CHAPTER 6: DETERMINANTS OF OUTWARD FOREIGN DIRECT INVESTMENT FROM INDIA AND CHINA

Chapter Overview

This chapter provides a comprehensive analysis of outward FDI from India and China. It examines various factors that influence outward FDI from India and China and their economic implications. The chapter identifies a gap in the literature by identifying the need of comparative studies between India and China in this area, along with the need to investigate the impact of outward FDI on sustainability indicators of the home country and seeks to add to the literature. The methodology of the chapter involves an empirical analysis of data from 1995 to 2019 to probe into the factors that push outward FDI from India and China. The analysis uses VAR OLS models to understand the dynamic relationships among various factors that influence outward FDI. These factors include economic variables selected on the basis of review of literature such as technological development, tax revenue, inward FDI, inflation, imports, national income for India and Imports, inward FDI, inflation, corporate tax, and economic growth for China. Along with this, the chapter identifies that outward FDI can play a critical role in the enhancing sustainability indicators and enable sustainable outward FDI. This is analysed by delving into the impact of outward FDI on exports of the home country which are crucial for its economic growth of the home country. The chapter finds that from India, push factors do not significantly influence outward FDI. For China, inward FDI is an important push factor leading outward FDI. In India, exports and outward FDI are substitutes of each other. In China, exports and outward FDI are complementary. Furthermore, the chapter discusses the policy implications of its findings, suggesting ways in which policymakers in India can optimize outward FDI strategies to better meet their economic and sustainable development objectives.

6.1 Introduction

6.1.1 Determinants of Outward FDI

The chapter attempts at analysing the determinants of outward FDI from India and China. The determinants of outward FDI are the push factors or variables that influence investors from domestic economies to invest in host economies. Understanding the determinants involves analysing and recognising the drivers that influence investors decision from home economies to invest in other economies.

6.1.2 The Divergent Perspectives on Outward FDI

The perspectives on inferences drawn from outward foreign direct investment have consistently presented a divergence of opinions. One school of thought, as advocated by Rahman et al. (2022), supports outward FDI flows. The study mentions that such movements result in the enduring repatriation of profits from the host country to the home country. The global landscape of outward FDI underwent a transformation since the 1990s. as countries realised its economic significance. Multinationals leveraged firm-specific advantages, leading to an augmentation of sales in host countries (Athukorala, 2016).

Pradhan (2017) observes that Indian firms are actively engaging in outward FDI, emerging as global players. The pivotal benefit derived by Indian firms through investments in foreign nations lies in foreign R&D, contributing to technology and knowledge transfer. This, in turn, positively impacts the R&D endeavours of the parent company of the Indian firm situated in India. Conversely, Kumar et al. (2022) finds that Indian policy makers should prioritize inward foreign direct investments over allocating funds abroad.

Agnihotri (2019) concludes that there exists no significant connection between gross domestic investment and outward FDI. Consequently, the focus for India should be on attracting inward FDI flows. The existence of contradictory literature serves as a catalyst for the examination undertaken in the present chapter. Additionally, as per UNCTAD (2022), developing economies from Asia have been increasingly investing through outward FDI. As per Taylor-Strauss (2019) it is expected to grow in coming years. Moreover, because China is the highest source of

outward from Asia, it will be relevant to study the determinants of outward FDI from China in comparison with India.

6.1.3 Tangible[81] Benefits of Outward FDI from Developing Economies

i.   *Market Expansion:* Outward FDI can enable domestic enterprises acquire new customers. Additionally, through diversification, risks can be reduced and enterprises can overcome risks of domestic market fluctuations.

ii. *Cost Reduction:* The investments in economies with low cost of raw materials, labour can lead to overall cost reduction of the product. Hence, through outward FDI domestic enterprises can produce efficiently.

iii. *Foreign Earnings:* Outward FDI can enhance revenue of domestic economy. Enterprises can repatriate the profits back into the domestic economy.

iv. *Export Earnings:* Outward FDI can increase exports of domestic economy. For example, multinationals can invest in economies through mergers and acquisitions or joint ventures. They can use their connections to direct exports in host economies. Hence, this can increase domestic economy's export earnings.

v.   *Larger Domestic Investment:* Outward FDI can increase domestic investment of domestic economy. As the prerequisite of exports complementary outward FDI is to enhance manufacturing capabilities of domestic economy.

vi. *Employment:* Several domestic economy effects such as positive domestic investment, escalated exports, industrial upgradation enhances domestic productivity. This increases the demand for human resources in the domestic economy.

vii. *Resource Availability:* The resources which are scarce in the domestic economy can be accessed as well as transported directly to the home economy from the host economy.

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[81] Tangible returns are generated from the acquisition overseas and transfer back to the home economy of natural resources, capital goods or other tangible assets

6.1.4 Intangible[82] Benefits of Outward FDI from Developing Economies

i. ***Access to Leading Technologies:*** Multinationals from developing economies are usually attracted towards developed economies because they own modernized technologies. Firm acquire additional benefits from outward FDI. They are firm specific advantages and factors such as technological and managerial know-how. These are attained by investing in developed markets. "Enterprises from developing economies prefer mergers and acquisition as a mode of investment. This is to have direct access to technological know-how and the research and development centres. As it delivers opportunities to benefit from a knowledge intensive environment and local talent in developed economies." (Stephenson, 2018; Taylor-Strauss, 2019)

ii. ***Industrial Upgradation:*** Competitiveness, efficiency in labour, innovation and technological skills are certain intangible benefits that can be accrued from outward FDI. This eventually leads to industrial upgradation in home economy. Additionally, when developing economies invest in developed markets the current business practices and standards are improved leading which enhances growth.

iii. ***Strategic Asset Seeking:*** Outward FDI can be beneficial if the motive is strategic asset seeking. Enterprises can acquire strong brands through outward FDI. This can lead to immediate access of customers loyal with the brands. Additionally, the enterprises can acquire patents through outward FDI.

6.1.5 Sustainable Outward FDI

The literature also establishes a link between outward FDI and sustainable development. Prominent research such as Desai et al. (2005) indicates that if managed strategically, outward FDI can complement exports. It increases both the exports and the production capacities of the domestic economy. The following Table 6.1 outlines various advantages derived from outward FDI that can be advantageous for the domestic economy.

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[82] Intangible returns result from the acquisition and transfer of know-how and capabilities from host to home countries

Table 6.1: Benefits of Outward FDI on Domestic Economy

Sr No.	Influence on Domestic Economy	Type	Applicability in SDG
1.	Export Earnings	Tangible	SDG-17 (To increase exports of developing economies)
2.	Larger Domestic Investment	Tangible	SDG-09 (Promotes inclusive and sustainable industrialization)
3.	Employment	Tangible	SDG-08 (Higher employment and decent work)
4.	Economic Growth	Tangible	SDG-08 (Sustained economic growth)
5.	Resource Availability	Tangible	SDG-07 (Access to sustainable and modern energy)
6.	Access to Leading Technologies	Intangible	SDG-09 (Upgrade technological capabilities)
7.	Industrial Upgradation	Intangible	SDG-09 (Upgrade technological capabilities)
8.	Improved Standards and Practices	Intangible	SDG- 12 (Encourages enterprises to adopt sustainable practices)

Source: Adapted from (Taylor-Strauss, 2019))

The preceding observations provide impetus for an inquiry into the sustainability of outward FDI from India and China (Table 6.1). In the present chapter, in the context of sustainable outward FDI, a systematic investigation is undertaken to assess the sustainability of these outflows. This assessment centres on two pivotal sustainability indicators. First, exports (aligned with Sustainable Development Goal 17.11). Second, employment (aligned with Sustainable Development Goal 8.5). The chapter attempts to scrutinize the relationship between outward FDI and both exports and employment. In the specific context of this chapter, sustainable outward FDI is characterized as those outflows that exert a positive impact on both exports and employment within the domestic economy.

6.2 Review of Literature

Firms engage in outward FDI to attain a competitive advantage, seeking stable markets and security for their funds. Additionally, the exchange rate plays a crucial role, with weaker host currencies attracting higher FDI due to the availability of cheaper funds. Economies with advanced technology exhibit an increased tendency for outward FDI. This is enabled by capitalizing on economies of scale, efficiency, and product quality (Rahman et al., 2022).

In contrast, Saad et al. (2014) conclude that push factors drive outward FDI. By encompassing access to foreign markets, technology, cost-effective imports, and the development of economies of scope. Additionally, the study states that outward FDI strengthens domestic markets. As it stimulates economic activities, and enhances the skills of domestic labour.

A contradictory perspective on outward FDI based on OECD countries concludes that outward FDI reduces domestic investment, implying a substitution relationship. Conversely, Desai et al. (2005) argue that, in the case of the USA, outward FDI and domestic investment complement each other. This happens with Indian multinationals using domestic products in production abroad.

The central incentive for multinationals to invest abroad is enlargement of risk appetite and existing market reach. Additionally, the study highlights the significance of BIPA in enhancing outward FDI. The study notes that BIPA focus predominantly on attracting inward FDI. Hence, they should be formulated to enhance outward FDI.(EXIM Bank, 2014)

Antwi (2003) conducts an econometric analysis which evaluates the impact of outward FDI on economic growth in Ghana. The methodology used is Johansen Cointegration Analysis and VECM. The study spans the period from 1980 to 2010. The variables employed are GDP and GNP as proxies for economic growth. The study concludes that there is a long-term relationship and causality between outward FDI, GDP, and GNI.

Ahmed et al. (2019) contribute insights by examining the impact of inward and outward FDI on economic growth. Their findings suggest a positive and significant impact of outward FDI on developing economies. This happens with an increasing share of developing economies in the overall outward FDI.

For India, initial investments outward FDI by MNCs favoured resource-rich countries. However, recent trends indicate an inclination towards economies offering tax incentives, such as Singapore and Mauritius. Increased outflows, particularly through mergers and acquisitions, are anticipated to provide access to advanced technology and untapped markets. This enhances growth in both the manufacturing and service sectors (India Brand Equity Foundation, 2019).

6.2.1 Research Gap

The present chapter attempts to fill the gap in the available literature along with identifying the factors that influence outward FDI from India and China. Following are the identified research gaps:

i. ***Few Comparative Studies:*** In terms of outward FDI, the literature needs more comparative studies with China to gain diverse perspective. The following section explains why China is an appropriate selection for comparative analysis:

Figure 6.1: Inward and Outward FDI Quadrant, 2010-2019
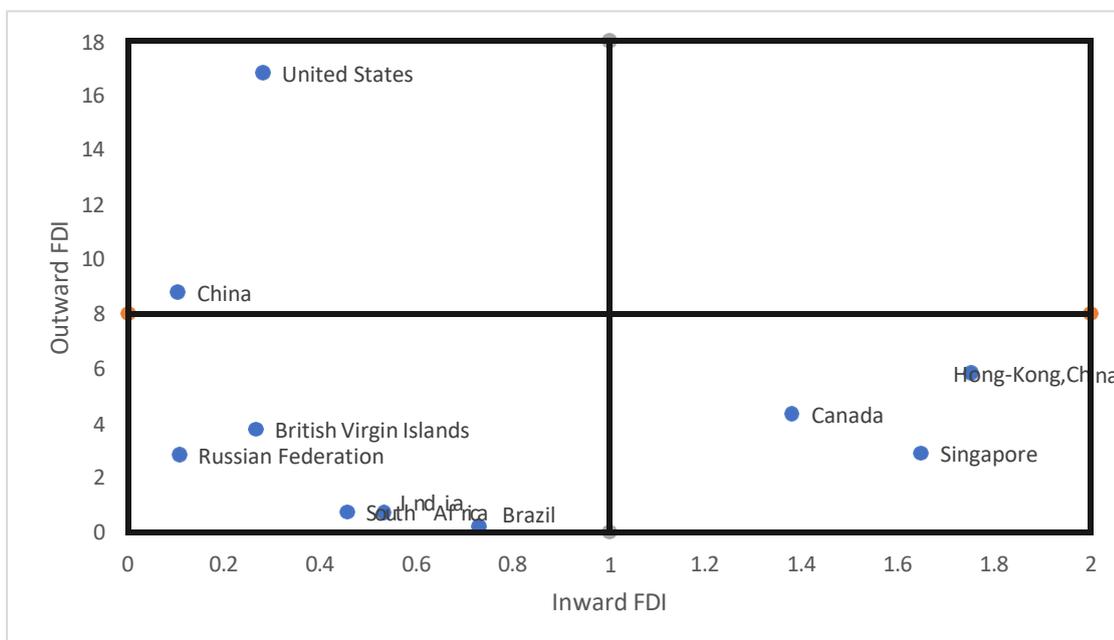
Source: Author's compilation based on World Investment Report, 2022

Table 6.2: Implication of the Quadrant (Figure 6.1)

Low FDI inflows and outflows	High inflows and low outflows	High outflows and high inflows	High outflows and inflows
BVI, Russia, India, SA, Brazil	Canada, Singapore, Hong-Kong, China	-	USA, China

Source: Author's compilation based on World Investment Report, 2022

The Figure 6.1 illustrates the leading economies in terms of inward FDI, and outward FDI. Both measured as a percentage of GDP. The USA consistently exhibits higher outward FDI than inward FDI from 2010 to 2019. Similarly, other prominent economies, including, Canada, Singapore, Hong Kong, the British Virgin Islands, and the Russian Federation, witnessed higher inward FDI as compared to outward FDI. In contrast, economies such as India, South Africa, and Brazil experienced low inward and outward FDI.

Apart from the USA, China also experienced higher outward FDI as compared to inward FDI. Increasing outward FDI has had favourable macro-economic impact on China. This suggests that the economy is not adversely impacted by outward FDI. Rather, it seems to leverage outward FDI as part of their economic strategy. China stands out as a noteworthy case study due to its robust economic growth and successful management of FDI dynamics. Hence, probing into China's practices can offer valuable insights for India in the relevant areas.

ii. *Analysing Sustainable Outward FDI*: In recent years, Asia has been a front runner for outward FDI in the world led by China. However, this puts forth an important question about the implications of outward FDI on domestic economies and the role in achieving SDG. Formulating appropriate policies that enhance outward and inward FDI along with attaining SDG target is critical. Outward FDI is one of the major determinants for achieving SDG and can also lead to increase in exports, gross capital formation, intensify R&D activities in the domestic economy.

iii. *Focus on Exports Complementary Outward FDI:* The research in this area has remained untapped. Majority of the literature has focused on the determinants or the push factors of outward FDI. The impact of outward FDI especially on developing economies like India and

China has remained untapped. Renowned studies such as Lee (2010) and Knoerich (2017) have focused on the relationship between outward FDI flows and economic growth for developed economies. Hence, there is a need for more research on the impact of outward FDI from India and China. Specifically, on exports complementarity of outward FDI. Existing studies primarily such as Agosin et al. (2000); Dasgupta (2015); Molnar et al. (2021) focus on whether outward FDI result in the departure of domestic capital.

6.2.2 Research Questions

Based on the research gaps following research questions have been formulated.
1. What are the push factors of outward FDI from India and China?
2. Whether outward FDI from India and China are exports complementary or not?

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

6.3.1 : To Determine the Push Factors of Outward Foreign Direct Investment from India and China

6.3.2 : To Examine the Impact of Outward Foreign Direct Investment on Sustainability Factors.

6.4: Findings

6.3 Research Methodology and Data Analysis

6.3.1 To Determine the Push Factors of Outward Foreign Direct Investment from India and China

a) *Selection of Variables*

i. *Imports:* Trade agreements and economic unions results in lowering impact duties and induces higher imports. The increase in imports gives tough competition to domestic investors. This motivates them to reallocate their investments (also known as crowding out effects). Several studies such as Kaushal (2018); Tolentino (2008) have considered imports into the economy as a significant push factor of outward FDI.

ii. *Inward FDI:* The inward FDI along with capital brings in other spillover effects. Such as technological development, human development in the form of skill enhancement, and enhanced production capabilities. This induces domestic economy entrepreneurs to invest in economies to undertake resource seeking or strategic asset seeking FDI. Additionally, presence of foreign firms in the domestic economy narrows the market for domestic firms. This motivates domestic firms to invest abroad. (Tolentino, 2008)

iii. *Exports:* The stages on internationalisation of firm begins with no regular export activities (stage 1), exports via agents (stage 2). Additionally, it includes establishment of overseas subsidiary (stage 3), and overseas production/manufacturing activities (stage 4) (Andersen, 1993). It is relevant for developing as well as developed economies. As transitioning firms undertake exports as an initial step of internalisation. This provides a brief idea about the market structure and hence exports play an integral role in giving a push to outward FDI.

iv. *Technological Development:* Ibrahim et al. (2019) mentions that developing economies require strategic assets after certain point to grow exponentially. The study confirms that lack of technological development induces investors to invest in technologically developed economies. However, the OLI framework suggests that technologically capable economies tend to invest more in other economies. (Chen, 2015)

v. ***National Income:*** As per IDP theory by Dunnings (1981), level of economic development and outward FDI are positively associated. "Economic development induces ownership advantages that a firm can exploit while investing abroad" (Chen, 2015). This has been confirmed by various renowned studies such as Durán et al. (2005), Kyrkilis et al. (2003). Kyrkilis et al. (2003) finds that outward FDI and economic development are positively associated.

vi. ***Tax Rate:*** Higher corporate tax rates discourage domestic enterprises to invest in domestic economy. This induces them to invest in economies with subsidised tax rates. One of the crucial reasons behind massive in China's outward FDI lies in its lower tax rates. Hence, higher tax rate can be associated higher level of outward FDI. (Tolentino, 2008)

vii. ***Availability of Resources:*** Domestic enterprises are induced to invest in host economy due to availability of resources. This includes availability of cheap labour and finance at a low rate of interest. Economic instability hampers this determinant and leads to increase in cost of funds which leads to increase in cost of labour. This pushes investors to reallocate their funds in economies with a comparative advantage.

viii. ***Exchange Rate:*** A stronger exchange rate increases outward FDI. As an appreciated currency makes funds cheaper in economies with depreciated currencies. Hence, a stronger exchange rate is associated with higher outward FDI. As investors can buy more investments in economies with weaker exchange rate. (Udomkerdmongkol et al., 2009)

ix. ***Economic Integration:*** The integration of domestic economies with other developed and developing economies is a result of various bilateral trade and agreements. This includes removal of tariff and non-tariff barriers to boost import and export among the economies. This enables firms in the domestic economy to enter the stages of internalisation. This results in outward FDI in the latter stages.

b) **Research Methodology**

The economic determinants of outward FDI are analysed with the help of empirical analysis. Several variables that influence outward FDI from India and China are discussed in the previous section. The time period of present study is from 1995 to 2019. The data collection

has been done from various sources such as UNCTAD, World Bank Indicators (The World Bank Group), and IMF.

Though India implemented its economic reforms in 1991, foreign investments were still outward FDI flows were discouraged on the grounds of departure of domestic capital. However, the second wave of outward FDI in gathered momentum. This was because foreign exchange restrictions on capital transfers for overseas acquisitions liberalised in successive stages (Athukorala, 2016). While in the year 1995, China became the largest outward FDI investor in the world (Kalirajan et al., 2011). Hence, it will be relevant to study the push factors from India and China from 1995 to 2019. The analysis post 2019 has been excluded due to Covid-19 as they were non normal years.

The present section uses VAR with OLS to analyse the data and find appropriate results. VAR with OLS models analyse the data considering lagged values of dependent and independent variables which is crucial since the current value of FDI may be influenced by its past value as well as past values of the independent variables.

To obtain appropriate results through VAR with OLS, the methodology requires satisfaction of OLS assumptions. Hence, the variables are selected after satisfying the assumptions. The variables that did not satisfy the assumption were eliminated. The variables are selected after satisfying following assumptions:

a) *Test of Stationarity:* A stationary time series indicates a constant mean with time, constant variance over time. Presence of unit root or non-stationary time series may result in spurious regression. Hence the present chapter tests the stationarity with the help of Augmented Dicky Fuller test.

b) *Test of Multicollinearity:* Multicollinearity occurs when two or more independent variables are highly correlated. This problem makes it difficult for the regression model to analyse the effect of each independent variable on the dependent variable. The present study measures multicollinearity with the help of VIF values.

c) *Test of Heteroskedasticity:* The problem of heteroskedasticity arises when error terms across all the levels independent variables is not constant. In other words, the error terms are randomly scattered without any pattern. This problem can cause bias in the regression coefficient values. The present study measures heteroskedasticity with Breusch-Pagan Heteroskedasticity test.

d) ***Test of Autocorrelation:*** This is also known as serial correlation. This problem arises when error terms of the variables are not independent of each other. This problem can conclude certain independent variables as significant. The present study measures autocorrelation using VAR Residual Serial Correlation LM Test.

e) ***Normality Test:*** This test is to ensure that the data is normally distributed. If the data is normally distributed then it ensures the validity of the model. The present study has used Jarque-Bera Normality test to assess the distribution of the sample.

f) ***Ramsey Reset Test:*** The test is conducted to ensure that there is no specification bias in the model. This includes testing for omitted variables, incorrect functional forms, and presence of non-linear relationship.

After conducting all the above-mentioned tests, the following variables have been selected to conduct the analysis.

c) **Data Analysis**

    i.   ***India***

Table 6.3: Variables Selected for Analysis

Sr No.	Independent Variables	Proxy Variables	Expected Sign	Source
1.	Technological Development	Technical Grants (BoP, current US$)	+	WIPO[83]
2.	Tax Revenue	Tax Revenue (% of GDP)	+	WBI
3.	Inward FDI	Inward FDI (US$ million)	+	WBI
4.	Inflation	GDP Deflator (%)	-/+	WBI
5.	Imports	Imports (% of GDP)	+	WBI
6.	National Income	Adjusted National Income Growth Rate (%)	+	WBI

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[83] WIPO- World intellectual property organisation

Following hypothesis have been formulated to study the factors which are expected to influence the outward FDI from Indian Economy. (Table 6.3)

Hypothesis 1: Outward FDI is not significantly influenced by Technological Development

Hypothesis 2: Outward FDI is not significantly influenced by Tax Revenue

Hypothesis 3: Outward FDI is not significantly influenced by Inward FDI

Hypothesis 4: Outward FDI is not significantly influenced by Inflation

Hypothesis 5: Outward FDI is not significantly influenced by Imports

Hypothesis 6: Outward FDI is not significantly influenced by National Income

Results

Table 6.4: Augment Dicky Fuller Unit Root Test

	Variable	**Difference**	**Value**	**Result**
With Trend and Intercept	Outward FDI	1st	0.00	Stationary
	Technological development	1st	0.01	Stationary
	Tax revenue	1st	0.01	Stationary
	Inward FDI	1st	0.00	Stationary
	Inflation	1st	0.00	Stationary
	Imports	1st	0.02	Stationary
	National income	1st	0.01	Stationary

Source: Author's compilation based on E views

The OLS assumptions necessitate stationarity in all variables. To verify this, the study implemented the ADF unit root test on the chosen variables. According to the findings presented in Table 6.4, all the variables were found to be stationary at the first difference.

Table 6.5: Lag Selection Criteria

Lag	AIC	SC	HQ
0	111.41	111.75	111.50
1	107.01*	109.75*	107.40*

Source: Author's compilation based on E views

*Indicates lag length selected by criterion

An autoregressive model is sensitive to the selection of appropriate lag length. The above Table 6.5 includes statistical tools such as AIC, SC, HQ used to determine the optimal number of lags in a time series model. In practice, the one with the lowest AIC, SC, and HQ value is typically chosen as the best model. Based on the results of Table 6.5, lag 1 is chosen as optimal lag. Hence, the model the VAR model with OLS is constructed with lag 1.

Table 6.6: Regression Results

Variables	T statistics	P-value	Collinearity Statistics VIF
Outward FDI	2.59	0.01	3.06
Technological development	-0.50	0.62	1.83
Tax revenue	0.24	0.80	4.08
Inward FDI	0.75	0.46	1.11
Inflation	-0.43	0.67	1.82
Imports	0.64	0.52	4.01
National income	1.02	0.32	1.16

Source: Author's compilation based on E views

Regression Model (Table 6.6)

Outward FDI= C (1)0.62**Outward FDI- C(2) 1.09*Technological development+ C (3)0.00*Tax Revenue+ C(4)9.50*Inward FDI - C(5)225.96*Inflation + C (6)183.94*Imports + C (7) 350.43 *National income + C (8)

**indicates significant at 0.05 percent level

The OLS assumptions require OLS regression model with no multicollinearity. The analysis measures multicollinearity using VIF values. The variables with less than 10 VIF value can be accepted for analysis. From Table 6.6, it can be observed that the VIF values of the variables is less than 10 (Gujarati, 2012). Additionally, Ferre (2009), suggests that VIF values higher 10 highlights serious multicollinearity issues.

Additionally, if the p-value is less than 0.05 (or 5 %), it indicates that the evidence against the null hypothesis is strong. In other words, with a p-value less than 0.05 the null hypothesis can be rejected and alternate hypothesis can be accepted.

Based on Table 6.6, the results can be interpretated as follows:

Outward FDI:
  a) T Statistic: 2.59 suggests positive relationship with the dependent variable.
  b) P-value: 0.01 indicates that this relationship is statistically significant, usually at a 5% level or lower (5% level or lower).

Technological Development:
  a) T Statistic: -0.50 implies negative relationship with the dependent variable.
  b) P-value: 0.62 means that this relationship is not statistically significant (5% level   or lower).

Tax Revenue:
  a) T Statistic: 0.24 suggests a positive relationship with the dependent variable.
  b) P-value: 0.80 indicates that this relationship is not statistically significant (5% level or lower).

Inward FDI:
  a) T Statistic: 0.75 implies positive relationship with the dependent variable.
  b) P-value: 0.46 indicates that this relationship is not statistically significant (5% level or lower).

Inflation:

    a) T Statistic: -0.43 implies negative relationship with the dependent variable.

    b) P-value: 0.67 means this relationship is not statistically significant (5% level or lower).

Imports:

    a) T Statistic: 0.64 shows a positive relationship with the dependent variable.

    b) P-value: 0.52 suggests that this relationship is not statistically significant (5% level or lower).

National Income:

    a) T Statistic: 1.02 shows positive relationship with the dependent variable.

    b) P-value: 0.32 means the relationship is not statistically significant (5% level or lower).

Overall, the model shows that lagged outward FDI have positive and significant relationships with the dependent variable. The Table 6.6 shows that p value of the variables except lagged outward FDI are higher than 0.05. Hence, it can be concluded that except lagged outward FDI none of selected push factors are significant in influencing outward FDI from India.

If an OLS model satisfies its assumptions, it can be considered a valid model to estimate the relationship between the variables. Hence to assess the validity of the model following tests are conducted:

Table 6.7: Breusch-Pagan-Godfrey's Heteroscedasticity Test

Null Hypothesis: Homoskedasticity	
Prob. F (6,18)	0.29
Prob. Chi square (6)	0.26

Source: Author's calculation based on EViews

Null Hypothesis: There is homoskedasticity (constant variance of the error)

Alternate Hypothesis: There is heteroskedasticity (non-constant variance)

In the above Table 6.7, the p-value from the test is greater than significance level (0.05), and hence the test fails to reject H0, suggesting no evidence of heteroskedasticity.

Table 6.8: Breusch Godfrey Serial Correlation LM Test

Null Hypothesis: No serial correlation		
Lag	**Prob. F (2,14)**	**Prob. Chi square (2)**
Up to lags 2	0.92	0.87

Source: Author's compilation based on E views

Null Hypothesis: There is no serial correlation

Alternate Hypothesis: There is serial correlation

In the above Table 6.8, the p-value from the test is greater than significance level (0.05), and hence the test fails to reject H0, suggesting there is no serial correlation.

Table 6.9: Normality Test

Null Hypothesis: Variables are distributed normally	
Jarque- Bera Value	0.42
Probability	0.80

Source: Author's calculation based on EViews

Null hypothesis: Residuals are normally distributed

Alternative hypothesis: Residuals are not normally distributed.

In the above Table 6.9, the value of Jarque-Bera probability is greater than the value of significance (0.05) and hence the null hypothesis cannot be rejected, reflecting that the residuals are normally distributed.

Table 6.10: Ramsey Reset Test

Tests	Value	Df.	Probability
T statistics	0.24	18	0.47
F statistics	0.06	(1,18)	0.47
Likely hood ratio	0.09	1	0.39

Source: Author's compilation based on E views

Null Hypothesis: No specification biases

Alternate Hypothesis: There exist specification biases

In the above Table 6.10, the p-value of the T statistics, F statistics, and Likely hood ratio is greater than the significance level (0.05), and hence there is no evidence to reject the null hypothesis which suggest that there is no specification error.

ii.   *China*

Table 6.11: Variables Selected for Analysis[84]

Independent Variables	Proxy Variables	Expected Sign	Source
Tax Revenue	Corporate Tax Revenue (yuan 100 million)	+	MOFCOM
Inward FDI	Inward FDI (US$ million)	+	WBI
Inflation	GDP deflator (%)	+	WBI
Imports	Imports (% of GDP)	+	WBI
Economic Growth	GDP Growth Rate (%)	+	WBI

The following hypothesis have been formulated to study the factors which are expected to influence the Outward FDI from Chinese economy. (Table 6.11)

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[84] The technical grants time series data exhibited high level of multicollinearity and hence has been removed. The data for adjusted national income was not stationary at first difference and hence has been replaced with economic growth.

Hypothesis 1: Outward FDI is not significantly influenced by Tax Revenue

Hypothesis 2: Outward FDI is not significantly influenced by Inward FDI

Hypothesis 3: Outward FDI is not significantly influenced by Inflation

Hypothesis 4: Outward FDI is not significantly influenced by Imports

Hypothesis 5: Outward FDI is not significantly influenced by Economic Growth

Results

Table 6.12: Augmented Dickey Fuller Unit Root Test

	Variable	Difference	Value	Result
With Trend and Intercept	Outward FDI	1st	0.02	Stationary
	Tax revenue	1st	0.00	Stationary
	Inward FDI	1st	0.00	Stationary
	Inflation	1st	0.00	Stationary
	Imports	1st	0.02	Stationary
	Economic growth	1st	0.02	Stationary

Source: Author's calculation based on EViews

The OLS assumptions necessitate stationarity in all variables. To verify this, the study implemented the ADF unit root test on the chosen variables. According to the findings presented in Table 6.12, all the variables were found to be stationary at the first difference.

Table 6.13: Lag Selection Criteria

Lag	AIC	SC	HQ
0	91.44	91.74	91.52
1	85.82*	87.88*	86.37*

Source: Author's calculation based on EViews

An autoregressive model is sensitive to the selection of appropriate lag length. The above Table 6.13 includes statistical tools such as AIC, SC, HQ used to determine the optimal number of

lags in a time series model. In practice, the one with the lowest AIC, SC, and HQ value is typically chosen as the best model. Based on the results of Table 6.13, lag 1 is chosen as optimal lag. Hence, the model the VAR model with OLS is constructed with lag 1.

Table 6.14: Regression Results

Variables	T statistics	P-value	Collinearity statistics
			VIF
Outward FDI	8.16	0.00	3.59
Tax revenue	-0.50	0.62	1.43
Inward FDI	2.65	0.01	5.57
Inflation	-0.35	0.72	1.03
Imports	-0.27	0.78	4.19
Economic growth	0.00	0.99	4.61

Source: Author's calculation based on EViews

Regression Model (Table 6.14)

Outward FDI= C (1)0.755**Outward FDI -C (2) 0.04* Tax revenue +C (3)0.02**Inward FDI - C (4) 286* Inflation - C (5) 371*Imports + C (6) 14.47* Economic growth + C (7)
**indicates significant at 0.05 percent level

The OLS assumptions require OLS regression model with no multicollinearity. The analysis measures multicollinearity using VIF values. The variables with less than 10 VIF value can be accepted for analysis. From Table 6.14, it can be observed that the VIF values of the variables is less than 10 (Gujarati, 2012).

Additionally, if the p-value is less than 0.05 (or 5 %), it indicates that the evidence against the null hypothesis is strong. In other words, with a p-value less than 0.05 the null hypothesis can be rejected and alternate hypothesis can be accepted.

Based on Table 6.14, the results can be interpreted as follows:

Outward FDI:

T Statistic: 8.16. Indicates positive relationship with the dependent variable.

P-value: 0.00. This suggests that the relationship is statistically significant (5% level or lower).

Tax Revenue:

T Statistic: -0.50. This negative relationship with the dependent variable.

P-value: 0.62. Indicates the relationship is not statistically significant (5% level or lower).

Inward FDI:

T Statistic: 2.65. Indicates a positive relationship with the dependent variable.

P-value: 0.01. This suggests that the relationship is statistically significant (5% level or lower).

Inflation:

T Statistic: -0.35. Indicates a negative relationship with the dependent variable.

P-value: 0.72. The relationship is not statistically significant (5% level or lower).

Imports:

T Statistic: -0.27. Indicates negative relationship with the dependent variable.

P-value: 0.78. This high p-value indicates that the relationship is not statistically significant (5% level or lower).

Economic Growth:

T Statistic: 0.00. This indicates weak positive relationship with the dependent variable.

P-value: 0.66. The relationship is not statistically significant.

a) *Granger Causality Test*

To study the factors which are expected to granger cause outward FDI from Indian economy:

Hypothesis 1: Outward FDI does not granger cause Tax revenue

Hypothesis 2: Outward FDI does not granger cause Inward FDI

Hypothesis 3: Outward FDI does not granger cause Inflation

Hypothesis 4: Outward FDI does not granger cause Imports

Hypothesis 5: Outward FDI does not granger cause Economic Growth

Table 6.15: VAR Granger Causality Test

Independent Variables	Chi-square	Df.	Probability
Tax revenue	0.25	1	0.61
Inward FDI	7.05	1	0.00
Inflation	0.12	1	0.72
Imports	0.07	1	0.78
Economic growth	1.9	1	0.99

Source: Author's calculation based on Eviews

Overall, the model shows that lagged outward FDI and inward FDI have positive and significant relationships with the dependent variable. Along with this Table 6.15 shows that the p-value all these three variables is less than 0.05 (5 % level or lower). Hence, it can be concluded inward FDI granger cause outward FDI from China. Imports, Corporate tax, Inflation, and Economic growth do not show statistically significant relationships.

If an OLS model satisfies its assumptions, it can be considered a valid model to estimate the relationship between the variables. Hence to assess the validity of the model following tests are conducted:

Table 6.16: Breusch-Pagan-Godfrey's Heteroscedasticity Test

Null Hypothesis: Homoskedasticity	
Prob. F (5,19)	0.50
Prob. Chi square (5)	0.44

Source: Author's calculation based on EViews

Null Hypothesis: There is homoskedasticity (constant variance of the error)

Alternate Hypothesis: There is heteroskedasticity (non-constant variance)

In the above Table 6.16, the p-value from the test is greater than significance level (0.05), and hence the test fails to reject H0, suggesting no evidence of heteroskedasticity.

Table 6.17: VAR Residual Serial Correlation LM Test

Null Hypothesis: No serial correlation at lag			
Lag	**LRE*stat**	**Df**	**Prob.**
1	37.39	36	0.49

Source: Author's calculation based on EViews

Null Hypothesis: There is no serial correlation

Alternate Hypothesis: There is serial correlation

In the above Table 6.17, the p-value from the test is greater than significance level (0.05), and hence the test fails to reject H0, suggesting there is no serial correlation.

Table 6.18: Normality Test

Null Hypothesis: Variables are distributed normally	
Jarque- Bera Value	0.49
Probability	0.78

Source: Author's calculation based on EViews

Null hypothesis: Residuals are normally distributed

Alternative hypothesis: Residuals are not normally distributed.

In the above Table 6.18, the value of Jarque-Bera probability is greater than the value of significance (0.05) and hence the null hypothesis cannot be rejected, reflecting that the residuals are normally distributed.

Table 6.19: Ramsey Reset Test

Tests	Value	Df.	Probability
T statistics	1.39	18	0.18
F statistics	1.93	(1,18)	0.18
Likely hood ratio	2.55	1	0.11

Source: Author's calculation based on EViews

Null Hypothesis: No specification biases

Alternate Hypothesis: There exist specification biases

In the above Table 6.19 the p-value of the T statistics, F statistics, and Likely hood ratio is greater than the significance level (0.05), and hence there is no evidence to reject the null hypothesis which suggest that there is no specification error.

6.3.2. To Examine the Impact of Outward FDI on Sustainability Factors.

a) *Selection of Variables*

The study evaluates the impact of outward FDI on exports and employment of the home country. Exports (SDG 17.11) play a very crucial role in escalating developing economy's growth. It appreciates exchange rate, escalates GDP and employment. Outward FDI with exports should be encouraged as it fetches various benefits to the domestic economy if undertaken strategically. As MNCs investing abroad need products, components, or services. To attain benefits from outward FDI, MNCs can fulfil this need by exporting from home country to host country. This is known as exports complementary outward FDI. Hence, the present study analyses the relationship between outward FDI and exports from India and China.

b) *Research Methodology*

The present study analyses the cointegration between outward FDI on exports for India and China with the Johansen cointegration technique and tests the granger causality among variables. The study is conducted on secondary data. The time frame from 1990-2019 has been

selected which is in line with sample size requirements. The data has been collected from WBI database, UNCTAD, and MOFCOM.

c) Data Analysis

i. *India: Exports and Outward FDI*[85]

a) *Results of Unit Root Test*

Table 6.20: Augmented Dicky Fuller Unit Root Test

Variables	Level		First Difference		Results
	Intercept	**Trend with Intercept**	**Intercept**	**Trend with Intercept**	
Outward foreign direct investment	-1.37 (0.57)	-2.09 (0.52)	-5.90 (0.00)	-5.80 (0.00)	*I(1)*
Exports	-0.10 (0.93)	-1.71 (0.72)	-4.33 (0.00)	-4.19 (0.01)	*I(1)*

Notes: () MacKinnon (1996) one sided p-values; I(1) stationary after first difference
Source: Author's Calculation Using E views

Stationarity of a data series is prerequisite to draw meaningful inferences in a time series analysis. The unit root test is conducted with intercept and trend with intercept for all the variables in their levels and then first difference. Table 6.20 presents unit root test of the variables in their levels and first difference. The results shown concludes that null hypothesis cannot be rejected at their levels as the p-value is greater than significance level, that is 0.05. Therefore, the unit root test concludes that times series is non stationary in level. Based on Table 6.20, it is evident that applying first differences to the same shows all the variables are stationary. As the null hypothesis can be rejected at first difference as the p-value is less than

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[85] The data for outward FDI has been collected from UNCTAD in terms of US$ million. The data for exports has been collected from RBI database in terms of US$ million.

0.05. Hence, it can be concludes that values of exports and outward FDI are stationary at their first difference $I(1)$.

b) **Optimum Lag Selection**

Table 6.21: VAR Lag Order Selection Criteria

Lag Length	AIC	SIC	HQC
0	22.38	22.47	22.40
1	17.95*	18.24*	18.03*
2	17.99	18.48	18.13

Source: Author's Calculation Using E views

***Indicates optimum lag order selected by the criterion*

A VAR model is sensitive to selection of appropriate lag length. The optimum lag length is selected based on the values of AIC, SIC, and HQC. Based on Table 6.21, it can be interpreted that lag 1 is selected as appropriate lag selection criterion as per AIC, SIC and HQC. Hence, the present study considers lag 1 for the purpose of analysis.

c) **Results of Johansen Cointegration Test for Exports and Outward FDI**

Table 6.22: Results for Johansen Cointegration Test

H_0	H_1	Trace Statistics	Maximum Eigen Statistics
r = 0	r = 1	15.23 (0.05)	14.23 (0.05)
r <= 1	r = 2	0.99 (0.31)	0.99 (0.31)

Notes: ( ) MacKinnon-Haug-Michelis (1999) p-values

**Trace and maximum eigen value indicate 1 cointegrating equation at 0.05 level*

Source: Author's calculation Using E views

The null hypothesis, r = 0 means that there is no cointegration among the variables at 0.05 level. The alternative hypothesis, r ≤ = 1 means that there is cointegration among the variables at 0.05 level. Table 6.22 presents results of Johansen Cointegration Test based on Trace statistics and Maximum Eigen value. The value of Trace statistics when r = 0 (no cointegration) is 15.23. The null hypothesis of no cointegration cannot be rejected at 0.05 level of significance. As the Trace statistics is less than Mac Kinnon-Haug-Michelis (1999). Hence as per Trace statistics, exports and outward FDI are not cointegrated in India.

The value of Maximum Eigen vale when r = 0 (no cointegration) is 14.23. The null hypothesis of no cointegration cannot be rejected at 0.05 level of significance. As the Max Eigen value less than Mac Kinnon-Haug-Michelis (1999). Hence as per Max Eigen value, exports and outward FDI are cointegrated not in India. Hence, it can be concluded that exports and outward FDI do not have long run association (cointegration) in India.

d) *Diagnostic Test Results*

Table 6.23: VAR Residual Diagnostic Test Results

VAR Residuals	P-value
Serial correlation LM tests[86]	0.33
Jarque-Bera normality test	0.61
Heteroskedasticity test	0.14

Source: Author's calculation Using E views

The study to estimate the robustness of the results conducted several diagnostic tests such as Lagrange multiplier test (VAR residual correlation LM test). This is to detect serial autocorrelation in the time series data. As per the results of Table 6.23, the null hypothesis of no serial correlation at lag h in the time series for exports and outward FDI is accepted.

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[86] Serial correlation test at lag 1

Further, the study conducts the normality test for the variables based on Jarque-Bera. Based on the results of Table 6.23, the p-value fails to reject the null hypothesis of residuals are multivariate normal for exports and outward FDI. This suggests normality among the residuals. Additionally, the study conducts heteroscedasticity test to diagnose whether the variance of the error term is constant or not. Based on the results of Table 6.23, the p-value fails to reject the null hypothesis of homoscedasticity which means that variance of the error term is constant.

ii.   **China: Exports and Outward FDI[87]**

a) ***Results of Unit Root Test***

Table 6.24: Augmented Dicky Fuller Unit Root Test

Variables	Level		First Difference		Results
	Intercept	Trend with Intercept	Intercept	Trend with Intercept	
Outward foreign direct investment	-0.36 (0.90)	-2.23 (0.45)	-6.15 (0.00)	-4.13 (0.01)	*I(1)*
Exports	-0.17 (0.93)	-1.61 (0.76)	-4.29 (0.00)	-4.16 (0.01)	*I(1)*

Notes: () MacKinnon (1996) one sided p-values; I(1) stationary after first difference
Source: Author's Calculation Using E views

Stationarity of a data series is prerequisite to draw meaningful inferences in a time series analysis. The unit root test is conducted with intercept and trend with intercept for all the variables in their levels and then first difference. Table 6.24 presents unit root test of the variables in their levels and first difference. The results shown concludes that null hypothesis cannot be rejected at their levels as the p-value is greater than significance level, that is 0.05. Therefore, the unit root test concludes that times series is non stationary in level. Based on Table 6.24, it is evident that applying first differences to the same shows all the variables are

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[87] The data for outward FDI has been collected from WBI in terms of US$ million. The data for exports has been collected from WBI (total exports) in terms US$ million.

stationary. As the null hypothesis can be rejected at first difference as the p-value is less than 0.05. Hence, it can be concluded that values of exports and outward FDI are stationary at their first difference *I(1)*.

b) ***Optimum Lag Selection***

Table 6.25: VAR Lag Order Selection Criteria

Lag Length	AIC	SIC	HQC
0	35.13	35.22	35.16
1	30.00	30.28	30.08
2	29.78*	30.25*	29.92*

Source: Author's Calculation Using E views

***Indicates optimum lag order selected by the criterion*

To run a cointegration analysis using Johansen, another criterion is to select appropriate lag length. A VAR model is sensitive to selection of appropriate lag length. The optimum lag length is selected based on the values of AIC, SIC, and HQC. Based on Table 6.25, it can be interpreted that lag 2 is selected as appropriate lag by all selection criterion, that is AIC, SIC, and HQC.

c) ***Results of Johansen Cointegration Test for Exports and Inward FDI***

Table 6.26: Results for Johansen Cointegration Test

H_0	H_1	Trace Statistics	Maximum Eigen Statistics
r = 0	r = 1	20.42 (0.00)*	19.77 (0.00)*
r $\leq$ = 1	r = 2	3.84 (0.41)	3.84 (0.41)

Notes: ( ) MacKinnon-Haug-Michelis (1999) p-values

*Trace and maximum eigen value indicate 1 cointegrating equation at 0.05 level

Source: Author's calculation Using E views

The null hypothesis, r = 0 means that there is no cointegration among the variables at 0.05 level. The alternative hypothesis, r ≤ = 1 means that there is cointegration among the variables at 0.05 level. Table 6.26 presents results of Johansen Cointegration Test based on Trace statistics and Maximum Eigen value. The value of Trace statistics when r = 0 (no cointegration) is 20.42. The null hypothesis of no cointegration can be rejected at 0.05 level of significance. As the Trace statistics is higher than Mac Kinnon-Haug-Michelis (1999). Hence as per Trace statistics, exports and outward cointegrated in China.

The value of Maximum Eigen vale when r = 0 (no cointegration) is 19.77. The null hypothesis of no cointegration can be rejected at 0.05 level of significance. As the Max Eigen value is higher than Mac Kinnon-Haug-Michelis (1999). Hence as per Max Eigen value, exports and outward FDI are cointegrated in China. Hence, it can be concluded that exports and outward FDI have long run association (cointegration) in China.

d) *Granger Causality Test*

Table 6.27: VAR Granger Causality Test

Dependent Variable	Independent Variable	Chi-Square Value	P-value	Implication
Exports	Outward FDI	11.49	0.00	Causality
Outward FDI	Exports	15.31	0.00	Causality

Source: Author's calculation Using E views

The results based of Johansen cointegration test stimulates Granger causality test. Table 6.27 investigates bidirectional causality among the variables. The p-values of variables are less than significance level, that is 0.05. The results suggests that exports cause outward from China. Additionally, outward FDI cause exports from China.

e) ***Diagnostic Test Results***

Table 6.28: VAR Residual Diagnostic Test Results

VAR Residuals	P-value
Serial correlation LM tests[88]	0.11
Jarque-Bera normality test	0.67
Heteroskedasticity test	0.10

Source: Author's calculation Using E views

The study to estimate the robustness of the results conducted several diagnostic tests such as Lagrange multiplier test (VAR residual correlation LM test). This is to detect serial autocorrelation in the time series data. As per the results of Table 6.28, the null hypothesis of no serial correlation at lag h in the time series for exports and outward FDI is accepted.

Further, the study conducts the normality test for the variables based on Jarque-Bera. Based on the results of Table 6.28, the p-value fails to reject the null hypothesis of residuals are multivariate normal for exports and outward FDI. This suggests normality among the residuals.

Additionally, the study conducts heteroscedasticity test to diagnose whether the variance of the error term is constant or not. Based on the results of Table 6.28 the p-value fails to reject the null hypothesis of homoscedasticity which means that variance of the error term is constant.

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[88] Serial correlation test at lag h

6.4 Findings

  i. ***To determine the push factors of outward foreign direct investment from India and China***

  a) *India*

For India, the chapter's findings reveal that key economic factor such as lagged outward FDI positively and significantly drive outward FDI.

The findings suggest that selected push factors do not granger cause outward FDI from India. This indicates that outward FDI is influenced by the host economies pull factors. The findings are in line with Tolentino (2008) and Chowdhury (2011). This is evident by the findings of patterns of outward FDI from India. India has observed considerable outward FDI in manufacturing. Hence, Indian investments have been resource seeking. This indicates that host economies pull factors attract outward FDI from India. This also highlights the phenomenon of round tripping, where domestic investors in India evade taxes by redirecting their investments through foreign countries such as Mauritius and Singapore. These countries have tax avoidance agreements with India. This is further supported by the findings in chapters 3 and 4, which analyse the trends and patterns of FDI flows in India and China. These chapters reveal that a significant portion of investments coming into India are from Mauritius and Singapore, and conversely, Indian multinational companies predominantly invest in these two countries. The results are in line with the findings of (Wei, 2005).

  b) *China*

Research indicates that in China, both lagged outward FDI and inward FDI are key factors in driving its outward FDI. Additionally, based on the granger causality test, it was found that inward FDI causes outward FDI in China. According to Dunning (1981) IDP theory, China's FDI dynamics can be situated at stage III. In the initial stage (I) of this theory, less developed economies neither attract significant inward FDI nor initiate substantial outward FDI. As economies industrialize and reach stage II, they start attracting more outward FDI while still experiencing minimal outward FDI. By stage III, an economy, having advanced technologically and expanded its domestic market, not only attracts a substantial amount of

inward FDI but also begins to generate considerable outward FDI, driven by innovation and various international market advantages. Therefore, it can be inferred that China, bolstered by its inward FDI, has bridged gaps in innovation, market development, and infrastructure, leading to an increase in its outward FDI. (Chen, 2015)

To accrue benefits from outward FDI, India should focus on export-complementary outward FDI. This entails Indian investors making strategic investments abroad in sectors that align with and increase Indian exports. Thereby creating a synergy between overseas operations and domestic export capabilities.

ii. ***To examine the sustainability of outward foreign direct investment from India and China.***

a) *India*

For India, exports and outward FDI are found to have a no long run association. The findings are in line with study by Bhasin et al. (2015). Hence, in long run exports and outward FDI are substitutes of each other. This can be attributed to several reasons such as high market demand in the foreign or host economies motivate multinationals from India to invest through FDI rather than exports. This can also be to avoid trade barriers in domestic or host economies. This indicates that multinationals from India are not connecting with domestic firms through backward and forward linkages.

b) *China*

In China, a significant relation has been identified between outward FDI and exports, indicating a complementary relationship. There is a bidirectional relationship between outward FDI and exports in China. This finding suggests that outward FDI from China granger cause country's export, aligning with SDG 17, which aims to boost exports from developing economies. The results are in line with Rehman et al. (2022) finds that in China outward FDI leads to exports. Additionally, exports granger causes outward FDI in China. This indicates that exports in China causes outward FDI and outward FDI causes exports in China.

The results can also be linked with the BRI, launched by China in 2013, it plays a pivotal role in this context. The initiative, connecting about 64% of the global population, is designed to facilitate easier trade among participating countries. Research by Yao (2023) indicates that China has made substantial improvements in its infrastructure and logistics performance in the regions encompassed by the BRI, positively impacting its export trade. This implies that China's increasing collaboration with these economies has led to a growth in exports, fuelled by the infrastructure connectivity and industrial cooperation established through the initiative.

These developments suggest that the BRI not only serves as a means for China to expand its global influence but also as a strategic tool to enhance its export capabilities, further integrating participating countries into its economic network.

To foster sustainable outward FDI, India could consider establishing a framework like its approach for managing inward FDI. This could involve the creation or designation of specific agencies to promote and regulate outward FDI, analogous to organizations like Invest India and India Briefing, which play key roles in facilitating inward FDI. The Indian government could offer financial and operational support to domestic investors engaging in foreign markets, under the condition that these investments include the export of Indian goods and services. This approach would aim to ensure that outward FDI contribute positively to the Indian economy, rather than merely representing the transfer of domestic capital abroad. Such a strategy would align with practices observed in other countries, like China, where the government actively supports domestic companies in their overseas investments, particularly those that bolster national exports and bring economic benefits back to the country.

By implementing a structured and supportive system for outward FDI, India could not only assist its businesses in expanding globally but also ensure that these international ventures yield reciprocal benefits for the Indian economy. This approach would require careful planning and coordination between various government agencies and the private sector to effectively align overseas investments with national economic goals. This can prevent outward FDI from just being departure of domestic capital.

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