

ABSTRACT

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

The review of literature in different areas of FDI identifies research issues. While there has been substantial research on the various aspects of FDI, there are several areas within this domain that have not been extensively studied in the academic literature or may benefit from further investigation. The literature lacks in identifying the distribution of international FDI flows from perspective of developed and developing economies in a holistic manner. There are various issues related to the trends and patterns of FDI flows at the world level that needs to be analyzed in detail. There is potential for more in-depth analysis at the sub-national level to understand regional disparities. Additionally, an in-depth study on the policy analysis needs to be done to assess the impact of host country policies on FDI trends and to evaluate the effectiveness of policies such as tax incentives, investment promotion agencies, and trade agreements. The literature lacks in considering existing FDI flows available in the home country as a crucial variable affecting new flows due to the agglomeration effects and its key aspects such as economies of scale, and to attain supply chain efficiency might influence foreign investors to increase their volume of investments in the host economy. The review of the literature includes studies on outward FDI. However, there is always room for more thorough research, namely in industries where home country enterprises invest and the push factors leading to outward FDI. Additionally, the literature identifies that sustainability is gaining prominence at the world level. The investors are increasingly inclined towards allocating their investments to countries that exhibit heightened sustainability indicators (World Economic Forum, 2021). Moreover, research on how FDI aligns with India's Sustainable Development Goals (SDG) and contributes to sustainability parameters is an

increasingly relevant area of study. The SDG encompass vital indicators like exports, carbon emissions, and employment growth, all of which play a pivotal role in the advancement of any economy. Therefore, there is a need to investigate relationship between FDI flows and sustainability. The present study attempts to address these issues and add this new dimension to the existing literature.

Along with this, the present research identifies that to study different realms of FDI, it is appropriate to conduct a comparative analysis of India and China. This is due to several reasons. India and China are the world's fastest growing economies. They are important participants in the global investment scene due to their FDI flows. A comparative analysis can shed light on the variables influencing FDI in these massive economies. India and China have distinct economic models and approaches to FDI. China has historically prioritized manufacturing and growth driven by exports. For instance, research by Khan et al. (2021) shows that China's exports are positively and significantly impacted by inward FDI. China has been able to grow and improve its export capacity with the help of inward FDI. The comparative study is expected to highlight the strategies of China and India in attracting inward FDI and achieving sustainable developmental goals. Foreign investments have considerable socio-economic impact on the economies. For instance, inward FDI is expected to escalate employment opportunities in economies, and researchers like Rong (2020) concluded that one percent increase in inward FDI in China is associated with 0.216 increase in Chinese employment. A comparative examination is expected to evaluate who among India and China makes a calculated use of their inward FDI. As these two economies compete more for inward FDI, China and India's investment policies have an impact on patterns of global investment. Gaining insights from their approaches and results can help identify greater preferred styles in overseas funding. The prominence of outward FDI is increasing in India and China primarily due to several reasons. As growing economies like India and China are increasingly aiming at expanding their market. Outward FDI enables acquiring new customers, acquire strategic assets, reduce risk, and overcome trade barriers. The literature needs to be analysed with different perspectives of outward FDI from India and China. Hence, the present study has conducted a comparative analysis of India and China.

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

The objective to study trends and patterns of inward FDI in India and China attempts to comprehend challenges India faces from China (in terms of foreign enterprises). Additionally, the reasons behind why a particular country's foreign enterprise is investing in China as well as India. Moreover, the current scenario of sector-wise investments in India and China, and the sectors India needs to focus on to elevate overall economic growth. It uses secondary data, and the analyzes the data using growth rates, bar diagrams, scatter diagrams, pie-charts, Lorenz curve and descriptive statistics. Foreign multinationals from Mauritius have remained the highest contributor of FDI in India in past 20 years which is partially due to DTAT¹ with Mauritius and 'round tripping'. India entered majority of its bilateral treaties with European countries after 2005 but the investments escalated since 2010 from countries like France and Germany which is also largest Indian trading partner. India attracts majority share in service sector followed by manufacturing and primary. Realizing the impact of FDI in manufacturing sector India initiated its efforts towards attracting investments in manufacturing sector by liberalizing and launching 'Make in India' program in 2015 envisioning to transform India into a global design and manufacturing hub. Hong Kong has the highest share in China's inward

¹ DTAT: Double Taxation Avoidance Tax

FDI in the past 20 years which is also partially due to ‘round tripping’. Foreign enterprises from other neighboring countries like Singapore, Japan are the front runners in supplying FDI to China due to free trade ports and taxation advantages. The BIT² with European countries and trade connections encouraged their investments in China. China’s low-cost labor attracted foreign enterprises from the world to invest in its manufacturing sector which subsequently stimulated its exports. In early 2000s China began its efforts towards nurturing its service sector to elevate its economic growth rate by launching various incentives for service sector industries.

The study on trends and patterns of outward FDI from India and China attempts to highlight the global trends of outward FDI, significance, evolution, and the trends and patterns of outward FDI from India and China. Additionally, it attempts to investigate the reasons behind Indian and Chinese multinationals investing abroad and probe into current scenario of sectoral investments from India and China. It 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.

The research identifies that determinants of inward FDI influence the decisions of MNCs while making investment decisions. The issues related to the determinants are multifaceted and need more focused studies on many areas including sustainability dimensions. Accordingly, the objective sets three sub-objectives and related research questions. First, the key economic factors influencing inward FDI in both India and China are identified. Second, the sustainability

² BIT: Bilateral Investment Treaty

determinants affecting inward FDI in India and China are explored. Third, the impact of inward FDI on sustainability factors in India and China is assessed. The methodology employed for the study is two-fold. For the first sub-objective, the influence of macroeconomic factors, such as trade openness, exchange rates, economic growth, market size, inflation, and GFCF in attracting FDI is examined using secondary data from 1995 to 2019. This is incorporated using VAR with OLS technique. For the second sub-objective, the study delves into the influence of sustainability determinants related to SDG like carbon emission, tax revenue, natural resources, access to electricity, and internet users in attracting inward FDI for China. The study has used mobile cellular subscription, carbon emission, tax revenue, natural resources, and access to electricity for India. This is done through multiple regression analysis using secondary data from 2000-2019. For the third sub-objective, the study assesses the influence of inward FDI on sustainability indicators using secondary data from 1990 to 2019. This is done by analyzing the role of inward FDI in achieving SDG. It analyses the impact on carbon emission and exports in India and China. This is done through Johansen Cointegration Technique and Granger Causality test. The study finds that both economic and sustainable factors significantly impact inward FDI in India and China. The study concludes that inward FDI and carbon emission are cointegrated in India. However, there is no causality among the variables. Additionally, exports and inward FDI are cointegrated in India. Inward FDI cause exports from India. In China, carbon emission and inward FDI are cointegrated and inward FDI causes carbon emission. Exports and inward FDI are cointegrated and there is a bidirectional causality among the variables.

The study on determinants of outward FDI from India and China 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. It 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 study 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 with OLS technique 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 study identifies that outward FDI can play a critical role in the enhancing sustainability indicators and enable sustainable outward FDI. This is analyzed 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 using secondary data from 1990 to 2019. The study 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, it 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.