

## CHAPTER 7 CONCLUSION

### 7.1 Findings and Conclusion

The thesis is a comprehensive exploration of Foreign Direct Investment, focusing specifically on a comparative analysis of India and China. The goal was to investigate the complex dynamics of Foreign Direct Investment in these rapidly evolving economies and understand their impact on the global economic landscape. In the concluding chapter, the aim is to synthesize the key findings, and offering a cohesive conclusion of the insights gained. The chapter reviews the critical aspects of inward and outward FDI in both India and China, and draws conclusions from extensive analysis. The chapter provides a clear and concise overview of the entire study, ensuring that the key findings and conclusion are communicated effectively. The findings and conclusion are discussed below in sequence.

The analysis on trends and patterns of inward FDI in India and China reveals that China consistently attracts more inward FDI than India, with a significant gap in volume. In India, between 2000-2019, inward FDI is majorly attracted from Singapore and Mauritius. Their share is more than 50 % its total FDI. Other major contributors like the USA, Germany, Japan, and the Netherlands account for around 26.33 %. China, between 2000-2019, sees a significant portion of its inward FDI coming from Hong Kong. However, it attracts investments from a wider range of 163 countries. The study attempted to analyze the trends of inward FDI of the common economies investing in India and China. The results revealed there is a negative relationship between Singapore, Netherlands, and the USA's investments in India and China. That is, with the increase in investments in India in a particular year, investments in China decreases. The sectoral analysis revealed that in India, between 2000-2019, inward FDI is concentrated in services, computer hardware, software, and telecommunications. Since 2011, China has become a global manufacturing hub due to investments from countries like Germany, Japan, the Netherlands, South Korea, and the USA. The analysis on sustainable inward FDI in India and China revealed that inward FDI distribution within both countries is uneven. In India, significant FDI is concentrated in five cities: Mumbai, New Delhi, Bangalore, Chennai, and Ahmedabad. China's FDI is mainly in its eastern region. In greenfield investments between 2003-2021, China surpassed India, but both showed volatile trends, with a decline post-2018. Top multinationals tend to invest in China via greenfield projects and in India via brownfield projects.

Based on the findings it can be concluded that there is need for India to diversify its inward FDI sources to be risk averse and strengthen economic ties globally. The diversification can be enabled by signing bilateral investment treaties, tax avoidance agreements, FTA, comprehensive economic partnership, and ease of doing business agreements. India attracts domestic market seeking inward FDI. However, to become self-reliant, India needs to increase resource seeking inward FDI. That is inward FDI in manufacturing, which can boost employment, exports, and strengthen the economy. China, on the other hand, predominantly attracts inward FDI in manufacturing and real estate, showing a resource-seeking investment pattern. There is a need of more balanced inward FDI distribution which is crucial for overall development. This can be enabled by improving business conditions in the states attracting lower inward FDI along with offering incentives.

The findings on trends and patterns of outward FDI from India and China suggest that India's outward FDI initially grew in the 2000s following the introduction of the FEMA. However, it faced a decline due to the global financial crisis but began to recover after 2016. China's outward FDI, boosted by the "Go Global Policy" in 2001 and its WTO membership in 2002, witnessed a significant increase after 2004. Comparatively, China's outward FDI has been consistently higher than India's, particularly after 2005. However, the results of coefficient of variation suggests that outward FDI from India is more consistent as compared to China. Indian outward FDI primarily targets developing economies with major focus on Mauritius, and Singapore. China's outward FDI follows a similar pattern, with a major focus on developing economies, especially Hong Kong. Due to the Belt and Road Initiative, China has significantly diversified its investment portfolio, enhancing trade with numerous global economies. From 2008 to 2019, Indian enterprises predominantly invested in manufacturing, accounting for 35% of its total outward FDI. Meanwhile, Chinese enterprises have primarily invested in leasing, financial intermediation, and wholesale and retail trading, signifying a strategic, and market-seeking investment approach. These findings highlight the evolving nature of FDI strategies in both India and China, highlighting their distinct approaches and areas of focus.

Based on the findings it can be concluded that Indian companies should aim to expand more into developed markets to mitigate market imperfections and reduce dependence on a few economies. Additionally, India needs country neutral investments that reduce the sudden exposure to financial and political risks emerging from host economies. During the period of

analysis, India has majorly invested in manufacturing sector of host economies. This is contrary to India's ambition of becoming a global manufacturing hub, reflecting a resource-seeking investment approach. However, recent years show a shift towards the financial, insurance, business services, transport, storage, communication services, and community, social, and personal services sectors. This shift indicates a move from resource-seeking to market-seeking FDI, which India should further develop.

To analyze the determinants of inward FDI in India and China the study uses VAR with OLS technique and granger causality test. The study has been conducted for time frame between 1995-2019. In India, pivotal economic variables including exchange rate, GFCF, and market size are identified as significant positive influencers of inward FDI. Along with this, all the significant variables are found to granger cause inward FDI in India. This aligns with previous research by Amilan (2005), Hooda et al. (2011), and Catherine (2013), highlighting the exchange rate's positive impact. Similarly, studies by Catherine (2013) and Akpan et al. (2014) support the beneficial role of GFCF, while Amilan (2005), Kumari et al. (2017), and Shrivastav (2017) note the positive effect of market size. China presents a slightly different scenario. In China, lagged inward FDI, economic growth, GFCF, market size, and trade openness are significant determinants. In China, economic growth, GFCF, market size, and trade openness are found to granger cause inward FDI. This is in line with findings by Gosh et al. (2011), Liu et al. (2020), and Kumari et al. (2017) for economic growth; Tseng et al. (2002), Panigrahi et al. (2012), and Iqbal (2013) for GFCF; and Sahoo et al. (2006), Parashar (2015), and Kaliranjan et al. (2012) for market size. Results reveal that all the variables have positive impact for China except trade openness. It has negative impact on inward FDI during 1995-2019, potentially due to China's reduced trade dependency relative to its GDP, as per Miura (2022). The study analyses the sustainability factors influencing inward FDI in India and China using multiple regression analysis. The study has been conducted for time frame between 2000-2019. For India, tax revenue and mobile cellular subscriptions are crucial for attracting inward FDI. Studies by Hooda et al. (2011) and Dar (2014) emphasize financial stability's role in FDI attraction. Along with this, enhanced connectivity and accessibility by increased mobile subscriptions in India plays a crucial role in attracting inward FDI in India. Conversely, for China, factors like electricity access, natural resource availability, and internet usage, are vital for its status as a manufacturing hub. The relationship between inward FDI and SDG is analyzed using Johansen cointegration technique and granger causality test. India shows no long-term relationship between inward FDI and carbon emissions. This can be due to the fact

that major investments in India are in the services sector which emit comparatively less carbon as compared to manufacturing sectors. Exports and inward FDI share a long-term relationship. In India, exports granger causes inward FDI. This could be due to several reasons. India performs better in terms of service exports as compared to goods exports (World Bank Indicators). India's strength in IT, and pharmaceuticals exports can attract inward FDI. Additionally, success in these areas indicate that Indian companies have access to and can compete with international markets in these areas. In China, a long-term association exists between inward FDI and carbon emissions and exports. In China, inward FDI granger cause carbon emission. This is reflected by China's heavy inward FDI in manufacturing sector. Additionally, there is a long-term association between inward FDI and exports in China and bidirectional causality among the variables. Since, majority of the multinationals invest in China's manufacturing sector with an aim to export the goods using its capabilities.

Based on the findings it can be concluded that India needs to enhance its trade openness and economic growth to attract higher inward FDI flows. These variables are crucial in attracting inward FDI. Along with this, India must provide excellent environment to the existing foreign investors in the economy. This is because based on the findings of economic determinants influencing inward FDI in China it can be concluded that existing investors can pull investments. India should aim to enhance its manufacturing sector to attract more resource-seeking FDI and enhance export earnings. Current data indicates a lack of significant manufacturing investment in key Indian states, with Gujarat being an exception. Enhancing manufacturing infrastructure could create a symbiotic relationship between inward FDI and exports, leading to economic growth. In summary, while India and China have different economic dynamics influencing inward FDI, both nations display unique opportunities and challenges in attracting and sustaining foreign investments.

The study on determinants of outward FDI from India and China finds that in India, lagged outward FDI is a significant determinant in attracting outward FDI. Interestingly, the analysis indicates that outward FDI from India is not primarily influenced by domestic factors but rather by the attractive features of the host countries. This aligns with Tolentino (2008) and Chowdhury (2011), and is evident in India's substantial investments in manufacturing abroad, particularly in resource-seeking sectors. A notable aspect of Indian investments is the practice of round tripping, largely through countries like Mauritius and Singapore, due to tax advantages. Chapters 3 and 4 further support this, showing a notable flow of investments from

and to these countries, as observed in Wei (2005). In China, both existing inward FDI and lagged outward FDI play crucial roles in influencing outward FDI. The study identifies a causality from inward to outward FDI. 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). The long-term relationship between exports and outward FDI in India shows no significant association, suggesting they function as substitutes. This might be due to Indian multinationals preferring outward FDI over exports in high-demand markets. The absence of causality from outward FDI to exports implies a lack of integration between Indian multinationals and domestic firms. Contrastingly, China shows a complementary relationship between outward FDI and exports, with a bidirectional causality. This supports the notion that outward FDI stimulates China's exports, in line with SDG 17's goals. Studies like Rehman et al. (2022) and Yao (2023) highlight the role of initiatives like the BRI in enhancing China's infrastructure and export trade.

Based on the findings it can be concluded that to ensure sustainable outward FDI, India could replicate China's approach by establishing agencies to regulate and promote outward FDI. Just As 'Invest India' facilitates inward FDI in India a similar agency would be beneficial for outward FDI. This would involve supporting domestic investors in foreign markets. Especially in investments that include the export of Indian goods and services, ensuring that outward FDI contributes positively to the Indian economy.

## 7.2 Recommendations

Based on the research findings, the study has following recommendations:

- i. India should diversify its sources of inward FDI to mitigate risk and enhance global economic ties. This can be achieved through strategies such as signing bilateral investment treaties, tax avoidance agreements, free trade agreements, comprehensive economic partnerships, and agreements to improve ease of doing business.
- ii. To enhance self-reliance and economic growth, India should attract more resource-seeking FDI, especially in manufacturing, to boost employment and exports. Efforts should focus on balancing FDI distribution across sectors and regions by improving business conditions and offering incentives.
- iii. Indian firms should diversify their investments into developed countries to overcome market flaws and lessen their reliance on specific economies, while also seeking investments that are not tied to the risks of any single country.
- iv. India should focus on increasing its trade openness and economic growth to boost inward FDI. Along with this, India should provide a conducive environment for existing foreign investors in order to retain them and ensure their existence for long term.
- v. To attract more resource-seeking FDI and increase export earnings, India must prioritize enhancing its manufacturing sector. This should be incorporated especially in states lacking significant investment. Improving manufacturing infrastructure can foster a mutually beneficial relationship between inward FDI and exports, contributing to overall economic growth.
- vi. To stand out and fetch China's investors, India should enhance the relationship between FDI and SDG indicators. India should promote its investments as sustainable.
- vii. To promote sustainable outward FDI, India could benefit by replicating China's strategy of setting up dedicated agencies aimed at regulating and encouraging outward FDI.

- viii. Such agencies would support Indian domestic investors in overseas markets, particularly in ventures that facilitate the export of Indian goods and services, thereby ensuring that outward FDI yields positive returns for the Indian economy.

### **7.3 Limitations of the Study**

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

## 7.4 Areas for Future Research

The research can be further extended into following areas:

- i. Influence of inward FDI on Micro, Small, and Medium-sized Enterprises (MSMEs) in India.
- ii. Investigate the impact of FDI on specific industries within each country, considering factors like technology transfer, employment generation, and innovation.
- iii. Analysis of the factors that influence inward FDI and outward FDI from Indian and Chinese states.
- iv. The impact of inward FDI and outward FDI on governance parameters including the analysis on the effectiveness of policy measures in attracting and retaining foreign investment in both countries.
- v. In-depth research on bilateral investment treaties in India and China and their impact of inward FDI in India and China.
- vi. Explore the role of financial mechanisms, such as green bonds and sustainable investment funds, in attracting and promoting environmentally friendly FDI projects in India and China.
- vii. Examine the integration of sustainable practices in FDI-driven supply chains, including responsible sourcing, ethical production, and the reduction of environmental and social risks.

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