ABSTRACT

India’s outward foreign direct investment (OFDI) has registered substantial increase since 1990s. Empirical research has largely addressed the foreign direct investment originating from developed countries. As developing countries like India become important participants in the FDI flows, it is significant to analyse the pattern, motivation, factors influencing the location and implications of OFDI from such countries.

While most FDI studies from India are focussed on inward FDI, this study analyses OFDI originating from India. Earlier studies on OFDI have mostly explored the ownership advantages of the investing firms, with few having explored the location factor. The present research analyses the pattern of India’s OFDI, its changing contours in terms of the host country location, its composition by sectors and the implication on exports. In the light of changing direction of India’s OFDI, the study aims to link motivation of investment to location factors across two broad sample groups of developed and developing countries, adhering to the international categorization followed by the United Nations Conference on Trade and Development in its publication, the World Investment Report. Using a longer period of OFDI data 2001-2013 than other studies of India’s OFDI, the study analyses the host country economic factors that are significant in the location of India’s OFDI in the ambit of the eclectic paradigm. To determine significant factors, the study empirically tests market seeking, resource seeking and strategic asset seeking nature of India’s OFDI adopting a panel data methodology.

The results of the study show that India’s OFDI is motivated by market seeking and resource seeking motivation in both the developed countries as well as the developing countries’ group. Finding of the study
highlights strategic assets as a significant motivation for investment in the
developed countries and not in the developing countries. India’s OFDI is
also positively associated with host country policies like openness.

Outward FDI from India has implications on exports since OFDI and
exports are two paths to internationalization. Theoretically, OFDI may lead
to further exports (positive or complementary) or it may replace exports by
production in host market (negative or substitution). The study empirically
tests the relation between India’s OFDI and exports using time series
methodology. The empirical test of the relation between OFDI and exports
shows a significant long term positive relation between the two indicating
complementarity.

The current research is presented in six chapters. Chapter 1 consists
of the introduction, need for the study, objectives, hypotheses and
significance of the study. Chapter 2 consists of the literature review, both
theoretical and empirical. The changing direction and composition by
sectors is analysed in chapter 3. Chapter 4 contains the methodology
followed for the research study. Chapter 5 presents the results of the study
and chapter 6 contains the conclusion and policy implications.

Key Word: India’s outward foreign direct investment, location of OFDI,
FDI–exports.