlated with the research topic, and the approach to conducting this literature review is both systematic and structured.

Significant studies in this area include Wei (2005), who observed that lower production costs in China attract investors despite substantial round-tripping, with China's FDI inflows being ten times that of India. Kumari et al. (2017) reported differing findings, indicating market size, trade openness, and human capital as key factors drawing FDI inflows to both India and China. The chapter also explores FDI outflows, with Pradhan (2011) finding that factors like large market size and bilateral investment treaties influence Indian FDI outflows, whereas factors like small market size, geographical proximity, and abundant natural resources impact Chinese FDI outflows. Contradictory perspectives are presented by Paz (2008), who argue that push factors do not significantly affect FDI outflows.

Further, the chapter reviews trends and patterns in FDI flows, with Bahar (2014) discussing how India attracts the most investment from Mauritius and primarily in the service sector, while China receives significant investment from the USA in leasing businesses. Tianyi (2019) examines the evolution of outward FDI in India and China, noting a surge in Chinese FDI outflows since 2004, in line with increases in foreign exchange reserves and capital stock, whereas India's FDI outflows, starting in 1951, remained steady until the economic reforms of

1991. Additional studies included, such as Amilan (2005), explore the impact of variables like exchange rate and market size on foreign investments in India. Hooda et al. (2011) uses multiple regression analysis to identify factors like exchange rate reserves and trade openness influencing foreign investments in India. Lastly, a comparative study by Panigrahi et al. (2012) using correlation coefficients analyzes factors like GDP, domestic investment, and external debt in influencing FDI in India and China.

2.1 Introduction

In the landscape of global economics, few stories have been as captivating and transformative as the rise of India and China as powerhouse economies. Over the past few decades, both nations have witnessed remarkable growth, attracted substantial foreign investment, and garnered international attention. At the heart of their economic resurgence lies the phenomenon of FDI. FDI has played a pivotal role in shaping the economic trajectories of India and China, yet the approaches and outcomes of their FDI policies and experiences diverge in intriguing ways. This literature review embarks on a journey to dissect and compare the trajectories of FDI flows that are generated in these two Asian giants, unearthing insights into the factors responsible for their successes and posed unique challenges. As the study delves into this comparative analysis, it seeks to unveil the nuanced dynamics, policy frameworks, and outcomes of FDI in India and China, shedding light on their differing paths towards economic prominence.

2.1.1 Objectives of Review of Literature

The basic objective of the literature review here is to understand the relevance of the topic, formulate research questions, understand the theoretical framework and methodology, identify the research gaps, find various reliable data bases, and determine the relevant variables. The research objectives are explained in detail as follow:

- a) **Analyze Policy Frameworks:** To evaluate the policies and regulatory frameworks in both the countries that have influenced FDI flows. To assess how changes in policies have impacted FDI trends. Also, to examine the effectiveness of these policy frameworks in achieving sustainable development goals.

- b) **Identify Trends and Patterns:** To examine the available studies and identify trends and patterns in the levels, sources, and sectors of FDI flows in India and China over time. Also explore whether environmentally friendly sectors or activities have received FDI flows.

- c) **Assess Sectoral Differences:** To analyze how FDI flows has been distributed across various sectors (e.g., manufacturing, services, technology) in both countries and probe into sectors attractive to foreign investor.
- d) **Examine Regional Disparities:** To explore regional disparities in FDI inflows distribution within India and China. To assess whether certain regions have attracted more FDI and the reasons behind these disparities.
- e) **Identify Key Drivers:** To identify and analyze determinants of flows in each country such as market size, labor force, infrastructure, and trade openness.
- f) **Examine Sustainability Factors:** To consider sustainability factors that may impact FDI inflows, such as access to electricity, natural resources, and number of women employed as a percentage of total employment.
- g) **Assess the Relationship Between FDI Flows and Sustainable Development:** Examine how FDI flows have influenced and contributed to sustainable development in India and China. Analyze whether FDI flows have led to economic growth, environmental sustainability, and social progress.
- h) **Assess Challenges and Risks:** To investigate the challenges and risks associated with FDI in India and China, including issues related to intellectual property, regulatory hurdles, and geopolitical factors.
- i) **Contribute to Policy Recommendations:** Provide insights and recommendations for policymakers in India, China, and other countries looking to attract FDI or optimize its impact.

2.1.2 Rationale and Significance of Review of Literature

Studies on FDI flows of India and China have evolved significantly over time, reflecting changes in their economic policies leading to their emergence as an attractive destination for FDI inflows. Additionally, Indian and Chinese multinationals increasingly invest abroad marking a

shift in investment priorities. The below Table 2.1 provides an overview of evolution FDI flows for these two countries.

Table 2.1: Evolution of Studies on FDI Flows

India		China
Limited FDI and Policy Focus	Pre-1990s	Early Stage of Reform and Opening-Up
Economic Reforms and FDI Inflow	1990s	Rapid Growth of FDI Inflows
Sectoral and Regional Analysis	Early-2000s	Sectoral and Regional Analysis
Policy Changes and Outward FDI	Mid-2000s	Trends in Outward FDI
Sustainability and CSR	Late 2000s-2010s	Sustainable Development and Environmental Impact
Geopolitical and Strategic Dimensions	Recent Focus	Geopolitics and Policy Changes
Comparative and Cross-Country Analysis		Interdisciplinary Approach and Data Analytics

Source: Based on various years' literature

In the backdrop of the evolution of the FDI literature, studying the various aspects of FDI in India and China through a comparative analysis is essential for a wide range of stakeholders, including investors, policymakers, businesses, academics, and global observers. The experiences of these two countries offer valuable insights into economic development, sustainability, trade, and geopolitics, making it a topic of significant importance and relevance in today's interconnected world.

2.2 Methodology of Review of Literature

- a) **Search Strategy:** The search strategy was systematic and structured in nature. To understand different facets of FDI in relation to the objectives of the study, FDI in India and China, trends, and patterns of FDI flows, structure of FDI, determinants of FDI flows, sustainable development and FDI flows, comparative analysis etc. were used as major keywords while searching the database.

- b) **Inclusion and Exclusion Criteria:** For this literature review on FDI in India and China, a wide range of academic sources were included. These encompassed peer-reviewed journals, conference papers, books, book chapters, and authoritative reports from global organizations and governmental bodies specifically addressing FDI in both countries. Studies focusing solely on one country but offering comparative insights or relevant to the broader analysis were also reviewed. The reviewed sources utilized various research methodologies, including quantitative and qualitative approaches, case studies, surveys, and econometric analyses, providing a holistic understanding of the topic. To ensure a multidisciplinary perspective, literature from fields such as economics, business, and international studies was considered.

Exclusions were made for materials that did not directly address the research topic. Non-peer-reviewed sources, those lacking academic depth, opinion articles, editorials, and news pieces were omitted. Additionally, sources with methodological shortcomings, inadequate data affecting their credibility, non-academic or non-reputable publishers, and those lacking proper citations and references were systematically excluded from the review.

2.3 Structure of Review of Literature

In the current study, the literature review is organized into distinct sections. This categorization fosters a systematic and thorough examination of the literature, facilitating a coherent progression of ideas. This approach aims to maintain the cohesiveness of the literature review throughout.

- i. **Conceptual Review:** It explores studies based on theoretical concepts, frameworks, and models in the area of research. The review develops theoretical understanding i.e., understanding of the prevailing theories related to the research topic and their evolution.
- ii. **Descriptive Review:** It includes basic understanding of the topic and the current scenario in the area of research which includes the trends and patterns. Trends indicates or refers to a general direction in which something is changing or developing over time. Pattern refers to the behavior and characteristic associated with area of study. Descriptive literature in the present study throws light on various other research questions pertaining to the research topic.
- iii. **Methodological Review:** The purpose of methodological review in the present study is to identify various variables and the research methodology used by the past literature to solve the research problem. In a nutshell, methodological review in the present study highlights the research designs of the past literature which includes hypothesis formulation, research approach, data collection, variables selection, and data analysis.
- iv. **Contradictory Review:** This includes studies which concludes contradictory or opposing findings in the related research topic. It includes different studies in the area of research which have arrived on opposing conclusions. Such studies highlight further scope of research in the area of research.
- v. **Comparative Review:** Comparative literature review encompasses comparing various studies based on specific parameters. Since the present study is the comparative analysis

between India and China, a comparative review highlights the reasons for disparities in various macro-economic parameters and reasons behind the same. It also, highlights the research gap in the existing study and what additions should the present study incorporate as per the relevance in the present times. Comparative review in the present study includes studies comparing FDI situations in India and China in terms of trends, patterns, and determinants.

Based on Review of Literature, four broad areas of research under FDI are identified as follows:

- a) ***Theoretical Literature on FDI:*** Renowned scholars have established a number of theories relevant to FDI that are included in the theoretical literature on FDI. Research articles that authors have compiled and synthesized from a variety of theories are likewise included in the body of existing literature.
- b) ***Literature on Inward FDI:*** Inward FDI is the sum of FDI that a domestic company draws or receives from a foreign company for a variety of ventures, assets, and projects. Numerous scholars from over the globe have been drawn to examine the trends, patterns, impact, and determinants of FDI. This is due to the established importance of inward FDI for achieving economic growth, job creation, greater export potential, infrastructure development, etc.
- c) ***Literature on Outward FDI:*** Outward FDI occurs when a domestic enterprise invests in host economy's enterprise or in foreign economy by establishing subsidiaries, acquiring ownership stakes in foreign companies, or incorporating new projects. The existing literature on outward FDI has largely focused on the trends, patterns, and determinants.
- d) ***Literature on Sustainable FDI:*** Sustainable FDI refers to the investments made by the host economy's enterprise in domestic enterprise with an aim to contribute positively to long term economic, social, and environmental sustainability. The present review of literature includes studies which focuses on the growing significance of sustainable FDI. It includes the studies which explains the meaning, determinants, and impact of

FDI on sustainability parameters like economic growth, Co₂ emission etc., unanimously adopted by all the economies in the United Nations under the 2030 Agenda for Sustainable Development.

2.4 Conceptual Review

2.4.1 Review of Literature on Theories of FDI

Denisia (2010) gives an outline of the central FDI theories. The Theory of Exchange Rate on Imperfect Capital Markets by Cushman (1985) which designates that change rate appreciation in the US has decreased the volume of FDI in America. Further, The Internalization Theory with the aid of Hymer (1976) identified functions of FDI by means of traders, normally to conquer the opposition faced inside the domestic marketplace and furthermore to exploit the organization comparative benefit within the host nations. OLI theory also known as Eclectic Paradigm Theory by Dunning (1973,1980,1988) explains the motives of FDI with the help of three concepts. First, FDI is influenced by the ownership advantages including accessibility to large markets, monopoly benefits, managerial expertise, and technological abilities. Second, FDI is influenced by the locational advantages that are related to geographical benefits that a company attains by investing in a foreign company. Third, internationalization advantages refer to the benefits that a firm attain by internationalizing its operations in foreign markets, the benefits include risk management, brand protection and reputation, and transaction cost economies.

Nayyar (2014) explains the motives of FDI with traditional and modern theories of FDI. The paper sub-divided traditional theories into Industrial Organization Approach by Hymer (1960, 1968 and 1970) and Kindelberger (1969) under which the multinationals to overcome the domestic market insufficiency commence foreign investments and the numerous rewards of production in host economies reimburse for foreign investment disadvantages. Another theory of Transaction Cost Approach (Williamson 1979) under which when exports miss the mark to provide competent yield to multinationals exploiting its technology it then drives the firms to commence FDI and build an internal market in the host economies. The Modern theories are divided into Stage Theory Approach discussed by Johansen and Vahlne (1977, 1990) under which foreign investments can only take place after attaining adequate knowledge and capabilities. Followed by Linkage, Leverage and Learning Framework Mathews (2002,2006), Strategic Alliance Network Approach and Leapfrogging Theory by Johansen and Mattson (1988).

Another theoretical study by Zeqiri et al. (2016) explained the motives of FDI through theories

of perfect and imperfect market. The paper explains the motives of FDI and sub-divides theories of perfect market as Differential Rate of Return Theory and Hypothesis by Lizondo (1950) under which the multinationals with higher yield objective transfer from low interest countries to high interest countries. Followed by Portfolio Diversification Theory and Hypothesis discussed by Agarwal (1980) and Denisia (2010) under which to overcome the market risks the multinationals diversify their investments and hence commence foreign investments. The Market Size Theory and Hypothesis under which larger the market size of the host economy, higher is the attraction for investments. Further, the paper sub-divided theories of imperfect market into the Location Theory and Hypothesis under which destinations with low cost of labor are preferred over economies with higher costs. Followed by the Internationalization Theory and Hypothesis by Hymer (1976) and The Electric Paradigm Theory by Dunning (1973, 1980,1988). Next, the International Product Life Cycle Theory and Hypothesis by Vernon (1966) under which foreign investment passes through four stages: innovation, growth, maturity, and decline.

2.4.2 Review of Literature on Inward FDI

This narrative delves into the dynamic landscape of FDI inflows in India and China, revealing the intricate developments and policy initiatives that have shaped its trajectory.

A critical analysis by Singh (2005), attempts to explore the evolution of FDI in India. Singh (2005) mentions that as early as in the introductory stage in 1991, “compared to domestic investment the contribution of FDI is bound to remain minor” and the study further added that the long-term vision of economy suffering from Balance of Payment crisis was to induce inward FDI into the country. With the new administration in the economy, proposals were initiated for FDI denied under automatic route by foreign investment board for the first time as they conceded that FDI provides savings without adding to external debt. By 1998 the government acknowledged that FDI is inevitable for an economy because apart from capital, it initiates technology, new market exercise and brings in employment, its chief advantage. The author further added that by 2004, there was a widespread acceptance of the topic, and the question was no longer whether to allow FDI or not but how with efficacy FDI policies should be formulated to attract more FDI.

Further in another conceptual study by Rao et al. (2011) scrutinized the effectiveness of several policy initiatives carried out by the government of the India in triggering inward FDI in the economy. Throwing some light on the initiatives, this study remarks that in 2005, the government announced a modified FDI policy under which FDI inflows up to 100 percent foreign equity was allowed under automatic route. The areas involved were townships, housing, infrastructure, and construction development projects. Further, the year also attested the enactment of SEZ act, which opened supplementary avenues for foreign firms in the Indian economy.

Conceptual literature for FDI inflows includes a study by Azhar et al. (2012), the study highlights the critical role of FDI in development, particularly in the context of developing countries. These nations often face a shortage of capital, which is crucial for their development. To break free from the cycle of poverty and to boost income and savings, maintaining a high investment level is essential. Attracting FDI inflows is a viable strategy to achieve this goal. India, with its wealth of resources, requires foreign collaboration for the optimal utilization of these resources. The benefits of inward FDI include the development of infrastructure, enhancement of the country's balance of payments, and the increased efficiency of domestic firms due to the presence of foreign enterprises.

Expanding upon the existing body of knowledge concerning the significance of FDI inflows in India, Malhotra (2014) mentions that “FDI bridges the gap between savings and investments”. In explaining the need of FDI in India, the paper mentions that, despite abundant natural resources, India lacks growth, and the reason primarily is the lack of technology that could exploit the resources hence FDI can fulfill the need and bridge the gap by bringing capital and exploiting India’s resources. Moreover, the paper underscores that several notable impediments to achieving equitable growth in India include regional disparities in FDI investments, sluggish policy implementation, and the political imbalances within the country, which often result in divergent viewpoints among foreign investors and political factions. Considering these challenges, the article advocates for FDI policies to prioritize attracting investments in the banking and insurance sector, while also advocating for the liberalization of trade.

As we delve into the multifaceted significance of FDI inflows, Saini (2015) illuminates its pivotal role in stimulating economic development, promoting international trade, providing

employment opportunities, and enhancing human capital resources. Saini's insight underscores FDI's distinctive character as a long-term financial strategy, where investors harbor long-range profit expectations and direct control over management—a sharp departure from other short-term, profit-driven external financial sources.

In this context, Dinh et al. (2019) raises a crucial concern in their study, emphasizing the intricate landscape faced by developing countries. They draw attention to the indispensable need for astute policy formulation that balances the immediate impacts of private capital investment, which may have short-term economic repercussions but promises long-term benefits. Furthermore, the infusion of technology through FDI requires a skilled labor force for optimal utilization, which calls for the strengthening of variables such as domestic investment and private sector access to credit. This transition leads us to explore the delicate balance and efficient policy measures necessary in the realm of FDI for developing nations.

2.4.3 Review of Literature on Outward FDI

This narrative delves into the dynamic landscape of FDI outflows from India and China, revealing the difficult developments and policy initiatives which have fashioned its trajectory. An essay by Poncet (2007) studies the patterns, factors and impacts of inward and outward FDI in China. It reviews the advancement of China's economic policy concerning FDI and resultant changes in inward and outward FDI in China. The author addressed China as a magnet observing its massive inward FDI and China is also becoming a source of outward FDI. After the mid-1980s, as far as inward FDI is concerned, China instigated the practice of equity joint ventures, which resulted as the central approach of investment. China's inward FDI augmented in 1992 and touched the ultimate level in 1998. Due to Asian economic crisis FDI was stagnant for some years but it surged again and surpassed the United States in 2003. Commenting on the outward FDI, the paper mentions that the first generation of Chinese multinationals were primarily government owned enterprises functioning in monopolized sectors such as financial services, ship transport, global trading, and China's natural resources and the second generation of chief Chinese multinationals appeared after the 1990s in production industries.

Sakia (2012) explaining the importance of outward FDI cited that, host country advantages such as availability of technology, skills and expertise usually are the benefits of investing

abroad which may not be visible in short run but there are considerable benefits of outward FDI in long run. The study mentioned micro level importance such as market for exports, achieving economies of scale through vertical and horizontal collaborations. Macro level importance such as access to larger domestic markets of host countries.

Athukorala (2016) examines emerging patterns of Indian FDI and mentions that, according to the data, Indian multinationals started outward FDI back in 1950s, but total flows of outward FDI persisted insignificant for the next four decades. The paper added that, following the liberalization reforms, outward FDI started to improve swiftly in the mid-1990s. Commenting on the trends of outward FDI, the researcher mentions that, following the momentous dismantlement of foreign investments limitations by the government on capital transfers, Indian firms' efforts to procure foreign endeavors during the period of 2000-04 resulted in outpouring of outward FDI since 2005. The paper concluded that, Indian multinationals are still at the developing stage of their international operations and their competitive edge is still chiefly grounded on country-specific advantages, rather than firm specific advantages even though there are few isolated cases of companies developing their own firm specific advantages.

Joseph (2019) provides insights into the evolution of Indian outward FDI policies. Historically, joint ventures with limited Indian participation were permitted to invest abroad with government approval until 1992. Over the years, restrictions were gradually relaxed, culminating in automatic approval for investments up to 400% of net worth. During the period of 2008-2018, the service sector emerged as the primary recipient of outward FDI, followed by the secondary sector, with the agriculture sector witnessing the least activity. This evolution of policies and sectors mirrors India's dynamic journey in the world of outward FDI.

2.4.4 Review of Literature on Sustainable FDI

As one navigates the multifaceted world of FDI flows, two seminal studies offer insightful perspectives on the pivotal role of FDI in advancing sustainable development goals.

Narula (2012) study puts forward an interesting concept, noting that although economic growth driven by FDI has brought considerable advantages, it has concurrently sparked worries about

environmental harm. As a solution, the study advocates for the fusion of 'Sustainable Investing' with FDI inflows. It suggests that by incorporating Environmental, Social, and Governance (ESG) criteria into FDI, a sustainable growth trajectory can be established. This approach aims to lessen environmental effects and fulfill wider sustainable development goals.

Building on this foundation, Taylor-Strauss (2019) underscores the indispensable role of FDI in the pursuit of Sustainable Development Goals. The report underscores that achieving optimal advantages from FDI necessitates a dual focus on both the quantity and quality of FDI. To attain this equilibrium, economies should strategically identify and attract FDI projects in key sustainable development sectors, including education, health, renewable energy sources, and water and sanitization. In this manner, FDI becomes a force not only for economic growth but also for the advancement of society and the environment.

2.4.5 Key Findings of Conceptual Literature

Based on the Review of Literature following are the key findings under Conceptual Literature:

- a) ***Diverse Theoretical Perspectives:*** The literature synthesizes several theoretical frameworks explaining FDI, including the role of exchange rates, ownership advantages, location preferences, and market imperfections, offered by scholars like Cushman, Hymer, Dunning, Vernon, among others.
- b) ***Motives Driving FDI:*** It explores a spectrum of motives for FDI, ranging from traditional theories centered on market imperfections and advantages of production in host countries to modern theories emphasizing the significance of knowledge acquisition, strategic alliances, market size, and stage-based investment patterns.
- c) ***Evolution of FDI in India:*** Studies like Singh (2005) indicate the shift in India's perception of FDI over time. Initially seen as a minor contributor compared to domestic investment, there was a gradual realization of its significance due to its infusion of technology, market expansion, and employment generation. By 2004, the focus had shifted from whether to allow FDI to how to formulate effective policies to attract more.

- d) ***Government Policy Initiatives:*** Rao et al. (2011) and Singh (2005) highlight pivotal policy changes such as allowing 100 percent foreign equity under the automatic route in certain sectors and the establishment of Special Economic Zones to attract more foreign firms, showing the deliberate efforts by the government to encourage FDI.

- e) ***Outward FDI Significance:*** Sakia (2012) emphasizes the host country advantages of outward FDI, focusing on long-term benefits such as technology transfer, skills enhancement, and market access, both at micro and macro levels, which contribute significantly to economies of scale and market opportunities.

- f) ***Indian Outward FDI Evolution:*** Athukorala (2016) highlights the evolution of Indian outward FDI. He outlines how Indian multinationals initially had modest international operations, but a surge occurred post-liberalization reforms in the mid-1990s. The removal of foreign exchange limitations led to a significant increase in outward FDI since 2005, with Indian companies leveraging country-specific advantages.

- g) ***Indian Outward FDI Policies:*** Joseph (2019) provides insights into the evolution of Indian outward FDI policies, noting the relaxation of restrictions over the years. The service sector became the primary recipient of outward FDI, followed by the secondary sector, reflecting the dynamic changes in India's outward FDI landscape.

- h) ***Environmental Integration of FDI:*** Narula (2012) study emphasizes the need to fuse 'Sustainable Investing' practices with FDI. By integrating ESG criteria with FDI, the study proposes a pathway to achieve sustainable growth, addressing concerns of environmental degradation and promoting broader sustainable development objectives.

2.5 Descriptive Review

2.5.1 Review of Literature on Inward FDI

In the ever-evolving landscape of FDI flows, a multitude of studies have shown a spotlight on the trajectories of China and India separately, offering insights into what drives FDI inflows and what challenges and opportunities each nation faces.

Graham (2001) takes us on a historic journey through China's financial transformation. China's economy was completely closed to foreign direct investment until 1979. Moreover, despite the economic reforms in 1979; China's FDI was controlled by state policies. According to the paper, even after twelve years of China opening its economy most of the FDI was dedicated to the areas where the domestic market did not participate such as the hotel and tourism industries. Also, FDI in China was invited in the areas where domestic industries could not perform. In 1992 additional reforms were accepted in China in which attentiveness was paid to advance new export industries and subsequently in 1994, FDI started initiating in highly export oriented units. Digging into the patterns of foreign direct investments in China, Graham (2001) states that China has its relative advantage in export processing sectors which is evident by the fact that FDI from Europe, Japan and North America in China has been devoted to this sector since 1996. Interestingly, FDI in China increased in the year 2000 and 2001 owing to the fact of China's admission into the WTO and China's emergence as a major FDI destination has also inclined investors to invest despite its non-friendly environmental policies as per author's interpretation.

Tseng et al. (2002) further deepens our understanding of FDI inflows in China, emphasizing the critical factors influencing FDI inflows. China is attractive due to its large domestic market, inexpensive labor, good infrastructure, low levels of corruption, and favorable investor policies. Scale effects become a strong motivator, allowing resource sharing, and fostering efficiency, where established FDI draws more investment.

Intriguingly, a different study by Ali et al. (2005) delves into the ancient traits of FDI in China and highlights the connection among FDI inflows and the authorities' dedication to change openness. While FDI inflows did not diminish inside the early years because of bad infrastructure, the duration from 1983 to 1991 witnessed a complete growth of FDI inflows in

China. The research shows that FDI's vital importance for China lies now not simply within the FDI itself but within the degree of trade openness that the authorities' pledges.

In a study by Gosh et al. (2011) examine outward FDI by the United States and Canada in India and China from 1986 to 2001. These countries predominantly followed global trends in FDI, heavily investing in China, particularly the United States. Factors such as domestic market size and economic growth drove the increasing attraction to both China and India.

Nandi (2012) explores the trends of FDI in BRICS nations. China's inward FDI grew until 2008 but dropped in 2009 due to the financial crisis, while India faced policy changes only after the crisis. The study underscores India's need to enhance its image, infrastructure, and privatization to recover and compete effectively.

Samal et al. (2016) dive into FDI in India's manufacturing sector, predicting a significant potential for growth. The manufacturing sector could receive USD one trillion in FDI by 2025, contributing substantially to GDP. FDI in export-intensive industries and FDI that enhances domestic production are encouraged in India. The study also highlights regional disparities in investment and suggests policy changes to address these issues.

Another exploration by Shrivastava (2017) delves into the determinants of FDI inflows in India, finding that domestic market size, trade openness, taxation, external debt, institutional variables, and fiscal expenditure are crucial factors. The study underscores the need for India to focus on monetary and fiscal policies, reduce international financial dependence, and enhance institutional variables to attract FDI.

In a separate analysis, Roy et al. (2021) identifies variables influencing inward FDI in India, emphasizing the significance of market size, economic volatility, infrastructure, trade openness, and political stability. These factors have a greater impact on the service sector, which garners the highest FDI in India. The study underscores the need for policies to attract FDI in primary and secondary sectors.

2.5.2 Review of Literature on Outward FDI

Amid the complex landscape of FDI outflows, various studies have probed the outward FDI patterns and the factors driving this global economic phenomenon, offering unique insights into the strategies and motivations of both Indian and Chinese multinationals.

Kumar (2007) provides us with a glimpse into the evolving nature of Indian outward FDI. Prior to 1991, the majority of Indian outward FDI went to other developing nations. But there was a big change after 1991, with developed nations receiving about 60% of all FDI coming in and going out. This change was motivated by several factors, including the need to gain access to new trade blocs, secure critical assets, and improve global competitiveness. The ownership advantages of outbound FDI that India realized as part of its economic reforms were economies of scale, technical know-how, product diversity, management experience, and an emphasis on export orientation. The study's empirical estimations show that, in addition to their technological efforts, Indian multinational corporations also benefit from economies of scale, imported technologies, and accumulated production expertise when it comes to proprietary advantages.

While India's outward FDI story unfolds, Kalirajan et al. (2011) delves into China's outward FDI trajectory. China, despite its rapid inward FDI growth, did not witness a corresponding surge in outward FDI. The study identifies the 2000s as the turning point for China's outward FDI, with a temporary dip during the 2007 financial crisis, followed by a resurgence in 2008, with \$50 billion in outward investments. Further delving into the patterns, the study found that, there prevail regional differences in Chinese outward FDI as most of the investments are focused in few areas which leads to competition among the investors as an outcome. Also, Chinese investments are chiefly in small scale industries and lack the expertise in technology as they are still importing technology from other countries. The papers suggest more investments into developing countries from China in manufacturing industries so that advantages of low costs can be procured.

A study by Pradhan (2014) observes the roots behind Indian manufacturing enterprises participating abroad. The variables used were firm specific characteristics such as technology

know-how, variety of products produced, managerial expertise, domestic market size, productivity in the economy. Moreover, sector specific factors such as legal environment, oligopolistic behavior of enterprise and the home country government policies and regulations. Market size of the host economy turned out to be the most imperative feature in inspiring the multinational to invest abroad. The unique products produced by manufacturing firms turned out to be positive but insignificant indicating that promotional activities of Indian firms are limited to domestic markets. The paper added that, even after decades of industrial development of Indian multinationals, key Indian brands have not been positioned in international markets.

Amal (2015) takes a broader institutional perspective, examining how home-country institutions influence the level of outward FDI from emerging countries. The study suggests that variations in outward FDI performance can be attributed to divergent institutional conditions, shaping the location assets of countries differently. Control of consumption and regulatory quality are identified as two significant institutional determinants positively correlated with outward FDI.

Seeking to validate the IDP hypothesis, Amann et al. (2015) analyzes India's outward FDI development for the period of 1980-2010. The IDP hypothesis posits that countries progress through stages in their outward FDI development, starting as net recipients of inward FDI and eventually evolving into net outward investors. The study, while finding positive but insignificant results for inward FDI, emphasizes the significant roles of exports and GDP per capita in India's outward FDI development, suggesting that other factors beyond the IDP framework influence India's outward FDI growth.

Deol (2017) delves into the pull factors of outward FDI from India, identifying the influence of location proximity, inward FDI stock in the host country, real GDP growth rate, and law and order in the host economy on the decisions of Indian multinationals to invest abroad. These factors form a compelling framework guiding India's outward FDI decisions.

Khatik (2017) examines the role of depreciation of the Indian currency, low interest rates in the host country, low labor costs in the host country, reforms in FDI policies, and a desire to

expand domestic markets in motivating Indian multinationals to engage in outward FDI. The study emphasizes how these factors collectively encourage Indian firms to seek investment opportunities abroad.

Ronny et al. (2017) reinforces the importance of technology and exports as key determinants of outward FDI by Indian manufacturing firms. The study underscores that firm productivity, export capabilities, firm size, technological proficiency, and imports all contribute to the motivation behind outward FDI.

In a more recent exploration, Saikia et al. (2020) sheds light on the growth of FDI from India since 2006. The study unravels two critical factors: the crowding-out effect caused by increased competition within India and the knowledge gained through investments abroad. These factors play a pivotal role in motivating Indian multinationals to embark on outward FDI endeavors. Khanna (2021) carries out a trend analysis of India's outward FDI for the period 2007-2019, highlighting the service sector's significant share in outward FDI. The primary sector also gains importance. New destinations such as Singapore, the UAE, Russia, and Mozambique emerge for Indian multinationals as they seek opportunities abroad.

2.5.3 Review of Literature on Sustainable FDI

A collection of studies and reports paint a comprehensive picture, revealing the intricate web of factors influencing where its trajectory and the quest for sustainable development.

Das (2015) scrutinized the impact of outward FDI on Indian manufacturing firms, presenting a nuanced perspective. While the study suggests that outward FDI has not made substantial inroads in terms of domestic sales, employment generation, or capital goods imports, it emphasizes the potential for complementary effects. These effects include the creation of an export base for India and the development of research and expenditure channels. In essence, Indian manufacturing firms investing abroad have the capacity to contribute to India's growth in more indirect yet vital ways.

While Achthan (2017) shifts the focus to the critical realm of legal reforms. To attract

sustainable FDI, India is urged to enact reforms that prioritize corporate social responsibility, transparency, and a robust intellectual property rights regime. Such legal measures not only facilitate FDI inflows but also promote India as an attractive destination for 'sustainable FDI,' aligning economic growth with environmental and social responsibility.

Adding a contemporary dimension to the discussion, Kearney's FDI Confidence Index (2022) underscores the evolving landscape of FDI. Foreign investors today are not solely driven by traditional determinants; they are equally concerned with a company's ESG commitments. In this context, the report highlights the growing importance of sustainability parameters in attracting higher volumes of FDI. To remain competitive in attracting foreign investments in the years to come, economies must strengthen their sustainability credentials.

A recent study by Alam et al. (2022) takes us deeper into the intricacies of FDI's impact on India's real GDP, exchange rates, and inflation. The study reveals that FDI is a positive force, enhancing real GDP, while exchange rates and inflation have adverse effects. To maximize the benefits of FDI, the study recommends streamlining the licensing and documentation procedures for foreign investors. Furthermore, India is advised to expand its international alliances, fostering agreements that eliminate double taxation and promote trade with South Asian economies. These initiatives can create a more conducive environment for FDI and foster economic growth in India.

2.5.4 Key Findings Based on Descriptive Review

i. ***India's FDI Inflows Growth:***

- a) Pre-2005: Stagnation despite attempts with export-oriented units due to poor infrastructure and electricity.
- b) Post-2005: Improved FDI performance due to reduced restrictions on foreign investments.

ii. ***China's FDI Inflows Growth:***

- a) Pre-1992: Stagnation attributed to restrictive policies focusing on inefficient domestic market sectors.
- b) Post-1992: Shifting focus to FDI for exports, introduction of Special Economic Zones.

- c) Post-WTO Membership: Removal of restrictions, exponential FDI increase in efficient sectors.

iii. ***India's FDI Outflows Growth:***

- a) Indian enterprises began FDI outflows in the late 1960s, However, India initially imposed stringent restrictions on FDI outflows, considering it a departure of investments from domestic markets.
- b) FDI outflows from India flourished after 2006, driven by internal competition (crowding out effect) and knowledge acquisition from investments abroad, motivating multinationals.

iv. ***China's FDI Outflows Growth:***

- a) Chinese enterprises started venturing across borders after the 1980s.China's FDI outflows surged after 2005, marking a significant turning point.
- b) Both India and China had similar FDI outflows until 2005, after which the gap between their outflows widened.

2.6 Methodological Review

2.6.1 Review of Literature on Inward FDI

The literature on FDI inflows offers a rich panorama of research that investigates the intricate factors influencing FDI inflows. A remarkable facet of this body of knowledge is the array of methodologies employed to explore these determinants.

Amilan (2005) conducted an in-depth analysis of the factors influencing inward FDI in India. To identify these determinants, the study employed a combination of simple and multiple regression analysis, investigating variables such as exchange rates, market size, gross fixed capital formation, wages, interest rates, and trade openness. The outcomes present study provided market size, and exchange rate as significant factors influencing FDI.

In a comprehensive study spanning from 1971 to 2005, Azam et al. (2010) investigated factors of FDI in India, Indonesia, and Pakistan. Their research involved log-linear regression models designed for each country to examine the economic factors affecting FDI. This method addressed non-linearity and tackled multicollinearity issues, ensuring a robust analysis. Domestic market and international debt were found as significant determinants of FDI.

Hooda et al. (2011) offered a comprehensive view of FDI trends and determinants in India from 1991 to 2008. To do so, they employed multiple regression analysis. Their analysis incorporated a wide range of variables, including GDP, trade openness, foreign exchange reserves, exchange rates, foreign investment growth rate, economic growth rate, and research and development expenditure. The results revealed how these factors impacted inward FDI and underscored the significance of trade openness, financial stability, and research and development expenditure.

Sharmiladevi (2013) explored the macroeconomic determinants of FDI inflows into India. The methodology involved multiple regression analysis, along with checks for stationarity to avoid spurious results due to time series data correlation. Variables such as growth rate, inflation, the

index of industrial production, and exports were analyzed to determine their influence on FDI. The study provided insights into how these essential variables directly affect India's appeal for FDI.

Narayan (2014) examined the factors influencing FDI in India from 1991-92 to 2012-13. The research relied on a correlation matrix and multiple regression analysis to establish determinants. The findings found that, GDP, and long-term debt to GDP are significant in attracting FDI inflows in India.

In another investigation, Shankar (2016) delved into the variables affecting FDI inflows in India, with a focus on GDP, trade openness, and exchange rates as independent factors. The methodology included econometric analysis to assess the integration level of variables and their co-integration. This study emphasized the pivotal role of market size in attracting FDI to India. Baby et al. (2017) concentrated on factors influencing FDI inflows in India from 1994 to 2015. To explore the factors affecting FDI, including domestic market size, foreign exchange reserves, inflation rates, interest rates, real effective exchange rates, and a dummy variable reflecting the financial crisis of 2008 to probe into the factors influencing FDI inflows. The research underscored market size as a critical determinant of FDI in India.

Chaudhry et al. (2018) investigated the surge in FDI in India's e-commerce sector, emphasizing the role of increased mobile phone usage and internet access in attracting FDI. Their methodology employed simple OLS regression analysis to examine these determinants, revealing a pronounced focus on leading e-commerce giants like Flipkart, Jabong, and Snapdeal in terms of investments. These studies collectively showcase a diversity of methodologies, from regression analyses to log-linear models and dummy variables, each offering valuable insights into the determinants of FDI in India. This methodological diversity is crucial in capturing the multifaceted dynamics of FDI inflows.

2.6.2 Review of Literature on Outward FDI

The literature on FDI outflows investigates the intricate determinants of FDI outflows. A remarkable facet of this body of knowledge is the array of methodologies employed to explore these determinants. Within this tapestry, several noteworthy studies stand out, each employing

distinct methodologies to uncover the complex factors influencing FDI outflows in India and China separately.

Banga (2007) underscores that for developing economies, incentives to invest in external markets are intricately linked to trade. Trade-related aspects, as identified by the author, can stimulate outward FDI in two significant ways. First, increased exports open up global markets and give investors a wealth of information about the economies of their host countries, which in turn promotes investment. Secondly, more imports into the nation of origin could lead to a "crowding-out" effect, which would drive investors to look for higher returns and realize economies of scale in larger outside markets. Additional factors that contribute to FDI outflow in Asia are the lack of sizable domestic markets and the danger of losing market share, as the author discusses. The author notes that 40% of Asian outbound FDI goes toward the services sector and 60% goes toward the manufacturing sector.

In examining the factors motivating Indian multinationals to invest abroad, Anwar (2008) explores "pull factors" between 1970 and 1990. Using an ordinary least squares regression model, the study analyzes a number of variables, such as the GDP growth rate, GDP deflator, distance between home and host nations, political climate, and the availability of natural resources. The host nation's GDP deflator sticks out among these variables as one of the key elements affecting investment choices.

Paz et al. (2008) investigates the relationship between China's outward FDI and specific national macroeconomic variables of the home-based country. The study employs an extensive dataset covering the period from 1982 to 2006 and utilizes vector VAR models. VAR models, an extension of autoregressive models, allow for a detailed examination of the interplay among multiple variables. In this study, eight variables are considered, each represented by its equation within an open VAR model. The outcomes challenge the notion that home-based country-specific macroeconomic variables dictate China's outward FDI, indicating a more complex relationship.

Filip (2010) explores the pull factors of Indian and Chinese multinationals. The study emphasizes that both India and China are drawn to larger markets, with GDP identified as a

significant and positive factor. Conversely, richer markets, as indicated by GDP per capita, are deemed insignificant. India tends to opt for acquisitions more than China as an investment route, and both countries are attracted to nations with abundant natural resources. Interestingly, the study concludes that corruption does not significantly affect the investment decisions of multinationals in India and China. Furthermore, the distance between the host and home country plays a role in the FDI decisions of both Indian and Chinese multinationals.

Masron et al. (2017) analyze the push factors behind FDI from Malaysia and Thailand, focusing on the period from 1980 to 2006. To address potential issues related to non-stationary series, the study employs the ADF test. The use of non-stationary series in regression methods can lead to spurious results. As a result, series cointegration tests are performed. The authors highlight the importance of testing for stationarity and cointegration in this context. This approach allows for the examination of the number of long-run relationships.

Delving into the historical backdrop of China's outward FDI, Mumtaz et al. (2018) underlines the country's evolving policies. China permitted private enterprises to invest abroad in the late 1980s, resulting in relatively low outward FDI at the time. However, China restructured its outward FDI policies in 1999, aiming to enhance outward investment, build an export base, and develop a "Go Global" strategy in 2001. The study, centered on analyzing the pull factors of outward FDI, concludes that location, GDP, country risk, and lower wages are key factors attracting China's outward investments.

2.6.3 Review of Literature on Sustainable FDI

One of the aims of Sustainable Development is to shape the development trajectories of individual nations, and FDI influx is a major driver of economic growth. In this regard, a comparative study of the effects of FDI inflows on GDP was carried out by Agarwal (2011) between China and India. The study's intriguing conclusions showed that, when compared to India, China's GDP appeared to be more significantly impacted by FDI. The research sought to uncover the primary determinants of GDP by using GDP as the dependent variable and considering inbound FDI, gross fixed capital formation, the HDI, and the labor force as independent variables. The study found via multiple regression analysis that the FDI coefficients in China and India.

Liu et al. (2020) conducted an econometric analysis to measure the impact of FDI inflows on economic growth, focusing on time-series data spanning from 1981 to 2018. To verify the appropriateness of the VAR model, the investigators employed the ADF test to conduct a unit root test. Using criteria like the HIC, the SIC, and the AIC criterion, the lag of three was finally chosen for the VAR models. Numerous diagnostic tests were performed, such as the White heteroskedasticity test to determine whether mistakes are equal and the Jarque-Bera test for normalcy. The findings of the study showed a long-term relationship between economic growth and FDI, both in the long run and the short run, highlighting the important part that FDI plays in promoting economic development.

In another econometric analysis, Antwi (2003) started a cointegration study with the goal of determining how FDI inflows affect Ghana's economic growth. Proxies for economic growth, such as GDP and GNI, were used in the study, which covered the years 1980–2010. Using the enhanced ADF test, the stationarity of the time series data was ascertained. The cointegration of the variables—a measure of their propensity to move together—was assessed using Johansen cointegration analysis. The VECM was applied to estimate the long-term causation among these variables. To assess short-term causation links, the Granger causality test was also used.

2.6.4 Key Findings from Methodological Review

- a) ***Trends and Patterns in FDI Inflows***: The literature has used line graph, bar graphs, scatter diagrams, and tables to present the trends and patterns of FDI flows.
- b) ***Determinants of FDI Flows***: The literature has used multiple regression analysis, correlation coefficient, random effect models, granger causality tests, and principal component analysis, and VAR OLS techniques to identify the determinants of FDI flows or the push or pull factors.
- c) ***Sustainable FDI***: Although there is a need to add more studies in realm of sustainable FDI. However, the studies have used VECM and granger causality test to identify the sustainable FDI scenario.

2.7 Comparative Review

2.7.1 Review of Literature on Inward FDI

The following literature delves into the comparative scenario of FDI inflows in the economies. It majorly includes India and China as a subject.

Banik (2003) mentions that during 1979-2000, Hong-Kong and Macao were the major investing countries in China. China's success in attracting inward FDI can be attributed to SEZs strategically established by its government. However, in China solely foreign owned enterprises were not permitted until they bring advanced technology or export majority of their goods. Although these regulations were relaxed after China's entry into WTO. The USA was the major investor in India. The study mentions that India is deprived of investments due to its poor investments in power and electricity and railroads.

As Bajpai (2004) analyzes the patterns of FDI in China and India between 1992 and 2001, these two Asian superpowers adopted different strategies. China used its SEZs to promote export-oriented manufacturing, and local governments may authorize FDI up to a predetermined amount, which encouraged investment. On the other hand, India struggled to manage the expansion of export-oriented businesses and faced opposition from the federal government about FDI approval, which would have reduced India's appeal to foreign investors.

Exploring the determinants of inward FDI in India and China and understanding the reasons for their significant divergence, Wei (2005) studied the factors influencing FDI from OECD countries into China and India using a random effect model. The report emphasizes that China is a top option for international corporations looking to set up export-focused divisions because of its enormous domestic market, strong manufacturing capabilities, and affordable production prices. On the other hand, India's technically skilled labor, which is available at a competitive rate, also presents a desirable environment for foreign investment. India must, however, overcome the difficulty of improving its production capacity and creating a productive manufacturing base. To evaluate the factors influencing FDI in China and India independently, the study used random effect models. It also measured the importance of each determinant to the difference in FDI between the two nations using econometric decomposition techniques.

Sahoo et al. (2006) delves into the policy, trends, impact, and components of FDI in the economies of South Asia, with a primary focus on India. The study reveals that from 1991 to 2006, India experienced substantial FDI inflows in electrical equipment and observed dramatic growth in sectors like cement and gypsy products. A state-wise analysis indicates that regions such as Delhi, Maharashtra, and Tamil Nadu received the highest FDI during this period. Interestingly, Mauritius emerged as the top investor in India, largely attributed to the double taxation agreement between India and Mauritius. The study's panel cointegration test results highlight that the principal factors driving FDI in South Asia include domestic market size, labor force growth rate, infrastructure quality, and trade openness.

Considering the interplay of investment mechanisms, legal frameworks, and economic disparities between India and China, Sweeney (2010) scrutinizes the historical journey of both countries. The study emphasizes that China's investment mechanism offers transparency, investor-friendliness, and a commitment to attract foreign investment, exemplified by the "Go Global" policy. In contrast, India faces the challenge of incorporating features of China's FDI mechanism to improve foreign investment policies.

Kalirajan et al. (2011) further delves into trade and investment patterns in India and China, noting the significant contributions that both countries have made to the global economy. The study highlights the shift in trade openness between India and China and emphasizes the need for India to concentrate on its manufacturing sector, which plays a critical role in attracting FDI. Poor policy execution by the Indian government is identified as a primary factor behind its economic performance.

Panigrahi et al. (2012) offers a comparative analysis of FDI inflows in India, China, and Malaysia from 1991 to 2020. The research tracks the trends, attributing India's lower FDI inflows in 1991 to its late adoption of economic reforms. However, in the late 1990s, India received substantial FDI due to strong consumer demand. The study identifies key determinants of FDI, such as GDP on, domestic investment, external debt, energy infrastructure, and imports and exports, for both India and China.

Prime et al. (2012) conducted a thought-provoking study on competition amid India and China

addressing their “FDI differential as a puzzle”. The paper remarks that, there prevails much pondering about the FDI abilities of both economies in context of the data measurements, but despite incorporating certain adjustments, China’s FDI is astonishingly advanced than India’s. Probing into the trend’s paper states that, India in the 1970s and with a substantial rise China in 1980s started attaining foreign investments into the economies and subsequently a steady enhancement in FDI flows of both the countries from Asia was observed. But post 1980, the volume of inward FDI for India deteriorated and that fall was sustained for the next twenty years until 2006. The paper justified its address to India and China as a “FDI differential as a Puzzle” by highlighting that, both the nations passed through similar stages of evolution and growth, both have large domestic markets and are geographically similar. Still there prevails enormous variance in their FDI. They have addressed this subject by recognizing determinants that entice FDI. They finally concluded that the variance is chiefly because of China’s ‘location and timing’ that positioned building manufacturing bases in the country with the help of East Asian investment in the 1980s. Moreover, the government policies and the approaches adopted for advancement of FDI contributed to strengthen China’s growth earlier than India.

Bedi et al. (2014) aims to analyze the role of FDI inflows into India and identify the challenges and concerns that have rendered India less appealing compared to other countries. It is noted that India and China are both competing to secure a more significant portion of global trade and investment. Apart from facing competition chiefly from China, many new economies like Indonesia, Vietnam and Philippines have arisen as a strong competitor to India. The author remarks that India’s main competitive advantage lies in its economic human resources and lucrative domestic markets. The paper highlights weak infrastructure, complicated tax structure, restrictive labor laws and corruption as India’s drawback in attracting FDI. But still India receives minor FDI as related to emerging countries like Brazil and China and hence India stands a chance of losing its comparative advantage in its economic human resource and lucrative domestic markets to the developing low-cost economies and the authors advocated that, if some policy reforms measures are not executed rapidly, the probabilities may take the shape of reality.

To explain the success story of China, Ali et al. (2015) delves into the patterns of FDI inflows in India and China, acknowledging China as a leading nation among developing countries in attracting inward FDI and consequently realizing economic progress. On the otherhand, India,

as the second most fascinating destination after China, receives a relatively smaller volume of FDI. China is not only encountering high inflows but also attracting FDI in efficient sectors like manufacturing and industries. The study suggests India should try to acquire a poised approach to reduce corruption and create an atmosphere convenient for investors by increasing the rate of literacy, a regulated labor market, and a steady exchange rate with proper infrastructure and further added that the growth of a country depends upon the foundation of basic amenities in the economy.

Providing an ancient perspective on inward FDI tendencies, Parashar (2015) suggests that China's solid FDI inflows elevated rapidly after 1991 because of coverage reforms and the status quo of unique monetary zones. India lagged in attracting FDI but started to get more flows after economic reforms in 1991. Parashar (2015) highlights that USA is the largest investor in India, and investments are frequently routed through Mauritius due to a double taxation treaty. China's attractive factors include its vast domestic market and low-cost human resources, while India's economic reforms are a driving force behind its FDI growth. Moreover, the study identifies a large domestic market size as a vital determinant of inward FDI for India. Masron et al. (2017) conducted a study comparing major economic factors between India and China, including gross national product per capita, GDP, tax income, and health status. The research concludes that China's achievements can be attributed to its investments in healthcare, education systems, equal income distribution, and gender equality. In contrast, India's relatively low investment in healthcare and education accounts for disparities in development between the two nations.

A comparative study based on the objective, whether India and China have fully attracted FDI as per their potentials, was conducted by Kalirajan et al. (2012). The study also tries to find out the reasons behind humongous FDI in China and areas where India needs to improve. According to the findings, market size, growth rate in the industrial sector and trade plays a relatively higher role in attracting FDI for China than for India. Also, the comparative advantage of China lies in the lower wages prevailing in the economy. The article further suggests immediate reforms in Indian policies to develop its infrastructure to attract higher FDI.

Another study on BRICS nations by Catherine (2013) on FDI concluded GDP, infrastructure,

low-cost labor, economic freedom as factors influencing multinationals decision to invest abroad. Surprisingly only the exchange rate and infrastructure of India were marked as a significant determinant in attracting foreign investments.

An exploratory study conducted by Iqbal (2013) studies the FDI positions of two Asian economic giants - India and China. Infrastructure and friendly business environment are where China's comparative advantage lies whereas India has a better law and order situation in the country. In addition, large market size is a common determinant attracting investment in these economies.

Another comparative analysis of FDI in India and China was conducted by Dar (2014). The paper employs multiple regression analysis to anticipate the influence of six key variables on inward FDI. These variables include research and development spending relative to GDP, the degree of trade openness in the economy, financial stability, inflation rate, and foreign exchange reserves as a proportion of GDP. Contrary to expectations, the study finds that research and development investment, as a percentage of GDP, shows a negative effect, while the exchange rate demonstrates a positive impact, suggesting that a devaluation in currency tends to attract inward FDI.

Akpan et al. (2014) conducted a comparative study of factors responsible for attracting inward FDI in BRICS and MINT. The GDP, infrastructure, trade openness in the economy were common noticeable determinants whereas natural resources and institutional qualities in these economies did not play a vital role in attracting inward FDI as were found insignificant in the study.

In a comparative analysis, Teli (2014) reveals India's struggles in attracting inward FDI compared to countries like China and Mexico. Complex FDI laws, investment delays, and non-friendly investment policies deter investors. However, regression analysis predicts a positive future trend for inward FDI, suggesting the need to attract more equity investments, increase international reserves, and engage in international trade for economic growth.

An interesting comparative study by Tri et al. (2019) examines the impact of various

determinants of inward FDI in two parts of ASEAN countries, ASEAN3 (Columbia, Laos, and Vietnam) and ASEAN5 (Singapore, Thailand, Philippines, Indonesia, and Malaysia). The empirical analysis was directed towards examining an additional determinant, financial integration. In the paper, the unobservable effects are divided as time variant and time invariant, these effects can be government policies, organizational law and management skills and licensing. These unobservable effects are incorporated in the model of factors attracting inward FDI. Under the model time variant embodied as while time invariant is embodied as dummy variables. They further removed time invariant unobserved effects from the equation by using the first differencing method. The POLS estimation method of first differencing was conducted to test each hypothesis. The analysis shows that the coefficient of financial integration is positively associated with FDI. The findings also support the hypothesis that FDI in ASEAN is positively associated with domestic market size, infrastructure facilities in the economy and negatively associated with cost of human resources.

In a recent study by Shabd (2020), the main aim of the study is to compare the different policies and instruments of green finance in India and China. The author mentions the reason for choosing these two countries as primarily to understand the scope of improvement for India. Moreover, both the countries are economically similar in nature and are Asian countries also sharing borders, thus having similar natural resources. The author suggested that there is a need for India to establish a separate legal body to ensure all green financing activities takes place in full swing and at a very serious level.

2.7.2 Review of Literature on Outward FDI

The following literature delves into the comparative scenario of FDI outflows in the various economies. It majorly includes India and China as a subject.

Duanmu et al. (2008) conducted a panel data analysis of outward FDI from India and China and discovered that extensive domestic markets in host countries, along with countries importing from India and China, serve as significant pull factors for outward FDI. The study encompassed various factors, such as corporate taxes, GDP, trade openness, host country inflation, corruption, geographical distance, and exchange rates, as potential determinants of outward FDI.

Pradhan (2011) revealed that Chinese companies' decisions to invest in host countries are influenced by factors like the distance between the countries, economies abundant in natural resources, and small economies. In contrast, Indian firms tend to invest in larger economies, and their decisions are influenced by bilateral investment treaties signed with these economies. Inward FDI, exports of ores and steel, fuel exports, secondary school enrollment, bilateral investment treaties, and imports by host countries were identified as factors that influence the outward FDI decisions of Indian and Chinese firms.

Yuce et al. (2014) made an interesting finding that while factors like the size of the population and the growth of GDP influence multinational corporations' decisions to invest in India and China, a high price level does not significantly affect their decision-making process. Furthermore, an increase in the cost of human resources discourages investors from investing in these two emerging economies.

Paul (2014) focused on the trajectory of Indian FDI in Africa, seeking to pinpoint the elements motivating Indian MNCs to invest there. It underscored the rivalry between India and China in Africa, with both nations endeavoring to influence African countries via trade, FDI, and financial assistance. The study noted China's tendency for resource-centric investments via state-to-state dealings. In contrast, Indian FDI is mainly in the private sector, closely linked with domestic activities, and propelled by ambitions for global expansion, especially in sectors like IT services and pharmaceuticals.

Andreff (2016) conducted a study on BRIC economies' outward FDI. Indian outward FDI multiplied is doubled, while Chinese outward FDI grew by 33% during the period from 1997 to 2000. However, the growth rate of outward FDI in India during the crisis period remained higher than that of China and was relatively unaffected but started declining later due to rupee depreciation. Both Indian and Chinese outward investments have been primarily resource-seeking FDI. Compared to Russia and China, India's investments are lesser, but both India and Brazil have made strides in this area.

Xia (2020) explored China's outward FDI and noted that China experienced a phase of OFDI development from 1991 to 2003 when economic reforms were initiated by Deng Xiaoping.

During this period, industrial and commercial enterprises started investing abroad. Since 2004, China's OFDI surged, thanks to increased foreign exchange reserves and capital stock. In contrast, India initiated outward FDI in the 1950s, but significant growth began after economic reforms in 1991. Indian outward FDI is primarily dedicated to the manufacturing sector.

Ergano et al. (2020) studied Ethiopia's investment from India and China, considering this as a determinant of India's outward FDI. The paper proposes that aspects defining outflows of FDI are different in both economies. GDP per capita, official exchange rate, and real interest rates were found to be positive and significant for India, while population size had a negative correlation with outward FDI. In the case of China, growth of the host country's GDP was found to be a positive and significant factor affecting outward FDI, while domestic secondary education enrollment had a negative correlation, indicating that an increase in domestic literacy rates reduces China's outward FDI.

Ahmed et al. (2019) conducted a study on the impact of FDI inflows and outflows on economic growth. The research found that FDI outflows have a positive and significant impact on developing economies, such as Turkey, Malaysia, and Iran. The study also noted that the share of developing economies in the total share of FDI outflows has been increasing over time.

2.7.3 Key Findings based on Comparative Review

- a) On summarizing the existing literature, it can be said that while India between 1991-2005 attracted higher FDI figures from Mauritius, followed by U.S.A, Japan, and Netherlands. During the same time India attracted higher FDI figures in electrical equipment, followed by transportation sector and service sector. However, the recent studies which are studies after 2015 till 2019 concludes that India attracts highest FDI from Mauritius, followed by Singapore, Japan, and Netherlands. Service sector receives highest FDI followed by computer hardware, telecommunications, and trading.
- b) China from the time of introducing economic reforms till 2005 attracted higher FDI figures from U.S.A, followed by Hong-Kong, Japan, and Taiwan. Manufacturing

sector, followed by real estate and leasing and business services. However, the recent studies have concluded that China receives highest FDI from Hong-Kong, followed by British Virgin Islands, Japan, and Singapore. Manufacturing, real estate, leasing and business services, and trading sectors have attracted higher FDI in China.

- c) On common factor that majorly all the studies have considered and concluded that is significant in attracting FDI in both India and China is market size.
- d) Apart from market, both India and China have individual macro-economic factors working for them to attract FDI inflows in their respective economies. While majority of the studies find that exchange rate, economic growth, and trade openness are the pull factors of India. For China, its natural resources, low-cost labor, low tax rates, ease of doing business, infrastructure, economic growth, and trade openness are variables concluded significant by majority of the studies.
- e) Indian companies invested between 1991 to 2005 invested in U.S.A, followed by European economies like United Kingdom, Germany, and France. China between 1979 to 2005 invested in Hong-Kong, followed by economies in South-East Asia like Malaysia, Thailand, and Indonesia. India invested in service sector, followed manufacturing sector during 1991 to 2005. China between 1979 to 2005 invested in infrastructure activities of host economies like building ports, roads, and buildings. As per the recent literature, India has been investing in Singapore, Mauritius, U.S.A, and Netherlands. Manufacturing sector has attracted highest FDI outflows from India followed by financial insurance, Agriculture and hotel and restaurants business.
- f) China has been investing in Hong-Kong, British Virgin Islands, U.S.A, and Cayman Islands. Leasing business attracts highest FDI from China followed by wholesale and retail trade, financial intermediation, and manufacturing.
- g) Existing literature concludes that Chinese firm's decision of FDI outflows is based on the distance between China and host economies as well as the availability of natural resources in the host economies. On contrary, FDI outflows from India are based on

market size of the host economy and the number of bilateral investment treaty. Additionally, the literature also finds that India and China both are inclined to invest in economies which are importing goods from them.

2.8 Contradictory Review

The Review of Literature finds that there are contradictory views on outward FDI and sustainable FDI.

2.8.1 Review of Literature on Outward FDI

A comparison between China and India by Paz (2009) looking into what factors influenced outward FDI from 1982 to 2008 produced a variety of findings. Using a vector autoregressive model, the study looked at several factors that are thought to affect outbound FDI, such as interest rates, trade openness, national income, technological resources, and currency rates. The study's conclusions indicated that outbound FDI was not significantly impacted by China's push forces. On the other hand, India's data showed that no other push factor had a substantial effect on outbound FDI, other than technology resources.

2.8.2 Review of Literature on Sustainable FDI

Parmar (2019) carried out a study utilizing secondary data to investigate how FDI affected India's GDP. According to the report, FDI does not significantly contribute to GDP development in India. This could be due, in part, to inefficient use of the FDI capital inflow or improper sector allocation.

A divergent study on OECD countries revealed that outward FDI tends to decrease domestic investment, implying a substitutive relationship between the two. Conversely, in the United States, outward FDI and domestic investment appear to be complementary. The increase in outward FDI is linked to a rise in domestic investment, attributed to Indian multinationals utilizing domestically produced goods as inputs in their overseas operations. Desai et al. (2005).

2.8.3 Key Findings from Contradictory Review

- a) *Literature on Outward FDI*: There is limited reliable contradictory literature in the realm of FDI flow. However, the present study by Paz et al. (2009) finds that in India except for

technological resources, factors like national income, trade openness, exchange rates, human capital, and interest rates showed no significant impact on outward FDI. In China, push factors in China had limited impact on outward FDI.

- b) ***Literature on Sustainable FDI***: The literature concludes that FDI's role in India's GDP growth was found to be limited. In OECD countries, outward FDI seemed to reduce domestic investment, indicating a substitutive relationship. In the USA, outward FDI and domestic investment were complementary.

2.9 Research Gap

While there has been substantial research on the various aspects of FDI in India and China, there are several areas within this domain that have not been extensively studied in the academic literature or may benefit from further investigation. They are explained in the points below:

- a) ***International Context of FDI flows:*** The literature lacks in identifying the distribution of international FDI flows from perspective of developed and developing economies in a holistic manner. There are various issues related to the trends and patterns of FDI flows at the world level need to be analyzed in detail. This study tries to examine the various issues from an international perspective in a holistic manner.
- b) ***Sub-National Analysis (Regional Disparities):*** Much of 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.
- c) ***Policy Analysis:*** An in-depth study on the policy analysis needs to be done to assess the impact of host country policies on FDI trends and to evaluate the effectiveness of policies such as tax incentives, investment promotion agencies, and trade agreements.
- d) ***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.
- e) ***Agglomeration Effects:*** 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 and its key aspects such as economies of scale, and to attain supply chain efficiency might influence foreign investors to increase their volume of investments in the host economy.

- f) ***Sustainability Determinants:*** As sustainability gains increasing prominence, investors are increasingly inclined towards allocating their investments to countries that exhibit heightened 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.

- g) ***Focus on FDI Outflows:*** A review of the literature includes studies on FDI outflows from China and India. However, there is always room for more thorough research, namely in industries where Chinese and Indian businesses invest abroad. This investigation also includes the fundamental factors driving these investment decisions.

- h) ***Impact on SDG:*** Research on how FDI aligns with India's Sustainable Development Goals and contributes to sustainability parameters is an increasingly relevant area of study. 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 attracted FDI has been channeled in a manner that fosters a positive impact on sustainability parameters.

By delving into these underexplored areas, this study will attempt to contribute to a more nuanced understanding of various aspects of FDI in India and China and provide valuable insights for policymakers, businesses, and investors.

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