

CHAPTER 4: TRENDS AND PATTERNS OF OUTWARD FOREIGN DIRECT INVESTMENT IN INDIA AND CHINA

Chapter Overview

The trend of outward FDI is witnessing prominence in the current era as it is projected to deliver crucial long-term and sustainable growth. Stephenson et al. (2018) mentions that “developing economies initiate outward FDI to acquire knowledge and technology, upgrade production process, boost competitiveness, augment managerial skills, and access distribution networks”. The increasing importance and research issues in this field needs comprehensive analysis of the trends and patterns in outward FDI from India and China, aiming to contribute to the existing body of knowledge in outward FDI. In the years preceding the Covid-19 pandemic, China marked a two-decade high, contributing 14.09 percent to the global outward FDI in 2018, while India accounted for 1.12 percent in the same period. For India to achieve its growth targets, a balanced approach between outward and inward FDI is essential. Therefore, a comparative analysis with China is likely to reveal a range of strategic options for India to enhance its outward FDI.

The following chapter attempts to highlight the global trends of outward FDI, significance, evolution, and the trends and patterns of outward FDI from India and China. Additionally, the chapter attempts to investigate the reasons behind Indian and Chinese multinationals investing abroad and probe into current scenario of sectoral investments from India and China. The chapter analyses the sectors in India that needs focus on to elevate overall economic growth. The examinations of the global trends find that developed markets stand as the dominant contributors to global direct investment. However, investments from developing markets abroad have been on a consistent rise. Additionally, Japan had emerged as the largest investor among Asian economies between 2000-2019. The trends between 2000-2022 highlights that Indian outward FDI surged post 2005 and started declining particularly after 2008. However, in the recent years after 2016 it has resumed an upward trend. China’s outward FDI which upsurged after 2004, witnessed a decline in 2009 but resumed subsequently in the coming years. Interestingly, India’s outward FDI has been more consistent than China’s outward FDI between 2000 and 2019. India and China have invested into developing economies. China

invests majorly in Hong Kong while India in Singapore. A sectoral analysis finds that India's investments in resource seeking sectors are reducing and in market seeking sectors are increasing while China's investments are strategic asset seeking and market seeking.

4.1 Introduction

India has emerged as a prominent investor in other economies (host economies), signifying the maturation of Indian enterprises and their preparedness for international operations (Iqbal,2018). As emphasized by Stephenson et al. (2018), outward FDI plays a pivotal role in enhancing a nation's investment competitiveness, contributing to long-term and sustainable growth. The outward FDI is gaining momentum in developing economies, driven by the desire to upgrade production processes, enhance managerial skills, and gain access to distribution networks. According to a report by UNCTAD (2018), developing economies has witnessed a 20-fold increase over the last two decades. Investors from these economies often target smaller, albeit higher-risk economies as a strategic stepping stone.

India has become an attractive source of inward FDI but has also witnessed a notable increase in outward FDI. The WIR reveals that India secured the 25th rank in outward FDI in 2021 and 20th rank in the year 2022, a significant improvement from its 30th position in 2015 (UNCTAD, 2022). A closer examination of India's outward FDI history reveals distinct phases. During 1975-1990, Indian enterprises predominantly invested around 86 percent of their outward FDI in developing economies. However, the dynamics shifted from 1991 to 2001, with Indian enterprises allocating approximately 60 percent of their total investments to developed economies—a trend that has persisted until 2019 (Amann, 2014).

In comparison, China has consistently held the 4th position in terms of outward FDI since 2015, and has attained 2nd and 3rd position in the year 2021 and 2022 respectively, showcasing a remarkable improvement from its 22nd position in 1991 to the 5th position in 2010 (World Investment Report,2023). Chinese firms exhibit a preference for investing in foreign markets of developed economies, a pattern observed during 2003 to 2009 and sustained from 2004 to 2018, particularly in developed economies (Ibrahim et al., 2019).

From a home country perspective, the literature has identified the following benefits of outward FDI:

a) ***Outward FDI and Innovation:*** Developing and emerging economies channel their funds abroad in the pursuit of knowledge, recognizing that genuine knowledge spill-overs can significantly enhance production processes. For instance, economies like Japan and Korea,

with robust R&D facilities and advanced technological profiles, serve as examples. In contrast, developing economies often lack such resources and can acquire expertise by strategically investing in areas of excellence. Therefore, outward FDI serves as a conduit for technology transfer, benefiting economies with limited capital or those aiming for technological advancement.

b) ***Outward FDI and Exports:*** Outward FDI plays a pivotal role in boosting exports through complementary relationships. A notable study by Ahmad (2016) reveals that between 1981 and 2013, a one percent increase in outward FDI led to enhanced exports for economies such as Thailand, Singapore, the Philippines, and Malaysia.

c) ***Vertical Outward FDI:*** Establishing operations abroad through outward FDI is essential for making enterprises competitive by capitalizing on lower factor costs. However, vertical outward FDI faces opposition due to concerns about replacing operations in the home economy and reducing domestic employment. The impact of vertical outward FDI on employment and production depends on the investment patterns. Investment strategies that prioritize increasing sales, reducing imports, and boosting exports can offset the departure of capital, leading to a net increase in employment.

d) ***Horizontal Outward FDI:*** The benefits of outward FDI, particularly in the form of horizontal outward FDI, hinge on the foreign sales generated through the establishment of operations abroad. An increase in foreign sales is likely to compensate for the export loss of finished goods by fostering an increase in exports of intermediate goods.

4.2 Review of Literature and Research Issues

In the realm of outward FDI, the landscape witnessed significant transformations from 1985 to 2011. According to the study conducted by Annet et al. (2014), developing and transition economies emerged as noteworthy contributors to outward FDI during this period. Significantly, share of outward FDI originating from developing economies constituted a noteworthy 16.7 percent of global total in 1994. This figure, however, saw a decrease between 1998 and 2001, followed by a remarkable recovery in 2010 when it reached 31.8 percent of worldwide outflows. Even with this increase in outward FDI, the distribution of these investments remained largely uneven. The research indicates that between 1985 and 2011, a substantial 61.4 percent of outward FDI from developing and transition countries came from Asian regions, with Latin America and the Caribbean contributing 21.8 percent.

Building on this foundation, Taylor-Strauss (2019) delves into the specific trends of outward FDI from Asia and the Pacific. The year 2018 marked a historic milestone, with the region contributing a substantial 52 percent to global outward FDI. Developing economies in Asia played a pivotal role, accounting for 37 percent of global outward FDI. Notably, China emerged as the leader, contributing 6 percent to this share. The period of 2016-2018 witnessed China securing the top rank in outward FDI from developing economies in Asia, followed by Singapore, the Russian Federation, Thailand, and India. Multinationals from these economies strategically targeted developed markets, utilizing mergers and acquisitions to gain access to technological expertise from R&D centers.

Understanding the motives behind outward FDI becomes crucial. Dasgupta (2015) outlines various motivations, with mergers and acquisitions being a key strategy to gain access to natural resources and new technologies in host economies. Vertical outward FDI aims to optimize production costs by dividing the production process into stages, capitalizing on lower factor prices. Meanwhile, horizontal outward FDI seeks to replicate successful operations abroad to access larger markets, often driven by saturation in the home markets.

A deeper exploration into China's outward FDI, as investigated by Cheng (2005), uncovers a strategic shift. The 'Go Global' policy adopted by China in 2001 propelled a surge in outward FDI during 2003-2004. Notably, Chinese enterprises expanded their investments to 150 economies globally, with a significant concentration in neighbouring Asian economies. From

1979 to 2004, 51 percent of China's outward FDI targeted Asia, emphasizing the regional focus. This period witnessed China's strategic pursuit of natural resources, often requiring substantial capital inputs.

4.2.1 Research Gap

- a) *Analyzing Trends of Outward FDI:* The chapter attempts to probe into the global state of outward FDI. Along with this, there exists a need to add more findings on the type of economies, Indian and Chinese multinationals are investing through outward FDI.
- b) *Assessing the Consistency of Outward FDI:* The existing studies have drawn conclusions regarding the outward FDI performance in India and China on the basis of volume of outflows, it is imperative to evaluate the consistency of these outflows in both countries. Volatile FDI can have detrimental long-term effects on an economy and hence assessing consistency essential.
- c) *Investigating the Principal Investment Partners:* The present literature has analyzed the evolution and trends of outward FDI from India and China. However, there is a requirement to add more in-depth studies on the economies in which India and China are investing and the factors contributing to these decisions apart from to macro-economic factors.
- d) *Examining Key Sectors:* The chapter attempts to scrutinize whether outward FDI are driven by resource-seeking, strategic asset-seeking, market-seeking, or efficiency-seeking motives. This analysis can be effectively conducted by delving into the sectors in which India and China are directing their investments.

4.2.2 Research Questions

The chapter attempts to analyze the following research questions:

- a) Examination of the kinds of economies that initiates higher outward FDI: whether they are developed, developing, and underlying rationales for such preferences.
- b) Identification of the leading Asian countries in terms of outward FDI
- c) Analysis of the trends of outward FDI from India and China
- d) In which economies are India and China investing and what are the motivations of investors investing from India and China?
- e) The sector-wise distribution of outward FDI from India and China, in which proportion FDI is distributed among all the sectors, explanations behind distribution of FDI among all the sectors.

In alignment with these research questions, the chapter is structured as follows:

4.3 Examination of the Global Trends in Outward FDI

4.4 Trends and Patterns of Outward FDI from India and China

4.5 : Exploration of Countries Receiving Investments from India and China

4.6 : Sectoral Distribution of Outward FDI from India and China

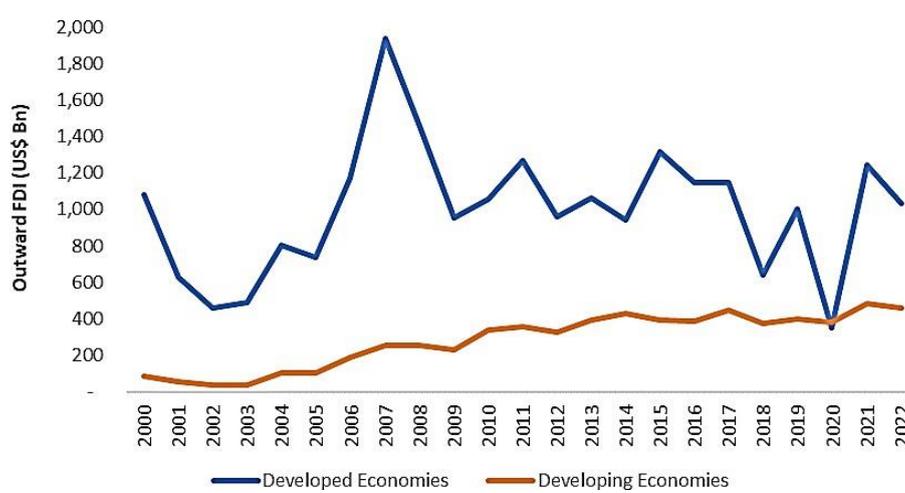
4.7 : Post Covid-19 Scenario of Outward FDI from India and China

4.8 : Findings

4.3 Examination of the Global Trends in Outward FDI

4.3.1 Outward FDI flows from Developing, Developed Economies

Figure 4.1: Outward FDI flows from Developing, Developed Economies of the World (US\$ Bn), 2000-2022⁵⁴



Source: Author's compilation based on UNCTAD Database

According to Figure 4.1, developed markets stand as the dominant contributors to global direct investment. In a strategic effort to optimize costs and expand their operations in different markets, developed markets choose to invest in developing economies. This approach allows them to leverage the benefits of abundant human capital while alleviating financial burdens through favourable conversion rates. Moreover, the composition of sectors differs significantly between developed and developing markets, with a notable reliance on the primary sector for livelihood in the latter. By investing in developing or emerging markets, developed markets bridge this gap and harness untapped resources in both the manufacturing and service sectors.

Despite a declining trend observed from 2015 to 2020, developed markets experienced a sudden upsurge in investments in 2021. This resurgence can be attributed to reinvested earnings and increased merger and acquisition activities undertaken by multinational enterprises

⁵⁴ Post Covid-19 i.e., after 2019 are the non-normal years.

operating within developed countries. Noteworthy is the substantial doubling of overseas investments by multinationals, prominently led by countries such as the United States (experiencing a 72 percent increase), Japan, and Korea.

At the same time, overseas investments from developing economies have shown a steady increase. This uptrend is primarily due to the significant rise in direct investments from Asia, which accounted for a quarter of the total outward FDI in 2021. Key contributors to this growth include emerging Asian markets, notably the Republic of Korea, which saw a 74 percent increase, along with Singapore and Saudi Arabia, the latter witnessing an impressive 385 percent surge, significantly influencing this positive trend. (UNCTAD, 2022)

4.3.2 Top Ten Economies in Terms of Outward FDI

Table 4.1: Top Ten Economies in Terms of Outward FDI (Percentage of OFDI), 2010-2019

Rank	Countries	Share of World OFDI
1	USA	17.38%
2	Japan	7.55%
3	Germany	6%
4	United Kingdom	5.61%
4	China	5.61%
5	Netherlands	4.91%
6	France	4.88%
7	Hong Kong	4.74%
8	Canada	4.08%
9	British Virgin Islands	3.22%

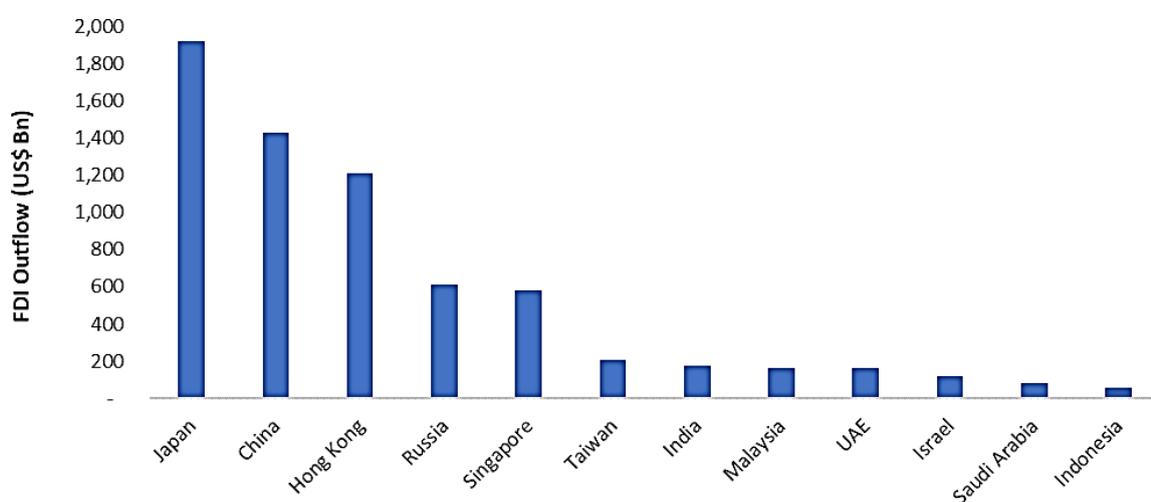
Source: Author's compilation based on UNCTAD Database

Table 4.1 highlights the top ten nations regarding outward FDI from 2010 to 2019, with these countries accounting for over 50 percent of global outward FDI flows. Table 4.1 shows that the USA led with the largest proportion of investment, at 17.38 percent, followed closely by Japan. Key factors influencing the USA's outward FDI include its market size, economic stability, and openness to trade. Japan also made a substantial contribution to global outward FDI, driven by

geographical proximity and cost benefits. China, with a 5.61 percent share, ranks fourth worldwide in outward FDI, alongside the United Kingdom. In this period, India ranked 27th globally in terms of outward FDI.

4.3.3 Top Asian Economies in Terms of Outward FDI

Figure 4.2: Top Asian Economies in Terms of Outward FDI (US\$ Bn), 2000-2019



Source: Author's compilation based on UNCTAD Database

The patterns of outward FDI from Asia have changes considerably between 2000-2019. The total FDI from Asia in the period has been US\$ 7002877. Japan held the foremost position in outward FDI flows, and its flows have been increasing consistently exhibiting low volatility with total flows amounting to US\$ 1921622.93 (Figure 4.2). On contrary the 2nd position is held by China, and its flows have been quite volatile with the total flows amounting to US\$ 1429791.80. Apart from Japan, significant changes are brought by China in Asian outward FDI. This shift in FDI dynamics was propelled by China's implementation of the 'going out' investment policy, coupled with the establishment of a sector-specific classification in 2016. This classification categorized sectors into those that were 'restricted,' 'encouraged,' and 'prohibited,' facilitating a more strategic approach to investments. Additionally, UAE made significant contribution as its outflows increased from US\$ 15079.292 in 2018 to US\$ 21226.158 in 2019. Hong Kong attained 3rd rank in spite no major overseas investment promotion policies, and there are no restrictions imposed on its investors for international

investments (Bureau of Economic and Business Affairs, 2021). India attained 8th position in Asia. Other than these top economies the significant contribution in Asian outward FDI was made by Israel, and South Arabia. Outward FDI from Israel has been volatile and from Saudi Arabia, outward FDI showed an increasing trend post-2009.

4.4 Trends and Patterns of Outward FDI from India and China

4.4.1 Evolution of Outward FDI

a) *India*

Indian multinationals have always been inclined for investing abroad, they are investing since 1960s. The following table explains evolution from 1960s onwards with focus on changing policies:

Table 4.2: Regulatory Framework: Evolution of Outward FDI from India

Year	Policy	Implications
1969	Indian participation in joint overseas industrial ventures	Industrial ventures were allowed under certain conditions such as: No cash remittances for setting up companies. Investment in the form of machines and technical know-how (machines should be of Indian origin)
1973	Foreign Exchange Regulation Act	Provided a supportive political environment to Indian enterprises with intentions to invest abroad
1991	Economic reforms	Paved the way for Indian companies to explore overseas market
Late 1990s	Amendments to RBI policies	Raised investment limits and reorganized the procedure
2000	FEMA	Investments up to US\$ 50 million were allowed annually which were initially allowed in three years. Additionally, Acquisitions, investments in joint ventures and wholly owned subsidiary were permissible from the proceeds of ADR/GDR
2002	Liberalisation of automatic route	Investments limit was increased to US\$ 100 million

2004	Enlargement of end-use of External commercial borrowings	To facilitate fresh investments and investments via JV/WOS including mergers and acquisitions.
2007	Investment ceiling updated	Investment allowed up to 400 percent of the net worth of Indian companies. Limit of portfolio investments were increased to 50 percent of the net worth of the Indian companies. The required to invest 10 percent in an Indian company was eliminated
2008	Investment ceiling updated for mutual fund and SEBI registered companies	Investment allowed up to US\$ 7 billion
	Liberalised norms for registered trusts and societies	Registered trusts and societies in manufacturing sectors were allowed to invest in JV/WOS
2013	Liberalised approvals	Brought down the ceiling of automatic approval to 100 percent of net worth.
2014	Financial commitment by Indian party under outward FDI	Limit for automatic approval restored to 400 percent.

Source: Adapted from (EXIM Bank, 2014; Chaudhry et al., 2018; Joseph, 2019)

b) *China*

Table 4.3: Regulatory Framework: Evolution of Outward FDI from China

Year	Policy	Implications
1976	Chinese government allowed domestic firms to invest via joint ventures in the overseas market	During 1980s, outward FDI was concentrated within few sectors such as transports, service, engineering contract, and financial insurance.

1982	MOFERT	To expedite foreign trade.
Post 1984	Activities abroad were boosted	To increase local economic development
1992	Policies encouraging SEZs in China President Jiang Zemin announced intention to boost investment abroad and transnational operations	Chinese enterprises with competitiveness in manufacturing, electronics, information and communication emerged such as Haier, TCL, Lenovo, Huawei.
Between 1988 and 1998	China signed 60 BITs with developing economies	OFDI with developing economies escalated. 577 enterprises setup Emergence of Chinese Transnational corporation.
Post 1999	Chinese enterprises were encouraged with incentives to invest abroad via processing plants	Observed patterns of outward FDI from China: Majority firms were small in terms of initial outlay. To avoid capital risk investments abroad through joint ventures. Green field investments were complemented by acquisitions.
1998	Government introduced reforms in SOEs	This escalated OFDI from China since government kept control of big SOEs like energy and natural resources. However, transferred the ownership of small SOEs to private companies or local governments.
2001	“go global policy”	OFDI rise from US\$ 2 billion in 1999 to US\$ 116 billion in 2014.
2006	Sector direction policy introduced by MOFCOM and NDRC	“Provided guidance for promotional measures on the basis on investments that encouraged, allowed and prohibited”. The policy provided: Financial and fiscal support Expedited approval

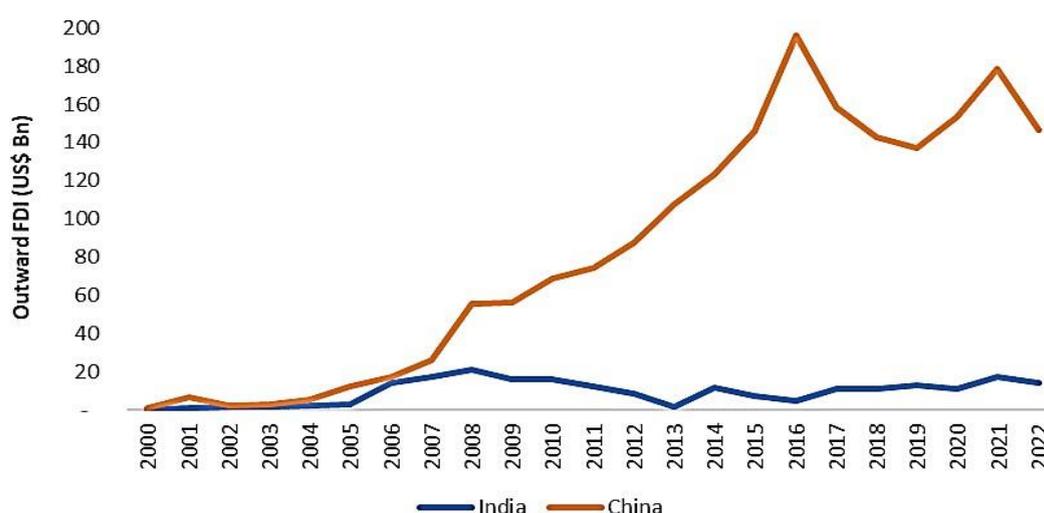
		Priority access to foreign exchange Tax rebates on exports of goods Investment consulting Risk Assessment Risk control and investment insurance
2008	Streamlined approval process of go global policy	To reduce the number of stages enterprises, must go through for examination and approval of outward FDI
2013	Belt and Road Initiatives	Aimed at engaging domestic enterprises in outward FDI
Post-2015	Blue Sea Strategy	Primary role to provide finance to domestic enterprises to invest in natural resources abroad to fulfil domestic needs.

Source: Adapted from (Foster, 2022; Li, 2013; Molnar et al., 2021; Sauvant et al., 2015)

4.4.2 Trends of Outward FDI

The trends of outward FDI from India and China as shown in Figure 4.3 are explained below.

Figure 4.3: Trends in Outward FDI from India and China (US\$ Bn), 2000-2022



Source: Author's compilation based on UNCTAD Database

a) *India*

- i. **2000-2005:** Indian enterprises embarked on international investments in the 1960s. Subsequently, a notable surge in outward FDI transpired following the implementation of economic reforms. The outward FDI escalated from US\$ 6 million in 1990 to US\$ 119 million in 1995, marking a substantial growth (Chaudhry et al., 2018). The upward trajectory in outward FDI gained momentum from the year 2000 onwards, coinciding with the introduction of the FEMA. This legislative development aligned with a liberalized political environment in the Indian economy, providing a conducive landscape for Indian enterprises seeking foreign investments.
- ii. **2006-2019:** The surge in outward FDI flows post 2005 can be ascribed to the removal of restrictions on non-promoted companies issuing guarantees (Kumar et al., 2022). However, a downturn in outward FDI flows unfolded post 2008, attributed to the global financial crisis, which led to a diminished risk appetite among Indian enterprises. This dip persisted until 2013, marked by increased risk aversion among investors and financial stress in the global market, leading to a substantial reduction in portfolio investments. The diminished value of global assets was a consequence of declining interest from buyers during this period (The Economic Times, 2013). Nevertheless, since 2016, outward FDI flows have exhibited an upward trajectory, indicating a resurgence in international investment activities by Indian enterprises.

b) *China*

- i. **2000-2008:** Although China initiated its 'Go Global' policy in 2001, it is noteworthy that the outward FDI flows of both China and India did not exhibit a substantial increase until 2004. This can be attributed to the limited knowledge possessed by Chinese enterprises concerning overseas operations and investments during that period. However, the tangible effects of the 'Go Global' policy and China's accession to the WTO became evident after 2004. In 2008, Chinese outward FDI surpassed US\$ 50000 million for the first time, with a notable focus on mergers and acquisitions within the financial sector.
- ii. **2009-2012:** A decline occurred in 2009 due to the global financial crisis, subsequent years witnessed a resurgence in Chinese outward FDI, as highlighted by Chen (2015).

The categorization of Chinese outward FDI flows into two segments—central government-controlled state-owned enterprises and provisional firms—reveals that the elevated flows from 2005 to 2012 were significantly influenced by subsidies provided to state-owned enterprises by the central government. Notably, between 2003 and 2009, 80 percent of outward FDI flows originated from central state-owned enterprises. In contrast, provisional firms played a less significant role during this period due to insufficient financial support from the central government. Since then, China has demonstrated exceptional performance, with 16,000 Chinese enterprises having investments spread across 179 economies by the end of 2012.

- iii. **2013-2019:** President Xi's 2013 launch of the Belt and Road Initiative, encompassing the overland Silk Road Economic Belt and the Maritime Silk Road, aims to create a vast network. This includes railways, roads, pipelines, and energy projects spanning across former Soviet states, India, China, and Southeast Asia. The plan also involves developing ports in the Indian Ocean and Europe to boost exports. China's investment in numerous SEZs has led to job creation. As of 2023, 147 countries are either participants or have shown interest in this initiative. Its primary goals are to enhance trade connections with Western nations, promote the renminbi's usage, and improve China's economic performance, including national income, exports, and production capabilities. (James, 2023)

4.4.3 India and China in Terms of Outward FDI Consistency, 2000-2019

Table 4.4: Outward FDI Consistency: Comparison of India and China

Measure/Economy	India	China
Sum (US\$ Mn)	178073.2	1429792
Mean (US\$ Mn)	8903.66	71489.59
S. D. ⁵⁵ (US\$ Mn)	6393.82	62458.93
C.V. (US\$ Mn)	72%	87%

Source: Author's calculation based on UNCTAD Database

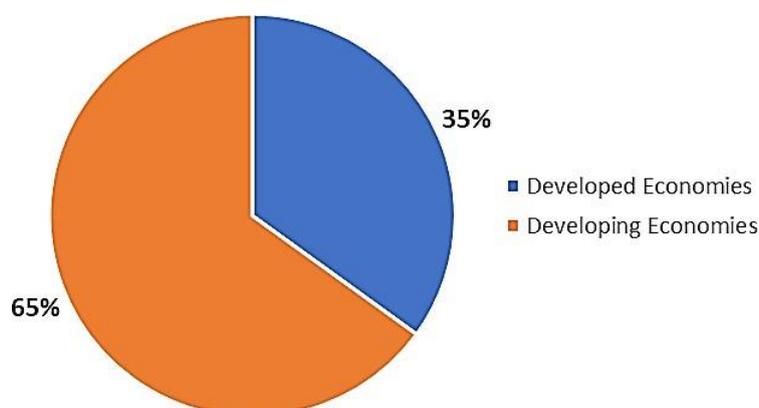
⁵⁵S.D. – Standard Deviation is a measure that quantifies the amount of variability in the dataset (Bhandari,2020)

The above analysis in Table 4.4 evaluates the stability of outward FDI from India and China using the coefficient of variation. As defined by Professor Karl Pearson, the coefficient of variation represents the percentage fluctuation around the mean, with standard deviation as the measure of total variation. A higher coefficient indicates greater dispersion around the mean. Thus, for outward FDI, a higher coefficient value for a country suggests more variability or less consistency in its outward FDI. Analysis of Table 4.4 reveals that, over the two-decade period from 2000 to 2019, India demonstrated lower variability or greater consistency in its outward FDI compared to China.

4.4.4 Outward FDI Share in Developing and Developed Economies from India and China⁵⁶

a) *India*

Figure 4.4: Outward FDI in Developing and Developed Economies (US\$ Bn),2000-2022⁵⁷



Source: Author's calculation based on RBI Database

⁵⁶ The country classification is based on United Nations country classification. The classification is based on GNI and the information obtained from five United Nations regional commissions. IMF and World Population Review classification is not explicitly on economic scenario in these economies and hence United Nations country classification is selected for the study.

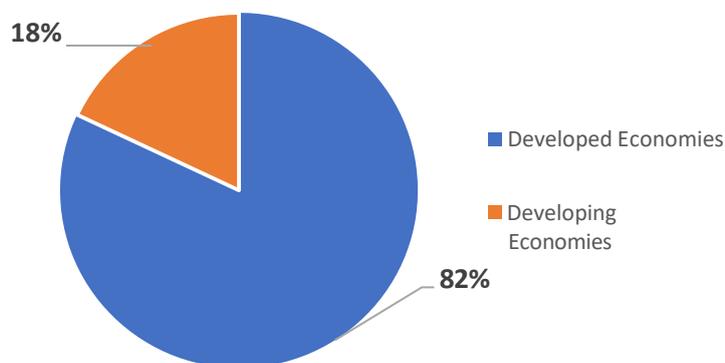
⁵⁷ Department of Economic Affairs, RBI publishes annual data of outward FDI from India for top 10 economies. However, to calculate India's total investments in developed and developing economies, the study needed consolidated data. The consolidated data for all the economies in India, is available from 2000-2022 and hence the analysis for India is conducted from 2000-2022. For China, the consolidated is available from 2008-2019 and hence the analysis for China has been conducted from 2008-2019. These investments from China represents approximately 80 percent of investments.

The process of international investment involves the critical step of selecting an appropriate market, whether developed or developing, followed by the careful choice of overseas companies that promise profitable returns. India during 2000-2022, has invested in approximately 150 economies. According to the Figure 4.4, India tends to make substantial investments in developing economies globally amounting to 57 percent. The primary motivations behind these investments typically revolve around factors such as low labour costs and access to natural resources. However, it is noteworthy that India actively promotes a country-neutral investment approach worldwide. This approach recognizes the distinct advantages offered by both developed and developing economies still Indian multinationals are inclined toward developing economies. The inclination is majorly towards Singapore and Mauritius as during 2000-2022, Indian multinationals have invested approximately 34 percent of the total investments only in these two developing economies i.e., Singapore and Mauritius.

Indian invests 43 percent of its investments to developed economies. India must diversify its investments in developed economies such as Japan, Germany which are technological advanced economies. India's investment in Japan and Germany amounted to 0.2 and 1 percent of its total outward FDI. Investing in developed economies is often attributed to their well-established governance structures. This leads to reliable accounting and financial reporting practices, creating an environment of transparency and accountability. Additionally, the presence of proper rules and regulations in developed economies enhances the overall productivity of the invested companies. Therefore, India must diversify its investments in developed markets.

b) *China*

Figure 4.5: Outward FDI in Developing and Developed Economies (US\$ Mn), 2008-2019



Source: Author's calculation based on RBI Database

As indicated by the Figure 4.5, China directs substantial investments toward developing economies amounting to 83 percent between 2008-2019. The primary incentives for investing in developing economies include the availability of labour at a lower cost and cost-effective access to funds. China through 'Belt and Road Initiatives' since 2013 has started investing in infrastructure projects of mainly Asian developing economies. Among the developing economies, Hong Kong attracted substantial investments from China between 2008-2019. The findings based on inward FDI suggested that Hong Kong is also the highest investor in China this highlight round tripping activities by investors. China invests significant amount in other developing economies such as Russia, Thailand, British Virgin Islands. China invests nearly 17 percent in developed economies. Typically characterized by high economic growth rates, developed infrastructure, and higher household incomes. China invests in developed economies to acquire access of strategic assets, advance technology, and diversify foreign exchange reserves. A report by Kong et al. (2015) mentions that China has diversified its investments with developed markets, and share of Japan and economies in Europe and North America have increased. The report also highlights round tripping and Offshoring by Chinese multinationals via Hong Kong and Cayman Islands. Developing markets receives approximately 18 percent investments from China.

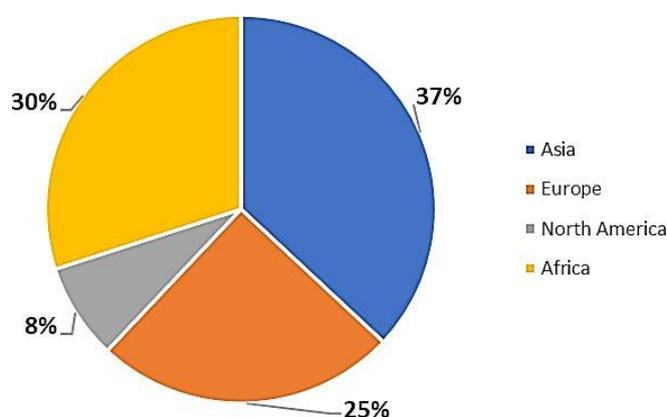
4.5 Exploration of Destination Countries Receiving Outward FDI from India and China

4.5.1 Distribution of Outward FDI as per Regions

a) *India*

The regional distribution of outward FDI as shown in Figure 4.6 is explained below.

Figure 4.6: Distribution of Outward FDI as per Regions⁵⁸ (US\$ Mn), 2008-2019⁵⁹



Source: Author's compilation based on RBI Database⁶⁰

- a) **India and Asia:** In the Asian region, nations like Singapore, the United Arab Emirates, and Sri Lanka are key destinations for India's outward FDI. Remarkably, among the top ten global destinations for foreign direct investment, three are Asian economies. Singapore is the primary recipient of India's overseas investment. Since the fiscal year 2013-14, investments in Singapore have witnessed a consistent rise, growing from US\$ 1476.39 million to US\$ 2723.39 million by 2018-19. From 2000 to 2021, approximately 20 percent of India's total international investments were directed to Singapore. Meanwhile, investment flows to the United Arab Emirates have shown

⁵⁸ The classification is based on the World Bank Group classification based on region.

⁵⁹ The Ministry of Trade and Commerce publishes the data for outward FDI from the year 2008. These economies receive 80 percent or more investments from India.

⁶⁰ The Database for Indian outward FDI presents investments from India into Latin American economies like Panama, Chile, Ecuador, Peru and Argentina constitutes to zero percent.

fluctuations, yet they accounted for about 4 percent of India's total investments in the same period.

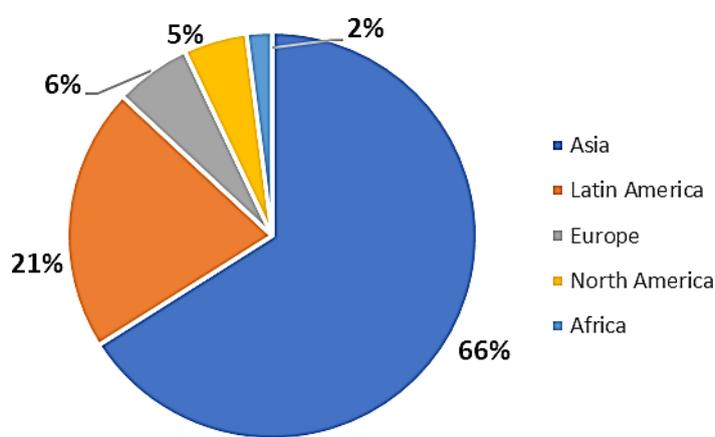
- b) ***India and Africa:*** Indian multinational corporations strategically redirect their investments to Africa through Mauritius, resulting in a cumulative investment from India to Africa of approximately percent since 2008. Mauritius has accounted for a significant 26 percent of India's total outward FDI between 2008-2019. This trend can be attributed to various factors. The government of Mauritius has implemented an extensive network of DTAT with African nations, providing a strategic conduit for Indian multinationals to access African economies. Additionally, the Mauritian government actively seeks investments from India as a means of diversifying economic ties and exploring alternatives to Chinese investments. Apart from Mauritius, Mozambique emerges as the primary economy drawing international investments from India in this context.
- c) ***India and Europe:*** Indian multinational corporations have directed their investments towards European economies, with notable focus on the United Kingdom, Netherlands, and Switzerland. The United Kingdom stands out as the primary recipient of international investments from India, followed by the Netherlands and Switzerland. Despite the presence of approximately 50 economies in Europe, Indian multinationals primarily target these three nations. It is noteworthy that while investing in European economies, such as Germany, could offer India substantial technological advantages, Indian multinationals have not established a significant presence in Germany. This can be attributed to a crucial determinant of overseas direct investment—trade. The absence of bilateral trade agreements between India and Germany has contributed to this phenomenon. Furthermore, Germany has exhibited skepticism towards India's trade liberalization measures over the years, further impacting the establishment of Indian multinationals in the German market.
- d) ***India and North America:*** Indian multinational corporations' channel significant investments into United States of America followed by Canada in North America. Following Mauritius and Singapore, the United States of America holds the position as the third-largest recipient of overseas direct investments from India. In contrast, the

shares of investments directed towards the Cayman Islands and Mexico have consistently remained notably low over the given period.

b) *China*

The regional distribution of outward FDI as shown in Figure 4.7 is explained below.

Figure 4.7: Distribution Of Outward FDI as per Regions (US\$ Mn), 2008-2019



Source: Author's compilation based on MOFCOM Database

- a) ***China and Asia:*** China invested nearly 66 percent in Asia between 2008-2019. Chinese overseas direct investment in Asia spans across various economies, including India, Japan, Indonesia, Macao, Singapore, the Republic of Korea, and Thailand. Notably, a substantial portion of these investments directed towards Asia, was attracted by Hong Kong. Chinese investors interest in India have been increasing in recent times with investments doubling in 2019 as compared to 2018 (MOFCOM Database, 2020). However, it is essential to highlight that India implemented new restrictions in April 2020 due to concerns related to security, tax malpractices, and customs duty evasion (James, 2022).
- b) ***China and Latin America:*** Brazil, the Cayman Islands, Mexico, and the Virgin Islands are among the countries that attract overseas direct investment from China. Notably, the Cayman Islands and the Virgin Islands stand out as the primary recipients of such investments, primarily due to the prevalence of tax avoidance treaties with these economies. Furthermore, there is a strengthening of political and economic relations

between China and Brazil in recent times, contributing to an escalation in trade and investments between the two nations.

- c) ***China and Europe:*** Chinese-European relations have experienced a decline in recent years. Chinese companies have notably directed international investments towards economies such as the United Kingdom, France, Germany, and Russia. This shift is attributed to Chinese retaliatory measures in response to European Union sanctions concerning human rights, economic coercion, and trade actions against China. (European Union External Action, 2022).

- d) ***China and North America:*** Chinese companies actively extend their financial investments to both Canada and the United States, two prominent economies in North America. Notably, the United States stands out as a leading recipient of FDI from China during the period from 2008 to 2019. These investments span across various major sectors. Experts assert that China's substantial investments in the United States are strategically aimed at maintaining a lower export price.

- e) ***China and Africa:*** Chinese multinational corporations are actively directing their financial investments to several African economies, including Algeria, Sudan, Guinea, Madagascar, Nigeria, and South Africa. Notably, Chinese investments in Africa have experienced a significant upswing since 2008, with South Africa emerging as the foremost recipient of overseas direct investment from China.

4.5.2 Geographical Distribution of Outward FDI from India and China

The geographical distribution of outward FDI from India and China as shown in Table 4.5 is explained below.

Table 4.5: Outward FDI from India and China as per Economies⁶¹ (US\$ Mn),2000-2019⁶²

Rank	India	% Share in Total FDI	China	% Share in Total FDI
1	Singapore	18	Hong-Kong	59.7
2	Mauritius	15	British Virgin Islands	6.3
3	USA	9	Cayman Islands	4.5
4	Netherlands	8.9	United States	4.4
5	United Kingdom	5	Singapore	3.2
6	UAE	4	Australia	2.5

Source: Author's compilation based on RBI and MOFCOM Database

a) *Top Investment Partners of India*

Rank 1: Singapore

In 2005, India and Singapore entered a CECA⁶³, marking the beginning of a strengthening relationship. The data clearly reflects Singapore's status as the most favourable economy for Indian investors. According to a report by Bhardwaj (2021), Indian investors are attracted to Singapore due to its well-developed infrastructure and, notably, its strategic location in Southeast Asia. This location facilitates easy access to markets in countries such as the Philippines, Malaysia, and Indonesia. Furthermore, Singapore holds a significant position as one of India's largest trading partners in terms of exports. According to data released by EXIM (2023), India's exports to Singapore reached US\$9,564.58 million in 2017-18, increased to

⁶¹ India and China invest more than 80 percent of their outward FDI in the foreign enterprise of these economies.

⁶² For India, the ranks have been decided based on ranks reported by the Reserve Bank of India for the period between 2000 to 2021. However, investments in the years after 2019 i.e., 2020 and 2021. For China, the ranks based on outward FDI from 2004- 2019 because of inaccessibility of the data between 2000 and 2003, the consolidated data for 2004-2019 has been used.

⁶³ CECA: Comprehensive Economic Cooperation Agreement

US\$10,202.82 million in 2018-19, and further rose to US\$11,572.27 million. The conducive business environment and the availability of cutting-edge opportunities contribute significantly to the attractiveness of Singapore as an investment destination.

Rank 2: Mauritius

Mauritius has become preferable destination for Indian investors due to its tax avoidance agreements and investment promotion and protection policies. Some of the big enterprises investing in Mauritius are Larsen and Turbo, Kukuzo Project Development Company, TIM Global Private Limited and Infosys Technologies (Indian Private Sector Companies Operating in Mauritius, 2023). Interestingly, Mauritius total population comprises of 70 percent of the total Mauritius population. The leaders of both economies have a high-level mutual understanding reflecting in the high political engagement (Indian Private Sector Companies Operating in Mauritius, 2023). Moreover, Indian investors find Mauritius a tax-free gateway to African nations. The massive investments can be attributed only to the bilateral trade and investment agreements between both the nations in the initial years since India's exports to Mauritius in 2016-17 stood at US\$ 881.38 million, US\$ 1077.15 million in 2017-18 and US\$ 1160.78 million. These figures are less than 1 percent of India's total exports. (EXIM, 2023)

Rank 3: The United States of America

The trajectory of overseas direct investment flowing into the USA exhibits a discernible upward trend. A significant factor contributing to this trend is the notable increase in exports from India to the USA. India's exports to the USA recorded a steady growth, reaching US\$40,336.01 million in 2015-16, US\$42,121.27 million in 2016-17, further escalating to US\$47,878.48 million in 2017-18, and eventually reaching US\$52,406.27 million in 2018-19. This accounts for approximately 15 percent of India's total exports. As per the data published in International Investment Agreements Navigator (2023) there prevails no investment treaties between both the economies.

Rank 4: Netherlands

India's foreign investments in the Netherlands experienced a decline during 2014-15 but have been on a path of recovery since 2016-17. Notably, since 2017, the governments of both economies have been actively engaged in enhancing their bilateral relationship. In 2017, Indian

Prime Minister Narendra Modi visited the Netherlands, and during this visit, a high-level CEO roundtable took place. Subsequently, in 2018, Dutch Prime Minister Mark Rutte visited India, leading a delegation of 130 Dutch companies and 200 trade representatives, further reinforcing the diplomatic and economic ties between the two nations (Embassy of India in Netherlands). There is FTM⁶⁴ established to increase mutual investment activities between both the economies. Over 350 Indian companies operate in Netherlands in the areas such as agriculture, health, port and shipping, and science technology. Additionally, India's exports to Netherland stood at US\$ 5069.69 million in 2016-17, and increased to US\$ 8812.84 million in 2018-19.

Rank 5: United Kingdom

India and United Kingdom signed a bilateral investment treaty back in 1994 which now stands terminated. However, the trade relations between both the economies are strong as the India's exports to United Kingdom stood at US\$ 8503.07 million in 2016-17, which increased to 9691.07 in 2017-18 and US\$ 9309.29 in 2018-19. United Kingdom attracts majority of the investments that goes to European Union from India. According to a report published in United Kingdom, in 2018, India stood as second largest investor of United Kingdom creating 4858 new jobs. As per Shadbolt (2015), Indian enterprises invests in United Kingdom majorly due to ease of doing business parameter and the English language familiarity.

Rank 6: United Arab Emirates

The real estate sector remains an attractive avenue for FDI from India due to its high investment and rental yields. However, the based on DPIIT (2020) there has been a volatile distribution of overseas direct investment in the UAE by Indian investors, showing a downward trend in recent years. Notably, the UAE government has significantly lowered the investment limit recently, a move anticipated to positively influence investments in the real estate sector. The Indian government has also introduced the 'liberated remittance scheme,' allowing the official transfer of US\$ 250,000 to Dubai. In May 2022, India and the UAE signed a CEPA⁶⁵, signaling new promotional activities. Consequently, there is an expectation of an upward trend in Indian overseas direct investment to the UAE based on these recent developments.

⁶⁴ FTM: Fast Track Mechanism

⁶⁵ CEPA: Closer Economic Partnership Arrangement

b) *Top Investment Partners of China*

Rank 1: Hong-Kong

Hong-Kong is the second largest receiver of inward FDI (UNCTAD, 2020). Chinese multinationals have massive stake in Hong-Kong. China's investments in Hong-Kong had followed an upward trend for straight eight years from 2008 to 2016 (MOFCOM Database). Substantiating this with data from the (MOFCOM Database), it is evident that Hong Kong has consistently been a significant recipient of China's overseas direct investment. In the years 2015, 2016, 2017, and 2018, Hong Kong attracted 68 percent, 64 percent, 57 percent, and 60 percent, respectively, of the total overseas direct investment carried out by China. Hong Kong adopts a free-market policy, characterized by its non-discriminatory treatment of foreign and domestic enterprises. One of the key features that appeal to investors is the ease with which foreign offices can be established, without undue regulatory burdens. Notably, there are no mandatory citizenship or residency requirements for company directors, further enhancing the business-friendly environment in Hong Kong (Bureau of Economic and Business Affairs, 2021). The Hong Kong economy refrains from imposing taxes on capital gains, allowing profits to be freely converted and remitted. Both domestic and foreign enterprises are subject to a common tax rate of 16.5 percent, contributing to a consistent and transparent tax environment in the region (Lee, 2020). Hong-Kong hosts majority of the Chinese IPO and majority of the Chinese companies consider it as a gateway to invest in international companies. It has been labelled as global financial and business centre which has helped China to encourage global use of its currency.

Rank 2: British Virgin Islands

China's investment in British Virgin Islands have been growing ever since 2008 (MOFCOM Database). British Virgin Islands is the most favourable destination of Chinese investors after Hong-Kong. As per the report by Donovan (2018), the inclination is due to the flexible in the corporate structure in the economy that motivates Chinese investors to invest. Along with this vital pull determinants are "legal system based on English common law, internationally compliant regulations and tax neutrality." (Donovan, 2018).

Rank 3: Cayman Islands

Chinese overseas direct investment in the Cayman Islands exhibited growth from 2008 until 2016. In 2017, there was a noticeable negative trend; however, it rebounded with a positive figure in the subsequent year, 2018 (MOFCOM Database). A significant factor contributing to the attraction of Chinese firms to the Cayman Islands is the existence of a DTAT between China and the Cayman Islands. Notably, the Cayman Islands, being tax-neutral with no corporate tax rate, serves as a compelling destination for substantial investments from China.

Rank 4: The United States of America

China's investment in the USA have been growing positively post 2007 (MOFCOM Database). As per Li (2013) Chinese companies are attracted by USA's advanced manufacturing, services, safe heaven assets. Additionally, the elevation in Chinese overseas direct investment to USA can be attributed to trade facilitation and natural resources extraction. However as per Li (2013) during 2013, the investments in unconventional oil and gas extraction declined but it was compensated by increase in technological driven investments.

Rank 5: Singapore

China's investment in Singapore increased till 2015 and witnessed a downfall in the coming years (MOFCOM Database). As per the report by Mercy (2023), Chinese investors are diversifying their investments by investing in Singapore. In addition to the attractive tax incentives provided by the Monetary Authority of Singapore, the convenience for Chinese investors in Singapore is further enhanced by the presence of three official languages: Mandarin Chinese, Malay, and Tamil. Furthermore, Singapore holds the second position in the ease of doing business index and ranks 8th in the global innovation index, making it a favourable destination for investment. Singapore actively attracts FDI by positioning itself as a research and development centre for businesses. This is achieved through initiatives such as offering research grants and providing tax incentives, contributing to its appeal as a strategic hub for innovation and investment (Bureau of Economic and Business Affairs, 2021).

Rank 6: Australia

China's investments in Australia depicts an upward trend till 2017. However, it witnessed a considerable downfall in the year 2018 (MOFCOM Database). Australia has set up a foreign investment review board for screening all the investments entering in the economy in national interest. Australia and China signed a bilateral investment treaty in the year 1988 to facilitate investment between both the economies which is still in force. Australian government has set up several agencies to attract foreign investment. These agencies provide government assistance to promote and facilitate FDI in Australia.

4.6 Sectoral Distribution of Outward FDI from India and China

The sectoral distribution of outward FDI from India and China as shown in Table 4.6 is explained below.

Table 4.6: Sector-Wise Outward FDI (Rank),2008-2019

Rank	India	China
1	Manufacturing	Leasing business
2	Financial, Insurance and Business Services	Wholesale & Retail trading
3	Agriculture and Mining	Financial Intermediation
4	Wholesale, Retail Trade, Restaurants & Hotels	Manufacturing
5	Transport, Storage & Communication Service	Mining

Source: Author's compilation based on RBI and MOFCOM Database

a) *Outward FDI from India: Sectoral Distribution*

Rank 1: Manufacturing

Overseas direct investment in manufacturing sector has reduced considerably. However, the high volume of investment in the initial years i.e., during 2008 to 2012 elevates the stock of investment in manufacturing during the period 2008 to 2019 (RBI Database). The investments started declining during the 2012 and have not retained the initial volume. The investments from India are shifting from efficiency and resource seeking to market seeking. This can be attributed to government efforts to promote India as a 'global manufacturing hub' and introducing programmes such 'Make in India' and Aatmanirbhar Bharat.' Majority of the investments in the manufacturing sector by India are pulled by the USA due to its cost competitiveness in the production of computer and electronics.

Rank 2: Financial, Insurance and Business Services

Overseas direct investment in financial, insurance, and business services experienced a decline starting from 2009, notably after the subprime crisis, with a subsequent recovery post-2015 (RBI Database). This trend underscores the increasing significance of market-seeking FDI

from India. Investments in these sectors are predominantly influenced by the United States of America and Singapore. This is since some of the world's most renowned companies in financial and insurance services originate from these economies, contributing to the development and organization of these sectors.

Rank 3: Agriculture and Mining

The India's investments in agriculture and mining have remained volatile (RBI Database). The overseas direct investments reached its peak in the year 2013 and started declining thereafter. This can be attributed to the union budget 2013-14 where food sector was supported by market interventions, imports, and food subsidies. The 'National Livestock Mission' was launched during 2013-14 (Press Information Bureau, 2013). The overseas investments continued to decline since government in the year 2017 launched a progressive and facilitative model, 'Agricultural Produce and Livestock Marketing Act, 2017' which permitted setting up of private markets, and direct marketing.

Rank 4: Wholesale, Retail Trade, Restaurants and Hotels

Overseas direct investments in the wholesale and retail trade, and restaurants and hotel services have reduced considerably since 2011. The investment in this sector suggests market seeking, and efficiency seeking investments. India should promote investments in this area via vertical or horizontal FDI to strengthen macro-economic indicators. The overseas investments started recovering in the 2015 which can be attributed to the introduction of goods and services tax which promoted single taxation policy bringing tax transparency in the supply chain.

Rank 5: Transport, Storage and Communication Service

Overseas investments in the sector reached their peak during the year 2011-12 but have been on a declining trend in subsequent years (RBI Database). The surge in overseas direct investment during this period can be attributed to factors such as the 2G spectrum case and the absence of significant policy reforms in the transport sector. The subsequent decline in overseas direct investment can be linked to the growth and development of the telecommunication sector in India in 2016. This period witnessed significant changes in the telecom market, marked by

falling tariff rates and reduced data charges. Additionally, during 2015-16, the Indian government set a target 2.5 times higher for the construction of national highways, potentially diverting investment focus away from other sectors (Press Information Bureau, 2016).

b) *Outward FDI from China: Sectoral Distribution*

Rank 1: Leasing Business

Financial leasing companies in China majorly target developing economies. They purchase an asset on behalf of the user which is located outside China where the lessor (China) holds the right of the property and lessee use the property. The lessee is required to repay the amount within a fixed period of time. This is usually practiced in industries which require higher capital investment such as aviation, construction, and logistics. China forfeits the right of the user to use the asset in case one fails to repay within the prescribed time (Shira & Associates, 2016). However, economies like Australia have announced new regulations fearing threat to its national assets.

Rank 2: Wholesale and Retail Trading

China has exhibited a growth rate in investments in wholesale and retail trading until 2018. The investments in this sector displayed consistent growth from 2010 to 2017, reaching its highest growth rate of 25 percent in the year 2017 (MOFCOM Database). This trend suggests that China strategically targets the markets of host economies, particularly emphasizing its focus on the wholesale and retail trading sector. The higher investments in this sector align with China's significant exports, as its overseas direct investments are complementary to its export-oriented strategy.

Rank 3: Financial Intermediation

China's investment in financial intermediation have been quite volatile. The highest investments made by China in the sector is in Hong-Kong followed by United States, and Australia. China investments in financial sector are majorly directed towards developed economies since developed economies have regulated markets and developed financial system.

The percentage of jobs created by China as a percentage of total jobs created by all the major sectoral investments by China is 14 percent till 2017.

Rank 4: Manufacturing

China's investments in the manufacturing sector have been consistently increasing until 2018. Until 2017, a significant portion of China's outward FDI stock in the manufacturing sector, accounting for 52 percent, was directed towards the USA, followed by Russia and Hong Kong. Furthermore, in 2017, China held the third position globally in terms of overseas direct investment stock in the manufacturing sector. Importantly, among all sectors, China's overseas direct investment stock in manufacturing has been a major contributor to job creation (Molnar et al., 2021).

Rank 5: Mining

China's overseas investments in the mining sector have displayed volatility. These investments experienced an increase until 2013, followed by a continuous decline in subsequent years. Despite the recent decline, it is noteworthy that Chinese overseas investment stock in the mining sector held the second position globally until the year 2017, surpassed only by the Netherlands. Australia attracts majority of the FDI from China in the mining sector followed by the USA (Molnar et al., 2021).

4.7 Post Covid-19 Scenario of Outward FDI from India and China (2020 and 2021)

4.7.1 Exploration of Countries Receiving Investments from India and China

a) *India*

- i. ***Top Investment Partners:*** India's outward FDI to Singapore decreased in 2020 compared to 2019, but then surged in 2021, surpassing pre-pandemic levels. In contrast, India's FDI to Mauritius rose in 2020, despite the Covid-19 pandemic, but then fell by 43% in 2021. Notably, the effects of Covid-19 were not immediately apparent in 2020. Meanwhile, India's investments in the United States, the Netherlands, the United Kingdom, and the United Arab Emirates all experienced declines in 2021 (DPIIT, 2021).

b) *China*

- i. ***Top Investment Partners:*** In 2020, China achieved a leading position in global outward FDI for the first time, as highlighted in the (World Investment Report ,2021). This indicates that the pandemic did not significantly hinder Chinese overseas investments. Throughout 2020 and 2021, Hong Kong was the top recipient of Chinese investment. Moreover, there was a rise in China's investments in Europe, with Germany and Poland receiving particularly significant investments.

4.7.2 Sectoral Distribution of Outward FDI from India and China

a) *India*

- i. ***Outward FDI from India: Sectoral Distribution:*** In the period following the Covid-19 pandemic, there was a notable development where India's outward FDI in the manufacturing sector saw a significant decrease in 2021. Concurrently, there was an increase in investments in the service sectors. This trend highlights a shift in India's FDI, moving from a focus on resource-seeking investments to market-seeking investments.

b) *China*

- i. ***Outward FDI from China: Sectoral Distribution:*** Prior to 2020, the sectors that consistently attracted significant investments from China continued to attract investments in the year 2020 and 2021. Additionally, there is a noticeable inclination towards the information technology sector in 2020. Furthermore, in 2021, Chinese investments increasingly targeted the media and telecommunications sectors, along with technology. This investment pattern indicates that China's outward FDI continued to be driven by market-seeking objectives (MOFCOM Database).

4.8 Findings

The findings suggest that developed economies invest significantly higher than developing economies between 2000-2022. This can primarily be attributed to the interest of developed market in optimising cost of production, expanding operations in different market. In Asia, Japan contributes highest in terms of outward FDI followed by China between 2000-2019. India had secured 8th position in Asia.

India's outward FDI portray an upward trend in 2000s attributed to introduction of FEMA but due to global financial crisis, a downward trend was observed in ensuing years. However, since 2016, outward FDI in India has been witnessing an upward trend. China introduced 'Go Global Policy' in the year 2001 and joined WTO in the year 2002, the tangible effects of the same were observed after 2004 and hence China's outward FDI surged thereafter. The findings based on comparative trend analysis of India and China on outward FDI suggests that China has substantially higher outward FDI figures than India. Still, interestingly, the gap started widening only after the year 2005.

Indian outward FDI is concentrated in developing economies. An in-depth analysis reveals that India is investing in around 155 economies and of these, only 4 economies i.e., Mauritius, Singapore, the USA, and Netherlands attracts majority of the investments from India. However, the study identifies that Indian enterprises must optimise and establish its global foot prints through investing higher in developed economies to overcome the market imperfections. Additionally, India needs country neutral investments that reduce the sudden exposure to financial and political risks emerging from host economies. China's outward FDI predominantly targets developing economies, with Hong Kong receiving the largest portion. While China invests in over 165 economies worldwide, Hong Kong remains the primary recipient. Recent years have seen a significant shift in China's outward FDI strategy, primarily due to the Belt and Road Initiative. This large-scale effort aims to diversify China's global presence and strengthen its trade relationships with various economies around the world.

Between 2008-2019, Indian enterprises have majorly invested in manufacturing sector which amounted to 35 percent of total outward FDI during the time frame. This is unfavourable towards India's efforts of becoming a global manufacturing hub and indicates inclination towards resource seeking FDI. Manufacturing attained top position in the time frame selected

primarily as Indian multinationals after 2009, exponentially invested in manufacturing sector overseas until 2013. This can be majorly attributed to investments in Singapore during the time frame. However, in the recent years, outward FDI in financial, insurance and business services, transport, storage, and communication services, and community, social and personal services is increasing and hence Indian outward FDI in the resource seeking sector is reducing and is increasing in market seeking sector. India needs to increasingly adapt market and strategic asset seeking strategies to gain from outward FDI flows. However, these investments will deliver actual gains if they are not a part of round tripping strategies. Between 2008-2019, Chinese enterprises have majorly invested in leasing business since one-third of outward FDI flows are directed towards this sector. Additionally, Chinese outward FDI are directed towards leasing business, financial intermediation and wholesale and retail trading which highlights that Chinese outward FDI are market seeking and strategic asset seeking.

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